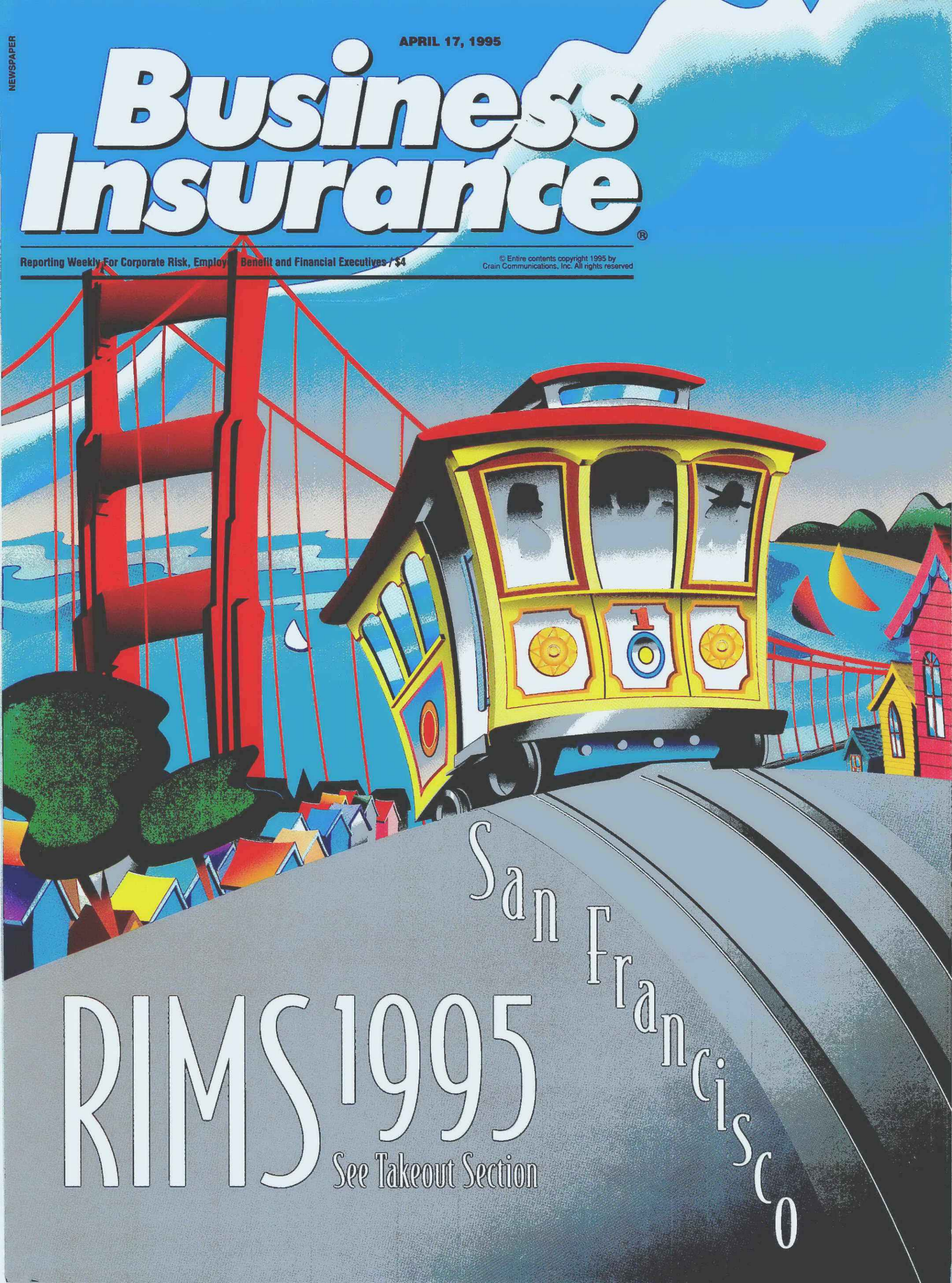
NEWSPAPER

APRIL 17, 1995

Business Insurance®

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / $4

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See Takeout Section

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Updates

Insurer will pay $38.4 million in USG asbestos coverage suit

CHICAGO—Former asbestos company USG Corp. will receive $38.4 million from one of its insurers after the Illinois Supreme Court last week rejected an appeal by it and 10 other insurers of a 1994 ruling that applied a "continuous trigger" of coverage and held that the mere presence of asbestos in buildings is property damage.

The Illinois appellate court ruling involved eight separate asbestos property damage suits and afforded USG's U.S. Gypsum Co. unit up to $550 million in cover-

See **Updates** *on next page*

Golden leaves Texaco

By JOANNE WOJCIK and GAVIN SOUTER

HAMILTON, Bermuda—The sudden departure of Robert C. Golden as risk manager of Texaco Inc. and president of its Bermuda captive operations has caught the island's insurance community by surprise.

Texaco would not comment on a British press report last week that said Mr. Golden, a longtime member of the Bermuda captive community, had been fired amid allegations of misuse of funds at the company's Heddington Insurance Ltd. captive. A spokesman for White Plains, N.Y.-based Texaco also would not say whether the company had investigated the captive's finances.

Speaking from his Bermuda home, the 20-year Texaco veteran denied that his departure was related to misuse of corporate funds or any other impropriety.

"That's rubbish," Mr. Golden said. "There was just a disagreement in philosophy between myself and Texaco and I left amicably."

Heddington's financial statements, which are currently audited by Arthur Andersen & Co. S.C., show no impropriety for the past 20 years, he said. "We are talking about a quality company."

Mr. Golden said he resigned after the differences over a number of issues became apparent. "They

See **Texaco** *on page 45*

Work comp turnaround cheered

By MEG FLETCHER and MARK A. HOFMANN

ORLANDO, Fla.—Risk managers are likely to reap the rewards of a dramatic improvement in workers compensation insurers' combined ratio with reduced premiums and competitive excess insurance pricing.

Workers comp insurers are celebrating a second year of much improved underwriting results, despite declining premiums.

Industrywide, the combined ratio after policyholder dividends improved by 8.1 percentage points to 101% in 1994 from 109.1% a year earlier, estimates the National Council on Compensation Insurance. That figure marks a dramatic 20.5-point improvement in the last two years and a sharp contrast with 1984 to 1992, when the annual combined ratio every year exceeded 117%.

"For the first time in a quarter century, premium taken in is actually coming close to paying for the costs of claims and overhead," NCCI President William D. Hager said at the group's annual meeting, held last week in Orlando. About 550 people attended.

That improvement "took a combined effort with insurers starting it, getting employers and employees involved and then stepping back," said Kathleen A. Muedder, workers compensation executive with Royal Insurance Co. in Charlotte, N.C.

A.M. Best Co. is even more optimistic than the NCCI: it estimates the 1994 combined ratio at 97%. That figure is based on results from more than 2,500 insurers and represents 98% of the workers comp market, said a spokesman.

The recent good results for the workers comp system "are the cumulative and interrelated effects of improvements in rate adequacy, effective benefit reforms, managed care initiatives, lower trends and self-funding residual markets," the NCCI said.

See **NCCI** *on page 17*



GRAPHIC BY MIKE GARVEY

MEWA fight bedevils regulators

By DOUGLAS McLEOD

NASHVILLE, Tenn.—If anyone needed proof of the difficulty state insurance departments face trying to regulate multiple employer welfare arrangements, this is it: The International Assn. of Entrepreneurs of America.

Initially affiliated with an allegedly bogus union welfare plan, IAEA broke with the union in late 1992 and formed its own self-funded MEWA offering "24-hour" workers compensation and health benefits to small employers and employee leasing firms across the country.

Since then, it has been engaged in legal trench warfare in nearly a dozen states: IAEA has insisted it is exempt from state oversight under the Employee Retirement Income Security Act of 1974 and has fought attempts by states with MEWA licensing statutes to deny it a license.

IAEA hasn't had much success so far: Federal courts have ruled against it in two ERISA pre-emption cases, and the MEWA has been hit with preliminary injunctions by other courts.

For regulators, though, the fight has been anything but fast and easy.

One pre-emption case involving the IAEA plan has been resolved by the 1st U.S. Circuit Court of Appeals.

In several states, though, regulatory actions have become bogged down for months in procedural delays, often resulting from federal lawsuits brought by IAEA after state actions have begun.

Meanwhile, Texas, which has a MEWA licensing statute, is still fighting IAEA's May 1994 MEWA license application. Among other things, the Texas Insurance Department objected to the plan's stop-loss coverage with a reinsurer based in the Turks & Caicos Islands and to the fact that James E. Taylor, an IAEA management official, had his Texas agent's license revoked in 1991.

A hearing on the IAEA license

See **MEWA** *on page 45*



Breaking the mold at the Blues

Hays faces challenge in managed care transition

Patrick G. Hays in February became president and chief executive officer of the Blue Cross & Blue Shield Assn. in Chicago, the national coordinating body for 68 independent Blue Cross and Blue Shield plans. Formerly president and CEO of Sutter Health, a non-profit health system based in Sacramento, Calif., Mr. Hays has more than 15 years of health care operations experience. In an interview with Business Insurance *Assistant Managing Editor Christine Woolsey, Mr Hays discussed his experience building integrated delivery systems and how that will help him transform Blue Cross and Blue Shield plans into a competitive managed care force.*

Why were you chosen to lead the BC/BS Assn.?

The search committee ruminated on whether they wanted someone from insurance, someone with a health policy background or someone who had a career in operations. My presence here would suggest they decided on the last.

What kind of health system operations experience do you bring to the BC/BS Assn.?

Sutter is one of the leading-edge integrated health systems in America. It is farther along the integrated health system continuum than other systems in the country. Sutter has pretty effectively brought together under a common governance and management umbrella 15 hospitals, medical groups, independent practice associations, its own health plan, its own health and life insurance company, as well as a full array of non-acute care services. It also deals in the London reinsurance market and owns surgery centers sprinkled across the Western United States. Its revenues are around $1.8 billion per year.

How does your experience as Sutter's CEO fit with the association's goals for the future of member plans?

There are a couple of values I potentially bring to this role. One is I built an integrated system, and that is very high on the radar screens of the majority of the Blues executives in the country. The second value is, during my tenure, Sutter

See **Hays** *on page 29*

KENT LACIN

Updates

Asbestos coverage stands

Continued from previous page
age to pay asbestos claims (*BI*, Nov. 14, 1994).

The insurers covered by the 1994 ruling are: Admiral Insurance Co., American Excess Insurance Co., American Motorists Insurance Co., American Re-Insurance Co., Continental Casualty Co., Fireman's Fund Insurance Co., First State Insurance Co., Interstate Fire & Casualty Co., National Surety Corp., National American Insurance Co. of California, and various Lloyd's of London underwriters. Twelve other insurers named in USG's 1983 coverage suit had settled earlier.

Chicago-based USG did not say which of the companies had agreed to pay the $38.4 million and could not be reached for comment. But it did say that the insurer will pay $25 million immediately, with the remaining $13.4 million paid in three installments over the next three years. The insurer wrote primary and excess coverage in the 1960s and 1970s.

Maryland passes POS mandate

ANNAPOLIS, Md.—Health maintenance organizations in Maryland would have to offer enrollees a point-of-service option beginning next year under legislation passed earlier this month.

Under the measure—believed to be the first of its kind ever passed by a state legislature—HMOs would be able to charge additional premiums or impose higher cost-sharing requirements on individuals who choose the POS option. Premiums in POS plans, depending on how they are designed, are about 10% to 20% higher than those charged by traditional HMOs.

The provider-driven legislative mandate comes at a time when more HMOs, in response to market demand, have been adding POS products, said Fran Tracy, vp of government affairs at Blue Cross & Blue Shield of Maryland in Baltimore.

HMO executives say the POS measure, which the governor is expected to sign, is preferable to other proposals—such as requiring HMOs to take on all providers who can meet their standards—that legislators also had considered.

Suit over annuities reinstated

SAN FRANCISCO—A group of employees and retirees will proceed with their claims against Pacific Lumber Co. for buying Executive Life Insurance Co. annuities after a federal appeals court last week reinstated their lawsuit.

The April 10 ruling by the 9th U.S. Circuit Court of Appeals overturned a district court ruling that the plaintiffs lacked standing to sue under the Employee Retirement Income Security Act of 1974. The district court ruled that the plaintiffs lacked standing because they were no longer "participants" in the plan (*BI*, May 26, 1993).

The court cited the Pension Annuitants Protection Act, which Congress passed in 1994, and which made clear that former participants would have standing to sue over annuities bought to replace terminated plans (*BI*, Oct. 10, 1994).

The Pacific Lumber Co. Pension Plan was terminated in 1986, shortly after Maxxam Group Inc. purchased the lumber company. Maxxam, like many other companies at the time, bought annuities issued by Executive Life to cover its pension benefit obligations.

In 1989, the employees and retirees sued, charging that Maxxam and its president, Houston financier Charles Hurwitz, violated their fiduciary duties to plan members by purchasing annuities from Executive Life, which purchased nearly a quarter of the $450 million of junk bonds used to finance the Pacific Lumber buyout.

Straining under the weight of its huge holding of junk bonds, the Los Angeles insurer was taken over by California regulators in 1991.

At the time, some employers that had purchased annuities to cover promised pension benefits voluntarily made employees whole; others did so to settle Labor Department lawsuits.

Vermont health care reform

MONTPELIER, Vt.—A health care reform bill signed last week by Vermont Gov. Howard Dean will give about one-fourth of the state's 60,000 uninsured citizens health care coverage.

The new law creates a health security trust fund from revenues obtained by: increasing hospital assessments to 4.02% of its gross inpatient revenues; increasing nursing home assessments to $1,000 per bed; establishing a $500 per bed tax on the sale by stock or asset transfer of nursing homes; increasing the tax on all tobacco products to 41% of the wholesale price; and increasing the cigarette sales tax by 24 cents.

Revenues from the trust fund will help finance health care insurance for Vermont workers whose earnings do not exceed the federal poverty level by expanding the state's Medicaid program.

Specifically, the financing, among other things, will bring Medicaid beneficiaries into managed care plans, extend pharmaceutical benefits to low-income elderly and disabled individuals, and increase Medicaid reimbursement levels for physicians and other providers.

The law, which was signed April 12, goes into effect immediately, except for the cigarette and tobacco tax increases and the establishment of the health access trust fund, which go into effect July 1.

First-quarter cats costly

RAHWAY, N.J.—Catastrophes caused an estimated $1.1 billion in insured property damage during the first three months of 1995, according to the Property Claim Services division of the American Insurance Services Group.

That makes the first three months of this year the third-costliest first quarter on record, said Gary R. Kerney, assistant vp of the Rahway, N.J.-based PCS.

See **Updates** *on page 46*

Zurich seeks to diversify with Kemper, Home deals

By GAVIN SOUTER

LONG GROVE, Ill.—Zurich Insurance Group will be stronger and more diverse if its proposed $2 billion stock-and-cash buyout of Kemper Corp. goes through, says Rolf Hueppi, president and chief executive officer of Zurich.

And, this deal will not jeopardize another Zurich deal in the works—its proposed takeover of about $1 billion of the renewal business of The Home Insurance Co., he added.

Separately, Home Holdings Inc. bondholders have agreed not to oppose Zurich's plans for The Home.

Regulators now reviewing that deal are looking at, among other things, the financial strength of Zurich.

Rating agencies also are reviewing Zurich, with some concerned that the additional Kemper Corp. purchase could dilute Zurich's financial strength, though others are comfortable that the Swiss insurer has sufficient resources to handle both deals.

Investors weighed in quickly on the deal. Kemper stock last week rose 9.3% to $45.13 per share on New York Stock Exchange trading, but Zurich shares fell 1.8% to 1192 Swiss francs ($1,040) on the Zurich exchange.

Also investing in Zurich's proposed Kemper Corp. buyout is Insurance Partners Ltd., an investment fund with backers including Zurich subsidiary Centre Reinsurance Holdings Inc.; Chase Manhattan Corp.; and Keystone Inc., a Robert Bass investment vehicle.

The Zurich-led group has offered to pay $49.50 a share for Kemper—$47.50 in cash and $2 in preferred stock, which carries an

See **Zurich** *on page 38*

Victim may sue gunmaker

SAN FRANCISCO—The manufacturer of an assault pistol used in a 1993 shooting spree that left eight people dead and six wounded at a downtown San Francisco law firm can be sued for the gunman's actions, a state court judge has ruled.

Superior Court Judge James Warren based his decision last week largely on the plaintiffs' argument that the sale of the weapon used in the shooting, a TEC-DC9 assault pistol made by Miami-based Intratec, violated the public policy of California, which in 1989 banned similar assault weapons.

California's 1989 Roberti-Roos Assault Weapons Control Act prohibited the sale of the TEC-9, an Intratec gun similar to the TEC-DC9 but with cosmetic differences. In the suit, *Stephen Sposato et al. vs. Intratec Firearms et al.*, the plaintiffs allege the weapon was redesigned to evade the 1989 law.

The decision, which will allow the suit to go forward, is considered rare since most product liability cases brought against gun makers are dismissed on the grounds that allowing such suits would be akin to having the courts legislate gun control.

So far, only one other product liability suit filed against a gun manufacturer on behalf of a shooting victim has been ruled legitimate: a 1985 Maryland case against the U.S. branch of German gun maker R.G. Rohm, which the plaintiff subsequently declined to pursue.

The Washington-based Center to Prevent Handgun Violence filed the suit last year on behalf of the victims of a July 1, 1993, shooting at the offices of Petit & Martin by Gian Luigi Ferri, who killed himself after the assault (*BI*, June 20, 1994).

—By Joanne Wojcik

Loss control directory near

The June 12 issue of *Business Insurance* will contain a directory of property loss control consultants/engineers and a Spotlight report on property loss control.

To be included in the directory, your company must provide property loss control consulting/engineering services directly to corporations/institutions on an unbundled basis. Companies that provide these services only on a bundled basis—i.e. only in conjunction with other services the company provides—do not qualify.

The directory is published as an editorial service and there is no charge to be included. However, organizations must complete and return a *BI* questionnaire by the extended deadline of May 5.

If your company qualifies to be listed and you would like a questionnaire, please contact Assistant Directory Editor Rich Trout at 312-649-5483.

Banks could target commercial market

By RODD ZOLKOS

If efforts in Congress to modify the Glass-Steagall Act succeed, commercial insurance rates may ultimately decline and risk managers could even find themselves shopping electronically for some coverages.

Designed to protect bank depositors, the Depression-era federal statute has long restricted the financial activities of commercial banks. But if Congress were ultimately to pass some of the bills that now seek to open up financial services markets, the path would be cleared for banks to enter the commercial insurance market.

Sen. Alphonse D'Amato, R-N.Y., chairman of the Senate Banking Committee, and Rep. Richard Baker, R-La., have introduced companion bills—S. 337 and H.R. 814—that would allow commercial banks to create financial services holding companies with insurance operations. A separate bill, H.R. 1062, introduced by Rep. Jim Leach, R-Iowa, chairman of the House Banking Committee, would repeal Glass-Steagall's separation of commercial and investment banking, but would not affect insurance.

Bank involvement in insurance could produce changes from greater availability and competition in the small commercial market, to joint bank-insurance company ventures to underwrite specialized coverages, to electronic distribution systems for certain products, say risk managers and insurance and brokerage executives.

Much of the political opposition to financial services reform bills comes from insurance agents and brokers, which fear the personal lines competition from high-pow-

See **Banks** *on page 46*

Inside

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- Insurers' use of catastrophe modeling systems ultimately will benefit insurance buyers, this week's editorial says. **PAGE 8**
- Initial public offerings present some tricky problems for risk managers. **PAGE 28**
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Generating confusion

To bridge gaps, vary benefit info for young and old

By JOANNE WOJCIK

PALM SPRINGS, Calif.—The medium often can be the message for benefit communication programs trying to reach employees of different generations.

That's why programs composed in the vernacular of baby-boomers are often "dissed" by Generation-Xers, and retirees can't abide hearing about change in the institutions they helped create.

"There's a very interesting generational 'disconnect' going on here that we communicators have to know how to deal with," observed Janice Y. Burnham, a principal at Coopers & Lybrand in Chicago.

1995 Benefit Communication INSTITUTE

"Before you can talk about how you're going to communicate to people, you need to think about who those people are," she said during a keynote address at the Benefit Communication Institute held April 2-5 in Palm Springs, Calif.

The institute was co-sponsored by the International Foundation of Employee Benefit Plans and the International Assn. of Benefit Communicators.

Applying a theory drawn from "Generations," a book by historian William Strauss, Ms. Barnham suggested that employee benefit communications materials should use different means to deliver the same message to each generation of employees.

While many benefit communications experts don't think it's worth the time or expense to create demographically directed information programs, "I think there are some very important reasons why we should," she said.

Her reasons:

- First, and foremost, "we're on a mission to transform people through communication," Ms. Barnham said.
- Second, since benefit communications budgets usually are limited, "every dollar counts," she said. "In fact, budgets are getting crunched more and more."
- Third, "our topic is very com-

See **Generation** *on page 36*

New approach to benefits

Employers offering more choice, flexibility, survey finds

By SALLY ROBERTS

Employers are increasingly offering non-traditional employee benefits to give employees greater flexibility and choice, two new studies show.

Within the next three years, for example, one in four employers plans to offer long-term care insurance to its employees. Only 10% of the employers responding to one recent survey by Hewitt Associates L.L.C. currently offer the benefit.

The consultant polled 489 employers that offer a mix of both traditional and flexible employee benefit programs.

Other non-traditional benefits that the employers said they intend to offer within the next three years include:

- Group financial planning services, at 18% of respondents. Currently only 2% of the respondents offer them.
- Alternative work arrangements, including flex time, compressed work weeks, job sharing and telecommuting, at 17%. Already 35% of the respondents say they offer them.
- Paid time off programs, combining vacation days, sick leave or other time off, at 17%. Currently, 8% of the respondents combine their time off programs.
- Group auto insurance, at 15%. Currently 8% offer group auto insurance.

The survey's findings reflect trends in benefit plan design, said Stacey McGrath, plan design consultant for Hewitt in Lincolnshire, Ill. Employers are listening to their employees and recognizing that carefully designed "benefits can support overall business results," she said.

One benefit plan once considered non-traditional is now widespread, according to the Hewitt survey. Three out of four survey respondents said they offer at least one flexible spending account. And two-thirds of the respondents—66%—offer both health care and dependent care

See **Benefits** *on page 20*

A&A's Zarb sees market realignment energizing brokers

By MARK A. HOFMANN

PHILADELPHIA—Frank Zarb is bullish on the brokerage business.

"There has never been a better time to enter the business," says Mr. Zarb, who became chairman, president and chief executive officer of Alexander & Alexander Services Inc. less than a year ago (*BI*, June 13, 1994).

Before joining A&A, Mr. Zarb made a name for himself on Wall Street for turning around Smith Barney. And in the mid-1970s, he was known as the "energy czar" as a federal official under President Gerald Ford.



Frank Zarb

But it was as a relative newcomer to the insurance business that he addressed an audience that included dozens of college students at Temple University last week. The occasion was the annual awards luncheon for the department of risk management, insurance and actuarial science.

"We have something in common: We're trainees in the business," Mr. Zarb told the students.

The insurance industry faces major structural changes, he said.

These changes, though unsettling and likely to lead to continued consolidation, mean new business opportunities for some companies, he said.

The restructuring of the insurance industry is the "third leg" of change within the financial services industry that began in the 1970s, according to Mr. Zarb.

The first to change was the securities industry, he said.

Until the late 1960s, the securities industry consisted of numerous partnerships. These venerable partnerships, some of which had lasted more than 100 years, were the domain of Ivy League graduates who sold stock to their rich friends, said Mr. Zarb. The

See **Zarb** *on page 11*

Deadly medical errors highlight risk manager role

By MICHAEL BRADFORD

A spate of deadly hospital mistakes in recent months is raising concern about the safety of patients and putting the spotlight on the adequacy of health care risk management.

Hospitals must reinforce basic policies and procedures for employees who deal directly with patients and must closely monitor employees if they are to avoid mistakes like those that recently have left several patients dead or injured, risk management experts say.

An incident at University Community Hospital in Tampa, Fla., brought the issue to the forefront earlier this year, when a 51-year-old diabetic's wrong foot was amputated and another patient died after mistakenly being removed from life support.

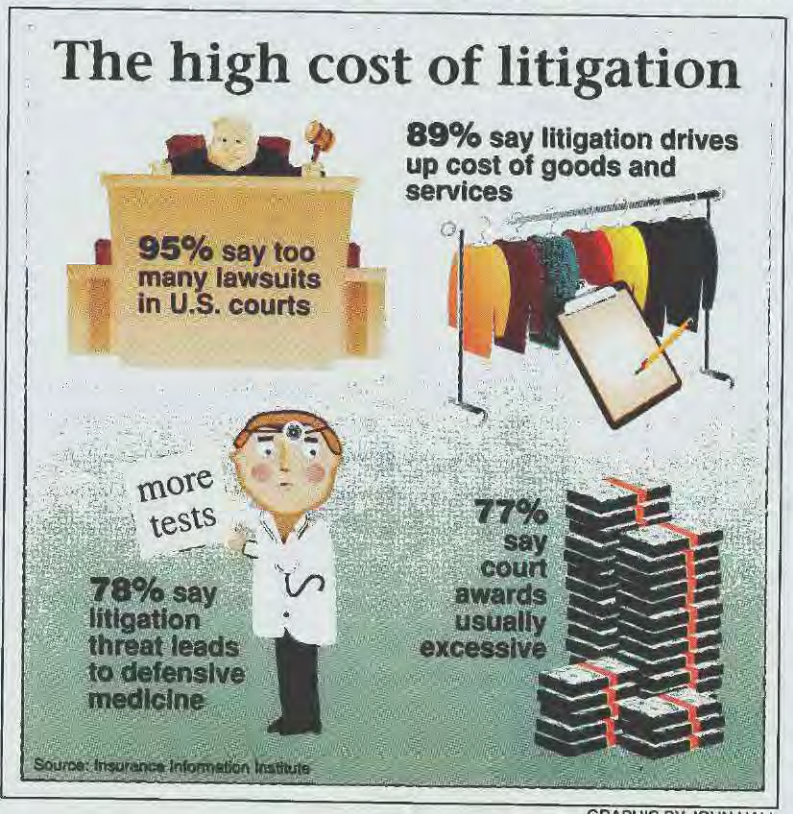
The hospital also has acknowledged that a woman who had just given birth was nearly sterilized when doctors tied one of her fallopian tubes before realizing their mistake and knee surgery was performed on the wrong knee of a patient at one of its branches.

"What we're hearing is the worst nightmare a risk manager and patient could have," said Pamela J. Roberts, director of risk prevention services at Medical Inter Insurance Exchange in Lawrenceville, N.J., and immediate past president of the American Society for Healthcare Risk Management.

The incidents in Tampa brought attention to mistakes at other hospitals. Among them:

- A medical writer for the Boston Globe died after getting four times the proper dose of the cancer drug Cytoxan at Dana-Farber Cancer Institute in Boston.
- A surgeon in Grand Rapids, Mich., removed the wrong breast in a mastectomy on a cancer patient.
- A 5-year-old boy being treated last summer at Children's Hospital in Boston for behavioral problems was given a toxic cancer drug for five days.
- A Fort Worth, Texas, hospital recently agreed to pay $9 million to the family of a cancer patient who died last year after surgeons

See **Hospitals** *on page 4*



GRAPHIC BY JOHN HAU

U.S. public frowns on litigious society

By MICHAEL SCHACHNER

The average American believes there are too many lawsuits in the United States and that high jury awards are adding to the cost of various products and services, according to a recent study by an insurance industry trade group.

In a survey released last week by the Insurance Information Institute, the majority of respondents said there are far too many lawsuits in the United States, and that the money juries are awarding plaintiffs is usually too high.

The end result of having such a litigious society with excessive jury awards is that doctors are performing too many procedures to protect themselves from liability and the overall cost of litigation is being passed on to consumers in the form of higher prices on goods and services, the survey's authors report.

The survey of 1,250 adults, performed by Cambridge Reports Research International, found that 95% of respondents feel there are too many lawsuits being filed in U.S. courts today, and 77% said the amount of money awarded to those winning a lawsuit is usually excessive.

As a result of the level of litigation, doctors—one of the primary targets of lawsuits—are so fearful of being sued and exposed to huge damages that they are performing an array of unnecessary tests and procedures, according to 78% of respondents.

And, the impact is felt by everyone—not just patients. Eighty-nine percent of respondents said society bears the costs of excess litigation because it pushes up the price of all products and services.

The survey also focused on what Americans think about various industries on which they rely. Fifty-two percent said they maintain a favorable opinion about the life insurance industry, while 50% said they had a favorable opinion overall about the automobile and homeowners insurance industry. Meanwhile, banking and the telephone industry received favorable ratings from more than 60% of respondents.

"While looking to control litigation, we must also take into account the public's concern and apprehension regarding their access to the courts," said Gordon Stewart, president of the New York-based III. "We need to find a balanced position, one that protects (consumers) from real abuse, yet reduces the lawsuit abuse which is ultimately passed on to the public in the form of higher costs for liability insurance."

•

Copies of the survey can be obtained by writing to Loretta Worters, Insurance Information Institute, 110 William St., 24th Floor, New York, N.Y. 10038.

Hospitals

Continued from previous page
removed the wrong lung in 1991.

Risk managers contend that a mishap that leads to a patient injury or death usually occurs when a policy or procedure is overlooked. It's the risk manager's job, they say, to make sure things are done by the book.

Ms. Roberts pointed out that the "primary underlying cause of not only the two events in Tampa but elsewhere" was a breakdown in procedure. "It's always a break or breach of procedure."

The Health Care Financing Administration confirmed that procedural problems led to the injuries at University Community Hospital in Tampa.

HCFA authorized Florida's Agency for Health Care Administration to investigate the Tampa hospital, which was told to correct problems or lose Medicare and Medicaid funding.

"The agency issued a statement of 17 pages of deficiencies," said Rick James, chief of HCFA's survey and certification operations branch in Atlanta. "The problems had to do with procedural and people problems" in surgery and nursing, he added.

The hospital has responded by indicating it has "beefed up procedures and trained staff," said Mr. James, and inspectors will be going back to determine if the problems have been corrected.

Risk managers have to be sure the proper procedures are in force and are familiar to everyone in the hospital.

"We reinforce the policies and procedures" put in by other departments, said Pamela C. DeMarco, director of risk management at Parkview Community Hospital Medical Center in Riverside, Calif.

"We hold workshops or in-service programs to inform nurses and others what their responsibilities are" and how to react if a mistake is made and a patient is injured, Ms. DeMarco noted.

The amount and type of involvement risk managers have in developing and implementing policies and procedures varies.

"Every hospital is different," said Katie Huber, risk manager at Parkland Memorial Hospital in Dallas. "Here, there's a lot of involvement" by risk management, she added.

"I chair the committee that develops nursing policies and procedures," Ms. Huber pointed out. And, she noted, "hospitalwide policies and procedures also come out of this department."

Ms. Huber said eliminating errors that occur in patient handling depends on "all kinds of steps built into the procedures," from new employee orientation to patient identification.

For example, she said, Parkland stresses that medical personnel administering drugs know the "patient's five rights," meaning nurses are to carefully determine that it is the right patient, right drug, right time for administering the drug, right dosage and the right route for the drug to be administered.

"You try to instill the thought process of risk control with everyone in the organization," said Jane Bryant, director of risk management at Greenville Hospital System in Greenville, S.C. "You try to have the best selection of people and monitor them."

Ms. Bryant acknowledged that "getting the right folks and keeping them monitored is critical" and difficult for hospitals.

"You can have the best procedures, but you have people who apply them," she explained. "They come in every day with their own status. They may be inattentive one day because of things that the organization has no control over."

Difficulty lies in knowing when employees are distracted, she said.

An employee who is affected by a long-term personal problem is a risk that is easier to spot and control than a worker who may be upset over nearly having a traffic accident on the way to work and is distracted and inattentive, Ms. Bryant pointed out.

"You have to be a realist," she said. "You have to know that there could be an error. The important thing is to see how you can change the process to reduce the risk next time."

Ms. DeMarco agreed. "If there is an occurrence, there is a report and a review. You see what the present policy is and if it needs changing."

Risk management "is something you want to have ingrained in every person, the way they do business," Ms. Bryant said.

She pointed out that medical professionals are by the nature of their business trained in risk management.

"You have to understand that there is an awful lot of risk management activity that goes on in health care in all phases, some of which has existed or evolved without the direction of risk management professionals."

Much of managing the risk of handling patients is learned in nursing and medical schools, Ms. Bryant said. "Although they may not call it risk management."

And it's not a risk manager's job to tell a medical professional how to handle patients, she added. "I would never presume to tell a physician, nurse or technician, 'That is a safer way to do your job' but rather would say, 'What things can prevent these possibilities?' "

Mistakes not only injure patients but often mean hospitals, doctors and insurers shell out millions of dollars in jury awards or settlements.

Osteopathic Medical Center of Texas in Fort Worth recently agreed to pay $9 million to the family of the cancer patient who died earlier this year after having the wrong lung removed in 1991.

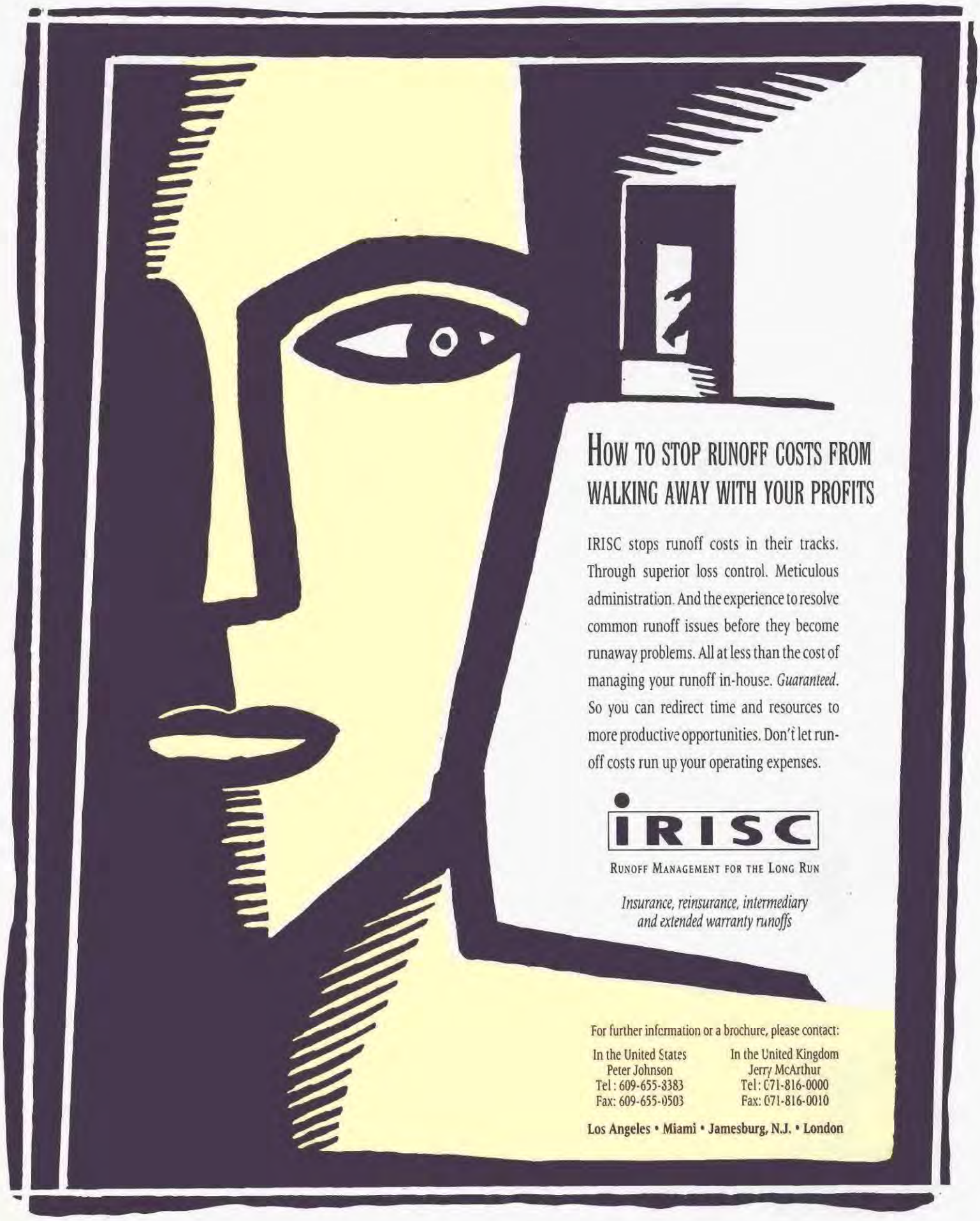
The hospital, which settled because it feared a high award from a jury trial, is self-insured, according to attorneys for the patient's family.

Because of the threat of high awards or settlements, some hospital risk management departments are more concerned with "the assessment of medical malpractice risk than patient risk," said Karen E. Koskoff, a malpractice attorney with Koskoff, Koskoff & Bieder in Bridgeport, Conn.

Ms. Koskoff said that many times after a patient is injured because of a mistake, risk managers huddle with hospital employees as a way for "witnesses to get their stories straight. We have found that there have been a number of meetings where all the witnesses are present" as the hospital formulated its best defense.

But, there have been instances after malpractice cases were settled in which risk managers have sought the attorneys' advice to improve procedures that would prevent future mistakes, she said.

"I think if there's that kind of concern by risk managers, then risk management can be effective," Ms. Koskoff said. BI





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PacifiCare referral program saves time, money

Benefit Beat

CYPRESS, Calif.—A resource and referral program to assist employees with child or elder care arrangements helped PacifiCare Health Systems save more than $260,000 in 1994.

With the program, each worker who needed child or elder care spent an average of 2.8 work hours per month making child and elder care arrangements, down from 8.6 hours without the program, the Cypress, Calif.-based health maintenance organization found in a survey.

Reducing that time on the phone saved 99 work hours last year, or about $261,528 based on the average hourly pay at PacifiCare. About 3,500 of the company's 4,600 employees are eligible for the referral service and other work-family benefits.

PacifiCare's resource and referral network, which the HMO began in 1990 through Lend-a-Hand, a referral service, offers its employees access to professional child care counselors Monday through Friday from 7 a.m. until 6 p.m., said Patricia Erickson, employee services manager for PacifiCare.

For example, an employee in need of a child care center can call one of the counselors and give him or her budget and location requirements. Then, the counselor will call the employee back with at least three opportunities and data on each of the centers. It is up to the parents to interview each of the centers.

PacifiCare says it saved another $52,285 last year through its on-site lactation program. It has four lactation facilities equipped with electronic breast pumps, counseling and nurses, Ms. Erickson said. In 1994, the HMO saved more than $50,000 in replacement costs, absenteeism and health care costs, which more than outweighed the $12,000 it cost to run the program.

—By Sally Roberts

Kmart profit sharing

TROY, Mich.—Kmart Corp. is establishing a new profit-sharing plan and freezing its existing defined benefit pension plan.

Under the new plan, which will be available to all domestic Kmart employees with at least one year of service, Kmart will make a minimum annual contribution of $30 million. Additional contributions will be made if Kmart's U.S. pre-tax profits exceed $750 million or 2.5% of sales. Contributions will be made starting this year. Profits last year were only $296 million.

The new plan "will create specific economic incentives by emphasizing the connection between associates' efforts and Kmart's performance as measured by specific pre-tax profit benchmarks," said Anthony N. Palizzi, interim president of the huge Troy, Mich.-based retailer. The new plan also will increase the company's financial flexibility, he added.

Kmart's defined benefit plan, which has 270,000 participants, including 180,000 employees, will be frozen on Jan. 31, 1996. That means employees will not accrue additional benefits for future service and the plan will be closed to new employees. A Kmart spokeswoman said no decision has yet been made on whether the defined benefit plan will be terminated in the future.

By freezing the pension plan, Kmart expects to record a one-time pre-tax gain of $100 million in the first quarter of fiscal 1995. The gain is the result of a change in liabilities due to freezing the pension plan.

Aside from the new profit-sharing plan, the soon-to-be frozen defined benefit plan, Kmart offers employees a 401(k) savings plan.

—By Jerry Geisel

Utility alters 401(k)

PITTSBURGH—Consolidated Natural Gas Co. will make sweeping changes, effective July 1, to its $400 million 401(k) plan for salaried employees.

Among the changes, it will offer non-union workers seven additional investment options—including several balanced stock and bond funds, an international stock fund and a small cap stock fund—and move to an outside record keeper, said Donald W. Borneman, senior assistant vp-asset management.

The company also will shift investment management costs to employees in the restructuring.

The plan will retain three of its four existing investment options and drop two managers.

"We think the balanced fund options will meet the need of employees who aren't comfortable deciding what portfolios (or asset allocation) they should include" in their 401(k) accounts, said Mr. Borneman.

In addition, Consolidated hired Mellon Bank as record keeper, replacing an in-house system.

The new Mellon system will enable the plan to accommodate more investment choices and to move from monthly to daily valuation and switching for all of the investment options, except for company stock and a stable value fund, for which there will be some restrictions.

In addition, the 401(k) plan will drop an internally run money market portfolio, which also has 5% of plan assets. The company instead wanted to emphasize the long-term nature of the plan, Mr. Borneman said.

The plan will retain the stable value fund, whose annuity contracts are selected and managed internally.

The stable value fund has 30% of the plan's assets. Also, the plan will keep a company stock fund, which now accounts for 60% of the plan's assets.

Consolidated Natural Gas considered adopting a bundled approach. But Mr. Borneman said that idea was rejected to give the plan more flexibility to change investment managers as needed and because of costs.

Also, he said the company was concerned that a bundled approach would turn over communications to one vendor that would promote only its own funds.

—Crain News Service

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Opinions

Industry needs cat models

ABOUT 600 YEARS AGO, many people got in an uproar when a few explorers, armed with better information and technology, suggested the earth was round, not flat.

Well, as we now know, the earth is not only round, it is bumpy, shaky and windy, among other endearing qualities.

Today, a similar uproar is being heard from some people over new technology that is helping insurance companies to better understand their exposure to Mother Nature's perils. We think this controversy over who is setting insurance premiums—underwriters or computer modeling companies—is ridiculous.

Although more precise information on catastrophe exposures is certainly leading insurers to raise rates in certain areas, we think any technology that gives underwriters more and better information about the risks they underwrite is beneficial. And we believe the consumer will ultimately benefit.

As we reported last week, some activists in California are claiming that catastrophe modeling companies may be driving the underwriting of risks, not insurers. It has also been suggested that these companies' research may be merely an excuse used by insurers to jack up rates.

It is true that with more accurate computer models insurers and reinsurers can better assess their catastrophic exposures and, as a result, have raised rates in certain areas. Insurers and reinsurers are waking up to the reality that they have long charged inadequate prices for the catastrophe exposures they are underwriting.

Risk managers are painfully aware of this in coastal areas of the United States, where insurers have moved to limit their aggregate exposure to windstorm risks, and in areas of the country with a risk of earthquakes.

As noted by Terry Van Gilder, a former underwriter who is now the chairman of Risk Management Software Inc., "The market correction is more severe, because people have not been attending to it over time."

Contrary to the assertions of computer modeling's critics, we believe that the information provided by these programs ultimately will benefit the insurance industry and its customers.

Just as better information may lead insurers to raise rates for some areas, companies may find that their level of exposure in another area does not warrant such high rates. Insurers may even be surprised to learn of areas long considered risky where the threat of disaster is not borne out by the computer scenarios.



In the long run, as modeling and advanced research lead to more accurate rating of catastrophe-exposed property, insurers will be better able to price and spread the risk. That could mean that fewer insurance companies would be seriously hurt or driven out of the market by a single catastrophic event. The buyer benefits from a stronger insurance industry.

By the same token, this technology may show insurers that a given type of property or a specific area is so susceptible to catastrophes that they will refuse to underwrite such risks at all.

If a particular area or type of property becomes uninsurable, then perhaps we shouldn't be placing our property and assets at such risk. Perhaps we shouldn't be building on fault lines or living in condos along fragile coastal areas.

But, some people will continue to build on fault lines and live on the sea and, fortunately for them, there probably will be an insurer to underwrite the risk for a price. At least with catastrophe modeling, the insurer has a better chance of knowing what the price should be.

Letters

NAIC has strayed from original course

To the editor: Your March 20 article, "New NAIC Members Try Fresh Approach," reports the efforts of four bellwether states—New York, Illinois, California and Texas—to bring rationality to the NAIC accreditation process.

Industry and insurance consumers should applaud this questioning of the ever-increasing number of model bills on the "must" list for accreditation. The original NAIC intent called for only a few model bills, critical to solvency and widely supported, as the basis for accreditation. In ensuing years, "pride of authorship" of various NAIC committees and a desire to demonstrate aggressive regulation has resulted in 23 bills on the accreditation list.

As a result, industry is burdened with growing costs of trying to hit a moving regulatory target, capacity is diminished by excessive restrictions on insurers' market operations, and regulatory focus is diverted from true solvency issues to trying to maintain accreditation status.

Fortunately, New York Superintendent of Insurance Ed Muhl and Jim Schacht, acting director of the Illinois department, bring "institutional memory" to the NAIC to remind members how far they have departed from the original good intentions. Let's hope their influence, joined by Commissioners Chuck Quackenbush of California and Elton Bomer of Texas, can alter the present course.

Karl W. Koch
President
Savers Property & Casualty Insurance Co.
Overland Park, Kan.

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HCFA's repayment efforts misdirected

To the editor: I appreciate your endeavor to stay abreast of the ongoing Health Care Financing Administration saga with your March 27 story, "A New Round in Billing Battle." I am particularly impressed by how you have explained that providers play a major role in the financing fiasco.

In discussions with other benefit professionals, it seems that our company's Medicare scenario is not very different from most: about 50% of the demands made to us by HCFA are for claims that were never originally presented to us by the provider. For most of the remainder, the bills were presented to both employer and Medicare payers, but Medicare was not informed by the provider or patient that primary coverage was available. In all cases where demands were made by HCFA, our claims administrator has properly processed the claims and paid as appropriate. Had the claims been correctly presented to our administrator originally, I have no doubt that the same proper process would have occurred, albeit much earlier.

Rather than placing further legislative burdens on employers, I believe HCFA should be working to put some of the responsibility and burden of proof on the proper parties: Medicare claimants and their providers. Without their cooperation, HCFA may never resolve its claim issues.

Beverly Khosh
Director-Employee Benefits
American Restaurant Group Inc.
Newport Beach, Calif.

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Allen moves to Coopers & Lybrand

Harris M. Allen Jr., formerly a scientist at The Health Institute, an independent research arm of the New England Medical Center in Boston, is now director of the new Health Care Consumer Survey Unit at Coopers & Lybrand L.L.P. in Boston.

In his previous position, Mr. Allen developed and implemented the Employee Health Care Value Survey Project, an employer-based initiative that compared employee satisfaction with competing health plans. Three large employers—Xerox Corp., GTE Corp. and Digital Equipment Corp.—sponsored the survey, which measured more than 24,000 employees' satisfaction levels with 32 different health plans in six regions (*BI*, July 11, 1994).


Mr. Allen

The new survey unit of Coopers & Lybrand will conduct its Consumer Health Plan Value Survey for large, multilocation employers. In addition to measuring consumer satisfaction, the survey will study how employees assess the state of their own health.

Also at other suppliers:

Scot E. Smith II named to the new position of president of Sedgwick Noble Lowndes USA, the Memphis, Tenn.-based U.S. employee benefits consulting unit of London-based broker Sedgwick Group P.L.C.

G. Gae Mitchell joined Watson Wyatt Worldwide—formerly The Wyatt Co.—as a senior consultant and director of the communication consulting practice in Chicago. Before taking the Watson Wyatt position, Ms. Mitchell was with A. Foster Higgins & Co. Inc.

Also at Watson Wyatt, **Paul W. Robberson** named manager of its retirement practice in Chicago. **Ralph P. Aufheimer** also joined the Chicago office as an account manager and head of business development.

Allen A. Ehrhardt and **Wanda O. Ehrhardt** joined The Segal Co. as senior vps in the Chicago office. Both were previously consultants in the Chicago office of The Wyatt Co.

Robert M. Hall joined the national insurance practice at the law firm of Rudnick & Wolfe in Washington. Most recently, Mr. Hall was senior vp-government relations for American Re-Insurance Co.

Dr. Robert C. McDonald named medical director at Athena Advanced Healthcare Solutions, the Indianapolis-based medical information management firm. Previously, Dr. McDonald was a health economics research physician with Eli Lilly & Co.

Managed care

Dr. Dale T. Berkbigler named president of QualMed Inc., the Health Systems International Inc. subsidiary in Woodland Hills, Calif. Mr. Berkbigler succeeds **Dr. Malik M. Hasan**, who remains chairman in addition to his role as co-chairman, co-president and co-chief executive officer of Health Systems International.

Richard H. Eskow named president of Total Employee Care Inc., the workers compensation managed care service subsidiary of Physicians Health Services in Stratford, Conn. Before taking that job, he was director of medical management at Liberty Mutual Insurance Co. of Boston. He succeeds **Luke Gilleran**, who resigned from Total Employee Care earlier this year.

Katherine H. Cardulla named president and chief executive officer of Dental Network of America Inc. in Chicago, the dental HMO and a subsidiary of Blue Cross & Blue Shield of Illinois.

Joseph Colosi named vp-managed care at Primary Health Services Inc., a nationwide preferred provider organization based in Aurora, Ohio.

Comings & Goings: Industry

Insurers

Mark Pabst named to the new position of president and chief executive officer of international underwriting operations for The St. Paul Cos. Inc., and will be based in St. Paul, Minn., and London.

David R. Carpenter, executive vp-life insurance operations at San Francisco-based Transamerica Corp., will take early retirement effective May 1. **John Fibiger**, president of Transamerica Occidental Life Insurance Co., will assume Mr. Carpenter's responsibilities.

Enzo Rebula named senior vp at Arkwright Mutual Insurance Co. in Waltham, Mass.

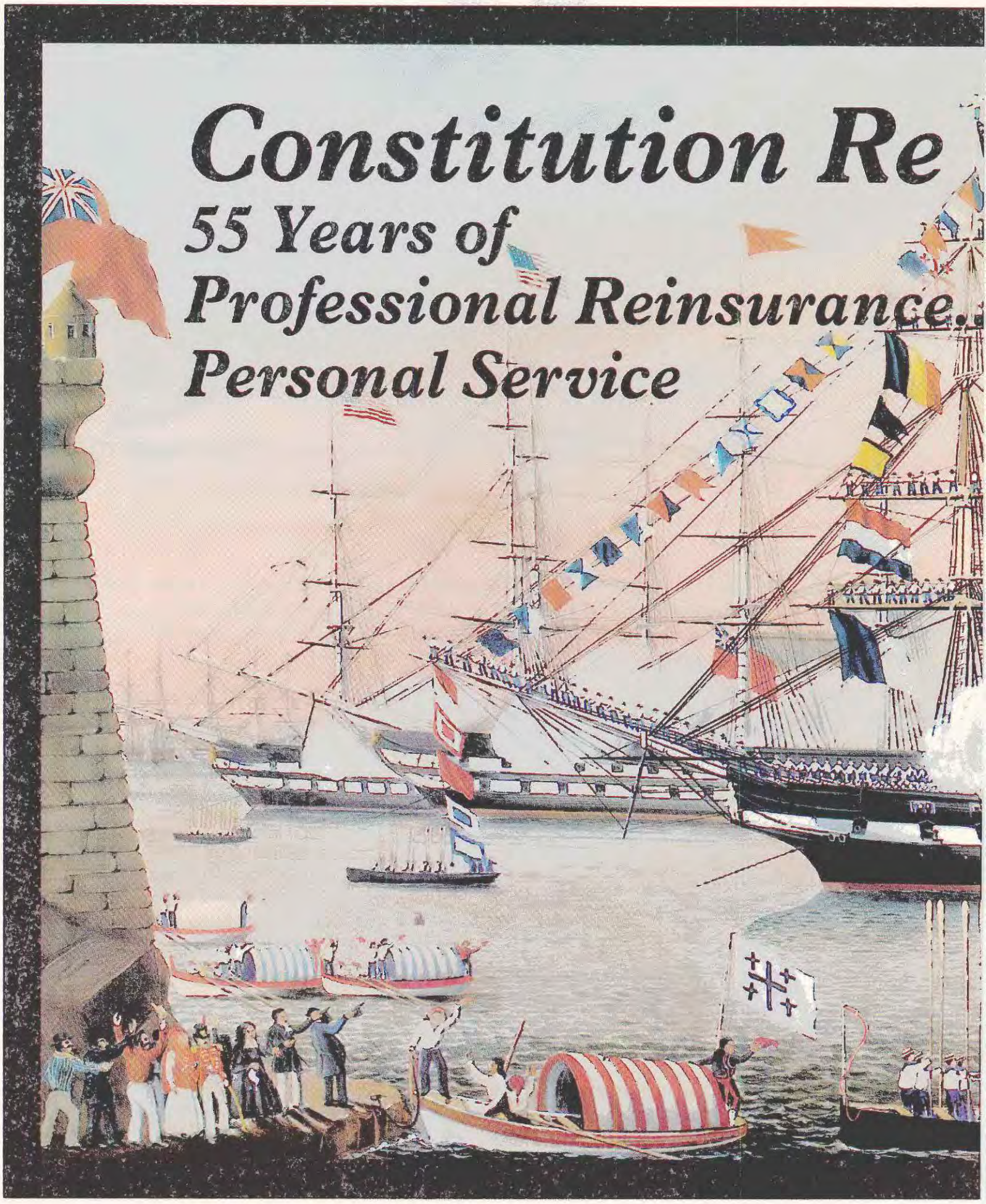
Ronald J. Anderson, president and chief executive officer of American International Group Inc. companies in Japan and Korea, has been named chairman of those companies. He succeeds **Evan G. Greenberg**, who was promoted to president and chief operation officer of American International Underwriters in 1994. **Donald P. Kanak**, previously regional vp, named president and chief operating officer of AIG Cos. in Japan and Korea with responsibilities for the life insurance, direct response and warranty business. **Thomas A. Wall**, also a former regional vp, named executive vp and chief operating officer of AIG's non-life insurance companies in the region.

Also at AIG, **Stan Galanski** named executive vp and chief operating officer of New Hampshire Insurance Co., a New York-based subsidiary.

Michael P. Borom named chief financial officer of Aetna Life & Casualty Co.'s property/casualty businesses in Hartford, Conn. Mr. Borom succeeds **Greg Bertles**, who took another position with Aetna last summer. Previously Mr. Borom was vp and chief financial officer for GE Capital Mortgage Corp. in Raleigh, N.C.

Jay M. Anliker named vp and controller of Wausau Insurance Cos. in Wausau, Wis., succeeding **Bruce Thornton**, who is retiring. Also at Wausau, **John Torrens** named vp and treasurer, succeeding **Will Sanford**, who is retiring. **Bill Tolly** named vp-human resources, succeeding **Warren Fabel**, who is retiring, and **Jay Coldwell** promoted to the new position of vp-group actuary underwriting.

Continued on next page



Continued from previous page

Keely A. Hertel promoted to vp and treasurer of American Surety & Casualty Co. in Jacksonville, Fla.

Anthony J. Slowski named vp at Skandia America Corp. in New York.

Anthony A. Borgese named senior vp-special operations group at Reliance National Insurance Co. in New York with responsibilities for the construction division.

Agents/brokers

James R. Parck named senior vp and **Jed N. Shea** named vp of Minet Inc.'s financial services division in Chicago.

Eleanor Leger named director of strategic planning at Alexander & Alexander Services Inc. in New York. Ms. Leger, previously a principal at Mercer Management Consulting, will manage long-term growth strategy projects for A&A.

Also at A&A, **Michael Miron** named senior vp-marketing at A&A Underwriting Services Inc.

George Bacon named vp of Jardine Insurance Brokers in Los Angeles.

Jim Stone named senior vp and account executive in the business development division of Rollins Hudig Hall of Illinois in Chicago.

David F. Bruenner named president and chief executive officer of Palmer & Cay/Carswell of South Carolina Inc. in Charleston. He succeeds John E. Cay III.

Joseph B. Inge, vp-major corporate accounts at Johnson & Higgins in Costa Mesa, Calif., promoted to the additional role of client management practice leader responsible for overall client satisfaction.

Reinsurance

Robert K. Burgess joined Princeton, N.J.-based American Re Corp. and its operating subsidiary American Re-Insurance Co. as senior vp, general counsel and secretary, replacing **E. Michael Joye**, who is taking a consulting position with the company. Previously, Mr. Burgess was with the law firm of Latham & Watkins in its Chicago office.

At General Re Corp. in its Stamford, Conn., office: **Ronald G. Anderson** named vp-corporate development; **Christopher P. Garand** named vp; **Theron S. Hoffman** named vp-human resources; **Elizabeth A. Monrad** named vp and treasurer; **Stephen P. Raye** named vp-technology; and **Lee R. Steeneck** named vp and actuary.

Ronald C. Stanziale Jr. named vp and chief financial officer of Great Lakes American Reinsurance Co., a New York-based member of the Munich Re Group. Previously, Mr. Stanziale was CFO of Willis Faber North America Inc. BI

Zarb

Continued from page 3

business was not terribly dynamic—a big day on Wall Street meant that 10 million shares had been traded.

Today, more than 300 million shares can change hands on any given day.

But in the '70s, mutual funds exploded, capital started to move across borders more often and customers demanded value-added service, he said.

As a result, many of the old established firms disappeared. "Today's investment community adds value to your balance sheet," said Mr. Zarb.

Then upheaval hit commercial banking in the late 1970s and early 1980s.

The banking industry had long been happy to collect deposits on which it paid 2½% and then lend the money out at 6%, said Mr. Zarb.

It ran Christmas club savings accounts that paid no interest but might include a free toaster for the lucky depositor, he joked.

But a combination of factors, including bad investments and management that couldn't handle change, sent commercial banking reeling.

The depositors turned in their savings account passbooks in droves, preferring instead mutual funds and certificates of deposit that paid better interest rates on their savings.

"Talk to me about yield, don't talk to me about toasters," is what depositors demanded, said Mr. Zarb.

Now, it's the insurance industry's turn to change in the face of customer demands. Insurance companies' customers have bigger needs, he said.

In addition, Mr. Zarb said corporate chief executive officers have told him, "I don't understand my risks."

But as needs increase, the insurance industry is going through catharsis, he said.

Bad investment results, natural disasters and the decisions of what Mr. Zarb called a "wacky court system" have all served to "hobble" the balance sheet. With credit ratings under scrutiny, the insurance industry is shrinking, he said.

A new breed of risk managers will drive the insurance industry to find solutions, says Frank Zarb.

A new breed of risk managers will drive the insurance industry to find solutions, said Mr. Zarb. "Two golf games between renewals won't work anymore."

Risk managers are probably the most important financial executives in modern corporations, he said.

They are the ones who will approach brokerages looking for new products, such as combinations of insurance and capital products.

For insurance brokerages, the changes will mean more consolidation, just as they have for underwriters, he predicted. Bigger brokers will respond to the new needs, as will niche brokers, he said.

"The middle of the market is going to have to do something" to survive, he said.

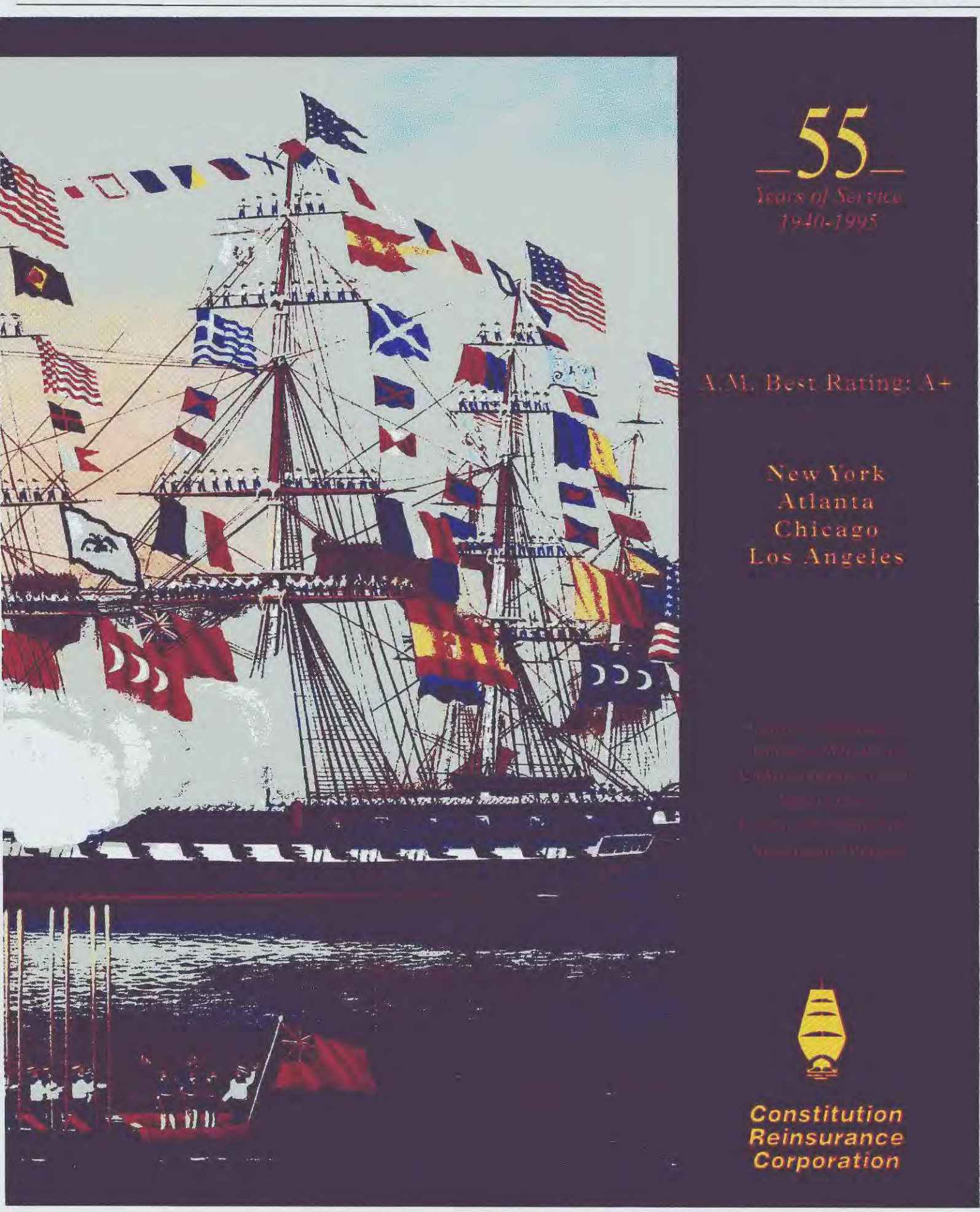
The brokerage market will consist of two segments, said the A&A chairman.

One segment will serve mid-market accounts, treating the companies with dignity and respect and delivering timely, low-cost service.

The brokers serving the upscale market of large accounts will have to be of "investment banker" quality, he said. "Tell them things they don't know."

There has never been a better time for insurance brokers, "if you're nimble" and can respond to these new demands, said Mr. Zarb. "To my fellow trainees, there's never been a better time to enter the business."

The Temple seventh annual awards for excellence program in Philadelphia drew about 400 participants and 39 corporate sponsors. BI



Pension sponsors may gain options

Crain News Service

By PATRICIA B. LIMBACHER

WASHINGTON—The Labor Department wants to open the regulatory gate for sponsors of big pension funds in one of its most significant class exemptions.

If the department approves the exemption—originally proposed by a group of corporate financial officers—it would allow large plan sponsors to use in-house asset managers to make investments that would otherwise violate ERISA.

"This is going to make a substantial difference to some of the large funds," said Gary Glynn, president of the $8.2 billion U.S. Steel & Carnegie Pension Fund in New York.

"It's going to save us money and it's going to allow us to do transactions that we otherwise simply might have given up on," said Mr. Glynn, who is also vice chairman of government relations for the Committee on Investment of Employee Benefit Assets, the Washington group that requested the exemption.

The exemption would allow one general exemption and three special exemptions.

The general exemption would allow plan sponsors that have at least $250 million in assets (with $50 million under direct management of the in-house manager) to make certain transactions with "party-in-interest" service providers by using the in-house manager.

ERISA is designed to protect plan participants by restricting the ability of a plan to make deals with plan fiduciaries, employers with employees covered by the plan, and other "parties-in-interest."

The proposal now before the Labor Department would exempt plan sponsors from current party-in-interest rules on partnerships, real estate and swaps. Now, for example, a bank that provides trustee or custodial services to a plan can't make another sale or credit transaction with the plan.

The in-house manager must be a registered investment adviser and must make all the decisions involving the technical transactions. He or she would undergo an independent fiduciary audit each year to make sure written procedures comply with the exemption conditions.

The first special exemption would allow a plan to lease up to 15% of office or commercial space it owns to the employer; the second would allow the plan to rent residential space to the employees; and the third would allow plans that own hotels or motels to allow a party-in-interest to the plan to stay there or to use the facility.

Currently, plan sponsors have three choices when they want to work with an existing service provider.

One is they can avoid the transaction completely, which may end up hurting the fund if the transaction could provide a decent return. But some plans have thousands of service providers, "and part of the problem is finding out who they are," Mr. Glynn said. "When you are doing real estate investments, you are dealing with dozens of suppliers and financiers. You run into technical party-in-interest problems frequently."

A second option is to ask the Department of Labor for a prohibited transaction exemption. This is costly and can take months or years to complete. Often the plan sponsor misses the opportunity to make the transaction because the transaction is time-sensitive, and the exemption process is too lengthy.

The third option is to hire a qualified professional asset manager to make the technical transaction without having to apply for an exemption.

In March 1984, the Department of Labor granted permission for funds to use these managers to make technical transactions.

But hiring qualified professional asset managers adds cost, and the in-house manager usually knows more about the transaction than the outside manager.

The options actually can raise investment costs—by making the plan sponsor figure out with whom it can deal—as well as hurt investment performance, Mr. Glynn said.

"This is a case where working (with plan sponsor representatives) may allow plans to do things that truly do make sense, and where regulations don't get in the way," said Olena Berg, who is assistant secretary of the Labor Department's Office of Pension and Welfare Benefits Administration.

Ivan Strasfeld, director of exemption determinations for the department, said that of the 200 largest pension plans, 42% use in-house asset managers.

A service provider is an entity that provides a service to the pension plan, such as a securities lending, money management or actuarial work. The Employee Retirement Income Security Act essentially bans an existing service provider, or any of its subsidiaries or parent, from doing anything else for the plan.

If the Labor Department grants the class exemption, it would not prompt a great number of plan sponsors to hire in-house asset managers, said Jim Kaitz, vice president of government relations for the Financial Executives Institute, CIEBA's parent organization. It would not allow plan sponsors to conduct new kinds of transactions, either.

"It's easing the regulatory burden on us to do transactions we are already able to do," Mr. Glynn said.

Several observers credited Ms. Berg and CIEBA with the exemption proposal.

"This is one of the three most significant things that has happened to the pension fund area since ERISA was enacted," said Richard Susko, an ERISA lawyer with Cleary, Gottlieb, Steen & Hamilton in New York. He cited the qualified professional asset manager exemption and 1986 plan asset regulations as the other two.

CIEBA, which represents about 125 corporate financial executives, provided the organization for large plan sponsors to push the proposal on the Labor Department's agenda.

The proposed exemption will have a 45-day public viewing period with a possible hearing before a final exemption is granted, Mr. Strasfeld said. BI

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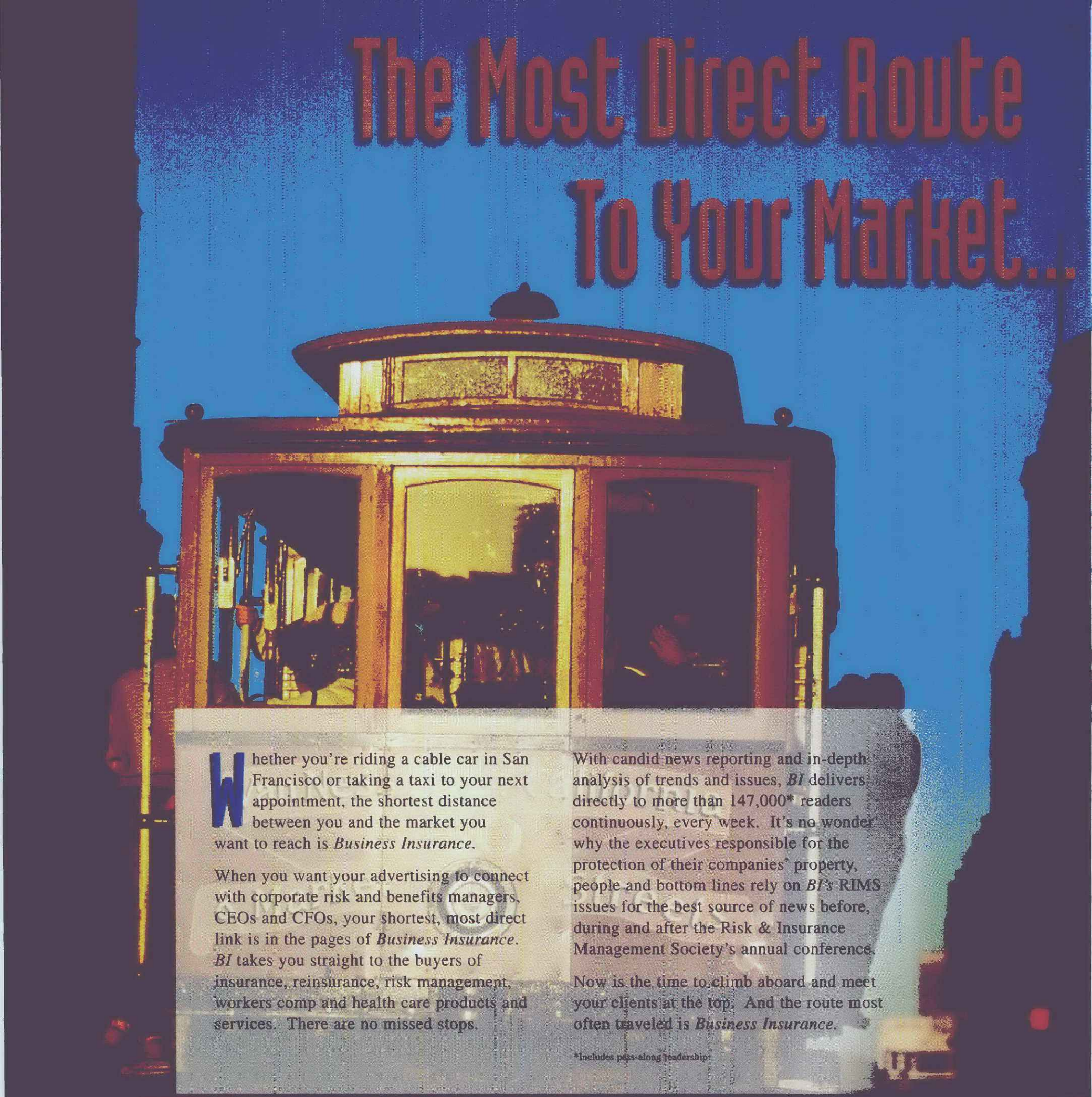
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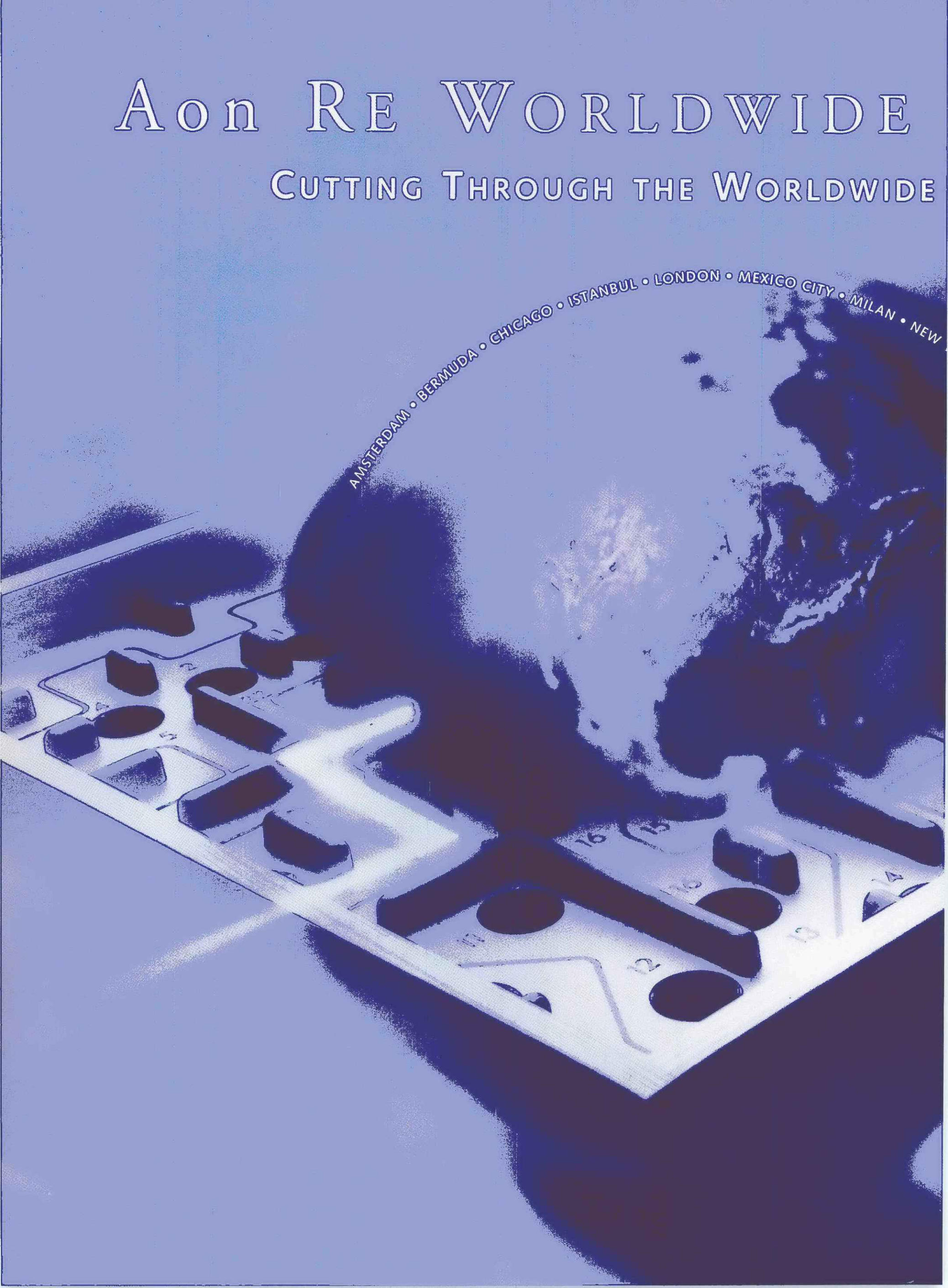
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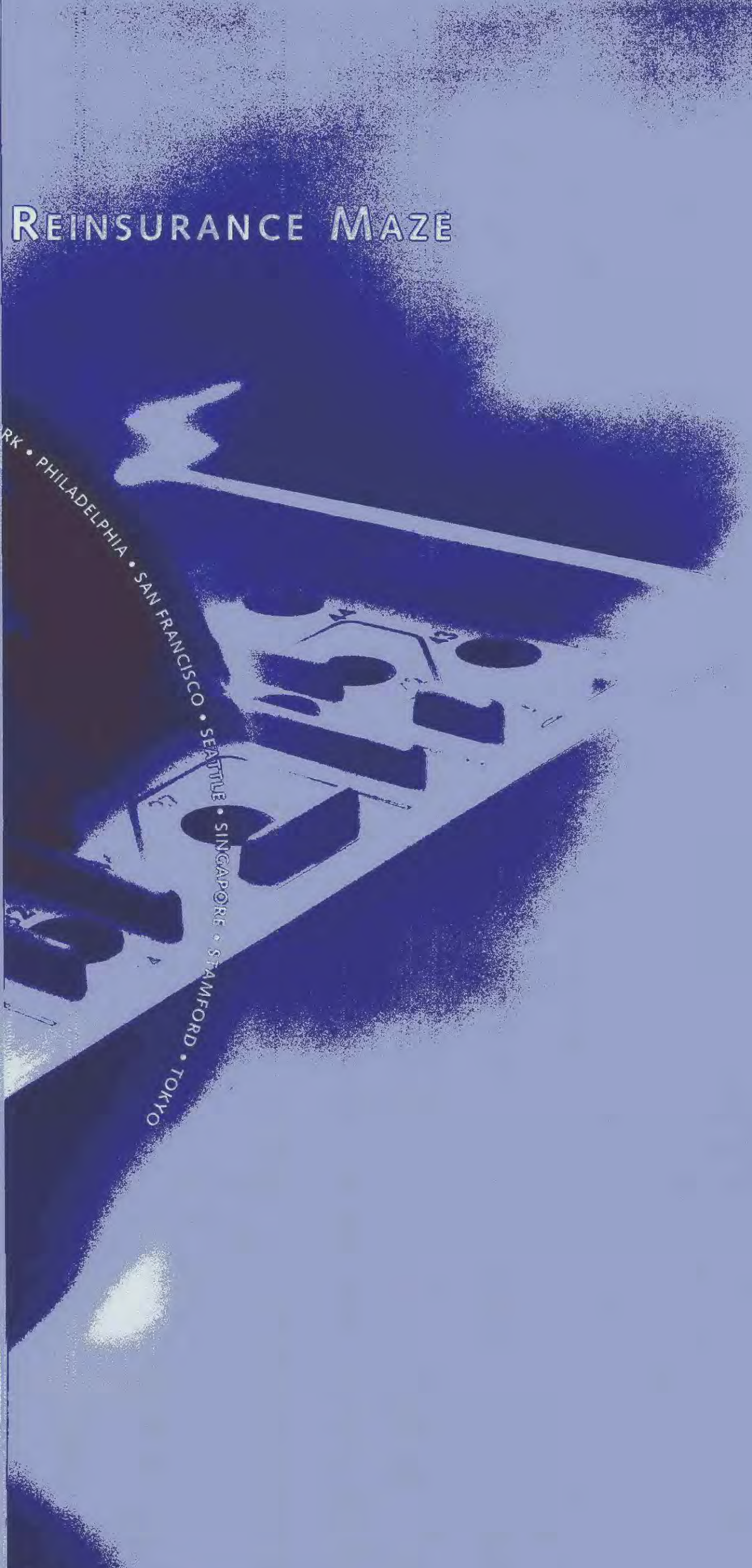
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401(k) plan upgrade computes for Silicon Graphic employees

Crain News Service

By CHRISTINE PHILIP

MOUNTAIN VIEW, Calif.—When Silicon Graphics Inc. decided to introduce a company match to its 7-year-old 401(k) plan, employees gave the announcement a standing ovation.

The corporate culture at the computer manufacturer actively encourages open, lively discussion. It was natural, therefore, that company executives would use one of the quarterly "all hands" meetings of most of the company's 4,300 employees to announce changes to its $65 million 401(k) plan.

"This particular all hands meeting was held out on our ball field at our Mountain View headquarters. . .at a picnic. When the company announced the new matching contribution, our employees were so excited and so loud about it, they drowned out the next announcements from the executives," said Susan Wuthrich, a human resources consultant.

The company had decided to add two levels of matching contributions to employee accounts. In conjunction with the match, SGI decided it was an opportune time to revamp the plan's investment options and significantly upgrade service features of the plan.

SGI had a bundled service arrangement with T. Rowe Price Associates Inc. of Baltimore, with daily valued record keeping, seven investment options and a live operator voice response system, without automatic features.

Ms. Wuthrich said an in-house investment committee realized it had three options in the redesign of the plan. Since the company was not dissatisfied with T. Rowe Price, the status quo could be maintained, or a new bundled arrangement with another mutual fund vendor could be made. A third alternative was an alliance approach, using an employee benefits provider as a one-stop shop where it could get a wide array of funds from a variety of providers.

"It became clear to the committee that to offer our employees a spectrum of the best funds from the best money managers, we had to go with an alliance arrangement.. . . .A single mutual fund family is unlikely to be the best at managing every one of the asset classes and investment styles we wanted to include in our fund array," said Ms. Wuthrich.

Thirteen investment options from 10 mutual fund managers will be introduced in two installments in January and February.

SGI decided to move to a mutual fund alliance coordinated by William M. Mercer Inc. in New York. Northern Trust Corp. of Chicago is the plan's trustee.

Mercer will take on more of the internal work of SGI's human resources department, such as loan processing, rollover distributions and contribution changes. SGI will use Mercer's voice response system to provide automated account access as well as connections to operators, if required. Plan enrollment will still be handled by internal staff on an SGI-developed computer system. SGI also may develop its own financial planning software to help employees with asset modeling, savings projections and investment selection.

The new company match has two levels. The basic match is 25% up to $1,200 in employee contributions in a plan year. A discretionary match also is awarded quarterly to employees based on the company's financial results.

"The indications are that employees really like the new program. The quarterly discretionary match provides employees with a more immediate sense of gratification," said Ms. Wuthrich.

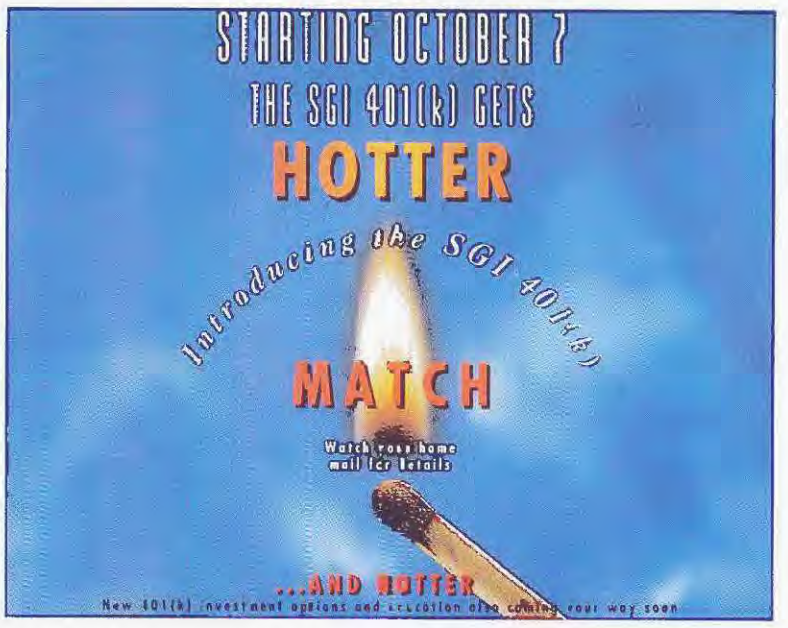
Employees have unlimited transfer capabilities. The plan design does not restrict where the employer match may be allocated.

A communications campaign, using a marketing approach new to the company's communications efforts, features a series of three colorful brochures with images of SGI equipment, helping employees identify their benefit with the company.

SGI worked with Zabit & Associates Inc., a Sausalito, Calif., communications consultant, to develop the new plan brochures. SGI and Zabit will collaborate on investment education materials in the future, with input from fund consultant Watson Wyatt Worldwide.

In addition, "our employees converse back and forth all the time on e-mail and discuss everything from the merits of particular new funds to the company match," said Ms. Wuthrich.

SGI's efforts are working. Plan participation before announcement of the company match was 62%. The proportion of participants has recently swelled to 75%. BI



Silicon Graphics encourages employees to use its 401(k) plan to plan for retirement.



NCCI

Continued from page 1

Last year, rate and loss cost changes filed by rating organizations averaged a decrease of 1.9% countrywide, the lowest change since 1981 and the first overall decrease since 1982, the NCCI said.

In most of the past decade, the NCCI filed for double-digit increases in many states based on actuarial indications.

In Oregon, Texas and California, major system reforms helped reduce accidents and claims, Mr. Hager said. "In Oregon, for example, fatality rates are now half of what they were in the late 1980s before system reforms."

Yet, Oregon has increased certain weekly benefits to $300 from $150, California to almost $500 from $340, and Texas has increased certain weekly benefits by 80%, he added.

Nationally, the frequency and severity of injuries were up slightly in 1993, the last year for which statistics were reported. However, a 15-year analysis of claims trends shows significantly lower trends in recent years.

Generally, workers compensation reforms also have strengthened worker-safety initiatives.

"If there is a silver lining behind the workers compensation thunderheads of recent years, it is that for the first time in this nation's history, workplace safety has become a genuine article of corporate priority," Mr. Hager said. Time-loss injures fell 18% between 1990 and 1993, primarily in traditionally dangerous industries like mining and manufacturing.

However, the average cost of time-loss claims climbed slightly in 1993, compared with the previous year, to $10,000 for wage loss costs and $8,700 for medical costs. In 1992, wage loss costs averaged $9,900 and medical costs $8,200.

Insurers' improved results also stemmed from a reduction in underwriting losses in the residual market. Strategies that helped reduce residual market losses include expansion of special pricing programs so high-cost employers pay more, and anti-fraud efforts.

Elimination of money-losing NCCI pools in several previously troubled states—Florida, Louisiana, Maine, Rhode Island and Texas—also has helped. They have been replaced with state funds, mutuals or a joint underwriting facility.

Similarly, Doug Robinette, senior vp-finance and insurance services for Wausau Insurance Cos. in Wausau, Wis., attributed much of the improvement to three factors.

First, the NCCI has been "very aggressive" in working with states to improve the residual market. As a result, there are "fewer insureds in the pools," and thus more in the traditional market.

Second are the state workers comp reform laws.

The third factor is that health care inflation has slowed down, cutting the growth rate of those costs, said Mr. Robinette.

Increasing reliance on utilization review and other managed care tools has helped curb inflation, added John Riggio, commercial casualty underwriting officer with Kemper National Insurance Cos. in Long Grove, Ill.

But the promising trends may not continue for long, warned Wausau's Mr. Robinette.

"What you're seeing is that prices in workers comp are softer than they've been in recent years," he said. Price competition and higher health care costs will soon cause the combined ratio to deteriorate somewhat, he predicted.

"The wild card in the future is the competitive appetite of the insurance and the stability of the rates," said Richard Palczynski, senior vp of The Travelers Inc. in Hartford, Conn.

Risk managers, of course, have followed the market closely.

"It has improved, because the add-on costs of loads and other costs have been reduced where rates were permitted to be adequately priced," said Harold Lang, director-insurance and risk management for Kohler Co. in Kohler, Wis. The plumbing, engine and generator manufacturer mostly self-insures its workers comp exposures. He added, however, that some states still keep rates artificially low.

"Excess pricing has been very favorable," said Susan M. Werner, director-risk management for Rocky Mount, N.C.-based Hardee's Food Systems Inc. She added that the excess market has been very competitive for three years.

Hardee's self-insurers in risks in some states and carries a large retention because it has high-frequency, low-severity claims.

Even as workers comp insurers have posted strong results, they have been losing premiums.

Total premiums fell 6.5% in 1994 to $28.4 billion from $30.3 billion in 1993, following three years of little or no growth.

Premiums are declining for several reasons, including that more employers are using large deductible policies, self-insuring, purchasing alternative coverages or buying coverage from new state funds. In addition, the U.S. economy is continuing its shift to service industries, and service companies usually pay lower premiums than industrial companies because they are considered lower risks.

Despite the significant gains, Mr. Hager said there is still work to be done.

Workers compensation insurers face six challenges to meeting their goal of long-term stability, Mr. Hager said. They must complete the reform movement, ensure fair rates, move the residual market toward greater self-support, manage the political environment, emphasize worker safety and speed up the delivery of medical care and payments to workers.

Workers compensation statutes badly need to be changed in Hawaii, Illinois, Missouri and Tennessee, asserts Mr. Hager. "The pitiful political question is whether these legislatures are prepared to put working people ahead of lawyers, and frankly, it isn't much more complicated than that."

In states that have already adopted reforms, insurers must also be vigilant against efforts to undermine reforms, especially by labor unions and trial attorneys, said Mr. Hager.

In the end, though, "we will not achieve system stability unless the primary beneficiaries of the system—namely workers—are treated as respected and valued customers," he said.

A recent NCCI study of closed claims for high-cost injuries in 15 states revealed that it took employers an average of seven to 13 days to report an accident to their insurance company. That sort of delay is unacceptable in this era of computer capabilities, he said.

Mr. Hager also urged insurers to monitor "the impending collision" of workers compensation and group health insurance primarily over managed care issues. BI

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Benefits

Continued from page 3

accounts, while 3% offer health care accounts only and 6% offer dependent care accounts only. Twenty-five percent of the employers surveyed offer no flexible spending accounts.

According to the survey, the median employee contribution to health care spending accounts in 1994 was $650, and was $3,028 to dependent care spending accounts.

The median participation rate was 16% for health care spending accounts and 3% for dependent care accounts.

An emerging trend among employers offering these accounts is direct or matching employer contributions, the survey shows. Currently, 6% of employers with flexible spending accounts subsidize the accounts.

Over half of these are nonmatching direct employer contributions provided to all participants. Such contributions are often flat dollar amounts or are based on a percentage of pay, family size, or years of service, according to the survey.

Matching contributions are more prevalent for dependent care accounts, in which the matches are generally expressed as a flat dollar amount or as a percentage of the employee's contribution.

During the 1993 plan year, forfeitures—the amount remaining in a participant's account once the year-end grace period has lapsed—occurred in 93% of the respondents' health care accounts and 71% of the dependent care accounts, according to the survey.

A median 11.6% of participants forfeited a portion of their health care account balance in 1993, while the median amount forfeited was $100.

The median employee contribution to health care spending accounts in 1994 was $650.

A median 8% of dependent care account participants forfeited a portion of their 1993 account balances, with a median forfeiture of $130.

Health care spending account participation is highest among utilities, which had 19.6% employee participation, the survey found. Employee participation is lowest among retailers, with only a 10% rate.

Dependent care account participation is highest among insurance companies, with 4.0% participation, and lowest among retailers, with 1.6% participation.

In addition to flexible spending accounts, more "employers are finding the opportunity to integrate benefits to address work/life needs," said Hewitt's Ms. McGrath.

Another Hewitt survey on work and family benefits confirms that employers are increasingly concerned with pressures that confront their employees outside the workplace.

In 1994, 66% of surveyed employers offered some flexible scheduling arrangement to their employees, up from 60% in 1993.

Of the more than 1,000 employers surveyed, 71% offer flextime; 65% offer part-time employment; 34% offer job sharing; and 21% offer compressed work schedules. Many employers offer more than one flexible scheduling alternative so the total percentage exceeds 100%, the survey noted.

In addition to flexible schedules, 84% of the employers surveyed offer some type of child care benefit for their employees, up from 78% in 1993.

Of those, 95% offer dependent care spending accounts; 40% offer resource and referral services; 9% offer child care centers; and 5% offer employer-arranged discounts with local child care providers.

Twenty-four percent of the surveyed employers offer employees elder care benefits, up from 23% in 1993. Of those employers, 78% offer resource and referral services while 21% offer counseling and 21% offer long-term care insurance.

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Copies of "Hot Topics in Benefit Flexibility" are available for $50 and copies of "Work and Family Benefits Provided by Major U.S. Employers in 1994" are available for $35 by contacting Diane Schuett, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60069, 708-295-5000.

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Insider Trading

CIGNA Corp.: H. Edward Hanway, divisional officer, exercised an option for 250 shares of common stock at $48.31 each on Feb. 17. He now directly holds 9,742 common shares.

Arthur C. Reeds, divisional officer, exercised an option for 1,400 common shares at $48.31 each from Feb. 22 to Feb. 28. He now directly holds 4,662 common shares.

CIGNA stock closed at $74.75 a share on March 31.

Continental Corp.: Charles A. Parker, officer and director, sold 500 common shares at $18.75 each on Dec. 15, 1994. On Jan. 26, he sold 5,351 common shares at $19 each and no longer holds shares in the company.

Steven J. Smith, vp, sold 100 common shares at $18.75 each on Dec. 20, 1994. Mr. Smith indirectly sold 834 common shares at $18.75 each on that same day. He now directly and indirectly holds 5,575 common shares.

Continental stock closed at $19.63 a share on March 31.

Arthur J. Gallagher & Co.: Peter J. Durkalski, vp, disposed of by gift 550 shares of common stock at an unreported price on Feb. 20. He indirectly acquired by gift 550 common shares at an unreported price on that same day. Mr. Durkalski now directly and indirectly holds 24,885 common shares.

James R. Wimmer, director, indirectly sold 1,500 shares of common stock at $33 each on Jan. 27. He now indirectly holds 4,000 common shares.

Gallagher stock closed at $35.38 a share on March 31.

General Re Corp.: Charles Barr, vp, exercised an option for 860 shares of common stock between $87.94 and $113 each on Feb. 21. To cover transaction costs, he turned in 180 of them for $91.44 each on Feb. 21 and sold 680 shares in the open market at $128.75 each on that same date. Mr. Barr now directly and indirectly holds 22 common shares.

Kevin P. Brooks, officer of subsidiary, exercised an option for 649 common shares at $57.44 each on Feb. 21. To cover transaction costs, Mr. Brooks turned in 458 of them for $127.50 each on that same date. Mr. Brooks now directly and indirectly holds 7,994 common shares.

John C. Etling, officer and director, exercised an option for 5,617 common shares between $89.31 and $90.63 each on Feb. 10. To cover transaction costs, he turned in 4,430 of them for $129.88 each on Feb. 10 and sold 123 shares in the open market at $130.50 each on that same date. Mr. Etling now directly and indirectly holds 68,745 common shares.

James E. Gustafson, officer of subsidiary, exercised an option for 2,978 common shares between $86.31 and $91.44 each on Feb. 16. To cover transaction costs, he turned in 2,294 of them for $129.81 each on Feb. 16 and sold 119 shares in the open market at $129.81 each on that same date. Mr. Gustafson now directly and indirectly holds 28,364 common shares.

Andrew W. Mathieson, director, disposed of by gift 457 shares of common stock at $123.38 each on Dec. 15, 1994, and now directly and indirectly holds, 3,746 common shares.

General Re stock closed at $132 a share on March 31.

Hartford Steam Boiler Inspection & Insurance Co.: William B. Ellis, director, bought 500 shares of common stock at $42 each on Jan. 30 and now directly holds 1,290 common shares.

Paul A. Vatter, director, indirectly sold 8,080 shares of common stock at $39.50 each on Dec. 7, 1994, and now directly and indirectly holds 2,734 common shares.

Hartford Steam Boiler stock closed at $42.75 a share on April 7.

Hilb, Rogal & Hamilton Co.: Robert H. Hilb, chairman, disposed of by gift 5,000 shares of common stock at an unreported price on Dec. 8, 1994. He now directly and indirectly holds 299,400 common shares.

Timothy J. Korman, vp, indirectly acquired by gift 824 common shares and disposed of by gift 3,374 shares at an unreported price on Dec. 27, 1994. He now directly and indirectly holds 25,276 common shares.

Hilb, Rogal & Hamilton stock closed at $10.50 a share on April 7.

Humana Inc.: John R. Hall, director, disposed of by gift 8,412 shares of common stock at an unreported price on Dec. 13, 1994. He bought 200 common shares at $22.75 each on Feb. 23 and now directly holds 6,788 common shares.

David A. Jones, chairman, disposed of by gift 200,300 common shares at an unreported price from Dec. 2 to Dec. 28, 1994. He now directly and indirectly holds 9,249,854 common shares.

Humana stock closed at $25.13 a share on April 7.

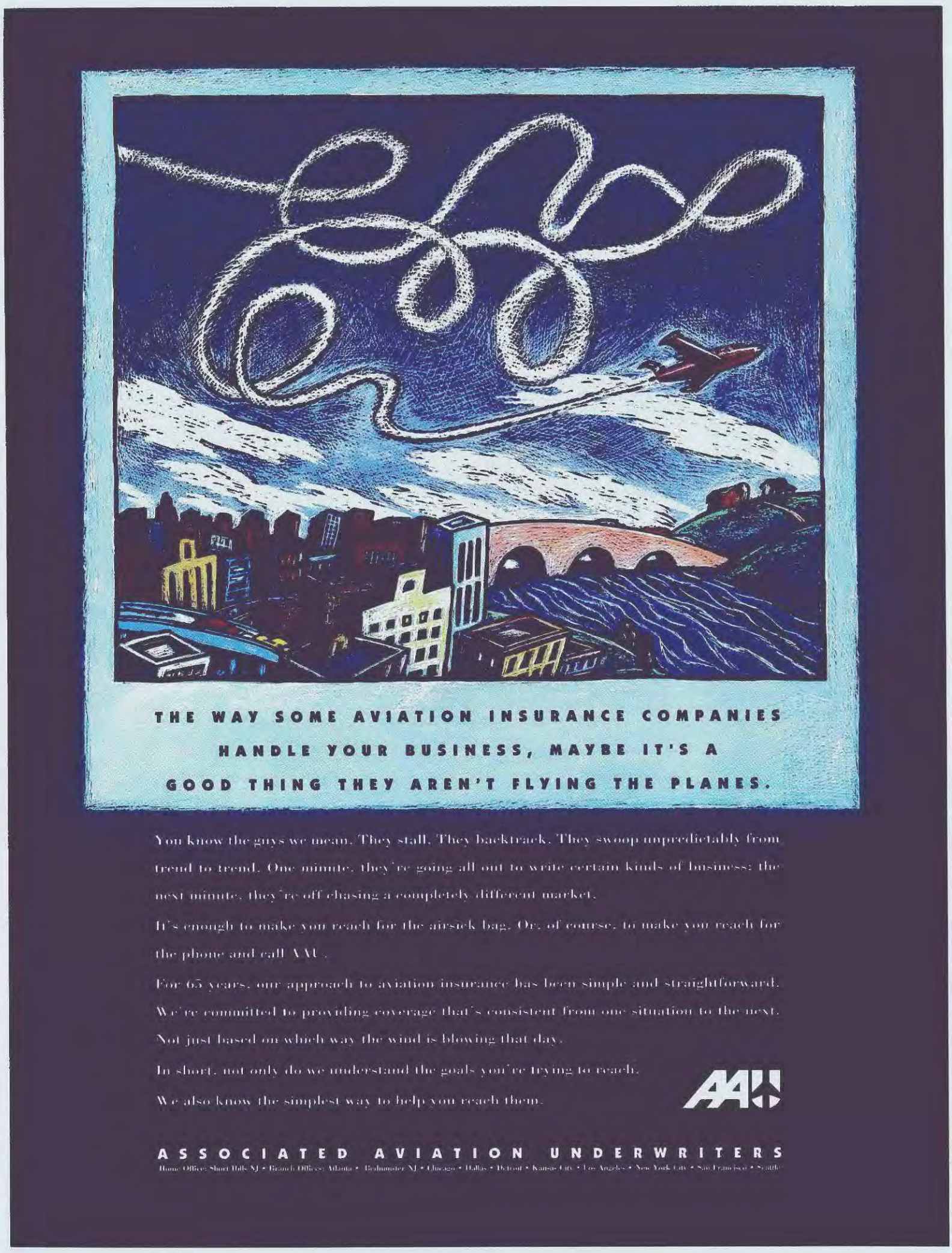
Lincoln National Corp.: Richard S. Robertson, vp, exercised an option for 2,000 shares of common stock at $27.75 each on Feb. 17. To cover transaction costs, he turned in 231 of the shares for $39.50 each on that same day. Mr. Robertson sold 1,740 shares in the open market at $39.13 each on Feb. 17., and he sold 890 common shares at $40.38 each on March 3. Mr. Robertson now directly and indirectly holds 19,528 common shares.

Lincoln National stock closed at $41 a share on April 7.

Marsh & McLennan Cos. Inc.: Richard H. Blum, director, disposed of by gift 150 shares of common stock at an unreported price on Nov. 29, 1994. He now directly and indirectly holds 86,055 common shares.

Frank J. Tasco, director, disposed of by gift 8,508 shares of common stock at an unreported price on Nov. 21, 1994, and now directly and indirectly holds 119,811 commons shares.

See **Insider** *on page 24*

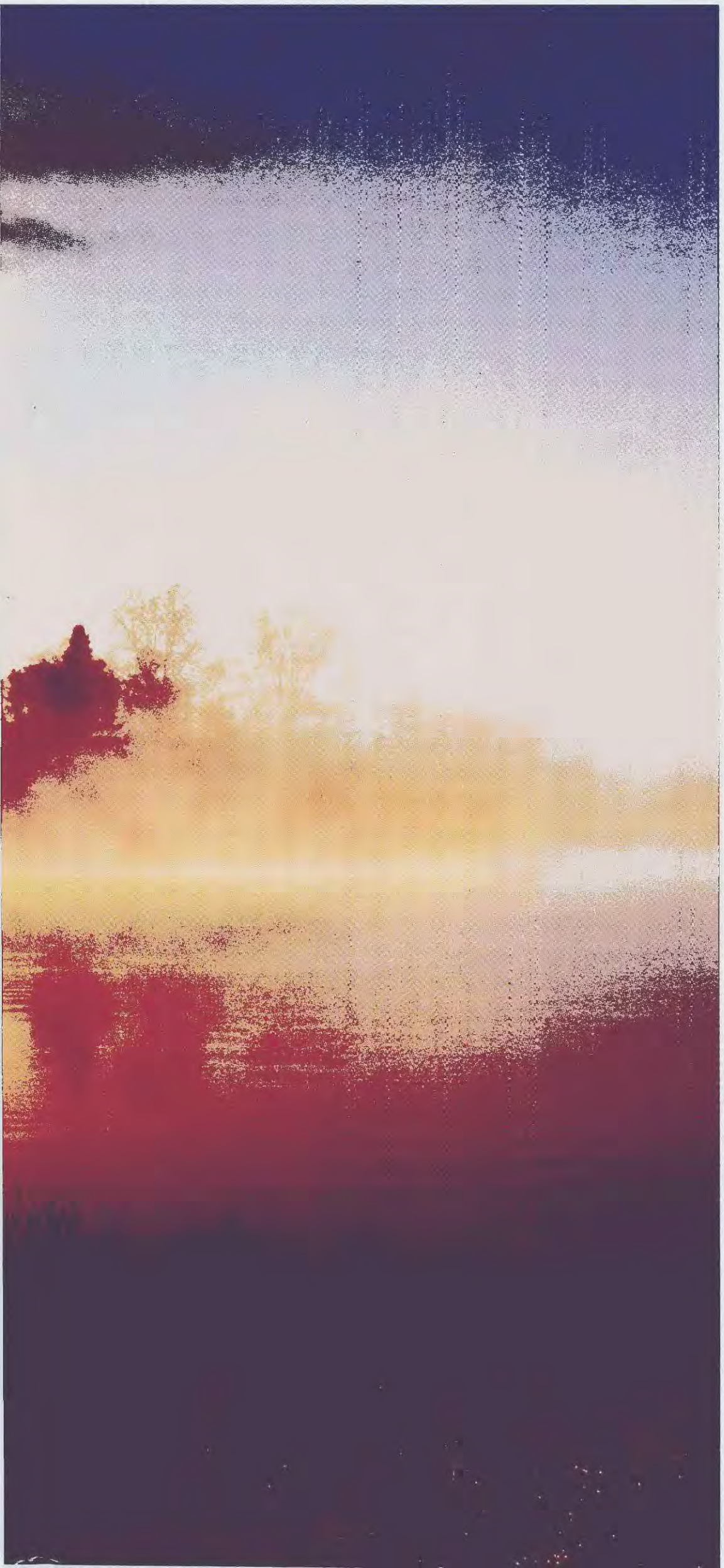


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Insider Trading

Continued from page 21

Romeo J. Ventres, director, bought 2,500 common shares at $75.13 each on Dec. 8, 1994, and now directly holds 5,000 common shares.

Marsh & McLennan stock closed at $84 a share on April 7.

Old Republic International Corp.: Paul D. Adams, vp, sold 790 shares of common stock at $25 each on Feb. 16. He now directly and indirectly holds 20,388 common shares.

John C. Collopy, director, indirectly sold 5,000 common shares at $24.25 each on Feb. 10. He now directly and indirectly holds 57,706 common shares.

Peter Lardner, beneficial owner, disposed of by gift 241 shares of common stock at an unreported price on Nov. 22, 1994. He indirectly disposed of by gift 207 common shares at an unreported price that same day. He now directly and indirectly holds 72,104 common shares.

Arnold L. Steiner, director, disposed of by gift 45,190 common shares at an unreported price on Dec. 30, 1994. He indirectly acquired by gift 79,000 shares and disposed of by gift 33,810 shares at an unreported price on that same day. Mr. Steiner now directly and indirectly holds 434,480 common shares.

Charles David Sursa, director, disposed of by gift 1,700 common shares at an unreported price on Dec. 29, 1994. He now directly and indirectly holds 262,188 common shares.

Old Republic stock closed at $25 a share on April 7.

Poe & Brown Inc.: Kenneth E. Hill, vp, disposed of by gift 57,418 shares of common stock at an unreported price on Dec. 29, 1994. He indirectly disposed of by gift 35,000 shares at an unreported price that same day. He now directly and indirectly holds 4,032 common shares.

Jim W. Henderson, vp, disposed of by gift 1,000 common shares at an unreported price on Jan. 24. He indirectly acquired by gift 1,000 common shares at an unreported price that same day. Mr. Henderson now directly and indirectly holds 69,443 common shares.

Theodore J. Hoepner, director, bought 1,000 shares of common stock at $20.75 each on Dec. 6, 1994. He now directly holds 1,000 common shares.

V.C. Jordan, director, indirectly disposed of by gift 878 common shares at an unreported price on Dec. 29, 1994, and now indirectly holds 256,372 common shares.

William F. Poe, director, disposed of by gift 50,000 common shares at an unreported price on Dec. 16, 1994. He now directly and indirectly holds 1,074,288 common shares.

Timothy L. Young, vp, bought 345 common shares at $21 each on Feb. 17 and now directly holds 2,028 common shares.

Poe & Brown stock closed at $20.63 a share on Dec. 29, 1994.

RLI Corp.: Gerald D. Stephens, president, disposed of by gift 100 shares of common stock at $20.25 each on Dec. 31, 1994. He indirectly acquired by gift 100 shares at $20.25 each that same day. Mr. Stephens acquired by gift 100 shares and disposed of by gift 500 shares of common stock between an unreported price and $21.50 each on Jan. 25. He indirectly acquired by gift 500 common shares at $21 each on Jan. 20 and now directly and indirectly holds 351,554 common shares.

RLI stock closed at $23.75 a share on April 7.

SAFECO Corp.: Boh A. Dickey, vp, exercised an option for 5,000 shares of common stock at $28 each on Jan. 30. To cover transaction costs, he turned in 2,692 of the shares for $52 each on Jan. 30. Mr. Dickey exercised an option for 2,725 common shares at an unreported price from Feb. 1 to Feb. 6. To cover transaction costs, he turned in 2,725 of them between $53.25 and $53.75 each during that same period. He now directly and indirectly holds 21,010 common shares.

Roger H. Eigsti, chairman, disposed of by gift 220 shares of common stock at an unreported price on Dec. 8, 1994. On Jan. 30, he exercised an option for 1,500 common shares at $18.81 each and sold them that same day at $52 each. Mr. Eigsti exercised an option for 7,550 common shares between an unreported price and $28.25 each from Feb. 1 to Feb. 10. To cover transaction costs, he turned in 4,000 of them during that same period. He now directly and indirectly holds 50,159 common shares.

Richard W. Hubbard, retired, exercised an option for 1,450 shares of common stock between an unreported price and $33.75 each from Dec. 1 to Dec. 9, 1994. To cover expenses of the transaction, Mr. Hubbard turned in 748 of the shares for $49.63 each from Dec. 1 to Dec. 9, 1994. On Jan. 27, he exercised an option for 3,150 common shares at $33.75 each. To cover transaction costs, he turned in 2,034 of them for $52.25 each that same day. Mr. Hubbard now directly and indirectly holds 33,291 common shares.

Conrad Calvert Knudsen, director, disposed of by gift 1,000 common shares at $52 each from Dec. 28 to Dec. 29, 1994. He now directly holds 3,000 common shares.

Dan D. McLean, officer of subsidiary, exercised an option for 1,467 common shares at an unreported price from Feb. 1 to Feb. 6. To cover transaction costs, he turned in 317 of them between $53.50 and $53.75 each during that same period. Mr. McLean now directly holds 9,312 common shares.

Rodney A. Pierson, vp, exercised an option for 487 common shares at an unreported price from Feb. 1 to Feb. 6. To cover transaction costs, he turned in 487 of them between $53.25 and $53.75 each during that same period. Mr. Pierson now directly holds 2,250 common shares.

James W. Ruddy, vp, exercised an option for 125 common shares at an unreported price on Feb. 1 and now directly holds 125 common shares.

Ronald Spaulding, vp, exercised an option for 125 common shares at an unreported price on Feb. 1. He directly holds 125 common shares.

Richard E. Zunker, officer of subsidiary, exercised an option for 5,550 common shares between an unreported price and $28.63 each from Feb. 1 to Feb. 28. To cover transaction costs, he turned in 1,800 of them between $53.25 and $53.75 each during that same period and sold 3,750 shares in the open market at $55 each from Feb. 1 to Feb. 28. He now directly and indirectly holds 6,969 common shares.

SAFECO stock closed at $55.56 a share on April 7.

Transamerica Corp.: David R. Carpenter, vp, disposed of by gift 241 shares of common stock at an unreported price on Dec. 8, 1994, and now directly and indirectly holds 20,661 common shares.

Transamerica stock closed at $58 a share on April 7.

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Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry insiders. The column is distributed by Tribune Media Services Inc.

Datebook

APRIL

APRIL 20. Emerging Trends in Disability Management conference in Chicago, sponsored by Disability Management Planning; $75. Kathy Carlson, Disability Management Seminar, P.O. Box 116, 7144 N. Harlem, Suite 240, Chicago, Ill. 60631; 312-763-5600, ext. 213.

APRIL 23-25. 11th Annual Western Claim Conference in Anaheim, Calif., sponsored by the Western Claim Conference; $200. Francesca Archilla, c/o UNUM, 101 N. Brand Ave., Suite 800, Glendale, Calif. 91203; 818-956-2624.

APRIL 23-25. Teaching Negotiation in the Corporation program in Boston, sponsored by the Program on Negotiation at Harvard Law School; $1,950. Anne Daniels, Center for Management Research, 55 William St., Wellesley, Mass. 02181; 617-239-1111.

APRIL 23-25. Market Conduct Regulation School in Philadelphia, sponsored by the Insurance Regulatory Examiners Society Foundation; $425 for IRES Foundation members, $495 for non-members. IRES Foundation, 130 N. Cherry, Suite 202, Olathe, Kan. 66061; 913-768-4700.

APRIL 23-25. Changemasters: EAP's For The Future conference in Chicago, sponsored by the Employee Assistance Society of North America; $425. EASNA, 2728 Phillips, Berkley, Mich. 48072; 810-545-3888.

APRIL 23-26. GICs '95 The Ninth Annual Symposium in Rancho Mirage, Calif., sponsored by the Institute for International Research; $1,295. Institute for International Research, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 212-661-8740.

APRIL 23-28. 22nd International Workers Compensation College in Newport, R.I.; $550 for regular course for members of the International Assn. of Industrial Accident Boards & Commissions; $650 for non-members; $700 for judicial course for IAIABC members, $800 for non-members. International Workers Compensation College, 1575 Aviation Center Parkway, Suite 512, Daytona Beach, Fla. 32114; 904-252-2915.

APRIL 24-25. Detect and Prevent Provider Fraud and Abuse conference in Philadelphia, sponsored by the Institute for International Research; $1,295. Conference Coordinator, Institute for International Research Inc., 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 212-661-8740.

APRIL 24-27. The Measurement of Building Firesafety workshop in Boston, sponsored by FIREPRO Institute Ltd.; $695 for FIREPRO Institute members, $795 for non-members. **Also June 19-22** in Lund, Sweden; **Sept. 18-21** in Minneapolis; **Oct. 23-26** in San Francisco. Course Coordinator, FIREPRO Institute Ltd., P.O. Box 600, Putney, Vt. 05346; 802-387-5600.

APRIL 24-28. Radiation Safety seminar in Evanston, Ill., sponsored by the Northwestern University McCormick School of Engineering and Applied Science; $1,595. Northwestern University, McCormick School, Technical Institute, 2145 Sheridan Road, Evanston, Ill. 60208-3124; 708-491-3365.

APRIL 24-28. Practicing Property Conservation seminar in Norwood, Mass., sponsored by Factory Mutual Engineering & Research, for policyholders of Allendale Insurance, Arkwright, Protection Mutual Insurance or Factory Mutual International; $995. Factory Mutual Engineering Corp., Attn: Insured Education Training Resource Center, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

APRIL 25. Workers Compensation seminar in Elmsford, N.Y., sponsored by the Westchester Chapter of the CPCU Society; $80 for CPCU Society members, $90 for non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

APRIL 25. Warehouse Legal Liability seminar in Bloomington, Minn., sponsored by the Inland Marine Underwriters Assn.; $65. Susan Schuster, ITT Hartford, 612-844-3335.

APRIL 25-26. 1995 Work and Family Conference in New York, co-sponsored by the The Conference Board and the Families and Work Institute; $885 for Conference Board associates; $1,095 for non-associates. Customer Orders, The Conference Board, 845 Third Ave., New York, N.Y. 10022; 212-339-0345.

APRIL 26. Warehouse Legal Liability seminar in Chicago, sponsored by the Inland Marine Underwriters Assn.; $75. Ann Boehmcke, St. Paul Cos., 312-648-4909.

APRIL 26-27. Flexible Benefits Course in Brookfield, Wis.. sponsored by the International Foundation of Employee Benefit Plans; $510 for IFEBP members, $570 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

APRIL 26-28. Indoor Air Quality for HVAC Contractors and Operators short course in Philadelphia, sponsored by the MidAtlantic Environmental Hygiene Resource Center; $775. MidAtlantic Environmental Hygiene Resource Center, 3624 Market St., First Floor East, Philadelphia, Pa. 19104; 215-387-2255.

APRIL 27. Warehouse Legal Liability seminar in Independence, Ohio, sponsored by the Inland Marine Underwriters Assn.; $55. Cathy Hammer, Atlantic Mutual Cos., 216-642-0000.

APRIL 27. Spring Seminar in New York, sponsored by the New York Claims Assn.; no charge. Karen Chambers, Continental Risk Management Services, 180 Maiden Lane, New York, N.Y. 10038; 212-440-2889.

APRIL 27-29. National Dental EDI Council's Fourth Annual Conference in Phoenix, sponsored by the National Dental EDI Council; $375 for members, $670 for non-members. National Dental EDI Council, 1130 E. Missouri, Suite 530, Phoenix, Ariz. 85014-2716; 602-266-7740.

APRIL 27-29. Employment and Labor Relations Law for the Corporate Counsel and General Practitioner course in Boston, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; $595. Registrar, ALI-ABA, 4025 Chestnut St., Philadelphia, Pa. 19104-3099; 800-253-6397.

APRIL 28. Tenth Annual Commitment to Wellness Committee conference in Canton, Ohio, sponsored by the Commitment to Wellness Committee; $95. Virginia Neutzling, Steering Committee Chair, 2223 45th St. N.E., Canton, Ohio 44705; 216-492-6739.

APRIL 28. Is the Insurance Industry in the State of California Overregulated? conference in Santa Clara, Calif., co-sponsored by the Santa Clara University School of Law, the Leavey School of Business and the Institute of Insurance Law & Regulation; $200 for SCU alumni and members of the Santa Clara Bar, $250 all others. Deirdre Santa Clara University, School of Law, Institute of Insurance Law & Regulation, Law House, Santa Clara, Calif. 95053; 408-554-5467.

MAY

MAY 1-2. Managed Dental Care Networks seminar in Phoenix, sponsored by International Business Communications; $1,195. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772; 508-481-6400.

MAY 1-2. 1995 Spring Symposium in Oakbrook Terrace, Ill., sponsored by the Illinois Assn. of Health Maintenance Organizations; $275 for IAHMO members, $350 for non-members. Illinois Assn. of Health Maintenance Organizations, 500 N. Dearborn, Suite 1119, Chicago, Ill. 60610.

MAY 1-2. The Health Care Antitrust Forum in Chicago, sponsored by the The Health Care Antitrust Forum; $725. Program Director, Health Care Antitrust Forum, 3 First National Plaza, Suite 1400, Chicago, Ill. 60602; 312-214-3299.

MAY 1-2. Lead Liability Litigation
See **Datebook** *on page 26*



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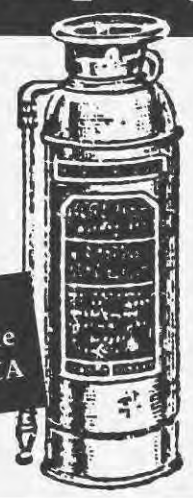
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Datebook

Continued from previous page
seminar in New York, sponsored by the Law Journal Seminars; $545. Law Journal Seminars, 345 Park Ave. S., New York, N.Y. 10010; 212-545-6111.

MAY 1-2. Managed Care: The New Contract with America symposium in Oak Brook, Ill., sponsored by the Illinois Assn. of Health Maintenance Organizations; $285 for IAHMO members, $350 for non-members. IAHMO Symposium, c/o Michael Argetsinger, 500 N. Dearborn, Suite 1119, Chicago, Ill. 60610; 312-321-0341.

MAY 2. Re-Engineering: Today's Underwriter, Tomorrow's Tools seminar in Cromwell, Conn., co-sponsored by the Underwriting Section Northeast and the Information Technology Section of the CPCU Society; $93 for CPCU Society members, $143 for CPCU Society non-members. Brenda Longacre, CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2774.

MAY 2-3. Instrumentation and Sampling Methodology for IAQ Surveys short course in Philadelphia, sponsored by the MidAtlantic Environmental Hygiene Resource Center; $575, $500 if also taking Investigating and Mitigating Microbial Contamination in Buildings, May 4-5. MidAtlantic Environmental Hygiene Resource Center, 3624 Market St., First Floor East, Philadelphia, Pa. 19104; 215-387-2255.

MAY 2-3. Vision & Eye Care Networks conference in Cambridge, Mass., sponsored by International Business Communications; $1,195. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

MAY 4-5. Drug and Medical Device Litigation seminar in Seattle, sponsored by the Defense Research Institute Inc.; $445 for DRI members, $495 for non-members. Defense Research Institute, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

MAY 4-5. Investigating and Mitigating Microbial Contamination in Buildings short course in Philadelphia, sponsored by the MidAtlantic Environmental Hygiene Resource Center; $575, $500 if also taking Instrumentation and Sampling Methodology for IAQ Surveys, May 2-3. MidAtlantic Environmental Hygiene Resource Center, 3624 Market St., First Floor East, Philadelphia, Pa. 19104; 215-387-2255.

MAY 4-5. European Insurance and Reinsurance Law course in London, sponsored by the Chartered Insurance Institute College of Insurance; $775. The CII College of Insurance, London Training Centre, 19-21 Billiter St., London EC3M 2RY, England; 0171-702-9997.

MAY 4-5. Dealing With An Angry Public seminar in Cambridge, Mass., sponsored by the MIT-Harvard Public Disputes Program; $1,175. Elizabeth Walker, Center for Management Research, 55 William St., Wellesley, Mass. 02181; 617-239-1111.

MAY 6-7. Case Management Practice seminar in Chicago, sponsored by the Foundation for Rehabilitation, Certification, Education & Research; $425. Foundation for Rehabilitation, Certification, Education & Research, 1835 Rohlwing Road, Suite E, Rolling Meadows, Ill. 60008; 708-818-1967.

MAY 7-10. 1995 NCSI Annual Meeting in Miami, sponsored by the National Council of Self-Insurers; $300 for members; $425 for non-members. The National Council of Self-Insurers, 10 S. Riverside Plaza, Suite 1350, Chicago, Ill. 60606; 312-454-5110.

MAY 8-9. Specialty Capitation & Risk Sharing conference in Philadelphia, sponsored by the Institute for International Research; $1,295. Institute for International Research Inc., 708 Third Ave., 4th Floor, New York, N.Y. 10017; 212-661-8740.

MAY 8-10. 1995 Catastrophe Conference in New Orleans, sponsored by the American Insurance Services Group's Property Claims Services division; $295 for PCS subscribers; $395 for non-subscribers. PCS Conference Registration Department, 700 New Brunswick Ave., Rahway, N.J. 07065; 908-388-5700.

MAY 8-10. Washington Legislative Update in Washington, sponsored by the International Foundation of Employee Benefit Plans; $625 for members, $715 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710.

MAY 8-10. Fundamentals of Employee Benefits Management course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $1,175 for IFEBP members, $1,375 for non-members. **Also June 19-23**. Contact the Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

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Catching up with technology

Risk management systems advice for RIMS attendees

WITH THE ANNUAL RIMS conference upon us, many of us doubtlessly are rushing to tend to last minute details. In the midst of this frenzy, I thought I would write a brief guide for those planning to check up on the latest systems, gadgets, functional trends and which vendors are doing what. I have included a discussion about general market trends in risk management technology and some tips for first time visitors to the exhibition hall.

What to expect

Vendor Profile: Not much new here to report. The cadre of vendors remains quite stable, as befits the mature marketplace. Besides the major, full service vendors offering claims, insurance and risk management applications, there are a host of specialty firms as well. Most offer some sort of medical or case management service. Others provide specialty insurance software, such as for certificates of insurance management or experience modification factor computations.

Differentiating among vendors is becoming more difficult because a former method of classifying vendors, hardware platform, virtually has disappeared. Both of the major "unbundled" vendors, Corporate Systems Ltd. and Risk Sciences Group Inc., slowly are moving off of their mainframe/timeshare system and toward the distributed, client/server platform.

Bundled vs. unbundled is still a good descriptor, though. Most insurer and TPA-based systems still are bundling their system with other services. However, I am aware of several that are seriously rethinking this strategy.

The area of functionality—i.e., what does the system actually do?—is probably the best method of comparing vendors. Major functional areas include claims monitoring; full claims administration, along with breaking this down to the specific coverage included; exposure analysis; insurance administration, including certificates, premium allocation and policy register; safety and OSHA compliance; and risk financing analysis.

Technology deserves its own discussion.

Technological advancement is both a blessing and a curse for the RMIS user. As fast as one technology is developed and purchased, it can become obsolete within months. Therefore, it is incumbent upon any RMIS purchaser to ensure that its technology and system architecture is both standard and flexible to adapt to changing needs.

Some of the more important elements of technology available for the RMIS manager now and in the immediate future are:

- Client/server architecture. This is the preferred computing architecture of the 1990s and into the 21st Century. Quite simply, it elevates the interconnectability of computers in a network to the level of seamless, or near seamless, access by users to a variety of software available in the RMIS and other internal corporate systems.
- Artificial intelligence/expert systems. Although these have been around for a few years, they now are being used with increasing frequency in the risk and insurance arenas. Claims reserves, for example, can be estimated and predicted based upon initial and ongoing investigative data fed into the large "knowledge database" of the AI system. CARE Systems Corp. and Risk Data Corp. offer varieties of these systems.

Another common usage is in the medical management arena. Systems such as Boston-based Health Payment Review Inc.'s "Patterns of Treatment" go far beyond simple medical bill audits; rather, they compare the treatment pattern of a patient with a specific injury and compare it against the pattern of a claimant with a similar injury. Variances are noted and a medical expert usually is brought into the picture for specific comment on the treatment methods.

RMIS Commentary

- Imaging/scanning. Increasingly, the scanning of documents (i.e., document management) directly into the computer for long-term data retention and paperwork reduction is being sought by risk managers. Claims data, certificates of insurance, underwriting submissions (especially those for directors and officers insurance) and key contracts can be scanned directly into the RMIS for later retrieval and analysis.

Although most scanning/imaging today involves whole documents (or picture-taking), optical character recognition technology also is improving. OCR not only scans, but actually inputs data off the forms for immediate analysis. Error rates on OCR are currently too high for most customers and the technology is still expensive.

- Access to Internet, WorldWide Web and electronic bulletin boards. This is truly an exciting innovation. Increasingly, a vast reservoir of knowledge can be accessed by inquisitive risk managers through their systems from the large Internet—a large and labyrinthine maze of interconnecting systems and electronic bulletin boards—via interfaces such as the WorldWide Web. Through it, one can access other risk managers, university libraries, online news services and other resources to provide vital information on risk management and related topics. It is also an excellent communication device as risk managers can send E-mails to colleagues and business associates across the world, join in chat groups on industry related bulletin boards (such as RIMSNET, RiskNet and M200 Online). For example, M200 Online, which started up in January 1995, is a communication tool and information resource for professionals in risk assessment, control and finance. It supports conferencing, electronic mail, file transfers, libraries, databases and real-time interaction. RIMSNET is an older bulletin board, yet an excellent communications device linking risk managers electronically. RiskNet, designed and maintained at the University of Texas in Austin, is more academically oriented in the fields of risk management and insurance.

RMIS should be the strategic tool for risk managers to be information managers and resources to corporate management.

Market trends

One myth I have heard about these conferences is that one can look at the gadgetry and marketing propaganda displayed at RIMS to get an understanding of market direction. As I reflect upon past RIMS conferences, I do not think that the "cutting edge" of the true marketplace is displayed. Rather, the vendors are reacting to last year's issues and providing technological responses. To wit, last year's conference in New Orleans still had workers compensation as a predominant theme, but it was already evident that this emphasis was past prime.

Now, I'm not suggesting that focusing on workers comp was the wrong tact; it is still a major expense item on many organization's bottom line and always will deserve top attention. It will be a major centerpiece this year as well.

Last year, I spoke of RMIS as being a necessity because of prevalent corporate downsizing. The RMIS was indispensable in accomplishing many diverse tasks for the "staff-challenged" risk management department.

This year, after several interesting projects, I believe differently: the real direction of RMIS should be as the strategic tool to take risk managers into the next century as information managers and resources to corporate management. I have always believed that the risk management department should be the information vortex of any organization, gathering raw data and disseminating useful information to staff and senior management. The RMIS is that key device to help risk managers be the gatekeepers of vital information on risks and exposures.

Tips for participants

A new visitor (or any visitor) would be well advised to observe a few tips to save a lot of headaches, confusion and hassles at the conference and afterward as you sort through all the gathered propaganda, otherwise known as marketing material. Here is a useful primer:

- Don't buy at RIMS! This is the most important tip I can offer. Vendors are at the conference to show their system in the most favorable light possible. Even though they experience glitches, bugs and problematic equipment, you're most likely to see a good performance in the demonstration. While RIMS is a good place to get additional information or to make a contact and pick up some literature, it is not a good place to buy.
- Schedule interviews beforehand. If you are in the midst of a project, RIMS is a good place to see a lot of systems. However, do not walk randomly by the booths to conduct serious analysis. Rather, set appointments with the vendors beforehand. They prefer this as well because they usually can get a suite or private room to show you the system without the distractions of the exhibit hall.
- Bring your experts. . .and ask for theirs, too. If this is to be a serious meeting, it would be wise to bring your director of information systems, or at least some "techie" who understands systems architecture. Simultaneously, be sure that the vendor is providing an equivalent level of technical expertise. Many of the booth personnel are in marketing departments and may not be able to address specifically your expert's questions.
- Don't be swayed by booth size or glitz. Now I'm not saying to look for vendors with a plain table and some promotional material with misspelled words! But, you should not be overly impressed by the opulence of the booth or the bells and whistles of the system.

Rather, ask if the functions are useful. I'd want to see a professional, unpretentious setup with courteous, yet technically competent individuals answering your questions.

- Don't be pressed into an immediate follow up visit. Used car sales tactics are not desirable here. This also will give you an idea of their professionalism. Now, there's nothing wrong with the vendor asking for a follow up visit or phone call. However, you will need time to digest all that you've seen and heard. Persistent and pushy sales tactics are tacky and should not be tolerated. You can have them call you in two to three weeks if that is reasonable. BI



David A. Tweedy is a senior manager at Deloitte & Touche in Hartford, Conn. Mr. Tweedy's column on risk management information systems appears periodically.

Risk managers' IPO worries

By Leonard S. Surdyk

AS ANY CORPORATE RISK manager who has ever been involved in settling a securities fraud claim against a public company and its directors and officers will tell you, an initial public offering can be a risky proposition.

In any business venture, a multiplicity of risks and uncertainties always exist. In a privately held company these risks and uncertainties affect the bottom line but usually do not lead to litigation. In a company going public, those risks can multiply.

Under the Securities Act of 1933, the corporation and any director or officer who signs the prospectus for an IPO is strictly liable to investors if the prospectus contains any material misstatements or omits any material facts. Great care must be taken in preparing a prospectus and registration statement to clearly and adequately explain these risks and uncertainties to the investing public. Still, when stock prices fall, the plaintiffs bar is likely to file a class action suit on behalf of investors charging the corporation and its directors and officers with fraud and misrepresentation in the disclosure statements and prospectuses.

Many corporate risk managers and directors and officers liability insurers find settling securities fraud claims to be the most prudent option. According to a recent survey by Watson Wyatt Worldwide, the average settlement paid to plaintiff shareholders in class action lawsuits from 1984 to 1993 was $7.7 million (*BI*, March 6). Once that decision to settle is made, risk managers often find themselves facing another hurdle: Whether to pursue any rights the corporation or its insurer as subrogee may have against the lawyers and accountants who may bear some of the responsibility for the alleged misrepresentations or omissions that caused the losses.

While the issue may seem academic from a risk management standpoint—recoup your losses from another source whenever possible—the decision to pursue a claim or assist the D&O insurer in a subrogation action is not always an easy one. Pursuing a malpractice claim against a lawyer or accountant or seeking contribution for the damages can have repercussions for the corporation, its directors and officers and the D&O insurer.

A recent case out of the California appellate courts provides an interesting forum to explore the issues in securities fraud suits related to IPOs.

In *Fireman's Fund Insurance Co. vs. McDonald Hecht & Solber*, a homeowners association sued a real estate developer over misrepresentations made in the disclosures to the buyers. Fireman's, the developer's insurer, settled the home buyers' claims and, as a result, depleted the developer's policy. The misrepresentations allegedly occurred as a result of the lawyers' negligence in preparing the required disclosure statements.

As part of the settlement with the home buyers, the developer was required to replenish its insurance policy out of the proceeds from any suit against the law firm. As is the case with many of these types of lawsuits, Fireman's subrogated the developer's malpractice claim against the law firm to replenish its insurance policy. The court in *Fireman's* did not allow the insurer's subrogation claim because California law does not allow legal malpractice claims to be assigned. Non-assignable claims are not subject to subrogation under California law.

Although Fireman's subrogation claim was extinguished because of established case law, this case demonstrates the intricacies and nuances that risk managers should be aware of when deciding whether to seek contribution for damages from third parties, such as attorneys or accountants. It also provides a useful forum to discuss when that decision is appropriate.

Who owns the claim?

As the Fireman's case illustrates, even if a decision

Third-party claims require discretion

is made to pursue a malpractice claim against a third party, such as a lawyer or accountant, you first need to learn whether a D&O insurer is subrogated to this claim in the jurisdiction where the case is being brought.

Most D&O policies say that if the insurer pays out, the insurer has subrogation rights in the policyholder's claims against third parties, including lawyers and accountants. However, the courts do not agree over whether insurers may subrogate their policyholders' malpractice claims against third parties who may bear some responsibility for the underlying lawsuit for which the insurer paid out on the D&O policies.

The U.S. Supreme Court established this right in the context of private actions brought by investors who had purchased stock in a public offering in a 1993 case, *Musick, Peeler & Garrett vs. Employer's Insurance of Wausau*. A private cause of action for investors was implied under the 1934 Securities Exchange Act, which provides redress to investors for material misrepresentations or omissions in after-market statements. The *Musick, Peeler* case held that an insurer could subrogate a contribution claim by its insured against lawyers and accountants who may have caused the misrepresentations that led to the underlying lawsuit against the company and its officers and directors.

Courts in New York and Texas appear to follow the Supreme Court's lead even in claims outside of the securities fraud arena.

In a 1992 case, *American Centennial Insurance Co. vs. Canal Insurance Co.*, the Texas Supreme Court allowed an excess insurer to subrogate a legal malpractice claim which a policyholder had against an attorney for mishandling a wrongful death suit. And in a 1986 New York case, *Great Atlantic Insurance Co. vs. Einstein*, the appellate court allowed an insurer to subrogate to a policyholder's malpractice claim which arose out of the attorney's conflict of interest.

But courts in Kansas and Minnesota are aligned with California's in other subrogation contexts. In Kansas, the Kansas Supreme Court disallowed a bank's subrogation claim on the theory that a creditor that pays the debts of a debtor is not subrogated to the debtor's malpractice claim against an attorney, *Bank IV Wichita, National Associates vs. Arn, Mullins, Unruh, Kuhn & Wilson*. In Minnesota, the Minnesota Supreme Court held that an indemnification agreement between a lawyer and his law firm precluded an insurer's subrogation claim against that attorney, *St. Paul Fire & Marine Insurance Co. vs. Perl*.

Where courts have disallowed these subrogation claims, policyholders and insurers instead sometimes have agreed to split the proceeds from any contemplated malpractice suit.

Should you sue?

Even if courts allow subrogation or contribution claims against the third parties like lawyers and accountants, the risk manager must also consider whether the corporation itself should bring a malpractice claim or assist the insurer in bringing such a claim.

Lawyers and accountants tend to have long-standing and close-knit relationships with their clients. Many companies have had the same lawyers and accountants representing them from their inception and are hesitant to break this highly confidential relationship even after alleged malpractice in an IPO.

The risk manager should consider these relationships when advising a corporate board on the advisability of pursuing a malpractice claim. Despite the potential reimbursement for some of the losses, directors may have strong feelings about being involved in a lawsuit against people in whom they have placed all of their professional and personal confidences.

Using the *Fireman's* case as an example, it is likely that the developer and the law firm had a longstanding relationship before the lawsuit was filed. The lawyers may have represented the developer in similar projects without any problems. If the developer's D&O insurer did subrogate to the malpractice claim or assist the corporation in suing the law firm, it is likely that the developer's relationship with these lawyers would be irreparably harmed. The litigation would be likely to force the lawyer and the developer to sever its ties, causing the insured to seek new counsel for its work and pay to educate new lawyers about its business.

Public companies also see some economic benefit in maintaining a relationship with the accountants and lawyers who helped take the company public. When investors sue a company for securities fraud after an IPO, the company frequently looks to the lawyers and accountants who prepared the offering to help defend the suit.

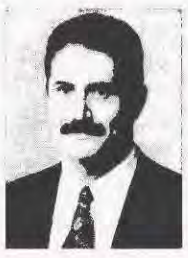
Even if there are claims that the lawyers and accountants were partially responsible for the misrepresentations, these professionals are intimately acquainted with the IPO and the most cost efficient defense against the investor suit. Bringing in an outside team of lawyers and accountants to defend the investors' suit also means paying to to educate these professionals about the IPO. This can have a negative impact on both the corporation and the D&O insurer. Further, the company may be contemplating another public offering and may need to rely on its attorneys and accountants again.

From the insurer's standpoint, however, hiring independent lawyers and accountants to defend the investors' suit may be worth the extra cost if it helps determine who was at fault. If the independent lawyers and accountants do learn the initial lawyers or accountants were negligent, then the insurer can be sure it is obtaining an independent opinion on the merits of its subrogration claim against these professionals and make a more informed decision about recouping some of its losses.

Finally, even if a malpractice claim against the lawyers and accountants seems strong, the risk manager and D&O insurer should think about the impact the lawsuit would have on the corporate officers and directors of the policyholder.

Litigation is costly and time consuming. If the insurer decides to proceed against a lawyer or accountant, it is likely that some of the blame for the securities fraud lawsuit will be turned back against the corporate officers and directors. In the *Fireman's Fund* case, for example, if the developer or the insurer pursued any legal action against the law firm that prepared the disclosure statements, it is likely that the lawyers would defend the suit by arguing that they disclosed everything the developers told them. A lengthy fact-finding process in the form of depositions and interrogatories between the developer and the lawyers would be likely to ensue to determine what was disclosed to the lawyers and accountants and what was properly divulged.

These depositions and interrogatories take time away from the corporate directors' and officers' real duties, which ultimately could lead to another investor lawsuit. BI



Leonard S. Surdyk is a partner in the Chicago law firm of Blatt, Hammesfahr & Eaton, practicing in professional indemnity and directors and officers liability insurance.

Hays

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effectively acquired what are now six different medical groups comprising probably 550 physicians, including the prestigious Palo Alto Clinic. So I know the medical group practice side. I know physicians very well. I know what their fears are and how to work with them effectively. And, one of the biggest challenges in managed care is physician relationships.

What are some of the other challenges?

The second-biggest challenge is managing along the continuum of care.

Most people tend to think of managed care as lowering hospital utilization. Certainly that has economic value to the insurer, but the true value to the insurer, in my view, is management of care. And the only way to get to the management of care—which by definition is that level of care which is both clinically and financially appropriate to the patient's needs—is by having either committed capacity through ownership or contracted capacity through alliances of the whole spectrum of non-acute care.

Why is that important?

Because as care management sophistication grows in sections of this country, (it will become necessary) to keep patients out of expensive acute care settings through a coordinated series of non-acute or pre-acute or post-acute capabilities.

While acknowledging that a certain percentage of those patients are going to inevitably end up in that giant intensive care unit—which the hospital is rapidly becoming—integrated care systems must move them out to the post-acute spectrum of care as quickly as clinically and financially possible. That's really the management of care.

How will the Blues, which have such a strong indemnity plan heritage, be able to effectively compete with younger, more nimble managed care companies?

There is a new breed of Blues executives emerging who are more open to change and innovation. They tend to be a bit younger. They in some cases have absolutely no insurance or managed care experience, but they are universally talented business people. The advantage they bring—and I'm not discounting the expertise and background of former Blues executives—is they are unfettered by tradition. They carry no baggage and they are not prone to be sympathetic to the "We've always done it that way" thesis. So they are really breaking the mold.

Combining that momentum, which is just now beginning to build, with some elements of infrastructure that already exist at this association and adding into that pot a dose of innovation and freedom to fail—it's going to be a wild ride for the non-Blues in this country.

Will there be any changes in terms of the association's relationship with the independent Blues plans?

' I don't foresee, nor do I think it would be appropriate, for the association to assume any "corporate role" vis-a-vis the plans. That's one of the Blues' strengths and one of the things that attracted me.

Given that America said no to federalized health reform last year, and now it's being market-driven, one of the unique characteristics of the Blues is they are connected to their communities. They were born in those communities and the management teams and the employees of those plans receive their care in those communities. That is such a strong strategic advantage over the corporately managed competitors—whether they be out of Pennsylvania, Hartford or Chicago or wherever. The Blues are in touch with their markets.

But some markets are more competitive for the Blues than others, right?

There is a new breed of Blues executives emerging who are more open to change and innovation.

Yes. And that's where the association may expand beyond its traditional roles. Historically, the association has licensed the BC/BS logos, given them policy and representation in Washington, D.C., and helped them with the states. I propose that the association continue with those historic functions. . .but I suggest a fourth dimension, which is to create the most effective national managed care alliance in America. And only the Blues can achieve that because we are the only ones that have geographic spread and coverage and community connection.

What do you mean by "managed care alliance?"

When I say national managed care strategic alliance, that suggests from a corporate governance perspective nothing for the plans would change, except for the continuing consolidation, which is a natural, market-driven phenomenon.

But, with the concept of the strategic alliance, it's not necessary to have governance or centralized management. The alliance is driven by mutual advantage and rapid response to changing market conditions. The more pragmatic piece is this association, much to my delight, already has some very important parts of the infrastructure to create that national alliance, including HMO USA, a technology evaluation

See **Hays** *on next page*

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Hays

Continued from previous page

center, inter-plan teleprocessing and electronic data interchange.

Nobody—not Prudential, not Aetna, not U.S. Healthcare—has those elements in place except for the Blues in America through their association.

Within this national managed care alliance of the Blues, will there still be traditional indemnity plan offerings?

I hope so. Pluralism is one of the bedrock strengths of American society. That was another difficulty with the reform plan that emerged from the Clinton administration. It suggested there was one monolithic solution for this country. And yet, the health care issues of rural New Mexico are so different from competitive California and those, in turn, are so different from urban New York. There is not one solution.

Will such an alliance mean further mergers and consolidations for the Blues?

Consolidation among the plans will continue whether or not there is a national managed care alliance. There is no question. As health reform is now market-driven instead of Washington-driven, for those plans which compete, those that find themselves under multiple insurance commission regulations, there are a lot of good reasons for those boards and executives to be looking at formal combinations.

Some employers worry that mega-mergers between HMOs, like the recent combination of WellPoint Health Networks and Health Systems International, could hinder competition. Do you think so?

I think as long as you have two or three choices in any given market, the employer and the employee will be well-served. And, I'm betting the Blues will be one of those choices. The risk you run with organizational aggregation is that you lose touch with your customer. And that is a key advantage the Blues have.

How willing are the Blues to work with employer coalitions to develop innovative health plan designs or meet their performance standards?

I haven't really been here long enough to comment on that, but I see a lot more of that on the agenda of the Blues plans.

There is a move among numerous Blues plans to convert to for-profit status in an effort to raise capital to compete with other managed care plans. Is that something you favor?

To the extent it furthers the strategic success of the plans involved, yes. I believe, however, there is a certain value system resident in the not-for-profit heritage of the plans and one of the challenges as they do access public markets is the ability to continue to honor and respect that heritage.

It's very difficult to retain a strategic perspective because, as a publicly traded company, management is driven by the quarterly earnings expectations of shareholders.

Is the BC/BS Assn. still actively lobbying for particular health care reforms in Washington?

Well, the pace has backed off quite a bit. But we are interested in the portability issue. I think that's one of the sad elements that happened with the (failure of the Clinton plan) because the notion of job lock is real. The association also is involved in lobbying against state "any willing provider" laws.

Were you disappointed that federal health care reform failed?

In terms of the original objectives, yes, I was disappointed. The access to health care in this country is, in my view, a scandal.

Do you feel federal reform is needed to address the access problem?

Absolutely not. And, I think reform as originally conceived by the president and Mrs. Clinton during the campaign, before it got massaged and molded by Washingtonians, was not as federalized as the final proposal that emerged.

Do you favor free-market solutions to health care reform?

I'm a believer in a pro-market approach. I don't believe the pure notion of a free market will work in health care.

'As long as you have two or three choices in any given market, the employer and the employee will be well-served,' says Blue Cross & Blue Shield Assn. CEO Patrick Hays.

There is a big difference between the free market of Silicon Valley and the provision of the most intimate of human services.

But I do believe that the market works and is working in sections of this country like Florida. There, a regulatory framework initiated by the state has stimulated the competitive private market. Minnesota and Michigan are other examples.

So should individual states be responsible for forging their own health care reforms?

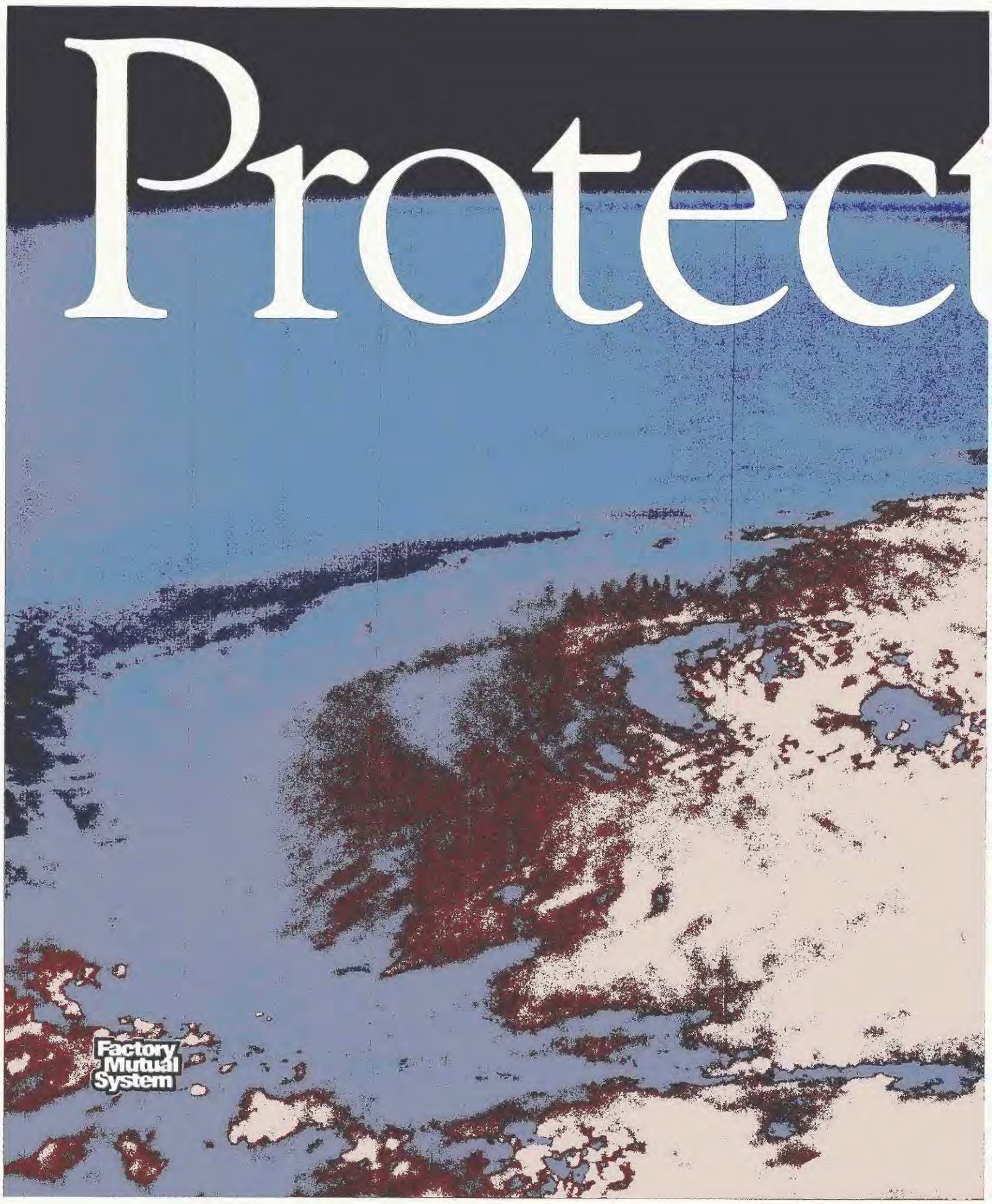
Health care is at its essence a local transaction. It benefits in some ways from regionality and in lesser ways from a federal perspective. The federal government is the only body that is probably able to deal with issues like portability and leveling the playing tables in a competitive market.

Do you think the federal government should repeal the pre-emption provision of the Employee Retirement Income Security Act as a method to level the playing field between large, self-insured employers and smaller companies that are insured?

ERISA is a very complex issue and one we continue to analyze and debate within the association and among our board committees.

ERISA, from the perspective of the large employer, is almost a must, but in its historical form it creates some other aberrations. Small employers that band together in the so-called MEWA, for example—what public safety regulatory framework exists for

Continued on next page



Continued from previous page
MEWAs? I think that's an open question.

Similarly, where you have managed care plans or health insurers that cover a metropolitan area that may span state lines—they labor under the regulations and regulatory philosophies of (several) independent insurance commissions.

ERISA is a wonderful flag to wave until you look at some of these issues.

Do you think the slowdown in health care cost increases is attributable to the recent threat of federal reform or is it a result of lasting changes in the way the health care market operates?

In the absence of heat and light at the federal level last year, the American health system is revolutionizing itself. It is driven by market conditions and state legislative initiatives and I do not think it's a temporary phenomenon.

In fact, when I visited the Washington, D.C., Blues plan, I learned that Georgetown University Medical Center has announced the closure of 500 beds. That doesn't sound very temporary to me. And, you don't typically think of the District of Columbia as a hotbed of managed care.

Is capitation having a lasting effect on health care cost reductions?

Yes. And, not for any sinister reasons.

Having had some experience with capitation, while it's not the end-all, it does have the potential for abuse.

But, capitation is the form of economic model—the best we've figured out so far—that finally aligns clinical incentive with financial incentive.

Are physicians willing to accept capitated reimbursement, or will that be a challenge for the association going forward?

Well, the convincing of the physician communities is more properly in the purview of the plans.

What the association can do is provide educational forums and opportunities for exchanges among physicians who are thriving under capitation and colleagues who are afraid of it.

We can facilitate knowledge. but, we obviously should not try to convince physicians in a locale that one method is better than another.

What do you think of health plan report cards like the Health Plan Employer Data & Information Set?

I think it's an excellent first start. By the end of 1997, all our Blues plans that are part of the HMO USA network will be meeting HEDIS requirements.

When you say it's a good "first start," what do you think is lacking?

Nothing is really lacking. But I believe the next generation of competition will move out of this price-competitive phase and be more driven by outcomes.

I see the market evolving to where Health Plan A, making a sales pitch to an employer, will say, "Here's our price and it's lower than Health Plan B."

And Health Plan B's pitch might be, "We cost a little more, but we're worth it and we can prove it."

And how they'll prove it will not be in traditional measures of quality like Caesarean section rates or open heart surgery mortality, but by much more of a consumer perspective.

What is your track record, Health Plan B, in returning elderly enrollees who have had strokes to activities of daily living?

What proportion of your heart attack victims are able to return to work?

What percentage of the children that are enrolled in your plan are immunized for communicable diseases?

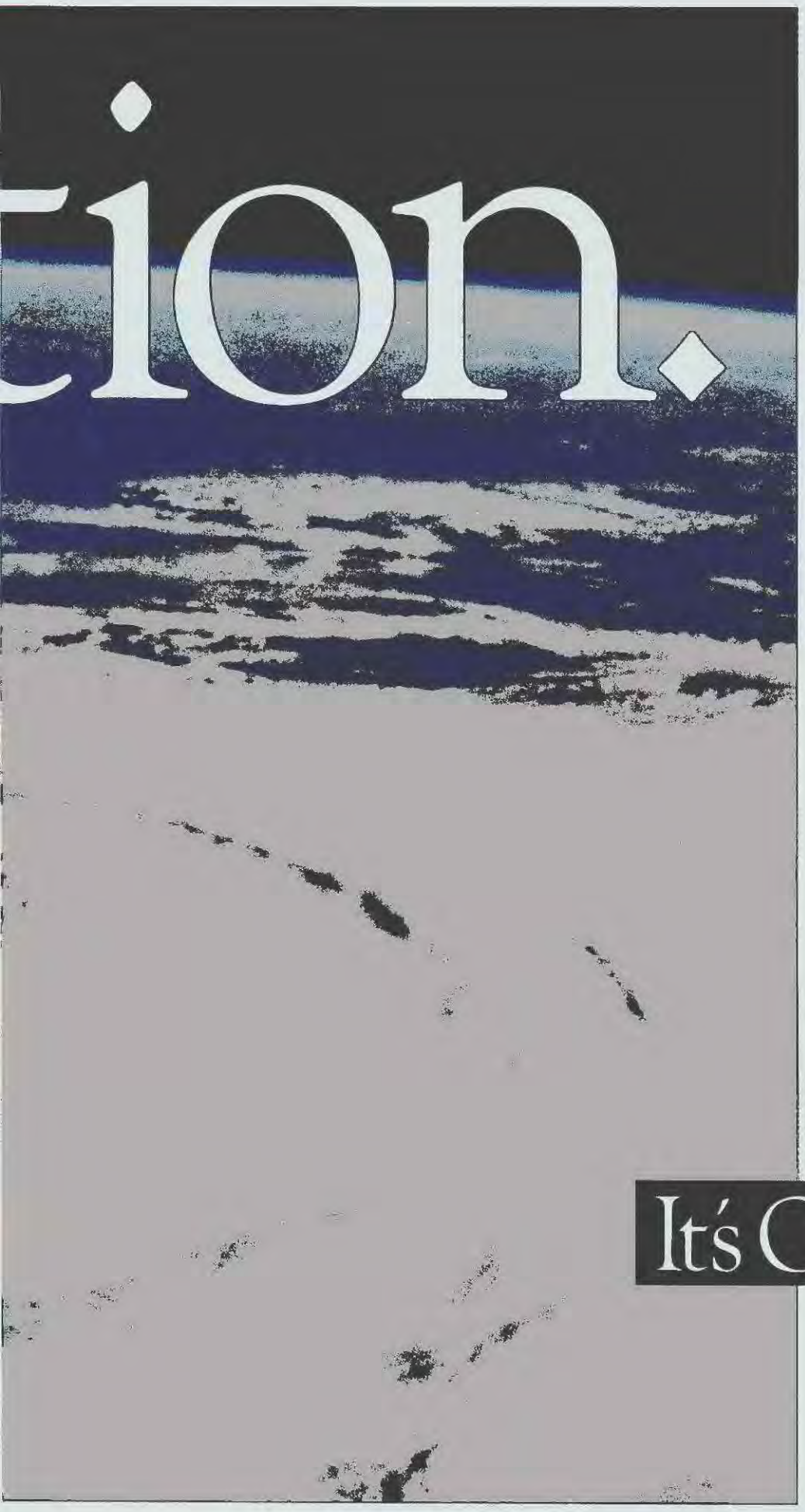
Those are the meaningful measures.

Outcomes systems are expensive to develop. Will the Blues help fund those systems?

Yes.

Those plans that are in market arenas that are more data-driven than others should aggregate their ability to work with one of the leading-edge technology partners on outcomes. That's one of the issues that's troubled me coming out of the integrated systems arena.

Everyone is trying to invent the wheel at tens of millions of duplicate dollars. BI





"Everybody talks about the weather, but nobody does anything about it."
–Charles Dudley Warner, 1890

Early in this century, farmers in northern Italy tried to stop the hail that threatened their crops by blasting hot air into the clouds. Unfortunately, their attempts to control the weather were unsuccessful.

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Social Security application option

By JERRY GEISEL and MARK HOFMANN

Washington

WASHINGTON—Employees would be given the option of applying for Social Security retirement benefits through their employers under a proposal being developed by the Clinton administration.

Currently, employees can apply for Social Security benefits over the phone—with paperwork later submitted by mail—or by visiting a local Social Security office.

Under the White House proposal announced last week, employees also could apply for Social Security through their companies' employee benefits or personnel departments. Employers would electronically forward the information to the Social Security Administration. Employees now can apply for Social Security benefits three months before they are eligible for the benefits.

Through the employer enrollment option, which would be voluntary for employees and for companies, information could be transmitted more quickly and more accurately to the government, a Social Security Administration spokesman said.

The proposal, part of a broader administration initiative to streamline Social Security, would go into effect in 1997 and would cut the government's administrative costs by about $8 million over a four-year period. Congressional approval would not be necessary.

As a practical matter, interest in offering the option to apply for Social Security benefits would be limited to those employers that outsource their pension plan administration, said Leo Arvin, national director of defined benefit plan administration at Buck Consultants Inc. in Secaucus, N.J.

Administrators, though, would increase their charges to do the extra work.

Employers that run their pension plans internally probably would find allowing employees to apply for Social Security benefits while on the job to be too great an administrative burden, Mr. Arvin said.

Surcharge extended

President Clinton last week signed legislation that extends through year end a law that effectively requires employers providing health care benefits to employees in New York state to pay a 13% surcharge on hospital bills.

The 1993 law, which expires May 12, bars employers from deducting their health care costs as a business expense unless they pay New York's 13% surcharge on inpatient hospital bills. The surcharge applies to patients who are covered under self-funded plans or health plans sold by commercial insurers. The surcharge is not added on bills incurred by employees covered under Blue Cross & Blue Shield plans.

The 1993 law was a short-term congressional response to a federal appeals court decision that found a New York law imposing the 13% surcharge was preempted by the Employee Retirement Income Security Act. The U.S. Supreme Court is now reviewing the appeals court ruling (*BI*, Jan. 23).

If the Supreme Court does overturn the state's 13% surcharge, New York lawmakers are likely to press for legislation—perhaps as part of a future broad budget measure—that would give the surcharge a special waiver from ERISA's pre-emption provisions, benefit lobbyists say.

The amendment effectively continuing the 13% surcharge is part of a broader bill, H.R. 831, that retroactively restores the partial tax deduction the self-employed can take on their health insurance premiums. The tax deduction, which expired in 1993, is 25% of premiums in 1994 and thereafter 30% of premiums.

Legislators allowed the provision providing the health insurance tax deduction for the self-employed lapse in 1993 because they mistakenly believed that the deduction would be addressed as part of a comprehensive health care reform package that many thought would pass Congress last year.

Tax bill fallout

House Speaker Newt Gingrich, R-Ga., frequently refers to a tax package passed by the House this month as the "crowning jewel" in the GOP's "Contract with America."

But federal employees probably see more tarnish than luster in the package. The legislation would gradually increase pension plan contributions and slightly reduce benefits for many future retirees from government.

Under the new package, annual contributions paid by employees in the Civil Service Retirement System would be raised by 1998 to 9.5% of basic pay, up from the current 7% contribution. Contributions would increase by 1.5 percentage points in 1996 and 0.5 percentage points in both 1997 and 1998.

Pension contributions for employees enrolled in the Federal Employees' Retirement System, which covers workers hired on or after Jan. 1, 1984, also would rise by 2.5 percentage points over the same three-year period and bring their pension plan contributions to 3.3% of basic pay in 1998.

Employees in the CSRS make much higher contributions than other government employees because they are covered by a richer pension plan to compensate for the fact that they are not covered by the Social Security program.

In addition, the formula used to compute benefits would be altered for employees covered under both pension plans. Benefits for employees retiring in 1996 would be based on their four highest years of salary. For those retiring in 1997 and succeeding years, benefits would be based on the five highest years of salary, which is typical among private-sector defined benefit plans. Currently, federal employees' pension benefits are based on their three highest years of salary.

Federal employees view the provision as a little-disguised tax hike. But House Republicans expect the changes will reduce the federal deficit by nearly $11 billion between 1996 and 2000, the principal reason they were included in the tax package.

Other provisions in the package would give new tax breaks to employees purchasing long-term care policies through their employers and create a new type of individual retirement account known as American Dream Savings Accounts (*BI*, April 10).

Tort reform vote delay

The Senate Labor and Human Resources Committee will not vote on a medical liability reform bill until April 25 because key Democrats blocked a scheduled April 6 vote by use of a parliamentary maneuver.

Committee Chairwoman Nancy Kassebaum, R-Kan., said the panel will take up her own version of S. 454, the Health Care Liability Reform and Quality Assurance Act, at the April 25 meeting. Sen. Kassebaum, one of the three original sponsors of S. 454, drafted a revised bill in hopes of answering questions raised by both opponents and supporters of the bill.

Unlike medical malpractice reforms in the comprehensive tort reform bill approved by the House of Representatives last month, the revised Senate bill would not contain a cap on the amount of non-

Continued on next page

CAPITAL

Atlanta Chicago Columbus Dallas

Continued from previous page
economic damages that can be awarded in medical malpractice cases. The House bill has a $250,000 cap on non-economic damages.

The measure does, however, contain a modified version of the "English rule," which would require the losing party in a civil case to pay at least a portion of the winner's legal costs. Under the Kassebaum approach, either party could be assessed a portion of the other's fees under certain circumstances if the losing party declined to accept the decision of a state-administered alternative dispute resolution system and took the case to court.

This limited loser-pays rule could prove to be a critical factor in the bill's fate, because President Clinton vowed earlier this month to veto any tort reform legislation that contains such a provision.

The revised bill also would eliminate proposed public access to some material in the National Practitioner Data Bank. The American Medical Assn. lobbied to strike that provision, saying the data bank's information on suspension of physician licenses or hospital privilege is often unverified.

Republicans on the Labor and Human Resources Committee had hoped to vote on a medical liability reform bill before the Easter recess. But Democrats, led by Sens. Edward Kennedy, D-Mass., and Paul Wellstone, D-Minn., said they hadn't been given enough time to look over the revised bill and prevented it from coming to a vote.

Securities litigation

In another liability-related development on Capitol Hill, two senators have introduced legislation that would reform securities litigation.

S. 667, The Private Securities Enforcement Improvement Act, introduced by Sens. Richard Bryan, D-Nev., and Richard Shelby, R-Ala., is designed to "provide a balance between protecting the rights of defrauded investors and providing relief to honest companies who may find themselves the target of a frivolous lawsuit," said Sen. Bryan. He added that he has "serious concerns that in a rush judgment, Congress may err too far and end up curtailing suits that have merit and thus undermine the American public's confidence in the integrity of our financial markets."

According to Sen. Bryan, S. 667 would, among other things:

- Institute "procedural reforms to screen out weak cases early in the judicial process."
- Enhance financial fraud detection.
- Deter and in some cases provide sanctions against the filing of "meritless cases."
- Eliminate "certain abusive litigation practices."

Regulatory reform

Despite the efforts of its chairman, the Senate Judiciary Committee failed to vote on a regulatory reform bill before Congress recessed last week.

Committee Chairman Orrin Hatch, R-Utah, cut off discussion on S. 343, the Comprehensive Regulatory Reform Act, after two days of debate marked by Democrats' accusations that the measure was being rammed through committee.

The bill, backed by Senate Majority Leader Robert J. Dole, R-Kan., would require federal regulatory agencies to subject regulations with an economic impact of $50 million or more to risk assessment and cost/benefit analysis. The bill also would grant Congress the power to veto some regulations.

A less stringent regulatory reform measure—also dubbed the Comprehensive Regulatory Reform Act—passed the Senate Government Affairs Committee on a unanimous vote late last month.

Benefit data book

How much have the amount of assets in employer-sponsored pension plans increased? How have the number of pension plans increased since the enactment of the Employee Retirement Income Security Act of 1974? How much have national health care expenditures increased?

The answers to these and thousands of employee benefit statistical questions are found in the latest Databook published this month by the Employee Benefit Research Institute, a Washington-based benefit think tank.

Copies of the 763-page EBRI Databook on Employee Benefits are available from EBRI Publications, P.O. Box 4866, Hampden Station, Baltimore, Md. 21211; 410-516-6946. The cost is $39.95 and prepayment is requested.

Answers to the above questions: Between 1950 and 1992, the last year for which information is available, assets in employers' pension plans increased to $4.1 trillion from $25 billion; the number of employer pension plans, which includes defined benefit and defined contribution plans, in 1993 stood at 712,000, up from 311,000 in 1975; and national health care expenditures climbed to $884.2 billion in 1993 from $41.6 billion in 1965. BI





Panel uses managed care to treat the funny bone

By MARK A. HOFMANN

WASHINGTON—There's only one class of people in the United States with a constitutional right to health care.

That class consists of prisoners, said J. Ian Morrison. "It's kind of three strikes and you're covered," he said to appreciative laughter from the audience during a discussion of "Where Is the Humor in Managed Care?" at the National Managed Health Care Congress earlier this month.

Mr. Morrison, president of the Institute for the Future in Menlo Park, Calif., called himself the "token futurist between America's greatest health economists." He shared the podium with Alain C. Enthoven, professor of public and private management at Stanford University's Graduate School of Business in Palo Alto, Calif., and Uwe Reinhardt, professor of political economy at Princeton University's Woodrow Wilson School of Public & International Affairs in Princeton, N.J.

Mr. Morrison drew a contrast between the United States and his native Scotland. In Scotland, people consider health care a right and carrying an automatic weapon a privilege, whereas it's the other way around in the United States, he said.

He also called attention to what he called the Republican paradox regarding health care reform.

Republicans say that the market is working, but managed care stinks, he said to much laughter. But according to Mr. Morrison, the reason the market works is because of managed care.

He also drew laughs with his advice on picking a health plan. Step One is to decide what diseases you and your family plan to contract in the next year, he said.

The two economists who appeared with Mr. Morrison drew fewer laughs, although Mr. Reinhardt roused the crowd by disparaging his own German background by showing a slide of what he claimed facetiously was the shortest book in the world, "500 Years of German Humor." He said that the book consisted of one page, and that page was written by Friedrich Nietzsche.

Between one-liners, Mr. Reinhardt seriously predicted that income disparity in the United States predicates the existence of a three-tiered health care system. On the bottom is socialized catastrophic care for the poor; at the top, fee-for-service for the well-to-do; and in between, managed care for the employed middle class.

Mr. Enthoven chose to emphasize progress made in managed care rather than go for the jocular. He noted, for example, a California hospital that managed to cut the hospital stay for certain types of surgery from 18 days to four days by starting rehabilitation training before the operation rather than waiting for the patient to recover. "That's just plain common sense," he said.

He also praised physicians' greater reliance on communication technology. Allowing patients to leave their questions on voice mail for the doctor's reply—which itself may end up on the patient's voice mail—cuts down on the need for time-consuming office visits, he said.

Yet there remains a distrust of managed care, said Mr. Enthoven. He noted that when a physician at a Florida hospital mistakenly amputated the wrong foot of a patient, headlines did not scream that a sole practitioner operating on a fee-for-service basis cut off the wrong foot. However, had an HMO been involved, he said he believes there would have been front-page headlines blaming HMO incentives for the tragically mistaken amputation. BI

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Congress eyes Medicare for cuts

By JERRY GEISEL

WASHINGTON—Overhaul of the Medicare program could be just around the corner, a federal official says.

Gale Drapala, deputy director of the Health Care Financing Administration's Office of Managed Care in Baltimore, said congressional interest in restructuring Medicare is rising for several reasons:

- It will be virtually impossible for Congress to reduce or eventually eliminate the federal budget deficit without bringing Medicare costs under control.

The cost of the Medicare program, which provides basic health coverage to more than 36 million people—mainly retirees over age 65—has been climbing about 10% annually. Currently, annual Medicare expenditures are about $160 billion.

- The governmental trust fund—supported by employer and employee payroll taxes—that supports Medicare could become insolvent by 2002.
- Medicare can't continue to cut reimbursement levels to providers.

In view of rising costs and their impact on the federal budget deficit, "something needs to be done," Ms. Drapala said during a session of the National Managed Health Care Congress earlier this month.

The steps the government will take to curb the growth of Medicare expenditures will become clearer in the coming weeks when congressional Republican leaders unveil their plans to overhaul Medicare. House Speaker Newt Gingrich, R-Ga., has said that all entitlement programs except Social Security are on the federal budget cutting table.

The outcome of this debate is of great importance to employers with retiree health care programs that supplement Medicare. To the extent that Medicare is cut, the

See **Medicare** *on next page*

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Harrington takes director post at USAir

James D. Harrington has been named director of insurance and pension investments for USAir Group Inc.

Mr. Harrington is responsible for all insurance negotiation and placement; claims management, including cargo; and pension investments at the Arlington, Va.—based airline.

He replaces **Stuart J. Tuchman**, who left USAir to join Sedgwick Group P.L.C.'s aviation group.

Mr. Harrington reports to James A. Hultquist, senior director of taxes, pensions and insurance.

Previously, Mr. Harrington was director of risk management and benefits at Bardon Group.

He holds a bachelor's degree in finance from Pennsylvania State University in University Park, and an MBA in risk management from the University of Georgia in Athens, Ga.

* * *

Jeffrey W. Pettegrew has been promoted to vp-risk management and insurance for Western Staff Services.

Mr. Pettegrew, 48, is responsible for management of the insurance program, loss control and risk management for the Walnut Creek, Calif.-based temporary staffing company.

Mr. Pettegrew was named director of risk management in 1991. Prior to that he was risk manager and chief administrative officer for the Contra Costa County Municipal Risk Management Insurance Authority. While he held that position, he was named the *Business Insurance* Risk Manager of the Year in 1989.

Mr. Pettegrew holds a bachelor's degree in communications from Denison University in Granville, Ohio, and a master's in public administration from California State University at Hayward.

•

We'd like to report on staff changes in your company's risk management, safety and employee benefit departments. Contact Sara Marley, Associate Editor, Business Insurance, 740 Rush St., Chicago, Ill.; 60611-2590, or call 312-649-5313. Please send a photograph, too.

Comings & Goings: Buyers

Guilfoile honored by PRIMA

Ronald J. Guilfoile, risk and employee benefit division manager for St. Paul, Minn., has been named the Public Risk Management Assn.'s 1995 Risk Manager of the Year.

Mr. Guilfoile, who has held the St. Paul post since 1985, when he became the city's first risk manager, has received considerable recognition for his work with claims administration, employee benefits, workers compensation and safety, including selection to the 1994 *Business Insurance* Risk Management Honor Roll (*BI*, April 18, 1994).

During Mr. Guilfoile's tenure in St. Paul, the city has reduced its health care costs, moving from several health-care providers to a single health maintenance organization. He also used risk pool consolidation to cut the cost of the city's retiree benefits, while his tracking and coordination of employee safety training has reduced worker injuries.

He has been active in PRIMA since 1985 and has served as president of the Minnesota chapter. He also is a deputy member of the Risk & Insurance Management Society Inc., the State and Local Government Benefit Assn. and the International City/County Management Assn.

The risk and benefit manager will be honored at PRIMA's annual conference June 4-7 in Seattle. The PRIMA award honors a public risk manager who has effectively coordinated and operated a risk management program for a public entity facing adverse conditions.

—By Rodd Zolkos

Medicare

Continued from previous page

cost of employers' supplementary plans could increase.

For example, during the early 1980s, Congress added billions of dollars to employers' benefit plan costs by passing a series of laws that shifted to employer plans from Medicare the primary responsibility for paying health care claims of workers who stayed on the job after turning 65.

The options that legislators may consider as part of a Medicare overhaul, Ms. Drapala said, include:

• Means testing. Under this option, the level of Medicare benefits and the level of cost-sharing, such as deductibles and copayments, would be linked to retirees' incomes.

Such an option has been discussed during previous congressional sessions. A type of means testing already exists under Social Security in which Social Security is designed to replace a greater portion of pre-retirement income for lower-wage workers than for highly compensated individuals.

The argument against means testing is that it could undercut the widespread popular support for Medicare.

• Medicare vouchers. Under this option, a retiree would be given a voucher with a fixed cash value. The voucher would be applied toward buying health care services. If a retiree chose a health plan, such as a health maintenance organization, with premiums lower than the value of the voucher, the retiree could pocket the difference in cash.

This type of program would allow Medicare to better control its costs while giving retirees an incentive to choose efficient health care plans.

However, the voucher option wouldn't work very well with individuals with very high health care costs, such as those with end-stage renal disease, Ms. Drapala said.

• Expand the use of managed care. Currently, only 10% of Medicare beneficiaries receive coverage through HMOs. This small penetration rate has led legislators to ask: "What are we doing to encourage the use of managed care?" Ms. Drapala said.

One option now under review is whether Medicare could contract with preferred provider organizations in arrangements—common to the non-retiree population—under which the level of benefits would depend on whether services are delivered by providers within a network. BI



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Communicating change

New technologies deliver personalized benefit information

By JOANNE WOJCIK

PALM SPRINGS, Calif.—Employees soon will have virtually their own personal benefits counselor available at their whim through the increasing development of better and faster communication technology, an expert says.

1995 Benefit Communication INSTITUTE

"In many ways, it has (happened) already," with employers using videotape, computer kiosks and laptop computers to tell employees about benefit plan changes, observed Kenneth F. Phillips, president of Employee Communications Services in Natick, Mass.

To illustrate his point, Mr. Phillips recounted a conference about 10 years ago where he introduced videodisks, which are considered to be the first marriage of video and computers.

"The equipment that I shipped down probably cost $50,000 and went in one of these massive handbill cases that was the size of a small refrigerator," he said.

But "today, as you can see, Steve is going to do a presentation with a laptop that he could hold in the palm of his hand," Mr. Phillips said, referring to co-presenter Steven C. McCormick, a consultant with Wyatt Watson Worldwide in Washington, D.C.

Both speakers described and demonstrated the use of new technology in benefit communication during the recent Benefit Communication Institute in Palm Springs, Calif. The annual conference is co-sponsored by the International Foundation of Employee Benefit Plans and the International Assn. of Benefit Communicators.

"We are moving from a print-video communications platform to electronic," which is more flexible, Mr. Phillips said.

These new, electronic "media gateways" being created will "allow employees access to information when they want it, how they want it and in the format that

See **Technology** *on next page*

Generation

Continued from page 3

plicated," since benefit communication materials must be carefully crafted to meet the requirements of the Employee Retirement Income Security Act of 1974.

And because the message is complicated, "we have to look at how effectively we're getting through" to employees, she said.

"We, in fact, have topics that are a lot more interesting than tires, than running shoes, than all those things that we watch in the popular culture," she pointed out. Yet many employees spend more time deciding which tires or running shoes to buy than they do deciding whether to purchase disability insurance, she said.

"But you as an employee probably aren't spending a lot of time worrying about that because we aren't doing a good job getting through to you," she said of benefit communications experts.

• The final reason for tailoring the medium to the message is because the new generation is "benefit-savvy," and it's harder to teach new things to people who think they know it all, she explained.

"But they actually only know a little bit," she insisted. For instance, "they think they know managed care because they voted for a president based on it."

"I think we've created an audience of benefit-savvy monsters who aren't as benefits-savvy as they think they are," she said.

That's why employers that want to reach this "new generation" workforce need to break down their audience even further than the usual two groups of "actives" and "retirees," according to Ms. Barnham.

Instead, she said, employers should direct their communications materials to the four generational "types," which repeat in a cyclical manner over time, as outlined in "Generations":

• Civics, those between the ages of 71 and 94 who make up 11% of benefit plan participants today.

Members of this group grew up as protected youths who became World War II heroes and achievers later in life.

"They built institutions," such as the Social Security system and employee benefit plans themselves, she said.

• Adaptives, those between the ages of 53 and 70 who represent 22% of benefit plan participants.

This group started as overprotected youths during World War II, grew up being risk-averse, are comformists as adults and become very sensitive elders.

"They respond ambivalently to things," she said. "They challenge conclusions and really inquire into detail."

At the same time, "they're comfortable with compromise, they're open to new ideas and they allow give-and-take."

• Idealists, those between the ages of 35 and 52, who make up 34% of today's benefit plan participants.

This group, also known as baby-boomers, grew up as indulged youths who presided over the spiritual awakening of the '60s. They develop into moralistic middle-agers and visionary elders, according to the "Generations" theory.

"This is the generation that grew up rejecting the fact that their parents worked for one company all their lives," but who now resent the fact that "they're not getting to go to the same floor of the same building for 43 years," Ms. Barnham pointed out.

Baby-boomers also want to have choice, she explained.

Members of idealist generations tend to be at their most influential later in life, "so we have yet to see what this generation will bring," she said.

• Reactives, those between the ages of 18 and 34, who represent 33% of today's benefit plan participants.

This is the so-called "Generation X," a "generation that feels 'dissed' and probably has a lot of reasons why they should," she said.

"What does 'dissed' mean?" she asked. Put simply, "it means, you are really not treating that person with respect, or you are disrespectful," she explained.

"The fact that a word like that has come into the popular lexicon of this generation, I think, tells us a lot as people trying to communicate," she said.

"They were kids during a consciousness revolution who had to grow up fast to overcome parental self-absorption," she said.

Since they consider themselves economically disenfranchised—they're more likely to believe in UFOs than that Social Security will be around when they retire—Reactives are risk-takers who become alienated mid-lifers and pragmatic and reclusive elders, according to Ms. Barnham.

And because they are perceived negatively by the general population, they feel justified in having a negative attitude, she said.

People of this generation "know that low expectations is a game that you can play to your advantage," she said. "When you think about it, not having responsibility and not having anybody expect anything of you is actually a kind of passive-aggressive powerplay."

As a result, a message that incorporates the idealistic baby-boomer mantra of "partnership" and "responsibility" is likely to fall flat on the ears of reactive Generation X-ers.

According to Ms. Barnham, Reactives' most likely response to such an approach would be: "You want to be a partner with me? You've got to be kidding. Who'd want to be a partner with me? Don't rely on me. And certainly don't make me responsible."

Since employees are affected by the collective mindset of the generation to which they belong, the message needs to be tailored to each group, she said.

Appeal to employees' and retirees' hearts and minds with a message that speaks differently to each generational group, she advised.

For example, when addressing Civics, talk about what's happening to the institutions that they helped build, Ms. Barnham suggested.

To reach Adaptives, provide background and lots of details; and to Idealists, use "new ideas" that were developed "as a team."

And don't use any "hype" to communicate with Reactives because "they expect bad news," she said.

All of these different messages can be incorporated into a single multimedia campaign or a newsletter through the use of sidebars, charts and graphics.

"Use stories that they can relate to," she suggested. "Stories are what really engage an audience," especially when they are told in generational vernacular.

"If you get their hearts and minds, that's all of them," she said.

Ms. Barnham also urged benefit communications experts to borrow popular techniques used by advertisers and the mass media to reach these different demographic groups.

"We should steal wisely from the world around us," she said, comparing posters to billboards, paystuffers to magazine ads and newsletters to newspapers and magazines.

"When we do a poster, we should be using billboard theory," she said. Likewise, videos should imitate television commercials, the TV news or documentaries.

"They've found ways of getting at the audience that we haven't," she said. "We're still writing all this like it's 1974, but times have changed." BI

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InsurerTopics

A special editorial section sent exclusively to insurers and reinsurers

Building a stronger alliance

Insurers boost successful agencies with business perpetuation programs

By SALLY ROBERTS

Some insurers are finding that one of the best ways to enhance relationships with independent agencies is to stick to the adage: "I'll scratch your back if you'll scratch mine."

By offering their most productive and profitable agencies a variety of programs to perpetuate their business, insurers are hoping to perpetuate their own business as well as relations with independent agencies.

Some insurers say agency perpetuation programs are a way of showing support for the independent insurance agency system.

Moreover, they say the programs are a means for insurers and agencies to work together to become stronger companies.

Agency perpetuation programs vary among insurers and run the gamut from financing programs to advertising to industry seminars.

For example, Aetna Life & Casualty Co. has been offering its most productive agencies perpetuation programs for several years, said Peter M. Gay, manager of Aetna's agency financial services in Hartford, Conn.

Among a variety of programs, Aetna offers its top 20% of producing agencies perpetuation loans and financing for producer development and sales incentives, Mr. Gay said. The same programs, he added, are offered to agencies with "other qualities that lead us to say, 'If we give them a little hop in the rear, it will be good business to us.' "

Nearly 100% of Aetna's property/casualty business is written by independent agents, Mr. Gay said.

"It's a big-time commitment to the independent agency system," he said. "Granted, we look for our payback, but we've got a heck of a lot invested in time, human resources and money."

As part of its agency perpetuation loan program, for example, Aetna offers attractive terms and conditions to help its top producing agencies acquire other agencies or to buy out the ownership shares of retiring agency executives. Since 1982, the insurer has loaned about $150 million to some 200 agencies, Mr. Gay said.

In the case of The Protector Group Insurance Agency Inc., Aetna approached the agency and eventually provided the financing and coordination to help the agency develop an employee stock ownership plan.

"With the size of our firm, the options for our shareholders were limited in terms of perpetuation," said Bob Vaudreuil, president of the Worcester, Mass.-based property/casualty agency, which employs 55 people.

When a national broker approached the majority shareholder in the agency about a year ago, internal management decided to put together an ESOP with Aetna's assistance to keep the agency independent, Mr. Vaudreuil said.

With attractive terms and conditions offered by Aetna, The Protector Group was able to offer its employees a more than 30% ownership stake.

"Aetna's assistance was invaluable and we remain independent as a result," Mr. Vaudreuil said.

In addition to providing loans and assistance, Aetna also will provide its top producing agencies the capital needed to upgrade automation systems or set up satellite office, Mr. Gay said. Under this sales incentive program, agencies "that have a mutually beneficial idea with a sales-driven motive" agree to pay back the money and work with Aetna to achieve the goals they set out to obtain with the capital infusion, Mr. Gay said.

Aetna also has programs to help its agencies by subsidizing the cost of hiring new producers, Mr. Gay said. Often, it will take four to five years before a new agent produces enough money to cover the cost of training and education, putting an extra burden on the agency. In some cases, Aetna will agree to subsidize the new hire's salary and the agency will begin paying back Aetna when the new producer starts making money.

Aetna has about 140 to 150 current producer-financing deals with its agents.

But, Aetna does not promote its perpetuation programs to its agencies, Mr. Gay said. Instead, someone in an Aetna district office usually hears of or notes an agent's need for assistance. "We don't hide (the programs), but we don't advertise it, either," he said.

Travelers Group, however, takes a different approach. The Hartford, Conn.-based insurer sends notices monthly to its best-producing agencies that track their progress toward becoming a "tower agency."

Agencies receive "tower" status based on profitability and productivity with Travelers. Commercial lines agencies with that status become eligible to receive $5,000 in vouchers each year, while personal lines agencies receive $2,500 in vouchers. The vouchers will partly or fully subsidize such programs as agency consulting, telemarketing, automation and advertising.

INSURER AGENCY RELATIONS

Agencies lacking that status also have access to the programs, but must pay a fee.

"The focus of Travelers' support services is two-pronged," said Mike Policastro, vp-agency marketing. One is to help agencies and Travelers increase business, and the other is to help both reduce expenses.

For example, "tower" agencies can use voucher money to subsidize the cost of computer software that allows Travelers and agencies to transmit data electronically on small commercial lines accounts, said Mr. Policastro, adding the insurer is working to extend that process to midsize accounts. This type of service helps to mitigate costs for both parties, he said.

Under its consulting program, Travelers assists about 200 agencies each year with merger and acquisition market planning, perpetuation planning and agency valuations, Mr. Policastro said.

In addition, about 100 to 150 agencies each year take advantage of Travelers' telemarketing program, which helps agencies generate leads in commercial lines. About 150 to 200 commercial and personal lines agents also use Travelers' advertising services, he added. Travelers produces radio, print and television ads for agencies in both personal and commercial lines.

Agency Insurance Brokers Inc., a "tower" agency, uses the majority of its voucher money for advertising, said Dean V. Chandler, chairman of the Plattsburgh, N.Y.-based commercial and personal lines agency, which had 1994 revenues of about $1.8 million.

Most recently, however, Travelers provided the agency with an in-depth appraisal and guidelines on how to pass on control and ownership to a son and son-in-law—actions Mr. Chandler hopes to complete by summer.

In addition to the "tower" agency incentive program, Travelers agencies can qualify for the insurer's commercial small-business partnership program, based on profitability and a major growth commitment to Travelers. In addition, agents must commit to "joint business planning," in which the companies work together and plan to grow over a period of time, and implement joint computer ties.

In return, Travelers gives the agencies "services, including better pricing, early access to niche marketing products and very lucrative variable commission programs," Mr. Policastro said.

Warren, N.J.-based Chubb Corp. invites its top producers to attend agency perpetuation seminars taught by Timothy J. Cunningham, senior consultant with Hales & Associates in Westchester, Ill.

The full-day seminars are offered three times each quarter, said Bob Hamburger, manager of Chubb's agency services department.

Agencies invited to the seminar will learn about a variety of issues pertaining to the perpetuation of their agency, from how to valuate their agency to how to determine the right person to take over the company, Mr. Hamburger said.

Not only is "a long-term relationship with agencies very important to Chubb, perpetuation is a critically important topic for agents," he said. "We want agents to stay in business, and if they decide not to, we want to help them make the right decision based on an intelligent research of options," he said.

"I'm a big fan of Chubb's program," said James B. Brown Jr., chairman of Wm. G. Thayer Shedd Inc., a predominantly personal lines, six-person insurance agency in Darien, Conn.

Mr. Brown attended a Chubb perpetuation seminar a few months ago to confirm that his son's buyout of the other half of the agency's ownership was the right step, he said. "Not only did the seminar reaffirm his actions, it also gave guidance of how to proceed over the next five years," Mr. Brown said. BI



Insurer Topics

Brokers go international with insurer help

Aid can strengthen insurer-broker ties

By GAVIN SOUTER

International insurers can both increase their business and strengthen relations with producers by lending a hand to brokers with clients looking to expand overseas.

In addition to supplying coverage for international risks, the insurers can step in and help out with services that the brokers would normally provide if the risks were in the United States, insurers and brokers say.

Insurers are keen to attract the business of companies that are starting to expand overseas, said Jim French, national manager for the WORLDRISK program of American International Underwriters, a unit of American International Group Inc. in Washington.

"We want to try to attract export companies so as they grow we grow with them," he said.

To help attract that business from small or medium-sized brokers that do not have overseas offices or are not members of an international network, AIU's overseas staff can help out with services that larger brokers might provide, Mr. French said.

"We deal with the client directly. We are concerned that they are satisfying the law and making sure that they are sufficiently protected," Mr. French said.

INSURER-AGENCY RELATIONS

The WORLDRISK program is targeted specifically at growing companies and supplies property/casualty, marine cargo, political risk, kidnap and ransom and other specialty coverages.

CIGNA International is also keen to start relationships with expanding clients and their brokers as they start to venture overseas, said Alan May, senior vp for global risk management in Philadelphia.

CIGNA's program, International Advantage, is an insurance program tailored for U.S. companies that are starting to set up overseas operations to export goods. The program is offered independently of an exporter's domestic coverage, which can be placed with an insurer other than CIGNA, he said.

"When the client moves from just being an exporter to having fixed locations overseas and he keeps his broker, who does not have overseas offices, we can help them through our network of offices," Mr. May said.

In particular, the client can access the CIGNA claims network, which can offer the direct client contact that might normally be conducted by a broker, he said.

"It saves them from having to form an alliance with a broker network offshore," Mr. May said.

Often, the premium may be too low to attract a large broker with overseas offices, he noted. But, if the premium is about $25,000 or more, CIGNA usually can offer the extra services and still make a profit on the account, Mr. May said.

Even when clients' needs overseas become so significant that they need a full brokerage service in the foreign location, insurers still can lend a hand, said Frederick Hyer, executive vp at Chubb Corp. in Warren, N.J.

"We would not take on the brokerage role for those companies. We would help the U.S. producer to find another broker to provide the services," he said.

The smaller brokers that have growing multinational business are often in danger of losing it to larger brokers that have international networks, Mr. Hyer said.

"A broker might tell us that one of its larger competitors is trying to take one of its accounts that has facilities in Dusseldorf when the broker doesn't have an office there. We can turn around and say, 'We can find you a correspondent broker and be your international division,' " he said.

Chubb would be able to reassure the client that it will receive good service for its overseas facilities, Mr. Hyer said.

The problems that face domestic brokers serving clients that are expanding overseas vary with each account, said Vic Parker, president and chief executive officer of broker Parker, Smith & Feek Inc. in Seattle.

"If it's a large construction job, we would probably go over there ourselves," he said.

At other times, Parker, Smith & Feek would rely on fellow member companies of the Assurex International network to help out, Mr. Parker said. Assurex is a Columbus-Ohio-based network of individually owned insurance agencies, with 65 members.

When that is not possible, he said, the international insurers can step in and provide services that the broker normally would provide if it was a domestic U.S. risk.

"The important thing is to have knowledge about local customs and protocols when there is an emergency situation," Mr. Parker said.

For example, if any personnel had to be repatriated, the insurers' staff at the overseas location could advise and help orchestrate the move, he said.

Insurers also help provide the claims services on the overseas risks that brokers might offer for domestic risks, Mr. Parker said.

Domestic brokers face problems when they have international business to service, said Frederick J. England, chairman of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass. "One of the options we have is to go to a carrier here that has international facilities. We have found that they can do a great deal for us," he said.

For example, the insurers can perform onsite inspections, which the broker might normally carry out, and report back to the domestic broker, Mr. England said.

But, he added, the insurer services are only suitable for accounts that have few overseas exposures.

"If we have a risk that has many overseas facilities, we would have a difficult time servicing them from here," Mr. England said.

Instead, brokers with international clients would need to become part of a network, such as Falls Church, Va.-based Intersure Ltd., of which Hastings-Tapley is a member, he said. Intersure is an agency-broker network composed of 40 members.

"If you want to grow into a broker that has those types of accounts, you would have to have something like Intersure. If you don't, you will probably end up losing the risk" to international brokers, he said. BI

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Guaranteeing service with a smile

Dental insurer bets on delivering excellence

By REGIS COCCIA

Delta Dental Plan of Massachusetts takes an unusual approach to quality service: it puts its money where its mouth is.

The Medford, Mass.-based group dental insurer is a pioneer in what has become a popular feature among group health insurers: customer guarantees.

Since Delta Dental established its Guarantee of Service Excellence program in 1990, the program has drawn the interest of other insurance and financial service companies and last year won Massachusetts' highest award for quality improvement.

Judging by the results so far, the program has been "worth its weight in gold," said Tom Raffio, senior vp at Delta Dental, who founded the insurer's guarantee program.

Not only has it helped Delta Dental win and retain business and increase revenues, but the program has led to reduced administrative costs, he said. Before adopting the guarantees, administrative expenses ate up 14 cents of every premium dollar. Those costs now are only 10 cents per premium dollar.

Initially developed for group customers in Massachusetts, similar guarantees are in place at other Delta Dental plans across the country, Mr. Raffio said. Because employer needs vary, the state plans' guarantees may differ.

Delta Dental Plan of Massachusetts offers seven guarantees, with a refund if the pledge is not met:

- Minimum of 10% savings on dentists' usual and stated fees during the policy year. Refund: Credit on the difference in savings.
- No-hassle customer relations. Refund: $50 per occurrence.
- 90% of group claims processed within 15 days. Refund: Administrative fee for last month of service.
- Smooth conversion to Delta Dental, as spelled out in a mutual agreement between Delta Dental and the new client. Refund: Administrative fee for second month of service.
- No balance billing of patients by network providers. Refund: $50 per occurrence.
- Accurate turnaround of identification cards within 15 days. Refund: $25 per card.
- Monthly reports of claims, cost containment and utilization, at the client's request, within 10 days after month's end. Refund: $50 for each late report package.

Delta Dental says it will also correct mistakes not covered by the guarantee program. "We turn ourselves in. If we make a mistake, we don't want the customer to find out first," said Mr. Raffio. "We're proactive about making payouts."

So far, the company actually has had to make few refunds: only about $177,000, mostly for claims processing.

Mr. Raffio said the idea for Delta Dental's service guarantee hit him in 1989 after reading an article on manufacturers' guarantees in the Harvard Business Review. While guarantees were common on manufactured goods, they were rare in insurance.

So, he distributed reprints of the article to employees and they liked the idea. Delta Dental's president liked it, too, though the company's in-house counsel was skeptical, Mr. Raffio said.

"Legal counsel was against it because I couldn't point to another insurance company that had done it. That was the whole idea; we wanted to be the first one," Mr. Raffio said.

Delta Dental pitched the concept to a focus group of clients, who were in favor but said, " 'Don't raise your prices to make your guarantee happen,' " he said. Delta planned to meet with that original focus group last week to re-examine the guarantees and discuss possible changes.

To get the program off the ground, the company spent eight months and about $100,000 to restructure its customer service department and train employees, who were a little nervous about making mistakes, Mr. Raffio said.

But errors that result in refunds do not affect employees' merit raises, he said. "It's actually led to team recognition and bonuses."

The insurer has doubled its number of employees, to 300, since it adopted the service guarantee. Delta Dental's group plans cover about 1 million employees and dependents in Massachusetts. Groups of any size are covered by the guarantees.

Service guarantees are becoming a trend in the health insurance industry, but they are relatively new in the dental care area, a benefit consultant says.

In the 1980s, such programs were very rare, but they're becoming more common—especially among medical plan administrators, said Todd Swim, health actuary with Buck Consultants Inc. in Chicago.

"Initially, it was a way to differentiate themselves," Mr. Swim said. But, insurers' service guarantees now are just affirming marketplace expectations. "The difference is they're willing to put money on the table and put their fees at risk." BI

PHOENIX RE

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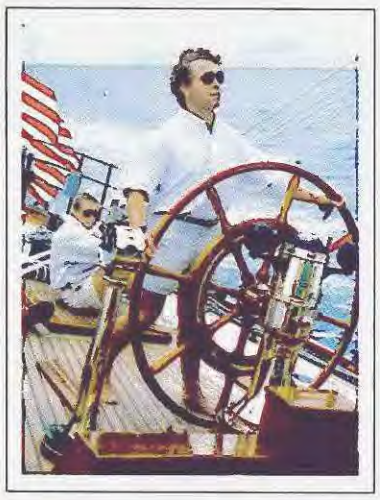
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Insurer Topics



Jeff Beneville uses his sailing talent to further his career as a marine insurance producer.

Mixing business with pleasure

By KERRY A. DZIUBEK

In a way, Jeff Beneville has two careers.

His first career keeps him busy as vp of Carle & Carle Insurance Inc., a fourth-generation general agency in Englewood Cliffs, N.J., where Mr. Beneville heads the marine insurance division, placing hull and liability coverage for some of the most famous pleasure yachts worldwide.

His expertise won him the honor of being named this year to CIGNA Insurance Co.'s "Captain's Table," which recognizes the insurer's top marine producers nationwide.

But Mr. Beneville also excels at a related occupation: world-class grand prix sailboat racing. He sails with the biggest and best, having raced with Team Dennis Conner's "Stars n' Stripes" in the 1992 America's Cup trials and the New York Yacht Club's "America II" for the 1986 trials; the San Francisco Big Boat Series; the Kenwood Cup; the Southern Ocean Racing Circuit series in Florida and the Bahamas; and the World Maxiboat Championships and the 12-Meter World Championships.

And while some of his friends who race professionally are among the highest-paid athletes in Europe, Mr. Beneville sails purely for the love of sailing. Indeed, when he sailed in the America's Cup trials with Dennis Conner in 1992, he was one of the few crew members who wasn't compensated.

So when you're in the big leagues of sailing and run in the circles of the rich and famous, how does the lure of the sea compete with selling insurance?

"I have never really been tempted (to leave the insurance business). I like building a company," Mr. Beneville said. "It's not going to be difficult for me to continue to sail at pretty near the top of the field," so quitting the insurance business would not mean significant new sailing opportunities, he noted.

And he doesn't mind not being paid for the sailboat racing he does. "I could relate (the racing) much more to my business" as a marine insurance agent, Mr. Beneville said. "Some people were giving up their lives and their jobs, while some were not being compensated at all," he said of other racers.

"Some of my biggest clients are guys that I met racing, and still race for now," he noted. Indeed, his racing schedule this year—slow in comparison to previous years—includes about five regattas, which entails about five weeks on the water, covering roughly 2,500 miles.

The 37-year-old agent has been on the water since he was a young boy and is a co-owner of an Upper Nyack, N.Y., boatyard.

At 19, he got his first break into the world of maxi-boat racing—boats 80-feet and over built specifically for speed and endurance on the ocean races that can be as long as 300 miles. One of the crew members on the maxi Boomerang, a former world champion boat, invited him to sail. Mr. Beneville's size and strength made him a valuable addition to the crew, and he soon received invitations to race for boats worldwide.

Once you do a couple of races in this league, "your name gets out there, and everyone wants you to race for them," he said. They hear you've sailed the America's Cup trials or the maxi series, and they want you as one of their 26 guys, he explained.

Keeping up a racing schedule is good for his insurance business as well. The reality is that those who can afford to own and race the multi-million dollar boats are people who may own companies and factories and businesses with insurance needs, he explained. "I don't try to represent myself as anything but a consummate marine insurance professional," said Mr. Beneville. But, he added, when conversation at cocktail parties after the races reveals that you're in marine insurance, people take interest. And, being able to pass along information on risk managers and companies to one of Carle & Carle's commercial property/casualty producers doesn't hurt, he explained.

Carle & Carle's combination of marine and commercial insurance divisions works well. While Mr. Beneville says he doesn't try to produce a lot of business outside of marine insurance, he enjoys the niche he has created.

"Used correctly, it can lead to other business—if you have the other producers to generate the business," he said, adding that his efforts at niche marketing work well because he can feed business to Carle & Carle's property/casualty specialists.

Wallace Beneville, president of Carle & Carle and Jeff's father, agrees.

The circle of contacts and friends that Jeff has made might have been made at certain colleges or some prep schools, but the marine pleasure yacht market really is a boutique type of market, Wallace Beneville said. "And there aren't a lot of people writing it or placing coverage," he said.

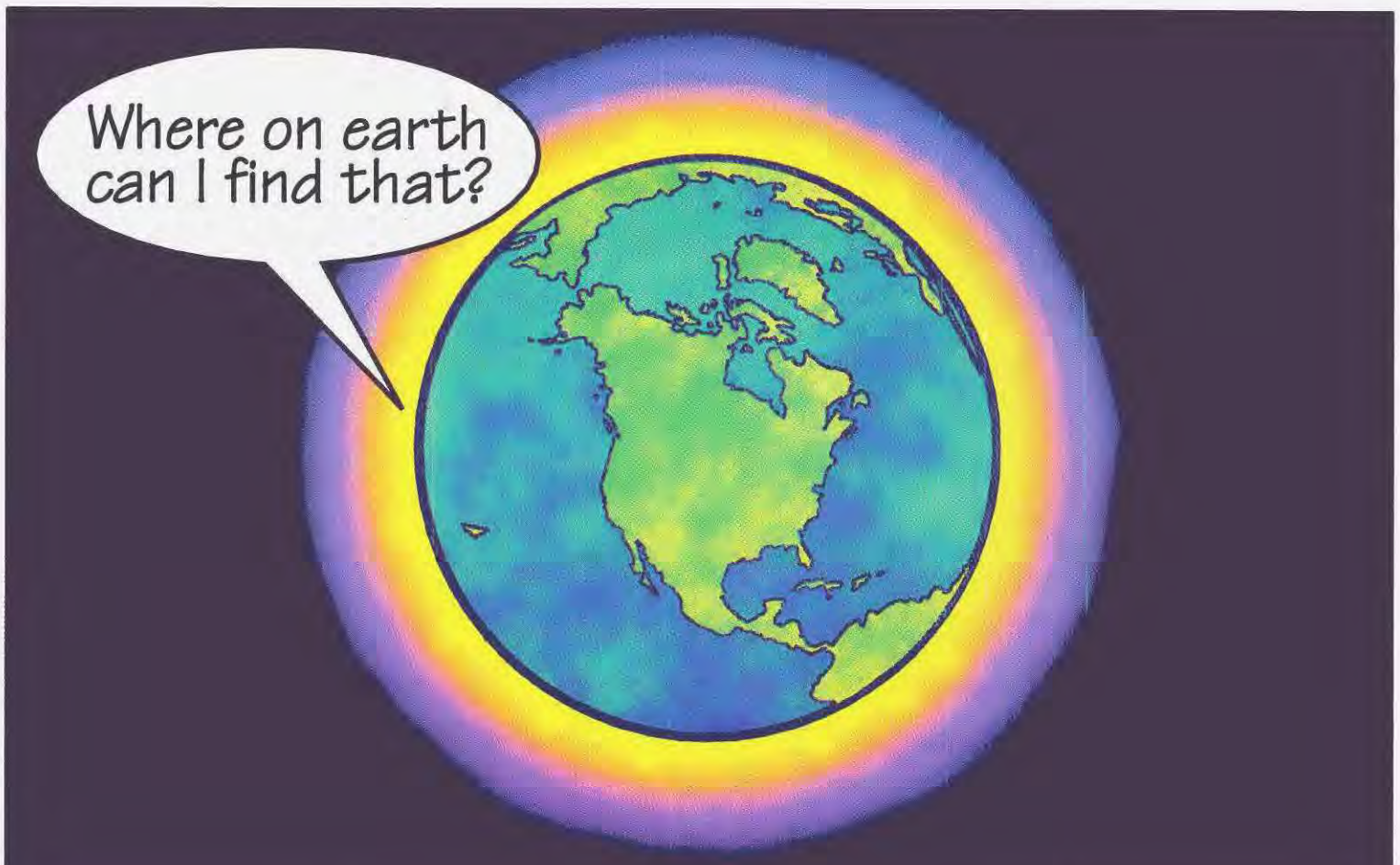
Jeff's sailing expertise helps improve the agency's relationships with the major marine underwriters, as well. While some of the marine underwriters "don't know a boat from a bathtub," the three to five underwriters who are in the bigger league will call him to go and look at the boats. And "that's a compliment," the elder Mr. Beneville said.

The name of the game is, "Do you know what the risk is? Do you know what it takes to write it? That's where Jeff's knowledge of sail boats, and to a large extent power boats, really helps us out," he explained.

"Jeff's been there. He knows what is likely to break. He's seen it, he knows what happens on the water," Wallace Beneville said.

Robert Hale, senior vp of Southern Star Shipping Co. Inc. in New York, has been a client of Jeff Beneville for

See **Beneville** *on next page*



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Insurer boards can resemble a who's who list

By MICHAEL SCHACHNER

In the past year a good number of former politicians and ex-athletes have been elected to the boards of directors at various insurance companies, and insurers say the reason is not so much that these people are famous, but why they're famous.

Retired politicians like former Senate Majority Leader George Mitchell, former Texas Gov. Ann Richards and former Treasury Secretary and Sen. Lloyd Bentsen have all become directors of insurance companies in recent months, bringing unique political and business acumen to the boards on which they serve.

"We don't look at people simply because they're well known. What we're considering is *why* they're well known," explained Kevin J. Tierney, senior vp, general counsel and board secretary with UNUM Corp., the Portland, Maine-based life insurer that named Mr. Mitchell to its board in February.

"George Mitchell has proven himself to be a man of intelligence and integrity. That is a great asset. And, being born and raised in Maine, and having worked as a claims adjuster early in his career, he knows more about our company than the random person we could select off the front page of the Wall Street Journal," Mr. Tierney said.

Mr. Mitchell is an experienced director. He already serves on the boards of Walt Disney Co. and Federal Express Corp.

Business acumen and contacts are the main reasons why American Heritage Life Insurance Co. of Jacksonville, Fla., re-elected Jeb Bush to its board of directors earlier this year after Mr. Bush failed in his run for the governorship of Florida.

"The fact that his name is Jeb Bush and he's the son of a former president definitely doesn't hurt, but he has been a board member here for almost seven years not because his name is Jeb Bush, but because of his business sense and his ability to introduce us to people we might not otherwise get a chance to know," said T. O'Neal Douglas, chairman and chief executive officer with AHL.

But some observers openly question the election of famous people to the boards of companies that operate in businesses the celebrity director might know little about.

"I think it's largely for PR purposes. With a few exceptions, the reality is these people don't know a whole lot about insurance," said Earnest G. Jacob, an insurance industry analyst with Furman Selz Inc. in New York.

However, Mr. Jacob acknowledged that ex-politicians and other celebrity board members are able to offer a company access to important contacts. "Prominent people tend to have connections that can get an insurer into the flow or onto the right side of a political issue. There is some value in that," he said.

Board appointments of famous people with little or no insurance background is a touchy subject for some insurers.

Several companies declined to comment on why they have recently elected such people to their ranks of directors.

For example, Ann Richards became a director at New York-based TIG Holdings Inc. in February, but a company spokesman would only reissue a statement from Chairman and CEO Jon Rotenstreich that Ms. Richards brings a "unique perspective" to TIG's Board.

A spokesman for American International Group Inc. in New York did not respond to a request for commentary about AIG's recent appointment of Mr. Bentsen, who has been on a first name basis with AIG Chairman Maurice R. Greenberg for some time as evidenced by the letter Mr. Greenberg wrote Mr. Bentsen last summer related to Superfund reform (*BI*, Aug. 22, 1994).

Sentry Insurance Co. in Stevens Point, Wis., also declined to comment on why it asked Bart Starr, a Hall of Fame quarterback who played with the Green Bay Packers, to serve on its board of directors.

"I'm not surprised at all that they don't want to talk about it. It's hard to explain," said Mr. Jacob.

UNUM's Mr. Tierney says that when selecting a famous person to sit on one's board, it all comes down to choosing someone who can add value to the group of directors. "Shaquille O'Neal is obviously quite famous. But I doubt he could bring us anything of value. On the other hand, he could be very valuable to the shoe company whose sneakers he wears." BI

Beneville

Continued from previous page

about four years. "Jeff's insurance knowledge coupled with his small boat knowledge is exceptional."

Mr. Hale should know. As the navigator on "Boomerang," Mr. Hale has been sailing with Mr. Beneville for about eight years. "Jeff is a very serious sailor, very strong, a good seaman and a likable guy. He enjoys a very good reputation in the racing community," he said. And when racing, "he's surrounded by customers."

Mr. Hale respects Mr. Beneville's knowledge so much that when he was in the market for a 31-foot sport fishing boat, he bought his boat on Mr. Beneville's recommendation "sight-unseen."

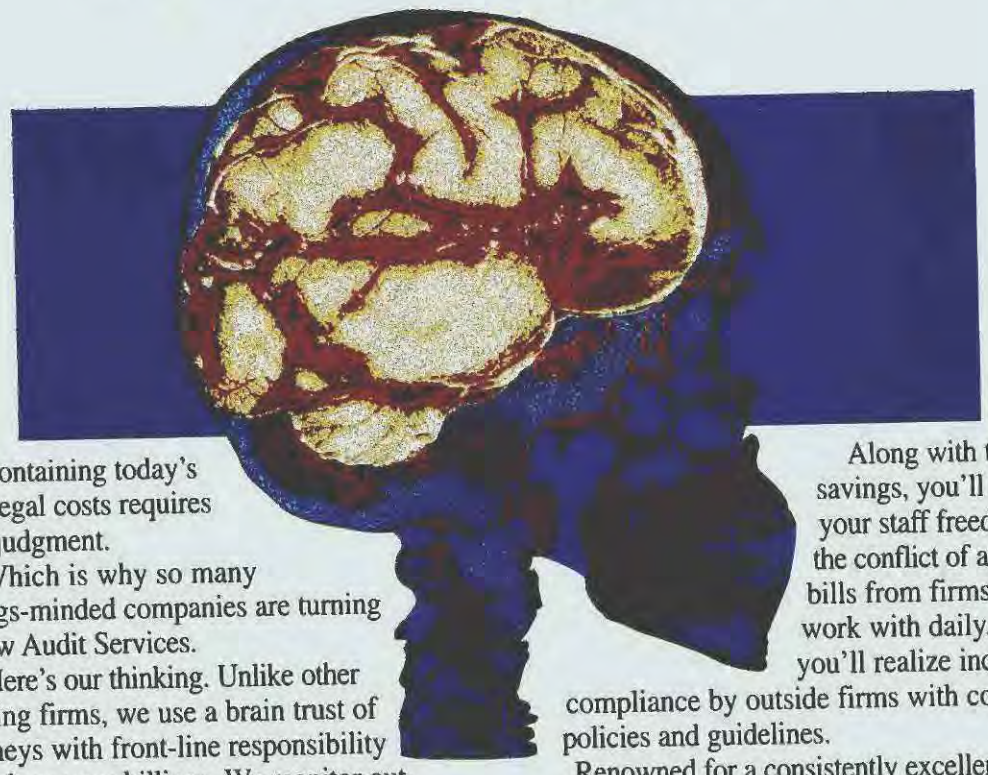
Jeff Beneville delivers valuable expertise to the business of placing insurance for ships and racing boats alike. While the shipping industry has remained pretty stable, the racing boat business has been overrun by technological advances. "Some of the placement involves high-tech racing equipment," which is where Mr. Beneville shines, Mr. Hale explained.

The new technologies aren't always predictable, either, as the sinking of the "oneAustralia" when her carbon-fiber composite hull snapped proves (*BI*, March 13). "You have to be very clever to get those racing boats covered," and he keeps up with the amount of technology that goes into the mast, rigging and hull design, Mr. Hale said.

Keeping up with technology is only one key to success. The No. 1 lesson Mr. Beneville has learned, equally applicable to sailing and insurance, is: "Methodical preparation. In both the business and water environments, if you're not prepared, that's when things go wrong. Preparation is everything. When something breaks on the boat, it usually could've been avoided," he said. BI

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Insurer Topics

Focusing the winds of change on insurance

By Gerald D. Stephens

The revolution that brought the Republican Party into power in Congress and statehouses last November has had an amazing effect.

Suddenly, off-limits, politically protected laws and regulations are open for debate. The new breed of politician is challenging sacred institutions and government fiefdoms that were untouchable under prior regimes. War has been declared on red tape and useless regulation.

Now's the time for the insurance industry to stand up, wave our hands and shout: "Don't forget us!" Many insurance laws and regulations, if examined in daylight, make no sense and only add cost to our products and confusion to the marketplace.

For example, a bill in the Illinois Legislature would abolish the historically misguided countersignature law. For Illinois brokers and agents, passage of this bill would eliminate the retaliation of five states. To anyone handling an interstate insurance account, six new states with no countersignature law will come into being. Sharing commissions with politically connected agents in other states smacks of backroom politics from the dark ages. Fresh air! Sunshine! The demise of a law that did nothing but increase policyholders' costs is imminent.

We are on a roll. Now let's get rid of the remaining anti-competitive price and form control laws. It still takes up to a year to get a new insurance product filed and approved through the bureaucratic maze in states with price laws.

IT Perspective

If all states were as sophisticated as Illinois—with no insurance price-fixing laws—there would be no experience calls. Sending policy coding and report submissions to the Insurance Services Office and ISO's subsequent reports to the individual states involved costs the industry a fortune. I'm convinced that all this data goes on a shelf somewhere in the insurance department involved and is never referred to again.

What do we get for this expense? Price and form controls are leftovers, legalized by the McCarran-Ferguson Act. Some may remember that regulating insurance rates was thought necessary to protect insurers from competition. Rates were regulated to keep them high so companies would not go broke.

Times change. In reality, states do a lousy job of regulating price. Commercial rate filings are riddled with so many deviations and experience credits that almost any premium can be quoted for any risk.

What irony. We suffer from ineffective price controls supported by a nightmare of regulation and resulting paperwork and companies can still go broke.

Misguided arguments to justify the existing system have been made to the effect that one company is not large enough to develop its own rates. Especially small, regional insurers. We have all heard that the little company can't compete without the availability of industry experience. Rubbish. In the real world, property and casualty rates are not cost-driven, they are market-driven. If a small company wants to compete in a given line of business, it looks at the price other companies are charging in the region and goes from there. Independent actuaries are more than happy to consult if help is needed.

No conceivable argument can demonstrate the need for price controls in this highly competitive industry. If you are a consumerist and you want premiums to go down, get rid of bureaucracy and regulation. Make the industry compete in a free market. It works in Illinois and it will work in other states. Price fixing is a relic and should be consigned to the Republican-driven junk heap.

It's coming from feds

The sweet era of tort reform is upon us. It's overdue. The initiatives on product liability and punitive damages are indeed a breath of fresh air.

The granddaddy of them all unfortunately is not part of the "Contract with America." Without doubt, the most expensive and misguided legislation from the past is Superfund. That 1980 law was "politically correct" Washington's finest hour. Superfund is to the plaintiffs bar as candy to a baby.

The most onerous part of this bill was its retroactive provisions. What used to be perfectly legal and even required by older laws is now retroactively against the law. Not only is the law retroactive, but it provides for joint and several liability. This raises the hackles of most of us more than anything the government has done to redistribute wealth, not to the poor, but to the attorneys.

Suppose 10 years ago you drove through a small town in your state. Today you would receive 60,000 traffic summonses because it is alleged you ran a red light that had just been installed in the town. You say: "But the light wasn't even there 10 years ago!" They say, tough luck, the law is retroactive. You say: "But I am only one, why the other 59,999 tickets?" They say you are the only one they could find and since the law provides for joint and several liability you have to pay for all of them.

The companies involved did not break the law. They, in fact, complied with then-current laws and standards in waste disposal. Now they have to pay if they are responsible or even if an unrelated party was responsible if they occupy or own the land involved. Because companies will defend themselves against such unfair laws, the only people benefiting from this litigation are the attorneys. Attempts to pass the costs onto insurers have succeeded in about 50% of the states and the law will continue to be litigated for the next century unless Congress does something about this ridiculous situation.

The solution? Repeal it. There is no place for retrospective penalties and joint and several liability. They don't work.

Cleaning up polluted sites entails moving dirt. A lot of it. It could put a lot of able-bodied welfare recipients to work. Divert some welfare funds and human resources to this goal. Some additional funds will be needed. A trust fund could be established from fees levied on the industries involved on a no-fault basis. The important thing is to get the job started.

A job for the feds

After deep thought, I have reluctantly concluded there is one place the federal government can do something useful that the states or free enterprise cannot.

A long time ago, somebody defined insurance as placing a light burden on the many to pay for the losses of the few. It follows that if we could somehow get most property owners to contribute a small amount to a nationwide trust, we could take care of the unfortunate who would suffer if their place of employment and home were destroyed by a catastrophe. The P/C industry lacks the resources to pay the losses it would be face, for example, in a force 5 hurricane that struck 30 miles north of where Hurricane Andrew hit.

Even all of the world's insurers couldn't handle the potential $100 billion-plus earthquake loss that scientists say can happen in the Midwest, California or, by the way, did you know Manhattan is on a fault line?

Plainly put, most insurers of any size would be bankrupt. Portfolio stocks and bonds would have to be dumped to pay losses. Financial markets would be in shambles. Debts would not be paid. Banking would be disrupted. A loss this large would affect everything from food to building supplies. Thousands of people would be displaced and thousands more killed. The damage to Kobe, Japan, in the recent quake would pale in comparison.

What happens to the folks in Ohio, Iowa or Minnesota if the Big One happens in New York or California? Unless we come together to solve this problem as a nation, all of our people will be affected one way or another.

Fortunately, there is a solution: the Natural Disaster Act. Unlike most potential legislation that affects our industry, this proposal has the industry's unanimous support. It makes sense, so much that I'm worried about its chances in Washington.

It makes sense because it's not only a reinsurance program of last resort but more importantly it will bring affordable protection to all American families. The proposal would provide coverage for private dwellings for earthquake and wind disasters and provide excess-of-loss reinsurance for commercial and industrial risks.

Each insurer would cede reinsurance premiums to the central pool. Since we all have a stake in catastrophes, it makes sense that everyone contribute, in proportion to exposure. The cost of this protection would be very economical.

Thus a major fund accumulates to pay for the Big One when it occurs. If it comes before there is enough money in the pool to pay for it, the pool would have to borrow from the federal government or possibly issue government-guaranteed bonds to pay the losses. The loan or bonds or both would then be paid back from future reinsurance receipts from the industry.

The act would enable the industry to immediately put its substantial adjusting force in an affected area and get people housed by making "additional living expense" payments, instead of Federal Emergency Management Agency loans that probably won't be collected.

The bill would not require new taxes. In fact, it reduces government emergency expenditures in major catastrophes.

Many of us were energized by what happened last November. There is hope and optimism that our views will finally receive a fair hearing. Price fixing, Superfund and the Natural Disaster Act are in my opinion the most important issues to address this year.

Fairness and logic are breaking out. You can feel it. BI



Gerald D. Stephens is president and chief executive officer of RLI Corp., a property/casualty insurer based in Peoria, Ill.

IT Briefs

Software product

TULSA, Okla.—A new software program automatically generates cancellations, reinstatements and other policyholder notices that comply with the requirements of all 50 states and the District of Columbia.

Produced by Oden Insurance Services Inc. of Tulsa, Okla., the program is called Policy Terminator.

Its features include: automatic multiple processing, for issuing identical notices to multiple policyholders; tracking of policies written in specific areas; import and export of producer and policy data directly from in-house computer systems, eliminating the need to retype the information; quick access to laws on various topics state by state; and generation of U.S. Postal Service certification of mailing forms, which some states require from insurers.

Regulatory information for the Policy Terminator comes from 51 individual databases, and separate packages are available for commercial and personal lines. Throughout the year, subscribers receive updated versions and bulletins of pending regulatory action.

Because Policy Terminator is a companion product to the Oden's State Rules & Regulations, subscription to that service is required to receive the new software.

Policy Terminator is available on diskette in either DOS or Windows format for individual personal computers or networks.

For more information, contact Oden Insurance Services, 5555 E. 71st St., Suite 8210, Tulsa, Okla. 74136; 800-633-5289.

Arson committee

ARLINGTON, Va.—Kenneth M. Goodnight has been named chairman of the non-profit Insurance Committee for Arson Control, and Bryan Hanson has been appointed vice chairman.

Mr. Goodnight is security investigations director at Charlotte, N.C.-based Royal Insurance Group, and Mr. Hanson is the home office field claim manager at Northbrook, Ill.-based Allstate Insurance Co.

Messrs. Goodnight and Hanson will direct the ICAC's education and training programs to prevent arson.

ICAC members include large property/casualty insurers and reinsurers and trade groups. BI

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Benefit videos miss full picture

But they can show main concepts

By JOANNE WOJCIK

PALM SPRINGS, Calif.—A video can be a useful tool for projecting the "big picture" of benefit plan changes, but it's not the best medium for zooming in on details, a benefit communications expert says.

1995 Benefit Communication Institute

And employers thinking about producing their own videos to save money should consider the competition if they really think a home-made production will keep employees' attention.

Videos are becoming an increasingly popular medium for employers to convey benefit plan changes, because "today most people would rather pop something in the VCR than read," said Bill Zabit, a principal of Zabit Associates Inc., a Sausalito, Calif.-based communications company specializing in human resources, benefits and compensation projects.

"But video shouldn't be the 'main event,' " he warned. Instead, it should be one component in a multimedia communications program, Mr. Zabit said during a workshop on the use of video at the recent Benefit Communication Institute in Palm Springs, Calif.

The annual conference is co-sponsored by the International Foundation of Employee Benefit Plans and the International Assn. of Benefit Communicators.

Employers also need to consider what they will be competing with when they decide how much to budget for the project and whether to produce it in-house or to hire an outside consultant, Mr. Zabit said.

To illustrate his point, he showed seminar participants a rock video he helped produce.

"It's a benefits video starring Paul McCartney, filmed at Lucas Ranch with special effects done by Industrial Light & Magic," joked Mr. Zabit, who could pass for a rock star himself with his stylish double-breasted suit and long sandy blond hair.

"OK, it's not really a benefits video," he admitted. "But it is one that I'm proud of."

After the screening, he admonished: "This is the kind of production value your employees are used to. Every time that your employees sit down in front of a television set or a computer, they are constantly bombarded by various high-level productions. And they're spoiled by that."

So when employers invite employees to view a "hand-crafted" video to convey an important message about a benefit plan change, "you're competing with some serious stuff out there, and anything short tends to cheapen the message," he warned.





Videos like this one produced for MGM Grand Hotel help convey basic benefit information.

The challenge for employers, according to Mr. Zabit, is to produce a video "with enough sophistication to support the message."

"But you're never going to end up with a $7 million budget," he quipped.

One mistake employers often make is to think they need video to communicate employee benefit plan changes, he said.

Employers should "understand what the tool is good for and how it should be used" before committing to a video project, he advised.

"There's a lot of productions out there—probably 80%—that should never have been produced," he said. "And even an expensive video is money poorly spent if it's an embarrassment or it doesn't work."

In addition, "video is not a very good tool for detail," he said.

"The attention value with watching pictures drastically goes away after eight minutes," he pointed out. "You have to really work hard to keep an audience longer than that in a video."

Furthermore, the very nature of video presentation—they usually are shown in a darkened room—isn't conducive to providing detailed information because "nobody's going to be taking notes when the lights are out," he said.

And it's hard for employees to use a video as a reference tool.

"We also have to know that people want information when they want it, not when you want to give it to them," he noted.

Employers shouldn't do videos just because they always have or because they think it can be all-inclusive.

"There's a lot of people out there who feel 'if we do something between 20 and 25 minutes long and put all the benefit facts in there, we're done'," Mr. Zabit said.

But "tools are the last thing that should be considered when we come up with a communications strategy," he insisted.

Employers should ask themselves several important questions before launching a video project, according to Mr. Zabit.

First, employers should ask themselves, "What is our objective, how are we going to get there, and does video play a part?" he advised.

Videos also need support from

See **Videos** *on next page*

Technology

Continued from previous page

they'd like to see," he explained.

In addition, because "we're moving from broad-band to narrow perspective," "instead of having one, broad message for everyone, we're starting to segment our messages for the audience," he pointed out.

For example, employees can retrieve limited information about their benefit plan over the telephone by using the numbered keypad, or more detailed information via modem to their home or office personal computers.

Telephone voice response, a popular method being employed by many employers today, provides time-sensitive, personalized information.

In addition, it is an effective medium for polling employees' attitudes.

"It's becoming more of a platform for sensing opinions," he said.

But telephone voice response does have some limitations, Mr. Phillips acknowledged.

"It works best where there are repetitive tasks," he said, such as selecting from a number of choices.

But because of the limited telephone keypad, it cannot be used to gather detailed information, such as enrolling new dependents in the benefit plan, he said.

That's where PCs can be effective, according to Mr. McCormick.

While today, most computerized employee benefit communications programs are installed in workplace kiosks, that will change as more and more employees use desktop computers, he predicted.

"More and more PCs are being used in the context of the job," which is making employees increasingly computer-savvy, he said.

And, as more graphics-oriented computer programs such as Microsoft for Windows replace the older, digital DOS-based systems, the benefit communications programs will likewise become more graphical, Mr. McCormick said.

To illustrate his point, he took the audience on a "multimedia ride" on the "benefit communications vehicle of the future" using a laptop PC connected to an overhead projection system.

The program opened with rhythmic background music and a picture of an animated "hedge." Then a woman's voice said: "Welcome to Desktop HR. To begin, enter your nine-digit Social Security number."

He responded, and the voice prompt asked for his "PIN," or personal identification number.

The process was similar to that of using an automated teller machine.

After Mr. McCormick entered his PIN, the hedge opened up and revealed a window at the center of the screen with the animated image of a woman giving further instructions.

"So there's my friendly neighborhood benefits representative living inside my computer," he quipped.

A menu of choices was embedded into the hedge behind her, and Mr. McCormick selected "life stages."

A new window opened, and in the background were various icons such as a set of wedding rings, baby shoes and a graduation cap, each illustrating various life events.

Using his computer's "mouse," Mr. McCormick put his cursor arrow on the baby shoes and clicked open a new window that contained a menu of tasks new parents need to perform, such as enrolling their new arrival in the health plan.

"So here is the list of things that I need to think about doing given the life event that I just experienced," he explained.

The benefit representative asked Mr. McCormick to enter the name and Social Security number of his new dependent, which he did.

"This is where using the PC, rather than the touch-tone phone, is helpful," he said.

Throughout the demonstration, the voice of the benefit representative continued to give prompts.

And to show how interactive such a computer program could eventually become, Mr. McCormick clicked on "HR counselor" and brought the benefit representative to the screen. Then he asked her a specific question, and she responded with a detailed answer.

"This helps for employees who are not comfortable using the computer," he explained.

While initially there may be some resistance, especially among employees concerned about confidentiality, Mr. McCormick predicted the resistance will eventually subside.

"Resistance is resistance to change, and change is coming," he said. "It can't be stopped, only slowed." BI

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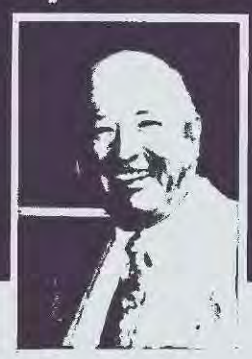
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Zurich

Continued from page 2

11.25% dividend.

Kemper Corp. consists of: Kemper Financial Services, an asset management company; two life insurance companies, Kemper Investors Life Insurance Co. and Federal Kemper Life Insurance Co.; Kemper Securities Inc., which is being spun off, 55% to its management and 45% to Kemper shareholders; and a real estate unit.

"I'm confident that from both a strategic and an earnings point of view, Kemper will add to Zurich," Mr. Hueppi said.

Details have yet to be worked out, but under the Zurich-led deal, Zurich probably would own 100% of Kemper Financial Services, which has about $60 billion in assets under management. The two life insurance units probably would be owned 51% by Zurich and 49% by Insurance Partners. Combined, the units wrote $752 million in gross premiums in 1994 and currently have $98 billion of life insurance in force.

The life insurance companies will cost something greater than $1 billion, and the asset management company will cost something less than $1 billion, Mr. Hueppi said.

Prior to the deal, Kemper is expected to complete the sale of its securities brokerage unit. After the deal is complete, Zurich would then sell Kemper's troubled real estate business. Zurich has not decided whether it will maintain Kemper's INVEST Financial Corp. unit, Mr. Hueppi said.

INVEST is a unit of Kemper Financial Services in Tampa, Fla., that is a broker/dealer selling annuities, mutual funds and securities through financial institutions throughout the United States.

Kemper Corp.—which is no longer linked to its former property/casualty insurer affiliate, Kemper National Insurance Cos.—has faced an uncertain future since GE Capital Services Inc. made a hostile $55-a-share bid for the company last year.

GE Capital later dropped its bid after insurance holding company Conseco Inc. offered $67 a share (*BI*, June 27, 1994). But that offer collapsed when Kemper's stock price fell. Still, Kemper kept itself up for sale, and several undisclosed parties conducted due diligence studies on the company.

Zurich, which in 1993 wrote 6 billion Swiss francs ($4.04 billion) in life insurance premiums, has planned to expand in that business for 3½ years, Mr. Hueppi said.

"For risk balance considerations, we think that life insurance is relatively more stable than property/casualty business," he said.

Zurich had been looking in the United Kingdom, but is especially interested in the U.S. life insurance market, believing it has more advanced products and sales techniques than other markets, Mr. Hueppi said. Zurich wrote 223.5 million Swiss francs ($150.4 million) in 1993 U.S. life insurance premiums through Zurich Life Insurance Co. of America.

"We think that it is important to increase our involvement in life insurance and we believe it is important to do that in the U.S. It is the largest life insurance market in the world and the market here is more advanced than most other countries," Mr. Hueppi said.

The Kemper purchase was made easier for Zurich due to the decline in value of the U.S. dollar in recent months.

Zurich first examined the possibility of buying Kemper a year ago. The cost of purchasing Kemper has fallen 20% for Zurich since then due to the slump in the price of the dollar, Mr. Hueppi said.

Zurich says it has made no decisions about management changes at Kemper Corp. For now, David B. Mathis will remain chairman and CEO. He had planned to become chairman, president and CEO of Kemper National in March, but agreed to stay on until the future of Kemper Corp. was clear.

Drastic staff cuts at Kemper Corp. are unlikely, said Mr. Hueppi. "We believe that it is a very tightly managed operation without surplus staff so there will not be any significant reduction."

Zurich's $2 billion offer for Kemper will be considered when New Hampshire regulators evaluate the company's proposal to take over Home's good business and run off its bad business. "One of the things which the commissioner will consider is the financial strength of the acquiring party. We have not discussed the Kemper purchase with Zurich yet, but it will be addressed," said David Nichols, assistant commissioner at the New Hampshire Department of Insurance.

For his part, Mr. Hueppi said the Kemper deal should not jeopardize Zurich's plans for The Home. Zurich has already taken over much of The Home's profitable business by means of a cut-through endorsement and fronting arrangement.

Zurich has capital and surplus of about 10 billion Swiss francs ($8.67 billion), and Kemper would strengthen the company's earnings, he said.

Rating agencies disagreed on the effect of the Zurich-Kemper proposal.

"Strategically, it makes a lot of sense," said Larry G. Mayewski, senior vp in the life/health division of A.M. Best Co. in Oldwick, N.J., which placed the A+ rating of Zurich Insurance Co. under review when the deal was announced.

Kemper would give Zurich a significant presence in the U.S. life insurance market, Mr. Mayewski said.

"We will be looking at it in terms of financing," he said. "We feel that Zurich is a very financially sound company, and the Kemper purchase should be well within its capacity."

Standard & Poor's Corp. in New York is less confident, saying that the proposed buyout might dilute the financial strength of Zurich.

S&P placed its AAA claims-paying ability rating of Zurich Insurance and Zurich-American Insurance on Creditwatch with negative implications after the deal was announced.

Also, Zurich may be becoming a more aggressive buyer of rivals, an S&P statement said. "This transaction, coming on the heels of Zurich's acquisition of Home Holding's renewal business, may indicate a more aggressive growth strategy as well as a greater propensity to use acquisitions as its vehicle for growth."

Zurich probably does not have sufficient capital to continue on its spending spree, and if it plans to continue to grow at such a rapid rate it will likely be downgraded, said Peter Wade, associate director at S&P. But Zurich is still a strong company and the Home deal should not be affected by the Kemper acquisition, he added.

"The amount of capital requirements that they need to take on the Home business are relatively modest. The Home and the Kemper deals don't push them over the edge; it's a question of how many more deals like this we are going to see in the future," Mr. Wade said.

Moody's Investor Service in New York placed its Aaa insurance financial strength rating of Zurich Insurance under review for a possible downgrade.

The review will focus on the business and strategic risk profile of Zurich given its recent purchases of reinsurer Re Capital Corp. for $200 million, The Home deal and the Kemper deal, said John J. Kriz, managing director of the financial institutions group at Moody's.

The purchase of Kemper could improve earnings of Zurich but the large increase in U.S. life business also presents risks for Zurich.

"There may be opportunities but sometimes when you get involved in new businesses you also have new challenges as well," Mr. Kriz said.

But the Kemper deal is unlikely to substantially weaken Zurich, he said.

"It's a strong company, and it will remain a strong company. The only thing at issue is where it will fall in the range of ratings," Mr. Kriz said.

Meanwhile, Zurich has reached a final agreement with bondholders of Home Holdings who had previously objected to Zurich's plan to take on the prime business of Home without acquiring the whole company.

The main feature of the agreement is an enhanced reinsurance package where Zurich will add $290 million to the $1 billion reinsurance program it had already agreed to put in place for Home (*BI*, April 10). The extra coverage will fall into place to cover policyholder claims once payments have been made to bondholders.

Also under the bondholder agreement: Home Holdings will offer to exchange its 8.625% senior notes due in 2003 for new notes which will repay the principal in five stages starting in 1999; and Zurich will defer the maturity of a proposed $30 million Home obligation to Sterling Forest Corp. until after 2003. BI

Videos

Continued from previous page

other communications materials, such as posters and booklets.

"And, very importantly, 'will our budgets justify it?' " he said.

The employer who thinks $8,000 is sufficient to produce a "killer video" better think again, he said.

With the budgetary constraints most companies face today, it's difficult for employers to produce a professional-looking, effective video, Mr. Zabit acknowledged.

But there are ways to get around that, he said.

First, "find out if the video might have multiple purposes, which would justify sharing the budget with other departments," he suggested.

For example, benefits videos could be used for new employee orientation, he said.

As another example, Mr. Zabit told of one video he produced for a client that was shot as a "video news release" to be sent to area television stations.

Mr. Zabit also advised employers to be conservative with the videotape that is used by "scripting smart" or by editing existing footage from advertising or other departmental videos into the benefit communications video.

He also advised employers to carefully consider the best way to allocate the limited resources available.

For example, instead of spending a lot of money on a site location, backdrop or props, employers instead might spend more on acting talent.

To illustrate his point, Mr. Zabit showed a clip from MGM Grand Hotel Inc.'s 401(k) video, which he produced.

The video, which contains clips from the Marx Brothers classic, "A Night at the Opera," and is filled with Groucho-esque one-liners performed by a professional actor, won a Best of Show award in the audio-visual presentation category of *Business Insurance's* 1994 Employee Benefit Communication Awards competition (*BI*, Nov. 7, 1994).

Mr. Zabit cautioned employers against using the video as the central component of a benefit communications program.

"The message of the video should be secondary and not lead," Mr. Zabit said. BI

PALM SPRINGS, Calif.—The 1995 Benefit Communication Institute featured a technology fair, which gave the conference's 225 attendees hands-on demonstrations of state-of-the-art benefit communication programs.

Next year's Benefit Communication Institute will be held April 22-24 in Williamsburg, Va.

For more information, contact the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

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INTERNATIONAL

Executive liability increasing

By DON LEWIS KIRK

Increasing liability exposures for corporate executives in Germany are fueling demand for special insurance that covers defense costs, says the chairman of Germany's largest commercial legal insurer.

New and expected ordinances and regulations have increased executives' liability, said Karl-Peter Thevessen, chairman of Cologne-based Gerling Konzern Rechtsschutz Versicherungs A.G. "If something goes wrong in Germany, prosecutors no longer investigate from the bottom up but rather from the top down."

Recent legislation and other proposals on environmental crime—such as pollution resulting from failure to obey regulations, which may lead to human injuries—soil contamination and organized crime and insider trading are increasing the demand among corporations for legal insurance that covers their executives, Mr. Thevessen said.

And, executives of bankrupt companies may face higher liability in the wake of a 1994 German Supreme Court ruling that creditors can seek recovery of debts from company executives who breached their duties.

In Germany, legal insurance provides coverage for defense costs but not for liability judgments, which are covered under separate directors and officers liability policies.

The German government also is considering stricter regulation of companies that export "dual use" goods—products that can be used to make weapons—to war-torn countries under weapons sanctions. The proposed rules stipulate that executives of such exporters be held personally liable for violations.

Similar regulations are being considered for executives of companies that operate facilities—such as power plants, chemical plants and paper mills—that use production processes that could damage the environment.

"It's becoming a stormy climate, both for criminal and civil offenses," Mr. Thevessen said. "We're getting American-style court action and it's making executives nervous."

Gerling reported that its gross written premiums for legal insurance rose 8% last year, to 92.2 million DM from 85.2 million DM in 1993 ($59.5 million from $49.1 million). And, legal insurance claims last year increased by 15.7%, to about 40,000.

Gerling's legal insurance policyholders include more than 16,000 top executives and large corporations, which account for nearly 60% of its annual premium volume.

The insurer has expanded its legal insurance coverage to include legal costs for out-of-court settlements. Gerling also is offering legal insurance for the first time to companies taken to court by communities and governments conducting investigations. That coverage carries a limit of 500,000 DM ($322,000).

Insurance world sans frontiers

Staying at home no longer an option

By CAROLYN ALDRED

STRATFORD-UPON-AVON, England—Reinsurers and insurers are beginning to grapple with globalization, rather than internationalization, as an increasingly service-oriented and global economy forces them to serve clients worldwide.

Until the end of the 1980s, "no truly global reinsurance corporation had emerged," said Dieter Losse, group chief executive of London reinsurance intermediary Greig Fester Group Ltd.

"Certainly, the major European reinsurers had developed successful worldwide businesses, but none had been able to match their domination in Europe with a comparable position in the United States," he said recently during a session on global strategy at the 12th annual London Insurance & Reinsurance Market Assn. meeting. "Likewise, the U.S. reinsurers had not applied themselves seriously to developing their non-U.S. business," he said.

But all that is beginning to change now, Mr. Losse said at the conference, which was aptly named "World Without Frontiers."

"Recent acquisition moves by General Re and Employers Re and the substantial resources being deployed in London by corporations such as St. Paul, Hartford, CNA and NAC Re demonstrate a new resolve by U.S. interests to develop a global reinsurance presence, not to mention the huge influx of capital into Bermuda," he said.

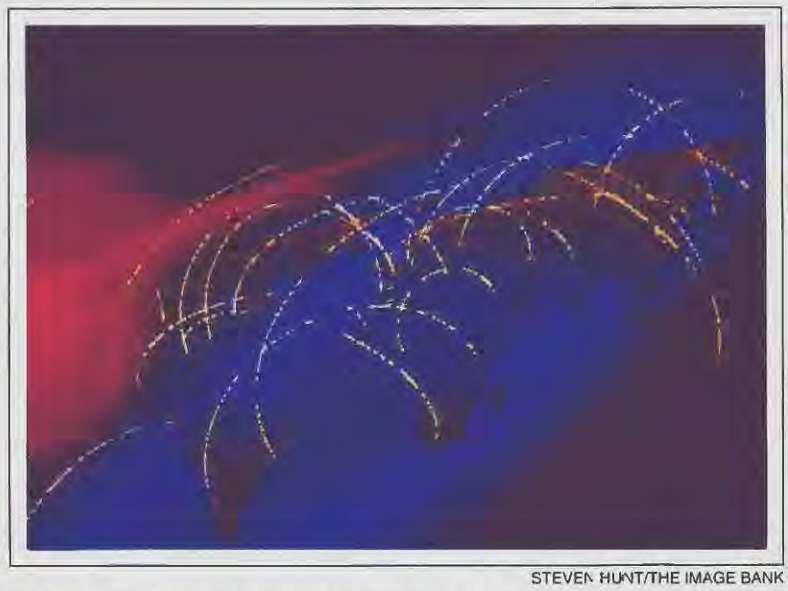
Hartford, Conn.-based General Re Corp. acquired control of Cologne Re in a complex 1994 deal (*BI*, Oct. 31, 1994). More recently, Overland Park, Kan.-based Employers Reinsurance Co. bought Aachen Re (*BI*, Feb. 13) and proposed acquiring Frankona Group (*BI*, March 27).

"We shall watch with interest to see how U.S. capital comes to terms with its European investments and how U.S. management is able to translate its very successful U.S. skills into a European environment," according to Mr. Losse.

Reinsurers will develop into global companies much more than insurers, he predicted.

"The more homogeneous nature of the reinsurance contract and its international currency may remove one of the serious obstacles to global integration and success which we have perceived in the primary insurance business. I therefore expect these recent moves in the reinsurance business to give birth to genuinely global reinsurance businesses," Mr. Losse said.

Globalization and the removal of trade barriers are inevitable consequences of a modern economy and rapid progress in communication and technology, agreed executives speaking at the conference.



STEVEN HUNT/THE IMAGE BANK

"Developing markets which historically had been producers of raw materials are now low-cost suppliers to the world of basic manufactured goods, giving them a high growth rate," said John Engestrom, group chief executive of London-based The Mercantile & General Reinsurance Co.

See **Global** *on page 41*

Pacific Rim's potential attracts both insurers and employers

By CAROLYN ALDRED

STRATFORD-UPON-AVON, England—As the economies of Asia continue to expand at a rapid rate, insurers and other companies from all over the world are eagerly viewing the region.

"Asia Pacific is something of a magnet right now for Australian companies along with insurers from many other countries around the world," said John Cloney, chief executive officer and managing director of QBE Insurance Group.

"Given the region's huge potential, it seems, quite rightly, that our industries are stampeding into the market in a race to establish themselves and reap the benefits," Mr. Cloney said earlier this month at the annual London Insurance & Reinsurance Market Assn. conference.

Sydney, Australia-based QBE has operated in Asia for decades, and the area "remains a key focus within our international strategy," he said.

Asia's attraction to industry and commerce is obvious.

"By economic size, Asia is reaching the levels where it is matching—and in some markets, outperforming—the traditional economic powers. By early next century, it is reasonable to expect the gross domestic product of Asia will surpass both North America and Europe," he said.

"One can't help being impressed with the size of

See **Asia** *on next page*

Outsourcing an international issue

By KATE TILLEY

SYDNEY, Australia—Sharon J. Rodebaugh, president of the U.S. Public Risk & Insurance Management Assn., recently gave an Australian audience a first-hand report on a topic that makes risk managers in both countries squirm: outsourcing.

As of June 1, Ms. Rodebaugh's position as risk manager for the City of Grand Prairie, Texas, will be abolished. She has held the post since 1987.

It was a decision made by the city's upper management, Ms. Rodebaugh said at the second annual Australian Public Risk & Insurance Management Assn. conference, April 2-3.

It was a decision that didn't sit well with her Australian counterparts.

Outsourcing is "foolish" and mistakenly implies that risk management is no more than buying insurance, asserted Frank Breckenridge, who is risk manager for South-Western Sydney Area Health Service, which operates seven hospitals and a community health system, and Australia's 1994 Public Risk Manager of the Year (see story, page 44).

'You feel you are successful as a risk manager when you no longer read about something in the paper that your council has done, but are consulted first and take part in the planning.'

Sharon J. Rodebaugh



One popular outsourcing option, hiring brokerages, creates conflicts of interest, he warned.

"It is difficult to be advising on the purchase of insurance on one hand, and giving advice on self-insurance on the other," said Mr. Breckenridge. If brokers' risk management consultants are used, they should act in conjunction with the in-house risk manager, he said.

Another option is hiring consulting firms to provide the services.

While consultants could offer good service, "you know your business best, so they need to be part of the team, working with you," he told risk managers.

Jeff Bergman, principal consultant with risk audit firm Bergman Voysey & Associates Pty. Ltd., in Sydney, said public entities need to be aware that transferring or outsourcing risk management created a new risk.

During a panel session on risk management issues, Ms. Rodebaugh suggested that while some functions could be outsourced, a decisionmaker still is needed in house.

Ms. Rodebaugh developed the city's risk management program from scratch and it took time for her to gain acceptance (*BI*, May 16, 1994).

"You feel you are successful as a risk manager when you no longer read about something in the paper that your council has done, but are consulted first and take part in the planning," she said.

During her eight years with the City of Grand Prairie, the risk management department grew from a part-time secretary to three full-time employees. She said successful risk management required the cooperation of all of the city council's employees to "permeate the loss control mentality. . .throughout the organization."

Although public risk managers want to be creative, sometimes there is time only for "fighting fires," she said. But if loss control were part of every department's

See **Outsource** *on page 42*

Asia

Continued from previous page

Asia's population, the region's continuing growth and the opportunities that this presents for business," he said.

In 1962, the Asia Pacific region was responsible for 9.7% of the world's gross national product, 8.5% of global exports and 9.8% of global imports, Mr. Cloney said. In 1985, it accounted for 18.1% of world GNP, 20.2% of global exports and 16% of global imports.

By the year 2000, it is anticipated that Asia will account for 28% of world GNP, 30% of global exports and 27% of global imports, he said.

Successful countries in the Asia Pacific region all have adopted similar development strategies:

- Flexibility in allocating domestic resources. These countries focus on creating an open, export-oriented production structure.
- Major infrastructure development and willingness to accept foreign investment, though with restrictions.
- Increasing the standard of living and creating a middle class with enormous purchasing power.
- Creation of environments friendly to the growth of business, including insurance.

"This has all contributed to developing a larger, more dynamic insurance market in the Asian region," Mr. Cloney said.

His assessment of current and future insurance market conditions in the Asia Pacific region gives risk managers whose companies now are operating in the region or may start operations there a guide to their insurance options.

• Singapore

Probably the most open Asian market to U.S., European and Australian insurers is Singapore. QBE, the Australian company with the oldest operations in Singapore, opened a branch office there in the early 1900s, Mr. Cloney said.

"Singapore is a relatively open and well-regulated market. The authorities have created an environment with a very high level of professionalism throughout all sectors of the insurance industry," he said.

Singapore, home to 48 captives, encourages offshore business development and considers itself a reinsurance center.

Singapore's insurance regulatory authorities are the Monetary Authority and the Insurance Commissioner's Department. The principal statute governing insurance business is the Insurance Act 1967 and three subsequent amendments.

The solvency requirement for property/casualty insurers in Singapore is the minimum of: $1 million Singapore ($715,000), or 20% of net premium income in the preceding financial year, or 20% of the loss reserve at the end of that prior financial year.

• Hong Kong

By contrast, Hong Kong had very little insurance regulation until new regulations were enacted in 1983.

Since then, a long list of legislation has been enacted, including significant changes in solvency requirements.

Hong Kong created an insurance regulatory office in 1990 and since then, the insurance commissioner has forced the closure of a number of insurers. The market currently has about 188 direct insurers with gross written premiums of about $1.5 billion, Mr. Cloney said.

Insurance companies seeking to enter the Hong Kong market must apply to the insurance commissioner. "Applications can take six months and upwards to process and can be refused on any grounds," Mr. Cloney said.

And, "the high cost of rents, salaries and commissions makes Hong Kong one of the most expensive places in Asia to do business," he added.

The market's future is uncertain, though, with the return of Hong Kong to Chinese control in 1997.

"Post-1997, insurance companies, regulators and insurance consumers must make every effort to ensure that a viable private enterprise insurance industry exists as a central component of the economic development of Hong Kong and southern China," Mr. Cloney said.

• Thailand

Thailand, despite its promise as an emerging Asian market, is somewhat tougher to crack for overseas insurers.

"At present, the Ministry of Commerce has a policy of not granting new authorizations to either companies or to branches, leaving acquisitions of an existing company as the only way of market entry," he said, noting that foreign equity is currently restricted to 25%. Proposed changes would increase this limit to 49%, however.

Meanwhile, "insurance industry bodies in Thailand are fragmented and largely ineffective and there is a general widespread reluctance to be confrontational and stand up for the industry," Mr. Cloney said.

Thailand's regulatory authorities are the Insurance Department and the Ministry of Commerce. Relevant legislation is the Life and Non-Life Insurance Acts of 1967. There is no regulated solvency margin for insurers except the requirement that assets exceed liabilities.

• Japan

For foreign insurers, Japan may be the toughest of all the Asian markets.

Asia has been developing 'a larger, more dynamic insurance market,' says John Cloney.

"In the past, obtaining an insurance license in Japan, although difficult, has been easier for a foreign company whose country has given licenses to Japanese companies," said Mr. Cloney.

"One major barrier has been the need to license each individual product, a tedious and time-consuming process. Also, all agents must pass Ministry of Finance exams before being licensed (and) Japanese 'administrative guidelines' for industry, which are not always in writing, require foreign companies and locals alike to retain them in their corporate memory," he explained.

And, "a sizable natural barrier is the high exposure to hazards of earthquake and typhoon."

Japan's regulatory agency is the Ministry of Finance, and the principal statutes governing insurers are the Insurance Business Law 1939 and the Law Concerning Foreign Insurers 1949. Total solvency funds do not necessarily have to be in Japan, though with the recent liberalization of the market, solvency margins and requirements will be tightened, Mr. Cloney predicted.

• Malaysia

Another challenging market for foreign insurers is Malaysia, according to Mr. Cloney.

QBE's ties to Malaysia reach back to the early 1900s, and QBE Insurance (Malaysia) Sdn. Bhd. now has a well-established network of 11 branches, he said.

Malaysia's property/casualty insurance market is approaching $1.6 billion in gross written premiums and includes 49 insurance companies, 35 brokerages and more than 19,000 registered agents.

"The Malaysian insurance industry in recent years has been heavily regulated, with steps being taken to exercise greater supervision of the industry," said Mr. Cloney.

It "is unlikely that foreign companies will be granted registration in the foreseeable future, leaving equity in existing companies as the only avenue for market entry."

But, "a number of international reinsurers have recently applied for and been granted licenses," said Mr. Cloney, adding that representative offices will no longer be permitted after year end.

"Insurance developments continue to be heavily influenced by government activity," he said, explaining that the Insurance Act is administered by Bank Negara Malaysia through a director general, "whose clear role is to improve insurers' operations and strengthen their financial position."

A government policy ensures that Malay and other indigenous people must play a 30% part—from shareholding to staffing levels—in all companies.

"Pressure is executed by Bank Negara to put foreign companies in a minority equity position," Mr. Cloney said.

Despite its entry constraints, Malaysia is an attractive market for foreign insurers. Its economy is strong, with vast improvements in the country's infrastructure and bullish growth forecasts, he noted.

"The discipline imposed on the Malaysian insurance industry will allow it to prosper, supporting the national drive to achieve developed country status by the year 2000," he predicted.

Malaysia's insurance industry is regulated by the Department of the Director General of Insurance and the Ministry of Finance. The principal insurance statute is the Insurance Act 1963.

Insurers are required to have a solvency margin of at least 5 million ringgit ($2 million) if writing either life or non-life insurance and at least 10 million ringgit ($4 million) if writing both. A deposit of at least 300,000 ringgit ($121,000) with the Accountant General is required for each type of business.

• Indonesia

In nearby Indonesia, market conditions are easing for foreign insurers, Mr. Cloney said.

Although QBE's links with Indonesia date back before World War II, the company only received approval late last year to establish a joint venture company, PT. Asuransi QBE Pool Indonesia, with Indonesian insurer PT. Pool Asuransi Indonesia.

QBE's Indonesian venture is based in Jakarta with 11 representative offices throughout Java, Sumatra and Kalimantan.

The company is one of the first joint ventures approved under new regulations requiring minimum paid-up capital of $11.5 million Australian ($8.5 million), Mr. Cloney said. Local companies have until 1998 to comply with the new capitalization requirement.

Earlier this year, the Indonesian government introduced further reforms that enable foreign investors to establish a 100% foreign-owned company with minimum divestment of shares to Indonesian shareholders after 15 years, Mr. Cloney said.

Joint ventures can be established now with Indonesian investors holding stakes as little as 5%. But, for insurance companies, Indonesian shareholders must have more than 50% equity in the venture.

Regulated by the Ministry of Finance and the Directorate General of Financial Institutions, insurance business is subject to several statutes in Indonesia. A 1988 presidential order decreed that the market allow only two types of companies: national companies wholly owned by Indonesians, and joint ventures.

The minimum paid-up capital requirement for national companies is 3 billion rupiah ($1.3 million) for national companies and 15 billion rupiah ($6.6 million) for joint venture companies.

• India

One of the most exciting markets for foreign investors in Asia is India.

"Economic progress in India in the last two to three years has been absolutely remarkable," said Mr. Cloney.

Most foreign insurers were obliged to close down in the Indian market when that country nationalized its insurance industry in 1971.

But, legislation paving the way for foreigners to re-enter the market is expected to be introduced in Parliament this year or in 1996 (*BI*, Feb. 13).

Minimum paid-up capital for new market entrants will be 1 billion rupees ($13.2 million).

Although most economists and industrialists point to China as the great emerging Asian market, India—though smaller—has some distinct advantages, Mr. Cloney said. India's established system of common law, democratic government and use of English language makes it a much easier market for Western companies.

• China

Like many other insurers, QBE "is interested in developments in China and we are certainly interested in obtaining an insurance license once the Chinese authorities commit to further liberalization of the insurance sector," Mr. Cloney said.

A limited number of foreign companies has been allowed to operate recently under restricted licenses.

China's National Administrative Bureau of Insurance sets direction and policy for the industry, approves the formation of insurers, fixes basic terms and premiums and is responsible for inspection and intervention when companies breach regulations.

NABI administers the Insurance Law that has been in force since 1985. It requires a minimum capital of 20 million yuan ($2.3 million) for life insurers and 30 million yuan ($3.6 million) for non-life insurers. The People's Bank of China is responsible for setting solvency margins.

"A key problem for foreign insurers trying to enter China is the lack of legal framework both for insurance and business overall," Mr. Cloney said.

The insurance laws governing Chinese insurers do not deal with foreign company entry. Special approval was given by the People's Bank of China for American International Group Inc. and Tokio Marine & Fire Insurance Co. Ltd. to enter the Chinese market. Special regulations—the Shanghai Interim Regulation on Insurance Institutions Operated with Foreign Capital—have been drafted for them.

The key features of these regulations are that the foreign insurance company:

- Must have been operating as an insurance business for more than 30 years.
- Must have a total asset value of at least $5 billion at the end of the year prior to the year of application.
- Must have maintained a representative office in China for at least three years.

A new insurance law is currently in draft form and is expected to be implemented sometime this year. BI

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Global

Continued from page 39

"Newly industrialized countries produce high-quality and low-cost consumer goods and industrial products, leading to even higher growth," said Mr. Engestrom.

Meanwhile, development in both emerging and developed markets is financed globally and manufacturers in most countries sell into the global market, not just domestic markets, said Mr. Engestrom. That factors combine to produce a high degree of interdependence.

"Modern production systems are highly integrated processes that also rely on just-in-time deliveries. Increased free trade and regional political integration spreads the network of producers-clients-suppliers even farther. Various economic cycles are becoming linked, between different industries and different countries," he explained.

According to Mr. Engestrom, this global integration has profound effects on insurers and reinsurers, including:

- An increased level of risk and volatility in the global economy. "Financial markets worldwide are linked instantaneously and dealers make or lose fortunes on split-second decisions. (Meanwhile), modern society has produced a very high concentration of means of production, of information nerve centers and created vast population centers, some in the most hazard-prone areas of the globe," he said.
- More sophisticated customers. "To meet customer sophistication, the product offering is continuously extended. Products are customized; market segmentation is more elaborate," Mr. Engestrom explained.
- New competitors continuously appear to exploit inefficiencies. These new entrants can be: price-driven, such as shipbuilders; technology-driven, such as computer concerns; distribution-driven, such as television shopping networks; or service-driven, such as banks that offer 24-hour services.

As the global economy produces ever greater uncertainties, businesses will need to rely more on insurance and reinsurance, said Orio Giarini, general secretary of the Switzerland-based insurance economics think tank Geneva Assn.

Insurance becomes more important "to manage the growing uncertainties spreading among all economic transactions," he said.

In particular, risk is becoming more difficult to manage as physical and financial assets become more concentrated.

"For the insurance industry, the type of risks they had to cover in the textile industry during the last century was a relatively easy game. Every surveyor could easily learn by experience how the machines were working and what the probabilities of failure were," Mr. Giarini said. Today, however, production is more interdependent and the risks are much more complex. Problems with even small components can hurt production worldwide, he explained.

Mr. Giarini also cited a "fundamental revolution" over the past two decades, in which insurance has become essential to all major economic policies and development problems. Insurance and risk management have become the essential complements of social security and health policies and have provided important ways to assess, identify and manage technological, industrial and environmental risks, he said.

While businesses and governments increasingly are turning to the insurance and reinsurance industry worldwide to manage their risks, the industry must respond by providing them with global coverage on a localized basis, the speakers said.

"More and more business is done not where the manufacturing process takes place, but where the products" are used and serviced, Mr. Giarini explained.

"What was always true for insurance (where one knows that you cannot cover a fire in Sicily using the same criteria one would use in Holland or in Asia) now is more and more true of all economic activities. The selling of hardware and even automobiles, produces costs, or sales where products, systems and services are distributed, used and then disposed of," long after the manufacturing process is completed, Mr. Giarini said.

"It is quite obvious that, following this logic, the internationalization of Europe and even of the world in the insurance sector has led to acquisitions and investments through strengthening of the distribution capabilities of insurance companies, taking into account the differences in the markets and of the type of products they could sell or propose to each market," he added.

Managing a global company capable of serving local markets is not easy, however.

For one thing, few executives have any experience doing it.

Until recently, insurers and reinsurers were international, not global, said Greig Fester's Mr. Losse. "Through the '70s and '80s (they) have tended to be run as discrete territorial enterprises either with or without a local physical presence according to the dictates of the market concerned."

In better organizations, he said, local management had substantial autonomy to operate within an understood plan and subject to reporting requirements. But the local businesses did not feed off each other and were only loosely coordinated. This Mr. Losse refers to as "thinking local and acting local."

Now, however, some major companies are making moves to better integrate their worldwide operations. "It is this integration of approach over a wide spectrum that is the essence of a global strategy," he said.

This integration "will embrace strategy itself, the development of a coherent group culture, innovation and product design, management structure and communication and, last but not least, technology," Mr. Losse contends.

"Such is the effect of globalization on markets that it is no longer possible for a manager to close his eyes to what is happening in a distant global market because tomorrow it could be happening on his doorstep," Mr. Losse predicted.

But, globalization produces profound problems and pressures on management resources and structure, he warned.

"To integrate such local organizations across language and cultural barriers into a global federation, sharing values, information and even customers, working to common goals, demands exceptional leadership and stamina. It also requires the clear communication of a readily understood corporate vision, which in itself is not easy in a multilingual environment," he observed.

Globalization is also extremely expensive. Developing market positions around the world places "huge demands" on a company's finances, he said.

"An entity in our business seeking to develop a serious global network must first answer the most fundamental question of whether to build" from scratch or acquire other companies, he explained.

Both choices will be expensive, he said. BI

Global strategies encompass changing corporate culture

By CAROLYN ALDRED

STRATFORD-UPON-AVON, England—Creating a global company is a major challenge facing many of today's insurance and reinsurance companies.

Two management approaches to globalization were outlined by executives addressing attendees in a session called "Global Business Strategy" at this month's conference organized by the London Insurance & Reinsurance Market Assn.

Paris-based AXA Group is aiming to "reach a critical mass globally and in each country" in which it operates, said Jean-Paul Saillard, the group's general secretary.

In recent years, AXA has expanded rapidly in other territories, including the United States through a stake in U.S. life insurer The Equitable Cos. Inc., and plans further expansion both through acquisition and growth in already-owned companies.

The Mercantile & General Reinsurance Co. of London, meanwhile, has transformed itself after extensive internal analysis with the assistance of a consultant, Chief Executive John Engestrom told conference delegates during the April 5-6 meeting in Stratford-upon-Avon, England.

The two executives provided insight into how the two companies are planning for the future.

One of the keys to AXA's globalization is decentralization, according to Mr. Saillard, who spoke on behalf of AXA Chairman Claude Bebear, who at the last moment was unable to attend the conference.

"Think global, act local" is one of the corporation's maxims, Mr. Saillard said.

However, to operate on a decentralized basis, management must produce a synergy and shared culture throughout the company, he explained.

As a result, AXA has developed defined management aims and values. These are based, Mr. Saillard said, on a single strategy—to be international—and a single ambition—to be a leader in its industry.

The company operates on four guidelines, he said. They are:

See **Strategies** *on next page*



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INTERNATIONAL

Strategies

Continued from previous page

- Focus on core business.
- Fulfill AXA's commitment to policyholders, shareholders, employees and distributors, and AXA's civic duties to the community.
- Independence. To maintain this, the company must make a profit and rank among the leading insurers.
- Decentralization, meaning to act on a local level and be able to react rapidly to market changes.

Meanwhile, the company's culture is based on seven prime values, said Mr. Saillard: loyalty, team spirit, pride in the group and the insurance industry, ambition, imagination, pragmatism and commitment. "All these elements are supposed to be known to everyone in the company. It's our culture," Mr. Saillard told delegates in a keynote address.

To maintain a cohesive management culture worldwide, AXA has established several layers of management, including: an executive committee, with five senior board members meeting once a week; a strategy committee, consisting of 15 members meeting every two months; a corporate committee, consisting of 150 members meeting twice a year; and various "synergy" groups and task forces, meeting regularly to deal with ongoing business. The company currently has about 200 people working in these groups, said Mr. Saillard.

AXA also promotes more unorthodox and novel means of motivating management and providing a cohesive culture.

For example, 5,500 members of its management from all over the world will spend a week together this summer in a chateau near Bordeaux, France, on a "special training course to explain the AXA style of management," Mr. Saillard told the conference.

"It will be a very ambitious training course which all managers in the group will attend," he said.

Other projects in the past have included management excursions to Niger in 1988 and the Great Wall of China last year, where managers were required to sleep outdoors in sleeping bags to share experiences outside of office life.

Close and continuous communications also has been an important part of management at Mercantile & General during the last 18 months, Mr. Engestrom said.

Staff magazines, electronic

Continued on next page

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★ *Source Business/Occupational breakdown of qualified circulation, November 28, 1994 Issue, as submitted to BPA for December 1994 BPA Publisher's Statement*

INTERNATIONAL

Continued from previous page

messages, group meetings, presentations and consultations all have been used to keep company employees up to date with management changes, he told conference attendees.

"For the past 18 months, M&G has gone through a strategic review leading to business process re-engineering and a reorganization. Rethinking our global business strategy led us to a comprehensive corporate transformation program, called Rainbow," he explained.

The process began in May 1993, when the reinsurer hired management consultants from Gemini Consultancy Ltd. in London. A two-month project followed later that year.

Once the decision was made to go through with the Rainbow project, the company started by reviewing its current state of affairs.

This phase involved a large number of staff from all parts of the organization, with several teams reviewing areas such as account management, risk selection, finance and information technology, and product delivery, said Mr. Engestrom.

"The teams organized 'brown paper fairs' with large flowcharts displayed on the walls depicting how business was perceived to be conducted currently. Staff then were invited to comment and suggest improvements by fixing annotated 'Post-It' stickers to the brown papers," said Mr. Engestrom, noting that "this part of Rainbow generated a lot of enthusiasm, some puzzlement and a fair dose of hilarity."

After this phase, a separate work team then "had to take this on board with the aim to define M&G's 'core competencies'—what we were really good at combined with what was crucial for our success," said Mr. Engestrom.

An initial list of core competencies finally was narrowed down to two—risk management and relationship building, he said.

"The next step was to define a vision, a mission and a strategic intent that built on our core competencies and yet constituted a new perspective on what we could offer our clients," he told attendees.

"Our conclusion was: the ability to manage complex interrelated areas of risk covering insurance, finance and operational risks. We labeled this CRM, for corporate risk management," said Mr. Engestrom.

Having identified the strategic direction, M&G had to make sure that its "business processes were geared to deliver," he noted.

However, "it soon became apparent to us that our organizational structure was not suited to our current and future aspirations," he said.

As a result, a reorganization was instigated based on customer focus, few layers of management, delegated authority, flexible multiskilled teams, a high degree of mobility, interdependency and proper incentives at all levels.

The new layers of management comprise: an executive group of six; 13 business managers; more than 40 client team managers and mobile specialists at all levels.

Meanwhile, "having defined the new organization, implemented it in January 1995 and said farewell to the external consultants, we had to make sure that it would be supported by the right values and behaviors," Mr. Engestrom

See **Strategies** *on next page*

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INTERNATIONAL

Australian risk management role increasing

By KATE TILLEY

SYDNEY, Australia—Public risk managers throughout Australia face expanding liabilities and individual responsibilities, according to an insurance company executive at the Australian Public Risk & Insurance Management Assn. convention.

Social and environmental changes are bringing increased risks, and legislation is heightening individual managers' liability exposures, said Marianne Robinson, managing director of Sydney-based Legal Expense Insurance Ltd., at the APRIMA conference, held April 2-3. Whenever a local council considers a new program or reform, public sector risk managers should be consulted before the program goes into effect rather than afterward, she said.

"New areas of legal specialization are opening up and, over time, litigation will challenge areas traditionally regarded as legal safety zones," she warned her audience of about 200. For example, Australian employers formerly could hire whoever they wished to fill a position. Now, however, there are anti-discrimination laws that can lead to lawsuits.

"Effective risk management is the only solution," she said. "Traditional liability insurance was never designed or equipped to deal with the challenges the public sector is about to face and, with reduced international capacity, it is unlikely there are sufficient funds to meet the potential liabilities."

Because community expectations are greater for the public sector, citizens are more willing to litigate, Ms. Robinson said. As an example, she cited the Administrative Appeals Tribunal, an Australian federal government body that hears appeals of decisions by government departments and agencies. In 1993, there were 5,543 appeals, up from only 275 in 1977.

Ms. Robinson detailed legislation and court rulings under which public and private entities could be held liable for discrimination on the basis of age, gender, disability, sexual orientation, marital status and religious or political beliefs.

She said compliance cannot be achieved passively; risk managers must actively make sure that their entity does not discriminate.

The courts have ruled that a lack of funds is not a valid argument to avoid liability, and a 1993 High Court of Australia decision effectively removed any personal privilege against self-incrimination. The ruling concerned an environmental liability case in which a refinery was ordered to turn over its own test results that showed it had breached Environmental Protection Agency guidelines.

In a separate presentation, Sydney-based barrister Mark Robinson, who is not related to Ms. Robinson, warned government officers of their personal liability under a range of laws. Public entity officers should consider buying a personal liability insurance policy akin to a standard directors and officers liability policy, he said.

The policy should include coverage for the legal costs of appearing before government inquiries, royal commissions, the Administrative Appeals Tribunal and other tribunals, as well as court costs, Mr. Robinson noted.

And, Kevin W. Knight, chairman of the International Federation of Risk & Insurance Management Assns., said in a separate panel discussion that while many risk managers are only insurance buyers, the public sector risk manager comes closest to practicing true risk management. This is because many, depending on their state government's rules, have no option to buy insurance and therefore must consider creative ways to finance risk.

He applauded moves to integrate risk management education into the education system, saying risk management will become a better accepted principle when more managers know about it.

For small to medium-size businesses that cannot afford dedicated risk managers, it is vital that their senior managers understand risk management, Mr. Knight said.

Commenting on the expanding legal risks for public risk managers, he said the public sector was now experiencing what the private sector had faced for many years. "Welcome to the cold, hard world," he said. And he warned that councils in a state like New South Wales could face bankruptcy if they were forced to make large payouts in compensation or damages, since the state government prevents municipal councils from increasing their rates.

Malcolm Buchanan, assistant director of risk management with the federal Australian Customs Service in Canberra, said that government officers were reluctant to adopt risk management because they had a poor understanding of it, feared the ramifications of making mistakes and they are usually risk averse.

Although the Australian federal government is implementing risk management programs, a cultural change is needed among government employees. Mr. Buchanan said the Australian and New Zealand risk management standard currently being developed would give a framework for implementing government risk management (*BI*, March 6).

However, he also said that politicians need to be educated about public sector risk management and sold on the ideas. BI

Outsource

Continued from page 39

mindset, there would be fewer emergencies, she noted.

Despite her own experience, Ms. Rodebaugh said risk managers are establishing their "proper position on the organizational chart" and being elevated from middle management to senior levels.

But, she said, risk managers are being asked to do more with less, and the public sector in the United States is following the private sector in becoming more responsive to customers.

"This presents a basic incongruence for the risk manager because a public entity's customers are its citizens and taxpayers, and these same people often bring liability claims against these entities."

The litigious nature of American society also is a challenge for risk managers. Although there is "some semblance of protection in the form of governmental sovereign immunity," it varies from state to state and gradually is eroding, she said.

Ms. Rodebaugh said today's risk manager is becoming a generalist, rather than a specialist, because of downsizing in public entities. She said many risk managers are forced to pay their own way to go to PRIMA conferences. BI

Managing business risks

Award winner stresses taking the lead

By KATE TILLEY

SYDNEY, Australia—Public entity risk managers should do a better job of selling the concept of self-insurance, says Australia's Public Risk Manager of the Year.

And, public risk managers need to move their role beyond that of pure insurance and actually manage business risks, he says.

Frank Breckenridge, risk manager for the South-Western Sydney Area Health Service, received the first public risk manager award at last year's Assn. of Risk & Insurance Managers of Australasia conference (*BI*, Dec. 19, 1994).

He told those at the APRIMA conference that the Liverpool, New South Wales-based health service, which operates seven hospitals and a community health system and has an annual budget of more than $350 million Australian ($258.8 million), has been self-insured through the New South Wales government's Treasury Managed Fund since the fund was established in June 1989.

But, some managers and staff still do not understand the concept of self-insurance, Mr. Breckenridge said. "Perhaps that's because we, as risk managers, are not selling the concept well enough."

Risk management is "no longer an insurance item" but is a business technique that can be used to manage departments, he said.

For the past four years, the Health Service has been addressing issues that other risk managers now consider to be major concerns, Mr. Breckenridge said.

A late 1994 survey by broker Alexander & Alexander Pty. Ltd.'s Sydney office found Australian risk managers' top five concerns were: workplace health and safety; controlling the cost of risk; reputation and image; the cost of workers compensation; and pollution and environmental liabilities.

The Health Service was chosen in 1991 for a New South Wales government-funded pilot study on occupational health and workers compensation in hospitals. It began with a survey that showed staff understanding of risk management and occupational health and safety was poor.

A numerical profile on a scale of 100 was developed to audit hospitals in five areas: organization and administration; hazard control; occupational hygiene; participation, communication and training; and post-injury management.

Mr. Breckenridge said the initial average score for the five areas in 1992 was 37.9%. By this March, one hospital achieved 79.8% and others showed significant improvements. In 1993-1994, the Health Service's hospitals had savings of more than $1 million Australian ($739,000) due to fewer claims, which was attributable to the improvements in occupational health and workers comp, he said.

Mr. Breckenridge said the numerical hospital profile now is used throughout New South Wales.

After the success of the occupational health pilot study, the Health Service sought and obtained government funding for a waste management survey.

"We realized waste management had a big impact on a range of risk management issues, including public and environmental liability, and reputation," he said.

Medical and contaminated waste is expensive to dispose of because it must be incinerated, but general waste can go into landfills.

Prior to the waste management survey, the state government Environmental Protection Authority officers discovered "blood-soaked bandages, syringes and tins of radioactive waste" in a landfill on a tip and threatened to remove the Health Service's landfill access, Mr. Breckenridge said.

So, the Health Service implemented a streamlined waste disposal system that made it easy for staff to separate general and contaminated waste. In one hospital, contaminated waste was reduced by 50%.

Mr. Breckenridge said numerical profiles were developed for waste management, and each hospital was audited. All showed improvements since the initial audits in September 1992.

Waste now is bar-coded, which makes it easier to track problems.

The ingredients of a successful risk management program include: chief executive officer commitment; staff commitment, education and communication; accountability; and good monitoring and reporting systems, Mr. Breckenridge said.

"It is only those who are afraid to use risk management who cast doubts about its benefits to their organization," he said. BI

Strategies

Continued from previous page

pointed out.

Customer focus will be reinforced by an "empowered workforce" that can address customer problems as they arise, Mr. Engestrom said.

Meanwhile, extensive support from the information technology group will facilitate individual and corporate learning, according to Mr. Engestrom.

A "Balanced Scorecard" approach, which provides a series of financial and non-financial performance indicators for each category of stakeholders, including customers, shareholders and the organization itself, will allow the company to monitor its progress, he said.

While it is too early to comment on the success of the project after just three months since implementation, M&G's parent company, London-based Prudential Corp. P.L.C., is pleased with the reinsurer's performance, Mr. Engestrom said. BI

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MEWA

Continued from page 1

application was held earlier this month.

IAEA is trying to form a captive insurer in the U.S. Virgin Islands to provide its stop-loss coverage.

IAEA officials appear ready to continue a state-by-state fight against regulation they say is unreasonable. "For the most part, (insurance departments) are pretty hostile," said Ross N. Fuller, the Nashville, Tenn.-based trustee of IAEA Benefit Trust. "Those who challenge ERISA plans do so not out of any logic but out of some headstrong desire to put us out of business."

The IAEA plan "works, and they're mad about it," added Mr. Taylor, vp with IAEA Inc., the association's management firm in Irving, Texas. "We are basically fighting for our constitutional rights under ERISA."

IAEA originally marketed a health benefit plan sponsored by the National Council of Allied Employees Local 615, a branch of an allegedly bogus union founded by convicted felon William Loeb and headed by Carlton J. Kirel (*BI*, May 18, 1992).

Mr. Kirel and an associate were indicted last month on charges of defrauding participants in the Local 615 welfare fund (see related story).

The Texas department named IAEA and Mr. Taylor in a 1992 civil lawsuit, charging that they falsely claimed to have a collective bargaining agreement with Local 615.

Mr. Taylor said last week, though, that IAEA had been solicited to join the Local 615 plan and that IAEA was itself a victim of the alleged scam.

After breaking away from Local 615, IAEA in November 1992 formed its own self-funded trust, the IAEA Benefit Trust, with Mr. Fuller as trustee. Among other things, the IAEA trust took over and paid more than $400,000 in IAEA member claims left by the collapse of the Local 615 plan, Mr. Fuller said.

From about 40 original employer members, IAEA has grown to include between 375 and 400 employers with 36,000 covered employees, he said.

A Sept. 30, 1993, IAEA Benefit Trust financial statement submitted to the Texas department reports $2.7 million in total assets, $1.7 million in liabilities and $1 million in "net assets." The plan took in $4 million in participant contributions during fiscal 1993, according to the statement.

IAEA has arranged excess reinsurance for its workers comp and benefit liabilities with several mainly offshore reinsurers since 1992.

Ray Watle, an IAEA director, confirmed that after leaving Local 615 the association continued excess employers liability coverage with Perseus Reinsurance Group Ltd., an offshore company that federal prosecutors have alleged was used by Mr. Kirel to divert money from the Local 615 welfare fund.

Perseus, believed to be based in St. Kitts, British West Indies, later failed to pay a claim and IAEA severed its relationship with the reinsurer, Mr. Watle said.

Sphere Drake Underwriting Management (Bermuda) Ltd. later provided excess reinsurance for the IAEA trust, but rescinded the agreements as of Dec. 29, 1993, according to Illinois Insurance Department documents.

As of April 1, 1994, specific and aggregate excess coverage for IAEA's workers comp benefits was taken over by Regency Insurance Co. Ltd. of the Turks & Caicos Islands, according to IAEA filings with the Texas department.

Regency's directors include Charles Gordon-Seymour, former president of the defunct Victoria Insurance Co. of Georgia. Victoria, which also employed the late insurance con man Alan Teale, was a target of a 1991 fraud investigation by the U.S. Senate (*BI*, April 29, 1991).

More recently, Mr. Fuller has applied for a U.S. Virgin Islands license for Employers International Insurance Co. Ltd., a captive that would provide stop-loss cover for the IAEA trust. Employers International, with Mr. Fuller as chairman, would be owned by a Bahamas holding company, B.T. Holdings Ltd., and would be capitalized with $125,000, virtually all contributed by IAEA Benefit Trust, according to documents obtained by *Business Insurance*.

Mr. Fuller declined to comment on Employers International or IAEA's other reinsurance arrangements.

IAEA's reinsurance with Regency was one of several objections the Texas department raised after the trust applied for a MEWA license in the state last year.

In a February letter to IAEA's lawyers, the department leveled several other allegations, including that the trust's investments did not meet department guidelines; that its 1993 financial statement was audited by a Nashville accountant whose Tennessee certification has not been renewed since 1989; and that Mr. Taylor's Texas agent's licenses were revoked.

The Texas department revoked the licenses in November 1991, after finding that Mr. Taylor failed to control unlicensed employees of his agency who issued false insurance certificates, failed to remit premiums to insurers and failed to refund unearned premiums to policyholders.

Mr. Taylor said that he surrendered his licenses and that he later testified at a criminal trial of one of his agency employees.

A Texas administrative law judge is expected to rule on IAEA's MEWA license application after hearing arguments earlier this month.

IAEA's fight with the Texas department, though, is only one of many lengthy and complex legal battles the group has waged against regulators in numerous states.

In some states, the skirmishes have dragged on for months in a tangle of procedural and jurisdictional disputes created by overlapping administrative, state and federal court actions.

IAEA's antagonists have included:

• The Maine Insurance Department and attorney general's office, with three cases involving the IAEA plan.

In one case, Combined Management Inc., an employee leasing firm and IAEA member, sued the Insurance Department to enjoin it from taking any action against the plan. A federal judge in Portland dismissed the suit, finding that ERISA does not pre-empt state law governing workers comp coverage. The 1st Circuit affirmed the ruling, and the U.S. Supreme Court last year declined to review the case.

IAEA Benefit Trust last year filed suit against the Maine department, charging that the state's MEWA registration statute is pre-empted by ERISA. Meanwhile, the state attorney general earlier this year sued Combined Management in state court for violating workers comp laws. Both suits are pending, according to Thomas Record, Insurance Department senior staff attorney.

• The Colorado Insurance Department, which issued a cease and desist order last July and was sued three weeks later by Mr. Fuller and an IAEA member.

A federal judge in Denver dismissed the suit last month, ruling that ERISA does not exempt MEWAs from state insurance law.

• The Missouri Insurance Department, which filed a state court action against IAEA in April 1993, and obtained a preliminary injunction a year later.

The department is still trying to get a permanent injunction, but the action has been stayed while IAEA—which meanwhile sued the department in federal court—appeals a federal judge's ruling dismissing the suit.

• The Minnesota Commerce Department, which issued a cease and desist order against IAEA in February 1994, but which has put administrative proceedings on hold while the two sides pursue separate federal and state court actions over procedural and jurisdictional disputes.

• The Illinois department, which permanently barred the plan last December after a hearing and more than 18 months after issuing an initial cease and desist order against IAEA and two Belleville, Ill., agents.

This order is apparently having only limited effects.

Paula J. Huff, one of the agents, said last week that she has agreed only to stop signing up new Illinois employers and that she continues to solicit business in states where IAEA has not been successfully challenged.

Mr. Fuller also denied that the Illinois department has a valid cease and desist order against the trust.

Other state insurance departments involved in legal battles with IAEA are Michigan, Maryland, Nebraska, Virginia and Wisconsin, according to regulatory sources. The Florida Insurance Department also denied IAEA's application for a life/health insurance license last June.

Not all states have given IAEA a hard time, though.

The Oklahoma Insurance Department confirms that it approved IAEA's request last September for an exemption from state regulation under a state statute allowing such exemptions for MEWAs.

Mr. Fuller, who doesn't hide his anger with "hostile" insurance departments, sounds downright conciliatory discussing those he considers "tolerant."

"We believe we are a good plan. I know of many more that are not, so I respect their position on this," he said of regulators. "We are as concerned about bad MEWAs as they are." BI

Union leaders charged in welfare fund failure

PHOENIX—Two officials of an allegedly bogus labor union are charged with stealing more than $1.4 million from the union's welfare fund before it collapsed, leaving about $4 million in unpaid medical claims.

A federal grand jury last month returned a 13-count mail fraud, money laundering and conspiracy indictment against Carlton J. Kirel and Herbert M. Marshall, former officials of the National Council of Allied Employees Local Union 615 in Tempe, Ariz.

Local 615, later known as United Labor Council Local Union 615, was an offshoot of a bogus union created by convicted felon William Loeb. Mr. Loeb was jailed in 1993 for a previous union health care scam (*BI*, Dec. 13, 1993; May 18, 1992).

Both men are scheduled for trial May 23 and face maximum sentences ranging from five to 20 years on each count if convicted.

According to the indictment, Local 615—which had up to 10,000 participants and had no function other than selling health and workers compensation coverage—collected about $10 million in premiums in 1991 and 1992.

Of this, about $3 million was used to pay claims, and Messrs. Kirel and Marshall used the rest to pay administrative expenses, fees to themselves and companies they controlled and other expenses unrelated to the fund.

Among other things, the indictment alleges the two men used the money to buy cars in the names of companies they controlled, a mobile home in the name of Mr. Kirel's wife, and to cover travel expenses.

Prosecutors charge that Messrs. Kirel and Marshall diverted money from the welfare fund in several ways, including:

• Purported stop-loss reinsurance payments to Perseus Reinsurance Group Ltd., an offshore reinsurer believed to have been based in St. Kitts, British West Indies.

The Perseus funds were then transferred through other companies for eventual distribution to Messrs. Kirel and Marshall, the indictment charges.

• Payment of "consulting fees" by marketing arms of Local 615 to trusts controlled by Mr. Marshall.

• Salaries. Mr. Kirel caused Local 615 to raise his salary in June 1992 and again the following month, knowing that the fund was insolvent, the indictment alleges.

In all, Mr. Kirel personally received more than $1 million in welfare fund premiums over a two-year period, while Mr. Marshall received more than $400,000, prosecutors say.

Meanwhile, Messrs. Kirel and Marshall tried to conceal the fund's inability to cover claims, explaining to various participants in 1992 that claims were not being paid because of "administrative glitches," the indictment says.

In fact, Messrs. Kirel and Marshall knew that the plan had not established actuarially sound rates, that reserves were inadequate and that they were spending the fund's premiums without regard to its solvency, prosecutors allege.

The U.S. Department of Labor appointed an independent fiduciary to take over the fund in November 1992.

—By Douglas McLeod

Texaco

Continued from page 1

wanted a change and that's fine. I don't have a problem with that," he said. "Companies change managers all the time, it's just when things happen abruptly people try and make other things out of it."

Mr. Golden is currently seeking other employment.

In addition to the Heddington post, a captive formed in 1970 to insure Texaco's property and liability risks, Mr. Golden was president and CEO of Heddington Reinsurance Ltd. and Heddington (Life) Ltd., a Dublin, Ireland, reinsurance captive licensed in 1994.

He also served as president and CEO of reinsurance intermediary Heddington Brokers (Bermuda) Ltd. and captive manager Willis Corroon (Bermuda) Ltd. Both operations are owned 50% by Texaco and Willis Corroon Corp.

Mr. Golden's sudden departure caught many members of the Bermuda captive community off-guard.

"It came as quite a shock," said one captive manager who would not speak for attribution. "Bob's been around a very long time."

His abrupt departure was the latest in a series of changes in Texaco's financial management.

Effective March 1, Robert W. Ulrich took early retirement as treasurer and was replaced by James F. Link, formerly comptroller of Texaco U.S.A.

About a month earlier, William C. Bousquette took over as senior vp and CFO, replacing Allen J. Krowe, who remains vice chairman of the company. Mr. Bousquette had been executive vp and CFO of Fort Worth, Texas-based Tandy Corp.

It was Mr. Bousquette who announced on March 31 that Paul R. Lovejoy, Texaco's assistant general counsel, would take over as general manager of the oil giant's risk management department effective immediately.

Without mentioning Mr. Golden, a Texaco statement said Mr. Lovejoy will also be president and CEO of Heddington Insurance Ltd. and Heddington Reinsurance Ltd.

But it did not say whether Mr. Lovejoy will head Heddington (Life) Ltd.

It is also not yet certain that Texaco's new risk manager will replace Mr. Golden as president and CEO of the joint-venture operations with Willis Corroon.

"We haven't decided what the new structure will be," said Kenneth H. Pinkston, chairman of Willis Corroon Corp. in Nashville, Tenn.

Neither Mr. Pinkston nor spokesmen for Texaco would give reasons for Mr. Golden's replacement.

Mr. Pinkston said Willis Corroon had no plans to hire Texaco's former risk manager.

"He had certain offices in Willis Corroon, but he was a Texaco employee," he said.

A lawyer with no formal risk management or insurance background, Mr. Lovejoy "will assume the responsibilities and duties that Bob Golden was responsible for," a Texaco spokesman said.

He added that Mr. Lovejoy has experience in international financial management and in contract negotiations, two aspects of the job.

In announcing Mr. Lovejoy's appointment, Mr. Bousquette said, "Paul brings to this key function a solid knowledge of Texaco's day-to-day worldwide operations, coupled with a strong background and experience in international business and government relations. He has an excellent combination of leadership skills, management expertise in risk assessment and project development and a thorough understanding of the oil industry."

Mr. Lovejoy, 40, graduated from New England College of Henniker, N.H., in 1977 with a bachelor of science degree in political science. He earned a law degree in 1981 from Case Western Reserve University in Cleveland.

Mr. Lovejoy joined Texaco in 1990 as international counsel in the company's executive offices in Harrison. He assumed the post of assistant general counsel in 1991. In that role, he was responsible for all of Texaco's international legal affairs.

Prior to joining Texaco, Mr. Lovejoy was a partner with Squire, Sanders & Dempsey in New York.

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Stacy Shapiro contributed to this report.

Proposal assists working women

By DAVE LENCKUS

WASHINGTON—A working women's advocacy group does not expect that Congress will embrace the Clinton administration's recommendations for improving work and family benefits, but it likes seeing the ideas floated publicly.

Many business groups had not evaluated the 14-point plan developed by the U.S. Department of Labor's Women's Bureau and would not comment on the recommendations late last week. But, the business community staunchly has opposed at least one of the recommendations—increasing the minimum wage 21% to $5.15 from $4.25 per hour.

The recommendations are the administration's response to the concerns about jobs and working conditions that 250,000 women expressed last year in a nationwide survey conducted by the Department of Labor (*BI*, Oct. 24, 1994).

While 79% of the survey respondents said they either loved or liked their jobs, they complained of:

- Inadequate pay and benefits.
- Insufficient support for them as they try to juggle work and family issues, which causes high stress levels.
- Not receiving recognition for their work and not having access to training that could help them advance.

To resolve those problems, Secretary of Labor Robert B. Reich and Karen Nussbaum, director of the Women's Bureau, proposed, among other things:

- Enacting President Clinton's proposal to boost the minimum wage by 45 cents for two consecutive years to bring the minimum wage to $5.15 per hour.
- Initiating a pension education program for women and men, though women in low-wage, part-time and temporary positions would be the chief target group.
- Tax credits of $500 per child for families earning less than $75,000 annually. The House already has approved the tax credit for families earning up to $200,000 annually.
- Encouraging local solutions to child and elder care needs, with a spotlight on family-friendly employer-sponsored programs.
- Penalty-free withdrawals from individual retirement accounts for payment of elder care costs.
- Resisting efforts to expand the 40-hour workweek.
- Penalty-free withdrawals from IRAs to cover training expenses and establishing a $10,000 annual deduction per individual for job training expenses.
- Establishing an honor roll that recognizes employers that address these concerns.

Given Congress' new conservative bent, the advocacy group 9to5, National Assn. of Working Women does not foresee a bright future for many of the recommendations.

The tax credit for families with children and labor's efforts to retain the 40-hour work week have the best chance of success, said a spokeswoman for the 15,000-member Milwaukee-based group, which Ms. Nussbaum founded in 1973.

"But, I still think it's important that the DOL and groups like us keep driving this point home," she said.

The group hopes that today's male business leaders will appreciate the value of women in the workforce because those leaders not only have worked with women but also many of their wives and mothers are in the workforce, she said.

"We hope business will respond in a voluntary way," she said, asserting that the recommendations would not cost much money to implement or inconvenience business but would improve employee morale.

As an example, she pointed out that the administrative problems and additional costs that business feared would be imposed by the Family and Medical Leave Act never materialized (*BI*, March 7, 1994).

"If those who preach family values are really serious about them, they better start supporting families," she said. BI

Banks

Continued from page 2

ered bank marketing operations and argue that personal lines customers will ultimately suffer when banks begin to link the availability of credit to the purchase of insurance.

Yet commercial insurance—especially smaller accounts—may offer banks as much opportunity as personal lines business, suggests James M. Dineen, director of risk management for Barnett Banks Inc. in Jacksonville, Fla.

"From a banking perspective what we would offer the market is a competitive product because our cost structure would be less than the current agency system and therefore it would be a savings to the customer," said Mr. Dineen.

Small commercial sales would be fairly straightforward for a bank to handle, he said, cautioning, though, that banks would have to bring in technical experts before venturing into complex markets like environmental liability coverage.

Barnett's risk manager doesn't see his bank getting involved in insurance for larger business customers, however.

"We like to really know our markets and if you get into a company that has operations around the United States we might not be able to know the risks involved as well as we like to," he said. "The large and middle commercial, which are great from a banking standpoint, are not from an insurance standpoint because of the expertise required."

That level of expertise would be very difficult to create in the short term, so commercial banks' most immediate impact on the commercial market might be through joint ventures with insurers, said John B. Stites, vp of Chubb Corp.'s risk management business in Warren, N.J.

"It's safe to assume there will be a need for banks to find partners who have relatively strong experience and paper filed and approved in different states," said Mr. Stites.

Those joint-venture opportunities will first appear in areas of specialized coverages sought by bank customers, he believes.

Such joint ventures would give insurers an opportunity to develop a relationship with the customer, while the bank can tap the insurer's expertise, its ability to support a level of risk transfer and its ability to provide needed insurance services.

In the longer term, Mr. Stites believes it is investment banks, rather than commercial banks, that will be forming innovative risk-financing relationships with large companies. Investment banks like J.P. Morgan & Co. Inc. and Goldman Sachs & Co. are already involved as investors in Bermuda insurance and reinsurance ventures.

Industry observers, though, are by no means unanimous that commercial banks would even want to get into the commercial insurance business if the Glass-Steagall Act were modified to allow it.

Most of banks' activity would be in personal lines, insists Alan Kershaw, treasurer of Alexander & Alexander Services Inc. in Owings Mill, Md.

Others say that property/casualty insurers' weak underwriting results in recent years will prompt banks to steer clear of commercial insurance.

But banks' experience with electronic distribution systems could leave them in a strong position to distribute commercial insurance products.

"If I were a bank my thinking immediately would go to my strength, which is very superior electronic ability," said an executive at one large insurance brokerage.

Those efforts would probably focus on specific product strategies and, while he said he doesn't know what those products might be, the brokerage executive said, "Were I a business owner, if there was a segment of my business insurance either on an industry basis or a product line basis, I could see doing business with a bank."

"It's not going to take the form of like for like. You're not going to see American Express Insurance Co. or the Chase brokerage business," he said. "But will they go for a particular product segment? Very much so."

"In the U.K. a very high percentage of personal lines business is done electronically," he said. "There's no reason you couldn't do commercial electronically, also."

Critics of increased bank involvement in insurance have frequently raised the issue of "tie-ins," the notion that consumers might be coerced to purchase insurance products through a bank in order to obtain loans.

And Joel Wood, vp of government affairs for the Council of Insurance Agents & Brokers in Washington, doesn't see that threat limited to personal lines consumers who might be forced to buy auto insurance through the bank in order to qualify for a car loan.

"There is not a shred of doubt that the money center institutions envision linkage of their large Fortune 500 customers' insurance business and their money business," he said. "You can't underestimate the importance of credit."

Others, though, dismiss the argument.

It is a "red herring," contends Chrys Lemon, a lawyer with McNair & Sanford in Washington, which represents the Assn. of Banks in Insurance.

Tie-ins are a "non-issue," agreed Mr. Dineen, the Barnett Banks risk manager. "(It is) something that could be regulated quite easily." BI

Updates

First-quarter cats costly

Continued from page 2

The most expensive first quarter was in 1994, when the Northridge, Calif., earthquake played a key role in pushing insured property losses to nearly $13.2 billion for the three-month period. The second-costliest similar period was in 1993, when severe winter weather helped push losses to $2.9 billion.

Mr. Kerney noted that no single catastrophe like the Northridge quake hit U.S. insurers during the first quarter of 1995. Instead, underwriters were hit by a run of severe weather during the period, including wind, rain, hail and tornadoes that caused severe damage to portions of 13 states, mainly in the South, Southeast and West.

Ex-director charged in fraud

BOSTON—A former director of Coopers & Lybrand L.L.P. in Boston is facing criminal fraud and conspiracy charges for allegedly aiding a scheme to misrepresent the ERISA status of a multiemployer health and welfare trust that failed to pay almost $3 million in medical claims.

A federal grand jury this month indicted H. James Gorman, former director of Coopers & Lybrand's group insurance and welfare plan services unit. Mr. Gorman allegedly helped the principals of Harbor Medical Administrators Inc., a defunct third-party administrator formerly in Boston, misrepresent to participating employers that OMNI Medical Health and Welfare Trust was fully sanctioned under the Employee Retirement Income Security Act. OMNI comprised more than 600 employers in Massachusetts and other states.

The indictment also charges that Mr. Gorman in 1989 conspired with Harbor Medical officials Richard L. Rowe, Philip W. Carpenter and Anne B. Dunlop to file a report with New Hampshire regulators that falsely asserted OMNI was an ERISA welfare benefit plan and therefore was not subject to New Hampshire oversight.

The indictment says Mr. Gorman knew OMNI was not an ERISA plan, told Harbor Medical that it wasn't but still counseled Harbor Medical on how to misrepresent OMNI's status.

Mr. Gorman has denied the charges. Messrs. Rowe and Carpenter pleaded guilty to various fraud charges brought by the U.S. Department of Labor's Office of Labor Racketeering in 1991 (*BI*, March 25, 1991). Mr. Rowe still is serving a five-year prison sentence, while Mr. Carpenter was released recently from prison after serving four years, said Lawrence Mullins, special agent-in-charge of the investigation. He said Ms. Dunlop received extended probation.

If convicted on the conspiracy and fraud charges, Mr. Gorman, 62, faces up to 15 years in prison and fines totaling $750,000.

His attorney, William Kettlewell of Dwyer & Collora in Boston, said Mr. Gorman "has pleaded not guilty and will vigorously contest this indictment. A civil case filed in 1991 containing exactly the same charges was dismissed. We hope that will happen again."

Golden Eagle fine biggest ever

PHOENIX—Golden Eagle Insurance Co. has agreed to pay $302,000 in a fine and restitution—the largest penalty ever by the Arizona Department of Insurance—for violating 21 laws in Arizona.

Most of the violations relate to the San Diego-based insurer's failure to follow the rate schedule it filed with the state for its commercial liability policies to automobile dealers, a department spokeswoman said. The insurer was also charged with failing to comply with the National Council of Compensation Insurance schedule rating plan in regard to its workers compensation policies within the state.

The department recorded 3,933 violations against Golden Eagle during its market conduct and rate examination from January 1989 through July 1993. Of those, 151 were "knowing and intentional" violations, the spokeswoman said.

During the examination period Golden Eagle wrote a total of $42.4 million in gross premiums in Arizona. Of that, the examiners found premium overcharges of $154,899 and premium undercharges of $67,970.

In a statement, Golden Eagle said: "For the most part, these violations were in connection with an auto dealer program managed by a company underwriter who is no longer with Golden Eagle. For these mistakes there is no defense except to say we erred and have taken steps to ensure they will not be repeated."

In addition to paying the penalty, Golden Eagle returned $172,000 in premium and interest to policyholders.

Briefly noted

USF&G Corp., the parent of United States Fidelity & Guaranty Co., has completed the acquisition of **Discover Re Managers Inc.** (*BI*, Jan. 16). Discover Re, based in Farmington, Conn., provides insurance and related services to the alternative risk transfer market. . . .Arizona's Phoenix-based **State Compensation Fund** declared a record $45 million policyholder dividend for 1994. . . .Greenwich, Conn.-based **NAC Re Corp.** last week filed an application with the Securities and Exchange Commission to have its common stock listed on the New York Stock Exchange. Once listed on the NYSE, as "NRC," NAC Re will be delisted from NASDAQ. . . .A.M. Best Co. recently raised the ratings of a pair of life/health insurers to A from A-. In the case of **Travelers Insurance Co.**, Best cited a substantial reduction in exposure to real estate losses for the upgrade. For **The Equitable Life Assurance Society of the United States**, Best cited improved core earnings and financial support from its largest shareholder, AXA S.A. . . .The Florida Supreme Court has let stand a state appeals court ruling throwing out a $15.7 million jury verdict against New York accounting firm **BDO Seidman** for negligence in auditing the now-defunct Universal Casualty & Surety Co. Ltd. of the Cayman Islands (*BI*, Dec. 17, 1990).

Minnesota coalition proposes single plan

By CHRISTINE WOOLSEY

MINNEAPOLIS—The Business Health Care Action Group is turning the art of compromise into a science—which may be why it has become one of the country's leading-edge employer coalitions.

The BHCAG, a group of 23 large, self-insured employers in Minnesota, announced its latest health care purchasing strategy in February. Its goal is to force local health care providers—rather than the big managed care companies they are affiliated with—to compete for patients based on specific cost and quality data (*BI*, Feb. 13).

At a steering committee meeting held last Thursday, employer members discussed the strategy behind their new initiative.

While employers in the group expressed a strong commitment to the BHCAG direct contracting model and the dramatic changes it would bring to Minnesota's health care market, several benefit managers expressed concerns over certain details.

The new model requires member companies to replace all of their current benefit plans with one managed care plan, Choice Plus, which will contract directly with providers.

The benefits under the plan are identical, but employees will be allowed to choose from high, medium and low options that offer varying copayments and out-of-pocket limits.

Using only one health plan will reduce administrative costs by eliminating duplicate managed care contracts, which typically include many of the same facilities and physicians, explained Steve Wetzell, executive director of the coalition.

However, some of the plan design details of Choice Plus troubled a few benefit managers. For example, there is some disagreement about the plan's high out-of-pocket charges.

Under the High Option, or most generous plan, the out-of-pocket maximum is $1,500 for single employees and $3,000 for family coverage. That could present a problem for companies whose current plans have much lower out-of-pocket maximums.

In addition, there was some disagreement over whether to charge a $10 copayment for preventive services, which many benefit managers think should be free.

Several benefit managers expressed concern about introducing a new benefit plan to employees who had just begun to accept the managed care health plan option introduced during the group's last purchasing initiative (*BI*, July 13, 1992).

Mr. Wetzell acknowledged the concerns of various members but stressed the importance of compromise. "We cannot lose sight of why we're here and why acting collectively has given us more power than we've ever had," he said.

"This is deja vu," commented Fred Hamacher, vp of compensation and employee benefits for Dayton Hudson Corp. in Minneapolis and chairman of the BHCAG. When the coalition formed its first ground-breaking purchasing initiative in 1992, employer members also expressed concern and uncertainty, he said. "But we've always managed to get things done. This is a democracy, but we've never had to hold a vote on anything."

The employer coalition hopes to have its new Choice Plus product ready to introduce for the 1996 plan year. BI

CNA forms alliance on work comp services

Chicago-based CNA Insurance Cos. have formed a strategic business alliance with NovaCare Outpatient Rehabilitation. Under the terms of the agreement, NovaCare, based in King of Prussia, Pa., will be the preferred provider of physical and occupational therapy services to all CNA workers compensation beneficiaries requiring those services.

The two companies will conduct research on the most effective physical and occupational therapy services for workers compensation beneficiaries. Initial research will focus on the 12 most common injury types. According to the companies, research findings ultimately could result in better and less costly physical and occupational therapy services and the formulation of a case rate program for the fees NovaCare charges.

"There hasn't been an awful lot of research and the difficulty in doing research is that there hasn't been a controlled environment," said Timothy C. Smith, director of managed care development at CNA. "What NovaCare brings to the table is the opportunity to develop data from these physical therapies."

NovaCare has facilities in 43 states "that match up very well with our accounts across the country," Mr. Smith said.

"The pool of data is going to be very, very large and we think we can get at that data in a reasonable amount of time," Mr. Smith said.

Markets

AIG forms NAFTA unit

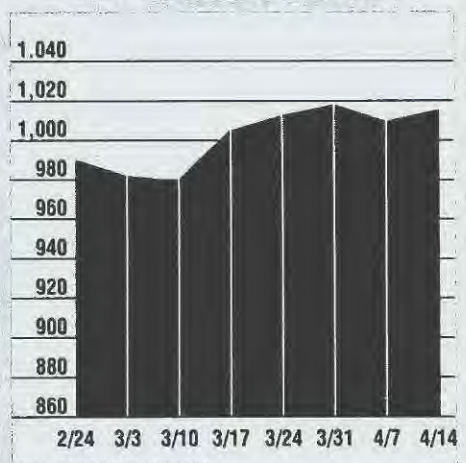
American International Group Inc. has formed a business unit to serve the changing insurance needs of businesses resulting from the passage of the North American Free Trade Agreement.

The NAFTA business is a joint effort of the North American and Latin American divisions of American International Underwriters, AIG's overseas property/casualty insurance organization, and AIG's Domestic Brokerage Group companies.

The NAFTA business unit will service U.S. and Canadian multinationals doing business in Mexico, Mexican multinationals with exposures in the United States and Canada, and major Mexican organizations doing business within Mexico and outside North America. Domestic Brokerage Group companies will serve as primary underwriters for exposures in the United States and Canada.

Emilio Iacobelli has been named business manager of the new entity. He will report directly to Hamilton daSilva, president of AIU's Latin American division, and Steve Schleisman, president of AIU's North American division. Mr. Iacobelli will be located in AIU's Chicago office. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of April 13

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
45/65	6.1/6.5	30.5/32.5	20/30	—/—	—/—
50/70	5.0/5.9	25/28.5	30/40	0.3/1.8	3/18
60/80	4/5.5	20/27.5	30/50	0.5/2.5	2.5/12.5
100c	8.5/12	8.5/12	50/70	0.6/1.8	3/9
150c	4/6	8/12	60/80	0.3/3.5	1.5/17.5

Total volume: 0 Total open interest: 1,912

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

April 13 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	570	11.4	33.0	5.8	570—565
Genl Accident	595	8.8	36.3	6.1	595—577
Gdn Royal Exch	195	N/M	10.3	5.3	195—189
Independent	270	7.5	11.9	4.4	270—205
Royal	303	5.7	15.0	5.0	303—294
Sun Alliance	344	11.6	19.7	5.7	346—342
Brokers					
Bradstock	82	9.2	7.1	8.7	83—82
Fenchurch	143	10.0	10.0	7.0	143—139
CE Heath	239	11.9*	20.0*	8.4	239—235
JIB Group	129	11.2	9.4	7.3	129—122
Lloyd Thmpson	150	10.4	9.8	6.5	151—150
Lowndes Lmbrt	157	9.3*	10.4*	6.6	157—155
Nelson Hurst	152	11.8	8.3	5.5	154—152
PWS Holdings	17	N/M	0.8	4.7	19—17
Sedgwick Grp	160	14.6	8.1	5.1	160—158
Steel Brl Jones	105	12.3	11.3	10.8	105—105
Willis Corroon	157	N/M	8.3	5.3	157—152

Source: Philip Olsen, London * Estimated 1994 data

BI Industry Stock Report APRIL 10, 1995, THROUGH APRIL 13, 1995

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	32.88	1.15	-1.87	34.50	24.63	5	0.72	2.19	16	13.24	2.48
Alexander & Alexander	NYS	22.75	1.68	22.97	23.75	14.00	163	0.10	0.44	-8	6.08	3.74
E.W. Blanch Holdings Inc.	NYS	19.00	2.01	-7.88	23.00	16.88	30	0.40	2.11	16	4.55	4.18
Gallagher Arthur J. & Co.	NYS	36.00	2.86	12.50	36.00	29.00	28	1.00	2.78	16	6.48	5.56
Hilb, Rogal & Hamilton	NYS	10.63	1.19	-12.37	13.38	10.50	85	0.56	5.27	13	4.72	2.25
Marsh & McLennan	NYS	82.13	-2.23	3.63	88.75	71.25	246	2.90	3.53	16	19.40	4.23
Poe & Brown	NDQ	23.00	4.55	5.75	23.00	18.25	20	0.48	2.09	15	4.49	5.12
BROKERS	AVERAGE		1.6	3.2					2.6	12		
INSURERS/REINSURERS												
ACE Ltd.	NYS	26.00	0.00	11.23	28.88	20.75	273	0.44	1.69	-9	22.45	1.16
Acceptance Insurance Cos.	NYS	14.75	0.00	-1.67	18.00	12.00	29	0.00	0.00	9	9.83	1.50
AEGON N.V.	NYS	73.88	1.03	16.34	73.88	49.75	17	2.92	3.95	12	43.84	1.69
Aetna Life & Casualty	NYS	58.25	-0.43	23.61	59.00	42.25	1166	2.76	4.74	14	57.21	1.02
AFLAC Inc.	NYS	39.75	-0.63	24.22	42.75	29.00	807	0.46	1.16	14	57.21	0.69
Allied Group Inc.	NDQ	28.75	0.88	16.16	31.00	22.00	65	0.68	2.37	6	23.43	1.23
Allmerica Prop. & Casualty	NYS	18.88	-2.58	11.85	20.13	14.25	164	0.16	0.85	12	19.45	0.97
Allstate Corp.	NYS	28.75	1.32	21.05	29.25	22.63	1244	0.78	2.71	27	19.60	1.47
American General	NYS	31.50	0.40	11.50	33.25	24.88	1130	1.24	3.94	13	20.39	1.54
American Heritage Life Ins.	NYS	18.13	7.41	-4.61	19.75	16.25	43	0.64	3.53	11	12.42	1.46
American Indemnity/Fin'l	NDQ	12.00	1.05	18.52	14.25	10.00	3	0.24	2.00	3	15.92	0.75
American International	NYS	104.38	-0.95	6.51	108.25	83.50	1373	0.46	0.44	15	49.75	2.10
American Re Corp.	NYS	35.63	-1.04	10.47	36.75	25.25	115	0.32	0.90	18	16.85	2.11
Aon Corp.	NYS	37.75	1.68	17.97	37.75	29.25	438	1.36	3.60	12	21.96	1.72
Argonaut Group	NDQ	29.25	-2.50	3.54	31.25	26.25	50	1.16	3.97	10	29.80	0.98
AVEMCO Corp.	NYS	18.25	2.10	18.70	18.25	13.38	21	0.44	2.41	15	6.30	2.90
Baldwin & Lyons Inc.	NDQ	16.25	1.56	10.17	17.63	14.00	4	0.24	1.48	12	13.56	1.20
Berkley W.R. Corp.	NDQ	38.38	2.33	2.33	42.00	32.50	134	0.48	1.25	27	36.47	1.05
Berkshire Hathaway Inc.	NYS	22600.00	0.00	10.78	25200.00	15400.00	0	0.00	0.00	29	9157.79	2.47
Capital RE Corporation	NYS	22.75	-3.19	-16.89	27.38	18.63	15	0.20	0.88	8	21.48	1.06
Capsure Holdings Corp.	NYS	12.75	-1.92	-12.82	16.13	12.13	76	0.00	0.00	13	13.72	0.93
Chubb Corp.	NYS	79.75	-0.16	3.07	82.63	68.63	521	1.96	2.46	13	48.40	1.65
CIGNA Corp.	NYS	73.63	0.34	15.72	76.38	57.00	613	3.04	4.13	10	80.98	0.91
CNA Financial Corp.	NYS	74.63	-1.16	15.03	76.50	60.00	23	0.00	0.00	146	73.83	1.01
Continental Corp.	NYS	19.75	0.64	3.95	23.38	12.00	234	0.00	0.00	-2	29.69	0.67
EMC Insurance Group Inc.	NDQ	10.38	0.00	9.21	10.88	8.50	12	0.52	5.01	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	33.13	-1.49	4.33	39.50	21.25	319	0.60	1.81	9	N.A.	N.A.
EXEL Ltd.	NYS	46.63	1.08	18.04	47.50	36.00	547	1.32	2.83	21	31.62	1.47
Fremont General Corp.	NYS	21.00	5.66	-10.16	26.00	18.88	173	0.76	3.62	6	22.90	0.92
Frontier Insurance Group	NYS	25.25	4.66	15.43	37.50	16.75	237	0.48	1.90	19	14.94	1.69
Gainsco Inc.	ASE	10.13	-3.57	22.73	11.00	7.25	108	0.04	0.40	14	3.79	2.67
General RE Corp.	NYS	134.00	0.56	8.50	135.13	104.50	269	1.96	1.46	17	57.17	2.34
Guaranty National Corp.	NYS	16.13	5.74	-12.24	18.50	14.50	12	0.48	2.98	9	11.84	1.36
Harleysville Group	NDQ	24.25	0.00	0.00	26.50	19.75	45	0.68	2.80	18	20.18	1.20
Hartford Steam Boiler	NYS	42.13	-1.46	5.64	47.38	35.88	85	2.20	5.22	17	14.62	2.88
HCC Insurance Holdings	NDQ	24.50	1.03	16.67	25.75	16.50	238	0.00	0.00	16	10.75	2.28
Home Holdings Inc.	NYS	9.50	5.56	1.33	15.00	3.00	502	0.00	0.00	-1	22.36	0.42
ITT (Hartford Group)	NYS	101.00	-0.49	13.96	104.38	77.00	833	1.98	1.96	12	49.95	2.02
Lincoln National	NYS	40.50	-1.22	15.71	43.88	34.63	334	1.72	4.25	12	31.99	1.27
Markel Corp.	NDQ	49.50	-1.00	19.28	51.75	38.00	12	0.00	0.00	15	25.15	1.97
Mid Ocean Ltd.	NDQ	28.63	1.78	5.05	30.50	22.25	146	1.00	3.49	12	20.24	1.41
Mutual Risk Mgmt. Ltd.	NYS	29.63	3.04	12.86	30.00	21.13	43	0.32	1.08	16	9.11	3.25
NAC Re Corp.	NDQ	33.00	2.33	-1.49	34.00	24.25	185	0.16	0.48	17	19.75	1.67
National Re Corp.	NYS	29.25	-0.43	11.43	31.75	22.25	81	0.16	0.55	18	17.31	1.69
Navigators Group	NDQ	15.00	-0.83	3.45	20.00	13.75	4	0.00	0.00	-4	10.21	1.47
Nobel Insurance Ltd.	NDQ	9.25	0.00	12.12	9.63	7.63	99	0.20	2.16	4	6.84	1.35
Ohio Casualty Corp.	NDQ	34.00	3.03	20.35	34.25	26.50	798	1.52	4.47	14	24.68	1.38
Old Republic Int'l	NYS	24.50	-2.00	15.29	25.50	18.88	203	0.48	1.96	10	24.60	1.00
Orion Capital Corp.	NYS	35.13	1.08	-0.35	37.88	28.13	37	0.80	2.28	9	25.86	1.36
Partner Re Holdings Ltd.	NDQ	23.88	2.69	15.06	24.13	18.50	544	0.40	1.68	9	N.A.	N.A.
Penn-America Group Inc.	NDQ	7.00	-0.88	-5.08	8.00	6.50	84	0.00	0.00	9	6.21	1.13
Phoenix RE Corp.	NDQ	24.25	4.30	-14.16	29.25	18.50	232	0.60	2.47	5	22.86	1.06
Provident Life	NYS	21.25	-8.11	-2.30	29.88	21.25	178	0.72	3.39	8	27.09	0.78
Re Capital Corp.	NDQ	18.38	0.68	50.00	18.50	12.00	26	0.32	1.74	16	17.63	1.04
Reliance Group Holdings	NYS	5.50	2.33	6.02	6.75	4.88	324	0.32	5.82	14	3.48	1.58
Reliastar Financial Corp.	NYS	35.13	0.72	21.12	35.50	27.00	228	0.90	2.56	11	24.81	1.42
RLI Corp.	NYS	23.75	0.00	15.85	23.88	19.88	41	0.60	2.53	-28	20.51	1.16
St. Paul Companies	NYS	51.50	2.49	15.08	51.50	37.69	333	1.60	3.11	10	31.88	1.62
SAFECO Corp.	NDQ	56.38	1.46	8.41	59.75	46.75	685	1.96	3.48	12	46.94	1.20
SCOR U.S. Corp.	NYS	7.63	-1.61	-8.96	12.25	7.50	7	0.20	2.62	-17	13.60	0.56
Seibels Bruce Group	NDQ	1.00	-11.11	-60.00	3.50	0.88	201	0.00	0.00	4	1.05	0.95
Selective Ins. Group	NDQ	29.00	0.87	14.85	29.75	23.00	26	1.12	3.86	11	23.36	1.24
Sphere Drake Holdings	NYS	15.50	0.81	11.71	17.00	10.75	75	0.16	1.03	7	13.15	1.18
TIG Holdings	NYS	22.50	0.00	20.00	23.00	17.00	717	0.20	0.89	28	17.25	1.30
Titan Holdings, Inc.	NYS	10.50	2.44	7.69	10.63	7.75	67	0.28	2.67	8	9.31	1.13
Tokio Marine & Fire	NDQ	59.25	1.72	-2.47	66.00	49.88	5	0.44	0.74	-	57.72	1.03
Torchmark Corp.	NYS	41.13	-1.79	19.20	44.50	32.38	290	1.12	2.72	11	17.49	2.35
Transatlantic Holdings	NYS	63.00	-1.18	12.75	64.00	45.63	82	0.40	0.63	14	32.43	1.94
Transnational Re Corp.	NDQ	20.38	3.16	-13.30	25.50	17.75	249	0.00	0.00	8	N.A.	N.A.
Travelers Corp.	NYS	39.38	-0.32	21.62	40.13	30.38	1969	0.80	2.03	10	24.26	1.62
Trenwick Group Inc.	NDQ	43.50	-0.57	2.65	44.25	35.25	64	1.12	2.57	14	29.20	1.49
United Fire & Casualty	NDQ	29.00	2.20	4.82	29.81	24.66	2	0.80	2.76	9	28.96	1.00
Unitrin	NDQ	48.13	3.49	11.92	51.50	38.50	114	2.00	4.16	15	38.64	1.25
UNUM Corp.	NYS	44.00	-0.85	16.56	56.75	35.13	585	1.06	2.41	21	27.78	1.58
US Facilities Corp.	NDQ	13.88	1.83	38.75	14.63	9.13	337	0.20	1.44	13	11.07	1.25
USF&G Corp.	NYS	14.13	0.89	4.63	15.50	11.69	1141	0.20	1.42	7	10.04	1.41
USLIFE Corp.	NYS	37.75	-0.66	8.24	39.13	30.88	132	1.32	3.50	9	40.82	0.92
Washington National	NYS	18.50	0.68	-2.63	23.13	17.75	25	1.08	5.84	7	23.61	0.78
Zenith National Ins.	NYS	20.75	-2.35	-8.79	27.38	19.38	23	1.00	4.82	10	17.54	1.18
Zurich Reinsurance Centr.	NYS	30.38	-0.41	5.19	30.88	24.50	4	0.00	0.00	-26	22.26	1.36
INSURERS/REINSURERS	AVERAGE		0.4	8.3					2.3	12.9		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	27.25	1.40	5.83	31.00	20.25	1218	0.00	0.00	15	12.22	2.23
Humana Inc.	NYS	26.00	3.48	14.92	27.13	15.88	2501	0.00	0.00	24	6.04	4.30
Pacificare Health Sys.	NDQ	74.13	3.67	13.82	79.50	44.25	296	0.00	0.00	23	14.21	5.22
Safeguard Health Enter.	NDQ	9.00	-7.69	-2.70	15.00	8.25	3	0.00	0.00	33	6.16	1.46
Sierra Health Services	NYS	30.75	0.00	-2.77	33.63	21.25	68	0.00	0.00	18	6.04	5.09
United Healthcare Corp.	NYS	45.88	0.82	1.66	55.38	37.25	2126	0.03	0.07	28	6.57	6.98
U.S. Healthcare	NDQ	42.25	0.60	2.42	49.00	33.75	6052	1.00	2.37	17	5.04	8.38
Wellpoint Health Networks	NYS	32.63	-1.14	12.02	39.00	24.25	378	0.00	0.00	15	12.73	2.56
HMOs	AVERAGE		0.1	5.6					0.3	19		
ALL COMPANIES	AVERAGE		0.7	5.7					2.5	16		

Top advancing issues: American Heritage Life Ins.; Guaranty National Corp.; Fremont General Corp. Leading decliners: Seibels Bruce Group; Provident Life; Safeguard Health Enter. Most active issue: U.S. Healthcare. The BI Index rose 0.7%; the Dow Jones 30 Industrials rose 0.4%; the S&P 500 increased 0.6% and the NYSE Composite registered no change.

System design: Nordby International Inc.

For the Record

Court OKs ADA suits for smoking bans

NEW YORK—The Americans with Disabilities Act can be used by non-smokers to force smoking bans in public places, a federal appellate court has ruled.

In *Sharon et al. vs. McDonald's et al.*, the 2nd U.S. Circuit Court of Appeals ruled that three asthmatic children could sue McDonald's and Burger King restaurants under the provisions of the ADA.

"We see no reason why, under the appropriate circumstances, a ban on smoking could not be a reasonable modification," the three-judge panel wrote in its unanimous decision April 4.

"Many businesses—especially restaurants—will go smoke-free after their lawyers realize the implications of this decision for their business clients," said Richard A. Daynard, professor of law at Boston's Northeastern University School of Law and chairman of the Tobacco Products Liability Project.

McDonald's Corp. has already banned smoking in its corporate-owned restaurants.

In other tobacco-related news this month, R.J. Reynolds Tobacco Co. and other tobacco defendants won a summary judgment in the U.S. District Court in Houston.

The family of Samuel E. Allgood, who died in 1989 at age 57 of laryngeal cancer after smoking for more than 45 years, had sued the company, claiming fraud, negligence and failure to warn. But, the court ruled that Mr. Allgood was aware of the risks associated with smoking, finding that he referred to cigarettes as "cancer sticks" and "coffin nails."

Texas installs consumer advocate

AUSTIN, Texas—Texas insurance buyers have a new advocate to represent them before the state's Department of Insurance.

Roderick A. Bordelon, 36, an Austin attorney, was confirmed last week by the State Senate as public insurance counsel, filling the spot left vacant by Mark L. Kincaid, whose term expired. Mr. Bordelon was nominated for the job last month by Gov. George W. Bush.

The Office of Public Insurance Counsel represents Texas insurance buyers in matters relating to insurance rates and regulations.

Mr. Bordelon said he will spend his first days on the job "meeting with the staff and getting up to speed on the issues in the Texas Legislature."

His only agenda at this point, he said, is to make sure "any advocacy we engage in is advantageous to the consumer."

Mr. Bordelon comes to the job with experience, having worked as deputy public counsel and acting public counsel from 1988 to 1991 at what was then the Office of Consumer Protection before it was split from the state insurance department and renamed the Office of Public Insurance Counsel.

Since leaving that position, Mr. Bordelon was a partner in the law firm Bordelon, Fields L.L.P. in Austin.

Ohio seeking buyer for rehab center

CLEVELAND—Citing cost efficiency, the Ohio Bureau of Workers Compensation says it plans to sell its 5-year-old rehabilitation center in Cleveland.

The W.O. Walker Industrial Rehabilitation Center, which opened in 1989 at a cost of $70 million, was built to rehabilitate injured workers in northeastern Ohio.

But, it "has struggled since its inception to maintain adequate patient volumes to support its operating costs," the bureau said in a statement.

The 744,767-square-foot facility has annual operating expenses of about $6.2 million, including $3.4 million in salaries for 81 employees.

To break even, the center must maintain a client level of about 160, but it only averages about 50 clients per day, according to the bureau.

Employers strongly favor the sale, said Bill Burns, managing director of the Ohio Manufacturers' Assn. The 1993 workers comp reform legislation, which employers supported, mandated financial self-sufficiency for the Cleveland rehab center and a similar one in Columbus.

"We just can't continue to ask Ohio employers, who pay (the bureau's) operating costs, to continue to fund a center that is not cost-effective," said William W. Pfeiffer, the bureau's acting administrator.

The bureau still considers getting injured workers back to work "a primary goal," however, and pledges that its rehabilitation experts will continue to work with claims representatives to see that injured workers get the rehab services they need.

CIGNA to settle billing dispute

PHOENIX—CIGNA Healthcare of Arizona Inc. has agreed to pay a $65,000 fine and $200,000 in restitution to settle allegations that it overcharged customers by failing to tell them of discounts negotiated with hospitals, according to the Arizona Insurance Department.

CIGNA admitted no wrongdoing but signed a consent agreement foregoing a trial or adjudication in order to settle the dispute. A CIGNA spokeswoman would not say whether the action stemmed from a lawsuit.

The allegations involved three CIGNA health maintenance organizations that required customers to pay 20% of their bills. However, the hospitals billed several hundred CIGNA customers at the full, undiscounted rate.

According to the department, some of the customers were actually paying more than 60% of the bills incurred for inpatient stays. To date, 405 people who are owed money have been identified and CIGNA believes that number is approximately how many customers were overbilled.

The three HMOs involved were "Individual Conversion Plan Service Agreement," "Healthshare Group Service Agreement" and "Individual Underwriters Plan Service Agreement," the spokeswoman said.

Judge exempts Exxon from punitive award

ANCHORAGE, Alaska—Exxon Corp. does not have to pay an $8.9 million jury award to five corporations that claimed they were damaged from the 1989 Exxon Valdez oil spill, a state court judge ruled late last month.

Alaska State Superior Court Judge Brian Shortell agreed with a motion filed by Exxon in January that the five corporations already had received $38 million from the Alyeska settlement and the Trans-Alaska Pipeline Liability Fund, far more than the jury award last September, and therefore had been compensated for their damages. The suit claimed that the spill damaged land and hurt archaeological excavations.

The jury also awarded $725,000 to a sixth plaintiff, Kodiak Island Borough. That amount is still in dispute.

Irving, Texas-based Exxon has spent $2.5 billion cleaning up the spill and settling with plaintiffs, and agreed to pay Alaska and the federal government $1 billion. The company plans to appeal a federal jury's $5 billion punitive damage award to 15,000 plaintiffs (*BI*, Sept. 19, 1994).

U.K. report cites highest exposures

LONDON—Commercial Union P.L.C. and Royal Insurance Holdings P.L.C. are exposed to more U.S. environmental liability losses than any other British insurers, according to a report by investment bank James Capel.

Based on analyst Paul Hodges' research into U.S. environmental liabilities and who insured whom from 1946 to 1969, Commercial Union's and Royal's "best case" exposures for this risk is equal to 12% and 25%, respectively, of their market capitalizations.

Both companies' stock prices actually rose during the week following the report's publication.

"Environmental pollution is not a new issue and the report didn't glean anything new," said a CU spokesman. "We take a cautious approach to reserving."

"We question the basic premise of the report that you can equate the market share of U.S. liability business with exposure," said a Royal spokesman. Various wordings and exclusions, for example, are not considered, he said. BI

Products & Services

Workers comp

NEW YORK—A new program from American Home Assurance Co. combines workers compensation underwriting, loss control and claims management services for employers to create a unified cost control method.

The policy, called Specialty Workers' Compensation, is available from the American International Group Inc. subsidiary in California, Florida, Illinois, Louisiana, Oregon and Texas. American Home provides the underwriting, while AIG subsidiaries AIG Consultants Inc. and AIG Claim Services Inc. provide the loss control consulting to reduce workplace injuries and develop return-to-work incentives, respectively.

If the majority of the premium on an account is generated in the employer's home state, which must be one of the six listed above, the coverage can be extended to operations outside those states. American Home plans to expand the coverage to additional states within the year.

For more information on Specialty Workers Compensation, contact American Home Assurance Co. at 800-291-3400.

NCOIL resource

ALBANY, N.Y.—The 1995 10th Anniversary Edition of the Insurance Legislative Fact Book & Almanac is now available from the National Conference of Insurance Legislators.

The Almanac provides information on more than 4,500 U.S. and overseas insurance regulators, including names, biographies, addresses and telephone numbers of state commissioners, governors, legislative committee chairs and their staffs, as well as Canadian and international legislative bodies.

The 478-page Almanac also includes several articles covering the effects of 1994's state and congressional elections, managed care, workers compensation reform and interstate compacts.

Copies of the Almanac are $54.40 each, with discounts available for orders of 10 or more. Contact NCOIL, 122 S. Swan St., Albany, N.Y. 12210; 518-449-3210; fax: 518-432-5651.

Pollution cover

EXTON, Pa.—Manufacturers of environmental products now can purchase product liability coverage that includes pollution liability.

The new product from ECS Underwriting Inc. of Exton, Pa., provides coverage on a claims-made form with limits of up to $5 million. The policy is available on an admitted and approved basis in most states. Higher limits can be arranged.

Designed for manufacturers of a variety of environmental products, such as landfill liners, incinerators, filter presses and pollution control equipment, the product liability coverage is available as part of an ECS general liability policy or on a stand-alone basis.

ECS also has increased the available limits on general liability and pollution liability coverages to $30 million per loss, $60 million aggregate, from $20 million per loss, $40 million aggregate.

These higher limits are available on all of ECS' pollution liability products, including the consultants environmental liability, contractors pollution legal liability, pollution legal liability and pollution and remedial legal liability insurance products.

Offered on both a project level and as a blanket policy, the increased limits are available on a multiyear basis.

For more information, contact ECS Underwriting Inc., 520 Eagleview Blvd., P.O. Box 636, Exton, Pa. 19341-0636; 800-327-1414; fax: 610-458-8667.

Dental options

CONCORD, N.H.—Chubb LifeAmerica has expanded its voluntary, employee-paid ChubbDental Choice program to give employers greater flexibility.

ChubbDental Choice clients now can choose from four plan options: Standard, Standard Plus, Classic and Classic Plus. Each plan has calendar-year deductible options of $50, $75 or $100.

ChubbDental Choice is available to companies with as few as three employees. Premiums are collected through payroll deductions from employees, who receive savings through group rates for the plan, which is portable and encourages preventive dental care.

Administered out of Parsippany, N.J., CDC offers a minimum participation rate of only 20%, employee choice of dentists and a free Section 125 Premium Only Plan. Maximum annual benefit limits up to $2,000 are available.

For more information, contact Bill Tillman at Chubb LifeAmerica, 8 Sylvan Way, Parsippany, N.J. 07054; 800-248-2297, ext. 2032.

Wind resistance

BOSTON—Grading the wind resistance of a company's structures is possible now with the new Wind-Rite software program from the Insurance Institute for Property Loss Reduction.

Developed by the IIPLR in cooperation with Texas Tech University, the program uses data input by the user on factors including building dimensions, the location's topography, the roof support system and covering, the presence of canopies and the percentage of glass in the walls to compute a relative wind resistance grade for the structure.

The program is designed for underwriters, loss control specialists, architects, building code officials and others interested in determining a structure's ability to withstand winds.

Free IBM-compatible demonstration disks and additional information are available from the Wind-Rite Software Program, Insurance Institute for Property Loss Reduction, 170 Tremont St., Suite 510, Boston, Mass. 02108-3910; 617-722-0200; fax: 617-722-0202.

Retiree health

DALLAS—United American Insurance Co. has developed a new Group Medicare Supplement Product to help contain costs for companies that provide continuing group health care benefits to retirees.

The defined contribution product provides competitive pricing compared with indemnity medical plans with Medicare carve-outs and enables employers to predict costs since they can expect a stable annual premium. And, as a Medicare supplement, the policy is designed specifically for retirees' coverage needs.

The Group Medicare Supplement Product comes packaged with United American's Automatic Claims Filing service, a nationwide paperless claims filing and processing system.

Larry Strong, United American field vp, says this product also can help employers more easily meet the requirements of FAS 106 because the liabilities under the policy are more predictable.

For more information on the Group Medicare Supplement Product, contact Larry Strong, United American Insurance Co., 2909 N. Buckner Blvd., P.O. Box 810, Dallas, Texas 75221-0810; 800-353-6926.

Securities claims

CINCINNATI—Clients of the Great American Insurance Co. have a new endorsement option under their directors and officers liability coverage.

The Cincinnati-based insurer is offering a predetermined allocation endorsement to its D&O policies for publicly held companies. The endorsement limits the amount for which the directors and officers and the company would be jointly liable in the event of securities claims, including the majority of shareholder claims. Allocation options of 60% to 90% will be available, and additional premiums charged will range from none to 50%.

For more information on the endorsements, contact Jeff Gauthier in the Executive Liability Division of Great American Insurance Co., 1515 Woodfield Road, Suite 850, Schaumburg, Ill. 60047; 708-330-6758. BI

DOES YOUR FACULTATIVE UNDERWRITER LEAVE YOU FEELING LIKE YOU'RE OUT THERE ALL BY YOURSELF?

Calling your facultative underwriter for a quote needn't be a lonely experience. At NAC Re, we pride ourselves on our ability to build lasting, personal relationships. By getting to know you well, it's easier for us to anticipate your needs – and to help you meet *your* clients' needs.

We provide thorough, prompt responses at all times... along with consistent pricing and service in both hard and soft markets. And thanks to our substantial limits – $50 million for property, and $7.5 million for casualty – it's easy and efficient to do business with us.

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In today's uncertain markets, when are "strength and stability" more than just buzzwords?

When they're backed by an impeccable balance sheet and healthy profits.

If you're concerned about the financial strength of your insurance and financial services organization, here are some questions you should ask.

What's the clearest indicator of financial health?

A balance sheet of impeccable quality, conservatively managed. Look at AIG's financial statements. You'll find $16 billion in capital funds; $18 billion of general insurance net loss and loss expense reserves; and $2.2 billion in after-tax profits in 1994.

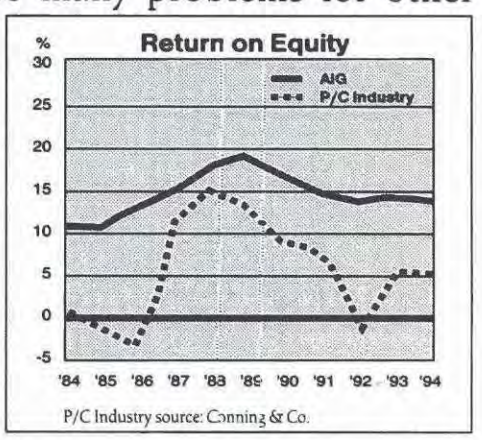


How important are the designations awarded by the rating agencies?

Very important. They provide an impartial, thoroughly researched measure of a company's financial strength. AIG holds the highest ratings awarded by the principal agencies. They are a prized asset, enabling us to capitalize on business opportunities not open to those without these credentials.

Are there substantial differences in the way insurance organizations are managed?

Yes. Take investment and underwriting philosophies. In investing, AIG has an insignificant exposure to high-yield securities and commercial real estate, which have caused so many problems for other companies.



The overall quality of our assets is excellent, with new cash flow invested primarily in investment-grade fixed-income securities.

We also believe underwriting profits are fundamental to the long-term stability and health of a company.

For years these beliefs have produced outstanding results. Including a return on equity that has consistently exceeded the industry average by a wide margin.

What other qualities should I look for?

A strong commitment to its basic business, a diversified business portfolio and global presence. The AIG Companies are the largest underwriters of commercial and industrial coverages in the U.S. We also have an international network second to none.

So if you're looking for financial strength, stability and commitment for the long term, as well as the other qualities AIG has demonstrated for years—creativity, service and a willingness to consider new ways of solving financial problems—we want to hear from you.

AIG World leaders in insurance and financial services.

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