

business insurance

for buyers of employe, property and liability protection

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William J. Dundas of the Wisconsin Electric Power Co., Milwaukee, (left) receives the 1969 James Cristy Award from William S. Mortimer, president of the American Society of Insurance Management, at the Insurance Institute of America's 60th anniversary awards luncheon in San Francisco. Mr. Dundas was honored with the Cristy Award for attaining the highest average mark on the six examinations of the risk management course co-sponsored by ASIM and IIA.

Losses, holding companies put squeeze on insurance capacity

By THOMAS LUTZ

CHICAGO—Two factors—one at home and the other at Lloyd's—have conspired to further limit an already hard-pressed commercial insurance market, *Business Insurance* has learned from risk managers, brokers and insurers. But, many contend, there could be better days ahead in both markets.

At Lloyd's, more losses coupled with higher rates is crippling the world market capacity—both for reinsurance and coverage placed directly through Lloyd's correspondents. Lloyd's recently reported \$44 million in losses for the three years ending 1968.

On the home front, \$1 billion in underwriting surplus has been transferred from insurance companies to holding companies, since the start of the trend toward conglomerates. This, critics say, decreases the capacity of U.S. underwriters by nearly twice that sum, while backers of the insurance holding companies argue that, in the long run, the high finance dealings will help underwriters more than they can help themselves.

THE CORPORATE insurance buying community overwhelmingly contends that the situation at Lloyd's is more grave than it's ever been. The dealing on the domestic market, they agree, may hurt them in the short and long run, but the Lloyd's problem leaves them bewildered.

Here's how those contacted sum up the situation:

As Lloyd's underwriters increase rates, their capacity decreases and those risks that aren't the best are quickly dumped or have insurance limits cut, even though the loss ratios on those

risks aren't unbearable.

For example, on many risks, Lloyd's underwriters are jumping rates. Recent reports of 50% and 100% increases are not uncommon.

BECAUSE LLOYD'S underwriters are limited to a specified amount of premium they can collect each year—and because rates are being increased—the underwriters are arriving at their premium limits more quickly each year, and, in fact, are consequently providing that much less capacity.

For example, if a Lloyd's underwriter is limited to \$1 million in premiums and insures six risks that provide that \$1 million in premiums during the first six months of a year, he cannot underwrite any more risks for the remaining six months of the year. If he increases his rates across the board 20% the next

year, his capacity to underwrite even those six risks has diminished by the same percentage.

Given such a hypothetical situation, one risk manager said, the Lloyd's underwriter is most likely to eliminate the worst of the six risks completely.

The underwriting capacity of the U.S. market operates almost directly opposite of that of Lloyd's, another risk manager pointed out. In the U.S., as premium volume increases, so too does capacity, because underwriting surpluses increase.

BUT THE RAPID withdrawal of underwriting surpluses and the transfer of those funds to parent holding companies decreases the capacity of U.S. insurers. To what extent this will affect insurance-hungry corporations is not known as yet.

The risk manager for one Chicago

Continued on page 30

Late news

Coal miners cover inadequate

LOUISVILLE—About 400 coal-mine operators have filed to meet deadlines on obtaining insurance coverage for their employes, according to the state attorney general's office here. An investigation by the office showed that many mine operators did not have workmen's compensation coverage that met state minimums. The state attorney general's office has issued lists of violators to country attorneys and urged them to enforce the law, which is backed by fines of \$100 to \$500 for each day of violation.

Lloyd's negotiates on trapped ships

LONDON—Lloyd's of London and other British underwriters are prepared to negotiate settlement on ships trapped in the Suez Canal, *Business Insurance* was told. A Lloyd's source said: "In view of the lapse of time since these vessels were trapped in the Suez Canal and the continuing hardship to their owners and although no right of recovery under the war risk policies has been legally established, war risk underwriters are nevertheless prepared to negotiate claims."

Air losses hit insurers

NEW YORK—A Mexicana Airlines jet, which crashed and broke up 3,000 feet short of a runway at Mexico City Sept. 21 killing more than 40 persons and injuring at least 60 others, was reinsured to a large extent through the London market, according to informed sources.

Meanwhile, it was learned, the Allegheny Airline DC-9 that collided with a light plane flown by

a student pilot Sept. 9 about 12 miles southwest of Indianapolis is insured by USAIG. This was the sixth major airline crash in the past one-and-a-half years involving USAIG. There were no survivors in the Allegheny crash; 83 persons were killed.

Unlike the government-owned Aeronaves De Mexico, Mexicana is a privately held airline that included

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Kennedy in-law case settled for \$700,000

By STEPHEN GILKENSON

NEW YORK—A life insurance company here has made a \$700,000 settlement to a U.S. corporation on the death of one of its stockholders, a sister-in-law of Mrs. Ethel Kennedy, who died in 1967 after choking on a piece of steak, *Business Insurance* has learned.

The disclosure is one of several intriguing developments this magazine has uncovered during an investigation into a recent legal hassle that—had a bitter court battle ensued—might have had ramifications in the 1968 Presidential race.

Ironically, it was President Nixon's old law firm of Nixon, Mudge, Rose, Guthrie, Alexander & Mitchell that represented the defendant life insurance firm during the final stages of litigation brought by Great Lakes Carbon Corp., a company owned by Mrs. Kennedy and her family, against Citizens Life Insurance Co. and its reinsurers.

AT LEAST TWO key issues were brought to the surface during the course of the hassle.

One was whether the insured, alleged by the insurance company to be an acute alcoholic, had misrepresented facts about her condition on the policy application. The other was whether Great Lakes had an economic interest in the continued life of the insured, a stockholder who was bound by a stock redemption agreement.

The revelation was the admission by an insurance company attorney that he and one of the reinsurers had agreed to reject the claim on the basis that the family-

owned corporation might settle for a lesser amount because of the embarrassment court litigation might bring one of its stockholders—namely Mrs. Kennedy, whose husband was being mentioned as a possible Democratic Presidential nominee at the time.

THE HEART of the case as far as corporation insurance buying is concerned was Citizens' secondary defense, that of Great Lakes having no insurable interest in the continued life of the insured.

In its defense, Citizens maintained that the Skakel family, including Patricia Skakel and Mrs. Ethel Kennedy, owned 75% of Great Lakes Carbon. Twenty-five percent was held by other interests. Mrs. Skakel's share was 4.5% or 14,370 or 329,062 common shares. Citizens contended this relatively small amount did not represent sufficient economic interest to insure a shareholder for \$800,000.

Great Lakes, however, maintained that it made a practice of insuring the lives of its shareholders. The company stated it determined the face amount of the policy "by determining the amount of estate taxes, death taxes, to be payable in the event of the death of any of the shareholders."

The taxes on Mrs. Skakel's estate, Great Lakes had computed, were to be \$1.2 million. The company revealed it had intended to get other policies in the amount of \$400,000 to complete its estate planning on Mrs. Skakel, but that she had died before these could be obtained. The

company contended that, in the event of Mrs. Skakel's death, the policy would be used to pay estate taxes so that her children would not be forced to sell Great Lakes shares to outsiders.

HOWEVER, the Skakel interests were protected by a stock redemption agreement signed by all family shareholders. The restriction requires that in the event of an offer to purchase from a third party during the lifetime of a shareholder or with regard to the shareholder's estate upon his death, the stock must first be offered to other members of the family who are given an option to purchase at book value. If the family members refuse to exercise the option, then the corporation is given an option to purchase the stock at book value.

Stock redemption agreements have generally been held by lower courts to constitute "sufficient economic interest" in a shareholder's life. "It is doubtful that the Skakel family would have wanted to raise \$1.2 million to pay the taxes, and had the option been passed on to the corporation they might not have been prepared to dip into working capital to raise the sum."

He added that, while this has been the option of lower courts, the question has never been decided at the appellate level, and it is likely that by settlement for the \$700,000 Great Lakes "avoided going to the court of appeals where they might have ended up. They probably didn't want to take the chance," he said.

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American Bar Assn. recommends relaxing rules against class actions

WASHINGTON—A commission of the American Bar Assn. has recommended that there be created a type of consumer action that would require either more permissiveness toward class action suits or the lowering or elimination of jurisdictional amounts so that such grouping of claims would not be necessary.

The recommendation was made in a 188-page critique of the Federal Trade Commission carried out by the ABA commission at the request of President Nixon. The report has been submitted to the ABA board of governors for approval prior to being sent to Mr. Nixon.

In addition to endorsing the principle behind class action suits,

the report urges the Administration to pursue "with vigor" legislation that would establish private rights of action for damages and injunctive relief for consumers who are injured by unfair and deceptive practices in violation of Section 5 of the Federal Trade Commission Act.

SUCH ACTIONS could be brought in Federal court, and the state courts could be given concurrent jurisdiction, the report states. But, wherever the action is brought, it continues, "the private party might rely for his right of recovery simply on violation of Section 5 to his injury."

This proposed new private right of recovery through the use of

Section 5 would "multiply the effectiveness of the enforcement mechanism (of FPC) and the seriousness of the sanction against violation, particularly to the extent that it does not depend upon the utilization of FTC resources," the report says.

"A whole range of questions would need to be answered in defining the nature of the private right, but we do not regard the solution to these questions as within our jurisdiction," the report states. Among the questions it mentions are:

- Should automatic or discretionary trebling of damages be permitted?
- Should the existence of an FTC cease-and-desist order con-

stitute a *prima facie* case for the private party against the respondent subject to the cease-and-desist order?

• Should the private right arise only upon, and pursuant to, a finding of a violation by the FTC?

• Should the right accrue, not directly to individual consumers, but instead for their benefit, to some public authority like the FTC as *parens patriae* to collect amounts of which consumers have been defrauded, either to hold in the public fisc or to distribute among the defrauded private parties to the extent that they can be identified?

• Should successful plaintiffs be awarded attorneys fees, as in Sherman Act, truth in lending and civil rights suits? And, if so, how much?

• Are safeguards on such actions required to avoid the filing of frivolous or nuisance cases?

PRESIDENT Nixon's reaction

to the proposed new right of action is difficult to predict. He has, however, said that proposed legislation would be sent to Capitol Hill soon that would allow class action suits in Federal courts.

In the area of deferred compensation, the House-passed bill provides for a minimum tax on all payments exceeding \$10,000. This tax would be based, in effect, on the individual's rate of tax in the years in which such payments are deemed to have been earned.

The White House has specifically requested that this portion of the bill be deleted.

"From a conceptual standpoint, this provision modifies in certain respects both the cash method of accounting and the annual accounting period," assistant secretary of the treasury for tax policy, Edwin S. Cohen, told the finance committee.

"The annual accounting concept underlies our entire tax system," he said. "While the cash method of accounting may not lead to perfect results in some cases, the imperfections extend to many areas other than deferred compensation. We believe that with further study of this problem in the context of the tax treatment of all deferred compensation, including amounts paid under both qualified pension and profit-sharing plans and nonqualified plans, a better solution in principle can be developed."

The insurance squeeze: It can also pinch your profits.

Current corporate expansion is putting the insurance industry's underwriting capacity under the most severe strain since World War II. Add to this supertankers ten times the size of the largest tanker then; and row jumbo jets twice as large as any before.

Because insurance companies are being asked to cover such an unprecedented volume at a time of heavy losses and limited new capitalization, businesses are finding it harder and harder to get adequate insurance protection. Inadequate coverage endangers your profits.

In this kind of market, the J&H approach is the best way to protect your profitability. We help in a number of ways.

We help you reduce losses (which helps reduce premiums) by providing you the services of our staff of experts on safety, property loss control and containerization, to name just a few of the regular services included in the J&H approach.

We also offer our knowledge of world insurance markets. If the coverage you need is available, we'll find it for you.

We steer you clear of overinsurance, or even more costly underinsurance.

Our approach as insurance brokers and employee benefit consultants has one aim—protecting your profits

List new hazardous occupations

NEW YORK—Astronauts, aquanauts, jockeys, and helicopter traffic spotters are among a list of new occupations that present a substantial hazard, according to statisticians at Metropolitan Life Insurance Co.

Data indicates that accidental death occurs to two jockeys per 1,000, 26 having died from racing accidents since 1959.

Seven astronauts have suffered fatalities resulting from accidents during training or simulation periods, and at least one aquanaut perished at ocean bottom while involved in underwater naval research.

A relatively small occupation, helicopter traffic spotting, has claimed the lives of at least ten men during the last decade. Traffic spotting is maintained in only about 13 major cities.

Insurance sources claim the high fatality rate indicates the need for increased safety measures in the new high-risk occupations.

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3M's fire prevention program keeps property insurer's fire loss ratio low

By ROBIN MENZ SUHRBIER

ST. PAUL—A highly sophisticated fire emergency program patterned after a typical fire department setup has helped the 3M Co. maintain a low fire loss ratio.

W. S. Anderson, supervisor of safety engineering, reports that 3M's loss prevention engineering and training programs have been well established and successful as evidenced by the fact that property damage losses over a period of more than ten years total just a fraction of one percent of total values insured. During this period of time 3M has had no significant business interruption loss. Insurance on all major U.S. properties is with Factory Insurance Assn.

The company's fire safety program begins with an evaluation of each plant in terms of exposure to fire and local fire fighting protection available. The intricacies of each plant's fire fighting setup depends on this evaluation.

MR. ANDERSON emphasized that 3M works closely with the local fire departments. Officials of the fire departments come in to inspect fire hazards, location of exits, evacuation procedures, fire fighting equipment at plant site, etc., and evaluate all this in terms of their capabilities to handle all possible situations. The fire department officials also go over specific fire situations outlining

just what should be done in each case.

"After we have completed these evaluations with the fire departments, we rate each plant in terms of hazards, building protection, local fire protection available and plant equipment on hand to fight fires," George B. Dyball, division safety engineer for the 3M electrical products group, said.

Based upon this rating, emergency squads are set up and equipment is purchased. Because many of 3M's plants are located in rural areas or small towns, self-reliant fire protection is a must. The volunteer fire departments, according to Mr. Anderson, "are most competent but the longer time needed to respond to a call makes it necessary for our plants to get fire fighting procedures underway with the minimum loss of time."

Fire emergency vehicles are purchased for 3M plants wherever an extended time lapse is anticipated before the arrival of municipal fire trucks. Mr. Anderson mentioned that the volunteer fire departments encourage location of emergency vehicles at plant sites. "They feel it's the way to go in fire fighting," he said.

THE EMERGENCY vehicles are located right at the plant site and can be run by one man. By the time the volunteer fire department could arrive, fire fight-

ing would have already begun and this could mean the difference between a minor and major fire loss. The first five minutes are the most important in any fire fighting situation.

Fire training for the employees is divided into several classes. All production employees and many clerical personnel receive portable extinguisher training. Then, depending on the plant classification, the emergency squads are organized—headed by a captain and lieutenant—and made up of plant personnel.

The men that are assigned to these squads are quite thoroughly trained by the 3M safety engineering department in fire fighting and rescue procedures.

Squad captains are required to attend a three-day comprehensive fire training course put on by the company plus a one-week fire course at either Texas A&M or the Navy Damage Control School located in Philadelphia or San Diego.

LIKewise THE lieutenants receive the three-day training program. A condensed version of the 3M program, one day, is offered to engineering personnel, laboratory employees, administrative staff and "we even encourage our president, vps and others to attend the one-day session," Mr. Anderson said.

Once the captains and lieuten-



Burlap bag "Bertha" has seen many a rescue in her day. Here two 3M employes bring her out of a burning smoke filled building while a 3M instructor supervises. The employes are attending a fire safety program conducted by the 3M safety engineering department.

ants have completed their training, they then return to their squads and train the members. Squad member training must be at least 60 minutes a month per member. This training is done in consultation with the engineering department.

Several of the captains and lieutenants are members of volunteer fire departments, which means they are already pretty well versed in fire fighting procedures and are a great asset to 3M's fire safety program.

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21 states increase unemployment pay

WASHINGTON—So far this year 21 states have upped weekly unemployment benefits, the Department of Labor has reported.

Further changes may be made in states where legislatures remain in session or will be called back after summer recesses, the department said.

In 17 of the states, maximum weekly benefits were increased, and in four states the minimum weekly unemployment pay was raised. Two states reduced the minimum weekly benefit.

TWO STATES changed their benefit payments from a fixed amount to a flexible amount, based on the annually computed average weekly wage in the state. A third state, Massachusetts, raised its fixed payment amount this year, but will shift to a flexible payment in 1970.

In addition two states increased their percentages of state average weekly wage.

Following is a state-by-state rundown of 1969 unemployment changes passed by state legislatures and approved by mid-September:

States with flexible benefits

Colorado: Raised maximum weekly benefit from 50% to 60% of the statewide average weekly wage.

Maine: Raised maximum weekly benefit amounts from 50% to 52% of statewide average weekly wage.

Massachusetts: Raised maximum weekly benefit amount from \$57 to \$62 effective following Oct. 5, 1969, and reduced minimum weekly benefit payment amount from \$12 to \$10. Also, raised the maximum weekly benefit amount to a figure equal to 52.5% of the statewide average weekly wage for the 52 weeks ending the previous March 31, to become effective Oct. 4, 1970.

New Mexico: Raised the maximum weekly benefit amount from \$40 to 50% of the state's average weekly wage for insured work for the year ending the previous June 30, and set the minimum weekly benefit amount at 10% of the state average weekly wage.

North Carolina: Raised the maximum weekly benefit amount from \$42 to a figure computed annually at 50% of the statewide average weekly wage.

States with fixed benefit amounts
Alabama: Raised the maximum weekly benefit amount to \$47, and effective July 1, 1970 to \$50.

Alaska: Raised the maximum weekly benefit amount from \$55 on a \$5,000 base period wage to \$60 on a \$5,500 base period wage and the augmented maximum from \$80 to \$85 weekly. Raised the minimum weekly benefit amount from \$10 on a \$500 base period wage to \$18 on a \$750 base period wage.

Georgia: Raised the maximum weekly benefit amount from \$45 to \$47 and the minimum weekly benefit amount from \$8 to \$12 effective July 1, 1969. In two more steps, will raise the maximum weekly benefit amount to \$49 on July 1, 1970, and to \$50 on July 1, 1971.

Maryland: Raised the maximum weekly benefit amount from \$56 to \$60.

Minnesota: Raised the maximum weekly benefit amount from \$50 to \$57, and minimum weekly benefit amount from \$13 to \$15.

Montana: Raised the maximum weekly benefit amount from \$34 to \$42 and lowered the minimum weekly benefit amount from \$15 to \$13.

Nebraska: Raised the maximum weekly benefit amount from \$44 to \$48 (becomes effective three months after the state legislature adjourns).

Nevada: Raised the maximum weekly benefit amount from \$43

Sees bonds yielding 5%

NEW YORK—Edward D. Zinbarg, vp and chief economist at Prudential Insurance Co. of America, presented some figures on probable future yields on bonds and common stocks at the National Foundation of Health, Welfare & Pension Plans conference here.

Using a "probability-weighted average," Mr. Zinbarg said that high-grade bonds could produce an average rate of return of 5% in the next 20 years; that middle-grade bonds and mortgages could yield 6%; and that common stocks could give 9% rate of return.

"Of course," Mr. Zinbarg said, "any individual pension fund's investment managers might produce better or worse than average results, and this possibility would have to be taken into consideration in selecting an actuarial assumption."

to \$47 and raised the maximum augmented weekly benefit amount from \$63 to \$67.

New Hampshire: Raised the maximum weekly benefit amount from \$54 to \$60.

Oregon: Raised the maximum weekly benefit amount from \$49 to \$55.

Tennessee: Raised the maximum weekly benefit amount from \$42 to \$47.

Vermont: Raised the minimum weekly benefit amount from \$10 to \$15.

Puerto Rico: Benefit changes affected agricultural workers only, raising their maximum weekly benefit amount from \$20 for annual wages of \$1,500 or more to \$26 for annual wages of \$2,000.01 or more. Decreased the agricultural workers' minimum weekly benefit amount from \$7 to \$4.

Illinois Bell union local buys payroll auto cover

CHICAGO—Negotiations have been completed to provide payroll deduction auto insurance for about 5,000 Illinois Bell Telephone Co. employes, it was announced here.

Those eligible are members of local 165 of the International Brotherhood of Electrical Workers, a local union at Illinois Bell. The payroll deduction auto insurance plan may also be offered to members of other locals in the IBEW System Council T-4, which is composed of 12,000 Bell employes.

The program is basically a mass merchandising plan underwritten by CNA/insurance. Union members are individually rated and pay for the entire cost of the plan.

ROBERT A. Nickey, chairman of System Council T-4, told *Business Insurance* that the negotiation of the payroll deduction idea grew out of talks during last year's strike against Illinois Bell, which hit this city during the time that the Democratic national convention was held.

Mr. Nickey said that negotiating an employer-paid portion of the insurance "hasn't been discussed as yet."

The union coordinates enrollment of its members. The telephone company is cooperating by deducting the cost of the auto insurance from the paychecks of participants, in installments.

UP TO 15% savings over individually underwritten auto insurance policies are expected through the mass merchandising plan. A 40-year-old man with two late-model cars purchasing minimum liability, uninsured motorists insurance, plus comprehensive, \$100 deductible, medical payments and towing insurance would pay \$408 a year less than rates charged by most Illinois in-

surers.

Clyde C. Boylls, Illinois Bell's assistant vp in charge of labor relations, said that the cost to the telephone company of deducting the premium for members of local 165 "will not be anything to speak of at all. As far as we are concerned, it's union dues."

Mr. Boylls explained that members who qualify for the plan will merely request that their union dues be increased the amount necessary to pay the premium of the auto insurance. The union then pays the insurer.

As a prospect for future employer-paid benefits, Mr. Boylls said, "It's just like anything else. We expect that the union will be asking for this some time in the future. Next year, we expect the union to ask for a dental insurance plan."

The Illinois Bell labor relations assistant vp said that Illinois Bell is not responsible for any errors in deducting the premiums. This, he said, was made part of the arrangement when the union negotiated the deduction plan.

Kaiser risk post to Valovic

OAKLAND, Cal.—Stefan J. Valovic has been appointed manager of insurance for Kaiser Aluminum & Chemical Corp.

Mr. Valovic came to Kaiser Aluminum's insurance department in 1966 from Standard Oil Co. of California. He graduated from Illinois Institute of Technology in 1952 with a degree in fire protection and safety engineering, and received a law degree from the John Marshall Law School, Chicago, in 1960. He is a member of the California and Illinois Bar Assns.

Congressman wants crime coverage available through state FAIR plans

WASHINGTON—Rep. Frank Annunzio (D., Ill.), one of Capitol Hill's most vocal critics of the insurance industry's handling of the 1968 Federal riot reinsurance (FAIR plan) legislation, has introduced a bill that would require that the so-called crime lines—vandalism, malicious mischief, burglary and theft—be offered under the FAIR plans. The bill also provides that the Federal government write coverage directly if the rates for insurance through the FAIR plans exceed 175% of the "manual rate."

Manual rate is defined as the lowest approved or advisory rate filed by the principal rating organization for the same classifica-

tion of risk and territory, excluding surcharges and condition charges.

In addition, the bill would eliminate discrimination in brokers' and agents' commissions, thus encouraging brokers and agents to sell the FAIR plan insurance; provide Federal guaranties for performance bonds for small business construction contractors and sub-contractors; provide reinsurance of losses that occur during the construction or rehabilitation of habitational property; eliminate state sharing in riot loss payments, in order to encourage more states to participate in the FAIR plan program; and, provide for an office of review and com-

pliance in HUD to police the operation of the FAIR plan program.

IN INTRODUCING the bill, Rep. Annunzio charged that while the 1968 riot reinsurance act is still valid in theory, it "has not worked out." For example, he said, "in Chicago, we found that many companies were still refusing to write in inner-city areas; that after the law was signed, many companies arbitrarily canceled policies and 'dumped' those policies into the FAIR plans; that the FAIR plan rates were double and sometimes quadruple the normal rates for such policies; that inner-city property owners had

no knowledge of the availability of FAIR plan insurance; that brokers and agents were reluctant to put policies in the FAIR plan because the commissions for such policies were much lower than the commissions paid by private industry and the inner-city property owner, in most cases, was left to the so-called high-risk writers."

The bill is Rep. Annunzio's second proposed solution this year to the problem of getting crime lines coverage to the inner-city businessman. In May, he introduced a proposal that would provide for the direct writing of crime insurance of small businesses by the Small Business Administration. Under that bill, SBA would establish a schedule of insurance premiums based on the needs of the small businessman and the type of risk to be covered.

His new proposal would set the rate for Federally written insurance at 175% of the "manual

rate."

The 1968 riot reinsurance legislation would allow the HUD secretary to require that FAIR plans offer crime insurance if he had approval of his 19-member national advisory board, whose members represent state and Federal governments, the insurance industry and the general public.

Insiders at HUD's Federal Insurance Administration—which administers the FAIR program—admit, however, that no such move will be made until it is proven much more economically feasible than it is now for insurance firms to write such lines in the inner-cities.

At the present, they hold, such a move would probably wreck the entire program.

The FIA was supposed to have filed a report to Congress by July 31 on feasibility studies regarding reinsurance and other means to help assure the availability in inner-city areas of crime insurance. HUD Secretary George Romney has asked Congress for an extension of time until June 30, 1970 to file the report, but Congress is likely to give him only until December 31.

California bill meets insolvency

SAN FRANCISCO—Gov. Ronald Reagan is expected to sign into law a measure adopted by the state legislature at the session just ended that calls for creation of a new California Insurance Guaranty Assn.

All insurance companies doing business within California must belong to the new association, which is designed to protect insurance buyers against future insurance company failures.

The new association will have the power to assess each member to provide funds to pay the claims of an insolvent insurer if an insurance company should go broke and be unable to pay claims.

BECAUSE THE Legislature gave the measure an "urgency" rating, it will become effective as soon as it is signed by the Governor.

The new law covers all lines of insurance except for title insurance.

Charles A. Brown, manager of the American Mutual Insurance Alliance, points out that "there have been only about 25 insurance company failures of one kind or another in the past 20 years.

"Losses suffered by people insured," Mr. Brown added, "were comparatively slight in comparison to the volume of insurance written."

THE ASSOCIATION will be managed by a nine member insurance industry committee, which will be appointed by State Insurance Commissioner Richard D. Barger.

The committee will have authority to submit reports and to make recommendations to the Insurance Commission regarding the financial status of a member insurance firm.

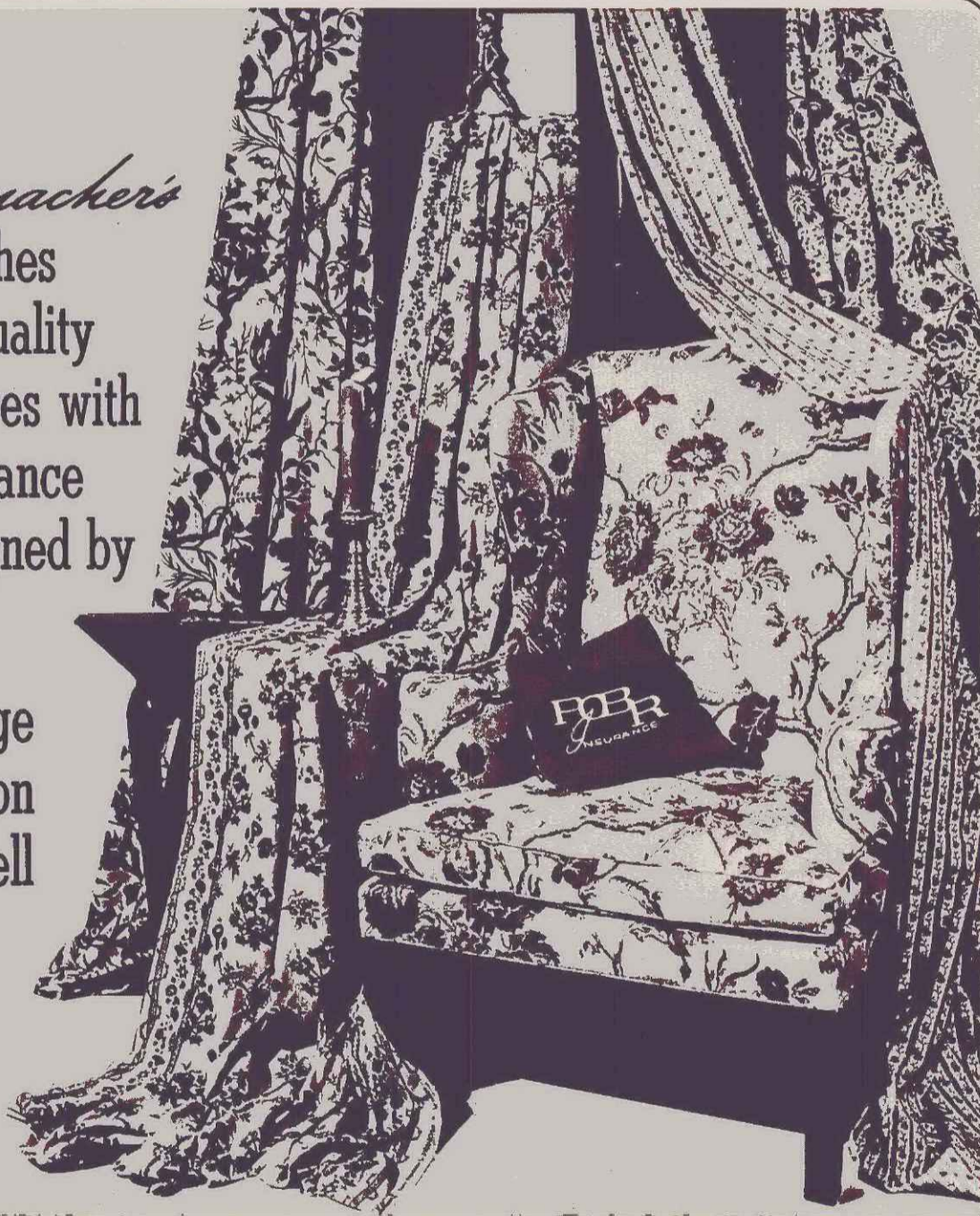
A somewhat similar proposed Federal "insolvency fund" now before the U. S. Congress would impose a "premium tax" on insurance buyers to create a \$36 million a year fund to defray costs of a Federal Insurance Company Guaranty Corp.

Eager joins broker

Robert W. Eager, formerly assistant regional manager of the Employers-Commerical Union Group, has joined Bayly, Martin & Fay, New York insurance broker, as vp-marketing.

Schumacher's
matches
its quality
weaves with
insurance
designed by

Paige
O'Brien
Russell



For well over 75 years, F. Schumacher & Co. has been a leading supplier of silks and other fine fabrics for the American market. Today, *Schumacher's* showrooms feature the largest selection of decorative fabrics, floor and wall coverings to be found anywhere in the country... anywhere in the world. To match its long tradition for quality, *Schumacher's* insists on quality insurance coverage fashioned by...

**Paige
O'Brien
Russell**

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The revolt of Saul LeVine

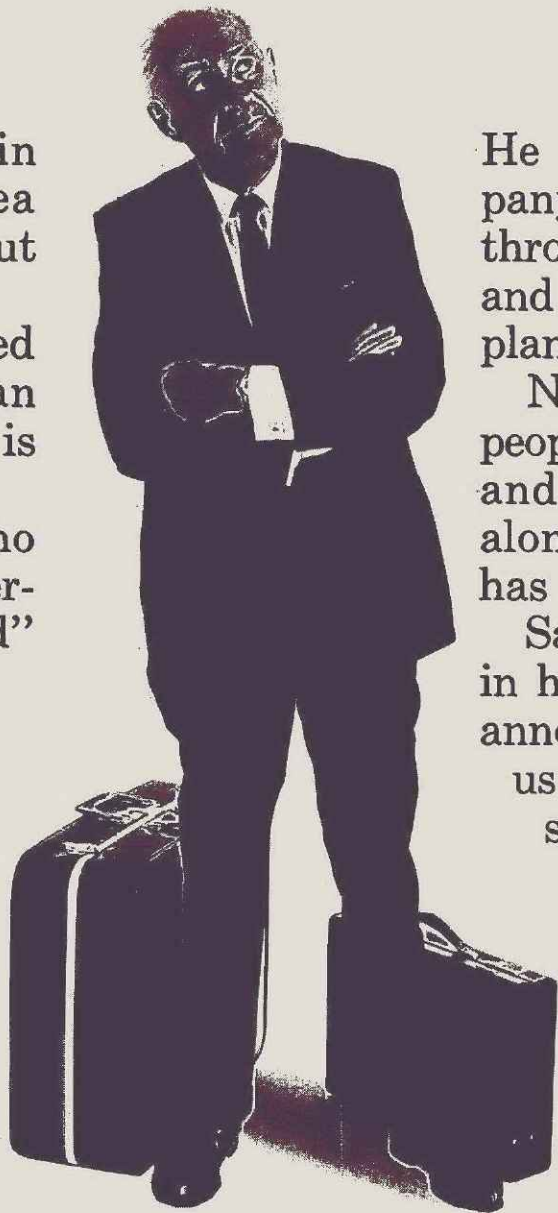
Maybe he won't go down in history with the Boston Tea Party or Shays' Rebellion, but Saul LeVine is a hero.

To all who have ever waited longer for their luggage than their first offspring, Saul is golden.

To all air passengers who have been told in their wanderings that "Gate 5 is just ahead" and are still walking, take heart! Saul is coming!

Saul's company, Stearns Manufacturing, Flat Rock, Michigan, makes Transi-Tread Conveyor Systems for speeding people, luggage, materials and cargo through air terminals.

It all finally got to Saul. The waiting. The walking.



He fought back with a company that now has equipment throughout the United States and in Europe. And the future plans include the entire world.

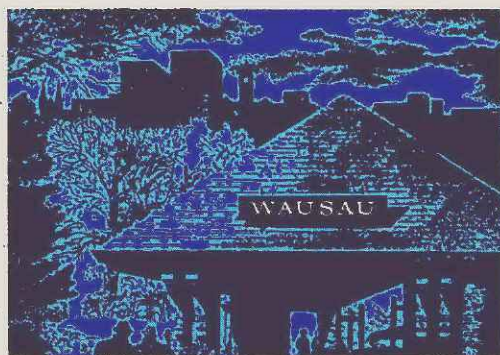
Now all over the country, people are standing their ground and moving, with luggage—along conveyors that Stearns has produced.

Saul LeVine used creativity in his revolt against travelers' annoyances, and he has asked us to apply our creativity in servicing his company's insurance needs.

Anything less from the business insurance experts would be revolting.

Insurance ought to work for a living. That's the Wausau Story.

Employers Insurance of Wausau.



Federal takeover of work comp 'imminent,' business, state reps told

NEW YORK—"Where is workmen's compensation going after a half century of state control?" was the question pondered here the other day by a group of Federal officials, a representative of the system at the state level and some insurance people.

If any conclusion was reached at the all-day session held at the Plaza Hotel, it was the realization by the seven panelists and 75 representatives of business and insurance in the audience that recent legislation introduced in both the House of Representatives and the Senate poses a "definite threat" to the state workmen's compensation system.

A key Congressional aide star-

ted the audience when he declared that he sees "no hope" of the states improving their compensation programs "in the foreseeable future." Another Washington insider said he thought it was "doubtful" whether the states could head off Federal intervention, and a state industrial commissioner conceded Federal takeover was "imminent."

WHAT WAS DESCRIBED by one speaker as "a direct invasion of the state workmen's compensation system" were recent moves by Rep. Carl Perkins and Sen. Jacob Javits. Rep. Perkins, on the one hand, has introduced a bill in the House that would allow the

Federal government to set coverage and benefit standards, take over claims procedure in some instances and also provide Federal grants for additional costs caused by "improved administration" of a state's workmen's compensation laws.

Sen. Javits, on the other hand, has introduced a bill that would establish a rational commission or state workmen's compensation laws to undertake a comprehensive study and evaluation of them. Although the purpose of his bill is not to Federalize the state workmen's compensation system, it is believed its ultimate effect could have that result.

Sen. Javits was to have been a

speaker at the conference, but he was forced to cancel at the last moment. Speaking for him on some of the issues was Eugene Mittelman, counsel for the Republican minority on the Senate committee on labor and public welfare.

MR MITTELMAN expressed his and Sen. Javits' concern that the system is not now fulfilling the purpose it was intended to when first begun in 1919. He noted that then the system's basic purpose was to replace between 50% and 66 2/3% of a person's income if he were to become disabled as a result of an accident on the job.

In the period between 1940 and 1966, when the cost of living rose sharply, Mr. Mittelman said, workmen's compensation benefits declined drastically. In 1966, he cited 30 states were paying benefits below 50% and seven of them

—Alabama, Georgia, Indiana, Louisiana, New Jersey, Oklahoma and Texas—were even below the 40% mark.

"My personal view, while certainly not Sen. Javits', is that there is no hope that the states will improve their workmen's compensation programs in the foreseeable future," Mr. Mittelman declared. He added that there is an increasing sentiment in Congressional circles that "direct action" by the Federal government is the only answer, but predicted that Congress is more apt to embrace the commission idea advanced by the New York senator rather than the more overt measures of Rep. Perkins' bill.

SPEAKING ON BEHALF of the proposed Perkins legislation, Donald Baker, associate general counsel for the House committee on education and labor, said that the "frontal assault on the system, while not the first, reflects a growing concern that private insurance systems administered by the states are not as effective as they should be.

"The system remains inadequate although the fact that growing amounts in terms of total benefits—now over \$2.25 billion annually—is admirable," Mr. Baker said. Among other inadequacies, he cited the fact that 20% of the work force is still unprotected by workmen's compensation.

"Unfortunately," Mr. Baker said, "these are those least able to care for themselves. It would appear," he added, "that minimum standards are going to be needed." Asked if it is possible the states will improve their systems sufficiently so that Federal government controls may be obviated, Mr. Baker replied: "On the basis of experience, I think that is doubtful. State A who competes with State B for industry is not likely to add to an industry's burden by increasing workmen's compensation costs," he said.

DONALD L. REAM, a Labor Department expert on workmen's compensation, said that his department supports Sen. Javits' approach.

"The Department of Labor feels that the problem can be solved by the states," Mr. Ream said. "It does feel, however, that basic laws should be uniform between the states.

"An thumb is worth more than an arm in some states," Mr. Ream told the gathering. "This isn't right. This isn't right at all.

"The Department of Labor certainly welcomes an inquiry such as that proposed by Sen. Javits' bill," he added. However, when questioned he said that the Senator's proposed commission should not concern itself with statute language. "The facts should be made available by the commission and from that legislation should be drafted," he said.

(AN INFORMED source at the conference told *Business Insurance* that President Nixon himself may make a major address on the subject in the near future.)

The views of the states on the proposed legislation were expressed by Harry W. Dahl, secretary of the International Assn. of Industrial Accident Boards and Commissioners and the Iowa industrial commissioner.

Mr. Dahl, an articulate spokesman for the opposition, said that the IAIABC is "concerned with the present workmen's compensation system.

"We agree," he said, "there are areas that must be broadened and areas where administrative procedures should be streamlined. To be sure, workmen's compensation

Continued on page 32

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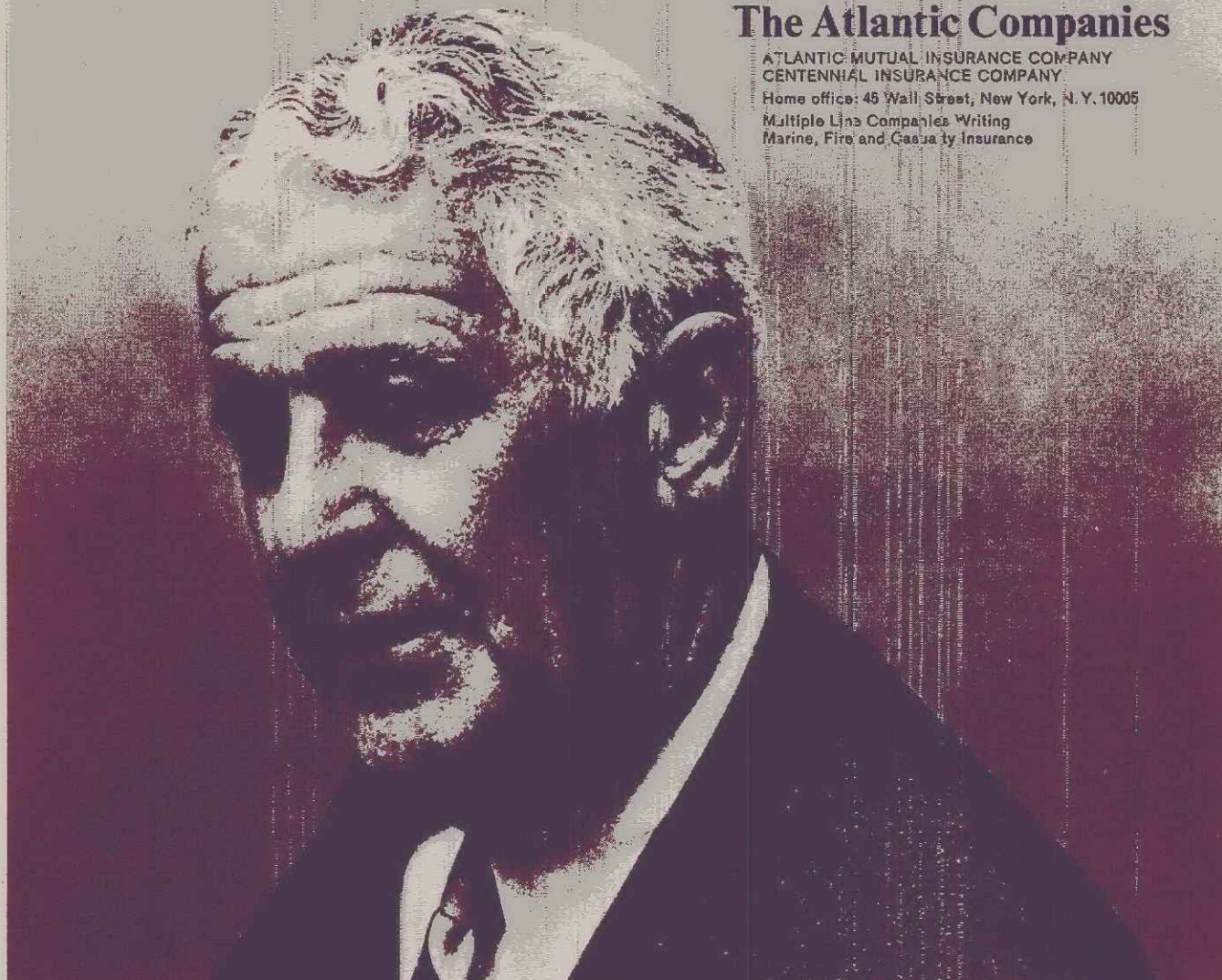
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washington watch

Expect U.S. approval of employer funds for care centers, scholarships

WASHINGTON—The Taft-Hartley Act is certain now to be amended to permit employer contributions to jointly administered trust funds established to provide employees, their families and dependents with educational scholarships and to establish child care centers for preschool as well as school-age dependents. The Senate passed such a bill September 12 and the House—which passed the proposal in the 89th Congress—will be voting on it soon.

It is likely that Taft-Hartley will be further amended some time this Congress to allow employer contributions to trust funds established for joint industry promotion and research and development of products in the construction trade and for joint committees or boards to interpret provisions of collective bargaining agreements. This amendment, however, is somewhat more controversial than the scholarship day care proposal. Both Senate and House labor committees have begun hearings on the measure. The House passed it last Congress.

The section of the Taft-Hartley Act that would be amended by the two proposals is 302. This section flatly prohibits payments by employers of money, or anything else of value, to employe representatives, except in very limited, and carefully defined situations. Primary among these exceptions are payments to jointly administered trust funds set up for the purpose of providing specifically outlined benefits.

THESE BENEFITS include medical and hospital care, pensions, compensation for occupational injuries and illnesses, and insurance to provide any of these. Also, trusts may provide unemployment benefits, and life, disability, sickness and accident insurance.

Section 302 was amended in 1959 to include payments to trust funds for pooling vacation, holiday, severance and similar benefits and to defray the costs of apprenticeship and other training programs.

Both of the proposed new amendments to the section are ostensibly voluntary—like the original exceptions. That is, if management does not want to bargain with the union on these trust funds, it can refuse without it

being an unfair labor practice.

From a practical standpoint, however, some observers feel that this management "out" clause is almost meaningless. It is no secret that during the heat of contract negotiations any item that labor wants to discuss is seldom ignored by management if there is hope that this discussion will break an actual, or potential, impasse.

WHILE CONGRESS is moving to broaden the benefits that can

be provided by jointly administered trust funds, the Internal Revenue Service has moved to narrow the scope of these and other employes' beneficiary association funds.

This was done in January when the IRS issued proposed regulations defining the types of employes' beneficiary associations that are exempt under the tax laws as those that provide life, sickness, accident and "other ben-

efits" that are "intended to safeguard or improve the health of the employe or to protect against a contingency that interrupts earning power.

Pension plans are not affected by the regulations because the IRS policy regarding them in covered by another section of the code.

Thus, the IRS said, "other benefits" include such things as vacations, subsidizing recreational activities, providing vacation facilities and severance payments or supplemental unemployment compensation benefits made because of a reduction in force or temporary layoff.

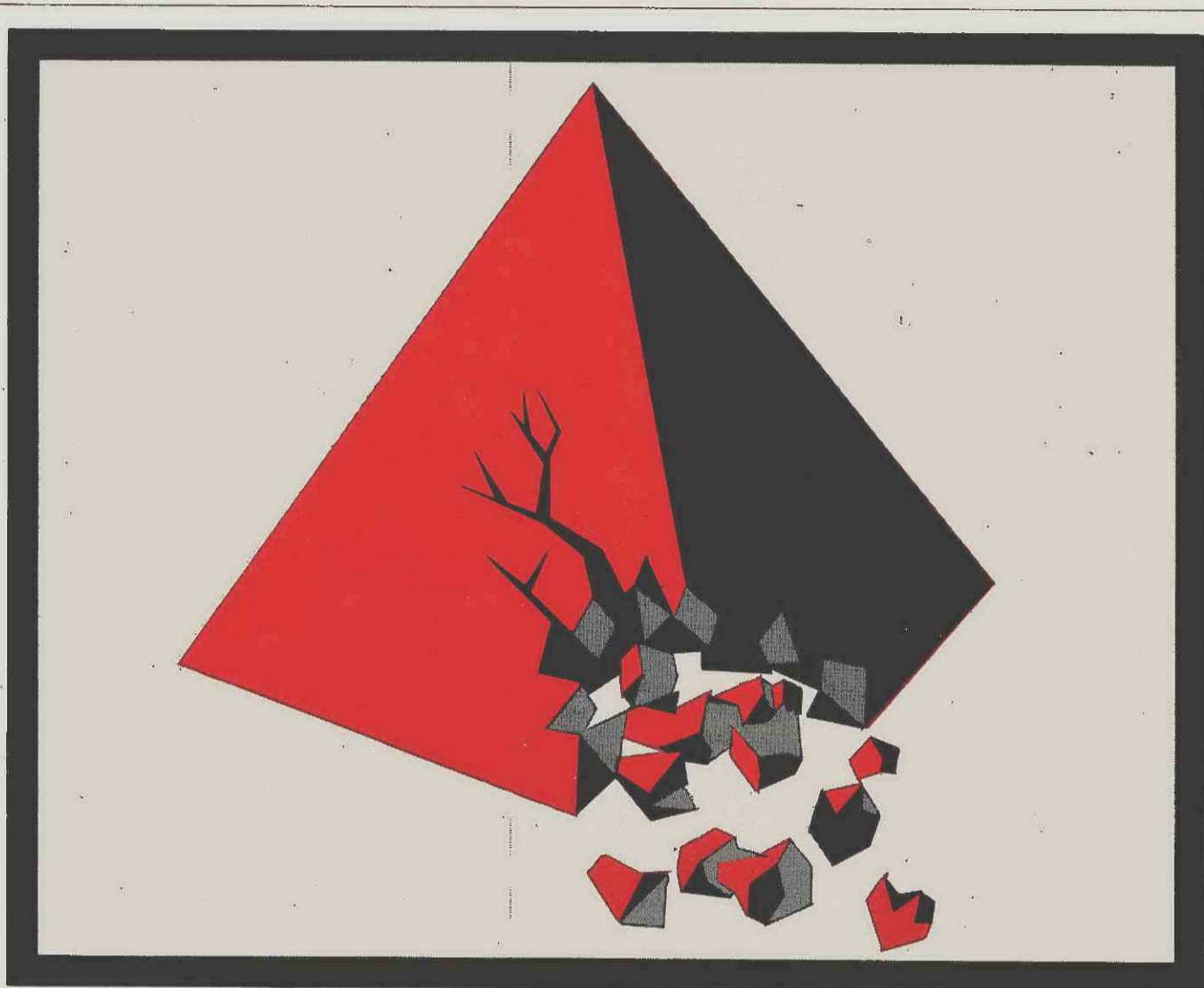
BUT, IT DOES not include such things as the furnishing of scholarships to the members' dependents, or of providing automobile and fire insurance, the agency said. It presumably also would not include day care centers, apprenticeship programs, and certain

unemployment benefits.

The proposed regulations have caused a loud outcry from labor unions. The AFL-CIO has charged that they would destroy some funds, eliminate benefits under others and disrupt collective bargaining.

Actual promulgation of the regulations is not likely to take place for some time—if ever. Treasury personnel are up to their ears in work on the new tax bill, an official told *Business Insurance*, so it is unlikely they will be working on the regulations at all within the next few months.

In addition, he said, the tax bill itself deals with other tax considerations concerning employes' beneficiary associations, which were also taken up in the proposed regulations. Because of this, the treasury will probably not move on the regulations, even if it gets ready, until it sees the final form of the tax bill.



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Police unit adopts group auto plan

HARTFORD—The Hartford Insurance Group, which recently moved into the mass merchandised auto insurance field when it signed a contract with a UAW local at the General Motors Buick division in Flint, Mich., has made the plan available to a second group.

The 1,200 members of the Michigan State Police Troopers Assn. are now eligible for coverage under the concept. Details were worked out with Hartford by the association and Campeau, Mullally & Meier Inc., a Muskegon, Mich., insurance agency. Premiums will be paid via payroll deductions deposited in the State Employees Credit Union.



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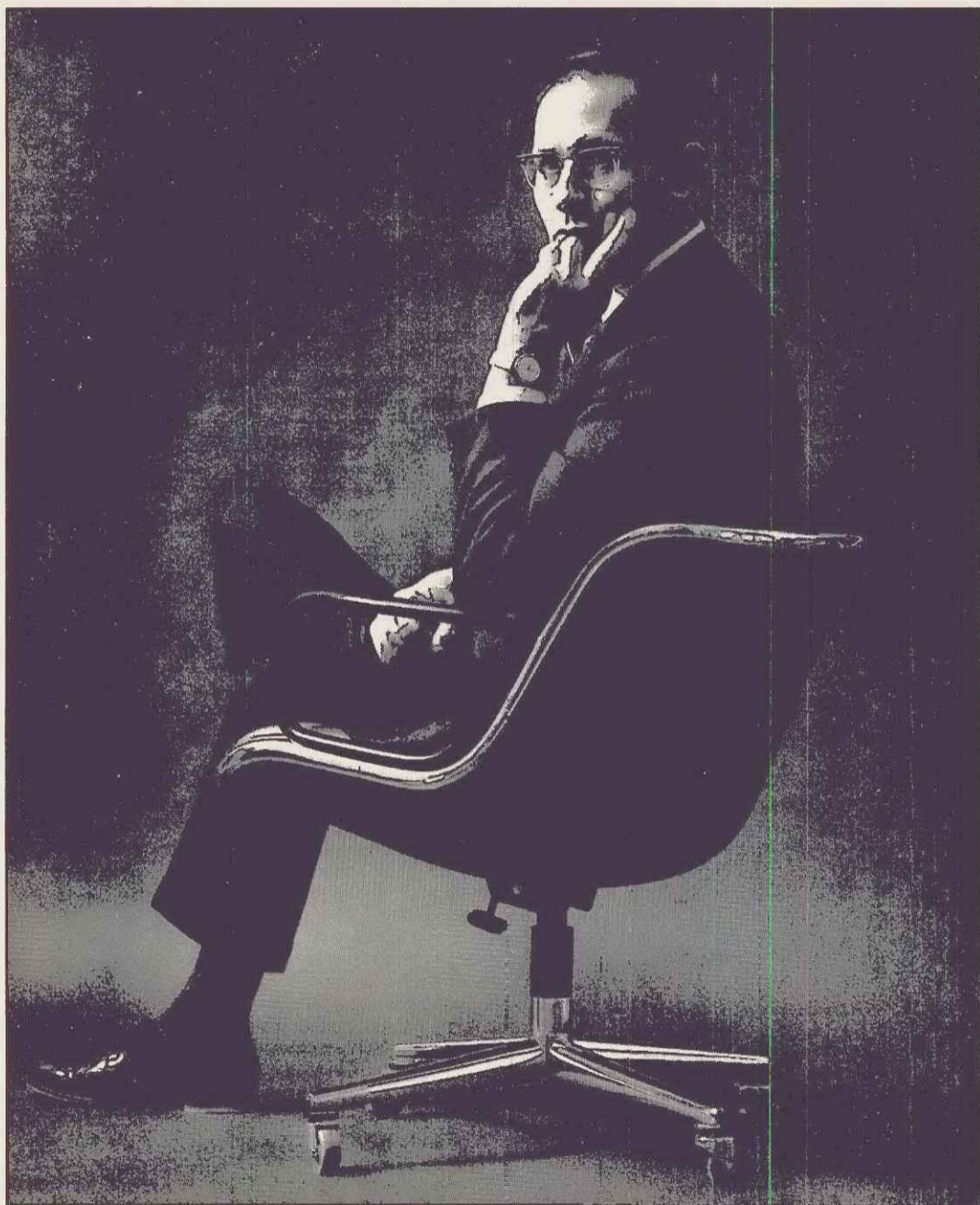
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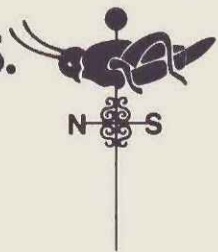
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info for buyers

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

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

- An illustrated 16-page booklet has been released by the sprinkler division of "Automatic" Sprinkler Corp. of America. **The High Cost of Burning** describes, through statistics and specific examples, how sprinkler systems can pay for themselves through reduced insurance premiums. The item also examines the possible advantages to companies of leasing fire protection systems. Methods of analyzing and protecting against special hazards are also described. Address requests to John P. Donnelly, director of corporate communications, "Automatic" Sprinkler Corp. of America, 722 Illuminated Bldg., 55 Public Sq., Cleveland, O. 44113.

- Honeywell Inc. has compiled information on the use of computers in transportation in a booklet concerning a railyard switching system built by Wabco. There is the possibility that the switching system helps reduce accidents in the yard, although there are no statistics available. To obtain the booklet, contact Honeywell's computer control division at Old Connecticut Path, Framingham, Mass. 01701.

- **Exploring New Insurance Horizons . . .** presents the history and philosophy of Eliel and Loeb Co. In its booklet, the brokerage firm lists case-history type summaries of work completed for various kinds of companies. For a free copy write the company, in care of David L. Glueck, vp, 175 W. Jackson Blvd., Chicago, Ill. 60604.

- The Mutual Benefit Life Insurance Co., 520 Broad St., Newark, N. J. 07101, has released a 12-page booklet free to corporate insurance buyers, employee benefit plan managers, insurance brokers and consultants. **Developing the Company's Retirement Plan** explains in non-technical terms the essential elements involved in establishing a corporate pension plan. It covers tax advantages from the standpoint of both the company and the employee, standard and optional provisions that can be included, factors responsible for short- and long-term costs, and the different contracts and services provided by a life insurance company for underwriting the plan. Several auxiliary pamphlets are included. Write the director of group pension sales at the company on your letterhead.

- **The Industrial Policy** is an illustrated brochure from the Home Insurance Co., 59 Maiden Ln., New York, N. Y. 10008. The literature dissects the policy in terms of property damage, business interruption, automobile liability, crime and fidelity, excess and catastrophe coverage, workmen's compensation and ocean marine insurance.

- **U.S. Trade Expansion through**

FCIA Export Credit Insurance is a free brochure explaining the services offered by the Foreign Credit Insurance Assn. and what FCIA insurance covers. Also included is a brief discussion of recent program innovations. To obtain a copy, write the association at 250 Broadway, New York, N. Y. 10007.

- The Machinery and Allied Products Institute has published **Directors' and Officers' Liability Insurance . . . Some Management Considerations**. The item reviews in general terms the source and nature of the liabilities of corporate directors and officers, corporate indemnification arrangements, some pertinent public policy considerations and available liability insurance. The publication is available to MAPI member companies at \$1 and to nonmember companies at \$2 by writing MAPI at 1200 Eighteenth St., N.W., Washington, D. C. 20036.

- Corporate Policyholders Counsel has released a brochure describing group benefits as well as dealing with all aspects of risk management. **Your Insurance Program: An Impartial View** explains reasons for using an insurance consultant and presents the objectives of the team approach to developing a property and liability program. For a free copy contact the independent insurance consultants through Robert J. O'Meara, employee benefits manager, 20 Wacker Dr., Chicago, Ill. 60606.

- What should the safety engineer dealing with problems of industrial hygiene know about respiratory protective equipment? An eight-page item compiled by D. E. Albert, Mine Safety Appliance Co., Pittsburgh, Pa., and released through the National Safety Council covers the subject. The illustrated pamphlet is titled **Respiratory Protective Equipment** and is accompanied by revision **Data Sheet 444**, also illustrated. For information on quantities, prices and member discounts, contact the National Safety News, 425 N. Michigan Ave., Chicago, Ill. 60611. Please indicate stock numbers 111.17-29 and 123.04-444 for the two items.

- **If You Don't Believe in Astrology . . .** is a fold-out brochure published by State Farm Insurance Cos. Based on a zodiac theme, the item would make an interesting and informative employee handout because it deals with fire prevention safety tips for members of the household. It is available through any of State Farm's 22 regional offices or the main office in Bloomington, Ill. 61701.

- A 12-page booklet, **Tentative Standard for Explosives Motor Vehicle Terminals**, is available for 75¢ from the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. The material, which discusses terminals defined as "interchange lots" where explosives vehicles are parked, "less-than-truck-load lots" for unloading and reloading partial loads, and vehicle maintenance shops, and/or driver rest facilities. The material is being submitted for official adoption by the association. The item is NFPA number 498-T.

- Information on two oscillating cameras designed for the prevention of shoplifting, employee theft, holdups and bad checks is available from the manufacturer of **Photo-Scope Model E** and **Photo-Scope Model Z**, Security Electronics, Inc., 1503 Howard St., Omaha, Neb. 68102.

States get another year to ask riot cover

• The second edition of **Profit Sharing in Perspective**, by B. L. Metzger, has been published by the Profit-sharing Research Foundation. The up-dated information places primary emphasis on: unionized profit-sharing companies; problem-solving through profit sharing; profit improvement tied to profit sharing; incentive methods, today and in the future; cash-deferred options in profit-sharing plans; and increased productivity through joint participation. The study costs \$8.50 and is available by writing the foundation at 1718 Sherman Ave., Evanston, Ill. 60201.

• **Contelco-Guard**, an alarm unit designed by Continental Telephone Supply Co. Inc., 17 W. 46th St., New York, N. Y. 10036, offers three-dimensional protection against fire and break-ins. An optional emergency dialer silently dials the proper authorities with pre-recorded emergency messages. For more information on the device contact the company.

• **Comparing and Appraising Investment Performance of Pension Funds** is an 80-page book offered by the National Foundation of Health, Welfare & Pension Plans. It is the sequel to **Measuring and Reporting Investment Performance of Pension Funds** and attempts to correct the fact that often, invalid and/or inappropriate measurements are made and used for purposes of comparison. This research study explains how to reach valid conclusions drawn from valid comparisons. Single copies are \$1.25, five or more are 75¢ by writing Mr. Lee R. Polachek, President, P. O. Box 898, Elm Grove, Wis. 53122.

• The American Society of Pension Actuaries has released a new instruction manual, **Actuarial Calculations of the Auxiliary Fund in Pension Plans Utilizing Whole Life Insurance**. The manual is written to enable the layman to compute the annual costs of any combination plan using simple arithmetic and is supplied free of charge to ASPA members. Single copies may be purchased for \$12 by writing: American Society of Pension Actuaries, 304 Sinclair Building, Fort Worth, Tex. 76102.

• Johnson Service Co., P.O. Box 456, Carrollton, Tex. 75006, has released several pieces of information on its **G-1 Microwave Motion Detector**, and associated components. The manufacturer states that the detector is not affected by noise, air motion or temperature variations and that the alarm relay connection can be made to a local alarm device or to a telephone line for remote monitoring.

• Information on the **Sonitrol Security System** is available by writing Sonitrol Corp., Daleville, Ind. 47334. One of the features of the system is that every sound in a building is picked up, processed, and sent to a central monitoring point so that entry cannot be gained through walls or roof. In case of line breakage or deliberate jamming attempts a signal is given to notify the operator. No warning is given to scare burglars away, aiding convictions. Equipment is completely automatic and each unit is fully interchangeable and self-contained.

• Advance Data Systems Corp., 336 N. Foothill Blvd., Beverly Hills, Cal. 90213, has released a four-page brochure, **Access**. Illustrated with photographs and a table, the item discusses automatic card control entrance security systems and compares the critical security system (which codes up to 16 areas) to the general security system (which codes up to four areas).

WASHINGTON—States are certain now to get another year in which to enact legislation providing the state layer of reinsurance that is necessary to participate in the Federal riot reinsurance program.

The cutoff date for such legislation was August 1, 1969, but Housing and Urban Development Secretary George Romney has asked Congress to extend the date until August 1, next year, and his request will be granted.

Of the 31 states that adopted FAIR—Fair Access to Insurance Requirements—plans, as the first step in participating in the 1968 Federal riot reinsurance program, 26 took the second required step and obtained approval of the state reinsurance layer from their leg-

islature by the August 1 cutoff.

SECRETARY Romney won't, however, get Congressional approval of his request for an 11 month extension of time for HUD's Federal Insurance Administration to file a report on feasibility studies regarding reinsurance and other means to help assure the availability in inner-city areas of burglary and theft insurance.

The report was due July 31, and Congress will probably give HUD only until December 31 to get it prepared, despite Secretary Romney's protests.

While only 26 of the 50 states are actively participating in the Federal riot reinsurance program, some 75% of all insured property

in the nation is located in these 26 states and is now covered by Federal reinsurance against riot losses, according to the Federal Insurance Administration estimates. And, the FIA contends that over 90% of the nation's insurance business is reinsured under its program.

From the start of the program August 1, 1968, to June 30, 1969, it had taken in \$33 million in income and spent only \$1.3 million, of which \$800,000 went for claims. About \$400,000 of the claims were paid in connection with a fire in Des Moines, Iowa.

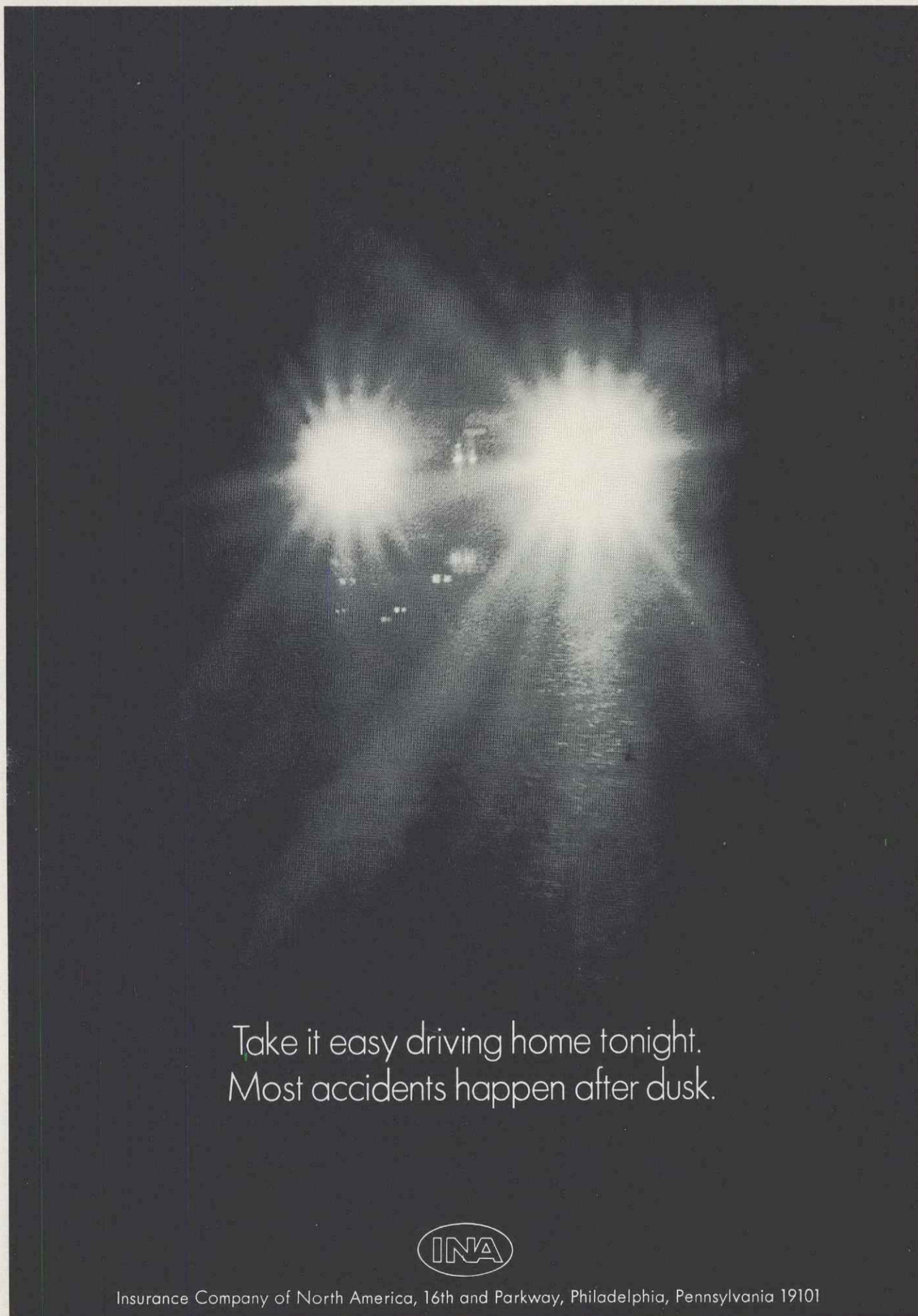
The program had about 290,000 requests for reinsurance through the FAIR plans during the 11 months. Some 235,000 premium quotes were made; 19,000 requests

for reinsurance were declined—most conditionally—and 162,000 policies were written.

Property valued at around \$4 billion was reinsured with an average premium of \$200 and an average property value of \$23,500. ■

Police sign contract

For the first time in the town's history, a formal contract agreement has been signed with the Plainville (Conn.) Police Union Local 1706, Council 15, AFL-CIO. It includes provision of Blue Cross and Connecticut Medical Service without cost. Also provided is a major medical insurance policy for \$10,000. Negotiations on pensions will begin in October.



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Nixon tax plan wants status quo for deferred compensation setups

WASHINGTON—The battle lines have been drawn.

The House passed its version of tax reforms back in August. The White House then came to the front with its views. Now the Senate finance committee is listening to the public—Wall Street, business and the professional community.

In the end, there will probably be some changes made, perhaps not all this year—the dividing points may be too sharp; the fight in Congress could be rough. But some decisions will have to be made—sooner or later.

IN THE MEANTIME, here's how the Nixon Administration responds to some of the contemplat-

ed changes as passed by the House.

Executive compensation: The Administration goes along with the House proposal to set a 50% ceiling in rates on income earned on a job. But the White House disagrees with the present bill that would tax deferred compensation when earned—instead of later. Nixon wants deferred compensation to be taxed as always.

Perhaps the excuse for the Administration's hands-off policy of deferred compensation is that the treasury is now engaged in an in-depth research project of such plans together with a study of qualified pension and profit-sharing plans. It wants to recommend separate legislative changes that

are workable and carefully thought out.

PENSION PLANS: Small corporations utilizing Subchapter S of the tax law can now have their cake and eat it. In other words, they can elect not to be taxed as a corporation—and still have the advantage of a qualified pension for their stockholder-employees. But the House proposes to do away with this. It wants to limit pension contributions for principals to the 10%—\$2,500 annual ceiling now allowed self-employed individuals under the Keogh Law.

President Nixon wants to keep it the way it is—at least for the time being. His reason: The treas-

ury thinks changes affecting Subchapter S pension plans should await later consideration as part of its overall review of deferred compensation and qualified pension and profit-sharing plans.

MOVING FAMILIES: Both the House and the Administration offer tax relief for employees in the form of generous deductions for moving expenses. The House wants an employee to move at least 50 miles before he's entitled to the tax deduction. Nixon says 20 miles will do.

Capital gains: The House wants to change the holding period to 12 months for long-term capital gain treatment. The President would not change the holding period beyond the present six months. What's more, Nixon would not end the 25% maximum tax on capital gains but would instead limit its use to a maximum amount in any tax year.

The House would raise the ceil-

ing to a maximum of 35% for persons above the 50% income tax bracket.

CORPORATIONS: Many stiff new rules are planned, such as a cut in depletion allowances, added levies for utility companies, and banks and other financial institutions would be hit with additional taxes under both proposals—less under the Administration plan, however.

The Administration proposes these corporate tax rates: 21% on the first \$25,000 of taxable income by 1972; 46% on the excess—a 2% reduction of present corporate rates.

Gasoline tax: The President would wipe out deductions for state and local gasoline taxes. No such provision is in the House bill.

Foundations: The House proposed a 7.5% tax on investment income from foundations. The treasury did not go along with the House idea that private foundations should pay their fair share of the tax load. The Administration feels a 2% tax is adequate.

Single People: The White House does not go along with the extension of head-of-household rates to single folks over age 35. Instead, it would establish a new tax rate schedule for single people that would reduce the spread between joint rates and individual rates.

The treasury also rejected the joint return rates for widows and widowers with dependent children—it would delete this provision from the House bill.

There were many other proposals in the Tax Reform Bill, such as raising the standard deduction for individuals. However, the above seemed of widest interest to *Business Insurance* readers. ■

The typhoon struck Guam at 9:15 AM. Within minutes, buildings and lives crumbled. Guam was in a shambles. The local AIU representative's office in Guam was hit and hit hard. An employee later described the scene this way: "The first thing we did was make sure we were all alive. Then we started assessing the disaster. Requests went out for AIU adjusters to Tokyo, Manila, New York, Hong Kong and Paris. Within hours they arrived, and for countless

days and nights without sleep, we processed claims and issued checks. \$3,000,000 in checks were written in that little storm-racked office in Guam."

Guam is a small island in the Pacific. But, the American International Underwriters was there within hours after disaster struck. This kind of insurance service is not unusual for AIU. We have offices and agencies in over 100 countries throughout the world. Our people speak the local lan-

guage. They know the local laws, customs and business methods. They are at home anywhere.

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**When a typhoon hit Guam,
this little room
suffered \$3,000,000 in damages.**



Pipe rupture destroys 15 Texas homes

HOUSTON—A 40-foot section of pipe ruptured here destroying 15 homes and damaging 11 others. The 26 residences were about six months old.

Cause of the pipeline rupture and explosion, which occurred in a Mobil Pipeline Co. line in Green-ride North subdivision, was not immediately determined.

The pipe was laid in the early 1940s and might have become fatigued under high pressure.

No damage estimate has been announced. ■

Find Florida bridges safe

MIAMI—A statewide check by Florida authorities has turned up only one bridge deemed potentially hazardous.

The study was undertaken after a bridge at Clearwater collapsed in December, taking the life of one motorist.

State Road Department crews inspected every bridge in the state for defects or corrosion after the collapsed bridge over the Anclote River on U.S. 19 was found to have salt-corroded steel pilings.

Jim Candler, SRD district maintenance engineer in Ft. Lauderdale, said the only bridge found to be in dubious condition was the causeway spanning Lake Worth in Palm Beach County. ■

LTV, Prudential huddle

LTV Aerospace Corp., Dallas, said discussions are under way with Prudential Insurance Co. of America, Newark, for the sale of LTV's 71% interest in Computer Technology Inc.



“Is there a quote here from Mutual Benefit?”

“Right on top. In more ways than one. They’ve increased executive coverage. And by consolidating several group life plans, they’ve cut administrative costs, too.”

Anybody can hand you a packaged group life proposal. And sadly enough, many do.

But not Mutual Benefit. Imagination and creativity characterize every quote we submit.

You don’t need 120 years of insurance experience or over 11 billion insurance dollars in force (as we have) to know that each customer’s requirements are unique.

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As a result, maybe we’ll find a way to increase group life benefits, yet lower the cost.

Then, with the money saved, we may be able to set up a long-term disability plan. Or improve major medical benefits. Or fatten up a group pension plan.

Like all of us at Mutual Benefit, our home office experts and group specialists across the country have the quaint idea that the easy way (the canned plan) is rarely the right way.

So we fuss. And strain. And figure and refigure to give you the plan you need. At our expense, not yours.

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THE MUTUAL BENEFIT LIFE INSURANCE COMPANY/NEWARK, N. J./SINCE 1845

opinions

The five-man safety board

It didn't surprise us to learn that most corporate risk and safety managers have considerable misgiving about the Nixon Administration's occupational safety and health proposal.

As indicated in a *Business Insurance* opinion round-up, most risk and safety managers don't like a plan that would potentially put too much power in the hands of too few people. And that point is difficult to dispute.

The five-man safety board, which would have the power to set safety standards for laggard states, could become the safety Politburo, just as the secretary of labor would have become a safety czar under a proposal by former President Johnson.

As one safety manager pointed out, "the cost of the five-man board is going to be fantastic." The chairman of the board, it was disclosed, would be paid \$42,000 a year and the four other board members would get \$38,000 a year. "In addition, the board would have to have secretaries, hearing examiners and investigators," the safety manager added. And with such a bureau in the making, there's no telling what inspection costs would total.

There is a strong opinion among some insurance industry spokesmen that Federal intervention in work safety is not needed. Advocates of continued state control of occupational health and safety cite figures that show that in the decade from 1957 to 1967 deaths from work accidents increased only slightly from 14,200 to 14,300 while disabling injuries climbed from 1,900,000 in 1957 to 2,200,000 in 1967. In the same period, from the nation's work force grew to about 67 million to about 77 million.

Workmen's compensation insurers and responsible self-insured companies properly cite this relatively level number of work deaths and injuries as an achievement of their safety programs. They compare the work injury record, with, for example, the sharply rising toll of highway accidents.

Those who praise the work safety record of industry, however, miss the point of those who advocate Federal standards. Work accidents are well under control in those companies that are well insured or have a properly administered self-insurance program. Many of 14,300 deaths and 2,200,000 disabling injuries among workers in 1967 could have been prevented if safety had been the watchword of marginal employers, those who have scant interest in any safety program.

But if the objections to the five-man safety board are valid to one degree or another, so too is the suggestion that no one has proposed anything that is any more agreeable.

A quick reading through a digest of the positions taken by various groups testifying before the Senate and House committees on the Johnson proposal indicates that about the only thing Congress could become is confused as to what should be done.

If Federal legislation is needed to improve U.S. industry's loss prevention record—and such would seem the case since both Democratic and Republican Administrations have proposed such legislation—then Congress should get some straight talk from those involved about how the record can be improved.

The result is the goal; the means are really beside the point.

business insurance

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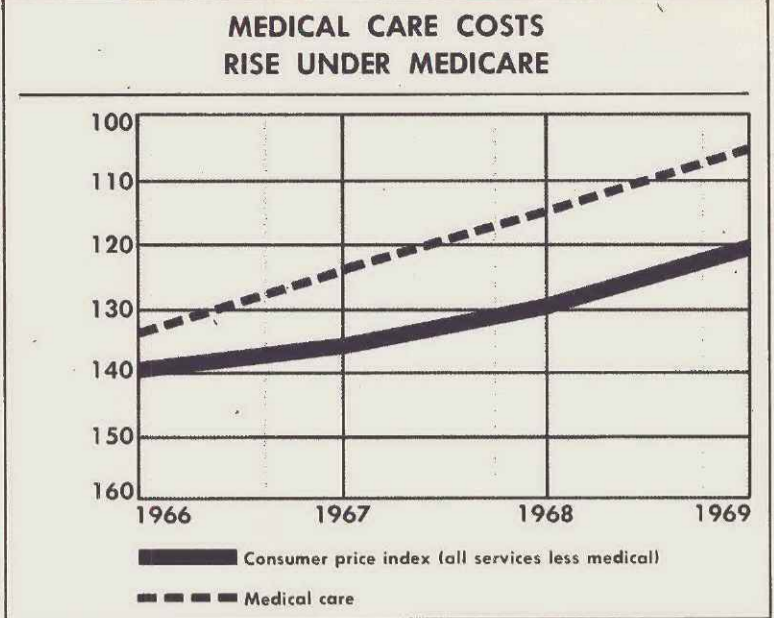
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Price indexes for all services and medical care services for the quarters ending in June of each year show that medical care costs have risen faster than other services in the economy since the Medicare program began on July 1, 1966. Based on a 1957-59 base figure of 100, medical care service in the quarter ended last June cost 155.2, 16 index points more than other services. This rise in medical care costs has an impact on the cost of group health insurance coverage purchased by employe benefits administrators.

Source: Social Security Administration, U. S. Department of Health, Education, and Welfare

Idea for benefits men

We gave strong editorial endorsement in our last issue to the planned series of meetings between members of the American Society of Insurance Management and top executives of property-liability insurers. The pilot meeting between ASIMers and an executive team from Employers Insurance of Wausau indicated that such free exchanges of views and ideas benefit both underwriters and their major insureds.

If such a series of give-and-take sessions is good for risk management, then similar meetings can also serve the interests of administrators of employe benefits and the insurance companies that sell them group life and health coverages.

Benefits managers and insurance executives have much to talk over in the areas of policyholder service and rising costs of coverage. Mutual understanding and cooperation could be fruitful in the area of rising health care costs, which might be held down through joint efforts of health insurers and purchasers of group health insurance coverage.

The Council on Employee Benefits, which meets next month in New York, ought to give serious consideration to setting up a series of straight-talk meetings between those who sell and those who buy group life and health insurance. And regional groups of benefits administrators should also consider setting up insurer-insured meetings after the pattern established by ASIM.

A good answer

A recent issue of Xerox World, employe publication of Xerox Corp., Rochester, N.Y., carried an interesting exchange about benefits between an employe who wrote to the "Comment" column and the employe benefits administrator of the company's business products group. Here is the comment and the answer:

"COMMENT: Although Xerox claims that its benefits are among the best in the industry, in reality these benefits hardly exist. Since I was told (in another Comment) that 'You and Xerox' is not a contract and is therefore not legally binding and since corporate policies and procedures are deliberately not made available to employes, Xerox is under no legal obligation to provide any particular benefit to its employes. If I were to become disabled, Xerox could refuse all benefits and be completely within its legal right.

"ANSWER: (from William B. Walker, vp, personnel, Business Products Group): Your Xerox employe benefits program is not part of a legally binding contract between Xerox and its salaried employes. You are quite right in that assumption.

"But I hope you would agree that the force of law is not essential to all relationships in our society today. If it were, we would indeed be in serious trouble as a society. Most of our relationships are based on the belief that we can trust one another to do the right and honorable thing in our mutual dealings.

"A good example is credit. Millions of dollars worth of goods and services are exchanged every day on the basis of little more than someone's promise to pay.

"Your Xerox benefits are essentially the same. Xerox has given its word to you and all other Xerox people that you will be given certain kinds of assistance under a defined set of circumstances. Rest assured that that promise is fully as binding as any ironclad contract.

"Aside from the practical reasons for maintaining a complete and generous benefits program—namely to attract and hold capable people—there is the important matter of Xerox' often stated concern for the dignity and welfare of each individual in the organization. It is that traditional concern which is your guarantee, your 'contract,' if you will."

letters

Campus damage

To the Editor: Even before I received my copy of *Business Insurance* for June 23, I received a call from the university's insurance brokers who had in turn received a call from the underwriters of our property coverage questioning a story on page 50 with a headline, "List \$60,000,000 Campus Losses: Insurers Upset." When I read this story I was shocked by its content.

My investigation proves that the story was erroneous. It was unfair in the impressions it left about university property risks and losses. This concerns me and all university insurance managers.

Your article dealt with a statistic allegedly published by the American Insurance Assn. to the effect that "student disruptions during 1968 caused nearly \$60,000,000 in insured losses." To make matters worse, the second paragraph of the article went on to indicate that final damage figures, "... are expected to add another \$20,000,000 to the AIA preliminary estimate."

Recently our country has for a good many reasons been beset with violence and unrest. A few colleges have felt these effects. The extent of campus property damage alluded to in the article is a gross distortion, accidental I am sure, but patently unfair to colleges.

The \$60,000,000 figure for 1968 compiled by the American Insurance Assn. refers to three serial catastrophes. One is the general vandalism and riot damage in our cities throughout 1968; another is specific riot damage following Dr. King's death in April of 1968 in the ghettos in a number of our larger cities; and the last is a specific disorder in July of 1968 in Cleveland, Ohio. Included in the first group are costs of property damage on campuses caused by student disorders. They were not separated and considering the magnitude of the disorders in April, 1968, alone, I dare say that the campus toll would be minute by comparison.

There is an obvious misunderstanding on the part of your reporter or correspondent in evaluating and using statistics that AIA has assembled. These records can be of benefit to the insurance industry and the public only if properly understood and used. I trust that you will take some steps to clarify this point in your publication.

Stanley R. Tarr

Insurance Manager, Rutgers, the State University, New Brunswick, N. J.

Editor's note: Mr. Tarr is incorrect in challenging the misinterpretation of AIA figures. Business Insurance on March 17 presented a survey of campus riot losses which our staff estimated at more than \$4 million, a figure close to the \$4.5 million later estimated by the American Insurance Assn.

'Credit life'

To the Editor: On page 18 of your Aug. 18 edition of *Business Insurance*, your headline refers to "credit insurance." On reading the context of the report it is revealed you are actually referring to "credit life insurance."

There is a very big difference between the two. My company, the American Credit Indemnity Co. of New York, specializes in credit insurance—which protects manufacturers, jobbers, wholesalers and service companies such as

Continued on page 16



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following the funds

AFL-CIO warns fund men about failure to help solve social problems

NEW YORK—The director of urban affairs of the AFL-CIO has voiced surprise to find "so little articulated concern" about investing pension fund assets in socially useful activities.

Speaking to the National Foundation of Health, Welfare & Pension Plans' annual educational conference here, John Evans said that the "seeming lack of social concern on our part would all be somewhat more understandable if these socially necessary investments would impair or endanger our fiduciary responsibilities or if they should cause concern to our old friend the 'prudent man.'

"But the fact is that there are many investment programs that would serve a useful social end while providing assurance of good returns, a high degree of security, an increase in employment and would help provide a damper on inflationary forces at work in our economy."

MR. EVANS said that most organizations will find—as the AFL-CIO has found—that mortgage investment, particularly Federal Housing Authority and Vet-

erans Administration insured or guaranteed mortgages, offers "the ideal entry" into socially worthwhile investment activities.

The AFL-CIO mortgage investment trust was organized as a service to its affiliated unions and to qualified labor-management pension and welfare funds, he explained. The trust is a pooled "mutual type" fund in which the union sells certificates of participation in minimums of \$1,000 in increments of \$500. The union is currently offering "new" investors estimated yields of 7%, Mr. Evans said.

"I emphasize 'new' investors since we sell our certificates at a discount or a premium depending on the difference between the market price of one unit in our portfolio as against the \$500 par unit value so that our offering is competitive in yield on the current market," Mr. Evans stated.

THE AFL-CIO's SEC statement restricts the union to government insured or guaranteed mortgages for long-term investment, he said. "The easiest way of our carrying out our minimum

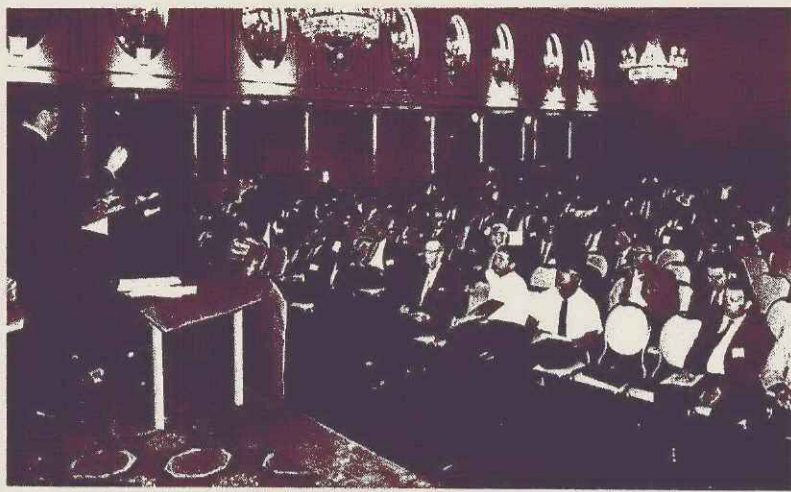
responsibility of safety and yield to our members would simply be to buy existing mortgages on the secondary market, but we have much greater aspirations than that," Mr. Evans asserted.

"We feel that particularly in view of today's market and the array of highly competitive efforts to round up union pension fund money, we have to have a lot more to offer than mere secondary market participation.

"We are offering our investors the opportunity to channel their money into the low and moderate income housing fields where all our recent loans have been made. We are creating jobs for members of our own industries with our own money, since our aim is to originate new mortgages for new projects," Mr. Evans told the meeting.

THE UNION executive said that as an incentive the AFL-CIO allows participating funds from a specific locality the chance to earmark their money for a specific project in their area, with FHA approval the major requirement.

Mr. Evans said, for instance,



Joint trust representatives attend one of 33 panel sessions at New York educational conference sponsored by the National Foundation of Health, Welfare & Pension Plans.

that the union has made two loans for rehabilitation projects in St. Louis and Washington, and has started construction loans in New York and Pittsburgh.

He made the point that the traditional money manager might not be "ideally equipped"—without assistance—to channel funds into such worthwhile activities.

"As we all know the evolution of pension fund investment has been toward common stocks. They certainly have a place in any portfolio, but has the recent market's descent without any decrease in pension fund obligations raised any questions about the ratio of equity versus fixed income?"

"HOW MUCH OF the success of pension funds on paper has been the result of massive efforts to

live up to earlier predictions and investment decisions? In this time of inflation does investment from your massive funds simply bid up a relatively restricted market in stocks as opposed to possibly easing the pressure on mortgage rates and a productive role in the expansion of our economy?" Mr. Evans asked.

He contended that "we are going to have to broaden our decision making responsibility. It is asking too much of some of our money managers to be solely responsible for decisions affecting our social objectives. The poor and lower income families in this country already suffer from a deplorable lack of representation in councils on the allocation of resources at all levels of government and financial planning." ■

Pension trustee backs investing in own industry

NEW YORK—The practice of a pension fund investing in its own industry was vigorously defended here by a trustee of the Northern California Carpenters pension trust fund, although he noted that Washington was not especially enthusiastic about the idea.

The official, John L. Griffin, told the National Foundation of Health, Welfare & Pension Plan's annual educational conference here that he endorsed the idea of building trades pension funds investing in mortgages for the two-fold purpose of high yield

"with safety" and the creation of jobs within the construction industry. Mr. Griffin is also exec vp of Alpha Land Co.

Mr. Griffin said that the carpenters pension fund has developed a method—the group mortgage trust—for channeling mortgage investments into a central pool "that has the potential of actually giving some stability to our mortgage market through systematic monthly contributions on a large scale."

NOTING THAT A little over \$6 billion is invested by pensions in mortgages (out of total pension assets of \$110 billion), Mr. Griffin admitted that mortgages have the disadvantage of a fixed return in a basically inflationary economy. Also, he said, they require advice and counsel not readily available from most investment counseling firms.

"But more important, they require a motivation other than just return on investment. We have that motivation in the pension funds of the construction industry: jobs."

Mr. Griffin pointed out that the construction industry in California is "far more important" than in many states, representing 13% of the building in the entire country. "We feel a strong case can be made for mortgage investments by some of the largest pension funds in our state," said Mr. Griffin, such as the California State Teachers Fund, the California State Employees Retirement System, the Pacific Gas & Electric fund and others.

MR. GRIFFIN'S own fund, the Northern California Carpenters pension, was one of the first to invest in conventional loan portfolios of savings and loan institutions "so that these associations could pump the money back into the industry." The fund was also "a leader," he said, in the investment of pension money in shopping centers.

The fund's \$23 million portfolio

additionally includes industrial buildings, apartment houses, convalescent homes "and even a blood bank," Mr. Griffin said.

"The results have been most gratifying. Yields have increased steadily from 5.5% to 6% to over 9% on today's wild market. But remember, in construction availability of funds is more important than rate and we have been steady monthly investors in mortgages when the banks and insurance companies have deserted the field," Mr. Griffin stated.

THE SYSTEM used by the carpenters fund in making mortgage investments "is not complicated," Mr. Griffin said. Loans are submitted to the fund's mortgage

consultant through normal channels—banks, mortgage companies, savings and loans, etc. "The loans are screened, measured against our rigid set of standards and if acceptable submitted to the investment committee for approval or disapproval."

It's not unusual, Mr. Griffin told the conference, for the investment committee to make loans of over \$6 million in a two-hour session. "Certainly, we do not feel safety has been sacrificed. Our total losses have not exceeded \$1,000 on this large portfolio," he said.

The "group trust" plan, as explained by Mr. Griffin, involves the pooling of pension fund in-

vestments by participating pension funds on a monthly basis. The pool is then invested quarterly in specific mortgages offering a specified rate of return, he said.

EVIDENCE of participation is a certificate issued to the pension fund participant, it was explained. Distribution of principal and interest is made as received to the certificate holder and the certificate returned to the group trust when the investment is liquidated.

"Obviously, in a fluctuating market the rate of return might vary from quarter to quarter with each new issuance of certificates,"

Continued on page 22

Banker gives arguments for, against investing in employers' securities

NEW YORK—A vp at Bank of America discussed the pros and cons of investing pension and profit sharing funds in employer securities at an educational conference of the National Foundation of Health, Welfare & Pension Plans here.

The meeting was attended by some 4,600 union and management pension and welfare trustees, plus assorted attorneys, actuaries and insurance people.

Bank of America executive Fred E. Seibert said one major argument against investing in employer securities is that it could lead to undue concentration of fund assets. "The participant's retirement security as well as his job security is put in jeopardy if the employer falls on hard times," he said.

ANOTHER REASON for avoiding the practice, he explained, is that the securities of some employers are not very marketable. "Those who pursue this argument say that although it is not im-

portant that the trust consists entirely of marketable investments a substantial number should be marketable and all segments with highly volatile market values should be readily marketable," Mr. Seibert noted.

The banker also warned that apart from the likelihood that trust holdings—if substantial—would constitute a large percentage of the outstanding stock, tending to reduce its marketability, "there may be a reluctance to sell the securities of a contributing employer on the basis of impartial investment considerations."

Another argument against the buying of employer securities is that a possible conflict of interest may arise, Mr. Seibert stated, whether potential or actual.

CALLING ATTENTION to the possibility of stock manipulation, he said this abuse could arise if the stock of a contributing employer were bought by a trust to support its price on the open market.

"In this way those who direct the investments could take the pension money and buy heavily to support the price of a weak stock. Executives with big portfolios who know of the weakness could then unload at the higher price. The losers would be the workers because the pension fund's cash is depleted and the stock generally is shaky," Mr. Seibert contended.

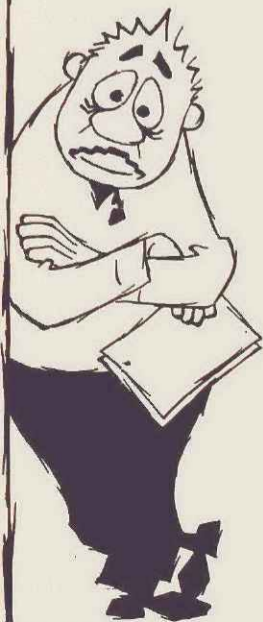
Proponents of investing in the industry represented by a fund, he said, begin their arguments by pointing out that such investments can give a fund "a greater stake in the over-all progress of contributing employers and the industry represented by the fund."

ALSO, BACKERS say, this form of investment provides capital for expanding companies which in turn preserves existing jobs and creates new jobs. "A further by-product is that in increasing employment in the industry, the membership rate increased. Continuous employ-

Continued on page 16

CARMICHAEL

SURE, THEIR PENSION PLAN IS GREAT--BUT WHO CAN LIVE TO 65 ON THE SALARY?



Eastman

Courts face problem of defining 'mob' violence in municipal liability cases

By JOHN W. GILES
Attorney-at-law

WASHINGTON—How much insurance does a municipality need to protect it against actions for injury to an individual by a mob? Is a municipality liable for such injuries under the common law?

It is fairly clear that unless there is a statutory provision respecting liability, there is no liability on the part of the municipality. The common law does not recognize any right of recovery.

But a number of states have enacted mob violence and anti-lynching statutes. These statutes have been held to be constitutional and a valid exercise of the police power. But they have been strictly construed with relation to the existing facts. Statutes relating to property damage do not encompass actions for injury or death and vice versa.

The difficult question for the courts is what constitutes a mob or a riot. Persons who originally come together for a lawful purpose have been held to be a mob, even though they originally intended no harm but had gathered together in good humor for amusement or sport, as celebrating a holiday. The courts have said that police officers who injure or kill someone in the course of their law enforcement do not constitute a mob.

What is the minimum number of persons necessary to form a mob within the view of the courts and these anti-mob statutes? Some statutes prescribe a minimum number of five persons. When the statute does not mention any minimum number, the courts have fixed on three persons. Respecting anti-lynching statutes, you must show an intent on the part of the mob to punish the victim; otherwise, you have no case. The courts have said that a municipality is liable for a death within its borders, inflicted by a mob from outside.

Can the victim of personal injuries inflicted in a city, sue either the city or the county under a mob violence statute which authorizes actions against the county or city in which the injury is inflicted? The answer in one case is "no." Only the city is liable for injury within the city limits. While there are many recorded suits against municipalities in this area, the recoveries do not, in our opinion, indicate the necessity of carrying a great amount of insurance to cover possible recoveries.

* * *

IF AN INSURED assigns his life insurance policies to his wife, who is the beneficiary, can the insured's judgment creditor attach the policies and compel the insurer to turn over its cash surrender value?

In the case a judgment creditor sought to compel the decedent insured's wife, who was his beneficiary, to surrender life insurance policies to the insurers for their cash value, and to turn over the proceeds to the judgment creditor.

The facts are slightly complicated. The aunt of the insured loaned him \$16,000, for which he executed a promissory note. This note was unpaid at the time of the death of the aunt. Her executor sued on the note and obtained a judgment of some \$20,000 against the judgment debtors.

Two of the policies, which had been assigned to the wife, named

her beneficiary and the other policy named the son of the insured as beneficiary. The \$20,000 judgment was not paid and the executor instituted an action seeking to satisfy the judgment out of the cash surrender values of the policies.

The wife now owned the policies and the question was whether those policies were exempt from attachment by reasons of Sections 166 of the Insurance Law of N.Y. Did these policies fall within the protection of the statute? Under Section 166 of the Insurance Law, prior to transfer, the proceeds of the policies would be exempt from

creditors of both the insured and his wife. She would have only the interest of a beneficiary.

The court said that the intention of the insured was that his wife should have the proceeds of the policies on his death and the act of assignment was in furtherance of that objective. She could be both owner and beneficiary of the policies. Section 166 of the law is an exemption statute, designed to aid in preserving the home and preventing pauperism. The assignments here did not defeat the purpose of the statute.

Kaufman v. New York Life Ins. Co. N.Y. Supreme Ct. App. Divi-

sion Tort Dept. April 17 1969.

* * *

YOU MAY HAVE been perplexed by the question of the right of a third person to recover contribution from a host driver for injuries or death of a guest, where the host is not liable to the guest under a guest statute.

There are not many decisions, but we would refer you to *Shonka v. Campbell*, in which the supreme court of Iowa has decided the question. (152 N.W. 2nd 242).

The court held that subjection of a host driver to liability by way of contribution for nothing more than negligence would by indirection compel the host driver to pay the guest in contravention of the guest statute which precluded recovery from the host driver unless he was guilty of intoxication or recklessness, and the host driver here was immune

from liability for contribution, since she had been neither intoxicated nor guilty of operating her automobile recklessly.

* * *

IF YOU ARE employed by a state university and slug your superior one day and attack the superintendent of plant services the next day, you cannot be fired unless you receive advance notice in writing with the opportunity to respond, either in writing or by an informal appearance.

This must be done, says the court in order to comply with the 14th Amendment. The plaintiff had been with the university 14 years and was 59 years old. The court thought his chances for reemployment elsewhere were minimal. (U.S.D.C. Minn. *Olson v. University of Minnesota Regents*. 7/25/69.)

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Bonding firms make deal to provide surety on goods crossing border

FORT WORTH, Tex.—A U. S. insurer based here and a Mexican bonding company based at Monterrey have entered into an agreement whereby surety bonds for goods exchanged between the two countries will be more readily available.

Millers Mutual Fire Insurance Co. and Fianzas Monterrey have agreed that residents of the U. S. needing a Mexican bond can apply to Millers, which then makes underwriting determinations for Fianzas, which issues the bond. The premium is paid to Millers and transferred to Fianzas. The same procedure is worked in the opposite direction for Mexican residents needing a U. S. bond.

Bill H. Martin, bond vp for

Millers, told *Business Insurance* that, at the moment, the two companies are deeply involved in the individual market for such trade but that "ultimately the corporate market will become extremely important as the exchange of goods increases."

TRADE BETWEEN the U. S. and Mexico is increasing, Mr. Martin said. A Federal program to create jobs, designated *Industrias Fronterizas*, has attracted many U. S. industries along the 2,000-mile border on the Mexican side, where labor is less costly and regulated.

The laws of Mexico and the U. S. regulating the flow of trade between the two countries are simi-

lar. The posting of a surety bond is required by the government of each country any time either an individual or corporation of the other country brings specified goods into the country of which they are not a citizen.

For example, Mr. Martin said that students who study in Mexico and want to bring a car or some property temporarily into Mexico must pay customs duty or post a surety bond.

Two commercial bonding transactions that the joint-bonding operation plans to market are supply bonds and bonds that guarantee the return of leased tools and equipment. Supply bonds guarantee the quantity, quality and date of delivery of goods.

Mr. Martin observed that the rating structures for bonds in the two countries are not analogous. Surety bonds in Mexico are always not less than 1% but may be greater according to the risk involved. U. S. surety bonds are rated by class, but Mr. Martin feels that a more ideal arrangement would be on a risk basis, as in Mexico.

Raytheon signs pact

Some 8,900 workers of the Raytheon Corp., Boston, have agreed on a new two-year contract providing for wages increase up to 50¢ an hour over two years plus improvements in sick leave, pension and accident and health insurance programs. The contract covers members of Local 1505, International Brotherhood of Electrical Workers at Raytheon plants in 12 Massachusetts cities. The pact is retroactive to Sept. 1.

Banker . . .

Continued from page 14

ment means continuous contributions to the pension fund and hence continuous accumulation of pension credits. It is self-perpetuating.

There is the further possibility, Mr. Seibert said, that "private placements" of contributing employers' securities could give the fund the chance to buy the securities at less than market price. A final argument, he said, is that if employer investments are denied to jointly trustee pension funds, it would eliminate "attractive investments" which could lower the potential for growth of the fund.

In summary, Mr. Seibert said trustees should decide whether to invest in the securities of contributing employers on the basis of what's in the best interest of the fund. "If these forms of investments are marketable, provide desired diversification and will not adversely affect the investment performance of a fund, they should be considered," he said.

letters

Continued from page 12

advertising agencies, against large unexpected commercial credit losses. ACI does not write credit life insurance.

I am disappointed to see that you confuse the two in your headline and would appreciate it if you would take care to make this distinction in your future stories. This would help educate people in the trade and would tend to reduce such confusion which appears to be fairly common.

A. A. Dilworth
American Credit Indemnity Co., Baltimore, Md.

More information

To the Editor: Mr. Herbert Hauth's letter to the Editor, inquiring as to the address of Edward B. Howell (not Howard) was only partially answered.

Edward B. Howell is the president of Risk Analysis and Research Corporation, located at One Maritime Plaza, San Francisco, Cal. 94111. His telephone is 415-433-1676. R.A.R. is a subsidiary of Alexander & Alexander specializing in professional liability risk management problems. As such, it has been retained by the Consulting Engineers Council in California to develop a new insurance company, the Design Professional Insurance Co.

H. Felix Kloman
Assistant Vice President, Alexander & Alexander, New York, N.Y.

'Thought provoking'

To the Editor: Just a few lines to let you know that while *Business Insurance* has been arriving late it is worth waiting for.

Your thought provoking articles are invaluable in helping the average risk manager to keep attuned to all areas of exposure, and isn't that what insurance is all about?

J. R. Gullo
VP and Director of Insurance, The Overmyer Co., New York

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To the Editor: I find *Business Insurance* informative and I enjoy its reporting of current news items.

W. H. Miller Jr.
Owner, W. H. Miller Co., Southfield, Mich.

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Insurer acted in bad faith by not negotiating lower payment: court

NEW YORK—The owners of a bankrupt laundromat have been awarded \$70,330 by the U.S. court of appeals here, which ruled that an insurance company had acted in bad faith by not telling them about a settlement offer in a negligence case—even though the offer was above the policy limits.

The insurer, American Casualty Co., Reading, Pa., was ordered to pay the sum (which will become an asset of the owners' bankrupt estate and most of it paid out to the injured party) for not fully advising the policyholders of a \$40,000 settlement offer. American Casualty unilaterally rejected the offer from the plaintiff's attorney and allowed the case to go to trial.

Another issue is whether American Casualty should be held liable for the entire amount of the award to Miss Margaret Flynn, 59, who slipped and fell on the wet floor of the laundromat and sustained severe injuries. Miss Flynn, in a suit filed in the New York supreme court, alleged negligence. She was subsequently awarded a judgment of \$90,330.25.

THE INSURER paid \$20,000 of the award—the amount of liability coverage taken out by the two owners of the York Laundromat, Robert S. Quigley and Billy B. Walker. An excess judgment for the rest, \$70,330, was entered against Messrs. Quigley and Walker, but because they couldn't come up with the full amount, the men filed voluntary bankruptcy petitions.

Because the laundromat owners are in bankruptcy and the Flynn judgment has been cancelled of record (in accordance with the New York Debtor and Creditor Law), American Casualty contended that the limit of its liability should not exceed \$7,278.61—the amount actually paid by the insureds to Miss Flynn.

Chief Judge J. Edward Lumbard, in a 2 to 1 decision, dismissed this part of American Casualty's argument. Judge Lumbard, quoting from a decision he wrote in *Harris v. Standard Accident & Insurance Co.*, stated that "the only way to make the insured whole, i.e., to place him in a position where his net assets are as great after as before payment of the excess judgment, would be to allow him to recover the entire amount of that judgment."

TAKING UP the issue of bad faith, Judge Lumbard contended that "where an insurer receives an offer of settlement in excess of coverage of its policy, it acts in bad faith if it fails to make any attempt to engage the plaintiff's counsel in discussions seeking a reduction in the initial settlement demand and if it fails to inform its insured of the opportunity to settle."

"The initial demand of plaintiff's counsel often will be as far removed from the actual figure acceptable in settlement as the *ad damnum* in the complaint is removed from the initial settlement demand, especially in a personal injury action. It is a matter of common knowledge that it is a rare case where exploration of the possibilities of settlement, beyond the mere receipt of the plaintiff's demand, will not result in some substantial reduction of the amount."

Salmon joins Harlan

Larmon Salmon, formerly a vp of Marsh & McLennan in New Orleans, has joined Harlan Insurance, Houston, as a partner and senior underwriter.

In a dissent, Judge Inzer B. Wyatt asserted that when the carrier "wrongfully refuses to defend against the claim and a judgment is taken against the insured for an amount in excess of the policy limit, the carrier is liable if, but only if, there had been an offer of settlement within the policy limit and a refusal by the carrier."

BUT JUDGE WYATT said "there was no evidence that the Flynn claim could have been settled for any amount except (possibly) \$40,000 (as against a policy limit of \$20,000). The only evidence submitted for plaintiffs were writings of the carrier showing that at or just before the

commencement of trial of the Flynn claim, her lawyer made a 'demand' for \$40,000 and the carrier made no counter offer.

"In my view, therefore, the plaintiffs failed to prove a case and a verdict for defendant should have been directed," Judge Wyatt said.

"Whether my view that there was a failure of proof by plaintiffs be correct or not, it was plainly for the jury to decide, under proper instructions, whether or not the Flynn claim could have been settled for \$20,000. The issue was not submitted to the jury, however, but was decided by the trial court. This to me seems error."

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Kennedy . . .

Continued from page 1

THE DRAMA BEGAN April 26, 1967, when Great Lakes purchased a life insurance policy on Mrs. Patricia C. Skakel. The year before Mrs. Skakel had inherited 4.5% of the company's stock when her husband, George C. Skakel Jr., a brother of Ethel Kennedy, was killed in a plane crash.

The policy, in the amount of \$800,000, was written by Citizens and two of its reinsurers, Business Men's Assurance Co. of America and Connecticut General Life Insurance Co. It was delivered to Great Lakes May 12, 1967, shortly after the New York-based company paid the first year's premium of \$28,000.

Six days later—May 18, 1967

—Mrs. Skakel died in her Greenwich, Conn., home after choking on steak that lodged in her windpipe during dinner. She was 39 years old.

GREAT LAKES Carbon filed a suit against Citizens Life in November, 1967, claiming that the insurance company had not made good on its policy. In its answer to the complaint filed in supreme court, County of New York, Citizens Life contended, among other defenses, that the policy was not in effect at the time of death because (1) Mrs. Skakel did not make full disclosure of her physical condition in her application for the policy, and (2) that Great Lakes Carbon had no insurable interest in the life of Mrs. Skakel since the 4.5% of stock she held would not affect the ownership of the family-owned company.

The case swung back and forth in legal limbo for more than a

year after its initiation. Then, in mid-February of this year, it finally came to trial in the New York courts. However, after a six-and-a-half day trial, a mistrial was declared when the jury could not reach a verdict.

DURING THE COURSE of the trial a major revelation was made by Great Lakes Carbon's attorneys, White & Cass, during the examination of Citizens Life's general counsel, Jules B. Levine.

Mr. Levine admitted under oath that he had reviewed the Citizens Life underwriting file on Mrs. Skakel and had received the report of a private investigator of her health, habits and circumstances of her death.

Mr. Levine further admitted that, on the basis of that review, he recommended to the reinsurers that they pay the plaintiff's claim because no facts were discovered by Citizens during its investiga-

tion subsequent to Mrs. Skakel's death that were not known before the policy was issued. Mr. Levine told the court that one of the reinsurers, Connecticut General, had either agreed to or actually paid Citizens on the policy, but that Business Men's Assurance had not.

IT WAS AT THAT point Mr. Levine revealed that he met with the president and general counsel of Business Men's in Kansas City in September, 1967, where it was decided to reject Great Lakes' claim on the basis of the belief that the company would be "coerced" to accept less than the amount owed because of the fear of its principal shareholders, including Mrs. Ethel Kennedy, of the injurious publicity, which might result from litigation.

At the time, Mrs. Kennedy's late husband, Sen. Robert F. Kennedy, was being mentioned as a

possible candidate for the Democratic Presidential nomination, although he had not yet announced his intention to run.

In an affidavit filed in support of amending the complaint, John M. Johnston, a member of the White & Case law firm, who prosecuted the case for Great Lakes Carbon, said that the company "intends to prove upon the second trial that the defendant is guilty of reprehensible, unconscionable and morally culpable conduct in that defendant refused to honor plaintiff's just claim and in its answer asserted knowingly false defenses in order to induce plaintiff to accept less than the face amount of the policy for fear of publicity injurious to its shareholders; such conduct is a violation of law."

MR. JOHNSTON also asserted that "after learning the facts . . . and undertaking further factual and legal research plaintiff submits that the ends of justice, not only for the plaintiff here, but also for the insurance buying community at large, will be served by granting leave to amend the complaint." In amending the complaint, Great Lakes' attorney sought exemplary damages in the amount of \$800,000 as well.

The second trial never got under way, nor did Great Lakes press for exemplary damages. Both parties instead agreed to a settlement late in May, with Citizens Life paying \$700,000 of the original policy's face value of \$800,000.

THE SETTLEMENT came at a time when the defense seemed to be losing ground in its case, according to sources close to the legal action, and after Citizens Life had amended its defensive tack. Early in the legal proceedings, the insurance company had depended heavily on alleged misrepresentations Mrs. Skakel made on her application for the policy, and contended that between the time she signed the application and the date it was issued she had in fact spent two weeks in Greenwich Hospital "being treated for a chronic, incurable and terminal disease."

In her application for the policy dated March 15, 1967, about two months before her death, Mrs. Skakel answered several questions either incorrectly or incompletely, the defense contended in its answer to Great Lakes Carbon's original complaint.

During the course of the trial it was brought out that Citizens did have some knowledge of Mrs. Skakel's physical condition and habits before the firm issued the policy and had in fact rated the premium upward to compensate for the substandard risk. Normally the annual premium would have been \$20,000 on the \$800,000 policy. However, an extra premium of \$10 per \$1,000 was added because of Mrs. Skakel's medical history.

IT WAS ALSO revealed during the trial that applications for insurance on Mrs. Skakel had previously been turned down by at least two other insurance companies, Massachusetts Mutual and Lincoln National. The Massachusetts Mutual agent who sought to write the policy was Thomas Corroon, a brother of Mrs. Skakel. When he could not get the policy on his sister's life, Mr. Corroon and Merton Custer, a sub-agent for Great Lakes Carbon, sought other companies to write the policy and eventually succeeded in having it underwritten by Citizens. Both, according to legal documents, received a commission for having the policy written.

Originally, the law firm of Feuerstein & Underweiser had defended the case for Citizens, but in December, 1968, they were replaced by the Nixon firm.

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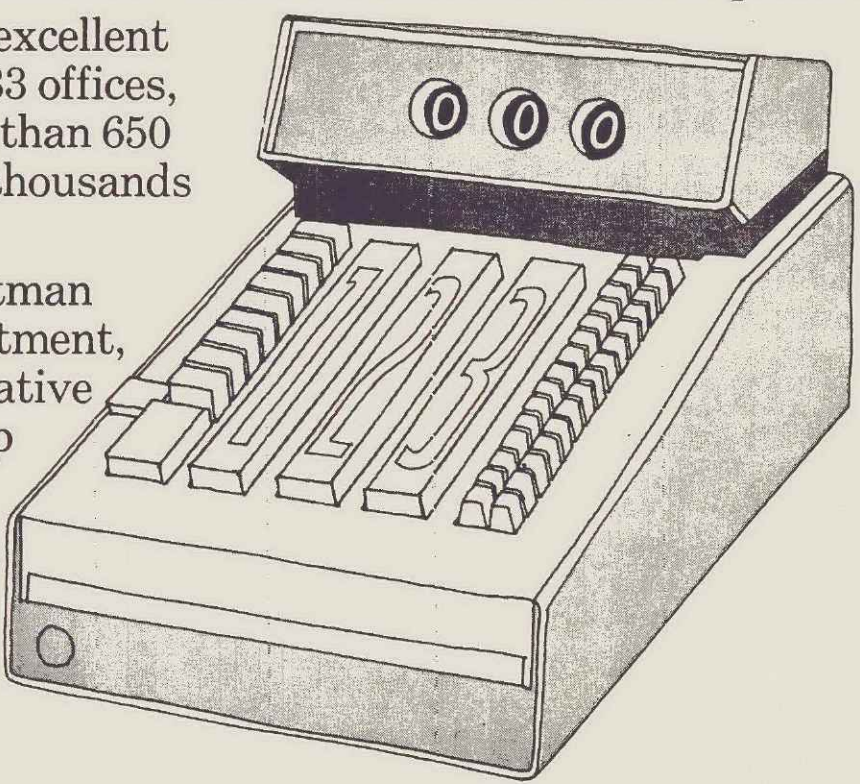
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D&O, SEC liability covers unaffected by ruling

NEW YORK—Legal experts think a decision denying a stock underwriter indemnity from the issuer of the stock will have little if any effect on the validity of either directors and officers liability or Securities & Exchange Commission liability coverages.

Alfred S. Julien, attorney for Defendant Law Research Service Inc., told *Business Insurance* that "I have a feeling no part of this decision will ever be extended to invalidate any insurance." Mr. Julien explained that courts have distinguished between indemnity from the issuer of stock and indemnity from an insurer. "The problem of insurance is separate and distinct," according to Mr. Julien.

Elten Diehlmann, assistant secretary of Johnson & Higgins, agreed with Mr. Julien's assessment. As long as the indemnity comes from a "separate and distinct fund," such as from an insurer, and not from the corporation, Mr. Diehlmann said, a company is on safe ground.

"AT MOST, this case might be used as a springboard to say that it might be safer to have officers and directors pay a part of the premiums" for d&o insurance, Mr. Diehlman stated. In this way, the indemnity would be coming from the insurer and not the corporation.

The case involved, in addition to the indemnification question, at least one other issue of "great importance," in the words of the U.S. court of appeals decision—whether punitive damages are available in private actions based on the Securities Act of 1933.

The ruling, written by Judge Irving R. Kaufman, held that punitive damages may not be recovered and that a stock underwriter can't be indemnified by a corporation in such cases.

The plaintiffs, stockholders in Law Research Services, initiated the action against LRS, its president, Elias C. Hoppenfeld and the underwriter of the firm's public stock offering, Blair & Co., Granberry Marache. They contended that the defendants issued a misleading prospectus in connection with LRS's offer to sell 100,000 shares of its stock.

THE PROSPECTUS, they charged, prominently featured an "attractive" contract between LRS and Sperry Rand Corp., but failed to mention a dispute between the two companies that had led Sperry Rand to curtail some of its services to LRS and in turn caused LRS to file suit against Sperry Rand.

A district court jury returned a verdict in favor of Blair, LRS and Mr. Hoppenfeld on the common law fraud claim but also decided that all three had violated both the Securities Act of 1933 and the

Securities Exchange Act of 1934. The jury awarded compensatory damages to all plaintiffs totaling \$32,591 and punitive damages against Mr. Hoppenfeld of \$26,812 and Blair of \$13,000.

Taking up the question of punitive damages, the court stated that "against any marginal deterrent which may result from adding the weapon of punitive damages to this already well-stocked arsenal, we must weigh the potentially awesome injuries that such damages may impose."

If all parties who read the misstatements in the prospectus are "permitted to recover not only compensatory damage but 'smart money' as well, the sum of the liabilities could well bankrupt an otherwise honest underwriter or issuer who egregiously erred in one instance which affected many," the court stated.

IN A FOOTNOTE to the decision, Judge Kaufman worried about the possible affects of "over-kill" that punitive damages might

have.

Turning to the problem of indemnification, Judge Kaufman wrote that although the 1933 Act doesn't deal expressly with the question, "provisions in the Act confirm our conclusion that Blair should not be entitled to indemnity from LRS."

The SEC, said the court, has announced its view that indemnification of directors, officers and controlling persons for liabilities arising under the 1933 Act is against the public policy of the

Act. "If we follow the syllogism through to its conclusion, underwriters should be treated equally with controlling persons and hence prohibited from obtaining indemnification from the issuer."

The court asserted that underwriters "who knew they could be indemnified simply by showing that the issuer was 'more liable' than they (a process not too difficult when the issuer is inevitably closer to the facts) would have a tendency to be lax in their independent investigations."



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LONDON—Underwriters have been hit with marine loss of \$3.6 million.

The Paraguay Star, which was completely destroyed by fire in London docks early on the morning of Aug. 13, was insured by Albion Insurance for that amount.

The 10,722-ton refrigeration ship belonged to the Blue Star Line, which insures its entire fleet with Albion for over \$1.2 billion. A spokesman for the company said that most of the \$1.5 million loss is reinsured with Lloyd's and other insurance companies.

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Legs-and what comes with them-well insured

LONDON—Insuring beauty queens' legs has its natural hazards. But to one major London insurance group, which has covered balloonists and other unusual risks in its time, it presents no problems.

When Du Pont UK Ltd., a subsidiary of the big American industrial combine, asked for a \$1 million cover on stocking contest winner Lynda Goldstraw, the Sun Alliance group came up with the answer.

It provided protection for the remarkably small premium of \$1,200 up to a maximum sum of \$1.2 million for the next 12 months for all her travels in Britain and Europe. She had won a contest for the prettiest legs in Britain.

THE RATE WAS based on the normal personal accident risk policy for any British citizen, equal to 2.5¢ per \$100, but was uplifted to four times this rate, 10¢ per \$100, for the special risks and exceptional cover required.

So attractive Lynda Goldstraw, a Birmingham (England) secretary, became known as the girl with the million-dollar legs, and Du Pont cashed in on the attendant publicity for its sales campaign for nylon stockings made from its trade-named Cantrece fibre.

H. E. C. Grosstephan, personal accident underwriter for Sun Alliance, explained how the rate was arrived at, after emphasizing that although his firm was the leading risk carrier, it had shared the risk in the end with three other British companies, Commercial Union, Guardian, and Norwich Union.

Each accepted 25% of the risk liability for bodily injury to Lynda, causing amputation of either one or both of the stocking contest winner's legs.

MR. GROSSTEPHAN said: "We have insured beauty queens in the past, but only for normal personal liability, and not for a special risk like this. We felt it essential to load the normal premium by a high percentage because we were dealing with a target risk. This girl might get injured in crowds trampling round her, or by other people because she was the center of attention. We also had to take into account the large cover required. We are not hidebound in our approach, and that is probably why we were asked to accept the insurance in the first place. We worked out the rate on a purely business basis."

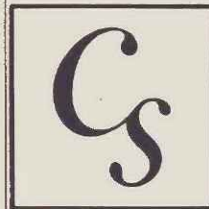
But exemption conditions imposed in the contract are that Lynda must not engage in hazardous sports, including aqualung diving, boxing, climbing, flying (except air travel), football, hunting, ice hockey, motor racing, polo, power boat racing, show jumping, water-ski jumping tricks, and wrestling.

Mr. Grosstephan said: "These are the usual exceptions in our personal accident policies, and so we included them, though we don't expect Lynda to take up anything as unusual as football or boxing."

Business considerations entered into the insurance, since the purpose of the contract is also to protect the firm against the contingency of losing the girl's services in an extensive sales promotion campaign which will tie in with her personal appearances.



Lynda Goldstraw displays her million-dollar legs. —Wide World photo



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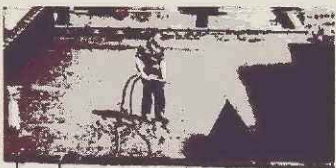
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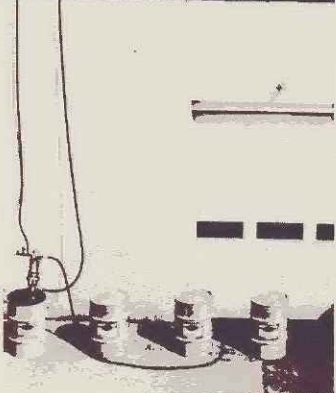


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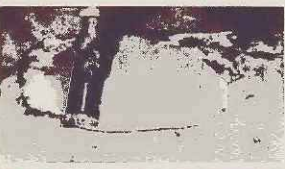
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Risk rates hiked for N. Ireland

BELFAST—The British insurance market reevaluated its risk rates on goods and cargoes moving in this riot-ridden area of Northern Ireland and upped them.

The new strike, riot and civil commotion risk rate on all goods moving in the interior has been raised by as much as 60¢ per \$240 of valuation, according to reports received by *Business Insurance*. The new rates apply to goods going by air, water or land and have been imposed as well on postal insurance.

The British Insurance Assn. has not yet been able to give an accurate estimate of insured damage caused by the riots. However, most insurers have always been very cautious in their attitude toward riot insurance in Northern Ireland. The normal household policies there, sources say, specifically exclude this particular risk.

On commercial buildings British insurers have taken more of a beating from the riots. For riot coverage is more readily available to businesses. But it's said most of the new factory developments are outside urban areas.

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benefit tax slants

State law limitations can reduce tax break on group insurance rates

By JOSEPH S. ROBINSON

NEW YORK—The group life insurance tax break can be cut down by state limitations. So says the Internal Revenue Service. Here's the story.

The Federal tax rules allow companies to buy up to \$50,000 of group term protection for employees on a tax-free basis. In other words, only the cost of coverage over \$50,000 is taxed to the employee.

But what if a state law limits employe group insurance—say to \$30,000? Is the amount of coverage above the \$30,000 ceiling taxable compensation to the employe? Yes, says the IRS. But it's also important to know which state law applies in any particular situation. Reason: IRS has ruled that the law of the applicable jurisdiction—i.e., the state whose laws govern the controls and conditions.

FOR INSTANCE:

A corporation was formed in State A but had its home office in State B. The company purchased a group term policy from an insurance carrier licensed to do business in State C. The maximum cover-

age per employe was \$40,000—the highest allowable group coverage permitted by State C.

Held: Since the terms and conditions of the group policy were governed by State C's laws, the cost of coverage up to \$40,000 was tax exempt to the employes. What's more, it matters not that State A (where the employer was incorporated) permitted only \$30,000 maximum coverage.

We might add this footnote. Any state in which an employe is free to buy a group policy would seem to be an "applicable jurisdic-

tion." Usually, this means any state in which the employer has an office. (See Rev. Rul. 69-423).

* * *

MAJOR LEAGUE club owners have put together a package of extra benefits for ballplayers and their families.

A player must be on the roster of a club for at least 60 days in order to participate in the health plan. If he serves four years in the majors, he qualifies for retirement benefits.

The following summarizes the current benefit program awarded the players.

Pensions: A participant—starting at age 50—can receive \$60 a month for each year of major league service up to ten years and there's an extra \$20 a month for each additional year through the twentieth.

FOR EXAMPLE, a man who played for eight years in the majors would receive \$480 a month starting at age 50; a 10 year man would get \$600 a month and a fifteen year veteran could look forward to \$700 each month.

Disability: If a ballplayer is put out of action due to injury or illness, he can pick up as much as \$700 a month in disability income. The amount was formerly \$500 a month.

Major medical plan: The health plan not only covers the players but includes wives and dependent children up to age 19—to age 23 if

full-time students. The plan covers all types of medical care including nurses, prescription drugs and ambulance service. A new feature is the comprehensive dental care coverage for both players and their families.

There is a ceiling of \$25,000 in benefits on an 80%-20% co-insurance basis subject to a \$50 deductible. However, the deductible does not apply to hospital, maternity or surgical expenses.

Maternity costs are fully paid for up to \$500. Above that, 80% of expenses are covered for the next \$250. In other words, maternity expenses in excess of \$750 must be borne by the players themselves.

At retirement, the health insurance plan is suspended. But a participant can elect to continue the coverage by assuming payment of the premiums, and he gets the same group rate that applied while he was an active player.

Giles ...

Continued from page 15

Did this employe have a constitutional right to slug his superiors? If he did, we do not know about it.

* * *

IF YOU ARE insuring your citrus crop and you underestimate its size, should you bear a portion of the loss if it is later destroyed by a hurricane?

At the time the insured applied for insurance, he had not estimated the value of the crop. Understanding that by the terms of the co-insurance clause he was required to cover 80% of the value of the crop, he was aware of the problem of determining how much the insurance coverage should be.

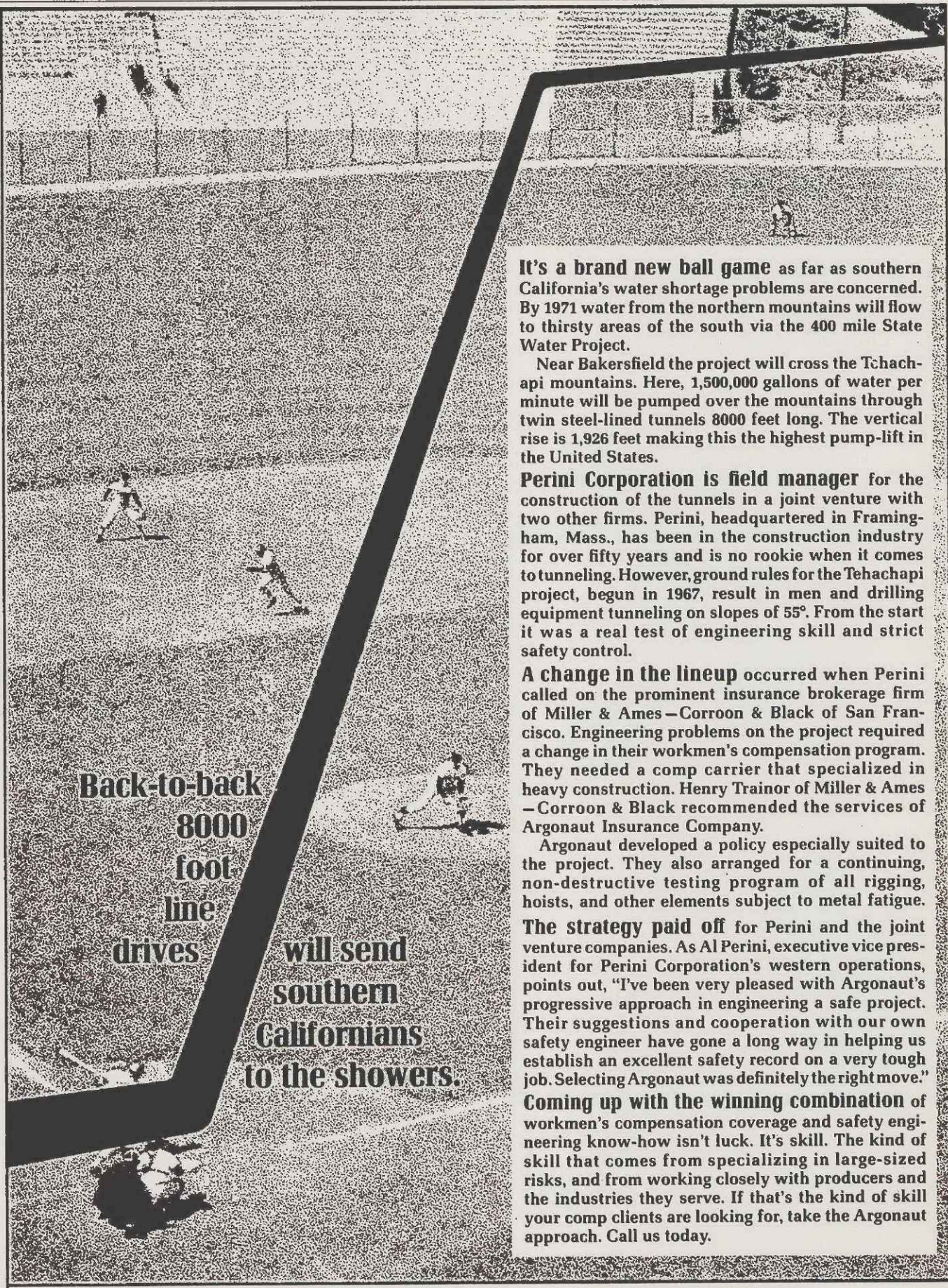
The insurance agent, wishing to bind the coverage, suggested that the size of the previous year's crop be used as a temporary estimate. Then coverage could be bound, and after a subsequent survey of the grove to determine the potential of the current crop, the premium could be adjusted accordingly.

The production of the previous year had amounted to 49,967 boxes—and at a valuation of \$1.75 per box, an adjusted figure of \$69,953.80 was agreed on. The coverage was written on this figure.

Twelve days after the policy was written, a hurricane caused considerable damage to the crop. The loss was estimated at between 40,000 and 50,000 boxes. The insurance company claimed the lower figure and the insured the higher figure.

Unimark formed

Charles Terrell, chairman, and Max Unimark, president, have formed Unimark Inc., Dallas, a general insurance agency to serve commercial businesses and associations. Messrs. Christian and Terrell were formerly with Blue Cross-Blue Shield of Dallas.



**Back-to-back
8000
foot-
line
drives**

**will send
southern
Californians
to the showers.**

It's a brand new ball game as far as southern California's water shortage problems are concerned. By 1971 water from the northern mountains will flow to thirsty areas of the south via the 400 mile State Water Project.

Near Bakersfield the project will cross the Tehachapi mountains. Here, 1,500,000 gallons of water per minute will be pumped over the mountains through twin steel-lined tunnels 8000 feet long. The vertical rise is 1,926 feet making this the highest pump-lift in the United States.

Perini Corporation is field manager for the construction of the tunnels in a joint venture with two other firms. Perini, headquartered in Framingham, Mass., has been in the construction industry for over fifty years and is no rookie when it comes to tunneling. However, ground rules for the Tehachapi project, begun in 1967, result in men and drilling equipment tunneling on slopes of 55°. From the start it was a real test of engineering skill and strict safety control.

A change in the lineup occurred when Perini called on the prominent insurance brokerage firm of Miller & Ames—Corroon & Black of San Francisco. Engineering problems on the project required a change in their workmen's compensation program. They needed a comp carrier that specialized in heavy construction. Henry Trainor of Miller & Ames—Corroon & Black recommended the services of Argonaut Insurance Company.

Argonaut developed a policy especially suited to the project. They also arranged for a continuing, non-destructive testing program of all rigging, hoists, and other elements subject to metal fatigue.

The strategy paid off for Perini and the joint venture companies. As Al Perini, executive vice president for Perini Corporation's western operations, points out, "I've been very pleased with Argonaut's progressive approach in engineering a safe project. Their suggestions and cooperation with our own safety engineer have gone a long way in helping us establish an excellent safety record on a very tough job. Selecting Argonaut was definitely the right move."

Coming up with the winning combination of workmen's compensation coverage and safety engineering know-how isn't luck. It's skill. The kind of skill that comes from specializing in large-sized risks, and from working closely with producers and the industries they serve. If that's the kind of skill your comp clients are looking for, take the Argonaut approach. Call us today.

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than you do about workmen's compensation coverage in Texas. Not a highly publicized subject, maybe, but it could have important implications for your company. May we tell you what they are?



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British insurers worry as home fires burn

LONDON—Insurance firms in Britain have become alarmed because the country's fire loss damage has soared so high that it now tops \$150 million for the first half of the current year. This is the worst loss ever recorded by the British Insurance Association, which points out that it represents material liability claims, but does not take into account loss of exports and disruption of business.

The figures had spiraled last year to \$250 million for the full twelve months. Analysts predict that if the present dangerous trend continues, Britain will lose more than \$600 million annually through fire losses within the next ten years.

So as to combat this trend, the Fire Protection Association in London has founded a new centre for information on safety factors to which all firms can turn at any time.

NATIONAL FIRE chief H. M. Smith warns: "The increasing annual incidence of fire loss has become almost an expected feature of industrial, commercial and social life."

Hospitals have been ordered to make an immediate review of

Trustee...

Continued from page 14
Mr. Griffin said.

The pension fund trustee said that "we are almost ready to seek partners for this venture." He added that the carpenters fund's board of trustees has okayed a monthly commitment of \$500,000 for the project.

MR. GRIFFIN said the group trust idea, while it "in no way can be presented as the answer to pension fund investment," is nevertheless "a very safe and profitable means of promoting our industry. Perhaps 30% of the total assets of any fund would be the maximum investment allowed."

Mr. Griffin contended that through the group trust "it would be possible to create a source of \$100 million per year from the construction trades pension funds alone. If the teachers, the state employes and some large corporations also join the group, then the potential is truly tremendous.

"In 1968 the savings and loans in California invested a little over \$600 million in new single family construction. If we can aid that effort through a steady source of regularly invested funds, we might be able to avoid the violent ups and downs of the past years," Mr. Griffin said.

HE CALLED attention, however, to what he termed "a large cloud on the horizon." Rep. John H. Dent (D., Pa.) has introduced two bills in the House and Sen. Jacob Javits (R., N.Y.) has introduced a similar bill in the Senate which would forbid the investment of pension fund money directly or indirectly to a contributing employer.

"Obviously," said Mr. Griffin, "it is almost impossible to make a mortgage loan in the State of California that does not in some way involve a contributing employer."

The government, he maintained, "in its own inimitable style is eliminating mortgage investments for construction trades pension funds. In the Dent and Javits bills, parochialism is no longer a matter of discussion, it is against the law.

"We can understand the government's concern about an industry that has reached the size of the pension industry. It is inconceivable that they won't control our activities in one way or another before much longer. However, the two bills outlined above go too far in that they try to solve all the problems that arose in the Studebaker case by painting the entire pension industry with a black brush," Mr. Griffin stated.

their safety precautions so as to protect their patients better.

DEPARTMENT stores and small shops in a country town in Surrey (England) have been advised to combat fraud by asking new customers for their fingerprints.

Police chiefs in the town suggested this scheme after a spate of "bounced cheques" had hit the local businessmen.

Tradesmen were urged to get doubtful customers to put their fingerprints on a piece of glass or shiny material so that police could check suspect deals.

NEW AIDS to safe landing at fog-hit airports are being studied in London by Plessey Radar, which is researching on the use of laser radar (LIDAR) as part of automatic landing procedures.

The aim is to design instruments that will best evaluate changes in visibility on runways that are affected by sudden "patchy" fogs.

INTERNATIONAL lawyers were urged in London that bugging of private conversations should be made a penal offence, and businessmen who suffer loss through the use of illicitly obtained material ought to be able to claim damages through the courts.

The lawyers made their demands at a conference of six hundred delegates from thirty-three countries to the International Association of Lawyers.

They also reviewed the problem of information about business employes being stored in a computer, and suggested it should be subject to special rules of secrecy, while the employe should have the statutory right to have any erroneous details corrected.

AIRCRAFT rescue services at British airports may be reviewed after a government probe into an emergency landing by a plane of British Overseas Airways Corp. last year.

Most passengers escaped when the captain brought down the plane, a Boeing 707, at London's Heathrow airport after one engine failed.

But five people were trapped in the plane when it burst into flames after landing. The safety plans for dealing with big jets when they come into trans-Atlantic service will be analyzed in the light of the inquiry into this disaster, when the official report is released this fall.

Met writes key man

Metropolitan Life Insurance Co. New York has issued a \$500,000 key man life policy to Moody Enterprises on golf star Orville Moody.

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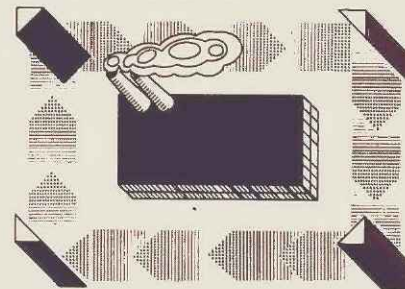
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Travelers challenges Connecticut on mass merchandising measure

By ALLEN M. WIDEM

HARTFORD—The Travelers Insurance Cos. have started a statewide program to mass merchandise group automobile insurance, with an estimated 15% reduction in premiums, in effect challenging a new Connecticut law designed to block effective development of mass merchandising.

Travelers agents across the state have been authorized to start selling all personal lines of insurance to factory workers, labor unions, professional organizations and other groups seeking savings of mass merchandised insurance.

The personal lines include coverage for automobile, individual life and health, homeowners and others, the savings on marketing costs and premium collections through payroll deductions to be passed on to the group.

IT IS NOTED that if the Travelers is successful in bypassing the new law, the independent and mutual insurance agents will be out-paced in their own endeavor.

The independent Mutual Agents Assn. of New England, which deals in mutual insurance company lines, and the Connecticut Assn. of Independent Insurance Agents, which deals in investor-owned company lines, proceeded to lobby for passage of a state legislature measure that would markedly restrict Connecticut mass merchandising.

The new law, primarily aimed to prevent so-called mass merchandising abuses, explicitly says that no group smaller than 700 may participate in mass merchandising insurance programs—in effect ruling out hundreds of small companies otherwise probably willing to offer mass merchandising insurance as a fringe benefit.

It is also explicit in saying that a mass merchandised group program can not be in force unless 70% of its members are listed as participants.

AS REPORTED during the last legislative session in *Business Insurance*, spokesmen for major insurance firms contended that no sales effort could reasonably assure 70% participation, particularly in the light of the very newness of mass merchandising.

Another requirement spelled out in the bill is insurance compa-

ny provision of a unified rate for all participants in a group, despite involved higher or lower risks.

It was argued during legislative public hearings by insurance industry spokesmen that this would serve to wipe out the implied savings of mass merchandising and would attract high-risk people, thus forcing up premiums. Low-risk members of a group, it was further charged, would find no advantage in the group plan and take their business to the independent or mutual agent. The latter feared that mass merchandising would jeopardize their business.

The industry spokesmen commented that only by charging individual rates—based on liability

—could mass merchandising become effective.

A TRAVELERS spokesman told *Business Insurance* that its legal department has now interpreted the state law as not applicable to the Travelers-designed mass merchandising plan.

Moreover, the company, in a letter to state insurance commissioner William R. Cotter, remarked that state public act 823 (the mass merchandising law) defines "group insurance" in a way markedly different from what is proposed by Travelers.

The letter said, too: "The act defines this as 'the marketing of group fire and casualty insurance by a licensed insurer engaged in

insuring independent risks for an eligible group on a guaranteed basis under a single insurance program without individual underwriting selection or individual proof of insurability.'

"Our program is not group insurance within that definition. We are not offering uniform insurance coverage at a uniform rate to all members of a group.

"EACH POLICY is individually purchased with the scope of coverage which fits the policyholders' needs and is individually underwritten and rated.

"Similar to the plans described in the Jan. 21, 1969, opinion of the (state) attorney general's office, our program is 'an individual automobile insurance plan utilizing mass marketing as a new technique for the sale and solicitation of individual automobile (and homeowners) insurance policies.

"Such plans were ruled valid by this opinion and do not rely

upon public act 823 for their validity."

The state law defines mass merchandised insurance, the Travelers says, as a program applying to groups no smaller than 700 and with minimum participation of 70%.

"Under our type of program," the letter continues, "where each risk is individually underwritten and rated, there is no legitimate distinction between a group of 400, 500, or 600 employees and one of 700, or between 40%, 50%, or 60% participation, and the 70%, which the act calls for.

"The expense savings which can be developed by mass merchandising are in no way dependent upon such arbitrary standards. Consequently, a denial of the benefits to groups which do not meet the statutory criteria would be a capricious distinction between groups of varying sizes where size is not a material factor."

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is
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Set top rate for credit life lines in Idaho

BOISE—The Idaho insurance department has moved to curb alleged "excess profits" in credit life and disability lines in the state through establishment of a maximum rate of 60¢ annually for each \$100 of indebtedness, effective Oct. 1.

Insurance Commissioner John R. Blaine said investigation showed at least one insurance company was charging at a rate of \$1.50 annually for each \$100 owed.

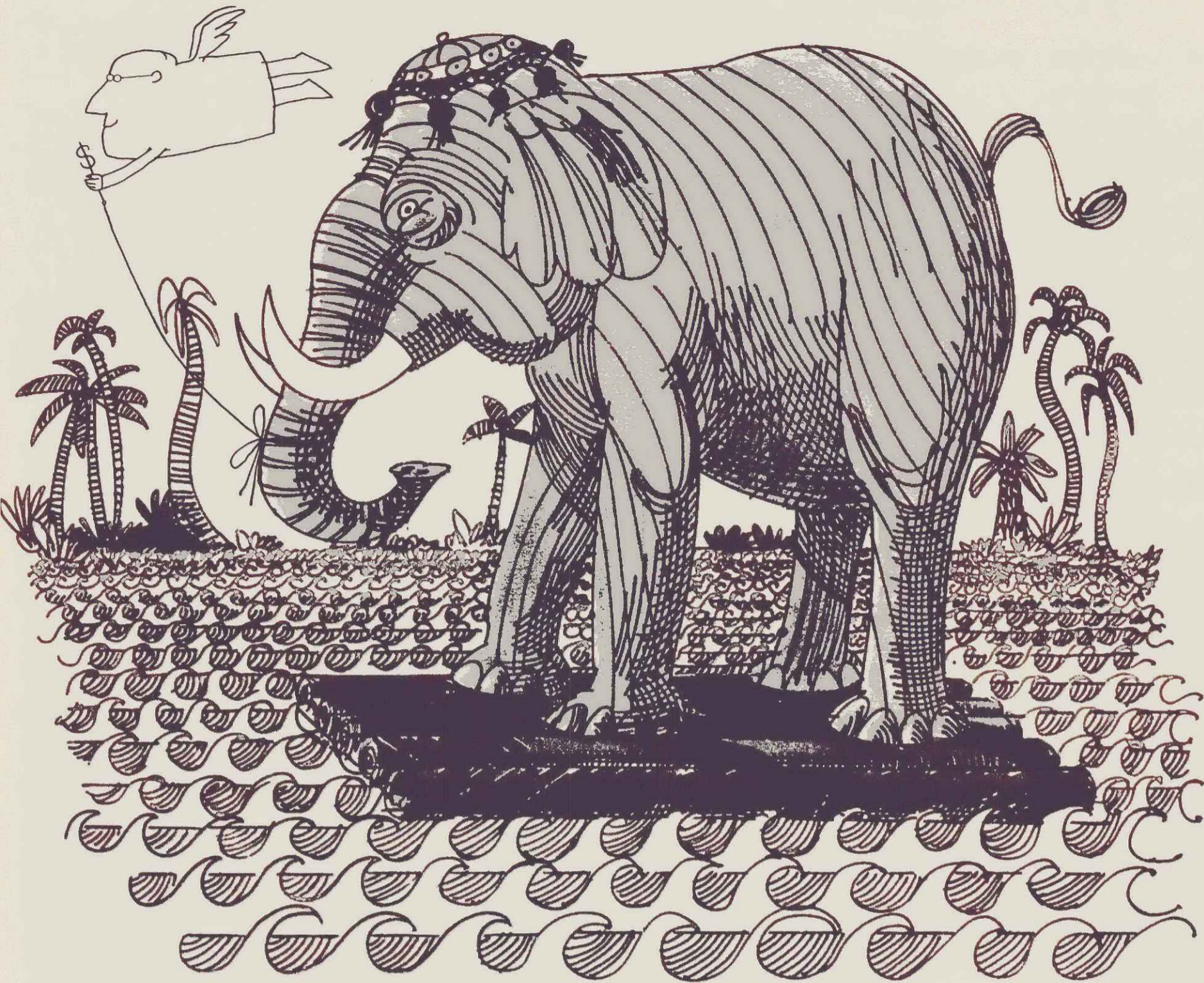
The borrower shall be free to shop for credit life and disability insurance, which cover his indebtedness in the case of death or total disablement, Mr. Blaine noted.

The new regulation also will assure full disclosure of details of such a policy to borrowers. ■

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Q. Why did the elephant people come to us anyway?

A. Well because The St. Paul is quietly notable for insuring things never insured before. (Electronic data processing equipment, farm crops against

hail, fur coats against theft, to name some.)

Q. Haven't you got an elephant?

A. Don't fret. We also write good Non-Elephant insurance. (What do you want insured: your house, your business, your car, your health, your life, your reputation?)

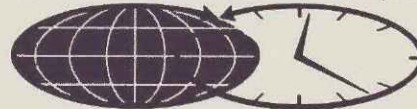
Q. Is the elephant important?

A. No. Our broad-minded kind of underwriting is. (You get a lot more service out of an insurance company with imagination.)

The day you want Creativity, Solvency, and Derring-Do all in one insurance company, you probably want The St. Paul. We don't know any other with *all* those lovable characteristics.

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by Donald H. Moore, president,
Philadelphia Manufacturers Mutual
Insurance Co.,
Philadelphia, Pa.



Donald H. Moore

trous. Decisions too often occur that cost a company far more than it should pay for what it receives. And sometimes what it receives has a completely negative value. In our industry, better utilization of the corporate insurance expert will go a long way toward reversing the current unfavorable loss trend. Large companies simply cannot afford the luxury, if that's what it is, of not getting the most out of their risk manager.

IN TRYING TO GET at the reasons the risk manager is sometimes not as influential as he should be, several explanations seem to be valid.

One is the present emphasis on the profit center system of operation. Under this structural arrangement, the corporate insurance man, a staff man, finds himself away from the center of the action. He finds that many of the day-to-day line decisions are made by people directly involved. The risk manager too often waits for an invitation that never comes.

But some of the other reasons are a little harder on the insurance executive himself. That is to say, in some cases the risk manager hasn't earned the respect of top management. For one reason or another, these risk managers haven't made enough of an impact to make themselves heard through the corporate maze. Earning the respect of top management is one of the most important jobs the risk manager has.

What can he do? For one thing, he should take it upon himself to become more professional. The ever growing complexity of American business demands that its members have more knowledge of a broader nature every year. It is my opinion that more corporate insurance men should make serious attempts to upgrade the quality and quantity of knowledge they have.

NOT ONLY SHOULD he strive to keep fully abreast of developments within the insurance industry, but he should broaden his knowledge into other areas. To be truly

effective, today's risk manager should have more than passing knowledge of finance, accounting, law, engineering and plant processes. All these areas have a bearing on how well he is able to carry out his functions as an insurance expert.

Planned programs of self improvement have another effect, too—they let top management know that its risk manager is trying to make himself better able to do his job. A risk manager who in effect "goes back to school" is bound to make a favorable impression upon those men he reports to. He shows them that he is concerned with tomorrow—and that he wants to be more important tomorrow than he is today.

In other instances the corporate insurance man is too specialized. He's an expert in casualty, employe benefits or property matters, but less than expert in other areas. His past experience may lie in one of these fields and he hasn't taken the time to become sufficiently knowledgeable in the other areas he should be. This is a shortcoming that an insurance man who wants to be successful cannot afford.

Another area where many of us are most lacking today, and the risk manager is no exception, is in human relations. By this I mean the ability to sell an idea. It takes a heap of expertise to overcome a lack in communications skills.

AS UNFORTUNATE as it may be, a good idea doesn't usually sell itself. Victor Hugo said that "stronger than armies is an idea whose time has come," but most of the time that idea needs a push from its creator. A man has to make himself heard, and heard effectively, if he is to have an idea adopted because so many members of a corporation are fighting for the attention of top management.

Sizable numbers of courses and seminars are available today which can be of great benefit to men who lack the ability to persuasively express a viewpoint. Some people have the innate ability to sell anything. But most of us have to work at it a

bit. This certainly is nothing to be ashamed of and the man who can admit this shortcoming, then do something about it, has half his battle won.

The point I have been trying to make is that often the position of the risk manager is not all it should be, and that there is something he can do to change it. It is all too easy to sit back and say that "I'm just not appreciated." This is the kind of attitude that invariably leads to further deterioration of the situation.

What is needed now, in my opinion, is for some strong, affirmative personal action on the part of the insurance man who knows he can be more effective than he is. I've referred to this process as "professionalism" and it's probably as close as I can come to pinpointing the need.

I am convinced that today's risk manager is not powerless to lift himself up from the position in which he too often finds himself. Other members of management have increased their stature in direct proportion to the importance of their function; risk managers can do the same. It is certainly not a position of unimportance from which they work. Every year it becomes more vital that companies spend their insurance dollars wisely and create the kind of atmosphere that produces effective loss prevention programs; that the balance sheet and operating statement be protected. An articulate, professional risk manager is a company's surest way to achieve these goals.

Donald H. Moore, a native of Quincy, Mass., graduated from Northeastern University with a B.S. degree in mechanical engineering. He served in the U. S. Army Air Force from early in 1943 to late 1945 piloting a B-24 in Italy. In 1948 he started his present career with the engineering division of the Factory Mutual Fire Insurance Cos. as engineer-trainee. Late in 1948, Mr. Moore joined the field force at Philadelphia Manufacturers Mutual Insurance Co. In March of 1964 he was elected vp and field manager. A year later he was elected president.

Reading your standard fire policy—No. 1

by George L. Head,
Director of educational publications,
Insurance Institute of America

(This is the first of two articles.)

Reading straight through any insurance policy can be laborious and confusing. Fortunately for the risk manager faced with a long and complex policy document, there are two fairly simple ways of analyzing an insurance policy—easy ways to outline and to remember the scope of coverage which any policy provides.

This two-part article explains these two

techniques of policy analysis, using the 1943 New York Standard Fire Policy as an example. These techniques are equally useful in studying any property, liability, life, or health insurance policy.

Nearly every reader of *Business Insurance* should have easy access to the 1943 New York policy. Statutes in 47 U. S. jurisdictions, including the District of Columbia and Puerto Rico, spell out word for word the terms of this policy to be used in every fire and multiple-line commercial or residential policy issued in those states. Thus, every straight fire, special multiple-peril, industrial property, or homeowners policy on properties in these states incor-

porates within it the 1943 New York Standard Fire Policy.

HOWEVER, IT IS a mistake to think that the New York policy is universally used. There are 11 jurisdictions in which the form of fire policy required by law differs from New York's, although most of the differences are minor. In six states—California, Georgia, Indiana, Kansas, Michigan, and Vermont—the phrasing of the clause defining the perils insured against differs from the standard New York phrasing. The differences are not great, however—everywhere property damaged by fire, lightning, or removal is insured. Texas,

Maine, Massachusetts, and Minnesota use fire policies where the differences from the New York contract, although slight, are scattered throughout the policy. Only New Hampshire law provides for a fire policy substantially different from that of New York.

Therefore, while all readers should realize that this short article is not a complete analysis of the standard fire policy (a complete analysis would require extensive documentation of the judicial interpretation of nearly every word in the policy), readers in these eleven jurisdictions should be especially cautious in applying this article to specific problems. Furthermore, the New York policy is only an example. The main focus is on the methods of policy analysis, methods which work anywhere. These two methods are: (1) the scope-of-coverage method and (2) the functional method.

A slight extension of a framework developed by Professors Mehr and Cammack of the University of Illinois insurance faculty provides an 11-question sequence for

Continued on following page

Continued from preceding page
determining the scope of coverage under any insurance contract. Almost every clause in any insurance contract is an answer to one or more of these questions. Of course, it may take several provisions in an insurance policy to provide the complete answer to each of these questions.

- THESE ELEVEN QUESTIONS** are:
1. What perils are covered?
 2. What losses are covered?
 3. What property is covered?
 4. What locations are covered?
 5. What persons (i.e., the interests of or what persons) are covered?
 6. What time period is covered?
 7. What hazards exclude or suspend coverage?
 8. What is the amount of coverage?
 9. After a loss, what are the insured's rights?
 10. After a loss, what are the insured's duties?
 11. What are the insurer's options in settling a loss?

A later part of this article gives the major answers to these questions for the 1943 New York Standard Fire Policy. But to show how the scope-of-coverage method fits in with the functional method, the functional method needs to be explained briefly.

THE FUNCTIONAL METHOD of insurance policy analysis rests on the fact that every provision in an insurance policy performs at least one of four functions. Every clause either:

1. Identifies the subject insured or the insurer, i.e., is a *declaration*;
2. Obligates the insurer to provide indemnity of certain losses, i.e., is an *insuring agreement*;
3. Excuses the insurer from providing indemnity for certain losses, i.e., is an *exclusion*; or
4. Defines procedures which the insured must follow in collecting indemnity for a loss, i.e., is a *condition*.

Any of the numerous endorsements that may be added to an insurance policy can perform the function of a declaration, an insuring agreement, an exclusion, or a condition.

On the two-page 1943 New York Stand-

ard Fire Policy, the insurer is identified at the top of the first page and the other declarations are typed in the blanks provided on the upper portion of that page. The insuring agreement appears toward the bottom of the first page. The signatures of the insurer's officers and its agent attesting to this insuring agreement usually are at the bottom of the second page. The exclusions and conditions of the standard fire policy are embodied in the 165 lines on the policy's second page.

Within the context of these two systems of policy analysis, let us now glance briefly at the highlights of the standard fire policy.

A PERIL IS a cause of loss. The insuring agreement on the first page of the standard fire policy provides coverage for only those losses caused by fire or lightning or by removal from immediate danger from fire or lightning.

For insurance purposes courts have defined "fire" as a process of oxidation sufficiently rapid to produce a hostile flame or glow—"hostile" implying a flame or

'The peril of removal includes any physical damage done to tangible property while it is being moved to safety from . . . damage by fire or lightning.'

glow which has escaped beyond its customary or intended location. For example, walls scorched by heat radiating from an overheating stove are not covered by the standard fire policy because the flame or glow has remained in its customary place in the stove. However, should the walls burst into flame from exposure to this heat, damage to the walls would be insured.

Very few problems have arisen with respect to defining the peril of lightning in the relatively rare incidents of such losses.

The peril of removal includes any physical damage done to tangible property while it is being moved to safety from the imminent threat of damage by fire or lightning. Thus, if a man runs from his burning home carrying his wife's fine china tea set and trips on the edge of the sidewalk, shat-

tering the china in the fall, the standard fire policy covers the loss of the tea set despite the fact that breakage is not mentioned in the policy as an insured peril.

However, if this homeowner successfully removes the china from the house and places it safely on the sidewalk, but the tea set is then stolen by a passing thief, the theft loss is not covered. This is because an exclusion on the second page of the standard fire policy excuses the insurer from paying any losses caused by theft.

WHILE THE STANDARD fire policy covers only losses caused by fire, lightning, or removal, the policy does not cover all losses which are in any way attributable to these perils. Specifically, the insuring agreement covers only "direct loss" a phrase which courts have held to exclude consequential losses or losses only remotely linked to fire or lightning.

A common type of consequential loss, not covered by the standard fire policy, is loss of revenue for a business whose premises are made unusable by the fire or lightning. Loss of business revenue is

insurable, but only through one of the several types of business interruption policies.

An example of a loss that is only remotely connected with an insured peril and therefore, excluded from standard fire coverage by judicial interpretation, is provided by the case of a cold storage plant where refrigeration is knocked out by a lightning bolt hitting an electric power station some distance from the plant. Without refrigeration food in the cold storage plant will spoil, but the standard fire policy will not pay for this spoilage. The courts reason that such spoilage is caused more directly by the failure of the owner of the cold storage plant to find substitute refrigeration facilities than by the more remote lightning. This failure by the owner usually is construed as the direct cause of loss which intervened, or broke the casual

chain, between the lightning and the spoilage.

THE PROPERTY COVERED by the standard fire policy is the property described in the typewritten declarations on the first page of the policy.

Often these declarations describe the property only in general terms, such as a building and its contents located at specified address. To more clearly define the scope of coverage, the policy excludes hazardous types of property which the insurer either does not want to insure under any circumstances or which it will insure only if the property is specifically defined in the declarations and the insured pays an extra premium. These types of property are listed on lines seven through 10 of page two of the standard policy: accounts, bills, bullion, currency, deeds, evidences of debt, manuscripts, money, and securities.

The property insured under the standard fire policy is covered in only two locations: (1) the location indicated in the description of the property as part of the declarations and (2) at any safe location to which the property is moved to protect it from the imminent threat of fire or lightning.

HOWEVER, THE COVERAGE at any such safe location is subject to two very vital restrictions. First, the coverage at any such location lasts for only five days, normally time enough for the insured to obtain separate specific coverage at that location. Second, only a pro rata portion of the total insurance applies at each safe location. For example, if an insured moves 25% of the total value of the property insured to a new location, 25% of the insurance moves with that property, but only for the five-day limit. This pro rata provision blocks the insured from doubling or tripling his insurance simply by distributing his property among two or three locations when fire threatens.

Note that the standard fire policy does not cover property while it is temporarily removed from the described location for reasons other than protection from imminent loss. Thus, personal property, which could be covered as contents of an insured premises normally, is not insured under the standard fire policy when away from those premises. Of course, the standard policy could be endorsed to provide this off-premises protection.

Risk management notes

Prepared by Warren, McVeigh & Assoc.,
San Francisco, California

Deductibles

Do you present claims for insured losses more often than once in several years? If so, your deductible may be too low. This seemingly radical statement will cause a number of worthy people to shake their heads and mutter "nice theory but impractical" or "rate credits are not in line" or something of the sort. There is, of course, much of a practical nature to support their negativism, but in a total risk management context, they see only part of the picture. Actually, it's not a radical statement at all because it is supported in theory by almost everyone.

It is a never-ending source of wonder, however, to read statements by insurance managers to the effect that they don't insure small losses, don't "trade dollars with the underwriters," and insure only catastrophic losses—then to hear them go on to say they carry a \$500 deductible or \$5,000 deductible or something far out of proportion to their loss-absorbing capabilities. It's as though they don't comprehend the relation of words to reality. This is not, of course, to imply that everyone should carry jumbo deductibles. No general statement is applicable to all situations. But what the overly-insurance-oriented should consider more carefully are the factors of loss prevention (psychological factors are primary), claims adjusting (company adjusters may be neither the most competent or most objective), ad-

ministrative costs of handling claims (rarely quantified), cash flow (more important now than ever) and other management factors.

Umbrella liability

Without a doubt, the most important policy in your portfolio is the umbrella, or excess liability, policy. It is also, because it is so seldom involved in a claim, the most neglected with respect to analytical evaluation of its terms. Because there are no standard forms, each policy must be gone over with the traditional fine-toothed comb before acceptance. Because this is not often done, you would be well advised to pull it off the shelf right now and read it carefully, looking for restrictions of coverage. Check the insuring agreement, the exclusions (question all but the war and nuclear exclusions) and the conditions. If you don't like some of the terms, check the terms of other companies—and don't hesitate to pay more for the broader coverage. In the words of gurus Mehr and Hedges, "Don't risk a lot for a little."

One important feature needed in an umbrella policy is that it be no more restrictive than the primary policies—yet few umbrellas have this feature. A good example of this need lies in "personal injury" (libel, false arrest, etc.) coverage. Primary liability policies write this as an endorsement to the main policy where it has a separate insuring agreement, using the word offense instead of accident or occurrence. It is therefore not subject to the restrictive definitions applicable to these

terms. Most umbrellas still have personal injury coverage subject to these restrictions, so they are in this sense narrower than the primary. For those of you with this common type of umbrella policy, an endorsement should be requested to the effect that umbrella coverage applies to any claim payable under primary contracts.

Policy language

One of the more ridiculous aspects of the insurance business is the haphazard manner in which insurance companies throw their policies together. Endorsements are piled upon standard forms in a way that makes it absolutely incomprehensible to an intelligent layman and often difficult for a professional. Yet insurers have the effrontery to request their policyholders to "read their policies." This is in spite of the many court cases where judges have, in effect, thrown up their hands in horror at the complexity and ambiguity of it all and awarded the case to the policyholder. The New Jersey supreme court even threw out a usually valid workmen's compensation exclusion in a homeowner's policy partly because it was buried in a mass of policy language. Clarity and simplicity are not unattainable. Some companies—Farmers and Allstate, for example—have made commendable moves in this direction, but much remains to be done. An insurance policy is an important legal document, which should delineate the obligations of both parties in a straightforward, understandable manner.

One means to this end would be to issue every policy with no endorsements. If some standard wording is to be superseded, it should not appear in the finished product—it should be superseded—replaced by the desired wording. With modern printing and reproduction processes, this is simply a mechanical matter. State laws requiring certain forms or wording are not an insuperable stumbling block—and in extreme cases, the laws should be changed. The cause is certainly a worthy one which should be supported by state insurance commissioners and insurance consumers.

Aircraft liability

With the increased use of chartered and leased aircraft by corporate executives, risk managers should carefully analyze risk control policy with regard to this exposure. In addition to the obvious liability exposure, a potential non-owned hull exposure should also be considered.

Wording of contracts with aircraft lessors should be coordinated with your company's risk management program. General corporate policy when leasing aircraft should include the risk manager's participation. Most aircraft lessors will lease with or without operators and/or maintenance—needless to say, these options significantly involve risk treatment alternatives. One of these alternatives concerns the wording of the lease contract itself—who is responsible for loss? What kind of loss—i.e., hull, third-party liability or passenger liability? Under what kind of circumstances? Because of a restrictive aircraft insurance market, it may be less costly to place primary risk responsibility on the lessor because of his market position. Even if this is possible, a contingent exposure still exists.



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Oil firms' fire loss ratio dips in '68

WASHINGTON—The American petroleum industry has reported a lower overall fire-loss ratio to insurable values in 1968 than in the previous year.

A study by the American Petroleum Institute based on the fire experience record of 31 oil companies, together with their subsidiaries, concludes that for the group as a whole overall ratio to the fire losses decreased about 4 1/2 cents per \$100 of insurable values as compared with the 1967 loss ratio.

According to the report, the insurable value of \$12,050,646,527 reported for 1968 was 5.6% lower than reported for the preceding year, while reported fire losses totaled \$8,289,271, a decrease of 44.1% from the 1967 loss figure. The fire-loss ratio for 1968 of 6.9

cents per \$100 of insurable value compares with 11.6 cents for the previous year.

ALSO REPORTED to have decreased for the year were the number of petroleum fires. In 1968 407 were reported, a decrease of 19% from 1967.

One of the biggest savings reported by the industry was in the fire-loss of oil stocks within refineries. In 1967 there was an insurable value of \$837,453,963 in oil stocks with a loss reported of \$1,191,551. Last year an insurable value of \$717,160,421 was reported with only \$9,241 lost from refinery fires. The fire-loss ratio was 14.2 cents per \$100 in the former, while only .1 cents per \$100 in the latter.

However, oil fire losses were

greater last year than in 1967 in which transportation was involved. In 1967, for example, tank truck fires totaled losses of \$3,819 for \$94,243,720 of valuation. Last year losses totaled \$124,464 for an insured \$88,529,480. The comparison represents a jump from 4 cents per \$100 in 1967 to 14.1 cents per \$100 in 1968.

Similarly, tankers and barges sustained more fire losses in 1968 than they did in 1967. In the latter insured losses amounted to \$15,000, while in the former they were \$40,821.

Also showing substantial loss increases were fires at pipeline stations. In 1967 \$76,199 worth of property was destroyed at these. Last year that figure rose to \$249,262. ■

dates for buyers

Oct. 2—Twelfth annual insurance conference, Delaware Valley Chapter, American Society of Insurance Management, Sheraton Hotel, Philadelphia, Pa.

Oct. 13-17, American Management Assn., Principles and practices of insurance buying, American Management Assn. Bldg., 135 W. 50th St., New York, N. Y.

Oct. 16-17, Council on Employee Benefits, New York Hilton Hotel, New York, N. Y.

Oct. 17, Northern California Chapter of the Society of Chartered Property and Casualty Underwriters, All-industry day, Hilton Hotel, San Francisco, Cal.

Oct. 20-22, American Management Assn., Modernizing the pension plan, American Management Assn. Bldg., 135 W. 50th St., New York, N. Y.

Oct. 22-24, American Management Assn., Modernizing the group insurance plan, American Management Assn. Bldg., 135 W. 50th St., New York, N. Y.

Oct. 23-24, Management Seminars Inc., How to create and manage a captive insurance company, Rice Hotel, Houston, Tex.

Nov. 18-20, National Fire Protection Assn., 1969 fall conference, Denver Hilton Hotel, Denver, Col.

Dec. 8-10, American Management Assn., Advanced telecommunications, Earbizon-Plaza Hotel, New York, N. Y.

Dec. 17-19, American Management Assn., Corporate aircraft, American Management Assn. Inc., 135 W. 50th St., New York, N. Y.

Insurer sues Lockheed

DALLAS—The Transport Insurance Co., compensation carrier for Braniff International, has filed a Federal suit against Lockheed Aircraft Co., claiming a 1968 plane crash near here that killed 85 persons was the result of defective workmanship.

In essence, the suit attempts to shift the blame for the crash to the manufacturer, Lockheed. Earlier a National Transportation Board report cited pilot error as the cause of the crash.

Although the airline is not a party to the suit, Braniff has emphatically disagreed with the NTSB ruling, which contends that a pilot's decision to fly into severe weather after an air traffic controller had warned against it led to the crash near Dawson, Tex.

The insurance firm is demanding payment of \$46,597 as reimbursement for workmen's compensation claims it paid on four Braniff employees who died in the crash. The employees' beneficiaries received average settlements of \$11,600. The company alleges that a structural defect caused a wing to fall off the Electra prop-jet, resulting in the crash, and denies that turbulence was a factor in the failure of the wing.

IN ITS SUIT, the insurance company has pointed out that, before the crash, similar wing de-

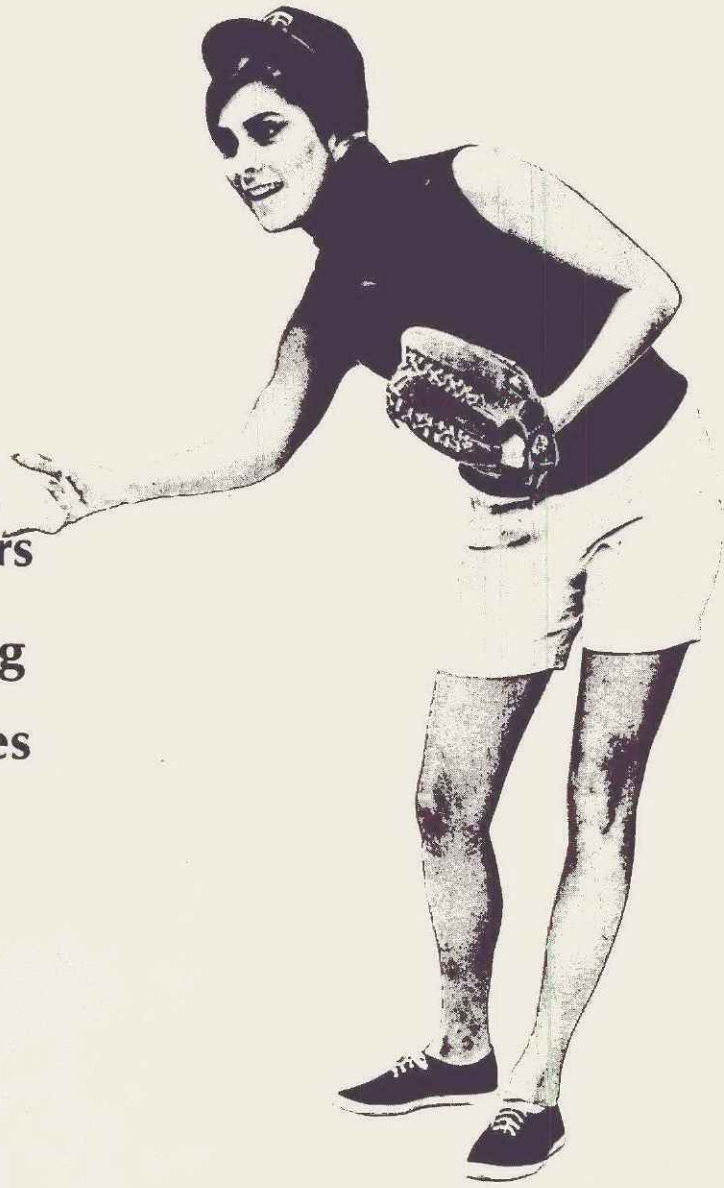
fects had been found in two other Braniff planes purchased from Lockheed. As a result, Lockheed recalled all Electras and, after testing, claimed that the structural defect had been corrected. However, Transport Insurance Co. maintains that Lockheed "did not properly remedy the original design defects . . . and by modification which caused or alternatively contributed to the crash. . . ."

Braniff, in the meantime, has settled a claim by the family of at least one passenger on the ill-fated flight from Houston to Dallas May 3, 1968. The airline will pay \$285,000 to the widow and family of a Dallas man. The suit, originally for \$750,000, alleged the airline failed "to exercise the highest degree of foresight" for its passengers.

In another suit involving Braniff, an 80-year-old Missouri widow is suing the airline here for \$261,837.41, alleging she was tossed from her seat during a rough flight on a Braniff plane in November, 1968.

Mrs. Minnie E. Smith of Kansas City said she was thrown from her seat when the airplane lurched violently as it neared Dallas. She has accused airline employees of neglecting to adjust her seat belt and providing her with a defective belt. She said she suffered various back injuries. ■

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Fireman's Fund man 'isn't satisfied' with reaction to products recall cover

NEW YORK—"We're not at all satisfied with the initial reaction to products recall insurance" is the word from one insurance man here, who added that his company is also disturbed by the fact that the New York insurance department has not yet approved this type of coverage.

Ross C. Cowan, resident secretary of the Fireman's Fund American in New York, made the statement at a seminar on liability problems sponsored by John Linder Letter-Insurers Press and presented by Management Seminars Inc.

According to Mr. Cowan, who has ridden herd on products recall insurance since Fireman's Fund began offering the coverage late in 1968, the coverage has not exactly been selling like tickets to a Mets game in September.

"COUNTRYWIDE I don't think we've written a hundred of them," he told *Business Insurance* with the look of a man who believes in what he is selling but troubled by the difficulty of convincing others.

Among those that Fireman's has not yet convinced is the New York state insurance department. Others—in addition to Fireman's Fund, at least three other major insurance companies are writing products recall in this country, the Kemper Insurance Group, Insurance Co. of North America and Lloyd's—have also met with resistance in New York.

"The New York department has said it's an illegal coverage in that it's not sufficiently similar to any of the recognized forms of insurance contained in the statutes," Mr. Cowan said.

"WE UNDERSTAND their position is influenced by questioning the theory of insuring expenses incurred relative to one's own errors. In other words," he explained, "the question is whether or not you should be able to buy insurance to cover expenses when someone makes a mistake." Mr. Cowan said he had met with officials in the insurance department and had argued the point with them.

"I asked about the guy who leaves a safe door opened and is burglarized? Is it illegal for him to have insurance to cover the mistake and ensuing burglary?"

"I didn't get anywhere with the argument," Mr. Cowan shrugged.

Although Fireman's Fund has written close to 100 products withdrawal policies to date, claims experience "was virtually nil until the other day," Mr. Cowan said. He cited a Fireman's Fund policyholder who was told by the Food & Drug Administration to get a product off the market because of a danger in its use.

"HE DIDN'T WANT to comply with the order at first, but eventually started to comply. The guy had all sorts of trouble finding where his stuff was put," Mr. Cowan said.

Although Mr. Cowan seemed to be of the mind that not enough manufacturers are seeking products withdrawal insurance, at least one other speaker at the seminar cited difficulties in obtaining the coverage.

Thomas Cath, executive vp of Illinois R. B. Jones, a Chicago broker, said:

"It's extremely difficult coverage to market. There is a limited market for products recall insurance and the markets are very selective in what they underwrite. It's like the old banker's story—if you don't need money, it's easy to

get it; if you do need it, you can't get it.'

"I CAN'T REALLY blame insurance companies today," Mr. Cath went on. "It seems there is a definite lack of pride in workmanship on the part of manufacturers today. Quantity is becoming more important than quality. 'But,' he added, "this will change with so many advocates for greater consumer protection—Ralph Nader proved this point—and the government ready to pounce on those who don't give the public the greatest possible protection from products they buy."

The Fireman's Fund recall policy, Mr. Cowan explained, covers

the insured when either he or a proper government agency determines a product to be dangerous, requiring its withdrawal. The language of the policy is rather broad in its determination of who may decide to withdraw a product and might even make it possible for a manufacturer to take something off the market simply because it wasn't selling, Mr. Cowan admitted. However, he finds it unlikely that an insured would do this.

Mr. Cowan further explained that Fireman's Fund had turned down at least 17 applications for recall insurance, but that most of these were because the applying manufacturers had no effective plan for withdrawal of an item.

Only one, he said, was rejected because it was considered a poor risk.

AN EFFECTIVE withdrawal plan is very important to the conditions of a policy, he said. "We've asked this question on many applications and found very few had anything that could be called a plan. One very large manufacturer said it had no withdrawal plan because it had no prior incident requiring recall. I hope they don't have the same philosophy in their plant safety program," Mr. Cowan said.

"Naturally," he added, "a ready plan would speed the procedure for more complete and faster recall. It would also keep the costs down because a makeshift last minute method will surely be more costly." His company, and others, Mr. Cowan said, gives policyholders premium credit if a good plan exists.

The Fireman's Fund recall policy essentially covers costs required to keep dangerous products from injuring people. Such costs, Mr. Cowan explained, include expenses for communicating recall notices and special destruction costs if destroying an item is required. Coverage, however, applies only to errors and omissions on the part of the manufacturer. It does not apply to a product which was "improperly conceived or formulated" and it specifically excludes deterioration of chemical structure unless it results from error or omission.

THE COST OF products recall insurance varies greatly, Mr. Cowan noted. "It is an expense coverage linked to a liability cause, so we use products liability rates as a base and modify them by individual expense exposures," he added.

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Lloyd's drops small cover for Pill

NEW YORK—The Upjohn Co., a Kalamazoo, Mich., pharmaceutical firm that manufactures an oral contraceptive, has had a small part of its excess insurance cover dropped by a Lloyd's syndicate as a result of a suit filed by a woman here who claimed use of "the Pill" caused her to suffer a stroke.

The day after a story hit the daily newspapers that a Bronx woman had filed for \$4.5 million in damages, Upjohn was notified by the Lloyd's syndicate that it was dropping its relatively small portion of Upjohn's excess cover as of November, a source close to the drug company told *Business Insurance*.

Upjohn carries \$2 million in primary coverage and "shoots for \$100 million" in excess. The latter is written in five layers. The Lloyd's syndicate covers \$200,000 in the first layer and \$800,000

in the second. It is that amount Upjohn must replace by November and, according to the source, its brokers (Marsh & McLennan) are currently "working their tails off" trying to get it.

Other Lloyd's syndicates continue to participate in a major way on Upjohn's excess coverage and are represented on every layer, it was learned.

THE PROBLEM of shrinking capacity is not unique to the pharmaceutical industry, of course, although several in the business will argue that they have had more than their share of trouble getting coverage. The Upjohn situation, however, is believed to be the first instance where an insurer has dropped coverage as a result of a specific claim involving the Pill.

"I don't understand their (Lloyd's) thinking, dropping coverage the day after the story in

the press when no medical facts supporting the claim have been submitted. One wonders whether or not some Lloyd's syndicates are looking for an excuse to beg off pharmaceutical coverage" an observer complained.

Others questioned in the field have noted a sharp decline of participation on the part of Lloyd's in pharmaceutical coverage

A SOURCE AT Eli Lilly & Co., Indianapolis, another major drug house, spoke of the shrinkage in capacity.

"We don't have the limits today we had three years ago," he said. "As contracts have come up there have been cutbacks. In July of 1968, for example, our \$100 million umbrella policy came up for renewal. Most of it," he added, "was placed with Lloyd's. We're now at \$75 million or \$80 million

and most of the cutbacks have been from underwriters at Lloyd's.

"We've also been led to believe from brokers that we're going to see a lot more reductions from Lloyd's. Capacity may even go as low as \$10 million. We're hearing this from people like Marsh & McLennan," he added.

A SPOKESMAN at Charles Pfizer & Co. in New York said that the Upjohn experience was the first cancellation in the industry he had heard of as a direct result of a "Pill" claim against a drug company.

"We have no evidence of losing insurance because of a claims incidence," he said. "The whole insurance industry is suffering from such a lack of capacity that it's difficult to hold any insurance together."

Air crash ...

Continued from page 1
sures through La Provincial Insurance Co. in Mexico City. La Provincial reinsures throughout the world.

ACCORDING to the Mexicana airlines insurance broker in New York, who was reluctant to be identified, Lloyd's is involved. He declined to say how heavily, but said the "risk was spread throughout the world insurance market in the traditional method." USAIG insures part of the hull but sources at the aviation insurance company said they believed they were involved only "in a very minor way."

The Boeing 727 was enroute from Chicago to Mexico City when the crash occurred. Onboard were 60 American members of a vacation group from the Chicago area.

At least two aviation insurance sources in New York said it was safe to assume that the Montreal agreement will apply to American passengers on the plane. The agreement limits liability to \$75,000 per seat.

The small plane that collided with Allegheny DC-9 near Indianapolis was a single-engine Piper Cherokee, registered to the Brookside Air Service at McCordsville, Ind. According to informed airline sources, Brookside Air Service had liability insurance coverage of \$100,000/\$300,000.

Capacity ...

Continued from page 1
go holding company said, "While it is a big industry question, it hasn't hit me personally as yet." He explained that the problem for many buyers of insurance is simply acquiring an underwriter for high-risk situations.

Objecting to the lack of selective underwriting by Lloyd's and general classifications of what industries are good risks and what ones aren't, another risk manager charged that "logic at Lloyd's seems almost not to exist."

THE INSURANCE manager of another conglomerate said he too was bewildered at what is going on at Lloyd's. While negotiating several layers of a general liability coverage, he said, he was told that premiums for the upper limits of the liability layers would cost more than the lower layers. "It stands to reason," he said, "that the farther removed an underwriter is from the initial layer, the less risk he is taking."

But, the insurance manager complained, the Lloyd's underwriter wouldn't listen. "He told me that's what it is: Take it or leave it," he said.

The insurance manager contended that increasing the rates on the third or fourth layer of the coverage might have been justified if the risk were one that could result in a total loss. "But that isn't the case," he added.

Another corporate insurance buyer held that Lloyd's has suffered a series of huge losses caused by single disasters—oil slicks, hurricanes, and riots. While these have happened, sophisticated risk managers have driven premiums down to such an extent that the London market can no longer sustain catastrophes, he said.

This factor, coupled with the ever-increasing size of the risks, has put the Lloyd's market into a downward tailspin.

However, the corporate executive contended, Lloyd's should be able to sustain a certain amount of the losses it has incurred. Because there have been so many of them recently that have been so costly, the market is bound to swing back and become more profitable for Lloyd's underwriters, he concluded.

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Walgreen managers have bonuses tied to safety

CHICAGO—Store and district managers for the Walgreen Co. find that their bonus checks grow and shrink according to the cost of accidents and number of fire hazards in stores under their supervision.

The incentive system is part of a complex insurance-loss prevention setup that underlies Walgreen's basically uncomplicated risk management philosophy.

"What we've tried to do is limit the amount of money (premiums, deductibles and losses) that can be charged against the operations each year," Ed Nilsson, supervisor of insurance and finance for Walgreen Co., told *Business Insurance*.

The company accomplishes that objective by relying heavily on a comprehensive loss prevention program that, in addition to giving store and district managers incentives to perform properly, includes at least one annual inspection by a casualty loss-control specialist and at least two fire safety inspections of every Walgreen location by an independent engineering firm. The results are that the company knows, generally and technically, what is going on at each location.

IN ALL, Walgreen Co. operates 576 outlets for drugs, food and department store goods. Besides the famous Walgreen drug stores, the company operates 16 Globe self-service department stores, several Super Centers (each with 20,000 square feet to 35,000 square feet of floor space) and five Danburg junior department stores. The company is also into two relatively new ventures: Corky's drive-ins and Robin Hood restaurants. For the 12 months ended June 30, sales totaled \$661 million.

The chain store operation also has some 2,000 independently-owned agency outlets, which retail Walgreen products.

For general liability (including dram shop coverage in Illinois), workmen's compensation and auto insurance, the Walgreen Co. has arranged a retrospective rating plan through Johnson & Higgins with Aetna Life & Casualty Co.



Ed Nilsson

The plan provides a total of \$500,000 coverage with a substantial self-retention factor. An umbrella cover over that first layer provides excess limits.

To explain why Walgreen Co. operates under a retrospective rating plan, Mr. Nilsson simply said, "Our loss experience is that much better." A computer tab print-out of what type of claim and at which location, in addition to safety violations observed during engineering inspections, keeps Walgreen's risk experience "that much better."

The premium paid to Aetna represents retrospective losses under the liability, workmen's compensation and auto insurance package plus all service charges. In other words, claims, plus Aetna's cost of handling, providing inspections and other services, plus taxes and profit, make up the premium. When the contract comes up for renewal, the override costs are negotiated, Mr. Nilsson said.

THUMBING through the most recent settled and pending claims print-out, the Walgreen executive pointed out how one store had probably not performed as well as desired in keeping aisles clear. There were two workmen's compensation claims caused by tripping.

Mr. Nilsson said that the store manager, his district manager and Walgreen's loss prevention department were aware of the problem and that undoubtedly corrective action was being taken.

The store manager involved in the two compensable tripping claims will probably work hardest to correct the problem. One factor that will determine the amount of his annual bonus is the amount of claims charged against his store's operation. Likewise, his immedi-

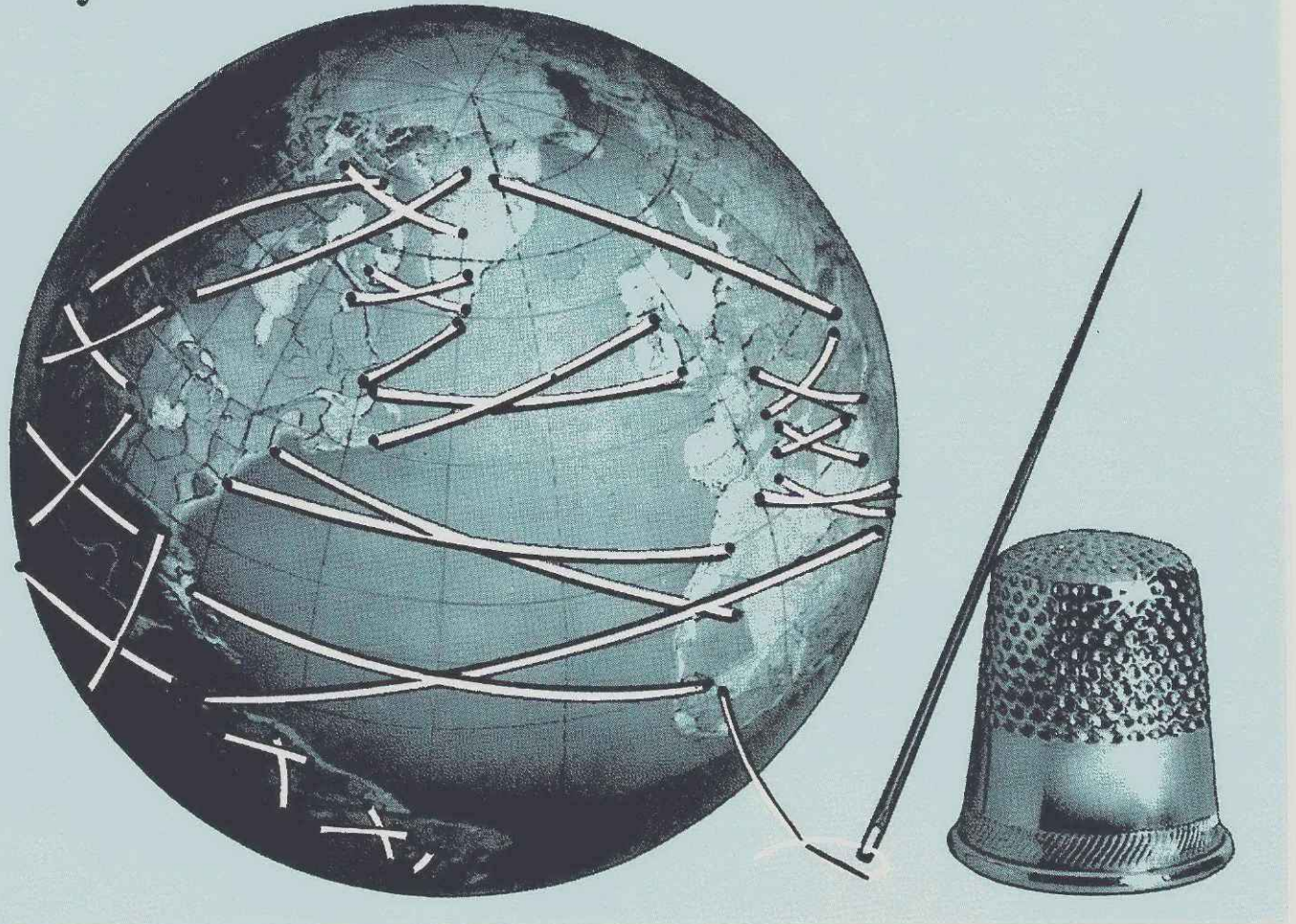
ate supervisor, the district manager, will also want to eliminate the hazards. The amount of claims charged against his district partly determines the size of his bonus check.

And naturally Walgreen Co. wants to eliminate the hazards, because the company will eventually be charged for the accidents. "Ultimately," Mr. Nilsson said, "you're going to pay for your losses. Therefore, we try to prevent losses, which reduces costs."

BESIDES AETNA engineers performing at least one inspection a year, Schirmer Engineering Corp., a Niles, Illinois, loss prevention firm, inspects each Walgreen location twice a year and reports on the fire prevention and safety pro-

Continued on page 33

Here's how to tie together your International Risk Problems



If One Company Can Serve You Best Both Here And Abroad, Doesn't It Make Sense To Consolidate All Coverages—Domestic And Foreign—There?

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financial briefs

Lincoln National gives quarterly dividends

FORT WAYNE, Ind.—A quarterly dividend of 45¢ per share on common stock of Lincoln National Corp. was announced by Henry F. Rood, chairman of the board of directors of the corporation and the Lincoln National Life Insurance Co. A 75¢ per-share dividend on the \$3 cumulative convertible preferred stock, Series A, of the corporation will also be paid.

Donald C. Cook was elected to the board of Lincoln National Corp. He is president and chief executive officer of American Electric Power Co. Inc., New

York, and heads 22 AEP subsidiaries.

William M. Smith, senior vp of Lincoln National Life, was named to its board.

AN INCREASE in premiums written for the first six months of 1969 was announced by Royal-Globe Cos., New York. The \$246.5 million in premiums written was an increase of \$15.6 million over the same period in 1968. Underwriting operations resulted in a

statutory loss, however, of \$18.3 million, according to the company. Investment income for the period totaled \$13.6 million.

On an actual market value basis, its \$866.7 million in assets reflected a decrease of \$6.4 million, and surplus to policyholders, at \$232.8 million, showed a decrease of \$48.8 million.

President H. Clay Johnson stated that results continued to be adversely affected by inflation but that there was an improvement of nearly three points in the loss ratio as compared with last year.

* * *

THE ASSETS of Maine Insurance Co., largest subsidiary of Life Insurance Securities Corp. (LISCO), Portland, Me., reached a record \$4.1 million in the first six months of 1969. Assets for the same period in 1968 were \$3.3

million.

Maine's premium volume for the first six months of 1969 totaled \$2.6 million, an increase of \$.6 million for the comparable period a year earlier.

LISCO is an insurance holding and management company with subsidiaries licensed in 22 states. Principal subsidiaries, besides Maine Insurance Co., are Maine National Life Insurance Co. and New York National Insurance Co.

* * *

AMERICAN RESERVE Corp., Chicago, declared a regular quarterly cash dividend of 10¢ per share to shareholders of record as of Sept. 8, 1969. The corporation

is the holding company for Reserve Insurance Co. and five other related subsidiaries.

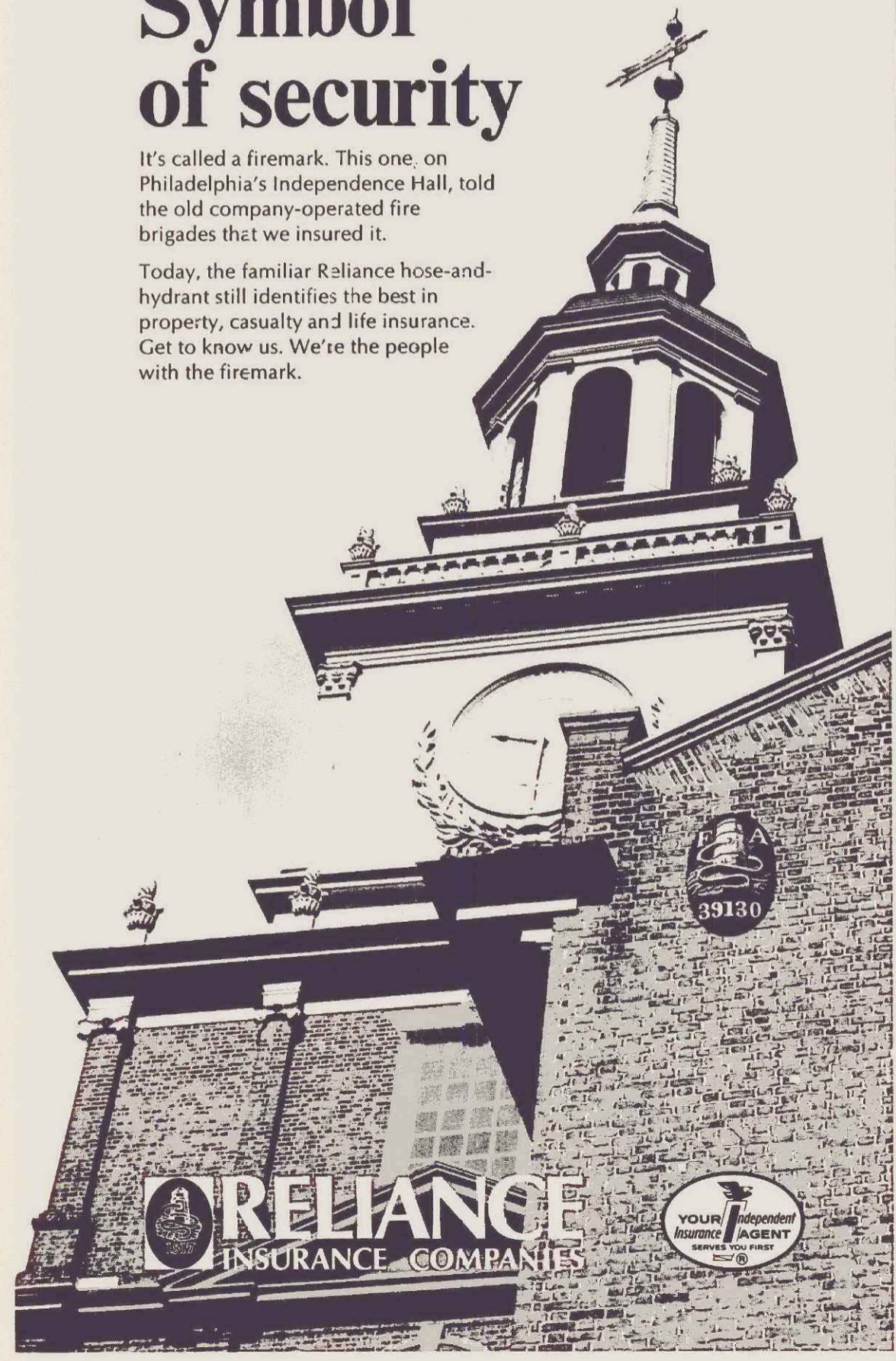
The same holding company earlier made public that advances over last year's first half were registered in both underwriting profits and investment income. Net income for the first half of 1969 was \$1.4 million, or \$1.26 per share, compared with 91¢ per share in the 1968 period. The advance came despite an increase in the average number of shares for the period and a change in the method of calculating per-share figures, which resulted in more shares being included in the calculation.

Investment income before taxes increased 22.9%, or \$998,426. ■

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Work comp...

Continued from page 6

is not perfect. However, great strides have been made and are continually being made in most states. Uniformity for its own sake is childish," Mr. Dahl said. "Just because someone does not understand in New York what the law is in Iowa doesn't mean that the laws are bad."

BUT MR. DAHL conceded, despite the strides being taken even greater haste is needed.

"Federal takeover is imminent," he said. "It can certainly happen in the next several years if the state legislatures don't upgrade and improve their standards." He called upon business and industry to prod their state legislatures to make improvements to avoid Federal intervention. "It's up to you who pay the bill to see that your state legislatures do this," he said. In addition, he added that his association is working to promote reforms and will shortly recommend priorities as to what states need reforms the most.

"Some courageous workmen's compensation administrators have already strongly advocated reforms where they are necessary," Mr. Dahl said. "I say courageous because some of them are no longer working there." In referring to any lag on the part of insurers and employers he said that he "doesn't know if there's not so much opposition as there is inertia."

SPEAKING ON behalf of insurance companies and self-insurers at the conference were Andrew Kalmykow, counsel for the Assn. of Casualty and Surety Companies; James S. Sickles, workmen's compensation specialist for the American Mutual Insurance Alliance; and James Regan, secretary of the National Council of State Self-Insurers.

Mr. Kalmykow argued that the "picture painted by the Federal officials was not all that dark.

"So far this year, 31 states have increased their benefits substantially," he said. "Sixteen states improved theirs last year. In less than two years," he said, "47 states have increased workmen's compensation benefits substantially. I don't see how we can say the states aren't doing anything about reforms. Further increases in some states are desirable," he added, "but certainly progress is being made."

The key to the whole question, however, is still whether the states are acting quickly enough to avoid Federalization of the system. Of this there was considerable doubt expressed by both panelists and those who attended the conference, which was sponsored by the Commerce & Industry Assn. Institute.

"What it all boils down to," one insurance executive told *Business Insurance*, "is that the state legislatures are impervious to law making in this area. They are reluctant to discourage industry from coming to their states because of broader and more expensive workmen's compensation laws." ■

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GET RESULTS HERE

Walgreen . . .

Continued from page 33

grams observed. All Walgreen warehouses, are sprinklered, as are 25% of the drug stores. According to Mr. Nilsson, these store and warehouse risks are considered superior and are insured with substantial deductibles.

The unsprinklered Walgreen drug stores present a much greater risk, and following proper fire prevention rules is therefore a requisite.

In each of the unsprinklered drug stores, Mr. Nilsson said, there are at least two sprinkler heads—one inside and another just outside—the refuse disposal room of the store. These are connected to the domestic water supply. The small expenditure involved in making such installations has prevented many burnouts, according to Mr. Nilsson.

ENFORCING all fire prevention rules is accomplished in the same way that public liability and workmen's compensation claims are controlled. Each store that violates rules get demerits, which in effect reduce the store and district managers' annual bonuses.

Mr. Nilsson explained that all newly constructed Walgreen stores have sprinkler systems built into them. The cost of sprinklering new buildings runs about \$40 per 100 square feet.

To install sprinklers in the Walgreen stores that do not now have such systems would cost at least \$75 per 100 square feet. "It's impossible to justify this cost in terms of insurance premium savings," the supervisor of insurance and finance said.

Therefore, Walgreen Co. has arranged an annual aggregate stop-loss policy for unsprinklered locations.

THE ANNUAL aggregate stop-loss, according to Mr. Nilsson, works this way: Walgreen Co. always has a \$5,000 deductible per occurrence. When a loss is suffered, the amount in excess of \$5,000 is added to any other losses that have been incurred during the year until the annual aggregate loss total is reached.

At that point, insurance responds and Walgreen is covered for all unsprinklered locations. However, there is always the \$5,000 self-retained portion for

each loss, but any deductible over \$5,000 suffered at a superior risk—a location that is fully sprinklered—also applies to the annual aggregate loss.

In addition, Walgreen Co. also has placed difference of conditions insurance coverage on all locations, superior risk as well as ordinary risk.

OTHER LOSS prevention measures taken by Walgreen include alarm systems. Heat detectors are used in some unsprinklered buildings to promptly notify local fire departments of possible fires in progress.

In addition, Mr. Nilsson said, Walgreen is now using a telephone transmission system that alerts fire and police departments of possible blazes or thefts.

Depending upon the problem, the phone devices dial and send five messages. If there is a theft in progress, the police receive three recorded messages that give

the location of the store and the warning that something unusual is going on. The two other prerecorded messages can be directed to the store manager or the district manager. A similar system is installed in some sprinklered locations to monitor control valves and water-flow in the system.

Walgreen Co. also has central station systems installed in some areas. Mr. Nilsson said, "Such systems provide the ultimate in protection, but they are expensive."

When a fire or other loss does occur, all efforts are made to get the location back into operation as quickly as possible. Damaged merchandise is removed and sent to salvage; the store is re-figtured where necessary and re-stocked. A trained crew is immediately available for such emergencies.

Walgreen's goal, Mr. Nilsson concluded, is to prevent losses, but if they occur, minimize the losses.



Sprinklered drug stores present no insurance problem to Walgreen Co., but unsprinklered drug stores call for strict fire prevention rules and an aggregate stop loss fire insurance arrangement—an arrangement whereby after a standard deductible of \$5,000, each unsprinklered loss is added to previous unsprinklered losses until the aggregate loss figure for the year is reached.

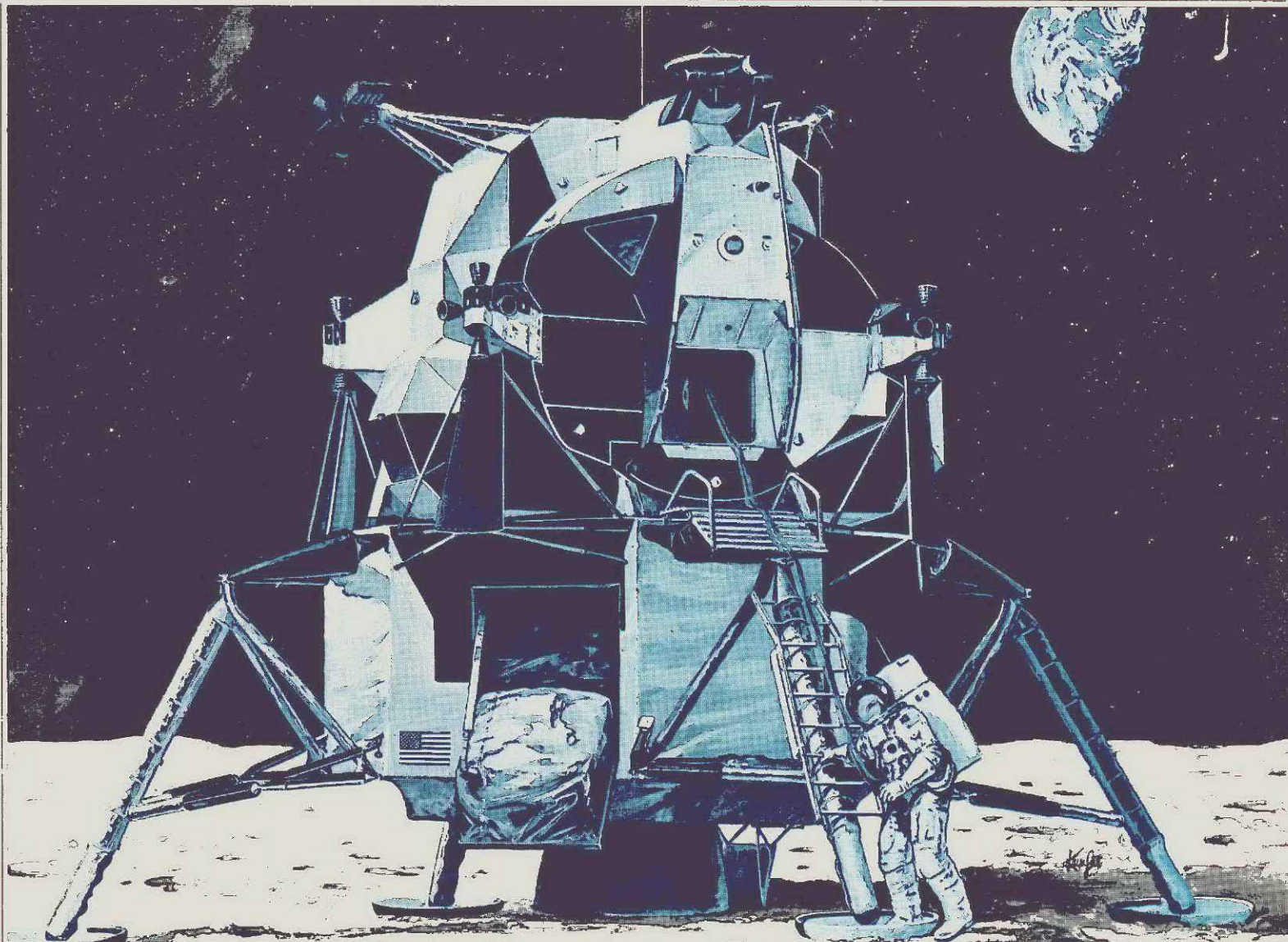
United Fruit hit by Francelia

BOSTON—United Fruit Co. has suffered losses "in excess of \$1 million" in its Honduras division as a result of damage from Hurricane Francelia, *Business Insurance* has learned.

"It's very premature to assess the total damage, including the loss to banana crops," a United Fruit spokesman said, adding that it will be several months before banana production from the division is restored to normal. About 25% of the bananas grown by United Fruit come from Honduras.

The crops themselves, the spokesman explained, are self-insured by United Fruit, with some of the loss being absorbed by an operating fund.

"As far as the property is concerned, we are in fairly good shape," he added. "We have a blanket all-risk policy with an annual aggregate deductible which had been exceeded by a warehouse fire in California earlier this year," he said.



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3M safety ...

Continued from page 3

"Nevertheless," said Mr. Dyball, "if a member doesn't know bears about fire fighting techniques the training we give him will make him a pretty good fire fighter."

A TYPICAL three-day course covers proper use and handling of sprinklers, basic fire characteristics, methods of extinguishing a fire, care and use of fire hoses, coordination with the fire departments, pre-fire planning, medical aspects of emergencies and evacuation. These topics are covered through lectures, demonstration and visual aids. The 3M medical department cooperates by presenting sections dealing with medical emergencies.

Members of the safety engineering department alternately conduct the course in St. Paul from April to September.

However, "training doesn't end with the classroom," Mr. Dyball said. "We take the men out to our fire training grounds and actually put them through the real fire fighting situations, which make them quickly realize the seriousness of this business. We build the fires and they put them out."

The men are sent into a burning building where the smoke totally obscures visibility, which means they must feel their way around in an attempt to rescue Bertha, a burlap bag. This practice gives the men an idea of how to use the self-contained breathing apparatus and the correct procedure for rescuing a body from a burning building.

FIRST AND foremost in any emergency situation is to make sure that all personnel are out and accounted for. Each plant has designated a procedure for evacuation followed by roll call to account for all personnel.

Once these men have experienced the effects of feeling their way around a hot burning building, they realize the necessity for fast actions with a clear head. They come out of that practice run looking like chimney sweepers, covered with soot from head to toe and with much more seriousness in their expressions.

During the practice sessions, each man has an opportunity to work with a fire hose and feel the pressure and thrust produced. This gives the trainees an idea of how to handle the hoses and how to get maximum control in extinguishing a fire.

There's also demonstration and use of high expansion foam. This foam, which is comparable to a detergent, suffocates a fire by filling an area with millions of small air bubbles. However, because of its low water content, the foam usually won't cause much damage to the area or any stock in it.

ANOTHER NEW product on

the market is "Light Water" brand concentrate. This is a synthetic film forming concentrate for flammable fuel fire prevention and extinguishment. The product generates a white, non-toxic foam "with a remarkable securing action, which prevents re-flash of the fuel even when the foam blanket is ruptured," Mr. Anderson explained.

The securing characteristic of "Light Water" was remarkably demonstrated when several 3M employees tried, and without much success, to reignite a fire in a large tank fueled with gasoline.

After a couple days of such training, the squad captains and lieutenants can handle just about any situation that may arise, Mr. Dyball said. The training 3M employees receive makes them much more safety conscious and more aware of fire prevention.

During the training program, one fact is repeated a thousand times: Work in teams. Decide who does what, such as sending alarms, getting portable extinguishers working, etc.

ALL RESCUE situations at 3M installations are to be made in pairs. Two men make the rescue and remain together at all times.

One employee back for his third training session acknowledged that he wanted to refresh his fire fighting ability but added that "it's nice to say we haven't had to put our training to use very often."

3M's program has not only paid off company-wide but also in the home. "What we teach our employees applies to the home as well as the plant," Mr. Anderson said.

Although there's no deliberately organized off-the-job fire safety program, what 3M employees learn goes everywhere with them. They become much more fire safety conscious in the home as well as on-the-job.

"And they can keep their heads better in an emergency situation," Mr. Anderson added.

Foam system gets tryout at food stores

OKLAHOMA CITY—The first area-wide installation of a new fire detection and fire-fighting system that utilizes foam is under way here and expected to be operational this week.

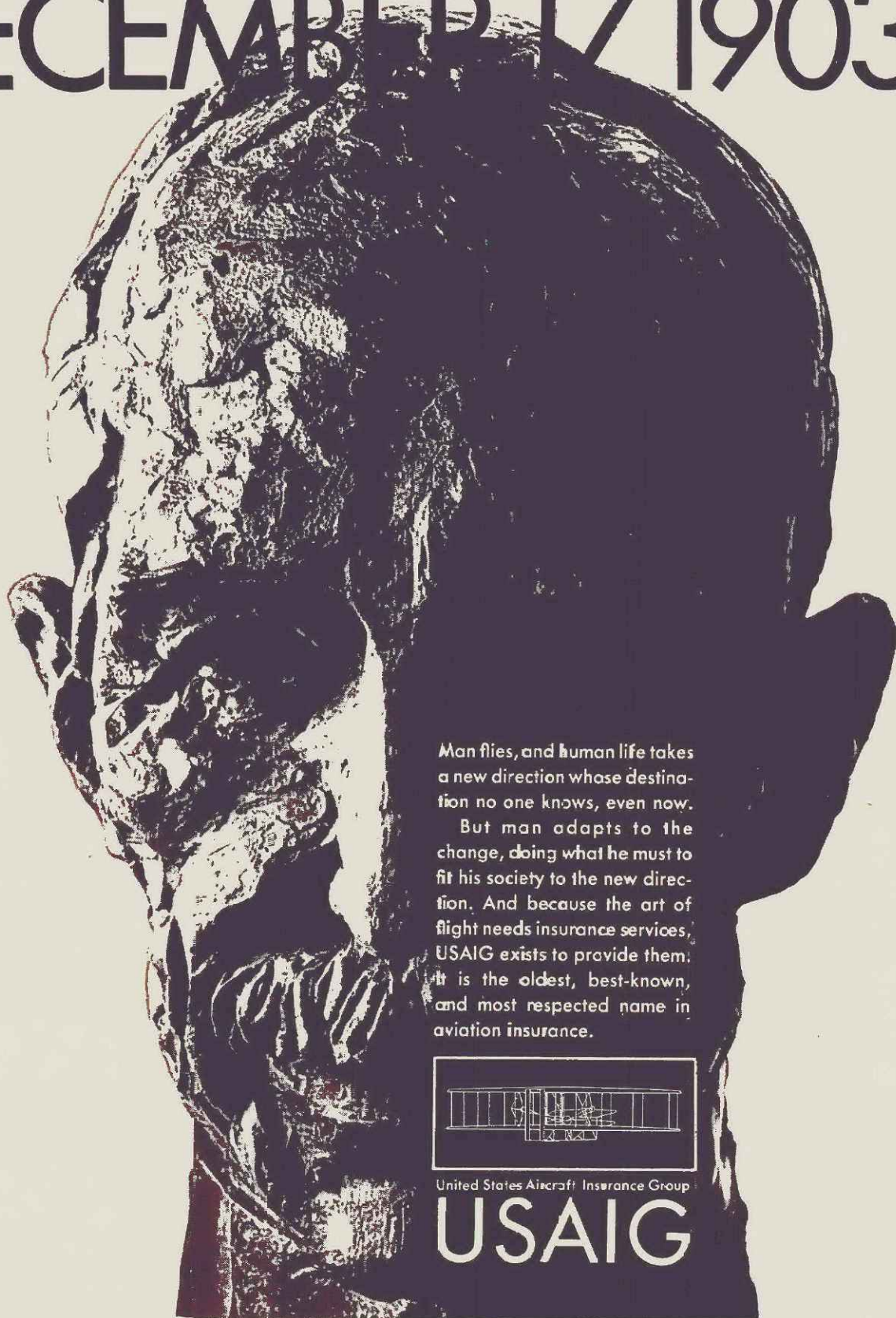
Developed by the Los Angeles-based Loss Prevention Systems Inc., a subsidiary of Great Republic Corp. in Dallas, the systems are being installed in 17 affiliated food stores throughout the state.

In test demonstrations, the foam generating system completely filled the test areas with blaze-smothering and smoke-trapping foam within 90 seconds after initial combustion detection, a LPS spokesman said.

TRIGGERED BY a sensor that detects the presence of combustion, the system also alerts—by telephone—fire and police departments, insurance personnel and store management. Each combustion-detecting sensor can monitor up to 3,000 square feet of floor space.

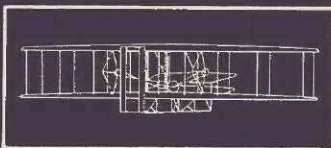
In the tests, food and fixtures in the trial areas were spared extensive water and smoke damage, the spokesman said. Shelved goods suffered virtually no damage and were only slightly damp following complete submersion in foam. Clothing, as well as furniture in the building, was unharmed by the stainless, non-toxic foam, he said.

KITTY HAWK DECEMBER 17 1903



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A lot of the latter keeps us in fighting trim for the former. And a lot of both keeps our loss ratios low.

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But we’d rather you didn’t spread it around. It just might ruin our hard-nosed reputation.

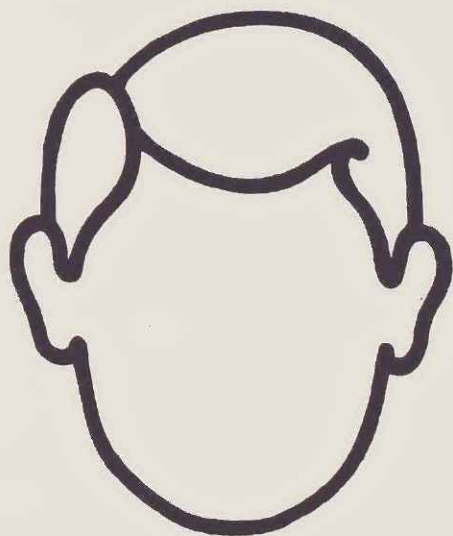


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