'Creativity' urged to avert product liability claims

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Lloyd's, U.S. government share hull coverage on bombed 747

NEW YORK—The Pan American 747 that was blown up in Cairo, Egypt, by Palestinian commando hijackers is likely to be covered under a war risk policy written in the London market and by the Federal government under a program of war risk indemnification for airlines flying the jumbo jets internationally, *Business Insurance* has learned.

While confusion existed over just how the claim might be handled and the interpretation of the war risk policy, here are the hull insurance facts:

• As recently as six weeks ago, the Federal government, through the Department of Transportation, began writing war risk indemnification on certain aircraft operated by Pan American and Trans World Airlines in the Middle East area.

• The Federal government stepped in after Trans World and Pan American had pleaded that the London insurance market would accept only 60% of the hull risk on any 747 that might be involved in an act of war. The government is now assuming 40% of those risks.

Pan American's claim on the 747, which was ripped by an explosion and completely destroyed by fire shortly after the 155 passengers were evacuated at Cairo airport, is the largest ever filed for a single aircraft. The $24.5 million loss is more than double the $12.2 million paid Air Canada for the loss of a DC-8 near Toronto on July 5.

THAT LOSS, believed to be the largest until then, was covered by Associated Aviation Underwriters (*Business Insurance*, July 20).

The confusion that existed was largely a result of the question of what constitutes an act of war.

"Although underwriters are not calling this one an act of theft or vandalism, there still exists a tremendous amount of confusion over just what constitutes an act of war in the Middle East," one aviation source said. "There is no real clear-cut way around it. You just have to sit down—the insured and the insurers—and hammer out a mutually agreeable interpretation."

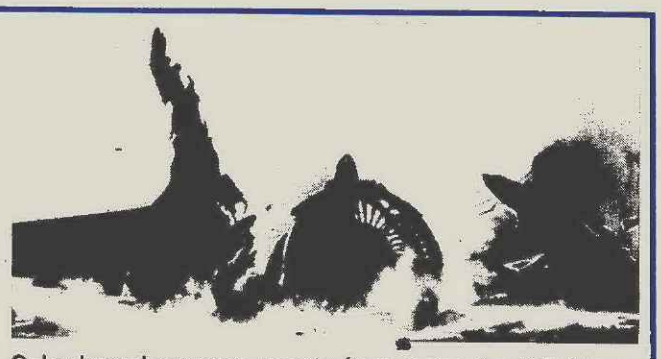
The source said that he, personally, would have to call the attack on the plane an act of war.

"**IT WAS PART** of a well-organized plot and there's no question in my mind that it is an act of war," he said, referring to two other hijackings that occurred within hours on the same day. The fates of a Swissair DC-8 and a Trans World Airlines Boeing 707 that had been hijacked and flown to a desert landing strip in Jordan Sept. 6 were uncertain at midweek. Officials on a fourth plane involved in the apparent plot foiled a similar hijacking on a New York-bound El Al airliner the same day.

The most recent incidents recall two others that occurred earlier as a result of the conflict in the Middle East. Both have involved the London war risk insurance market, although one of them is still unresolved.

Late in 1968, when Israeli commandoes raided the Beirut airport and destroyed most planes there, Lloyd's of London and other British insurers paid a $17.4 million claim to Middle East Airlines, which had lost eight planes in the raid. In considering the raid an act of war; however, insurers denied payment to other lines, such as Lebanese International and Trans-Mediterranan, which did not have war risk coverage.

Continued on page 2



Only charred remnants remain from a Pan Am 747 blown up by Palestinian commando hijackers in Cairo, Egypt. It is likely to be covered under a war risk policy in the London market. —Wide World photo

Skyjack foilers?

NEW YORK—"It was obviously a professional and well thought out job. How in the world are you going to stop such a thing, short of making every passenger strip to his skivvies before boarding?"

Such were the sentiments of one airline risk manager regarding the sudden popularity of hijacking airplanes.

A Pan American Airways security official looked at hijackings with a tough attitude. "It's not fair," he said, "to say we're just going to keep turning airplanes in the direction the hijackers want them to go."

A spokesman for the Airline Pilots Assn. International said, "Governments are finally starting to realize that it's going to take a concerted effort to put a stop to this kind of thing."

MOST PERSONS involved in airline traffic agree that armed guards were probably not the answer. "Armed guards," the pilots' association spokesman went on, "are our third and fourth lines of defense. The best way to stop any airborne crime is on the ground."

Continued on page 2

Wisconsin fund may be in its death throes

MADISON, Wis.—The University of Wisconsin bombing here last month could be the end of the state property insurance fund. Although the fund may be liable for only half of the estimated $6 million loss to the Madison campus, it still may not be able to pay. The state fund's 1969 surplus was $3,159,058 and that amount may not cover losses now outstanding and the possibility of further losses on Wisconsin campuses in the upcoming months.

A legislative proposal that would abolish the present system of insuring Wisconsin's public institutions of higher education has been submitted to the insurance laws revision committee, a subcommittee of the state's legislative council, by Spencer L. Kimball, dean of the University of Wisconsin Law School and project director for the committee.

The state fund is low as a result of legislative appropriations throughout the years to help Wisconsin balance its budget. In 1960 the fund had a surplus of $5 million, B. E. Hogoboom, division chief of the insurance fund, told *Business Insurance*, but by 1965 the legislature had drained off $11.5 million. In 1967 the surplus was dropped to $2 million when $3 million was transferred to the general fund.

"**THE MADISON** loss could well be $6 million," Mr. Hogoboom said, "but not all of it is covered by the state insurance fund. University officials included such losses as professors' research work, computer programs that did not belong to the school and extra pay for the increased security force in the estimate. The fund is not responsible for these things. I'd be surprised if the fund was liable for more than half the loss."

On Feb. 7 of this year Main Hall at Wisconsin State University, Whitewater, suffered a $1,057,500 fire loss. "We have forfeited the major part of what we'd receive from the state insurance fund for the fire loss," said Ted Kuether, of the school's board of regents in Madison. The claim reportedly will be settled for about $260,000.

Wisconsin law provides that any amount of loss over the amount of surplus in the insurance fund must automatically be paid from the general fund. ■

GM, UAW tilt over benefits in talks

DETROIT—In its bargaining proposal to the United Auto Workers, General Motors is seeking to trim its employe benefit costs in two major ways. One would have the auto workers share in future increases the company will have to pay for hospital, surgical, medical and drug coverages, including increases that are expected to total $76 million a year beginning next month. The other would eliminate some duplication of benefits.

Meanwhile, the UAW—only days before the strike deadline—presented new fringe benefit demands to General Motors and Chrysler Corp. that included an increase in basic pension rates of $8.50 to $9 a month for each year of credited service; a $3-a-month pension increase for retirees; a "30-and-out" pension of $500 to $550 a month and a company-paid dental plan.

"Based on past experience, there may be further increases in contribution rates for the 12 months commencing October, 1971, and for the 12 months commencing October, 1972," GM said.

Bond will partly offset $30 million Swiss loss

LOS ANGELES—United California Bank, the fifteenth largest U.S. bank, is covered under a blanket bond in excess of $5 million, written for the Western Bancorporation, owner of the LA-based bank, by the Fidelity and Casualty Co. of New York.

Frank L. King, chairman of the board at United California, indicated that the bank's insurance coverage was expected to help offset a recent loss of an estimated $30 million suffered by United California's Swiss subsidiary, United California Bank of Basel, A.G.

The United California Bank's coverage is a standard bankers blanket bond. Such a policy includes coverage of fraudulent and dishonest acts by employes, forgery in securities and depositors' accounts. Although Mr. King's allusion to expected insurance compensation indicated some misdealings at the Switzerland financial institution, no details of the suspected cause of the loss were made available.

UNITED California Bank (with current assets placed at $5.76 billion) acquired a 58% interest in the Swiss Bank in May 1969, at which time the foreign bank's assets were listed at $60 million. If the preliminary estimate holds up, it would mean that the moderate-sized bank (by European standards) has sustained a loss of nearly half of its assets.

While the estimated loss at the Swiss bank was considered substantial, it is hardly thought to endanger the assets of its U.S. majority stockholder. (Under Federal Reserve Board regulations a domestic member bank cannot invest more than 25% of its assets in a foreign operation; however, this was not thought to have been exceeded by United California Bank in this case.)

Western Bancorporation, a multi-bank holding company, reported a net income for 1969 of $64 million. Mr. King revealed that he had already authorized a plan to be put into operation by management that would provide sufficient monies to prevent any losses to either the creditors or the depositors of the United California Bank of Basel, A.G.

He pointed out that an audit of the Swiss operation was in process to determine the exact amount of losses. ■

Inside story of 'Project GM' plan to be told at B.I.'s Idea Workshop

CHICAGO—The inside story of Project GM—apparently the impetus behind General Motors' move earlier this month to set up a public policy committee charged with the job of advising the full board on matters of social responsibility—will be a featured presentation of the first annual *Business Insurance* Management Idea Workshop.

The workshop will be held at the Regency Hyatt House in Atlanta Oct. 11-14.

Phil Moore, executive director of Project GM, will tell participants how his operation waged a proxy fight in support of several "public interest" resolutions the group proposed for adoption at GM's annual meeting last spring.

Mr. Moore sought the support of corporate pension funds, mutual funds, insurance companies, college endowment funds and other such trusts owning GM shares in his fight to get the giant auto company to establish an independent committee to evaluate whether the firm's actions were in the public interest.

ALTHOUGH THE GROUP lost the proxy battle by a considerable margin, it apparently has won the war. GM announced this month that it was forming a "public policy committee" composed of five GM directors.

James M. Roche, chairman of the world's largest auto maker, said that he expects the actions of the committee members "will demonstrate their understanding of General Motors and its industry, their awareness of the expanding role of business in society and their comprehension of the responsibilities of the board of directors, who are charged with the successful operation of the business."

The social responsibility of corporations in the '70s—and how such a stance can help companies avoid major new forms of liability in such sensitive areas as pollution control, minority hiring programs and product quality and safety—will be a major theme of the *Business Insurance* workshop.

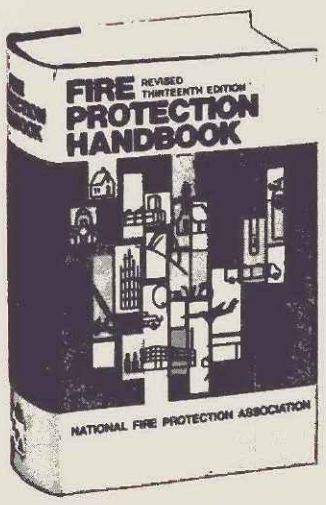
Featured speaker of the conference will be Herbert D. Smith, vp of public affairs of Uniroyal Inc., New York, whose topic will be "Social responsibility: Your best insurance in the '70s." Mr. Smith will outline Uniroyal's activities in social areas and tell why he believes the company's positive responses in these areas will lower Uniroyal's threshold of liability.

Also serving on the workshop's faculty of more than 30 experts are John G. Veneman, undersecretary, Department of Health, Education & Welfare, who will outline what the government is doing to hold down the spiraling costs of medical care; and Reuben H. Robertson of the Center for the Study of Responsive Law, and right-hand man to Ralph Nader, who will tell what to prepare for in the aroused consumer movement.

During the three-and-one-half day workshop program they and the other faculty members will bring registrants up to date on new ideas for handling corporate insurance, employe benefits including pensions and profit sharing, safety/security and financial services. (To date, enrollments for the workshop have been received from executives ranging in title from president and partner, to vp, secretary-treasurer, director of personnel, manager of corporate insurance, and manager of employe benefits.)

The $250 fee for the workshop covers participation in all sessions—there are 27 altogether—five meals and a complete workbook. Accommodations at the Regency Hyatt House, which are not included in the fee, should be arranged directly with the hotel.

Enrollments may be made by filling out the workshop coupon on page 48, or by phoning 800-553-9550 toll-free from anywhere in the U. S. Iowa registrants should phone 319-242-1867 collect. ■



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A & A post gain

Alexander & Alexander posted a $2.2 million gain in total income during the first six months over the same period of 1969, with an increase in net income for the same period of $238,879.

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747 cover . . .

Continued from page 1

Still unresolved is an incident involving a Trans World Airlines 707, which was hijacked by two Palestinian commandoes Aug. 29, 1969, and forced to land in Damascus, Syria, where the nose of the craft was blown out after the passengers had left the craft.

ASSOCIATED AVIATION Underwriters, which wrote the normal hull cover on that craft, refused to pay a $3 million claim. Trans World, insurance sources say, in turn filed a claim under its war risk policy in London and British insurers have since taken the stance that the hijacking and subsequent explosions were not acts of war.

Trans World sources have confirmed that the airline will bring suit against the London insurers and attempt to settle the dispute "on a friendly basis" in court.

Despite that outcome, the most recent incidents involving U.S. and other aircraft in the Middle East seem to have posed far more critical insurance problems for the insurance aviation industry.

"I wouldn't be at all surprised," mused one international airline risk manager, "to see London pull out of the war risk market altogether, at least as far as aircraft go. This 747 loss is bound to have a profound effect on the market."

ANOTHER RISK manager questioned raised the point that "perhaps this (war risk coverage) should be done completely on a government indemnification basis."

The recent government move along these lines—in the case of the 747s operated by Pan Am and TWA—is not a completely new venture.

The standard war risk policy written in London, for example, specifies that coverage ceases 24 hours after "one of the five major powers" becomes engaged in a war. In cases such as this the government has been indemnifying airlines for the past 10 years. Presumably, such coverage is underwritten by the government on Pan Am flights into the Saigon, Vietnam, area. Such flights, however, must be deemed necessary by the Federal government and the coverage extends only to "named planes," which are listed by tail numbers.

The extension of this program on a 40% basis to Pan Am and TWA flights in the Middle East "is merely an extension of this program," a source in Washington said. ■

Skyjackings . .

Continued from page 1

Officials at TWA reported that the security systems were in operation at the Frankfurt terminal. There has, as yet, been no report as to whether the Pan Am security systems were in use at Amsterdam. Israeli sources disclosed that the hijackers' baggage had been checked by El Al's security force and a study was being undertaken to discover how the weapons were smuggled aboard. Swissair is also trying to find out how the hijackers eluded detection.

LAST JULY, the Civil Aviation Organization, a United Nations agency, called for more strict guarding measures around air terminals and high fences with electronic alarm systems.

The airline and other officials seemed negative toward carrying armed guards on flights because of the danger to both passengers and crew. A badly fired bullet could easily destroy an airplane by causing an explosion at high altitude or by cutting an important cable.

There are three other possibilities being considered that would stop a hijacking in the air. One of these suggestions would involve dart guns that would inject the hijackers with a temporarily paralyzing substance.

Another approach calls for the cockpit crew to don gas masks for protection and then feed a harmless but incapacitating gas through the plane's ventilating system. This would knock out all other passengers along with the hijackers.

A third possibility would be the use of "stun guns," which fire beanbags at a relatively high speed. The resulting blow would incapacitate a person but would not be fatal ■



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Warns insurers to upgrade work comp or lose it

SAN FRANCISCO—State workmen's compensation laws in the U. S. must be upgraded by the insurance industry or the system will be taken over by the Federal government.

This was the essence of the first official speech here before more than 500 delegates to the 56th annual convention of the International Assn. of Industrial Accident Boards and Commissions, at the Hilton Hotel.

Fred Drexler, president of Industrial Indemnity Co., delivered the speech and urged the industry to work for nationwide improvement of workmen's compensation "for better protection of injured workmen."

THE SESSION was opened by IAIABC President William Kaplan. General chairman of the convention committee was Alan Tebb, general manager here for the California Workmen's Compensation Institute.

In his address, Mr. Drexler emphasized the need for cooperation of all state workmen's compensation administrations "to attain those improvements which must be made throughout the nation if the system is to survive in its present form."



Fred Drexler

Mr. Drexler outlined a series of minimum standards, including provision of unlimited medical care for work-incurred injury, adequate temporary and permanent disability benefits, and elimination of all administrative delays.

"Inadequacies in these areas," Mr. Drexler warned, "are causing the immediate danger of Federal encroachment and may well result in the existing system being absorbed by the Social Security system.

"AS PART OF the Federal Social Security system," he added, "workmen's compensation would be just another department of the type already well known. Its objective would be the payment of dollars—slow, laborious, mechanical payment.

"Experience shows that qualifying for payments under Social Security requires personal calls, delay, forms and legal proof. Months can elapse.

"Workmen's compensation insurance," Mr. Drexler continued, "is far more than a money program. It is a skill and an art. We do not quarrel with the Federal government's interest or incentive for improvement but it is obvious that Federalization of the program itself is clearly not best for workmen."

Mr. Drexler contended that "the solution lies in improving the existing system so that the needs of society are met.

"FOR MANY years, workmen's compensation in the U. S. met these needs adequately. Today there is still nothing wrong with the principle. It is only that whatever was adequate in 1920, or 1940 or 1960 is not adequate now."

He suggested a program to "deal with the faults in time to prevent a Federal takeover.

"Most of all there must be action," Mr. Drexler emphasized, "and it must occur in every state, for if it does not occur there it will surely occur in Washington, D. C.

"Every state," Mr. Drexler said, "must now lay out a transition program, in specific detail for achieving minimum goals.

"IN SOME STATES an informal group of legislators or of business and labor leaders can do so and then jointly see that the legislature carries out their agreed wishes.

"In other states," he suggested, "there must be more formal methods; perhaps the naming of a widely representative blue-ribbon commission by the governor or establishment of such a group by legislative mandate."

Mr. Drexler declared that programs involving social policy, such as workmen's compensation, must "answer the needs of society and be in full accord with the public conscience.

"Workmen's compensation," he added, "is not a legal system; it is a social system. The measure of success of workmen's compensation in your state is not how fairly and quickly you dispose of litigation, but to what degree you can avoid it entirely.

"THE REAL TEST lies in answering the simple question: What is best for workmen?"

The IAIABC comprises nearly 2,500 representatives from Federal, state and private organizations administering workmen's compensation in the U. S. and in other nations. ■

Smart is president

Glyn Smart has retired as national vp of Bayly, Martin & Fay Inc. to become president of American National General Agencies Inc., a multiple line insurance firm with offices in Los Angeles, San Francisco, San Diego, Seattle, Houston and New York.

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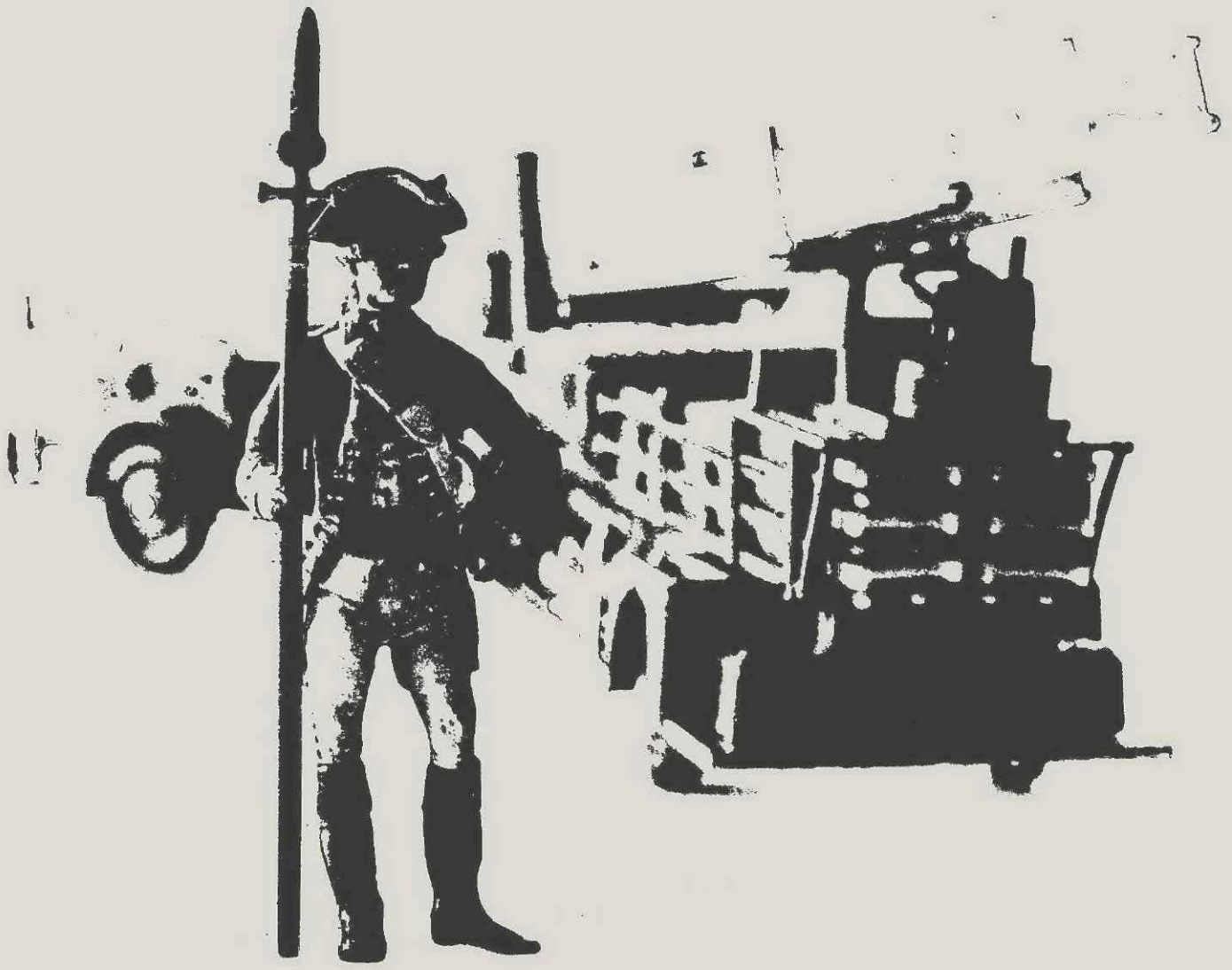
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washington watch

Private pension law hangs on debate of vesting, funding, reinsurance code

WASHINGTON—It has become increasingly clear in the past few months that the 91st Congress will pass no private pension legislation, not even a bill to tighten up the fiduciary responsibility requirements of the Welfare & Pension Plans Disclosure Act.

What is not so clear is why. Ever since President Johnson proposed beefing up the disclosure act in 1967, pension experts have thought such a law was inevitable. And when President Nixon also endorsed the idea in early 1970, there seemed to be little doubt that the 91st Congress would approve a bill.

But a disclosure act amendment proposal has yet to gain even subcommittee approval.

ON THE SURFACE, this would indicate a lack of support by the subcommittee and full committee chairmen. But virtually all of the key legislators on the House and Senate committees have endorsed the idea of amending the disclosure act.

The main reason then for the delay, many observers feel, revolves around the fact that the committee chairmen have consistently refused to consider a disclosure bill without also debating the issue of minimum Federal standards for vesting, funding and reinsurance of private pension plans.

This latter issue has never had a large following in Congress, nor has it ever had Presidential backing. But it is very popular with the labor community, and has given many labor politicians much political mileage and apparently has a great many more miles left on it.

So, many observers feel the White House-supported disclosure act reform is delayed in order to keep alive the debate over the vesting, funding and reinsurance of private pension plans.

IN THE topsy-turvy world of Capitol Hill, the passage of a major piece of private pension legislation—like reforming the disclosure act—could take all the steam out of other proposals for major pension plan overhaul, such as the already-weakly-supported idea of Federal standards for vesting, funding and reinsurance.

On the house side, Rep. John Dent's (D., Pa.) general labor subcommittee took up the disclosure act reform issue in April, 1970, one month after President Nixon sent his proposal to Capitol Hill. The subcommittee made it clear however that it would also welcome testimony on the vesting, funding and reinsurance issues.

During the hearings, Labor Secretary Shultz told the subcommittee he felt disclosure act amendments were long overdue and that the delay had come in part from the desire by certain key legislators that "such fiduciary legislation be tied to legislation concerning vesting, funding, portability and plan termination insurance.

"I am aware of the deep concern about these other areas, but I believe that the demand that fiduciary legislation be enacted as part of a package dealing with those subjects, although well-intentioned, is inappropriate," Secretary Shultz said.

AT FIRST IT appeared as though Rep. Dent would take Secretary Shultz's advice and recommend only disclosure act amendments to the full labor committee.

Then, in mid-summer, it became known that the subcommittee was drafting an omnibus bill, including vesting, funding and reinsurance requirements.

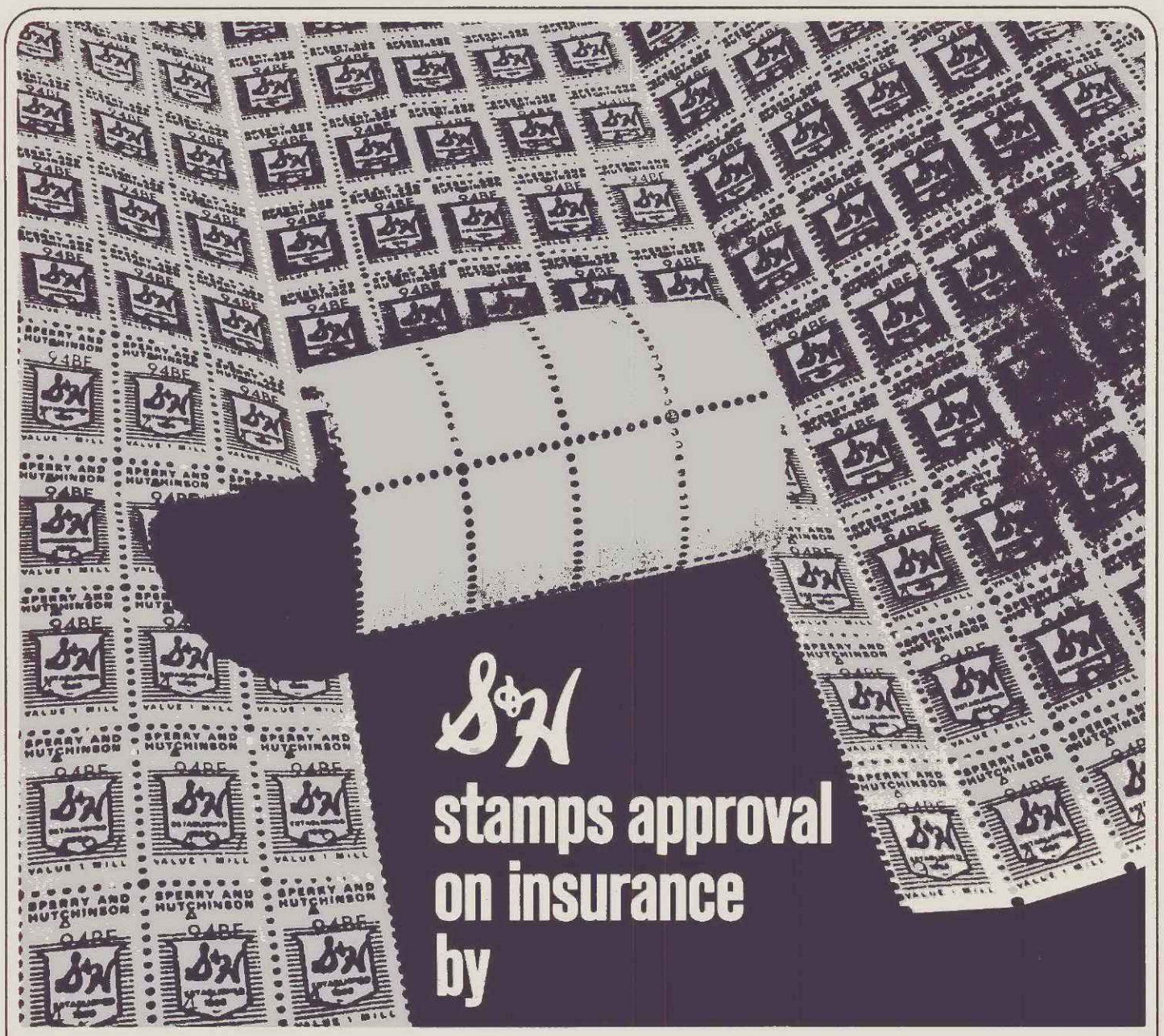
The subcommittee still has not completed work on the legislation, which makes its final recommendation only academic because it is probably too late now to get a bill through the full labor committee, the House rules committee and onto the floor, even if the vesting, funding and reinsurance sections are dropped.

On the Senate side, the situation has been very much the same, with Labor Subcommittee Chairman Harrison Williams (D., N. J.) speaking of the urgent need for disclosure act reform, but insisting that vesting, funding and reinsurance should be a part of any pension legislation.

ACTION FROM the Senate subcommittee during the 91st Congress took the form of sending a 32-page survey to 1,500 administrators of private pension plans concerning the vesting and funding provision of their plans.

What will happen in the 92nd Congress is anyone's guess. But, Rep. Dent and Sen. Williams are both likely to be back and harping on the vesting, funding and reinsurance issue.

Of course, all bills will have to be reintroduced and start over again, but, as one pension lobbiest told *Business Insurance* since very little got done on pension legislation in the 91st Congress, there is very little to do over. ■



Captive gets reinsurance

HOUSTON—A modification of its former policy of carrying physical damage insurance on a major portion of its offshore drilling equipment has been announced by the Offshore Co.

Offshore said that Malvern Insurance Co. Ltd., one of two wholly-owned insurance subsidiaries, has negotiated reinsurance in the London insurance market to cover substantially all the risk of loss on offshore drilling equipment previously covered by Malvern itself.

According to Offshore, "The broad dispersal of Offshore's equipment, the size of its operation and its recognized engineering capability permitted this reinsurance to be arranged on favorable terms." ■

Touchy Question #63

What kind of company would sell you something–and then do its level best to keep you from using it?

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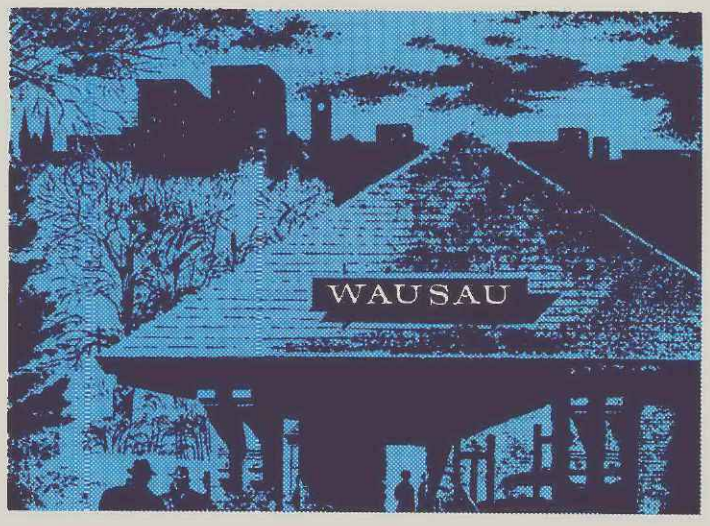
Let's face it. Nobody buys insurance because he wants to. He buys it because he's scared not to. Insurance is one of the only two commodities we can think of (the other is atom bombs) which is bought and sold in the devout hope, by both buyer and seller, that it will never be used.

Our product today comes in two chunks. The first chunk is indemnity. The second chunk is service. And the whole purpose of the service is to keep our customer from having to rely on the indemnity.

Insurance doesn't *pay* losses. All it does is distribute them. The losses are paid by the covered group. Insured or not, every loss is exactly that—a loss; something gone; something of which we are forever deprived, not to be restored by any process of taking money out of one pocket and putting it into another, which is all that the indemnity function of insurance can accomplish.

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We think insurance ought to work for a living.

Quebec employers mull problem of handling rebates under medicare act

MONTREAL—The Quebec Health Insurance Act goes into effect the first of the year, and less than three months from that date there is still a section of the act that has corporate employe benefit men wondering.

The new medicare legislation requires employers to contribute .8% of payroll toward the financing of the plan. Employes are required to kick in a similar contribution. That part of the act, at least, is rather simple and clear-cut.

What is not so simple, however, is one section of the act (13) specifying that if the cost to the employer of the new provincial plan is less than the cost of an existing private plan now in use, the savings must be passed on to the employe; not retained by the company.

FOR EXAMPLE, if an employe is earning $7,000 a year the employer's contribution to the provincial medicare program will be $56. If, on the other hand, the existing group medical plan is costing the employer $106 he must remit to the employe the "cost saving" of $50.

What has employe benefit people in a quandary at the moment is the decision of just how to handle the remittance to employes if there is one.

According to most people familiar with the medicare legislation, the wording of section 13 is open to several interpretations. What, they wonder, constitutes an employer's "undertaking" to pay for employe insurance benefits?

The employer, the section states, must "remit the difference to him (the employe) as the installments become due until such undertaking has terminated."

IN THE CASE of unionized employes, some sources point out, this could possibly be interpreted as an undertaking to provide group medical coverage for the duration of the labor contract with those employes. Savings by the employer, in other words, could be construed as lasting only to the expiration date of the contract.

If that approach is used, however, a different solution must be found for salaried and other non-union employes.

The interpretation of "undertaking" could vary from company to company depending largely on the findings of each company's legal counsel, said Guy Jobin of Johnson & Higgins Willis Faber Ltd. here. Mr. Jobin is in the company's employe benefit consultant department.

Moreover, Mr. Jobin said, company policy, the existing health insurance contract or the company's budget period could possibly form the basis for determining the period of the company's undertaking. It is likely that the company and its employes will have to agree on the matter and arrive at a mutually acceptable formula for distributing any savings.

WHATEVER solution is reached, no Quebec firms or their employes will be able to look to the Quebec Health Insurance Board for an official interpretation of Section 13.

Robert Despres, president of the board, has said that such an interpretation is not the responsibility of the body he heads. "The board does not have the right to interfere in the employer-employe relationships," said Mr. Despres.

The present problem is unique to employe benefit plans in the French Canadian province. When the Quebec pension plan was introduced, firms simply had to integrate their existing employe pension plans with the government plan. They were not required to pass any savings on to the employes.

Corporations, nonetheless, have several options available to them when it comes to deciding how to pass the saving on to employes.

THEY MAY, for example, do it in cash, pass it on as an additional benefit of some kind or use the monies to reduce employe contributions to other benefits.

Still another uncertainty of the new health measure is whether a company will actually enjoy any savings under the plan.

One question being asked, for instance, is: "Should a company determine its contribution on behalf of an employe under existing medical plans by average premium payments made for all employes, or should this be determined by computing the actual cost experience of each individual employe?

In Mr. Jobin's view, the wording of section 13 requires that this calculation be made on an individual basis.

WHETHER or not there is any saving will also depend to some extent on how generous an individual company has been in the past in paying for employe benefits and on the level of its wage and salary scales. Most informed sources point out that there is more likely to be a rebate to employes in companies in which these scales are on the low side than in those in which higher salary, wage and benefit scales exist.

The Quebec Health Insurance Act differs from those in operation in most other provinces in that medicare payments are based solely on a person's income. A single person and a married man with five children, whose incomes are the same, will pay an identical amount for the coverage. Their employers, likewise, will contribute the same .8%. Most other provinces require that premiums relate to anticipated calls on medicare benefits. A married man with children would pay more than a single man or a couple, for instance.

One administrative problem companies in Quebec are likely to face in the months ahead is setting up their payroll systems to account for the employe who lives in Ontario but works in Quebec. The insurance act is specific in how these cases are to be handled.

An employe of a firm in Hull, Que., who lives acorss the Ottawa River in Ottawa will be handled so that the employe himself will not pay, nor be eligible for Quebec medicare benefits. He will qualify for and pay premiums to the Ontario plan. However, the Quebec firm that employs him must still contribute the .8% of his pay to the Quebec insurance plan. ■

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

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

• BF&M Management Ltd., Hamilton, Bermuda has made available a booklet **About your own insurance company in Bermuda** describing the functions of the company, which was set up exclusively to manage 'captive' insurance companies on the Island. A copy may br obtained by writing Derek L. Dempster, Manager and Secretary, BF&M Management Ltd., P.O. Box 1007, Hamilton, Bermuda.

• The 1970 edition of **Accident facts** has been released by the National Safety Council, 425 N. Michigan Ave., Chicago, Ill. 60611. The publication contains information and statistics on work, motor-vehicle, public, home, farm, and school accidents. Also included is an index with references to subjects of interest discussed in earlier editions of Accident facts that the reader may want to refer to. Single copies are $2.40, orders of 2 to 9 copies are $1.95 each. Specify stock no. 021.70 when ordering.

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

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

• The Polaroid Corp. has made available a booklet describing their ID-2 Land Identification System which produces full color ID cards and badges on the spot. The subject's image and data are recorded simultaneously on one piece of film. The film is laminated with a sheet of clear plastic which is chemically bonded to the face. A photographically reproduced validating signature or seal overlaps the photo and data portions of the card, making it difficult to alter the subject photo. For more information or a copy of the booklet write the firm to the attention of Adrian E. Van Dorpe, Industrial Marketing Dept., Cambridge, Mass. 02139.

• The National Fire Protection Assn. has released the following 1970 editions of previously published manuals: **Manual for fire protection for archives and record centers** (NFPA No. 232A-M-T), 32 pages, $1; **Standard for the protection of records** (NFPA No. 232), 100 pages, $1.50; and **Recommended practice for protection of library collections from fire,** (NFPA No. 910), 32 pages, 75¢. When ordering the publications, list the accompanying NFPA numbers for easy indentification. Direct orders to the NFPA Publications Service Dept., 60 Batterymarch St., Boston, Mass. 02110.

• Thomas F. Sheehan, JD, CPCU, has written **The Liabilities of Directors and Officers: With Practical Solutions For Their Discharge.** The book contains 28 rules of conduct to prevent suits against directors & officers, a table of cases, safeguards to avoid liability, and explains how insurance relates to and overlaps other kinds of insurance. The book also covers examples of common limit and retention under d & o, and actions to limit responsibility of directors. The book may be ordered for $4 from Directors' Press, 5356 E. 72nd St., Indianapolis, Ind. or from Mr. T. F. Sheehan, c/o Excess Underwriters, 175 W. Jackson, Chicago, Ill.

• The United States Aircraft Insurance Group has prepared a summary of the law concerning the **Legal Liability of Owners and Operators of Airports.** The booklet covers aircraft accidents, fueling, hangarkeepers, maintenance and service, loading stand, rescue, automobile parking lots, elevators and escalators, police and security, slip and fall, special events, tenants and contractors, vehicles, indemnity, and liability to surrounding property owners. Copies of the booklet may be obtained, free of charge, from the Public Relations Department, United States Aviation Underwriters, Inc., 110 William St., N. Y., N. Y., 10038.

• The U. S. Department of Labor has released **Rigging cargo gear.** The bulletin is part of the safety in industry series offered by the government. The publication contains suggested safe practices in rigging and using cargo handling gear accompanied by diagrams. The revised 1969 edition may be obtained for 25¢ per copy by writing to the attention of the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

• The **1970 Safety Training Institute Courses** is a 10-page booklet giving brief summaries of the various institutes sponsored by the National Safety Council. The booklet is free and can be ordered by writing the firm at 425 N. Michigan Ave., Chicago, Ill. 60611.

• **Accident Cost Control** is an occupational safety aid compiled by the U. S. Department of Labor

Safety Training Programs. The pamphlet covers the direct and indirect costs of injured employes, the elements of production concept, and an accident-cost program procedure. The pamphlet may be ordered for 15¢ from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

• The National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110, has released **Recommendations for evaluating fire protection at a new facility** (NFPA NO. 5A-T). The 1970 edition is designed to alert management to the fire protection factors that should be considered when acquiring or renovating an existing facility and when planning a new one. The pamphlet may be ordered for $1 from the association.

• **Effective Low-Cost Employe Benefit Communications** provides a personalized benefits summary statement for each employe. Paydata, Inc., outlines, via computer, an employe's stake in his company, highlighting the overall contribution made by the company. This service is aimed at the mass market of smaller corporations and averages $5.00 yearly total cost per employe. Paydata provides an effective and economical avenue for conveying to each employe the full value of his benefit program. This valuable management tool is available through agents and brokers. For more information write to Paydata, Inc., 20 Evergreen Place, East Orange, N. J. 07018.

• Belson, Hemingway and Associates, Inc., nationwide insurance personnel consultants, released a 20-page booklet entitled **Decision and Approach** to provide guidelines for the individual seeking new opportunities in the insurance field. The authors, Harold M. Belson and Willard G. Hemingway, deal extensively with individuals reaching goals, qualifications, motivation and the importance of objectivity. The booklet is available by writing the firm at 327 South LaSalle St., Chicago, Ill. 60604.

• **The legal liability of manufacturers of aircraft and aircraft components** is a summary of law presented by the United States Aircraft Insurance Group. The booklet covers the following: increasing scope of liability; sources of liability; aircraft design, fabrication and testing; armed services; components; aircraft repair; the influence of non-aviation cases; the negligent claimant; second hand aircraft; safety features; liability limitation; uniform commercial code; warranties; strict liability; damages; and USAIG claim services. The booklet may be ordered, free of charge, from the Public Relations Department, United States Aviation Underwriters, Inc., 110 William St., N. Y., N. Y. 10038.

• A publication describing the services of its firm has been released by Marshall and Stevens Inc., national appraisal consultants. Among the services described are: acquisitions; condemnation; eminent domain proceedings; estate and inheritance tax; financial feasibility studies; housing market forecasts; insurance placement; mergers; liquidation (of assets); revision service; taxation; and utility assets. For more information or a copy of the booklet, write the firm at 1645 Beverly Boulevard, Los Angeles, Cal. 90026.

Group coverage spread on campuses

NEW YORK—Although the nation's colleges are having more and more trouble obtaining and keeping property and liability insurance, the institutions' employes are finding homeowners and auto insurance cheaper and more easily obtainable as employe benefits than they were on an individual basis.

The University of Pennsylvania, with 2,500 employes, has started such a program, written for them by Insurance Co. of North America. Nearly 25% of the homeowner policies written under the program cover homes in the black ghetto district of West Philadelphia, an urban area that insurers ordinarily "redline" as a matter of standard procedure.

University employes can buy up to $1 million in personal liability coverage in addition to the normal auto insurance under the INA plan. But they can also obtain credit card as well as boat and yacht coverage.

BECAUSE OF the greater efficiency in servicing this group of employes (INA sends an agent to the campus several times a week) the insurance company can pass along certain savings to the policyholders. This is added to by the fact that "late" notices are rendered obsolescent by the payroll deduction method of collection. And in the case of the University of Pennsylvania employes, the results of these savings are an average of 15% in premium reductions.

"Our faculty members have a lot of trouble with auto insurance because of their mobility," Ed Murphy, business manager of Omaha's Creighton University told *Business Insurance*. Some 30% of the school's 747 full-time employes are now participating in the new homeowners and auto coverage additions to the school's employe benefits program. "Because they move all over the country from job to job so often they find it hard to get the necessary coverage. This program is especially helpful for them."

Mr. Murphy noted that participants in the program at Creighton were currently saving about 9% or 10% in their premiums on the insurance. He explained that because of expected group experience rating plus increased participation on the campus eventual premium savings were expected to go as high as 20%. "By far the more important advantage of the coverages is that the company is much more liberal about what it includes. We feel that the coverage we're offering as an employe benefit is more inclusive that individually written policies of the same type," Mr. Murphy explained.

In addition to the University of Pennsylvania and Creighton University, other schools that have obtained the new insurance coverage benefits include Ambassador College, Swarthmore College, Stanford University, Northwestern, and Arizona State University. ■

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Five life companies to aid builders in bonds

NEW YORK—Five life insurance companies are lending a total of $2 million to the minority contractors assistance project to help provide the working capital ghetto businessmen need in getting surety bonds for their construction jobs.

The surety bond problem has long been a barricade to the new minority contractor. Because he is just starting out he doesn't have the working capital surety companies require. But he can't get the jobs to acquire the capital until he is bonded.

"Now a door is opening," said Richard Carter of the National Urban Coalition. He is director of the minority contractors assistance project (MCAP), which was started by the coalition but is now working independently of that group. "It's a small step, but it's a step. For the first three years loans will be available in Detroit, New Orleans, Atlanta and Los Angeles, but we're planning to expand it to 15 cities."

The companies and the amounts invested by each are as follows: Metropolitan Life, $600,000; Prudential, $600,000; Equitable, $350,000; New York Life, $300,000; Aetna Life & Casualty, $150,000. The money is being lent for a period of 15 years with an interest rate of 8% on the unpaid balance. The Ford Foundation is guaranteeing to pay 75% of the unpaid principal.

MR. CARTER explained that approximately $250,000 would be allotted to each of the four cities where local MCAP boards and financial committees, which include representatives of the banking and surety industry, would decide who receives the loans.

"Contractors can apply for no more than 25% of the amount given to each city," said Stanley Carson, who is in the urban affairs department of the Institute of Life Insurance. "The length of the local loans and interest will be determined by the city groups."

He said the life insurance money will be used for the purpose of providing working capital, but not for administrative or working expenses. Loans for these expenses will come out of a $500,000 grant from the Ford Foundation and $390,100 from the Economic Development Administration.

"The loan is part of the Billion Dollar Program life insurance companies initiated in 1967 to help ghettos," he said. "I think there has been a changing attitude on the part of life insurance people. They are showing more vision and concern for the ghetto."

Alfred Plager, second vp of urban redevelopment at Equitable, agreed.

"I'm an old mortgage man," he said, raising his bushy red eyebrows above his glasses and leaning back from his wide desk. "Years ago I never would have invested in something like this. I would have thought it much too risky and bad business. But now we're in a whole new ball game. We have to take a chance if we're going to solve urban problems." ■

Urges cutback of employes' benefits

HARTFORD—The Connecticut public expenditures council has urged elimination of several benefits enjoyed by state employes at a cost to taxpayers of "at least $1 million a year."

Specifically, the private watchdog agency is recommending that commissary privileges, laundry and maid service and free meals be dropped. Goods and services that are continued—such as room and board—should be provided at cost or market value, it is further recommended.

Penn RR self-insured for explosion

SOUTH BYRON, N.Y.—The Penn Central Railroad is self-insured for a train derailment and fire late last month.

Two tank cars, carrying 60,000 gallons of highly volatile vinyl chloride, exploded and burned after 28 cars had derailed.

"The damage estimate is between $200,000 and $250,000 to the cars and the lading," according to a spokesman at Penn Central, who confirmed the loss is self-insured. "There was little property damage because the derailment happened out in the woods."

There were no injuries reported although officials at the scene considered evacuating residents of this farming village because of possible contamination from the vinyl chloride, which is toxic as well as volatile and was being transported in a liquid state. The evacuation was found to be unnecessary after air samples were taken and it was discovered that a stiff wind had dissipated the poisonous emissions.

The explosions sent clouds of the gas—an agent used in the manufacture of plastics—hundreds of feet into the air. Residents noted that the area had a foul odor for more than an hour.

The accident derailed the last 28 cars of the 111-car train, which was traveling between Buffalo and Selkirk, N.Y. The forward cars continued on their journey shortly after the wreck. ■

Hall moves to acquire Sporl & Co.

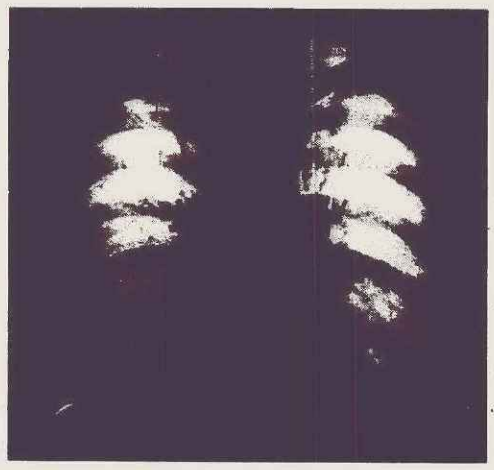
NEW YORK—Frank B. Hall & Co., New York broker, has reached an agreement in principle to acquire the C. A. Sporl & Co., a New Orleans broker.

Sporl is a multiple line broker. However, much of its business is in the marine field. This, according to Douglas King, secretary of Frank B. Hall, should present some new challanges for the New York-headquartered firm. It is Hall's first move into the Gulf of Mexico area.

Hall, which has nine offices in this country and eight overseas, will maintain essentially the same staff and management at the New Orleans firm if and when the deal is completed, Mr. King told *Business Insurance*. Sporl employes 50 persons.

The company has made three other acquisitions this year. Sporl would make the fourth and "more are on the firing line," Mr. King said. ■

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Test case affirms state's architects and contractors design liability law

LITTLE ROCK, Ark.—When Ira Carter, 14, a newspaper boy, was crushed to death in an elevator accident at the Arkansas State Justice Building in 1968, his death brought a test case of State Act 42 of 1967. The act concerns liability of architects and contractors for faulty design and construction of buildings.

The boy's mother, Mrs. Marion E. Carter, sued the Hartenstein Elevator Co., makers and installers of the elevator; the Erhart, Eichenbaum, Rauch and Blass architectual firm, and the Harmon Construction Co., which built the elevator shaft. The Justice Building was built in 1958.

Mrs. Carter alleged liability because of the manner in which the elevator and shaft had been built and installed, but the Arkansas supreme court disagreed and said the lawsuit was invalid because the four-year limitation on suits had run out.

THE COURT went even further by not only ruling on the limitation aspect but by affirming the constitutionality of the law. The law provides that suits for personal injury caused by a deficiency in the design or supervision of construction of a building cannot be brought against an architect or contractor more than four years after the building has been completed.

The state of Arkansas wasn't made a defendant in the case because of another state law that prohibits liability lawsuits against it.

The supreme court received Mrs. Carter's suit on appeal from Pulaski County circuit court. The lower court threw out the suit because of the limitation clause.

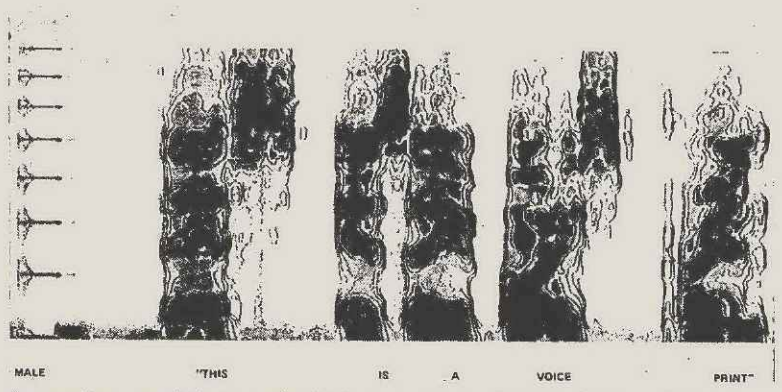
Mrs. Carter contended that Act 42 was special interest legislation that protected the same social class that passed the legislation. She said in the suit that the act violated due process of law, protected the parties named in the suit without giving others the same protection and was discriminatory.

BUT THE COURT said in part: "To say that there can be no limitation in perpetuity against a designer or erector of a structure would be in effect to discriminate against professional builders and designers.

"Whether three years, four years or five years——or more or less—is the correct or appropriate period, should not and cannot be the concern of the judiciary. We only must determine whether the legislature has acted reasonably in respect to their mandate from the people as set out in the constitution.

"Almost every statute or law serves to work for some and against others. Here, we simply do not view this enactment as granting special privileges and immunities.

"We think the legislature was entirely within its constitutional right in passing such statute." ■



A security guard that works 24 hours a day, doesn't drink or fall asleep and is guaranteed never to seek a raise has been developed. Called the Speaker Recognition System, the 35-pound mini-computer is being developed by Voiceprint Laboratories, a Somerville, N. J., division of Farrington Manufacturing Co. Just as crime investigators maintain files of fingerprints for positive identification purposes, the mini-computer stores and compares voice signatures or "voice prints", such as that above. The new identification system gives immediate and foolproof verification of a person's identity. Key to the system is a Varian Data Machines 620/i small digital computer, which stores the distinctive acoustical features of a person speaking his own name in its core memory.

Cal-Vet contract awarded

SACRAMENTO—A joint venture of Hartford Insurance Co. and Emmett & Chandler has won the massive Cal-Vet property insurance program of the California department of veterans affairs.

The five-year master contract, perhaps the largest of its kind, will insure aggregate farm and home values of $2 billion with annual premiums of $2 million.

Selection of the joint venture by Director Frank D. Nicol resulted from open competitive bidding among eight major insurance firms. It was the first time the contract has been awarded on a bid basis.

HARTFORD's bid was 30¢ per $100 of insurance for each three-year policy term. "As a result," Mr. Nicol said, "an excellent insurance package will be continued for the veteran farm and home loan holders. This will include many coverages not available on the open market."

Mr. Nicol listed as such coverages landslide, subsidence and windstorm coverage for television antennas.

The bid opening, held in mid-July, was supervised by the California veterans board. The former carrier, National American, bid through its agent, as did Central National and American Bankers.

The Farmers Insurance Group bid directly to the Veterans department while Hartford, Fireman's Fund, Employers Insurance and Reserve Insurance bid through a group of brokers on a joint basis.

California now has in excess of 125,000 veterans who hold either home or farm loans from the department Mr. Nicol directs. ■

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Legislature fails to aid work comp benefits

SACRAMENTO—California's legislature adjourned Aug. 21 without adopting major workmen's compensation legislation initially expected to substantially change compensation benefits.

A package of labor sponsored measures intended to accomplish this objective cleared the senate industrial relations committee but all were killed in the senate finance committee.

A proposal to establish an uninsured employers' fund, which had been bottled up in the assembly, finally was dispatched to tee after clearing the finance and insurance committee of the assembly, finally was dispatched to "interim study."

AS A RESULT of failure of the legislature to act, compensation carriers in California will not face any immediate benefit increases, long sought by the state's labor organizations.

One major insurance company, however, indicated the conviction that "failure of the legislature to act in this area may tend to hasten a Federal take-over."

Meanwhile, almost as the legislature was preparing to adjourn, California Insurance Commissioner Richards D. Barger approved a rate revision filing of the California inspection rating bureau.

New compensation rates, effective Oct. 1, will represent an increase of 2.3% in overall manual rates. ■

Aetna gets Harris County bid

HOUSTON—The Harris County commissioners court voted to name Aetna Life and Casualty Co. the carrier of group life and medical insurance for the county's 3,000 employes.

Under the new insurance program, the county will pay the cost for employes and employes will pay about 75% of dependent coverage through payroll deduction.

John Buchanan of the Austin, Tex., consulting actuaries firm of Rudd & Wisdom told the court he thought Aetna's bid of $1,167,607 for one year's coverage was the best bid because of the 16-month rate guarantee. ■

Pittsburgh U. to cover 'sex and the single girl'

PITTSBURGH—Even insurance is starting to swing with the moral revolution, for at the University of Pittsburgh Blue Cross and Blue Shield policies will be expanded to take in sex and the single girl.

As of January, 1971, unwed daughters of subscribers will be allowed maternity benefits, and single women will be allowed to sign up for family plan policies, which will give them coverage for therapeutic abortions.

"In past years we had quite a few inquiries from women who wanted the policy changed. Finally we decided to do it," a spokesman at the university insurance department told *Business Insurance*.

SHE NOTED THAT the extension of coverage for unwed daughters of subscribers would be just like other benefits for dependents. Daughters will be covered until age 19, or until age 23, if a full-time student.

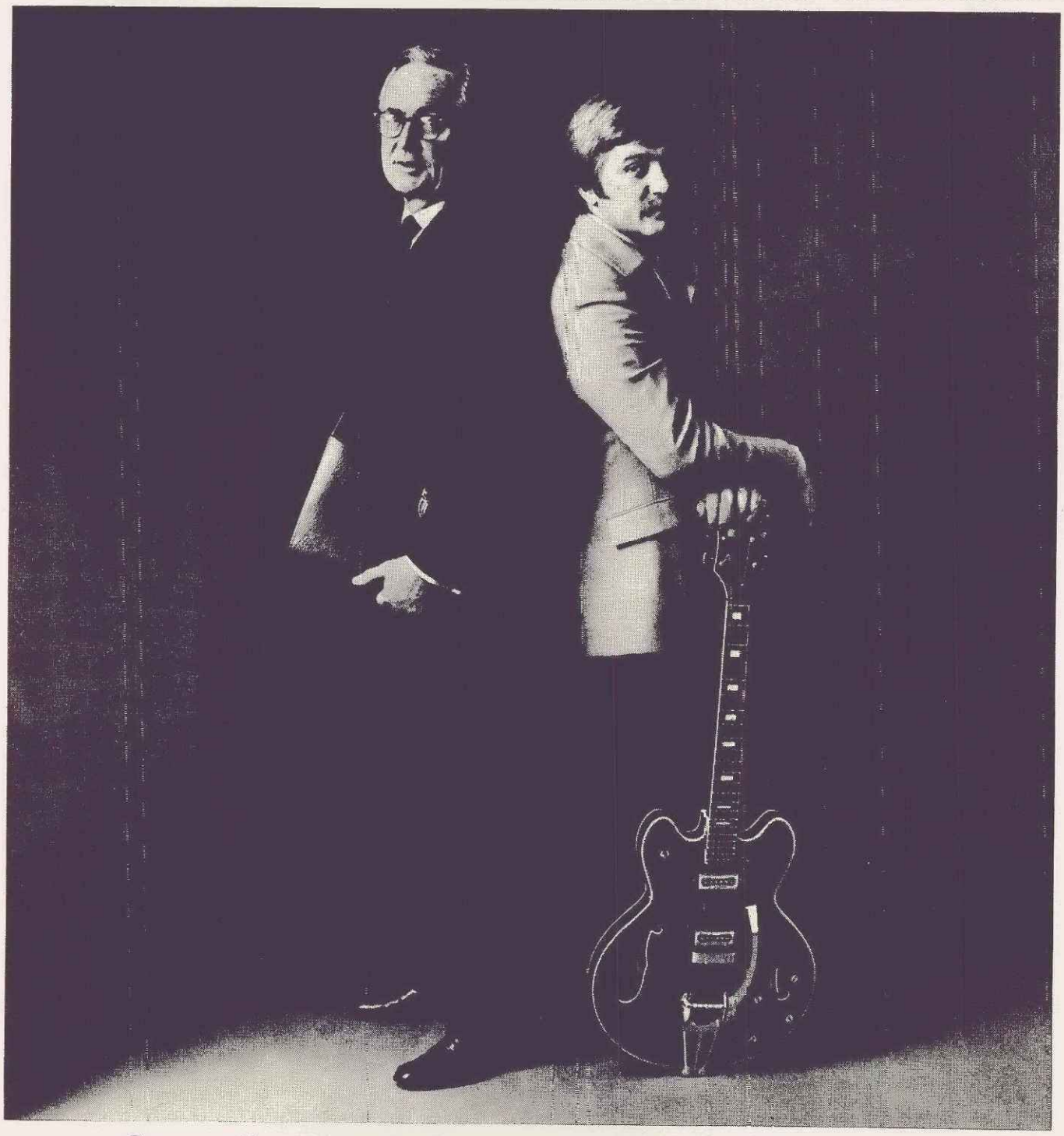
"I'd say the policy change was a definite indication of the moral shift in this country," she noted.

But a Blue Cross-Blue Shield official in Pittsburgh says his industry is just as staid as it always was.

"Morality has nothing to do with this," he said. "It is a matter of economy. A woman in those circumstances has enough to worry about without having economic pressures."

He noted that he knew of no other universities providing similar benefits.

"The rate increases for these additions to the family plan will be quite modest," he said. (No pun intended.) ■



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FAIR plan changed for eligible risks

SACRAMENTO—The California FAIR Plan has been changed to prevent lapses of insurance coverage for eligible risks. Such risks are automatically deemed insured if:

• Through no fault of the applicant, coverage has not been either offered or denied within 20 calendar days after the date the request for inspection was received.

• The applicant, at the time of requesting the inspection or at any time prior to receipt of an inspection report indicating that the property is uninsurable, pays either the estimated annual premium or the portion appropriate for the period for which coverage is provided.

The period of coverage provided shall not be less than the time required to complete the inspection and to process fully in the ordinary course of business any related application for insurance of the property.

The new "deemer" provision, according to Edgar L. Kale, chairman of the plan's governing committee, is "in keeping with the latest revision of FAIR plan rules and regulations issued by the Federal Insurance Administration." ■

Pill suit charges negligence

BRIDGEPORT, Conn.—Ortho Pharmaceutical Corp. has been slapped with a $1 million side effects suit from a Bridgeport woman who claims to have suffered severe blood clotting after taking the drug firm's birth-control pill, Ortho-Novum for one year.

Mrs. Beverly Slosser said she took the pills according to her doctor's instructions, but developed a cerebral-vascular condition and thrombo-phlebitis.

She is charging Ortho Pharmaceutical Corp. with negligence for not testing the pill and for failing to warn users of possible side effects. ■

Engineers, manufacturers are told: be more creative in product safety

NEWARK—Manufacturers and safety engineers were recently urged to become more consumer conscious and use their imaginations in order to meet the challenges of broadening field of product liability prevention.

"As a result of the adverse trends in product liability, manufacturers and engineers are required to look around corners and over the horizon for possible things that may happen to a product," said Arthur Spiegelman, director of the technical services division of the American Insurance Assn. Mr. Spiegelman spoke before a product liability prevention conference at Newark College of Engineering in late August.

Noting that the consequences that might arise from "intended use or proper use are not enough," the AIA official declared: "Engineering professionals are being called upon to use imagination that will look beyond the immediate problem in order to appraise the hazards and to develop loss control and reliability measures.

"It is, therefore," he went on, "necessary for the engineer to become more consumer conscious in every phase of his work whether it be in product design, standards development, quality control, reliability evaluation, production methods, material specifications, maintenance requirements or packaging and loss control. The opportunity for the engineer to expand his viewpoint should be welcomed as it is a step forward to true professionalism," he added.

DECRYING the fact that in some fields of manufacturing—such as electronic diagnostic equipment for hospitals—there are no safety standards at all, Mr. Spiegelman called the setting of these standards an area ripe for innovative safety engineering techniques.

The AIA official did note that the National Bureau of Standards index lists some 19,000 standards that have been made by hundreds of standards-making organizations. However, he pointed to the irony of the fact that in the hospital equipment field there are none. In other instances, he noted, entirely new technology must be developed by engineers in order to produce adequate performance standards.

"It is in this creative effort," he said, "that the technical judgment of the engineer is most valuable and useful in bringing new products to the market place."

Referring to the National Commission on Product Safety's final report, which was released in June (*Business Insurance*, June 22), the AIA man pointed out that the words "unreasonably hazardous" were used to describe 16 categories of products that, in the commission's opinion, required additional safeguards.

"THE DEFINITION of 'unreasonably hazardous' will be discussed by many standards-making groups in the future and it should affect the thinking of the engineers involved," he said.

One very significant problem in the development of safety standards, said Mr. Spiegelman, is the lack of quantitative information both on the degree of hazard and the requirements to augment the hazard.

Some standards, he noted, are prepared on the basis of catastrophic occurrences, and as a result the usual frequency and severity data are meaningless. In other words, he explained, the relative hazards of the materials handled are so great that a single accident could result in a catastrophe. In these cases a new set of judgement factors must come into play, he said, and every possible means must be used to prevent any single catastrophe from taking place.

"Standards for the handling of certain hazardous chemicals and explosives fall into this category," he asserted. "Handling rules are very stringent and a rigid table of distance is utilized to prescribe storage conditions that serve to separate the people from the product.

"MANY OF THE current standards are minimal in order to obtain broad support. Unfortunately," he went on, "the minimum often becomes the maximum due to the competitive economic pressures involved. In order to cope with this problem, all standards should be constantly reviewed, revised, and revitalized. Standards should be live instruments that take into consideration new materials, processes and test methods. In addition, good standards should represent the balanced viewpoint of the industry concerned, technical and professional societies, insurance groups, government and the general public."

Testing for safety is another important step in product liability prevention, and often it requires research to establish the existence of hazards, the AIA man also noted. In addition, new testing equipment must be developed to identify and quantify the degree of a hazard. Moreover, he added, those who have worked in the development of test standards recognize that good judgment is also necessary to avoid stifling innovative improvements by manufacturers who might otherwise be restricted.

"During this period of rapid technology change the engineer cannot always wait for accumulated loss data, achieved at public expense, before he applies his technical training, specialized knowledge and broad experience in developing product safety standards and test procedures," Mr. Spiegelman said.

"It is the unusual instance in which the data is sufficient to permit him to reach a firm conclusion on every phase of a standard. It is the rare case in which the test procedure stimulates the end-use condition so accurately that there is little problem in translating the results from the laboratory to the field. Decisions must be made, nevertheless, and the basis should be the best technical judgment possible," he said. ■

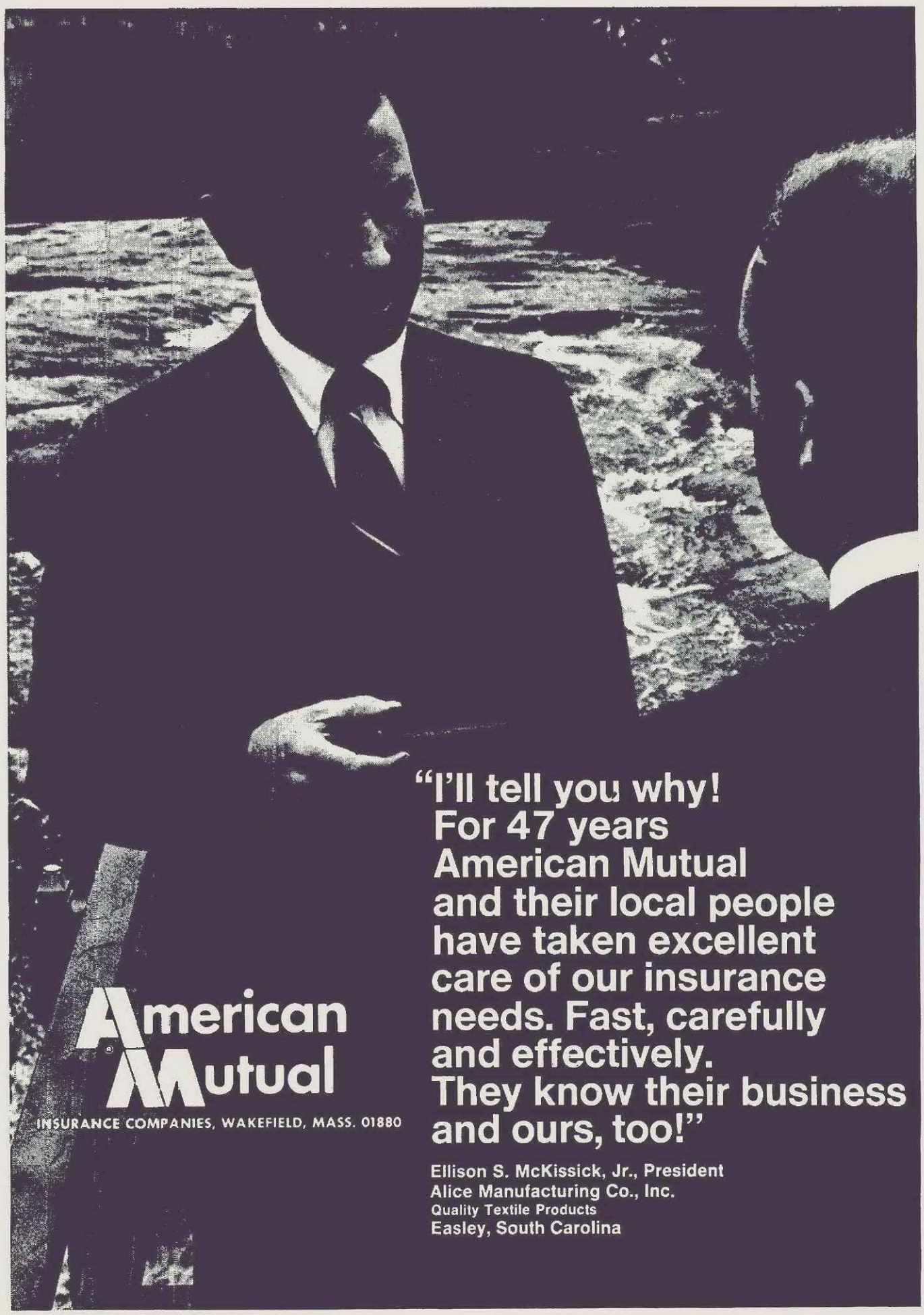
On-job injuries up in Wisconsin

MADISON, Wis.—On-job injuries in Wisconsin rose to 3,451 in June, the state department of industry, labor and human relations reported.

That was 4.9% higher than the figure for June, 1969, and the first monthly rise this year, the department said.

Workmen's compensation claims in the first half of 1970 totaled 19,520—a decline from the 20,050 filed in the first half of 1969. A record 40,666 were submitted in 1969.

The 1970 rate so far is 21.8 injuries for each 10,000 workers, compared with 22.8 in the first half of 1969.



Giles on the law

Manufacturer held strictly liable in Texas for faulty machine design

By JOHN W. GILES
Attorney at law

WASHINGTON—What states today have held a manufacturer strictly liable for the faulty design of a machine? A recent case in Texas reviews these authorities and points out that now in California, Illinois and Oregon the courts have held the faulty designer of a machine, strictly liable.

In the Texas case the plaintiff, a pizza maker recovered $31,000 against the manufacturer and seller of a dough-rolling machine for injuries sustained when his fingers were crushed in rollers while operating a machine that did not have a shield extending out from the opening into which the dough was fed. The Texas court pointed out that the instant case was not a case of a defectively manufactured product, but was a case of defective design.

Texas has not heretofore applied the strict liability rule to defective design cases but this court decided to do so.

The court followed the recent California case of *Greenman* v. *Yuba Products Inc.*, 377 P.2nd 897, which was a defective design case. The Texas court said that when the strict liability rule attaches or is applicable, conventional contributory negligence of the plaintiff is not a defense; nor is contributory negligence consisting of failure to discover the defect in the product, or to guard against the possibility of its existence, a defense On the other hand, the form of contributory negligence that consists of voluntarily and unreasonably proceeding to encounter a known danger, passes under the name of assumption of risk, and is a defense in cases of strict liability.

The court said that there is no adequate rationale to apply the rule of strict liability in a defect in manufacture case, but deny it in a defect of design case. (13 AGR. 3rd 1057-1131. (*Pizza Inn Inc.* v. *Tiffany* 454 S. W. 2nd 420.)

* * *

WHEN ARE YOU "on the premises with the permission of the insured"? A 17-year-old girl entered onto the lawn of the insured's premises at 12:30 a.m. and she became engaged in a tussle with another teenager which resulted in her being stabbed. Was this accident covered by the homeowner's policy of the owner of the premises?

The court said "no". The court writes that the evidence was clear that the wounded girl became engaged in a tussle in front of the property of another, and that as the tussle continued, they moved onto the property of the insured where the stabbing occurred. The court said that there was not a scintilla of evidence of neighborhood, or prior conduct on the part of the insured, from which it could be lawfully inferred that teenagers engaged in scuffling and tussling on the sidewalk in front of the property at 12:30 in the morning have the property owner's implied consent or permission to come upon the property to conduct such activities. At the time the girl sustained bodily injuries, she was on the insured's premises without the permission required under the terms of the policy and consequently by its clear and unambiguous terms, the medical payments coverage did not apply to her. Judgment for the insurance company. (*Boston Manufacturers Mutual Ins. Co.* v. *Fornalski* Florida District Court of Appeals. 4/10/70.)

* * *

MUST YOU SHOW complete disability to work under a disability policy?

A truck driver-salesman suffered serious back injuries in a fall. He brought an action to recover total disability benefits under his disability policy. The policy provided for payments where the insured was wholly and continuously disabled and prevented from performing each and every duty pertaining to his occupation.

The insurer paid the injured man a monthly indemnity for a period of one year, but refused to make further payments. The company contended that no indemnity was required so long as the insured was gainfully employed at a job which he was capable of performing. The insured, who was presently employed as a lumber grader, which involves some manual labor, contended that he was entitled to disability benefits from the insurer so long as he was unable to perform his former job as a truck driver-salesman. He contended that he knew no other specialized work and that he did not have vocational training for any other employment.

The court said that there was no direct evidence that the insured did not have the ability to be employed as a lumber grader prior to his injury. The burden was on the insurer to prove that he could not, with any degree of success, within the range of his normal capabilities, earn wages or profit in some occupation or gainful pursuit. "Any occupation clearly means considerably more than his regular and customary occupation. Therefore, the court concluded that the insured had not sustained the burden of proof required in order to receive further disability benefits. Judgment for the insurance company. (*Leinum* v. *Continental Casualty Co.* Washington Court of Appeals 4/27/70.)

* * *

ARE BLANK traveler's checks negotiable instruments for which the issuer is liable to a bona fide purchaser for value? In this case a thief stole blank traveler's checks and negotiated them to third parties for value and without notice. Courts have arrived at conflicting results.

The Hawaii supreme court now says that traveler's checks have been accepted by the public as a medium of exchange and have acquired negotiable characteristics by established custom and general acceptance by the public, rather than by conformity with the provisions of the Negotiable Instruments Law or of the Uniform Commercial Code. Traveler's checks are advertised to be and are accepted by the public as being a medium of exchange that takes the place of money, and they should be subjected to the same rules of law applicable to money under like circumstances.

The general rule is that when one in good faith acquires posses-

Continued on page 21

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opinions

No-fault dilemma

PASSAGE OF a limited no-fault auto insurance law in Massachusetts provides the first chance to see how the no-fault principle will work. In theory, at least, eliminating the finding of fault in awarding auto accident claims should save time and significant amounts of money for insurance policyholders.

Perhaps the most striking thing about the passage of the new law in Massachusetts was the sucessful last-ditch battle put up by the auto insurance industry to protect its two most cherished rights: premium adequacy and underwriting integrity.

As first drafted and signed by Gov. Francis W. Sargent, the no-fault law would have imposed a 15% premium cut and also would have taken away insurers' authority to cancel policies. There was a predictable uproar, which reached fever pitch when a number of auto insurers threatened to withdraw from auto insurance underwriting in the state.

The premium reduction was proposed because presumably the no-fault plan would reduce auto insurance losses by making workmen's compensation awards and hospital insurance payments offsets to claims settlements for personal injuries. Amounts paid from other sources would therefore be deducted from auto insurance claims payments. But insurers are wary and successfully insisted on the right to impose rate increases as early as 1972.

Insurers also successfully insisted upon the right to cancel policies for cause, including conviction of a moving violation or involvement in a reportable accident within a 12-month period. Such cancellation provisions were written into the amended law giving insurers wide latitude in rejecting risks. These provisions, like premium rates, must stand the test of time and practice. If insurers make indiscriminate use of their cancellation rights, they can confidently expect amendments to the law and action by the Massachusetts insurance department to protect the public.

A dilemma of particular concern to motor fleet operators is also presented by the no-fault law in Massachusetts. This involves the impact of the no-fault principle on the relative insurance costs of private car owners on the one hand and operators of motor fleets on the other.

Motor fleet operators under the new Massachusetts law get what *Business Insurance* described as a "windfall." Commercial vehicles may enjoy a 30% reduction in premiums under the no-fault law, depending upon early underwriting experience. This situation arises because no distinction is made between commercial vehicles, with a high level of accident exposure, and private vehicles, which are typically driven much less. Greater offsets to auto insurance claims would arise for commercial insureds because of workmen's compensation coverage for drivers injured in accidents.

Massachusetts' new law is, in this respect, quite different from a no-fault auto insurance proposal offered in New York by Gov. Nelson Rockefeller and Insurance Superintendent Richard E. Stewart. Under the New York plan, now pending before the state's legislature, commercial vehicles would be held "absolutely liable for injuries and damage they inflict on private autos and their passengers, regardless of fault. Under the New York plan, commercial vehicles are in the same legal positions as drunken drivers, who are also held absolutely liable.

Before the absolute liability rule was inserted into the proposed New York no-fault plan, drafters of the legislation considered various cost distribution plans to more equitably impose auto insurance premium costs. In the end, all differentials were rejected in favor of absolute liability for commercial vehicles. Legislative spokesmen for the American Society of Insurance Management made a strong statement against the absoute liability rule in behalf of operators of motor fleets who felt that some fair way should be found to retain a balance in auto insurance costs.

There is a big difference between getting a "windfall" in Massachusetts and facing "absolute liability" in New York. Operators of commercial vehicles, who pay some $2.3 billion for auto insurance, have an important interest in how no-fault plans are drafted. We suggest that they pay close attention to the spate of no-fault bills that will be considered in months and years to come.

Ideally there should be some equitable division of insurance costs between private and commercial vehicle operators. Various percentage figures have been suggested to adjust the disparity by weighting premiums. Whatever the proposals, commercial vehicle operators should not only vigilantly protect their own interests, but they should also be wary of no-fault plans that provide them with windfalls.

While risk managers with motor fleets garaged in Massachusetts may be delighted to learn that they may save as much as 30% on their auto liability insurance premiums, they must also recognize that the owners of private passenger cars will become aware very soon that there has been a shift in the premium burden. It was this joker in the no-fault plan that caused the American Insurance Assn. to shift its ground several times before it came out with a firm proposal for no-fault auto insurance.

Reform of the auto victim compensation system is too important to be run into the ground by plans that inequitably favor one insured over another. Insurers and insureds share the responsibility of making the reform plans work, but both face the problem of effectively communicating their concerns and their needs to legislators who may not understand their problems or who may have vested interests of their own.

Scant credit accrues to the auto insurance industry and its trade associations for going off in several directions at once on the issue of auto victim compensation reform. Confusion brought about by the intra-industry debate can be cleared up in part by straight thinking on the part of motor fleet operators who understand the problems and the important challenge involved in efforts to reform a costly and burdensome system of compensating victims of auto accidents.

MEN 62 AND OVER GRANTED RETIREMENT BENEFITS IN 1969

Benefit category	Number of men
Regular, currently payable	65,000
Reduced, payable before age 65	368,000
Conditional and deferred due to continued employment	275,000
Disabled worker benefits converted	65,000
Transitional insurance	3,000
	776,000

In 1969 retirement benefits were received by 776,000 U. S. men age 62 or over. Only 65,000 men, however, received regular, currently payable benefits because they had reached the age of 65. The fact that one-third of those "retired" continued to have some form of employment must be considered when asking, "What is retirement?"

Source: Social Security Administration

Broadening benefits

AN ARTICLE on "offbeat benefits" in the Aug. 31 issue of *Business Insurance* pointed out that Hawaiian hula dancers get an allowance to buy ti leaves for hula skirts under a union contract and that expectant mothers, even though unwed, may get maternity benefits under a labor contract signed by Philadelphia food stores.

These "offbeat" examples serve to point up the broadening of employe benefits, those granted under union contracts as well as those voluntarily offered by employers. Employes often demand certain benefits with the same vehemence that they use in asking for pay increases.

But too often employers grant benefits without communicating their cost to those who receive them. In some industries benefits cost as much as one-third of the workers' gross pay, but this becomes an employers' outlay hidden from employes who take the benefits for granted.

There is perhaps no area of business insurance so neglected as the communication of the value of employe benefits. If your company pays for ti leaves for hula dancers or maternity benefits for unwed mothers, say so. And it's a good idea to tote up benefits from time to time and list them for employes who ought to be grateful for what they get beyond the pay envelope.

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letters

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

More eye care info

To the Editor: In your May 11, 1970, issue of *Business Insurance* reference is made to the new vision care insurance program developed for the members of the Plumbing Heating Cooling Contractors of San Francisco Inc.

The plan, called the Green Cross Eye Care Plan, is quite unique and I would like very much to learn more about it. Could you possibly advise me as to whom I might contact in order to obtain additional information?

R. E. Humes
Administrative Assistant, Employe Benefits Bristol-Myers Co., New York, N.Y.

Editor's note: The executive manager of the trade association told Business Insurance *that further information is available from Paxton Beale, director, Green's Eye Hospital, 1801 Bush St., San Francisco, Cal.*

Nuclear cover reprint

To the Editor: The Atomic Industrial Forum Inc. would like your permission to reprint Susan Trausch's very fine article on nuclear insurance, (June 22). Our aim is to disseminate the article to present and prospective forum members. We will of course give due credit to *Business Insurance.*

Carl A. Goldstein
Assistant Public Affairs Manager, Atomic Industrial Forum Inc., New York, N.Y.

Editor's note: Permission granted.

More self-insurance

To the Editor: I am writing in response to the article by E. V. Anderson, "Self-insurance of workmen's comp is not a panacea," which appeared in the July 20 issue of *Business Insurance.*

I am manager of the self-insurance department of Assurers' Service Inc. We administer programs for large corporations and on a day to day basis. I strongly disagree with Mr. Anderson and the reasons are as follows.

Since self-insurance of workmen's compensation has been in existence in Massachusetts since 1937, I presume we can consider it an accomplished fact, and not the result of the current high cost of money described by Mr. Anderson.

Mr. Warren's article of June 8, "Self-insurance of workmen's compensation: A new tool for management," briefly mentions excess insurance which, in fact, is a major factor in the self-insurance program. The excess aggregate insurance generally attaches at the 75% point of the normal premium. The 75% represents a loss fund out of which the self-insurer pays losses. If the total paid losses exceed 75% of the normal premium, the excess carrier will reimburse the self-insurer from the 75% attaching point up to the limit of the policy which is generally in the area of $1 million for a small- to medium-sized company. The remaining 25% of the normal premium is the basic cost covering the cost of the excess aggregate insurance, the claims handling and safety engineering fee and the cost of the bond when applicable. Using this arrangement, the self-insurer cannot exceed the total normal premi-

Continued on page 22



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Time Inc., with no libel cover, retracts part of Fortune article

NEW YCRK—Fortune magazine has admitted to a series of errors in an article in its August issue and has offered a formal and published retraction of some parts of the article, which was critical of Peat Marwick Mitchell & Co. and its involvement as auditors for the Penn Central Co.

Time Inc., the publisher of Fortune, does not carry libel insurance "as a matter of publishing philosophy," according to company officials. The publisher feels such coverage might impugn its reputation.

The article in dispute was entitled "The Penn Central Bankruptcy Express." It accused Peat Marwick of allowing the company's 1969 annual report to put "a healthy visage" on a company that was actually in financial trouble. Penn Central's transportation subsidiary petitioned for reorganization under the Bankruptcy Act in June.

"THANKS TO some unique bookkeeping, the parent Penn Central Co. was able to report remarkable profits, happy figures that lulled creditors, shareholders, directors, and managers," the article charged. The accounting firm is one of the "Big Eight" public accounting firms in the country. It gave its certification to the financial report.

Peat Marwick vigorously protested to Fortune on several points in the article and subsequently received a concession from the magazine's managing editor, Louis Banks, that it was wrong on several counts.

In a four-page letter to Fortune, Walter E. Hanson, senior partner of the firm, took sharp issue with ten specific points in the article and with an editorial published in the same issue that suggested auditing standards be tightened in the accounting profession.

An editorial comment issued subsequently by Fortune said: "In its references to accounting practices, Fortune acknowledges that its own analysis of the Penn Central figures, drawn from reports on file with the Interstate Commerce Commission, is in error in the instances cited by Mr. Hanson."

An example of the errors is the following:

THE FORTUNE story said certain dividends declared by Penn Central subsidiaries to the parent company increased consolidated net earnings of the parent firm by $17.3 million or more.

Mr. Hanson, in refuting the charge, wrote, "This is untrue. Such dividends are eliminated in consolidation (of the companies' financial reports) and have no effect whatsoever on consolidated net earnings."

The Fortune article also dealt at some length with a number of aspects of the collapse of the large transportation company, other than accounting.

Mr. Banks said Fortune stands by the article in all other aspects except for the portions dealing with accounting, where "we were wrong."

Publishing industry sources questioned felt that "Fortune and, more particularly, Time Inc. took the only way out. Peat Marwick apparently had a tight case and had a court battle ensued who knows just how much it might have cost Time to repair the damaged reputation of a large accounting firm." ■

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Graham heads Ga. ASIM

ATLANTA, Ga.—Charles E. Graham, attorney for Colonial Pipeline Co. here, has been elected president of the Atlanta chapter of the American Society of Insurance Management.

The chapter now has 40 members and Mr. Graham told *Business Insurance*, "We're reorganizing this year and one of our



Charles E. Graham

objectives is to make a serious membership drive among the several national companies with headquarters or regional office in Atlanta."

The candidates for the Georgia insurance commissioner's office will be featured speakers in the upcoming year, he said.

Other officers elected were: W. D. Dodge, division insurance coordinator for Lockheed-Georgia Co., first vp; J. Al Friday, corporate insurance administrator for Colonial Stores Inc., second vp; Robert S. Spencer, director of insurance for Fuqua Industries, secretary; and Robert Aiola, senior insurance analyst at Coca-Cola-U.S.A., treasurer. ■

C & B may merge with two firms

NEW YORK—Corroon & Black Corp. has reached agreements in principle to merge with two other firms, one a San Diego broker and the other a New York reinsurance intermediary.

The California firm is Carter & Higgins, a multiple line broker employing about 15 persons. That deal, if completed, will add an eighth city to Corroon & Black's U. S. network of branches. The New York-based broker presently has offices in Chicago, San Francisco, Los Angeles, Portland, Salt Lake City and Honolulu.

The agreement between C&B and G. L. Hodson & Son Inc., New York reinsurance intermediaries, will strengthen Corroon & Black's present reinsurance intermediary facilities, according to Richard A. Corroon Jr., president of the corporation. The company at present has such facilities in R. F. Corroon Associates.

The Hodson firm, which employs about 25 persons, will continue to do business at its present location.

Corroon & Black Corp. has made several acquisitions in recent years. Earlier this year it acquired Alexander & Co., Chicago broker. ■

Nader is asked to show how he has been 'harmed' by Hartford-ITT deal

HARTFORD—Legal counsel for consumer advocate Ralph Nader has been asked to show that Mr. Nader has been "harmed" by the Hartford Fire Insurance Co.-International Telephone & Telegraph Corp. merger.

A Connecticut assistant state attorney general, Raymond Cannon, argued before Hartford County Superior Court Judge Leo Parskey late last month that if Mr. Nader suffered no harm he has no basis in law for appeal of the merger.

Mr. Nader's attorneys—Dwight O. Schweitzer and Bruce Mayor—provided preliminary arguments to the appeal before Judge Parskey. Mr. Cannon was there to defend Connecticut Insurance Commissioner William R. Cotter's approval of the merger of the Hartford insurance giant with the conglomerate. Also in court were lawyers for Hartford Fire and ITT.

JUDGE PARSKEY asked if the state attorney general's office may not have dual interest in the case, since the office has a broad duty to protect the public interest and Mr. Nader's appeal has charged that Mr. Cotter's decision went against the public interest. The judge asked Mr. Schweitzer and Mr. Mayor how the court could distinguish a party with a legal right to appeal from one which had no right.

"How do you distinguish between an officious interloper and a party in good legal standing?" he wanted to know. "If all but one stockholder turned in his stock to ITT, should that one stockholder have the right to an appeal? And, if you have a public official sworn to act in the public interest, can you start with the argument that he will not act in the public interest?"

Mr. Nader's counsel cited legal precedents that could be interpreted to mean that Mr. Nader has defended the public interest in the past and hence his present action follows a tradition.

Judge Parskey asked Mr. Cannon if the state attorney general's office, in fact, had a dual interest —that of protecting the public interest and that of defending a Cotter decision?

"AND, IF THE attorney general and the insurance commissioner decided an issue hypothetically opposed to the public interest," the judge continued, "how do you create an adversary proceeding and how do you give the court the chance to hear the other side?"

Connecticut Public Act 444, controlling Connecticut insurance mergers, was designed to protect stockholders and policyholders, according to Mr. Nader's counsel, and it is sufficient to show an individual is a stockholder and policyholder to satisfy state law provision for aggrievement, they said.

But Mr. Cannon remarked that the state law was designed to control "unfriendly" take-overs of Connecticut insurance companies.

He noted, too, that neither Mr. Nader nor his legal representative had ever bothered to attend the three days of hearings on the Hartford Fire-ITT merger, conducted by the Cotter office.

THE ISSUES of "aggrievement" and jurisdiction came under argument before Judge Jay E. Rubinow in June but only as applicable to cross motions brought by the Nader legal counsel and Hartford Fire-ITT. At the time, Judge Rubinow ruled that there were no grounds on which to hold Hartford Fire-ITT in contempt. However, he ruled Mr. Nader had been aggrieved and should be allowed to pursue the case on its merits.

The Aug. 28 hearing, as pertaining to jurisdiction and aggrievement, pointed up arguments

Continued on page 46

Giles . . .

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sion of stolen money for a valuable consideration, his title is superior to that of the true owner. See *Ohio Casualty Co.* v. *Smith* 297 Fed. 2nd 265 and *First National Bank of Birmingham* v. *Gilbert & Clay*. 49 So. 593. In *Cook* v. *U.S.* 91 U.S. 389, the Supreme Court held that treasury notes were intended to circulate and take the place of money, and therefore; upon being printed, the U.S. is required to pay bona fide holders of such notes even though they were stolen and placed unlawfully in circulation. Similarly, traveller's checks, upon being printed, become a medium of exchange and acquire negotiable characteristics, and *all* the *risk* of *theft* is with the issuer. Therefore, the issuer is liable to any bona fide holder of traveller's checks who has paid a valuable consideration. (Hawaii Supreme Court. *Ashford* v. *Thomas Cook & Sons* 6/12/70.) ■

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letters

Continued from page 18

um. However, he does have the opportunity to realize savings when the losses are below the 75% point. Also, since the losses are paid only as a result of a claim and then spread out over a period of time, the self-insurer has the advantage of the use of the funds.

While the larger premiums of $100,000 and up provide the possibility of larger savings, we service companies of half that size who enjoy proportionate savings. More important than the size of the premium, is the competence of the service company that administers the program. In my opinion, the competent service company provides at least the same degree of efficiency and specialization in claim and safety work as Mr. Anderson feels favors the insurance carriers. In addition, the service company provides the "third party cushion," an area in which Mr. Anderson and I see eye to eye. The service company also provides a *monthly* statistical report giving complete financial details of the open claims and a cumulative report of closed claims.

Mr. Anderson considers the statement by Mr. Warren concerning improved employe relations as "a matter of opinion, not a statement of fact." My experience with corporations with varied interests leads me to conclude, as fact, as concerns these accounts, that employe relations are improved through the self-insured program for the reasons outlined by Mr. Warren.

As regards reserving of claims, all losses go into the Loss Fund as pure losses without expense factors. Of course, the basic cost previously described is the only expense factor concerning the *entire* program. The reserves are realistic as the only consideration is the merit of the individual case.

When compared with the retrospective plans offered by carriers throughout the country, a self-insured program will compare favorably in every case except when the losses are below the basic cost of the self-insured program. As the losses increase, the expense factor of the insured plan places the self-insured plan on top. Any insurance buyer can determine which plan would have been more advantageous to his client in any given year, or years, by merely taking the normal premium and multiplying that by .25. This figure is the basic cost. Adding the pure dollar losses to the basic cost will give the total net cost for that year for a self-insured plan. Compare this with the net retrospective premium and you will have the answer. Of course, you will have to wait generally three years for the final one year figure in a retrospective plan. The self-insurer will not mind waiting since he has the advantage of retaining the open reserves.

The advantages of a self-insured program administered by a professional service company are fact. We have a shoe company in its 34th self-insured year and a boiler manufacturer in its 25th year. There are 120 self-insurers in Massachusetts, a figure that has steadily risen.

Alvin J. Sims
Manager, Self-Insurance Div., Assurers' Service, Inc., Boston, Mass.

Unaware of factors

To the Editor: On June 8 you published an article of mine titled, "Self-insurance of workmen's compensation: A new tool for management," in which I attempted to explore some management aspects of self-insurance which are not often articulated. You subsequently printed an article by Mr. E. V. Anderson of Johnson & Higgins in N. Y., titled "Self-insurance of workmen's comp is not a panacea."

Mr. Anderson made a number of true statements—all of which remind me of an old, somewhat bawdy, story attributed to Abraham Lincoln. It seemed the Great Emancipator, in his early days as a lawyer, was summing up a case to the jury, saying that his opponent's argument reminded him of the farmer who was going about his business when his 8-year-old son came running up shouting, 'Paw, paw! Better come on down to the hay stack quick. The milkmaid and the hired hand are both on the hay. She is pulling up her dress and he is taking down his pants and if you don't come quick they're going to wee-wee all over the hay." To which Lincoln added, "My worthy opponent has his facts straight but his conclusion is in error."

The farmer's son in this story made an inaccurate evaluation because he was unaware of some essential factors. Similarly, it seems that Mr. Anderson underestimates the enormously important elements of motivation, incentives and other behavioral characteristics, not to mention the decided advantages of *direct* management through selected, skilled administrators. He also seems to have little appreciation of the importance of cash flow to a company.

Notwithstanding the government statistics quoted by Mr. Anderson, there is a growing movement today by substantial organizations to provide specialized services of claims-handling and loss prevention to self-insurers. For example:

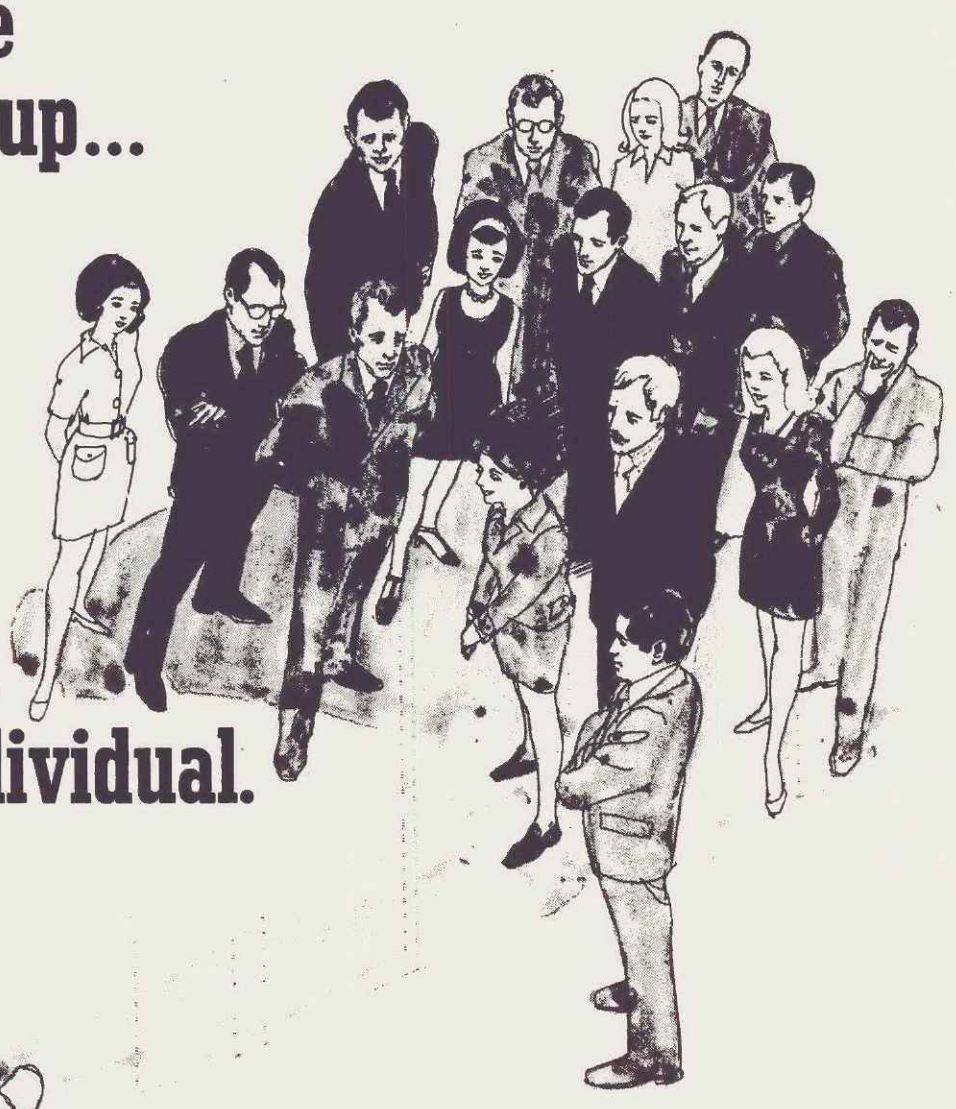
- Employers Self-Insurance Service is an established workmen's compensation service organization affiliated with INA. Though they operated quietly in the past, so as not to arouse the independent agents, they are now taking out institutional advertising in at least one national publication.
- National Compensation Claims Services, Inc. is a newly formed organization of a similar type affiliated with the Kemper Group.
- One of the largest adjusting firms in the West, Brown Brothers, has stepped up its offerings to comp self-insurers by the addition of a full-time executive, just hired from the State of California Self-Insurance Department, to head this function.
- R. L. Kautz & Co.—another firm in this business—has been acquired by Pinehurst Corp., a forward-moving and aggressive congeneric of insurance and related services.
- Gates, McDonald & Co., probably the largest firm in this field, is expanding rapidly, coast to coast. It recently affiliated with Nationwide Corp.

Add to these straws-in-the-wind the fact that many respected, responsible insurance companies will now meet competition in selected cases by providing compensation services on a fee basis, exclusive of insurance, and I see no diminution of interest in self-insurance.

Now, since Mr. Anderson is in New York and I am in California, it may appear that this growing interest in compensation self-insurance is a regional phenomenon. If so, it won't be the first time California has been a bellwether. Its over-20-year-old rating law is now embraced in essence by most industry groups in spite of the fact that it repre-

Continued on page 40

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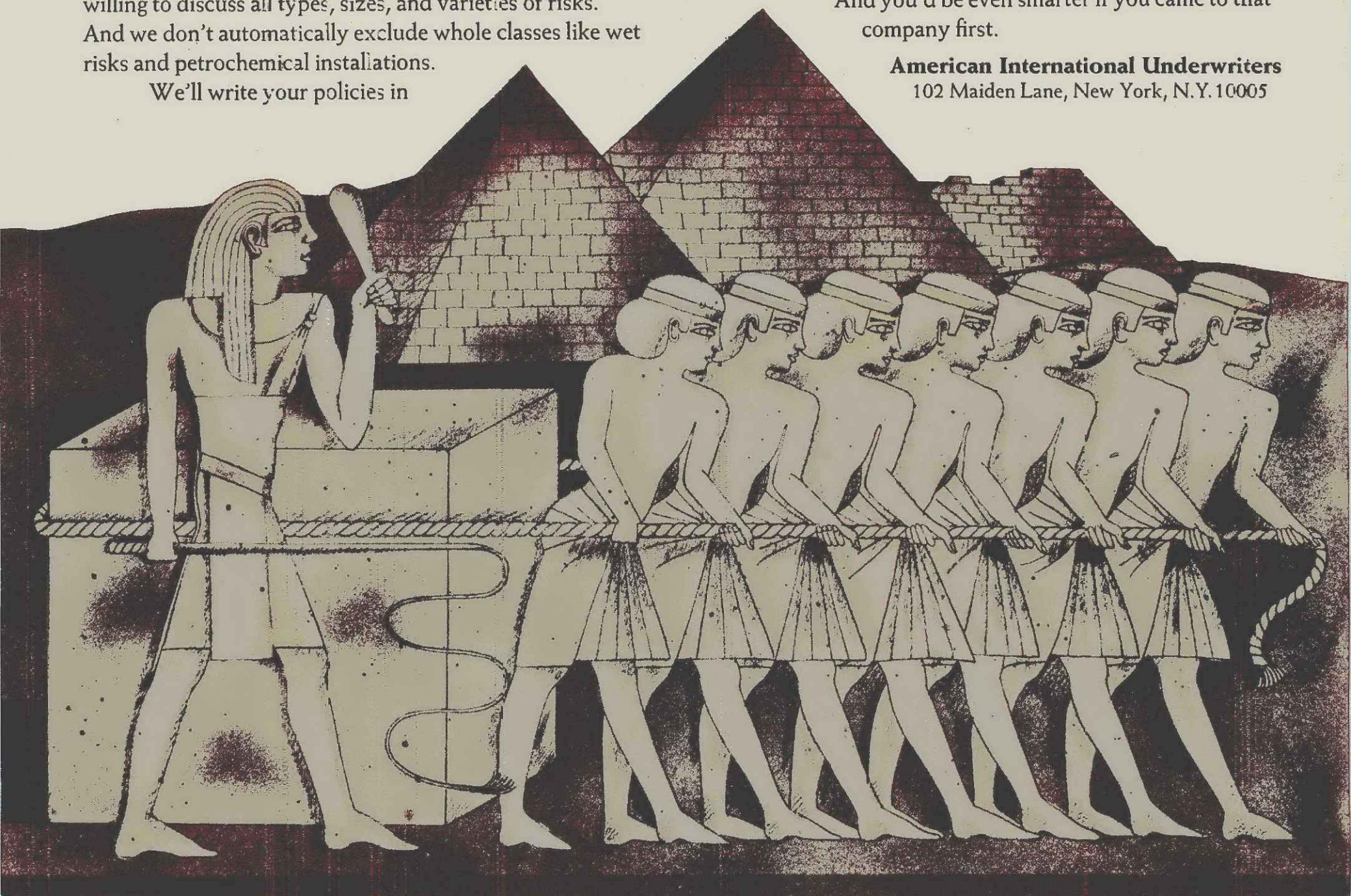
We'll write your policies in English or the local language. Or both. And in most cases we can settle your claims in dollars or the local currency. Or both.

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U.K. reinsurance chief asks for risk data banks to benefit entire market

LONDON—Are insurance companies and underwriters still too shy to disclose their risk exposure secrets to outside agencies? This problem was posed by Julius Neave, chairman of Britain's Reinsurance Offices Assn., when he called for a bigger effort to set up massive "data banks" on major risks in the interests of the whole insurance market.

Guest speaker John A Diemand Jr., senior vp at Insurance Co. of North America, was among several representatives of American insurance firms at the association's annual conference when this suggestion was made. Mr. Diemand, chairman of the Reinsurance Assn. of America, agreed with the value of information about perils of all sorts and pointed to the important part that London naturally plays in the reinsurance market.

But the main challenge, together with a warning on the effects that would face many risk managers if reinsurance capacity suddenly dropped, came directly from Mr. Neave, general manager of London's Mercantile and General Reinsurance Co., in his annual report, when he said:

"REINSURERS have long been accepted as an integral part of the market, but we must now aspire to a better understanding of our needs.

"There is an irreducible minimum of information without which we cannot properly function. But our requirements are sometimes misunderstood by those who can meet them.

'They involved statistics of larger losses, whether they be property or liability, but this particular information is sometimes jealously guarded by direct insurers The reason for this is obscure. It is difficult to see how the wide distribution of such information could be detrimental to them, for if it facilitated reinsurance rates, they would benefit in a very obvious way."

After indicating that life offices already exchanged mortality risk information, Mr. Neave urged that in the present climate of major risks, information on other types of exposures in modern commercial life would enable commitments and capacity to be better organized if direct insurers would follow the life example.

MUCH WORK has been done in Western Europe outside Britain to set up data banks of risk information for the better control of major risks, and the expense of passing it along was amply justified.

Finally he warned: "Reinsurers cannot continue to operate in a vacuum without incurring the risk of a further dose of the sort of loss experience from which we suffered in the sixties.

"If this should occur again, I would hazard the guess that reinsurance markets as we know them today will have a very different appearance. Capacity will become scarce, and the cost of reinsurance protection will soar, with the result that industry will be forced more and more to become its own insurer.

"None of these eventualities will be welcome to any section of the insurance industry, but reinsurers stand at the end of the line, and these consequences will follow if we cannot effectively improve control." ■

MTA has liability headache

NEW YORK—Although property damage was slight in the subway tunnel fire that killed one passenger and hospitalized six others early Aug. 2, the Metropolitan Transit Authority says it is expecting a lot of liability headaches in the future.

This is the second major accident in three months for the MTA, which is self-insured for property damage and has an $11.3 million Lloyd's of London liability policy with a $1 million deductible. Last May two people were killed in a rush-hour collision in Queens.

In the most recent mishap, a fire blocked passage through a lower Manhattan tunnel and forced a motorman to stop his train and lead 50 people back along a catwalk to the Bowling Green station. The injuries and death were caused by smoke inhalation.

AN MTA spokesman said that final reports have not been released, but that the fire probably started in a cable and spread by igniting the steel dust on the tracks.

"The damage to tracks and cables is minimal and could be repaired in a few hours," the MTA official said. "Our big problem is liability claims on this and the Queens accident."

He said that tunnel fires were common, but that no one had been seriously injured in them before.

"Sparks fly from the friction of the wheels on the track," he noted, "and this often ignites the newspapers lying along the tracks. Usually a motorman puts it out with a bucket of water."

He said special crews were sent around to investigate tunnel cables after the fire. ■

$4 million class action

TOLEDO, O.—Families who live in the neighborhood of Interlake Inc.'s steel plant have filed a $4-million damage suit against the company.

The class action by 76 families charges Interlake's manufacturing processes with having caused air and water pollution and creating a "health hazard" for residents in a one-square-mile radius of the plant.

In seeking an injuction against the alleged pollution, the suit charges that the company has done nothing to curtail the pollution in an "intentional and concious disregard for the health safety and welfare" of the families.

Most of the 76 families filing the suit are members of the Front-Wheeling Area Neighborhood Council. George Hewes, the council's attorney, said there are about 700 persons living in the square-mile area around the plant.

The suit charges that Interlake's manufacturing processes discharge many obnoxious particles into the air and these are then blown onto the families' property. ■

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For all the facts, write Mr. R. L. Pardee, Manager of Marketing Services, Dept. H-B, "Automatic" Sprinkler Corporation of America, Box 180, Cleveland, Ohio 44117. Or, look under "Sprinklers-Automatic-Fire" in the Yellow Pages.



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City employes may get full-pay pension after 40 years' service

NEW YORK—The city and a union representing 120,000 city employes have reached agreement on a new contract that will provide a full-pay pension after 40 years of service and a half-pay pension after 20 years.

"But you have to remember," Anthony Russo, deputy director of the office of labor relations, told *Business Insurance*, "that this is still subject to the approval of the city council, both houses of the state legislature and the governor. As of right now, it's still a proposal."

A union spokesman said he believed the contract would provide the highest pension benefits in the country.

Mr. Russo pointed out that the plan would not be integrated with Social Security. "This is over and above Social Security," he said, "and there will be little or no change in the cost to the employe."

MOST OF THE people covered by the new contract are office and clerical personnel in various city departments. Mr. Russo said that the plan will "cost people in office positions about .5% and the city will pick up the rest. Pension fund used to be about 16% of payroll. If this goes through pension fund will be about 18.5%."

Victor H. Gotbaum, executive director of District Council 37 of the American Federation of State, County and Municipal Employes, pointed out that one important feature of the new contract was that it will offer a higher pension to professionals and other skilled white-collar workers as an inducement to remain at their jobs for longer periods of time.

"Most other unions have been trying to lower the retirement age, which has resulted in a shortage of professionals in the public service," Mr. Gotbaum said. "Our contract will give professionals and other white-collar employes an incentive to remain on the job.

"The whole thrust of our pension program is to avoid generating a second work force (employes who retire at a young age and take other jobs elsewhere) in the economy and instead have employes retire at a good age and at a high pension benefit."

MOST CITY employes now retire at less than half pay after 20 years on the job.

Mr. Gotbaum also pointed out, "In most other contracts, beginning with the twenty-first year on the job, there is a diminishing return to 2.3% or less. In our new contract the figure remains at 2.5%. This means that at 40 years an employe retires at 100% of his pay."

Another important feature of this contract, according to spokesmen, was that it was reached after three months of quiet negotiations without the usual strike threats. The atmosphere had remained calm and that, in itself, made future negotiations look promising.

If the three-year contract is ratified by union members and approved by everyone, the pension program will take effect July 1, 1971. ■

Consumer fraud program initiated

SAN FRANCISCO—A coordinated Federal, state and local campaign to combat consumer fraud has been started here by Caspar W. Weinberger as one of his last official actions prior to retiring as chairman of the Federal Trade Commission. The program will be centered, he said, on a computer system that will process all consumer complaints and assure that each suspected case of fraud is referred to the agency best able to handle it.

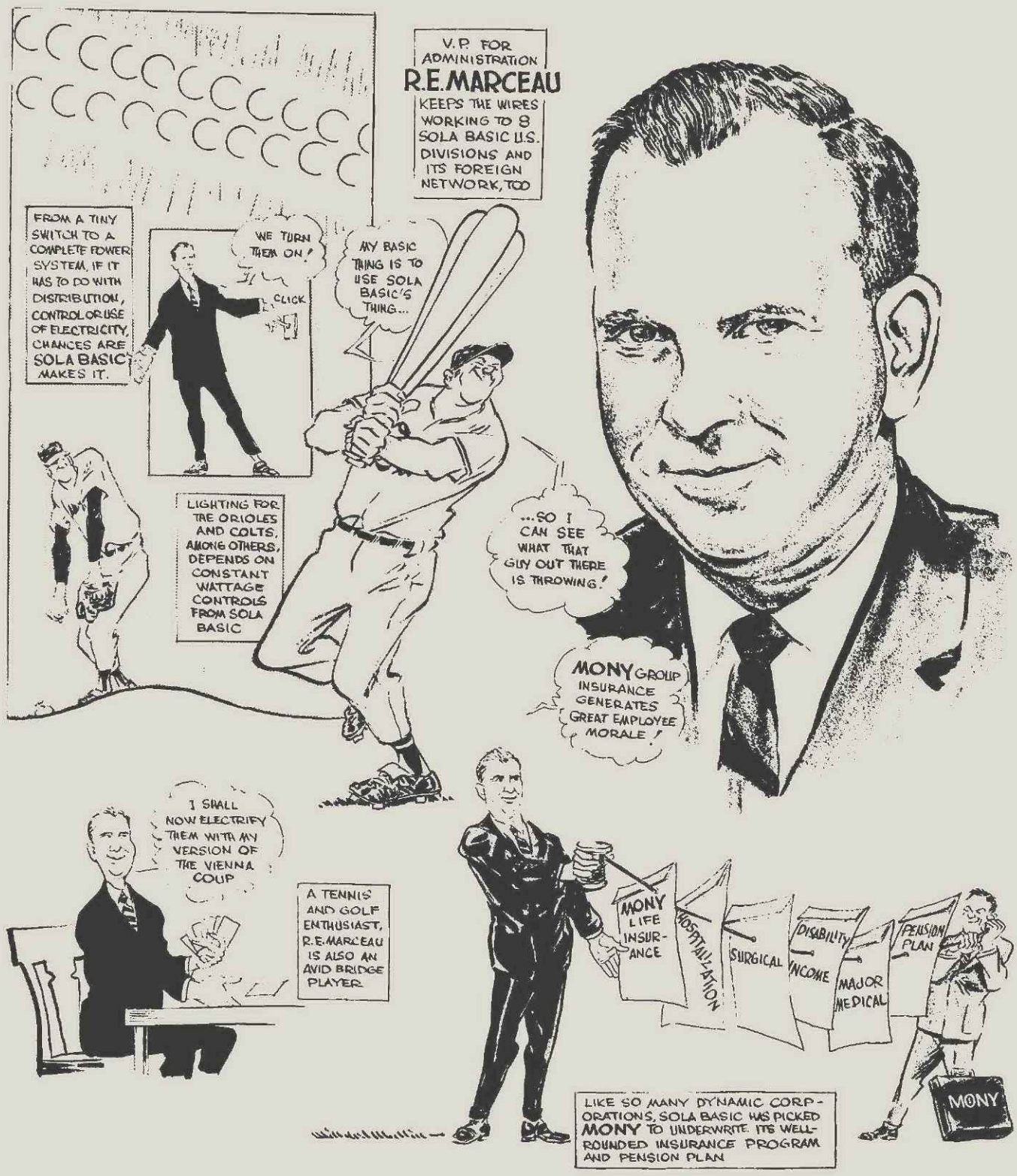
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Fire detector is the heart of fire alarm system

By WILBUR CHARLES

FT. WAYNE, Ind.—Most authorities agree that the fire detector is the most important unit in a fire alarm system. It is an automatic device that watches while its owner sleeps. It provides 24-hour protection, guards the unattended areas in buildings and gives warnings at the first surge of heat from incipient fires.

The fire detectors described here are integral assemblies of heat responsive elements and non-coded electrical contacts that function under conditions of increasing air temperature. They are available in two preset temperature ratings.

Ordinarily, these detectors are intended for locations in which normal ceiling temperatures prevail (up to 100°F). For such locations, detectors with a rating of 136°F are used. In locations in which temperatures at the ceiling are likely to be from 100°F to 150°F, such as boiler rooms and dry kilns, detectors with a rating of 190°F are used.

THE SPACINGS to be used for these detectors depend on the area ratings given by the testing laboratory (Underwriters Laboratories Inc. or Factory Mutual Engineering Division) by whom they are listed. The spacings specified are for flat, smooth construction of ordinary height, generally regarded as the most favorable condition for distribution of heated air currents resulting from a fire. Under other forms of ceiling construction, reduced spacing of detectors may be required.

Special detectors may be required in hazardous and corrosive atmospheres or areas subject to high shock and vibration, but the two basic types of fire detectors are combination rate-of-rise and fixed-temperature, and fixed temperature detectors.

Combination rate-of-rise and fixed-temperature detectors close their contacts to initiate an alarm when the rate of rise of the temperature of surrounding air exceeds a specified rate (regardless of the actual temperature), and/or the air temperature reaches the detector's fixed-temperature rating.

Most types are triggered by a rate of temperature rise of 15°F per minute or more. They are available with fixed temperature settings of 136°F for normal use (where the normal ceiling temperature does not exceed 100°F) or for 190°F settings for attics, boiler rooms or other normally hot areas where the ceiling temperatures may be from 100°F to 150°F.

THESE DETECTORS are open circuit devices using two distinct methods of detection. The rate-of-rise element operates on expansion of air with heat. A flexible metal diaphram is enclosed within an air chamber. A calibrated vent (factory preset) compensates for normal fluctuations in temperature; but a rate of rise greater than the calibrated rate expands the air within the chamber faster than it can be vented, compressing the diaphram to close contacts and initiate an alarm. When the temperature rise ceases, the pressure is vented, releasing the diaphram and opening the contacts. Thus, the rate-of-rise element is self-restorable.

Fixed-temperature detection is provided by a phosphor bronze spring held in tension by fusible solder. When the temperature gets high enough to melt the solder (either 136°F or 190°F), the spring is released and closes contacts to initiate an alarm. The fixed-temperature element is non-restorable.

The detector thus gives double protection: It quickly detects fires that cause surrounding air temperatures to rise rapidly, and also fires when the temperature rises slowly to the fixed-temperature rating. When the detector operates on the fixed-temperature principle, it must be replaced because it is impossible to determine to what excessive temperature the detector may have been subjected; extreme temperatures may destroy its rating and calibration.

There are detectors that restore themselves to normal (contacts open) condition after surrounding air temperature drops back below their fixed rating. However, after their first operation no assurance can be given that they will function properly for subsequent fire detection.

NON-RESTORING types usually give a visible indication on the outside of the detector when they have operated on the fixed-temperature principle, to indicate that they should be replaced.

The combination rate-of-rise and fixed-temperature detector has a high spacing rating, and because it detects fires rapidly, it is highly recommended for automatic detection. Most units are listed by UL for a maximum of 2,500 square feet protection. These should be mounted on 50 foot centers, but not more than 25 feet from walls or partitions extending to ceilings.

This detector, however, should not be used when rapid temperature changes are normally present—near heaters or over oven doors for instance. For such applications, the fixed-temperature type of detector is recommended.

Fixed-temperature detectors are recommended for applications in which the combination rate-of-rise and fixed-temperature cannot be used. They close their contacts to initiate an alarm when the surrounding air reaches their fixed-temperature rating. They have either the non-restoring or replaceable element, and almost always provide a visible indication that they have operated, as described above under the rate-of-rise type. Their spacing is considerably less than that of the combination type.

FIXED-TEMPERATURE, self-restorable detectors are especially suited to installation in kitchens, boiler rooms, areas of heat-producing machinery, entrance areas in cold climates—to any area in which normal temperature fluctuations would trigger false alarms in a rate-of-rise detector. When the temperature reaches a preset limit (135°F or 190°F), expansion of a bimetallic disc closes contacts to initiate an alarm; subsequent cooling restores the element to normal. These units are rated by UL for a maximum of 900 square feet protection. They should be mounted on 30 foot centers, but not more than 15 feet from walls or partitions that extend to ceilings.

Fixed-temperature, non-restor-

Continued on page 27

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ASIM learns about reinsurance myths

SAN FRANCISCO—Members of the Northern California chapter of the American Society of Insurance Management learned this month that the reinsurance business represents "only about 7% of the entire insurance industry" in terms of total premiums paid.

"One of the truly great misconceptions about reinsurance," said James D. Koehnen, of American Re-Insurance Co., "is the assumption that this portion of the industry is much larger than it is. This, in turn, leads to another incorrect assumption that reinsurance can solve most of the industry's problems."

Of the four carriers involved in the professional reinsurance field, Koehnen asserted, "combined they are only about the same in size as such a single primary carrier as United States Fidelity & Guaranty Co.

"AS A RESULT," he added, "if the reinsurance industry does its job, it stabilizes the loss ratios of an industry that is much larger than it is itself."

Mr. Koehnen also told the group, "We should destroy the myth that reinsurance is a very profitable business. Actually it is not. With a combined five-year loss and expense ratio of 103, it has been as unprofitable as have the primary carriers. U.S. reinsurers are only now beginning to show a slight profit."

The vp does not believe corporate insurance managers could do very much to improve or reduce problems of reinsurance "except to convince companies of the need to consider insurance when building new plants."

In answer to a question relating to "bargains" in insurance coverages offered by primary carriers, Mr. Koehnen and most of the risk managers in the audience agreed on the need "not for dollar savings so much as for a relationship with an underwriter who will remain with the risk. He added his conviction that "removing the relationship of excess coverage from the primary rate has facilitated coverage for truly catastrophic situations.

"A great deal is being accomplished," he said, "by an insistence on much higher limits of retention by primary carriers. In the past such carriers have been reluctant to retain anything beyond $25,000 to $100,000.

"Many companies," Mr. Koehnen concluded, "by virtue of their deductibles, have actually been employing higher retentions than have the primary carriers." ■

Detectors . . .

Continued from page 26

able detectors are single-action devices that consist of a phosphor bronze spring held in tension by fusible solder. When the solder melts from heat, the spring is released to close contacts and initiate an alarm. When this occurs, an indicator usually shows that the detector must be replaced. These units are rated for a maximum of 225 square feet protection. They should be mounted on 15 foot centers, but not more than 7.5 feet from walls or partitions that extend to ceilings.

Fixed-temperature, replaceable-element detectors are based on a fusible-element alloy mounted in a heat collector that must be replaced to restore the detector to service. These detectors are usually rated for a maximum of 900 square feet protection. They should be mounted on 30 foot centers and 15 feet from walls. Some varieties of this detector contain double-pole contacts so one set of contacts can be used to operate an annunciator.

High and low temperature elements may be interchanged to suit specific requirements. ■

Trimborn joins Byrnes-McCaffrey

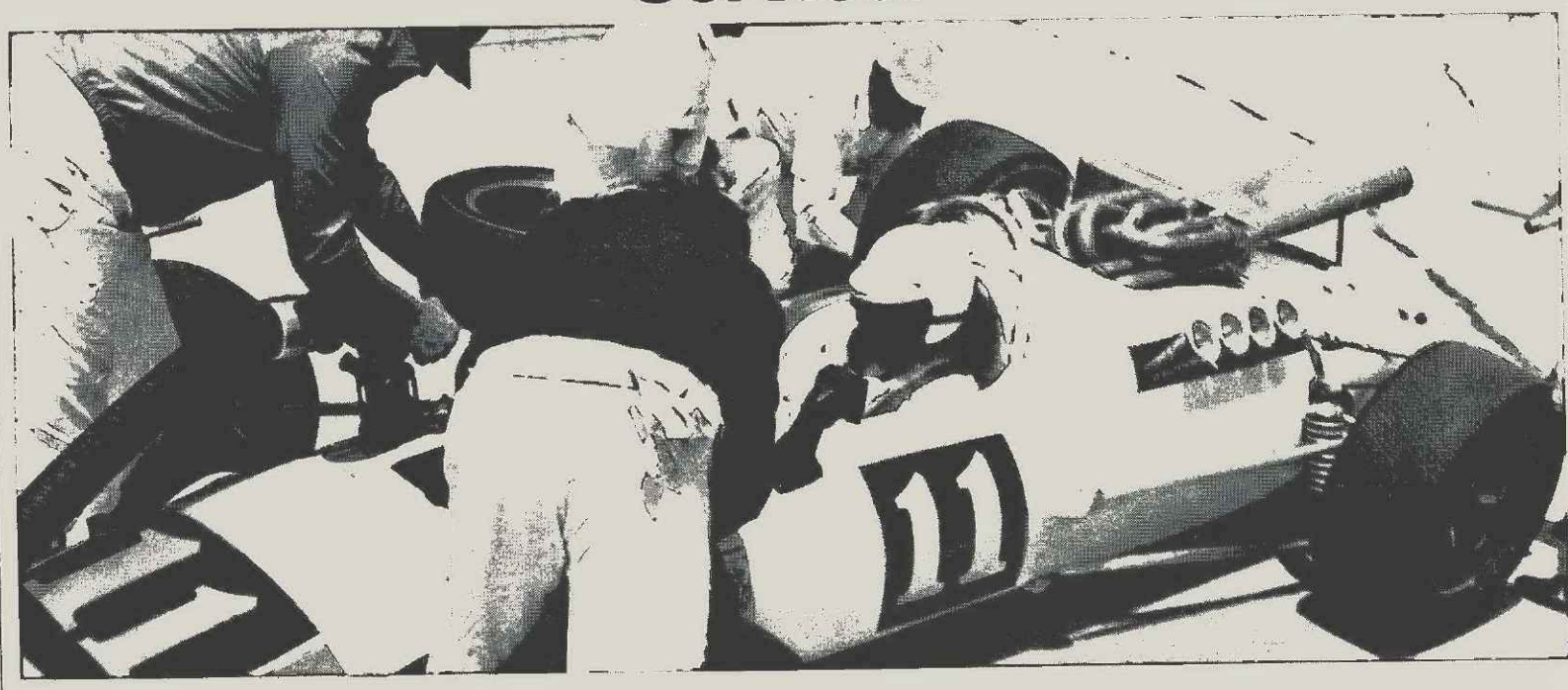
N. P. Trimborn has joined Byrnes-McCaffrey Inc., as general claim counsel dealing with the insurance programs that the firm has developed for the moving and warehousing industry. Mr. Trimborn presently is chairman of the claim committee of the American Movers Conference.

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Chemists to establish 'hotline' for accidents

WASHINGTON—The Manufacturing Chemists' Assn. (MCA) is currently developing what it calls "CHEMTREC," an acronym for Chemical Transportation Emergency Center.

Every day and night, hundreds of long tank trucks make their way through towns and cities all over the country, carrying a variety of chemicals. The public is largely ignorant of most of them. The National Safety Council reported that there were some 51,300 accidents involving flammable liquids in 1968 that resulted in damages totaling $59.4 million. A comparable amount was lost that same year in over 3,800 incidences of chemical fires in industrial buildings.

Soon, in case of a derailment, collision or other accident involving even the most esoteric of chemicals, firemen and other emergency units will have instant recourse to a Washington "hot-line" when they don't know how to handle a substance.

"I want to emphasize that our emergency system is not in effect yet," a MCA official told *Business Insurance*. "We won't actually have it in operation for at least four or five months," he said.

"WHAT WE PLAN is a central phone exchange that will advise emergency crews, police, and firemen on what kind of response they should make when they're confronting an emergency involving a chemical they know little or nothing about," he explained.

The source noted that the need for the system grew out of his organization's talks with Department of Transportation officials. "We discovered that an alarming number of fire service personnel, when responding to a chemical problem, didn't know what to do. We feel that this phone service (which will be free to the caller) will help to solve this problem," he pointed out.

The CHEMTREC system is not planned as an advisory service on long-term hazards, the spokesman said. However, if a train, for instance, derailed in Des Moines carrying a rare, highly volatile chemical, firemen dealing with the problem could call Washington anytime, day or night, to find the answers to such questions as: Is it going to blow up? Should we evacuate the block or the town?

The MCA CHEMTREC system is planned to approximate another emergency network that is currently in operation by the National Agricultural Chemical Assn. (NACA). The pesticide safety team network was put into operation by the NACA March 9. Rather than merely disseminating information on how to deal with an emergency, however, the network actually coordinates the efforts of 11 participating member companies in nine different sections of the U.S. Some 40 specially-trained teams are constantly on call with the network. Their job is to make sure that any spillage or other accident involving pesticides is cleaned up and appropriately handled.

The team closest to a reported accident responds. The number of the network is 513-961-4300. Telephone central is located in Cincinnati, O. A call is first received there and then assigned to the area coordinator of the section in which the spillage has occurred. He then assigns the team to the spill.

The member companies furnish the personnel and equipment for the pesticide safety teams, training them to take the appropriate clean-up and decontaminating procedures with the many different pesticides with which they might have to deal.

The network has been called into action several times, according to a NACA spokesman. ■

Steals Blue Cross card for operation

SAN FRANCISCO—The nation's insurance companies, long worried over the widespread use of credit cards, were furnished this week with additional cause for worry when a young commercial artist confessed to using a stolen Blue Cross card for an operation to relieve the pain of a hip injury.

Justin E. O'Brien, 24, pleaded guilty in municipal court to a misdemeanor forgery count in using the medical credit card to gain admission to Franklin Hospital where surgeons performed an $843 operation. The forgery was discovered while Mr. O'Brien was recovering at Franklin and he was removed by police from the hospital and taken to city prison in the Hall of Justice.

Mr. O'Brien told James Bohm, a fraud inspector, he had resorted to the stolen Blue Cross card after five private hospitals here had refused to admit him because he was unemployed and without money.

The Blue Cross health plan card had been issued to a William Darrell of Detroit.

Mr. O'Brien was released on his own recognizance by Municipal Judge Frank Shaw pending sentence on the misdemeanor charge. ■

Top award in railroad case in Texas

HOUSTON—An out-of-court settlement for a railroad crossing action has been termed the largest settlement in Texas for such an action.

A $450,000 settlement was announced in a suit brought by Mrs. Thomas Mulcahy and her sons against Southern Pacific Co. as a result of a railroad crossing accident which claimed her husband's life.

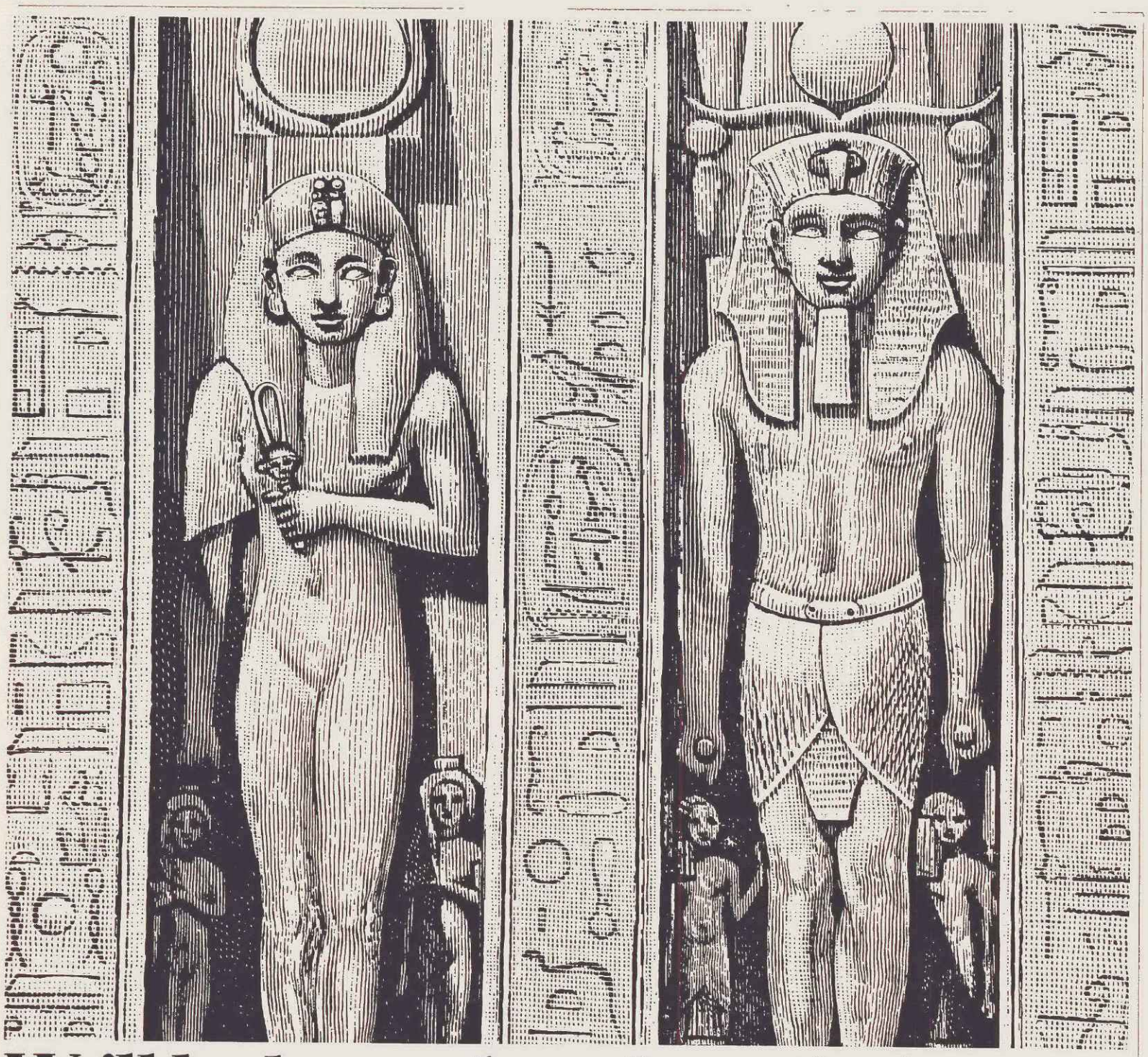
Her attorneys said it was the largest settlement in Texas for a railroad crossing case.

Mr. Mulcahy, a 40-year-old American Can Co. supervisor of cost accounting, was the driver of a car occupied by his family. He was killed on July 4, 1967, at a railroad crossing near Galveston.

Mrs. Mulcahy and the couple's sons, Thomas Kevin Mulcahy, now 18, and Robin O'Brien Mulcahy, now 16, were hurt when the car collided with a train engine stopped at the crossing.

The suit claimed the train crew failed to exercise ordinary care as required by law and failed to give any warning of the train upon the crossing.

The plaintiff's attorney said the settlement called for $245,000 for Mrs. Mulcahy; $175,000 for Thomas Kevin, who suffered brain damage and is attending a special education class, and $30,000 to Robin O'Brien, who was less seriously injured than his brother. ■



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Arkansas agents say self-insurance bid was based on wrong figures

LITTLE ROCK, Ark.—The Arkansas Assn. of Insurance Agents has struck out against proposals to set up a self-insurance plan for the state's secondary schools and colleges. The proposals were reported in *Business Insurance* on Aug. 17.

Meanwhile, Arkansas State Education Commissioner Dr. Arch Ford claims that some insurance companies were "threatening" superintendents with cancellation of fire policies to counteract the self-insurance fever now surging through state agencies. The insurance agents say that the schools would be taking "a huge gamble" if they attempt a self-insurance program.

Dick Herget, executive vp of the agents association, said recently that the state education department's figures on profits and losses for insurance companies holding policies on Arkansas schools were wrong. The department has claimed that the companies are making as much as $1 million a year from insuring the schools.

MR. HERGET said the companies actually lost $305,931 in the years 1963 through 1968 from premiums totaling $4,664,718. The department says schools paid $5.2 million more than they received in claims during that same period.

The controversy began last month when the department suggested that the schools look into the possibility of a self-insurance program in reaction to rising insurance costs. The industry submitted that possible civil unrest and student disorders affected insurance rates. School officials were quick to point out that Arkansas has escaped school riots so far.

Three gubernatorial candidates endorsed the self-insurance plan. The idea has been tossed around the general assembly for the last several years but pressure from insurance interests has stopped legislative proposals.

"What the companies are trying to do is to take advantage of the fact that we're having troubles in a few places (in the nation) and they're trying to get a rate increase across the board," said Dr. Ford. "In my opinion, the whole matter of insurance is becoming one of the most significant issues facing the schools, not only in Arkansas, but in other areas."

THE ARKANSAS Gazette at Little Rock, the state's largest and oldest newspaper, editorially called for review of insurance practices in the state. "Self-insurance for Arkansas' public schools, colleges and universities becomes a more attractive, perhaps more urgently needed program almost daily, as more is learned about practices of some private insurance companies," the newspaper said. "Insurance companies are virtually forcing the institutions to seek recourse that will leave them adequately insured at a fair and reasonable price."

The editorial continued to cite Dr. Ford's example of a small rural school that had its premium doubled and then its policy canceled.

Mr. Herget said that self-insurance had not aways worked for other states. He said that school officials' figures on the industry's so-called profits didn't take into account the cost of administration, "or the tremendous exposure to catastrophic losses." He said the administration cost would apply to a self-insurance program, too.

In the past seven years, school losses have been caused primarily by tornadoes in 1967-68.

IT JUST stands to reason in the highly competitive insurance business that if companies were making a 'huge' profit off schools in Arkansas, and could foresee in the reasonable future the possibility of a profit of almost any kind, they would be falling all over one another for the business," Mr. Herget said. Of course, he said, this isn't the case.

"We are all thankful that civil unrest has been held to a minimum in Arkansas, but it is good to remember that insurance companies, and self-insurance plans, will be called upon to cover future events whether they be a $1,000 fire loss or a $50 million tornado loss to one of our college or university campuses," Mr. Herget said.

He added that a self-insurance fund, which suffers a large loss, would require large appropriations and that it always would be subjected to the emergency demands of other state services. ■

FIA covered BOAC fire

NEW YORK—Factory Insurance Assn. will pick up most of the tab for the fire that destroyed part of British Overseas Airway's Corp.'s new $56 million terminal here.

BOAC is covered by a standard builders risk policy with a $25,000 deductible. This type of policy covers structures under construction and BOAC's limits are "sufficiently high" to sustain the loss, according to a spokesman at FIA. The terminal is still under construction though the work is almost completed.

The blaze burned out the second floor of the terminal's west wing, an area used for passenger loading. Approximately 300 people in the wing at the time the fire broke out were evacuated safely and a VC-10 jet was removed from a loading gate with no damage.

OFFICIALS of the Bureau of Fire Investigation termed the blaze suspicious in origin and stated that it was a "very unusual coincidence" that the fire started in two places, one directly above the other, on the second and third floors of the three-story terminal.

About 80 firemen were called to extinguish the blaze which was fed by electrical wiring, carpeting and furniture. The windows in that part of the building were blown out by the flames.

This was the second fire this year in the new terminal, which is shared by Air Jamaica, Air Canada and South African Airways, as well as BOAC. The first fire occurred in January and delayed construction on the building for six weeks. The terminal opened June 30. ■

Pru names White

Steve White has been named regional group manager in San Francisco for Prudential Insurance Co.

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following the funds

Labor's mortgage investment trust relieves pension manager of problems

WASHINGTON—One of the few groups that have "kept the faith" with the mortgage market is the participants in the AFL-CIO Mortgage Investment Trust. The stalling of housing starts reached such proportions in the past two years that several pieces of legislation were proposed by Congressmen in an attempt to alleviate the chronic lower- and middle-income housing shortage.

Started in 1965, the AFL-CIO Mortgage Investment Trust, which operates much like a mutual fund with an investment philosophy devoted exclusively to mortgages, has steadily sought monies from union retirement benefit funds. From an initial year's assets of $9 million, the trust has grown from an admittedly limited success of a 2% to 3% yield in 1965-1966 up to a much more respectable 7% to 7.5% in the first half of 1970. The assets have not fared as well, however. Currently they have reached only around $13 million.

"We only invest in union-built housing," explained a spokesman in the trust's management office in Washington. "Also, we try to keep the geographic distribution of our investments in line with that of our participating fund contributions," he said, acknowledging that this last piece of policy was much easier said than done. "The problem is in finding the eligible project," he added.

WITH NEARLY $4 billion dollars bulging in the coffers of the 200-odd union retirement funds the question comes up as to why so few dollars have been allocated to the trust. "That's the big question we have to answer and the problem we're continually trying to solve," said the spokesman.

Perhaps the biggest problem that mortgages face is their bad (though not necessarily earned) reputation for complicated and expensive servicing requirements. "The normal investor of a pension's funds doesn't want to get into the embroilment of mortgage servicing," the spokesman said. And, apparently, it's been quite hard to get across the point that the potential mortgage investor no longer has to face these problems because of the intervention of the trust.

The same problem was faced by the Government National Mortgage Assn. Although every mortgage was guaranteed by the Federal government and the yield on the investment was respectably competitive with that of corporate bonds, pension funds as a class were largely hesitant to commit more than a half-hearted dabbling effort to mortgages. And what pension fund money was earmarked for mortgages usually (and still does—witness the recent $150 million offering by the Chase Manhattan Bank) went into schemes formulated by large banking institutions. These bank-sponsored "forays" into the mortgage market were largely exercises in buying up existing "paper," with promises of large yields (some up to 20%) and equally large risks.

The first thing that Genny Mae (GNMA) did was to develop a "middleman" arrangement to take care of the selection and handling of the mortgages. Under this scheme, all the investor has to do is buy shares of the securities issued to finance the mortgage investment of the middleman operation. So, in effect, the Genny Mae mortgage-backed securities gambit most resembles a mutual fund whose investment guidelines restrict its investment of the incoming monies exclusively to mortgages.

BECAUSE the AFL-CIO Mortgage Investment Trust is a comparable investment opportunity (they offer union funds shares of the trust) the union trust is competing with Genny Mae for some of the same dollars. The investors in both Genny Mae and the AFL-CIO trust are in a similar position to owners of mutual fund shares whose involvement consists partly of sending checks to the trust and partly of receiving and depositing semi-annual dividend checks from the trust. There are no mortgages to keep or legal fees to worry over, or insurance to obtain.

The union trust apparently has a bone to pick with its Federal counterparts, other than the constant battle over whose investment is the most profitable. Pension funds are in fact owned by employes, not their employers, and this is the primary reason for their hallowed tax-exempt status. One of the big issues in pension fund investments today is what is more in the employe's interest—the investment that will bring more yield or profit to the pension fund or the investment that will have the least deleterious effect on the employe's livelihood and/or his environment. The union trust spokesman made it clear that only union-built projects are considered as potential mortgage investments by the fund.

But the union trust spokesman pointed out an even more marked difference between his mortgage

Ccontinued on page 38

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Firemen's Insurance drops 5,500 policies due to Washington's unrest

WASHINGTON, D.C.—Following the route of many insurance carriers today, who are backing out of markets because of social unrest, the Firemen's Insurance Co. of Washington has cancelled 5,500 policies for homeowners and businessmen in the city.

"We've been writing insurance for 133 years," said Herbert Pasewalk, president of the company, which is the city's largest residential underwriter. "But things have never been as bad as they have been in the past five years. With rioting and social unrest, it's just not profitable to write the business any more. In 1969 we had a $289,000 underwriting loss."

He explained that for the past nine months his company has been inspecting insured property. Of the 38,000 total properties it insures, 30,000 have been inspected.

"Before the social climate got the way it is," Mr. Pasewalk said, "we wrote about 95% of the business without such intense inspections. But now, when there is a permissive fire practically every week, we just have to crack down and cancel policyholders who do not measure up to inspection standards."

HE SAID THAT although most insurance was residential, his company writes about 2.5% of the policies on Washington's businesses. They are covered with special multi-peril policies providing fire and extended coverage. Limits and deductibles vary depending on the property insured.

He pointed out that businesses were dropped because of unsafe conditions, such as octopus wiring (excessive use of inadequate outlets), faulty heating systems and sloppy housekeeping. Firemen's writes small businesses, usually restaurants, bakeries, and dry cleaners.

"Restaurants are often a problem," Mr. Pasewalk said, "because many don't have automatic fire extinguishers over their stove hoods. If the grease on the hood catches, a huge blaze could start in a few minutes."

Residents and businessmen are not being left stranded, however, for they can get coverage through the FAIR plan in the city. FAIR (Fair Access to Insurance Resources) has been in operation all over the country since 1968 and is run on a pool basis, with one company taking on a risk and getting 100% from the other firms in the pool.

"If a policyholder has his coverage cancelled by a private insurer, he applies to FAIR," Mr. Pasewalk explained. "FAIR inspects the property and decides whether or not it's insurable. It offers the standard insurance rates."

EDWARD LOMBARD, Washington's superintendent of insurance, said he thought the FAIR plan was working well and felt that Firemen's Insurance made an inevitable decision in pulling out of the market.

"It is, of course, unfortunate," Mr. Lombard said. "But the losses Firemen's was experiencing were just too much for one company to take. When the company cancelled, it sent the policyholder a notice about FAIR and people are getting excellent coverage through the plan. No appeals on a FAIR decision have ever reached this office."

He noted that commercial business insurance rates in the city went up 45% last year for those firms with poor fire records.

"These companies are not necessarily in ghetto areas," he pointed out. "This is a problem all over the city, and for that matter all over the country today." ■

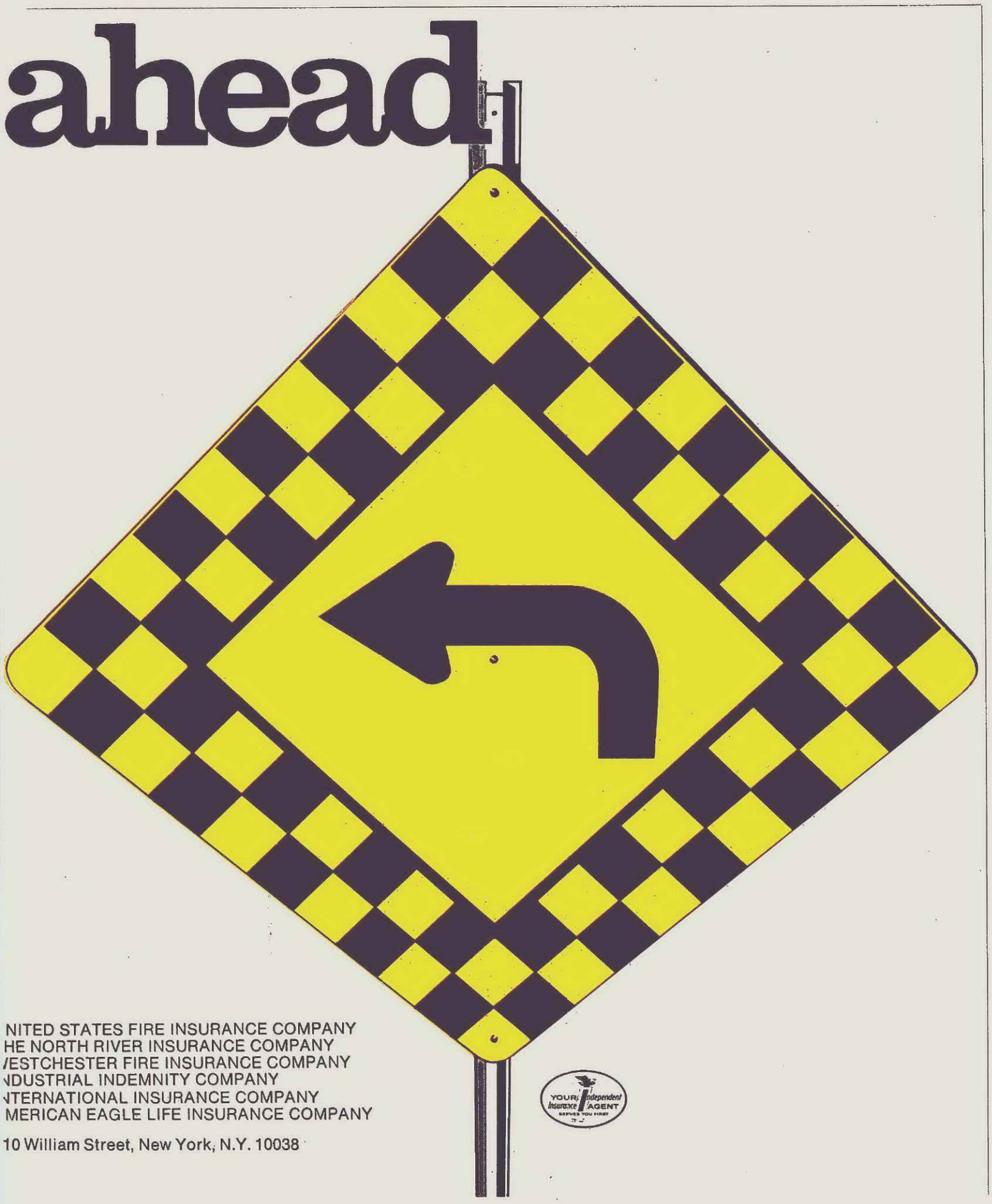
Fire Dept. dispute with refinery over

HOUSTON—A misunderstanding between the Houston Fire Department and Atlantic-Richfield Co. officials has been officially cleared up in the wake of an Aug. 18 fire at the Sinclair refinery here.

Fire Chief C. R. Cook said his firemen were denied entrance to the Atlantic-Richfield refinery by security guards during the fire.

Fred Parrott, a company spokesman, said the fire was minor. It started in a fluid catalytic cracking unit when two water pumps failed and some of the refinery's main boilers were shut down, he said. The fire caused little damage, no injuries and was put out by company firefighters in minutes, according to Mr. Parrott, but normal operating flares continued to burn.

Chief Cook and Asst. Chief J. M. Honea met with C. W. Robinson, the refinery manager and Leo Brown, fire safety and security supervisor, and other Atlantic-Richfield officials. They issued a joint statement "reaffirming close cooperation" between the fire department and refinery personnel and announced plans to "increase liaison" between refinery safety personnel and Houston fire officials ■



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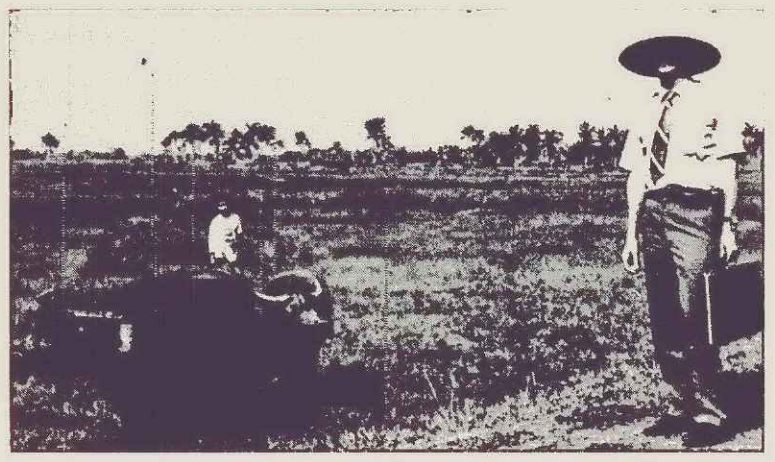
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Argonaut Saigon office finds war risk isn't that big

SAIGON, South Vietnam—Bruce Woolery and Russell Barnard are both insurance men but nowadays they are far more apt to be dodging bullets than irate claimants.

Mr. Woolery is senior vp for Argonaut Insurance Co., which has headquarters in Menlo Park, not far from San Francisco. Mr. Barnard is Argonaut's "man-on-the-spot" in Vietnam. Mr. Barnard has to remain in Saigon, in spite of the occasional shelling, but Mr. Woolery gets to go back home to the peace and quiet of Menlo Park after his visits here.

"Running a major insurance program in southeast Asia presents a few unusual problems," explained Mr. Woolery, who recently completed his second long trip there since his company entered the insurance business there more than a year ago. Argonaut now has claims branches here and in Bangkok. And both men agreed that Argonaut's initial experience in the war-torn area has shown the unusual insurance operation to be both feasible and profitable.



Russell Barnard, branch manager of Argonaut Insurance Co.'s Saigon claims office, finds trips into the field sometimes hazardous but always interesting. The insurer went into South Vietnam after being asked by one of its major clients, with 25,000 employes in that country, to set up a workmens compensation program for them.

"AND THAT," Mr. Woolery adds, "is a considerable achievement in a difficult part of the world that has been continuously at war for more than 30 years."

The firm eased naturally into the area as an extension of its work in writing workmen's compensation insurance for large American contractors, who construct everything from buildings to bridges, and have far flung operations, in Alaska, Hawaii, Guam, Kwajalein, Marshall Islands, etc.

Argonaut, long a major writer of workmen's compensation policies, was asked by one of its major accounts, with 25,000 employes in South Vietnam, to consider establishing a similar program for that country. Many, of course, would consider workmen's compensation in South Vietnam a bad idea.

Argonaut didn't feel that way, but on the other hand the company didn't just rush into the area either. "We realized," Mr. Woolery told *Business Insurance*, "that operating in a foreign country might present considerable problems. We took a real hard look at the situation by first going to Saigon and talking with the local managers of American firms and with bankers, attorneys and the military."

SINCE THAT time, Mr. Woolery added, "we have faced many challenges and have had many exciting experiences. But we eventually found that we could operate in South Vietnam successfully and make a profit."

Since establishing its Saigon and Bangkok claims offices, Argonaut has written more than $2.5 million in premiums, serving several large U.S. companies that work for the military all over southeast Asia and for the U.S. Agency for International Development. Argonaut does not directly provide insurance for Vietnamese or Thai companies. This Woolery contends would present "a truly formidable problem." Rather, the company works with American contractors and firms that have operations in these countries, using its foreign offices as claims-paying and adjustment centers.

Supplementing its workmen's compensation insurance coverage, Argonaut usually provides major medical, accidental death, general liability, automobile and crime protection, but not property coverage. Argonaut contends it has managed to offer sharply reduced premiums and has been able to achieve substantially reduced operating costs. But rates, naturally, must be relatively high, because the company has found that the risk exposure is approximately three times greater than the U.S. average.

"NOT FROM the war, as might be expected," Mr. Woolery quickly added, "but as a result of normally chaotic living conditions. Chaos is the norm there. "The pressures of war, tropical weather, hazardous construction jobs, substandard living conditions and an unstable economy and the ferocious Asian traffic, all have proved to be far riskier for civilians than for those actually at war."

In the past year, Argonaut losses have shown only two civilian war-related deaths, with four wounded. And this, Mr. Woolery contends, sort of proves that automobiles are the deadlier enemies.

"We discovered quite early," Mr. Woolery said, "that doing business directly with local South Vietnamese and Thai firms would be extremely difficult, considering the country's current political, military and economic conditions. In addition, working that way would have made the company subject to all local laws, regulations and taxes."

To avoid these problems, therefore, Argonaut operates, in effect, as a "sub-contractor" for the U.S. military. The military, of course, contracts with approximately 200 American firms for construction and maintenance of bases; distribution of equipment and supplies; service and maintenance of military hardware and equipment and construction of major port facilities, roads, airports and ammunition dumps.

THESE FIRMS may employ from three to 30,000 workers, primarily south Vietnamese, Filipinos, Koreans and Americans. While foreigners working for U.S. firms enjoy considerable economic privileges by working outside the South Vietnamese economy, they still are subject to South Vietnamese laws.

"Personal protection," Mr. Woolery explained, "is the first concern of any business. We find South Vietnam relatively secure . . . in Saigon and at the approximately 40 military installations scattered throughout the country.

"However, I'm not so sure about the extremely hazardous Saigon traffic. We try to warn neophyte businessmen there not to travel in unfamiliar areas outside downtown Saigon and not to stand with groups at bus stops or in markets and not to violate the strict curfew laws." Except for these inconveniences, he believes South Vietnam is "probably as safe as New York City."

Mr. Woolery reported that Argonaut has been "very fortunate" with its office staffing. In addition to Mr. Barnard in Saigon and a man in Bangkok, Argonaut employs another American and nine Vietnamese. "Surprisingly," he said, "there has been no staff turnover. However, our office costs are about 50% higher than in the U.S., with part of that higher cost necessarily going for unusual employe allowances."

Such allowances include hazardous duty pay; quarters allow-

Continued on page 34

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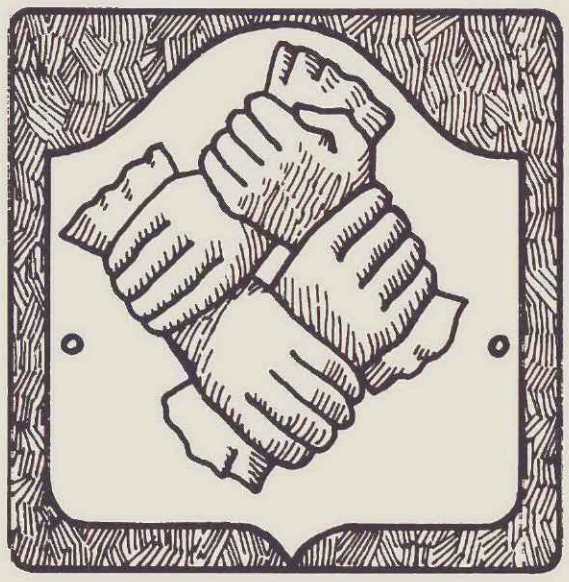
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Mercury pollution continues, but firms are attempting to lower level

By PATRICK THOMAS

NEW YORK—Remember the expression "mad as a hatter?" It came about, they say, because years ago hatters worked constantly with mercury and frequently went bananas as a result. Now, however, it is known that mercury can do more than affect the sanity of a hatmaker.

Mercury waste is a severe form of pollution now causing much trouble in the lakes and rivers of the U.S. and Canada. It is harmful because it poisons fish, which are an integral link in man's food chain. It is so widespread that Canada has closed a number of rivers and lakes to both commercial and sport fishing.

Mercury gets into the food chain after being ingested by fish inhabiting the bottoms of waterways. The mercury, heavier than water, sinks to the bottom and poisons the fish by way of the sediment. These fish are then ingested by other fish which are eaten by man or are caught and eaten themselves. It is for this reason that Canada has had to close many of its waterways to fishing.

The U.S. government has since instigated lawsuits against certain mercury-using companies demanding the "immediate and total elimination of mercury wastes." The companies named in the suits, including Olin Corp., Allied Chemical and Hooker Chemical, have cut down on the amount of mercury they were dumping and the government has eased up. The government now says that dumping small amounts of mercury is permissible if "they prove to be harmless." No one, however, is quite sure what is "harmless."

BECAUSE OF recent moves by the insurance industry to exclude from coverage pollution liability claims, it is reasonable to wonder what mercury-using companies, faced with the prospect of lawsuits and no liability insurance, are doing to combat their own pollution problems.

For the most part, they are drastically cutting down on the amount of mercury wastes being dumped into the rivers and lakes. As recently as last May, companies were dumping as much as 71 pounds a day into the waters of New York state alone. That figure is now down to less than three pounds per day while the government recommended "safe" level is about eight ounces per day.

Olin Corp., attacked by some as being uncooperative in curbing mercury wastes, has come up with an instrument called the Olin Mercury Monitor. The monitor, which can continuously analyze air and water samples, then instantaneously measure and record mercury concentrations from zero to ten parts per billion, is now in operation at Olin's McIntosh, Ala., plant.

The mercury monitor is light and portable enough to be moved from site to site wherever mercury pollution might be a problem. Olin will install the instruments at its other plants and hopes to market the machines to other companies for a cost of $25,000.

MEANWHILE, producers and sellers of mercury continue to sell their product without worrying too much about whether they will eventually face product liability claims. As a spokesman for one large mercury dealer told *Business Insurance*, "We are still selling mercury. If the government tells us to stop selling, we stop. But I hardly anticipate anyone suing us."

Mercury is a problem because it is used in everything from pesticides to tooth fillings. Ironically, it is also used in the manufacture of chlorine, which is, in turn, used to purify water.

Until quite recently, it was not known that metallic mercury, which is not poisonous, could turn into organic mercury and thus become harmful. For example, 111 persons were known to have died or become severely disabled in Minimata, Japan, between 1953 and 1960 as a result of eating mercury-poisoned fish. In 1965, 30 persons suffered mercury poisoning in Niigata, Japan. But these cases were caused by methylmercury, an organic compound. It was just discovered that for some yet-unknown reason metallic mercury converts to organic mercury in nature.

Some of the things that are known about mercury in nature are that it infects the delicate food chain and that it clearly kills human brain cells.

Canada has perhaps been hardest hit by the wave of mercury pollution, particularly in her fishing industry in the Lake St. Clair and Lake Winnepeg areas. Lake St. Clair sits between Lake Erie and Lake Huron in the Detroit-Windsor industrial complex. Not confined to these areas, however, the pollution alert includes parts of the St. Lawrence river, Lake Erie, Lake Huron, the St. Clair river and the Detroit river, to name a few. The ban on fishing applies to all fish in some waterways and to certain species in others.

Many commercial fishermen and a great many Indians, dependent on fishing for their livelihood, are now unemployed because the fish taken from these waters were found to contain more than the .5 parts per million of mercury considered safe for human consumption.

The Canadian government is trying to compensate the out-of-work fishermen by extending to them interest-free loans. The cost of the loans is shared 50-50 by the province responsible for tak-

Continued on page 36

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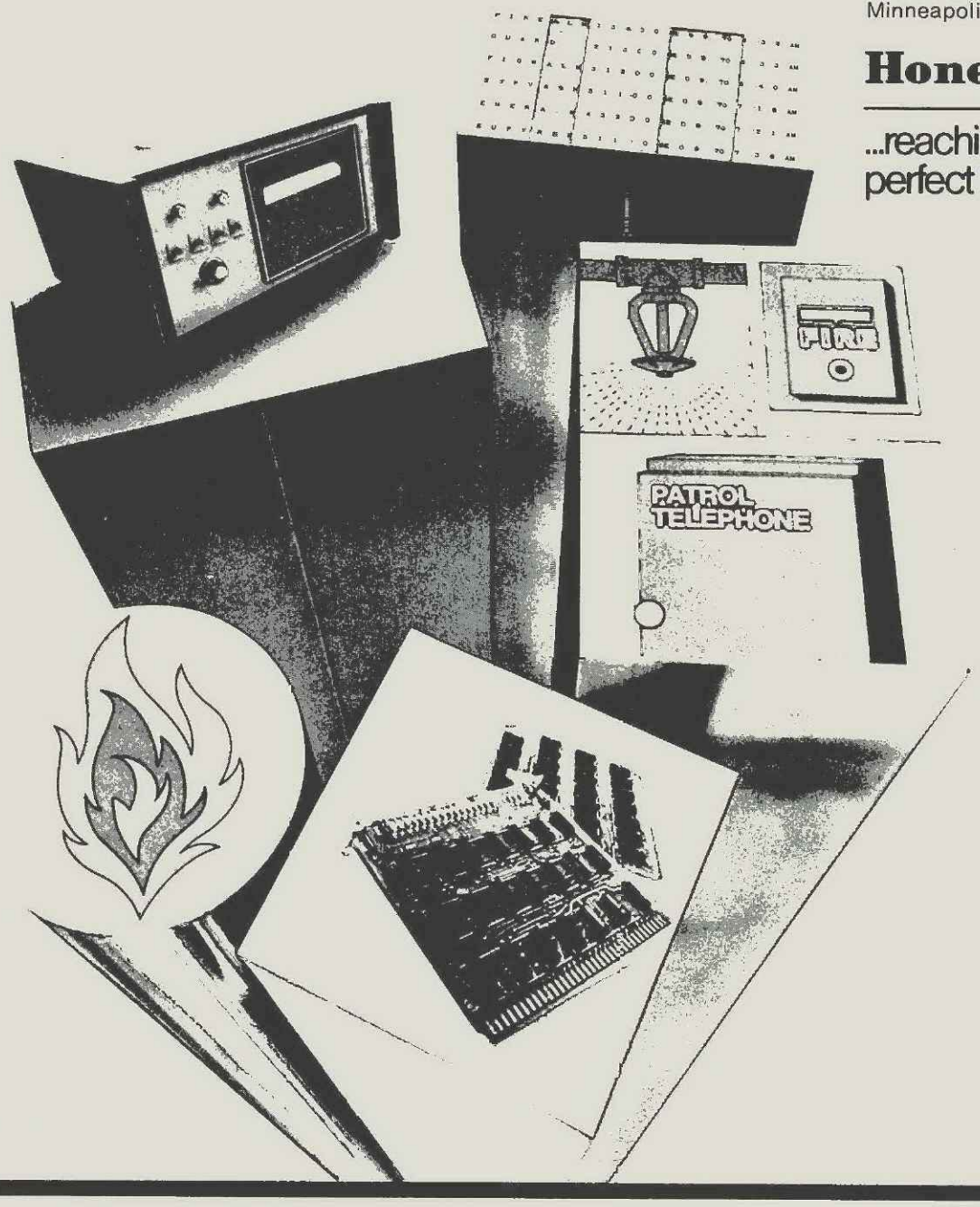
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Insurance policies are well-read documents

NEW YORK—Corporate insurance policies aren't being stashed away in some musty file until renewal time, a *Business Insurance* survey has indicated. On the contrary, they're apparently rather well-thumbed documents.

In a poll of its readers the magazine found that 44.7% of them reviewed their corporate insurance programs "constantly," and another 41.4% looked their policies over at least once a year.

On the employe benefits side, 34% of the execs said they reviewed benefit programs "constantly," and another 40.5% gave them a going over at least once a year.

In addition, 33% of respondents indicated they had placed benefit and corporate insurance coverage in the last year with a broker or insurance company with whom they hadn't previously done business. Another 33% said they dealt with a new carrier or broker for benefit plans in the past two years.

Another survey completed earlier this summer uncovered that *Business Insurance* has 2.45 readers per copy among corporate buyers and 3.1 readers per copy among agents and brokers; that 80.4% of respondents read every issue; and that 91.6% of those queried find the magazine helpful. ■



The Carl A. Holvick & Co. construction firm earned a $15,000 dividend on its workmen's compensation insurance premium from Industrial Indemnity for "the excellence of its safety record" during construction of an IBM research structure in Palo Alto. Carl A. Holvick, president of the firm, second from left, accepts the check from Milt Iverson, executive officer of Tittle, verson, Purcell, Jones & Scurry, center, and Hugh S. Fisher, Industrial Indemnity division manager at San Jose, second from right. Also on hand were Walt Willard, Industrial senior safety engineer, left, and Al Koering, Holvick construction superintendent.

Argonaut . . .

Continued from page 32

ance, and allowances for periodic rest and recuperation trips outside the area.

Running an office in Vietnam is not easy, according to Mr. Barnard, because "routine procedures that would be barely noticed in the U.S., can suddenly become major issues.

"VIETNAMESE employes, for example," he explained, "must be paid in cash. Because of the inflation of the piaster, this literally requires suitcases of money being available on pay-day."

Insurance coverage in southeast Asia, however, poses few problems and "seems relatively routine" according to Mr. Woolery. American workers in Vietnam are subject to the Defense Bases Act, in terms of workmen's compensation. Weekly indemnity is not paid in cash but by check, deposited in the claimant's U.S. bank account.

Vietnamese workers are covered under the Vietnamese Workmen's Compensation Act. Weekly indemnity is 50% of the salary, for a maximum of one year. The death benefit is 13 months' pay.

The Vietnamese law provides coverage to and from the place of employment and, because most Vietnamese travel by motor bike, Argonaut has had more claims arising from motorbike accident injuries than from on-job injuries.

There are also separate but similar laws that apply to Filipino and Korean workers in Vietnam.

Fidelity coverage is also provided. But because the South Vietnamese are paid in cash, major installations sometimes must have several thousand dollars' worth of piasters in possession . . . literally a truck load of small denomination South Vietnamese currency.

ARGONAUT has found some of its most vexing problems rising from automobile coverage. Vietnamese courts (with some logic, of course) make the one who has the money the one responsible for the accident. "This," Mr. Woolery explains, "invariably is the American vehicle.

"In most major automobile accidents," he said, "the driver is arrested and the vehicle is impounded until the claim has been settled."

"Settling a claim in South Vietnam," Mr. Barnard reported, "can sometimes be a hazardous venture. In at least one instance, an Argonaut adjuster who had to stay overnight in a remote village awoke the next morning to find himself under fire from the enemy. He survived."

IN SPITE OF the "peculiarities" and the "general difficulties" of operating an insurance business in southeast Asia, Mr. Woolery believes that, for Argonaut at least, "it has been a valuable and worthwhile undertaking, of benefit not only to us but also of considerable service to workers employed throughout the area.

"We are convinced," he added, "that this region will remain an active source of insurance business for many years after the war ends. This will be because of the considerable redevelopment efforts that a number of U.S. agencies will undertake.

"And when the economy becomes more stabilized, and the piaster is valued more realistically, to bring costs down," he concludes, "the area will become a much more manageable insurance market with far fewer 'problems." ■

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Ruling on union rights to bargain for retirees may get Supreme Court test

NEW YORK—Battle lines are drawn and a Supreme Court test is possible as the result of a significant new ruling by a Federal court. A court recently ruled pensions for previously retired employes are not an appropriate subject of negotiations between labor and management.

"The unions have never really had the right to bargain for the retiree. Although it is common practice for the retirees' benefits, pensions as well as insurance, to be discussed with officials of the union, management generally reserves the right to improve these benefits at its own discretion," declared an employe benefits director for one of the large steel companies.

"I've always been against the unilaterally-administered pension plan, I feel it leaves the retiree at the mercy of the employer. Collective bargaining has been a successful vehicle for the benefits of the retirees in many contracts in several different industries in the past. I don't think this decision will be upheld," was the reply by William Winpisinger, international vp and chief bargainer for the International Assn. of Machinists and Aerospace Workers.

These two comments adequately reflect the gamut of reactions to this somewhat unexpected ruling. The decision, rendered by the sixth Federal circuit court of appeals, overturned a ruling by the National Labor Relations Board. In a prior development, the NLRB had in turn overturned a trial examiner's recommendation to dismiss the charges of a union, the Allied Chemical and Alkali Workers of America, against the Pittsburgh Plate Glass Co. (PPG).

THE UNION and PPG have negotiated contracts including group health insurance plans for employes ever since 1950. In 1962, a new provision was added to this contract that stipulated a $2-per-month contribution for each retired employe's health benefits. During the contract negotiations of 1964 these contributions were raised to $4 per month.

Although the company contributions for the retirees' health benefits were cut back by 50% with the passage of Medicare, the union came back with a request to bargain for additional insurance benefits between contract expirations. A procedural dispute arose when, counter to the union's wishes, the company announced that it was cancelling the health insurance plan.

In its place, PPG substituted a $3 monthly contribution for each retiree that would be devoted exclusively to obtaining Medicare. With this move, the company also rejected as invalid the union's contention that it had a traditional right to bargain for the retired employes, all of which led to the litigation.

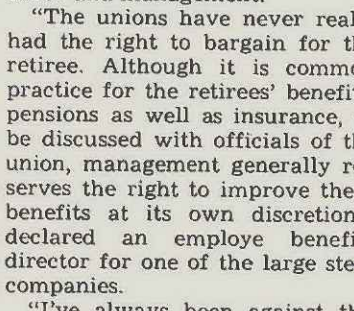
When asked to rule on the question, the sixth circuit court reversed the NLRB's determination that originally upheld the union's complaint against the company for its alleged failure to bargain. The court held that benefits for employes were indeed mandatory subjects for negotiations between labor and management.

HOWEVER, the court inferred that the language of the unfair labor practice statute that branded as unfair any refusal by an employer "to bargain collectively with the representatives of his employes" actually excluded retirees from these negotiations by virtue of its definition of "employe."

This finding was based on the court's interpretation of the lack of status of retirees as employes in that "they perform no services for the employer." Reasoned the court in its opinion, "retirees are under no restrictions as to other employment or activities, and have no rights or expectations of employment;" they cannot be "employes" within the meaning of the law.

An assistant general counsel for the NLRB in Washington told *Business Insurance* that the board had already given its approval to go ahead with an appeal to the Supreme Court on the matter. Although he declined to speculate on the chances of the outcome of the case, one way or the other, the source pointed out that the NLRB had always felt

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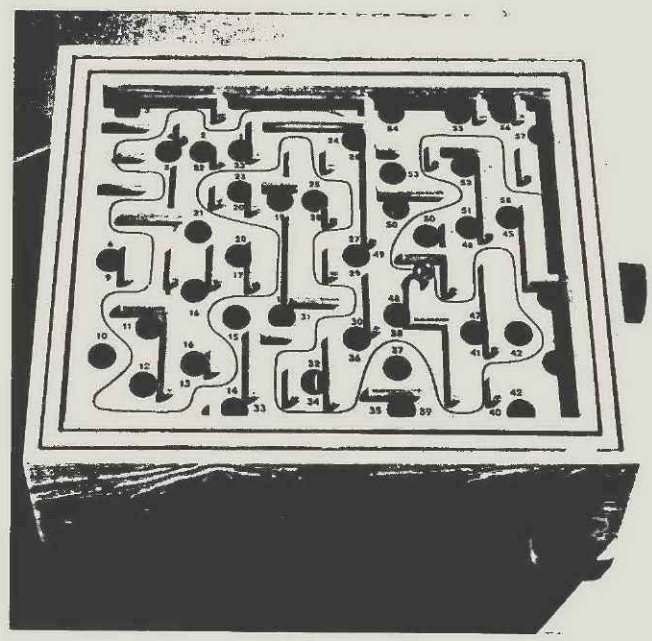
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New IRS rules define discrimination in qualified retirement programs

By JOSEPH S. ROBINSON
Staff attorney,
Practicing Law Institute

NEW YORK—The following is a run-down of recent Internal Revenue Service rulings that have an important bearing on the types of discrimination that can knock out the tax breaks of a qualified retirement plan.

Rev. Rul. 70-2: When uncompensated employes were eligible for retirement plan benefits in which the only participant was the sole stockholder, IRS ruled that the coverage requirements were not met.

Rev. Rul. 70-29: A lawyer's participation knocked out an employe retirement plan under the following circumstances. The attorney had a separate office on the corporation's premises with his name appearing over the door and on the building directory. He performed legal services for the company on an annual fee basis; but he also handled other clients as well. The lawyer was not subject to the direction and control of the corporation in carrying out his legal activities—including company business.

IT WAS HELD that there was no true employer-employe relationship . . . the company had no say over the lawyer's day-to-day activities. Therefore the pension was not set up for the exclusive benefit of employes within the meaning of Code Sec. 401 (a).

Rev. Rul. 69-569: There are circumstances in which an attorney can be an employe. For instance, a company may have its own legal department and employe house counsel. Here, the attorney is normally employed on a full-time basis. But this does not mean that he should devote every minute of every working day to company business. An arrangement may be entered into under which the lawyer is allowed to spend some time on other matters and he will still be considered an employe for purposes of pension participation.

Rev. Rul. 70-75: If a pension has different eligibility requirements for new employes than it has for those working for the company now, such provision is not, of itself, discriminatory. Here, the "favored" employes—officers, supervisors and managers—met the same requirements that new employes had to comply with to be entitled to join the plan. Consequently, the plan did not discriminate in their favor under Code Section 401 (a) (4).

Rev. Rul. 70-73: Two plans were set up by a company. While the second plan did not meet the coverage requirements standing alone, still, if the two were tested as a single plan, they would pass muster—percentage-wise. However, since the vesting requirements in each plan differed so that only the highly compensated employes could get 100% of benefits upon termination, the plan was ruled discriminatory.

Salaried-only plans

Rev. Rul. 70-200: Qualified pension or profit-sharing plans may discriminate against hourly paid workers, provided the classification does not result in favoring employes who receive top pay. This ruling is significant because it illustrates the acceptance of the cross-section test in which range of pay of hourly and salaried workers is comparable through all brackets except the top.

The plan stipulated that all full-time salaried employes with at least two years of service were eligible. The company employed 150 full-time workers with the requisite two years of service, but only 40 were salaried. The rest worked on an hourly basis and so were ineligible.

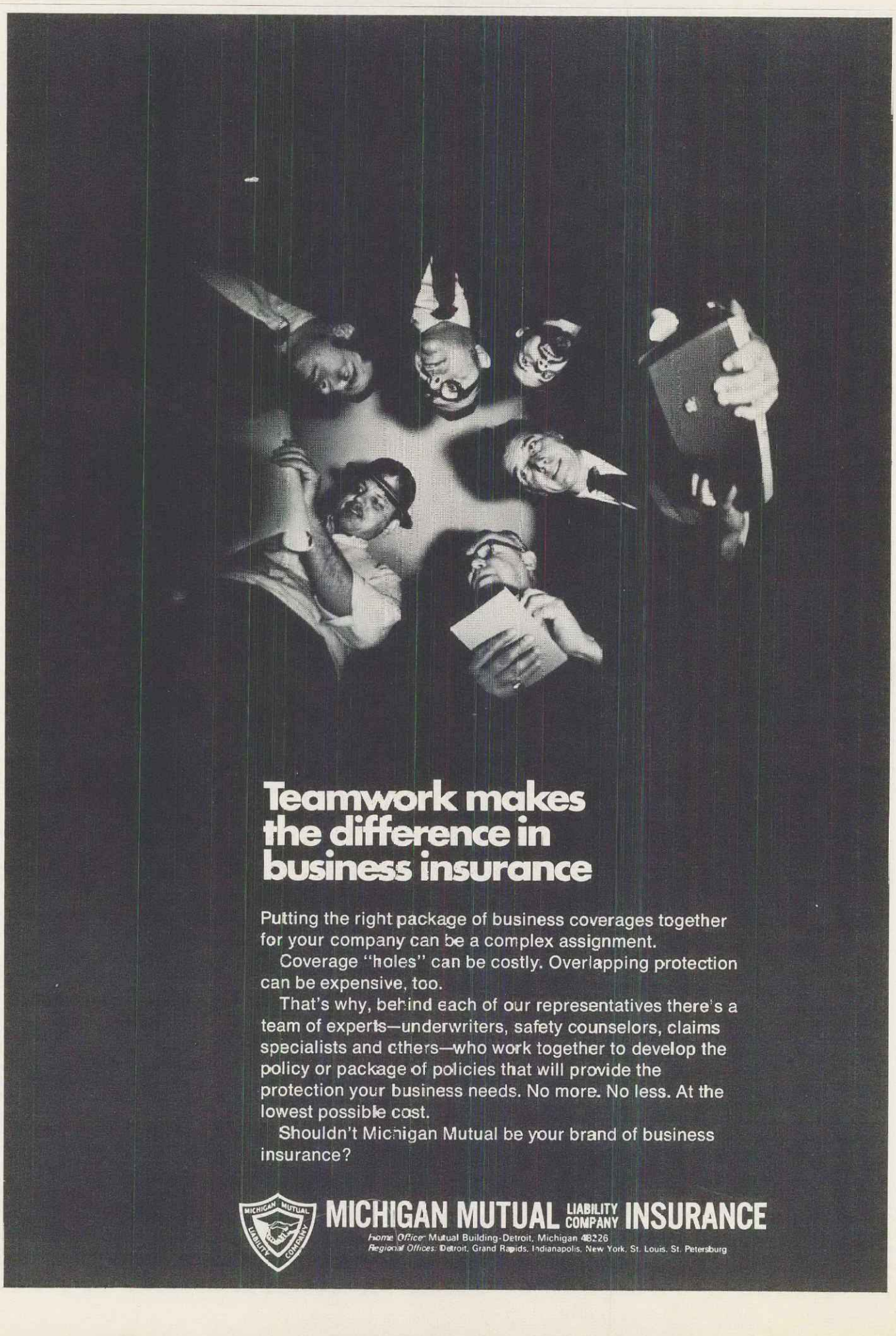
Here's the breakdown of the 40 who were eligible: Four were officers and stockholders; five were supervisors and stockholders; 13 were supervisors.

HOWEVER, a significant factor is this particular company arrangement was the large number of hourly workers who, while ineligible, were well compensated.

IRS ruled that the plan qualified under Code Section 401 (a) (3) (B). Although it did not meet the statutory percentage of coverage requirements, the restriction of participants to "salaried only" did not discriminate in favor of officers, stockholders, or highly paid personnel. Reason: There was a proportionate number of hourly paid workers who earned comparable pay.

Rev. Rul. 70-258: Allows the integration of a salaried-only plan under Social Security.

Rev. Rul. 69-503: For purposes of integrating pension benefits with Social Security, compensation can either include or exclude commissions, bonuses, or overtime pay as regular compensation, provided that it does not result in the prohibited discrimination in favor of highly paid employes. ■



Mercury . . .

Continued from page 33

ing the initial action, and the federal government in Ottawa.

"THE LOANS are figured by taking 70% of the fisherman's 1969 gross income," a source in the Department of Fisheries told *Business Insurance*, "and deducting his 1970 revenues. What's left is the amount of the loan. They have ranged, so far, from $30,000 as a high to a low of $700."

The claims are just starting to come in and should grow as the year progresses. As of Aug. 5, for instance, claims (loan requests) from the Lake St. Clair area had totalled 168,796, according to one estimate. Claims amounting to about $14,000 had come in from the northern Saskatchewan river area as of Aug. 11.

The spokesman at the Department of Fisheries pointed out that "the estimated annual catch in Lake St. Clair is about $375,000, so we do expect more claims. The value of the catch in Lake Winnepeg last year was between $1.5 and $2 million." ■

No-fault is still raising questions for fleets, but most feel bill is liveable

BOSTON—Commercial fleet operators, having gotten through the initial confusion surrounding passage of the new no-fault auto insurance law here, face several other questions before they can be assured of savings under the new measure, according to some queried last week.

As reported in *Business Insurance* Aug. 31, those fleets insured by one of the three carriers that have officially stopped writing auto business in the state (Aetna Casualty & Surety, Lumbermen's Mutual and Employment-Commercial Union) experienced some early difficulty in obtaining coverage for new vehicles being added to their fleets.

"This was primarily due to the confusion and lack of information of the local agents," explained one fleet operator here. "After we all had a chance to catch our breath, the word was passed down that these cars were to be treated as part of the 'old business' fleet underwriting," he continued.

IN OTHER words even though these companies have discontinued writing new fleet business in Massachusetts, they will continue to service their existing policies in force. However, this does not answer what appear to be much more important questions for fleet insureds: Will it be possible to obtain renewal on existing coverage with the same company? Is it more desirable to switch coverage to another company?

"Well, nobody really knows the answers to these questions yet," explained Lawrence W. Sullivan, insurance manager of H. P. Hood & Son here and new president of the Massachusetts Insurance Buyers Assn., the Massachusetts chapter of the American Society of Insurance Management.

"We all really haven't had the chance to fully understand just what all this new law means. It seems as if someone is raising a new question about what its effects will be just about every day," he noted.

With the widespread doubt as to just what the new no-fault law portends, its Jan. 1 effective date has apparently allotted just enough time.

MR. SULLIVAN pointed out that he felt the Massachusetts Insurance Buyers Assn. would probably take a "hands-off" attitude on the new bill unless a majority of the major insurance carriers begin to stop writing auto insurance in Massachusetts on a large scale.

As reported previously, the gist of the last-minute amendments ramroded through the legislature late last month was a set of right-to-cancel provisions aimed at appeasing an alarmed insurance industry anxious about what they saw as an impending underwriting disaster under the new bill.

"On the whole, everyone feels like we're going to have some problems of minor adjustment but no one doubts that the new bill will probably be liveable," Mr. Sullivan remarked. ■

Relies on 1899 law in pollution suit

RED BLUFF, Cal.—A $23 million suit to force Kimberly Clark Corp. to stop polluting the Sacramento river has been filed in Federal court by Ludington Patton Jr., a Red Bluff rancher.

Mr. Patton invoked the Federal Refuse Act of 1899, which prohibits the discharge of pollutants into navigable waters, in seeking an injunction against continued operation of the company's pulp mill at nearby Anderson, Cal.

The suit alleges the mill began operations in November, 1964, by "dumping deleterious refuse resulting in contamination of the Sacramento river."

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Laid-off Lockheed workers have one month to get their own auto coverage

BURBANK, Cal.—What happens to employes holding mass-marketed auto insurance policies when the company they work for is forced to lay them off?

"Nothing," according to a spokesman at Lockheed Aircraft Corp., a company expecting a 13% payroll cut by the end of the year. "People who are laid off are treated just like anyone else who terminates his employment here, whether he quits or is fired."

Lockheed employes, covered by the Travelers Insurance Co., who choose to enroll in the payroll-deduction plan pay double deductions until they are one month in advance and then pay regular deductions. If, for any reason, their employment is terminated they have that month in which to convert to Travelers at standard rates or change to the company of their choice.

THE LOCKHEED payroll-deduction plan covers auto and special accident insurance. There is no homeowners coverage available to employes.

Lockheed will be forced to cut 12,900 employes from its payroll by the end of the year because the Air Force has reduced its order for C5A transports, and because of the delay in the go-ahead for production of the short-range attack missile propulsion system and other cuts that have affected the entire aerospace industry. Lockheed's heaviest cuts will be at its Marietta, Ga., plant, where 9,000 people will be laid off. Lockheed's California division will augment the loss of engineering personnel by hiring more production workers.

A spokesman at Travelers told *Business Insurance* that his company is still operating on a net basis in regard to Lockheed. "We are writing more business than we are losing," he said. He attributed the rise in business to the fact that not all the employes to be laid off are enrolled in the plan and those workers who expect to keep their jobs find security in the plan, particularly when layoffs appear imminent.

Regarding those workers who will be laid off, the Travelers' source indicated that he expects "no more trouble collecting premiums from these people than from anyone else in the same situation." The workers are also given a 31-day grace period in which to make their premium payments.

NEITHER the Travelers nor the Lockheed spokesman indicated much concern regarding the future of the payroll-deduction plan if the layoffs were to continue. The source at Lockheed felt that "if the layoffs were to continue there would probably be a few dropouts but the layoff rate would have to be incredibly high, say 50% of the employes, to really hurt the program."

"No, I can't see where it would really hurt our business," the Travelers' spokesman said. He noted that since "this is a relatively new plan" a layoff trend would not hurt as much as it would if the plan were four or five years old. He said that if the plan were an older one there would be more people enrolled in it and a big layoff trend would hurt the program more than it would at this stage of development.

Even if the layoffs were to continue in the hard-pressed aerospace industry, it appears that the payroll-deduction plan would continue to grow and would suffer only if the layoff rate went higher than anyone can foresee. The plan is growing and signs indicate that it will continue to grow as long as large companies like Lockheed Aircraft continue to enroll people in it. ■

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Sight lost, pill suit says

SAN JOSE, Cal.—A 30-year-old mother of four children this week filed a $2 million damage suit in Santa Clara county superior court here claiming contraceptive pills caused her to lose her sight.

THE SUIT was filed by attorney Salvadore Liccardo on behalf of Michele Ahearn, who alleges she took Orthonovum on a doctor's prescription for two years.

As a result, the suit claims, she developed headaches and lost the sight in both eyes permanently due to blood clots. She seeks $1.4 million general damages and $500,000 punitive damages.

Named as defendants are Johnson & Johnson, Orthor Pharmaceutical Corp., Lucky Stores and Gemco Pharmacy. ■

Funds . . .

Continued from page 30

trust and big-bank mortgage trust offerings as well as those of Genny Mae, in terms of what kind of mortgages were being purchased. The vast majority of the big-bank or Genny Mae mortgages are commercial in nature—high-rise office buildings in cities or large, new shopping centers, for example.

The funds of the union trust, on the other hand, are being devoted primarily to lower- and middle-income housing starts, including both the primary mortgages (under which a house or project is built) as well as the permanent mortgages (which cover the indebtedness the occupant-owner incurs on purchasing his home). It is these mortgages, the union trust spokesman argued, that are most important to the employe, because they are the ones that allow him to build or to buy a new home.

THE OBVIOUS counter to this line of reasoning that pension fund administrators (be they union or management) bring up is: But the commercial mortgages give us a higher return. And the contest goes on.

So far the AFL-CIO mortgage trust has about $6 million committed to various projects in New York, California, Missouri and Pennsylvania. A typical one is the 61-unit project called Sharon Houses being built on Forest Avenue in New York's overpopulated and under-housed South Bronx. The fund has a little more than $1 million committed to it. Overall, the fund has paid out about $4 million of its commitments so far this year.

"The SEC recently put a kind of ceiling of $50 million on the amount of assets we could have in the mortgage trust," the spokesman said and laughed slightly from his office in the AFL-CIO's building. "But we haven't started to worry about that just yet." ■

speaking of safety

Army proximity-warning devices on helicopters halt mid-air crashes

By ROBIN SUHRBIER

MINNEAPOLIS—Midair collision—a billion dollar headache for insurance and aviation industries alike—could be cured with the installation of collision-warning systems on all aircraft, private and commercial.

A dream? Not any more, if devices made by Honeywell Inc. here prove feasible. There are three such instruments in the making—one is still on the drawing boards, another is in the pretest stage and the third, adapted for Army needs, is in and flying.

"The Honeywell system is not a brochure or a conference or a conversation but an actual piece of equipment, that's installed and working," according to William Gaines, flight safety director, U.S. Army Aviation Center at Ft. Rucker, Ala.

FT. RUCKER is in the process of installing 222 proximity-warning devices on its training helicopters in order to prevent midair collisions during training. "And our pilots love it. It gives them fair warning of an aircraft which they may not have spotted," Mr. Gaines said.

The proximity-warning device is a simplified version of a collision-warning system, a more complicated instrument needed for commercial aviation. Honeywell is under contract by the Army to develop and build such a collision warning system for evaluation for possible tactical usage.

A collision warning system for commercial use could "virtually wipe out midair collisions," according to Robert Follen of Honeywell Inc., "and such a system could be designed, produced and installed on the first aircraft within a year."

An article in the March edition of Space/Aeronautics reported that once "attorneys for estates of accident victims become aware that equipment exists which could have prevented an accident, the airlines involved in collisions between air carriers can expect to be tried not for simple negligence (failure to see and avoid) as at present, but for gross negligence. The practical effect of a guilty verdict in such a suit would be to tack punitive damages onto compensatory damages, raising the average award from the present $150,000 per fatality to perhaps $500,000."

AWARDS LIKE this could pose a real hardship on the airline industry which right now is scraping the "botton of the barrel" to find enough capacity to cover the new 747s. The airlines have scoured the American market, Lloyd's of London and many European markets to find enough insurance capacity to meet their needs. They have also formed their own insurance captive to relieve some of the pressure. However, the captive, which will be domiciled in Bermuda, is not expected to get under way until 1971.

Mr. Follen explained that the basic technology for such a system has been developed and about "all we need now is a go ahead and specifications from the FAA and the airlines as to their particular needs."

What has been developed so far has been for the Army and its requirements for the equipment differ somewhat from commercial aviation needs. Mr. Gaines sees the Honeywell equipment as a possible answer however to commercial aviation needs. He pointed out that except in a few instances, midair collisions occur in the high density areas—the airports. A similar

Continued on page 52



The U.S. Army is in the process of installing 222 proximity-warning devices, developed by Honeywell Inc., on training helicopters. The mechanism is a simplified version of the system that would be required for commerical aviation.

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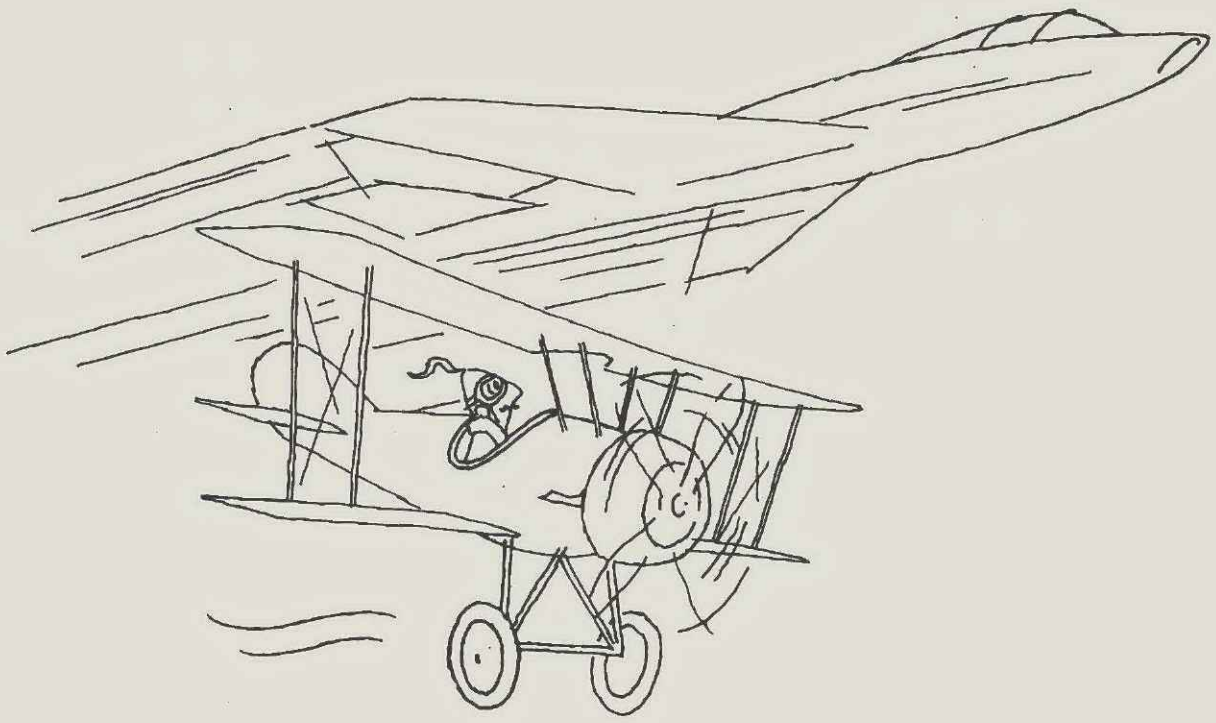
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HUD insurance head recommends crime pool plan to aid 13 key states

BY ALLEN M. WIDEM

HARTFORD—Relief for the small businessmen of 13 key states who are unable to get adequate burglary insurance is expected through Federal legislation.

Housing and Urban Development insurance administrator George K. Bernstein has recommended to Congress that a "crime pool" plan be endorsed as direct aid to Connecticut, New York, New Jersey, Pennsylvania, Massachusetts, Illinois, Michigan, Ohio, Missouri, Maryland, Delaware, California and Washington, D.C.

Mr. Bernstein wants state laws enacted, setting up pools where normal coverage is unavailable, perhaps even making the pools part of the FAIR (Fair Access to Insurance Requirements) plan now in effect to provide fire insurance and related coverage on a pooled risk basis. His proposals are firmly backed by state Insurance Commissioner William R. Cotter. Mr. Cotter said that his department has long urged encompassing burglary insurance in FAIR.

MANY MONTHS ago, his department had been the recipient of enough complaints to justify discussions with Hartford-based companies. And out of these talks emerged the Connecticut burglary placement facility, a voluntary pool of five firms (Aetna Life Insurance Co., Aetna Insurance Co., Hartford Insurance, Security Life and Travelers), writing policies on small businesses qualifying for insurance on a rotating basis for amounts up to $1,000 for each of seven categories of loss through theft.

Facility chairman Kenneth Moritz told *Business Insurance* that 254 applications were received in the first year alone (through last April). Of these, however, only 20 policies were written. It was noted that the bulk of the applicants lost interest when they were told of qualifying requirements—burglar-proof locks bars over windows and steel screens or doors over bars.

Mr Moritz interpreted the latter inaction to lack of interest rather than something touching on the inability to meet expenses. But normally, he added, the required changes do not necessarily mean great expenditure.

This unprecedented plan in Connecticut—a first nationally—has proved unsuccessful from the corporate point of view. Losses on policies have exceeded premium income by some 320%. But Mr. Cotter registers an emphatic disagreement with this assessment of the need for burglary coverage.

HE NOTES that the number of policies written reflects the ineffectiveness of the plan—rather than a lack of interest. He told *Business Insurance*: "The precautions required were so stringent, the deductions so high and the limitations on the amount of coverage so inadequate that in most instances, it was no help."

Mr. Moritz conceded that there was concerted efforts to advertise the program because of its unprofitability. At the same time, he said, extensive press coverage was noted at time of formation in March, 1969 (as reported in *Business Insurance*).

All insurance agents in Connecticut were informed of the facility's modus operandi. Mr. Moritz intends to extend the plan for at least another year—even though companies are losing on just about every policy written.

One primary reason for loss: The policies are non-cancellable during the year for which they are written and a merchant may file claims for four or five robberies in the same year.

MR. MORITZ noted that this has been especially true with merchants handling what is labelled "hazardous merchandise"—usually liquor.

The major trade associations in the insurance industry, Mr. Moritz continued, are working with Mr. Bernstein on development of a logical cost-handling plan and, it is hoped, this can happen within the one-year limitation already specified.

A spokesman for a Hartford burglary protection systems firm asserted that the larger companies have no problem whatsoever in getting coverage.

He said, too: "Smaller companies applying for coverage for the first time are asked to take precautions that are sometimes ridiculous. Of course, the object of the insurance company is to protect its premiums, so they ask for extreme precautions." ■

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letters

Continued from page 22

sents a startling 180-degree flip-flop from less than a decade ago. The Senate investigation of the insurance industry, led by Mr. Kefauver in the early sixties, points up industry attitudes of the time quite vividly. Transcripts of these hearings made fascinating reading, showing graphically the distortion of judgment caused by habit and self-interest.

My last point will be to chide Mr. Anderson on his statement (re my article): "This article is so phrased as to indicate that any account whose compensation premium is $100,000 or more, should and could save $20,000 via a program of 'self-insurance.' At least this seems to be the connotation if the buyer is located in California and uses Warren, McVeigh & Associates."

To correct this inaccuracy, our company does not provide any service to self-insurers, per se. As independent consultants, it is immaterial to us whether a client insures or self-insures. Johnson & Higgins cannot make that statement.

D. Warren

Partner, Warren, McVeigh & Associates, San Francisco, Cal.

Thorough research

To the Editor: I want to express my appreciation for the very excellent article entitled "Hail new legislation dealing with cargo security" in the June 22, 1970, issue of *Business Insurance*. Your reporter, George Langworth, is to be commended for the very thorough research and inquiry into the subject matter contained in my bill, S. 3595.

Please accept my best wishes.

Alan Bible

U.S. Senate, Chairman, Select Committee on Small Business, Washington, D.C.

Conn. directive will not crimp mass plans, most officials believe

HARTFORD—A new directive from state banking commissioner Gerald A. Lamb, which will serve to restrict the sale of group automobile and other forms of insurance through credit unions, has been acclaimed by the Connecticut Assn. of Independent Agents (CAIA).

The CAIA has volubly protested the mass marketing of automobile and other lines of insurance coverage to factory workers and other groups, despite the claim by insurance companies that mass-marketed plans offer premium savings of up to 15% on automobile coverage because of lower handling costs.

Insurance agents in Connecticut have expressed the fear that mass marketing will sharply cut into their share of individual sales.

And now Mr. Lamb has come along with a spanking new directive which proceeds to define "guidelines" for Connecticut credit unions.

IN PART, the Lamb directive says that the credit union "must not recommend or support such a program (of group-sold insurance) nor enter into agreements on contracts and must not furnish names and adresses of members to any outside parties. . . . Furthermore, the credit union should assume no responsibility for collecting or remitting . . . payments of premiums)."

As for the Connecticut insurance industry response to the Lamb directive, there's no marked reaction beyond that expressed by the agents.

Spokesmen for a number of home offices here told *Business Insurance* that the thinking holds to the philosophy of credit unions not shaping up as ideal vehicles for mass marketing. Industrial payroll deduction seems to function more adequately and ably.

But from the credit union sector comes the observation that the Lamb directive contains no problems whatsoever.

A NUMBER of credit union spokesmen noted that their groups, which have handled premiums for life insurance plans for a number of years, will continue to deduct the premiums from members' accounts.

The directive line about "remitting payments" to insurers does not pose a problem, either, since the credit unions do not "take responsibility" to collect premium when a members' account has insufficient funds.

The Charles Pfizer & Co. Employes Credit Union in Groton, for example, (sole organization in Connecticut at the moment concerned with mass-marketing of auto coverage), has no problem.

A spokesman told *Business Insurance* that Mr. Lamb has, in effect, given the credit union's action his blessing.

THE SPOKESMAN added: "We don't sell the insurance or promote it in any way. We just deduct the premiums from our members, if there's enough in their accounts, or forward it to the insurer."

Credit unions maintain that it's legal for them to execute the biggest cost-saving element of mass-marketing: Handling of premum collections through a central office (in their situation, of course, the credit union office).

Moreoever, it is believed that the Lamb directive is flexible enough in concept to allow credit unions to add automobile coverage to already-established life coverage, if desired.

But few credit unions in Connecticut are thinking of mass-marketing in automobile coverage, since bulk of the opinion-making officers hold that woes unlike life insurance handling could all too easily pop up.

JOHN BICKLE, director of the Connecticut Credit Union League, remarked that the CCUL has been "studying" aspects of auto-

Continued on page 46

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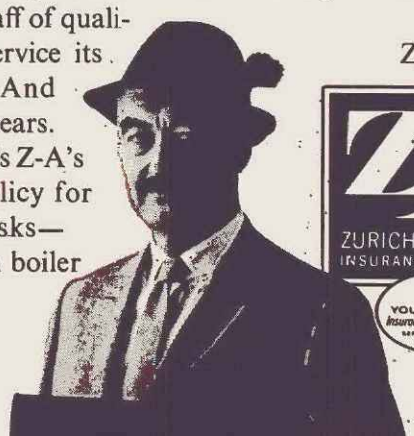
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business insurance/perspective

Fixed-income or equity investment now?

by H. Charles Kwasha, chairman of the board, Kwasha Lipton Co., Englewood Cliffs, N. J.



H. Charles Kwasha

'Are we witnessing another boom and bust? If so, would it not be better to move into fixed-income investments?'

ECONOMISTS, investment bankers or investment advisers we are not! But, consultants and actuaries for employe pensions we are and have been for going on 35 years. We were there when the insurance companies were practically the only ones in the pension business with their inflexible group deferred-annuity approach and their premiums based upon a 2% long-term interest assumption (and, mind you, they would guarantee the use of those premium rates for only five years!).

We were there when the banks began getting into the picture, making it possible for independent actuaries to compute pension costs on more realistic, yet conservative, higher interest assumptions for the fixed-income investments in which the funds were almost exclusively invested at that time. Then came the days of the trust departments of the banking industry—beginning to strike out into equity investments with their intrinsically higher long-term growth rates—temporary price swings being of little concern considering the long-term nature of pension funding. At first it was 15% of book value in equities, then 20% to 25%, veering to the 35% that was the limit in New York state for personal trusts, to 50% and 60% and finally to the 75% to 85% range that some banks are now recommending.

INDEPENDENT actuaries have had more than a small part in initiating this progressive development in pension funding and suffice it to say that the insurance companies now have pension funding arrangements that closely parallel bank trusteed plans not only as to flexibility of benefits but as to fixed-income and equity investment arrangements. During this developmental period the independent guidance and opinions of the actuary have been sought by his corporate clients and necessarily he has had to call upon his knowledge of economics and finance, part and parcel of the training of the full fledged actuary. It is in this vein that we consider it appropriate for actuaries to pose the question: "Fixed-income or equity investment now?"

The answer to the question is particularly cogent at this time in view of the currently high yield offered by fixed-income investments and the currently uncertain state of the equity market. To offer some clues to the answer to the question we have gathered for the past 50 to 70 years information on several economic factors that we believe have a certain amount of relevancy to one another and to the problem. These are:

- Standard and Poor's index of stock market prices.
- Common stock dividends on the stocks included in such index.
- Common stock earnings on such stocks.
- Consumer Price Index.
- Moody's A Bond Yields (the average grade for pension funds).
- Hourly wage rates in industry: These hourly rates have been loaded for fringe benefit costs by 0% in 1935 to 5% by 1950 and to 25% by 1970 with interpolation for intervening years.

UPON INSPECTION of the information three things become apparent immediately.

First, there is a remarkable similarity between hourly wage rate increases, the increase in common stock earnings and in stock market prices. At first one might question why there should be a relationship. But on reflection, hourly wage rate increases represent a combination of Consumer Price Index increases and productivity increases. These same factors ultimately affect corporate earnings via the cost of sales and mark-up for profit. Competition forces plant capacity to be used to its maximum except for temporary periods of adjustment. Increased demand for goods, resulting from whatever cause, will require increases in hours of work, in materials and ultimately in plant capacity which, in turn, will require additional equity investment. In this way the relationship between hourly wage rates and earnings per share, and equity prices, remains approximately the same, as we said, outside of temporary adjustments for many different economic reasons from time to time—i.e., taxes, wars, price controls, rationing.

Second, the stock market boom and bust of the 1925 to 1934 period seemed to have no reasonable relationship with either the cost of living then or hourly wage rates, whereas both before and after that period and up until, or a little after 1950, the changes are approximately proportional. Thus, perhaps we can think of the 1925 to 1934 boom and bust as being purely the result of a stock market speculative binge.

Third, after 1950 common stock prices again seem to have lost their relevancy to hourly wage rates and cost of living. Beginning in the 1960's they seem to be outstripping the wage rates and the cost of living in a rather significant manner until 1969. At that point stock market prices topped off with a steady decline during 1969 and early 1970 followed by a precipitate drop in May, 1970. Hourly wage rates and cost of living in the meantime continued to rise.

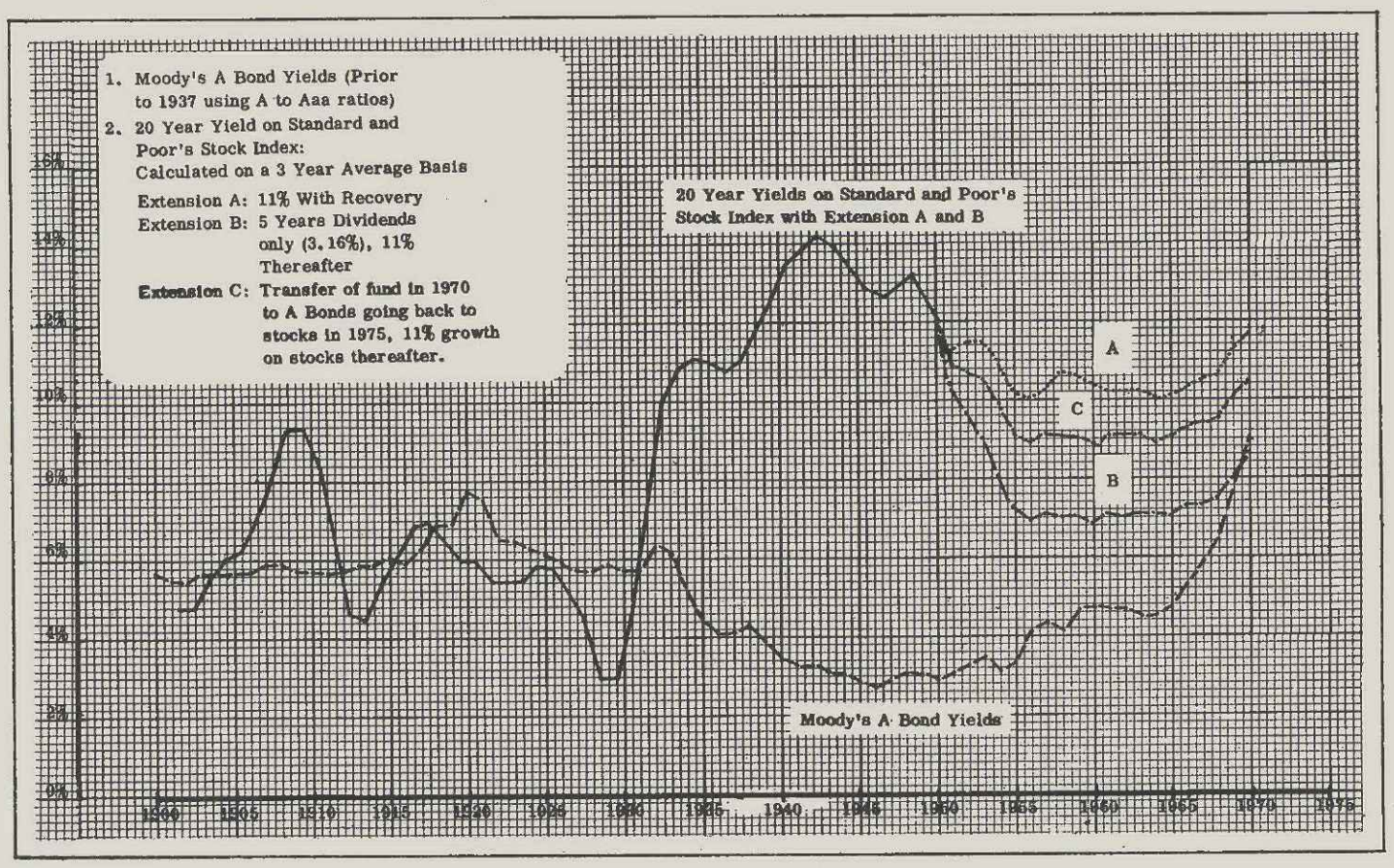
NATURALLY, the question arises: "Are we witnessing another boom and bust?" If so, will common stock prices be backing and filling for the next five years or so, in which event would it not be better to move out of the equity market and into fixed-income investments, especially when the latter promise an interest return in the area of 9%?

We are all familiar with the fact that common stock dividends in recent years have been unduly depressed as a percentage of stock market prices—something on the order of 2.5%-3%, far below the traditional rate of something under 5%. What was the story in the 1925 to 1934 period? An inspection of our common stock dividend information indicates that during this boom and bust period, the dividend return averaged about 4.75%. Is it possible that the recent "speculative" period in common stocks might not be considered to be "speculative" if prices for such stocks were adjusted downward to offset for the reduced dividend return from the traditional level?

Adjusted common stock prices for 1900 to 1970, after transferring an amount from year-to-year stock prices to year-to-year dividends result in the adjusted dividend return on a cumulative basis being equal to 4.75% of the adjusted market value from year to year. By 1925 the year-to-year adjustments produced a 4.75% dividend return from 1900; from 1925 to 1955 practically no adjustment was required to reproduce a 4.75% return; in other words, the dividends themselves actually ran about 4.75%. However, after 1955 the adjusted common stock prices increase less rapidly than the unadjustment to build up the dividend return to the traditional level.

With this adjustment, the rates of increase since 1935 in common stock prices begin to achieve a closer resemblance to the rates of increase in hourly wages and common stock earnings. However, common stock prices were above the trend line of such increases during the

Continued on following page



Investment

Continued from preceding page

period from 1955 to 1969. Thereafter, even with the adjustment to a 4.75% dividend rate, there is a topping off and a sharp break in common stock prices reminiscent of depression days. Of course, the purchasing power of the dollar is not the same today as it was in the 1925 to 1934 period and part of the steep growth in common stock prices to the present is due to this factor.

TO REMOVE the effect of inflation, we divided hourly wage rates, common stock earnings and common stock prices (both on the unadjusted and the 4.75% dividend adjusted basis) by the Consumer Price Index to eliminate changes in the value of the dollar. The rise in common stock prices up to 1969 is then not as steep and represents, by and large, the cumulative effects of increases in productivity. The stock market drop after 1969 on the 4.75% dividend adjusted basis is about 30%. This compares to a drop from the high to the low in the 1925 to 1934 period on the same adjusted basis of about 70%.

While it is too early to tell, it is possible that we are not witnessing a boom and bust as in the 1925 to 1934 period but rather a more exhuberant growth up to 1969 than was warranted by the growth rate of common stock earnings. We feel this way because common stock prices should follow the trend line of common stock earnings over the long run. We have determined the trend line for such earnings from 1935 (on a logarithmic least squares basis) and have applied it to the 4.75% dividend adjusted common stock prices on a logarithmic least deviation basis. Such common stock prices have exceeded the trend line since 1955. On the other hand, the growth rates of productivity and Consumer Price Index adjusted hourly earnings are practically on target with such trend line after World War II. Thus, perhaps we now have a compensating correction back to below the trend line. How far below the trend line the correction will go and how long the adjusted common stock prices will remain below the trend line is anyone's guess.

Compare the investment yield on 20-year bonds rated A (based on Moody's reports) with an investment made at the same time for the same 20-year period in Standard & Poor's stock market averages including the attendant year-by-year dividend payments. In order to mitigate the effect of day-to-day fluctuations in common stock prices it must be assumed that each year's investment would be made in three parts—⅓ on July 1 of such year, ⅓ on the previous July 1, and ⅓ on the subsequent July 1. Correspondingly, on the cash out at the end of 20 years it must be assumed that it would be done in three steps: on July 1 of the year of cash out and on the preceding and following July 1. For investment years after 1950 when cash outs would be made after 1970, some assumptions must be made as to the future progress of common stock investment growth rates inclusive of dividends.

'The rise in common stock prices up to 1969 represents, by and large, cumulative effects of productivity increases.'

Reference to the 4.75% dividend adjusted common stock prices (adjusted for cost of living) shows that the long-term average growth rate, compounded annually, was on the order of 3% from 1935 to 1969, not too different from the rate of increase in productivity and in hourly wage rates during this period. There has been little increase in hourly wage rates during 1969 and 1970 after cost-of-living adjustment and almost no productivity increase since the first quarter of 1969. Without such increases future common stock price increases could be expected to be limited to the rate of increase of the Consumer Price Index. Hopefully the latter can be brought down in time from the present 6%, approximately, to 3% (the average annual Consumer Price Index rate of increase from 1935 to 1970). In the meantime productivity increases will likely build back to the past 3% rate. Thus, the growth rate of an investment in common stocks for the future could be on the order of 11%, assuming the traditional approximate 5% dividend and Consumer Price Index increases of 6% down to 3%, and productivity increases from 0% up to 3%.

FOR THE PURPOSES of continuing the comparisons of the 20-year A bonds with the same investment in Standard & Poor's stock market averages, after 1950 assume in the "A" line of accompanying graph that a "midi boom" will have occurred by the end of 1972 fully compensating for the 1969 to 1970 bear market together with a common stock investment performance rate, inclusive of dividends, of 11% from now through 1972 and continuing thereafter.

In the "B" line assume: that common stock prices will back and fill for the next four or five years, much as they did in 1946 to 1950, during the changeover from a war to peace economy but this time without the benefit of the built-up demand for consumer goods produced by rationing; that during this period common stock dividends will average slightly above 3%; and that after this period the common stock investment performance rate, inclusive of dividends, will be on the order of 11% per annum.

In the "C" line assume that equity investments would be replaced in 1970 by A grade bonds for a period of five years after which such bonds would be sold at a premium with the proceeds being used to buy back into the equity market. For purposes of determining the bond premium it was assumed that the bonds would be callable at the end of ten years and that A bond yields in the future would be on the order of 3.5% above the rate of Consumer Price Index increases, that is, graduating downward from 9% now to 6.5%. (3% for Consumer Price Index plus 3.5%) at the end of five years.

What is the message? As to the future the "A" line tells us that if you believe that there will be a "midi boom" recovery within the near-term future plus a common stock investment performance rate on the order of 11% per annum, it would be well to remain in equities as before, despite the currently high fixed-income returns that are available today. On the other hand, if you feel that the equity market will back and fill for the next four or five years, with an investment performance rate thereafter of about 11% (and no "midi boom") the "B" graph tells us that you will be further ahead by shifting to the currently high yields of fixed-income securities—even if you held these securities for the full 20 years. The "C" graph shows the yields if you hold the bonds for only five years and then transfer to stocks.

Gentlemen, start your engines. ■

H. Charles Kwasha, chairman of the board, Kwasha Lipton Co., consulting actuaries, received an A. B. degree in 1928 from Brown University where he was a Phi Beta Kappa and served on the faculty for one year after graduation. Before founding the Kwasha Lipton Co. in 1944, Mr. Kwasha was associated with Travelers Insurance Co. and served as a chief actuary for a consulting brokerage firm.

Risk management notes

prepared by Warren, McNeigh & Assoc.,
risk management consultants,
San Francisco, Cal.

Workmen's Compensation

We have seen cases recently in which is asked if bidding is appropriate for workmen's compensation coverage. While few questions in risk management can be answered categorically, 'yes,' or 'no,' this is one of them. The answer is no. Bidding is not appropriate for this coverage. Rates are established by law and all companies are obliged to start from the same chalk-line. Differences in ultimate costs—even with identical losses—are certainly possible and even probable since each company has its own ideas about how to establish dividends, retrospective refunds, and other embellishments on the initial price. However, the most important criteria to consider are loss prevention and claims control. Neither of these factors can be quantified (that's consultant jargon for measured), but these are the bases on which decisions should be made. Choose the company you feel will provide the highest quality service in these two regards, then consider which of the available rating plans is best suited to your situation.

Deductibles

For years, the insurance industry has vigorously opposed the use of deductibles of any significant size, presumably because it diminishes the amount of cash they have to invest. An interesting, albeit unwitting, commentary on this phenomenon appeared in Sylvia Porter's nationally syndicated financial column when she interviewed the president of State Farm, Edward B. Rust, with respect to auto insurance. She quoted him as saying that 86% of all claims made to State Farm are for $300 or less. Imagine the reduction in expenses and other premium costs if all policies were written with a $300 deductible. The fact is, however, that until late 1969 or early 1970, State Farm made no deductible available higher than $100. Today, the highest deductible they offer is $200. Why is that, Mr. Rust?

Workmen's Compensation Catastrophes

Statutory limitations on the amount of workmen's compensation payments normally prevent catastrophe losses. Consequently, self-insurance of workmen's compensation is common. Self-insurers purchase excess insurance which protects them against an unusually large loss—either a serious long-term disability or major disaster where many employes are killed or injured. But what about the once-in-a-lifetime jumbo disaster, such as the fertilizer ship explosion at Texas City in 1947 which killed 468 persons?

Excess compensation policies, unlike primary compensation policies, have upper limits of liability applying to compensation benefits, normally $1 million or $2 million. Ideally, the umbrella policy should cover, but they usually exclude workmen's compensation. However, if the excess compensation policy is named as an underlyer on the Umbrella and the Umbrella endorsed to pick up everything covered by the underlyers, then you may have the protection needed. Some umbrellas pick up all coverage afforded by underlyers without endorsement, but whether provided by the printed form or by endorsement, this provision should be afforded.

Safety

Safety engineers repeatedly advise of the need for a safety manual to outline how safe practices are to be achieved. Though generally an admirable undertaking, there is one aspect on the negative side that should be recognized. If an injury occurs, and the procedures spelled out in the manual have not been strictly carried out, a plantiff's attorney might use this as tangible evidence of negligence. In the event of injury to the public, this could be a damaging weapon. In the case of workmen's compensation, it might turn an ordinary claim into a "serious and wilful misconduct" claim. This is not to say that safety manuals should be discarded. On the contrary, they are often most helpful, but the contents should be thoroughly checked to be certain that they are practical and in line with the realities of field conditions.

Liability

If your company owns or operates one or more boats, what should you do about liability exposures? If boat operation is only incidental to your principal activities, it is probably best to insure under your general liability policy (by deleting the watercraft exclusion) and workmen's compensation policy (by extending it to include coverage for loss under the Federal Longshoremen and Harbor Workers's and/or Jones Acts). This is particularly true if you decide not to insure the hull. Most insurance companies don't like to write protection and indemnity (the marine form of liability insurance) without hull coverage.

A peculiar thing about hull insurance (for that matter, everything about marine insurance is peculiar) is that it includes some liability coverage in addition to physical damage to the boat. The "running down" clause picks up liabilities due to collision, up to the amount of the hull policy. The protection and indemnity policy usually covers liabilities in excess of this amount whether or not you actually carry hull insurance. So if you carry a protection and indemnity policy but not a hull policy you could get nicked for twice the policy amount if you lose the boat and at the same time incur liability for more than its value.

Umbrella Liability

Suits for damages charging racial or religious discrimination are becoming increasingly likely. The state of New York has prohibited the writing of insurance against this type of loss and many New York-based companies do not write it in any state. However, insurance is proper for such discrimination not committed by or at the direction of the insured. It should be a part of the liability program, particularly in the umbrella.

Does your liability program include coverage for suits charging only shock, mental anguish and mental injury? These can be the subject of a suit even in the absence of any bodily injury, according to judgments in New Jersey, Delaware and California. All umbrella policies should include this coverage. ■



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Florida firm specializes in race track coverages

ST. PETERSBURG, Fla.—With the ever-growing popularity of auto racing as a spectator sport and the burgeoning accident rate among its participants, a new company, specializing in auto racing insurance and related services, has opened its doors here at a propitious time.

Although National Auto Racing Services Inc. specializes in insuring small, oval, quarter-mile tracks, it is also equipped to give coverage to super speedways (any track over one-half mile in circumference) and drag strips, as well as the drivers in such events.

Coverage varies according to each race, track and driver but the firm usually offers spectator liability coverage to tracks, ranging from minimums of $300,000 to $500,000. However, each state makes its own laws regarding minimums in this area and insurers must make adjustments according to the various state laws. Georgia, for example, recently passed a law requiring tracks to carry $1 million on spectators.

THE SPECTATOR liability policy, which is basically general liability, covers sponsors of the particular race, sponsors of cars and promoters as well as general spectators.

Personal accident insurance is offered to drivers, mechanics and anyone else in the pits who is associated with the race. This coverage includes accidental death and dismemberment, blanket medical, which carries an average $3,000 to $5,000 limit, and weekly indemnity.

The weekly indemnity coverage is basically disability insurance with an eight-to-14 week waiting period. The coverage then extends for an average of 26 weeks while paying about $40 per week. "This coverage rarely goes 52 weeks a year because racing is a seasonal thing," J. E. Yungel, president of the company, told *Business Insurance.*

Mr. Yungel explained that there are three main types of auto racing—speedway (including super speedway), drag racing and road racing. His firm extends coverage only to speedway and drag racing. "We do not cover road racing (such as a Grand Prix race) because it is so highly specialized," Mr. Yungel pointed out. "The limits are very high for road racing and the insurance is mainly locked into Lloyd's of London, of whom we are a correspondent."

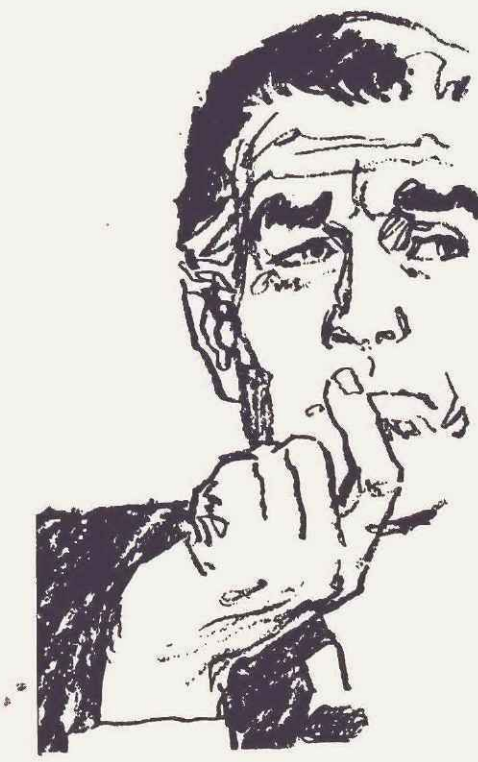
THE COVERAGE is all paid for in advance of each race and the races are insured differently because of the differences in the types of racing and in the drivers themselves. "These guys are as different as night and day," Mr. Yungel said. "Speedway drivers and drag racers don't even talk to each other."

As well as insuring racing events, National Auto Racing Services handles many other aspects of the auto racing scene. The firm conducts racetrack inspections and designs tracks, helps with ticketing and concessions and, as a service, assists in the classification of automobiles before a race.

"You always run into a few problems when you design racetracks," Mr. Yungel explained, "because of this rather strange equation: The more you protect the spectator the more you kill the driver. A 15' high fence is going to protect the spectators but if a driver hits it at 150 miles an hour, it's going to kill him."

Mr. Yungel went on to say, "It's still early in the season so we haven't had any spectacular claims as yet."

National Auto Racing Services is a national company but their main thrust this year has been toward the southeastern U.S. stock car tracks. ■



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Nader . . .

Continued from page 21

as applicable to Mr. Cotter as well as Hartford Fire-ITT. Mr. Nader's legal counsel wanted Judge Rubinow's decision to also apply to the Aug. 28 motions.

Judge Rubinow, however, disqualified himself from hearing the case again, citing a possible conflict of interest. He said he had since been discussing an issue on probate court administration with the state attorney general's office.

As for the actual appeal of Nader-vs-merger, no date has yet been firmed for a hearing.

In the event Mr. Nader wins, according to his counsel, ITT may be ordered to sell off its Hartford Fire stock.

The appeal is based on the argument that Mr. Cotter should have held a public hearing on conditions he attached to his approval of the merger. It is argued, moreover, that even if the public hearing had been held, the Cotter approval would have been against the public interest. ■

Directive . . .

Continued from page 41

mobile coverage, but nothing definitive in its findings has been disclosed to date.

From a preliminary standpoint, it is felt that the credit union movement could bring on an atmosphere of ill will through identification with claim grievances.

And other opinion-makers in credit unions voice displeasure with insurer insistance on the right to exclude high risk cases from coverage, since this tends to violate credit union spirit with stress on higher risk, lower income elements.

Mr. Bickle added, however, that the CCUL's studies will continue indefinitely.

And there's always the possibility of legislative action, if necessary, to define the best role for credit unions in mass-marketing of insurance coverage. ■

Snow swirl doesn't make bus owner liable

HARRISBURG, Pa.—The Pennsylvania Supreme Court ruled that the owner of a bus that negligently reduced vision of other drivers by speeding on a super-highway and creating a snow swirl is not liable for injuries sustained by a passenger in another bus when its driver failed to slow down and collided with a car.

The trial jury returned a verdict in favor of the passenger and against all of the defendants—which included the owner of the bus in which he was riding, the owner of the vehicle into which his bus collided, and the owner of the bus which caused the snow swirl. The latter party moved for a judgment, not withstanding the verdict, which was granted. From that judgment the additional defendants appealed.

The case was submitted to the jury on the theory that the bus driver causing the snow swirl had been negligent in driving at excessive speed. In overruling, the state's high court held that while the driver did owe the other travelers on the road a duty to exercise reasonable care, and while the operation of the bus at an excessive speed does constitute negligence, he can be properly liable only with respect to those harms which proceeded from a risk that was foreseeable.

"**THUS, THE DRIVER'S** operation of the bus at an excessive speed in such driving conditions created a risk that the driver might lose control of his vehicle and be unable to stop within his assured clear distance and avoid any collision. In the present instance, this risk did not mature into harm. Similarly, the driver's negligent operation of his vehicle might have jeopardized another driver's control of his own vehicle. Other reasonably foreseeable risks might easily be imagined. But in this case, it cannot be said that a collision occurring when the bus was some distance from the other vehicles, and allegedly resulting from the creation of a snow swirl, was a harm within the risks foreseeably created by the driver's operation of the bus at an excessive speed. . . .

"Even if the speeding bus were negligent, its negligence did not cause the passenger's injury. The driver of the bus in which he was riding admitted that he was unable to see because of the snow swirl and nonetheless moved forward without attempting to decrease his speed. He also operated his bus without chains on the tires and without the use of its sander. This intervening negligence was sufficiently extraordinary as to be a risk unforseeable to the first bus and to relieve liability. The driver of the vehicle into which the bus collided also was negligent when she lost control of her vehicle; no evidence was offered at trial that her loss of control in any way stemmed from the snow swirl," Justice Pomeroy commented.

Justice Roberts dissenting, wrote: "Whether or not a reasonable man would find this accident foreseeable is a jury question. These is no reason to hold that as matter of laws accidents caused by snow swirls are never foreseeable, merely because no cases have been cited that have dealt with the question." (Pa. Sup. Ct., *Metts* v *Griglak* 4/22/70.) ■

Cal. bill would give weight to manufacturers' warranties

SACRAMENTO, Cal.—California, depending on whether Gov. Ronald Reagan affixes his signature in approval, may become the first state in the nation to mount a comprehensive attack on deceptive warranties. The state assembly adopted a bill sponsored by State Sen. Alfred H. Song as a "comprehensive consumer protection law."

The bill previously had been approved by the senate and it now goes back to them for concurrence on Assembly amendments before it is sent to Gov. Reagan for his signature.

Although vigorously opposed by the California Manufacturers Assn., Sen. Song said, "This legislation is of vital importance to consumers and I am quite optimistic about its chances of success."

The bill applies to all manufacturers who choose to give express warranties with the sale of their products.

"**THESE** manufacturers," Sen. Song explained, "gain considerable advertising benefits from these warranties. This legislation would simply impose the responsibility upon the manufacturers of living up to the terms of their warranties."

Consumers would have the right to return defective products to the retailer for repair or replacement, as the retailer might choose in accord with terms of the warranty. ■

Court does about-face

TALLAHASSEE, Fla.—A year ago, the Florida supreme court ruled in a precedent-setting decision that trial juries could be informed in accident cases that the defendant, or defendants, were covered by insurance.

Recently, in a complete about-face, the supreme court said that an insurance company can be named as a defendant in any kind of accident case; however, it ruled that the jury cannot be told that fact nor that there is insurance.

The three-to-two opinion came in a case involving a Florida State University student who sued his fraternity. The student was injured in an accident at his fraternity house and sued, charging negligence. ■

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Visual demonstrations help Unity keep good loss-prevention record

FRIDLEY, Minn.—A visual demonstration of what happens when fire strikes an oxygen tent covering a hospital bed is a quick reminder for Unity Hospital employes to continue their constant disaster-prevention work.

Personnel director for the hospital, Col. (ret.) Leland Scarborough said, "It takes only ten seconds to destroy a bed and because of this we are always emphasizing prevention of oxygen fires." He mentioned just a cigaret brushed against a tent could spark a fire. The hospital places 'no smoking' signs on doors to hospital rooms were oxygen is being used.

Twice a year the hospital, in conjunction with the Fridley fire department and the Minnesota Fire Extinguisher Co., ignites a bed covered with an oxygen tent and lets the employes see what happens.

THE DEMONSTRATION is part of Unity's overall fire and disaster training program. The initial training for new staff members consists of a film geared to hospital needs, discussion of fire and disaster procedures, demonstration of fire equipment and practical use of fire extinguishers, hoses and blankets. Employes are familiarized with the proper equipment to use with different classes of fires.

Refresher courses are given every year to keep all employes updated on hospital procedure and the use of fire equipment. The general rules and instructions of the hospital are also reviewed; this includes going over the five basic steps to be taken upon discovery of fire or smoke.

These steps include rescuing patients in immediate danger, reporting the fire, confining the fire, securing hospital areas and fighting the fire with the correct equipment.

Refresher sessions are scheduled during each of the three shifts to make it convenient for all hospital personnel to attend. "We take the training to our employes. By providing enough classes on all shifts, everyone has a chance to attend," Col. Scarborough said. He added that during June and July there were 40 classes scheduled for the convenience of everyone.

EDWARD E. LeMERE, training director, explained that the initial training and the refresher course assure that the employes all have a common ground from which to work in case of fire or other disaster. He mentioned that fire drills are run each month on all shifts.

The drills are given in code so that the patients are not aware of what's happening. Employes are trained to control their actions so that the patients do not become alarmed.

A drill involves telling an employe a fire has ignited and just where. That employe then goes through the proper procedure from sending the alarm to the fire department, to alerting the floors, to putting out the fire. Designated observers on each floor see that everything goes correctly. After the drill a critique is made of each floor as to its proper handling of the incident.

Col. Scarborough explained that evacuation of the hospital is done under orders from the fire marshal. After he has given the order, the hospital administration carries out the evacuation plan. Likewise the fire marshal also has the authority to manipulate the oxygen valves in the hospital.

UNITY'S TRAINING program includes teaching the procedure for protecting patients during tornado alerts. Once an alert has been given patients are placed either in the halls or taken to the basement. During such alerts "we have always had very good cooperation from the patients. None panic; they are all concerned for safety and do exactly as directed," Col. Scarborough said.

He added that those who lived through the disastrous 1965 tornado are especially concerned with getting to the basement.

Mr. LeMere and Col. Scarborough agreed that patient protection is the primary concern of the hospital and to have efficient employes it is necessary to instruct and train them in all areas. "And it has certainly paid off," Col. Scarborough said. The fires that have started have been discovered at an early state and been extinguished by the empolyes.

"Our program," he said, "has become the basis for fire training programs at other hospitals." ■

business insurance

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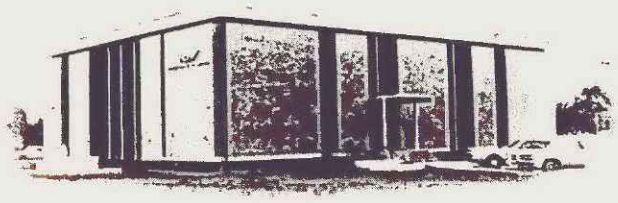
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D-9

'Released value' not binding

SAN FRANCISCO—The district court of appeals here has upheld a trial court decision and ruled the public is not bound by a "released value" limit of liability in a tariff regulation or transport company receipt. The case involved a briefcase shipped by Western Greyhound Lines.

It contained technical studies, reports, diaries and correspondence. The sender was given a receipt by Western Greyhound asserting, in fine print, that unless a greater value was declared and paid for, liability would not exceed $50.

When the briefcase was lost, allegedly through Greyhound's negligence, a trial court assessed its value at $7,637.70. Greyhound appealed and based its appeal on applicability of its tariff schedule limits of liability. In upholding the trial court decision the court of appeal held the public is not bound by such a limitation where the loss occurs through a carrier's gross negligence unless the shipper contracts "with knowledge of the limitation." ■

Insurers can't collect on 1968 racial disturbance

PITTSBURGH, Pa.—Common pleas court here has ruled that insurance companies cannot collect from Allegheny County for property damage caused by a series of racial disturbances in 1968. The ruling by a three-judge panel, in effect, relieves the county of responsibility for $3 million in property losses.

The losers in the landmark decision were the insurance firms that paid the claims of their policyholders and then filed suits against the county to recover their payments. It is expected that the insurance companies will appeal the ruling to the state supreme court.

The judges' action involved a "test" case in which a $25,000 verdict was awarded earlier to Morris and Mary Wolf, operators of a shoe store in the city's Hill district. The store was burned and looted during the riots that followed the slaying of Dr. Martin Luther King Jr. in April, 1968.

THE COUNTY money was to be turned over to the Wolfs' insurance company, which had already paid their claim for damages. The county appealed and the jury's verdict was reviewed by the three-judge panel.

In an 18-page opinion, the panel ruled that the insurance companies that wrote policies on the damaged properties must absorb the losses.

Disposition of the Wolf case was expected to affect some 80 other claims brought against the county by property owners insured against riot damage. The suits against the county are based on an 1841 law amended in 1849. It states that in all cases in which property is destroyed by "any mob or riot" the property owners may sue for damages.

Under Pennsylvania's insurance subrogation law the insurance firm takes over the claim of its client and thus becomes the plaintiff in legal action against the county. The judges pointed out that the insurance companies have the right to file suit against the county for damage claims but also noted that the subrogation act was amended in 1961.

THEY SAID the amendment provides that the act "shall not apply" to policies involving, among other things, "loss of fire resulting directly or indirectly from bombardment, invasion, insurrection, riot, civil war, commotion, military or usurped power . . ."

The judges said the problem of recovery of damage payments is "not against the county, but against individuals who were present during the looting and burning." In a concurring eight-page opinion, Judge Henry Ellenbogen said the insurance firms were trying to "stand in the shoes of the property owners."

He said the insurance companies "should bear the losses" and they should not be afforded the rights of subrogation. "Certainly, the act (of 1841) was not conceived in an era . . . with the thought in mind of reimbursing modern insurance companies who venture forth into the marketplace and assume the role of protectors for a price," Judge Ellenbogen said. ■

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Judge has policies; calls for mistrial

SAN FRANCISCO—Hartford Fire Insurance Co. was pleased to learn that it insures Federal Judge Stanley A. Weigel.

The company's pleasure comes from the fact that Judge Weigel's discovery of his policies resulted in a mistrial in his court of an art theft insurance case.

The trial, involving Atherton resident Leda Herrald, was about Hartford's refusal to pay Mrs. Herrald $137,000 for art objects she claimed were taken in a 1966 burglary.

"It occurred to me," Judge Weigel told the attorneys, "that I might just have a policy or two with Hartford. I discovered I hold two such policies—so—mistrial."

$4 million cruise ship was insured in London

NEW YORK—American marine hull underwriters will not absorb any of the loss from the Norwegian cruise ship, Fulvia, which went down in the Atlantic late last month after an explosion in the engine room caused a fire to spread through her hull. All 721 passengers and crewmen were saved.

According to a marine insurance source here, the ship was valued at about $4 million and was insured largely in the London market. Of the total, 55% is covered by Lloyd's with the balance insured in the British and Norwegian markets. Some of the latter, however, was reinsured with Lloyd's. Norwegian American Line, owner of the vessel, is headquartered in Oslo.

The explosion occurred 100 miles north of the Canary Islands several hours after the Fulvia left the Portugese island of Madeira. She was continuing on a summer cruise that began in Genoa. All passengers and crewmen were rescued by a French liner, the Ancerville, which had answered distress signals. The Fulvia later sank in the Atlantic while in tow to the Canary Islands.

Marine sources note that the vessel was on a three-year charter to the Costa Line of Genoa. However, they pointed out, as is usually the case in such charter arrangements, she was insured by her Oslo owner. ■

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Three volumes recommended for the fund manager's book shelves

By GEORGE LANGWORTH

NEW YORK—"Managing a pension fund in a corporation used to be quite an easy job," a financial executive was saying the other day. "Such an easy job, in fact, that it was normally reserved for that affable but inept son- or brother-in-law of the chairman of the board. All he traditionally had to do was to receive the D-2 form from the 'trusty trustee', look it over for typographical errors, sign it and send one copy to Washington and one copy to the treasurer. The rest of the time he spent going to lunch with people no one else in the company wanted to be impressed or influenced by," he said with the trace of a smile.

But this little tidbit of "business-world Americana" is about as hard to find now as a photographer who still uses tin-types.

Corporate pension fund administration has since become a maze of problems.

Half of this new management puzzle is one of satisfying people's needs. This, of course, includes first discovering what these needs really are. The number and quality of the various retirement benefits schemes for employes have proliferated in time, it seems, with the number of consultants wanting to visit you, unions organizing in your plant and competitors for your manpower.

THE OTHER part of the problem is trying to discover how to juggle the fund contributions with management performance of the fund's assets so that you can fulfill your obligations to the employes and, at the same time, be able to escape having next year's profits cut by one-half because of a huge but inevitable pension contribution.

There are probably several very expensive or complicated ways that the corporate pension fund administrater can gird himself for his somewhat diversified tasks. However, there are three books available to him that will probably do as much as anything to help him keep abreast of his field.

The "Study of Industrial Retirement Plans" and the "Study of Employe Savings Plans" are two volumes published perennially by the employe benefits trust division of the Bankers Trust Co. This mammoth financial institution (trust assets in excess of $12 billion) was a trust company before it was a bank. This history enabled the company to broaden its abilities to service the 800 funds it has under financial management into areas wider than the usual quarterly statement of buys-and-sells, earnings and losses of the fund's assets.

The industrial retirement plan study has been published every five years or so since the early '40s. In preparing the 1970 edition, the bank, apparently as much because of persistence as prestige, has successfully queried over 200 corporations on the ins and outs of the benefits formulae in their retirement benefit plans.

IN SOME 313 pages, the book rolls up a voluminous study of the leading retirement plans, categorized by industry. More than anything, the book aims at informing the corporate retirement plan administrater of exactly how the leading (or most liberal as well as competitive) plan in this industry group works. The importance of this information is measured by the competition for manpower there is in an industry.

The only thing this book seems to neglect in the subject of retirement plans is what they cost. There are no price tags mentioned, and figures in general (aside from percentages) are conspicuously absent from the book. Another curious thing is why none of the companies whose plans are described in the book have been named. However, the retirement plan study's companion piece, the savings plan survey, blithely rattles off the names of every example used.

Whatever the retirement plan study's shortcomings, it is very thorough in communicating an understanding of how benefits formulae work. One example outlined in the study catalogues the retirement plans for both salaried (5,800) as well as hourly (4,400) employes of an unnamed manufacturer of automobile parts. Each of these is a pension trust qualified under the guidelines established for tax-exempt trust funds by the Internal Revenue Service.

Under the auto parts manufacturer's salaried employes pension plan, there are no age or service requirements for eligibility and the plan is not contributed to by the employe. A salaried employe is vested under the plan at age 40 if he has 10 years of continuous service. If he retires at this point he will receive a normal retirement benefit under the plan's formula based on compensation under $15,000 per year.

THE SALARIED employe may retire early at age 50 with 10 years of service if the company gives its consent or at 55 with 10 years of service at his own election. In either case pension benefits equal a fully accrued pension based on compensation under $15,000 actuarially discounted from

Continued on page 55

Risk men lecture in video course

INDIANAPOLIS, Ind.—William Mortimer, risk manager of Norton Simon Inc., and Ralph Perry, risk manager of Kaiser Cement and Gypsum Co., are video tape instructors in a new insurance education course sponsored by the Insurance Institute of America.

The course, INS-21, was designed by James J. Chastain, alumni professor of insurance at Drake University, and is offered in a series of 15 tapes. The tapes include a number of stops in which the student is requested to answer objective questions, calling for discussion, or write subjective answers. The series will be utilized for the first time this fall in preparation for the December IIA examinations.

INS-21 utilizes the video taping facilities of the Fireman's Fund American Insurance Cos. and is available to insurance and financially-related industries by Insurors Press Inc., Indianapolis, Ind.

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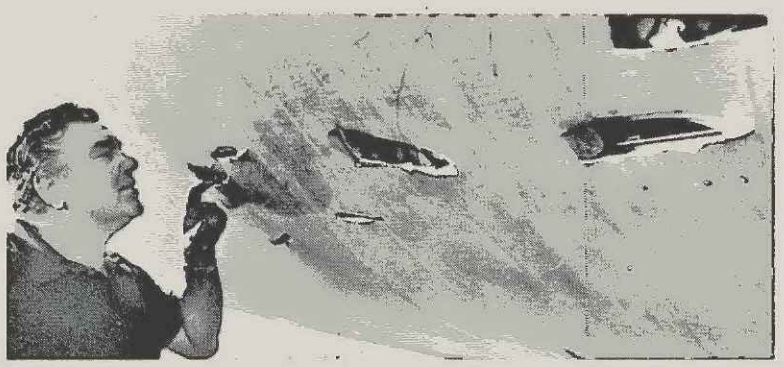
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AAU insures Eastern Airlines jet damaged by irate wolfhound owner

MIAMI—Eastern airlines carries hull insurance for a large portion of the damage inflicted by an ax-bearing Miamian who chopped 18 holes in the parked aircraft's fuselage. But it stands to lose out entirely on revenues bypassed while the Boeing 727 remains grounded for repairs.

Eastern sources said the $5 million jet could be immobilized for at least a week by the attack.

Thomas William Brown, the Miami kennel owner who chopped the holes is awaiting a preliminary hearing on a Federal charge of willful damage to an aircraft. The charge, designed for hijackers, carries a formidable maximum sentence of 20 years in prison or a $10,000 fine. Mr. Brown's attack on the plane was in retaliation for the death of his Irish wolfhound aboard an Eastern plane several months ago.



Chinks in jet hull were inflicted by an ax in the hands of an Eastern Airlines' customer who was dissatisfied with treatment accorded his Irish wolfhound. —Wide World photo

AIRLINE spokesmen in Miami said Eastern's big jet fleet carries hull insurance that includes damage inflicted on the ground. The coverage is provided by Associated Aviation Underwriters of New York, they said. "The policy doesn't cover revenue losses from time out for repairs," said a spokesman.

Mr. Brown slashed through control cables and hydraulic lines beneath the aircraft's skin.

Eastern could not pinpoint a firm estimate on the physical damage, but some airport sources pegged the cost at nearly $200,000. The airline figures it could lose close to $20,000 a day in revenues for every day the trijet remains grounded.

For three months prior to the attack, Mr. Brown had dutifully processed his grievance over the dog's death through Eastern, the airline industry and every city, county and Federal agency he thought might help. He fought through a dog owners' committee, through Dade County (Miami) circuit court and through consumer organizations. When the proper channels failed to give him the satisfaction he sought, he turned to a direct attack on Eastern's 727, the same type of aircraft on which his dog died during a Miami-Dallas flight.

HE FILED a $20,000 claim against the airline after the dog died. A veterinarian attributed death to heat prostration.

His personal loss grew into a campaign to improve airline techniques in handling animals. He complained to the Federal Aviation Administration and the Civil Aeronautics Board that the class D luggage compartments, in which most airlines carry pets, are inadequately ventilated for safe shipment of live animals.

"Airline employes tell travelers that their dogs will ride in air-conditioned comfort just like the passengers in the cabin," Mr. Brown said before the incident. "Actually the class D compartments are heated and pressurized but are ventilated only by normal leakage."

Airline men conceded that point at a meeting in May attended by company representatives and members of Mr. Brown's committee. Yet they emphasized that they can overcome the limitation by not permitting too many animals to travel in the compartments at once, where they can charge the air with a dangerous surplus of carbon dioxide. They pointed out that legions of dogs are shipped routinely without mishap.

CLASS D compartments, Mr. Brown complained, are favored by the airlines for economic reasons. Because their ventilation flow is not adequate to support a fire, he said, they need neither heat sensors nor fire-fighting equipment.

During the past year, he argued, 17 championship dogs from the Southeast alone have died from heat prostration or related ailments dog owners attribute to air shipments. He also accused the airlines of holding out to dog shippers the promise of counter-purchased insurance, which, he charged, is no more than an excess-of-value statement "promising that the airline will give the pet special care that it cannot provide."

A U.S. Commissioner released Brown pending trial after hearing attorneys describe the attack as "a once in a lifetime fluke" that could not reoccur.

The commissioner, Ed Swann, said he had set the $100,000 bond only to assure that Brown would not be a threat to the community or to himself.

"Let's say the plane blew up," he observed. "That whole airport could have gone up."

Attorneys said Mr. Brown's whole future revolved around the champion wolfhound who died. Purchased as a puppy for $800, she grew into "a millionaire's dog, a champion of champions," an attorney explained. "For Mr. Brown to own that dog was like you or me owning a Rolls Royce."

He said the $20,000 claim was based on the dog's projected earnings through the sale of future puppies, already reserved for buyers. With the proceeds from litter sales, the Browns hoped to buy a kennel in Lakeland, Fla.

Mr. Brown made one last stab at working through the system a week before the attack. He spent a day trying to persuade an official to bring criminal action against Eastern for its advertising. He visited the Dade County consumer protection department, which referred him to the Florida state attorney's office, which referred him to the Dade public safety department, which referred him to the Miami police department. That department referred him to the consumer protection department, where he had begun his odyssey. It directed him back to the state attorney's office, which he visited one more time before giving up. ■

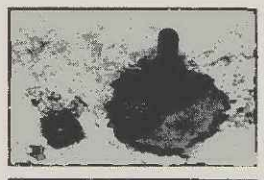
Jesse James insured cash and securities

AUSTIN, Tex.—Jesse James, believe it or not, is the current Treasurer of Texas.

As opposed to his more notorious namesake who usually had lawmen and posses hot on his trail, the Texas Jesse James recently had Texas Rangers and police standing guard for him during a move of millions of dollars in cash and securities.

The move was only two blocks—from the capitol here to a new finance building—but Mr. James had not only police protection but a $10 million insurance policy just in case a modern "badman" might get ideas.

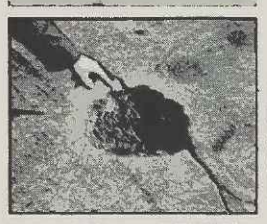
The policy insuring the move against anything untoward was written by Fireman's Fund American Insurance Cos., through the J. O. Garrett Agency of Austin.



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09

Cut back hurricane risk cover

LONDON—Hurricane risk cover in the southern states is being cut back on an extensive scale by one of Britain's major insurers, the Commercial Union group, of London.

It plans to reduce such cover by the end of 1970 at a figure equal to 20% of its 1968 exposure, according to a special report to its stockholders. Ronald Brooks, Commercial Union chairman, bases this hard-line approach on the acquisition of the Employers Liability Assn. Ltd. two years ago.

He said, "Insurance rates in the U.S. are controlled by state authorities, and results therefore depend rather more than elsewhere on rigid control of expense.

"THIS IS determined in effectiveness to a significant extent by the volume of business done. Insurers in the U.S. with a large volume of business, in contrast to those with a small volume, can also be appreciably more discriminating in the underwriting risks they decide to accept.

"It was for this reason we acquired Employers Liability. Shortly afterwards, we exercised our ability to discriminate, and cancelled a large amount of substandard U.S. business. We also reduced our hurricane risks from Florida to the Mexican border.

"Because a number of the cancelled policies run for periods up to three years, the full impact on profits will not be felt until 1972. But our expense and commission ratio in 1970 is expected to be about 32.5%, compared with more than 34% before we acquired Employer Liability.

"We feel confident that our policies in the U.S. will be reflected favorably in future results."

THE ROYAL Insurance group, which also has wide interests in the U.S., admitted that Hurricane Celia will cost it about $6 million to $7.5 million. Until this disaster broke, it had cut its losses on American business substantially in the first half of this year.

They dropped from $15 million to $7.2 million for the six months through June as a result of throwing out unprofitable business and weeding out agents. Expenses as a percentage of written premiums were brought down from 30.9% in the first half of 1969 to 29.8% in the similar peri- of 1970. ■

dates for buyers

SEPT. 21-22, Professional development seminar for the risk manager who wants to grow in the 1970's, Dept. of Risk Management and Insurance, University of Georgia, Georgia Center for Continuing Education, U. of Georgia, Athens, Ga.

SEPT. 24, "Changing times in insurance," Washington chapter of American Society of Insurance Management, Washington, Athletic Club, Seattle, Wash. Reservations can be made by contacting Benning F. Genness, Retirement and Insurance Office, U. of Wash., Seattle, Wash. 98105.

Oct. 12-14, Environmental quality conference, Institute for Environmental Technology and Occupational Safety and Health, Inc., Marriott Key Bridge Hotel, Washington, D. C. For more information write the Institute at 1001 Connecticut Ave., N.W. Suite 701, Washington, D. C.

OCT. 11-14, *Business Insurance* Management Idea Workshop, Business Insurance, Regency Hyatt House, Atlanta, Ga.

OCT. 18-21, Public employes fringe benefits conference, National Foundation of Health, Welfare, and Pension plans, Regency Hyatt House, Atlanta Ga.

OCT. 21-23, Annual meeting and seminar, Chartered Property and Casualty Underwriters, Century Plaza Hotel, Los Angeles, Cal.

Oct. 22-23, COPSI 23d annual conference, Council of Profit Sharing Industries, Sheraton-Blackstone Hotel, Chicago, Ill. For more information write COPSI at 20 N. Wacker Dr., Chicago.

Cotter resigns post

HARTFORD—William R. Cotter, Democratic nominee for U.S. representative in the first Congressional district (Hartford County), will resign his $24,000-a-year post as state insurance commissioner on Sept. 17.

He told *Business Insurance* that he would leave the office on that date so that he can "get into the campaign full time."

The 44-year-old insurance commissioner disclosed his plans after conferring with Gov. John N. Dempsey. The governor has designated deputy insurance commissioner Robert E. Claffey, long-time Hartford Democrat, to fill out the remainder of Mr. Cotter's term, which ends March 1, 1971.

The deputy's post will be left vacant.

Detectors . . .

Continued from page 39

collision warning system, he said, would give ample warning to pilots to take corrective action.

WHAT THE proximity warning system does is tell the pilot an intruder has come into his protected coverage, that area of the atmosphere he needs for safe flying.

For helicopters, according to Mr. Follen, who is the project engineer for the program, this area is much smaller then for commercial airliners.

With the proximity warning device, the pilot gets an audio tone in his head phone which warns him that someone has entered his controlled volume. An indicator on the instrument panel tells him if the intruder is above, below or at his same altitude.

Another version of this device, which has been demonstrated under Army contract, tells the pilot more precisely the location of an intruder. Beside telling a pilot if the intruder is above, below or at the same level, it tells him whether the intruder is to his right or left, front or rear.

THE PROXIMITY warning device warns of every intruder within the prescribed protective volume, but according to Mr. Follen, at times two planes could be flying very near each other and never be a threat to one another. The more complex collision warning system now under development for potential Army tactical use and which may be suitable for commercial aviation and higher performance military aircraft, goes one step farther in that it evaluates every intruder as to whether he's a threat or not.

Once the collision warning system detects an intruder, its computer goes to work determining if the intruder represents a collision threat by determining its range and closing rate. If a threat is determined to exist, a warning is given to the pilot in ample time to allow a change in course.

This system, as with all other systems devloped at this time, are termed cooperative, meaning that all planes in a protected area must be properly equipped before the system works. To bring about the maximum benefit from a collision warning system, all planes—private, commercial or business—must be equipped.

Since all of Honeywell's systems are compatible with one another, a small private plane could use the proximity warning device rather than having to go to the larger collision warning system. According to Mr. Follen, the proximty warning device would be in the price range that a private plane owner could afford.

A PERPLEXING problem for the airlines is one of liability in a midair collision between a commercial air carrier and a small private plane. In all cases the commercial carrier is held liable for the accident contending that he had more opportunity to avoid a collision than the small aircraft. This means that the commercial airliner must bear the full burden of responsibility and 98% of midair collisions are of this nature.

But with both planes equipped with warning devices, both would be warned of a potential danger and both would be responsible for taking corrective action,

A collision warning system, whether of the Honeywell type or some other, seems to be the future for commercial aviation where the possibility of a midair collision involving the new super carriers plagues the airline and insurance industries every day. With the new 747s coming off the production line, a midair collision involving one could leave a lasting dent in an already shrinking market for aviation coverage.

Hopefully a system will be agreed upon and in use before such a dent occurs. ■



THAT NEXT STEP . . . *in effective risk management is awareness of risks* — the kind of awareness you get from a Computer Claims Control System. This System collects and analyzes all the facts about losses and claims in your company regardless of coverages, carriers, or risk areas. It will then put the information in easy-to-comprehend, eye opening monthly reports that keep risks and losses constantly exposed and under control. ☐ Computer Claims Control is the independent loss control system with EDP programs designed specifically for the risk management function. Your very first Computer Claims Control Report will open your eyes to a lot of cost-cutting possibilities. Write us, or call us collect, and ask how it works.

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Lloyd's reports tiny underwriting loss for 1967

LONDON—Better prospects for Lloyd's are revealed in its $1.5 billion budget report for 1970, which has just been issued to its 6,000 underwriting members. The new figures, which under Lloyd's three-year global accounting system cover the year 1967, show that the market only marginally failed to break even that year.

Business returns for that year were closed last December, and produced a loss of nearly $4 million, representing .27% of its premium income. But this was so tremendously better than the two previous years (1965 and 1966) that Lloyd's chairman Henry S. Mance was able to declare to *Business Insurance*:

"The trend is very clearly in the right direction and will, I believe, continue to be. It has been achieved by charging more realistic premiums in all classes of business.

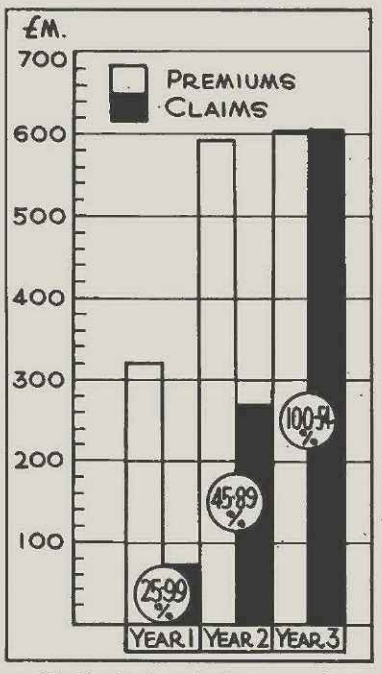
"LLOYD'S HAS engaged lately in much more selective underwriting by writing business on more realistic or restrictive conditions, or by declining it if necessary. Now we have real grounds for optimism. Barring catastrophes, I hope that 1968 and 1969 will show an overall profit."

Lloyd's underwriters in London fared so badly in 1965 that they lost the all-time record amount of more than $90 million. They lost $45 million in 1966.

In the marine market, though the 1967 returns were on the upgrade, they were still unsatisfactory because Suez Canal losses exceeded $28 million and it was impossible to free any vessels. Accounts for 1968 may be better, but last year there were big claims because of five major tanker losses and the Gulf of Mexico hurricane.

Aviation premium income is growing satisfactorily, and its 1967 account showed a $2 million profit. In fact, aviation premiums now total nearly $150 million a year, twice the amount recorded three years ago, and loss ratios are improving. But underwriters must make adequate provision for rising costs, it is accepted by all concerned.

Lloyd's Premium Income and Claims
1967 ACCOUNT



OWEN LEWIS, chairman of Lloyd's Aviation Underwriters' Assn., told *Business Insurance*:

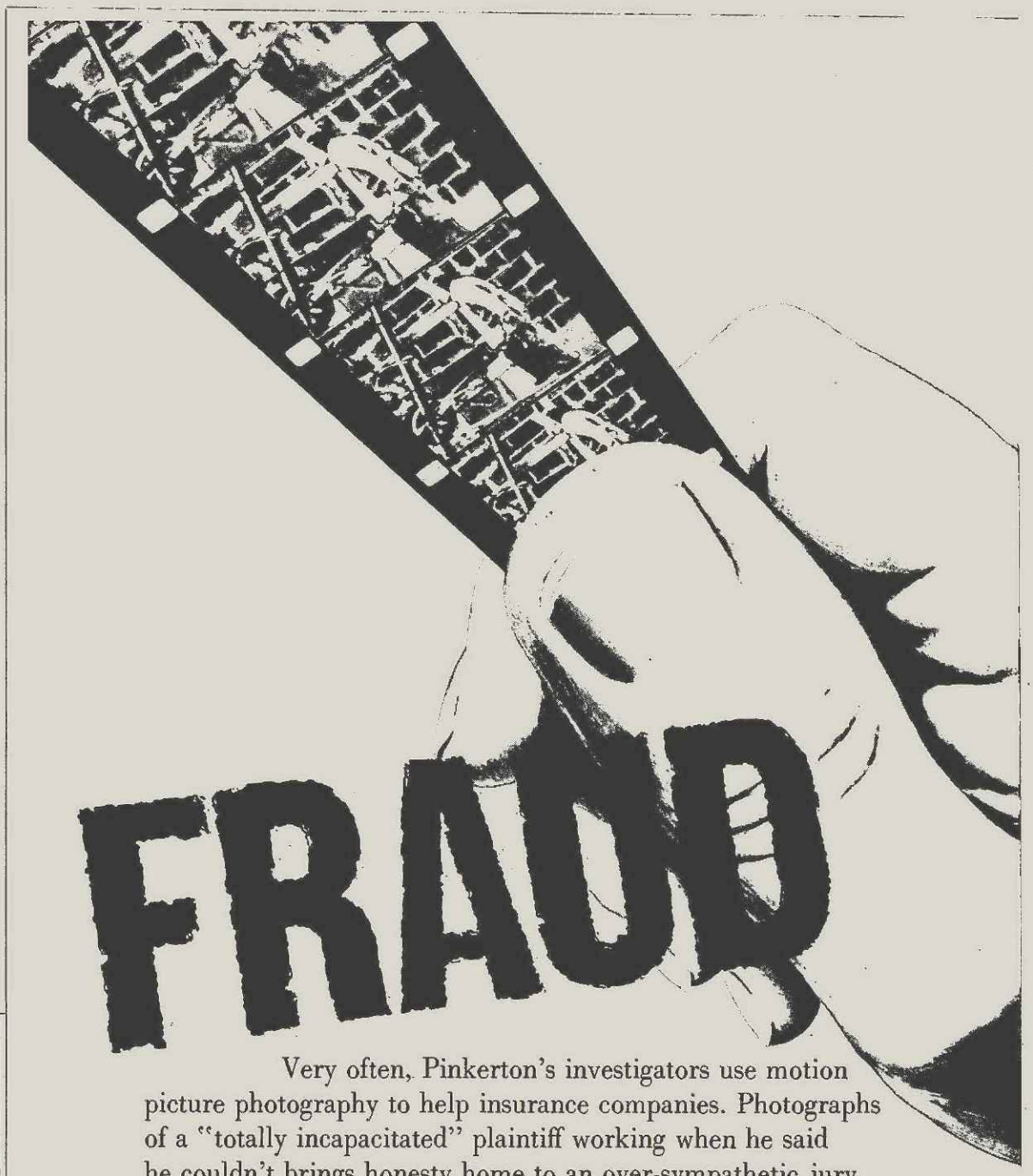
"Underwriters' confidence in their ability to meet the challenge presented by jumbo jets in the vital first year of operational service appears to have been justified.

"Several airlines are operating the Boeing 747, and their insurance requirements are being fully met by the market."

The full 1967 Lloyd's returns show: marine, aviation and transit premium income $670 million, with claims topping this to show a $6 million loss; non-marine premium income $780 million, with claims topping this by another $6 million loss; U.K. motor business, $85 million, with claims $9 million below this to show a profit; and short-term life assurance $1.5 million ending in a $250,000 profit. ■

Drain on comp

Unemployment compensation payroll taxes in Oregon next year will range from 1.2% to 2.7%. During the past three years the rate range has been from .8% to 2.7%. The jump has been caused by "a heavy drain" on the Oregon unemployment trust fund during the past year.

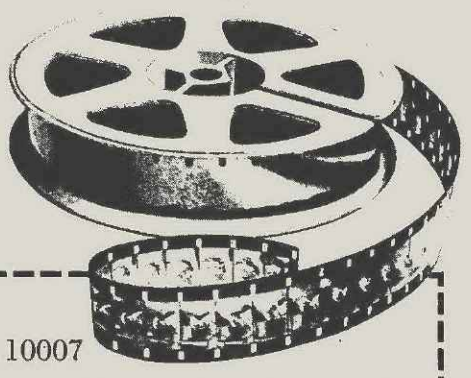


Very often, Pinkerton's investigators use motion picture photography to help insurance companies. Photographs of a "totally incapacitated" plaintiff working when he said he couldn't brings honesty home to an over-sympathetic jury.

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It's 25 years since World War II bomber hit the Empire State Bldg.

NEW YORK—Tourists visiting here can sometimes (when the pollution's right) see planes passing high above next to the towering Empire State Building. One often hears the familiar cry, "Look! That plane is headed right for the side of the building! It's gonna crash"—only to see it pass several thousand feet off the 1,472-foot edifice. But for casual onlookers on one hazy summer day in 1945 the illusion turned into a reality.

One morning in late July of 1945, hardly three weeks before Victory in Japan Day, a B-25 bomber lost in the heavy mist that blanketed the city that day plunged through the 79th floor offices of the Empire State Building. The crash resulted in $3 million in damages for which the Travelers Insurance Co., then insurer of the mammoth building, was forced to enter litigation against the government lasting several years.

The plane collided with the building a few minutes before ten in the morning. Traveling nearly 200 miles an hour, the plane was enroute from Bedford, Mass., to Newark Airport and the Army Air Force. Piling up cross-country experience as he awaited reassignment to the Pacific theatre, Lt. Col. William F. Smith Jr., was advised to land at La Guardia Airport. However, he requested information on the weather at Newark, instead.

THE WAR Department (the Defense Department now) later ruled that the pilot's judgment proved faulty when he decided to fly over Manhattan despite the poor visibility that existed at the time. In addition, the department noted that he should never have been cleared to proceed to Newark.

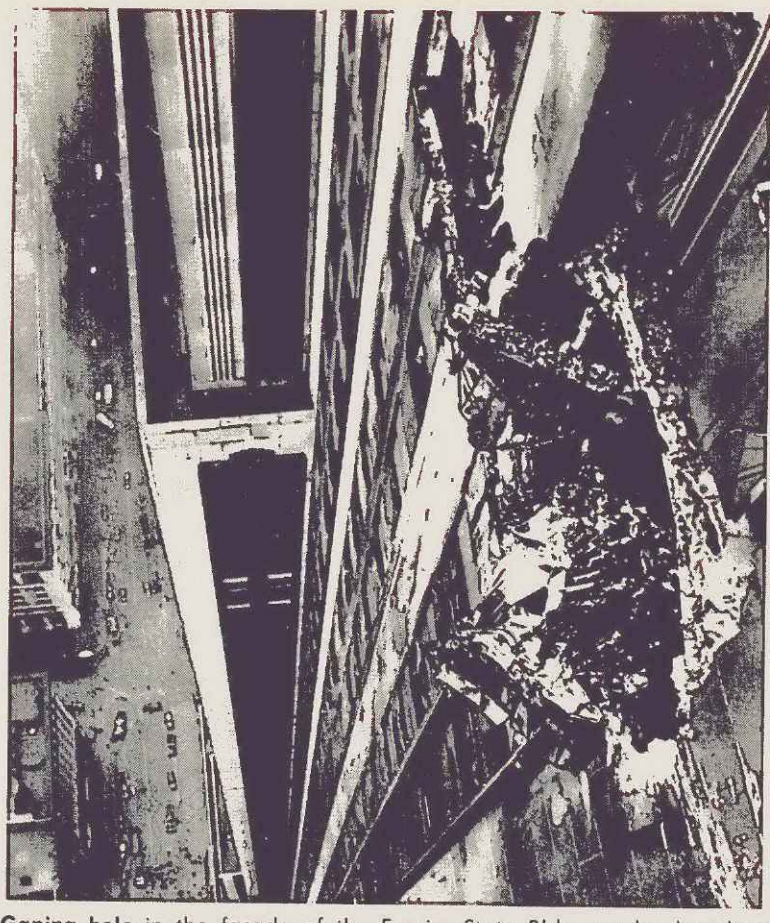
However, he was. Civil air regulations of the day prohibited fly-overs of the island at any altitude less than 2,000 feet. But Col. Smith's bomber plunged into the 34th Street side of the building (the north side) some 913 feet above the street, punching a hole in the building that was later measured to be 18 feet by 20 feet.

The gas tanks of the plane exploded, sending up brilliant flames that reached the 86th floor observatory. The plane's wing's sheared off, and while one engine and part of the landing gear plummeted down an elevator shaft into a sub-basement, the other engine ripped its way across the 78th floor, tearing out through the south wall and finally landing on the roof of a building on 33rd Street. As a result of the crash 14 people died and 26 others were injured.

Betty Lou Oliver, a 20-year-old elevator operator in the building at the time, became something of a popular cause across the nation. In the "most spectacular elevator accident that ever occurred in New York" (according to Otis Elevators) the plane severed all the cables of the elevator car she operated.

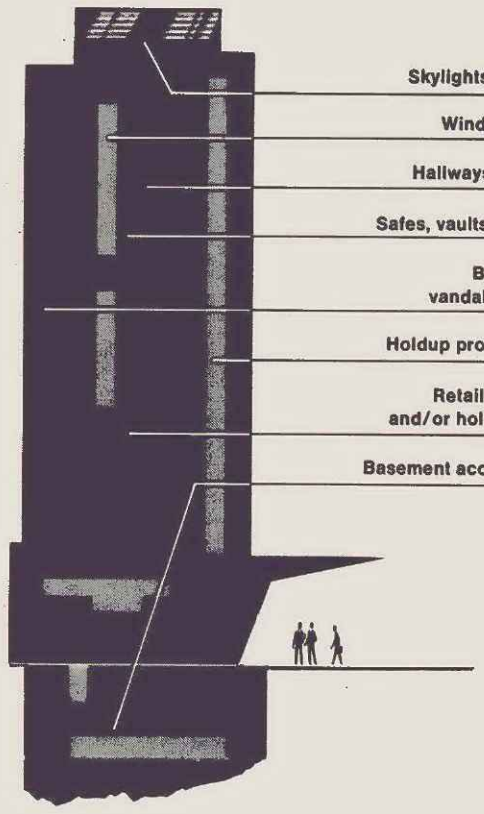
Blown from her own car by the plane's explosion and badly burned by the resulting fires, she was placed in another elevator car that plunged into a sub-basement when its cables snapped.

She managed not only to survive all of this, but after 18 weeks of care she fully recovered. ■



Gaping hole in the facade of the Empire State Bldg. marks the place where a B-25 struck the structure's 79th floor in July, 1945.
—New York Times photo

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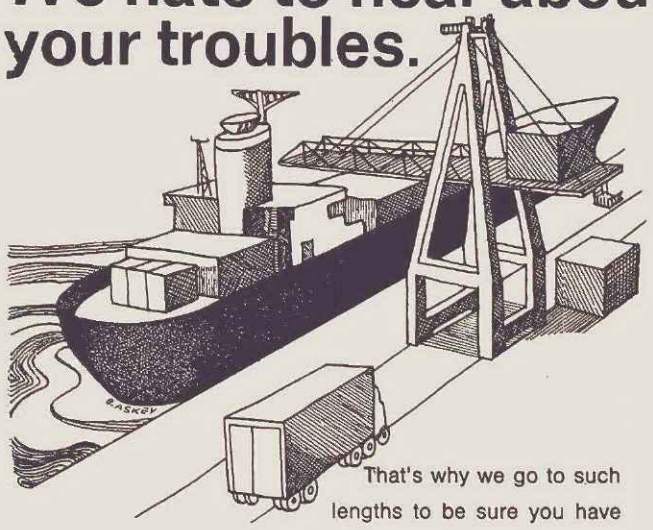
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Continued from page 50
age 60, plus the actuarial equivalent of a fully accrued pension based on compensation over $15,000.

The modified actuarial reduction is in keeping with the current push by unions (an important force in shaping the look of benefits in the auto industry) to do away with or diminish as much as possible the actuarial reduction of benefits, traditionally a part of the early retirement option.

The disability retirement provision of the auto parts maker gives a man full benefits based on the assumption that he would have completed a full career of active service with the company until age 65, if he has been with the company 10 years prior to his disablement.

The normal retirement benefit formula that buttresses this plan is a modified final pay average plan. The benefit is developed from a complicated three-part breakdown of his average compensation in the five highest consecutive years during his 10 years prior to retirement. The first segment consists of 1% of his first $5,352 (rising to $7,800 in 2006), the second part is 1½% of his income over that figure up to $15,000 multiplied by the number of years he has served with the company since age 30. In addition, the third computation gives him 1½% of any compensation he's received over the first $15,000 multiplied by the number of his years of service after age 35.

WHAT THIS MEANS, finally, is that the salaried employe's approximate pension, including the integration of his primary Social Security benefits—assuming he'll work with the company for 30 years—will look something like the following: If his average annual compensation is $6,000 a year he'll get a pension equal to 63% of it; if he makes $12,000 a year he'll get 55% of that when he retires—and if he makes $20,000 or $40,000 a year he'll get 51% or 48% respectively.

Aside from explaining the various industries' newest funds on an individual basis there is also a section in the book that analyzes the various trends between the various plans surveyed in early retirement options (and the size of the various actuarial reductions employed), the degree to which the pension provided by the company is integrated with social security benefits in planning an adequate retirement annuity for the employe, the prevalence and form of widows' and survivors' as well as disability benefits.

In addition to the retirement plan study, Bankers Trust also produces (at roughly the same intervals) a study of employe savings plans. Typically these are thrift plans or profit-sharing plans contributed to both by the employe and by the company. Although several different actual forms of the savings plan exist, the all-important tax qualification guidelines to which they must all conform are only 18 years old.

According to the latest edition of this study, however, the savings plan "has become an important factor in the overall benefit programs offered by the larger corporations to their employes." The book points out "42 of the top 100 industrial corporations ranked by sales have savings plans. Eleven of the 42 were adopted within the last four years. Of the companies listed on the New York Stock Exchange, one out of every nine now has adopted a savings plan."

THE BOOK MAKES an analytic comparison of the standard features of the 132 tax-qualified savings plans (adopted by 128 companies in several different industries) it also outlines individually.

More information about these books can be obtained from Carolyn Winkler, assistant secretary of the employe benefits division who edits them at Bankers Trust Co., 280 Park Avenue in New York.

All of this information as well as that contained in another book, the "Master Directory of Institutional Investors and Portfolio Managers," is supposed to be public knowledge by law under the Welfare and Pension Plan Disclosure Act.

The importance of the public disclosure of this information is obvious. For instance, employe benefit funds are one of the biggest businesses in the country, accounting for over $130 billion. Like mutual funds, they tie up the dollars of large masses of investors into large blocks of money to be managed by "professionals." But the similarity between the two ends there.

MUTUAL FUNDS are publicly dissected as to their managers' performance, share sales records and earnings almost on a daily basis by half a dozen different measurers. Information on how the mutual funds are doing and a multitude of reasons why itself has become an industry. The mutual fund's visibility heightens the importance of its managers' performance to survive the competition.

There is little agreement on just how well-managed employe benefit funds are, however. The D-2 form, the disclosure act's information questionnaire, is rarely filled out in the same way by any two corporations, according to an extensive survey of the forms by *Business Insurance*.

New legislation to increase the amount of information required to be disclosed is now pending in Congress. However, there is some question as to whether it will achieve its aim of dispelling the corporate hesitancy at revealing the process by which a pension fund is placed with a money manager, for what reasons, and how well this professional manages this money as compared to different money managers. or to different funds. As one pension fund administrator who uses ten different kinds of money managers put it. "Once you've articulated the general investment objectives of your fund it becomes a matter of competition in achieving greater investment performance and its attendant lowering of pension costs to the company."

Such competition will be fostered by the Master Directory scheduled for publication later this fall. It contains some 4,500 entries in two parts, one of tax exempt funds (2,321) and the other of money managers. This directory lists the name and address of the fund and its corporate administrator, its total assets as well as its money managers and/or trustees.

TAX-EXEMPT funds include 1,500 private corporate pension funds, 215 private union pension funds, 156 Federal, state and city employe benefit funds—all of which total up to information on approximately $117 billion of the $130 billion estimated assets of all funds.

A frequent complaint of pension fund administrators was articulated by the corporate pension fund manager for a $45 million fund of a large chain of department stores: "We're really interested in finding out more about money managers, but we don't talk to any of them now. We just don't have any way of comparing them." The directory, however, will provide the pension fund administrator with at least a partial list of his peers who do have experience with a particular money manager. In this way, the problems of identifying a money manager's capabilities, which objectives he's demonstrated competence in following, as well as how he has performed for other funds.

The money manager section of the directory lists 600 banks and their trust assets, 600 registered investment advisers and their assets, 450 Canadian and foreign investment institutions and their assets, and 550 insurance companies along with their assets. The normal means of gathering information on these money managers has traditionally been limited to common acquaintances and the sales call. This book, however, will provide a common base of information on a group that has "covered its tracks" in the past.

Additional information may be obtained regarding the directory from its publisher, Thomas A. McQueeney, vp of Portfolio Planning, Inc. 200 Park Ave., Suite 202 East, New York, N.Y. 10017 The volume, 1,000 pages, sells for $100 . ■

Benefits doubled

PORTLAND, Ore.—Cooks, waitresses, bartenders and other employes of Portland restaurants, hotels and motels won a doubling of their health and welfare benefits in a new three-year contract offered by 75 employers.

The contract, in addition to a 35¢ pay boost over the three-year life, also provides for one additional holiday, a 20% increase in laundry bill compensation, and time off for jury duty.

Acceptance of the contract by the joint local board of culinary crafts averted a threatened strike that would have disrupted the American Legion national convention at Portland ■

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Loss Prevention Manager
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Insurance Clerk
Insurance
Director of Security
Claims Supervisor
General Manager, Insurance
Claims Manager
Director of Safety & Security
Director of Safety & Insurance
Assistant Manager, Insurance Dept.
Insurance Manager & Director
Manager, Claims Dept.
System Manager of Insurance
Insurance & Safety Supervisor
Director, Banking & Insurance
Insurance Accountant
Supervisor, Property & Casualty
Manager, Insurance & Properties
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Vice President, Corporate Personnel
Assistant Personnel Director
Director of Personnel
Director, Employe Relations
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Vice President, Industrial Relations
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Senator sees business, government 'coming to grips' with theft, pilferage

WASHINGTON—Sen. Alan Bible (D., Nev.), whose Small Business Committee has been investigating the increasingly acute rate of thievery and pilferage at the nation's major ports of entry for more than a year, expressed his first public note of optimism about the probe recently, saying that it appears industry and government are finally "beginning to come to grips" with it.

Estimates of how much is stolen each year from trade channels start at about $1 billion and work upward. No one really knows, however, and this ignorance is one of the key stumbling blocks in the way of a solution. The constantly increasing incidence of loss is making insurance impossible to get in many cases and prohibitively high-cost when available.

Sen Bible's guarded hint of optimism followed testimony by Assistant Treasury Secretary Eugene Rossides, who outlined for the committee a three-part program being instituted by the Treasury Department bureau of customs to help cut cargo theft of imports while they are in "customs custody."

MR. ROSSIDES said that customs proposes first to tighten the accountability for cargo from the moment of unlading until the moment of delivery to the importer of his bona fide agent, so that there can be no question whether a loss has occurred while the merchandise is in the physical custody of the carrier.

Also, he continued, customs intends to intensify greately its investigations of persons associated with cargo handling so as to reduce to a minimum the number of individuals with criminal backgrounds or susceptible to criminal inducements who may have access to customs documents and to merchandise under customs custody. Permits to unlade would be contingent on transport and storage of the cargo under security conditions approved by customs.

Finally, he said, customs is reviewing the desirability of obtaining additional legislative authority to establish more extensive physical standards for the protection of cargo and to extend licensing to additional personnel and firms.

Mr. Rossides said evidence suggests that of the total losses at airports during customs custody, about 5% to 10% occur between the aircraft and terminal warehouse, 15% by pilferage within the warehouse and 75% to 80% through collusion between truckers and the carrier's cargo handlers in delivering goods at he warehouse dock. "We would expect roughly similar ratios on the waterfront," he added. ■

Foam costs oil firm $96,843

HOUSTON—The American Oil Co. will pay the U.S. $96,843 for chemical foam used in fighting the November, 1959, Amoco Virginia ship fire in the Houston Ship Channel that cost eight lives.

A final judgment from the U.S. Fifth Circuit Court of Appeals was entered in the Federal district clerk's office and approved by Circuit Judge Joe Ingraham.

Jack Shepherd, first assistant U.S. attorney, said the judgment was to pay for foamite obtained from military bases and flow to Houston by Air Force planes. ■

Retirees . . .

Continued from page 35

its case was sound, otherwise an appeal would not have been considered. The next step will begin sometime toward the end of September or early October, he indicated.

"I don't think it'll make a big difference as far as the retiree is concerned," mused one manager of employe benefits for a large New York-based manufacturing firm when asked which direction the case could best go

"I THINK management in general is aware of the retiree's needs. Everyone's concerned about the effect of inflation on their retirement benefits, but I think that the budgetary thinking in most companies has accepted inflation as a regrettable fact of life and is allowing for it all across the board in their planning," he said.

"Only a few industries," he continued, "have ever really negotiated retired employe benefits with a union, perhaps only the rubber and auto industries to any really major degree." He pointed out that there was one possibly more valid problem the unions faced in their concern over having the right to bargain for improvements in the retirement benefits for the already retired.

"They probably feel that in order to keep their membership convinced of the credibility of the union's efforts in their behalf, it's necessary to guard the benefits they have negotiated in the past by continually improving on them. Everybody's going to retire eventually, and when they do, I'm sure they like to think they will be adequately provided for."

"We've made it a practice to include this in our bargaining," said the Machinists' Mr. Winpisinger. ■

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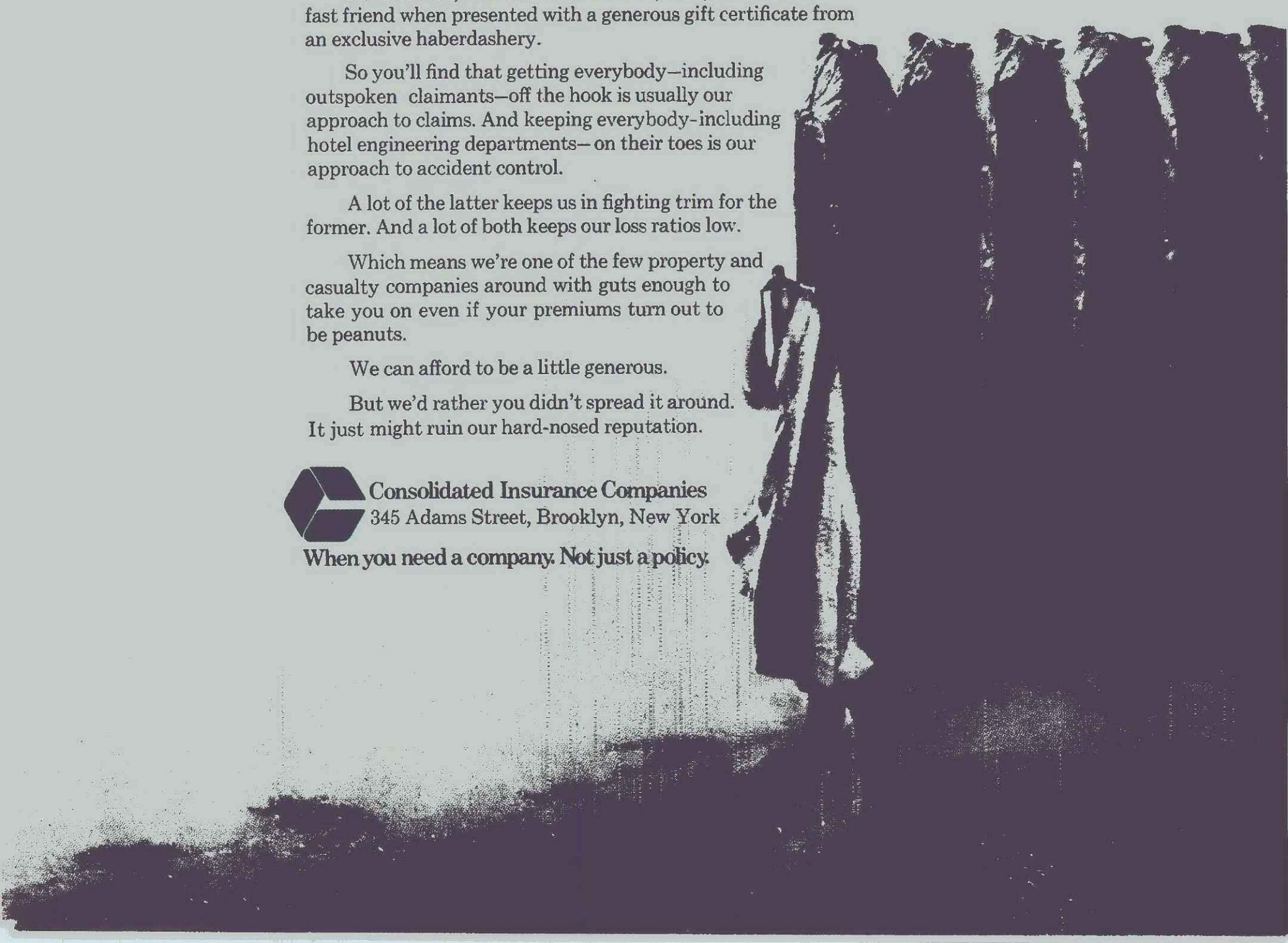
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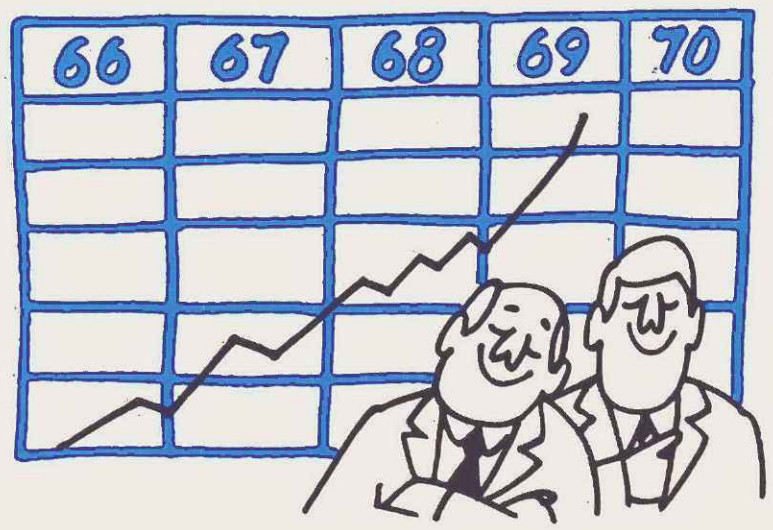


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