Metromedia's risks broad as all show biz page 3



19,400 lost pensions in U.S. during 1972 page 38

Risk man brings home $200 million in groceries page 50

Dental plan has overbite in savings for members page 81

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45¢ a copy; $10 a year September 10, 1973

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Continental carries $4 million in cover on Chicago Loop building ripped by early Aug. 27 blast caused by "accumulated gas," according to inspectors. Total damage may hit more than $2 million, including about $1 million to tenants, many of whom were clothing wholesalers with fall lines. More than half of 318 W. Adams St. site was occupied by Cook County's public aid agency. —Wide World photo

HMOs eyed as standard benefit under Nixon administration plan

By TOM WALSH
Washington editor

WASHINGTON—Employers with more than 25 employes may be required to offer their workers memberships in Health Maintenance Organizations (HMOs) in addition to providing them with standard group health insurance under terms of a proposal now being studied by the Nixon administration.

The proposed HMO requirement is one of many outlined in a national health insurance "action memorandum" recently issued within the Department of Health, Education and Welfare and leaked to the press by Sen. Edward Kennedy (D—Ma.), a leading proponent of government-paid health care.

The memorandum sheds some light on the Nixon administration's latest rewrite of its health care position, and it sets forth the HMO requirement as an item still lacking "formal decision." A major segment of the memo is devoted to discussion of the HMO element of the program.

"Unless employers are required to offer, where available, the option of enrolling in an HMO, there is a strong tendency for them to obtain coverage from the same traditional insurance plan every year," the memo states. "These plans essentially prevent the employe from enrolling in a prepaid program."

Such requirements, the memo suggests, would insure greater individual choice for employes of the form of health care they receive.

"PROTOTYPE HMO's have shown a clear ability to reduce total health costs for the enrollees, while maintaining high quality care," the memo says. "More widespread development of innovative financing and delivery methods such as HMOs can also encourage cost containment under traditional insurance and delivery arrangements, thereby favorable impacting on the whole health care system."

As rewritten, the Nixon health care proposal has two parts, the Standard Employer Plan (SEP) and the Government Assured Program (GAP). They differ in their source of financing and, for low-income persons covered by GAP, in the extent of cost sharing through coinsurance and deductibles. Both plans would provide the same benefits.

UNDER THE SEP, a standard benefit package would be specified, the memo states, and all employers would be required to offer full-time employes the standard plan and to contribute a portion of the applicable premium. The administration has previously suggested the employer share of premiums would be 65% during the first two and one-half years of the program and 75% thereafter. Assuming an approved HMO plan exists in the area, employers might also be required to offer an HMO option.

The memo states employers could either contract for coverage and negotiate premium rates with a private carrier or elect to self-insure SEP benefits.

INSURERS operating within the proposed system would be required to meet unspecified federal standards, the memo states, listing, "information disclosure practices, assurance of financial solvency, and an acceptable utilization review and cost control program." The companies would be allowed to provide coverages to different groups at different prices through the proposal's acceptance of experience rating.

The GAP proposal would be limited to workers earning less than $5,000, unemployed or self-employed persons with high medical risks and some employe groups with poor medical experience. Premium contributions will be scaled by income, and, for those employed individuals who elect GAP coverage, employer contributions would be required

Continued on page 2

'Dam' liability at issue

CHARLESTON, W. V.—The Pittston Co., New York, doubled its liability insurance with the Employers Commercial Union Insurance Co. just two days before a slag pile impoundment belonging to one of its subsidiaries burst, killing 125 people and wreaking $50 million in damages, *Business Insurance* has learned.

The policy increase, to approximately $20 million, covered all Pittston's operations, including that of the Buffalo Mining Co., owners of the impoundment, which gave way Feb. 26, 1972, sending a 17-mile wave of dark water over Saunders, a small town south of this capital city.

A LEGAL controversy is raging over whether the policy change covers the disaster. Lloyd's and other reinsurers on the case are balking at payments on the grounds the insurance does not cover "dams." The Pittston Co. is careful to refer to the broken slag pile as an "impoundment" rather than a "dam."

Documents filed here last month in the United States district court as part of a $64 million law suit against Pittston for the Buffalo Creek tragedy point out the question of whether the increased liability cover applies to the flood.

In a 500-page deposition taken from Nicholas T. Camicia, president of Pittston, the executive maintains the placement of the additional insurance had no connection with the company's alleged foreknowledge of potential danger at the Buffalo Creek operation.

Mr. Camicia said the insurance purchase had been under study for several months, but shortly after the impoundment burst he learned the insurers were questioning their liability.

Documents filed in federal

Continued on page 2

ITT learns 50 million Frenchmen are all wet

By SUSAN SCHOCH

NEW YORK—International Telephone & Telegraph plans to spend a minimum of $70 million in the next three to five years on a new property protection program aimed at installing sprinklers in all ITT's manufacturing and warehousing facilities in Europe, *Business Insurance* has learned. Three years ago, not one ITT plant on the Continent was sprinklered.

The new program is the result of a major revamping of ITT's overseas insurance program following the notorious "Longuenesse fire"—a loss that ran close to $40 million.

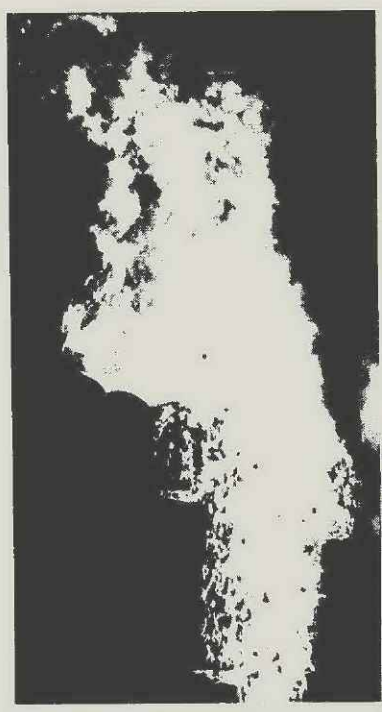
The fire, at an unsprinklered ITT plant in France, taught the mighty conglomerate—ironically, now the proud owner of the Hartford Fire Insurance Co.—a lesson in international risk management. Commented one high ITT official: "The Longuenesse fire brought loss prevention to our attention, and I am sure to a lot of other American and European companies in Europe."

AS THE STORY goes, near 10 o'clock on a Saturday evening, Nov. 27, 1971, a watchman, returning from his rounds of the plant, located about 100 miles north of Paris, spotted smoke coming from a warehouse he had checked less than an hour earlier. He rushed to the alarm to summon the public fire brigade and the plant's own in-house fire fighters. Despite the watchman's alert, a spectacular fire claimed the plant.

Here is a tally of the factors contributing to the fire, a list which defies every rule in the book:

- Hazardous storage arrangements: The physical conditions created by the storage set-up on the first floor of the building, a modern two-story concrete structure, about 400 ft. X 250 ft., used to assemble and test telephone exchange equipment, presented serious hazards. In fact, that is where the fire broke out—in stored materials of cardboard packaging, wooden pallets, and copper wire on wood spools. At first, the fire burned slowly. But a draft chimney effect, created by the way the pallets and spools were stored, caused the fire to intensify rapidly to 1000°F., possibly higher. After devouring all the combustible materials in the warehousing area, the fire quickly spread to the rest of the building, causing such severe structural damage the plant was declared a total loss.
- Combustible materials: Donald A. Frazier, ITT's new risk manager and a loss control expert with long Factory Mutuals experience, blames the fire on a gradual changeover at ITT since 1960 to highly combustible plastics for insulated wiring and conveyor belts—"the importance of which," he said, "was not recognized by the insurers." Although firebreak walls and doors did their job, smoke from burning polyvinyl chloride insulation

Continued on page 76



ITT's fire in France—ignorance of the rules was no excuse.

Chrysler's first offering a 'mockery,' according to union bargaining unit

DETROIT—There were rumblings of a strike threat as angry United Auto Worker officials responded to the Chrysler Corp.'s initial economic offer at collective bargaining sessions here late last month. (See Labor Beat, page 12.)

After hinting it would base the size of its first offer on guidelines of 6.2% set up under Phase 4, Chrysler proposals for union wage increases amounted to a slim 3% a year. The additional slap came with their marginal consideration of the fringe benefits UAW people have been espousing. The carmaker ignored union demands for improved benefits, for the most part.

THE ONLY Chrysler-proposed fringe benefit improvement called for a boost of 75 cents a month in the basic pension rate for each year of service, an increase of about 10%. UAW bargainers are demanding a pension rate increase of $2.50 a month for each year of service—more than trebling what Chrysler is offering.

What makes Chrysler's unexpectedly small offer (called "a mockery" by UAW President Leonard Woodcock) even more crushing to union hopes is that Chrysler Corp. was the target company for setting the pace of the talks. It is the only one of the major auto industry companies with which the UAW has an international contract including Canadian workers, and it has the only UAW work force which voted to collect benefits from the union in the event of a strike.

Among the fringe benefits clamored for by the UAW but ignored by Chrysler are:

- Company-paid dental insurance;
- Early retirement after 30 years of service with no age restrictions;
- A liberalized cost-of-living escalator formula with a reopener clause which would permit new negotiations any time government action might nullify a contract clause;
- The right of workers to refuse overtime; health and safety reforms.

William O'Brien, Chrysler's chief bargainer, maintained the company's initial offer was "the basis for getting off the ground and getting into hard bargaining." He defended the automaker's lack of response to benefits improvements by claiming the union bargainers had not made their "priorities" clear.

While some UAW spokesmen were quite vocal in their denunciations of the Chrysler offer, others seemed to concur with Mr. O'Brien's notion the offer was just the first step in paving the way for serious negotiations. One UAW source pointed out the offer was made earlier than similar first offers in previous bargaining years.

"THEY (Chrysler) started a whole week sooner than they did the last time. This means an additional week's grace for getting up a new offer. I think there may even be three offers forthcoming instead of the usual two that come up in bargaining," he said.

He hastened to add, however, Mr. O'Brien was off base in proclaiming the union had not set forth its priorities in the fringe benefit area. "We've made all that very clear to Chrysler," he insisted. He listed the 30-year-and-out early retirement benefit and the improved basic pension of $650 a month as the two benefits the UAW is most interested in promoting before the strike deadline at midnight, Sept. 14.

"Of course, the improvements in the cost-of-living formula are also crucial, as are the health and safety reforms," the UAW source added. The legal weight of the Occupational Safety and Health Act, he remarked, could serve to add a little bargaining clout to union demands for improved health and safety benefits as the talks progress. ■

Pittston liability questioned . . .

Continued from page 1

court here along with the deposition state Employers Commercial Union had agreed to cover the losses but have retained the right to possible litigation with Pittston. A spokesman for Pittston confirmed his company is now involved in litigation concerning the liability coverage.

Mr. Camicia said in the filed deposition he was uncertain about how much insurance would be available if the carrier refuses to honor the policies.

Pittston's former stand that neither it nor the Buffalo Mining Co. was responsible for the disaster is modified in the deposition. Mr. Camicia is documented there as pinning the initial blame with Buffalo management.

Since the flood, in which 100 million gallons of water and sludge crashed down on Buffalo Creek Hollow in Saunders, it has been determined both federal and state laws dealing with the construction of slag pile impoundments were violated by the Buffalo Mining Co.

Pittston, Buffalo Mining's parent company, is the same conglomerate which controls Brink's, the armored car service known nationwide; the Metropolitan Oil Co.; the United States Trucking and Warehousing Co. and a coal group including 50 coal and other subsidiaries. ■

Mandatory HMOs . . .

Continued from page 1

equal to what would have been paid had the employe accepted the coverage offered by the employer.

The government would authorize a limited number of carriers in each geographic region to sell the minimum benefit package. Those carriers, the memo states, would be required to maintain open enrollment and charge a fixed rate of premium. The maximum premium rates would be set in each region at a fixed level above the average group rate for the standard plan in that region, possibly 150% of the average.

The memo also states the Nixon administration has not decided whether mandatory coverage is a good idea. It is also still considering the question of amending tax laws to make employer contributions to group health care taxable income for the employe. ■

May reduce benefits

Juan DeHerrera, Wyoming's assistant attorney general, recently issued an opinion stating Blue Cross-Blue Shield has a lawful right to reduce benefits payable under its individual insurance contracts under a prime carrier approach rather than on a prorate distribution basis.

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Far-flung Metromedia likes wide-ranging cover

By MARIE KRAKOWIECKI

NEW YORK—Maybe it's because he's seen exposures ranging from vampire bats to leaping Ice Capade skaters, but Mario P. Catuogno likes broad coverages in his insurance programs for Metromedia Inc.

Mr. Catuogno is assistant treasurer, as well as corporate insurance manager and administrator of the pension and profit-sharing plans, for this 11-division communications network based here in New York. "We try to make our policies as broad as possible, so if there is an inadvertent failure to report something, it won't put us in jeopardy," he explained.

He's just covering all his bases this way. Metromedia's broadcasting group owns and operates six television stations across the nation and operates 11 AM and FM radio stations in seven major cities. Ice Capades Inc., producers of the spectacular ice shows familiar to Americans coast-to-coast, is among the firm's entertainment and leisure group. So is Metromedia Producers Corp., a concern which creates television movies, documentaries like Jacques Cousteau underwater specials and motion pictures.

METROMEDIA'S publishing and mail marketing group includes Playbill Magazine, the oldest theatrical publication in the U.S. and a string of direct-mail operations. Its out-of-home media group includes Metro Transit Advertising, which holds franchises to sell ad space on mass transportation systems and Foster & Kleiser, which owns and services some 35,000 outdoor display structures like billboards.

Mr. Catuogno handles the entire property/casualty package for all these divisions, as well as the employe benefits for the 4,500 workers in Metromedia's roles. When he first became insurance manager 7 years ago, Mr. Catuogno took the first step in consolidating and broadening insurance coverages.

"There was no real insurance program when I began," he recalls. "I was faced with a variety of separate policies for property cover for the different divisions. But when renewal time came up, I combined the policies and saved about $30,000 in the process."

Metromedia's current property



Metromedia Inc. cover must extend from the Merv Griffin television variety show . . .

package is a blanket inland all-risk policy written in several layers up to a limit in excess of $20 million. The first layer, with limits of $1 million, is written by the First State Insurance Co., Boston, through Johnson & Higgins.

DEDUCTIBLES vary with the losses. The policy has a difference in conditions clause which covers perils like earthquake and flood. A loss under the DIC portion of the policy carries a deductible of $10,000. Most other losses have a $2,500 deductible per loss. the exception being a loss of property-in-transit, for which the deductible is $1,000.

The property coverage is good for all real and personal property, including the fine art which adorns the various Metromedia offices. Almost all Metromedia holdings are covered by the property policy's broad terms. The expensive recording collection of WNEW-FM, the New York rock radio station operated by Metromedia, for example, is completely covered by the policy.

LIABILITY COVER for the Metromedia divisions has been written by the Hartford Accident & Indemnity Co. for the past three years through Marsh & McLennan Inc. Mr. Catuogno is happy about the coverage, both for its price and the loss prevention services that accompany it.

"After a couple of years of retrospective rating with the Hartford, we negotiated a guaranteed cost, at a premium less than our retro premiums. That company is either very competitive-minded or else they were optimistic about the loss experience picture improving," Mr. Catuogno commented.

The Metromedia insurance manager is pleased with the safety engineering and loss prevention services he is getting with the liability cover. "Basically, the biggest liability losses come with outdoor advertising, workmen's compensation and the Ice Capades exposures," he began.

"The Hartford's loss men have been meeting regularly with our people at Foster & Kleiser (Metromedia's outdoor advertising division) and there seems to be an improvement.

"The Ice Capades, though, present a horse of a different color, as far as what you can do to cut down on liability claims. It's pretty hard to try to safety-engineer a slip on the ice. It's more fortune than anything else if you come out ahead there," Mr. Catuogno asserted.

Skaters in the company, he added, have additional travel accident coverage for their East and West tours throughout the

corporate profile

United States and Canada, and business interruption cover for added protection.

All policies purchased through Mr. Catuogno's three-person department are reviewed annually by him, but not necessarily re-



. . . to the razzle dazzle Ice Capades, among a host of other communications enterprises.

vised that frequently. "I review the policies every year, but I don't like to put them on the market that often. You can get a reputation as a switcher that way. I prefer long-standing relationships. I've been married 17 years, so my preferences for long-standing relationships go pretty deep," he grinned.

THE EXTENSIVE communications/airway setup of Metromedia has prompted Mr. Catuogno to purchase an errors & omissions policy with a high limit from Lloyd's of London. "The policy has a deductible of $5,000 and covers us for slander on the airways as well as plagiarism and copyright infringement in our records operations," the insurance manager revealed.

He pointed out one of the biggest exposures the firm encounters in its communications role comes with the motion picture and documentary operations of Metromedia Producers Corp.

"We had a cast insurance hassle when they were filming the movie 'The Chosen Survivors,'" he recounted. The story involved vampire bats, and it was decided to use live bats with the actors to make things seem more realistic. I suggested the bats be isolated for rabies, but this was not done. So all the actors had to be inoculated against rabies, and I had to get an exclusion from the insurance coverage for any disability inflicted by a rabid bat," Mr. Catuogno said.

In filming the movie, "The Bridge of Remagen," there was another oddball insurance angle when troops of uniformed actors created a near-political incident. Officials in Czechoslovakia were not properly appraised that the movie was being made, and they thought the actors were hordes of invading American soldiers. "I phoned the Metromedia Producers Corp. people that they wouldn't be covered because of the war exclusion clause in our coverage," Mr. Catuogno said.

NOT ALL the incidents were worth smiling about. Mr. Catuogno told of a "substantial claim" presented by underwater expert Jacques Cousteau when the Arab-Israeli war blocked his passage through the Suez Canal while he was doing a special for Metromedia Producers Corp. "We had an all-risk policy with Lloyd's at the time, but they wouldn't cover us for this incident because of its relation with the war," he said.

On the employe benefits side of Metromedia's insurance program, Mr. Catuogno has presided over some big changes. "Last year was very good, especially for our group insurance," he began. Explaining how Metromedia was faced, for the first time in seven years, with a rate increase of 45% in medical costs, Mr. Catuogno switched the company's hospitalization from the John Hancock Mutual Life Insurance Co. to Blue Cross—realizing a substantial saving.

"WE HAD Blue Cross in the wings. When they took over our hospitalization, the overall picture improved. John Hancock

Continued on page 8

Under TV's glaring light, medicine's coat smudged

By PATRICK THOMAS

NEW YORK—The opening scene—quick cuts from a medical school graduating class taking the Hippocratic oath to older doctors referring to the doctor-patient relationship as one of adversaries and admitting the malpractice suit threat would stop some physicians from trying to save lives—was as effective as it was frightening.

The program was "Hospitals, Doctors and Patients," an NBC Reports special aired Tuesday, Aug. 28.

Dealing first with the apparently growing practice of "defensive medicine" among medical practitioners, the program highlighted the problems associated with malpractice—suits, insurance and more exotic ways out.

NBC newsman Ron Nessen was commentator for the first half, noting the malpractice litigation threat had led physicians to defensive medicine, which was defined as excessive medical procedures for legal purposes or avoiding procedures which might help the patient but could lead to a suit.

MR. NESSEN said defensive medicine would be all right if it made the physician more careful but some of the excessive treatments were both costly and, sometimes, dangerous. For example, it was brought out that one of every three X-rays taken in the U.S. was for legal reasons. Since X-rays cost Americans about $3 billion annually, according to the program, the public spends $1 billion a year on medically useless films. That is not to mention the hazard of exposing people to excess radiation.

The malpractice insurance problem faced by physicians was discussed by Dr. Denton Cooley, the noted heart transplant surgeon, who said he paid $65,000 a year for coverage on himself and his associates. On the other side, Alfred Julien, former president of the American Trial Lawyers Assn., contended doctors received tax deductions for malpractice insurance premiums and all doctors really want, anyway, was to be exempt from suits.

Informed consent, by which the patient is told fully of the risks inherent in any treatment he is to undergo and signs a form stipulating he knows the risks, is used by many physicians to cut down on the malpractice threat. Dr. Cooley, however, said he had been sued even after informed consent had been given by the patient. He won (as do most doctors involved in malpractice litigation.)

Another way, though hardly the route most favored, for doctors to make themselves judgmentproof, in the words of one physician, is to get rid of all tangible assets.

"Extra testing has not stopped malpractice suits," Mr. Nessen noted, "but doctors still order them." Ultimately, he said, the costs of defensive medicine and huge malpractice insurance premiums would be passed on to the public. In other words, the patients pay billions because of the doctors' fear of losing millions.

Experts, he added, felt the best way for physicians to get out of the malpractice trap was for them to take the time to know and understand their patients.

All of which led to a contradiction in the program's second half. Ken Alvord had been talking about the fact doctors in hospitals with underused facilities, like heart surgery units, were not as proficient in the operating room as doctors who operated all the time. So the question arises in the viewer's mind—If, to be a good surgeon, the doctor must operate constantly, how can he find time to know and understand his patients? That question was not answered.

Mr. Alvord's part of the program dealt with the rising costs of health care delivery and reserved special praise for the prepaid group health plan concept. Prepaid plans at Michael Reese Hospital in Chicago and the Puget Sound Health Plan in Seattle were scrutinized and given high marks, particularly by patients interviewed on camera.

THE PREPAID plan, or health maintenance organization, concept may not be the total answer to the health care delivery problem, Mr. Alvord said, but it is certainly deserving of more experimentation.

The real hope, he commented, was in limiting the use of hospitals.

The program, on the whole, was balanced and both sides of the issues involved had their say.

Continued on page 79

Pension reform backers tiptoe to Senate vote

WASHINGTON—Backers of the S.4 pension reform bill sponsored by Senators Harrison Williams (D-N.J.) and Jacob Javits (R-N.Y.) are pushing toward passage of the measure this week and are living on the hope and prayer Senate action on the issue will not alienate the House. (See related stories, pages 38 and 39.)

The Senate labor committee, conveniently chaired by Sen. Williams, okayed the bill and did what it could to keep it away from the Senate finance committee and the House ways and means committee, both possible stumbling blocks to swift passage. But the finance committee —considering the bill a tax measure rather than a labor issue—reviewed the S.4 bill and let it pass intact. Sen. Long, however, promised his committee would draft a variety of amendments, or, perhaps, even a new bill to be presented on the floor as a substitute.

Sen. Long proposed the pension reform issue—via the Williams-Javits proposal—be debated and put to a vote Sept. 11. Then, the finance committee chairman said, the Senate could tack the Senate-approved bill—whatever it might look like after floor reshuffling—onto a previously approved House tax measure.

From there, the bill would go to conference with the House ways and means committee members, and the House would be given an opportunity to vote on the conference report.

THE QUESTION remains: Is the House willing to resolve the lingering pension reform issue with merely a vote on a conference report? Will the House be willing to scrap the four proposals it has put forth during this Congress?

The Williams-Javits backers apparently hope so.

"I would hope that Sen. Long is pursuing this in good faith and that his strategy has a serious base," a Senate labor committee source told *Business Insurance*. "Why should he want to make the Senate go through this whole thing without some assurance from Rep. Wilbur Mills (chairman of the House ways and means committee) that his committee will be receptive?

"We want a bill—and a good bill—enacted this year. I, for one, certainly don't see anything to be gained by playing games."

Even if Chairman Mills and his committee agree to the procedure proposed by Sen. Long, the question remains: Will the House approve the conference report?

And an even larger question remains: If both the House and Senate finally agree to a pension reform bill, will the President veto it?

The possibility of a veto, sources say, is a real one. The Nixon position on pension reform is that pension termination insurance aspects contained in the Williams-Javits bill would be too costly to the business section. Mr. Nixon believes pension terminations are too few and far between to warrant federal intervention.

A TREASURY-LABOR department study on pension terminations in 1972 was directly commissioned by the President and was—conveniently—just released. It shows some 19,400 persons lost benefits valued at $48.7 million due to insufficient assets at the time of pension plan terminations.

That figure may seem significant. It does to the backers of the Williams-Javits bill who argue those workers deserved some form of guarantee they would have sufficient assets to see them through old age.

However, the Nixon administration will undoubtedly cite the fact contained in the study showing only 0.08% of all workers covered under private pension plans—19,400 out of 23 million—lost benefits.

"We know the business community is dead set against insurance," an aide to Sen. Williams said. "But we think there are enough votes in the Senate to get the bill through. Whether there will be enough votes to override a veto, though, is another matter."

The labor committee's study group on pension plans conducted a study similar to the Labor-Treasury department study, but the Senate group looked at terminations over 20 years rather than a single year.

"SURE, if you just look at the loss of vested rights over a single year, the loss is relatively small," one study group member said. "We looked at it over 20 years, and it was pretty staggering. But, hell, statistics can be used in any way by anybody. I'm sure that if Nixon decides to veto the bill because of its pension insurance elements, he'll use the Treasury study as his justification."

The labor and finance committee staffers are now wrapping up a long series of meetings called to iron out the differences in the two pension reform versions "to prevent all kinds of horrible things from happening on the (Senate) floor."

The main differences are jurisdiction—whether pension laws will be overseen by the Labor department or the Treasury department. Other differences of opinion center around certain tax-related measures contained in the finance committee's bill.

"It's in the cards that there will be some effort made to work out some of these problems," a labor committee staffer said.

"But," he warned, "if we can't reach certain accomodations, we'll just have to stick to the notion that our bill is better than theirs and go from there." ■

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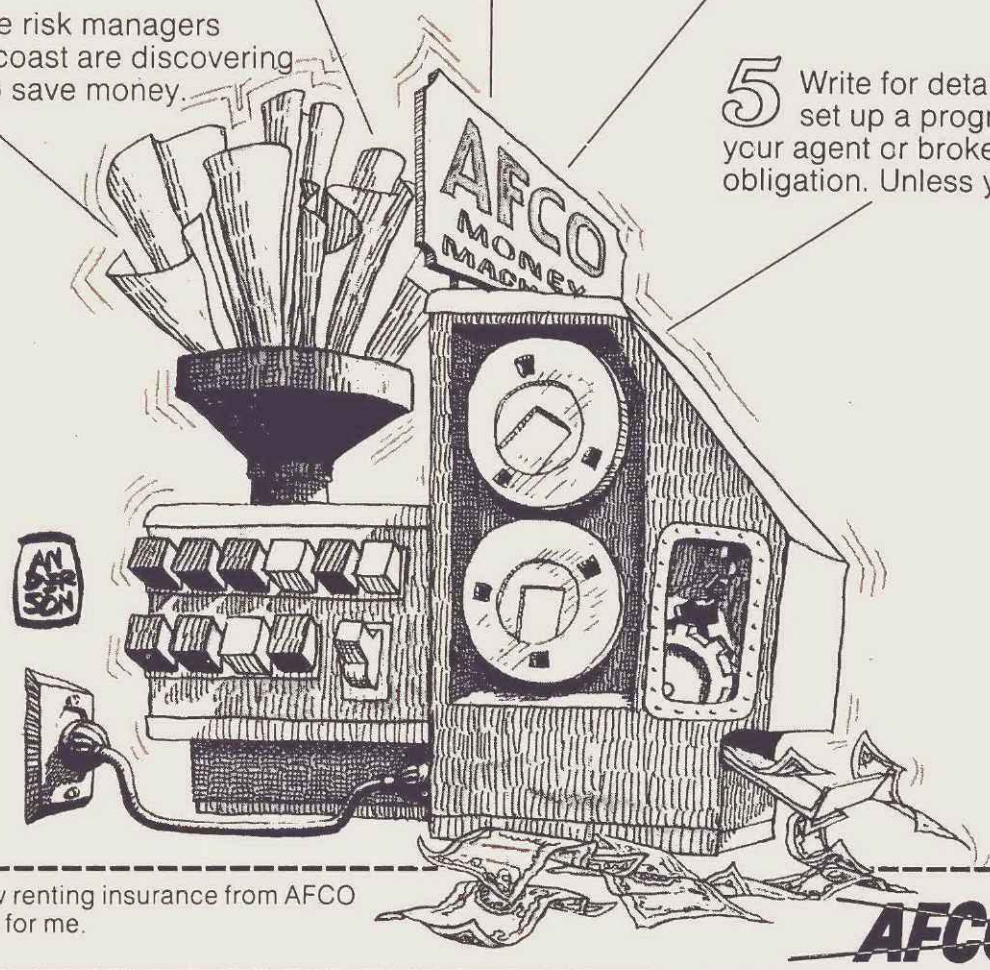
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HEW names consultant

Dr. Charles C. Edwards, assistant secretary for health, has announced the award of a $200,000 HEW contract to Lewin and Associates to evaluate the health regulatory functions now being carried out by regional and state authorities.

Specifically, the Washington-based management consulting firm will survey organizations involved in the regulation of health care providers in all 50 states, and make in-depth analyses in ten states yet to be selected. It will also review situations in Canada for comparative data. Topics include health care cost and price stabilization; certification of need and franchising and health insurance rate review and rate setting.

The study will be completed by next summer. ■

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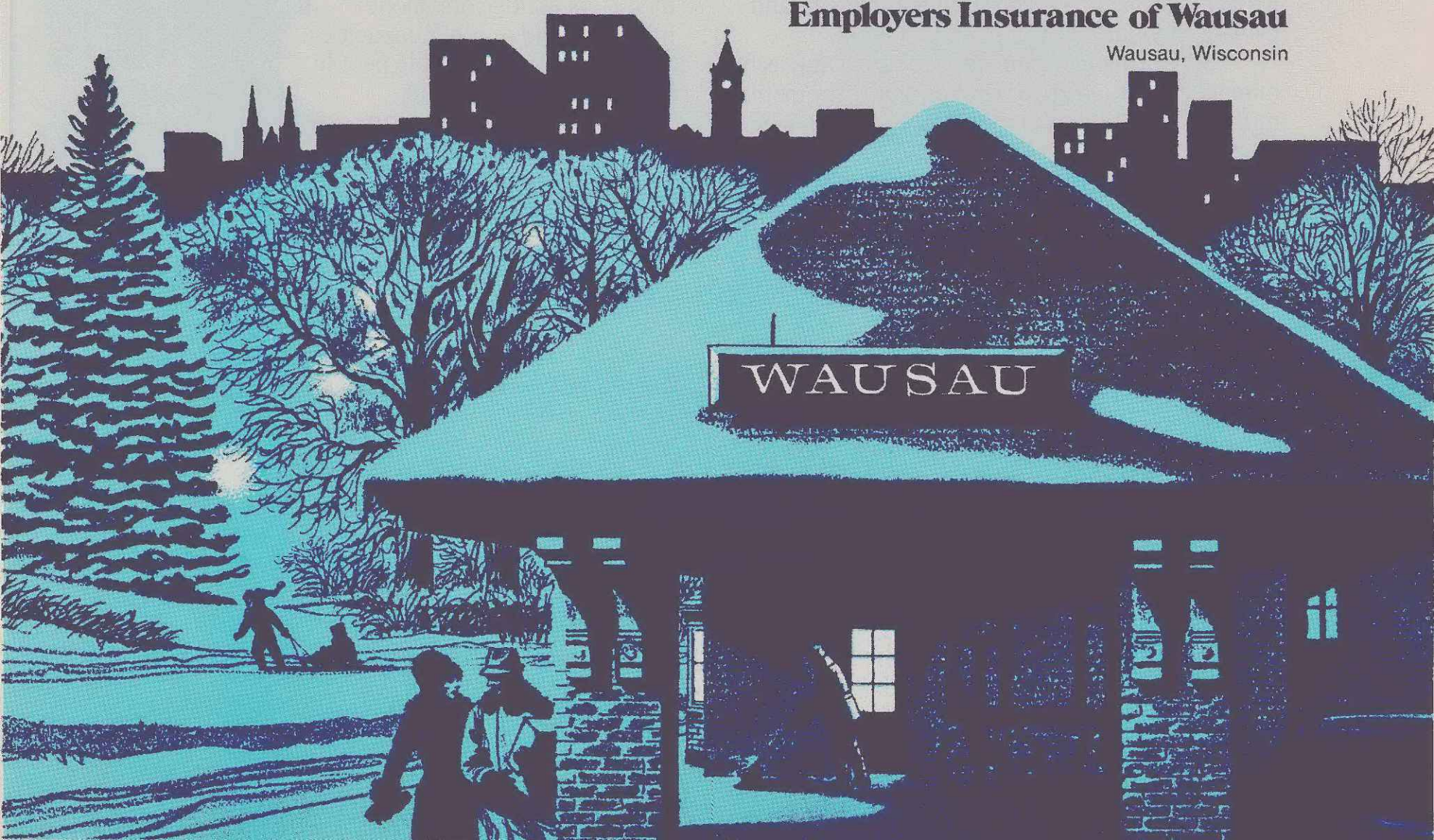
It's an example of how we've developed special skills in business insurance by concentrating in this area. (Ever notice how well you can do something when you really concentrate on it?)

It means you can get specialized help on any business insurance problem through just one insurance company. In a world already full of complications, we offer a chance to simplify your life.

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Wausau, Wisconsin



The fastest-growing private pool of capital in the world.

Now there's a newsmagazine for the $283 billion pension fund market.

It's called "Pensions & Investments," and it will cover the largest and fastest growing segment of the entire money management field.

The "money trees" tell the story. Dollars invested in pension and other tax-exempt funds have been growing at the incredible rate of 11 percent a year, compounded.

In 1972, the pension fund market had assets and reserves of about $283 billion, of which private pension and retirement plans accounted for $166 billion. State and local government plans accounted for $72 billion and educational endowment and private foundations another $45 billion.

Performance is the name of the game as fund managers try to keep up with earlier retirement, more generous plans, and the increased cost of pension payouts.

To help fund managers and administrators meet investment goals, Pensions & Investments will provide a bi-weekly news service covering the investment scene.

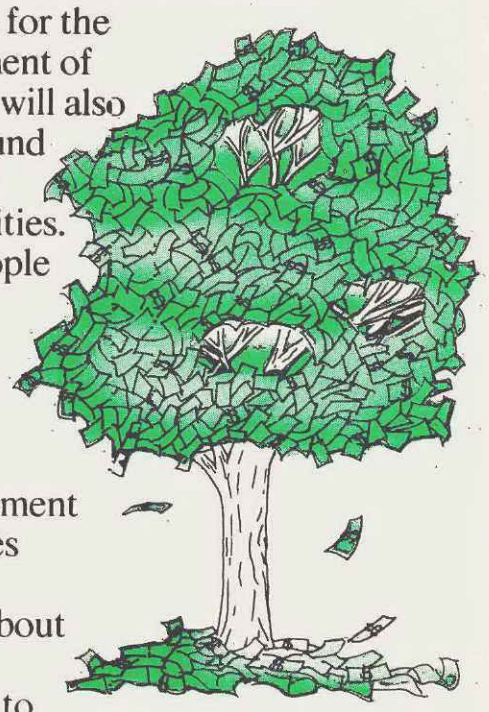
The new publication will analyze criteria and techniques used by successful money managers, report on effects of corporate mergers and plant closings on fund requirements, and highlight changes in federal and state regulations that affect the financial end of pension funds.

Pensions & Investments, like its well known sister publications Business Insurance and Advertising Age, will be a tabloid size newsmagazine with the emphasis on news.

It will have a large staff of editors, reporters, correspondents and contributing editors who will report news from money markets throughout the nation as well as legislative developments from Washington, D.C. and state capitols.

Pensions & Investments will be independent. Not beholden to any organization or group other than its primary audience. Reporting will be timely, objective and unbiased. The publication's only goal is the fund manager's education, to the ultimate end that he or she may do a better, more informed, more competent job.

Pensions & Investments will cover virtually every major pension fund in the market universe by reaching fund managers, administrators and chief financial officers responsible for the administration and management of these funds. The publication will also be read by those who serve fund managers as advisors, money managers and in other capacities. Such readers will include people like investment advisors, portfolio managers, security analysts, stock brokers, bank trust officers, insurance company and mutual fund management company investment officers, consultants, actuaries and attorneys.

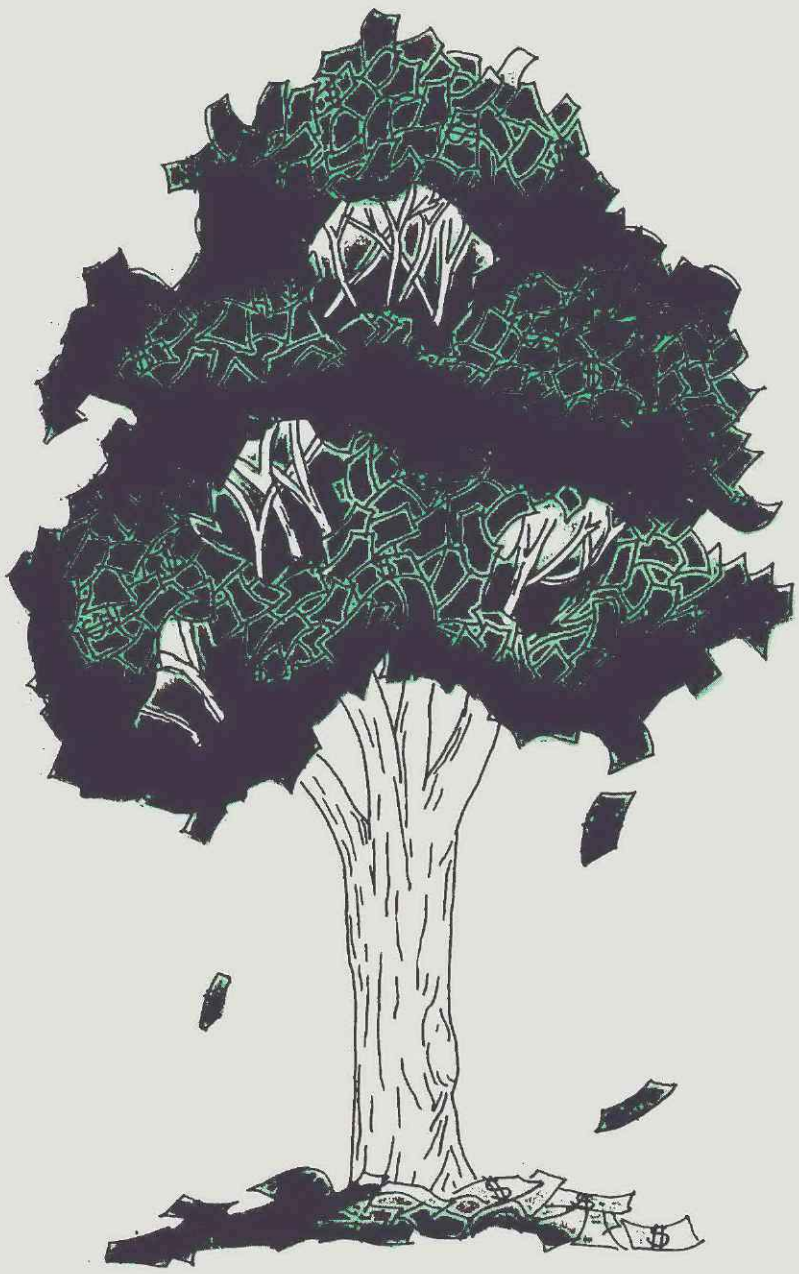


1952: $35 billion

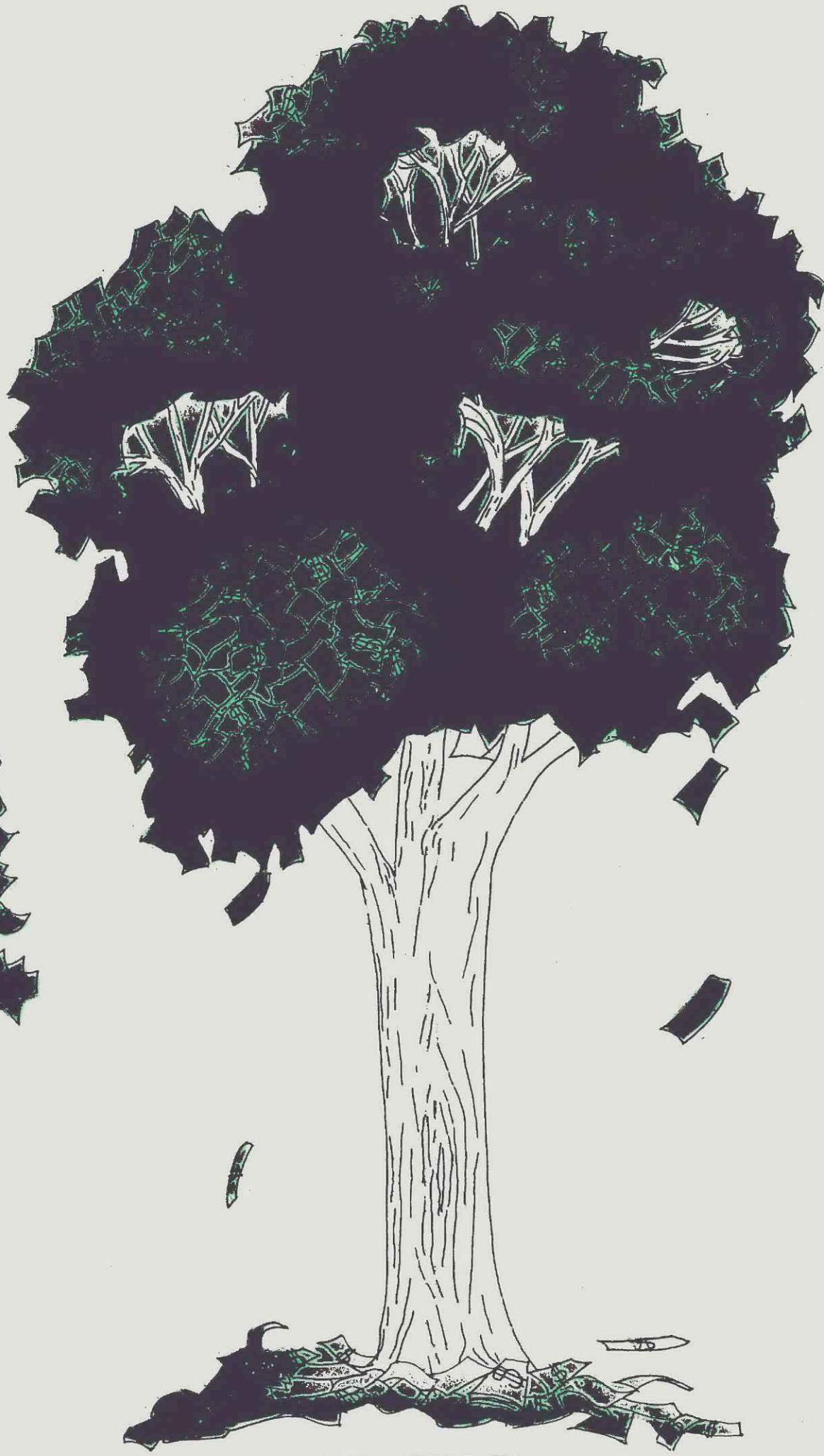
Detailed information about each fund, including asset figures, will be computerized to provide advertisers with a well-defined market universe whose coverage will be continually refined and updated by the experienced staff of a modern and large circulation department. In addition, circulation will be broken down by type of fund, asset size and geography.

Initial circulation of Pensions & Investments will be 25,000 (BPA membership applied for). The first issue will be published October 29, 1973.

Potential advertisers include banks, insurance companies, and investment advisory services of all types. Also, listed corporations with institutional messages to tell.



1962: $111 billion



1972: $283 billion

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For more information about this unusual offer, please get in touch with your nearest Pensions & Investments representative.

In New York, call Don Angela or Steve Stone at (212) 986-5050.

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In Los Angeles, call Dennis Koch at (213) 651-3710.

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Benefit communication awards to be presented at Toronto ASIM luncheon

NEW YORK—As more employers realize the millions of dollars spent on employe benefits across the country can go for naught if the employe is unaware of the scope and value of his benefits, more effort is being put into the communications task.

Recognition of exceptional efforts in an area which is becoming more and more important to employers—getting the employe benefits message across to employes—will be the main goal of the second *Business Insurance* Employe Benefits Communications Awards Competition.

Excellence in benefits communication will be honored at an award ceremony during the American Society of Insurance Management's Employe Benefits Conference luncheon, Tuesday, April 30, 1974, in Toronto.

THE COMPETITION will be open to employers and others involved in the communications process, such as employe benefits consultants. Consultants will receive recognition of their work on behalf of winning clients. Entries may be made in four categories:

- Booklets.
- Personal communications such as letters and computerized benefits statements.
- Audio-visual.
- Total communications program, a new category comprising a combination of any or all of the above categories, plus any other element in the program.

ALL MATERIAL submitted will be judged by a panel of experts in communications, though not specifically involved in the communication of employe benefits. The judges' panel will be chosen by the editors of *Business Insurance*.

Awards will be made on the basis of graphic appeal, effectiveness of copy, the amount of information provided, how often published and novel techniques in communicating the benefits.

Entries will be accepted beginning Dec. 3, 1973, until March 15, 1974, but interested parties should request entry blanks, rules and other information as soon as possible by filling out the coupon on this page.

DELTA AIR LINES picked up two awards in the last competition of this sort sponsored by *Business Insurance*. The air carrier received awards for the best employe benefits booklet and best computerized benefits statement at a banquet in Chicago last October.

The other winners in the first competition were Security Pacific National Bank, employe publications; Dun & Bradstreet, letters and other special printed material; Northwest Bancorporation and Nationwide Insurance Cos. shared the award for best audio-visual presentation.

Those winners were chosen from more than 120 entries. ■

Metromedia coverage...

Continued from page 3

still writes our accidental death and dismemberment cover, as well as basic and comprehensive medical cover and life insurance through Marsh & McLennan."

Life insurance is paid entirely by the company at 1.5% of salary to a maximum of $150,000. Accidental death and dismemberment is also paid by Metromedia at 1.5% of salary to a maximum of $20,000. Excessive hospitalization, medical and surgical coverage is provided through the John Hancock Co. and paid on a contributory payroll deduction basis.

The company has a salary continuation program for people earning less than $100 per week. For employes at this level, there is a plan which contributes up to 60% of their salary to age 65 upon disability.

Under the new Metromedia pension plan adopted in 1972, there was a possible supplemental plan introduced under which a person receiving retirement benefits could collect the equivalent of his or her pension retirement benefits plus profit-sharing benefits plus Social Security based on years of service. The minimum benefit was 50% of final average pay for employes with 25 years of service.

THERE IS full vesting in this plan after 10 years of service if the employe is 25 years old. This is a good benefit," Mr. Catuogno said, noting, "At the end of any year, a participant shares in the company's profits for the year."

In the profit-sharing plan, there is immediate vesting after one year of service for employes at least 25 years of age.

The supplemental benefit represents a substantial change in the benefits plan. Mr. Catuogno traveled around the country explaining the benefits of the pension plan to employes in Metromedia's divisions. He went to all branches, even visiting three states in one day.

The Metromedia people employ actuaries from Kwasha-Lipton to issue up-to-date employe statements, and make projections with respect to Social Security.

Mr. Catuogno, who has been in insurance business since 1959, does see some changes in store for carriers who write coverage for corporations. "They'll try to fight the self-insurance trend," he maintains. "I've seen enough and heard enough to make me think that carriers will eventually let insureds get some benefit from reserves of money they hold on their behalf. It might not happen right away, but I see it coming that soon carriers might either take a promissory note in lieu of cash reserves, or they might give their clients a return on their reserves." ■



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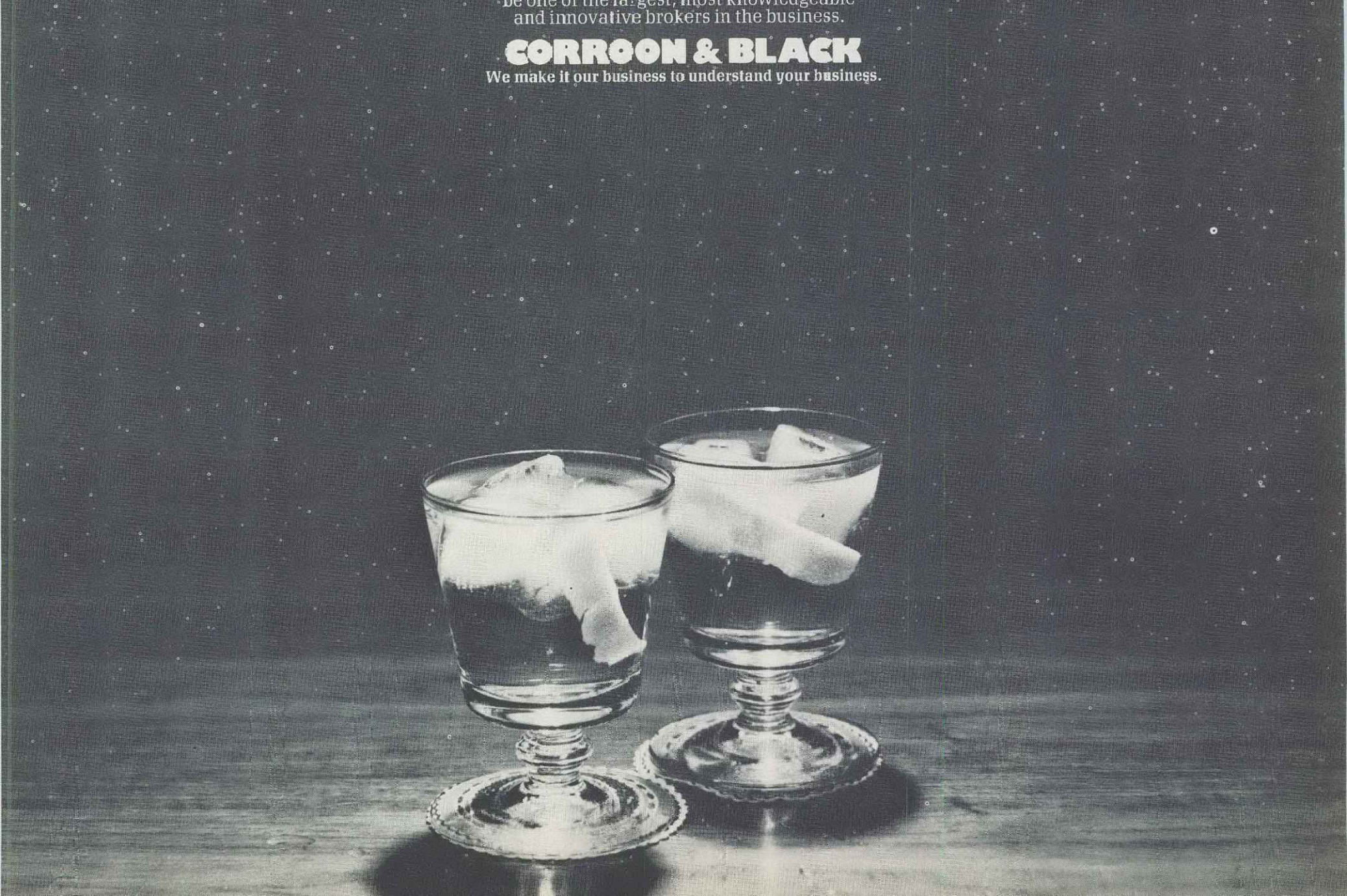
The reason for the breakup was really quite simple . . . the broker was no longer doing his job. He was taking shortcuts—not taking time to do all those little extras that characterize a truly professional brokerage service. Like communicating with the client; learning his business and his attendant insurance needs. Like being attuned to changing exposures in certain areas and revising coverages accordingly. Like studying the reports of loss control specialists and taking action to improve safety practices where needed. Like assisting the client in obtaining prompt claims settlements.

It doesn't take long for the signs of a slipshod performance to show, and when they do it's only a matter of time until a client/broker marriage ends in divorce.

Corroon & Black keeps these thoughts uppermost in our minds when dealing with our clients. Each of our account executives knows he has just one job—client service. Prompt, courteous, professional attention to a client's needs. It's been a Corroon & Black trademark since 1905 and it's one more reason why we continue to be one of the largest, most knowledgeable and innovative brokers in the business.

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Why are so Many Companies Talking About Risk Management Today?

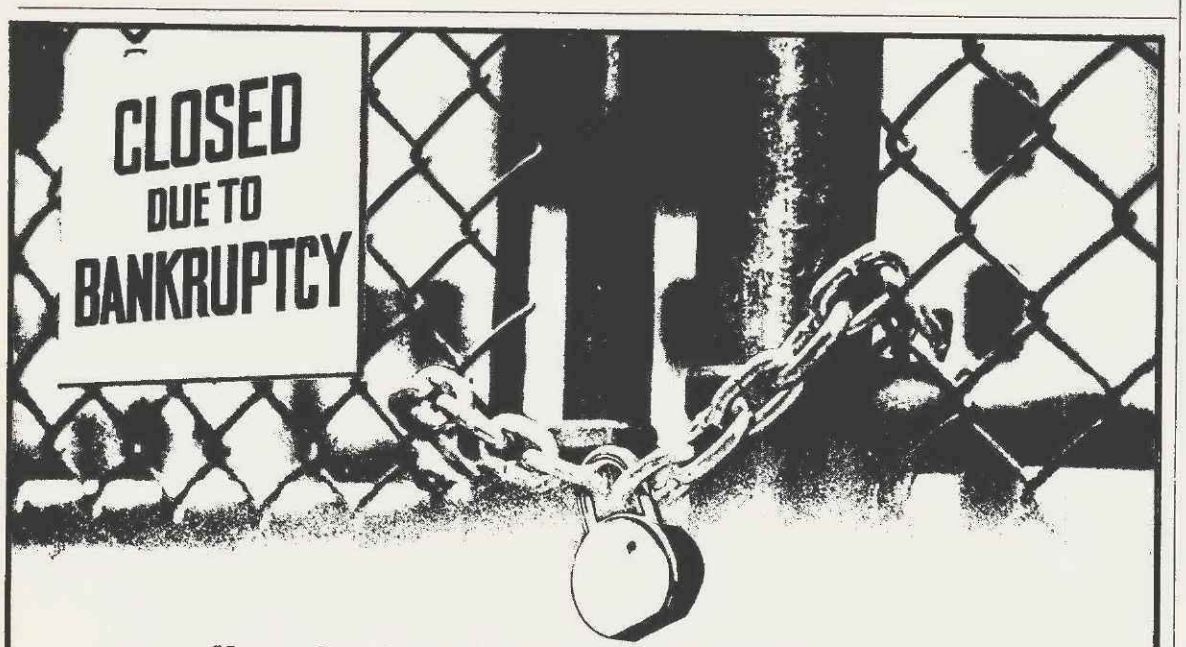
. . . Because they're discovering that a sound risk management program can reduce or stamp out altogether many of the risks that swallow millions of dollars each year in corporate profits.

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Credit Insurance protects profit margins. Strengthens your competitive position. Lets you extend larger lines of credit. Increases your borrowing power. Even provides help collecting slow or past-due accounts. All for a cost averaging less than 1/5 of 1% of the sales you insure.

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• **Truth in Pensions: New Federal Disclosure Regulations** is the title of a new bulletin published by Johnson & Higgins. It discusses recent regulations which affect nearly every pension, profit sharing and thrift plan by requiring Form D-1S, a supplement to Form D-1. The new form requires disclosure of plan details written "in a manner calculated to be understood by the average participant or beneficiary." For a free copy write Jay B. Lesiger, Communications Division, Johnson & Higgins, 95 Wall St., New York, N.Y. 10005.

• Aetna Life & Casualty has released **Aetna's Claim Status Report.** According to the company, the CSR assists insureds who are interested in loss prevention to identify the source of accidents so they may take corrective action to eliminate claims thus reducing the costs which emanate from such occurrences. For a copy of the report write William F. Madison, Marketing Dept., Aetna Life & Casualty, 151 Farmington Ave., Hartford, Ct. 06115.

• **Managing Human Resources With Coordinated Benefit Planing,** available from Alexander & Alexander, describes A & A's activities in the area of employe benefit consulting and actuarial services, including the design, administration, management and communication of employe benefit plans. For a free copy write R. Scott Taylor, Director of Communications, A & A, 1185 Avenue of the Americas, New York, N.Y. 10036.

• Burns International Security Services has released **Insurance Investigations,** a booklet describing the scope of their investigation services. It is available free by writing A.W. Burner, Burns International Security Services Inc., 320 Old Briarcliff Rd. Briarcliff Manor, N.Y., 10510.

• Chubb & Son Inc. has made available a booklet titled **The Multinational Corporation—Are The Insurance Markets Ready?** The booklet is designed to assist producers and their clients in understanding the specialized insurance problems of the U.S. multinational corporation as it expands overseas. Copies are available by writing Ms. Carol Jenkins, Chubb & Son Inc., International Div., 90 John St., New York, N.Y. 10038.

• **Automatic Detection of Intracranial Disease,** a booklet published by Humetrics Corp., is a detailed discussion of a new mass screening concept for the rapid detection of intracranial (brain wave) disease. Detectible diseases include, stroke, hypertension, drug abuse, epilepsies, multiple sclerosis, metabolic disorders, migraine, etc. Free copies can be obtained by writing Kenneth L. Dufour, Director of Marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Ca. 90045.

• **Canadian Exposures—Tax Implications** is a brief explanation of Canadian tax regulations as they apply to clients of non-Canadian brokers. The material, prepared by Dale & Co., also tells how to avoid penalties. For copies contact J.M. Didier, Dale & Co. Ltd., Box 18, Toronto Dominion Center, Toronto, Ontario, Canada.

• **The Occupational Safety & Health Act, Where It's At and Where It's Headed,** has been published by The Research Institute of America Inc. The study is designed to provide the smaller businessman with all the information he needs to comply with OSHA requirements. An index of all sources of information and a full table of contents is provided. The report is available at $7.50 a copy and can be obtained by writing, Dept. 111, Research Institute of America, Mount Kisco, N.Y. 10549.

• Literature from Mosler details the company's concept of lock security and explains the variety of lock systems available. Seven different types of locks are



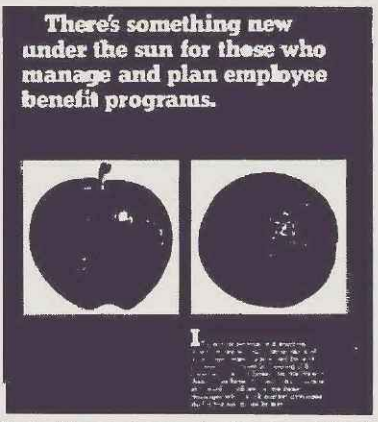
shown and their function and applications are explained. For a copy of the literature write Mosler, Dept. LF-73, 1561 Grand Blvd., Hamilton, Oh. 45012.

• The 1973 edition of **Signs of the Times** has been released by the American Credit Indemnity Co. The booklet compares various trends over a period of years relating to business failures, fire losses, etc. and illustrates certain aspects of credit usage and credit problems. For a free copy write the company, 300 St. Paul Place, Baltimore, Md. 21202.

• The Federal Highway Administration's Bureau of Motor Carrier Safety has released a new publication, **BMCS.** The pamphlet provides descriptions of the bureau's safety activities, responsibilities and scope of authority, and details the methods it uses to provide safety in interstate truck and bus operations. Free copies of the pamphlet may be obtained from the bureau, U.S. Dept. of Transportation, 400 Seventh St., S.W., Washington, D.C. 20590.

• **GAB's Little Red Book** provides a description of all General Adjustment Bureau Inc. services and lists GAB offices in the 50 states, the District of Columbia and Puerto Rico. A free copy is yours by writing Management Services, General Adjustment Bureau, 123 Williams St., N.Y. 10038.

• **The Hewitt Associates Benefit Index** is a composite value of salaried benefit programs of 20 leading companies. Large employers can use the index values to see how various parts of their



benefit program stack up against a representative standard. For a brochure describing this new service write Kenneth A. Shelton, Hewitt Associates, 102 Wilmot Rd., Deerfield, Il. 60015.

• Computer Claims Control has issued **How to Create a System for Accident Cost Control out of OSHA Recordkeeping.** The bulletin features sections on OSHA recordkeeping requirements, samples of forms to be used available recordkeeping alternatives, and the company's recordkeeping system designed to manage OSHA reports and records. To obtain a free copy write Hugh Gilmour, Computer Claims Control, P.O. Box 2827, Amarillo, Tx 79105.

• **Unlock Your Capital With Self-Insurance** describes the Hewitt Coleman & Assoc. premium retention plan. The pamphlet discusses the advantages of self-insuring workmen's compensation using the service company approach which includes excess protection, provides complete loss control and OSHA assistance and education. To receive a free copy write R.P. Hewitt, Hewitt, Coleman, P.O. Box 3665, Greenville, S. C. 29608.

• **What To Do About Fuel Shortages**, a folder published by Improved Risk Mutuals, points out that curtailed fuel supplies can cause major problems such as disrupted production, frozen pipes and tanks, costly water damage and impaired fire protection. Suggestions are given for precautionary steps, including what to do during heating emergencies. For a free copy write to Advertising Dept., Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601.

• A revised **Safety Engineering Standards** handbook has been published by Industrial Indemnity Co. The 108-page book is a compilation of fundamental safety practices in construction and manufacturing and contains illustrated safety recommendations on more than 60 subjects. The handbook was updated to include new procedures and laws, particularly the Occupational Safety and Health Act of 1970. Some subjects included are: noise control, rigging practices, protective equipment, explosives handling and scaffolds. For information contact Industrial Indemnity Co., 255 California St., San Francisco, Ca. 94120.

• The Education and Applied Technology division of Du Pont Co. has published **Du Pont's Training**, a free booklet describing the company's three-day seminar on safety training. Contact M. Champion, Du Pont Co., Wilmington, De. 19893.

• Marshall and Stevens Inc. has put a selection of existing literature and several new items pertaining to insurance together in a **4-Way Professional Insurance Appraisal Kit.** In addition to article reprints and a schedule of typical fees, the kit contains the following pamphlets, "Annual valuation service," "How to settle losses before they occur," "How to insure your insurance," and "How not to cook your corporate goose." Kits may be obtained by writing Marshall and Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• Executive & Employee Benefit Plans Inc. has made available **Self-Insurance—An Actual Case History.** The brochure deals with the actual first-year experience of a corporation which self-insured its employe group health program utilizing the administrative services of Executive & Employee Benefit Plans. For a free copy write Executive & Employee Benefit Plans Inc., P.O. Box 4626, Columbus, Oh. 43212.

• Underwriters Adjusting Co. has released its annual up-dated **Directory of Service Locations.** The book is used by risk managers, insurance company claims executives, auto fleet drivers, agents, brokers and self-insured companies to find adjusters in case of fire, accident or other loss. For a free copy write Robert L. Tatro, Underwriters Adjusting Co., 224 S. Wacker Dr., Chicago, Il. 60606.

• A handbook on high rise building fire safety offered by Honeywelll suggests the use of a fire management program based on building design and integral fire-curtailing systems. It is available free of charge from the company's Commercial Division, 2757 South Fourth Ave., Minneapolis, Mn. 55408.

• **Big Talk**, a brochure prepared by State Mutual of America, discusses the company's group major medical plans called the Big Ben program. The program provides medical coverage which is payable either in or out of the hospital and has no overall maximum payment limit. A copy of the brochure may be obtained by writing Public Relations, State Mutual of America, 440 Lincoln St., Worcester, Ma. 01605.

• **Insurance Words and Their Meanings**, a glossary of property and casualty insurance terms, has been revised to include definitions of new terms, coverages, plans and organizations which have been effected since the 1970 edition. The glossary is available at $2 per copy, less in quantity, by writing Rough Notes Co. Inc., 120 N. Meridian St., Indianapolis, In. 46204.

• **Six Questions You Always Wanted To Ask About Self-Insurance**, available from Market Facilities Management Services Inc., contains information for risk managers who are interested in an explanation of the advantages of self-insurance programs. Included are a description of the lines of coverage available and the specific services offered to the buyer. For copies write Alan Cooper, Market Facilities Management Inc., 3435 Wilshire Blvd., Suite 1600, Los Angeles, Ca. 90010.

• The American Appraisal Co. has released **Buying an Insurance Agency: What Am I Bid? What Are You Asking?** The booklet is a reprint of an article explaining the guidelines for an appraisal of captive insurance agencies in accordance with memorandum #R-28 of the Federal Home Loan Bank Board's office of examination and supervision. For a free copy write the Public Relations Dept., American Appraisal Co., 525 E. Michigan St., Milwaukee, Wi. 53201.

THE GROUP LIFE DILEMMA

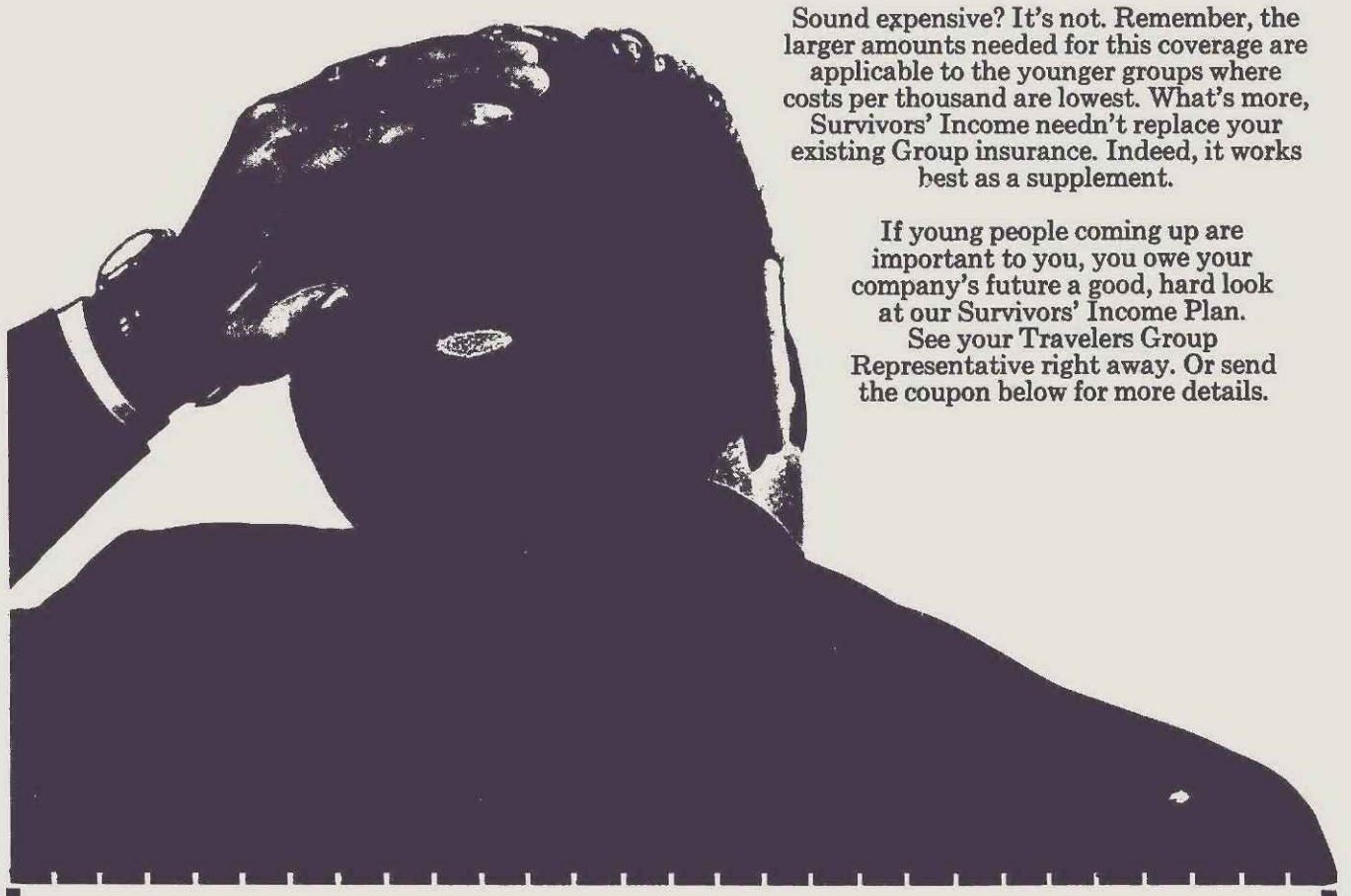
Too many Group life insurance plans give the most to the employee who needs it the least, the one who's older, has a grown up family, money in the bank and decreasing financial responsibilities.

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labor beat

UAW negotiators are demanding industry-financed pension insurance

DETROIT—The United Auto Workers (UAW) union, *Business Insurance* has learned, is demanding some form of auto-industry financed pension termination insurance in its current negotiations with the nation's three largest carmakers.

Three-year contracts affecting some 700,000 autoworkers expire midnight Sept. 14, and the union is now meeting with its bargaining target—the Chrysler Corp.—to settle terms of what it hopes will be an industry-wide contract and a model settlement.

Just what form of pension termination insurance the union is seeking, officials won't say. But, given the statements UAW President Leonard Woodcock made on the topic to the Senate finance committee in late spring, the provision may focus "protection on benefits of the type normally paid as life incomes to eligible employes or former employes or surviving beneficiaries. The benefits would include those for which they are eligible either immediately or on a deferred basis on meeting plan requirements for vesting."

MR. WOODCOCK, speaking at the union's special collective bargaining convention here last April, told the automakers their failure to support the Williams-Javits (S.4) bill—a bill containing pension termination insurance provisions—would result in a union push for industry-financed pension insurance.

In April, many legislative soothsayers were predicting passage of the Williams-Javits bill "soon." In June, they were saying passage would come before the end of July. In late July, as the bill met greater resistance from the Senate finance committee, the "experts" were predicting action before the August recess. Now the recess is over, so debate and a floor vote on the bill—and on whatever amendments will be tacked to it—are scheduled for Sept. 11.

The UAW, consequently, found itself in a squeeze. With contract expiration approaching on midnight, Sept. 14, and with assurance a bill protecting insurance will be cleared both by the Senate and the House later than sooner, and also with the threat of a Nixon veto of the bill due to the administration's position that pension termination is unnecessary and expensive, the union had little choice but to go after guarantees from the industry.

IN ITS outline of bargaining priorities, the UAW said, "Thousands of our members whose pension rights are in jeopardy should not be made to wait until the day when such a law will pass," the union's collective bargaining program on pension reinsurance reads. "Pending passage of such law, we must aim to secure negotiated industry-wide pension reinsurance funds."

A union source told *Business Insurance* the UAW would have preferred legislated pension termination insurance to a contract-negotiated provision. The present demand, he said, could contain language stipulating the contract be reopened to discuss the pension termination provision after passage of legislation enacting federal pension protection.

The General Motors' Corp. pension fund for UAW members, at $1.95 billion, is the fourth-largest pension plan in the U.S. Ford's ranks number 12 at $992 million, and Chrysler's fund ranks number 26 at $474.4 million. But, despite their massive size, the UAW insists there is a risk that some members could lose benefits.

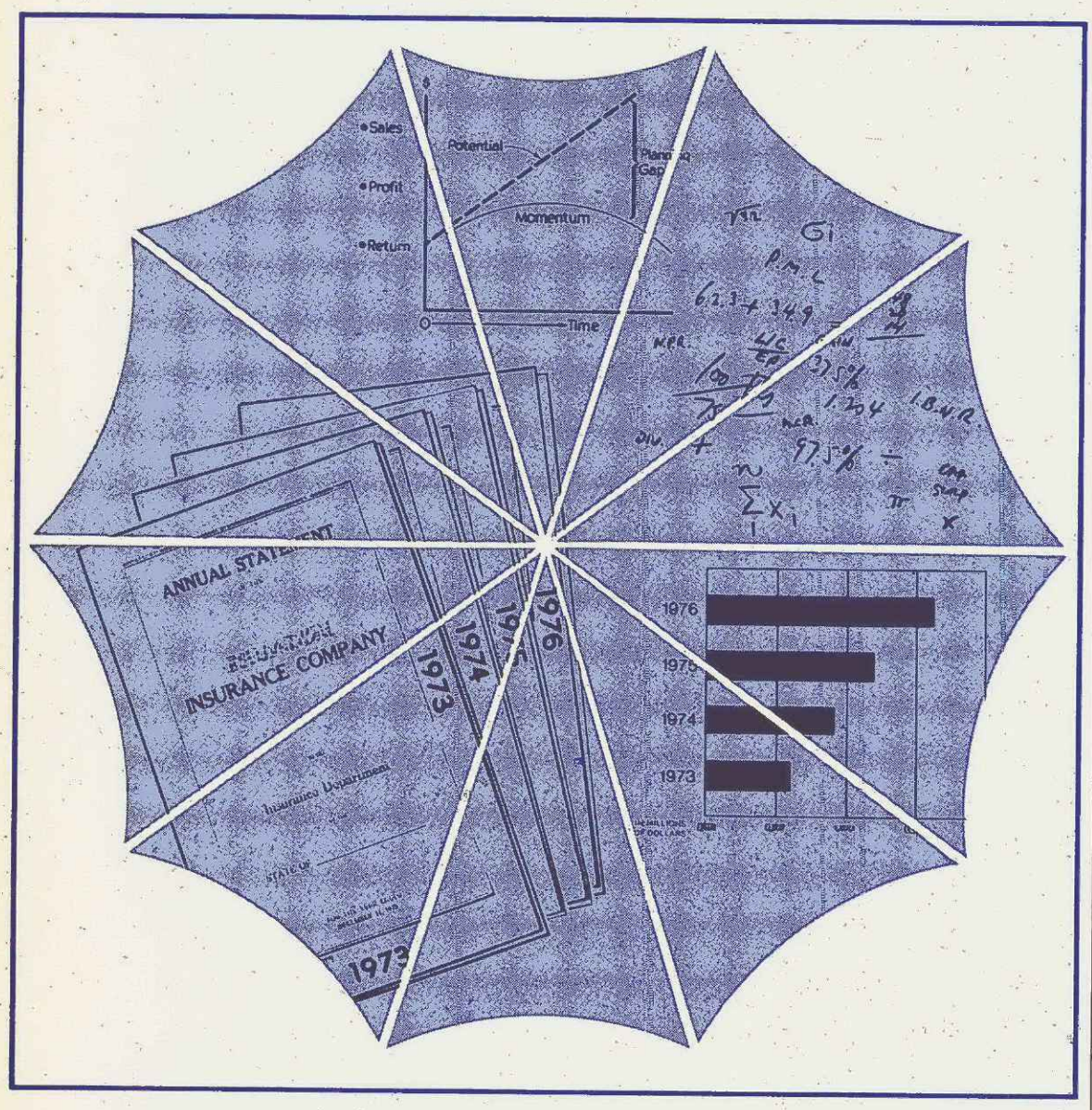
"IN THIS regard, I would like to say that we do have a pension reinsurance problem," Mr. Woodcock has said, "because no pension plan we have is at any given point in time fully funded. The General Motors plan, as of this minute, the Ford plan, as of this minute—as huge as are the sums in those funds—have less than half the necessary money to pay off benefits now prescribed by those agreements.

"When we add new benefits this year, and we will, to the pension program, then those new benefits, as far as their past service cost is concerned, will be paid off over a term of the next 30 years. And where the General Motors' plan for example, is now 48% mature, when those new benefits are added, that 48% will sink substantially."

Among its top bargaining priorities, the UAW is seeking retirement after 30 years' service regardless of age for production workers, with an increase in benefits from $500 monthly to $650; retirement after 25 years of service regardless of age for 140,000 forge and foundry workers and elimination of benefit reductions based on Social Security benefits.

Should the union win its demand for pension termination insurance from the automakers, it will stand as another landmark

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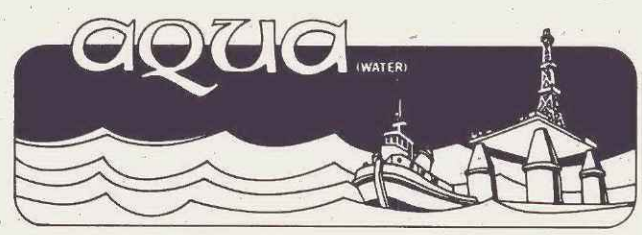
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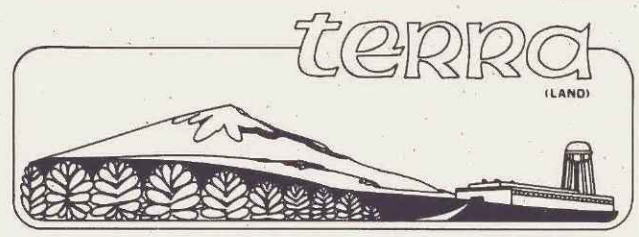
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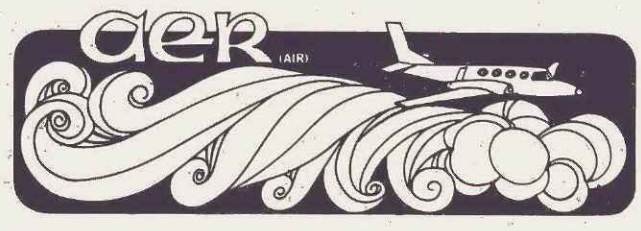
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Coal producers sue to drop black lung liability

PIKESVILLE, Ky.—Twenty-two coal mine operators have filed suit in district court here asking that their liability under the Federal Coal Mine Health and Safety Act of 1969 for black lung disability payments be ruled unconstitutional.

Effective Jan. 1, 1974, all coal mine operators will become liable under the act—as amended by the Black Lung Benefits Act of 1972—to pay benefits to active and retired miners and surviving dependents of deceased miners who have contracted pneumoconiosis, or black lung, from breathing coal dust. The federal government, through the Health, Education and Welfare department, has been paying claims since Dec. 30, 1969. The coal operators will become liable for all claims filed after June 30 under the terms of the present law.

The suit charges the cost of insuring or self-insuring the liability imposed under the black lung act "is prohibitive for substantial numbers of coal mine operators." The suit contends "some coal mine operators are financially incapable of self-insuring said liability, and that some of the (operators) have or will be required to cease doing business as a direct result of their inability to comply with the provisions (of the act) or as an indirect result of the onerous economic burdens imposed upon them by (the act)."

The suit seeks permanent injunctive relief from liability under the law on the grounds it denies Fifth Amendment rights of due process. It also asks that the court rule that any future black lung benefits be paid by the federal government.

THE COAL operators told the court the scope of the benefits provided for under the law is such that each claim will represent a potential liability of approximately $60,000 to $90,000. The industry-wide effect of such benefits, the operators claim, will be a potential cost of $2 to $5 per ton of coal at an annual production level of 600 million tons.

The operators predict the new liabilities created by the black lung law will do enough damage to the coal mining firms to "have a seriously adverse impact upon the economy of the coal mining industry and the nation's energy resources generally."

"The liability imposed upon (us) is to compensate miners or their survivors for disabilities incurred prior to the enactment of the law under coal production conditions and coal marketing conditions that did not and could not have reflected such potential liability," the complaint states. "The imposition of such liability upon (us) is a manifestly arbitrary and unreasonable means for providing economic relief to past victims of coal workers' pneumoconiosis and therefore deprives (us) of the fundamental protection of law guaranteed (us) by the Fifth Amendment."

The present law provides for continued payment of claims by the federal government, the suit claims, under a section providing that in cases where "there is no operator who was required to secure the payment of such benefits, the Secretary (of Labor) shall pay . . . the benefits."

In a separate count, the suit attacks the methodology set forth under the black lung law to determine eligibility for benefits. It criticizes the procedures as "arbitrary and irrational" and as leading to payments to miners either not totally disabled by black lung disease or suffering from a disease other than pneumoconiosis.

The operators' suit also attacks the provision of the law which stipulates the operator employing a miner for the most recent cumulative year be liable for black lung benefit payments if that miner is found to have contracted the disease. The law stipulates that, should that coal operator be financially unable to make benefit payments, the operator by whom the miner was employed during the next most recent cumulative year be held liable.

Such next-available-employer stipulations, the suit charges, ignores the fact there is "no rational connection between a coal mine operators' financial ability to insure payment of (black lung) benefits and the development of (black lung) disease in (a) miner."

AN ADDITIONAL count charges present law will require the coal mine operators to continue payments already approved by HEW, "substantial numbers of which are false, fraudulent or grossly excessive claims improperly allowed."

Legislation has already been proposed in the House of Representatives to extend federal control over the black lung program for two years. The administration of the program was to have been shifted to the states, but no state, to date, has met the minimum standards set forth by the Labor department.

The United Mine Workers of America union has also proposed that the red tape inherent in the black lung program could be eliminated by a new federally-administered program to provide lifetime pensions to any unemployed miner who has reached age 50 and has worked 20 years in coal mining prior to Dec. 30, 1972 (*Business Insurance*, Aug. 13). Such a program, the union proposal states, would be funded by payments from the operators on an experience-rated formula. ■

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Bill to hike rail pensions and cut retirement taxes

WASHINGTON—President Nixon has signed a bill which extends increased benefits for railroad retirees and significantly lowers the retirement taxes paid by active rail workers.

Effective next month, rail workers will begin paying the same rate of tax for railroad retirement benefits as paid by the general population for the lower benefits of Social Security. Under terms of the bill, the railroads must make up the difference between the Railroad Retirement System's 10.6% tax rate and the Social Security Administration's 5.85% rate. The new railroad employe rates will apply to the first $900 in monthly earnings in 1973 and the first $1,050 in monthly earnings in 1974.

With President Nixon's signature, 45% increases in annuities scheduled to expire next June 30 will be continued through 1974. The increases were extended with the provision railroad management and railroad unions devise some way of both making the benefit level permanent while assuring the solvency of the Railroad Retirement Fund.

THE NEW law also eliminates early retirement reductions for male employes between the ages 60-64 with 30 years service who retire after July, 1974. Previously, only female workers were allowed full annuities under early retirement. The law does not eliminate reductions for early retirees with less than 30 years of railroad service.

Under a separate bill signed by the President, rail workers are also eligible for benefit increases equivalent to those legislated under the Social Security Act.

Aside from the 5.6% benefit hike effective June 1, 1974, railroad workers, their spouses and dependent children suffering from chronic kidney diseases are now eligible for full Medicare benefits before age 65.

SURVIVORS benefits were also significantly altered. Survivor annuities are now payable for children's disabilities incurred before age 22, rather than age 18 as under the old law. Student survivors can now extend benefits through the semester in which the student turns 22, and benefits to children will no longer be terminated by adoption.

Most survivor benefit changes are retroactive to January of 1973. ■

$10 million rail safety fund passed

WASHINGTON—Congress has given a boost to railroad safety with its final approval of a $10.4 million appropriation to the Department of Transportation for rail safety programs.

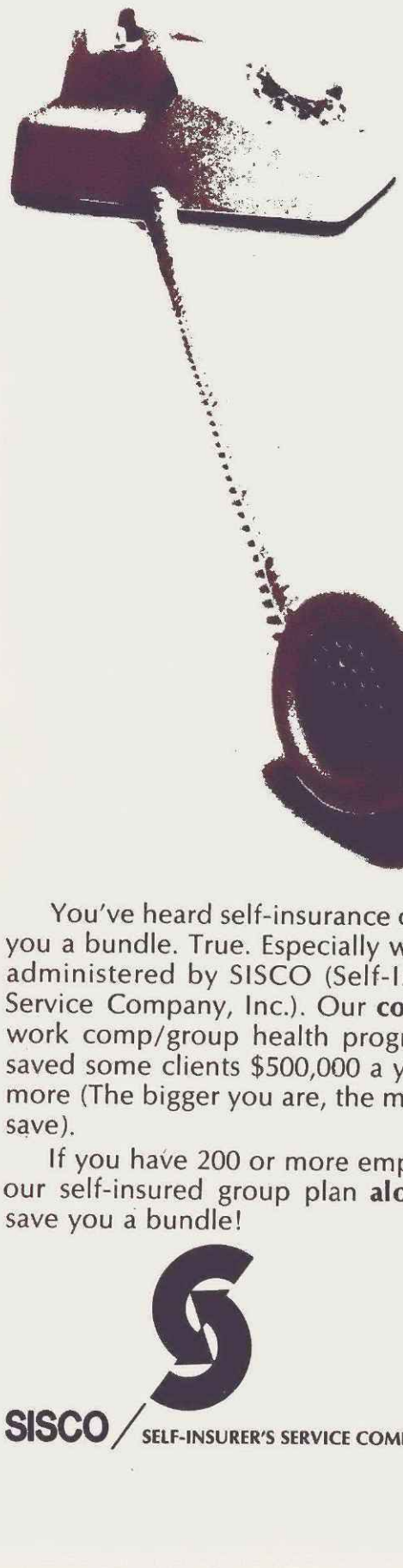
Included in the appropriation is $1.4 million earmarked to hire 95 additional Federal Railroad Administration safety inspectors. The FRA now has less than 170 such inspectors to police 330,000 miles of track.

ALSO included in the money bill is $1.5 million in matching grants to states to help them carry out their duties under the 1970 Railroad Safety Act. The states were also provided $500,000 to aid training programs for state track inspectors.

The $10.4 million appropriation is $2.4 million more than was sought by the Nixon Administration.

The money package came in the wake of Federal Railroad Administration reports that railroad accidents this year are far out-pacing those railroad accidents reported in 1972.

For the first five months of this year 3,830 railroad accidents have been reported, up from last year's total of 2,986. Accidents resulting in casualties stand at 170 for the five-month period, compared to 145 for the first five months of 1972. ■



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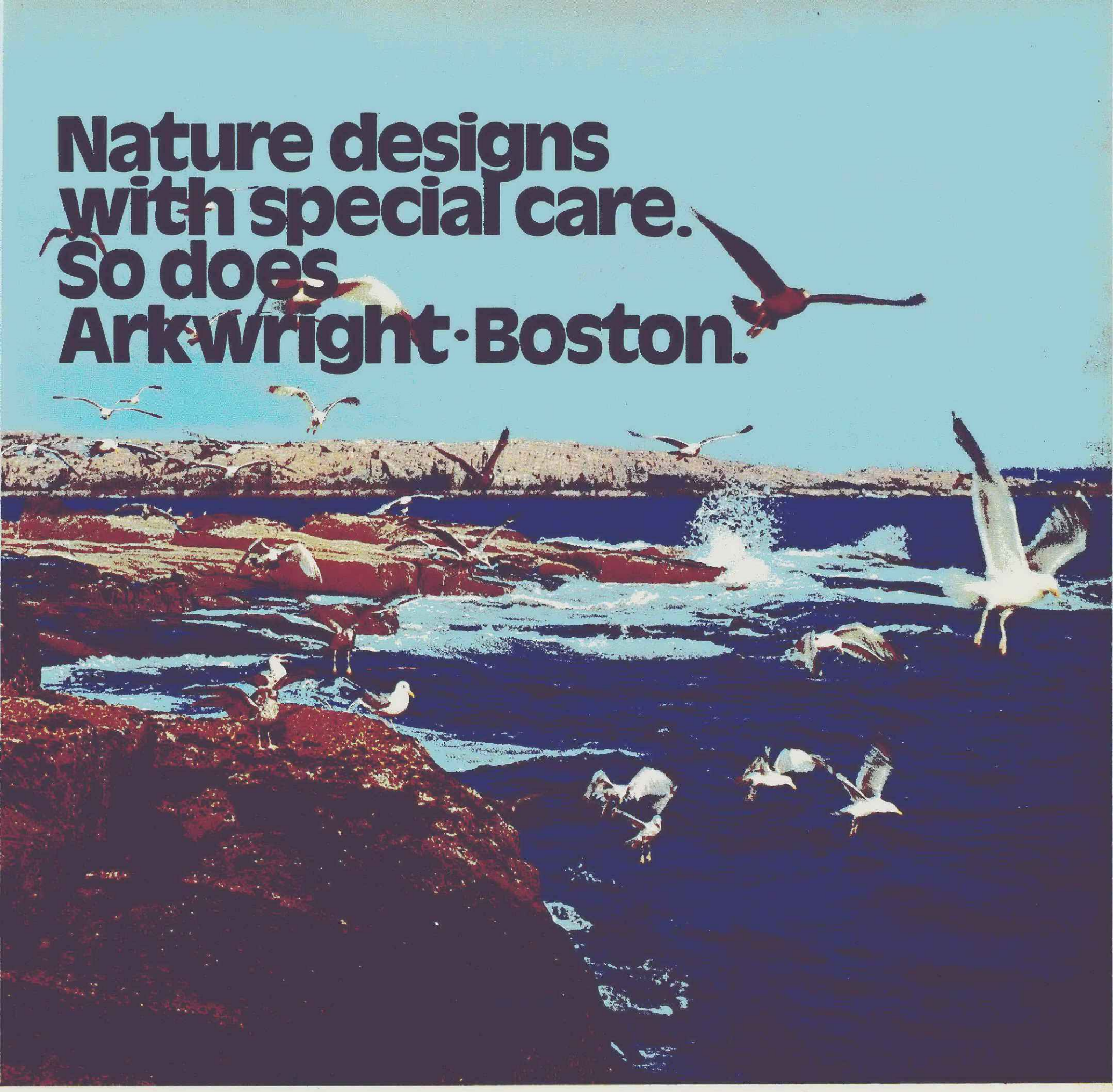
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COMPLETE COVERAGE

$51 million annual hike in work comp costs seen

SACRAMENTO—Every business and industry in California would be required to pay higher annual premiums, by about $51.2 million more, for workmen's compensation insurance benefits which would be liberally increased for persons injured on the job under recommendations just submitted to Gov. Ronald Reagan by his task force on workmen's compensation.

The state's 8 million or more workers protected by the workmen's compensation insurance program would, when injured, be paid two-thirds or 66.7% of their gross pay, with the maximum at two-thirds of the state's average weekly wage.

The current basic formula provides 61.75% of the worker's gross weekly pay, up to a maximum of $105 a week. This would increase to about $120 a week under the task force recommendation, which would boost employer premium costs by 6.4% above the current annual cost of $800 million.

Edward White, California's director of industrial relations, who served as chairman of the task force, said the final report "provides for all the essential features outlined last year by the National Commission on State Workmen's Compensation Laws."

The task force would extend coverage of workmen's compensation to household domestics who work more than 20 hours per week for one employer as well as to gardeners who work more than 20 hours per month for a single employer.

COVERAGE also would be extended, for the first time, to newspaper delivery boys and girls.

The waiting period before eligibility also would be reduced from the current seven days to three days and death benefits would be increased from the present $25,000 to $40,000.

Another major proposal by the task force calls for creation of a successor compensation study commission to study California's workmen's compensation system in terms of changes required to bring that system into line with recommendations of the federal commission.

The proposed new study commission would be required to submit its report at the start of the 1975 session of the legislature. It would be given $200,000 to finance the study and members would be named by the governor.

MEMBERSHIP would include two representatives of workmen's compensation insurance carriers, two representing labor and three representing the public. The three public members would be the manager of the state fund, the insurance commissioner and a third public member to be designated as chairman. Two members of both the senate and the assembly would meet with the commission in an ex-officio capacity.

The seven-member task force asked the legislature to immediately change the basis of benefits for total disability, both temporary and permanent, to the two-thirds of gross weekly wage.

The reduced three-day waiting period would be retroactively picked up, under the new proposals, if the employe is hospitalized or if disability lasts more than 21 days. Subsequent automatic increases in the maximum benefit amount would be keyed to increases in the statewide average weekly wage.

The task force told Gov. Reagan it could "neither accept nor reject" the national commission recommendation for lifetime widows' pensions.

THE TASK force posed the widow's pension problem as one for study by the proposed successor commission, with the interrelationship with other public and private survivors' programs and a companion recommendation to periodically update lifetime pension amounts.

Recommendations, overall, are very similar to benefit and coverage proposals which have already been embodied in legislation approved by the assembly's finance and insurance committee. A major difference, as pointed out by the California Workmen's Compensation Institute, is a bill approved by the finance-insurance committee which would provide an increase in maximum permanent disability benefits from $70 to $77 a week.

The task force urged the proposed study commission "undertake a comprehensive and thorough study of permanent partial benefits, as a first priority" as well as development by the commission of "a new approach which would couple wage loss benefits with scheduled amounts for amputation or physical disfigurement.

During task force public hearings at Los Angeles and in Oakland, testimony by witnesses reflected the controversey over workmen's compensation programs and even over the task force, named by Gov. Reagan in February, 1973.

Labor and management presented almost opposite points of view, with labor spokesmen demanding legislative changes immediately and industry representatives preferring "identification of the problem" by a commission such as was finally recommended.

SIGMUND ARYWITZ, secretary-treasurer, Los Angeles county labor council and former state labor commissioner, warned "one can study into infinity. There has been enough study. What is needed is action, now."

This position was supported by Michael Peevey, research director, AFL-CIO California Federation of Labor and a member of the national commission as well as by John F. Henning, state AFL-CIO executive secretary treasurer, who has helped write several bills now before the legislature.

The final task force report, however, presented a victory to such industry people as Joseph Markey of the California Self-Insurers Assn., who had urged "a year long study to come up with answers.

"Major surgery," Mr. Markey said, "is required to bring about a cure, and not minor surgery for temporary relief. This takes time."

Spokesmen for the California Manufacturers Assn. also claimed that during the task force public hearings not enough time had been given to review and study.

Mr. Henning, a member of

Continued on page 21



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Workmen's comp lawyers sprout after California dubs it 'specialty'

SAN FRANCISCO—Potential profitability of legal activity in the field of workmen's compensation insurance is credited here for a total of 362 applications for certification filed by lawyers since Mar. 1 with the new state board of legal specialization.

The lawyers ask for certification as specialists in workmen's compensation law under a controversial new California State Bar Assn. pilot program approved by the state supreme court.

Of those who have filed since Mar. 1, 285 asked for certification under a "grandfather" clause and 77 under the regular requirements of the program.

The board is expected to begin issuance of the first certificates of specialization next November.

After that time, lawyers granted such certificates will be permitted to assert their certification as "specialists" in legal directories and notices to other lawyers. The exact words of the certification also may be used in telephone directory classified sections devoted to lawyers.

However, no statement of certification may be included on business cards, letterheads or office door signs, without specific board permission.

THE PILOT program was developed by a nine-member specialization board, named by the Board of Governors of the California Bar Assoc. The board then named a nine-member "advisory commission" in each of three fields covered by the program.

The advisory commission on workmen's compensation consists of four northern California lawyers, four from southern California and one referee.

The pilot program aroused controversy over the grandfather clause which critics described as "making certification far too easy for those who have 10 years or more of law practice."

Lawyers with such experience may be certified if they have 100 or more appearances a year in California on workmen's compensation cases in any five of the ten years preceding the application.

Certification also may be granted on the basis of an attorney's service as a referee for more than one year plus a third of their law practice having been devoted to workmen's compensation within the state during the five years prior to filing of an application.

OTHER LAWYERS require five or more years of practice with substantial involvement defined as one-fourth or more of the legal practice devoted to workmen's compensation litigation in California in three of the five years prior to application and 300 or more California hearings in workmen's compensation in the five years.

Special educational experience also is required, such as advanced instruction approved by the board, in the three years prior to application, or in 1973 only, fulfillment of three of six specific activities involving at least 60 hours.

The lawyers also must pass a written daylong examination on workmen's compensation insurance law and procedures.

The first written examination June 24, saw 36 lawyers participating in Los Angeles and 30 in San Francisco.

Certification also requires payment of a $100 fee at time of filing of application, an additional $100 with receipt of the certificate, and yearly fees still to be established by the board.

Final certification by the state board of legal specialization requires recommendation of at least five of the nine members of the advisory group. ■

Hike . . .

Continued from page 20

the task force and former Labor undersecretary in the Kennedy administration, insisted even as a task force member "benefit liberalization is the problem, not coverage. One of the liberalizations labor wants is free choice of doctors."

At least 25 states, Mr. Henning pointed out, permit employes free choice of doctors and, he insists, "California should also permit such free choice."

Labor-endorsed legislation is expected to be introduced by assemblyman Jack R. Fenton, who continues to fight to get his version of no-fault auto insurance changes through the legislature.

SAN FRANCISCO insurance attorney Clayton R. Jackson, executive vice president of the Assn. of California Insurance Companies, said he expects the industry to support the task force recommendations as "the better alternative to federalization of the system, which would only increase costs."

In 1972, the private companies and the state insurance fund paid almost $509 million for on-the-job injuries and deaths and more than $761 million in premiums were paid by employers.

Employers, of course, are fearful labor demands will simply increase those costs.

Labor groups, nevertheless, are expected to press their legislators for increased payments, increased coverage, the free choice of doctors, increases in death benefits, appointment of labor representatives to the Workmen's Compensation Appeals Board and mandatory vocational rehabilitation.

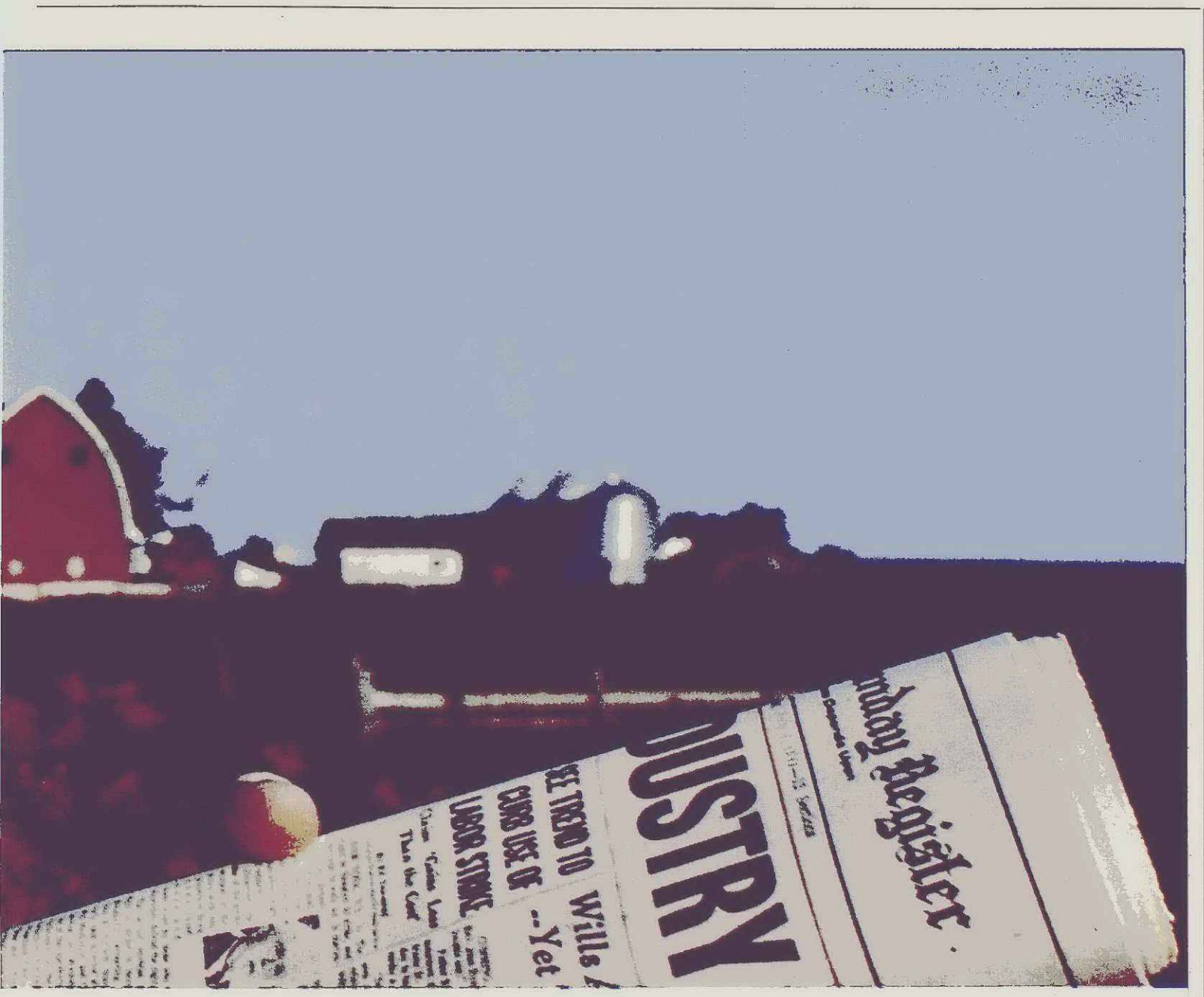
Opposition to the free choice of doctors is based, interestingly enough, on employer claims that this would "increase litigation, because of disputes over a return to work date and the termination of treatment."

"Free choice," business and industry spokesmen contend, "will cause the employer or the carrier to lose control not only over treatment of on-the-job injuries but also over costs of treatment.

"In effect," these spokesmen assert, "taking control of treatment from the employer is tantamount to taxation without representation."

The average time lag between worker disability and first payment, in California, has now declined to 14.6 days and 88% of all cases were paid within 21 days, according to the Workmen's Compensation Institute.

The promptness of first payments to injured employees, the study showed, "may now have reached a plateau, even though the performance of insurers and self-insurers dipped below the 80% considered acceptable, for the first time in two years." ■



people who most need such protection but who find it most difficult to obtain . . . It's encouraging to find a company which is willing to risk some financial loss in an effort to make a contribution to the solution of a major national health problem."

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editorial opinions

The lesson of Longuenesse

BEGINNING ON PAGE ONE of this issue of *Business Insurance* there's a rather detailed report on a $40 million lesson in international risk management learned by International Telephone & Telegraph Co. as a result of a fire at an ITT plant in France two years ago.

We say lesson but a much more descriptive word is experience, for the loss was insured and in retrospect it is probably the insurers who learned.

Nonetheless, the story is a fascinating one and it has led to some major changes in ITT's international risk management program. "(It) brought loss prevention to our attention, and I am sure to a lot of other American and European companies in Europe," says one ITT official of the fire at Longuenesse, France. In the next three to five years, for example, the company plans to spend $70 million or more just to install sprinkler systems in all ITT manufacturing and warehousing facilities in Europe.

Beyond the loss itself and what is being done to prevent similar ones, the Longuenesse loss is probably a classic example of a breakdown in communications among underwriter, broker and insured—if indeed communications ever existed in the dealings leading up to the loss.

AFIA, a U.S. underwriter on the loss claims it made a strong recommendation through ITT's broker, Johnson & Higgins, to install sprinklers. ITT says it never received the recommendation. J&H would rather not talk about it.

Trying to pin the blame is probably as futile as spinning wheels in mud. However, there is a lesson to be learned and U.S. firms with international operations should take a good look at it. True, companies operating abroad have not had much pressure on them, for as the story points out, loss prevention was not taken very seriously in Europe until about five years ago. At the time the Longuenesse operation was built, says an ITT official, carriers "were not insisting on sprinklerization and we were able to get reasonable rates. The insurance was available, the risks were mounting and we were getting additional insurance. . . ."

ITT now admits that might have been a short-sighted approach to risk management abroad. We wonder if others may not now be taking the same approach.

Some good news and some bellyaching

WE NOTED WITH more than passing interest—and a little amusement—a report out of London the other day that Lloyd's enjoyed record profits in 1970 and predicted as good, if not better, results for 1971.

The 300-year-old syndicate of underwriters, which operates under an accounting system which leaves its books open for three years, reported profits of $162.5 million in 1970, a jump of $32.5 million over 1969. So much for the good news.

To this report—and this is what amused us because we've heard it often before—was added the warning that there were "ominous signs" for the current year, ominous signs meaning that in 1973 Lloyd's has shared in several major losses and the results when announced more than three years from now may not be as rosy as those reported this year.

"To the problems of unstable currencies and accelerating inflation is added the fiercest competition, particularly from the United States, that we have ever had to face," said Lloyd's chairman Paul Dixey. He added a warning that unless insurance premiums are allowed to rise substantially soon, profits for the future would be threatened.

One reason for the anxiety, said Lloyd's Underwriters' Assn. chairman Peter Green, is that increasing competition was causing unjustified cuts in premium particularly by U.S. underwriters who have made major moves into the marine and aviation markets in recent years.

Mr. Green noted, for example, the premium on a jumbo jet airliner had been reduced to a little over a third of what it was three years ago. He did not add, however, that three years ago the jumbo was a new aircraft, the spread of risk was much narrower and there was no underwriting experience to draw on. Nor did he add that premiums on the jumbos were probably overpriced anyway.

On the marine side, Mr. Green pointed to the huge tankers now riding the high seas and for which more insurance capacity than ever has been generated by the U.S. marine market. "Owners are being given premium reductions which cannot possibly be justified," Mr. Green said. Moreover, he said, because of rising freight rates and the increased values of tonnage there are many owners who are underinsured, which in these days can only be "false economy." We only hope Mr. Green is not so naive that he mistakes substantial self-insurance programs many shippers have developed for "false economy."

Underwriters at Lloyd's have been a vital force in the insurance marketplace for the past 300 years. Indeed, risk management could not have existed without their capacity. However, we find the attitude now prevailing within the syndicate—that competition from U.S. markets is leading to unjustified price cutting—a bit much after 300 years of peace and prosperity. Now that we're well into the 20th century, Lloyd's must realize it no longer has a franchise on the world. Insurance consumers are demanding better products at better prices. In a word, competition will give it to them, bellyaching from Lloyd's notwithstanding.

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Industrial Marketing, Advertising & Sales Promotion.
M. A. HARTENFELD, *executive vice-president;* D. J. CLEARY JR., *senior vice-president;* KEITH CRAIN, ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, *vice presidents,* G. R. CRAIN, *secretary and treasurer,* RICHARD M. DAUGHERTY, *controller.*
Cable address: *CRAINCOM*

Published biweekly at 740 Rush St., Chicago 60611 (312-337-5200). Offices at 708 Third Ave., New York 10017 (212-986-5050); National Press Bldg., Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles 90048 (213-651-3710). 45 cents a copy, $10 a year in U. S., Canada and Pan America. Elsewhere $4 a year extra. WILLIAM STRONG, circulation director. ROGER DIGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Il. 60611.

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letters

This column is a reader's forum. Letters are welcome. Address Letters to the Editor, Business Insurance, *708 Third Ave., New York, N.Y. 10017.*

The 'energy situation'

To the Editor: The way the "energy situation" is handled in your August 13 issue is a credit to *Business Insurance*. This type of research and editorial position contributes significantly to the development of the risk management profession.

A. Hunter Long
Summit, N.J.

More general average

To the Editor: It seems to me that perhaps we may all be missing the point. General average has been around for a very long time and the obstacles to abolishing it seem almost insuperable. It would demand the establishment of an international convention followed by the amendment of the law of every maritime nation, some of whom may not wish to comply. Moreover, its abolition suggests that something would have to take its place so as to avoid endless litigation, and the probability of obtaining agreement on this point alone seems very remote.

Nevertheless, the general average adjustment is a confounded nuisance which nobody loves except the average adjusters. Surely the question at this time is not whether general average can be abolished but if there is any way of easing the pain of a general average adjustment which may hang around for years before a settlement is made?

One suggests that the mechanics for doing so already exist in large measure. One would guess that just about every interest at risk in a voyage has an insurance policy at the back of it and that, consequently, the greater part of any general average adjustment results in no more than a shuffling of cash between insurers.

One of the professional average adjusters can no doubt advise us of the accuracy of the foregoing. If the statement is in any way correct then, where insurance exists, it seems that it may well be practicable to devise a method of settling the claim first and looking after the general average adjustment later. After all, although not strictly analogous, insurers are quite used to the principles of subrogation where a similar kind of process is followed.

Who would work out the principles and practices involved? One suggests the average adjusters themselves since they have professional associations which could study the matter, together with a strong vested interest in remaining the "second oldest profession in the world"!

Peter Downes
Manager of insurance, American Trading and Protection Corp., Baltimore, Md.

For mass marketing

To the Editor: I read with interest in the July 30 issue the comments on mass marketing, and it struck me that these were adverse in every respect.

This agency has perhaps specialized in mass marketing with greater success than most. The reason, I believe, is that we have

Continued on page 66

133 things to remember when you plan a benefit program for your overseas employees.

1.

Let's be candid.

No employee program is worth a hoot if it doesn't throw off benefits to *you*.

By building incentive or satisfaction or loyalty among your employees.

But, shaping an effective program is tough enough when you're dealing with employees in the U.S. Once you venture overseas—look out! That's when you can stumble badly. Just because you didn't understand the local customs or the currency, the country's laws or your employees' needs. In that kind of situation, it's easy to come up with a benefit package your employees don't want—at a price you're sorry you paid.

Which is why so many businessmen turn to us — the American International Life Assurance Company of New York and its affiliated companies—for developing their international employee benefits: Group life insurance and group medical insurance. Third Country National programs. Pension plans, voluntary payroll deduction plans, and group accident and travel.

We're on the scene for you. With American-trained personnel who were born in the countries where they work. That's why they understand your problems—and also understand the countries they're in. They can give you what you must have: a "feel" for what's going on, what's needed, and what's practicable.

2.

Can't any local company give you that same up-close look?

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And no matter how many countries you go into, you still have only one organization to deal with. Ours.

3.

Another thing:

No matter whom you work with overseas, make sure they've got a direct and durable interest in your problems.

Unfortunately, that's not likely to happen if they're just correspondents—or parts of a loosely-linked network.

It *does* happen when you work with us. Because our people are *our* people. And that means their jobs depend on delivering what you want. Whether it's formulating a benefit program that jibes with your business philosophy—or, later on, arranging a quick claim settlement without any hassle.

In all, the American International Life Assurance Company of New York and its affiliated companies have 10,000 of these people on the job for you. All of them American-trained to U.S. standards of efficiency and service. And all of them backed by an organization with 50 years' experience.

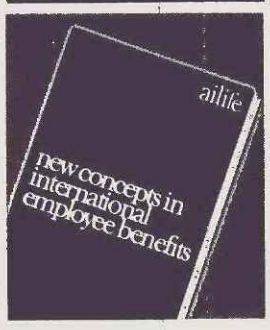
4 to 133.

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City drops Blue Shield over proposed rate hike

NEW YORK—Slapped with the prospect of a 36.9% rate hike for Blue Shield health insurance coverage, this city slapped back. It dropped Blue Shield in favor of an alternative health plan, Group Health Inc., for 136,000 city employes and pensioners and their dependents.

After the city's contract with Blue Shield of Greater New York expired last June 30, an interim agreement extending through September allowed further negotiations on the requested rate increase. The city offered to pay an increase of 9.5% rather than the proposed 36.9% hike. The city also invited proposals from other health plans to assume the major medical coverage it had been taking from Blue Shield.

Group Health Inc. already provides basic medical insurance to 120,000 city employes. The new plan would simply involve an inclusion of a provision for basic medical coverage for new subscribers who will be automatically transferred to GHI's rolls, and a switchover for all 136,000 employes to GHI's major medical coverage.

SOME SOURCES for the New York City health insurance division of the department of personnel said the basic medical and major medical benefits offered to city employes by GHI gives the same coverages as Blue Shield formerly provided, but without rate increases. Subscribers can still select their own physicians, and claims will be handled in the same fashion.

In fighting for a rate hike, Blue Shield argued that it needed $6 million a year in additional premiums from the city in order to make its contract "self-supporting." It maintained since 1968 it has lost $18 million on its city contract on basic and major medical coverage.

The city, which didn't buy Blue Shield's story, saw to it that the concern lost 136,000 customers as well. Its changeover to GHI's plan will be effective October 1. While it will involve no rate increase, the plan will be covered by a $2.9 million deductible the city is setting aside to reimburse Group Health Inc. for losses up to that amount in the coming year. ■



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New York ASIM elects new officers

NEW YORK—The largest of the American Society of Insurance Management's 48 chapters around the country, the New York chapter, has elected Martin Siegel, insurance manager of New York University, president for the coming year.

Donald J. Davignon, risk manager of the New York Times Media Co. Inc., was elected to the chapter's first vp post. The treasurer position went to John Robert James, vp of Chemical Bank, while George F. Bingham, assistant insurance manager of J.P. Stevens & Co. Inc., was chosen as the group's secretary.

A FAMILIAR face at ASIM meetings here, Mr. Siegel has held a number of offices in the local chapter including secretary in 1969-70, treasurer in 1970-71, second vp for the 1971-72 term and first vp last year.

Other persons elected to chapter posts were John J. Murphy, vp-insurance at Avis Rent-A-Car Systems Inc., who will serve as vp-legislation; Gerard J. Rabbett of Pfizer Inc., vp-program; James F. Tobin, Sun Chemical Corp.'s director of insurance, vp-education and job evaluation; Donald C. Smith of Westvaco Corp., vp-communications and membership; and William E. Morrison, manager-insurance at AIRCO Inc., vp-conference.

The chapter re-elected Champion International Corp.'s director of risk management William F. Wynne as its national representative. ■

OSHA rule finds employer liability extends to 'non-obvious' hazards

WASHINGTON—The Occupational Safety and Health Review Commission has upheld an earlier ruling that employer liability for protecting workers under OSHA regulations extends beyond eliminating work hazards detectible by the human senses.

The recent ruling clearly states hazards which can only be detected through the use of testing devices must also be eliminated as part of employer compliance with the job safety rules.

THE RULING also left uncontested an earlier finding that equipping workers with protective devices, providing biological tests and rotating their job assignments to reduce exposure to hazardous conditions do not constitute eliminations of a hazard.

The case began on June 30, 1971, when three OSHA compliance inspectors—prompted by a complaint from a union—inspected an American Smelting and Refining Co. plant in Omaha and found hazardous amounts of airborne concentrations of inorganic lead in more than a half-dozen work areas. The compliance officers considered the high concentrations of lead a "recognized hazard" under OSHA rules and cited the firm for a serious violation. A fine of $600 was assessed.

The employer appealed the penalty on the grounds that its ongoing safety procedures reduced any alleged hazard and that the OSHA regulations do not apply to hazards not detectible by the human senses.

IN ITS FINDINGS, the Review Commission stated the term "recognized hazards" had its origins in a Senate amendment to the OSHA rules proposed by Sen. Jacob Javits (R-N.Y.). In explaining his amendment, the senator said, "This is a significant improvement over the administration bill, which requires employers to maintain the workplace free from readily apparent hazards. That approach would not cover the non-obvious hazards discovered in the course of the inspection."

"It is clear," the Review Commission ruling said, "that the Congress, by rejecting the readily apparent hazards tests and accepting the recognized hazards test in its place, intended that non-obvious hazards be within the scope of the general duty requirement. There can be no question that non-obvious hazards include those that can only be detected by instrumentation."

The Review Commission did not tamper with the findings of the earlier ruling which claimed OSHA regulations "do not allow employers to provide unsafe, unhealthful or hazardous working conditions for its employes even though the adverse effects of such working conditions are attempted to be minimized."

The American Smelting and Refining Co.'s position that its preventative measures reduced the lead hazard, the earlier ruling stated, "puts the cart before the horse."

"WHEN THE workplace has concentrations of airborne leads in excess of (recognized safe limits), feasible engineering controls, i.e., ventilation systems must be installed to reduce these levels. (OSHA) has no objection to the use of biological testing and encourages its use by employers, not as a control of lead hazards, but rather as a diagnostic tool to determine whether employes have absorbed dangerous amounts of lead."

The company was given six months to install the ventilation equipment necessary to reduce the lead content of the air to an acceptable level under OSHA rules. ■

AIG plans subsidiary in Alaska

ANCHORAGE, AL.—American Internation Group (AIG) a multi-national insurance holding company, has announced the formation of a new general insurance company called the Alaska Insurance Co., which will be based here, *Business Insurance* has learned.

Maurice R. Greenberg, AIG president, said in making the announcement, "the new company has been organized in anticipation of major business and industrial expansion spurred by the development of Alaska's petroleum resources."

THE ALASKA Insurance Co. is formed as a subsidiary to another AIG member firm, New Hampshire Insurance Co., which has long operated here. The fledgling firm has been established with initial capital of $600,000 and a surplus of $1.2 million.

The Alaska company's administrative chain is entwined with the New Hampshire parent operation in that Lawrence C. Hall and Carl P. Barton, chairman and president, respectively, of the new operation serve in the same posts with the New Hampshire firm.

The home office of the Alaska firm will also serve as headquarters for AIG operations which are already in the state. Norman F. Tyler will supervise the operation of all Alaska's AIG operations. ■

British seminar set

To combat the increasing spread of fire perils in Britain, insurance companies are appealing through the Fire Protection Assn. for industrial firms to provide the names of "dissatisfied managers." This is the description the association has given to corporate managers who admittedly know something of the modern trends in fire prevention—but are still not satisfied with the extent of their learning and want to know more. So a five-day seminar in fire risk management is being arranged for them in order to complete their education in this important subject.



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In markets you may not realize: Special Risks

Low-risk insurers hit by Texas regulators

AUSTIN, TX.—Texans trying to regulate their state's insurance industry have turned to new rules to head some low-risk insurers off at the pass, particularly the ones which specialize in property and casualty lines, *Business Insurance* has learned.

Joe Christie, chairman of the Texas insurance board said, "We've found a large group of non-rate - regulated companies, such as Lloyd's and various reciprocals, have been offering unrealistically low rates to prime risks with the predetermined intention of the ultimate liability being assumed by a rate-regulated company."

The board intends, Mr. Christie said, to halt such "pass through" and "brother-in-law deals" which "siphon off the very best business, take it outside the loss experience statistical data on which the board must promulgate its statewide rates, leaving only higher risk business—with the higher loss ratios—as the basis on which the board must set rates. This can only result in higher rates for the vast majority of policyholders," he added.

MR. CHRISTIE, speaking personally, said he strongly endorses ratemaking competition but the practices on which he has received complaints amount to an evasion of state regulations.

"It is clear," he continued, "if this practice is permitted to continue without active opposition by the board, the ultimate result will be that all rate-regulated companies will make side deals with Lloyd's or a reciprocal, if for no other reason than to take advantage of the 'tight money' market situation, then end up writing rates which are inadequate and endangering to the solvency of both rate regulated and non-rate regulated companies."

The insurance board has directed Texas Commissioner of Insurance Clay Cotton to look for companies with relationships of "domination, influence, or control on non-rate-regulated companies, instances where the premium charge of the company with the company with the ultimate liability is less than standard rates and where the premiums from the non-rate regulated companies to the rate regulated companies are not equivalent to the standard charges less either production costs or approved deviations."

NUMEROUS recent attempts to organize Lloyd's and reciprocal companies focused attention on the problem, Mr. Christie revealed. "I intend to eliminate these tie-in's and provide markets to insurance buyers who get their protection through either of these types of companies."

"I believe the legislature intended non-rate-regulated companies to compete for high risk business, not the cream of the crop, and not by circumventing our state insurance laws."

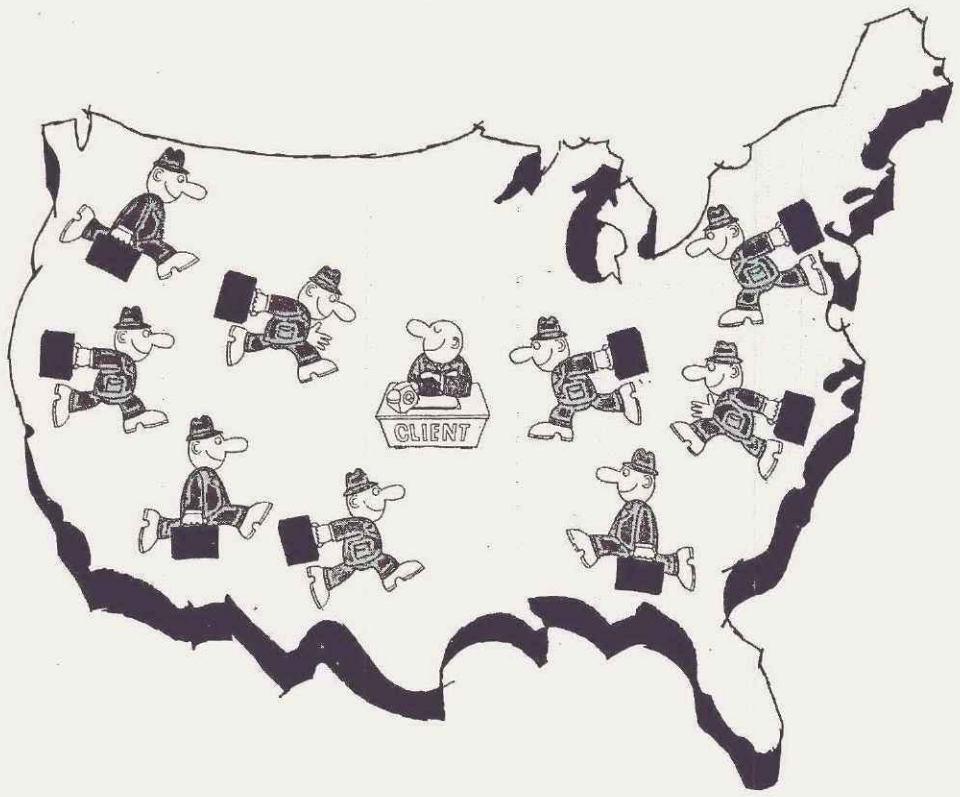
Chairman Christie said he has instructed Commissioner Cotton to investigate all non-regulated arrangements and to take action where necessary in the event unfair and discriminatory practices are uncovered.

The board will not tolerate "backdoor cutthroat price wars which must ultimately endanger solvency at the likely expense of the buyers," Mr. Christie indicated. ■

Maritime symposium

Shippers' cargo insurance and carriers' liability will be discussed at a two-day symposium in Washington sponsored by the Maritime Administration Sept. 18-19. Carriers, shippers, underwriters, admiralty lawyers and government officials will meet to discuss both existing and proposed cargo insurance techniques. Existing systems will be discussed on the first day of the meeting, beginning at 10 a.m. Questions concerning future changes in the area will be addressed by a panel of experts during the final session. The symposium will be held in the Commerce department auditorium.

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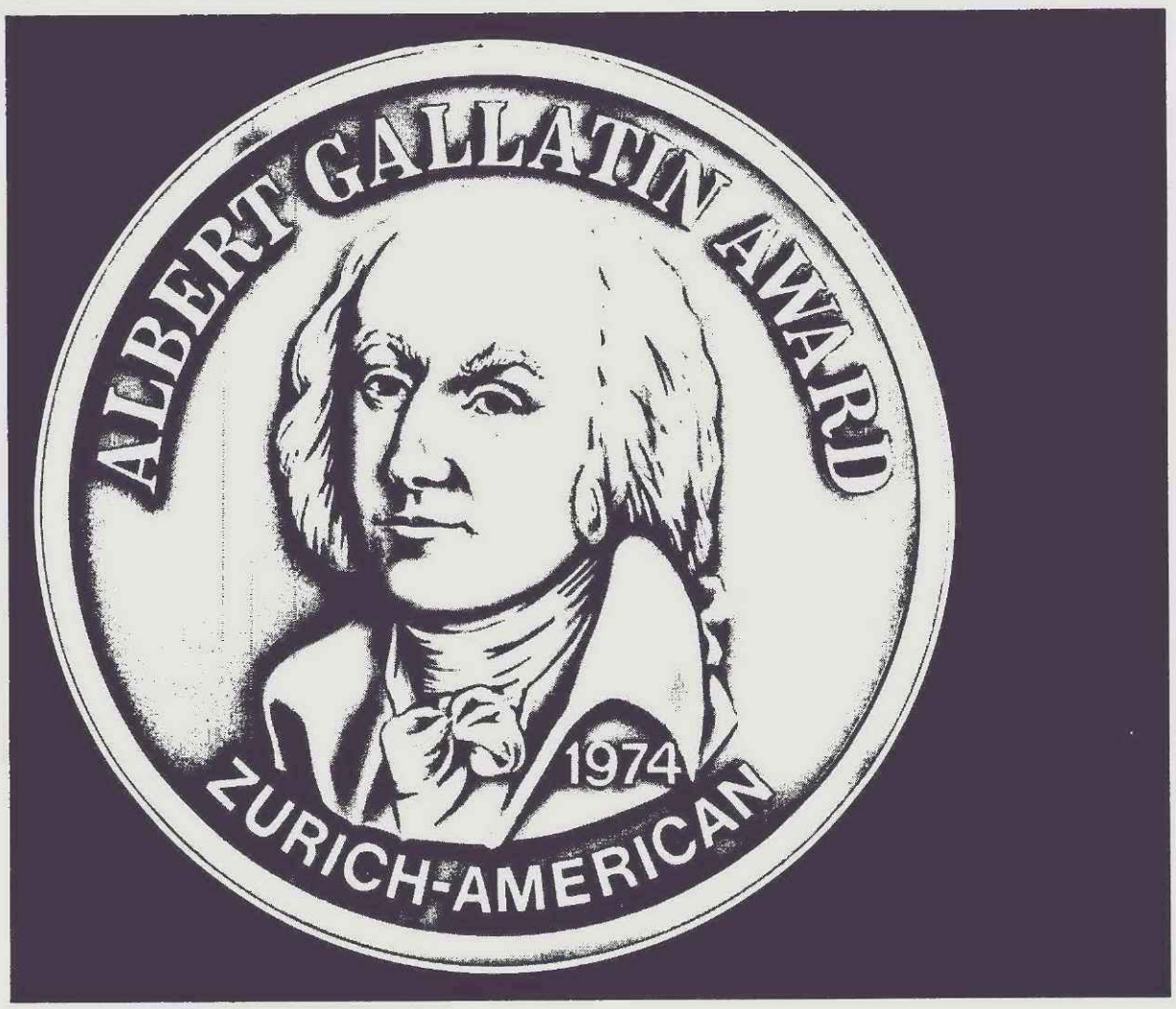
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the judges

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Wilson Johnson, president
National Federation of Independent Business

Alem LaBar, president
National Association of Insurance Agents

Leonard Sloane
Business journalist and author

George F. McDonnell, president
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nominations

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Aerospace workers get increased benefits

WICHITA, KS.—Better insurance coverage and a new dental plan as well as an eventual 17% wage hike have accompanied the signing of a new three-year contract for nearly 5,000 aerospace workers at the Cessna Aircraft Corp. here.

Value of the new employe benefits has been estimated at 11 cents an hour per year by Lynn Westbrook, representative for the International Assn. of Machinists & Aerospace Workers District 70.

Pension benefits have been raised to $7 per month for each year of past and future service, with coverage guaranteed for workers hired after age 55. Early disability retirement provisions have been made as well as new provisions for early retirement at age 60.

Insurance increases include the new dental plan, slated for 1974; a hike in major medical coverage to $20,000; miscellaneous medical expenses increased to $700 this year, and to $750 in 1974.

IAM MEMBERS will also now get 12 days off with pay each year and will have an 11-day mini vacation during Christmas, 1973. During the remaining two years, Christmas time off will add up to nine days each year.

Mr. Westbrook reported that wage increases negotiated are 7% this year, 5% in 1974 and 5% again in 1975. Actual raises this year work out to 20 to 25 cents an hour. Workers will get an additional 15 to 20 cents in each of the remaining two years. Cost-of-living adjustments are limited to six cents an hour each year for a total of 18 cents.

In addition, Mr. Westbrook revealed a new automatic progression schedule the workers won. It provides for raises of 10 cents an hour every 90 days. The contract also sets up a new jury duty clause, he said. ■

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Surprise— pension plan unfair to men

MADISON—The Wisconsin Industry, Labor and Human Relations Commission has ruled the pension plan of Marshall Erdmann & Assoc. Inc., a Madison builder, discriminated illegally against men by allowing women to retire earlier.

The firm was ordered to offer male employes the option of retirement benefits which it had extended to female employes.

The company's retirement and profit sharing plan was challenged late in 1971 by two former employes, William G. Wenkman, and James H. Drummond. The plan in existence, at the time they left the firm, provided for normal retirement at age 65 for men and 55 for women. Early retirement was permitted for men at age 55 and for women at 45.

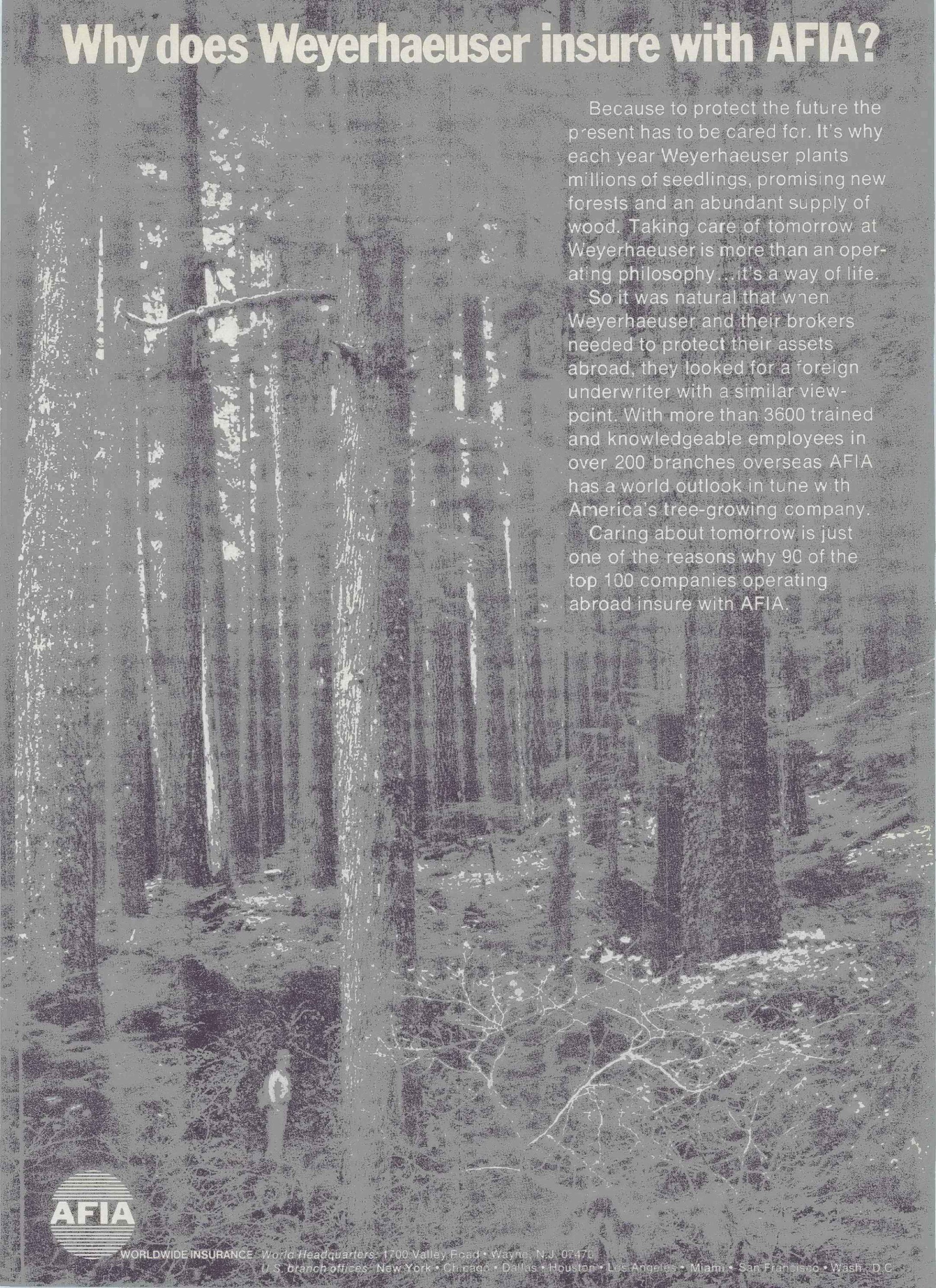
ON THE advice of attorneys, the plan was changed to provide for normal retirement at age 65 for both sexes and early retirement at 55. The change was made to comply with state and federal equal employment laws.

Because Mr. Wenkman and Mr. Drummond had not been employed for the required 10 years, they were ineligible for early retirement, the commission ruled. The firm was ordered, however, to pay the two former employes all the money coming to them according to their plan account books when they reach age 55, in accordance with the plan as it existed when they left the company. ■

Commission climate dry

The pension and insurance committee of the Metropolitan District Commission (MDC), which provides water for metropolitan Hartford, has tabled a request for increased insurance commissions by May, Potter, Murphy & Carter Inc. The agency is seeking a boost in commissions from 5% to about 7%.

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london line

Lloyd's '69-'72 trading profits up, but fears growing U.S. competition

LONDON—Forecasts for the future outlook of Lloyd's worldwide activities, especially in the face of increasing U.S. competition, were given by Lloyd's chairman, Paul Dixey, at a conference to announce its annual underwriting returns.

Under its three-year accounting system, Lloyd's has closed its books for 1970 with a trading profit for its 6,300 members of $162.5 million, compared with $130 million for the 1969 period.

This is a pleasant change from the loss-making years in the middle sixties, but there is now concern that premiums of late may have been getting too low as some U.S. companies, in the hope of profiting from investment income, fight for "cash flow" at all costs.

Lloyd's made its 1970 profit on a premium income of $1.96 billion, which represents an overall margin of only 8.2%. This means an underwriting margin, without the contribution from investments, of 4.4%.

Mr. Dixey told *Business Insurance:* "This low margin does not leave much reserve for catastrophe, currency fluctuations, and increased costs of inflation since 1970. There is no room for complacency, and even less for a general reduction in premium rates."

Dealing with the trends that have been showing in recent years, and although their trading returns are still uncertain until all claims are settled under Lloyd's traditional three-year set-up, he explained:

"Not only do we suffer from an increasing rate of inflation, but we have to allow for a deteriorating currency, which makes most of our foreign claims that much more expensive.

"There is a general feeling that the 1971 account will turn out to be profitable, but the difficulties and dangers that will affect it will have an even greater effect on the 1972 account. As far as this current year's accounting is concerned, there are ominous signs that positive danger signals are emerging for the 1973 account.

TO THE problems of unstable currencies, and accelerating inflation, is added the fiercest competition, particularly from the U.S., that we have ever had to face.

"Underwriters anxious for premium are now often faced with the choice of writing business at rates which they know will produce a loss, or losing it, perhaps for ever, to an overseas competitor. I think it unlikely that we shall be showing the style of profits in three years time that we have just declared for 1970. But we can learn from lossmaking years in the past, and our greatest strength is the collective widsom of the Lloyd's market which should carry us through a difficult period."

The aviation market is noticeably suffering from American competition, and at the same time faces rising repair costs as well as liability awards to passengers killed or injured.

Arthur J. Pagram, chairman of Lloyd's Aviation Underwriters' Assn., commented:

"World capacity for writing aviation business continues to grow, not least from the U.S., where some of the life companies have thrown their massive resources into aviation and other markets.

"The last twelve months have seen further rate reductions, some of which are justified by satisfactory insurance figures enjoyed by many airlines. Current rates on a Boeing 747 operated by airlines with good records are 80% of last year's rate, but the airline fleets of the world are growing and with hull values rising to over $30 million the potentially catastrophic nature of the aviation market's exposure does not have to be emphasised.

JET AIRCRAFT in overall airline service are increasing by six percent a year, with 350 wide-bodied jets now in operation against 250 last year.

"In my opinion rates are now at a level when their downward progress must be halted. I see no signs of any market in the world putting rates up yet, but if the losses suffered so far in 1973 continue, then rates must rise."

Some members of Lloyd's see faint signs emerging of reduced competition in ratings from new competitors in other fields, especially when the investment scene becomes less remunerative in relation to premium income.

This is showing itself to some extent in the non-marine market, though members are unwilling to define their thoughts more clearly.

But the marine market centered in London takes a different point of view, especially in relation to the fight for hull business, and Tom B. Duncan, a leading Lloyd's underwriter in that field, told *Business Insurance.*

"Competition for hull business has intensified in the last twelve months and owners are being given premium reductions which cannot possibly be justified.

"The majority of the vessels insured are valued in either sterling or U.S. dollars, which are depreciating rapidly against money in Japan, Germany and Holland where major repair ports are situated.

"The total loss of one mammoth tanker at a current value of nearly $50 million, together with resulting pollution, or the loss of a large container vessel and its cargo, would make our figures look very different." ■

Biggest catastrophes

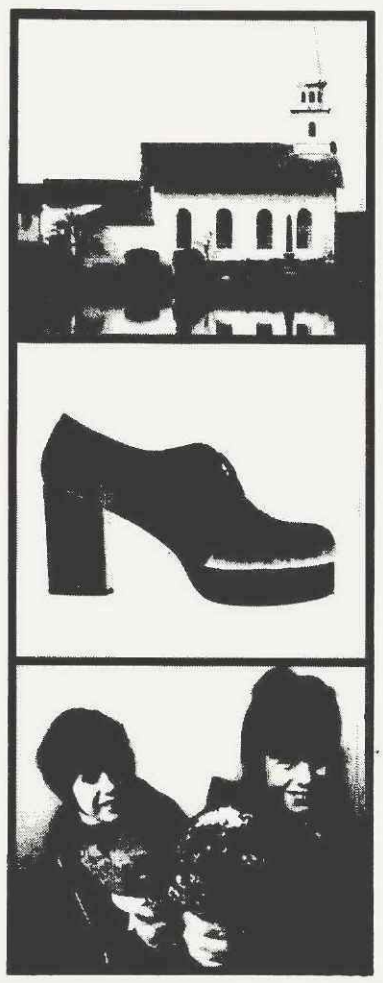
The world's three biggest catastrophes for insurance markets last year, according to the Swiss Reinsurance Co., were cyclonic storms in Western Europe in November, 1972, which cost $150 million in claims, the Managua (Nicaragua) earthquake involving a $100 million insured loss, and Hurricane Agnes, which also led to insured losses in the region of $100 million.

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American Motors stages profit sharing comeback

DETROIT—American Motors Corp., according to leaders of the United Auto Workers, will this year resume payment of profit-sharing benefits to about 13,000 of its auto factory workers.

Union spokesmen said experts from both the union and the company have come up with a figure of about $2 million which can be paid out under the firm's profit-sharing plan for the fiscal year ending Sept. 30.

Under the American Motors plan, each employe could receive profit-sharing payments amounting to a maximum of 40 hours pay. At present average wage rates, each worker could theoretically get about $200.

However, UAW spokesmen said this figure would not be reached this year because the size of the American Motors work force has increased over the years since the plan was negotiated. It was estimated most employes would get a profit sharing bonus of about $150 this December. Those workers who have not worked the entire year will receive less.

THE PLAN was originally negotiated by the union and company in 1961 but no payments have been made since 1966 because the company's profits were too small or actual losses were taken.

In another development, the UAW announced it would pay strike benefits to its 127,000 Chrysler Corp. members if they walk out when their current contract expires later this week.

UAW president Leonard Woodcock pointed out the Chrysler workers would be paid benefits from the union's strike fund, which has a balance of about $60 million. General Motors and Ford Motor Co. union locals voted earlier this year not to take strike benefits if they were picked to strike because of the small size of the fund.

Chrysler's work force is smaller than the others and local union leaders there did not go along with GM and Ford locals. Chrysler, however, was picked to bargain, and if necessary strike, for an auto industry pattern contract.

The 10-week strike against General Motors in 1970 virtually made a pauper of the union. The strike sapped all $120 million in the UAW's strike fund at the time and cost an additional $40 million. ■

Six named to Labor pension unit

WASHINGTON—The Labor department has appointed six persons to the Advisory Council on Employe Welfare and Pension Benefit Plans.

Two of the appointees—A. Robert Scotti of A. Robert Scotti Associates Inc. of Utica, N.Y., and Richard E. Shoemaker of the AFL-CIO's department of social security—are new appointees.

Reappointed to the council positions were: Victor A. Lutnicki, executive vp, John Hancock Mutual Life Insurance Co., Boston; Theodore D. Bower, special assistant to vp-taxes, Sears, Roebuck and Co., Chicago; Jacob Sheinkman, general secretary-treasurer, Amalgamated Clothing Workers of America, New York City; and Arnold J. Grossman, president, Florida Administrators Inc., Coral Gables.

COMPOSED of 13 members, the council meets periodically as a requirement of the Welfare and Pension Plans Disclosure Act to advise Peter J. Brennan, Secretary of Labor, with respect to carrying out his functions under the federal law.

Ten members of the committee are appointed from specific interest groups: one from insurance, one from the corporate trust field, two from management, four from labor and two from other groups with welfare-pension interests. The three other members are chosen to represent the interest of the general public. ■

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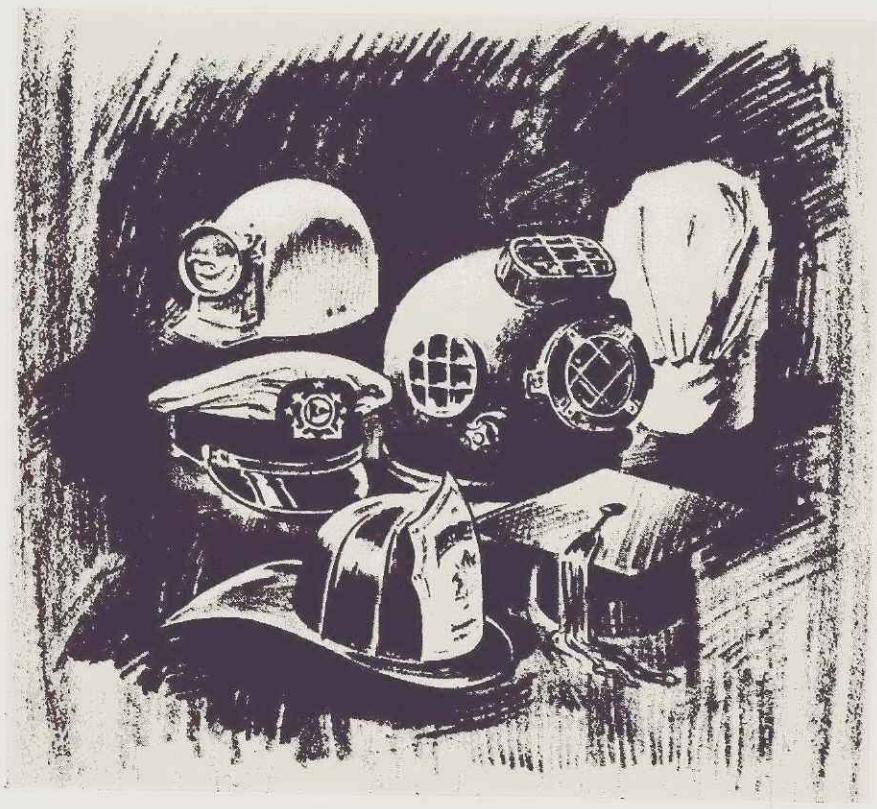
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dates for buyers

September 16-20, International Assn. of Industrial Accident Boards and Commissions, annual convention, Omaha Hilton Hotel, Omaha, Nb. For more information write the association, Box 3016, Des Moines, Ia. 50316.

September 16-19, International Security Conference, Security East, New York Hilton, New York City. For more information write ISC Registration, 2639 S. La Cienega Blvd., Los Angeles, Ca. 90034.

September 17-18, American Management Assn., and American Society of Insurance Management joint meeting, "The energy dilemma," Americana Hotel, New York City. For more information write the AMA headquarters, 135 W. 50th St., New York, N.Y. 10020.

September 17-20, National Assn. of Insurance Agents, 77th annual convention, Caesars Palace, Las Vegas, Nv. For more information write the NAIA, 85 John St., New York, N.Y. 10038.

September 21-22, Practising Law Institute, "Products liability-1973," Stouffer's Indianapolis Inn, Indianapolis, In. For more information write Practising Law Institute, 1133 Avenue of the Americas, New York, N.Y. 10036.

September 24-26, American Management Assn., "Fundamentals of risk management for the newly appointed insurance manager," AMA headquarters, New York City. For more information write the AMA.

September 30-October 3, International Claim Assn., 64th annual meeting, St. Francis Hotel, San Francisco, Ca. For more information write the ICA, One American Row, Hartford, Ct. 06115.

October 4-5, Profit Sharing Council of America, 26th annual conference, Hyatt Regency Hotel, Atlanta, Ga. For more information write the Council, 20 N. Wacker Dr., Chicago, Il. 60606.

October 7-10, The Society of Chartered Property & Casualty Underwriters, annual meeting and seminars, Washington Hilton, Washington, D.C. For more information write the CPCU, P.O. Box 566, Media, Pa. 19063.

October 15, American Management Assn., "Group legal insurance," AMA headquarters, New York City. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

October 18, American Management Assn., "New product safety act's impact on corporate liability," Huntington-Sheraton Hotel, Pasadena, Ca. For more information write AMA headquarters.

October 21-24, National Foundation of Health, Welfare and Pension Plans, Inc., "Special joint trust institute," Fairmont Roosevelt Hotel, New Orleans, La. For more information write the Foundation, P.O. Box 69, Brookfield, Wi. 53005.

October 21-24, Conference of Insurance Legislators, 5th annual meeting, Marriott Motor Hotel, Atlanta Ga. For more information write Arnold M. Malmom, Associate Secretary, 411 E. Mason St., Milwaukee, Wi. 53302.

October 28-31, American Society of Pension Actuaries, 5th annual conference, Washington Hilton, Washington D.C. For more information write the Society, 1107 Sinclair Bldg., Fort Worth, Tx. 76102.

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Correspondents In All Other States

Canadian oldsters ask pensions hike

SUDBURY, ONTARIO—A resolution favoring an increase in basic old age pensions from the present $100 a month to $150 a month was adopted by the delegates to the annual conference of the United Senior Citizens of Ontario.

The resolution suggested a hike to $150 a month to ultimately secure a minimum payment of $200 a month.

SOME OF the 600 delegates contended that the organization actually was backtracking because it had previously sought the $200 figure.

Delegates pointed out senior citizens in the province of British Columbia currently receive a minimum of $200 a month. They feel the province of Ontario should meet this payment level.

John van Waggoner, resolutions committee chairman, said the $150 payment sought related only to the basic pension and that an additional $50 would be sought from the province of Ontario. ■

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washington watch

Beleaguered John Donelon telling mass marketers—'get off my back'

WASHINGTON—When the nation's postal workers' newly negotiated contract became effective in July, it meant higher wages and greater benefits for some 600,000 persons.

For John Donelon, it meant the hassle of his life.

A group health benefits expert of 30 years, Mr. Donelon works with the 200,000-member National Assn. of Letter Carriers as the union's health benefit plans administrator. But now, due to three little lines in the new contract, Mr. Donelon has become the union's resident non-expert on group auto insurance.

"There was a three-line item in the contract which allowed the employer to make payroll deductions for group auto premiums without cost to the employes," Mr. Donelon told *Business Insurance*. "Before the ink was dry we were being besieged by calls from carriers, underwriters and brokers all wanting to talk with us about submitting formal bids."

Since Aug. 1, Mr. Donelon has taken on the task of answering inquiries and meeting with the literally dozens of insurers and insurer representatives seeking a piece of the action.

"WE ARE interested in pursuing this group auto concept," he said, "but we're not as equipped to take off on this thing as these people seem to think we are. I don't really feel we have the expertise within the union to get into this without some kind of professional help. Whether we'll hire a broker or an underwriter to help us out, I can't really say at this point.

"In one of my more immodest moments, I'll say that after 30 years I am somewhat of an authority on health benefits," he said. "But here I am in the middle of all this, and I don't know a damn thing, frankly, about auto insurance."

THE PAYROLL deductions for auto premiums won't begin until next year—if indeed the union decides to begin them at all—but the insurers aren't waiting around. With 60,000 potential insureds on the line, they apparently feel time's a' wastin' and are pounding the postal workers' unions with advice, inquiries and representatives assigned to convince non-experts like Mr. Donelon "doing it any other way but our way would be a mistake you'll never live down."

"I'd say I've interviewed 60 or so different persons all wanting to know what the extent of our interest is and what they have to do to make a bid," he said. "At this point, I wish I knew.

"All the major companies have been through here in the last few weeks—Travelers, Kemper, INA, Hartford, Metropolitan, all of them. The people they send range from the managers of their mass marketing departments to the local broker from Alexandria. This whole thing has gone as far as having one guy who runs a Mom-and-Pop operation out of his home come in. There was even a fella in here without a single account under his belt."

THE SESSIONS with his here's-what-I-can-do-for-you visitors have consisted largely, he said, of listening, talking and asking questions.

"I've learned a lot about what we should know before we get into a thing like this," he said. "It's up to us, now, to decide which way we are going on this."

The options are numerous, Mr. Donelon said, one being a decision not to get involved at all.

"Auto insurance is a tricky business, and if this thing doesn't work and the union is sponsoring it, then it's going to be bad for our image. That's something we do have to consider."

Such a program could be self-insured, Mr. Donelon said, pointing out his union's group life and health insurance programs have utilized self-insurance for years.

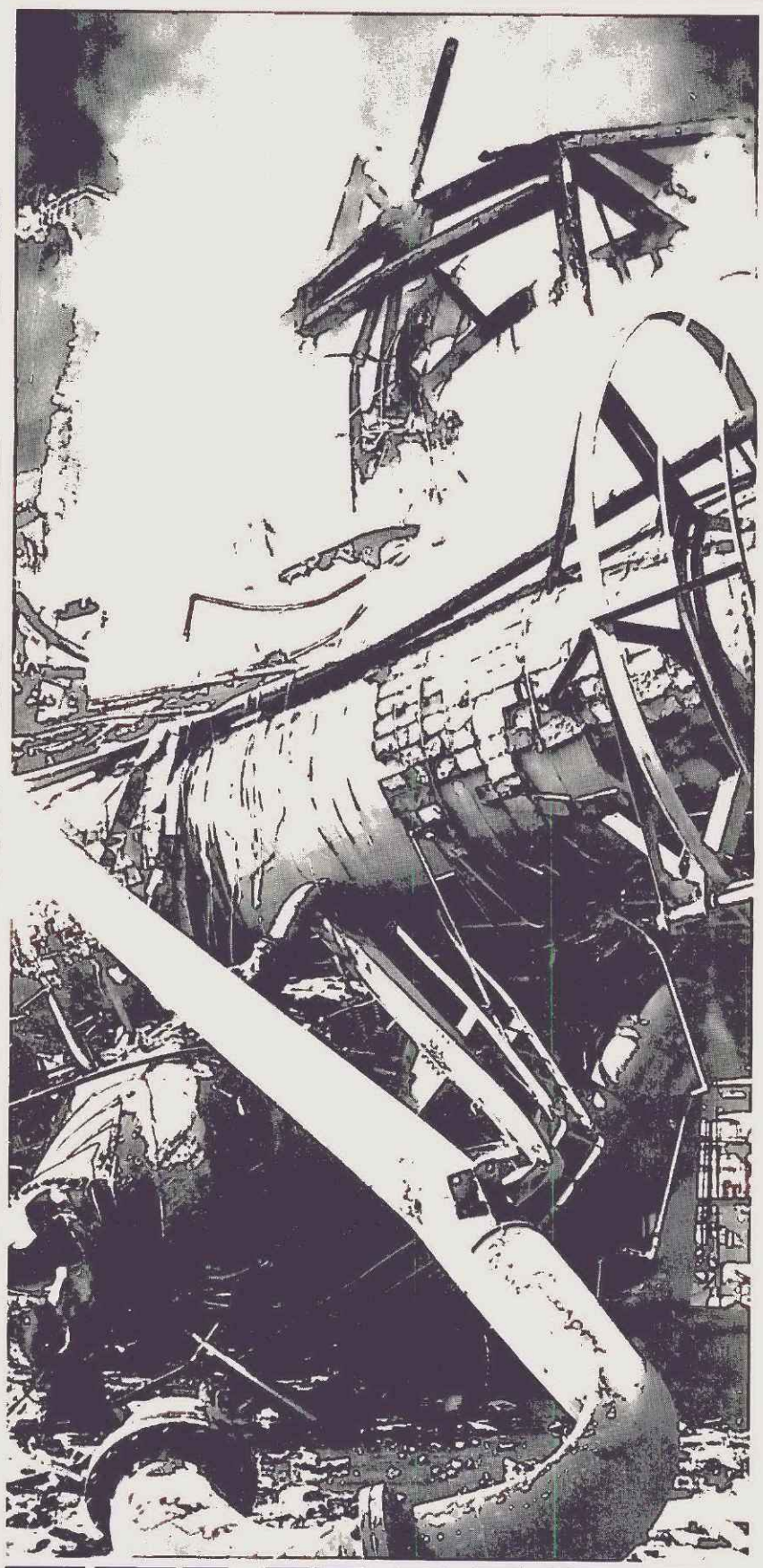
"SELF-INSURANCE is a possibility," he said, "but, if you ask me, given the nature of the auto insurance business, it would be ridiculous. Another option is hiring a full-time broker to administer this thing for us, develop specifications for bidding and sort out the offers. Or, we could go to one of those package plans available. The problem there, though, is that there's no flexibility. If they tell you it's $100 deductible, that's the way it is. If you want $50, it's too bad."

Mr. Donelon said he expects the union to reach some decision on just which approach to use—or, indeed, whether to use any of them at all—"in a month or so."

Agents, brokers, mass marketing managers, auto insurer presidents and the proprietors of any "Mom-Pop" operations can forget trying to help Mr. Donelon and the union make their decision.

Mr. Donelon is off on a month's vacation. ■

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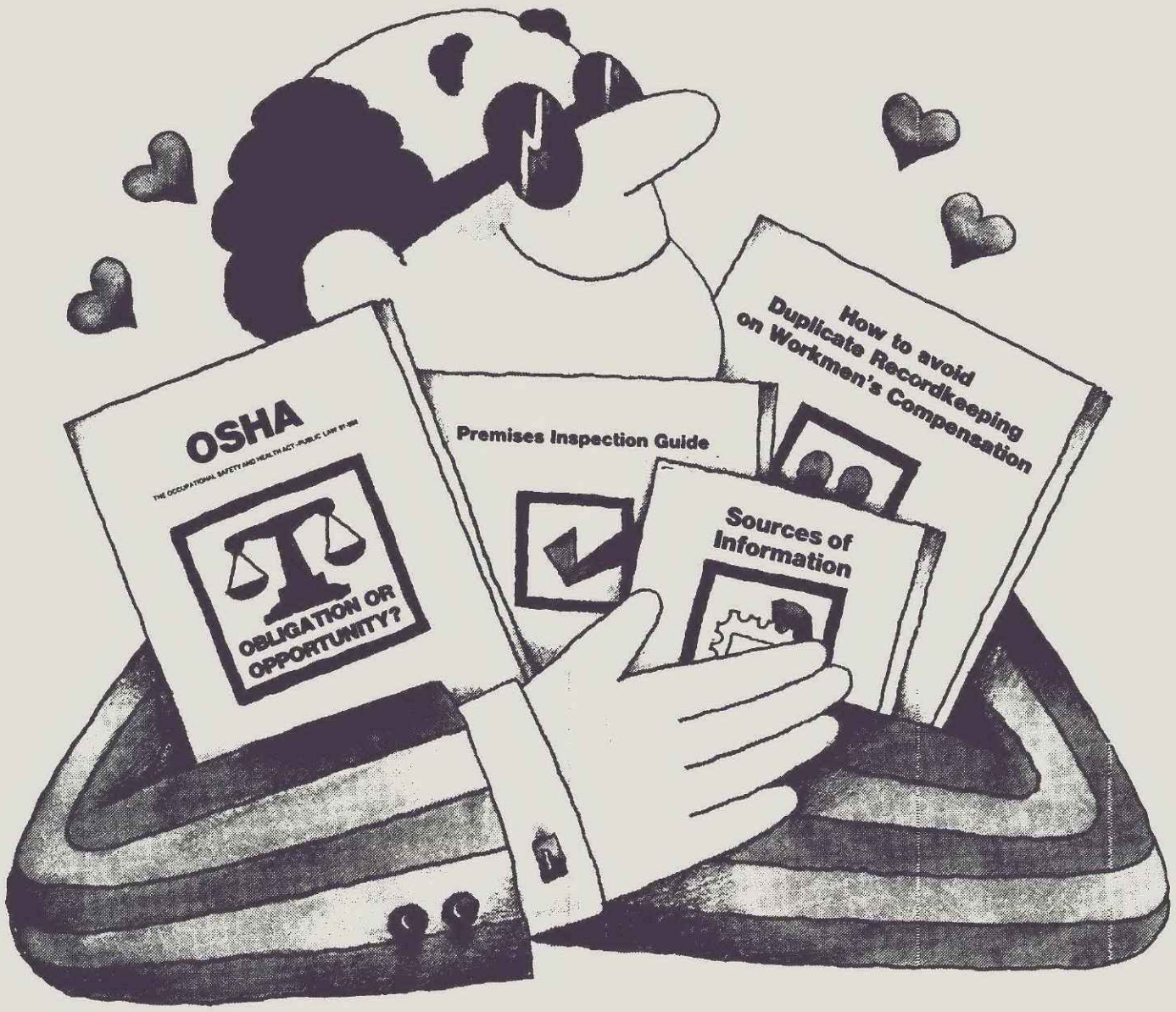
SALEM—The Oregon State Accident Insurance Fund (SAIF) has begun the distribution of a record $18,500,000 in dividends earned by Oregon employers on their workmen's compensation insurance premiums, said Charles B. Gill, Jr., SAIF general manager.

"Since workmen's compensation insurance rates are based on the projected costs of anticipated accidents," Mr. Gill commented, "an employer who receives a dividend is one who has, in effect, beaten the system. He's the one who has instituted an active safety program to hold down accidents."

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LIFE & CASUALTY

19,400 lost pension benefits in '72: U.S. Treasury

WASHINGTON—A Treasury department study of all single employer pension plan terminations in 1972 shows about 19,400 persons lost benefits valued at $48.7 million due to insufficient assets at the time of termination.

In total, 1,227 pension plans were terminated during the past year, affecting 42,000 persons. Of that total, 652 plans covering 18,700 participants survived termination without any losses due to sufficient assets to cover all accrued benefits. About 19,400 out of 23,100 participants in 546 plans suffered benefit losses. Some 29 plans with 270 claimants were also covered in the study, but did not provide benefit data.

Undertaken by the Treasury department under direct orders of President Nixon, the study's results will be used, sources say, as administration ammunition in the upcoming battle over pension reform legislation. The Nixon administration is opposed to pension termination insurance on the grounds not enough pension plan participants are affected by terminations to make pension insurance a federal issue.

When the 19,400 persons losing out in 1972 are compared to the 23 million persons covered by private pension plans, the fact emerges that .08% of all workers covered lost benefits.

The leading pension reform bill—the Williams-Javits bill (S4)—contains pension termination language to provide insurance through a tax on unfunded vested liabilities at a rate ranging from 0.2% to 0.4%, depending on the type of plan. A Senate finance committee pension bill—which is expected to be introduced either as a substitute for or an amendment to the Williams-Javits bill—also contains pension termination insurance provisions. The finance bill's insurance would be funded by a $.50 annual premium per pension plan participant. The Senate is expected to begin debate on pension reform this week.

THE TREASURY study also details the benefit losses sustained by the 19,400 persons suffering loss of retirement funds. Typically, each lost over 50% of his benefits, valued, on the average at $2,500.

Some 8,500 of the claimants with losses were retirees, persons eligible for normal or early retirement and current and past plan participants with vested benefit rights. The average value of the benefits lost by this group was $4,100. Total benefits lost by all participants in these specific categories were $34.4 million.

Some 10,900 other active participants lost benefits worth an estimated $14.2 million. The complete breakdown of losses sustained by claimant category is in the accompanying chart.

Overall, 55% of all claimants were in plans with losses, while 46% actually experienced losses. Those who experienced losses represented 84% of the claimants in plans with losses. Some 70% of the retirees in plans with losses experienced some benefit cutbacks, while 87% of current employes in those plans also experienced losses. About 92% of the former employes with deferred vested rights experienced losses in those plans.

The survey also notes most claimants, and most claimants sustaining losses, were in plans with 100 or more participants and in plans which were at least five years old at the time of termination. Terminations due to plant closures or the phasing out of divisions and subsidiaries within a company accounted for 6% of all terminations, but also accounted for 23% of all claimants and 29% of all claimants with losses.

PLANS less than five years old accounted for 21% of all claimants. About 32% of all claimants were participating in plans at least five years old but under 10 years old, and the remaining 47% were in plans more than 10 years old.

Claimant losses appear to be slightly more widespread among younger plans, primarily plans less than a year old and those three to five years old. Some 60% of all claimants in plans of this age group lost benefits as opposed to an over-all average of 46% of claimants. The greatest majority of claimants with losses (75%) was in plans over five years old at time of termination.

The majority of terminated plans was small, the study shows. Of the 1,227 plans surveyed, 728 (59%) had fewer than 10 claimants, but those persons constituted only 7% of all claimants and 6% of claimants with losses. It should also be noted the average benefit loss in the smaller plans is almost twice the average loss for all plans.

Some 58% of all 42,019 claimants were in 412 "relatively large" plans, the study shows, which were self-insured. In 397 of these self-insured plans, assets were placed in general investments. Seven plans invested solely in mutual funds, and eight plans invested in securities of the employer corporation.

Benefit losses were reported for 212 of the 412 self-insured plans. Because of their size—59 claimants per plan—and the high incidence of benefit loss, self-insured plans accounted for a higher proportion of claimants with losses than of all claimants, 65% as compared with 58%. Among the 212 self-insured plans with losses, 83% of the claimants lost benefits; however, in six self-insured plans with investments solely in employer securities, almost all the claimants experi-

Continued on page 39

Claimants by category

Category	Claimants	Average loss
Retirees/beneficiaries	2,644	$4,503
Eligible for normal retirement	118	7,814
Eligible for early retirement	1,146	5,916
Fully vested participants	3,622	3,280
Former employes with vested rights	920	3,207
Other active participants	10,857	1,301
Unclassified claimants	89	397
All claimants—Total	19,396	$2,510

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Pension reform warnings divided as to ultimate passage and effect

LOS ANGELES—Federal pension reform legislation, particularly the Senate finance committee's S.1179, provided the spark for two rather diverse pronouncements from two rather diverse spokesmen late last month. (See story, page 4.)

Michael S. Gordon, the Senate Labor subcommittee's minority counsel, predicted pension legislation of some form would pass late this year or early next and said S.1179 could lead to a heated debate on the Senate floor. Meanwhile, R. Wayne Herbert, president of the National Assn. of Mutual Insurance Agents, warned a provision in the Senate finance committee's bill could wipe out pensions in a large number of closely-held corporations.

Speaking at a pension seminar at Pepperdine University here, Mr. Gordon said reform legislation would make it through within a relatively short time because "with the Senate in virtual agreement on the basic concepts of pension reform, the House, despite outward appearances, cannot afford to lag behind. Congressional elections are coming up in 1974 and pension reform is a top priority issue with many voters."

SEN. RUSSELL Long's (D-La.) tactic, according to Mr. Gordon, is to attach any pension bill passed by the Senate to a military retirement tax bill, HR 4200, which has already passed in the House. That bill would then go to a Senate-House conference and both houses would vote on what came out of the conference. In this manner, the House labor committee would be by-passed and time saved.

Sen. Long is chairman of the Senate finance committee.

WHILE Mr. Gordon said S.1179 would be used "in some manner" as an amendment to S.4, the Senate labor committee's bill, he said he could not predict precisely how things would go.

He did, however, say jurisdiction had become less of a problem. "Even the great stumbling block of jurisdiction between tax and labor committees is now subordinate to the overriding question of how to enact an intelligent, workable and efficient compromise bill," he told those at the seminar.

LOOKING AT the finance committee's legislation, Mr. Gordon predicted the bill's tax reform aspects "may well be more controversial than the so-called pension reform aspects and may very well engender heated debate on the Senate floor."

Among the changes in the bill are new tax limitations on small business and professional corporations and raising tax deductible amounts in Keogh plans to $7,500 annually.

NAMIA's Mr. Herbert, meanwhile, is upset about a provision in the finance committee's bill which would limit contributions for the benefit of an owner-manager to 15% of net earned income. An owner-manager is defined as someone with at least 2% interest in the business whose current value or rights in the plan exceeds 25%.

In urging his 21,000-agent membership to write their Congressmen in an effort to eliminate the provision, Mr. Herbert noted many closely-held corporations have negligible earned incomes. If a small business had a net income of only $3,000, the owner-manager would only be allowed to contribute $450 for himself, even if his annual salary was very high.

THE BILL, however, sets no such restrictions on the contributions for other employes, Mr. Herbert pointed out, meaning an employer might be contributing $500 for each of his lower-paid employes and only $200 or $300 for himself.

"This provision would not only destroy thousands of small companies countrywide," he stressed, "it would virtually dry up the market for sales of new plans because they would not be attractive to employers," Mr. Herbert told the audience.

Mr. Herbert said he supported the other features of the finance committee bill but added: "If the provision relating to the owner-manager is not deleted or amended the effect will be to deny hundreds of thousands of employes the opportunity to be covered under pension plans in the future." ■

Treasury ...

Continued from page 38

enced benefit losses.

The incidence of losses among the 397 plans which were funded exclusively through an insurance carrier in the form of individual or group annuity-type contracts was far less. The insured plans with losses accounted for only 16% of all claimants with losses, while comprising 22% of the total 42,019 claimants.

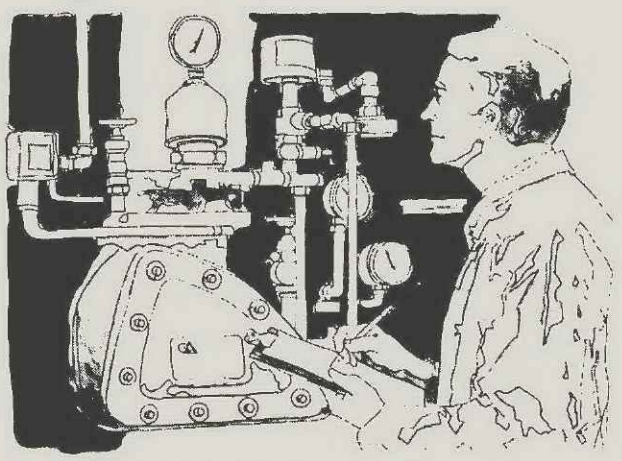
THE STUDY also determined a risk factor for the average worker of benefit loss due to termination. The 42,000 claimants in plans terminated in 1972 and the 19,400 claimants with losses amount to only 0.18% and 0.08%, respectively, when compared with the 23 million workers covered by private pension plans. Assuming 1972 was a typical year for terminations, the risk of benefit loss over a 10-year period of plan participation would be 0.8%, and, over 30 years, 2.4%. ■

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Provincial insurance regulators say Canadian credit cover costs too high

TORONTO—Provincial superintendents of insurance across Canada charged that consumers who buy insurance to cover possible defaults on installment plan payments are being socked with excessive premiums.

A report issued by a committee of the 10 provincial superintendents asserts such premiums are far above the actual cost of the coverage provided.

The superintendents lashed out at the business practices of sales finance companies, acceptance corporations, credit card issuers and other consumer loan handlers.

The report prepared by the governmental insurance chiefs concluded: "Lenders, by charging borrowers more for credit insurance than the actual net cost and by various other practices, have increased the cost to the public to the point where, in some cases, its continued sale in its present form is unacceptable."

LEO BEAUDRY, superintendent of insurance for Saskatchewan, is head of the superintendents' standing committee on life insurance legislation, which prepared the highly critical report.

In its report, the committee points out the cost of creditors' insurance is added to the loan rather than to the cost of borrowing and is not reflected in the annual percentage rate disclosed to borrowers.

The report charged: "Consumer protection legislation, as presently written in all provinces but Quebec, permits this practice which, when followed, makes it difficult for consumers to compare rates with lenders that include insurance without making a specific charge for the premium."

The committee noted in some instances, the cost of the insurance works out to an annual percentage rate in excess of six percent of the loan which increases the borrowing cost substantially.

Mr. Beaudry, in making reference to varying costs of separate coverages, charged accident and sickness premiums are sometimes two, three and even four times the premium for the life insurance and this trend continues to grow.

The committee, in its report, cited an example which was based on the charges of a leading sales finance firm in Canada. In this instance, the annual interest rate on a loan of $4,506 to be repaid over 48 months is disclosed to the borrower at 20.7%. But the committee says that when insurance costs are added to the loan, the borrower actually is being charged an interest rate of 26.5%.

THE COMMITTEE cited another example involving a second leading finance company. This company tells the borrower the interest rate on a loan of $4,538 to be repaid over 48 months is 20.6% but the rate actually jumps to 26.7% when the insurance costs are tacked on.

The superintendents' committee also attacked the practice of insurance companies of rebating premiums, called experience rating refunds, to the lending companies which hold the group master contract. The committee noted because these rebates are not in turn passed on to the borrower, the consumer pays the full cost of insurance in the form of a special charge.

The committee also contends the rebate principle acts to reward lenders who place their business at higher interest rates, serving to push interest rates to consumers into even higher ground.

The committee warns that unless the situation regarding insurance costs is corrected voluntarily by lenders, it may urge legislative action by each provincial government. ■

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*Study headed up by one of the nation's foremost research and marketing consultants to the insurance community. Francis D. Barrett, Jr. Mr. Barrett, president of his firm, Francis D. Barrett, Jr. & Associates, has held top positions in the Underwriting, Marketing and Research Departments of some of America's top insurance firms.

Actuary unit sets meeting in October

WASHINGTON—The fifth annual conference of the 850-member American Society of Pension Actuaries will be held at the Washington Hilton Hotel, Oct. 28-31.

Sen. Lloyd Bentsen (D-Tx.), a member of the Senate finance committee's subcommittee on private pension plans and one of the sponsors of a pension bill up for debate this week, will speak at a conference banquet Oct. 30.

PAUL L. MARTIN of the Internal Revenue Service's pension trust branch and other pension field experts will speak at the general sessions and conduct workshops.

Scheduled events to date will deal with the following topics: developments in pension legislation; new and pending rules affecting qualified pension and profit-sharing plans; the future of private pensions in the new environment; Social Security and its role in providing old-age security; new IRS rulings; IRS and Labor department forms; meeting accounting standards, and actuarial cost methods and their effect on plan design.

OTHER topics to be discussed include: new and improved products, group products and techniques in marketing new pension and profit-sharing plans; pension plans for small and medium-size firms; the future role of common stocks in pension plan portfolios, and real estate as an investment for pension and profit-sharing funds.

Persons wishing to register for the conference should write the American Society of Pension Actuaries at 555 Cullen Center Bank Bldg., Houston, Tx. 77002, or call (713) 224-3102. ■

R.B. Jones' earnings

R. B. Jones Corp., Kansas City, Mo., parent of R. B. Jones nationwide insurance brokerage firms, listed its nine-month earnings report with a per share hike to $.63 from $.55 in a like period in 1972. In the period, which ended July 31, revenues went from $10,083,000 to $10,928,000. Net income for the nine months was $910,000 this year as contrasted with $792,000 in the previous period which ended in 1972. Results for this year have been restated to reflect acquisitions on a pooling of interests basis, R. B. Jones management has noted in its report.

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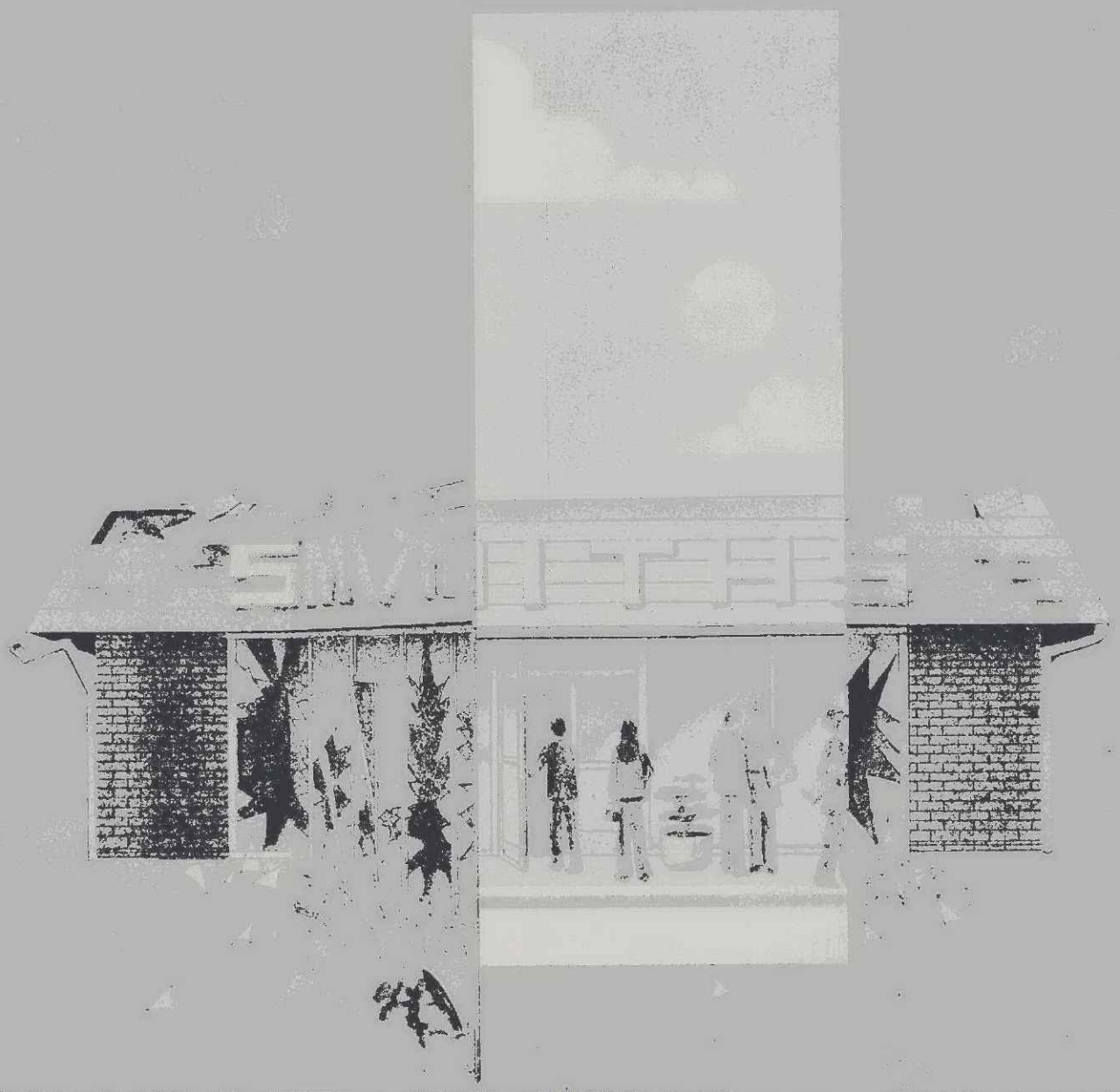
All you do is select your limit and deductible. If a loss occurs, we'll pay the claim right up to the limit without regard to whether it's lost earnings or extra expenses.

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Agents' suit against insurers still trudging on despite court ruling

NEW YORK—The continuing saga of a $3.75 billion class action suit filed against 184 insurance companies by four local insurance agents' associations here reached a new plateau late last month when a federal district court dismissed the action for the second time.

The agents, however, are undeterred. They were reportedly ready for the judge's decision going against them and have already set an appeal.

The original suit charged the insurers with antitrust violations, alleging the insurance companies forced the agents to tie in various types of insurance or face contract cancellations. The suit, however, was dismissed both times because the courts ruled the associations lacked the standing to sue.

Though the ruling must be seen as a setback, the agents saw a glimmer of hope in Judge Charles S. Stewart Jr.'s wording of the dismissal:

"ALTHOUGH we are cognizant of the trend in this circuit to delimit and control the use of the class action as a vehicle for individual litigants, nevertheless we are troubled by plaintiff's representation that, were an individual agent to commence a lawsuit based on allegations of the instant complaint, he would face grave uncertainties with respect to job security and threats of reprisal by way of termination of agency contracts.

"Moreover, we are not unsympathetic to the disproportionate costs an individual litigant must bear in a lawsuit of this magnitude. Further, we are impressed by the legislative policy underlying the antitrust laws which pre-eminently seeks to vindicate the public interest by specifically providing litigants the right of private damage actions in addition to government enforcement actions."

The next step for the plaintiff, the Independent Insurance Agents Legal Action Committee, is to ask the circuit court of appeals to change the present target area doctrine, which sets the standards on what persons may bring antitrust suits. The doctrine varies from district to district.

The agents' original action alleged the insurers had resorted to forcing the agents to tie in coverages in order to offset heavy losses in homeowners and automobile coverages. Many agents then found themselves cancelled because of "unbalanced books of business."

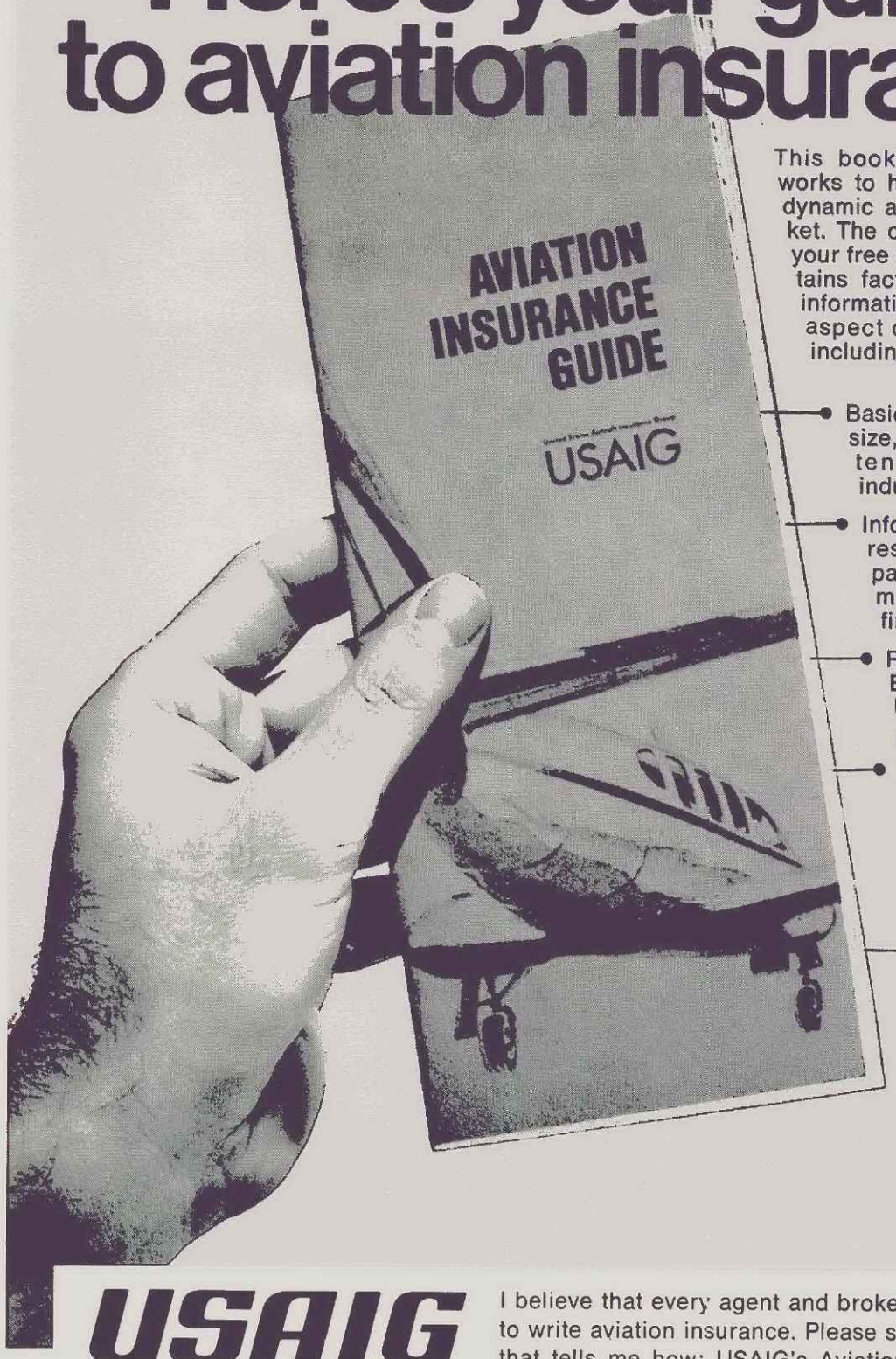
IN OTHER words, the agents had not been writing enough desirable business to offset the insurers' losses.

Specific complaints in the suit, trebled under Sherman and Clayton Act provisions, include:

- $500 million (trebled to $1.5 billion) for homeowners whose coverage was cancelled or nonrenewed because of agency cancellations.
- $500 million (trebled to $1.5 billion) for injury to agency business resulting from agency terminations.
- $250 million (also trebled to $750 million) for damages resulting from insurance company practices which forced agencies to resort to illegal business practices to avoid cancellation.

Many major insurers are named in the suit, including Aetna Life & Casualty, Connecticut General Insurance Group, Maryland Casualty Co., Chubb Corp., Crum & Forster, Travelers Insurance Co. and Globe Indemnity Co. ■

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OSHA team inspecting D. C. subway

WASHINGTON—Prompted by complaints from construction workers, a special Occupational Safety and Health Administration task force has begun a massive inspection of this city's subway construction techniques.

Two teams of OSHA compliance officers, each accompanied by a representative of the workers and an official of the Washington Metropolitan Area Transit Authority (WMATA), will inspect the entire 98-mile maze of tunnels to check on written and verbal complaints of inadequacies in ventilation, shoring, dust and fumes. The use of personnel protection equipment, the safety of machines used in the construction and the handling of explosives will also be checked, an OSHA spokesman said.

About 5,000 workers are involved in the construction of the subway system, which was begun in January, 1970. Five workers have been killed and 486 injured on the project in about 15 million man-hours of labor.

THE ACCIDENT rate for the project is nearly 31 per million man-hours, short of what the Labor Department says is the national average—35.7—for all construction. WMATA officials are quick to point out subway construction is considered "hazardous construction" and note the accident rate for the San Francisco Bay Area Rapid Transit System was 42.8 per million man-hours.

David H. Rhone, assistant regional director for OSHA's Region II in Philadelphia, is in overall charge of the inspection. Mr. Rhone said the inspection "will continue as long as necessary." Given the size of the project, OSHA officials say the inspection could go on for weeks.

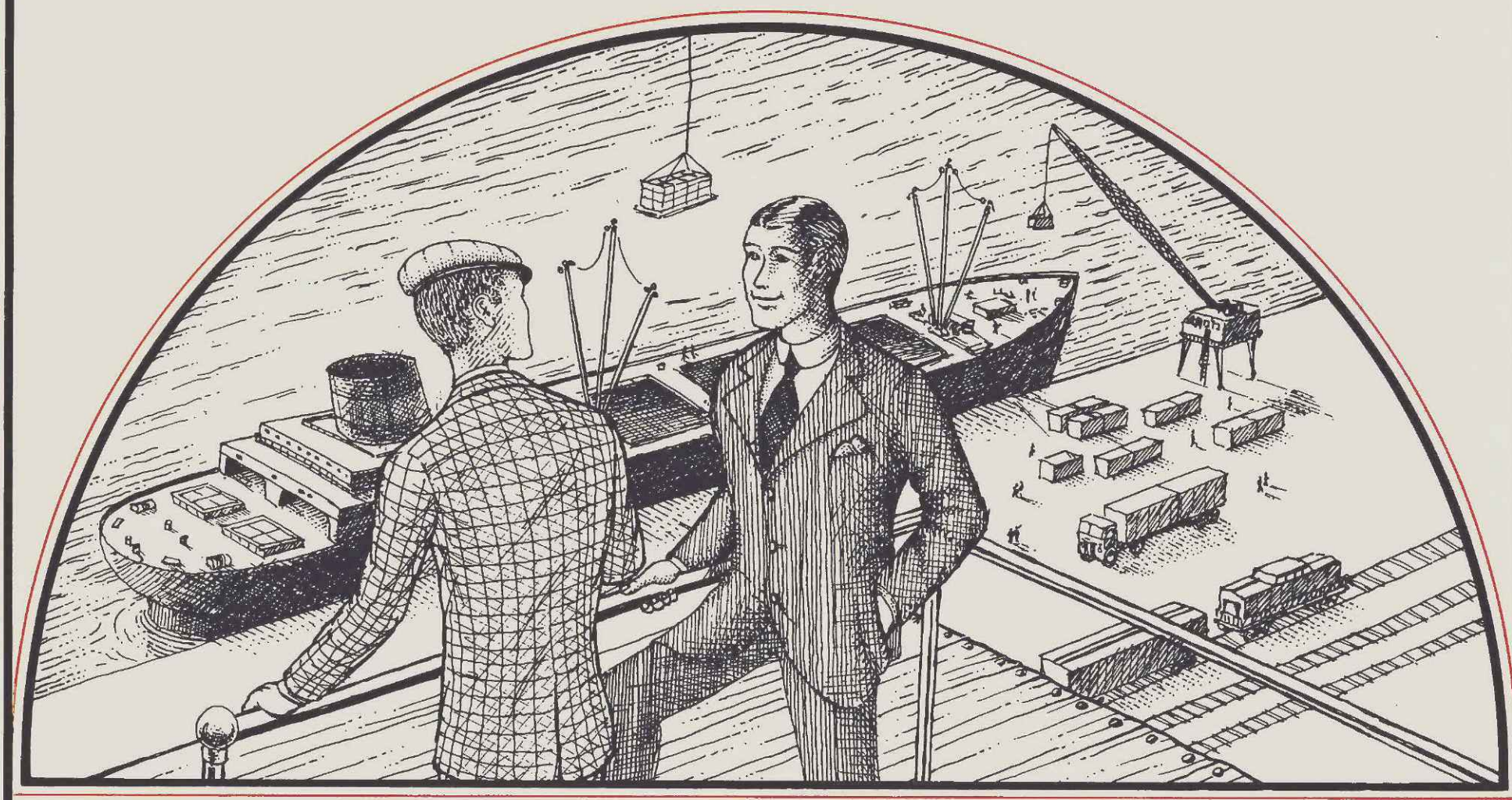
The special task force project is not the first OSHA inspection of the subway system. Various spot checks have been made in the past when reports of imminent danger were received by the job safety administration. The present inspections, however, represent the first comprehensive OSHA review of the working conditions on the project.

OSHA conducted pre-inspection conferences with various prime contractors involved in the project, and John H. Stender, OSHA's director and an assistant secretary of Labor, personally informed Washington mayor Walter Washington of the inspection.

Under OSHA regulations, no prenotification of compliance inspections is required.

An OSHA spokesman said the federal inspectors were checking the project "in the absence of an approved job safety and health plan in the District of Columbia." The project had been inspected by the district's Industrial Safety Board on behalf of OSHA until June 30 when their agreement terminated. ■

TOM SWIFT and The Law of the Waterfront



"**The smartest** thing I ever did was to take your advice and call Midland, Tom." Tom Swift was being addressed by his friend Ned Newton as the two of them stood on a promontory observing the hectic waterfront activities.

"**I knew** that when it came to stevedoring, terminal operations, ship repair and maintenance, dredging and just about anything else that goes on around the waterfront, Midland could offer you exactly the coverage you needed," said Tom broadly. "Midland has the highest level of experience of any insuror in the field of Maritime risk management," he added loftily.

"**True enough,** Tom," said Ned, "but what I appreciated most of all was the way Midland guided me through the intricacies of the new Longshoremen's and Harbor Workers' Act."

"**It's not** a new law," amended Tom, "but there certainly is a great deal of confusion about the changes and about what the future will bring.

"**We all** know there are some companies who go in and out of the Maritime field," Tom interjected inconsistently. "But today you have to have an outfit that stays on top of the changing situation, one you can count on to have all the facts you need to know. And that describes Midland," he concluded authoritatively.

John Downey, Midland's Port Claims Control Manager, recently spoke to the AMA on the meaning of the changes in the Longshoremen's and Harbor Workers' Act. If you'd like a copy of his valuable comments, just drop him a note at 160 Water St., N.Y., N.Y. 10005.

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"So sharpen your pencil," reminded Tom pointedly.

P.S. Watch this space next month for names of first contest winners!

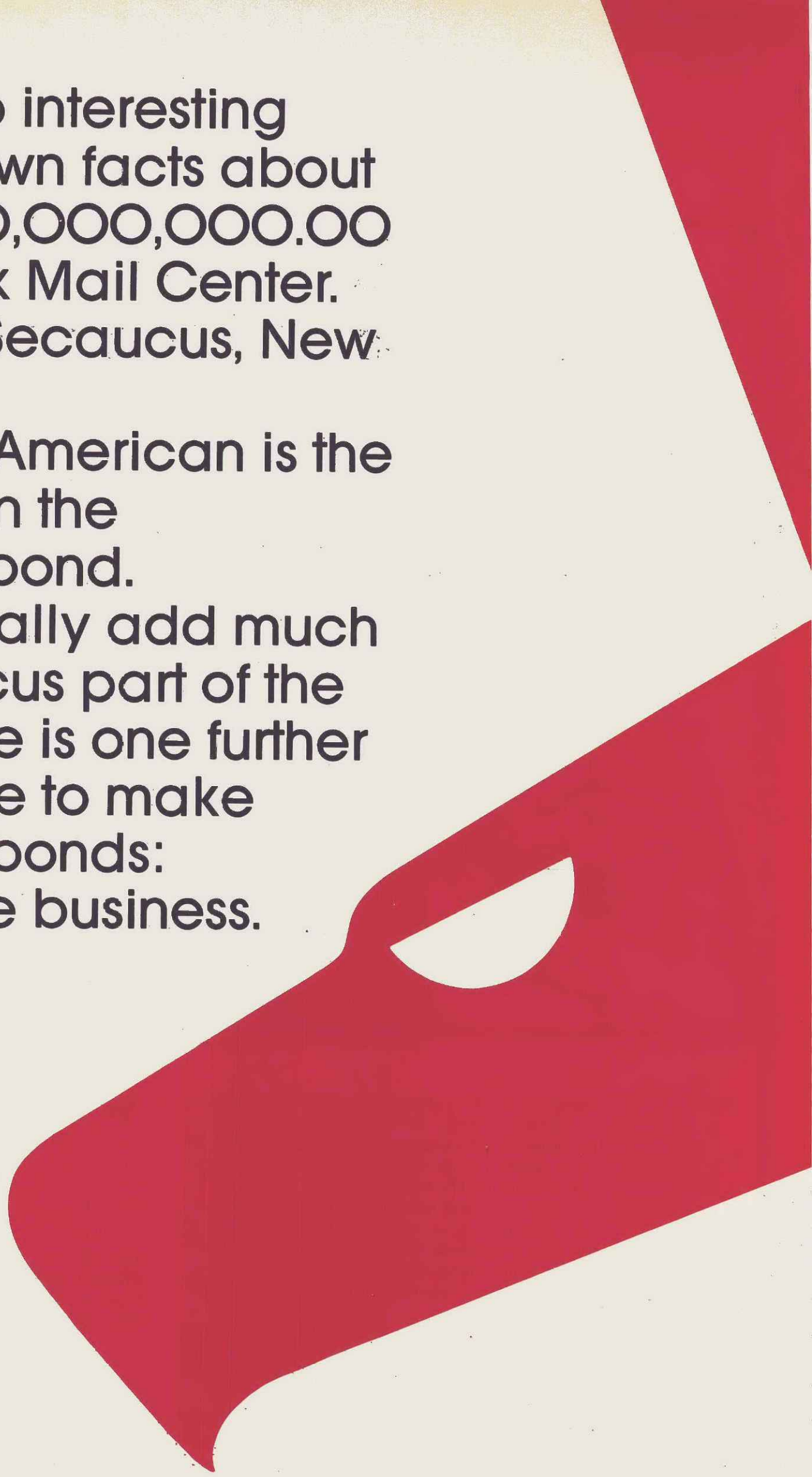
There are two interesting and little known facts about the new $100,000,000.00 New York Bulk Mail Center.

One, it's in Secaucus, New Jersey.

Two, Great American is the lead surety on the construction bond.

We can't really add much to the Secaucus part of the story, but there is one further point we'd like to make about surety bonds:

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Self-insured plan transition can be smoothed

By STEPHEN GILKENSON

SAN FRANCISCO—A well designed and executed transition from an insured to a self-insured employe benefit health and welfare fund "can be painless to the point of causing scarcely a ripple in the administrative process," according to a consultant who addressed the International Foundation of Employee Benefit Plans' 19th annual conference here last month.

This assessment, moreover, was agreed to by a union fund administrator who pointed out in his union's particular situation the conversion was "a fairly simple matter," although prior to the transition, consultants, legal counsel, and trustees did have to do their homework.

Speaking to a conference session at the St. Francis Hotel here, Richard N. Blomquist, president of R. N. Blomquist and Co. Inc., Oak Brook, Il., said the idea of self-insuring benefit plans is not a new one (one of the first was instituted by Consolidated Edison of New York at the turn of the century), but in recent years the concept has been challenged on several fronts. One of these, he said, is the case of a plan run by Monsanto Co., St. Louis, which is under legal fire from the Missouri insurance department.

"A few months ago, in the midst of this legal action, the state of Missouri itself announced it was moving its plan of health and welfare benefits to a self-insured basis and were terminating the contract with their insurance carrier," Mr. Blomquist said, noting the state legislature approved the move by enacting legislation dealing specifically with the subject.

"Needless to say, it is more than a little embarassing for the personnel of the insurance department of the state of Missouri who themselves are covered by self-insured plans to pursue a case against the Monsanto Co. on the premise that they are not entitled to do likewise," Mr. Blomquist contended.

"A REVIEW of the available facts indicate among the 50 state insurance departments, an attitude towards self-funded programs is, in the vast majority of cases, confused and ill-defined, or entirely nonexistent," the consultant said, pointing to a survey of the insurance commissioners on the subject in the June 4 issue of *Business Insurance*. The story observed "No one even agrees on what a self-insurance plan is, much less how to deal with one."

MR. BLOMQUIST also pointed to a similar survey his own company conducted this summer and the results indicate "even more vagueness on the part of the insurance departments as to what position they should take in respect to self-insured, jointly-trusteed health and welfare funds. We found their attitudes to run all the way from 'we have no jurisdiction' over such plans, to requiring a simple filing be made with the state insurance department," he noted.

"The attitude of the federal government is much more clear in respect to this question," said the consultant, pointing out federal agencies recognize the existence of both insured and self-insured health and welfare programs and require from each substantially the same disclosure information and the same adherence to other applicable statutes. "As a matter of fact," he said, "a close examination shows it is somewhat easier to comply with various United States government requirements if a plan is self-insured, than if a plan is insured."

Outlining the steps to be taken before setting up a self-funded plan, Mr. Blomquist said a feasibility study should be conducted first. "The primary motivation for self-insuring a program is usually the dollar savings involved, so a clear and precise determination needs to be made as to what these savings may be," he said.

"In making this determination, it is important not only to take into consideration those economies which result from the termination of the insurance contract, but also to take into consideration those services and supplies which must be provided by the trustees of the fund to replace certain services which the self-insured plan will need which are currently being provided by the insurance company," Mr. Blomquist said.

The study should also determine what kinds of risks exist under a plan. Trustees should consider the possibility of retaining some part of the benefit plan on an insured basis, he said. "Some funds, for example, have used the combination of retaining the insurance carrier in connection with the life insurance, accidental death and dismemberment insurance, and major medical care benefits of the basic plan on a self-insured basis," he said.

THE consultant also pointed to the obvious problem faced by many plans that go the self-insured route, that of putting together qualified personnel to administer the plan.

"If you find that your administrative personnel do not have enough background or experience to handle the benefit payment function you can meet this problem by turning it over to a professional administration firm; one having experience with self-insured plans, or able to satisfy you that they can do the job . . . the loss of one or two claims people in the office of a self-insured plan can cause serious problems. Professional administrators have a large enough staff to avoid these problems" he said.

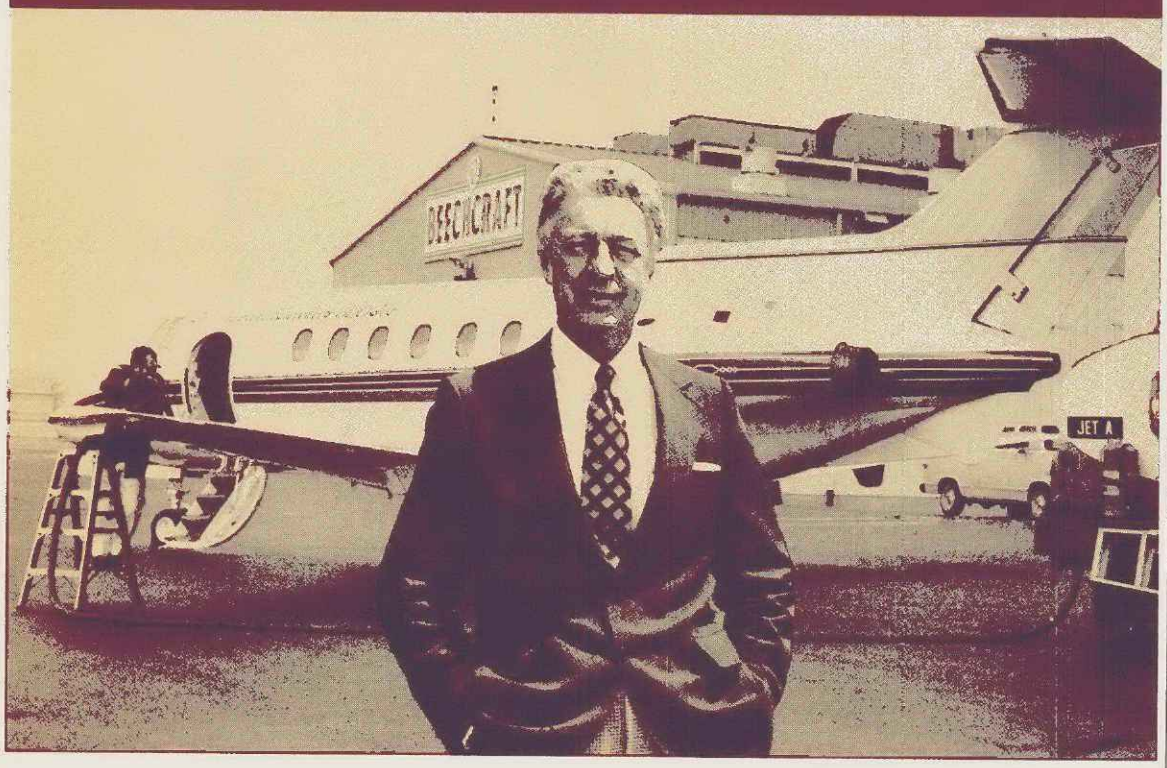
Adding to Mr. Blomquist's remarks was T. Lusk Wands, administrator of the Boilermakers-Blacksmiths Pension Trust and

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Fringe on fringes gives migraine to headaches

SAN FRANCISCO—Adding fringes to the fringes can be fine for employe beneficiaries, but they can give migraines to those who have to administer them, health, welfare and pension plan trustees were told here late last month.

Thomas Reynolds, asst. vp for Tolley International Corp., Detroit-based consultants and actuaries, told a session of the 19th annual conference of the International Foundation of Employee Benefit Plans in recent years "fringes to the fringes" such as dental and vision care programs and supplements to Medicare programs have evolved and with them have developed new problems for the administrators of such plans.

"When a vision care program is implemented, the first administrative problem is gaining the acceptance and cooperation of the purveyors of eye care service in the geographic area served by the fund," said Mr. Reynolds.

Noting most vision care programs do not limit participants to any one or a few vision care service sources, Mr. Reynolds said the administrator will likely have to launch a massive public relations campaign to publicize the program and gain the acceptance of individual optometrists and ophthalmologists. "Unfortunately," he said, "this may be easier said than done . . . when you consider the inherent reluctance on the part of optometrists and ophthalmologists to accept a fixed schedule of benefits as opposed to a schedule providing for reimbursement of reasonable and customary fees."

ANOTHER SOURCE of administrative problems, said the consultant, is the establishment of proper "in-house" procedures to assure the vision care program is not abused by the participants. "For instance," he said, "many vision care programs provide that a participant or his dependent may not obtain eye glasses more than once every two years. Obviously, then, the administrator must develop proper safeguards to prevent abuse of this provision." In addition, Mr. Reynolds told the audience, the administrator must develop proper statistical information to report to the trustees on the extent of the utilization of vision care service and its cost, together with meaningful comparisons of vision care expenses incurred by the participants versus benefits paid for the services rendered.

Turning to another fringe, that of the supplement to Medicare benefit for eligible retirees to reimburse retirees for premiums they pay under Part B of Medicare, Mr. Reynolds said "One of the inherent administrative problems . . . is determining, periodically, that the participant is, in fact, still living." This, he said, is particularly important where coverage is provided via a commercial insurance carrier of Blue Cross-Blue Shield since the participant may have died and, without any notification to the fund administrator, the fund would continue to pay his monthly premium.

"When considering a supplement to Medicare program, it is well to recognize the distinct advantage of underwriting it through the same fiscal intermediary as used by Medicare in your state," he said. "By doing so the administrator should reduce his administrative headaches and, at the same time, simplify the procedure whereby the eligible participant is able to obtain health care services since the same intermediary will be able to process his claim both through Medicare and through the supplement benefit under his fund," he said. ■

Pension bill predicted

MILWAUKEE—Sen. Gaylord Nelson (D-Wi.) predicted here Congress would pass a bill early in 1974 setting minimum standards for private pension plans.

Speaking at a regional conference of the Assn. of Private Pension Plans, Sen. Nelson defended most parts of a bill approved by the Senate finance committee.

He said, however, that amendments might be acceptable. Sen. Nelson is chairman of the committee's subcommittee on pensions.

The measure would:

- Guarantee nonforfeitable pension rights (vesting) for employes who lose their jobs or leave them before retirement;
- Require employers to set aside enough money to cover pension promises;
- Create a voluntary system by which an employe could transfer his pension rights if he changes jobs;
- Require employers to contribute 50 cents per year per employe to a pension insurance fund which would pay pensions if a fund goes into bankruptcy;
- Permit employes not covered by private pension plans to make tax deductible contributions of $1,000 per year to their own retirement plans; and,
- Raise the amount of earned income a self-employed person may set aside, tax free, for retirement from the present 10 to 15%. There would, however, be an annual maximum of $7,500. (Currently called Keogh plans). ■

Smooth . . .

Continued from page 46

Health and Welfare Plans, Kansas City, Ka.

"The obvious reason for a self-insured fund," said Mr. Wands, "is the premium tax savings. We estimate out of the 50 states we still will have to pay premium tax in some six to 10 states. However," he added, "with claim payments of $7 million a month, and a premium tax of approximately 2.5%, it is still a tremendous net savings."

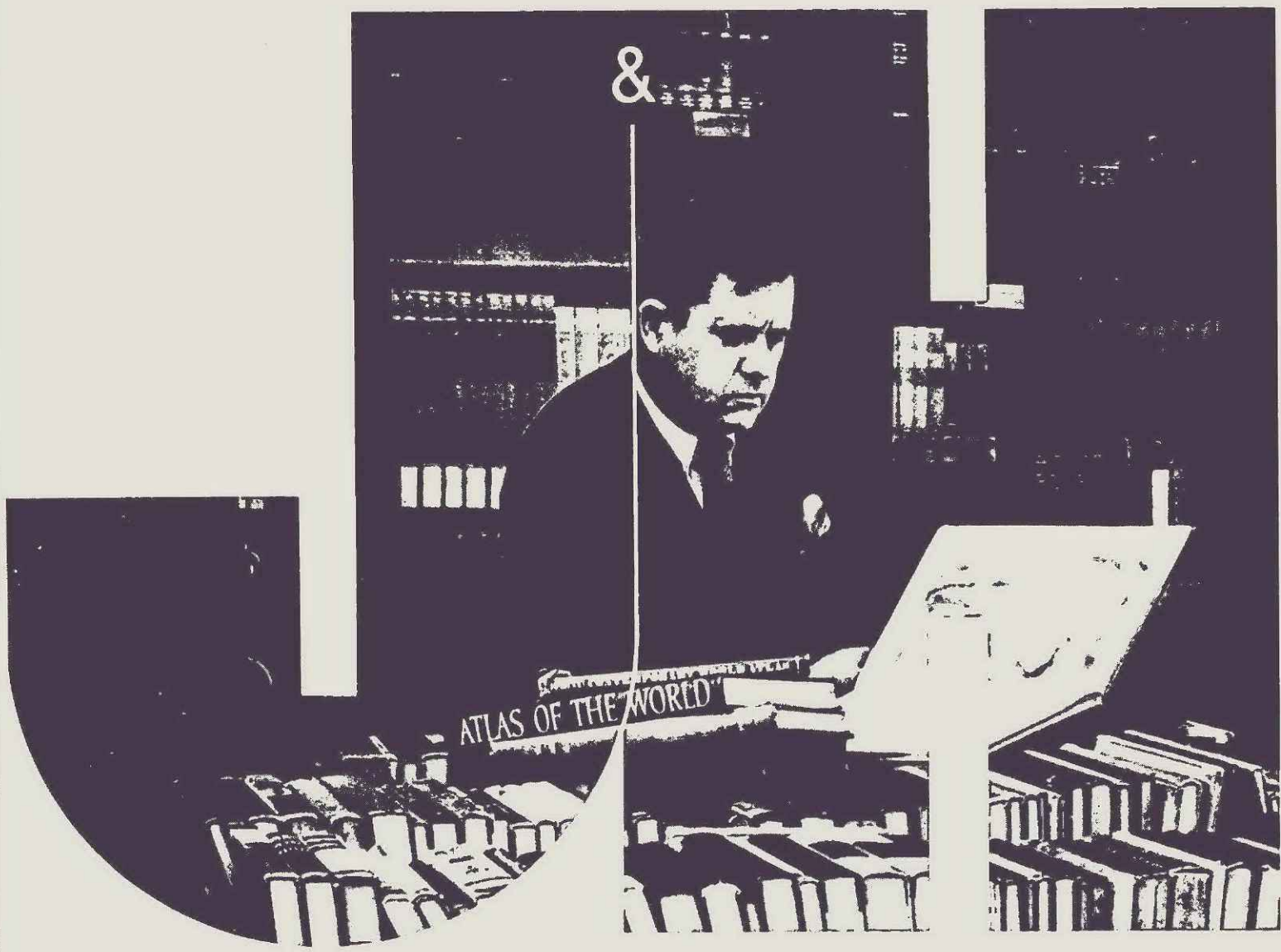
The Boilermakers national health and welfare fund is in its nineteenth year. About 34,000 members are eligible, with claims paid under 10 different plans, depending on the rate and locality of the contributions.

Since the conception of the plan, Mr. Wands said, the fund has paid out over $69 million in claims. Currently, about 8,000 claims are paid per month with benefits totaling about $1 million.

"One of the most important aspects on considering a direct payment plan," said Mr. Wands, "is the capabilities of your consultant. The consultant, he said, should take over many of the functions formerly handled by the insurer. ■

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Product safety laws keyed to maker's cooperation

NEWARK, N.J.—Proclaiming himself an advocate of a voluntary standards system in the product safety area, the chairman of the new Consumer Product Safety Commission told an audience of businessmen at the Newark College of Engineering here that the CPSC would not, contrary to belief, do away with such a system.

"Most of you are familiar with section seven of the Act," said Richard O. Simpson at the fourth annual product liability prevention conference. "The provision for offeror participation in the development of mandatory safety standards is potentially one of the key factors in the commission's effort to develop safety standards.

"To the extent that industry and consumers respond and work with the commission, they can play a major role in shaping safety standards," he continued. "Beyond that, effective effort through the voluntary standards system can work to keep products from surfacing on our priority list.

"BUT, AS I've said before, the voluntary standards system will meet these challenges only if industry makes a commitment to the effort that's never been made before. And that effort needs to come from America's board rooms, not solely its engineering departments."

Mr. Simpson assumed the audience was somewhat familiar with most of the Act but dealt with section 15—whereby manufacturers, distributors and retailers are required to notify the commission of any substantial product hazard they are aware of—at length.

"While we did make one public announcement of a potential product defect under section 15 relating to certain built-in gas ovens, let me assure you that the commission has been actively pursuing a number of other problems," Mr. Simpson noted.

"And whether we make a public announcement or not, our procedures are designed to assure consumer safety. And we will use press releases only when we feel they are necessary to get the job done."

UNDER SECTION 15, he explained, failure to notify the commission of a product hazard is a violation of the Act and carries with it civil penalties of up to $500,000 and criminal penalties of up to $50,000 and one year in jail.

After the commission is notified, the party is asked what steps are being taken, or will be, to rectify the situation.

"Where we believe a manufacturer is taking all reasonable steps, and where we believe the potential problem does not represent an immediate public health and safety problem, we will not be inclined to make a public announcement," the chairman commented.

"But where we believe a manufacturer is not moving as quickly and/or as effectively as required, or where the public health and safety is threatened, we will not hesitate to issue a public warning."

Pointing out no one on the commission believed every product manufactured in the U.S. or elsewhere would be "failsafe", Mr. Simpson said section 15 was established to deal with the inevitable problems which will arise.

The commission now receives about five section 15 notifications a week, he said, adding the number should probably be higher. If manufacturers, distributors and retailers do not know their responsibilities under the act, or if they are simply not notifying the commission, it is essentially the same thing—the law is being violated in either case.

Turning his attention to enforcement, Mr. Simpson said the commission could go about making certain its regulations are conformed with in two basic ways.

The commission could put about 100,000 investigators in the field to "inspect" conformity into the marketplace but, he felt, that method would be inefficient.

"THE OTHER way—and the route we will follow—is to utilize the 'motivations' in the law to encourage everyone to comply with our safety standards and product bans," he said. "Just as a manufacturer must be motivated to 'build' a safe product."

As an example, he said several consumer organizations had come to the commission complaining about the presence of banned toys on retail shelves and the fact that non-complying children's sleepwear was being sold.

"First of all, we welcome their help in monitoring the marketplace," he said of consumer groups.

"I'd like to see more of this," he continued. "I'd like to see consumer groups all over the country arm themselves with copies of our 'CPSC Banned Products List' to spot-check retail stores. Where they find banned products, we want to know about it."

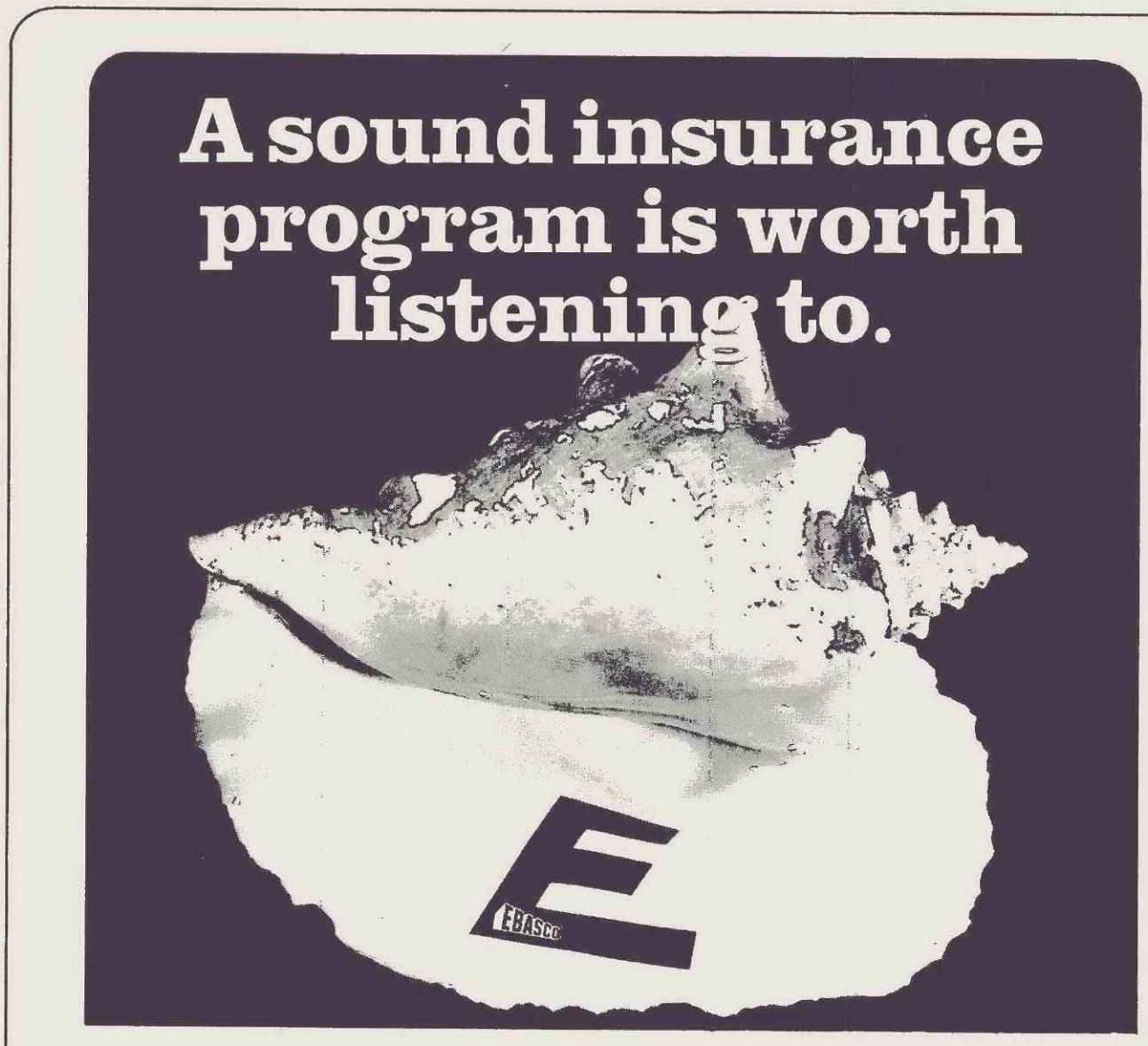
HE SAID the commission would then investigate and prosecute to the fullest extent of the law in cases where violations are found. The commission is not mainly interested in fining or jailing people, he noted, but they were among the motivations available.

"One of those motivations is criminal penalties," Mr. Simpson stressed. "Whereas corporations can pay civil penalties, people who work for corporations pay criminal penalties. I am personally inclined in a criminal proceeding to seek out the board chairman or the corporate president, in addition to other officials, because I believe they are in the best position to assure corporate compliance with CPSC regulations.

"I might add, for those of you who think I'm simply theorizing here, that our investigators are now following up on several suspected violations of the children's sleepwear standard, and we expect to proceed to civil and possibly criminal prosecutions in the very near future."

Earlier in his address, the chairman added force to these statements by pointing out the National Commission on Product Safety, in its report, estimated close to 20 million Americans were injured annually because of consumer products.

"In the few months since we've been in business," he said, "we've analyzed some of our data and believe the national commission's injury estimates are low. Now I don't particularly like to play the numbers game, but suffice it to say, we are dealing with more like 25 to 30 million injuries a year." ■



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Product liability cover sick, but not terminal

NEWARK, N.J.—The seemingly never-ending problem of product liability was discussed at the Newark College of Engineering here by an insurance man who, while understandably nervous about the state of things, did see some hope.

James H. Killian, executive vp of Fireman's Fund American Insurance Cos., told his audience at the fourth annual product liability prevention conference: "We know from an underwriting viewpoint there is considerable evidence that product liability insurance is a sick patient who needs relief and sound advice. In fact, there are some who advocate last rites. I personally do not join this group of pessimists, but no one can deny drastic revival procedures and new approaches must be seriously undertaken."

Underscoring that statement by citing cases where defense costs have exceeded $500,000 and quoting Insurance Services Office personnel on the unsatisfactory condition of product liability ratios, Mr. Killian reminded those in attendance 38 jurisdictions now accept the doctrine of strict liability in some form.

HOWEVER, he added, since plantiff must prove a defect under strict liability, a mistake of omission or commission in design, manufacture of distribution must be found. Unreasonable use of the product by plaintiff is another valid defense, he noted.

"The doctrine is applied throughout the chain of distribution from manufacturer to wholesaler to retailer," he said. "Improper advertising or improper warranty representations will of course increase the problems in the distribution chain. And, finally, as a dessert item, there is a strongly emerging tendency of the courts to allow punitive damages to be levied against manufacturers in property damage liability cases."

Noting the growth of consumerism and its impact on the marketplace, Mr. Killian urged manufacturers to keep constantly abreast of technical developments and advances and asked insurance companies to view the claims effort in a new light.

"We believe that product liability claims cost control is now a total management problem; it can no longer be restricted solely to the corporate legal and insurance departments," he said. "Within the manufacturing company itself, there must be a complete coordination and understanding of the legal implications, starting with design and moving through production, marketing, advertising and, finally, distribution.

"IN LIKE manner," he continued, "the insurance claims department and its legal advisers must cooperate and interface their own actions with the insured so that there is complete understanding of the part each plays in the system. There must also be full teamwork and understanding in the insurance environment between claims, loss control and underwriting. While this last statement is an old cliche, it has finally proved itself as an overwhelming necessity."

Admitting some losses would occur no matter what precautions were taken, he felt "the key to effective product loss management is knowledge of everything there is to know about the product from design to sale, and having that information available in evidenciary form before the claim."

To accomplish this end, as well as facilitate the needed teamwork between manufacturer, distributors, and insurer, thorough, accurate and legally acceptable records should be kept on everything from design to sale, he indicated.

AT THE same time, product statutory requirements are vitally important. Showing minimum safety requirements have been built into a product is always helpful in court. Such items as labeling, packing, guarantees and hold harmless clauses should always be considered before the accident. But a safe product is still the best defense of all.

He said the insurance company claims department could be most effective if it began its efforts when the policy was written because it could then immediately assess the value of records and systems as well as the insured's ability to provide information.

"If there is a carefully considered appraisal of all of the known facts about the product and with the knowledge and assistance provided by loss control, combined with prior experience and expertise of the insured," he commented, "we believe we can forecast and predict the major types of accident patterns and claims that can be reasonably expected to occur by reason of most normal product usage."

Modern techniques, such as videotape, will enable the prerecording and preservation of evidence required for product defense, he said. This will not do away with the need for post-accident investigation but will eliminate much of the expense which now goes to rounding up records and other vital facts.

THIS TECHNIQUE, when combined with other pre-accident control methods such as information kits and checklists on individual products, "will surely improve loss control results. The searching scrutiny given to all aspects of design, the manufacturing process, record keeping, advertising, labeling and warranty procedures is bound to highlight problems and weaknesses that can be corrected before rather than after the accident," he pointed out.

Mr. Killian then turned his attention to the climate surrounding this form of liability. He said plaintiff's attorneys were turning away from the automobile claim and had begun to concentrate on product liability litigation. Another huge problem for manufacturers was the class action suit but he expressed hope that recent court decisions would be the "forerunner of better judicial control of this proliferating and often unmanageable litigation."

"I am reminded here," he said in closing, "of a very perceptive remark made by New York Insurance Commissioner Benjamin R. Schenck, who said that pricing the cost of goods sold before the cost is known is nothing new to the insurance industry, but it is new to industry. This transition period is now under way. I might add sometimes the transition is quite painful." ■

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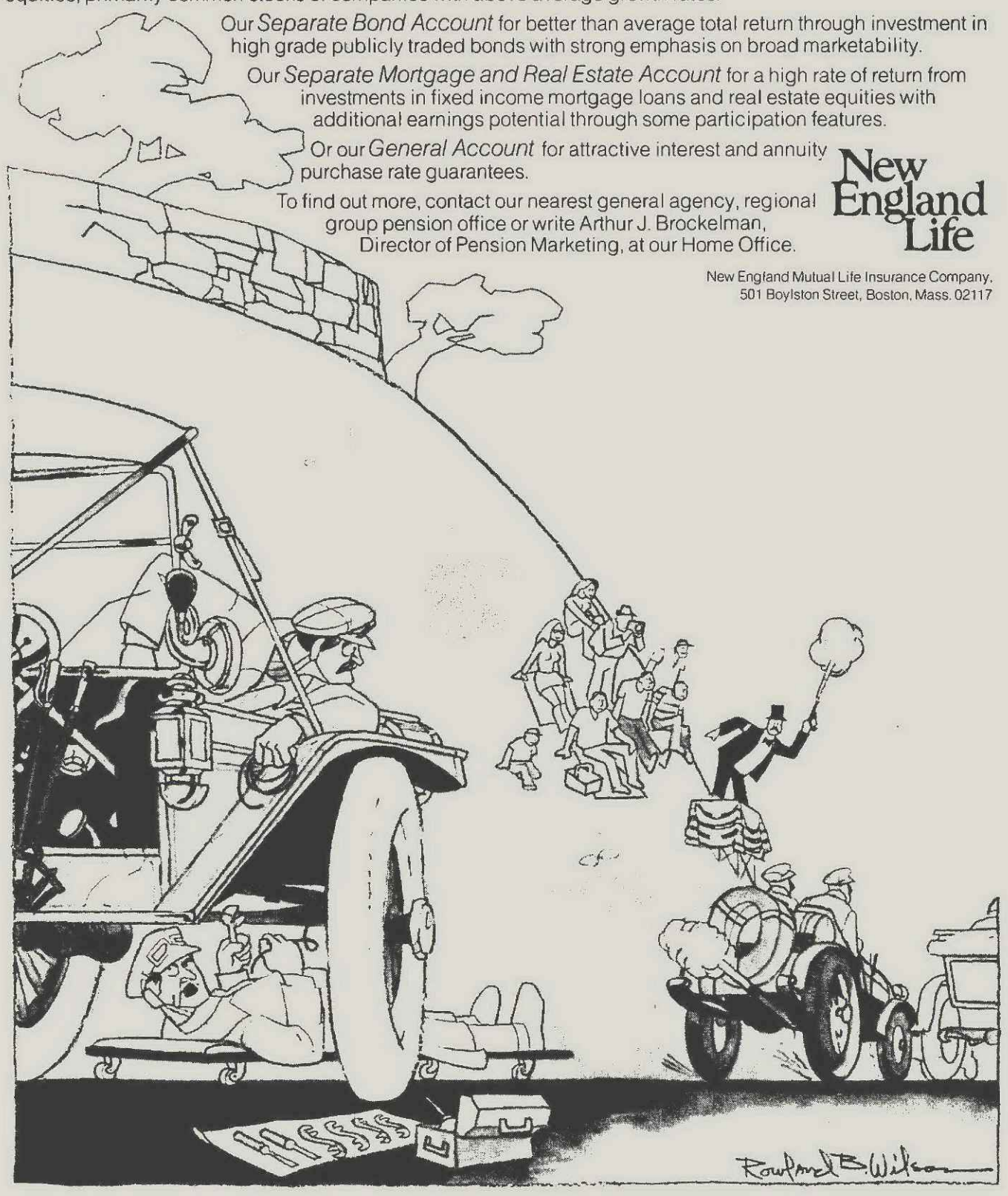
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Food Fair's $2 million saved is $200 million sold

LINDEN, N.J.—Seymour Friedman believes in learning from his mistakes, and he figures he has saved his food store company the equivalent of $200 million in annual sales by learning from an insurance mistake he once made.

Manager of the Linden, N.J. division of Food Fair Stores, Inc., Mr. Friedman switched from a liability and compensation program which was running at an annual projected cost of $7 million to a self-insurance plan with Adams, Scott & Conway, Inc., brokers.

For fiscal 1973, the new approach has already saved Food Fair around $2 million dollars. What this saving means to the Philadelphia-based food chain in relation to sales is a subject Mr. Friedman discusses with delight.

"Food chains traditionally net little more than 1% profit after taxes," he explained. "So where you can generate a saving of $2 million like this self-insurance plan has done, you're talking about doing the equivalent of $200 million in sales. That's why this whole program with Adams, Scott & Conway is so significant to Food Fair."

MR. FRIEDMAN, a former asst. treasurer for the company, presided over the disastrously costly old plan as well as the successful new one, and he presents a dramatic contrast of the two.

"For a number of years were were not self-insured in the area of liability and compensation. All liability claims were handled by one insurer, which incidentally, did a terrible job of claims handling. Not only that, we paid an administrative fee based on a percentage of our losses," Mr. Friedman said, continuing:

"That way, there was absolutely no incentive for the insurer to settle our claims at a lower cost to us. On top of that, the program was open-ended. Whatever our losses were, we paid. Our insurance costs were going out of sight to the point where, in 1970-71 it was running us $6 million. And projections for liability and compensation were at $7 million for the following year.

"In view of this, I decided to let insurance companies bid for our business again, so I could reduce costs. Adams, Scott & Conway came in, proposed a self-insurance approach, and immediately told us they thought it could save us $2 million."

ACCORDING TO the division manager, the broker helped smooth out some of the legal difficulties inherent in some states for any self-insured program. In the eight states where Food Fair does business, Adams, Scott & Conway filed the necessary papers to qualify the chain as a legitimate self-insurer. Mr. Friedman admitted there was a red tape tieup in New Jersey ("they're very tough there on self-insurers"). But state officials finally gave the green light after a "persuasive presentation" of Food Fair's case, Mr. Friedman said.

Just recuperating from an open-ended liability program, Mr. Friedman found the "stop loss" features of the self-insurance program especially refreshing. They guarantee Food Fair's maximum insurance costs will not exceed $5,300,000. Above that amount, Adams, Scott & Conway purchases excess reinsurance to cover claims. This, Mr. Friedman maintains, is an attractive alternative to the program which had creeping projected costs of $7 million.

"Under the old program, we paid nearly $6 million in premiums and never had any use of the reserves," the division manager noted. "But under the self-insurance plan, Food Fair gets use of the $5,300,000 reserve it sets aside. The first year in operation, we had use of the money for about a half-year until claims began drawing from it, and this added tremendously to our cash flow."

Adams, Scott & Conway has additionally guaranteed Food Fair claims handling expenses will not exceed $300,000. Under their program called "Group VII" they provide monthly data to the insured which identifies losses by area and type of exposure, so Mr. Friedman can see at a glance where most of his losses are cropping up.

He said the most serious type of liability claim against the food chain was the simple incidence of customers slipping and falling on store premises. "This is a critical exposure for us, with the situation being especially terrible in Florida," he noted.

"IT'S NOT that more people fall down in Florida, but the ones who do are usually older retirees who sustain greater injury when they do fall—jacking up the average cost per claim."

One of the ways the broker helped Mr. Friedman expedite some of the smaller slip-and-fall variety of claims was to train Food Fair's own insurance department in adjusting them. Often the department can handle the matter in minutes with a phone call to the person who suffered the fall with an offer of quick medical attention. Mr. Friedman said many of the people are so grateful for the quick response they frequently just thank Food Fair for the attention and quietly let the matter drop.

This method, which clears some 50% of these claims immediately, is in contrast to the old program. Under that system, even the smallest claim was handled through the insurer. Sometimes matters dragged for months, and many of the claims wound up in court simply because of the sluggish handling by the previous insurance carrier.

For the bigger liability claims which hit Food Fair (anything over $5,000), Adams, Scott & Conway instituted a safety engineering service to help Food Fair beat the problems before they happen. This is especially helpful in the warehousing operations, where workers handle electric jacks. An area prone to high compensation claims, the warehousing operations have been improving under the safety engineering of the self-insurance program, Mr. Friedman indicated.

A personalized insurance approach plus competent claims handling are what Mr. Friedman sees as the key elements in the broker-managed self-insurance program. "You know, as we were going along with this new program, we settled between 70% and 80% of claims against us on an immediate basis. I think this is

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City will self-insure workers' health plan

MESA, AZ.—The City of Mesa this month began self-insuring its health insurance program for about 700 active and retired employes, according to assistant city manager George Saville.

Initiation of the new program reportedly will make Mesa the first municipality in the state to underwrite coverage for its own employes. The city council approved the program Aug. 6, Mr. Saville noted.

A spokesman for Galbraith & Green Inc., a consulting firm which helped the city set up the program, reported formal approval from the Arizona Department of Insurance probably would arrive in about six weeks.

The city official said implementation of the program would begin before final approval is received.

Self-insurance was studied after the city's present insurer, Continental Life & Accident Co., told city officials premiums for coverage of Mesa employes and their dependents would rise 39.7% in fiscal 1973-74.

THE CITY is paying from $16 to $28 monthly in health and life insurance premiums for each of its employes under the new plan. Workers must pay an additional $18 monthly for each dependent placed in the program.

The program will save Mesa and its employes about $19,000 in premiums in fiscal 1973-74, Mr. Saville noted. However, city government will pay $70,000 more for insurance coverage than it paid last fiscal year.

Last fiscal year the city and its employes paid $225,000 for health and life coverage. If the city had retained Continental coverage, they would have paid about $314,000 this fiscal year.

With the city-sponsored program in effect, the city and its employes will pay about $295,000 this fiscal year for coverage.

Self-insurance, Mr. Saville explained will cost more than last year's premiums but less than premiums offered this year by Continental. The increased cost will be absorbed by the city.

The city program will cover employe health costs up to $10,000. Losses more than that figure but less than $50,000 will be covered by the Hartford Life Insurance Co. The Hartford also will provide life insurance for city workers, Mr. Saville added. ■

Allis-Chalmers sued over retiree benefits

MILWAUKEE,—Allis Chalmers Corp. has been sued by 17 retired union members who accused the big farm machinery manufacturer of reneging on a labor contract by charging retired employes over 65 for part of the cost of their group life insurance and by raising the cost of optional insurance for retired workers under 65.

The 17 plaintiffs, members of the United Automobile, Aerospace and Agricultural Workers of America, Local 1164, charged in a federal court suit that A-C had an agreement with the union to pay the entire cost of insurance for retired workers over 65 and part of the cost for those under 65.

Since Feb. 1, however, A-C has been charging retirees over 65 for part of the insurance cost and those under 65 for more than they had previously been paying, contrary to the agreement with the union, the suit said.

The suit demanded that A-C return to the system practiced before Feb. 1 and reimburse the retired employes for the additional costs they have borne.

EARLIER this year, two former A-C lawyers filed a $25 million class action against the company. That suit, charging that A-C broke its agreement with retired salaried employes Feb. 1, when it trimmed their free life insurance program, is pending. The suit claimed reduction of the program has increased the proportion of optional insurance which retired employes must now purchase if they want to keep the same amount of coverage. The plaintiffs said they had to pay $1 a month per $1,000 worth of coverage for optional insurance. ■

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BI-9/73

Food . . .

Continued from page 50

outstandingly good, and one of the main reasons the self-insurance program has worked so beautifully," he said.

The program, which is in effect for the Food Fair Stores Inc. and their subsidiaries, whose combined assets total some $273 million and annual sales nearly $2 billion, will not even cost more for fiscal 1974 than it has for 1973.



Seymour Friedman

"The budget we need to continue the self-insurance program into 1974 is $5,300,000—exactly the same reserve we set aside for 1973. And it's a nice financial feeling," Mr. Friedman remarked, "to see your budget stay at the same level for insurance services in a year when the market is going up."

Mr. Friedman, who in the Food Fair chain of command is the superior to the corporate insurance manager, pointed out while the 1973 budget was set at $5,300,000, the actual cost to the company came only to $4,300,000 after claims were settled. He hopes the record can be matched in 1974.

The Food Fair division manager has a strong sense of benefiting from past mistakes. Rather than bemoaning the former inefficient liability and compensation insurance program he headed, he welcomes the giant step the self-insurance plan represents. There is a plaque outside his door which more or less sums up this attitude. Quoting Teddy Roosevelt, it reads in part:

"Show me a man who makes no mistakes and I'll show you a man who doesn't do things." No one would accuse Sy Friedman of that. ■

Panel explores risk management identity crisis

By CHARLES WINGIS

SAN DIEGO—Today's risk manager is in the grip of an identity crisis which threatens to choke off the effectiveness of his job performance. Yet, in the management of his company, he alone holds the power to break the stranglehold.

This appeared to be the concensus of the group of 74 risk managers, agents and brokers who attended the risk management, theory and practice seminar sponsored by the Society of Chartered Property & Casualty Underwriters and hosted by members of the San Diego CPCU chapter.

The basic problem may have been stated by Bruce Evans, CPCU, assistant professor in the graduate school of management, University of Dallas in a panel discussion.

Panelist Evans asked the group, "Are you insurance buyers, insurance directors or risk managers. Are we just 'insurance folks' or people who can move ahead and really become risk managers? I'm not sure that any of you would share the same job description," he said.

Though the risk manager may be in the center of a number of converging avenues of management (employe benefits, pension plans, safety engineering, accounting and controlling, financial, administration, human resources, acquisition and development), he has a critical problem of visibility, said Mr. Evans.

"In background," he said, "most of us come into risk management from either the insurance side alone, the engineering side alone, or accounting and controlling alone. The identity crisis we all face is that our narrow backgrounds make it tougher to see the whole sphere of risk management, which encompasses far more than the fellow who sets up the insurance fund and buys the insurance."

RISK MANAGERS must be cognizant of the total needs of their organizations, said Mr. Evans. "The minute you take on other related corporate responsibilities your visibility to top management goes up. But if you decide not to bother with 'all that extra stuff' your visibility comes down and it becomes tougher and tougher to reach top management with your limited items."

Expanding on this thought, he said, "I see the risk manager as a fellow who serves on the board of directors, a guy who goes far beyond being the insurance expert. He understands the field as a risk-oriented person. He's a guy whose activities are not limited by the academic definition of 'static risk' or 'static cost.' "

Leadoff speaker on the panel exploring the risk management function was Robert Butler, CPCU, corporate insurance manager, Lockheed Aircraft Corp. He defined risk management as "the identification, analysis, and evaluation of risk, and the selection of the most advantageous method of treating it."

Focusing on the topic of risk identification, Mr. Butler said the risk manager is primarily concerned with pure or static risk and, although there are rare exceptions, he does not normally become involved with dynamic or speculative risks.

Drawing upon an asset exposure analysis from the Lockheed risk management manual, Mr. Butler led the group through a comprehensive checklist of identifiable risks thereby setting the stage for the next speaker, James Lang, director of insurance and pension, Litton Industries.

DISCUSSING evaluation and appraisal of risk management procedures, Mr. Lang said, "Like an experienced underwriter establishing a rate for the construction of a bridge, we have a 'gut feeling' that our program is right and we may resent someone else questioning it. But this is dangerous and it's better to seek an outside appraisal."

Best place to look for an effective outside evaluation of the program is to the ones for whom the program is designed, said Mr. Lang. "At Litton it is the operating divisions who are autonomous in the financial decisions concerning their operations. Before they will accept our insurance program we must convince them that the price is right and the coverage provided will prevent surprises to their financial plan, at least insofar as insurance coverage or accident prevention programs can do so."

OTHER METHODS of evaluation or appraisal cited by Mr. Lang included feedback received from superiors, testing the program by comparing it with competitive proposals in the marketplace, and by checking with other risk managers. Regarding specific means of evaluation used at Litton, he listed:

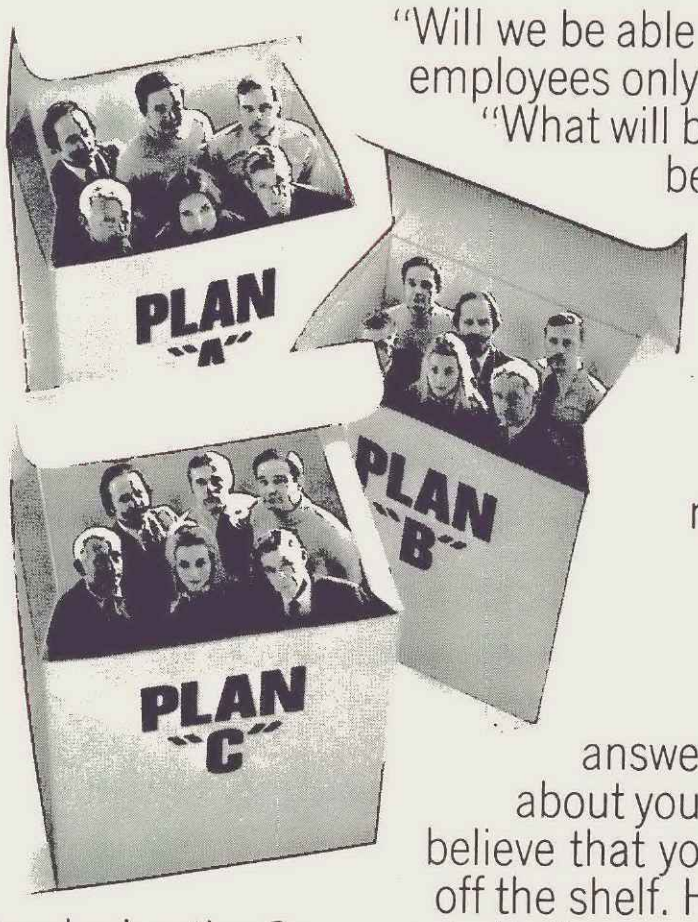
- Self-insurance plans, involving premium volume of $6 million per year for liability and workmen's compensation and $2.5 million per year for property, are established to continue to develop annual premium on the same basis as under prior insured plans. This enables Litton to continue to compare results of such plans with an insured plan;
- Insurance protection is purchased by Litton on a competitive basis from three large brokers and direct from underwriters. One broker or company is encouraged to offer formal or informal proposals on the part of the program they do not currently handle;
- Large protected manufacturing facilities are insured with either Factory Insurance Assn. or Factory Mutual Assn. in order to compare fire protection requirements and evaluate the practicality of such recommendations;
- Non-protected facilities are self-insured at discounted tariff rates but frequently such non-protected risks are submitted to FIA or FM for an evaluation of the need for sprinkler installation or other fire protection devices, and therefore qualify them for HPR rates.

THE CONCLUDING panelist was E. "Andy" Anderson Jr., insurance director, Convoy Co., who queried members of the group about the way their firms chose alternate means of handling risk exposures.

After identifying the risk and analyzing it, said Mr. Anderson, its financial burden to the company should be measured in light of the company's risk philosophy and its financial capacity to absorb it. Initially the analysis should consider all circumstances to determine which

Continued on page 53

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Risk management . . .

Continued from page 52

of the risk management techniques for the elimination, reduction, retention or transfer of risk should be employed.

Mr. Anderson also stressed the need for adequate communications between risk manager, top management and every level of the company's chain of command. "Our company is relatively small," he said, "yet there are times when events which concern me are well under way before I learn of them and can take action. Assure yourself of adequate communications," he said, "to spare yourself the embarrassment of learning about your company's latest acquisition or merger from the pages of the Wall Street Journal."

But the insurance broker is also going through an identity crisis in determining what his functions will be in this ever-changing society. So spoke Donald E. Martin, CPCU, president of Cal-Surance Associates, who examined the role of the agent as a risk manager.

Risk management enables the agent to provide meaningful service to his client, said Mr. Martin. The consumer is no longer content to place total value on competitive purchasing, but feels the need of services in the areas of engineering and loss control.

MANY BROKERS use risk management as a facade to justify their high fees, Mr. Martin pointed out. "They don't have the personnel or programs to conduct a meaningful risk management service," he said.

He also charged insurance companies have been unwilling to allocate proper attention to risk management. He said insurance company engineers complete acceptability inspections on an account rather than loss control engineering.

Other points made by Mr. Martin:

Many insurance companies only allocate one-half of one percent of the premium for loss control; Many insurance companies train the engineers by on-the-job training and not based on their professional engineering background; and insurance companies have not modified their claims departments to meet today's needs for innovation in the payment and processing of claims.

The concluding speaker on the program was Warren Brockmeier, CPCU, The Wyatt Co., who examined the role of the risk manager and how he would fit into risk management tomorrow.

Mr. Brockmeier said, "While the risk manager's job may expand to make many of the business decisions of the company, I rather suspect that it's not going to be all that prevalent. His opinion will be sought in the decisionmaking process, but the ultimate business decisions will still be made at a level still one step up from the risk manager."

BUT IF the risk manager is going to play an increasing role in the company, should his be considered an ultimate position or an intermediate job in the corporate echelon? Answering his question, he said, "More and more companies are viewing the risk manager job as an intermediate step from which the man must be prepared to move up into a position of still greater responsibility."

He added, "If risk management is viewed as an intermediate step to more responsibility, you may be sure top management is not going to be looking for the 40 to 50-year-old individual who has been an underwriter or account executive for 20 years. Instead they're going to be seeking out the young man with the MBA, starting him out in the insurance department with the expectation he will grow and climb up the ladder in the company. An increasing number of risk managers will be coming from non-insurance backgrounds," he said.

One of the most important roles of the risk manager in the future will be as a communicator or center of communications within the company, Mr. Brockmeier contended. He predicted, "He's not going to be able to sit back in an office in corporate headquarters, aloof and away from what's going on around him. The risk manager of the future will have to be out in the field and have eyes, ears and a nose for trouble. He'll be getting the information and sharing his input with other decisionmakers in the company." ■

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Rifle sight firm signs union pact

DENVER—The Redfield Co., makers of rifle scopes and sights, and the United Steelworkers agreed to a new three-year contract offering wage boosts and other union gains.

J.P. Mooney, international union representative, said the union won substantial improvements claiming the company "refused to budge" on some disputed contract provisions.

The union won a 5.5% across-the-board increase during the first year and $.17 an hour the second and $.17 the third year.

Union gains also included an increase from $6,000 to $7,000 per employe on total group life insurance coverage; an additional $5 weekly for sick and accident benefits, to $85; diagnostic and X-ray benefits up $10 from $60 per illness; a $1 increase in monthly pension benefits times length of employment.

Mr. Mooney said the union failed to obtain a cost-of-living escalator clause and a company guarantee to pay the total cost of premiums on life, hospital, medical and accident insurance. Redfield will pick up added premium costs of $.03 next year, but a greater premium increase will come out of worker pockets.

The old contract expired May 10. ■



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Co-defendent negligence rulings promise impact

For more coverage on the Federation of Insurance Counsel annual convention, see pages 55 and 56.

WHITE SULPHUR SPRINGS, W.V.—New York court decisions establishing comparative negligence among joint or co-defendants are likely to have far-reaching impact on insurers, manufacturers, and a host of other potential defendants in tort cases, a panel of lawyers told the annual convention of the Federation of Insurance Counsel, held here last month.

The three-man panel was discussing the Dole vs. Dow Chemical Co. case, in which New York's highest court demanded apportionment of penalties between two defendants.

Dominic J. Cornella, New York, described the court's decision as a radical departure from all its previous findings in similar cases.

"The court held that where a third-party is found to have been responsible for a part, but not all of the negligence . . . the responsibility for that part is recoverable by the prime defendant against the third party," he said. "To reach that end, there must necessarily be apportionment of responsibility for negligence between these parties."

MR. CORNELLA'S fellow panelist, Edward Mullins, Jr., Columbia, S.C., noted 23 states allow joint defendants to share penalties, but he said the laws are typically vague, leaving the question to the jury. The Dole rule, which has been adopted by lower courts in New York, and will very probably be followed in other jurisdictions soon, changes all that, he said.

According to Mr. Cornella, the decision destroyed the old legal rule of distinguishing active from passive negligence and created "a new era of shared responsibility. Obviously, a more equitable achievement is obtained in this post-Dole era," he said.

The third panelist, Richard L. Berdelle, Chicago, described some of the effects of the Dole rule.

"Without the Dole rule," he said, "except in very limited circumstances, a tortfeasor could have little chance of relief against a fellow tortfeasor and then only for full indemnity. Now for the first time, a rule has been enunciated which grants the defendant or defendants, rights between themselves.

"The Dole decision does not deprive the defendant of any of his traditional defenses, does not create any special problems related to proof; but it does grant a defendant a cause of action and real meaning to his claim that another was all or substantially at fault in the happening of the accident, be it a plaintiff, a co-defendant or a third-party defendant."

MR. BERDELLE said prior to the Dole rule plaintiffs could collect an entire judgment from any joint defendant. The defendant would then seek reimbursement from his fellow defendants but could get only 50%.

Under the Dole rule a defendant who was only 10% to blame but had paid the whole judgment could collect, not just 50%, but the full 90% from the defendant who was most at fault.

However, Mr. Berdelle pointed out the Dole decision would appear to discourage settlements, since a defendant or potential defendant who settled could still be brought into the case later, and be required to share the judgment costs. ■

Canada cops win battle, may lose war

TORONTO—City police here have won a pension battle but may have lost the war.

The Metropolitan Toronto Police Assn. has emerged victorious in an 18-month struggle to boost pensions. However, the settlement appears to be neutralized by a Province of Ontario law limiting the amount of pension police can receive.

Syd Brown, president of the police group, pointed out the Ontario Municipal Act limits police pensions to 70% of the average of the last five years of earnings.

METRO police pensions formerly were based on the 1967 salary year. But under a new agreement, pensions are based on the higher 1969 salary level.

According to Mr. Brown, the new schedule would mean retiring police officials will receive pension increases up to as much as $3,000 a year. But constables and sergeants who might be entitled to a $2,000 increase will get only about $200 because of the municipal acts' ceiling.

Mr. Brown commented: "In dollars and cents, it means one of our members, who has a $7,000-a-year pension, is now entitled to $9,000. But, because of the maximum imposed by the Government, he is only to get a $200 a year increase."

MR. BROWN noted that this is disturbing in view of rising food costs and inflationary trends. "These men worked for and earned more than that and we don't think it's fair."

It is the intention of the police group to seek changes in legislation by the provincial government so retiring police can secure their full pensions.

In the province of Quebec, Mr. Brown pointed out, police receive a pension based on 80% of their best three years while in Newfoundland they receive 75% of their final year's salary. ■

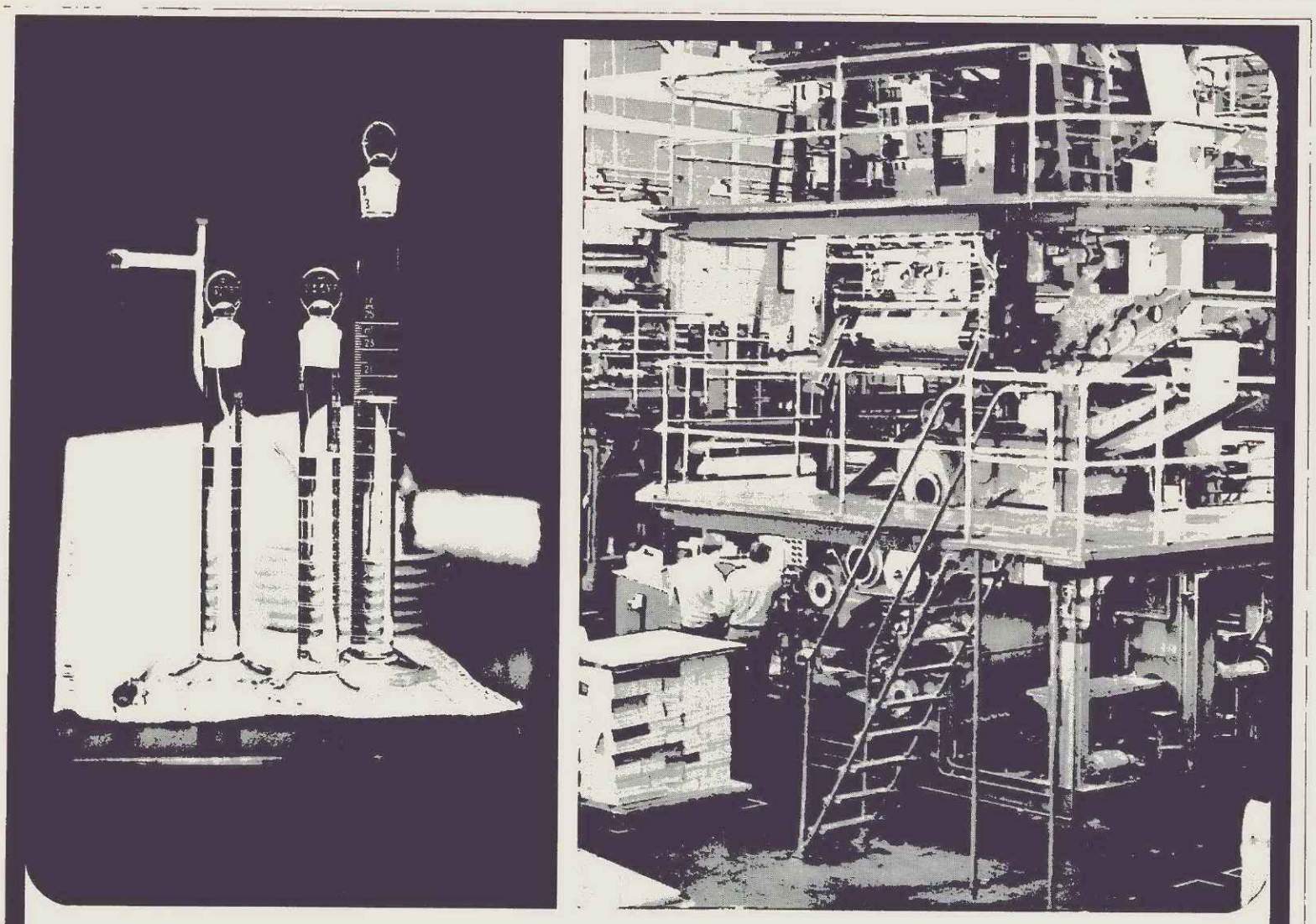
New rules tout pensions to contractors

WASHINGTON—The Defense department has issued new regulations designed to encourage defense contractors to make regular contributions to pension funds.

The new changes allow pension costs to be included as part of indirect costs for cost-reimbursement purposes or progress payment computation only if contributions are paid within 30 days after the end of a quarter.

If the pension costs are not paid by that time, they will not be included as part of direct costs until payment has been made.

The new regulations become effective July 25. ■



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Hand rocking cradle may rock insurance boat

WHITE SULPHUR SPRINGS, W.V.—Women's insurance rights and the adequacy of the private enterprise system may be the next big consumer issues to confront the insurance industry, a high official of the U.S. Office on Consumer Affairs contended.

Addressing last month's convention of the Federation of Insurance Counsel, Dr. Lee Richardson, director for education and finance at the federal consumer agency, said the question of women's insurance rights had so far been confined to alleged discrimination against widows and female beneficiaries of life policies. However, he said, he expected the investigation and safeguarding of women's rights to expand into other areas of insurance.

Another potential consumer issue, Dr. Richardson said, was the adequacy of the private enterprise system.

"The question is," he said, "will consumers turn to the agency system for providing new needed insurance? Will they turn to mass merchandising? Or will they perhaps turn to Social Security or new government programs? I can't answer these questions because these issues have not really become the province of consumerism."

DR. RICHARDSON said the insurance industry could expect continued consumer pressure for a national no-fault program; a federal "truth in insurance" law which would set standard and simplified language and policy form requirements; development of group auto insurance plans; adoption of a 30-day cooling-off period after the purchase of coverage, during which the customer could cancel his policy without penalty; and greater control of mutual companies by policyholders.

"Mutual insurance companies, I think, are being conceived of as a kind of logical and maybe ripe addition to the list of consumer-controlled organizations," he said. "While this is not really a new issue before the mutual companies, the idea that the consumer movement is taking a definite position in this era of consumerism, I think, is a significant development."

Another speaker on consumerism, Winston H. Pickett, associate general counsel of General Electric Co., outlined the business community's opposition to parts of a bill before Congress which would greatly expand the consumer protection powers of the Federal Trade Commission. The bill, HR 7917, is under study by the House subcommittee on commerce and finance.

MR. PICKETT said businessmen generally supported the proposals of the bill which would improve written warranties, but they balked at the informality of the procedures that would allow the FTC to make rules having the force of law.

"Under its present language," he said, "the commission does not need to permit the introduction of evidence nor grant any right of cross examination if material factual disputes occur."

The business world was alarmed at the prospect of "having the minutest detail of its social and economic behavior determined by rules having the force of law which could be developed at non-hearings on the basis of non-testimony by non-witnesses in any judicially-accepted sense of those words," he added.

Furthermore, Mr. Pickett said, the bill would give the FTC authority to begin a federal court action in any breach of warranty case. "In effect, this is a kind of class action provision with the commission itself bringing suit as the plaintiff on behalf of injured consumers," he said.

HE SAID the business community questioned "the soundness of placing an agency of the government in the role of promoting one side of a private dispute, while acting at the same time as a lawmaker." Moreover, the meaning of unfair or deceptive acts was so general in the bill that it provided no advance indication of whether a particular practice was condemned by the law until the FTC handed down a decision.

He said the bill also leaves unanswered such questions as how were damages to be paid to injured consumers and what would be the relationship between the FTC suit and other private suits filed for the same alleged injury. ■

Bus driver 'busts' driver; city to pay

SAN FRANCISCO—Because Muni bus driver Edward McCoy got into an altercation with Hyman Coplon, 63, after the bus had sideswiped the Coplon car, San Francisco's self-insurance fund will pay out $100,000. The settlement was the result of a jury verdict before Superior Court Judge Francis McCarty.

Mr. Coplon, who claimed he suffered a fractured knee in the Jan. 16, 1970 argument with McCoy, had sued the city for $250,000, claiming that the 27-year-old bus driver had shoved him to the ground.

Judge McCarty instructed the jury that inasmuch as Mr. McCoy was acting in the course of his job as a driver of a city owned bus, the city was liable for the damages. ■

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Beware of upcoming federal work comp dominance: Johnson

WHITE SULPHUR SPRINGS, W.V.—The executive director of the National Program to Improve State Workmen's Compensation criticized growing federal involvement in the systems and said a line should be drawn between federal dominance and federal aid.

"I'm not against some federal involvement," Clarence G. Johnson told last month's convention of the Federation of Insurance Counsel. "However, merely because the federal government finally got religion when they improved the Longshoremen and Harbor Workers Act last year, there is absolutely no reason why, in baptizing the states, they have to drown them," he told his audience.

MR. JOHNSON said there were weaknesses in state workmen compensation systems but in the last two years there had been an accelerating pace of improvement. "I think we have good cause to believe that acceleration is going to continue in 1974 and 1975," he said.

Federal intervention, he pointed out was based on the premise Washington could and would do a better job than the states. Congress, however, failed to improve benefits under the Longshoremen and Harbor Workers Act for 11 years, finally amending it last year, he claimed.

Mr. Johnson added other Federal programs in the workmens compensation field had become expensive "welfare acts."

HE SAID the Federal Coal Mine Health and Safety Act "is costing better than $1.5 billion this year, and those payments are going to one classification of workers, one class of employe, really one disease and in a limited number of states. Now the total premium volume for workmen's compensation in the United States is only $5 billion, so you can see some relationship between those figures."

Mr. Johnson was preceded on the program by Eugene Mittleman, minority counsel of the Senate labor and public welfare committee. Mr. Mittleman is also a chief legal aid of Sen. Jacob K. Javits (R—N.Y.) who, with Sen. Harrison Williams (D—N.J.) is sponsoring a bill that would set federal workmen's compensation standards for the states, thus going beyond mere recommendations.

MR. MITTLEMAN said the insurance industry had made many important improvements in the workmen's compensation systems. Still, "there is no particular reason, based on what has happened this year or the last four years, to assume the states voluntarily are going to make the necessary improvements unless there is some sort of federal gun at their head. That is essentially what the Williams-Javits bill proposes to do," he told the convention. ■

Consumerism found hitting building field

WHITE SULPHUR SPRINGS, W.V.—The pressure of consumerism is extending into the building industry legal principles which have governed product liability—a development that has repercussions not only for builders, but for insurers, banks and landlords as well.

That was the consensus of a panel of experts addressing the recent annual convention of the Federation of Insurance Counsel last month.

"The courts have really progressed quite far in strict liability particularly with regard to buildings," said Edward T. Harris, assistant secretary of Underwriters Adjusting Co., Chicago. In essence, the doctrine of strict liabilty simplifies a plaintiff's case by relieving him of the necessity of proving negligence on the part of a builder before damages can be recovered.

SHEILA BIRNBAUM, who teaches law at Fordham University, drew attention to a recent California case in which a financial institution which had invested in a building project had been held liable for structural defects by the builder. Under this ruling, she noted, banks, savings and loan groups, and even insurance companies which fund building projects, could be held accountable for construction defects.

Her fellow panelists, Don C. Brown, Riverside, Ca., and Donald J. Farage, Philadelphia, Pa., agreed, although Mr. Farage said financial institutions and insurers could protect themselves by including a "save harmless" clause in their contracts with contractors and builders.

Mr. Farage also pointed out consumerism was changing the traditional landlord-tenant legal relationship. "The old common law *caveat emptor* rule is no longer fair under our consumer policies of today," he said.

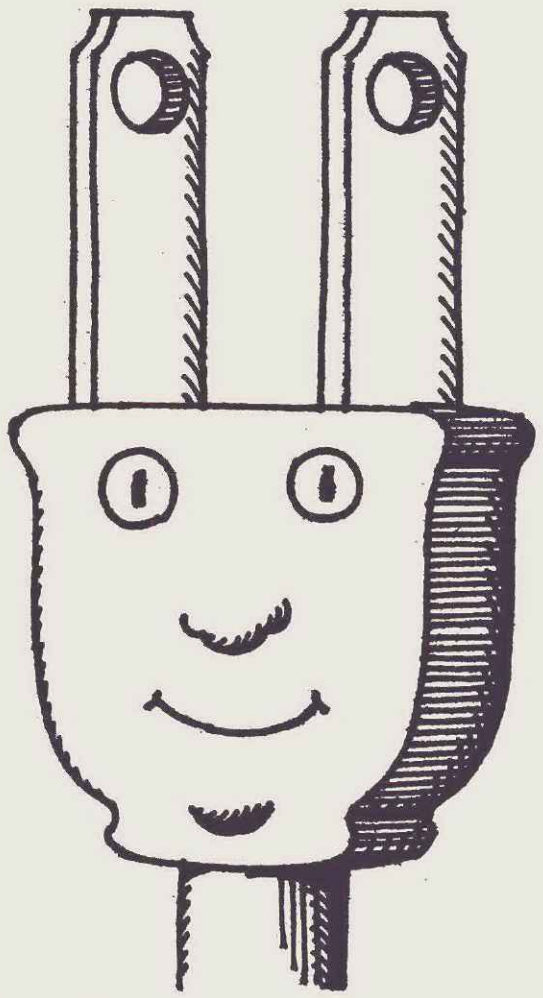
OF ANOTHER legal relationship, that of lessor to lessee, Mr. Harris said, "The trend is now toward strict liability in personal property." The panel agreed lessors are held liable on the theory they have granted an implied warranty which runs through the period of the lease, even if they have not serviced or maintained the equipment causing the injury.

Miss Birnbaum added, "If you are not in the business of leasing, the court has not been inclined to extend strict liability or breach of implied warranty." ■

New Arizona insurer

A new insurance company to deal exclusively with Arizona contractors, Arizona Contractors Life Insurance Co., will have headquarters in Phoenix. Jim B. Harrington, president and a director of the new firm said he hopes 200 advisory board members will invest $1 million in the company with another $1 million coming from contractors, employes and their families.

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The Knowledge Broker

Risk consultants trying to leave identity limbo

SAN FRANCISCO—The current identity crisis in the field of insurance consulting, particularly in California, prompted the call for a meeting of a rather exclusive insurance group which will be held soon in Chicago.

The first meeting of the Institute of Risk Management Consultants will be held Sept. 13-15 in the LaSalle Hotel, according to David Warren of Warren, McVeigh, Griffin and Huntington located here.

Mr. Warren, who organized the meeting, points to the crux of the fledgling professional group's problem, which centers around a recent regulation issued by California insurance commissioner Gleeson L. Payne.

The regulation is reportedly intended to control the use of misleading names by agents and brokers but specifically prohibits the use of the words "consultant" or "consultants" in advertising or telephone directory listings.

Commissioner Payne has apparently taken the tack that the label applies to those who term themselves risk management consultants even if they don't sell insurance. "What makes them risk management consultants?" he has asked. "Let them go out and get some professional designation that has some meaning like certified public accountant (CPA)."

HE HAS promised to withhold further relaxation of the regulation until his suggestion has been carried out.

Donn McVeigh, partner in Warren, McVeigh, Griffin & Huntington and another leader on the formation of the IRMC has said he's protested to the California insurance commissioner to the effect that only two or three of the nearly 100 firms currently listed as "insurance consultants" in the San Francisco telephone directory were really independent consultants entitled to use the term.

"There are a lot of them who are either agents or brokers and are only trying to drum up business by using the 'consultant' tag" Mr. McVeigh claimed.

COMMISSIONER Payne, however, feels "nobody likes to call himself a drummer or a salesman. Such people want to be known as 'advisors' or 'consultants' or 'analysts' or any word or phrase which gives them status."

Until risk management consultants have a recognized system for professional designation, Mr. Payne claimed, the group as a whole deserves no treatment apart from that already accorded agents and brokers.

The now-defunct Insurance Consultants Society had taken steps in the past to establish a professional designation but that project was waylaid by a factional dispute which led to a 1972 name change to the Society of Insurance and Risk Management Consultants immediately prior to the group's ultimate demise.

This dispute centered around whether risk management consultants should be permitted to do work for brokers while retaining the title of risk management consultant.

One faction in the ICS, led by Mr. Warren, felt working for brokers destroyed the independence of risk management consultants.

As a result, the group broke off and formed IRMC, in which the by-laws expressly prohibit these type broker-consultant relationships.

Typically, risk management consultants are very criticial of the California-type regulation which deprives them of their status by freely admitting all others. These regulations they contend, are designed to enhance the image of insurance companies, insurance agents, and brokers, because they foster the traditional view insurance is designed strictly to cover one's risks.

THE PHILOSOPHY of the consultant adheres to the principle a corporate insurance manager buys insurance only as a last resort when all other avenues, such as eliminating risks, transferring risks, or self-assuming risks have been exhausted as a part of necessary business expense.

The consultants feel they can help businessmen make decisions on how to handle their risk problems without turning to the insurance markets routinely.

At least one insurance consultant has said if Commissioner Payne's view is permitted to stand, "Insurance regulators will be guilty of turning the clock back a whole generation. Risk management got a foothold after World War II and has advanced significantly since."

"We need," he continued, "regulators who are oriented, or at least aware, of the money savings and good business practices inherent in risk management, rather than rule them out in favor of straight commercial insurance." ■

Stop & Shop chain names risk manager

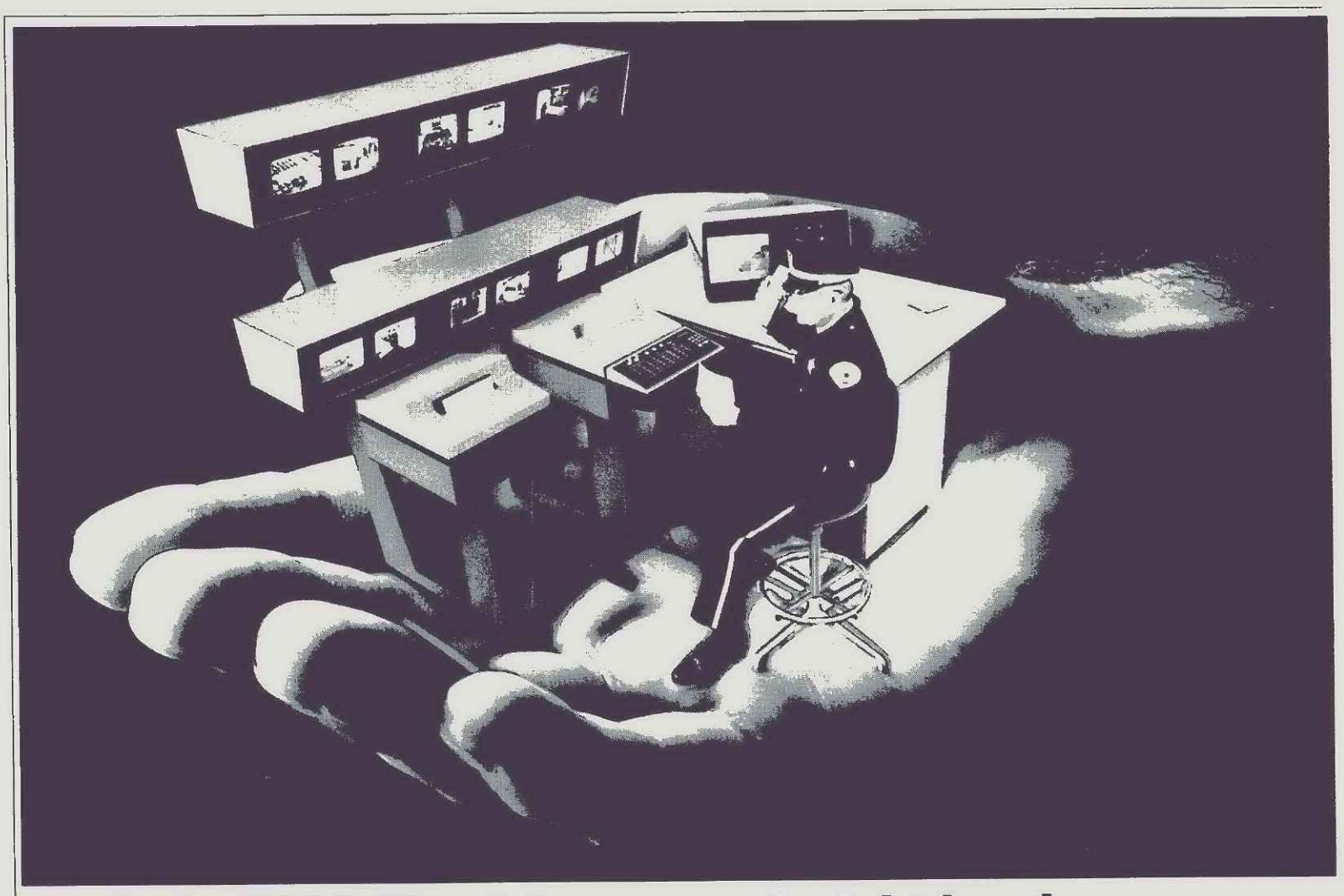
BOSTON—Lawrence Babbitt has been named corporate insurance manager for Stop & Shop Companies Inc., the Boston-based supermarket, drug store and department store chain.

While Mr. Babbitt will do some work in conjunction with the employe benefits department of the 23,000-employe firm, his areas of specialty lie more with the property/casualty coverage. It is on the property/casualty side that the newly-appointed manager said he would be "polishing" the complete certificate of insurance program.

"ONE OF the areas I'm most concerned with is product liability," Mr. Babbitt told *Business Insurance*. He indicated he is presently exploring the possibility of extending product liability cover, within the complete certificate of insurance, to the products of every vendor that supplies Stop & Shop Cos.

He also outlined plans to firm up the insurance program by obtaining coverage for contractors working on any buildings under construction for the concern.

Named to his new post in June, Mr. Babbitt was formerly with Foster Grant, Leominister, Ma. The subsidiaries whose insurance programs he will oversee as corporate insurance manager for the Stop & Shop Cos. include Stop & Shop supermarkets; Bradlees self-service department stores; Medi-Mart drug stores; C. B. Perkins tobacco shops; Funstop toy stores; and the Harold Hahn Co. ■



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Federal no-fault laws now viewed as smaller ogre than once imagined

PHILADELPHIA—The president of Reliance Insurance Co. here would like to see fewer low-cost auto accidents for his company and because of this is backing federal no-fault auto insurance.

A. Addison Roberts has said he'd like to see a threshold of as high as $5,000 for no-fault cover and feels the only way to achieve this is to have the federal government control no-fault with a nationwide uniform system.

"I am one of those who favor federal no-fault to the extent of setting minimum standards in order to get some uniformity," Mr. Roberts said. And he'd also welcome pure no-fault in contrast to some of the "weaker" plans the states have recently enacted.

With his comments, Mr. Roberts married his firm to a small but vocal group beginning to see a federal no-fault plan as the only long term solution to the no-fault question. Others include Crum & Forster insurance brokers, State Farm auto insurance divisions, Royal Globe, Aetna Insurance Co.'s auto carrier, called "Little Aetna," and Aetna Life & Casualty.

MR. ROBERTS slashed at the current claims compensation system, saying, "The present system is much too slow, unresponsive, costly, and unjust." He cited statistics which, he feels, show a person will far too often get a large sum from a small accident while in some cases, compensation in serious accidents is inadequate.

"I don't think any real purpose," he said, "is served by adjusting right angle collisions in court. Early opponents of no-fault said we need the present system to keep the people responsible. I don't agree. A person is going to drive safely because he doesn't want to break his own neck."

Mr. Roberts, however, puts down the tub when it comes to federal pricing and prefers minimum criteria.

On another quarter, the National Assn. of Insurance Agents is also trimming its jib in regard to federal no-fault control.

The group's general counsel, John Neville, has cautioned against predicting any wholesale change in attitude toward federal no-fault among insurance agents, a collective foe of the federal government intervention in the matter, but allowed, "In the current no-fault hodge-podge, the chances of achieving any reasonable uniformity on a state level are very remote. It's a path with very little promise."

ALTHOUGH indirect as regards the NAIA's top leadership, Mr. Neville's comments reflect what could be construed as a softening in the group's zealot stand against federal control, and the change in outlook may be coming fast on the heels of old line insurance companies changing their views.

The NAIA casualty committee, according to Mr. Neville, has been instructed to study the proposals it has received for federal no-fault with less of a jaundiced eye for a possible route toward greater flexibility.

IN ANOTHER corner of the playing field, NAIA is hoping to keep federal agencies out of the picture, according to Mr. Neville. The question of mandatory federal flood insurance in California was put down as a case in which state legislation is far better than anything the federal government has in the picture or is likely to have.

The matter hinges around the problem of adverse selection, which, Mr. Neville said, is an immutable one. He also doubted whether the federal flood insurance program could become politically viable enough to become mandatory at state levels. ■

Hauler, wood firms join in reciprocal

ALBANY, OR.—Oregon's first reciprocal insurance company has been formed, Forest Industries Insurance Exchange, with headquarter offices in Albany.

The exchange, which can best be described as a co-operative, is the first of its kind to be granted a charter to operate in Oregon, said Howard Harpole, president.

The members and policyholders are owners and as such are entitled to any savings effected by the company.

The firm will draw its members, both individuals and businesses, from among those engaged in some aspect of the forest industry or transportation field.

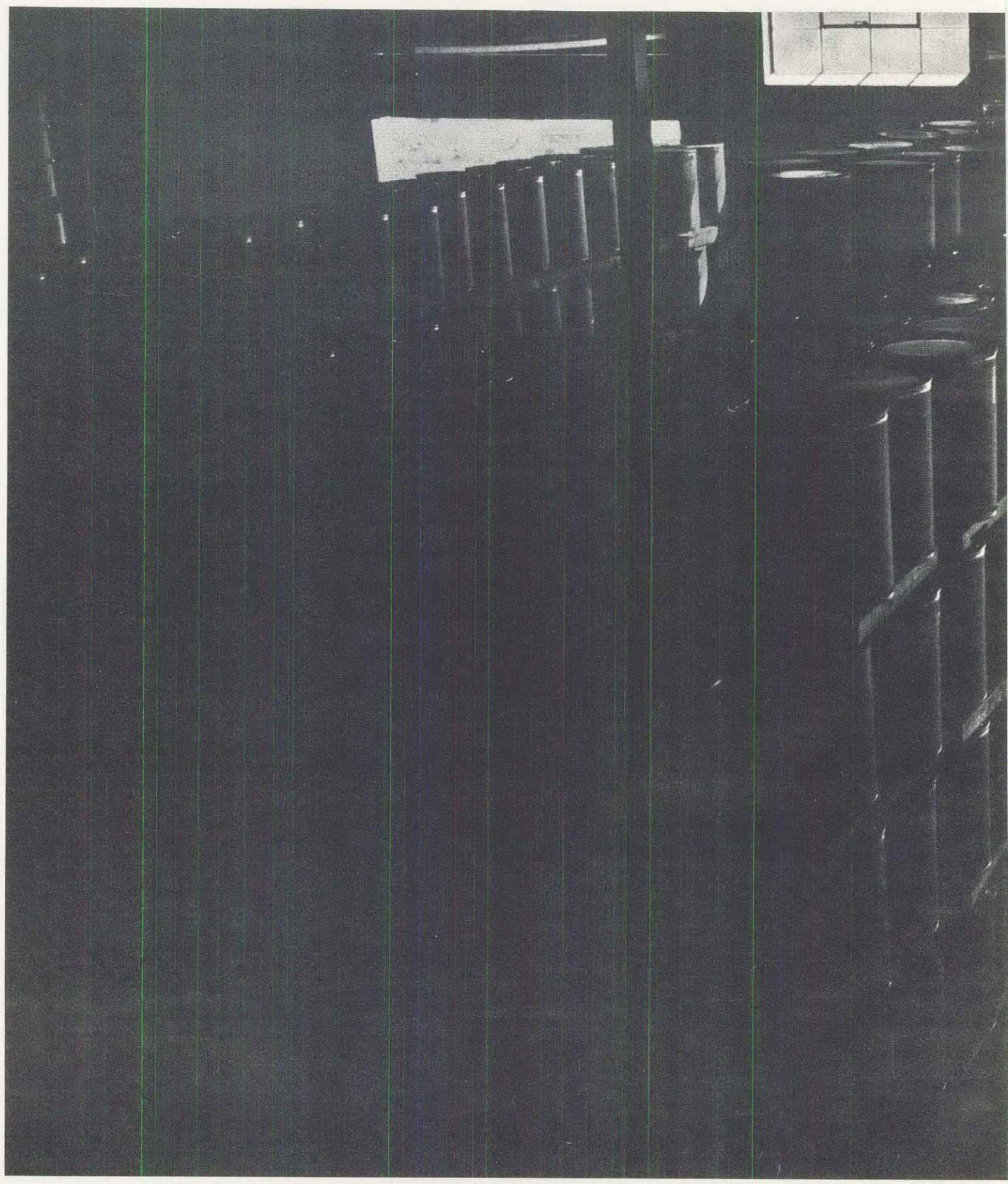
The Exchange is the fifth fire and casualty company chartered by the state since 1874 that is still Oregon-owned and Oregon-based. The new firm's headquarters are at 3111 Santiam Highway. It will maintain resident offices and representatives throughout the state, Mr. Harpole stated. ■

Yen for adventure? Be Japanese, Fly JAL, then get hijacked

TOKYO—The Japanese passengers on the Japan Air Lines 747 which was hijacked and held 87 hours before being blown up in Libya recently will reap the benefits of tradition for their anguish—in the form of 500,000 yen, about $1,900.

The airline is rewarding that amount to each native passenger under an old Japanese custom known as "mimai kin," which means sympathy money. The custom, which is strongly observed here, requires the giving of some kind of gift, usually money, to an ill or injured friend.

Indicating the fabled East and West twain have a ways to go before meeting, the other five passengers on the ill-fated aircraft—two West Germans and one each from Switzerland, the Netherlands and France—were not offered the payment. However, an airline spokesman left the door open for claims negotiations.



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P/C carriers tend to load portfolios with low yield stocks, study reports

BAL HARBOUR, Fl.—State rules and regulatory policy directing attention to investment income as part of the rate for property and casualty line premiums will lead to loading investment portfolios in favor of lower yielding stocks, an insurance educator has charged.

George H. Flanigan, professor of insurance at the University of North Carolina, told members of a research roundtable at the 41st annual meeting of the American Risk and Insurance Assn., meeting here late last month that state policies are changing the investment patterns of insurers.

Research on his thesis was borne out in two ways, Mr. Flanigan claimed:

• Sixty insurance company financial offices were surveyed to determine their opinion of the potential impact of the direct consideration of investment income;

• Portfolio summary statistics were gathered for over 200 property and casualty insurance companies, half of which were concentrating their insurance business in states which consider investment income in ratemaking and the other half of which concentrated their business in other states. The portfolio summary statistics were compared.

According to Mr. Flanigan, "many investment managers agree with the proposition as presented . . . Moreover, the direct comparison of portfolio summary statistics suggests that companies subject to the direct consideration of investment income in ratemaking tend to have more stocks (at a 5% level of significance) and tend to favor stocks with generally lower dividend yields."

ANOTHER PAPER delivered at the meeting charged the present methods used to evaluate an insurer are incomplete in their evaluation of an insurer's capacity for future performance.

Present methods of evaluation rely heavily upon analyses of prescribed financial statements, the second paper claimed.

In yet another researched offering to the meeting group, T. N. Bonham and David R. Klock, both of Virginia Polytechnic Institute, presented a paper, "A Methodology for Observing the Organizational Effectiveness of an Insurer."

The paper purportedly examined the feasibility of a technique to supplement financial statement analysis and an audit of organizational effectiveness variables.

The audit of organizational effectiveness contended, to be feasible, these steps should be completed:

• Construction of a general model of organizational effectiveness;

• Specifying of proxy measures for variables;

• Providing an economical means of measuring and comparing individual surrogate measures; and

• Test for significant relationships between proxy variables and the ultimate performance norm.

According to the authors, general organizational variables cannot be directly measured, proxy measures must be specified and tested for an organizational effectiveness audit in order to be feasible.

And since an examination of all potential proxy measures is beyond the scope of any one paper, the authors selected the relationship between the marketing function and the channels of distribution.

Reasons for this selection process, according to Messrs. Bonham and Klock, include:

• The marketing function is particularly important to an insurer. The law of large numbers requires the insurer to attract a sufficient number of exposures to allow dependable loss ratio prediction;

• Insurance is primarily a service business and the channels of distribution play a key role in the delivery of such service;

• The surrogate measures of relationship between an insurer and its channels of distribution are presented in the study: coefficient of the association; index of agent attitude; and correlation of agent-management perception of product quality.

Input was obtained from a series of questionnaires completed by a selected sample of insurance agents and company administrators for a test insurer. ■



Broker firm, S & H branch now merged

CHICAGO—Byrnes-McCaffrey, a leading insurance broker here, has merged with Bayly, Martin & Fay, one of the nations' largest commercial insurance brokerage firms. Bayly, Martin & Fay is a subsidiary of the Sperry and Hutchinson Co.

Byrnes-McCaffrey will change its name to Bayly, Martin & Fay, but will retain its present management, headed by president and chief executive, Howard Erzinger, Jr.

Bayly, Martin & Fay also announced the opening of an office in Detroit to work with the newly-merged Chicago office.

C. R. Warde, president of Bayly, Martin & Fay, praised Byrnes-McCaffrey's experience in transportation and warehousing insurance. He noted the merger would help increase penetration into those segments of the commercial insurance markets.

PARENT COMPANY Sperry and Hutchinson has warehouse operations spread extensively through the South. Since it uses the services of Bayly, Martin & Fay in servicing its insurance exposures, the addition of the Byrnes-McCaffrey warehousing expertise would be a valuable addition to the corporate operations, an S&H source noted.

Byrnes-McCaffrey has been a specialist in industrial, commercial, transportation and warehousing risks since it was founded in 1949. It developed customized policies to protect items stored in warehouses by both corporations and individuals.

Bayly, Martin & Fay, which, with the addition of Byrnes-McCaffrey, now has 17 coast-to-coast offices, reported gross revenues for 1972 of $12,300,000. Headquartered in Los Angeles, it is part of the Sperry and Hutchinson Co.'s commercial insurance services group which includes Martin Insurance, Martin Re-Insurance, American National General Agencies and Risk Treatment Services Co. ■

Predicts passage this session

Exec foresees U.S. pension law with termination cover provision

BAL HARBOR, FL.—The ranks of pension legislation seers swelled by at least one late last month at the annual meeting of the American Risk & Insurance Assn. here when a management consultant predicted the 93rd Congress would pass some form of legislation regulating private pension plans.

Pointing out much of the publicity surrounding the private pension system in this country of late had stressed the abnormal instances, Preston C. Bassett, vp and actuary of Towers, Perrin, Forster & Crosby, felt the system was actually a success.

"Plan sponsors contributed about $10 billion to retirement funds on behalf of 35 million covered employes last year," Mr. Bassett said, adding close to six million retirees now receive about $7 billion a year in private pension benefits. "This money has been irrevocably set aside for the benefit of the participants."

Talking about his prediction that federal legislation will pass this session, Mr. Bassett said legislation which does get through will contain a number of elements, including:

- More stringent regulations governing the administration and investment of pension and profit sharing funds;
- Regulations pertaining to extensive disclosure of the conditions and operations of the plan and the fund to both the government and employes;
- Requirements for early participation in the plan and early vesting by employes;
- Some form of termination insurance;
- Requirements for funding past service benefits at a faster pace than the Internal Revenue Service now requires;
- Employes will be allowed to take tax deductions for limited contributions to qualified plans.

MR. BASSETT noted many state legislatures had prepared pension legislation for debate and the National Assn. of Insurance Commissioners had a model bill ready for the states' perusal.

"If the federal government does not act, the state legislatures will," he said.

Looking at the subject of pension reform from a historical standpoint, Mr. Bassett traced the interest in this kind of legislation back to the 1963 closing of the Studebaker plant in South Bend, In., and the report of a committee set up during the administration of President John F. Kennedy. This report, released in 1965, was entitled, "A Report of the President on Private Employment Retirement Plans."

Since then, he said, hundreds of bills, most of them poorly conceived, had been introduced in Congress. However, he added the spate of the bills introduced lately were good attempts to arrive at a practical solution to the pension problem. ■

FIA carried coverage on factory blast

LODI, N.J.—Although they balked at confirming details, officials of the Factory Insurance Assn. admitted their participation in the coverage of an estimated $1 million damage following the explosion here of the Washine Division of the Malinckrodt Chemical Co.

The plant, located near a highly-populated area in this crowded city, rocked with the blast in early morning, then shot up in flames and heat from ignited waste solvents. According to insurance investigator James Waters, firemen had been hampered by a lack of chemical foam, vital in choking back chemical fires.

FIVE MEN were critically burned in the explosion and at least two others were missing and presumed dead. Damage, however, was confined to a square block on which the plant was located. Some homes nearby were evacuated as the chemicals burned, and local residents repeated their efforts to get Lodi officials to move the chemical factories out of the town.

Mr. Waters, a district supervisor for the Factory Insurance Assn. said Malinckrodt, a St. Louis-based firm, was in the process of installing an extensive new fire-fighting system in the plant at the time of the explosion.

The new system, which would have been completed in six months had provisions for spraying chemical foam as well as being equipped with a 200,000 gallon water-storage tank. Although Lodi firefighters must attend courses covering chemical fire; their trucks are not equipped with chemical foam. "The borough doesn't want to spend that kind of money," one fireman said, noting chemical foam costs $9 a gallon. ■

Tax loophole plugs urged

MADISON, WI.—The state assembly's taxation committee was told recently, that a wide range of casualty and surety coverage for corporate employes enjoys a tax loophole which is outside the jurisdiction of the state insurance commissioner.

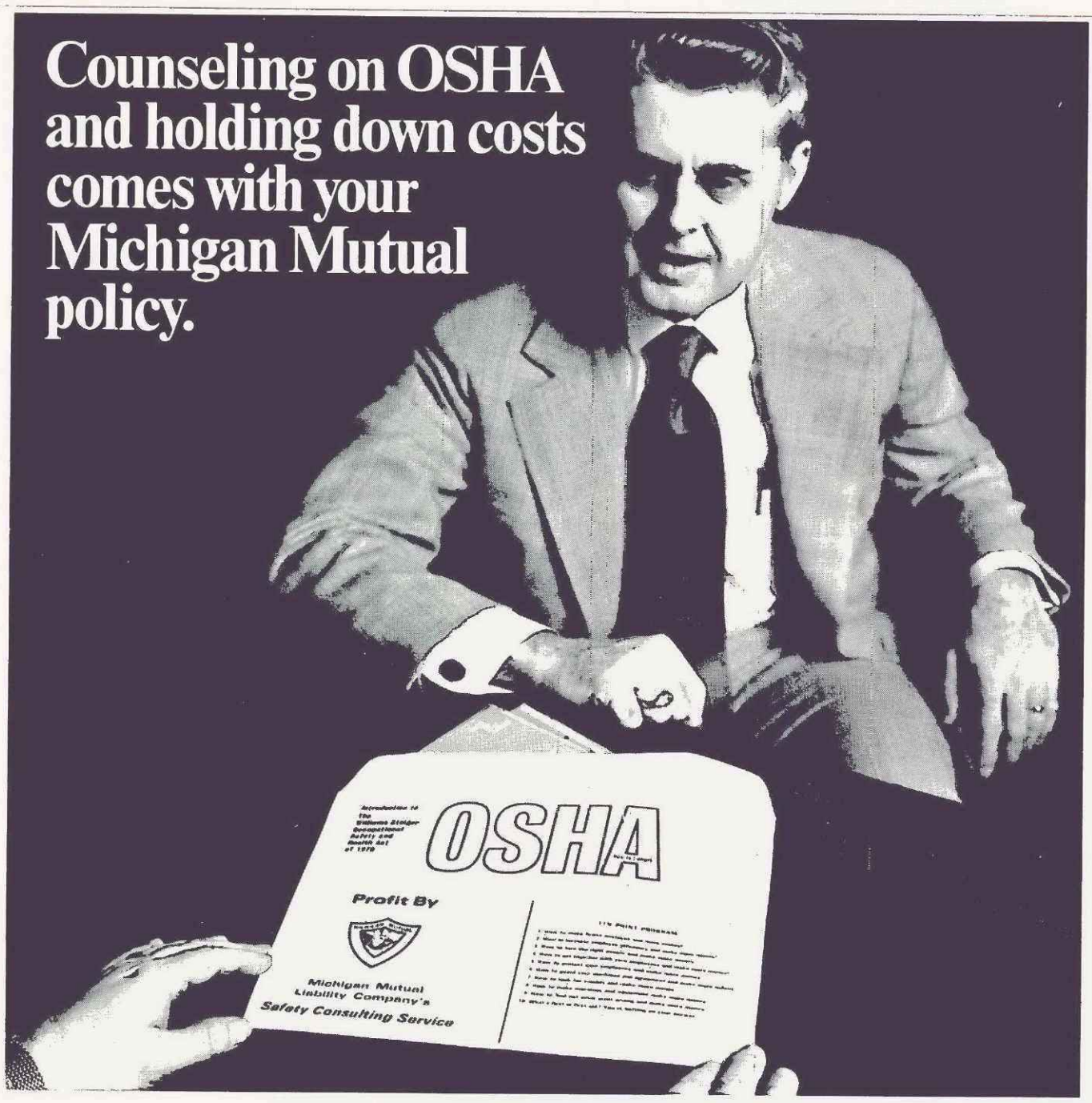
The committee was urged to endorse a bill designed to close the loophole. It would require self-insured corporations to pay a license fee amounting to 2% of the benefits paid to employes.

The bill also would require corporations which provide administrative services to a self-insured firm to pay a 2% tax on gross receipts from those services.

Representatives Edward G. Jackamonis and David Berger contended many Wisconsin companies are self-insured but hire out-of-state firms to administer their insurance plans, thereby avoiding state taxes on certain kinds of insurance.

They also pointed out the bill would protect the financial intersts of employes of Wisconsin firms by placing the plans under the jurisdiction of the state insurance commissioner. ■

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Fixed income pensioners being hit by Canada's inflation; changes eyed

OTTAWA—Inflation has been hitting hard at persons on fixed incomes in Canada. So the federal government will press for legislative changes to the Canada pension plan this fall in an effort to correct the situation.

The government will seek to remove the current 2% ceiling on escalation of benefits and to permit a 5.8% boost beginning with the January payments.

The government also plans to hike old age security and guaranteed income supplement payments by 5.3% with the October payments, raising them $5.30 from the present $100 a month.

If approved in October by Parliament, the changes in the law would allow further boosts every three months in pension benefits to offset any future hikes in the cost of living. However, there would be a two month delay in such future increases. For instance, cost of living hikes in August, September and October would be reflected in January pension payments. Or cost of living jumps in October, November and December would be taken care of in April payments.

MARC LALONDE, Canada's welfare minister, pointed out under the government's new program to combat inflation and assist pensioners, the 1,800,000 Canadians getting old age security pensions will receive a limited hike starting in October, instead of waiting until April as required under the present annual boost. And this same procedure will apply to individuals receiving guaranteed income supplements to the old age security pensions.

Hikes in old age pensions and supplements for this fiscal year will represent an added governmental outlay of from $90 million to $95 million, according to estimates.

A spokesman for Mr. Lalonde's office said the boosts in pensions and supplements can't become effective until the October payment due to the need for Parliamentary approval. However, the increases would be made retroactive to Oct. 1, he added.

It was also pointed out both provincial and Parliamentary approval will be required for the proposed change in the Canada pension plan this fall, to remove the 2% escalation ceiling and replace it with a maximum 5.8% annual cost of living hike.

The intention of the government is to bring the change into effect at the start of 1974, the same date higher family allowance payments take effect. Most observers here see no serious opposition to the program at either the national or provincial level.

Under present regulations, the maximum payable Canada pension for a businessman retiring in August would be $89.90 a month. An official explained the proposed 5.8% boost would go on top of that figure. A disabled pensioner now gets $114.09 a month and the 5.8% increase would go on top of that figure to cover the 1973 cost of living. ■

Worker pact draws fire on pensions

PORTLAND, OR.—Multnomah County Commissioners this month approved a wage-benefit contract with Local 88, American Federation of State, County and Municipal Employes which represents about 1,500 workers.

Commissioner Dan Mosee objected to the contract approval, contending the employes should be forced to contribute 10% of their salaries to their pension fund, whose liability is now 20% unfunded.

County employes now pay in 8% of their salaries.

Mr. Mosee expressed fears the pension fund would eventually go broke if its liabilities are not provided for, but other commissioners contended the fund is "viable" and able to meet its pension payment obligations.

The new contract also included a dental insurance program, as well as a 5.5% pay boost. ■

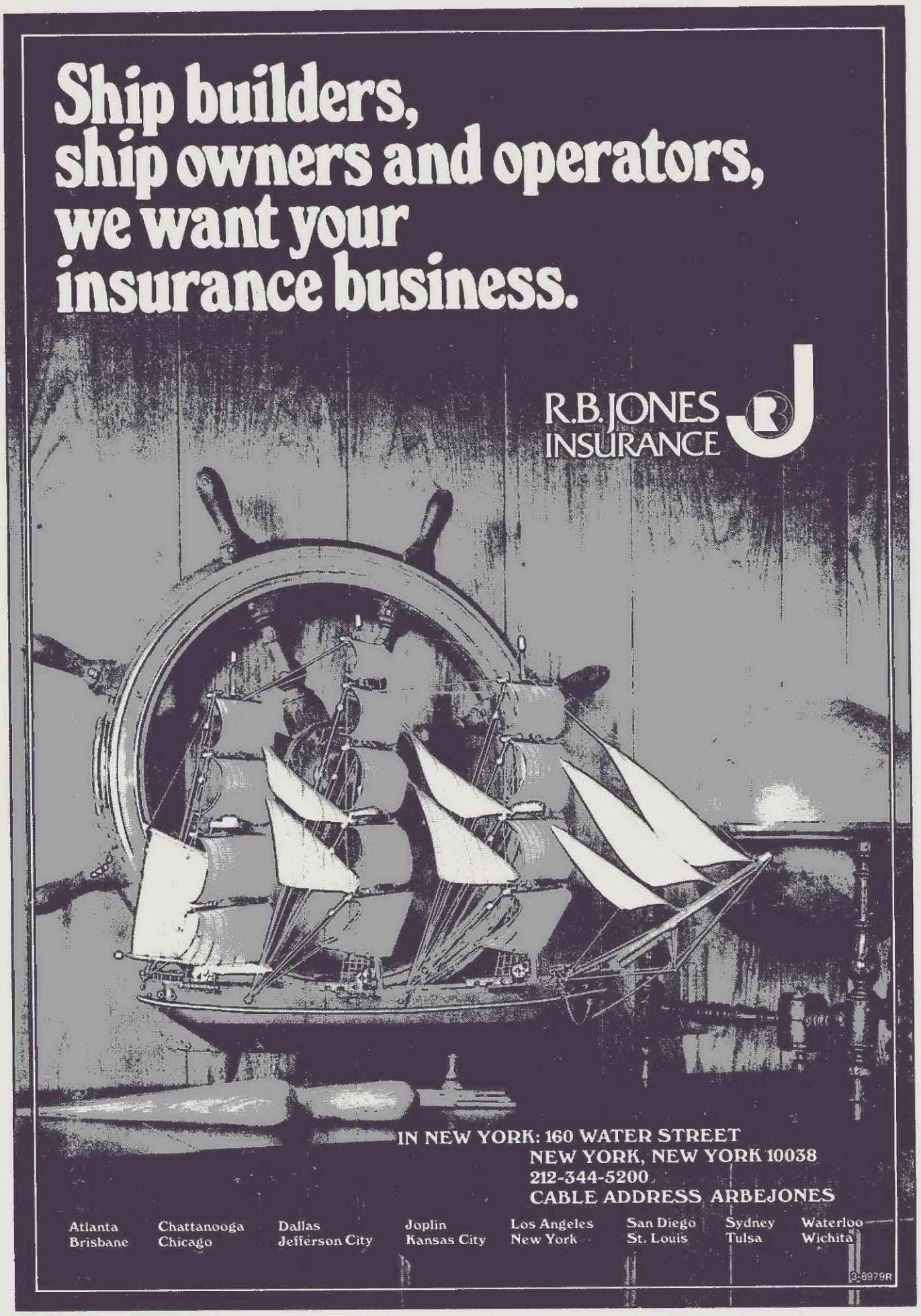
UMW picks labor lawyer to head fund

WASHINGTON—A local attorney, who in 1971 won a $172 million class action suit on behalf of 77 United Mine Workers of America (UMA) union members and miners' widows, has been named to replace union president Arnold Miller as a trustee of the union's welfare and retirement fund.

Mr. Miller stepped down from the position because, he said, he was not able to spend the time required of a trustee.

Harry Huge, a partner in the Washington firm of Arnold and Porter, was described by Mr. Miller as "a lawyer who has demonstrated his deep commitment to the needs of UMW pensioners and widows."

The class action suit brought by Mr. Huge resulted in a federal court ruling which, while under the leadership of recently ousted president Tony Boyle, the union conspired to defraud pension fund recipients. The decision is expected to result in additional retirement benefits of $172 million spread over some 17,000 former miners and widows. ■



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tci

Handlin' down home risks?

By TOM WALSH

JACKSON JUNCTION, IA.—Stuck behind the pie case glass in the Highway Grill (Draft Beer—20¢) is a yellowed and slightly blueberried picture postcard of Main Street here before the fire of 1917 destroyed the depot, the grain elevator, the hotel, the creamery, all three saloons and a thriving town's livelihood and ambition.

Only 17 residents and four businesses line that street today: The Kaiser fertilizer depot, Rose Jirak's grocery store-post office, Hugh John Lynch's grill and Elinor Jirak's insurance and bookkeeping/tax agency.

"Actually, the town's area is larger than that of Des Moines," Elinor Jirak said. "Back before prohibition, the state would only allow taverns based on population, and, when the people here decided they wanted a third one, they annexed a lot of farm land to get the numbers they needed. I'd say all told, there are 106 of us within the town limits."

The churches, the school, the liquor store eight miles down the road in Lawler and Elinor Jirak are all community cornerstones here. She began—quite by accident—sorting out finances and insurance legalese for her neighbors six years ago, and today she finds her business has grown faster than seed corn in bottomland.

"I was painting the living room walls with my husband one day in 1967, and a mutual fund salesman came to the house trying to sell us some," Mrs. Jirak said. "We never got off the ladders, and Don kept telling him he wasn't interested, but then the salesman started talking about selling bonds and how much money could be made. Don got interested then, and asked if the company hired women. The salesman said, 'Sure,' so Don said, 'Well, hire Elly, she'll outsell you.' "

It did, and she did, and this year 34-year-old Elinor Jirak will write a wide assortment of policies for a wide assortment of insurers with a premium value in excess of $100,000.

She was one of two persons from a class of 22 to survive the National Assn. of Security Dealers exam ("the hardest test I ever had to take") and went on to obtain Iowa insurance licenses in fire, casualty, auto, hail, surety, accident/health, life, variable annuities and commercial lines.

"At first they told me a woman wouldn't be able to make it," she said. "It was the old conservative farm line, but I found out it wasn't true. I found some good accounts, got a lot of referrals, and the business kept growing. I started out with my office in the corner of the kitchen, with a card table and a four-drawer file, but the kitchen grew too small and I bought a used but very nice camping trailer and had it pulled up alongside the house. Then I started doing income taxes and worked in that trailer a year, but my business kept growing, and I outgrew the trailer."

The Jirak Insurance Agency and the Jirak Bookkeeping and Tax Service now operate out of a white, stucco building which once housed both the bank and the banker on the ground floor and a basement post office.

> "They say there are three people who know you better than you know yourself: Your minister, your bartender, and your tax preparer. I think that's true, and you can add insurance agent, too."
>
> Elinor Jirak

"When I moved in here in the fall of 1970, I wouldn't sign a lease," Mrs. Jirak said. "I didn't know if I would make it or not, so I figured if I made any money that month I'd pay the rent for the next month."

She's been able to pay the rent—and then some—ever since, and her profits have brought such business equipment marvels to Jackson Junction as a copier.

"It's not uncommon to have somebody run in here with a letter they've just received from a long lost uncle whose written to say he's remarried in Milwaukee. They'll ask to run off 10 copies to mail to other relatives," she said.

Her business, which she incorporated in June, now employs three fulltime office personnel and Bernie Schmidt, who quit his job at the Waucoma Feed Mill to sell insurance.

If you consider a farm a business, and there's probably not a soul within three counties of Jackson Junction who doesn't, some 75% of Elinor Jirak's business is commercial.

"ASIDE FROM farms, which account for about 60% of my business, I have some small business, too—lumber yards, taverns, restaurants and mills. Mills are my favorite. They're fun to insure. Anything that's farm-connected is so interesting to me, but I really like mills because I get to write some big, big bonds. I insure the town of Lawler, too. It carries a lot of liability, but not much on property. The town's premiums run under $2,000, not counting the bonds I'm putting together now for the city fathers."

The largest account this agent-risk manager-tax specialist handles is the Croell's Readi-Mix Co., a cement supplier with three plants and 12 employes.

"Their liability, their fire insurance and their workmen's comp is written through American States, and I'm now putting together a group insurance plan for their fulltime help. It'll have full hospitalization, disability cover for the breadwinner and term life insurance of $10,000 for the employe, $5,000 for his wife and $2,000 on his kids. It hasn't been settled yet, but the plan I'm working on now is written by Bankers Life, and the premium will be split 50-50 by Croell's and the 12 employes," she noted.

Mrs. Jirak is also handling

Your trusted bookkeeper just took off for parts unknown. Unfortunately, a lot of your company's money took off with her.



You never would have believed it. The bookkeeper, of all people. She just wasn't the type. But that's just the point, there is no way of typing an embezzler. That's why embezzlers are so hard to detect.

But that doesn't mean you can't protect your company from a severe loss. The key is adequate Honesty Insurance.

Ask your insurance agent or broker about the protection afforded by this valuable coverage. And while you're thinking about it, why not write for our free booklet: "Embezzlement Controls for Business Enterprises."

Fidelity and Deposit Co.
Nation's leading bonding experts.
Fidelity Building, Baltimore, Md. 21203

. . . so's Ellie Jirak

group insurance for the Migrant Action Program in nearby (60 miles) Mason City. The federal program in Northeast Iowa provides its 16 employes with a $50,000 major medical policy and $10,000 term life insurance written by the Independent Liberty Life Insurance Co.

MRS. JIRAK'S agency also sells workmen's compensation coverages through the LeMars Mutual Insurance Co. of Iowa and the American States Insurance Co. In total, she is authorized to write polices for over 15 personal and commercial insurers.

"If all there was to this job was selling insurance, it would be a breeze," she said. "A good portion of my job is acting as lawyer, psychiatrist, marriage counselor and social worker; which I suppose is good—I always did want to be a social worker."

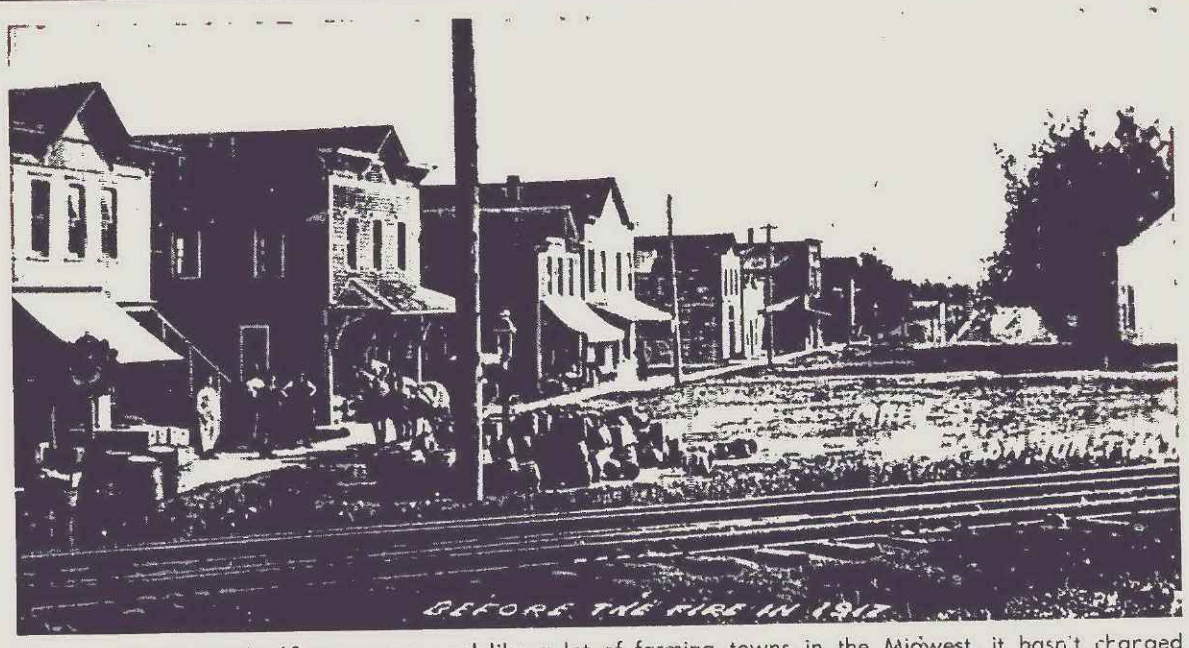
"When people come in to talk insurance, they're talking finances, and, when people talk finances with you, they feel they can tell you anything," she said. "They say there are three people who know you better than you know yourself: your minister, your bartender and your tax preparer. I think that's true, and you can add insurance agent, too.

"I HAVE no desire to go to a bigger city and write bigger policies," she said. "Sure the larger premiums would be nice, but I'm more interested in the people I deal with than the size of the policy. My business stays on the books, and I have a minimum of problems and I really love the people here. I enjoy taking the time to listen to people when they want to talk and being here when they come in after receiving a letter from a lawyer or the government wondering whether they've read it correctly."

Her husband works nights in Waterloo (some 50 miles away), and her church, the Lawler Commercial Club chicken dinners, a Lawler softball team, the Turkey Valley School District band boosters' organization and insurance committee and the 4-H Club all eat up her time. Add to those demands six children, ages 3, 6, 11, 12, 13 and 14. Add on top of that a 320-acre farm and the needs of 50 head of Hereford-Charolais cattle.

"I have a new project in mind, too," she said. "This area needs a doctor badly, so I'm going to start pushing for the town of Lawler to raise some money to build a clinic so we can get some young doctor right out of medical school to come here to practice.

"Oh," she said. "I forgot. I'm also a member of the Turkey River Saddle Club. I don't even have a horse, but I haven't missed a trail ride yet." ■



The way it was nearly 60 years ago, and like a lot of farming towns in the Midwest, it hasn't changed that much. A few new faces, maybe, but they usually bear a lot of resemblance to the old ones

Love still blind, so damages stay

LONDON—Romance came to blind British student Merry Hamp after being awarded personal injury damages of $200,000 last year.

Before enrolling in a Houston Tx., university she won a lawsuit against a convent college in Cheshire County (England) where eight years ago her sight was impaired in a laboratory blast. (*Business Insurance*, Nov. 6, 1972).

Judges in Britain's high court gave her this record United Kingdom award because they felt she would suffer lifelong handicaps which would impair her chance of marriage.

So, when she fell in love with Houston electrical engineer Carson Ray, she returned to London to tell the judges they might want to cut the damages because she planned to get married and had proved all the gloomy predictions were wrong.

But the judges gave their blessing to the marriage and ruled she can keep the money, as she might now need it to bring up a family.

The convent, which was insured for only $60,000 of the risk, has now taken out cover for more than $1 million against any future liabilities for personal injuries.

Self-insurance. If you find it self-serving, James is all for it.

For some companies, self-insurance fits into the risk management picture very well. For others, not at all. One of James' strengths is the ability to spot the difference. For corporate clients and prospects. At home and abroad.

We install and administer self-insurance plans, and have for years. In fact, our Paige Division launched one of the earliest plans for a major American Corporation, in 1938. After all these years, it's still producing important savings and cash-flow benefits without sacrificing protection. Which is precisely how self-insurance is supposed to work.

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International Service Through Associates In Major Cities Throughout The World

New $3 employer pension payout to help fatten checks for retirees

CHICAGO—Under terms of a new contract, a union here will become the first among the nation's trucking industry unions to decide how it will spend the extra $3 per week employers will pay into a pension fund for each new member during the pact's first year.

The 12,000-member Chicago Truck Drivers, Helpers, and Warehouse Workers, according to Edward Fenner, the union's executive director, will:

• Provide a liberalized pension to members who have retired since July 1, 1972, which will be based on age and years of service and will replace the former fixed-dollar pension system;

• Set basic pensions at $250 per month at age 55 after 20 years of service.

The amount of pension, Mr. Fenner indicated, will be increased on the retirement date by $25 a month for each additional year of age and of service, with a $500 monthly maximum.

As an example, he said, a union member aged 65 with 30 years of service will get a pension of $500 per month for life. If aged 60, with 25 years of service, he will collect $375 per month for life.

THE FORMULA had enabled, under the old system, a maximum pension of $200 per month, with members eligible at age 55 after 20 years of service.

Also included in the pension plan's new features are:

• If a retiree dies before he collects his pension for 60 months, his spouse or surviving children will receive the pension until the five years are up;

• The surviving spouse or dependent children of any member who has at least 20 years of service and who dies before retirement, will receive $250 to $500 per month, depending on age at time of death and years of service,

• Members who have belonged to the union and have worked in the trucking industry at least 20 years will have a vested interest in a pension of $250 per month, payable to them at age 55 even if they no longer belong to the union or work in the industry.

• Union members who've retired before July 1, 1972, and have been getting $200 per month in pension payments will begin receiving $225 per month, beginning Oct. 1, effective date of the new program.

GUY S. NAVE, union trustee of the pension fund said about 1,000 members of the union are now in retirement. Of these retirees, he said, 305 have retired since July 1, 1972, and will therefore draw the larger benefits of the new plan.

Contracts for the International Brotherhood of Teamsters and the Chicago Truck Drivers, Helpers, and Warehouse Workers, an independent, became effective July 1, 1973. The pacts cover 300,000 members.

Union leader Fenner said his union has decided to split the $6 weekly employer contribution to the health, welfare, and pension fund for each member into $3 for pensions and $3 for health and welfare. Employers now pay $15 weekly into the pension fund for each member.

This contribution went to $19 weekly July 1 and will be hiked to $23 weekly July 1, 1974, he said.

He explained his union has a reciprocal arrangement with the Central States Pension Fund of the Teamsters union under which pension credits of each member are accepted so members get partial pensions from each union if they have belonged to both at different stages of their working life. ■



High Blood Pressure Is a Joke.

. . . a bad joke. High blood pressure—doctors call it hypertension—is a silent, mysterious disease. It can cripple and kill without warning.

Almost 25 million Americans have high blood pressure, half of them without knowing it. There are no special symptoms, but when your blood pressure goes up and stays up, it's nothing to joke about. Untreated, high blood pressure can lead to stroke, heart or kidney failure.

Only your doctor can detect and control high blood pressure. Treatment can help prevent the serious diseases that high blood pressure helps bring on. So see your doctor. Have him check your blood pressure . . . and follow his orders.

Meanwhile, the Heart Association is working hard to learn what causes high blood pressure and how it can be cured . . . to find people with hypertension and get them under treatment. We're doing it through research, education and community programs.

For information about High Blood Pressure—ask your Heart Association.

Contributed by the Publisher

Letters . . .

Continued from page 22

completely stayed away from personal lines. All of the problems brought out in your article are absolutely correct but only apply to that class of business. By designing programs available to commercial risks (and we are now involved in industrial projects), these can be dispelled and profit assured even initially.

There may be a peculiarity of our agency which has made this kind of business desirable and that is that our producers are salaried. This means that a fixed percentage does not go out as sales expense, but rather our overall charge decreases as volume increases.

George P. Mahler
President, J. I. Kislak Agency Inc., Newark, N.J.

An irate letter

To the Editor: In your overwhelming but nondiscerning desire to see that pensions are regulated, you have published a childish editorial and a one-sided article on the NAIC-proposed legislation for state regulation.

Industry has, of course, supported much of the proposed federal regulatory measures except those parts (principally termination insurance) which will likely result in such regulation as to seriously handicap private pension operation and growth.

Your investigation has not, apparently, discovered this. Further, you apparently have not reviewed state regulation of pensions sufficiently to realize the effect 50 or more jurisdictions could impose on pension operation. This can certainly limit pension growth even if it satisfies the growth desires of some state commissions.

Isn't it time for you to start looking into the regulation problem and writing about it in a useful way?

E. S. Willis
Manager, employe benefits, General Electric Co., New York, N.Y.

Editor's note: Childish we may be, but as Sen. Sam Ervin will undoubtedly quote, if the appropriate occasion arises in the Watergate hearings, "A child will lead them." In the June 18 editorial entitled "Even more . . .", to which Mr. Willis refers, Business Insurance *is trying to demonstrate how little the 1973-model insurance regulator's meeting is affected by the insurance industry—a condition we feel is noticeably different than the typical situation in the past. We were in NO way shape or form trying to advocate federal regulation of pensions and pension operation. The thrust of the editorial was to point out one of many such incidents recently in which the state regulators are responding to the duties implicit in their offices rather than merely attending on the comforts of the insurance industry.*

Every Day 27 New Companies Trust Us With Their Lives.



Every business day of the year, an average of 27 companies choose Phoenix Mutual for their Group Life Insurance. Companies with 2 employees, 200 or 2,000. Companies who have heard about us through other companies.

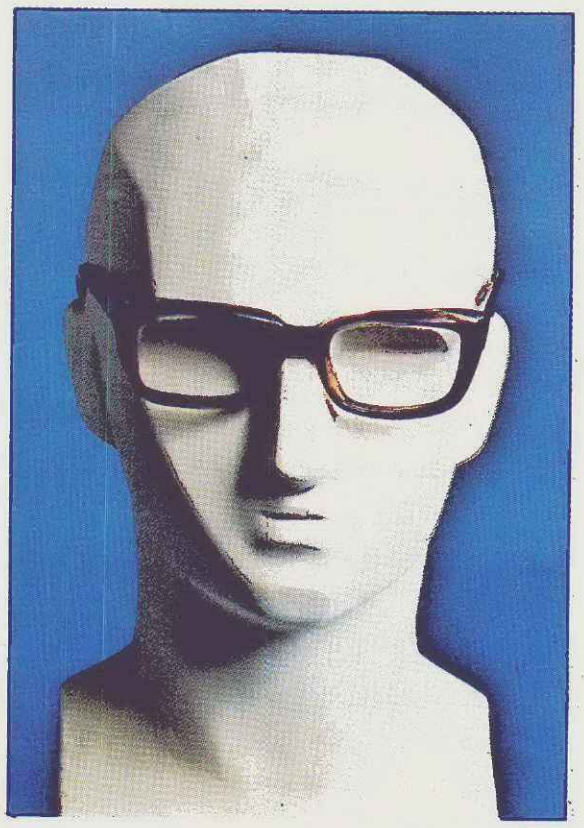
In the last 6 months alone, 3,504 company presidents entrusted us to insure their employees' lives. That averages out to a new company every 18 minutes. In our book that's a lot of well-placed trust. And helps explain why Phoenix Mutual is a 2 billion dollar annual insurance sales organization—up from 1 billion dollars as recently as 1970. When it comes to Group Insurance, you can trust us with your life.

Phoenix Mutual

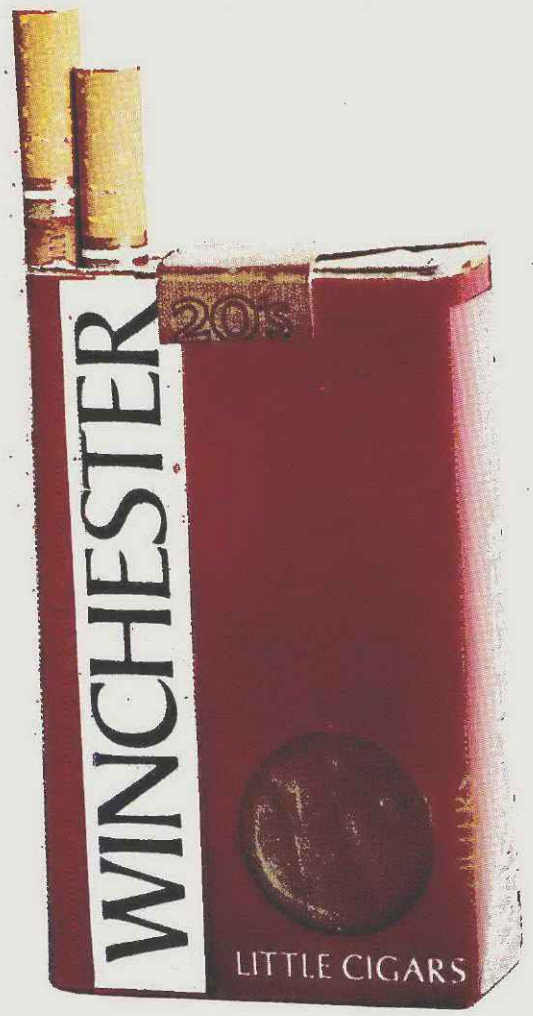
When we publish, things start to happen.



Business Insurance in its very first issue carried a front-page story on proposals for a new type of "no-fault" car accident law. Four years later, the first such law became effective in Massachusetts. Today, the no-fault idea is spreading to other states.



Industrial Marketing carried an article in its June, 1969 issue entitled "Positioning is a game people play in today's me-too marketplace." Since then, the positioning concept has become well-known and accepted, not only in the industrial field, but in consumer advertising as well.



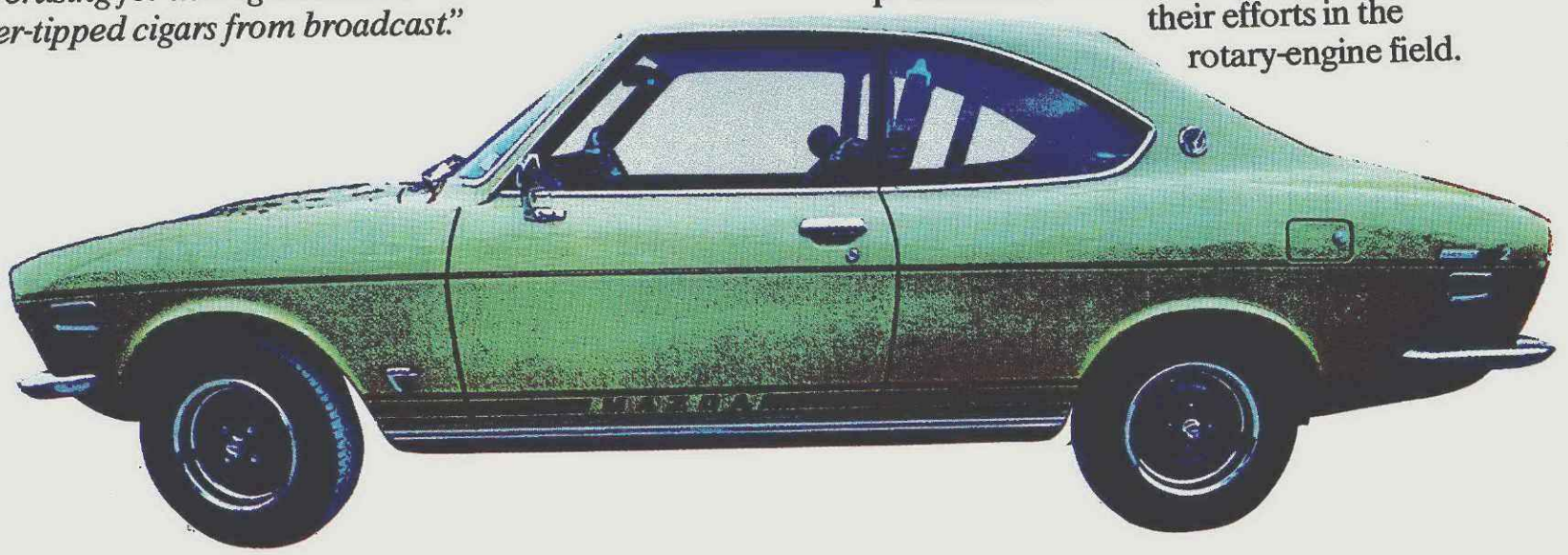
Advertising Age blew the whistle on Winchester television commercials in a ringing editorial entitled "A whole 'nother disaster." Six weeks later, the New York Times carried the following announcement:

"Faced with criticism from consumers and its own industry as well as lengthy Congressional hearings, the company has agreed to remove advertising for the cigaret-sized, filter-tipped cigars from broadcast."

Advertising & Sales Promotion was one of the first publications to spot the Incentive travel boom which today represents a half billion dollar market. With regular inputs from thousands of corporate sales promotion people, the publication is in an ideal position to predict future changes in its fast-moving field.



Automotive News covered the Mazda car and the Wankel engine many years before they made news in the consumer press. Soon after Wankel stories appeared in the publication, U.S. companies intensified their efforts in the rotary-engine field.



What Crain publishes often has a lasting effect on an industry.

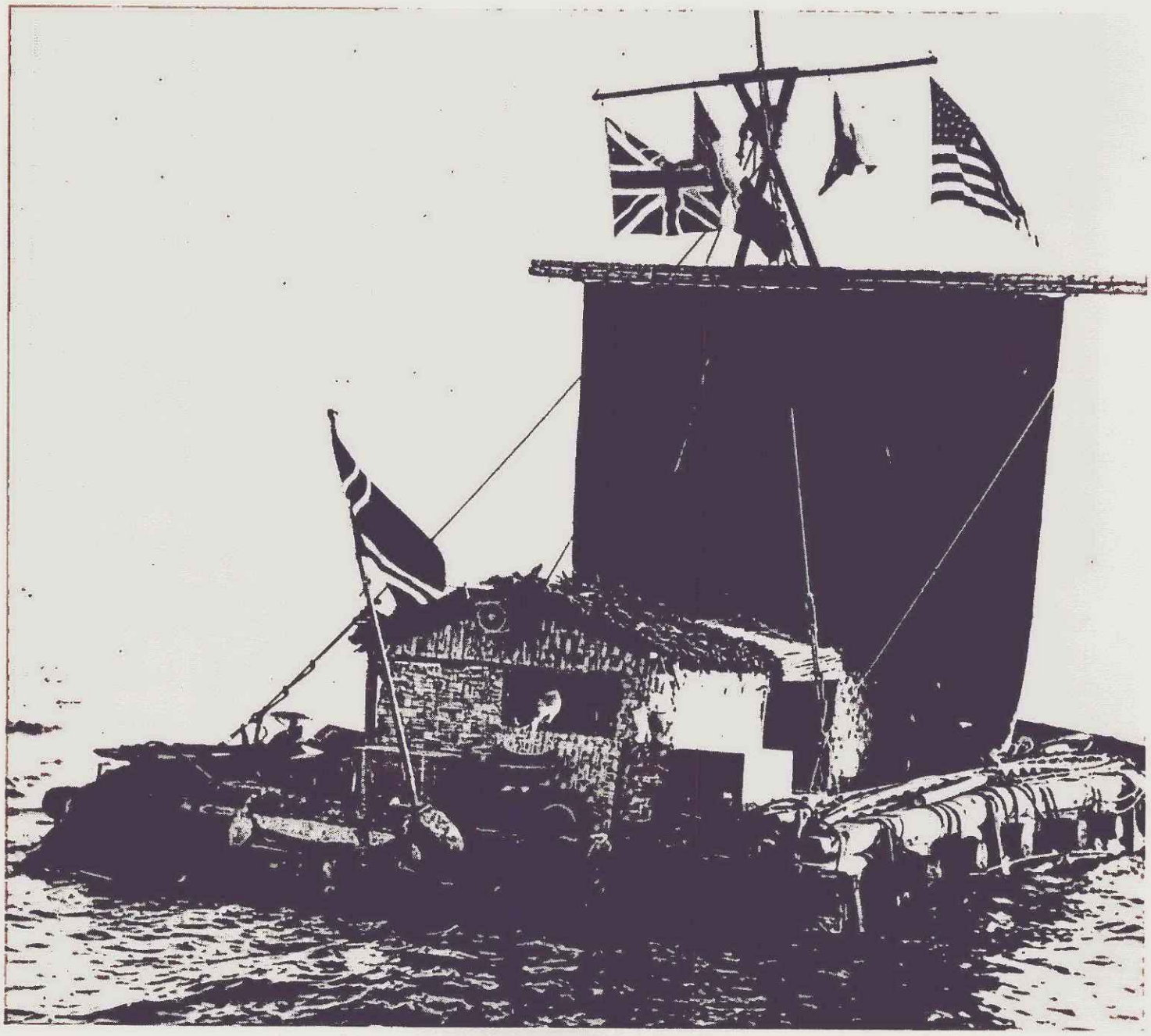
We start things because we believe that what's best for the consumer is best for the industry that serves the needs of that consumer. What we say doesn't always please our readers or our advertisers. But what we say gets listened to and acted upon.

In addition to the publications described here, Crain also publishes American Clean Car, American Coin-Op, American Drycleaner and American Laundry Digest.

Crain Communications Inc., 740 Rush Street, Chicago, Illinois 60611.

The Crain effect.

In 1948, the tiny Kon-Tiki sailed into the news.



So did Argonaut.

A determined crew of six spent 101 stormy days on a 40-foot balsa raft, sailing from Peru to the South Sea Islands, to prove that the Polynesian Islands were originally peopled from South America. The 4,300 mile voyage of the Kon-Tiki captured world interest.

Also in 1948, Harold A. Hatch and his crew of six launched Argonaut Insurance. Not content to take the usual route, they set out to make innovations in the workmen's compensation field; making news in the insurance world. Today, twenty-five years later, Argonaut is still making innovations. That's how Argonaut has grown from a crew of six to over one thousand.

Our hearty crew across the country and overseas wish you smooth sailing with your insurance requirements. When you need a helping hand, ask your agent or broker about Argonaut.

CELEBRATING A QUARTER CENTURY OF SERVICE AND GROWTH

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business insurance PERSPECTIVE

Loss prevention also element in bracing for damage suits

"Punitive damages are intended as a punishment for reckless, wanton, or intentional action is more serious than negligence which justifies compensatory damages."



BY WILLIAM H. RODDA
President, Marine Insurance Handbook Inc.
Chicago, Il.

AN AWARD OF punitive damages against a businessman may prove to be payable by the defendant without benefit of insurance. Laws and court decisions recognize two kinds of damages—compensatory damages and punitive damages.

Most awards from court proceedings are compensatory. That is, the negligent party is paying the injured party a compensation for proved damages. Such compensation may cover medical expenses, pain and suffering, payment for permanent injuries such as the loss of an arm or leg, damages from libel or slander, and other injuries, damages or expenses.

Liability insurance is designed primarily to cover the legal liability of an insured for an amount that he may become legally obligated to pay to another person because of injuries or damages that he may cause by negligent action.

Courts occasionally rule that it is not enough to make the negligent person pay for the damages that he has caused—he must also be punished. The punishment is administered by the assessment of punitive damages in addition to actual damages that are awarded. Punitive damages are intended as a punishment for reckless, wanton, or intentional action that is more serious (in the mind of the court) than negligence which justifies compensatory damages.

AWARDS OF punitive damages may be large and frequently are in excess of the compensatory damages. Awards in the millions of dollars have been made.

Courts in some states have ruled that it is against public policy to permit an insurance company to pay punitive damages on behalf of an insured. These courts say that such damages must be paid by the negligent party in order to preserve the punishment effect. Punitive damages in such states are a direct threat to the businessman.

THERE IS STILL another serious aspect to this situation, for insurance companies have questioned whether punitive damages are covered by liability policy. The usual liability policy covers "all sums which the insured shall become legally obligated to pay as damages," which would seem to include punitive damages since the insured does become legally obligated to pay them.

However, some insurance companies have said punitive damages are awarded only under circumstances where the negligent action of the insured could be considered to be intentional and therefore excluded by other provisions of the policy.

This situation is sufficiently indefinite to warrant the businessman determining from his lawyer and from his insurance company the status of punitive damage awards in his state (or in the states in which he does business). He should also make certain his insurance does cover punitive damages wherever this is possible, and he should take steps to prevent the chances of facing such a claim.

What are the circumstances that can lead to punitive damage award? Punitive damages may be assessed against an individual or a corporation as the negligent party if the act causing the injury was reckless, fraudulent or malicious. Generally a punitive damage award is made only if there is also an award of compensatory damages. No matter how wanton or reckless the conduct of a party, an award of punitive damages would not be made if no actual damages could be proved.

THE ACTION prompting an award against a corporation may be the act of an employe or agent of the corporation. Such an action against the corporation may be the result of ratification by the corporation, or because the act which caused an injury was not disavowed or counteracted.

An assault by an employe of a corporation may be charged to the corporation. This might occur if the corporation was careless in its hiring and hired a person with known dangerous tendencies. Another situation that might lead to an award against the corporation could be the assignment to a dangerous machine of an operator who was known to be unqualified.

An award of punitive damages was made against an airplane manufacturer which had discovered a defect in a plane but took no steps to notify the users of the plane. In another aviation case, a repair agency made repairs with used parts, which was contrary to regulations and also contrary to the usual standards of the business. The courts considered such actions to be more than negligence—they were ruled as reckless or wanton conduct.

Injuries from the use of a firm's products are a likely source of punitive damage claims. A company may continue to sell a food, a drug, or an appliance

Continued on following page

'73 labor demands moderate despite inflationary conditions



"From its own . . . viewpoint, labor should not want to see corporations seriously weakened, for labor can get more from rich, strong corporations than from weak ones."

BY BION H. FRANCIS
Insurance consulant,
Milford, Ct.

THERE HAS been a sharp change this year in the nature of fringe benefit negotiations between managements and unions. Let us look at what has happened.

This is a year of intense activity in union negotiations. Industries with three-year contracts expiring this year include automobile manufacturing, electrical equipment, postal services, textiles, rubber, petroleum, trucking and the railroads.

These unions in the past have bargained strongly, as evidenced by a study of work stoppages in the two previous contract renewal years of the unions (1970 and 1967). The following table presents figures for man-days lost in recent years:

Year	Man days lost because of work stoppages
1960	19,100,000
1965	23,300,000
1966	25,400,000
1967	42,100,000
1968	49,018,000
1969	42,869,000
1970	66,414,000
1971	47,417,000

As can be seen, the years 1967 and 1970 both saw an increase in work stoppages to new and higher levels.

The unions not only bargained strongly in 1967 and 1970, they also bargained effectively. The burden of employe wages and benefits which a business must carry is obviously an important factor in determining how well the business will do. Let us compare the relative gains of business and employes during these six years of strong labor bargaining.

FIRST, LET us look at corporate profits after taxes. In 1967, the total of these was $46.6 billion; last year the total was $53.1 billion, an increase of 11.8% from 1967 to 1972.

What happened to personal income during this period? In 1967, disposable personal income (income remaining after payments to the government) was $546.3 billion. Personal income (which, in our salaried economy, is made up largely of wages and salaries) reached an all-time high last year of $795.1 billion, an increase of 45.1%.

In other words, personal income has risen about four times as fast as corporate income. This does not have to be explained to those who entered the stock market in recent years—most of whom have lost money. Common stocks of many companies are selling at or near their all-time lows, and individual investors are withdrawing from the market.

THIS WITHDRAWAL of financial support from the market has brought with it unfortunate results. Giant corporations whose financial strength was unquestioned a few years ago have seen their bond ratings reduced with a consequent increase in their cost of borrowing. The ability of utility companies to raise the billions of dollars needed for increased service to the public, and for ecological purposes, has been seriously questioned.

The most effective way to fight inflation is to increase the supply of goods coming to the market and to let the law of supply and demand force prices down. The United States, because of its great productive power, can perhaps do this better than any other country in the world.

Yet recently we have come to discover that our ability to fight inflation is hampered by the fact that our margin of unused production facilities is not as great as we thought. This comes at a time when

Continued on following page

business insurance PERSPECTIVE

Damage...

Continued from preceding page

after it has learned that it contains a dangerous defect, or it may fail to take effective measures to recall products found to be dangerous. Deliberate action, or deliberate inaction, may be ruled by a court to be reckless or wanton conduct enough to justify a punitive damage award.

What steps can a company take to avoid facing a punitive damage claim? One important procedure is careful attention to complaints. Any complaint alleging an injurious condition, or an injury from a product, or defects in a product must be referred to an executive for review and the complainant must be treated with courtesy and respect.

The product must be immediately withdrawn from the market if a defect is found, for delay or inaction may be considered reckless or wanton conduct.

Injuries from a product must be handled promptly. The complaint department is the first bulwark against both compensatory and punitive damage claims, and should be staffed, therefore, by competent people trained to recognize and handle those complaints that may lead to big trouble.

A company's hiring practices may be another source of trouble, especially if employes are handling potentially dangerous equipment in the presence of the public, or if they are involved in the manufacture of potentially dangerous equipment or food or drugs.

EMPLOYES should be hired and assigned to work with a knowledge and view of their capabilities for different kinds of work. Employes who are expected to operate machinery must be trained and supervised until it is ascertained that their work is competent.

An employer, furthermore, may ignore some action by an employe that might lead to a charge of fraud or malice. Racial relations continue to be sensitive in many parts of the country, and bodily injury might involve an allegation of malicious attack. Libel or slander may be called malicious, also.

Retail merchants face special problems in their attempts to prevent shoplifting. The employer must treat seriously any charges of employes acting improperly, and immediate action must be taken to disavow any action of an employe that is found to be improper.

Ratification of the action by the employer, or lack of any action so as to constitute ratification, makes the employer responsible for the employe's action. The employer should immediately advise the injured party that the action was unauthorized and should arrange for compensation for any actual financial damage. Remember: Delay only serves to aggravate any claim.

QUALITY control in manufacture and distribution is essential, for the automation of manufacturing processes may have increased the chances of a defective product reaching the market. A single mistake by an employe in a hand manufacturing process results in the creation of one defective item. However, a single mistake in the operation of a production line may cause a machine to produce thousands of defective items.

It may be difficult after a product is assembled to locate all of the incorrectly-made items. Inspection, control, and supervision are essential to prevent defective items from reaching the market, and to secure immediate recall if they do get out of the plant. Carelessness in this respect may be interpreted in court as reckless and wanton conduct, justifying a punitive damage award.

Legal advice is essential regarding acts that might lead to a punitive damage award. Remember that a punitive damage award is based upon some reckless, wanton, malicious or fraudulent action. Therefore, defense of a punitive damage action can be helped if the defendant shows he consulted with legal counsel about the particular actions and that procedures were carefully worked out to protect the public. Counsel can also advise whether it is possible to insure against punitive damage awards in a particular state, and can also advise regarding special precautions where insurance is not available.

SOME STATES that do not permit insurance against punitive damages as a general policy may permit a corporation to buy such insurance where it can be shown that the action involved was that of an employe and not a corporate action. Obviously, it is especially important under those circumstances that the corporation does not ratify such an act by an employe.

It was mentioned previously that some insurance companies have questioned whether the usual liability insurance policy covers punitive damages. Comments of the Arkansas supreme court are pertinent to the wording of the insurance policy: An insurance company had denied liability for a punitive damage claim, saying its policy did not provide that coverage.

The court said, "As we read the policy herein, it agrees to pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages, because of bodily injury sustained. When we consider that under our law, one cannot become legally obligated to pay punitive damages unless actual damages have been sustained and assessed, we find that punitive damages constitute a sum which the insured became legally obligated to pay as damages because of bodily injuries sustained."

The question of punitive damages should be reviewed with the insurance company to determine the company's attitude. The insurance company may agree that its policy does cover punitive damages in any state wherein such insurance is permitted.

Such an agreement should be secured in writing, and reluctance by a company to put such an agreement in writing, may indicate a tendency to deny liability if such a suit were started. The desirable situation is to have an endorsement on the liability insurance policy specifically covering punitive damages except in those states where it has been ruled to be against public policy.

ONE INSURANCE company executive, in discussing the punitive damage question, recommended that all cases involving punitive damage claims should be defended by the insurance company under a reservation on the part of the insurer as to the applicability of the policy to the punitive damage claim.

This is almost the equivalent of a denial of liability on the part of the insurer and should be so treated by the insured. The insured under those circumstances may be wise to make his own defense rather than depend upon the insurance company's defense. An endorsement to the policy specifically covering punitive damages, on the other hand, would eliminate the confusion and would clearly establish the responsibility of the insurance company to defend and to pay a punitive damage claim. ■

Labor...

Continued from preceding page

the cost of borrowing money to build production facilities has been at the highest level in many years.

How do we encourage building more production facilities? Certainly not by weakening large corporations, increasing their difficulties in obtaining capital, and increasing the problems facing management in the fields of fuel, energy, ecology, consumerism, and the four phases of government intervention in the national economy. These factors all combine to increase corporate problems in building and operating profitable production facilities. And this in turn makes it more difficult to fight inflation.

THE RESULT is not simply damaging to the financial strength of corporations, but to labor as well. From its own tough-minded, self-interested viewpoint, labor should not want to see corporations seriously weakened, for labor can get more from rich, strong corporations than from weak ones.

Labor seems to appreciate all of this. Of the eight major unions whose contracts expire this year, seven have worked out renewal contracts with total first-year wage and benefit increases in the range of 6% to 7%., increases within a reasonable distance of the 5.5% limit requested by the government.

Only one major union contract remains to be settled this year—United Auto Workers. In 1967, and again in 1970, settlement of the automobile union contract was obtained only at the price of a major strike. However, it now appears possible—even probable—settlement of this contract will be obtained on moderate terms and without a strike.

OF COURSE, part of this moderation is dictated by government pressure. Still, memory of what happened in 1967 and 1970 indicates government intervention would not have been effective in those years.

Labor's moderation this year is all the more remarkable because it has occurred despite the provocation of serious inflation. The problem of controlling inflation has been made more acute because of the food situation. Attempts to control food prices have run into a worldwide shortage, resulting in higher food prices in the United States, and far more serious consequences, taking the form of famine, starvation and death, in large areas of the world. Although the United States is protected from famine conditions, the rising food prices still seriously threaten our internal economy.

Unfortunately, the past history of negotiations between union and companies has featured conflict and bitterness. Bargaining is usually conducted in the spirit that what one side wins, the other side must lose. But is that the actual situation? I don't think so. Instead, it seems that in a serious depression, when labor does badly, business also suffers. In prosperity, when one side does well, the other side does also.

IN CONTRACT negotiations, each side should have two objectives: To increase its share of the pie to be divided and to increase the size of the pie. In attaining the first objective, the two sides must be opponents, but to attain the second objective, they must work as partners. Frequently, it is the first objective that gets primary attention. However, if both sides forget the second objective—increasing the size of the pie—they may both hurt their own interests.

There is a third objective that I will mention only briefly, and that is the degree of obligation carried by labor and management not to hurt the interests of the public. A tough-minded negotiator on either side may feel this is not something to which he should pay attention. But it might be well for even a tough-minded negotiator to consider that both sides are part of the public and may suffer if the interests of the public at large are ignored. ■

RISK MANAGEMENT NOTES

One more plea for policy clarity

By WARREN, McVEIGH, GRIFFIN & HUNTINGTON
risk management consultants
San Francisco—Newport Beach

UNDERWRITERS take great pains to spell out in their policies just what they want to say but often have a difficult time, as we pointed out in this column, May 21. Redundancy is a technique often employed, but we question whether it always serves a useful purpose. We sometimes feel that underwriters barricade themselves behind a false wall of words in the vain assumption that strength lies in volume. But when nothing is lost, wouldn't it be better to aim for simplicity? Consider the following:

- Vandalism and malicious mischief—is there any legal distinction between them? Wouldn't vandalism alone suffice?
- Care, custody and control—if a thing is in your custody, isn't it also in your care and control?
- Riot and riot attending a strike—if the first is covered, isn't the second also?
- Valid and collectible—can you imagine a policy which is collectible but not valid?

O ye underwriters! Harken to the words of Strunk and White in "The Elements of Style:" "Omit needless words. Omit needless words. Omit needless words."

There are, of course, subtle but real distinctions between synonyms, and it is often necessary in a legal document to itemize them all. But, the question is, do all these tautologies serve a recognized purpose or are they merely blind semantic flailings?

* * *

MANY PUBLIC-SPIRITED citizens serve the community by acting as directors or officers of charitable organizations. Unfortunately, some have found that lawsuits can develop out of actions or inactions taken in such capacities and that they have no liability insurance to cover such incidents.

Even a good personal umbrella policy excludes business pursuits, and such activities will probably be construed as such even though no income is received.

There is no really good answer to this problem. The most straightforward solution, purchase of directors and officers liability insurance by the organization, is best if it can be accomplished. Markets, however, are limited, and the cost may be more than the organization can handle. It may also be worth a try to ask the writer of the personal umbrella policy to endorse this activity to the coverage. He is not likely to do so, but it is possible.

If anyone knows of some effective solutions to this question, we would appreciate your dropping us a line, c/o *Business Insurance,* 740 Rush St., Chicago, Il. 60611. ■



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Judge orders reduced fees for miners' lawyers

WASHINGTON—A group of lawyers who represented between 300 and 600 retired coal miners in their successful bid for pension benefits last January have been ordered by a U.S. district court judge to reduce their fees by about $2 million.

Judge Charles R. Richey, who decided the class action in favor of the miners, termed "excessive" contracts signed by some 400 miners giving the lawyers one-third of their pensions. The judge estimated the lawyers would receive more than $2 million under the formula and ordered their fees cut to $72,221.

The fee reductions ordered affect three Washington law firms. The O'Connor, Farrell and Kennedy firm stood to collect no less than $2 million, but the order cut its take to $64,773. The firm of Heffelfinger, Schweitzer and Rabil had its expected fees of about $21,000 reduced to $4,531, and the Landis, Cohen, Singman and Rauth firm's expected fees of $8,100 were cut to $3,917.

The judge described the retired miners as "the most underprivileged and impoverished group in the nation," and, consequently, he said, they deserve "the court's protection from large claims by attorneys.

"No lawyer will retire due to this case," the judge said in his order.

THE CLASS action suit was filed on behalf of the miners after an earlier U.S. court of appeals case awarded some 20,000 retired miners pensions worth an estimated $300 million. The 300 to 600 miners involved in the later suit were not covered by the earlier ruling, because of a requirement by United Mine Workers union pension trustees that they must have worked for a particular group of coal mine operators for a full year prior to retirement.

The lawyers who represented the several hundred apparently ineligible miners had them sign what Judge Richey considered a costly fee formula before promising to secure their pensions through legal action.

THE JUDGE said he decided to void the agreements because the miners lack "the sophistication, experience and education to act understandingly and deal with their attorneys on an equal basis."

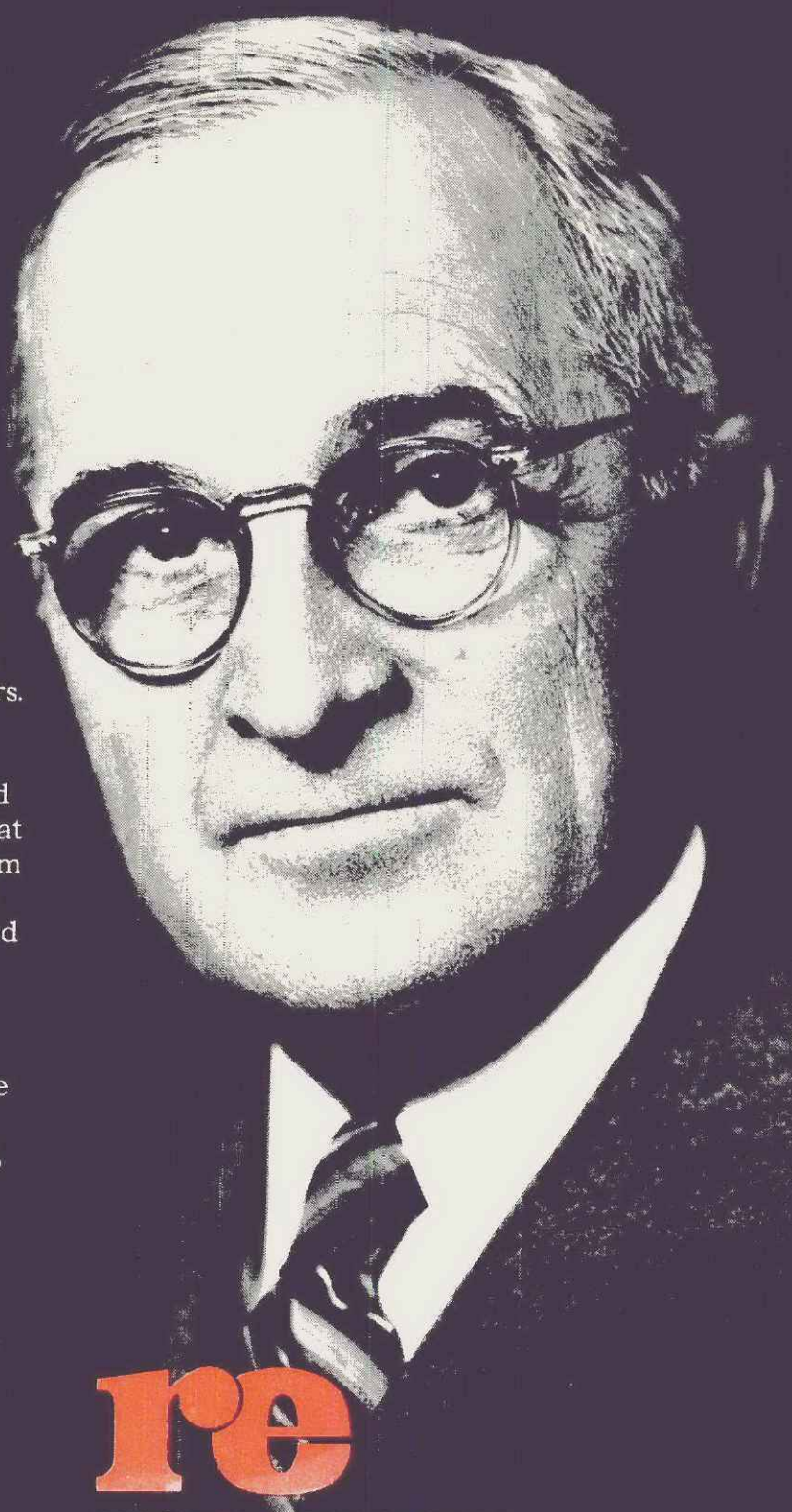
The judge ruled the lawyers should be paid at a rate of $40 for each hour actually spent working on the case. He also said their fees are to be paid through the pension fund and not out of the pockets of the miners. ■

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Drug firms lack cover

NEW YORK—American Cyanamid Co. and Pfizer Inc. are uninsured for the $35 million settlement they have agreed in principle to pay as the result of a treble damage suit stemming back to 1969.

Company officials from both firms said there was no policy covering the settlement payment because the money was connected to an antitrust move, a shady area at best as far as insurance is concerned.

"Antitrust is just not the kind of area you can get insurance for, although I'm sure that the company has covered itself with some business provision," commented Gerard Rabbett, Pfizer insurance manager.

THE $35 million settlement is to be paid 54.55% by Cyanamid and 44.5% by Pfizer, subject to approval by the plaintiffs and the court. It is the latest development in a complicated legal tangle in which five major pharmaceutical companies were accused of fixing prices in the 1950's for certain antibiotics used in animal feed and veterinary products.

Under the agreement, the remaining 1% of the $35 million will be paid by the other defendants in the case. The amount, however, applies to only one of many class actions taken against the companies by different buyers of veterinary products and animal feed. A statement issued simultaneously by both companies following the $35 milloon offer said the suits brought by agricultural plaintiffs "are likely to be settled." ■

Labor Beat ...

Continued from page 12

effort in the union's long history of pension-related victories.

The UAW in 1949 negotiated its first pension plan with the Ford Motor Co., establishing the first private pension plan covering a large number of workers and providing them with a $100 monthly benefit. In 1962, the UAW negotiated a survivor's pension benefit.

In 1964, the union won contract provisions which provided for full vesting after 10 years' service regardless of age.

The UAW push for pension reinsurance began in 1961 with a special resolution urging federal legislation to guarantee pension credits. The late Walter P. Reuther, then UAW president, termed the issue "a very serious problem" and urged Congress to consider a remedy akin to its guarantee of bank deposits.

"There must come a day when pension equity of workers is protected," he said in 1961. ■

Texas agents aren't loan arrangers, 'Fed' decides

AUSTIN, TX.—Last minute problems have cropped up with state-approved forms to be used by insurance premium financiers because of a last-minute decision by the U.S. Federal Reserve Board, according to Sam Kelley, Texas consumer credit commissioner.

The state legislature had passed a bill which had put into effect the regulation of insurance premium financing. Because the measure did not secure the necessary two-third's majority in both houses of the 63rd legislative session, there was a 90-day wait past the end of the session's close.

Maximum rates equalling the maximum rates for other consumer transactions for credit in Texas were inaugurated, as was a licensing system for financiers who are trying to charge more than 10% for their financing.

The measure also put the control of the new law into the hands of the Texas office of the consumer credit commissioner.

Part of the responsibility given the office was that of deciding which transaction forms are to be used.

"We've always assumed it was a loan rather than a sale of credit," Commissioner Kelley said. "The statement is worded to that effect. The reserve Board decided at the last minute because of the fact the insurance agent is arranging credit most of the time, then he is a 'credit arranger' for a credit sale—the credit sale of insurance."

THE AGENT would fit the definition of "credit arranger" under the truth-in-lending laws, Mr. Kelley said.

Therefore the disclosure sections of the state instruments must be credit-type disclosures as opposed to loan disclosures.

Since Mr. Kelley had considered the premium finance transactions a loan, rather than a credit sale, the forms drawn up and sent out to premium financiers has truth-in-lending disclosures such as a loan contract would.

The new premium finance law in Texas exempts insurance agents and companies which finance premiums at or below the constitutionally-approved 10% interest ceiling and doesn't require them to be licensed.

This exemption was included in the legislation to provide for the approximately 15,000 insurance agents working in the state of Texas who could be required to secure licensing if the law covered all premium financing.

The law also applies to out-of-state individuals or companies who do premium financing business in Texas. ■

Dispute waged over no-fault advertising

MADISON, WI.—A state senator and the Racine County (Wi.) Bar Assn. have become embroiled in a dispute over the bar group's advertising campaign against no-fault auto insurance.

Sen. William A. Bablitch, an attorney himself, filed a grievance with the State Bar of Wisconsin charging the Racine group with "outright distortions, falsehoods and lies."

He said the Racine bar had formed a "slush fund of $3,000 to fight legislation that is so clearly in the public good but contrary to the lawyers' economic interests."

Mr. Bablitch supports a bill drafted by a study committee appointed by Gov. Patrick Lucey, setting a threshold of $1,000 for accident claims. The organized bar in Wisconsin opposes the threshold concept.

Mr. Bablitch took issue with the Racine bar's advertising claims which said:

"You can sue the other driver only if your medical costs come to more than $1,000."

"You can't collect a nickel . . . for pain and suffering or disfigurement (unless) your medical costs came to more than $1,000."

THE STATEMENTS are false, Mr. Bablitch said, because the study group's bill allows lawsuits below the $1,000 threshold when there is serious disfigurement, serious bone fracture, permanent but uncertain injury and other special situations.

He also challenged the ads which said no-fault insurance in Massachusetts returns only about 25% of the premium dollar in settlements. Mr. Bablitch said Massachusetts no-fault returns 62% of the premium dollar to accident victims.

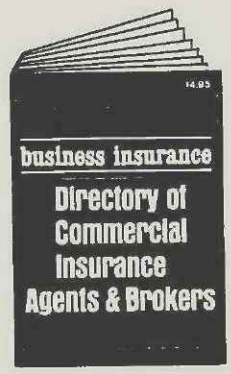
Robert Weber, president of the Racine county bar group, defended his group's advertising claims and challenged Mr. Bablitch to debate the issue "any time, any place."

Mr. Weber said: "The citizens of Wisconsin are the victims of a gigantic advertising program in which the insurance companies are creating the impression that the injured victims will be paid quicker when, in truth, fewer will be paid and they will be paid less," under no-fault laws now before the state legislature.

"The $1,000 exception probably means that about 85% to 90% of all personal injuries will be entitled only to the accident and health policy provisions, which are medical expense and wage loss only," Mr. Weber said. ■

CPCU seminars set

The Society of Chartered Property and Casualty Underwriters will hold a series of three-day sessions on agency acquisitions and mergers. The programs are set Oct. 17-19 in the Plaza Hotel in Seattle, Wa., and at the Airport Marina Hotel in Albuquerque, N.M. Oct. 21-23.



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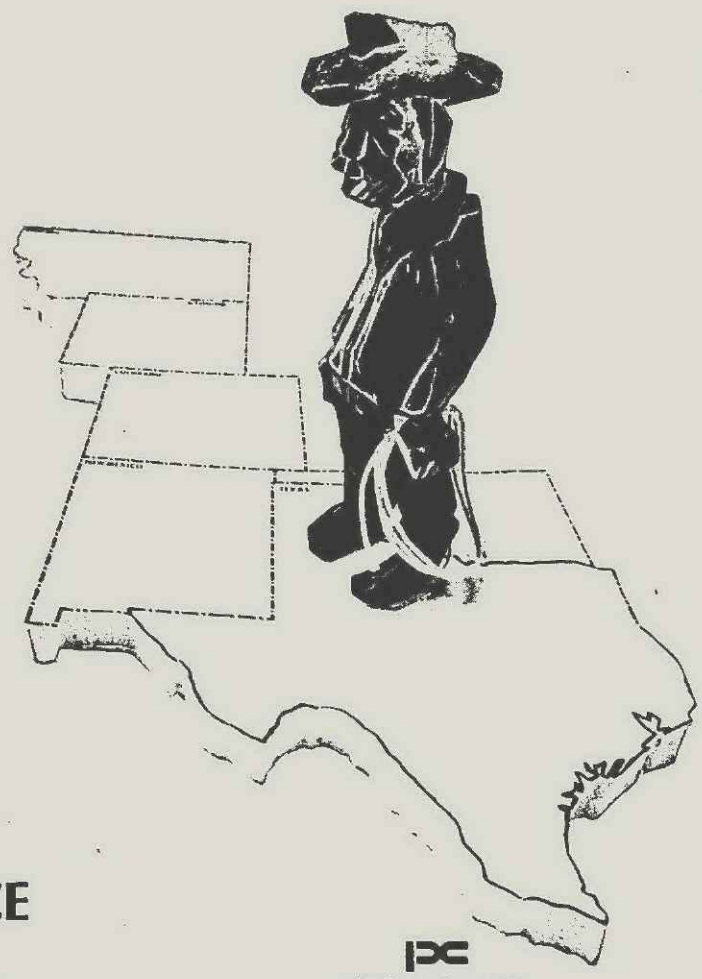
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ITT-Longuenesse woes: Even giants get burned

Continued from page 1

and other plastics contained large quantities of hydrogen chloride gas. The gas combined with moisture in the air to form highly corrosive hydrochloric acid. The corrosion and extensive damage to machinery and equipment caused by the smoke in other sections of the building resulted in the total loss of all testing equipment.

• A totally ineffective water supply: The water supply, fed through a small five-inch main to hydrants on three sides of the building, was questionable from the beginning because the public water supply, from a canal about a half-mile away had been very low due to a drought in the area. Fire fighters were seriously hampered by insufficient water pressure and volume to permit the fire to range unchecked for several hours until an adequate stream of water could be pumped from the canal.

• No sprinklers: The lack of automatic sprinklers was the chief reason for the severity of the loss. Sprinklers would have given an immediate alarm and begun extinguishing the fire instantly. Furthermore, despite the commendable promptness of the watchman, sources consider watchman service at three-hour intervals inadequate.

> "Fire fighters were seriously hampered by insufficient water pressure and volume to permit the fire to rage unchecked for several hours. . ."

As one source summed it up: "It must be concluded that in view of the large insurable valuables at the plant and the even greater consequential loss potential, an automatic sprinkler system with an adequate water supply should have been mandatory. The high fire loading and burning characteristics of the combustibles are well known to fire protection engineers in the U.S. and left little doubt that a loss of major proportions was quite possible. U.S. markets writing this type of business would have insisted on proper storage arrangements plus automatic sprinklers and an adequate water supply."

SOURCES at AFIA, one of the insurers of ITT's overseas property, sharing in the loss, told *Business Insurance* the lack of loss control did not go unobserved. Although AFIA does write non-protected risks, an AFIA official explained:

"From the underwriting point of view—to the extent that we have control—we try to avoid large buildings having large floor areas and highly combustible contents and do not have adequate protection. They should have some automatic alarm system and there should be an adequate municipal brigade nearby that has an adequate water supply."

In view of this policy and the particular situation at Longuenesse, the official says AFIA made a strong recommendation through ITT's broker, Johnson & Higgins, to install sprinklers at Longuenesse. ITT denies ever receiving such a recommendation. According to Don Frazier, a list of recommendations received in November 1971 by ITT from J&H, following an inspection of the plant by AFIA more than a year earlier, did not recommend sprinklers.

Asked about the apparent spurning of the recommendation, an AFIA official said: "The recommendation is intended to be seriously considered. We hope that in most cases it is followed. We were rather amazed that ITT didn't follow the recommendation, and we made it very clear to the broker (J&H) that we thought ITT was very ill-advised not to follow the recommendation."

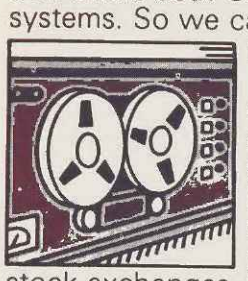
THE OFFICIAL said AFIA had counted on J&H to take "a more positive stand in stressing the recommendation from the purely protection standpoint." AFIA must rely more on brokers' cooperation than its counterparts, the Factory Mutuals and the Factory Insurance Association (FIA), which insure domestically. As the official explained: "We handle most of our business through the brokers and we do not have an opportunity to talk directly to the insured, so our recommendations are presented through brokers. We rely on them to effect compliance.'

Continued on page 82

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Freeze ordered on benefit jump

HARRISBURG, PA.—Gov. Milton J. Shapp has ordered restrictions on any pension benefit increases for state employes pending an overall revision of the state employes retirement fund. He named two separate committees to study the state pension system and report findings back to him.

The state retirement system now includes more than 100,000 workers, with some 20,000 of them already receiving pensions.

The governor said the question of adequate financing for the state pension plan needed immediate attention, and he designated a special task force on state pension reform to investigate the system. The seven-member panel will be headed by state insurance commissioner Herbert S. Denenberg.

Gov. Shapp said the task force would review both the funding and administration of the system and make its initial report before the end of the year. "I would expect that the report to be submitted by this panel would outline major problems and would suggest some basic remedial steps that should be taken as quickly as possible," the governor said.

GOV. SHAPP said he would have a more detailed analysis of the overall problem, and for this purpose he would name a special commission of economists, actuaries, state officials, legislators, state employes and others knowledgeable in the pension field.

"Hopefully, by taking this two-pronged action now, before the situation becomes more acute, the commonwealth will be able to develop whatever programs are necessary to protect the integrity of our pension funds and make certain all retired state workers receive all the retirement benefits to which they are entitled," he said.

"The information I have received is not encouraging," Gov. Shapp continued. "If we continue to make payments from the retirement fund based on the present schedule and do not increase the funding of the pension plan, we will soon face an unfunded accrued liability of more than $800 million." ■

Reinsurance facility gets 5 governors

BOSTON—John G. Ryan, Massachusetts insurance commissioner has chosen five producer representatives for the state's new auto reinsurance facilities governing board.

The facility is designed to replace Massachusetts' assigned risk plan and is effective Mar. 1, 1974.

NAMED to the board are:

Joseph I. Quinn, Taunton, past president of the Massachusetts Assn of Independent Insurance Agents & Brokers;

Richard G. Nead, CPCU, Norwood, also a past president of the MAIIA&B;

Walter A. Attridge, Boston, general agent and member of the Boston Board of Fire Underwriters;

John G. Riley, Bedford, president of the Independent Mutual Agents Assn. of New England; and;

Harold Williams, Roxbury, broker and president of the United Brokers of Boston. ■

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by Bion H. Francis

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Bion Francis brings to the subject of insurance buying and risk management a wide range of practical experience in the field. He is presently an insurance consultant in Milford, Connecticut and a frequent contributor to BUSINESS INSURANCE.

In this booklet, a reprint of a recent series in BUSINESS INSURANCE, Mr. Francis discusses such topics as competitive bidders as opposed to negotiations, methods of selecting bidders, the self-insurance alternative, the role of management, tips for the risk man when handling catastrophe situations, and others. This booklet should be part of the background of anyone who buys insurance or manages risks for a corporation.

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By JOHN W. GILES
Attorney at law

WASHINGTON—The willingness of Blue Cross to shoulder greater risks than commercial insurers has enabled that organization to obtain preferential contract terms from hospitals. Does the pressure exerted by Blue Cross to obtain such terms amount to "coercion" as that term is used in the McCarran-Ferguson Act?

The court said "No," that the McCarran-Ferguson Act exempts the Blue Cross contracts from anti-trust scrutiny, since the interrelationship of hospital payments and subscriber's rates involves the "business of insurance." The state here regulates the arrangements in question and that is amply supported by the record. The economic inducements that made the Blue Cross contract acceptable to hospitals do not amount to "coercion."

This is especially true where, as in this case, the hospitals negotiated jointly, and the resulting contract was approved by the state insurance departments. Even if the McCarran-Ferguson Act were inapplicable and Blue Cross was subject to the anti-trust laws, it could withstand such scrutiny. In negotiating with hospitals, Blue Cross has done no more than conduct its business as every rational enterprise does, i.e., get the best deal possible.

The court noted that the initiative of Blue Cross makes life harder for its commercial competitors. However, anti-trust laws protect competition, not competitors, and stiff competition is encouraged, not condemned. Blue Cross has achieved its present status in a perfectly permissible manner. The court also noted that as first suggested by *U.S.* v. *Aluminum Co. of America*,—148 Fed. 2*nd* 416, a monopoly may be thrust upon a producer merely by virtue of his superior skill, foresight and industry.

The success of Blue Cross has depended on the completeness of its coverage. It has exposed itself to considerably greater risks than private concerns and has thus made itself considerably more attractive to its customers. The anti-trust laws were not intended to condemn such conduct. (*Travelers Insurance Co.* v. *Blue Cross of Western Pennsylvania*, July 10, 1973—U.S. Court of Appeals. 3rd Circuit.)

* * *

RECENTLY, $187,750 was awarded to a young man who was cleaning a machine and lost his entire right arm when the machine activated as the result of a circuit.

The court held that Michigan law clearly provides that a manufacturer has a responsibility to make his products reasonably fit for their intended use. This implied warranty principle is applicable in Michigan without regard to privity of contract limitations.

Where there is an unreasonable risk of harm to the user of a machine which has no protective safety device, as here, the jury may infer that the machine was defective in design unless it finds that the incorporation of a safety device would render the machine unusuable for its intended purpose. A former Michigan court has said that the fundamental standard imposed on a manufacturer is to be reasonable and prudent under all circumstances. In the area of product design, he must use reasonable and ordinary care under the circumstances in planning or designing his product so that it is reasonably safe for the purposes for which it is intended. (*Grant* v. *National Acme Co.*—351 Fed. Supp. 972.)

* * *

HOW LONG must an insurer provide benefits under a health and accident policy?

Here the insurer under the policy was liable for medical expenses within a year. The action was by the insured under a medical expense policy to recover for the cost of certain treatment allegedly covered by the policy. The insurer paid the medical expenses incurred within one year. The insured now demanded payment, however, after the year expired for the cost of the removal of two metal screws.

The court decided for the plaintiff. The theory of the court was that it was known at the time the screws were inserted that removal of them was part and parcel of the surgical procedure, once they were inserted, the insurance company incurred the liability of their removal. While no case has been cited which is directly in point with the one before the court, it was the court's opinion that each case of this nature must be evaluated in the light of the particular procedures and circumstances involved. (*Atchley* v. *Travelers Insurance Co.*, Feb. 1973—489 S.W. 2nd 836.)

* * *

DOES AN INJURY sustained while attending an employer-sponsored social affair, one which arises out of and in the course of employment, permit recovery under the workmen's compensation statutes? The cases on this subject are numerous, but there are a few general rules which may serve as guides.

Since an injury sustained by an employe in this situation almost always occurs when the employe is engaged in activities outside the formal scope of his employment, the basic inquiry in all of the cases is whether the social affair is sufficiently related to the employment to justify the conclusion that the injury arose out of and in the course of the employment.

The courts inquire whether the employe was compelled, either directly or indirectly, to attend the affair. They inquire whether the employer derived some benefit from his sponsorship of the function and the extent to which the employer sponsored, controlled or participated in the activity. They also inquire whether the social affair was a benefit or consideration of the employment to which the employe was entitled. These are the primary elements to be considered in determining the compensability of the injury. Of course, where it clearly appears that the employe was compelled by the employer to attend the function, that factor is decisive in indicating that recovery should be

Continued on page 79

All Workmen's Comp policies are not the same.

The difference is people like Jerry Mulhall.

Jerry Mulhall discusses the Workmen's Comp program with Wesley Le Blanc (left), insurance manager of After-Six, Inc., and Agent Ed Johnson, Vice President of Baer Insurance Agency, Inc., in the Philadelphia After-Six cutting room.



Under TV's glaring light . . .

Continued from page 3

Insurance companies, however, took something of a beating.

Mr. Neessen pointed out most patients were not as worried as they might be about medical care costs because health insurance picked up the bulk of their tabs. At the same time, patients were not necessarily hesitant about suing a doctor for malpractice because they know the physicians are covered by insurance.

ANOTHER problem surrounding insurance was that insurance almost forces persons to go to the hospital. Pennsylvania Insurance Commissioner Herbert Denenberg said insurance should cover the policyholder wherever he might be, not just in hospitals where the costs are highest.

Walter McNerny, president of Blue Cross, commented on the other side of that coin, saying people chose to be covered in the hospital rather than elsewhere because they felt they most needed coverage while hospitalized.

"Insurance companies could have taken the leadership for change," Mr. Alvord said, adding they did not. Instead, insurers chose to sit back, pay the costs and simply raise premiums.

Another bit of programming aired earlier in the month—Aug. 20—might well have been titled "Being NBC Means Never Having to Say You're Sorry."

DR. RUSSELL Roth, president of the American Medical Assn., appeared on a 15-minute segment of NBC's Today show after a dispute over an earlier NBC Reports ended with the network granting the medical group the time to respond.

The dispute was over "What Price Health?" (reviewed in *Business Insurance*, Jan. 1, 1973). The AMA objected to a number of statements made in the program, which also dealt with the costs of medical care. The group took its complaint to the Federal Communications Commission. When the time was granted to Dr. Roth, the formal complaint was withdrawn.

Unfortunately for the AMA, Dr. Roth's appearance did little to correct what was said to be distortions in "What Price Health." The AMA head was no match for news veteran Frank McGee, who questioned him during the early morning program.

In fact, it appeared the medical profession's image sank a little lower in those 15 short minutes. When asked legitimate questions, Dr. Roth responded with platitudes. For example, when asked to comment on a report from the Department of Health, Education and Welfare which said one to two million persons suffered injuries in hospitals each year, Dr. Roth called the figures "pseudo-statistics" and mentioned "misleading statistical games."

All in all, it seemed the AMA would have been better off not complaining about "What Price Health?" in the first place. ■

Fishing ban halting fisherman's 2 incomes

SAINT JOHN, New Brunswick —Fishermen in this Canadian province are upset over a federal government ban on herring fishing which has forced them into idleness before they had a chance to qualify for unemployment insurance benefits.

The fishermen demonstrated their wrath when a fleet of 54 herring boats manned by about 400 fishermen with wives and families aboard, streamed into the Saint John harbor with horns blaring and placards waving.

H.D. Johnson, regional director of fisheries, said the ban on herring fishing was announced because Canada had caught its quota of 57,000 metric tons.

But the fishermen oppose the size of the quota, saying it is too small and charge the Russians are still fishing for herring.

THE FISHERMEN and their families, swarming up the dock, claim the situation is desperate because they had less than 10 weeks' work here this year when they were forced to tie up and thereby don't qualify for unemployment insurance benefits.

A spokesman for the Unemployment Insurance Commission said the fishermen are eligible for benefits during the off-season, which is designated as running from Dec. 1 to May 15. But in order to receive benefits covering the entire period, the fishermen would be required to make payments over a 24-week period. The spokesman said payments made over a 10 week period would provide benefits of only eight weeks.

An official of the Purse-Seine Fishermen's Assn. said if the demonstration here did not bring government action, there would be more demonstrations. "About eight of us have already been in Ottawa but next time it could be 800," he said. "We have been heard but not listened to."

About 200 purse-seiners, supporting about 1,500 families, fish in Nova Scotia and Bay of Fundy waters. ■

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Giles . . .

Continued from page 78

allowed.

However, cases of compulsory attendance are uncommon, the usual situation is that the employer brings indirect pressure on the employe to attend the function. In many cases, indirect pressure has been held to be the same thing as compulsion, and recovery has been allowed. Such indirect pressure may be found where the employer withholds the pay of employes as a penalty for non-attendance; where he requires those who do not attend to work at their regular duties or where the employer merely encourages attendance to such an extent that employes feel they are required to attend.

For a review of the cases on this subject, we would refer you to 47 AL. R. 3rd 566. ■

Broker is fined

The New York Insurance Department has fined John M. Gondek, Hastings-on-Hudson, a broker and agent, for collecting $25,622 in premium value for fire and homeowners insurance policies he had written and failing to notify the insurers he had done so. The $500 fine against Mr. Gondek was the result of activities by Mr. Gondek between 1968 and 1972.

Corporation bigwigs won't escape product safety laws, Simpson says

NEWARK—The Consumer Product Safety Act enforcers have gone right to the top as far as demanding corporate compliance to their legislation, according to Richard O. Simpson, Commission chairman speaking before a product liability prevention conference at the Newark College of Engineering late last month.

Top executives have been put on notice their firms are subject to fines and imprisonment for wanton or flagrant violation of the product safety laws, Mr. Simpson said.

"The government will not hesitate to press for fines and jail terms of up to one year against company presidents and board chairmen, the commissioner claimed.

"This obviously makes the problem of product liability control a 'total management' problem," Mr. Simpson said, and claimed in the past, the total number of injuries due to product defects are 25-30 million per year.

There is also a distinct possibility the commission can set levels of tar and nicotine levels in cigarettes so brands above those levels would be subject to bans, he revealed.

THE COMMISSION'S power's in this area, Mr. Simpson contended, are derived from federal Hazardous Substances Act. The commission currently has committee staffers working on a study to set up cigarette cotaminant standards.

Regarding firearms, Mr. Simpson admitted while the weapons are not under the commission's jurisdiction, "we could probably ban bullets under the Hazardous Substances Act."

"Where we believe a manufacturer is not moving as quickly or as effectively as required (in complying with product safety laws) we will not hesitate to issue a public warning, or take any other steps necessary and within our authority," he said.

"Where we find violations, we will provide 'motivations,'" he continued. "One of these 'motivations' is criminal penalties, which can run as high as $30,000 in fines or a year in jail." The act also provides civil penalties against companies.

ONE SECTION of the law, Mr. Simpson noted, requires manufacturers and sellers to notify the commission of any substantial product failure of which they are aware.

He said he is "personally inclined" in a criminal proceeding to seek out the board chairman or the corporate president, in addition to other officials, because he believes they are in the best position to assure corporate compliance with CPS regulations.

The conference was part of a gathering of the New York State Assn. of Trial Lawyers as lawyers. Mr. Simpson charged his listeners to be mindful that an entire industry can be held responsible for a harmful product if a single manufacturer or the original identity of a harmful product cannot be determined.

As a precedent-setting case, he cited a recent decision where a blasting cap, destroyed in a premature explosion and killing a worker, led to a court's deciding an entire industry was liable for harm, since no evidence was left on which liability could be determined.

"Caveat venditor" has replaced "caveat emptor" not only as to the seller manufacturer and middleman but as to trade groups and joint enterprises," he indicated. ■

Civil service pregnancy rules relax

ALBANY—A new benefit baby was born here when the state civil service commission here took steps to liberalize maternity policies for state employes. "A pregnant employe may now continue as long as she feels able to perform her duties," declared commission president Mrs. Ersa H. Poston.

While the main thrust of the benefit lies in its lengthening of time a pregnant employe may work, it also adds and subtracts a few employment conditions which traditionally have irked expectant mothers.

THE NEW rules abolish the requirement a woman must notify her supervisor of a pregnancy by the end of fourth month. They permit a woman on maternity leave to use accumulated sick-leave credits without a department head's specific authorization. They also extend the permissible unpaid maternity leave to two years instead of one, and in some instances grant half pay for accumulated time due while on maternity leave.

The new changes, which were timed to coincide with the national observance of Women's Rights Day last month, have pulled New York into line with the requirements of the U.S. Equal Employment Opportunity Commission.

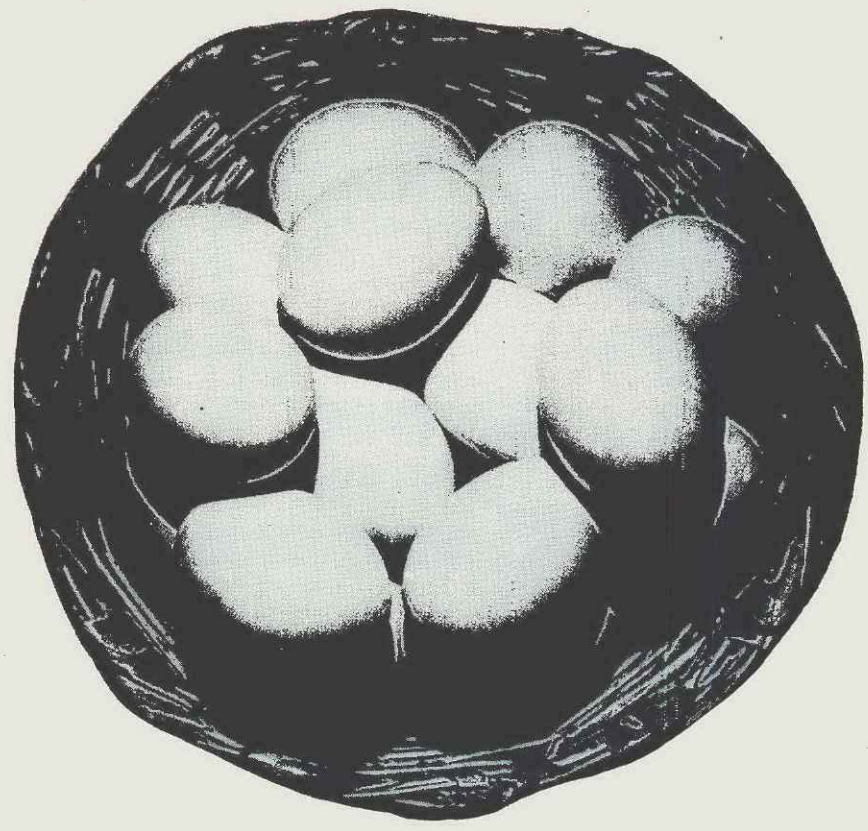
Under the old rules a supervisor in a state agency had the authority to order a pregnant employe to go on leave when in the supervisor's judgment "the interest of either the agency or the employe would be best served by such action."

Although the trend has been away from arbitrary dismissal of pregnant women who wanted to continue working, the new rule will effectively prevent the occurrence for good.

MRS. POSTON explained, "We have amended the rules and regulations to insure fair and equal treatment for women who are able to work although they are pregnant."

An official in the civil service department pointed out the liberalization of maternity benefits "will most affect younger women—those younger women who have not piled up a lot of leave time, who don't get big salaries and want to work until the last minute."

About 73,600 of the state's 160,000 employes are women, according to figures from the civil service department. No figures were available on how many state employes take maternity leaves. ■



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a bad egg by its shell—

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Savings beget more benefits in group dental plan

LOS ANGELES—Reductions of unnecessary or excessive dental treatment in a laborers' union group dental health care program returned nearly $140,000 in improved benefits the first year of the plan, *Business Insurance* has learned.

The plan, dental portion of the Laborers' Health and Welfare Trust for Southern California, is a self-insured and self-funded dental plan administrated by Fund Administrators in Los Angeles and supervised as to quality control assessments by United States Administrators in Beverly Hills.

According to a spokesman for USA, the savings for the year ending June 30, 1973, were passed on to 19 member locals as benefits, which include:

- Elimination of a $25 per family deductible;
- Two increases in the table of allowances benefits;
- An increase in the program's individual yearly maximum from $600 to $1,000;
- An increase in the prosthodontics benefits from 50% to 100%.

The plan, according to the spokesman, reimbursed $.82 for each dollar paid a dentist during the year. After the first six months, a $25 family deductible was eliminated by fund trustees, due to savings generated by the plan.

Effectiveness of the plan has been based on total contributed benefits (by building contractor trade groups bargaining for southern California construction firms) of $2,190,866 and total dental fees of $2,670,201. The average claim cost was $125.70 and the average benefit paid per claim was $103.13.

According to USA, of the treatment plans submitted for pre-authorization of dental services, approximately 24% required some change. Three times as many decreases in cost estimate (18%) were recorded over the 6% increase factor.

For the $139,065 net savings, treatment plans were reduced $151,884.50 to a $12,819.00 increase in treatment.

REDUCTIONS in the treatment, according to USA, most recently came in the form of non-authorization of functionally unnecessary fixed bridgework, which accounted for 14% of the treatments changed. An additional 12% was the result of reducing the number of unnecessary scalings of teeth.

Other reductions included:

- Unnecessary full dentures;
- Unnecessary partial dentures, consisting mainly of single-tooth removable bridges;
- Unnecessary extractions, pulp caps, and crowns.

In the upgrading of treatment plans, which amounted to 6% of the increase, the following categories were included:

- "Missed" fillings;
- Crowns instead of fillings;
- Fixed bridges instead of partial dentures;
- Root canal therapy instead of extractions;
- Partial dentures instead of full dentures.

One of the most significant findings in the Laborers' year end audit was the non-authorization of full dentures in 5% of the treatment changes.

ACCORDING to USA, preventing these patients from becoming what the field of dentistry calls "edentulous", that is, without any teeth and what USA calls "dental cripples," alternative treatments, which consisted mainly of partial dentures, were recommended.

In three-fourth's of these cases, a full lower denture, considered by dental authorities as the ultimate crippling effect of dental neglect or poor dental judgement, was avoided.

A fuller analysis of the laborers' first year results is currently underway, according to S.X. Kaplan, USA's president. The study will break down individual increases and decreases in treatment plan operations.

According to laborers' fund trustee chairman James H. Crowell, "The report shows above all that our eligible employes and their families are receiving first-rate dental care at minimal cost . . . It also shows savings are passed on as additional benefits. They don't go to the dentists and they don't go for administration." ■

How the savings are made for members

In a typical case regarding the administration and control on the Los Angeles Laborers' Union dental plan, a union member happened to have dual coverage as a result of another family member being covered by a dental policy.

A primary carrier had paid a dentist $1,000 of a $1,700 bill covering nine crowns and four bridge pontics as well as a number of other less costly services. Because the United States Administrators were secondary carriers, they didn't see the original treatment plan.

The dentist applied to USA for the remainder of the $1,700 and USA's evaluators, while performing a routine check of the post-operative diagnostic x-rays, observed defective crown restorations in two teeth. This condition was brought to the attention of the dental consultant.

July 5, USA sent a letter to the dentist seeking the secondary reimbursement by USA consultant Dr. Jay W. Friedman, in which the defective work was pointed out and informing the dentist his $700 would be forthcoming as soon as the defective work was corrected and satisfactory post-operative x-rays were submitted.

The case hasn't been settled, according to a USA spokesman, but the point is clear the primary carrier paid the first $1,000 to the provider without checking the quality of the work.

The USA spokesman claimed, had the primary carrier gone through his firm's extensive checking procedures, there is a good possibility some of the original claim could have been saved and the need for considerable additional cost to redo or replace the teeth could have been avoided.

Computerized banking could harm insurance

LAS VEGAS—Insurance companies must compete more aggressively or they will be driven out of business by other institutions offering insurance among a variety of other services, Tom White, former director of the Nevada division of consumer affairs, warned.

Mr. White, now a professor of economics at the University of Nevada, Las Vegas, made the statement in a speech to the Nevada Chapter of the National Assn. of Life Underwriters.

"THE computer's got you," said Mr. White. "In Pennsylvania you can already make a deal by which your home utility bills will be automatically paid from your bank account."

"My military retirement pay is already paid without a check actually being written. Within the next few years banks will automatically be borrowing money to put in your account when you overdraft and when you have an excess they will automatically invest it in a preselected portfolio of stocks, "he told his audience.

He said, "If they're able to do this, how long is it going to be for them to crank in risk management and trim the business?"

BUT, he continued, the insurance companies could prevent that, by themselves becoming family financial consultants."

"After all," he said, "you're better equipped in many ways. You know the people, the family, on a personal basis."

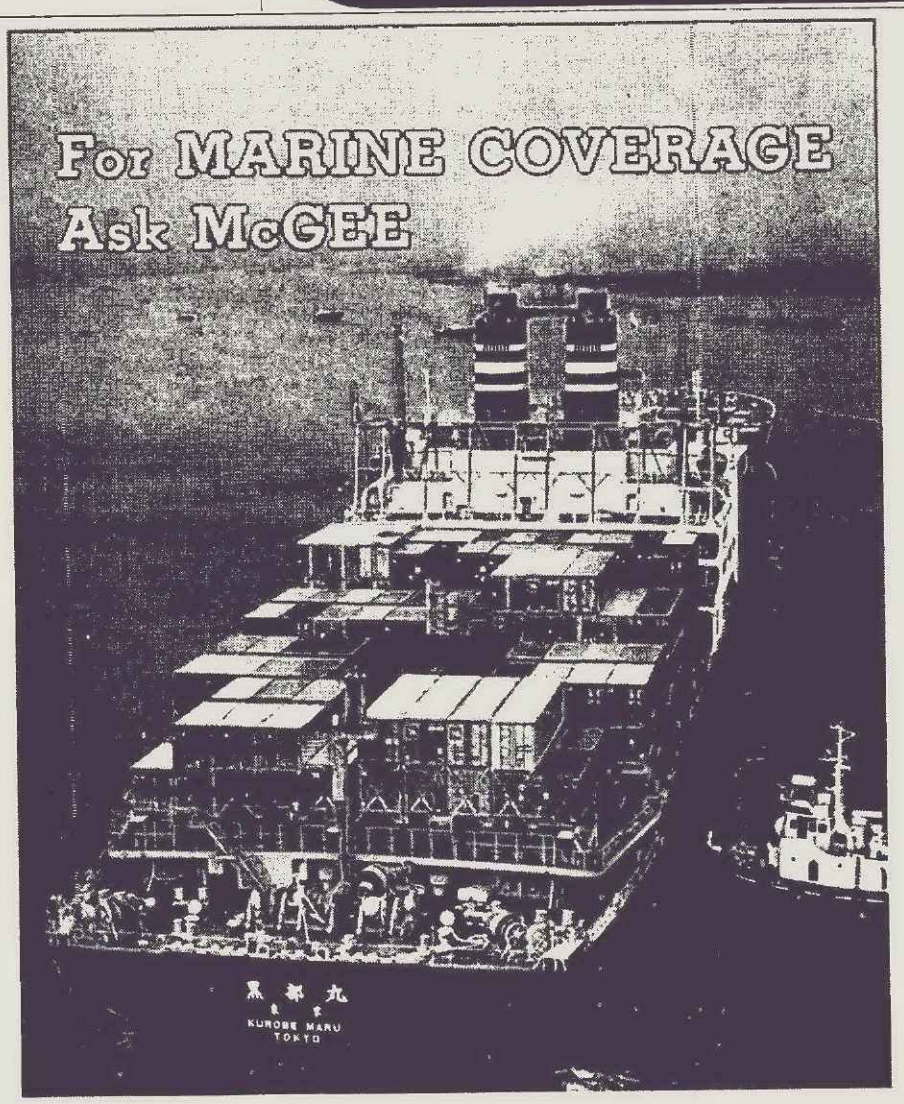
He also warned the underwriters that "consumerism is here to stay" and will attack any corrupt, or uncompetitive industry, or one with which an ordinary citizen cannot deal.

"Your policies are so complicated now that nobody understands them . . . there was a bill in the legislature of Nevada to require you to print a book with each policy to explain it," he commented. ■

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ITT-Longuenesse woes: Even giants get burned

Continued from page 76

Contrasting sharply with the HPR (high protection risk) markets here in the U.S., AFIA is unable to demand compliance with fire protection standards. There are different market realities to cope with, pointed out the AFIA source. "We try," he said, "to restrict our commitment on a property like Longuenesse, if it isn't sprinklered after we have made the recommendation. However, that's if we feel in a position to do so. We have to live with market realities, so that we are not so inclined to say, 'If this isn't sprinklered, we're not going to insure.'" The reality is that the Longuenesse plant is part of AFIA's worldwide ITT account —one of the largest on its books.

Another market reality is the fact that AFIA was not the only underwriter and did not have a commanding position in the underwriting consortium led by the French carrier, Assurances Generale de France. Although, said the AFIA official, "We tend to approach our underwriting of a risk as an American underwriter would, we're operating under a dual standard. Because of the peculiarities of the French market, we have to modify our American outlook by what's going on in that market. The French market sprinklerization and we were able to get reasonable rates. The insurance was available, the risks were mounting and we were getting additional insurance. As long as we were able to get complete coverage, we were ready to rely on that."

COMBINED property and business interruption coverage for ITT's worldwide accounts, excluding the U.S. and Canada, was provided in 1966 by a pool of U.S. carriers, including AFIA, AIU, Continental and INA. By mutual agreement among the underwriters, ITT and its brokers, policy limits were set at $25 million and a $25,000 deductible in all countries except Argentina, Chile and Peru where limits of $5 million were imposed. In France, specifically, the consortium shared 50% of the risk with the French market, which had originally covered ITT facilities there.

For the U.S. pools own protection, Continental, on their behalf, approched the London market for reinsurance. On Sept. 1, 1967, the London market committed itself to $20 million on any loss in excess of $10 million. Lloyd's participation was a $10 million limit—half the total London placement. (Ironically, a Lloyd's surveyor dropped by the fire, was equipped with sprinklers. Then ITT flung itself into the business of plugging up the holes in its property protection program. Six months after the fire, a loss prevention committee, including experts from AFIA, Hartford Fire, and the Factory Mutuals, was set up to help ITT with a major review of its European facilities and their protection requirements. Accordingly, said Mr. Frazier, "W ehave assessed every major risk in Europe—over 100 plants. Working with our carriers and with our brokers, we have made a judgment as to whether sprinklerization is an appropriate means of protection. As a consequence, an awful lot of sprinklers are going in all over the Continent. In most instances, we are going to the HPR level."

Another result of this corporate fact-finding is that all levels of management participate in the new overall corporate property insurance program.

PRIOR TO the Longuenesse loss, ITT's local offices on the Continent had been, for all practical purposes, autonomous. Minimal reporting procedures required only assets and business interruption be covered by adequate insurance policies. Annual reports from foreign divisions revealed only information on premiums paid and loss information. Otherwise, New York never presumed to impose its will over the locals. If a broker or carrier recommended fire protection quite candidly, "In retrospect, relying too heavily on insurance coverage alone is not a good idea because you never win having a fire, even collecting insurance. That's almost axiomatic."

The new Longuenesse plant, rebuilt in a record 90 days after the fire, was equipped with sprinklers. Then ITT flung itself into the business of plugging up the holes in its property protection program. Six months after the fire, a loss prevention committee, including experts from AFIA, Hartford Fire, and the Factory Mutuals, was set up to help ITT with a major review of its European facilities and their protection requirements. Accordingly, said Mr. Frazier, "W ehave assessed every major risk in Europe—over 100 plants. Working with our carriers and with our brokers, we have made a judgment as to whether sprinklerization is an appropriate means of protection. As a consequence, an awful lot of sprinklers are going in all over the Continent. In most instances, we are going to the HPR level."

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ITT, at the time of the Longuenesse fire, was a good example of an East Coast corporation with years of experience abroad and very independent local offices. That is why ITT enticed Don Frazier away from Allendale Mutual Insurance Co. to be director of corporate insurance. Mr. Frazier's job was to revise the administration of the conglomerate's insurance program and pull together the protection of ITT's physical assets. Local autonomy, with respect to fire protection, was, in effect, cancelled.

"Any capital expenditure of $100,000 or more, or plant expansion of the same magnitude," said Mr. Frazier, "requires prior review and approval by the insurance department here." Every plant was to be equipped with storage facilities according to fire rules, and to be sprinklered to U.S. standards. "Any deviation," declared Mr. Frazier, "must have the specific approval of the president and chief operating officer of ITT." ■

> "Observed the AFIA source, 'Neither the French companies nor the French assureds are overly interested in protection. French carriers would never greatly increase capacity on a risk because it was protected.'"

> "The background of the Longuenesse fire is a good illustration of why brokers complain that communication is their biggest headache. . ."

as such was fully committed on the ITT risk."

Figuring heavily in the fact the plant remained unsprinklered but insured was the French attitude to loss control. Observed the AFIA source, "Neither the French companies nor the French assureds are overly interested in protection. French carriers would never greatly increase capacity on a risk because it was protected."

FIRE protection engineering is in embryonic stages outside the United States and the United Kingdom. Before five years ago, not even the U.K., home of insurance, took loss prevention seriously, partly because the cost of protection took such a long time to amortize. In Europe, where no counterpart to the Factory Mutuals and their type of operation exists, fire protection as a concept has little credibility. The cost of sprinklerization is considerably higher than in the U.S., and there is no real concomitant lowering of the premium when sprinklers are installed. In fact, European carriers have contended sprinkler systems pose an unnecessary water hazard. To prove their point, Europeans complacently wave an excellent loss record, which only began to tarnish after the appearance, five to six years ago, of high production quotas and combustible plastics.

While ITT's decision not to sprinkler the Longuenesse plant seems incongruous with the conglomerate's management sophistication, the decision on the surface appeared correct and proper. The decision not to sprinkler never disturbed ITT's relationship with its insurers, so ITT was able to procure sufficient coverage.

Said Lyman C. Hamilton Jr., ITT's treasurer: "The carriers at the time were not insisting on Longuenesse plant the day before the fire.)

Although a Longuenesse settlement came to a hefty $36 million, the underwriters were only mildly ruffled. The claim accounted for about half the reinsurers' $20 million excess limit, with Lloyd's sustaining a proportionate loss of about $5 million. The losses suffered by the French and U.S. underwriters were mere scratches.

With various types of reinsurance to protect them, the losses suffered by the other underwriters from the fire hardly phased them. The largest loss, shouldered by the French leader, was only 5% of the risk. As for AFIA, one official commented, "We've had much smaller losses hit us harder."

> "But ITT's new risk manager, who brings with him an impressive loss control background, does not buy the Europeans' casual approach to fire protection."

DESPITE a "generous settlement", the loss left an indelible imprint on ITT's future approach to protecting its overseas risks. Says an ITT official, "Piece parts were coming into that plant from all over Europe and were being marshalled there, so it was a key point and a very unfortunate one to go up."

But ITT's new risk manager, who brings with him an impressive loss control background, does not buy the Europeans' casual approach to fire protection. Nor do ITT officials any longer. Comments Lyman Hamilton measures to the home office, he was told to take the recommendations directly to the local management. Since local offices usually adhered to the local prevailing views on fire protection already described, those recommendations were inevitably rejected. Said an AFIA official, "You are not going to get fire protection abroad unless (1) it is an American company, and (2) that company demands that its local management follow the recommendation."

THE background of the Longuenesse fire is a good illustration of why brokers complain that communication is their biggest headache in inducing U.S. companies to adopt reasonable

classified advertising

SAFETY ENGINEER — Marshall Durbin Companies, a vertically integrated poultry production firm headquartered in Birmingham, Alabama, with operations in Alabama and Mississippi, has an opening for a safety engineer. Company currently has 1,375 employees with expected addition of 200 next year, and 240 automotive units. Applicant should have experience in workmen's compensation and fleet engineering. Send resume and expected salary to Irby Sellers, Marshall Durbin Companies, P. O. Box 6775, Birmingham, Alabama 35210.

PLACER/UNDERWRITER
Insurance agency located in metropolitan Milwaukee, Wisconsin is seeking Placer/Underwriter who will be responsible for the placement of industrial and commercial client property, liability and fire insurance. Conscientious, well-organized, administratively oriented person with previous underwriting or placement experience is required. Continued education in C.P.C.U. is desirable. Excellent salary and fringe benefits. All inquiries held in strict confidence.
Box 392, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

$2,500.00 REWARD
A reward of $2,500.00 will be paid to any person whose information leads to purchase of a Fire & Casualty Insurance Agency in the Los Angeles, San Diego or San Francisco areas. (Reward of $3,000.00 if Agency located in San Fernando Valley). In the event of duplicate leads, the letter with the earliest postmark will earn the reward.
All replies confidential—Reply:
Box 390, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

GET RESULTS HERE

HOME OFFICE STAFF AND FIELD POSITIONS with leading, independent property-casualty consultants. Degree, CPCU, broker or risk management experience helpful. Resumes with earnings history and references confidentially treated.
Box 394, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

CORPORATE INSURANCE MANAGER
This multi-plant NYSE corporation ($200 Million sales) is seeking professional with minimum of 5 years experience in all phases of insurance such as property, casualty, group life, administration of self insured and retrospective plans.
Preferred candidate will possess a college degree or 2 years college with insurance courses (CPCU, etc.)
We offer excellent salary, fringes and an opportunity for personal and professional growth.
Please send brief resume, in confidence to R. D. Williams.
P. R. MALLORY & CO. INC.
3029 East Washington Street
Indianapolis, Indiana 46201
An Equal Opportunity Employer

OKLAHOMA
Oklahoma Agency seeks product to Sell & Service in Oklahoma. Product should be different or competitively priced.
Write:
FIRST OKLAHOMA INSURANCE AGENCY
501 First National Center
Oklahoma City 73102

ATTORNEY - BONDING
New York. Industry trade association seeks attorney with minimum of 3 years fidelity bonding experience in Legal, Claim or Underwriting Departments. Will have primary responsibilities in drafting fidelity contracts. All benefits. Salary commensurate with experience and qualifications. Send resume to
Box 388, BUSINESS INSURANCE
740 Rush St., Chicago, Ill. 60611

FIRE PROTECTION ENGINEER

A large, regional insurance brokerage firm is currently seeking an individual to fill the position of fire protection engineer.

We require someone who is familiar with fire rating procedures. Knowledge of property appraisals and some experience in casualty safety engineering beneficial.

A minimum of 5 years' experience is necessary. Salary will be commensurate with experience. We offer an excellent employee benefits program.

Please submit detailed resume in confidence to P.O. Box 7669, San Francisco, California 94120.

An equal opportunity employer.

Back in 1917, we pioneered aircraft insurance in the U.S.

Today, we offer the most comprehensive corporate coverage available.

Royal-Globe created the first policy in the U.S. covering aircraft against loss by fire on land or in the air 56 years ago.

Today, we are recognized as leaders in corporate aircraft insurance. Through such innovative policies as AIRSHIELD—the *only* policy tailored exclusively for professionally piloted corporate aircraft.

AIRSHIELD gives you the most comprehensive corporate aircraft protection available in the industry.

We are not a "pool" operation. Our financial strength and underwriting capability mean you deal only with Royal-Globe.

Our U.S. network of 115 claim offices, plus hundreds of Royal-Globe offices in more than 80 countries, assure you of prompt, efficient, professional service. Worldwide.

If you'd like to know more about the leverage you can expect from a Royal-Globe agent in all areas of corporate protection, ask him.

Royal-Globe Insurance
World-wide shield
Against the unexpected.

ROYAL-GLOBE INSURANCE COMPANIES
150 William Street New York, N.Y. 10038



"Loss runs could help my company more if they'd point out which locations are having which types of losses. How would Allstate handle that?"

We'll give you accident reports, by type, for each of your locations, if that's what you need.



Next time an Allstate Account Executive calls on you, make sure you talk to him. He's experienced and can tell you about the innovations we're bringing to commercial insurance.

Like Allstate's computerized operation and advanced way of doing things, they usually mean better, faster service to our customers. That's often how we get them as customers in the first place.

Insurance is as competitive as your business, so we capitalize on our advantages.

Extra hustle. An aggressive, just-let-us-quote attitude. A management that thinks an insurance company's service should bend to suit the customer. And the largest full-time staff of claims specialists in the business.

And the price? That's right—very competitive.

But don't take our word for all this. When our Account Executive shows up, put him to the test.

Ask him to quote.

Allstate®
BUSINESS INSURANCE

Available in most states.