

Business Insurance

IBM seeking bids from brokers to outsource risk management

ARMONK, N.Y.—International Business Machines Corp. is seeking proposals to outsource its risk management functions, *Business Insurance* has learned.

As part of a cost-cutting drive, the struggling computer giant recently asked the world's six largest brokers for proposals to take over its worldwide risk management and insurance operations.

Options presented by the brokers could include a partial spin-off of risk management duties, but IBM's goal is a complete out-

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New ventures in a new era

- August 1994:** BC/BS of Missouri raises \$38 million in IPO of RightCHOICE Managed Care Inc. of St. Louis, a for-profit unit that operates an HMO and a PPO.
- July 1994:** BC/BS of Ohio and Merida Health System of Cleveland agree to joint venture designed to integrate health care financing and delivery.
- July 1994:** BC/BS of Ohio forms an affiliation with St. Luke's Medical Center in Cleveland. Insurer will be directly involved in hospital's management, and will provide outcomes data to physicians.
- June 1994:** BC/BS Assn. board allows member plans to become for-profit companies, though none have done so yet.
- March 1994:** Arkansas BC/BS sets up HealthAdvantage, a for-profit HMO in Little Rock. Insurer owns 50%, Baptist Medical Center owns 25% and some of the HMO's doctors own 25%.
- January 1994:** BC/BS of Massachusetts forms joint venture with Physician Partners of New England to buy physician practices in Massachusetts.

Source: Blue Cross & Blue Shield Assn.

GRAPHIC BY KIM ROME

Chaos on Capitol Hill blocking health reform

By JERRY GEISEL

WASHINGTON—The fate of health care reform is up for grabs.

Timetables, deadlines and the spirit of compromise all went out the window last week as Capitol Hill became a political madhouse.

And as benefit experts continue to dissect reform proposals, they are finding more provisions that could boost their health care costs and prove to be unworkable.

The Senate last week opened debate on the massive reform package proposed by Majority Leader George Mitchell, D-Maine,



with no sign that proponents had enough votes to pass it—or that opponents had enough to defeat it. Too many senators remain uncommitted to reform to predict its outcome.

In the House, the leadership last week again delayed action on health care reform legislation.

Calling a reform bill introduced by Majority Leader Richard Gephardt, D-Mo., out of touch

with public opinion, members of a group of Republicans and Democrats said they would introduce a much more modest bill that contains no employer mandate and no new taxes.

"People want reform, but they want it done cautiously," said Rep. Fred Grandy, R-Iowa, a member of the bipartisan group.

The group's measure, which backers say is the bill that can pass the House, also would include insurance market reforms like wiping out pre-existing medical condition exclusions and pro-

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Blues switching to managed care to be competitive

By CHRISTINE WOOLSEY

Blue Cross & Blue Shield plans around the country are trying to transform themselves from lumbering indemnity plan behemoths into nimble managed care operations.

The best of the Blues plans are expected to survive and even thrive in a marketplace increasingly dominated by large, deep-pocketed players that can change direction quickly.

The efforts of other plans, though, may be too little, too late.

Because financial strength and management skills vary so widely among Blues plans, health care analysts and consultants say, it is difficult to predict which will emerge as strong players.

Recently more BC/BS plans—which are independent firms linked only by the common marketing symbols of the Chicago-based Blue Cross & Blue Shield Assn.—have been entering into joint ventures with providers, spinning off for-profit subsidiaries and generally trying to redefine themselves (see chart).

And consolidation among the Blues plans themselves has cut the number of independent plans to 69 from more than 150 in the 1960s.

"The strategy is to become a larger player, to be more efficient and to provide services to more than one state," explained James E. Drennen, a principal in the St. Louis office of Tillinghast, a unit

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Controlling comp costs

Kansas City coalition aims to improve claims handling

By RODD ZOLKOS

KANSAS CITY, Mo.—A group of employers taking a comprehensive and consistent approach to workers compensation claims hopes it has found the key to containing costs.

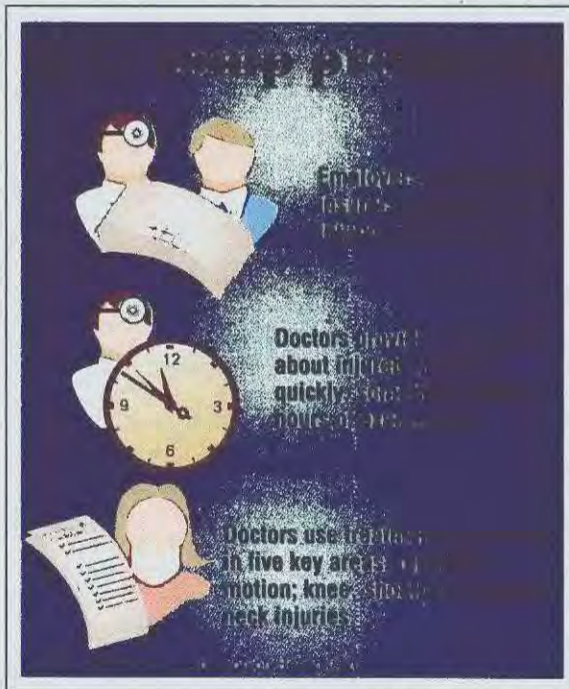
Through the Mid-America Coalition on Health Care, Kansas City business leaders, working with others in the workers comp system, have crafted a voluntary cost-containment program that focuses on communication, medical protocols, uniform reporting and case management.

So far, five employers have signed on as "evaluation sites," committing to operate in accordance with the model program and collect data on their results. That data will be used to fine tune the cost-containment effort.

The coalition hopes to bring the program to the 200 largest employers in the metropolitan area. Ultimately, the more efficient claims handling should benefit smaller employers as well.

Of the 200 largest employers in the area, approxi-

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GRAPHIC BY MIKE GARVEY

Superfund reform discord grows

Insurer tax debate delaying markup

By MARK A. HOFMANN

WASHINGTON—Continued disagreement over how insurers should be taxed to finance pollution cleanups is delaying consideration of a Superfund reauthorization bill by the full House.

The House Ways and Means Committee had originally scheduled a vote on H.R. 3800 for last Tuesday. But that markup was canceled because of divisions within the committee over how to fund a proposed Environmental Insurance Resolution Fund. Lawmakers, as well as insurers, are

split over whether to use a purely prospective tax on certain liability insurance premiums or a combination of prospective and retroactive premium taxes.

As proposed, the EIRF would pay a portion of policyholders' cleanup costs from the pool of money raised through new taxes on insurers in return for the policyholders' agreement to forgo suing their underwriters for more coverage.

Despite indications from Ways and Means Chairman Sam Gibbons, D-Fla., that a markup would be held last Thursday or

Friday, the committee took no action. That delay opened the possibility that the House will not vote on H.R. 3800 until late August or possibly even after Labor Day.

"The basic situation in Ways and Means is that nobody has enough votes to do anything. Nobody knows whether a retroactive tax would be defeated, nobody knows whether a wholly prospective tax would win," observed Leslie Cheek, director-domestic external affairs for Xerox Corp. in Washington. Xerox is the parent of insurer Talegen Holdings Inc., which favors a 100% prospective tax.

Further dimming the outlook

for quick House action is a threat from House Energy & Commerce Committee Chairman John D. Dingell, D-Mich., to gut the bill if it levies so much as a penny of retroactive taxes.

Meanwhile, the property/casualty insurance industry—already divided over the EIRF tax issue—fell into greater disarray when a longtime opponent of H.R. 3800 said that he could support the bill but only if the tax provisions were to his liking.

American International Group Inc. Chairman Maurice R. Greenberg last week sent a letter to Treasury Secretary Lloyd Bentsen

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Updates

IBM to outsource risk function

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sourcing of risk management functions, sources say.

IBM could award the business to a single broker or could divide it geographically and award it to two or three different brokers.

The company now has about six risk management employees at headquarters, with several dozen other employees around the world spending at least part of their time on risk management and insurance.

An undetermined number of these employees will face layoffs in the wake of the outsourcing, one source said.

IBM sought proposals from Marsh & McLennan Cos. Inc., Alexander & Alexander Services Inc., Sedgwick Group P.L.C., Rollins Hudig Hall Group Inc., Willis Corroon Group P.L.C. and Johnson & Higgins.

The company has already narrowed this list down to three or four contenders and is to hear oral presentations from them this week, sources say. A decision is expected by Sept. 1.

An IBM captive, WTC Insurance Corp. Ltd. of Bermuda, is managed by Marsh & McLennan Management Services (Bermuda) Ltd.

James J. Conerty, IBM's manager of risk and insurance, referred questions to a spokesman, who declined to comment for the record, as did officials of the six brokerages.

The outsourcing would be IBM's latest effort to streamline its operations: Last year, the company spun off its corporate benefits functions to 61 employees at Workforce Solutions Inc., a quasi-independent IBM affiliate. Previously, IBM had 120 headquarters employees working full-time and 221 employees around the country working at least part-time on benefits (BI, March 15, 1993).

Pension legislation amended

WASHINGTON—Differences between two versions of the Clinton administration's pension protection bill must be ironed out before the full House of Representatives votes on the measure.

The House Education and Labor Committee passed its version of H.R. 3396, the Retirement Protection Act of 1994, on a voice vote Thursday after accepting a trio of amendments offered by Rep. Pat Williams, D-Mont. The amendments stretch out the amortization period for old liabilities; allow employers, when calculating current liability, to assume a slightly higher interest rate on investments compared with an earlier version of the bill; and allow certain charges and credits reflected in the contribution requirements that were established before the bill's effective date.

Rep. Williams had been expected to introduce an amendment that would have made the Pension Benefit Guaranty Corp. the guarantor of last resort for annuities that employers purchase to replace benefits provided by pension plans they terminated. But he declined to present the amendment, citing strong opposition by the administration. Instead, he asked that the committee's report contain a "strong statement" that the PBGC has responsibility for guaranteeing such annuities, although the statement would have no legal binding.

The bill also would: accelerate employer contributions to underfunded pension plans; increase the annual premiums that employers with underfunded plans must pay the PBGC; and require employers with underfunded plans to provide an annual notice explaining the plan's funding status and the limits of PBGC benefit protection.

The measure earlier was approved by the Ways and Means Committee (BI, July 25). But, changes made by the Williams amendments require reconciliation with the Ways and Means bill, a task the Rules Committee must carry out before the bill goes to the House floor.

Peat Marwick settlement

WASHINGTON—KPMG Peat Marwick says it is "substantially insured" for the \$186.5 million it has agreed to pay the federal government to settle current and potential malpractice claims related to audits of failed financial institutions.

Peat Marwick will pay \$128 million in cash to the Resolution Trust Corp. and \$58.5 million—\$23.5 million in cash and \$35 million in a two-year note—to the Federal Deposit Insurance Corp. The firm also agreed to follow rules set by the Office of Thrift Supervision for audits of federally insured depository institutions in the next five years.

The settlement resolves five pending suits by the RTC and two by the FDIC, and settles all claims for professional work Peat Marwick did for financial institutions that failed on or before April 4, 1994.

Separately, Peat Marwick said it plans to register as a limited liability company under a recent New York statute (BI, July 18).

Canada takes over Confed Life

OTTAWA—The Canadian Federal Superintendent of Financial Institutions seized control of Confederation Life Insurance Co. last week after an attempt to save the company by 18 other insurers collapsed.

The life and health insurer had been trying for 18 months to find extra capital to help offset large real estate losses. The search for more capital seemed to be successful early last week as a consortium of U.S. and Canadian insurers appeared ready to put \$600 million Canadian (\$437.3 million) into ailing Confed (see story, page 21).

When that deal fell apart late last week, the federal government took control of Confed, which is Canada's fifth-largest insurer with assets of \$33 billion Canadian (\$24.93 billion) at year-end 1993.

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Errors & omissions

• Minnesota Mining & Manufacturing Co. of St. Paul has not sued its insurers seeking coverage for silicone breast implant liabilities. A July 18 article reported that all of the silicone breast implant manufacturers had sued their insurers.

Liability for police inaction

Police can be sued for not preventing criminal harm: Court

By DAVE LENCKUS

SPRINGFIELD, Ill.—An Illinois Supreme Court ruling on police inaction at a crime scene highlights expanding liability and training problems for all police agencies and municipalities, attorneys and consultants say.

In a 5-2 decision, the court ruled that Calumet City, Ill., and one of its officers could be sued over the officer's refusal to break into a woman's apartment to rescue her two young children from an attacker because the officer alleg-

edly didn't want to be liable for damaging the apartment.

Some attorneys say the Aug. 4 ruling, which largely overturns lower court rulings, expands police liability by holding Illinois municipalities liable for injuries that criminals cause.

"Inaction is not going to be something that protects (police) from liability anymore," observed William R. Quinlan of Pope, Cahill & Devine Ltd. of Chicago, who has represented both municipalities and citizens in police liability cases.

Attorneys and police risk management consultants agree that the case also is a reminder that police agencies nationwide do not adequately train supervisors about the risks of not acting decisively at a crime scene.

The case stems from a predawn sexual attack in the Chicago suburb on Dec. 20, 1987. When the attacker stopped long enough for the woman's children to leave the room, she fled, clad only in undergarments. He pursued her out of the apartment and caught her.

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Pharmaceutical firms prepare for likely trial

Hemophiliacs reject offer

By MICHAEL SCHACHNER

CHICAGO—Baxter International Inc. and Rhone-Poulenc Rorer Inc. may be pressed into a court battle after most hemophiliacs who claim to have contracted the AIDS virus from the firms' blood-clotting medications rejected a \$160 million settlement offer.

A group of hemophiliacs last year filed suit in federal court in Chicago against Baxter's Hyland

division, Rhone-Poulenc's Armour Pharmaceutical Co. and two other makers of clotting agents called Factor VIII and Factor IX. The group decided not to participate in the settlement after U.S. District Judge John Grady unexpectedly ruled Aug. 5 that up to 6,000 hemophiliacs may pursue the negligence portion of their case as a class action.

Other manufacturer defendants in the case are Miles Inc. and Alpha Therapeutic Corp., a unit of

Green Cross Corp. of Japan.

That ruling greatly raised the stakes for all involved, said David Shrager of Shrager, McDavid, Loftus, Flum & Spivey, the Philadelphia law firm that represents the hemophiliacs.

His clients could get nothing if the drug companies do not make another settlement offer and he fails to prove the companies were negligent at a trial.

But if the group succeeds in

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Former Centre Re underwriters launch new finite risk reinsurer

By GAVIN SOUTER

HAMILTON, Bermuda—A new Bermuda finite risk reinsurer with between \$200 million and \$250 million in capital will begin operations this fall focusing on long-term liability business.

The as-yet-unnamed company will be run by two former Centre Reinsurance (Bermuda) Ltd. underwriters, Richard Black and

Michael Cascio. Mr. Cascio left Centre Re at the end of April and Mr. Black left at the end of May.

The reinsurer is 100% owned by Commodities Corp., an asset management firm that is registered in Cayman, has an investment subsidiary in Bermuda and has its investment management personnel in Princeton, N.J.

Commodities Corp. is owned by approximately 120 shareholders,

including individuals and institutions. The largest shareholder is Japanese financial services firm Orix Corp., which owns 37%.

Some U.S. reinsurers and insurers have expressed interest in the new venture. "We have been approached by other people in the U.S. who are interested in becoming strategic partners with us, but we will be opening our doors for

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New asbestos standards

By MARK A. HOFMANN

WASHINGTON—New federal regulations designed to prevent an estimated 42 asbestos-related cancer deaths per year will cost U.S. businesses an estimated \$361.4 million annually.

However, Occupational Safety and Health Administration officials said the new standards will eliminate the need for comprehensive building inspections that could have cost as much as \$15

Rules stress management over removal

billion annually.

The new regulations, which were announced last week by Joseph A. Dear, assistant labor secretary and head of OSHA, focus on better management of asbestos and comprehensive worker training rather than emphasizing removal of asbestos from buildings.

"The biggest single problem with asbestos in public buildings is to the workers who unknow-

ingly disturb asbestos-containing materials. This rule works to prevent this from happening," said Dr. Lynn R. Goldman, the Environmental Protection Agency's assistant administrator for prevention, pesticides and toxic substances.

The new rules cut the permissible asbestos exposure limit in half, to an average of 0.1 fiber per

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Inside

• Congress should adopt health care reforms on which everyone agrees and delay an overhaul of the system until next year, this week's editorial says. **PAGE 8**

• Florida businesses are buying more health insurance for less under state reforms, attendees at the Florida Risk & Insurance Management Society's annual meeting learned. **PAGE 19**

• Venezuela's insurance industry could be heading for a "black hole" as the country remains steeped in its worst-ever financial crisis, insurers and analysts say. **PAGE 21**

• The Clinton Administration's Superfund reform proposal would reduce transaction costs, a new study by the RAND Corp. contends. **PAGE 30**

• Insurer payouts on AIDS-related claims rose 7% to \$1.5 billion in 1993, a new report shows. **PAGE 31**

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Spotlight report

Retirement savings strategies should suit employees

Different needs call for targeted communications

By GAVIN SOUTER

Instead of adopting a broad-brush communication strategy, employers should tailor their retirement savings communication efforts to fit the needs of specific segments of their workforce.

The message for younger workers who are just beginning to save for retirement is much different from the one for employees nearing retirement age who are looking to maximize their investments, benefit communication experts say.

By providing basic, step-by-step information to novice investors and more sophisticated information to older and more experienced investors, employers can more effectively help employees take on retirement responsibilities, consultants advise.

Companies generally shy away from giving employees advice on retirement investments, said Nancy Bernstein, managing consultant at A. Foster Higgins & Co. Inc. in Princeton, N.J.

"It's something they are afraid to do because no employer wants an employee to be in a position where, when something goes wrong, they can come back and say 'You told me to do this,'" she said.

On the other hand, employers that are moving away from defined benefit plans to defined contribution plans want to encourage employees to save for retirement, Ms. Bernstein said.

Consequently, they are providing workers more and more information, stressing the message that "it is a personal decision but here are some things which you ought to know about," she said.

Among the added information for employees is strategic advice on how to best meet their retirement needs.

For example, instead of simply providing information on the difference in risk levels between stocks and bonds, employers now may also provide information on the risks of taking too conservative an investment approach, Ms. Bernstein said.

"People are more willing to talk about the risk you are taking with a conservative money market fund because you may not have enough money to retire with," she said.

Young people in particular need to be informed that seemingly volatile investments now can have stable returns over the long term, said Karen Greenbaum, managing director and national practice head at William M. Mercer Cos. Inc. in Chicago.

Indeed, employers must be
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Benefits: Communicating with Employees

Giving employees the tools to be wiser health care consumers can cut costs

By CHRISTINE WOOLSEY

As employers increasingly redesign their benefit plans to make employees more responsible for the cost of their health care, they have a growing obligation to teach employees to become savvy health care consumers.

Providing employees with the right tools and information to make better health care decisions will not only improve their health status but also help to immunize employers from painful increases in health plan costs.

There are a variety of affordable resources available to employers that are dedicated to helping their employees navigate what has traditionally been an intimidating and unfriendly marketplace to consumers.

The type of consumer medical information and education available runs the gamut from commercially produced pamphlets and newsletters to self-care books, videos and telephone counseling services. Employers that want more customized information often develop their own consumer medical materials.

But, building a better knowledge of health care involves a lot more than simply distributing pamphlets on general health care topics or handing out self-care manuals without directions.

"You need to empower the consumer," said John Bunker, a health care consultant with The Wyatt Co. in Washington. "Most patients are intimidated or in awe of physicians. Giving them a book on self-care isn't enough. You also need to give them training on how to talk to their doctors and their pharmacists and how to ask the right questions."

Employers that think their employees are not interested in this type of information or won't use it are probably mistaken, consultants say.

"One thing about employees, they genuinely want to learn about how to be better consumers. They just need the right tools and there is a vacuum out there," said Monirah Womak, a

principal and Southeast region communications practice leader for A. Foster Higgins & Co. Inc. in Atlanta.

"People want to discuss their (health care) problems," said Gene Drabinski, a training director with Healthwise Inc., a Boise, Idaho-based non-profit publisher of consumer medical books and information. "What they don't want is for someone to say 'Do this and don't do that.' You should give employees an opportunity to discuss their health care concerns with someone they trust, like their doctor."

After all, it's the employee, not the benefit manager, who can ultimately hold his or her health plan accountable, Mr. Drabinski said. "No matter how much clout an employer has, when the rubber meets the road, the ultimate decisions are between the physician and the patient. In that setting, even the most powerful employer is impotent."

Employers and other health care payers now recognize that in some cases employees need to be taught how to discuss their health care concerns so that they achieve the best health outcome at the best price.

How much direction employers should give their employees varies. For some companies, a simple, quarterly newsletter that includes tips on good health habits or how to talk to a physician may fit the bill. Others may want to distribute self-care manuals.

One of the most popular manuals is the "Healthwise Handbook," which offers employ-

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Newsletters can benefit from new look

By SALLY ROBERTS

Try ad strategies to help employees get the message

Employers should look to Madison Avenue when developing employee benefit newsletters.

Advertising and marketing campaigns are geared to grab attention and to get a message across. Newsletters that employers use to communicate benefit and health care news have the same goals.

The human resource department at Benjamin Moore & Co. took this advice in 1992 before replacing its indemnity medical

plan with several different health plans from which employees could choose, all of which involved varying employee contributions. The company also implemented new retirement plans.

"We needed a way to communicate the changes that was different," said Phil Shalett, manager of employee benefits at the Montvale, N.J.-paint manufacturer.

The answer was a series of four-page, two-color newsletters called "Broad Strokes," which de-

scribed different points of the company's new medical and retirement plans.

"We didn't want to drop all the information at one time," he said. So about once every other week, the company's approximately 1,600 U.S. employees received a newsletter at home, each a different color, with charts, graphics and cartoons illustrating the new retirement plans, dental benefits and flexible spending accounts, among others.

The newsletters "built up to a

climax so employees had the whole plan in front of them" before enrollment, Mr. Shalett said, adding that one of the eight newsletters highlighted the enrollment date and further employee meetings to answer questions about the new program.

"It was a very effective piece," he said. In fact, "we liked it so much, we continue to use the newsletter to announce other benefit and compensation changes." Employees know that when they

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Saving

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aware of the varying information needs of different employees and target their retirement savings communications accordingly.

Employees in their 20s and 30s, for example, need investment advice that those closer to retirement age do not, said Ms. Greenbaum.

"People who are 40 or 45 are often already interested in saving, but someone who is 30 years old might not care about retirement planning so you need to target those people" with information on the need to begin saving for retirement, she said.

Rather than informing such employees about retirement savings investment options, employers should start with even more basic advice, she recommends.

"You have to turn spenders into

savers and then savers into investors," Ms. Greenbaum said.

Employers should also talk to employees who are saving for retirement to find ways of encouraging non-savers to follow suit, she said. "Talk to people in that age group who do save and find out what motivates them and find out from them what kind of communication works."

To accomplish their targeted communication goals, employers are turning to personalized retirement savings data, computer programs, toll-free hot lines and face-to-face meetings between benefit advisers and employees.

Personalized retirement savings data, for example, could allow an employee to project what 2% of his or her salary saved would become after several years of investing, Ms. Greenbaum said.

"You get them thinking small and

interested in saving and then you can return later and start to ratchet it up," she said.

Employers also can use computer programs to help illustrate the future outcome of current savings patterns, said Stuart O'Steen, a consultant at The Wyatt Co. in Denver.

But computer programs should not simply be treated in the same way as a mass mailing, he added.

"A lot of companies will buy the software and then just send it out. That's not effective because the people that need to use it don't bother," Mr. O'Steen said.

Instead, the programs should be used in sessions with benefit personnel, he said.

Then the employees can enter information on how much they wish to save for how long and easily and immediately adjust the figures to meet their own needs, Mr. O'Steen said. The benefit personnel are on hand to

answer any questions that may arise and can give additional advice and guidance.

The best way to communicate with employees is through face-to-face meetings, said Foster Higgins' Ms. Bernstein.

However, this can be costly. Consequently, some employers opt for group meetings instead.

When a high-tech approach like interactive sessions is not feasible, employers should use targeted and well-presented literature, she said. "It should be short, interesting and colorful and you should use plenty of pictures not just words."

Companies that send out retirement savings literature often find it more effective to send it directly to employees at home, noted Carol A. Steiger, a principal at Towers Perrin in Cleveland.

For example, Amoco Corp. in Chicago, a client of Towers Perrin, sent

information on its 401(k) retirement savings plan to employees at home because any decision would affect an employee's whole family, said Ms. Steiger.

"It was less expensive than bringing people in off the line to explain it and they got a very good response at a cost that was affordable for them," she said.

And, literature can be used in combination with meetings to help employees understand their options.

For example, Nissan Inc. in Torrance, Calif., held meetings to explain five investment funds and how they matched certain investment styles, Ms. Steiger said. Brochures were then mailed that set out the details of the funds. And the brochures were humorous to grab employees' attention, she said.

"For example, there was a picture of a Nissan Quest with the caption, 'Is this your idea of a good retirement vehicle?' It's a good opportunity to use humor to get people interested."

To support literature, some employers also use toll-free phone lines for more information, said Wayne Bogosian, a consultant for Wyatt in Boston.

The telephone systems can give employees access to data bases that will allow them to get more extensive information about their financial status, he said.

"For example, you can have a combination of Social Security details, contribution levels, estimated salary increases and personal resources and then determine your income for the rest of your life over the telephone," Mr. Bogosian said.

R.R. Donnelley & Sons Co. set up a toll-free number to supply information to its 5,000 retirees at the beginning of 1993, said Dewey Ingham, vp of benefits at the Chicago-based printing company.

The telephone line can give information on changes in benefits, wellness programs and company information such as acquisitions, he said.

The information line costs the company about \$25,000 a year, Mr. Ingham said. Donnelley plans to open a toll-free hot line for its current employees by the end of 1996, he said. **BI**



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Ceniceros joins BI in Los Angeles

LOS ANGELES—Roberto Cenicerros has joined *Business Insurance* as an associate editor in Los Angeles.

Mr. Cenicerros, 38, formerly was a general assignment reporter for the Pasadena Star-News and, before that, was a reporter for several other Southern California newspapers.

Prior to his career in journalism, Mr. Cenicerros worked as a data-processing recruiter for six years, locating computer programmers and managers for a wide variety of industries. He also worked for a unit of John Alden Life Insurance Co. for one year, marketing group health plans.

Mr. Cenicerros holds a bachelor of arts degree in economics from Boise State University in Idaho and a master of arts degree in communications from California State University at Fullerton.

He can be reached at 213-651-3710, ext. 147.



When it comes to employee benefits, decision-makers turn to *Business Insurance* for the complete picture.

Beyond compliance with the Family & Medical Leave Act and uncertainty over the president's health care initiatives, corporate decision-makers are left pondering the future of employee benefits. As they seek information on trends and developments that will shape future employee benefit programs, these executives turn to *Business Insurance* for the complete benefits picture.



Whether they're evaluating health care programs, concerned about work and family issues, retirement planning, or negotiating terms for international benefit networks, *BI's* corporate readers rely on the perspective they receive from our employee benefits coverage each week. In fact, 84% say they take action after reading our articles or ads. And they'll turn with even greater interest to our upcoming spotlight reports and reference directories that deliver in-depth reporting on specialized topics.

To reach the benefits decision-makers in the leading companies — many of which have offices around the world — you'll want to display your sales message in *Business Insurance*. Our average corporate reader represents a company with 3,400 employees and 44% have operations in both the U.S. and abroad. And because they all review their programs at least annually (23% review them even more frequently), the benefits of advertising to these executives come into sharp focus. If you're an agent or broker, the picture gets even clearer: two-thirds of these decision-makers utilize agent/broker services when conducting their reviews.



If you're interested in reaching the brokers of insurance and benefits programs, *BI* captures them as well. Seventy percent of the agents and brokers reading *Business Insurance* place group health insurance and other employee benefits. And many of them also provide additional services like benefit plan design consulting, administration and employee benefits information systems.

When you're looking to create a lasting impression on either the buyers or the sellers of employee benefits programs, the best place to develop your image is in *Business Insurance*. Take a look at the list of benefits issues coming up and then call your district sales manager to reserve space today. You won't want to be left out of the picture.

All statistics from the *Business Insurance* Audience Profile, 1993, Erdos & Morgan/MPG.

Upcoming Benefits Issues:

	Publishing:	Closing:
Work & Family <i>Directory: Dependent Care Resource & Referral Services</i>	July 25	July 13
Communicating with Employees <i>Directory: Benefit Communication Systems</i>	August 15	August 3
Pensions/Retirement Plans <i>Directory: 401(k) Plan Administrators</i>	September 5	August 24
EBC Award Profiles	November 7	October 26
International Benefits & Risk Mgmt <i>Directory: Int'l Insurers & Benefit Networks</i>	December 5	November 23
Market Report <i>Directory: Benefit Consultants</i>	December 19	December 7

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Information

Continued from page 3

ees information on self-care basics and information on the prevention and treatment of 145 health care problems, including guidance on when to call a doctor and the appropriate questions to ask.

Another resource, Atlanta-based Generic Report Inc., publishes a "Guide to Generic Medicine," which gives employees information on the most commonly prescribed brand-name drugs that are available in generics and offers cost comparisons.

And, the American Institute for Preventive Medicine in Farmington Hills, Mich., publishes the "HealthyLife Guide to Self-Care," which identifies the top 25 health problems as they relate to different groups, like women, children and the elderly.

Employers and consultants say references like these, which are typically marketed to managed care organizations and self-insured employers, have exploded on the market in recent years. The materials are well-received by employees and generally are not expensive.

But health promotion experts say handing out reference materials alone is not likely to produce the behavioral changes associated with good health care consumerism.

"We started out on our intent to address this five years ago with simple educational articles in newsletters and brochures," explained Dr. Catherine Baase, director of health care planning for Midland, Mich.-based Dow Chemical Co. "But we wanted to progress beyond education to a more behavior-based program. And, we wanted a comprehensive approach and there really wasn't that type of thing on the market. We wanted to provide tools and hands-on information for people rather than rhetoric and simple education," she explained.

As an adjunct to its existing corporate wellness initiatives, Dow's benefits and health promotion departments are developing a health care consumerism component which will be introduced to its 10,000 active employees and retirees in Midland in October.

The program, called Positive Action, will consist of six "modules" designed to give employees the cognitive and behavioral skills to become better health care consumers.

"Information and education are important to the theory of health promotion and behavioral change," Dr. Baase said. "But true behavior change is a complex process and it takes more than literature to accomplish that change," she said.

Dow's program is designed to teach employees what they should know and—more importantly—what actions they can take to become better health care consumers.

"The typical literature on the market may say 'Everyone should take medications as directed.' But that is general information and a person needs to know what particular behavioral steps they should take to accomplish that," she explained. The consumer information Dow will distribute pertaining to prescription drugs will give employees specific directions on how to take their medicines as directed. For example, the action steps recommended include: writing down all current medications taken on a wallet

card for quick reference; discarding outdated medicines; and finishing an entire prescription even though symptoms may have cleared up.

"We came up with these things by looking at the literature and determining what people do in their role as a consumer that could be improved," Dr. Baase said.

Dow plans to distribute two of the six health care consumer "modules" during a one-hour meeting with employees, said Sandra Butler, senior health promotion coordinator in Dow's Freeport, Texas, office. The meetings will be held after work hours for employees who want their spouses to attend. The remaining four modules will be mailed to employees' homes and will be followed by quarterly or bimonthly updates with new information

contained in existing corporate newsletters.

John Hancock Mutual Life Insurance Co. in Boston also developed its own health care consumerism materials "to try to promote employees taking individual responsibility for their health," said Barbara Whitcher, director of benefit design and communication.

Last fall, when the company added preventive medical care to its indemnity plans, it distributed a 24-page booklet called "Your Body, Your Health: An Owner's Manual." The book was modeled after an automobile manual and encourages employees to care for their bodies much like they would maintain their cars.

"Most of us know how to take care of our car. We are conditioned to fix our car or get it checked on a regular basis," Ms.

Whitcher said. The company wanted employees to take the same view of their bodies. With a mixture of text, charts and cartoons, the booklet allows employees to record important information on health status and family health history. It also talks about "working with your mechanic," in this case the physician, and suggests questions to ask when treatments are recommended.

"People love the user-friendliness of it. It's quick to flip through and it's easy to hone in on specific sections quickly," she said.

John Hancock Mutual Life surveyed a random sample of 100 of its employees about the booklet early this year and 45% said they had adopted healthier lifestyles as recommended by the booklet. Of the remaining employees, 90% said they would change their be-

havior based on the booklet's advice.

Whether employers develop their own materials or use commercially available resources, the key is to create a feeling of partnership among employers, employees and providers, Healthwise's Mr. Drabinski said. And, employers must "make sure the people choosing them are the people who will be using them," he said, referring to employee involvement in selecting materials.

To be truly successful, employers must keep the issue in front of employees and support their efforts with tools. "Do consistent small things all the time," he advised. "Don't just hold one huge health fair offering all sorts of books and CD-ROM programs. Remember that progress is made through small steps, consistently." ■

The Alexis Philosophy – No. 2 in a series:

When one of our clients
workers compensation, we

Newsletter

Continued from page 3

get the newsletter at home, it comes from the human resource department and will give them important information that affects their compensation in some way, he added.

However, producing the newsletter is not cheap. Benjamin Moore spends about \$4,000 to \$6,000 for each issue it sends out, Mr. Shalett said.

Benjamin Moore contracted with A. Foster Higgins & Co. Inc. for the benefit newsletter's artwork and layout, while the company's human resource department handled the writing. Keeping the writing in-house allowed "us to pick up the flavor of the way we explain things," Mr. Shalett said.

Benefit consultants say that employee benefit newsletters can help employers communicate a variety of information.

Newsletters can run the gamut from communicating new health care plans, to investment fund information to general news of health care reforms to enrollment dates, said Marsha Murphy-Vanard, a communications consultant with Foster Higgins in Princeton, N.J. "They can serve an amazing number of purposes."

Consultants also point out that newsletters are gaining popularity among employers as a tool to communicate information as employees are given more choices in their medical and investment benefits.

The "paternalistic" employer is a thing of the past, said Tom Hoffman, a principal with consultant Kwasha Lipton in Fort Lee, N.J. Employers today "have got to get

information to employees to make their own informed decisions."

"More than ever, there is a need to educate employees," Mr. Hoffman said, referring to the Labor Department's 404(c) rules. To avoid fiduciary liability for losses resulting from employees' investment decisions, the voluntary 404(c) rules require employers to provide sufficient information for participants to make informed investment decisions, among other things.

While it is important to capture concepts visually in a newsletter, 'I don't think you need fancy graphics and colors to be an effective communications tool,' says Marsha Murphy-Vanard, a consultant with Foster Higgins.

As newsletters gain popularity among employers, there are some do's and don't's to remember.

First and foremost, employers must make newsletters something employees want to read, consultants say.

"People don't have time to read, so you have to make (newsletters) look compelling," Mr. Hoffman said. "You've got to make the reader want to pick up and read."

To do this, newsletters should be short and to the point and

should use simple language.

"Use Peter Rabbit language," Mr. Hoffman advised.

It's important that newsletters be simple and straightforward, agreed Paul M. Sanchez, national communications practice director for The Wyatt Co. in San Diego. "It should not be a summary plan description."

Employers can make their message easier to grasp by using graphics.

"We live in a visual world today," Mr. Sanchez said. "Don't make it look like (the newsletter) came from the IRS."

However, while it is important to capture the concept in the newsletter visually, "I don't think you need fancy graphics and colors to be an effective communications tool," said Ms. Murphy-Vanard of Foster Higgins.

Regardless of its visual appeal, a clear and simple message can only be communicated to employees if employers themselves are clear about their objective, consultants say.

"Newsletters have a better chance at being successful if there is a sharp focus," said Mr. Hoffman, adding that employers need to have a stated objective and specific mission before developing a newsletter.

Research up front will save employers time and trouble and will ultimately produce a better product, he added.

"No one spends a bunch of money on advertising and marketing campaigns without research," he said. Employers need to start looking at employees as a market, the same way they view their customers. "Use the same tools used on the outside world on the inside," he advises. This includes research and focus groups to hone the marketing message.

After the employer has a stated objective, it must decide whether to produce the newsletter in-house or contract with an outside consultant.

Given the trend toward downsizing in corporations today, many human resource and public relations departments are understaffed and overworked. In this case, the employer may contract an entire project out to a consultant. While this alternative is more costly, consultants tend to be more knowledgeable about specific subjects and can write and produce newsletters more quickly.

Additionally, when outsourcing, employers "can react to a draft rather than come up with their own creative idea," said Ms. Murphy-Vanard.

But, companies that have large human resource departments with staff to write and produce benefit newsletters can save money by producing the material in-house.

Other advantages include knowing firsthand the audience they are targeting and the management style of the company.

In addition, human resource staffs have easier access than outsiders to a company's top management, Kwasha Lipton's Mr. Hoffman said, adding that it is important to get management involved in the communication project.

Some employers may decide to contract out for a specific area like writing, production, research or strategy while retaining the other responsibilities, explained Sandra Barnett, a communications consultant with Towers Perrin in Chicago.

And, some employers may contract out for an entire project and, "as they get comfortable with the process, they take over more and more of it," she said. **B1**

ten

talks about the cost of know exactly what to do.

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Opinions

Start small on health bill

Congress should greatly simplify its health care reform legislation this year to address the problems on which everyone agrees and allow those reforms to work before attempting to overhaul the entire \$1 trillion health care system.

While reforms on which there is a consensus—restricting pre-existing medical condition clauses and long waiting periods for coverage—would not make coverage affordable to all Americans, we would rather see these modest reforms enacted now and give Congress more time to develop legislation that truly is in the national interest and would not create far bigger problems for employers than it solves.

The Senate began debate last week on a proposal by Sen. George Mitchell, D-Maine, a mere three days after the majority leader released the 1,410-page bill.

In the House, legislators may well vote with hardly any time to review a bill released only late last week by House Majority Leader Richard Gephardt, D-Mo.

With time so tight, it seems certain that lawmakers won't have the foggiest idea about all the provisions in the bills.

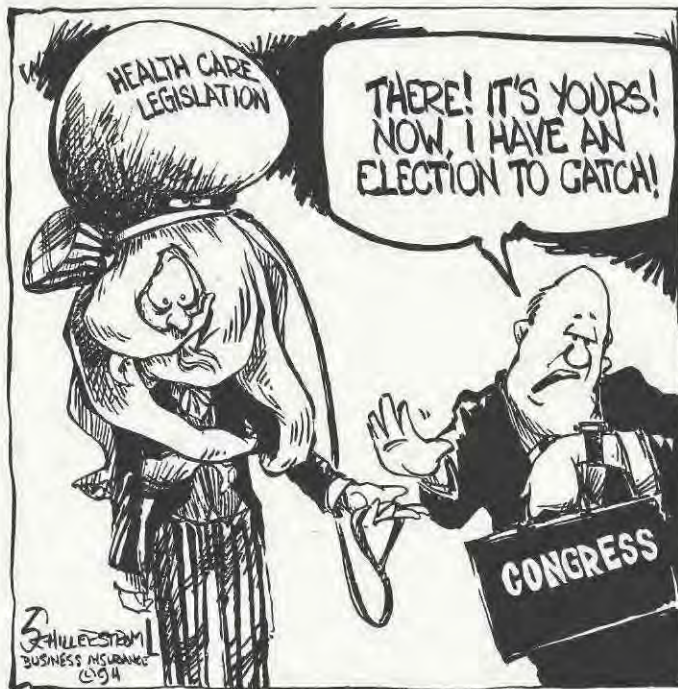
Who knows what land mines are hidden in the fine print? Perhaps there are none, though we'd find that highly unlikely knowing Congress' sorry track record of passing benefit legislation with no research on impact and feasibility.

It hardly seems unreasonable for both legislators and the public to know what's in these critically important bills before any vote is taken.

The details that are known are disturbing enough.

Consider the House provision that would expand the Medicare program so that it covered lower-income individuals and those working for small firms. With this expansion, Medicare could cover nearly 100 million people, about triple its current size.

We wonder if legislators have even the remotest understanding of the damage such an expansion would do. Medicare is an old-line, traditional indemnity plan. Only a tiny percentage of enrollees are in managed care plans. Instead of adopting basic health care cost control techniques, Medicare controls costs by setting artificially low rates. Providers respond by inflating charges for privately insured patients.



Imagine how much worse the cost-shifting would be if Medicare were tripled in size as House Democratic leaders suggest. Health insurance would become even less affordable for employers.

Rather than the Medicare expansion, we would like to see subsidies for the working poor to buy coverage in a managed care setting.

Or, consider the Mitchell proposal. It would require employers to offer three health plans, including indemnity plans that give participants unlimited choice of providers. If Sen. Mitchell is serious about cost control, why encourage indemnity plans, the type of plan most responsible for exploding costs?

With so much confusion, disagreement and partisanship in the health care debate, the best interests of the country now would be served by the simple but vital reforms all can support: curbs on pre-existing condition exclusions and long waiting periods for coverage and subsidies for the working poor to buy coverage. The fate of an employer mandate, new taxes on health plans and government-established health care alliances should not be decided at the 11th hour in the current climate.

Letters

Idea can help risk managers upgrade image

To the editor: I just read the July 18 editorial, "Getting Past Annual Renewals" and found it to be one of the best BI editorials I have ever read. Chubb's CEO proposes a logical improvement in the risk management process—what amounts to a supplier/customer "partnership" for the handling of the insurance purchases.

Frankly, that is what we have been doing for the past few years, though the concept of "annual renewals" at Welch Allyn Inc. could be further improved by eliminating the pricing negotiations each year and getting into the concept of supplier certification for service providers like insurers.

There is one major improvement to this process that I suspect the editorial writer, and possibly even Chubb's CEO, missed. It is implicit in Chubb's proposal. Essentially it amounts to a shift in focus, changing

from emphasizing the last step in the risk management process—the procurement of an insurance policy—to a focus on where the risk manager's time is best spent—on the front-end identification and elimination of risk.

Think about how the risk manager's boss' perception of risk management will change—and for the better—if the focus is put on the front end of the risk management process instead of an overemphasis

on how little the risk manager paid to buy an insurance policy.

Only when this perception is changed will the risk manager be viewed as a valued, professional member of the corporate team, instead of being viewed as a purchasing clerk.

Donald G. Nelson
Director, Allyn Family Holdings
Welch Allyn Inc.
Skaneateles Falls, N.Y.

Grim profit outlook for brokerages

To the editor: Your July 18 article, "Brokers' Growth Engine Stalls," cited competition and currency conversions as current problems for the brokers. The article referred to reduced commissions that have been forced on European brokers but did not acknowledge that U.S. brokers, to a lesser degree, have experienced the same commission reduction and this will be reflected in their 1994 results.

The property/casualty industry has maintained profitability during the current cycle, in part because there has not been a significant number of catastrophes and in part because every major insurer has laid off employees and/or closed offices.

1994 will not show improved results for the brokers because the competition has

not changed and the lower commission rates will be reflected.

1995 will bode no better for brokers as the technical expertise of the insurance buyer increases and the buyer sees the benefit of doing business directly with the insurer.

Insurance companies that are looking for ways to expand their profitability and are already directly marketing certain products will support that trend.

Brokers' future is to competitively sell their unbundled service.

Richard J. Rocheford Jr.
President
Star Risk Management
Consultants Inc.
Eden Prairie, Minn.

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Keying in to better benefit plan communication

By DEBORAH
SHALOWITZ COWANS

Walking through company buildings to use an employee benefits kiosk someday may be as unnecessary as walking across the room to change the television channel.

Increasingly, employees will be able to enroll in health benefit programs and receive benefit information right at their desks—with the help of their desktop personal computers.

Interactive voice response telephone systems and kiosk-based personal computers, though, will remain popular tools because not everyone has access to desktop PCs yet. And even if a large portion of employees at one site have computers, those computers must be hooked up to a communications network for some interactive benefit systems to work.

Using workstations for benefit enrollment is "definitely the direction that things are going," said Steve McCormick, a consultant with The Wyatt Co. in Washington.

"As more companies actually reach a point where every employee has a personal computer for their own use, you'll see it a lot more," agreed Howard J. Johnson, chief executive officer of Howard Johnson & Co., a New York-based benefit and compensation consulting firm.

If employees' desktop PCs are not networked to communicate with the benefits or human resources department, diskettes with benefit information or modeling scenarios can be distributed to employees.

This allows employees to look at the information at their convenience and enjoy the visual and interactive advantages that personal computers afford, Mr. Johnson said.

At AT&T Corp., for example, employees "seemed to really enjoy the PC diskette" the company distributed in 1991 to explain a new flexible benefits program and let employees model different benefit scenarios, said Donna Jones, manager of health and insurance employee education.

The Berkeley Heights, N.J.-based telecommunications giant distributed diskettes to about 110,000 managers who were eligible for the benefit plan. Employees also received written information about the plan. Producing and distributing the diskettes cost about \$90,000, or about 82 cents per employee.

AT&T in 1993 made available in its electronic mail system the benefit modeling tool that previously was available on diskette. As a result, the company now does not have to distribute the diskettes and the information is available for employees at their convenience.

If employers want workers to enroll in benefit plans through their desktop computers, generally the computers must be networked to communicate with the human resources or benefit department, said Jay Marchant, a principal with William M. Mercer Cos. Inc. in Deerfield, Ill.

Personal computers offer several advantages in benefits enrollment. For one thing, they remove some of the paperwork burden from human resources or benefits staff.

Proliferation of PCs making plan enrollment easier

They "take away the administrative garbage from benefits professionals within an organization," said Sue Darow, a vp in Chicago with Technology Services Inc., which develops human resource, benefit and payroll systems.

Staff time is limited and valuable now that many human resources departments have been downsized or their responsibilities increased without a corresponding increase in staff, said Pat Donohue, a managing consultant with A. Foster Higgins & Co. Inc. in Princeton, N.J. Computer-based enrollment gives staff more time for other tasks.

PCs 'take away the administrative garbage' from the benefits staff, says Sue Darow.

Desktop workstations can also streamline the enrollment process itself. Transferring data, such as from a paper form to a computer, fewer times reduces the chances for mistakes, points out Wyatt's Mr. McCormick.

While desktop computers are

not yet a ubiquitous feature of corporate life, they are becoming increasingly common.

"Most companies don't have PCs on everyone's desk that are networked together," Mr. McCormick noted. But as prices fall and machines become more powerful, the numbers of computers are increasing.

There are some disadvantages to using desktop PCs for benefit communication and enrollment, though.

Foster Higgins' Mr. Donohue pointed out that using workstations for modeling, for example, "limits the active participation of spouses and other family mem-

bers" in the decision-making. "Most choices are made around the kitchen table at night," he said.

Another issue is confidentiality, he said. Personal benefit information "is floating around the company on this machine," which could be compromised.

Requiring a password or code to gain access to computer data is like having a secure front door on your house—there are other ways to get into the house, Mr. Donohue said.

Susan Hiller, a consultant with Foster Higgins in Princeton, N.J., added that often individual workstations use a shared printer, which could compromise confidentiality. **BI**

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Annual directory of benefit communication systems

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Interactive benefit systems since: 1987.

Parent: Alexander & Alexander Services Inc.

Software products:

■ Benefits Open Enrollment.

System type/cost: Purchased, leased or operated on a service bureau basis.

System requirements: IBM compatible PC LAN, 4MB RAM. Operates in VOS or Windows.

Customization optional.

First installation: 1987.

Benefits communicated: Options available for savings plans, health, pension, workers comp, flexible benefits and flexible spending accounts.

Features: Standard system provides personal information, direct enrollment, modeling/projections, option selection/adjustment, transfers among investment funds, reports via computer diskette and mail. Options available to add plan descriptions, employee specific recommendations and details on investment alternatives.

Accessed through: Telephone, employees' PC.

■ 401(k) IVR.

System type/cost: Purchased, leased or operated on a service bureau basis.

System requirements: IBM compatible PC LAN, 4MB RAM. Operates in VOS and Windows.

Customization optional.

First installation: 1987.

Benefits communicated: Options available for savings plans, health, pensions, flexible benefits and flexible spending accounts.

Features: Standard system provides direct enrollment, option selection/adjustment, transfers among investment funds, reports via computer diskette and mail. Options available to add benefit plan descriptions, personal information, modeling/projections, employee specific recommendations and health claims status.

Accessed through: Telephone, employees' PC.

■ Nestegg.

System type/cost: Leased: \$20,000 for first year, \$2,500 per year thereafter.

Simultaneous access: Dependent upon user's LAN limitations.

System requirements: IBM compatible PC, single user or LAN; DOS version requires 300K RAM. Operates

in DOS or Windows.

Customization optional.

First installation: 1992.

Benefits communicated: Savings plans, pensions, Social Security.

Features: Standard system provides modeling/projections; option selection/adjustment; details on investment alternatives; reports via computer diskette, printer and mail. Option available to add personal information.

Accessed through: Telephone, employee PCs, benefit department kiosk, home PC.

■ Flexadmin.

System type/cost: Purchased, leased or operated on a service bureau basis.

System requirements: IBM compatible PC, 4MB RAM, single user or LAN. Operates in DOS.

Customization optional.

First installation: 1987.

Benefits communicated: Health, flexi-

ble benefits, flexible spending accounts, credit allocations, vacation elections.

Features: Standard system provides plan descriptions, personal information, reports via computer diskette and printer.

Accessed through: Employee PCs, benefit department kiosk.

User support: Benefits Open Enrollment/401(k) IVR: user groups/meetings onsite training*, telephone assistance 24 hours per day.

Nestegg: user groups/meetings*, onsite training*, telephone assistance 10 hours per day.

Flexadmin: user groups/meetings, onsite training*, telephone assistance 24 hours per day*.

* Included in system price.

Staff: 33 total, 30 professionals. Branch offices: Los Angeles; Atlanta; Chicago; Baltimore; Boston and Owings Mills, Md.; Detroit; Minneapolis; St. Louis; Lyndhurst, N.J.; Philadelphia and Pittsburgh, Pa.; Dallas.

Officers: Donald L. Seeley, president/CEO (global); Neil A. Burger, chairman/CEO; John L. Goodyear, chairman/CEO-Alexander & Alexander Benefits Services Inc.; Robert K. Burden, chairman/CEO-The Alexander Consulting Group Ltd. (Canada); Brian E. Kennedy, chairman/CEO-The Alexander Consulting Group Ltd. (U.K. & Europe).

Contact: Nestegg: David Ferris, 612-520-3000 (Minneapolis); all other systems: Gary Breitbart, 201-460-6689 (Lyndhurst, N.J.).

ion Benefit Cost Down To Size



B

BeneSoft Inc.

P.O. Box 3530, Bethany, Conn. 06524; 203-393-0320; fax: 203-393-0325

Software products:

■ FlexibleSoftware.

System type/cost: Leased.

Simultaneous access: 40 employees.

System requirements: IBM compatible PC, 520K RAM. Operates in DOS or Windows.

Customized system.

First installation: 1987.

Total installations: 100.

Benefits communicated: Flexible benefits, flexible spending accounts.

Features: Standard system provides plan descriptions, personal information, direct enrollment, option selection/adjustment, reports via computer diskette and printer.

Accessed through: Telephone.

User support: User groups/meetings, onsite training*, telephone assistance 12 hours per day*.

* Included in system price.

Staff: 20 total, 15 professionals.

Branch offices: Tigard, Ore.

Officers: Faisal Saleh, president; Steven Froebel, vp.

Contact: Faisal Saleh.

BLAZE SSI Corp.

P.O. Box 333, Brielle, N.J. 08730; 908-223-5575; fax: 908-223-6683

Interactive benefit systems since: 1980.

Software products:

■ IRC401(k) Enrollment System.

System type/cost: Purchased: \$500.

Simultaneous access: One employee.

System requirements: IBM compatible PC, 4MB RAM. Operates in DOS 3.3 or higher.

Customization optional.

First installation: 1987.

Benefits communicated: Pensions.

Features: Standard system provides plan descriptions; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; reports via computer diskette, electronic mail, printer, fax and mail. Options available to add personal information.

Accessed through: Kiosk, employees' PC, benefit department kiosk.

User support: User groups/meetings*; onsite training; telephone assistance eight hours per day*; help line accessible via modem, fax and mail*.

* Included in system price.

Staff: 20 total, 10 professionals.

Officers: Janice Vittes, president/CEO; Joseph Blaze, executive vp-technical services; Elizabeth Masto, executive vp-operations; James Carlson, vp-technical

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 services; Gordon Megibow, chief actuary.
Contact: Carol Malone.

Buck Consultants Inc.

2 Pennsylvania Plaza, New York, N.Y. 10121-0047; 212-330-1000; fax: 212-695-4184

Interactive benefit systems since: 1985.

Software products:

■ Buck Voice Response.

System type/cost: Purchased or operated on a service bureau basis.

Simultaneous access: 100 employees.

System requirements: Voice response unit (needed only if system is purchased).

Customized system.

First installation: 1989.

Total installations: 40.

Benefits communicated: Customization available for savings plans, health/welfare plans, pensions, flexible benefits and flexible spending accounts.

Features: Customization available for personal information, direct enrollment, modeling/projections, option selection/adjustment, details on investment alternatives, transfers among investment funds, reports via computer diskette and mail and confirmation statements generated for all transactions.

Accessed through: Telephone.

■ Buck Interactive PC System.

System type/cost: Purchased.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC LAN, 640K RAM. Operates in DOS or OS/2.

Customized system.

First installation: 1990.

Total installations: 19.

Benefits communicated: Customization available for savings plans, health/welfare plans, pensions, flexible benefits and flexible spending accounts.

Features: Customization available for plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; and reports via computer diskette, printer and mail.

Accessed through: Kiosk, benefit department kiosk.

■ The Buck Retirement Planner.

System type/cost: Purchased: \$18,000.

System requirements: IBM compatible PC, 4MB RAM. Operates in DOS or Windows.

Customization optional.

First installation: 1993.

Benefits communicated: Savings plans, pensions, profit-sharing, social security.

Features: Standard system provides modeling/projections, reports via printer, individualized retirement planning. Options available to add plan descriptions and details on investment alternatives.

Accessed through: Kiosk, employees' PC, benefit department kiosk.

User support: Buck Voice Response/Buck Interactive PC System: user groups/meetings*, onsite training*, telephone assistance 12 hours per day*.

The Buck Retirement Planner: user groups/meetings, onsite training.

* Included in system price.

Staff: 13 total, nine professionals.

Clients: 40 total, including 22 new clients and eight who added additional features to their interactive benefit communication system in 1993.

Branch offices: Los Angeles and San

Francisco; Denver; Stamford, Conn.; Washington; Atlanta; Honolulu; Chicago; Fort Wayne, Ind.; Boston; Detroit; Kansas City, Kan.; Secaucus, N.J.; Cincinnati and Cleveland; Pittsburgh; Dallas and Houston; 21 offices outside the United States.

1993 gross revenues: \$166 million total.

Officers: William E. Giegerich, president/CEO; Pat Amendola, director-administrative services group; Frank Pirrone, director-personalized communications; William J. Arnone, national director-financial/retirement planning services.

Contact: Carolee Martin, manager-marketing, 201-902-2555.

C

Cascade Technologies Inc.

1430 Broadway, 7th Floor, New York, N.Y. 10018; 212-768-7380; fax: 212-768-7806

Interactive benefit systems since: 1989.

Software products:

■ CAS Voice.

System type/cost: Licensed.

System requirements: IBM compatible PC, 8MB RAM. Operates in OS/2.

Customization optional.

First installation: 1989.

Total installations: 90.

Benefits communicated: Savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts and any other type of information.

Features: Standard system provides plan descriptions, personal information, direct enrollment, modeling/

projections, employee specific recommendations, option selection/adjustment, health claims status, details on investment alternatives, transfers among investment funds, reports via computer diskette. Options include reports via fax and comprehensive telephone assistance via computer call center system.

Accessed through: Telephone.

User support: Onsite training*, telephone assistance eight hours per day*, bulletin board service*.

* Included in system price.

Staff: 20 total, 17 professionals.

Clients: 57 total, including 20 new clients.

1993 gross revenues: \$1.7 million total. \$546,000 from employee interactive benefit communication systems sales and services, including 43% software sales, 14% hardware sales, 17% software services, 26% user support.

Officers: Vigdis Austad, president; Frank Joicy, executive vp/chief technical officer; Michael George, vp-marketing/sales; Elizabeth Seiter, vp-client services; Tim Karpinski, CFO.

CIGNA Retirement & Investment Services

350 Church St., P.O. Box 2975, M128, Hartford, Conn. 06104; 800-997-6633; fax: 203-725-2052

Interactive benefit systems since: 1989.

Parent: CIGNA.

Software products:

■ AnswerLine.

System type/cost: Operated on a service bureau basis for a yearly administrative fee.

Simultaneous access: 120 employees.

System requirements: Touch-tone telephone. Interfaces with DC Facts or DCIS benefit systems.

Customization optional.

First installation: 1989.

Total installations: 1,500.

Benefits communicated: Savings plans, pensions.

Features: Standard system provides personal information, direct enrollment, modeling/projections, option selection/adjustment, details on investment alternatives, transfers among investment funds, loan modeling and loan initiation.

Accessed through: Telephone.

■ CIGNA ProFiles.

System type/cost: Purchased: \$7,500.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 400K-500K RAM, single user or LAN. Operates in DOS or Windows. **Customization optional.**

First installation: 1993.

Total installations: 20.

Benefits communicated: Savings plans, pensions, personal savings, IRAs, vested benefits from prior employers.

Features: Standard system provides personal information, modeling/projections, employee specific recommendations, details on investment alternatives, reports via printer, loan modeling, 401(k) tax impact on pay, comparisons of retirement income goals to projected benefits. Options available to add benefit plan descriptions.

Accessed through: Kiosk, employees' PC, benefit department kiosk.

User support: AnswerLine: telephone assistance 14 hours per day*; CIGNA ProFiles: onsite training*, annual updates*.

* Included in system price.

Staff: Nine total, all professionals.

Clients: 1,220 total, including 20 new clients.

Branch offices: 24 offices nationwide.

Officers: Byron Oliver, president; David Gerges, CFO; Douglas Klinger, senior vp-marketing; Marjorie DeWeese, senior vp-systems; Thomas Quinlan, senior vp-customer service; Joseph O'Rourke, senior vp-defined benefit services. **Contact:** Douglas Klinger.

D

Digital Horizons Inc.

4 Seagate, 5th Floor, Toledo, Ohio 43604; 800-733-8228; fax: 419-249-7221

Interactive benefit systems since: 1989.

Parent: Schmidt, Long & Associates.

Software products:

■ Auto Enroll.

System type/cost: Operated on a service bureau basis for \$12,000-\$88,000 per year.

Simultaneous access: 48 employees.

Customized system.

First installation: 1990.

Total installations: 15.

Benefits communicated: Options available for savings plans, health, pensions, flexible benefits, flexible spending accounts and forms request.

Features: Options available for plan descriptions; personal information; direct enrollment; modeling/projections. *Continued on next page*



If you're a benefit manager, truer words have never been spoken, but it doesn't have to be that way anymore. Thanks to Digital Horizons' Voice Response Enrollment System.

Our voice response system will easily guide your employees through an error free enrollment process.

We can also help you update your employee data base. If you want to ease the stress of enrollment time, call us at 1-800-733-8228 for more information.

Enrollment time doesn't have to be so taxing!



DIGITAL HORIZONS INC.
1-800-733-8228

Benefit communication systems directory terms explained

The directory of employee benefit communication systems lists companies that produce and supply proprietary interactive computer-based systems to organizations for direct use by employees in response to their benefit communication needs. Companies that deal in general utility software, hardware only or software designed to be used by personnel departments, insurance companies or consultants are not included.

Listings begin with the company address, the year it began offering interactive benefit systems and parent company, if applicable.

Information on **software products** follows. **System type/price** notes if the system is purchased, leased or operated on a service bureau basis. Also noted is whether system hardware or employee access hardware is included in the price. Following is the **maximum number of employees** who can simultaneously access the system.

System descriptions include the type of **computer and operating system** needed along with whether the communication system must be used in conjunction with a specific employee benefit information software product. **Year of first installation** and the **total installations** are given next. Features includes the **benefits and information provided** to employees through the system.

The next section lists whether the system is accessed through telephone, kiosks, PCs/terminals used in the work routine or some other method. **User support** available with the communication system follows.

Staff figures at year-end 1993, given in full-time equivalents, include the total staff assigned to interactive employee benefit communication systems and how many are professional/technical. **Clients** section lists the total number of interactive employee benefit communication systems installed, the number of new clients in 1993 and the number of clients who expanded existing systems in 1993.

Locations of **branch offices** and 1993 gross revenues are next. Names and titles of **principal officers** and a **contact person** complete the listings.

The directory is published as an editorial service; there is no charge for companies to be included. However, to be listed, companies are required to complete a questionnaire provided by *Business Insurance*.

Although every effort is made to publish complete and accurate information, *Business Insurance* is unable to verify all data supplied by vendors.

Continued from previous page
 tions; employee specific recommendations; option selection/adjustment; transfers among investment funds; and reports via computer diskette, electronic mail, fax and mail.
Accessed through: Telephone.

User support: Onsite training*, telephone assistance eight hours per day*.
 * Included in system price.

Staff: Seven total, four professionals.
Clients: Nine total, including six new clients and one who added additional features to their interactive benefit communication system in 1993.

1993 gross revenues: \$670,000 total. \$610,000 from employee interactive benefit communication systems sales and services, including 90% software sales, 5% software services, 5% user support.
Officers: Tedd Long, president; Tim Schmidt, vp-marketing; Greg Hussey, vp-operations.

Contact: Tedd Long.

E

Employee Benefit Specialists Inc.

450 Sansome St., Suite 555,
 San Francisco, Calif. 94111-3313;
 415-788-7683 or 800-229-7683;
 fax: 415-788-7846

Interactive benefit systems since: 1993.

Software products:

■ FlexLine.

System type/cost: Operated on a service bureau basis.

System requirements: Touch tone phone system.

Customization optional.

First installation: 1993.

Benefits communicated: Options available for savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts, dental, life, disability and vision.

Features: Options available for plan descriptions, personal information, direct enrollment, modeling/projections, employee specific recommendations, option selection/adjustment, details on investment alternatives and reports via fax and mail.

Accessed through: Telephone.

User support: User groups/meetings*, telephone assistance nine hours per day*, written communication information*, custom designed communications*.
 * Included in system price.

Staff: Three total, all professionals.

Officers: Joan L. Rhodes, Chimane M. Rhodes, Elizabeth C. Juen.

Contact: Joan L. Rhodes.

Ernst & Young Actuarial, Benefits & Compensation Consulting Services

277 Park Ave., New York, N.Y. 10172;
 212-773-3000; fax: 212-773-5986

Parent: Ernst & Young.

Software products:

■ E&Y VoicePro.

System type/cost: Leased or operated on a service bureau basis.

Simultaneous access: 96 employees.

System requirements: IBM compatible PC, 8MB RAM, single user or LAN. Operates in OS/2.

Customization optional.

First installation: 1991.

Total installations: 30.

Benefits communicated: Options available for savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts and employee surveys.

Features: Options available for plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; health claims status; details on investment alternatives; transfers among investment funds; and reports via computer diskette, printer, fax and mail.

Accessed through: Telephone, voice recognition.

User support: Onsite training, telephone assistance 10 hours per day.

Staff: Eight total, five professionals.

Clients: 30 total, including 15 new clients and five who added additional features to their interactive benefit communication system in 1993.

Branch offices: 100 offices throughout the United States.

1993 gross revenues: \$45 million total.

Officers: Albert J. Kleinberg Jr., ABC

national director; C. William Burke, national director-administrative consulting services.

Contact: C. William Burke, 212-773-3455.

G

Godwins Boone & Dickenson

P.O. Box 66, Winston-Salem,
 N.C. 27102; 910-748-1120;
 fax: 910-725-7285

Parent: Aon Corp.

Software products:

■ Benefits-On-Call.

System type/cost: Leased, price varies on usage.

Simultaneous access: Unlimited.

System requirements: Interfaces with Godwins Boone & Dickenson's benefits systems.

Customization optional.

First installation: 1989.

Total installations: 75.

Benefits communicated: Savings plans, flexible benefits, flexible spending accounts. Options available for pension benefits and retirement planning.

Features: Standard system provides plan descriptions, personal information, direct enrollment, option selection/adjustment, details on investment alternatives, reports via mail. Options available to add modeling/projections, employee specific recommendations and transfers among investment funds.

Accessed through: Telephone.

User support: User groups/meetings, onsite training, telephone assistance eight to ten hours per day.

Clients: 38 total, including 21 new clients and 10 who added additional features to their interactive benefit communication system in 1993.

Branch offices: Chicago; Conshohocken, Pa.

Officers: Donald C. Ingram, chairman; Walter L. Ogle, senior vp; Roger L. Vaughn, Paul G. Chicos, Robert W. Ryan, executive vps.

Contact: Joseph L. Lineberry Jr., senior vp.

H

Hewitt Associates L.L.C.

100 Half Day Road, Lincolnshire,
 Ill. 60069; 708-295-5000;
 fax: 708-295-7634

Interactive benefit systems since: 1987.

Software products:

■ FutureSaver.

System type/cost: Purchased: \$25,000.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 4MB RAM (8MB RAM recommended), single user or LAN. Operates in Windows.

Customized system.

First installation: 1994 (original DOS version: 1990).

Total installations: Four (Windows version).

Benefits communicated: Savings plans. Options available for pensions.

Features: Standard system provides modeling/projections; details on investment alternatives; transfers among investment funds; reports via printer; retirement planning, including Social Security, personal savings, college expenses and investment education. Options available to add plan descriptions, personal information, direct enrollment and option selection/adjustment.

Accessed through: Kiosk, employees' PC, benefit department kiosk, home PC.

User support: User groups/meetings, onsite training, telephone assistance eight hours per day, consulting.

Staff: 17 total.

Clients: 40 total, including 15 who added additional features to their interactive benefit communication system in 1993.

Branch offices: 30 offices nationwide.

1993 gross revenues: \$350 million total.

Officers: Dale Gifford, CEO; Richard Hutson, director-business development;

Jim Nelson, director-account manage-

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Spotlight report

Continued from previous page
ment; Al Schlachtmeyer, national practice leader-communication; Mike Trahan, national practice leader-interactive communication.
Contact: Barbara Rueth.

Human Resource MicroSystems

160 Sansome St., Suite 1450, San Francisco, Calif. 94104; 415-362-8400 or 800-972-8470; fax: 415-362-8595

Interactive benefit systems since: 1993.
Software products:

■ HRIS-Pro.
System requirements: IBM compatible PC, 8MB RAM, single user or LAN; Macintosh PC. Operates in DOS, Windows, UNIX or Macintosh. Interfaces with HRIS-Pro benefit system.

Customization optional.

First installation: 1993.

Total Installations: 150.

Benefits communicated: Health, flexible benefits, flexible spending accounts. Options available for savings plans, pensions, workers comp, time off and dependents' benefits.

Features: Standard system provides personal information; reports via computer diskette, electronic mail and printer. Options available to add plan descriptions, direct enrollment, modeling/projections, employee-specific recommendations, option selection/adjustment and details on investment alternatives.

Accessed through: Kiosk, employees' PC, benefit department kiosk.

User support: User groups/meetings*, onsite training, telephone assistance 10 hours per day, maintenance agreements.

* Included in system price.

Staff: 20 total, all professionals.

Clients: 75 new clients.

1993 gross revenues: Employee interactive benefit communication systems revenues: 75% software sales, 25% software services.

Officers: Don Helt, president; Elias Olson, director-sales/marketing; Priscilla Eshelman, marketing manager; Arlene Roberg, vp-product development.

Contact: Priscilla Eshelman.

M

William M. Mercer Inc.

1166 Ave. of the Americas, New York, N.Y. 10036; 212-345-7584; fax: 212-345-7423

Interactive benefit systems since: 1984.

Parent: Marsh & McLennan Cos. Inc.

Software products:

■ Microcomputer customized products.

System type/cost: Licensing and development fees: \$25,000-\$250,000.

System requirements: IBM compatible PC, single user or LAN; Macintosh. Operates in DOS, Windows or Macintosh. Can develop software to interface with any benefit system.

Customized system.

First installation: 1985.

Total Installations: 150.

Benefits communicated: Systems are customized and can include any benefit.

Features: Systems are customized and can include any feature.

Accessed through: Telephone, kiosk, employees' PC, benefit department kiosk.

User support: Onsite training, telephone assistance 24 hours per day, onsite support.

Staff: 70 total, 36 professionals.

Branch offices: 42 offices nationwide.

Officers: Peter Coster, chairman; Timothy J. Lynch, Vikesh Mahendroo, Edward G. Pringle, executive vps.

Contact: H.L. (Jay) Marchant, principal, 708-317-7605; fax: 708-948-7346.

MERIT Software Concepts Inc.

P.O. Box 771966, Houston, Texas 77215-1966; 713-782-9974; fax: 713-782-3731

Interactive benefit systems since: 1989.

Parent: Decker & Associates Inc.

Software products:

■ Ten Steps To Financial Security.

System type/cost: Purchased: \$15,000.

System requirements: IBM compatible PC, 640K RAM, single user or LAN. Operates in DOS or Windows.

Customization optional.

First installation: 1989.

Benefits communicated: Options available for savings plans, health, pensions, flexible benefits and flexible spending accounts.

Features: Standard system provides modeling/projections, reports via computer diskette and printer. Options available to add plan descriptions, personal information, option selection/adjustment and details on investment alternatives.

Accessed through: Employees' PC, home PC.

■ FUTURE FOCUS.

System type/cost: Purchased: \$12,000.

System requirements: IBM compatible PC, 640K RAM, single user or LAN. Operates in DOS or Windows.

Customization optional.

First installation: 1993.

Benefits communicated: Savings plans, pensions. Options available for health, workers comp benefits, flexible benefits and flexible spending accounts.

Features: Standard system provides modeling/projections, reports via

computer diskette and printer. Options available to add plan descriptions, personal information, direct enrollment and details on investment alternatives.

Accessed through: Employees' PC.

User support: User groups/meetings, onsite training, telephone assistance eight hours per day*.

* Included in system price.

Staff: Five total, all professionals.

Clients: 10 total.

Officers: Kenneth L. Decker, president; Lorraine R. Decker, vp.

Contact: Kenneth L. Decker.

N

New York Life Benefit Services Co.

1 University Office Park, P.O. Box 8992, Waltham, Mass. 02254; 617-899-9111; fax: 617-899-4303

Interactive benefit systems since: 1991.

Continued on next page

J

Howard Johnson & Co.

375 Park Ave., New York, N.Y. 10152; 212-758-5900; fax: 212-758-3625

Interactive benefit systems since: 1983.
Software products:

■ Benquiry.

System type/cost: Operated on a service bureau basis.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 360K RAM. Online system. Operates in DOS or Windows. Interfaces with MultiPlan benefit system.

Customization optional.

First installation: 1983.

Total Installations: 65.

Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts.

Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, electronic mail, printer, fax and mail; loan requests and processing; withdrawals.

Accessed through: Telephone, kiosk, employees' PC, benefit department kiosk.

User support: User groups/meetings*, onsite training*, telephone assistance 24 hours per day*.

* Included in system price.

Staff: 18 total, 14 professionals.

Clients: 65 total, including 32 new clients and 12 who added additional features to their interactive benefit communication system in 1993.

Branch offices: Los Angeles and San Francisco; Washington; Chicago; Portland, Ore.; Seattle and Spokane, Wash.; London.

Officers: Howard J. Johnson, chairman; Nancy B. Greer, CFO/executive vp; Charles R. Southall, executive vp; John R. Claus, executive vp/director-client information services; Brendan O'Farrell, executive vp-London.

Contact: Nancy M. Rizzuto.



Reliance Re underwrites through Reliance Insurance Company

Continued from previous page

Parent: New York Life Asset Management.

Software products:

■ **Plan Access.**

System type/cost: Operated on a service bureau basis.

Simultaneous access: 36 employees.

System requirements: Telephone to access system.

Customization optional.

First installation: 1991.

Total installations: 50.

Benefits communicated: Savings plans, pensions. Options available for health and flexible benefits.

Features: Standard system provides personal information, direct enrollment, modeling/projections, option selection/adjustment, details on investment alternatives, transfers among investment funds, reports via mail. Options available to add plan descriptions.

Accessed through: Telephone.

User support: Telephone assistance eight hours per day*.

* Included in system price.

Staff: Three total, all professionals.

Clients: 25 total, all new clients.

Officers: Joel M. Disend, president; David N. Vangel, Chris M. Blair, senior vps.

Contact: Chris M. Blair.

P

Parsons, McKee, Sommers & Co.

2001 Crocker Road, Suite 300,
Westlake, Ohio 44145; 216-871-8611;
fax: 216-871-7485

Software products:

■ **InQuery.**

System type/cost: Leased.

System requirements: IBM compatible PC, 4MB RAM, single user or LAN. Operates in DOS or Windows.

Customization optional.

First installation: 1990.

Total installations: 10.

Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts.

Features: Standard system provides plan descriptions/policy manual; personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; details on investment alternatives; reports via computer diskette, printer, fax and mail; managed care directory; health risk appraisal; and asset allocation. Options available to add employee specific recommendations.

Accessed through: Telephone, kiosk, employee PCs, benefit department kiosk.

User support: User groups/meetings*, onsite training*, telephone assistance eight hours per day*.

* Included in system price.

Staff: 10 total, seven professionals.

Clients: 10 total, including four new clients and two who added additional features to their interactive benefit communication system in 1993.

Branch offices: Charlotte, N.C.

1993 gross revenues: \$1.5 million total.

Officers: John R. Parsons, chairman; Mark S. Sommers, president; Richard S. Wargo, managing actuary.

Contact: John R. Parsons or Mark S. Sommers.

Persistence of Vision Inc.

53 W. Jackson, Suite 841, Chicago,
Ill. 60604; 312-922-1150;
fax: 312-939-7212

Interactive benefit systems since: 1991.

Software products:

■ **Personal Smart Money Machine.**

System type/cost: Purchased: \$500 plus \$5 per employee diskette.

System requirements: IBM compatible PC, 500K RAM. Operates in DOS or Windows.

Customized system.

First installation: New product.

Benefits communicated: Savings plans.

Features: Standard system provides modeling/projections, employee specific recommendations, details on investment alternatives, transfers among investment funds, reports via printer.

Accessed through: Kiosk, employee PCs, home PC.

User support: Videotape.

Staff: Three total, two professionals.

Officers: Stephen Silverman, president.

S

Sequoia Retirement Services

See page 17

The Segal Co.

1 Park Ave., New York, N.Y.
10016-5895; 212-251-5000;
fax: 212-251-5490

Interactive benefit systems since: 1991.

Software products:

■ **SegalVoice.**

System type/cost: Purchased or operated on a service bureau basis.

System requirements: IBM compatible PC, 4MB-16MB RAM (depending on size of plan), single user or LAN. Operates in OS/2.

Customized system.

First installation: 1991.

Total installations: 24.

Benefits communicated: Options available for savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts and vacations.

Features: Options available for plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; and reports via computer diskette, printer, fax and mail.

Accessed through: Telephone.

User support: User groups/meetings*, onsite training*, telephone assistance 10 hours per day*.

* Included in system price.

Staff: Seven total, six professionals.

Clients: 22 total.

Officers: Robert D. Krinsky, chairman; Dale B. Grant, vice chairman; Howard Fluhr, president/CEO; Richard M. Frenzel, executive vp.

Contact: Carole Henson, 212-251-5482.

T

Towers Perrin

245 Park Ave., New York, N.Y.
10167; 212-309-3400

Interactive benefit systems since: 1983.

Software products:

■ **FlexPlanner.**

System type/cost: Purchased.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 55K RAM (without graphics) or 475K RAM (with graphics), single user or LAN. Operates in DOS.

Customized system.

First installation: 1983.

Benefits communicated: Health, flexible benefits, flexible spending accounts.

Features: Standard system provides plan descriptions, modeling/projections, reports via printer. Options available to add direct enrollment and option selection/adjustment.

Accessed through: Kiosk, employee PCs, benefit department kiosk.

■ **Outlook.**

System type/cost: Purchased.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 500K RAM, single user or LAN. Operates in DOS.

Customized system.

First installation: 1991.

Total installations: 30.

Benefits communicated: Savings plans, pensions.

Features: Standard system provides plan descriptions, modeling/projections, details on investment alternatives, reports via printer.

Accessed through: Employee PCs.

■ **SavingsPlanner.**

System type/cost: Purchased.

Simultaneous access: Unlimited.

System requirements: IBM compatible PC, 475K RAM, single user or LAN. Operates in DOS.

Customized system.

First installation: 1993.

Total installations: Two.

Benefits communicated: Savings plans.

Features: Standard system provides modeling/projections, details on investment alternatives, reports via printer. Options available to add plan descriptions.

Continued on next page



Today, many insurers find themselves adrift in a rising tide of regulatory requirements — most recently, Risk-Based Capital. The new guidelines are far-reaching. And very complex. At Reliance Re, we've already developed detailed computer models to help companies analyze their RBC position and evaluate their many options — including the smarter use of reinsurance. To make sure you're on solid ground, meet with us. Call your broker today.

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Continued from previous page

Accessed through: Kiosk, employees' PC, benefit department kiosk.

■ Telephone Access/Interactive Voice Response.

System type/cost: Operated on a service bureau basis.

Simultaneous access: Various levels available.

Customized system.

First installation: 1986.

Total installations: 122.

Benefits communicated: Options available for savings plans, health, pensions, workers comp benefits, flexible benefits and flexible spending accounts.

Features: Standard system provides plan descriptions, personal information, direct enrollment, modeling/projections, option selection/adjustment, details on investment alternatives, transfers among investment funds, reports via mail. Options available to add access to health claims status.

Accessed through: Telephone.

User support: User groups/meetings, onsite training, telephone assistance eight hours per day*.

* Included in Telephone Access/Interactive Voice Response system price.

Staff: 130 total, 115 professionals.

Clients: 200 total, including 38 new clients and 10 who added additional features to their interactive benefit communication system in 1993.

Branch offices: Los Angeles; Atlanta; Boston; Philadelphia.

1993 gross revenues: \$709 million total.

Officers: John Lynch, CEO.

Contact: Kathleen Lynn, 215-246-4160.

Wyatt Software Services Inc.

5335 S.W. Meadows Road, Suite 200,
 Lake Oswego, Ore. 97035;
 800-776-1046

Interactive benefit systems since: 1988.

Parent: The Wyatt Co.

Software products:

■ Pulse-Taker.

System type/cost: Purchased: \$13,000; operated on a service bureau basis for \$6,000 per year.

Simultaneous access: 500 employees.

System requirements: IBM compatible PC, 512K RAM, single user or LAN. Operates in Windows.

Customization optional.

First installation: 1991.

Total installations: 100.

Features: Conducts any employee survey, including benefit surveys; reports via computer, diskette, electronic mail, printer, fax and mail; analyzes survey data; communicates results and trends to employees during and after completion of surveys.

Accessed through: Telephone.

■ VISION.

System type/cost: Purchased: \$30,000.

System requirements: IBM compatible PC, 512K RAM. Operates in DOS.

Customized system.

First installation: 1990.

Total installations: Three.

Benefits communicated: Savings plans, pensions, social security. Options available for health, workers comp benefits, flexible benefits and flexible spending accounts.

Features: Standard system provides plan descriptions, modeling/projections, employee specific recommendations, details on investment alternatives, reports via computer diskette and printer.

Accessed through: Kiosk, employees' PC, benefit department kiosk.

■ Voice-Response Systems.

System type/cost: Purchased or operated on a service bureau basis.

System requirements: IBM compatible PC, 512K RAM, single user or LAN. Operates in DOS or Windows. Interfaces with Wyatt record keeping and administrative software.

Customized system.

First installation: 1988.

Total installations: 150.

Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts, stock purchases, job postings.

Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, electronic mail, printer, fax, mail.

Accessed through: Telephone.

■ Benefit*Connection with Multimedia Interface.

System type/cost: Purchased.

System requirements: IBM compatible PC, 512K RAM, single user or LAN; or mainframe. Operates in DOS or Windows. Interfaces with Wyatt health, pension and record keeping software systems.

Customized system.

First installation: 1988.

Total installations: Four.

Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts. Options available for workers comp benefits.

Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, electronic mail, printer, fax and mail. Options available to add access to health claims status.

Accessed through: Kiosk, employees' PC, benefit department kiosk, multimedia sound and motion interface.

User support: Onsite training*; telephone assistance eight hours per day* (Pulse-Taker, VISION, Benefit*Connection); telephone assistance 24 hours per day* (Voice-Response System).

* Included in system price.

Staff: 65 total, 40 professionals.

Clients: 180 total, including 45 new clients and 50 who added additional features to their interactive benefit communication system in 1993.

Branch offices: San Francisco; Washington.

Officers: A.W. (Pete) Smith Jr., president/CEO-The Wyatt Co.; Paul R. Daoust, executive vp/COO-The Wyatt Co.; Alvin S. Begun, president-Wyatt Software Services Inc.

Contact: Karen Brock, 503-598-4457.



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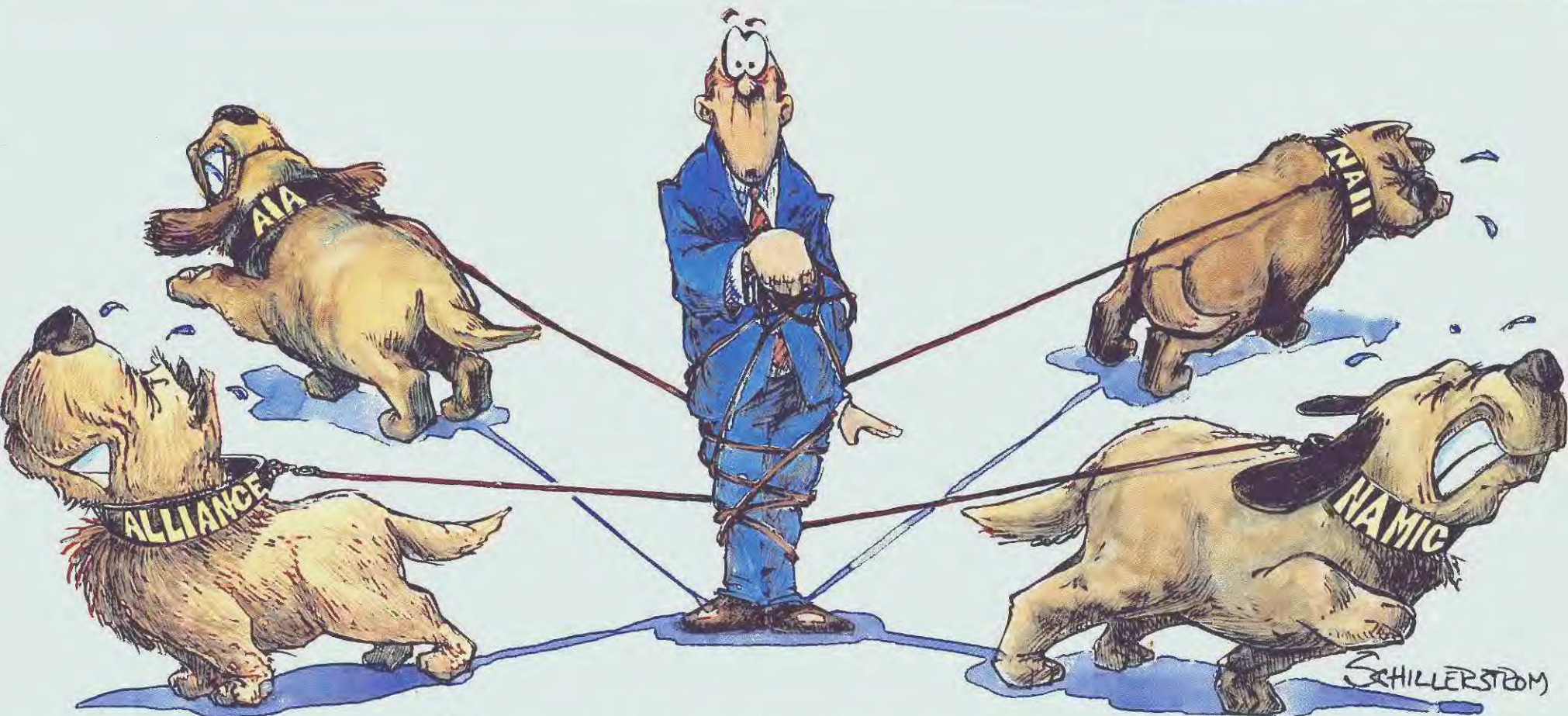
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Insurer Topics

A special editorial section
sent exclusively
to insurers and reinsurers



By GAVIN SOUTER

Unity and agreement on all legislative issues might be achievable in insurer Utopia, but it is virtually impossible in the real world of Washington.

Despite the benefits of the insurance industry standing together on various legislative issues, differences in objectives are inevitable, insurer executives say.

Public disagreement among the insurer trade associations on issues like Superfund reauthorization and reform of the McCarran-Ferguson Act increasingly highlight the difficulty of presenting a united front.

Several of the largest insurance companies eschew the trade groups entirely and lobby on their own behalf. Most companies, though, say the benefits of belonging to a trade group still outweigh the disadvantages.

The recent public scrapes over policy issues have harmed the position of the insurance industry, said F. David Rolwing, president of Montgomery Mutual Insurance Co. in Sandy Spring, Md., which is a member of the Schaumburg, Ill.-based Alliance of American Insurers.

"A house divided can't stand and obviously the insurance industry would be better off if we had a consensus on these issues," he said.

Insurers' opponents might be able to create further division among the trade associations and companies by emphasizing the existing differences, Mr. Rolwing said.

The most vocal disagreements among the trade groups have centered on Superfund reform proposals and bills that would remove some of the antitrust protections insurers enjoy under McCarran-Ferguson.

Two leading members of the American Insurance Assn.—New York-based Continental Corp. and Warren,

Insurers search for common ground

Competitors find it hard to present a united stance

N.J.-based Chubb Corp.—have taken opposing views on how to reform Superfund.

John Mascotte, chairman of the Washington-based AIA and Continental, favors a purely prospective tax to establish an Environmental Insurance Resolution Fund to settle pollution coverage lawsuits that are delaying cleanup of Superfund sites.

On the other hand, Richard D. Smith, who is chairman of the AIA's Superfund Committee and president of Chubb, wants a retroactive tax to fund 70% of the EIRF and a prospective tax to fund 30% (BI, Aug. 1).

The Des Plaines, Ill.-based National Assn. of Independent Insurers—which opposes the EIRF concept—has taken a different position from that of the AIA. Instead of using prospective and retrospective taxes, the NAII proposes that a special commercial insurance tax and a claims settlement tax be used to fund cleanups.

On McCarran-Ferguson reform, the AIA favors H.R. 9, a bill sponsored by House Judiciary Committee Chairman Jack Brooks, D-Texas, that would remove many federal antitrust law exemptions insurers now enjoy without entirely repealing McCarran-Ferguson. The NAII, the Alliance of American Insurers and the National Assn. of Mutual Insurance Cos. all oppose H.R. 9, whose language was inserted earlier this month into the House's health care reform legislation (BI, Aug. 8; July 25).

Mr. Rolwing said the split among insurers makes it more difficult to secure insurer-friendly legislation.

"The fragmentation makes it much more difficult for insurers as a whole to get their view across," he said.

However, the differences of opinion are a fact of life in such a diverse industry, Mr. Rolwing added.

"It's a multifaceted industry and that can make it difficult to come to a consensus on some issues," he said.

Unity on major issues among all insurers is an unlikely ideal, agreed Charles Johanns, senior vp at Long Grove, Ill.-based Kemper National Insurance Cos., which is an AIA member. While more frequent agreement on legislative issues would give the insurance industry a stronger voice, insurers are too diverse for this to be a realistic goal, Mr. Johanns said.

"The insurance industry is an industry that is full of divisive issues where there may well be disagreements, but that is in the nature of things," he said.

The disagreement among trade associations is a reflection of the different memberships, said Dennis Hoffmann, president of John Deere Insurance Co. in Moline, Ill., which is a member of the NAII. "The NAII is made up of companies that are smaller than those in the AIA and a trade association reflects the views of its constituents," he said.

Differences in positions at the trade associations have led to some defec-

tions. For example, in 1992 Kemper transferred to the AIA from the Alliance. "We have great respect for the people at the Alliance, but we felt somewhat more comfortable with the policy positions of the AIA," said Mr. Johanns, who declined to elaborate.

And, in 1970, Bloomington, Ill.-based State Farm Insurance Cos. left the NAII because the insurer favored more open competition than most other members in the trade group, said David Hill, associate general counsel at State Farm.

State Farm remains a member of the Indianapolis-based National Assn. of Mutual Insurance Cos.

The membership of large companies like State Farm in NAMIC is beneficial to other smaller members, said L. Gerald Roach, president of Mutual Assurance Society of Virginia in Richmond, which is a NAMIC member.

"We get to sit at the same table with these large insurers which we probably wouldn't be able to do in some of the other associations," he said. And, the mutual status of all of the members helps them usually to come to a consensus on most issues, Mr. Roach said.

Not all insurers see the value of joining trade associations, though.

For example, New York-based American International Group Inc. remains independent of any affiliation and has put forward its own proposals for reforming Superfund.

CNA Insurance Cos. in Chicago

also remains outside any of the major property/casualty trade associations.

The cost of joining trade associations outweighs their benefits, according to Himanshu Patel, vp of marketing support at CNA. "We believe that we are effective without joining an association," he said.

CNA on occasion will work in conjunction with trade associations but generally it will work on its own to influence legislation, he said.

"We believe that legislators listen to their own constituency, so we feel that our employees, customers and agents can have a much bigger influence," Mr. Patel said.

CNA develops positions on legislative issues and distributes the information to its customers and agents and encourages them to contact their state and federal legislative representatives if they agree with the company's viewpoint, he said.

In Arizona CNA distributed information arguing against rate rollbacks when they were proposed by some state legislators, Mr. Patel said.

Like CNA, State Farm remains independent of the large property/casualty trade associations because it believes it generally can lobby more effectively on its own, said Mr. Hill.

"We have become used to speaking for ourselves," he said. For example, the company opposes Rep. Brooks' McCarran-Ferguson reform bill and has approached federal legislators directly to discuss the subject.

State Farm retains the services of a Washington law firm as well as maintaining its own staff to meet with members of Congress, Mr. Hill said.

The differences of opinion apparent among the trade associations also discourages State Farm from joining any others, he said.

"Any trade association will tell you that it is sometimes difficult and time-consuming to come to a consensus on an issue. It is much easier to come to a position if you are just one company," Mr. Hill said. **BI**

Surviving the SEC 'endurance contest'

Reinsurer offers registration statement tips

By JUDY GREENWALD

Make sure registration statements are clearly written and follow Securities Exchange Commission disclosure rules, advises an in-house lawyer for American Re-Insurance Co.

Even then, "no matter how good your first filing is, you can expect numerous comments from the SEC" that could take additional months to conclude, says George Judd, American Re's assistant general counsel.

Mr. Judd, who helped American Re in filing for both a subordinated debt offering and an initial public offering, also said that it is always best to respond to SEC comments in the most comprehensive way possible.

"From experience, I can tell you that the SEC does not back down very often. Don't use up your ammunition in arguing over small points," advised Mr. Judd recently at an insurance capital conference sponsored by *Business Insurance* and Business Development Associates Inc.

Filing a registration statement can be time-consuming. The chief financial officer, the general counsel, the chief actuary—and their staffs—will all have to devote a significant amount of time to the effort. All told, the entire process may take

three or four months, said Mr. Judd, and "can be compared to an endurance contest."

To tell a "compelling story," investment bankers recommend that the business description portion of the prospectus be organized to put the company's "best foot forward," Mr. Judd said.

"Now we all know that the SEC is particularly interested in the weaknesses, but as long as you are complying with SEC disclosure requirements, there is no need to emphasize them by placing them at the front of the business description."

Mr. Judd also discussed several insurance issues that are "hot buttons" for the SEC:

- Public announcements during the registration process.

By law, said Mr. Judd, marketing securities must be done through the prospectus and, in particular, earnings or revenue projections should be avoided "unless you are willing to put them in the registration statement and thereby create potential legal liability for your company should these projections fall short."

- Reserves for losses and loss adjustment expenses.

"Every registrant can expect to be quizzed on the adequacy of reserves," he said. "The SEC wants to know who certifies the reserves and whether management thinks that

they are adequate.

"The SEC may ask for an explanation of historical deficiencies in reserves and what impact planned reserve strengthening may have on future earnings. Also of particular interest to the SEC are reserves for asbestos and pollution losses."

Reserve guarantees, or stop-loss covers, are also subject to "intense scrutiny" from the SEC as well as from public accountants and local regulators, Mr. Judd said.

"That is not to say that they cannot be done. American Re Corp. successfully structured and described in its prospectus \$800 million worth of adverse loss covers in connection with its purchase of American Re-Insurance from Aetna."

- Reinsurance recoverables.

"The SEC is interested in material concentrations of reinsurance recoverables," said Mr. Judd. A reinsurer may want to review the ratings of its retrocessionaires by A.M. Best Co. in connection with a public offering, he said. Like American Re, the company may also be required to file material retrocessional contracts as public exhibits to the registration statement even if they are not stop-loss covers.

- Investments.

"The SEC requires extensive disclosures about the management, quality and diversification of your portfolio," said Mr. Judd. Companies will be required to break down portfolios by type, maturity and rating, and may

be asked about investment philosophy. They may also be asked to summarize the investment regulations in their domicile.

- Insurance Regulatory Information System tests.

"The SEC is aware of the IRIS tests and has required disclosure of registrants' results," he said. "I suspect that disclosure of risk-based capital tests will also be required."

- The SEC is "very particular" about the required management's discussion and analysis section of the registration statement, which discusses the prior three years' financial results, liquidity and capital resources, Mr. Judd said.

The SEC's requirements differ from those adopted by the National Assn. of Insurance Commissioners for statutory reporting, he noted.

To conform with SEC rules, companies must address material changes in each line of the income statement and balance sheet, he said. But, he added, "These explanations don't come easy in many cases because the line items reflect a complex interaction of factors. You must, however, address them. This is when the assistance of experienced lawyers and accountants becomes invaluable."

Mr. Judd warned that the management discussion in the registration filing is a "continuing obligation and doesn't stop once the company has gone public." It is also included, for

instance, in the annual 10-K and the quarterly 10-Q's.

This means, though, that if you do a good job on it in the prospectus, "it becomes a framework for easier compliance with ongoing disclosure requirements in the future."

- Information on officers and directors and selling shareholders.

Noting that there are now new rules in this area, Mr. Judd said that if public offering price is greater than the purchase price paid previously by the existing shareholders, "you can expect questions regarding the nature of the transaction and the dilution to the IPO purchasers."

He also discussed whether securities regulators "really understand" insurance industry issues. Each registration statement is reviewed by a team of experts, he noted. "I would say that I was quite impressed with the SEC's comments and questions," said Mr. Judd. "Because of its position, the SEC is able to focus on broad issues affecting the insurance industry and can compare the disclosures made by one registrant with another."

"This is the catbird's seat and gives the SEC the ability to determine whether a registrant is being forthright in its disclosures." Furthermore, the spate of insurance company registrations over the last several years has given the SEC "the chance to refine its understanding of current industry issues," said Mr. Judd.

Regarding the legal and practical obstacles involved in taking an insurance company public, he said, "Legal obstacles involve time and expense. They rarely are deal killers."

While registrants are not legally required to guarantee an offering's success, they are required to disclose material information that could influence the decision to buy the security. Presenting this information coherently is the primary legal obstacle faced by insurers seeking to raise capital in the public markets.

Other legal obstacles are often the product of an insurer's environment. For instance, mutual companies must first demutualize before embarking on an IPO.

Practical obstacles include "the vagaries of market conditions" during the registration period, the cost of a public offering compared with other funding mechanisms and "the time and effort required to access the market," Mr. Judd said.

Using financial reinsurance as a tool for cash management

By JUDY GREENWALD

There is "no question" that properly structured reinsurance can be a capital enhancement tool for insurers, a reinsurance company executive says.

Financial reinsurance has been used in numerous recent acquisitions, including those of Home Insurance Co., National Reinsurance Co. and American Re-Insurance Co., according to Michael Palm, president of Centre Reinsurance (Bermuda) Ltd.

An important part of Centre Re's business, said Mr. Palm, is to write business where reinsurance and the capital markets meet.

Most acquisitions, he noted, have a significant debt component. If there is cash flow, that money can be easy to raise, and financial reinsurance "is an extremely effective cash management tool when looked at from the insurance holding com-

pany level," he said.

Mr. Palm spoke at a recent conference in New York on insurance company capital that was sponsored by *Business Insurance* and Business Development Associates Inc.

Of two recent Financial Accounting Standards that affect financial reinsurance—113 and 115—Mr. Palm said he is less concerned with FAS 113.

FAS 113 says a contract will be considered reinsurance only if it transfers "significant insurance risk" to the reinsurer and if it is "reasonably possible" the reinsurer will suffer "a significant loss" under the contract (*BI*, Jan. 11, 1993).

FAS 115 requires property/casualty and life/health insurers to report most of their fixed-income securities at market value (*BI*, April 11). It does not change how they account for their liabilities.

FAS 115 "makes no sense at all," he said.

Mr. Palm also discussed the criteria

for properly structured financial reinsurance. It must include risk transfer as defined in FAS 113, which "actually sets up a not very good definition of risk transfer from a theoretical point of view."

It does, however, set up a system that is more understandable than previous regulations, said Mr. Palm, noting that for years the American Institute of Certified Public Accountants has struggled to define risk, setting up specific categories like credit risk, among others.

"Your shareholders don't care about that," Mr. Palm said.

In addition to risk transfer, properly structured financial reinsurance should also be multiyear and prospective, said Mr. Palm.

Under current Financial Accounting Standards Board regulations, prospective contracts are a "fact of life," while retrospective contracts are now "virtually impossible to do." Mr. Palm said he is sorry to see the latter, "but I can't argue against the logic of

it."

Financial reinsurance should also be comprehensive, said Mr. Palm. If companies are going to write it, they "must be prepared to write comprehensive coverage."

"The bottom line is to enhance cash flow" and to do that, the contract must be comprehensive, he said.

Mr. Palm suggested insurers look for a financial reinsurer that will reinvest part of the reinsurance premium proceeds in the company. This allows a prospective new owner to use the insurer's own cash to finance the acquisition, said Mr. Palm.

Risk-based capital rules alter the art of the deal

By JUDY GREENWALD

Risk-based capital rules have added some discipline to insurers' balance sheets, but those rules will continue to change "and you've got to stay one step ahead of it," says an insurance consultant.

For the first time, chief financial officers and others involved in mergers and acquisitions are "at least thinking about (risk-based capital)," said John T. Baily, a partner and national director of Coopers & Lybrand's insurance practice in Hartford, Conn.

No longer is the assumption made that a company with a 2-to-1 premium-to-surplus ratio is "on the right track," he said at a recent conference in New York on insurance company capital, which was sponsored by *Business Insurance* and Business Development Associates Inc.

Instead, said Mr. Baily, there is now a "more disciplined focus" on what is the required capital for the

risks being assumed.

Risk-based capital rules set by the National Assn. of Insurance Commissioners essentially require more capital to support assets and liabilities that are considered risky (*BI*, Feb. 14).

Life and health insurers were required to report their risk-based capital levels in their 1993 statutory statements, while property/casualty insurers will report them in their 1994 statements, which are due in March 1995.

Still, said Mr. Baily, "I think risk-based capital right now is experimental."

Only an estimated 3% of insurers would trigger regulatory action under the rules. "But does anybody really believe that only 3% of insurers are undercapitalized?" he asked rhetorically. "I don't think any of us really believe that this has solved solvency problem."

The RBC formula provides useful information, but rating agencies are still needed to get a fuller picture of

Continued on page 16F

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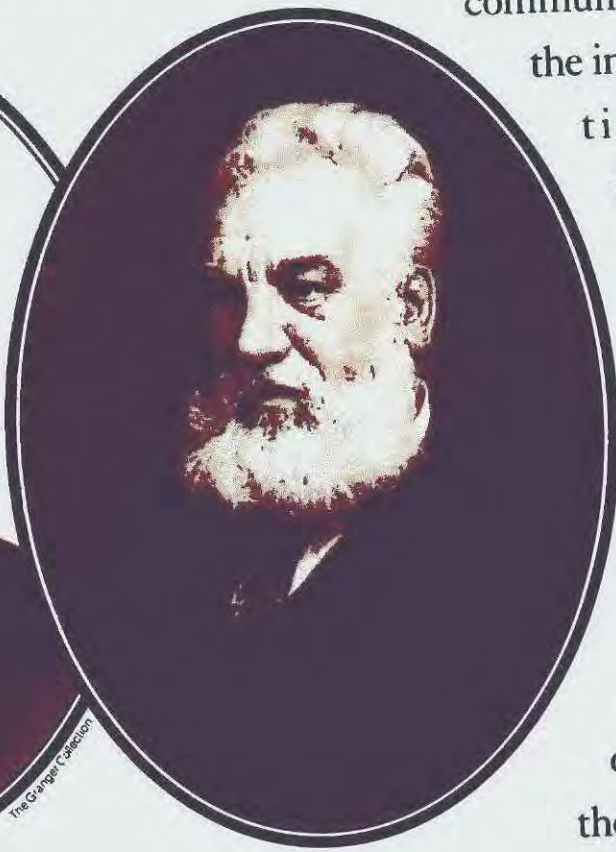
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Insurer Topics

RBC rules

Continued from page 16B
an insurer's operations, according to Mr. Baily. He noted, though, that ratings and the information from the RBC formula do not appear to be directly correlated.

Agreeing with a common complaint—that the RBC guidelines are overly complex and will get worse—Mr. Baily did say that the guidelines must be complex.

Another criticism of them is that

they are unfair to small companies. Most people would agree, said Mr. Baily, that they "may be somewhat harder" on smaller insurance companies than large ones.

He added that his biggest concern is that the guidelines are "subject to tinkering." Already an NAIC task force is reviewing the RBC guidelines for life companies, he noted.

Merger and acquisition activity has picked up within the past six months, in part due to the guidelines, he said. The RBC guidelines, however, are "only one piece of the

equation." It is viewed as another reason companies need capital, but is not the sole motivator "in and of itself."

Meanwhile, the guidelines are not prompting across-the-board price increases, Mr. Baily said. "I haven't seen it have a major impact on the pricing studies."

Companies are assessing and realigning investments, though this is also because of Financial Accounting Standard 115, which requires property/casualty and life/health insurers to report most of their fixed-income securities at market value (BI, April 11).

Mr. Baily added that he believes the industry has only begun to see the "fiddling" with balance sheets that will be done as a result of FAS 115.

Among the RBC-related issues companies must be aware of, said Mr. Baily, is that the Securities Exchange Commission is "still very concerned about this industry." There is more pressure to disclose these numbers, and a number of RBC ratios are beginning to show up on prospectuses, he said.

Regulators may soon be under greater pressure to act against troubled companies, though not because of the RBC guidelines. Regulators are also worried about having to testify before the Senate or House "as to why XYZ went under," he said.

Mr. Baily noted also that the RBC guidelines have not yet been tested. There will be a "major rethinking" of the guidelines when a company that had passed them goes down, Mr. Baily predicted. **BI**

Insurers foresee continued downsizing

CEO predictions surprise pollsters

By SARA MARLEY

Downsizing remains an integral part of many large insurers' strategies this year, despite an improving financial picture.

Nearly 70% of chief executive officers of property/casualty insurers with \$1 billion or more in assets expect to continue downsizing this year. Only 43% of CEOs of smaller insurers anticipate further downsizing, according to a survey conducted by executive recruiting firm Dieckmann & Associates Ltd.

In addition, executives who expect their companies' financial results will improve in 1994 were twice as likely to say layoffs will continue as CEOs who predicted the same or worse financial results.

Overall, 53% of CEOs of property/casualty insurers surveyed predict continued downsizing. Although this is down significantly from 93% in 1993, it still surprised Ralph Dieckmann, president of the Chicago-based firm.

"We expected downsizing would have run its course," Mr. Dieckmann said.

Downsizing surpassed "continuing soft markets" as the force that will have the greatest impact on employment in the property/casualty industry.

Continued on page 16H

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*"Evolution Ahead for Reinsurance Market in the 1990s" by Marc Mosca, June 11, 1990



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Insurer Topics

Survey

Continued from page 16F
try in 1994, the survey indicates.

The continuing soft market ranked second overall, though it was still the top factor cited by executives of insurers with more than \$200 million in assets. The U.S. economy and states' regulatory climates rounded out the list.

Dieckmann surveyed 115 chief executive officers and chief operating officers in February about their expectations for financial results and staffing throughout the year.

Of those responding, 22% were from insurers with assets greater than \$1 billion; 32% from insurers with \$200 million to \$1 billion; 20% from companies with \$100 million to \$199 million; and 26% from companies with assets of \$99 million or less.

Departments most likely to be targeted for layoffs were administrative and clerical workers and support staff, according to the executives.

Areas where staff would most likely be increased were claims, sales and marketing and information technology, the CEOs reported.

The executives put underwriting on both lists—a result that surprised Mr. Dieckmann.

"With the reduced income from investments because interest rates are so low, I thought everyone would be focusing on bolstering their profit through underwriting," he said.

Companies with less than \$200 million in assets were more optimistic about their 1994 financial results than the largest insurance companies surveyed.

Three-quarters expect improved results, 18% predict the same and

only 7% forecast worse results.

Half of insurers with more than \$1 billion in assets project improved results, 32% predict the same and 18% expect results worse than in 1993.

Overall, 62% of insurance executives surveyed project improved results, 27% predict the same and 11% forecast worse results.

Most CEOs were less optimistic about the property/casualty industry as a whole than about their individual companies. Overall, less than 30% expect the entire industry to better last year's results, 34% foresee the same results and 37% think things will get worse.

Many CEOs cited low rates in predicting their companies' and the industry's outcomes for 1994.

"Trends can no longer camouflage poor underwriting performance," wrote one CEO who anticipates worse results.

Finally, top executives were asked to identify the management weaknesses of the property/casualty industry today.

Too much short-term thinking topped the list, followed by:

- Forgetting insurance fundamentals.
- Paying too much attention to market share and too little to pricing and profitability.
- Lack of vision, creativity and "guts."
- Poor customer service.
- Lack of leadership and poor interpersonal skills.
- Failure to anticipate and react to changing needs in the marketplace.

Free copies of the survey of insurer CEOs are available from Dieckmann & Associates Ltd., 2 Prudential Plaza, Suite 5555, Chicago, Ill. 60601; 312-819-5900.

Changing attitudes on fraud

Insurers must address growing public acceptance of some fraud

By Ty Hutchinson

An alarming number of Americans believe it is acceptable to pad an insurance claim.

According to the 1993 study by the Insurance Research Council, about one in five people surveyed said it was all right to exaggerate a claim to make up for premiums paid in previous years or to make sure the deductible is covered. This way of thinking is especially prevalent in the Middle Atlantic states—New York, New Jersey and Pennsylvania—where 41% said it was OK to fudge their claims. Residents in large cities—46%—were also much more willing to bend the rules.

Inflating or fabricating commercial property losses, whether done by a professional con artist who makes a living out of bilking insurance companies, or the otherwise law-abiding business owner who believes a "little" lie about an insurance loss won't matter, make up a big portion of fraudulent claims.

While many inflated and fabricated claims are hard to spot, there are certain red flags that suggest certain claims should be investigated thoroughly.

Viewed individually, these warning signs may not signal fraud, but collectively they can point, almost conclusively, to a fabricated or inflated claim. Even if some of the following indicators are not present, a business claim for \$5,000 or more should automatically trigger a hard look at the file because of the amount of money at stake.

Signs to look for include:

• **Unusual or inappropriate behavior by the policyholder.**

A loss occurring soon after a new or upgraded insurance policy goes into effect is a strong indication that the loss may be phony. Some policyholders take out an expensive policy and then report a loss before the first insurance premium is due.

Some unscrupulous business owners, when reporting a fabricated or inflated loss, will seem overly anxious to have a claim settled quickly, even offering monetary compensation to the agent to speed the process. A policyholder, willing to settle for substantially less than the stated value of the loss rather than providing a detailed account of what was taken, should be viewed with skepticism.

The insurance company should check its index service to see whether the policyholder has a history of filing phony claims. Some policyholders try to claim a loss on the same item, only with different insurers. If it worked once, why not a second time? In one case, for example, a jewelry store owner reported the loss of an expensive necklace—once with his previous insurance company and again with his current insurer.

Compare the policyholder's list of lost items given to the police with what was reported to the insurance company. Apparently, lying to the police is still difficult for some individuals, but falsifying claims to their insurer is not. If the report to the insurance company indicates a much higher loss than the police report, the claimant needs to explain this discrepancy.

If the policyholder professes not to remember where, when or how a large or unique item was recently

purchased, a further inquiry may be necessary. If the item was truly purchased, the policyholder should recall where it was bought and have some type of documentation for it.

• **Evidence at the loss scene.**

Are there signs of a forced entry? If not, how did the thieves enter the business? Did they seem to know to go straight to a concealed area to take an expensive item or money without first tearing the business apart? Did the burglary take place at an unlikely time, especially if large stolen items had to be trucked from the location without notice? Finding the answers to these questions may provide evidence that the "burglary" was an inside job.

Check the security system at the business site. Often, the burglar alarm will conveniently "fail" to function when the burglary took place, or few security precautions were taken to protect the premises.

• **Tampering with sales documents.**

Be wary if the policyholder cannot produce sales receipts, invoices, canceled checks or credit card statements for stolen or lost items that were recently purchased, or provide the documentation for these items, like product instruction manuals or warranty information. Even when the claimant produces sales receipts, technology and the resourcefulness of crooks are so advanced today that these receipts can easily be forged or altered.

With a personal computer and the right kind of graphics software, ingenious criminals can create very authentic-looking sales receipts. To find out if they are genuine, compare the submitted receipts with a sample receipt from the store where the items were supposedly purchased. Does the sales slip match the store's receipts? Is the invoice number consistent? Are the typeface and printout format the same? Check to make sure the sales tax is computed properly and the price of the purchased item is correct, not inflated.

When looking at handwritten receipts from different stores, see if the writing is similar. Turning to someone with training in handwriting analysis can help determine if the writing is by the same person. Some individuals are brazen enough to steal blank sales slips from a store and later fill in the receipts with items that were never purchased. When several purchases were supposedly made at one store, look at the invoice numbers on the receipts. Are they in numerical order, even though the claimant says the purchases took place over several weeks?

In many phony claim cases, the policyholders say they can only produce photocopies of their receipts. Whenever possible, insist on seeing the originals. Photocopies can easily be altered to say almost anything. Even so, there are indicators suggesting the receipts are phony: Fine black lines occur around the areas where a receipt has been changed, two different kinds of handwriting appear on the receipt or two types of writing instruments are used.

• **Financial problems.**

Unscrupulous business owners facing financial troubles may resort to filing a fraudulent claim to obtain insurance money to pay creditors. Find out if the business is experiencing financial hardship. Are creditors pounding on the claimant's

door, is the owner having expensive legal troubles or mounting personal expenses, e.g. medical costs or gambling debts? These stressful situations may sometimes trigger desperate, illegal behavior by individuals who would otherwise never consider such acts.

Common items listed in fraudulent commercial property loss claims are outdated and overstocked seasonal inventory. Often, a retail store will run a "clearance sale" before an alleged burglary. When the remaining stock is subsequently stolen, the insurance claim is for the merchandise's original, higher value. Review local newspapers a month or several weeks prior to the break-in to see if these kinds of sales were held. Compare sales prices to the listed value of the merchandise on the claim form.

In some cases, a company may use a similar ruse to rid itself of obsolete office equipment. When outdated equipment is taken in a theft, take a close look at the claim, especially if the equipment appears overinsured. Sometimes, a business owner will try to "upgrade" items that were stolen to receive a larger settlement. These claims, for example, magically turn an old personal computer into a 486 PC with a CD-ROM drive or a one-color photocopier into a full-color, multifunction machine.

• **Changing attitudes.**

The prevailing attitude that it is acceptable to lie about a loss to an insurer must change. Businesses must realize that reporting a loss is not an opportunity to make money. One way to change this belief is through a potent investigation and prosecution policy. By no longer settling "nuisance" claims that appear crooked, insurers will convey a strong message to their customers that these kinds of claims will come under close scrutiny and be rejected if proved fraudulent. **BI**

Ty Hutchinson is president and chief investigator of T.B. Hutchinson & Associates, a Westlake Village, Calif., private investigation agency

specializing in workers compensation cases, auto insurance fraud, internal corporate investigations and sexual harassment claims.



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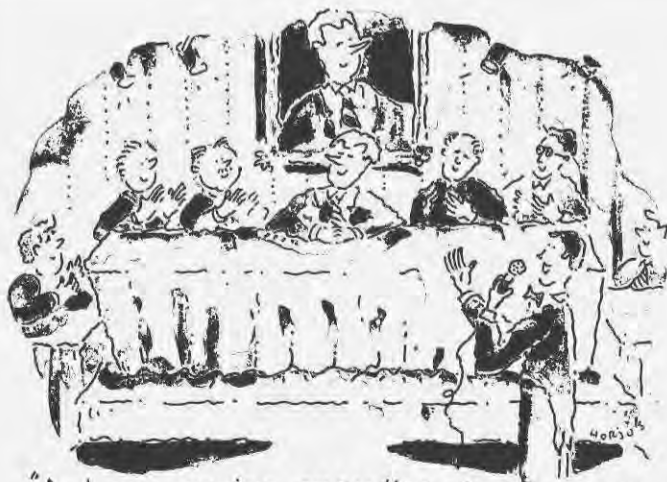
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Insurer Topics

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List of employee benefit information resources

■ An overview of dependent care benefits describing the types of services and programs available to employers is offered by Child Care Insights Inc./Elder Care Insights. Request item 3301.

■ Disability Services Group provides an article examining the "60% Myth" as well as the key features to watch for and avoid in a long-term disability program. Request item 3302.

■ Twenty short articles detailing employees' most commonly asked questions about benefits are available in a colorful brochure from Northwestern National Life Insurance. Request item 3303.

■ A guide to long-term disability insurance is available from Duncanson & Holt. It includes a description of LTD coverage and options, the underwriting process and frequently asked claims questions. Request item 3304.

■ RAI offers a 56-page, four-color booklet that provides clear and concise answers to the most commonly asked Social Security and Medicare questions. Also included is a form to request a statement of Social Security earnings and estimated future benefits. Request item 3305.

■ A monograph exploring flexibility in compensation and benefit strategies and arrangements is available from The Alexander Consulting Group Inc. Request item 3306.

■ The Equitable/Rotter Agency offers a brochure on important principles for investing pension plan distributions. Request item 3307.

■ The American Compensation Assn. provides a catalog of 1995 compensation and benefits certification seminars nationwide. Request item 3308.

■ A buyers' checklist for corporate disability coverage providing guidelines for "seamless" disability benefits is available from Disability Services Group. Request item 3309.

■ BNA Books offers its annual brochure explaining how to calculate Social Security and Medicare benefits, file claims and get benefit estimates. Brochures are available in both English and Spanish. Request item 3310.

■ An examination of an Internal Revenue Service-approved method of using casualty insurance policies to guarantee tax-deferred executive non-qualified benefits is available from Buck Consultants Inc. Request item 3311.

■ A quarterly newsletter on Section 125 issues, such as legislative updates, employee communication information and voluntary insurance data, is offered by Select Benefits Inc. Request item 3312.

■ Duncanson & Holt offers a book on underwriting long-term care insurance. Request item 3313.

Continued on next page

Business Insurance

Information Resource

NOTE: THIS COUPON WILL NOT BE SERVICED AFTER OCTOBER 10, 1994

All questions must be answered in order to have your inquiry processed.

Please check one item for each category:

1. My organization is best described as:
- | | | |
|---|---|---------------------------------------|
| A <input type="checkbox"/> Mfg/Svcs | F <input type="checkbox"/> Ins Agent | K <input type="checkbox"/> Adj/Apprs |
| B <input type="checkbox"/> Association | G <input type="checkbox"/> Ins Broker | L <input type="checkbox"/> TPA |
| C <input type="checkbox"/> Union | H <input type="checkbox"/> Ins/Reins Co | M <input type="checkbox"/> Healthcare |
| D <input type="checkbox"/> Government | I <input type="checkbox"/> Actry/Conslt | Inst |
| E <input type="checkbox"/> Educational Inst | J <input type="checkbox"/> Attorney | N <input type="checkbox"/> Other |

2. Number of employees:
- | | | |
|--|--|------------------------------------|
| 1 <input type="checkbox"/> 150 or less | 2 <input type="checkbox"/> 151-499 | 3 <input type="checkbox"/> 500-999 |
| 4 <input type="checkbox"/> 1,000-4,999 | 5 <input type="checkbox"/> 5,000 or more | 6 <input type="checkbox"/> Unknown |

3. My title is best defined as:
- | | |
|---|--|
| A <input type="checkbox"/> Administrative Mgt | D <input type="checkbox"/> Benefits Mgt |
| B <input type="checkbox"/> Financial Mgt | E <input type="checkbox"/> Loss Prevention Mgt |
| C <input type="checkbox"/> Risk Mgt | F <input type="checkbox"/> Other |

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- 1 recommend only 2 specify 3 approve

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The following listing was inadvertently omitted from page 15 of the directory section.

Sequoia Retirement Services

1911 San Ysidro Drive, Beverly Hills, Calif. 90210-1520; 310-859-1961; fax: 310-859-7077

Interactive benefit systems since: 1988.
Software products:

- Estate Registry.
- System type/cost: Purchased: \$20.
- Simultaneous access: One employee.
- System requirements: IBM compatible PC, 640K RAM. Operates in DOS.
- Customization optional.
- First installation: 1988.
- Total installations: 100.

Benefits communicated: Retirement planning.

Features: Standard system provides modeling/projections, reports via printer.

Accessed through: Employees' PC.

User support: Telephone assistance eight hours per day*.

* Included in system price.

Staff: One total.

Officers: Chuck Tellalian, principal. ■

Continued from previous page

■ The Principal Financial Group offers a brochure summarizing IRS and ERISA rules governing the design and operation of **tax-qualified retirement plans**. Request item 3314.

■ A brochure offered by The Equitable/Rotter Agency describes the **advantages of using a benefit specialist** to assist small businesses in retirement planning. Request item 3315.

■ Disability Services Group provides an examination of the use of **disability buyout provisions** in business succession planning. Request item 3316.

■ A summary of the **Financial Accounting Standards Board's proposed accounting changes for stock-based plans** and recommended corporate actions is available in a brochure from Coopers & Lybrand-Human Resources Advisory Group. The brochure examines the effect the standard would have on executive compensation and employee stock ownership plans, among other things. Request item 3317.

■ The International Foundation of Employee Benefit Plans publishes a catalog containing information and forms for **enrolling in the Certified Employee Benefit Specialist** program. Request item 3318.

■ Kelly Assisted Living Services Inc. offers a guide designed to help employees recognize if **aging parents need assistance** in caring for themselves. Request item 3319.

■ The advantages to employers of providing an **employee legal plan** are described in a folder and video from Hyatt Legal Plans Inc. Request item 3320.

■ A quarterly newsletter designed to help employers **educate employees about 401(k) participation** is provided by Retirement Advisors Inc. Request item 3321.

■ A booklet providing a comprehensive overview of **qualified and non-qualified deferred compensation plans** and how to select the

best type of plan for an employer's workforce is offered by Pension Resources. Request item 3322.

■ A pamphlet for employees on **managing pension distributions** to avoid tax withholdings when retiring or changing jobs is offered by The Equitable/Rotter Agency. Request item 3323.

■ An article detailing the importance of **disability insurance in financial planning** is offered by Disability Services Group. Request item 3324.

■ Buck Consultants Inc. offers a paper discussing **1993 tax law compliance and data reporting provisions** for employers sponsoring group health care plans. Request item 3325.

■ An expanded study by The Alexander Consulting Group Inc. shows the need for increased personal savings to **maintain employees' standard of living after retirement**. Request item 3326.

■ BNA Books offers a brochure for employees explaining how **flexible spending accounts** work, how to file claims and the tax savings available under the programs. Request item 3327.

■ The **claims process for long-term care insurance** is the focus of a manual from Duncanson & Holt Group. Request item 3328.

■ CIGNA Group Insurance offers two brochures describing **LTD income insurance and disability management** products. Request item 3329.

■ A pamphlet from Kelly Assisted Living Services provides information for employees on **organizing personal records and legal information** before an elder care crisis arises. Request item 3330.

■ An article describing key contractual features to look for in **group long-term disability contracts** is offered by Disability Services Group. Request item 3331.

■ A booklet from NIA Group reviews the problems associated with

health care cost containment. Request item 3332.

■ A statistical quality control approach for **selecting and monitoring institutional investment managers** for pension investments is described in a paper from Buck Consultants Inc. Request item 3333.

■ A brochure from The Equitable/Rotter Agency provides insightful information to providing traditional **employee benefits and other perks to owners and employees in a closely held corporation**. Request item 3334.

■ A kit that allows a company to conduct its own **retirement planning seminar** is described in a brochure from Retirement Advisors Inc. Request item 3335.

■ A pamphlet summarizing the **rules governing fiduciaries, trustees and plan administrators** of tax-qualified retirement plans is available from The Principal Financial Group. Request item 3336.

■ The American Compensation Assn. provides a catalog of **compensation and benefits publications**

and audio tapes. Request item 3337.

■ Disability Services Group provides an article describing the **danger of disability programs** that are tied to a particular employer or association. Request item 3338.

■ A manual from Duncanson & Holt provides a comprehensive overview of **long-term care insurance**. Request item 3339.

■ Coopers & Lybrand provides a book containing guidelines on **ERISA reporting and disclosure requirements** for pension, profit-sharing and welfare plans. The guide provides information on who must file, what forms must be filed, where to file and the deadlines for filing. Request item 3340.

■ Helpful hints on **making the home safer and more comfortable** for elderly adults are contained in a pamphlet from Kelly Assisted Living Services. Request item 3341.

■ FOCUS Employment newsletter, a quarterly update on new developments in **employment and labor law** and employee benefits is available from Clausen Miller Gorman Caf-

frey & Witous P.C. Request item 3342.

■ Two brochures from Select Benefits Inc. provide basic information on **cafeteria benefit plans**, including government regulations, expenses and fee schedules. Request item 3343.

■ The Principal Financial Group provides a guide for **employee investment in qualified retirement plans**. Request item 3344.

■ Buck Consultants Inc. offers an article explaining how PC data base software is changing the way **multinational benefit plan sponsors** manage their worldwide programs. Request item 3345.

■ A fact sheet for employees explaining requirements and expectations associated with the **Americans with Disabilities Act** is offered by BNA Books. Request item 3346.

■ Rx America offers a brochure describing its prescription benefit management products and services, which offer an innovative solution to health care needs. Request item 3347. **BI**

Liability exposure grows

Firms try to limit exposure to employment practices suits

By SARA MARLEY

NAPLES, Fla.—As the employment liability waters become murkier and more treacherous, employers are beefing up internal policies and turning to insurance to minimize their exposures.

Court awards are too sporadic to develop meaningful averages in employment practices cases, said Ty R. Sagalow, vp and chief underwriting officer-management liability division of National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

One recent estimate put the average award at \$536,000 for indemnity only. Adding defense costs can bring an award into the \$1 million range. And, average employment practices awards in previous years have ranged from \$400,000 to \$2 million, he said.

Recent cases against Shoney's Inc., Lucky Stores Inc. and State Farm Group have resulted in verdicts and settlements of more than \$100 million each.

Employers should concentrate on "how to avoid or reduce the possibility of a multimillion-dollar verdict and how to manage the

other ones," said Mr. Sagalow at the annual meeting of the Florida chapters of the Risk & Insurance Management Society Inc.

Most often, suits against employers allege wrongful termination, discrimination and sexual harassment. Other allegations include libel, slander, emotional distress or employment-related misrepresentations.

Employers must be aware of not only federally protected classes such as race, gender, age and national origin, but also state and locally protected classes. For example, discrimination based on sexual orientation is illegal in about half of the states.

Sexual harassment, one form of gender discrimination, may occur on a quid pro quo basis, in which a person is promised a job or threatened with termination based on performing acts of a sexual nature, or the creation of a sexually harassing environment via posters, cartoons, memos or jokes.

Courts are still developing a test for determining whether work en-

vironments are sexually harassing, Mr. Sagalow said. Factors include the frequency and severity of the conduct, whether the actions are physically threatening or humiliating or merely offensive utterances, whether the conduct unreasonably interferes with work performance and the affect on the victim's psychological well-being.

Claims relating to the work environment "can be very expensive," Mr. Sagalow said. "It's important to have proper policies and procedures in place and monitored."

The number of claims filed with the Equal Employment Opportunity Commission is on the rise and federal laws like the Civil Rights Act of 1991 and the Americans with Disabilities Act are also increasing organizations' liability exposure for employment practices.

"Now is an excellent time to review your human resources manual," Mr. Sagalow said. "If you don't have one, get one. But when you have one, you have to adhere to it."

The policy should be specific, *Continued on next page*

On July 16, 1994, our founder, president, colleague and friend, Richard J. O'Brien, passed away following an incapacitating, six-month battle with cancer. We will miss his entrepreneurial spirit, unique leadership and boundless energy, as well as the camaraderie we shared and loyalty he instilled in all of us. Our lives have been enriched having known Richard O'Brien.

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Employ

Continued from previous page
have a detailed index and spell out procedures for compliance and when outside lawyers should be used. It should address standard job applications as well as disciplinary, employee evaluation and involuntary termination procedures. Confidentiality of medical examinations is also critical.

Employment practices liability insurers will look at the internal policy when underwriting the risk, Mr. Sagalow noted.

Several sources can provide varying degrees of insurance coverage for employment practices.

Comprehensive general liability policies offer only a "sliver of coverage" for bodily harm resulting in medical expenses and personal injury, which includes libel and slander, Mr. Sagalow said. Recent cases have found libel in employee evaluations, for example.

CGL policies will not cover punitive damages or awards of back pay.

A previous CGL form excluded bodily injury—which could include mental harm—arising out of the course of employment. However, employees filing suit for wrongful termination were no longer employed by the company. So, insurance companies introduced an absolute employment practices exclusion that included discrimination and harassment within its language.

Some policyholders have been successful in getting the exclusion removed, but that is becoming more and more difficult, Mr. Sagalow said.

Workers compensation provides employers liability coverage only for statutory injuries. In California, however, that includes stress-related ailments.

Directors and officers liability will pay judgments, settlements

and defense costs incurred by a director or officer for alleged mismanagement.

Indeed, some privately held firms buy directors and officers liability insurance primarily for the employment practices coverage it provides, according to Mr. Sagalow.

Organizations can buy an employment practices endorsement to their D&O insurance. For example, National Union's endorsement deletes exclusions for libel, slander and emotional distress and covers all employees.

The endorsement will add 20% to 25% to the price of the D&O policy, he added.

The corporate entity itself is not covered by the endorsement, but Mr. Sagalow said that such coverage may eventually be available and could prove less expensive than stand-alone employment practices liability coverage.

Currently, the primary advantage of stand-alone EPL policies is coverage for the entity, he noted. Disadvantages are low limits and high premiums, sometimes 50% to 100% higher than a typical D&O rate, Mr. Sagalow said.

It also can be difficult to build excess EPL layers because EPL insurers do not follow form like D&O insurers. That's because primary insurers do not consistently use a single form.

D&O has the advantages of huge limits, availability of excess insurance and is much cheaper than stand-alone employment practices policies. Lack of coverage for the corporate entity and fewer players in the marketplace are its main disadvantages.

"Many clients believe it's worth having both policies," Mr. Sagalow said.

"You need to get the underwriters to talk to each other about who will be primary to whom. There's an advantage to look to the same carrier for both." ■

Health care reform coup

By SARA MARLEY

NAPLES, Fla.—Small businesses in Florida are buying more health insurance for less under state health care reform without an employer mandate or managed care requirements.

The reform effort created 11 Community Health Care Purchasing Alliances, which have gained favor with small employers by allowing them to cut costs yet maintain choice of health plans. More than 5,000 employers flooded the phone lines of one Florida Community Health Care Purchasing Alliance during its first six weeks of operation, which began May 1.

That CHPA serves employers with fewer than 50 employees in Dade and Monroe counties, said Mike Key, vp of administration for the District 11 CHPA in Miami.

District 11 covers about 40 employer groups, accounting for more than 200 employees.

Statewide, there are approximately 1,000 employer groups covered by CHPAs, with 2,575 covered lives.

The CHPAs are only open to companies with fewer than 50 employees, but state legislators are debating various measures that would allow larger employers to join. Most companies joining the District 11 CHPA have 10 or fewer employees.

Mr. Key delivered a progress report on the Florida plan recently at the annual meeting of the Florida chapters of the Risk & Insurance Management Society Inc.

Three-quarters of the participating insurers and other health care plan providers in District 11 charge CHPA members less than if they were quoting the risks individually, Mr. Key said. Employers are saving an average of 15%, al-

Florida yields health care savings without caps or employer mandates

though some savings are as high as 35% to 50%.

Florida's health care accomplishments become even more remarkable when one considers what the state's reform does without, he said.

FLORIDA RIMS

"There are no global budgets, no spending caps, no employer mandate and no managed care requirements," Mr. Key said. And it's that flexibility that is leading to the program's success.

"Choice is the key aspect. One of the negative aspects of health care reform is that (people believe) it forces you into managed care," he explained. Employers that join their local CHPA for a \$25 fee can choose from point of service plans, health maintenance organizations, preferred provider organizations, exclusive provider organizations or indemnity plans offered by dozens of health insurers and managed care organizations recognized by the state.

Florida's 1993 reform law is based on managed competition, a concept long abandoned by many federal health care reform advocates.

"It uses information rather than regulation to control costs," Mr. Key said. "The more information employers have to base buying decisions on, the better decisions they make. If employees get better information, they become (smarter) consumers of health care."

"CHPAs are locally run by business people, not bureaucrats," Mr. Key said. Each CHPA has 17 board members, 11 representing local businesses and six members representing consumer and government interests. "We fully believe the management of health care is a regional and local issue," he said in explaining the board's composition. Members of the CHPA boards are appointed by the governor as well as the heads of the state House and Senate.

Another important aspect of the Florida reform is that all products are sold through licensed insurance agents, so they are not left out of the process. Response to District 11's three agent orientation sessions was so overwhelming that two more were added.

The next step for the reform effort should be to extend eligibility to companies with 51 to 150 employees, state employees and Medicaid recipients, said Mr. Key.

Gov. Lawton Chiles also wants the state to assist uninsured Floridians who do not qualify for Medicaid in purchasing managed care coverage from a CHPA. His legislative proposal, however, failed in a June special session (BI, June 13). Gov. Chiles has vowed to try to push the plan through again later this year.

The reform is already covering some previously uninsured people, because some employers are using their savings under the CHPA to extend coverage to employees' families, Mr. Key said.

The state has an uninsured population of 2.5 million, about 1.9 million of whom are employees and their dependents (BI, April 12, 1993).

A 1992 Florida law calls for achieving universal coverage by 1995 (BI, March 30, 1992). Exactly how that goal will be achieved is

still being debated.

The CHPAs market the available coverage to employers and forward premiums to health plan providers. In communicating plan information, the CHPAs operate similar to a benefit department for small employers that previously did not have one, Mr. Key said.

To make employees better consumers of health care, the CHPAs are working on a consumer guide to help companies and employees choose plans. The guide will compare competing health plans to each other and to the national norms in such categories as mammography, pediatric immunizations, cancer diagnoses in late stages and birth weights.

The Florida plan has been successful by focusing on price, access and quality, rather than employer mandates, said James T. Montie, a consultant with Godwins, Booke & Dickenson in Coral Gables, Fla.

Managed care often just means cost shifting to employees through increased deductibles, copayments or payroll deductions, while pro-

Florida's reform 'uses information rather than regulation to control costs,' says Mike Key.

moting competition means the cost of health care delivery actually drops, he said.

The plan proposed by President Clinton and currently being debated in Congress is a "top-down" proposal, while the Florida reform is "bottom-up," Mr. Montie said. The Clinton plan begins with universal coverage and a global budget and works its way down to employer alliances.

The Florida system begins with the concept of universal accessibility and works its way toward universal coverage through managed competition and the CHPAs.

Florida's reform "restructures the health care market so competitive forces will lower costs," Mr. Montie said. "It expands the base of insureds with the goal of universal coverage."

However, some proposed changes would lessen the program's competitive aspect, he said. Physician groups have pushed for legislation that would give them direct access to HMOs, without necessarily having to meet membership standards for the HMOs.

The same groups also want to allow patients to leave the HMO to see their own doctors, also bypassing the gatekeeper aspect of managed care, Mr. Montie said.

In general, though, Florida's marketplace is competitive both inside and outside the CHPAs and employers are finding themselves in a favorable bargaining position. "Everyone is used to receiving increases (for health insurance), but they have to stop thinking they have to have an increase," said Cathy A. Russell, a senior consultant at Godwins, Booke & Dickenson in Coral Gables.

Some of her Broward County clients that had budgeted 3% increases in health care premiums are seeing 5% to 9% decreases instead. ■

Prepare now for cat losses

Calculate probable losses and buy insurance accordingly

By SARA MARLEY

NAPLES, Fla.—Before heading into property renewals, risk managers should get out their calculators.

Companies should calculate their own probable maximum loss and maximum acceptable downtime before purchasing property, business interruption and extra expense insurance, two brokers advise.

After years of unprecedented and unrelenting catastrophic losses, insurers are demanding more and more information from prospective policyholders and making more sophisticated risk assessments.

Because insurers are entering detailed information on building location and construction into their modeling computers, "you should be armed with similar information done on your behalf," said Craig A. Holmes, vp of Johnson & Higgins Carolinas Inc. in Charlotte, N.C.

"Calculating probable maximum loss is more than spotting locations on a map," Mr. Holmes told risk managers attending the annual meeting of Florida chapters of the Risk & Insurance Management Society Inc. "It's a thorough risk analysis of anything that could go wrong: lightning, fire, civil disorder, earthquake, windstorm. It's the most catastrophic event at the worst time."

For example, he said, a catalog

retailer would be most vulnerable in the weeks prior to Christmas.

Insurers are making strategic decisions based on catastrophic loss estimates, said Lawrence I. Geneen, president and managing

principal of Johnson & Higgins of Florida Inc. in Miami.

Some insurers will only write above that mark, while others will write layers below it but charge an adequate price.

If insurers don't have enough information, "they'll be more conservative," he said.

"The key is information," Mr. Geneen said. "Underwriters want to know what the construction is, how far the buildings are from the water, ZIP codes, earthquake zones, flood zones, occupancy, protection." One underwriter sought information in 31 categories on a three-page questionnaire covering "everything imaginable."

In addition, companies should also calculate their maximum acceptable downtime. For certain industries, it could be days or weeks, but for a business like a financial futures brokerage, 10 minutes may be unacceptable.

Estimating maximum downtime will help companies figure out how much they need to spend on offsite facilities and insurance.

It should also be a starting point in developing a strategic disaster

plan.

"No insurance can get your customers back," Mr. Holmes said. "The key point in disaster recovery planning is customer retention."

While disaster planning should be centralized, the development of the plan should be based on input from departments throughout the organization. In addition, once a catastrophe has struck, restoration and recovery should be split into two committees. The recovery group should focus on keeping the business running at alternative sites while the restoration committee works on repairing the damaged sites.

While business units must be consulted on what their critical functions are and how many people are needed to run them in an emergency, many employees will view that as a measurement in preparation for downsizing, Mr. Holmes said.

Therefore, many departments will insist that 100% of staff are necessary. In reality, critical business functions can usually continue with as little as 10% to 25% of staff.

Once the initial assessment has been made, the number of staff and critical tasks invariably will be cut.

The decisions should be communicated so employees understand why certain jobs must be continued but not others, Mr. Holmes advised. ■

ASK A RISK MANAGER

Work on the front line is risk managers' biggest contribution to the bottom line

Q

What do you believe is the greatest contribution risk management makes to an organization and why?

A

What a thought provoking and politically sensitive question—and one that hopefully will lead to a response that gives proper acclaim to our profession!

I must emphasize that risk management supports and provides at all times, especially in the face of catastrophe, a means of survival for an organization.

It is the risk manager's primary responsibility to protect the organization's assets from the adverse consequences of accidental loss. And, since these assets are categorized as human, financial and physical, the scope of the risk management process is virtually unlimited.

I like to view the risk management department as the catalyst that keeps the major processes of an organization in focus. Without exception, all critical

decisions that affect business operations should include a perspective toward either risk assumption or risk avoidance. Many a business has learned the hard way that rushing into a new enterprise without carefully considering the impact on human and financial resources can be devastating. Like it or not, society today looks to place the blame for anything on the other guy. The dramatic increase in litigation surely proves this point. The risk manager must be involved in assessing the business plan of the organization to make certain its resources are suitably protected through the purchase of insurance, administration of a self-insurance program or combination of both. How well most of us have come to know when a significant loss occurs one of the questions asked by senior management is simply "is it covered?"

Risk management plays an important role in all departments from the boardroom to the boiler room and should be visible to the total employee population. Remember the popular movie refrain/ad slogan that asked, "Who you gonna call?" Well, when a crisis strikes, the person at the head of the list should be the risk manager!

No wonder that the current trend to develop crisis management and disaster recovery programs has focused much deserved attention and respect on the risk management department. We are, after all, the folks that should know how to direct activity around the chaos. The risk management process assures that the necessary stability will be in place when it's needed most. As a result, we orchestrate the delicate balance between the hard financial issues and delicate personnel issues. Each of us wears many hats as we manage the complexities of workers compensation, the multiple lines of liability, property and environmental risks and, in increasing numbers, employee benefit programs. We, therefore, must demonstrate a certain level of expertise in each of these areas.

A risk manager serves the organization best when a loss prevention philosophy is integrated into the business culture without disrupting the day to day operation. It should become second nature for management to identify potential liabilities as part of the important decision making process. And, in working toward that end, all employees become team members with the risk management department.

What then is the greatest contribution risk management makes to an organization? I believe it's demonstrated when that organization can fulfill its mission without fear of being a "risk taker" because of controls introduced and supported by the risk management process. We're the fortunate ones who stand in front of the action! **BI**

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

Ask A Risk Manager, Ask A Benefit Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.

This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. Dennis J. Nirtaut, manager of employee benefits at Continental Bank Corp. in Chicago, answers questions on employee benefit plans.

William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefit issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.



Ms. Werner

An insurance primer for everyone

"How Insurance Works"

By Barry D. Smith and Eric A. Weining
Insurance Institute of America, 720 Providence
Road, Malvern, Pa. 19355-0716
\$25

By Kevin M. Quinley

If you're like most people, you celebrate birthdays (and perhaps tough renewals) by throwing a party. If you're the Insurance Institute of America, you publish a new textbook.

"How Insurance Works" is a fitting milestone and companion guide to a very successful introductory course offered by the IIA over the years.

To celebrate the 10th birthday of the Insurance Institute of America, the folks in Malvern, Pa., have published a revised and updated second edition of the book on which its successful introductory courses have been based. The revised text, "How Insurance Works," retains and expands on the features that popularized the first edition for insurance professionals and students. These features include cartoons, photos and definitions and other key points highlighted in colored sidebars. Updated material reflects the increased role of automation in the insurance business, along with changes in the rating system, and a reworking of material that some earlier students found difficult.

Eric A. Weining edited the first text and here serves as co-author of the 232-page revision, along with original author Barry D. Smith. Although the book is written for people who are new to the insurance industry, it will prove to be a very versatile book that will be usable by a wide range of individuals, including risk managers. Some companies may wish

Books & Ideas

to adopt the text as a refresher for employees on many levels.

User-friendly is a shop-worn expression, but it applies in this case. Combating the stereotype that insurance is a great antidote for insomnia, "How Insurance Works" spices up the text with reprints of funny cartoons from the Wall Street Journal and other sources.

'Although the book is written for people who are new to the insurance industry, it will prove to be a very versatile book that will be usable by a wide range of individuals, including risk managers.'

Many pages have shaded sidebars and inserts that describe key terms. "How Insurance Works" is one of the most accessible primers on the insurance business I have seen.

Chapter titles are—a la Jeopardy—framed in the form of a question. The book begins with a chapter on "What Is Insurance?" and moves through other key questions, such as "What Is Underwriting?" "How Are Claims Handled?" and that eternal question faced by all risk managers, "How Are Premiums Determined?" Good question!

"How Insurance Works" is a worthwhile read whether one is taking the introduction course or just

wishes to get a "quick and dirty" introduction to the field of insurance.

I have very few quibbles about the IIA's book. There is scant discussion of risk management beyond a few definitions, but this is really not the aim of "How Insurance Works."

Insurance—like it or not—remains the cornerstone of many companies' risk management programs. Before exotic financing bells and whistles are added, insurance often serves as the foundation for a fledgling risk management program. A promising audience lies in the legions of new risk managers who wish to learn more about insurance. As increasing numbers of such risk managers come from the finance area, this insurance primer can be an invaluable guide.

Most companies do not have full-time risk managers, but they all have risk- and insurance-related needs. For individuals who are the de facto risk manager in their organization and are hoping to get a grip on the whole mystifying world of insurance, "How Insurance Works" will be a useful resource.

For this effort, the Institute deserves not only a "Happy Birthday" greeting but a heartfelt "Well done!" **BI**



Kevin M. Quinley is vp of risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

INTERNATIONAL

Financial crisis in Venezuela

Bank failures, inadequate regulation contribute to insurers' growing problems

By MARIA KIELMAS

CARACAS, Venezuela—Venezuela's insurance industry could be heading for a "black hole," say insurers and stock market analysts, as the country's financial sector is steeped in its worst-ever crisis.

The government has taken over the operation of three insurance companies, while shareholders of a fourth have had to arrange a bailout package worth more than \$90 million.

The Venezuelan insurers' troubles have been precipitated by problems in the nation's banking industry. In some cases, the insurers' problems actually stem from their close relationships with troubled banks, but inadequate regulatory supervision is also cited as a major factor.

Companies that export goods to

'Nobody knows anything about the quality of the insurance companies and what kind of liabilities they have. The government doesn't want to look into it too hard either,' says analyst Lars Sjonander.

Venezuela are feeling the effects of the crisis in at least one area: credit coverage.

"No one is willing to write any more credit cover for Venezuela," said a London broker. "Venezuela has a dodgy reputation as far as exchange transfer is concerned so the waiting period for non-payment risks is usually 360 days."

Many insurance companies have been unable to service their debt be-

cause their funds are held in banks that have collapsed and have been taken over by the government. The government has directly intervened in the operation of about half of the nation's banks, and has placed the country's entire banking system under state control.

Late last week, the government announced it would liquidate eight banks taken over in June.

Further complicating the situation

are foreign exchange controls imposed in June. The controls restrict businesses' access to foreign currency to a total of \$15 million a day, only a third of what businesses say they need.

Exporters are allowed to keep only 8% of their dollar earnings to pay for business-related expenses. Exporters and importers are now unable to procure enough dollars to pay for necessary shipments and many shutdowns or slowdowns are expected if the situation drags on.

Money is allowed to leave the country only in very limited circumstances, and payment of reinsurance premiums abroad is not mentioned as one of those circumstances.

"The situation is very worrisome," said Terrance Gilbert, general manager of Johnson & Higgins de Vene-

Continued on next page

Confed Life may get capital boost

By MICHAEL SCHACHNER

TORONTO—Weakened by heavy commercial real estate investment losses in recent years, Confederation Life Insurance Co. is in the final stages of closing a deal in which about 18 Canadian and U.S. insurers would inject about \$600 million Canadian (\$437.3 million) into the company.

The diversified life and health insurer is in discussions with a consortium of about 10 Canadian insurers that will invest about \$450 million Canadian (\$328 million) in the company and a group of eight U.S. insurers that will put up about \$150 million Canadian (\$109.3 million).

A spokeswoman called the investments, primarily through preferred shares and senior debt, "bridge financing for the purpose of getting us through this real estate trough."

The agreement would end an 18-month search for badly needed capital. Confed, Canada's largest insurer with assets of \$33 billion Canadian (\$24.93 billion) at year-end 1993, has been looking for investors to prop it up as it pared down its investments in real estate holdings. Its year-end 1993 statutory capital was \$1.2 billion Canadian (\$906 million); surplus was about \$200 million Canadian (\$151 million).

Commercial mortgages accounted for about 52% of its investments at the end of 1992. That percentage is

down to about 40% now, "which still isn't great" the spokeswoman said.

In April, it appeared as though The Great-West Life Assurance Co., a unit of Montreal-based Power Corp. of Canada, would be Confed's sole savior. The two companies signed a letter of intent calling for Great-West to invest \$225 million Canadian (\$164 million) and Confed to raise further capital by selling certain assets, including its group health and life units. That deal was intended to strengthen Confed's financial position by \$500 million Canadian (\$364.5 million) to \$600 million Canadian (\$437.3 million).

But the Great-West deal col-

lapsed when it became apparent that more capital would be needed than was originally thought.

"We decided to let the letter of intent run out and we broadened our search for other investors," the Confed spokeswoman said.

When the deal fell apart, rating agencies downgraded Confed, citing the continuing need for outside capital. In March, Standard & Poor's Corp. placed Confed on CreditWatch with negative implications and downgraded the insurer's claims-paying ability rating to BBB+ from A+. Earlier this month, A.M. Best Co. also placed Confed under review and lowered its rating to B++ from A-.

Continued on page 23

GLOBAL BRIEFS

Jet crashes in Korea

LONDON—A \$62 million jetliner that struck a hangar while landing in South Korea last week has tipped this year's worldwide airline hull and liability insurance losses over the \$900 million mark.

The Korean Air Lines Airbus A-300-600R jetliner crashed and caught fire while trying to land Aug. 10 at Cheju International Airport in the southern Korean peninsula.

Only eight of the 152 passengers and seven crew were injured, one seriously. Flight 2038, arriving from Seoul, landed in heavy rain and strong crosswinds caused by the approaching Typhoon Doug, which hit Taiwan last week, killing 12 people.

KAL's hull and liability insurance, which renews Nov. 1, is placed in the local Korean insurance market. However, at least 90% of the coverage is reinsured in London through broker Nicholson Leslie Aviation, a division of the Nicholson Leslie Group. The reinsurance coverage is led by Lloyd's of London underwriter Tony Medniuk.

Total airline hull and liability insurance losses as of July 14 were \$873 million, said one aviation underwriter. The KAL crash, therefore, would boost insured world airline losses to \$935 million.

Although it hasn't been a good

first half of the year, the second half's loss record could improve, said Richard Maylam, chairman of Lloyd's Aviation Underwriters' Assn. Total airline premiums this year also could reach \$1.5 billion to \$1.6 billion, he said.

Last week's loss could help the aviation market maintain hardened rates through the autumn when many of the world's airlines renew their programs, said Mr. Maylam. But, "it's difficult to know" what the reaction from underwriters will be to last week's crash, he added.

—By Stacy Shapiro

Argentine pension plan

BUENOS AIRES, Argentina—Popular response to the introduction of private pension funds in Argentina is far from overwhelming.

Less than a third of Argentine employees abandoned the current state-run pension plan in favor of participating in private pension funds, which started business in May under a 1993 law (BI, May 16).

As part of its pension reforms, the Argentine government required employees to choose between remaining in the state pension system or selecting one of 22 privately administered pension funds, including several backed by big U.S. and European insur-

Continued on page 23

Losses mounting after explosions, fire shut down gold mine

By KATE McILWAINE

PORT MORESBY, Papua New Guinea—Business interruption losses will likely exceed \$10 million at one of the world's largest gold mines that was shut down for nearly two weeks following explosions and a fire on Aug. 2.

Loss adjusters are still assessing the property damage and potential business interruption losses following the disaster at the Porgera mine in Papua New Guinea, about 270 miles northwest of Port Moresby, which has left 11 people missing and presumed dead.

Production was expected to return to normal last Friday, according to a spokesman for Placer Pacific Ltd. of Sydney, which operates the mine.

Ordinarily the mine operates around the clock, seven days a week. Its annual production of 1.1 million troy ounces makes it the world's largest gold mine outside South Africa. Based on the mine's output and recent gold prices, the business interruption loss will accrue at more than \$1.1 million a day, he said.

Onsite inspections confirmed that a workshop and a building that houses workers had major structural damage, the Placer spokesman said. The cause of the explosions have not yet been determined.

Continued on next page



GRAPHIC BY JOHN HALL

Employers liability facility forming

By CAROLYN ALDRED

LONDON—Leading Lloyd's of London underwriters are attempting to put together a market facility to provide employers liability coverage for more than 100 offshore contractors and operators whose cover was abruptly canceled last month.

Up to 15 major oil companies, including Shell Oil Co., British Petroleum Co. P.L.C., Chevron Corp., Amoco Corp. and Phillips Petroleum Co., are working with brokers and Lloyd's underwriter John Murphy to put together alternative coverage.

Mr. Murphy, underwriter of syndicate 1156, managed by Bankside Syndicates Ltd., was forced to give notice of cancellation, effective Aug. 21, because of a dispute with reinsurer Assicurazioni Generali S.p.A.

The syndicate specializes in employers liability, a coverage similar to the indemnity portion of U.S. workers compensation coverage. As the only London insurer offering unlimited coverage for offshore EL risks, it covered a large number of North Sea contractors and operators.

On July 22, Mr. Murphy notified policyholders of the proposed cancellation, saying that Generali was "not in a position to confirm... whether a contract exists" to provide unlimited reinsurance cover for offshore EL risks (BI, Aug. 1).

Sources estimate that at least 100 policyholders are affected by the proposed withdrawal of cover.

Most of the major oil companies and their contractors in the North Sea, as well as London's leading energy brokers and underwriters, are working hard to find an alternative.

"The majority of North Sea operators are concerned" about the move by Mr. Murphy to cancel coverage and decided to "support an industry initiative to come up with a replacement EL scheme," said Blair Thomson, risk manager for Hamilton Oil Co. Ltd. in London.

"Mr. Murphy was a very significant insurer for North Sea EL risks and quite a number of oil contractors have an exposure now," he explained.

"There's every hope that some facility offering at least 50 million pounds (\$76.9 million) of cover can be put together in the near future," said James Hopper, casualty brokerage director of Sedgwick U.K. Ltd.

Besides Sedgwick, other brokerages involved in the negotiations are C.T. Bowring & Co. Ltd. and Alexander Howden Ltd.

The cover, which brokers hope to increase further, will be in excess of 2 million pounds (\$3.1 million). Mr. Murphy has promised to keep intact the initial 2 million pounds of cover, which is the minimum amount of EL insurance required by all employers under

Continued on page 23



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- DISABILITY MANAGEMENT
- LUNCHEON SPEAKER - ALLEN IAMPAGLIA, RISK MANAGER, CITY OF GLENDALE, ARIZONA
- EMPLOYER CASE STUDIES
 - ▶ IN-HOUSE CASE MANAGEMENT WORKS
 - ▶ CARPAL TUNNEL SYNDROME CASES DON'T HAVE TO COST AN ARM
 - ▶ THE TRUTH AND CONSEQUENCES OF COMBATTING FRAUD
- FINANCING ALTERNATIVES FOR WORKERS COMPENSATION: HOW TO EVALUATE AND DECIDE WHICH FINANCING METHOD IS RIGHT FOR YOUR COMPANY
- Reception

FRIDAY, OCTOBER 21, 1994

- Continental Breakfast
- DEALING WITH CONTESTED CLAIMS
- CUMULATIVE TRAUMA DISORDERS: CONTROLLING THE WORKERS COMPENSATION MONSTER
- ESTABLISHING AND MANAGING THE CLAIMS AUDIT PROCESS
- LUNCHEON SPEAKER - DOUGLAS MCCOY, RESIDENT VICE PRESIDENT, COMMERCIAL LINES, THE TRAVELERS CORPORATION
- APPLYING TOTAL QUALITY MANAGEMENT TO WORKERS COMPENSATION: UTILIZING BENCHMARKING TO STREAMLINE THE WORKERS COMPENSATION PROCESS

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Blues

Continued from page 1
of Towers Perrin.

If that strategy succeeds, employers may benefit from a more competitive managed care marketplace.

It won't be easy for the Blues. Consultants and analysts note that the critical factors for success will be the ability to adapt quickly to changing conditions and the commitment to meet—and exceed—consumer demands on cost and quality.

"I would not count the Blues out as a collection of managed care organizations," said George Morrow, an independent consultant with his own firm, Health Ventures Ltd., in Minneapolis. "But I describe the Blues as organizations which at their best don't exhibit much initiative but react extremely well. And this is the perfect environment in which they can react."

"The issue is: Can the organization, which has more history than any other managed care organization, adjust to a dynamic and constantly changing marketplace? Can they adjust flexibly and build a new organization on the fly to meet consumer demands?"

Even though they vary widely in financial strength, caliber of management and aggressiveness in pursuing new opportunities, the Blues plans "still tend to be big, bureaucratic organizations," explained Thomas Hodapp, a health care analyst with Robertson Stephens & Co. in San Francisco. "They are major cargo ships trying to navigate around a bunch of speedboats."

Blues plans have been providing medical coverage for more than 60 years and collectively cover 67 million people. But their strength in some markets has eroded along with the popularity of traditional indemnity insurance. And financial shenanigans at several large plans, most notably Empire Blue Cross & Blue Shield in New York, has sullied the entire non-profit organization's reputation (*BI*, Nov. 15, 1993).

Today, the Blues are trying to show they are not out of step.

When health maintenance organizations and other managed care plans took off in the 1980s, some Blues began offering new products designed to appeal to cost-conscious employers and capture business slipping from their indemnity plans.

Last month, in fact, the BC/BS Assn. reported that 26.3 million people are enrolled in BC/BS HMOs or preferred provider organizations.

And most plans are growing stronger financially.

"We've now had five years of profitability in a row," said Thomas Kinser, executive vp and chief operating officer for the BC/BS Assn. "Previously, we had three-year cycles: three years down and three years up. We feel that now we have at least broken the underwriting cycle. Our plans are in better shape and can manage their money better."

"Generally they are a lot more healthy today than a few years ago, but that's true of all health insurers," said Bill Bluhm, a principal and consulting actuary with Milliman & Robertson in Minneapolis.

In 1993, only one BC/BS plan reported a loss, Mr. Kinser said. "The forecast is good for 1994."

To make sure that trend continues, the association is encouraging each plan to keep up with the fast-paced consolidation in the

health care market. In many cases, that means joining forces with other health care entities, like hospitals and physician groups.

It also means raising cash.

To that end, the BC/BS Assn. in June gave independent plans permission to convert their entire op-

And, consultants and analysts agree that the Blues have a dominant presence in rural markets—something their competitors do not.

That could prove to be their ace in the hole as employers increasingly look for managed care companies to serve their workers in

Can the Blues, which have 'more history than any other managed care organization, adjust to a dynamic and constantly changing marketplace? Can they adjust flexibly and build a new organization on the fly to meet consumer demands?' asks George Morrow.

erations to for-profit status, ending a 65-year tradition of non-profit service.

A number of Blues plans had already spun off for-profit subsidiaries, which, like for-profit insurers and health plans, can raise capital by selling stock to the public.

"To do managed care well, you need market share; that gets customers' attention," Mr. Kinser said.

But, the Blues also need capital to develop good clinical criteria and create efficient data bases, as well as to attract top management talent.

"We realized we had cut off a good source of capital by restricting the ability of plans to go for-profit," he said.

Describing the move as a change in "religious principle," he noted that it is not mandatory, though he expects eight to 10 plans to adopt for-profit status in the next few years.

"They believe having access to capital in the public markets will be increasingly important going forward," said Margo Vignola, an analyst who follows some of the Blues plans for Salomon Brothers Inc. in New York.

The move could prove profitable for the Blues within their individual states, where they tend to be the dominant player. But analysts say most Blues organizations don't have a successful vehicle or the experience to grow outside that market.

Raising capital is "necessary, but it may not be sufficient" to compete in the national health care market, Ms. Vignola said.

"The Blues' weakness is their growth potential," commented another health care analyst. Sometimes expansion is difficult, even locally.

Take, for example, WellPoint Health Networks Inc.

The publicly traded for-profit subsidiary of Blue Cross of California has raised an enormous amount of capital but is having difficulty making acquisitions, in part because Blue Cross of California owns a large chunk of WellPoint shares, according to Ms. Vignola.

The health care system of the future may boil down to only a handful of national players, anyway. "By the end of the decade, much of the health care system will be controlled by a few dominant firms with market share around the country," the analyst said. "Even Blues that are large and healthy in one state may become afterthoughts given the presence of multistate, efficient insurance and managed care entities."

However, a growing number of employers, including Xerox Corp., are now striking up relationships with local HMOs, rather than contracting with one national organization (*BI*, June 20)

non-metropolitan areas.

"The Blues are well-positioned because they are locally oriented and very familiar with the market and its providers," Tillinghast's Mr. Drennen noted.

Some of them are managing care quite successfully—and those are the ones with bright futures, he said.

Observers also agree the future of the Blues will be largely deter-

Blues take 'step forward'

Senate hearings end with Blues promising accountability

By MARK A. HOFMANN

WASHINGTON—The Blue Cross & Blue Shield Assn. has adopted new standards of accountability for its members since it received a "wake-up call" from the 1990 collapse of Blue Cross & Blue Shield of West Virginia, the association's top executive says.

But BC/BS Assn. President and Chief Executive Bernard Tresnowski did not appear able to convince Sam Nunn, D-Ga., chairman of the Senate Permanent Subcommittee on Investigations, that everyone is fully awake to potential problems with the Blues organizations.

Sen. Nunn made that clear during a hearing last week on the BC/BS Assn.'s oversight of individual Blues plans and its handling of federal employee health care plan contracts.

The inquiry brought to an end a two-year series of hearings on the Blues conducted by Sen. Nunn's subcommittee (*BI*, July 13, 1992).

At the outset of the hearing, Sen. Nunn acknowledged that the BC/BS Assn. had instituted new safeguards to prevent another insolvency from occurring among its membership (*BI*, Feb. 15, 1993). He called the accountability standards "a step forward."

However, Sen. Nunn added, the size and influence of the Blues raises the question of whether there's a "role for non-profit organizations in the health care system" and also whether the Blues have become so much like big business that they should be treated as such.

Mr. Tresnowski's testimony was heard three days after the subcommittee staff issued a report criticizing how the Blues deal with the Federal Employee Health Benefits Program (*BI*, Aug. 8).

The report accused the BC/BS Assn. of "poor management, extravagant expenditures (and) inadequate oversight," among other things.

During more than two hours of testimony, Mr. Tresnowski responded to the subcommittee staff's charges and distributed a document that listed what the Blues contend are errors in the staff report. Mr. Tresnowski came

under fire when he attempted to refute portions of the report by citing studies that the Blues had commissioned recently.

Sen. Nunn said he found it "strange and somewhat frustrating" that the BC/BS Assn. had not shared these most recent studies with the subcommittee staff and demanded that the cost of the studies and the source of funding of the studies be made available to the subcommittee.

He also criticized Mr. Tresnowski's complaint that the staff report could be construed to mean that Blues plans should not be allowed to make a profit because they are non-profit entities. Sen. Nunn said the real question was "What do you do with your profit?"

Later, when discussing how the Blues treated discounts negotiated with providers, Mr. Tresnowski assured the senators that when the Blues plans find errors in how they credited the discounts, the plans "promptly correct them."

"I assume if you find any errors in your testimony, you'll promptly correct them, too," replied Sen. Nunn sarcastically.

Sen. Nunn's words lost some of their edge as Mr. Tresnowski described steps taken by the BC/BS Assn. to deal with errant member plans.

The failure of the West Virginia plan led Blues officials to realize that they could not depend on state regulators to ferret out prob-

lems, Mr. Tresnowski said.

He detailed measures the national association has taken to deal with troubled Blues plans in Maryland, New York and the District of Columbia. The subcommittee had investigated each of these plans earlier and found instances of mismanagement and misuse of funds.

The BC/BS Assn.'s actions have included: annual reviews of individual plans' compliance with the national association's financial standards; regular meetings with key local plan managers as well as state regulators; and changes in the makeup of boards of directors, said Mr. Tresnowski. He noted, for example, that while New York's Empire Blue Cross & Blue Shield plan is "meeting our standards for the moment," a recent rate increase denial could put the plan in financial trouble. He said that he has told New York regulators that the Empire plan would be stripped of the right to use Blue Cross & Blue Shield in its name if it fails to meet the national group's standards.

Sen. Nunn asked why the BC/BS Assn. had waited so long to impose tough accountability standards upon its members.

"That, Mr. Chairman, is a very good question, and I wish I had a very good answer for it," replied Mr. Tresnowski.

He speculated that a major reason for the lack of oversight was the belief that a Blues plan could not go insolvent. **BI**

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Asbestos

Continued from page 2

cubic centimeter over an eight-hour time period from the current 0.2 fiber per cubic centimeter standard. The regulations also set specific mandatory safety practices for three broad categories: construction, general industry and shipyards.

Among the new regulations that appeared in the Aug. 10 Federal Register are required methods of asbestos exposure control for au-

tomotive brake and clutch repair work and that a "competent person" oversee all disturbance and removal of asbestos.

The new rules also hold that owners of buildings built before 1980 that contain thermal system insulation or sprayed-on or troweled-on surfacing material or a combination of both must presume that the material contains asbestos.

Owners of such buildings must provide appropriate training and hazard communication and—if the material is disturbed—re-

quired worker protection or take samples of the material to determine if it does indeed contain asbestos and follow up with the appropriate measures.

"The new OSHA standard is a significant improvement over the old one in that it allows employers more options for compliance," said Darrell Mattheis, an occupational health and safety and environmental consultant with Organization Resources Counselors in Washington. The law allows employers the flexibility to take a different approach than specified

in any of the standards if the employer has data to show that the approach is equally effective, he said.

While he cited a couple of provisions as being more burdensome than necessary, such as semi-annual testing of respirators instead of annual testing, he did not view the 0.1 fiber exposure standard as a problem. Meeting that standard is not significantly different than meeting the current 0.2 fiber standard, he said.

The costliest part of the program, Mr. Mattheis said, is the

training component, which he believes could make the annual cost to employers exceed the government's projections.

The new regulations will cover about 3.2 million construction workers, 685,000 workers in general industry, primarily in automobile repair, and about 1,000 shipyard workers.

States with their own workplace safety plans must adopt comparable asbestos standards within six months. The new OSHA standards take effect on Oct. 11. **BI**

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Coalition

Continued from page 1

mately 80% self-insure their workers comp programs, said Robert L. Brown, president of the Kansas City coalition.

Previous coalition projects have focused on other health care issues, though the work comp project "has attracted more energy and interest than anything we've done," Mr. Brown said. "I think it's pretty clear that workers comp is the hottest topic going. How do you get the employer's costs under control?"

The model, which has taken nearly two years to develop, is "employer-driven." But employer efforts alone aren't enough to rein in workers comp costs, he said. Physicians also must be "tied into the team."

"One of the main things that's significant is that the coalition is made up of a cross section of employers and providers and insurers and even union representatives," said Holly D. McCoy, vp-human resources for Farmland Industries Inc. of Kansas City and a member of the Mid-America Coalition's board.

"The program provides some guidelines or suggestions to employers on ways that they can work more efficiently with their workers comp medical providers," Ms. McCoy said.

If the project "works right," and results in consistent provider handling of workers comp cases, she said, "people who aren't doing this will end up getting what the rest of us are asking for."

Assembling the model program required the efforts of many, though ultimately employers will keep track of workers comp cases.

At the heart of the program is a recognition that employers need to know details of an injured worker's condition and likely treatment within the first 24 hours after that worker obtains medical care, and to closely monitor the worker's status for the first seven days of treatment. If not, "that employee is lost," Mr. Brown said. "He disappears into the provider community."

Employers that maintain close tabs on the employee "have a good chance of being able to make decisions that employers know how to make," the coalition's president said. Chiefly, employers must be able to make decisions involving the employee's return to work and possible need for a light-duty assignment.

"What we've done with our model program is we've said you have to link up employers with the doctors," Mr. Brown said. "Employers know how to make decisions, but they have to have information. And we were finding out that they don't."

To that end, the group created a set of guidelines to facilitate communication between employers and medical providers.

The centerpiece of the communication strategy is a one-page uniform "workability" report form that medical providers use to provide the employer their initial diagnosis of the worker's injury, their treatment plan, the employee's work status and other information the employer needs to make informed decisions.

"The model reporting form is critical to the whole process," Mr. Brown said. Created over a period of months, the finished form "was an incredible consensus of all these risk managers and all these doctors."

The form asks doctors to fax a copy to the employer's designated medical liaison, but Mr. Brown said the group is looking toward online electronic information transfer.

To further enhance employers' decision-making ability, the model program provides medical protocols to guide physicians' approaches to various injuries. Initially, the program includes protocols aimed at the five

sorts of injuries risk managers identified as most common: carpal tunnel, back injuries, shoulder and knee injuries and tendinitis.

"We developed them because the risk managers asked for them," Mr. Brown said, adding that the local medical society, which was instrumental in developing the protocols, "was supportive from Day One."

The protocols will be circulated to occupational medicine providers and hospital staffs in the Kansas City area. They're designed to provide general treatment guidelines for physicians and therapists, and in the process help employers' medical case managers follow courses of treatment and spot inappropriate or unnecessarily prolonged treatment.

"From an employer's point of view, the protocols will help us to know what seems reasonable," Farmland's Ms. McCoy said.

The protocols may not be for ev-

erybody, though. William W. Johnson, risk financing manager of Hallmark Cards Inc. in Kansas City, worked for a time with the panel that developed the protocols. While he believes they could help many employers cut workers comp costs, he says they wouldn't help his company or other large companies with sophisticated cost-containment mechanisms in place.

"My view is that treatment protocols would not be something that would be beneficial to Hallmark Cards, for example, because our internal processes are already beyond that," he said.

Each Hallmark facility has professional medical staff, he noted, and one of their responsibilities is to work with treating physicians in workers comp cases to minimize lost time and help guide treatment.

Consequently, "a one-size-fits-all protocol... would be sort of a step

backward rather than forward for us," Mr. Johnson said. "You could see where a smaller company that doesn't have the resources would look at the protocols and say 'Wow, this gets us somewhere,' and it certainly would."

The project's five evaluation site companies have been working under the program's guidelines for two months now, and are compiling data on their performance. That data will be evaluated to help determine the cost-containment project's success and how it can be improved.

Meanwhile, a steering committee of local executives will recommend the program to area companies.

"There are an awful lot of companies that will probably do bits of it, and we'll see if they work into it more," Farmland's Ms. McCoy said.

"The goal is to bring 100,000 employees under the system," Mr. Brown said.

Ultimately, "it's not unreasonable" to expect the program to produce savings of 5% to 6%—savings equal to \$7.5 million to \$9 million of Kansas City-area employers' current annual workers comp costs of about \$150 million annually—he said.

And those results can be duplicated elsewhere, Mr. Brown believes.

The process used in Kansas City, he says, gave local employers and medical providers a sense of ownership in the results, something lacking in any legislated attempts to reduce workers comp costs. "You can legislate all you want to bring down workers comp costs and you won't drive them down."

The first analysis of the evaluation sites' results should be produced in two to three months, Mr. Brown said, while in a year the coalition hopes to have "a substantial story to tell about how to make a local voluntary program work." **BI**

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Police

Continued from page 2

After beating her, the assailant ran into the apartment and locked himself in with her children, whom he had threatened earlier. Unable to break down the apartment door, the woman ran from the building screaming as alarmed neighbors summoned the police.

The plaintiffs charge that the supervising officer at the scene, James Horka, would not break down the apartment door and would not let other officers do so. He allegedly said he did not want to be held responsible for damage. He did not break in even after a supervisor radioed in an order, court papers say.

The woman charges that Officer

Horka also questioned her in a "rude, demeaning and accusatory manner" about her escape and dismissed her as being "hysterical."

About 30 minutes after the ordeal began, a police investigator arrived at the scene and entered the apartment with several other officers through an unlocked back door. They apprehended the assailant as he was raping the woman's 12-year-old daughter. He also had injured the woman's younger son, who was about 10, by choking him.

The city later fired Officer Horka for mishandling the situation, but a court ordered his reinstatement. The city did not appeal.

The plaintiffs are seeking unspecified damages. But, their attorney, Edward T. Stein of Chicago, believes they were injured at least as badly as

Los Angeles police-beating victim Rodney King was. Mr. King won a \$3.8 million compensatory award.

Calumet City was insured by Scottsdale Insurance Co. of Scottsdale, Ariz.

A trial court and an appellate court ruled that the plaintiffs could not sue the city or Officer Horka for failing to enter the apartment.

But the state high court, in a decision written by Justice John L. Nickels, ruled they could sue for willful and wanton misconduct because "a rational trier of fact" could conclude that Officer Horka's conduct showed "an utter indifference or conscious disregard" for the children's safety.

In allowing an emotional distress claim to stand, the court ruled that a reasonable jury could conclude that Officer Horka's conduct could have caused emotional distress for the woman.

The court let stand the charge of gender discrimination in violation of the 14th Amendment's equal protection clause against the officer because of his alleged comments.

The court ruled the charge can stand against Calumet City because of the officer's actions and a former police policy of strip-searching only women for non-felony offenses, which the plaintiffs say institutionalized the department's disparate treatment of women (*BI*, Oct. 18, 1993).

Officer Horka's attorney, Robert Baal of Baal & O'Connor in Chicago, said his client's side of the story "has not been told," but he would not discuss his defense before the as yet unscheduled trial.

Some legal experts suggested a defense could be that Officer Horka was dealing with a hostage situation and that storming the apartment in a hostage situation could have en-

dangered the children.

But Mr. Stein, the plaintiffs' attorney, said the officers never negotiated with the assailant.

Courts around the country are expanding liability exposures for police agencies and municipalities, say Mr. Baal and some other attorneys. This ruling, though, would hold them accountable for injuries caused by criminals in rape, stalking and other crimes that the police do not prevent. An exception will likely be in missing-persons cases, because the facts in such cases often are not readily available to the police, attorneys said.

The ruling "has created a species of liability that never existed before" in Illinois and is rare, if not unheard of, nationwide, said Lawrence Rosenthal, deputy corporation counsel for the city of Chicago.

Previously, officers and municipalities could be held liable if a citizen was harmed by an officer's actions, he said. "Now, city taxpayers can be forced to pay for damage that criminals do."

Paul E. Wojcicki, an attorney for Calumet City, said that Illinois' Local Governmental and Governmental Employee Tort Immunity Act does not even allow claims of willful and wanton misconduct against police officers. The law allows such claims against other governmental employees, but a separate section on police officers' liability does not contain such an exception, said Mr. Wojcicki, an attorney with Segal McCambridge Singer & Mahoney Ltd. of Chicago.

At the very least, "the ruling will cause a great influx of lawsuits against municipalities," which will trigger insurance coverage for defense costs, Mr. Baal predicted.

Mr. Wojcicki agreed. "The court

didn't delineate what duty to protect it was imposing. New cases will have to shape that duty."

But Mr. Rosenthal said there are still enough legal restrictions against such suits to prevent an uncontrollable flood of new litigation.

The decision by the usually conservative Illinois Supreme Court also could influence courts elsewhere, Mr. Stein said.

But, Michael Brave, director of police risk management consultant Liability Assessment & Awareness International in Eau Claire, Wis., does not think the ruling expands police liability. "All it's doing is fine-tuning what we already knew."

Police risk management consultants agree that the case provides a valuable lesson to police agencies nationwide. The consultants say there is a lack of training nationwide for police supervisory personnel on liability issues.

G. Patrick Gallagher, president of Gallagher-Westfall Group Inc. of Indian Valley, Va., bases that assessment on his experience with 300 to 400 police agencies nationwide, which typically offered supervisory training to only a couple of officers. Even that training is eroded because of a lack of departmental support for the goals of the job and by police agencies' emphasis on the constraints of the job resulting from liability concerns, he said.

Police agencies that he has consulted also have typically rated the quality of the civil and criminal law training that they provide officers lower than their other training, policymaking, supervisory, discipline and review and revision practices. Police "are going onto the street unarmed" about the liability implication of their actions or inaction, he said.

"Police departments are slow to make changes in policies and procedures" in light of changing legal standards, agreed Hubert Williams, president of the Police Foundation, a non-profit Washington group that aims to improve policing through research and experimentation.

Quicker assessments and increased training in risk and liability are necessary, he said. But agencies often are handcuffed by limited resources, which largely are committed to dealing with increasing crime, he said.

Messrs. Brave and Gallagher also agree that the case illustrates the need for increased sensitivity training on gender and race.

Jane Doe et al. vs. Calumet City et al., Illinois Supreme Court; No. 75347.

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re
Petition of Gareth Howard Hughes,
Nigel James Hamilton and
Jacqueline Barbara Stephenson, as
Joint Provisional Liquidators of
Municipal General Insurance Limited,
Debtor in Foreign Proceedings.

Case No. 92-B-41329 (CB)

PRELIMINARY INJUNCTION ORDER

This matter has come before the Court on the above Petitioners' request for a Preliminary Injunction Order pursuant to Bankruptcy Rule 7065 and Federal Rule of Civil Procedure 65(b). The Court has considered and reviewed the Petition filed in this case, the Affidavit of Ronald DeKoven, one of the attorneys for Petitioners, the Declaration of Gabriel Moss, Q.C., the Declaration of Gareth Howard Hughes, one of the Petitioners herein, and the Memorandum of Law in support of the application, and any responses filed thereto, and having held a hearing and heard arguments by counsel on the 29th day of March, 1994, and the 27th day of July, 1994, and based on the foregoing the Court finds and concludes as follows:

1. Petitioners have demonstrated a substantial likelihood of success or have raised serious questions on the merits of the contentions that: (a) Municipal General Insurance Limited ("MGI") is subject to "foreign proceedings" within the meaning of Sections 101(23) and 304(a) of the United States Bankruptcy Code (the "Bankruptcy Code"), 11 U.S.C. §§ 101 et seq.; (b) Petitioners are the "foreign representatives" of MGI within the meaning of Sections 101(24) and 304(a) of the Bankruptcy Code; (c) the commencement or continuation of any judicial, administrative or regulatory action or proceeding against MGI, any of its property in the United States, or any proceeds thereof, (i) the enforcement of any judicial, administrative or regulatory judgment, assessment or order, and the commencement or continuation of any act or any judicial, administrative or regulatory action or proceeding, to create, perfect or enforce any lien, set-off or other claim against MGI, any of its property in the United States, or any proceeds thereof, and (ii) the drawing down of any letters of credit established by MGI in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit have been established, should be enjoined pursuant to Section 304(b) of the Bankruptcy Code to permit the expeditious and economical administration of the foreign estate in the pending proceedings brought under foreign law; and (d) the relief requested will not cause hardships to parties that are not outweighed by the benefits;
2. Unless an injunction is issued, it appears to this Court that one or more parties in interest will transfer, relinquish or dispose of assets of MGI in the United States, or proceeds thereof, commence or continue the prosecution of judicial, administrative or regulatory actions against MGI, its assets, or proceeds thereof, or draw upon letters of credit established by MGI in excess of the amount to which such parties are contractually entitled, thereby interfering with, and causing harm to, the Petitioners' efforts to administer the MGI estate pursuant to the foreign proceedings, and that, as a result, the Petitioners will suffer immediate and irreparable injury for which they will have no adequate remedy at law;
3. Unless the injunction is issued, Petitioners will be unable to acquire sufficient information about pending and potential litigations against, and U.S. assets of, MGI to properly protect the interests of MGI in the United States, resulting in the further depletion of MGI's limited assets;
4. The interest of the public will be served by this Court's grant of the relief requested by Petitioners; and
5. Venue is proper in this district pursuant to 28 U.S.C. § 1410.

NOW, THEREFORE, IT IS
ORDERED that all persons (except as provided in the New York Superintendent Order) are hereby enjoined and restrained from:

- (1) transferring, relinquishing or disposing of any property of MGI in the United States, or any proceeds thereof, to any persons or entities other than Petitioners;
- (2) commencing or continuing any judicial, administrative or regulatory action or proceeding against MGI, any of its property in the United States, or any proceeds thereof;
- (3) enforcing any judicial, administrative or regulatory judgment, assessment or order, or commencing or continuing any act or any judicial, administrative or regulatory action or proceeding, to create, perfect or enforce any lien, set-off or other claim, against MGI, any of its property in the United States, or any proceeds thereof; and
- (4) drawing down any letters of credit established by MGI in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit have been established; and it is further

ORDERED that nothing in this Preliminary Injunction Order shall in any respect prevent the continuance or commencement of proceedings against or involving other London Market insurers or any other insurance company defendant; and it is further

ORDERED that pursuant to Bankruptcy Rule 7065, the security provisions of Fed. R. Civ. P. 65(c) be, and the same hereby are, waived; and it is further

ORDERED that this Preliminary Injunction Order shall be served (A) by hand delivery or U.S. mail, first class postage prepaid, on or before August 10, 1994 upon (1) the persons listed on Exhibit B to the Order to Show Cause entered by this Court on March 21, 1994 at their respective addresses listed on such Exhibit, which persons comprise, as far as Petitioners were able to identify as of the date of the Order to Show Cause, the parties to pending litigations affected by this Preliminary Injunction Order (or their attorneys, where known) and certain U.S. reinsurers and reinsureds, (2) the persons subsequently identified by the Petitioners as additional parties to such litigations (or their attorneys, where identified) and additional reinsurers at the best known addresses for such parties, and (3) the parties in interest appearing in this case (or their counsel, where known); (B) by hand delivery or U.S. mail, first class postage prepaid, on additional parties at such time as they are sufficiently identified (or their attorneys, where identified); and (C) by publication of a summary of this Preliminary Injunction Order in *Business Insurance Magazine* on or before August 23, 1994; and that service pursuant to this paragraph shall be deemed good and sufficient service and adequate notice; and it is further

ORDERED that the time to answer or move with respect to the Petition is extended *sine die*, but that parties wishing to move for modification of or relief from this Order or otherwise may do so in accordance with the schedule set forth by the Court herein and in any subsequent Scheduling Order entered by the Court in this case; and it is further

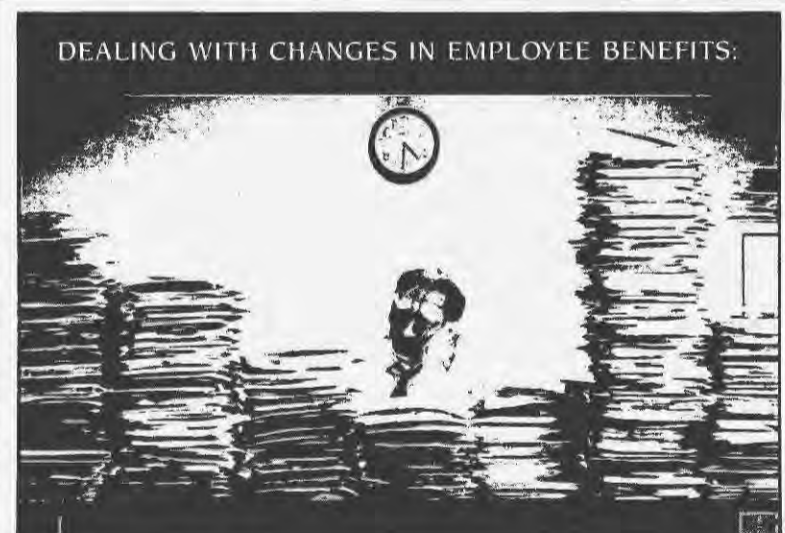
ORDERED that this injunction shall remain in effect pending further order of the Court after a hearing to consider whether the injunction shall be continued, which hearing is scheduled to be held in Room 601 of the Alexander Hamilton Custom House, One Bowling Green, New York, New York on December 8, 1994 at 2:00 p.m.; and it is further

ORDERED that all papers submitted for the purpose of controverting the Petition or opposing a continuation of the relief provided for in this Preliminary Injunction Order shall be filed with the Court with a copy to the Chambers and delivered personally or by overnight mail or so as to be received by Shearman & Sterling, 599 Lexington Avenue, New York, New York 10022 (attention: Ronald DeKoven), Attorneys for Petitioners, on or before November 11, 1994 at 5:00 p.m.

Dated: New York, New York
July 27, 1994
3:15 p.m.

CORNELIUS BLACKSHEAR
U.S.B.J.

*Petitioners' request for relief, and the terms of this Order, are subject to the provisions of any temporary restraining order or order of conservation obtained by the New York Superintendent of Insurance (the "New York Superintendent Order").



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Reform

Continued from page 1

viding subsidies to help the poor buy insurance.

"This is an attempt to be realistic. Other (reform) plans overpromise and underdeliver," said Rep. Bill Thomas, R-Calif., another group member.

Meanwhile, some of the hottest rhetoric last week came from Hillary Rodham Clinton and Sen. Phil Gramm, R-Texas.

"We will end up bankrupting the government and rationing health care, and in the end destroy both the greatest economy of the world, and we are going to destroy the greatest health care system in the history of the world," Sen. Gramm said in debate over the Mitchell bill.

Mrs. Clinton described some of the senator's attacks on health care reform legislation as "ranting and raving," saying he was motivated by "political opportunism."

The Clintons themselves seemed divided on the best approach to reform. President Clinton said he could support either Rep. Gephardt's proposal or Sen. Mitchell's bill.

But Mrs. Clinton, who headed the president's health care task force, said the Gephardt bill would provide "greater results."

The Mitchell bill would require all but very small firms to pay 50% of premiums starting in 2002, if a 95% coverage goal was not met and Congress does not expand coverage some other way.

But it seems unlikely that the Mitchell bill will remain intact, much less be passed by the Senate. Dozens of amendments were expected to be proposed on the Senate floor, including one to strike the employer mandate.

Immediately after it was unveiled, the Mitchell bill came under fire from benefit managers and business groups. In fact, the introduction of the bill triggered the formation of a so-called "super coalition" of 13 small and large business trade associations that contend the Mitchell bill is a worse alternative than no reform at all.

"It took something as awful as the Mitchell bill to bring us together," said James Klein, executive director of the Washington-based Assn. of Private Pension & Welfare Plans, which helped orga-

nize the coalition.

Employers in particular assailed a provision that would require them to offer at least three health plans, including a traditional indemnity plan.

They also criticized as unworkable a proposed 25% tax on health plans whose annual costs increase beyond certain targets. Employers subject to the tax would be allowed to recover some of the tax from providers in the form of lower reimbursements. It is not clear how that would occur or could be enforced.

"I don't see any way you could do it," said Larry Atkins, coordinator of the Corporate Health Care Coalition in Washington, which represents 23 major em-

'We are going to destroy the greatest health care system in (history),' charges Sen. Phil Gramm.

ployers, including IBM Corp. and General Electric Co.

Other parts of the Mitchell bill also may be unworkable.

In particular, experts point to a "risk adjustment" surcharge. Employers with self-funded plans that have low health care costs because their plans cover young, healthier workers would have to pay a surcharge, called a "risk adjustment," essentially to subsidize community-rated plans.

How exactly this would occur leaves some benefit experts completely baffled.

"An adequate methodology has never been developed to carry this out," said Edward Hancock, a technical consultant with Towers Perrin in Valhalla, N.Y.

Methodology aside, some see the risk adjustment feature as a thinly veiled payroll tax.

"There are a lot of hidden landmines and this is one of them," said Frank McArdle, a consultant with Hewitt Associates in Washington.

There are others. For example, the Mitchell bill contains provisions lifted from legislation introduced by Sen. Harris Wofford, D-Pa., that would generally require employers that want to ter-

minate or cutback retiree health benefits to continue the programs while any retiree lawsuits are pending (BI, July 26, 1993).

Continuing benefits during legal proceedings would invite retirees to sue rather than work out settlements, benefit experts say.

Other parts of the Mitchell bill would take away some of the savings that employers may have been banking on from reform.

For example, the bill would significantly expand Medicare starting in 1999 to cover 80% of outpatient prescription drug costs, one of the most expensive benefits for retired workers. With Medicare covering prescription drug benefits, employers would be relieved of a big financial obligation.

But under a maintenance-of-effort provision, employers that offer prescription drug benefits as of Jan. 1, 1994, would continue to be the primary payer of retirees' prescription drug claims until Jan. 1, 2002.

But not all provisions in the Mitchell bill are adverse to employers. For example, the measure would repeal a federal law that requires employers to file health care coverage data. That information is to be used by the Health Care Financing Administration to spot claims that employer health plans—not Medicare—are supposed to pay.

Meanwhile, the Gephardt bill, which became available on Friday, would provide limited financial relief for employers offering health care benefit programs to employees who retire before they are eligible for Medicare.

Under the bill, the government would reimburse employers for 40% of the cost of a basic health care benefit package for retirees who were at least age 55 as of Jan. 1, 1994, and not yet covered under Medicare. The subsidy would end when those retirees turned 65 and became eligible for Medicare, or if they resumed employment.

The early retiree subsidy is far more modest than the one originally proposed by the Clinton administration, but still strikes some as nothing more than old-fashioned pork barrel politics.

Rep. Pete Stark, D-Calif., described it as an effort by Michigan Democrats to bring home "some pork" to the auto companies.

The Mitchell bill lacks a comparable provision. **BI**

Gephardt reform bill includes antitrust, work comp provisions

By MARK A. HOFMANN

WASHINGTON—The worst fears of opponents of McCarran-Ferguson reform are nearer to realization now that H.R. 9 has been incorporated into the health care reform legislation unveiled last week by Rep. Richard Gephardt, D-Mo.

However, that could work to the advantage of McCarran-Ferguson reform opponents, since the future of the majority leader's bill is in doubt. Opposition to other portions of the bill—particularly those that would radically restructure the workers compensation system—could kill the legislation.

Rep. Gephardt followed the lead of Judiciary Chairman Jack Brooks, D-Texas, and used the text of H.R. 9 as the health care bill's antitrust language (BI, Aug. 8).

Earlier health bills would only have applied to health insurers; H.R. 9 would circumscribe joint activities of property/casualty insurers as well.

H.R. 9, the Insurance Competitive Pricing Act of 1994, has divided the property/casualty insurance industry into two hostile camps. Industry support for the bill in its current form is led by the American Insurance Assn., joined by the Council of Insurance Agents & Brokers, the Independent Insurance Agents of America and the National Assn. of Insurance Brokers. H.R. 9 represents a compromise worked out between the AIA and Rep. Brooks that stops short of full repeal of the McCarran-Ferguson Act (BI, July 25).

All other insurance industry groups—including the Alliance of American Insurers, the National Assn. of Independent Insurers, the National Assn. of Mutual Insurance, the National Assn. of Professional Insurance Agents and the Reinsurance Assn. of America—remain adamantly opposed to the McCarran-Ferguson reform bill.

However, David Farmer, senior vp-federal affairs for the Alliance in Washington, said that including the bill in the House health care reform package could be a blessing in disguise for opponents of H.R. 9.

All property/casualty trade groups vehemently oppose the Gephardt bill's plan to bring workers compensation insurance partially under the umbrella of a reformed national health care system, which would open the possibility that the two systems could eventually be merged.

"Basically, (inclusion of H.R. 9) certainly gives the casualty insurance industry a greater incentive to concentrate their energies on attempting to eliminate both of these provisions that are harmful to insurers and, more importantly, to the insurance-buying public in the long run," Mr. Farmer said.

David Pratt, senior vp-federal affairs for the AIA, agreed that addressing the workers comp issues takes precedence over passage of H.R. 9. "There is no question that the entire property/casualty industry is strongly united in its opposition to the workers comp provision in the Gephardt bill. We are working hard together as an all-industry coalition with employers who are our customers to remove the provision. In light of that, inclusion of H.R. 9 is immaterial to us in that connection. The harm of the workers comp provision infinitely outstrips any good that can come from H.R. 9," said Mr. Pratt, who was one of the key architects of the compromise bill.

Under Title XIII of the bill, federal officials would be allowed to waive major portions of the federal health care law pertaining to workers compensation for states with comprehensive workers comp systems, including strict requirements for managed care firms. The bill would also let the construction industry essentially establish its own workers comp system, if it is collectively bargained and meets specific requirements.

The bill also would allow employers to self-insure their workers comp coverage and to use case managers. It differs from its original outline by not expressly precluding providers from charging higher rates to treat workers comp patients and by not requiring Congress to vote on an integration commission study.

Meg Fletcher contributed to this report.

Settlement

Continued from page 2

proving that the companies knew about the threat of HIV contamination and failed to respond, damages could be far greater than the \$140 million to \$160 million offered by Baxter and Armour on Aug. 2.

"We're perfectly willing to try this case on negligence. We never said \$160 million was a sizable amount. We agreed to it so that some of our less strong cases could get an assured amount," Mr. Shrager said.

That assured amount—\$25,000 to \$30,000 per person—apparently was not enough for the plaintiffs who opted out of the settlement. Jonathan Wadleigh, chairman of the hemophilia plaintiffs' advisory group, which urged rejection of the Baxter/Armour settlement, called \$30,000 an "absurdly low" offer.

Armour said it is confident that it will win the case in court. The settlement offer was made primarily to avoid protracted litigation, a spokeswoman said.

"There are risks for both sides. This case was only certified as a class action on the issue of negligence, and we have had a very good

track record defending cases on this point," said the spokeswoman for the Collegeville, Pa.-based manufacturer.

Indeed, the drug makers have had success in the courts. Hemophiliacs have filed hundreds of lawsuits since contracting HIV in the early 1980s and slightly more than a dozen have gone to trial on the issue of negligence. The drug makers say they have won all but one case.

The settlement's failure was a possibility from its inception. Both Baxter and Armour had the option of withdrawing the offer if more than 150 people opted out. And, while neither company likely would have pulled out had only 150 rejected the offer, with thousands of plaintiffs orally opting out, the settlement is no longer monetarily feasible for the companies.

"We put together this plan with our participation contingent on large support from the hemophiliac community. We made our choice, the plaintiffs have made theirs," Armour's spokeswoman said.

A spokeswoman for Deerfield, Ill.-based Baxter said, "We think we did all we could to prevent this, and we're adequately reserved for a long fight, if necessary."

Fred Baron, a partner in the Dallas law firm of Baron & Budd, which represents thousands of individuals with personal injury cases pending against asbestos manufacturers, said class actions have a place in the legal system, but not if mass torts are involved. "Class actions are very useful in securities cases and civil rights cases, but not in mass torts where every case has individual characteristics."

While he opposes class actions and large settlements in mass tort litigation, Mr. Baron fully understands why defendant companies have been pushing for them lately. "They want finality more than anything else. They want this litigation to end, and in some cases, they're willing to pay dearly for it. They want out of the tort system, and this is their panacea."

Nor does he blame companies for offering large global settlements that would put an end to litigation. "I don't blame them at all. In fact, I'm surprised it has taken them so long to make the offers."

The slow wheels of justice make mass settlements justifiable and enticing for companies, concedes Thomas Demetrio of Corboy Demetrio & Clifford in Chicago, whose plain-

tiffs' firm has handled large suits related to the Dalkon Shield. "But the reality of mass settlements is companies are looking at a blue book to determine what their liabilities are."

Meanwhile, Baxter and Armour continue to battle in court with hundreds of their insurers over coverage for hemophiliac claims.

Baxter is suing insurers in California state court in Los Angeles, including Zurich Insurance Co., CNA Insurance Cos., Chubb Corp., The St. Paul Cos. and American International Group Inc. (BI, Aug. 8).

And, Rhone-Poulenc has been involved in litigation with its insurers in federal court in Philadelphia for several years. Rhone-Poulenc is suing its insurers over whether the company is owed defense and indemnity for claims arising from its blood-clotting products.

In the cases of both Baxter and Rhone-Poulenc, the crux of the litigation is whether the insurers can invoke products hazard or completed operations exclusions in the companies' commercial general liability policies to deny coverage.

Rhone-Poulenc won a significant battle against its insurers in August 1993 when U.S. District Judge James McGirr Kelly ruled that un-

der Pennsylvania law insurers may not preclude coverage of claims against a blood product manufacturer based on the products hazard or completed operations exclusions.

The judge noted that if blood products companies like Rhone-Poulenc were held strictly liable for their products, the inherent risk of doing business would become so great that the inevitable result would be decreased availability and higher costs of products like Factor VIII and Factor IX.

Insurers including The Home Indemnity Co., Rhone-Poulenc's lead comprehensive general liability insurer in 1986, and Pacific Employers Insurance Co., had filed a motion for summary judgment arguing that coverage is barred by the exclusionary clauses.

The case is now on appeal to the 3rd U.S. Circuit Court of Appeals.

Other insurers that are party to the Rhone-Poulenc litigation include several units of the ITT Hartford Insurance Group, Aetna Casualty & Surety Co., Liberty Mutual Insurance Co., several units of American International Group Inc., Fireman's Fund Insurance Co., Continental Casualty Co., a unit of CNA and dozens of European insurers. **BI**

Superfund

Continued from page 1

saying he would drop his opposition to the EIRF if 70% of its funding came from a retroactive tax on insurers that wrote certain liability policies between 1971 and 1985, and only 30% came from a prospective tax levied on commercial insurers.

Mr. Greenberg was traveling last week, and AIG declined to comment on the sudden change in position. As recently as July 25, Mr. Greenberg had told the Ways & Means Committee that he would "probably not" support even a 100% retrospective tax because he felt the underlying doctrine of retroactive liability was unfair (BI, Aug. 1).

In his five-paragraph letter to Secretary Bentsen, Mr. Greenberg wrote that "AIG has agreed to support the overall Superfund reform bill if the Congress approves a funding mechanism for the EIRF that reflects the Treasury's original 70/30 split. Moreover, I believe that the majority of the property/casualty industry will also support this objective, and I will encourage them to do so."

"I urge you to hold firm to the original Treasury position and reject any further compromise which would inevitably lead to heightened disunity within the insurance industry," he wrote.

AIG's change of heart puts it in alliance with six insurance company members of the American Insurance Assn.'s Superfund Improvement Project that support relying heavily

on a retrospective tax. That position runs counter to the majority of the AIA membership, which supports a 100% prospective tax. The National Assn. of Independent Insurers has offered its own funding proposal while the Alliance of American Insurers and the National Assn. of Mutual Insurance Companies oppose the EIRF in any form.

"Clearly on this issue, there are no great profiles in courage," said Joel Wood, vp-government affairs for the Council of Insurance Agents & Brokers in Washington. The Council has taken no position on funding an EIRF. Members of the Ways and Means committee "are stuck in the middle listening to an intra-industry war" and the industry continues to fracture, he said. "It's a circular firing squad."

Reaction among insurers to the delay in marking up H.R. 3800 was mixed.

"What we hope it means and what it really may mean are two different things. We hope it means that the people who are arguing over these percentages have come to realize that there is no middle ground, and that they'll take the next step and realize as we have that the EIRF has to come out of the bill," said Julie A. Rochman, assistant vp and Superfund lobbyist for the Alliance of American Insurers in Washington. "What it in fact may mean is that there's no agreement but nobody's willing to give up, and that means we get stuck with a bad bill," she said.

"Superfund has developed a life of its own and there seems to be an

institutional imperative on the part of the Democratic leadership to move this bill forward before the recess," said Peter Lefkin, vp-federal affairs for Fireman's Fund Insurance Co. in Washington. He said that while the delay certainly doesn't increase the chances of the bill being passed soon, "it's not fatal."

The Alliance's Ms. Rochman called the AIG move "significant in that it gives the people supporting the 70/30 split another significant player on their side but serves to amplify how fractious the industry environment is right now."

If the AIG proposal ultimately "succeeds in torpedoing the EIRF, it would have been a very wise move," said the Council's Mr. Wood. He added that individual insurers' positions on the tax simply reflect understandable self-interest.

"Where you stand depends on where you sit. I haven't seen anyone who had a bigger marketshare in 1986 than they do today who's supporting a retrospective tax. That's not to criticize them, everybody's doing the best job they can representing their members or their companies," he said. There is no way to settle the tax question so that all parties involved win, he said.

Proponents of the purely prospective tax question whether a retrospective tax could be imposed fairly.

"The concept of retroactive taxes implies that insurance companies wrote these risks to begin with. Almost all of these policies being tendered to the EIRF will involve policies that were written before Superfund was enacted. I think it's probably unfortunate that certain companies are out there trying to stoke the taxing mechanism to provide themselves with a competitive advantage," said Mr. Lefkin.

"We at Fireman's Fund believe if the EIRF is going to go forward, the only way is that all insurance companies should pay equally," he said. He added that Fireman's Fund is "doing very, very well in the courts in assertions that our policies didn't cover those kinds of risks."

Although it favors a prospective tax, Mr. Lefkin said Fireman's Fund would really prefer that the EIRF be deleted entirely.

The debate over taxation "shows how significant the competitive affects of a retrospective tax would be," said Xerox's Mr. Cheek. He said that Xerox's Talegen subsidiary would be "in the top five no matter where you draw the line." Talegen is the holding company for several units of the former Crum & Forster Inc.

But because the insurer's premium volume has declined in recent years, a retrospective tax would result in a higher effective tax rate, he said. "It's a competitive problem rather than an absolute dollar question."

The Council's Mr. Wood pointed out that the bill's ultimate fate may be at least partially decided by an issue that has nothing to do with taxing insurers or environmental cleanup standards.

An amendment to the bill approved by the Public Works and Environment Committee late last month would extend the Davis-Bacon Act's provisions to any cleanup site where there is a public-private cleanup partnership. Davis-Bacon requires that workers on a federal project must be paid the prevailing wage in their area. Virtually all Republicans oppose extending Davis-Bacon under any circumstances and conservative Democrats share their perception that the amendment is nothing more than a plum for organized labor.

If it remains in the Superfund legislation, opposition is certain to be fierce, said Mr. Wood. **BI**

Updates

CIGNA rating lowered

PHILADELPHIA—Moody's Investors Service has downgraded the financial strength rating of CIGNA Corp.'s property/casualty and reinsurance subsidiaries to Baa1 from A2.

The New York-based rating agency said the insurer has been struggling with numerous operating and underwriting problems.

"The unit's standard commercial book has been plagued by adverse customer selection, poor agency performance and underwriting, and a soft market," Moody's said in statement.

Moody's recognizes that CIGNA is taking measures to turn the unit around but says it will be "a challenging process."

CIGNA Chief Executive Officer Wilson H. Taylor said the company has already seen improvements. "The organization already has significantly changed its mix of business and agency plant, reduced its volume of business, cut costs and restructured its investment portfolio."

Moody's also downgraded the financial strength rating of CIGNA's life insurance subsidiary, Connecticut General Life Insurance Co., to A1 from Aa3 and has lowered the rating of CIGNA's commercial paper to Prime-2 from Prime-1.

Pollution cover denied

LANSING, Mich.—Pollution cannot be "unexpected" if state authorities had notified a property owner of possible contamination, the Michigan Supreme Court has ruled in denying commercial general liability coverage for a city-owned landfill.

After warning the City of Clare, Mich., that its landfill may be contaminated, the state Department of Natural Resources in 1980 directed the city to perform a hydrogeological study at the site. The city did not perform a study and after a 1985 DNR study found contamination, the city was ordered to close the site.

Three CGL insurers—Auto Owners Insurance Co., Home Owners Insurance Co. and Farm Bureau Mutual Insurance Co.—sought a declaratory judgment that they were not liable for any pollution claims.

Overturing two lower courts, the state high court ruled that the pollution was excluded by the CGL policy, which only covers pollution that is "sudden and accidental."

"After interminable delay... it was far too late for the city to prevail on a claim that the release was unexpected," wrote Associate Justice Charles L. Levin.

The ruling is a win for insurers, said Laura A. Foggan, a partner at Wiley, Rein & Fielding in Washington, which filed an amicus brief on behalf of the insurers. "The Michigan Supreme Court has sent a clear signal that it will adhere to the terms of the contracts and prohibit policyholders who engage in long-term dumping of hazardous waste from shifting the costs of their harmful operations to their insurers."

Briefly noted

Weyerhaeuser Co. agreed last week to restore \$22 million to its pension program to cover investment losses as part of a settlement with the Labor Department, which charged that Weyerhaeuser did not adequately monitor its investment... The Defense Department is expected to announce by Sept. 30 which of four health insurers will provide medical benefits for 840,000 military beneficiaries in California and Hawaii. A five-year, \$3.5 billion contract for the **Civilian Health and Medical Program of Uniformed Services** was awarded July 1993 to Aetna Government Health Plans Inc. The General Accounting Office found the Defense Department did not follow proper bidding procedures in awarding the contract to Aetna (BI, Dec. 27, 1993)... Alfonso E. Mastrostefano has been named **Rhode Island insurance superintendent**, succeeding Charles P. Kwolek Jr., who has taken a job in the private sector... **Iowa Insurance Commissioner David Lyons** has resigned to pursue his duties as the state's director of economic development. Therese Vaughn, formerly director of the insurance center at Drake University, succeeds him... Citing the impact of workers comp reforms that took effect July 1, **Vermont regulators** turned down the 21% increase requested by insurers and approved a 9.3% increase in rates, effective on policies renewed after Aug. 1... The Louisiana Insurance Department says it will audit the **Louisiana Insurance Guaranty Assn.** following allegations that the guaranty fund improperly documented and handled claims... A federal grand jury has returned a superseding indictment adding two new charges that R. Alan Eagleson, former head of the **National Hockey League Players' Assn.**, defrauded players on disability insurance claims. Mr. Eagleson was originally indicted in March on racketeering, fraud and embezzlement charges for allegedly diverting players' pension, disability and other funds (BI, March 14)... Aon Corp. Chairman and CEO **Patrick G. Ryan**, who underwent quadruple-bypass surgery early last week, said he expects to resume his normal business activities after Labor Day... **Unitrin Inc.** says it will repurchase up to 10 million of its 51.8 million outstanding common shares. The move follows a hostile takeover bid for Unitrin by American General Corp. (BI, Aug. 8)... **Exxon Corp.** must pay \$286 million in damages awarded by a federal court jury to Alaskan commercial fishermen for damage caused by the Exxon Valdez oil spill in 1989. The more than 10,000 commercial fishermen had sought \$893 million from Exxon... President Clinton and key Democrats in Congress vow to revive a **sweeping crime bill**, which would make some types of insurance fraud federal offenses, after the House of Representatives voted 210-225 to halt consideration of the bill (BI, Aug. 8)... **Long-term disability benefit costs** could increase for a small percentage of employers after Congress last week passed a bill that would make the Social Security Administration an independent agency and would impose a 36-month limit on substance abusers' eligibility for Social Security disability benefits... **Allstate Corp.** Chairman and CEO Wayne E. Hedien, 60, will retire at the end of the year. Jerry D. Choate, 55, will immediately assume the duties of CEO following his election as president, CEO and director by the insurer's board. Mr. Choate is expected to become chairman Jan. 1, 1995.

Clinton reform proposal would reduce Superfund transaction costs: RAND

By MARK A. HOFMANN

SANTA MONICA, Calif.—A recent study by the RAND Corp.'s Institute for Civil Justice could give the Clinton administration's Superfund reform proposal a shot in the arm.

The administration's plan would "fundamentally change the way the Superfund program works" for the better, according to the study, "Fixing Superfund: The Effect of the Proposed Superfund Reform Act of 1994 on Transaction Costs."

Even though the process of allocating responsibility for cleanup "would remain complex, important components would be simpler and more standardized," wrote Lloyd S. Dixon, an economist with Santa Monica, Calif.-based RAND and author of several previous studies of Superfund (BI, Nov. 8, 1993).

According to Mr. Dixon, the "Superfund process generates transaction costs because it creates a complex set of interactions among the different players and provides many opportunities for the parties to contest the amount of their liability." The Clinton proposal would reduce the number of these transactions, thus lowering costs. The study does not say how much money the reduction in transaction costs would save, however.

What it does examine is how the administration's proposal would affect five sets of interactions: Between potentially responsible parties and the government; between PRPs themselves; between PRPs and insurers; between insurers and reinsurers; and between local communities and the government and PRPs.

Mr. Dixon points to the proposed Environmental Insurance Resolution Fund as an example of a reform that would simplify Superfund transactions. As proposed, the EIRF would pay a portion of policyholders' cleanup costs from a pool of money raised through new taxes on insurers in return for the policyholders'

agreement to forgo suing their underwriters for more coverage.

The EIRF proposal would "provide clear incentives to PRPs to accept fund offers. The costs on non-acceptance are increased by holding PRPs partially responsible for insurer legal costs if they lose their case in court after rejecting fund offers."

"Making only one offer to PRPs for all their sites may deter litigation, because PRPs would not be able to accept settlements at some sites and continue to pursue their insurers at others," Mr. Dixon wrote. He notes that the EIRF could also have an indirect benefit of speeding settlements between PRPs and the government because PRPs interviewed by RAND "said that uncertainty over insurance coverage delays their settlement decisions."

Mr. Dixon warns, however, that creating an EIRF mechanism wouldn't end coverage litigation because PRPs could still reject settlement offers and take their chances in court. In addition, the fund would cover cleanups only at sites on the Environmental Protection Agency's National Priority List, he notes.

A 1992 RAND study found that 60% of the cleanup expenditures for a group of four large insurers and 40% of the expenditures for a group of five large industrial companies involved sites not on the EPA list.

Nevertheless, the fund "is a step in the right direction. If it proves successful, perhaps the resolution fund could be expanded to deal with non-NPL sites and all PRPs with valid insurance contracts, not just those actively pursuing claims."

Single copies of "Fixing Superfund: The Effect of the Proposed Superfund Reform Act of 1994 on Transaction Costs" cost \$15 plus \$3 shipping and can be ordered from: RAND Distribution Services, 1700 Main St., Santa Monica, Calif. 90407; 310-451-7002; fax: 310-451-6915.



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