NEWSPAPER

AUGUST 2, 1993

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives / $2.50 a copy; $80 a year

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Update

Underwriters Re and subsidiary to be bought by Alleghany Corp.

NEW YORK—Alleghany Corp. has agreed to pay $201 million in cash to acquire Underwriters Reinsurance Co. of Woodland Hills, Calif.

New York-based Alleghany, a title insurance, banking and industrial minerals conglomerate, will acquire 93% of a new Underwriters Re holding company from current owners that include Continental Corp., Goldman Sachs & Co. and Underwriters Re management.

The remaining 7% of the new holding

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McCarran reform returns

Clinton supports narrowing antitrust immunity: Official

By MARK A. HOFMANN

WASHINGTON—The Clinton administration does not support repealing the McCarran-Ferguson Act but wants to narrow the scope of insurers' antitrust immunity, the U.S. Department of Justice's top antitrust officer says.

Assistant Attorney General Anne K. Bingaman also told the House Judiciary Committee's Subcommittee on Economic and Commercial Law last week that the administration "supports the objectives" of H.R. 9, the Insurance Competitive Pricing Act of 1993.

Sponsored by Judiciary Chairman Jack Brooks, D-Texas, that bill would remove many of insurers' key exemptions from federal antitrust law.

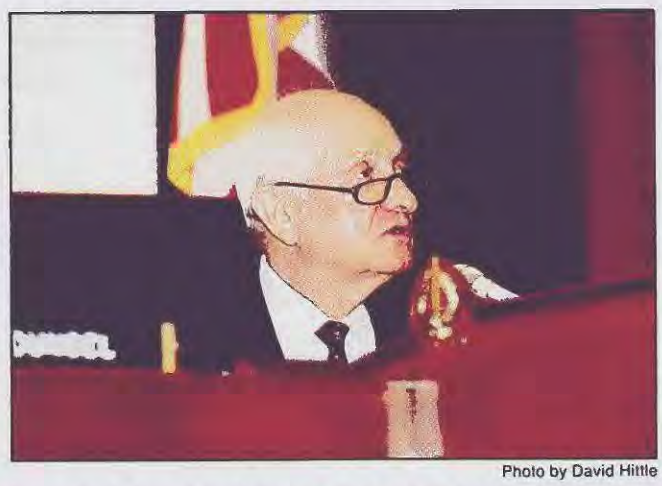


Photo by David Hittle

Rep. Jack Brooks, D-Texas, last week held hearings on his proposal for overhauling McCarran-Ferguson.

Identical versions of the bill have been introduced in the past two Congresses and would, among other things, ban insurers from price-fixing, allocating markets and monopolizing or trying to monopolize markets. Insurers argue that the bill would actually go much further and prohibit them from engaging in legitimate activities.

Witnesses at a hearing last week were limited to five minutes. But, in written testimony, Ms. Bingaman tied curtailing the insurance antitrust exemptions to health reform.

The Justice Department, she wrote, "supports replacement of the current broad exemption for the business of insurance with more carefully crafted protection for activities that are demonstrably pro-competitive and efficiency-enhancing. Such legislation must, of course, be consistent with the administration's forthcoming health care reform proposal."

Rep. Hamilton Fish, R-N.Y., asked Ms. Bingaman what impact H.R. 9 would have on the health care reform if it was interpreted to ban insurers from acting collectively.

If collective insurer action produced a product that was otherwise unavailable,

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Insurers tout alternative work comp products

By MEG FLETCHER

Several hundred employers in three Southeastern states are covering their workers compensation exposures with an innovative insurance product that is raising concerns among some regulators and insurers around the country.

The alternative product combines two coverages that are typically written by separate insurers: employee medical and indemnity benefits, underwritten by a life/health insurer; and employers liability coverage, underwritten by a property/casualty insurer.

The product, which some say could be expanded to additional states, is designed to save money for companies that cannot afford to self-insure their workers comp exposures or want to avoid the hassle.

Advocates of the new product say it increases competition and saves policyholders money because the life/health insurer is not liable for residual market assessments and so the policyholder isn't either.

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Recovering from Flood of '93

Des Moines is insured for flood devastation

By SARA MARLEY

DES MOINES, Iowa—The water's flowing again and Des Moines needs it—there's a lot of cleaning up to do.

With forecasts finally predicting drier weather and most of the river water pumped out, city officials, business owners and residents are facing the flood's muddy legacy.

In the heart of the recovery effort—taking each atypical day as it comes—are the city's risk manager and its insurer.



Photo by Sara Marley

Dehumidifying equipment snakes from the Des Moines Library, as city facilities attempt to recover from devastating flooding in July.

"We're still in the assessment stage," said City of Des Moines Risk Manager Eric B. Larson, wearing his flood uniform of jeans, T-shirt and knee-high rubber boots and carrying his cellular telephone. "Some of our initial assessments might have been inaccurate because of the high water," he said, which reached 28 feet above normal.

Evidence of the July 11 disaster is everywhere: Water lines are etched into lawns and form dirty streaks on walls that are peeling paint. A dead carp pokes through a chain-link fence four feet above the ground, while elsewhere more fortunate catfish swim on a basketball court where the water still reaches the backboards.

Bright blue and orange hoses snake out of buildings and attach to generator-run pumps as clear tubes pump hot air back in to dehumidify.

And everywhere, signs on drinking fountains caution: Don't drink the water.

Drinking water may return this week, and last week the city was already closing

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Iowa community planting seeds of managed care

By CHRISTINE WOOLSEY

CEDAR RAPIDS, Iowa—While the rest of Iowa is anxiously waiting for the muddy floodwaters of the Mississippi to recede, business leaders in one community are building a levee of their own—to stem the tide of rising health care costs.

With the typical, no-nonsense determination common in the Midwest, employers and medical care providers in Cedar Rapids are setting out to manage care where no managed care exists.

And they say they'll pursue their own solutions to the health care crisis, despite the reforms President Clinton is expected to release in September.

"It's not safe to assume federal reform will take place, and even if it will, the next question is when," said Larry Milroy, director of benefit management and health services at Rockwell International Corp.'s Collins Commercial Avionics division in Cedar Rapids and one of the executives who spearheaded the city's local reform effort.

"I think our initiative is on par with

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Insured losses hit $655 million and may rise as water drops

By MICHAEL SCHACHNER

With flood waters ravaging much of Missouri and portions of Illinois, Kansas and Nebraska last week, commercially insured losses from the Flood of '93 have swelled to an estimated $655 million.

Another $680 million was expected in insured crop damage.

Overall insured damages are expected to account for 10% to 20% of an estimated $12 billion in total damage from some of the worst flooding ever in the region.

With Midwestern towns and thousands of square miles of farmland still under water, property insurers caution that any estimates are very preliminary. But none of the dozen

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Update

Underwriters Re to be acquired

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company will be controlled by the reinsurer's management. An Underwriters Re primary insurance subsidiary, Commercial Underwriters Insurance Co., is included in the transaction, which is expected to close in October.

Underwriters Re and its Commercial Underwriters unit reported consolidated assets of $1.1 billion and shareholders equity of $148.1 million as of March 31. Revenues totaled $213.9 million and net income $28.5 million in 1992, using generally accepted accounting principles. Alleghany said it would boost the statutory surplus of Underwriters Re to $250 million by year-end 1993 from $185.4 million as of March 31.

Health reform delayed again

WASHINGTON—The release of President Clinton's oft-delayed health care reform package may be delayed again.

The package probably won't be released until the end of September, said Sen. John D. Rockefeller IV, D-W.Va., who said his information came from Hillary Rodham Clinton.

President Clinton originally had promised that a health package would be ready around May 1. The release then was delayed until mid-June and then to early September. An administration spokesman said the timing of the unveiling remains under discussion.

Administration officials are leaning toward requiring employers to pay a percentage of premium—rather than a payroll tax—for employees' health care coverage. But in the case of small, low-wage firms, the premium might be capped at a certain percentage of payroll.

Strong response to health pool

BURBANK, Calif.—The nation's first statewide health insurance purchasing pool, launched July 1 in California, has enrolled 285 companies and covers 4,599 people—nearly a quarter of whom had no previous health care coverage.

California Gov. Pete Wilson last week hailed the program, aimed at small businesses, which was established by the Legislature last year (*BI*, Oct. 5, 1992). The governor also signed legislation, A.B. 2059, that will allow trade associations that have small-business members to participate in the pool (*BI*, April 5).

The greatest percentage of individuals enrolled in the pool—15.9% —work in retail stores, followed by: restaurants and hotels, 9.2%; insurance agencies, 7.9%; dentists' and physicians' offices and laboratories, 7.1%; residential construction, 5.4%; and architecture/engineering firms, 5.4%.

If employers choose to enter the voluntary pool, they can offer employees a wide variety of HMO and PPO plans from among 18 participating insurance companies.

Texas rule may cut comp costs

AUSTIN, Texas—Employers would be able to cut their workers compensation premiums by negotiating with insurers for a reduction in their experience rating modifier, under a rule proposed by the Texas State Board of Insurance.

Texas law now requires insurers to use modifiers calculated by the Department of Insurance to set premiums. By contrast, the proposed rule would let employers show evidence—like safety improvements or improved loss ratios—to negotiate a lower modifier.

The Board of Insurance will discuss the proposal Aug. 23.

Executive resigns Blues posts

BATON ROUGE, La.—Aaron J. Johnston resigned as chairman of two Blue Cross & Blue Shield plans following charges of overspending and refusal to give regulators information.

Mr. Johnston resigned as chairman, chief executive officer and president of BC/BS of Louisiana last week. Seven other directors also resigned. A week earlier, Mr. Johnston resigned as chairman of BC/BS of Mississippi, but said he will remain president and CEO.

The resignation prompted Louisiana Insurance Commissioner James H. Brown to seek dismissal of a conservation order placed earlier this month against BC/BS of Louisiana. The plan is solvent, Mr. Brown affirmed.

The department's ongoing investigation will include looking into Mr. Johnston's $600,000 salary, which exceeds salaries for the heads of larger Blues plans, and reported payments for overseas pleasure trips for executives and their spouses.

BC/BS of Mississippi is not under conservation and had $107.9 million in contingency reserves as of June 30, a spokesman said.

Lloyd's loss review reports

LONDON—Lloyd's of London members this week should receive copies of the eagerly awaited loss review report on the open 1983 year of account of syndicate 421, managed by Merrett Underwriting Agency Management Ltd.

The syndicate had 3.4 million pounds ($5.03 million) in premium income capacity for 1983 but had losses of 24.6 million pounds ($36.4 million).

In a letter to members, MUAM Chairman Stephen Merrett said, "The report fails to provide a balanced view of the issues."

Last week, another loss review report criticized former underwriter Christopher Bohling for arranging inadequate reinsurance for syndicates 216 and 833/834, managed by Devonshire Underwriting Agencies Ltd. in 1989 and 1990. The excess-of-loss reinsurance syndicates lost nearly 174 million pounds ($263.5 million) for those years.

Updates continued on page 38

OSHA nominee wins praise for fair-minded leadership

By MARK A. HOFMANN

WASHINGTON—What do businesspeople call a one-time crusading liberal who's spent most of the past decade as a bureaucrat and who's just been nominated to head the Occupational Safety and Health Administration?

They call him a great choice, if his name happens to be Joseph A. Dear.

Nominated by President Clinton last month, the chief of Washington state's Department of Labor and Industries is winning unanimous praise for emphasizing cooperation rather than confrontation on workplace safety issues.

The nominee himself will not comment until after his Senate confirmation hearings, which have not been scheduled.

Business groups also give Mr. Dear high marks for communicating effectively and helping businesses comply with safety rules by supplying specific advice and specialized safety publications.

Such praise might not have been expected given the 42-year-old Mr. Dear's background.

Nearly two decades ago, he entered public life as executive director of People for Fair Taxes, which advocated imposing a state income tax in Washington. In 1981, he signed on as research director for the AFL-CIO-affiliated Washington State Labor Council. In 1985, he joined the state Department of Labor and Industries, becoming its director two years later.

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Oil spill liability crisis

Coast Guard sees disaster unless P&I clubs broaden coverage

By STACY SHAPIRO

WASHINGTON—The U.S. economy could be severely disrupted and a severe recession could ensue if underwriters refuse to provide adequate limits of liability coverage to shipowners in U.S. waters, the U.S. Coast Guard warns.

If the shipowners mutuals, known as protection and indemnity clubs, refuse to issue certificates of financial responsibility to the shipowners in accord with the Oil Pollution Act of 1990, the next major pollution incident would cause irreparable economic damage, the Coast Guard said in a recent report.

"Should this threat materialize, it could disrupt the United States economy as well as economic markets worldwide," the report said. "The cost to the economy and the maritime industry, under a worst-case scenario, could be incalculable. Such an occurrence could quickly lead to global economic disruption."

An energy crisis could occur because many oil tankers couldn't come into U.S. waters without these certificates. As much as 25% of the country's supply of oil would be cut, the Coast Guard report stated.

Other bulk and general cargo vessels also could not enter U.S. ports and might instead opt for

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But new attempt to widen benefit advisers' liability fails

Congress eyes benefit proposals

By JERRY GEISEL

WASHINGTON—A renewed effort in Congress to expose employers and benefit advisers to huge penalties under federal benefit law is now almost certainly dead, business groups say.

Lawmakers now are expected to turn their attention to a much narrower proposal that would require employers that purchase annuities to cover pension benefits to replace that instrument if the annuity issuer fails.

As recently as last Monday, business groups were worried that House committee staffers were trying to sneak onto a deficit reduction bill a proposal that would impose big penalties—possibly including punitive damages—on employers and pension advisers for certain violations of the Employee Retirement Income Security Act.

Sen. Howard Metzenbaum, D-Ohio, in June introduced a similar proposal attached to a deficit reduction bill passed by the Senate Labor and Human Resources Committee (*BI*, June 14). But he withdrew the proposal from the bill on the Senate floor under pressure from colleagues who were feeling the heat from employers and insurers.

That proposal was in response to a recent Supreme Court decision that exempts benefit and pension plan advisers from mon-

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Hurricane forecast looks grim

By MARK A. HOFMANN

WASHINGTON—Don't expect multibillion-dollar hurricane losses to let up for the next few years, as long as the population movement to coastal areas shows no sign of abating, warns the government's top hurricane expert.

The devastation wrought by 1992's Hurricane Andrew was not the "big one" yet, Robert C. Sheets, director of the National Hurricane Center in Coral Gables, Fla., told an audience at the National Press Club in Washington last month.

For example, a northward shift of 20 miles in Hurricane Andrew's path would have caused an estimated $75 billion in property damage to Dade County, Fla., alone, said Mr. Sheets. If the storm had continued along that northerly path, it would have smacked into the Fort Myers area.

Then, after crossing the Gulf of Mexico, it "could have created a nightmare storm in New Orleans, putting that city under 18 to 20 feet of water," Mr. Sheets explained.

He added that Florida Insurance Commissioner Tom Gallagher told him that if such a "nightmare storm" had hit New

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- Australian property/casualty insurance buyers took a pounding during the latest renewal period, which was marked by skyrocketing premiums, tougher terms and tighter capacity. **PAGE 31**
- Texas has become the first state to pass a law clamping down on private psychiatric hospitals. **PAGE 34**
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Vol.27, No.32—*Business Insurance* (ISSN 0007-6864) is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207-3185; 800-678-9595 or 313-446-1611. Copyright 1993 by Crain Communications Inc.

GETTING THE WORD OUT ABOUT BENEFITS

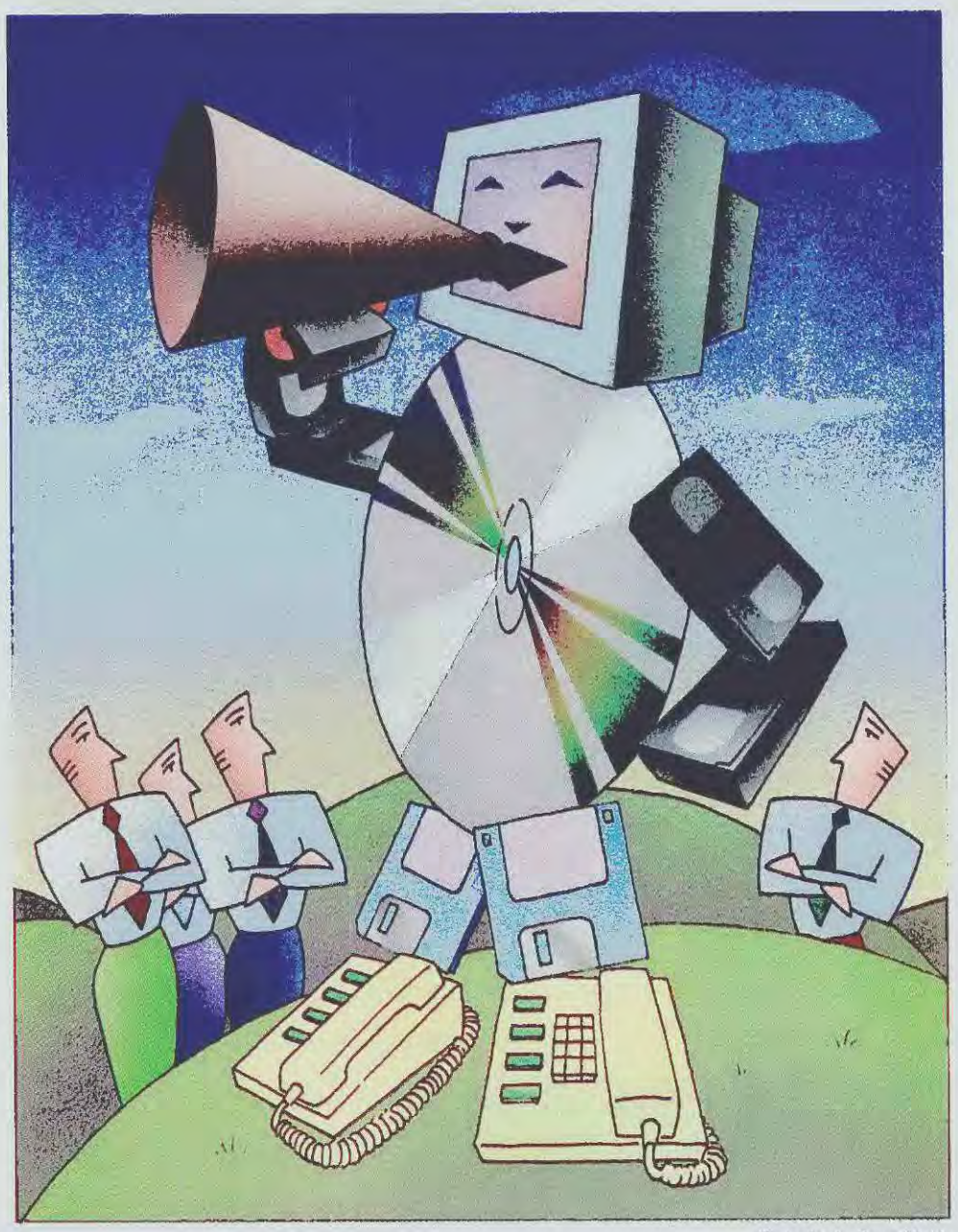


Illustration by Karen Nigida

Future of communications is here

Advanced employee benefit technology now available—and more affordable

By CHRISTINE WOOLSEY

Remember when you had to get out of your chair to change the channel or adjust the volume on your television?

Or when you actually had to go inside a bank and stand in line for a teller to get cash or make a deposit?

The wonders of advancing technology have made many areas of our lives easier, and the realm of employee benefit communications is no exception.

Very soon, the thought of having employees make a trip to the human resource department to inquire about their group health plan elections or make changes to their saving plan contributions may become a distant memory.

Automation has crossed the threshold of employee benefit departments in the form of telephone voice-response systems and personal computer-based modeling programs. Although the technology isn't necessarily new, its use is becoming more widespread.

The good news is almost any employer can benefit from some type of interactive communications tool. Even better news is that these systems are becoming more affordable each year.

In the past, experts agreed that only larger employers—those with 1,000 or more workers—should add interactive technology to communicate benefit information. But today, employers, consultants and system vendors say small and midsize companies also may find it cost effective to use interactive employee communications.

"It could be argued that interactive systems will pay for themselves regardless of an employer's size as long as the company is large enough that communications are needed," explained Howard "Bud" Johnson, chairman and president of Howard Johnson & Co., a Seattle-based benefit consulting firm.

Interactive employee communications systems are ideal "when there is an exchange of information or some type of transaction," Mr. Johnson said. For example, employers that are interested in enrolling their workforce in a flexible benefit or 401(k) plan or want employees to study investment options under a company-sponsored savings plan can streamline the process with interactive systems.

An employer that can easily communi-

Continued on next page

Investment savvy gains could yield employer liability loss

By MARY E. PFLUM

To make up for most employees' lack of investment savvy, and to limit potential liability for 401(k) plan investment losses, employers increasingly are offering investor education programs.

Also known as pre-retirement and budget planning programs, the goal is to enable workers of various ages and with different savings goals and attitudes toward risk to make sound investment decisions.

Eventually, these programs—which utilize newsletters, seminars, telephone hot lines and software—could lead to greater participation in 401(k) plans and help employers avoid fiduciary liability for employees' investment losses.

Under rules released last year, section 404(c) of the Employee Retirement Income Security Act exempts plan sponsors from liability for investment losses if plan participants generally are given control over investment of their contributions (*BI*, Oct. 12, 1992).

To qualify for this exemption, a plan must offer "a broad range of investment alternatives," permit a participant or beneficiary to "exercise control" over assets and provide sufficient information to participants to make "informed" investment decisions.

Investor education programs broaden employees' awareness of investments beyond savings plans and put some much-needed thought into adequately planning for retirement, said Dave Veeneman, a consultant with Hewitt Associates in Lincolnshire, Ill.

Ideally, he added, the programs should accomplish three things: "give the participant a basic understanding of how investments and investment markets work; give the employee a sense when he finishes the training program that investment isn't so bad; and, above all, give him the confidence to make some big decisions regarding his future."

Few employees currently take a long, critical look at their future retirement needs. Yet recent studies paint a particularly bleak picture of the future for would-be retirees.

According to a National Institute of Aging study to be released this fall, 40% of people age 51 to 61 expect to have no income except Social Security upon re-

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Communicating family leave law with ease

By DEBORAH SHALOWITZ

Employers often find that meeting the communications requirements in new benefit laws is a complicated and costly administrative hassle.

However, communicating the new federal Family and Medical Leave Act should pose few problems for employers, experts say.

Nonetheless, employers—even those that already have leave programs in place that meet or exceed the federal law's provisions—must satisfy certain communications requirements under the law, such as notification and translation rules.

Experts agree that written notification of the new law, instead of meetings or videos, is an adequate communications program.

Producing "something in writing for employees would be sufficient" to communicate the family leave law, said Jennifer Watson, a communications consultant at Hewitt Associates in Lincolnshire, Ill. "I don't really see the need to have formal employee meetings."

"This doesn't warrant meetings," agreed Rich Federico, a consultant in the Stamford, Conn., office of William M. Mercer Inc.

The federal family leave law, which generally goes into effect Aug. 5, requires employers with at least 50 employees to provide up to 12 weeks of unpaid job-protected leave to employees for family-related situations like the birth or adoption of a child; caring for a sick child, spouse or parent; or for an employee's own illness (*BI*, June 7; Feb. 8). During the leave, the employer must continue the individual's health care coverage as if the employee were still working.

"I don't think the Family and Medical Leave Act requires special training" of supervisors, stated Karol Rose, a principal with consultant Kwasha Lipton in Fort Lee, N.J.

Rules published in June by the Labor Department do require several communication efforts on the part of employers.

For example, the rules state that employers must post "prominently" a notice explaining the law and how to file complaints of violations. Employers may post their own notice or a notice produced by the Labor Department. Up to 25 copies of the government's notice are available free from local Labor Department offices, listed in the telephone directory under U.S. Government, Department of Labor, Employment Standards Administration, Wage and Hour Division.

Employers can also receive free from this division a

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New technology

Continued from previous page
cate benefit information to employees through postings on a company bulletin board, however, probably doesn't need to consider such high-tech systems, he said.

"To make the investment in personalized communications effective, you should have a complex story that needs to be delivered in a human-sized slice, one person at a time," offered Patrick Donohue, managing consultant and practice leader of A. Foster Higgins & Co. Inc.'s personalized communications unit in Princeton, N.J.

Personalized interactive communications can greatly streamline communication and administration for employers with a widely dispersed workforce enrolled in complex, multioption benefit plans, with varying contribution levels or different payroll frequencies, he said.

Company culture and employee familiarity with various forms of technology, more than size, now dictate what types of interactive technology employers will use to communicate benefit programs to employees.

Employers can buy systems to communicate information about one or more benefit plans, and regardless of the communication task—or the technology chosen to accomplish it—chances are something is available in every employer's price range.

"The technology that enables you to deliver information to an interactive system is identical. Any kind of computer that can store and manipulate large amounts of data can be a host," Mr. Johnson said. "The only difference is the media you use."

The telephone is still the dominant mode of interactive communication. "People understand it, and the average person has no trouble using it," he pointed out.

In addition, most employers can afford this technology, since the prices of software and hardware for such systems have fallen sharply (*BI*, Oct. 12, 1992).

Just a few years ago, experts predicted telephone systems would only be used to communicate—not administer—benefit plans (*BI*, April 2, 1990). But today's systems allow employees to do everything from request general health plan information to enroll in flexible benefit plans or adjust the amount they contribute to their 401(k) plan.

Benefit managers and employees have hailed the advantages of telephone systems, saying the systems free up human resource staffs for more complex tasks and allow employees to access benefit information by touch-tone phone anywhere, any time.

Akron, Ohio-based Harwick Chemical Corp. recently added more investment options to its company-sponsored savings plans and now uses a telephone voice-response system marketed by CIGNA Corp. to communicate information and allow its employees to make changes to their savings plans.

"Voice response empowers employees to make decisions, and they can make them without the need to go through company personnel," said Ernest Pouttu, corporate controller at Harwick, which employs 370 workers nationwide. Also, "it encourages employees to actively participate in the savings programs Harwick offers."

Most companies don't develop their own in-house voice response system but typically form a telephone link with a data base containing their benefit information currently managed by their benefit consultant, third-party administrator, investment fund manager or other vendor.

Obviously, the more complex the system, the more it costs. "Inquiry-only systems for 15,000 to 20,000 people could run as low at $10,000," said Jeff Croyle, a partner with Kwasha Lipton in Fort Lee, N.J.

Harwick paid CIGNA $400 to access its system, and pays 75 cents per participant annually, Mr. Pouttu said.

Most interactive telephone systems are designed to be enhanced, he said. "We find many of these systems snowball. Expanding the system will increase an employer's initial outlays, but will reduce administration costs in the long run."

Personal computer-based communications programs are more appropriate for employers that need to communicate complex benefit programs, experts say.

"Interactive technology can be used for all types of messages, but you probably wouldn't want to use the phone for very complicated messages," suggested Susan Hiller, a consultant with Foster Higgins in Princeton, N.J.

For example, PC-based communications would benefit employers that want to encourage employees and their families to study their health plan choices or understand how various savings plan contribution levels will affect their retirement income.

Those types of activities tend to be "number-intensive" and employees usually benefit from the visual component computer programs offer, she said.

Employers interested in PC technology generally need an employee population that is comfortable with personal computers, said Dayle Allison, senior marketing specialist for CIGNA's group pension division in Hartford, Conn. "But even that's not necessarily so, because some companies put these interactive programs in the human resource department and employees can work with the HR staff to learn how to use them."

Computer programs are more powerful and typically have enough capacity to accomplish more complex tasks and allow for more modeling scenarios.

Interactive-system vendors typically sell this technology to employers in one of two ways, Mr. Johnson explained. A vendor can download an employer's benefit plan data onto a PC diskette and give the diskette to the employer. "The disadvantage of this approach is the information is only as new as the last time it was downloaded," he pointed out.

Or, Mr. Johnson said, "The employee and/or the employer can have online interactive access to a live data base, so that whenever a change in the plan is made, it's automatic."

PC-based interactive technology is ideal for companies where most employees have access to their own terminals. But other companies can set up a centrally located terminal, or kiosk, that employees can use.

Individual diskettes—distributed to employees for use on PCs in the workplace or home—

Continued on page 6

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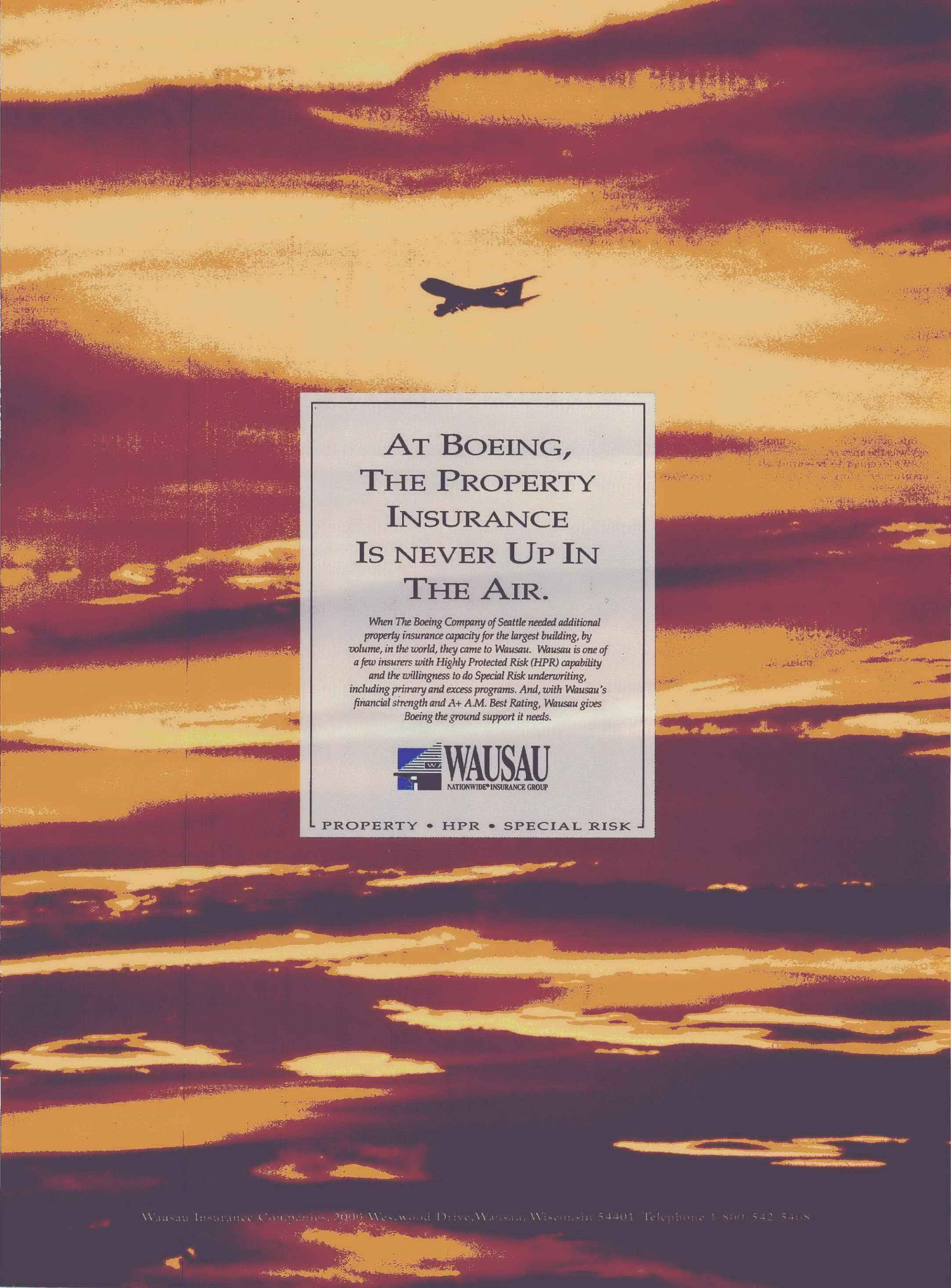
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Cummins Engine powers up communication

Benefit data by telephone catches on with employees

By CHRISTINE WOOLSEY

When Cummins Engine Co. Inc. overhauled its company-sponsored retirement and savings plans, benefits executives wanted employees to be able to figure out how much money they had accrued without having to ask three or four different sources.

And, heeding employees' complaints about how long it took to get information about their savings, the company also wanted employees to be able to access plan information more frequently and at any time during the plan year.

At the same time, the corporation wanted to ease the administrative burden of re-enrolling 17,000 eligible employees nationwide into its newly enhanced retirement and savings plans.

Interactive telephone technology was the answer.

"We decided to re-enroll all employees using a telephone voice-response system because doing it the old way would've taken too much time," explained Carol Smalley, director-pension investments and services for the Columbus, Ind.-based diesel engine manufacturer.

Formerly, Cummins employees enrolled in the plans by filling out paper forms. Benefits department personnel had to key-punch the information into the company's human resource information system. "You can expect an error rate of between 5% and 10% during a typical enrollment like this," noted Jeff Croyle, a partner at Kwasha Lipton, Cummins' record keeper.

Now, the new voice response system has an editing feature to guarantee that all information is correct when it's entered.

The company made some significant changes to its 401(k) and aftertax savings plan in January 1992, including increasing employees' choice of investment options to five from two. "The voice-response system simplified communicating the program" and allowed employees to conduct various transactions by phone, Ms. Smalley said.

Kwasha Lipton maintains the CallAccount telephone voice response system at its Fort Lee, N.J., headquarters. Employees dial a toll-free number and can get specific account information after entering their Social Security and personal identification numbers.

Employees can request account balances, reallocate funds among the five investments options, change 401(k) contribution rates or request loans. Employees receive written confirmation of all transactions.

Employees needing further assistance can speak with a real person at any time during the call. "People like to have a live representative if they get helplessly hung up," Ms. Smalley explained. Cummins also maintains a Help Desk in Columbus.

A telephone-based system, rather than some other type of interactive technology, was the most logical way to communicate the plan changes and re-enroll Cummins' eligible employees.

"For our company, with employees in different locations all over the United States, a kiosk or personal computer-based system didn't make sense. Having a system in a central location wouldn't have worked because we have 40 different payroll locations," she said.

In addition, "No one at our company is phone-phobic and overall we've had very few negative comments about the system. We were very conscious of people who were uncomfortable with (the process). Those employees could come into the human resource department and do a mock demonstration," Ms. Smalley explained.

Even employees without access to touch-tone telephones tested the system, she said. They simply made the CallAccount call at an office or other touch-tone phone.

Cummins required employees to use CallAccount to re-enroll in the new savings and retirement

Continued on next page

New technology

Continued from page 4

are becoming more popular, Ms. Allison said. "The advantage is if employees have the equipment at home, they can run through these programs with their spouse, they have time to do it, and they can do more modeling with a disk than with a phone system."

Again, costs vary depending on the system's complexity.

An employer could spend as much as $200,000 to set up Howard Johnson & Co.'s Multi-Plan, which provides online access to a data base of an employer's multiple benefit plans, Mr. Johnson said.

By contrast, it would cost about $35,000 to purchase an interactive system that would allow employees to enroll in a flexible benefit plan, Ms. Hiller said.

Individual diskettes are even less expensive. A recent retirement modeling diskette available from CIGNA costs $7,500, including customization of the employer's savings plan provisions, plus a $1,000 annual maintenance fee, Ms. Allison said.

Persistence of Vision Inc., a Chicago-based benefit communications firm, offers its 401(k) Advisor diskette for as little as $3,500.

The cost of any interactive benefit communications system will be recouped in terms of reduced administration and data-handling costs and a reduction in the time required to process transactions, experts say.

"A company shouldn't develop interactive communications unless it saves them money," Mr. Johnson stressed. "Employers should always ask whether the technology will save them money and increase communication to employees compared to how they currently do it." BI

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Continued from previous page
plans, Ms. Smalley said. The company provided communication and training programs on company time to teach employees about the plan changes and how to use CallAccount.

Ms. Smalley pointed out that employees are contributing to their retirement and savings plans at higher levels. "I'm not sure why, but it could be because they are more comfortable with the investment options and their ability to manipulate their accounts," she said.

Employee satisfaction with the system remains high. "It's really been smooth sailing. We've had very few complaints and most people indicate they really like the system," Ms. Smalley said. There have been very few problems with busy signals or other impediments, she added.

Kwasha Lipton recently surveyed Cummins employees to gauge their reaction to the company's savings plans and CallAccount. Overall the results were favorable. Of the 2,302 survey respondents, 41% said they enjoyed the savings plans or increased their contributions as a result of the 1992 changes. And, 91% said using CallAccount was more convenient than completing forms.

However, in written comments, some employees indicated the voice response system was confusing and requested a short refresher course. Others said they had some difficulty accessing the system. For example, one employee is deaf and another lives in Australia and cannot get through with the toll-free number. And, a number of employees requested that additional features, like account projection, be available through CallAccount. BI

Family leave law

Continued from page 3
copy of the regulations, a fact sheet that gives a synopsis of the law and regulations, and a compliance guide written in question and answer format.

The fact sheet, inserted in an employee handbook or distributed on its own would satisfy the government's requirement that all employees be given a written explanation of the law.

Also, employers must give workers who request leave a notice advising them of their rights and obligations under the law and the consequences of not fulfilling these obligations. This notice must explain that employees are required to furnish medical certification of a serious health condition and that employees must make health insurance premium payments during their leave.

A copy of a medical certification form is available in the regulations, along with a one-page summary of an employee's rights and obligations under the law.

However, experts cautioned that there are disadvantages associated with using only materials produced by the government to communicate the law.

Communications produced by an employer let the employer take credit for offering the benefit, instead of conveying the perception that the company is simply complying with the law, pointed out Michael McAllister, national practice leader for communications in the Washington office of A. Foster Higgins & Co. Inc.

"Since you are the one providing the benefit, you should be the one to get credit for the benefit," advised Mr. McAllister.

"Make it yours instead of the government's," agreed Mr. Federico.

Although the communications provisions generally are straightforward, employers should be aware of one "fairly significant curve ball" in the requirements, noted Mr. McAllister, referring to a requirement that a written translation of the family leave law be made available if a significant portion of workers do not read English.

The federal regulations do not define what portion of a workforce is considered "significant." Generally, companies define "significant" as more than 5% or 10% of their workforce, Mr. McAllister said. However, "if you're even questioning whether or not you should provide a translation, do it."

For companies unaccustomed to translating documents, this may sound difficult and expensive. But "it's done all the time," Mr. McAllister noted. "Companies shouldn't be concerned that they have to translate something."

While a professional translation service can charge as much as $300 to $500 per page, some individuals translate documents out of their home for as little as $50 to $100 per page, Mr. McAllister said. Also, college professors and other staff of university foreign language departments often translate documents.

Several experts pointed out the communications requirements should be viewed as an opportunity for employers to play up their work and family benefits. This is "a great opportunity to package" work/family policies together, noted Ms. Rose.

Companies that already have leave programs say that communicating the programs has not been difficult.

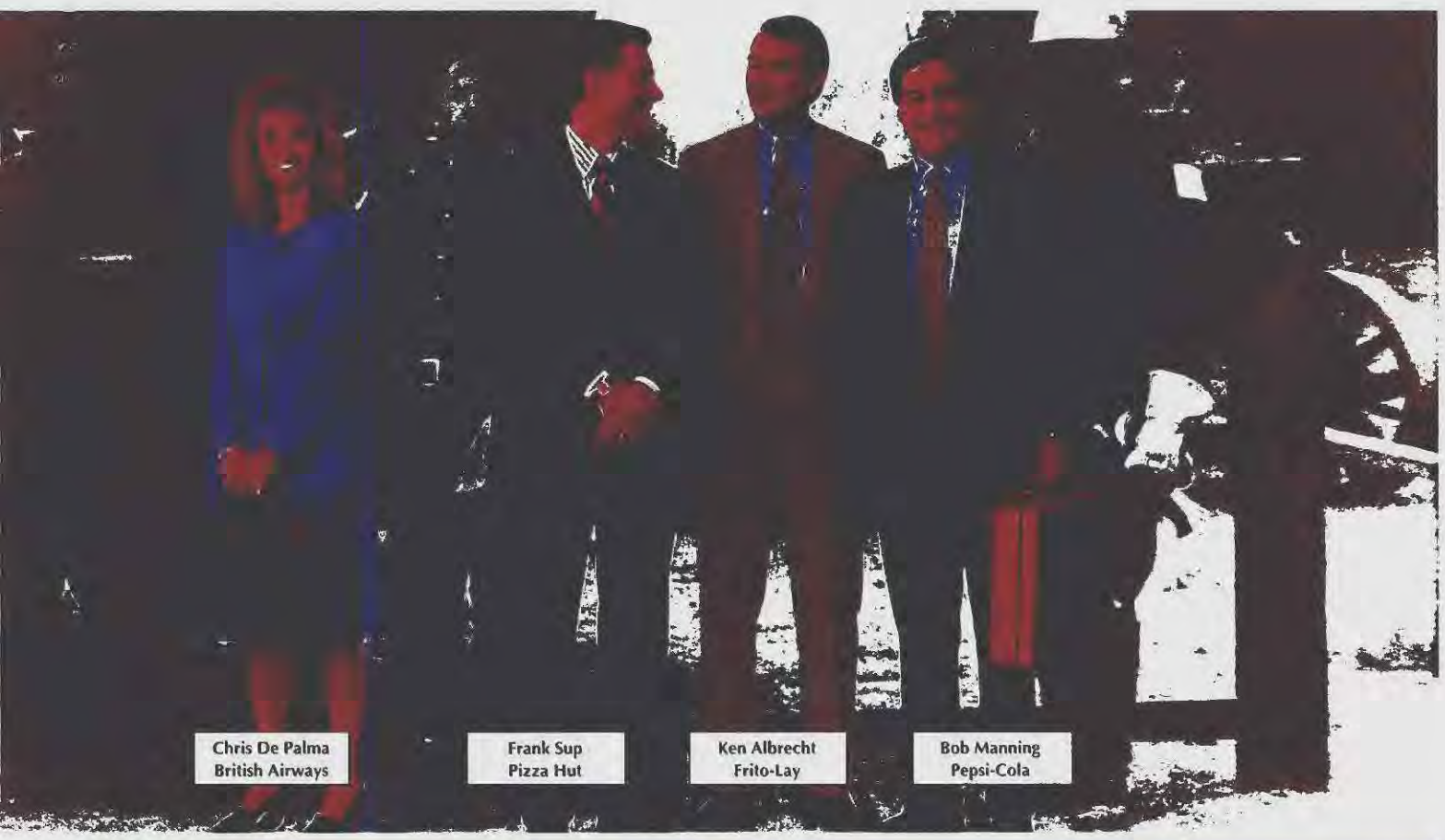
For example, Chicago-based bank Northern Trust Co. notified employees about its new family leave policy in May 1991 through the company's benefits newsletter, which is distributed at work to every employee, said Jeanne Ulatowski, manager of work-and-family programs. This was followed by a story in the weekly company newspaper. Employees had no trouble understanding the program, Ms. Ulatowski said.

E.I. du Pont de Nemours & Co. publicized its new leave program in April 1989 with a multimedia approach: The company sent a package of information and a video about the leave program to managers, supervisors and human resource representatives, who then held meetings with workers, explained Cynthia L. Johnson, senior specialist, work and family.

However, "We continue to communicate (the program) because you pick up on a different population each time you do it," Ms. Johnson said. The Wilmington, Del.-based company's experience has been that "people don't know about the policy until they have the need" for it, she added. "You can never overcommunicate," she advised.

Companies just instituting leave programs should not fear that publicizing—even promoting—the programs will result in a deluge of requests for leave, experts agreed.

"Only a very small percentage of your total population will avail themselves of it, because it is unpaid time," pointed out Ms. Ulatowski. BI



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Opinions

Right on, Rep. Stark

REP. PETE STARK, with whom we don't often agree, may be on to something.

He reasons that the best way to assure that health care purchasing alliances—the centerpiece of President Clinton's health reform package—provide high-quality care is to make Congress participate in them.

Specifically, Rep. Stark, who chairs the House Ways and Means Health Subcommittee, proposes requiring members of Congress to enroll in the cheapest health care plan offered through purchasing alliances.

"What's good for the goose is good for the gander," he says.

Right on, Rep. Stark. Too often in the past, Congress has imposed horribly complicated benefit rules on employers and then neatly exempted itself and federal agencies from meeting those same requirements.

For example, while private employers have to meet a maze of rules laid down for their pension plans by the Employee Retirement Income Security Act of 1974, Congress has exempted its own and federal agencies' pension programs from ERISA rules.

And, while employers have to run non-discrimination tests on their 401(k) plans each year, the savings plans for federal employees—which are the equivalent of a 401(k) plan—are exempt from the non-discrimination tests.

If legislators, who now enjoy their own health care program, have to participate in the same health care system as the rest of us, they would have a vested interest in seeing that it truly works.

We suspect there is an element of disingenuousness on the part of Rep. Stark. The California Democrat, a longtime backer of a single-payer health care system, has as much real interest in purchasing alliances as, say, the commercial health insurance industry has in enactment of a national health insurance program.



But his point is well-taken. If purchasing alliances and managed competition are good medicine for the nation to take, they should be good enough for Congress, too.

Alas, Rep. Stark may have overlooked one thing: If federal legislators were forced to enroll in the lowest-cost health plan offered by a purchasing alliance, the plan probably would be loaded up with so many goodies and extra benefits it would be anything but low-cost.

The perils of legislative overkill

THE LATEST CONGRESSIONAL horror story on benefits legislation may finally be over.

The current saga, as we wrote a few weeks ago, has its origins in a decision the Supreme Court handed down June 1. The justices ruled that pension plan advisers who are not plan fiduciaries cannot be held liable for monetary damages to plan participants, even if the advisers helped plan trustees breach their fiduciary responsibilities.

That decision spawned yet another example of legislative overkill from Sen. Howard Metzenbaum.

Not content to just overturn the decision, the Ohio Democrat would have exposed employers and their advisers who violated certain ERISA rules to huge penalties and perhaps punitive damages. However, the proposal generated enormous opposition and Sen. Metzenbaum was forced to withdraw it.

But unfortunately the creature did not die. Congressional staffers in the House last week had the same idea as Sen. Metzenbaum: attach the ERISA penalty provision onto a giant deficit-reduction bill, where it would be buried amid hundreds of other provisions and not get the scrutiny it deserved. Lobbying by employers and insurers appears to have killed that second effort, as well.

Making employers liable for punitive damages makes sense only if you want to trigger an explosion of litigation and kill employer interest in offering benefit plans.

This miscreation apparently has been laid to rest—we hope for good.

Letters

Court's reversal of ruling mocks justice system

To the editor: Corporate America should keep the phone lines humming to the Florida Attorney General's office: The Florida Supreme Court's ruling in *Dimmitt Chevrolet Inc. vs. Southeastern Fidelity Insurance Co.*, in which the court withdrew a pro-policyholder pollution coverage decision it issued last year, has given new meaning to the term "outlaw" (*BI*, July 5; Sept. 21, 1992).

The court has made a mockery out of a system that is supposed to dispense justice and equity. With this reversal, courts may become available to the highest bidder in the battle over pollution coverage under comprehensive general liability insurance policies.

Justice Stephen F. Grimes, who was the swing vote in the latest case, doesn't understand the term "ambiguous" and how the term is to be applied in insurance decisions. Surely, he must understand the term "ambiguity" at this juncture, as his own highly legalistic mind gave him totally new meanings on second review of the case. Ambiguous "per se" is exemplified in his own actions.

Richard K. Fox
R.K. Fox & Associates
Noblesville, Ind.

Medicare, Medicaid limit costs

To the editor: In your June 28 editorial, "Let Business Buy Smart," you indicated that Medicare and Medicaid are not known for either their efficiency or their ability to hold down costs. Your statement is incorrect.

Medicare is extremely efficient when it comes to processing claims and holding down the cost of services. Medicare claims are processed, on average, for well under $2 per claim. The average cost for commercial insurers is approximately four to five times this amount.

Second, Medicare and Medicaid, as any physician can tell you, have been extremely effective in imposing low levels of reimbursement on providers.

While Medicare and Medicaid are far from ideal programs, lack of efficiency and high reimbursement are not among their faults.

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Published by Crain Communications, Inc., Chicago

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Investor education

Continued from page 3

tirement. About 20% now have no real assets. And many of those surveyed, who had a median annual income of $37,500, are helping to support their parents, their children and even their grandchildren.

Further studies indicate that younger and wealthier Americans may not fare much better than their older co-workers.

Three-fourths of Americans over age 20 will have less than half of the funds they will need when they retire, according to a new study by consulting firms WEFA Group and Arthur D. Little Inc. And, the study adds, future retirees could receive a lot less if the Social Security system falls apart or if an individual lacks employer-provided pension benefits.

Neither those dreary prospects nor employees' general lack of knowledge about investing is going unnoticed by employers.

Consider this data from a recent William M. Mercer Inc. poll of 167 employers:

- Just over half of those surveyed said their executives understand investment "very well." But none of the respondents said non-executives understand investment "very well."
- Some 32% of those surveyed believe their executives adequately understand how much they need to save for retirement. Only 2% said the same was true for non-executives.

In response to such facts and figures, companies are beefing up efforts to integrate investor education programs into benefit plans and to improve existing education programs.

Currently, 55% of large companies—those with 3,000 or more workers—have retirement financial education programs in place, while 45% of smaller companies have them, reports Mercer. On average, these programs have been in place for only 4.4 years; some have been developed only in the last six months.

The popularity of these programs is likely to grow. Mercer found that about half the companies that do not currently have investor education programs plan to add them within two years.

Failing to offer the programs, numerous employers and consulting firms agreed, ignores employees' needs as well as difficult financial times.

"How necessary are investor education programs? I think they should be mandatory to the extent that driver's education programs are necessary. The more investment options people have, the more souped up that car is and the higher quality of life that is available," said Michael McAllister, national practice leader for communications at A. Foster Higgins & Co. Inc. in Washington.

Benefit staffs should devote the same time and effort to investor education that they now do to health programs, added Mr. McAllister.

A General Motors Corp. spokesman said investor education programs benefit not only individual employees but the company as well by reducing potential liabilities and increasing goodwill and morale. "Throughout the past decade, we have established a series of training and development programs. . . . Sometimes today's financial aspects can be very daunting and we strive to help them make the best possible choices."

Getting employees to participate in these programs and to understand the value of investing may be no small feat. Established programs often have a loyal following of employees who demand more and more investment options and services. But new programs often lack even a clearly defined role.

"I think a large part of the focus in (setting up) these programs has been getting people to participate and understand why it's important," said Karen Greenbaum, a Mercer managing director in Chicago.

"You need to get their attention, motivate them to action and to keep them on course. Once they get comfortable with investing, you're on your way," she said.

"You use the word "stock" to most people and they get antsy. They don't understand the stock market, how mutual funds work. They either don't get into the game or are playing the game poorly."

—Michael McAllister

One key to making them comfortable is keeping things simple and relatively intimate. "The important thing is not to make things too complicated. Employees generally know it's important to save for retirement—but they're terrified to invest," Ms. Greenbaum said.

To ease employees into the world of investment, nearly all investor education programs—93%—use printed promotional materials, Hewitt Associates found in a recent survey. About six in 10 also use meetings run by the company itself, a third use videos and a fifth use meetings conducted by an outside investment manager. Some companies also use software programs and telephone hot lines.

Companies typically kick off the programs with mandatory meetings. Held on site, such meetings are ideally limited to 15 to 40 people per session to assure a certain level of intimacy.

Ultimately, Foster Higgins' Mr. McAllister said, the meetings should "demystify" the world of finance and set the stage for good, sound investments.

"You use the word 'stock' to most people and they get antsy. They don't understand the stock market, how mutual funds work. They either don't get into the game or are playing the game poorly. At these meetings, they have to be helped to understand their choices," he said, adding that he encourages inviting spouses to these meetings whenever possible.

Tellabs Inc. used 90-minute introductory meetings earlier this year to try to demystify the world of finance. The meeting

Continued on next page



Some insurance customer service people keep coming up with the same old answers to every problem.

Continued from previous page
covered everything from the definition of stocks, bonds and money market funds to an overview of the steps that constitute adequate retirement preparation.

"Not only were these meetings well-attended, but we got some great feedback as well," said David Southard, director of communications for the Lisle, Ill.-based telecommunications design firm. "We had a lot of our investors come up and say that the meeting did fill in some holes. And there were a lot of good questions."

All but 58 of Tellabs' 2,000 employees are now in the program.

Simplifying investing is a tall order, but it may not be enough. These meetings should also be targeted on the specific audience and focused on the varying needs of individual employees. Benefit managers and outside consultants say a participant's age, risk-reward parameters and savings objectives should be identified early in the process.

"The promotion of individual programs depends largely on the breakdown of the employee group," said Hewitt's Mr. Veeneman. "Younger employees want to know not only how to prepare for retirement but how to come up with a down payment on a house," he said.

Older employees generally cannot afford the risky investments that younger employees can. "With the younger employee, you can be a little more liberal and a little more risk-taking," said an International Business Machines Corp. spokesman. About 84% of IBM's 344,000 employees take part in its investor education program.

Investor education programs are a balancing act for many employers. Companies want to educate workers but have grown wary of the potential liabilities from steering them into risky investments.

In fact, concerns over those liabilities drove New York publishing house John Wiley & Sons Inc. to drop its popular investor education seminars three months ago.

"Our goals were not consistent with what employees wanted," said Anthony Brisbin, director of benefits for the 1,100-employee company. "Employees wanted counseling, which we're not going to give. We do not want to do anything that can be construed as encouraging risk involvement," he said.

Other companies say they have managed to draw a clear line between investment education and advice.

Take General Electric Co., which has had an investor education program for 40 years.

"We would never suggest to an employee that this is a great time to invest in GE stock or a great time to pull out," said Chuck Welch, director of benefits communication. "We've always stayed away from advice. All of us pretty clearly understand that we are not in the investment business."

It is information, and not advice, Mr. Welch said, that employees truly want.

"By and large, people are thirsting for investment knowledge," Mr. Welch said, noting that GE employees receive information from several different sources, including meetings and automated telephone systems.

The IBM spokesman agreed that providing thorough background information and shying away from investment advice allows employers to escape an otherwise sticky web of liability concerns.

"It's not a neat and clean line between education and advice by any means. We are not going to be stuck with the liability of someone coming in and saying, 'Look what happened.' We supply them with the historical information and encourage them to make their own investment decisions," he said.

The final, critical step in setting up such a program is to implement a solid system of follow-through.

"The key to the success of the program is it ought to be ongoing. It needs full involvement from senior management. There should be posters, bulletin boards, announcements, regular meetings, human resources updates. If employers go and do a good job on education, all of a sudden they're going to have educated employees," said Bob Stone, executive vp of Dreyfus Group Retirement, the retirement consulting division of the mutual fund company.

The time has come, Mr. Stone concluded, when educated employees are a necessity.

"A lot of CEOs are saying if we don't do something now, people are going to have nothing to retire with because of conservative, unwise investments. Everybody's different, but they should at least be given enough information to allow them to make a good, educated investment choice," he remarked. BI



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■ A computer diskette demonstrating an **automated filling system for 5500 and 5300 series government forms** is offered by Pentabs. Request item 2503.

■ Buck Consultants Inc. presents the results of a survey examining the major **reasons for 401(k) plan popularity.** The brochure also examines using the plan as the major source of retirement income. Request item 2504.

■ An article from Booke & Co. addresses how and why the administration and communication of **employee benefits are being refocused** around events in employees' lifes. Request item 2505.

■ Aetna/Generali International Network provides a compilation of the usual and customary **employee benefits that are offered in the public and private sectors of foreign countries.** The publication covers employee benefit standards in 39 countries. Request item 2506.

■ The Advisory Communications Systems Inc. offers the results of study examining employees' **legal needs and lost work time** due to legal problems. Request item 2507.

■ Disability Services Group offers information on **corporate disability and long-term care benefit planning** as well as trends in disability insurance. Request item 2508.

■ A booklet from CIGNA Special Benefit Cos. discusses the **need for accidental death and dismemberment insurance**. A product reference sheet that summarizes coverage and the features of accident insurance products is included. Request item 2509.

■ An article from Buck Consultants Inc. discusses how proper **design and allocation of flexible benefits** can achieve two important goals: control employer costs and increase the value of benefits to employees. Request item 2510.

■ The final **401(k) regulations and other nondiscrimination rules** are detailed in a publication from William M. Mercer Inc. Request item 2511.

■ La Petite Academy Inc. offers an information packet containing **facts and information concerning child care** and companies that take the initiative to create work/family solutions. Request item 2512.

■ Information and a demo disk from EBG & Associates Inc. describes benefit communication **software designed to increase employee participation in 401(k) plans.** Request item 2513.

■ Information dealing with **qualified and non-qualified plan options** from a business owner's perspective is provided in a 20-page booklet from Practice Development Institute. Request item 2514.

■ Child Care Insights Inc. offers a publication describing programs and services available to **assist employers and EAP providers with employee child and elder care needs**. Request item 2515.

■ A demonstration computer diskette featuring an **automated trust accounting system** is available from Pentabs. Request item 2516.

■ A paper from the Alexander Consulting Group Inc. explores

Continued on page 14

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Continued from page 12

the new **roles of managers and executives in modern corporations**. Request item 2517.

■ A brochure from Booke & Co. discusses the effects of **changing patterns of employment on the retirement income security** of future retirees. Request item 2518.

■ The increasing need for special **compensation and benefit packages for foreign employees on temporary assignment** in the United States is examined in a article by Buck Consultants Inc. Request item 2519.

■ How employers should address real-life situations in **complying with the Americans with Disabilities Act** and suggestions for integrating the new law into organizational procedures is discussed in a publication from William M. Mercer Inc. Request item 2520.

■ A catalog from the International Foundation of Employee Benefit Plans contains information on enrolling in **the Certified Employee Benefit Specialist program,** a 10 course program in employee benefits. Request item 2521.

■ "Partners," a quarterly newsletter from La Petite Academy Inc., focusing on **child care**, including new laws and regulations, creative developments and workable solutions. Request item 2522.

■ EBG & Associates Inc. furnishes the spring issue of "PensionMaker Edge" featuring an **overview of the final 401(a)(4) regulations** and their impact on age-weighted profit sharing plans. Request item 2523.

■ A product information kit and demonstration disk on how to **automate administration and record keeping tasks for retirement plans** is supplied by Pentabs. Request item 2524.

■ A brochure and disk demonstrates the "Plan Expert," an automated system from Information Learning Systems that provides **answers to common questions employees ask about their benefits.** Request item 2525.

■ "Benefits Quarterly," a publication of the International Society of Certified Employee Benefit Specialists, features articles on **health care, retirement, investments, law, government and labor** issues. Request item 2526.

■ Successful design and **implementation of a company's pay philosophy and pay program** is discussed in an article from Buck Consultants Inc. Request item 2527.

■ A new expanded study from The Alexander Consulting Group Inc. **reveals new trends in savings and spending patterns** and the need for workers to save more to maintain their standard of living after retirement. Request item 2528.

■ William M. Mercer Inc. details the new **Unemployment Compensation Amendments Act of 1992**. The 17-page booklet discusses direct rollovers from qualified plans, with emphasis on administration and communication. Request item 2529.

■ A Practice Development Institute booklet helps employees **prepare a blueprint for an estate plan** while offering suggestions on matters such as taxes and life insurance. Request item 2530.

■ A free sample copy of "Benefits Magazine" offers **employee benefits information to individuals in this field**. Request item 2531.

■ A brochure from Buck Consultants Inc. describes the methods and media used to provide **employer-provided financial planning**. Request item 2532.

■ The fall '92 issue of "PensionMaker Edge' published by EBG & Associates Inc., features a discussion on **401(a)(4) testing and good faith compliance.** Request item 2533.

■ Pentabs' automated proposal and feasibility study system improves the quality of **retirement plan consulting services.** For your free demo diskette, request item 2534.

■ A brochure from Buck Consultants Inc. describes unique modeling techniques that help employers **collect and analyze claims data.** Request item 2535. BI

Business Insurance **Information Resource**

NOTE: THIS COUPON WILL NOT BE SERVICED AFTER SEPTEMBER 27, 1993
All questions must be answered in order to have your inquiry processed.
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2. Number of employees:
   1 ☐ 150 or less 2 ☐ 151-499 3 ☐ 500-999 4 ☐ 1,000-4,999 5 ☐ 5,000 or more 6 ☐ Unknown
3. My title is best defined as:
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CONFERENCE AGENDA

SUNDAY, OCTOBER 17

6:00 – 7:30 p.m. EARLY REGISTRATION & WELCOME RECEPTION
Hosted by Commonwealth Risk Services, Inc. and General Rehabilitation Services, Inc.

MONDAY, OCTOBER 18

7:45 a.m. *Registration & Continental Breakfast*

9:00 a.m. OPENING REMARKS FROM THE CHAIR
Kathryn J. McIntyre
Vice President, Publisher & Editorial Director
Business Insurance

9:15 a.m. SHOULD THE WORKERS COMPENSATION AND GROUP HEALTH CARE SYSTEMS BE COMBINED?
Panel Moderator:
James M. Burcke, Editor
Business Insurance

Keith T. Bateman, Vice President
Policy & Development
Workers Compensation
& Commercial Lines Division
Alliance of American Insurers

Harry Neer, President & Chief Operating Officer
USA Health Network Company, Inc.

Thomas E. Rankin, Director of Research
California Labor Federation, AFL-CIO

10:15 a.m. *Mid-Morning Refreshments & Table-Top Exhibits*

10:45 a.m. ESTABLISHING AND IMPLEMENTING A SUCCESSFUL ERGONOMICS PROGRAM
Michelle Robertson, Ph.D.
Assistant Professor of Human Factors
Institute of Safety and Systems Management
University of Southern California

Marie Robinson, M.S.
Corporate Ergonomist, Safety Staff
Pacific Bell

Neal Taslitz, JD, President
The Backcare Corporation

12:15 p.m. LUNCHEON FOR SPEAKERS AND ATTENDEES
Hosted by William M. Mercer, Inc. and Marsh & McLennan, Inc.

1:00 p.m. KEYNOTE LUNCHEON SPEAKER
Brent A. Winans, Vice President, Risk Management
Concord Services, Inc.

1:45 p.m. *Break*

Guide to employee benefit communication systems

A

ADQ Inc.

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

Interactive benefit systems since: 1991.

Software products:

■ PLAN ACCESS: Simultaneous access: 36 employees.

System: Interfaces with ADQ Advantage Program for 401(k) plans, which is operated on a service bureau basis only.

First installation: 1991.

Benefits communicated: Savings plans, health, flexible benefits.

Features: System provides plan descriptions; personal information; modeling/projections; details on investment alternatives; transfers among investment funds; reports via mail.

Accessed through: Telephone.

Staff: Two total, both professionals.

Clients: 25 total, including 20 new clients in 1992.

Officers: Joel Disend, president; David Vangel, director-operations; Chris M. Blair, director-marketing.

Contact: Chris Blair.

Administrative Management Group

3800 N. Wilke Road, Arlington Heights, Ill. 60004; 708-577-6000; fax: 708-870-9200

Interactive benefit systems since: 1986.

Software products:

■ RETIREMENT INCOME FORECASTER: $1,500; simultaneous access: unlimited.

System: IBM PC compatible.

First installation: 1993.

Benefits communicated: Savings plans, pensions.

Features: System provides modeling/projections; employee specific recommendations; details on investment alternatives; reports via printer.

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

Staff: Five total, including three professionals.

Officers: John Salajka, David Goldenberg.

Contact: Kim Knaus.

Alexander & Alexander Consulting Group Inc.

125 Chubb Ave., Lyndhurst, N.J. 07071; 201-460-6600; fax: 201-460-6677

Interactive benefit systems since: 1987.

Parent: Alexander & Alexander Services Inc.

Software products:

■ BENEFITS OPEN ENROLLMENT TK: $48,000; $1,200 per 48-month lease; includes system hardware; simultaneous access: 240 employees.

System: IBM PC network.

First installation: 1987.

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

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; transfers among investment funds; reports via fax, mail.

Accessed through: Telephone.

User support: 800 hot line, customer service center.

■ BENEFITS ON CALL: $36,000 per 24-line system; $1,000 per 48-month lease; operated on service bureau basis for $2 per transaction, includes system hardware; simultaneous access: 240 employees.

System: IBM PC/PC network and AT&T Conversant.

First installation: 1988.

Benefits communicated: Savings plans.

Features: 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 fax, mail.

Accessed through: Telephone.

User support: 800 hot line, customer service center.

■ BENEFITS OPEN ENROLLMENT: Operated on service bureau basis for $5-$15 per employee per year; simultaneous access: 480 employees.

First installation: 1992.

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

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; reports via fax, mail.

Accessed through: Telephone.

User support: 800 hot line, customer service center.

■ ABACUS PLUS: $28,000 per 24-line system; $800 per 48-month lease; operated on service bureau basis for $5 per transaction, includes system hardware; simultaneous access: 240 employees.

System: IBM PC/PC network system; interfaces with ABACUS benefit information system.

First installation: 1993.

Benefits communicated: Pensions.

Features: System provides personal information; modeling/projections; employee specific recommendations.

Accessed through: Telephone.

User support: 800 hot line, customer service center.

Staff: 33 total, including 30 professionals.

Clients: 65 total, including 18 new clients and 40 who added features to their interactive benefit communication system in 1992.

Branch offices: Lyndhurst, N.J.; Owings Mills, Md.; San Jose, Calif.

1992 gross revenues: 40% software sales, 40% software services; 20% user support.

Officers: Richard J. Anthony, chairman/CEO; A.M. D'Alessandro, chairman/CEO-The Alexander Consulting Group Inc.; Donald Cleveland, president/COO-The Alexander Consulting Group Inc.; John L. Goodyear, president/COO-Alexander & Alexander Benefits Services Inc.

Contact: Robin I. Lissak, 201-460-6819.

B

BeneSoft, Inc.

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

Interactive benefit systems since: 1992.

Software products:

■ FLEXIBLE SOFTWARE: Includes system hardware; simultaneous access: unlimited.

System: IBM PC; interfaces with Flexible Software benefit information system.

First installation: 1992.

Benefits communicated: Flexible benefits, flexible spending accounts.

Features: System provides plan descriptions; personal information; direct enrollment; option selection/adjustment.

Accessed through: Telephone.

User support: Technical support 12 hours per day, emergency service 24 hours per day.

Staff: 20 total, including 15 professionals.

Clients: Five total, all new clients in 1992.

Branch offices: Tigard, Ore.

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

Contact: Faisal Saleh.

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: Purchased or operated on service bureau basis; simultaneous access: 100 employees.

Continued on next page

2:15 p.m. HOW TO INTEGRATE CASE MANAGEMENT INTO A WORKERS COMPENSATION PROGRAM

Peter C. Madeja, Vice President
General Rehabilitation Services, Inc.

3:15 p.m. *Mid-Afternoon Refreshments & Table-Top Exhibits*

4:00 p.m. MINIMIZING FRAUD AND ABUSE IN THE WORKERS COMPENSATION SYSTEM

Panel Moderator:
Joanne Wojcik, Los Angeles Bureau Chief
Business Insurance

Gregory L. Johnson, Principal
William M. Mercer, Inc.

Hank Krizl, Vice President – Claims
Fremont Compensation Insurance Group

J. William Strickland
Manager - Special Investigations Unit
Liberty Mutual Insurance Group

5:00 p.m. COCKTAIL RECEPTION
Hosted by USA Workers' Insurance Network

TUESDAY, OCTOBER 19

7:45 a.m. *Continental Breakfast & Table-Top Exhibits*

9:00 a.m. OPENING REMARKS FROM THE CHAIR

MID-MORNING CONCURRENT SESSIONS

9:15 a.m. INNOVATIVE STRATEGIES TO CUT WORKERS COMPENSATION COSTS

Case Study #1
BECHTEL CORPORATION

Lucy Gallagher, Risk Management Representative for Bechtel Corporation
Alexander & Alexander

Thomas W. Manley, Labor Relations Supervisor
Bechtel Corporation

Case Study #2
WALT DISNEY COMPANY

Stephen M. Wilder, Assistant Treasurer
Risk Management
Walt Disney Company

Case Study #3
MERVYN'S

Michelle Patton, Director – Risk Management
MERVYN'S

10:30 a.m. *Mid-Morning Refreshments & Table-Top Exhibits*

11:00 a.m. *Concurrent Session A:*
HOW TO EVALUATE AND SELECT A THIRD-PARTY ADMINISTRATOR

Carl Shogren, ARM
Vice President, Risk Management Services
Crawford & Company

Susan M. Werner, ARM
Director of Risk Management
Hardee's Food Systems Inc.

Concurrent Session B:
HOW TO SELF-ADMINISTER YOUR CLAIMS

Arnold Davenport, Vice President, Risk Management
Marriott Corporation

12:30 p.m. LUNCHEON FOR SPEAKERS AND ATTENDEES
Hosted by Liberty Mutual Insurance Group

1:00 p.m. KEYNOTE LUNCHEON SPEAKER

Bill Kizorek, President
InPhoto Surveillance

1:30 p.m. *Break*

2:00 p.m. FINANCING ALTERNATIVES FOR WORKERS COMPENSATION

Panel Moderator:
Kathryn J. McIntyre, Vice President, Publisher & Editorial Director
Business Insurance

Arnold Davenport, Vice President
Risk Management
Marriott Corporation

John Kessock, Jr., Chairman
Commonwealth Risk Services, Inc.

Vince Sanguinet, Executive Director
Inland Empire Schools Insurance Authority

Millicent W. Workman, Director of
Corporate Risk Management
Belz Enterprises

4:30 p.m. CONFERENCE ADJOURNS

CORPORATE SPONSORS

Commonwealth Risk Services, Inc.
General Rehabilitation Services, Inc.
William M. Mercer, Inc.
Marsh & McLennan, Inc.
Liberty Mutual Insurance Group
USA Workers' Insurance Network

Continued from previous page

System: IBM mainframe and AT&T Conversant (if system is purchased).

First installation: 1989.

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

Features: System provides personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, mail.

Accessed through: Telephone.

■ BUCK INTERACTIVE PC SYSTEM: Purchased; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

First installation: 1990.

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

Features: 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, printer, mail.

Accessed through: Kiosk, benefit department kiosk.

Staff: Nine total, including seven professionals.

Clients: 18 total, including seven new clients and four who added features to their interactive benefit communication system in 1992.

Branch offices: Atlanta; Boston; Chicago; Cincinnati; Dallas; Denver; Detroit; Fort Wayne, Texas; Honolulu; Houston; Los Angeles; New York; Pittsburgh; San Francisco; Secaucus, N.J.; Stamford, Conn.; Washington.

1992 gross revenues: $158.5 million total.

Officers: Pat Amendola, director-administrative services group.

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

C

Calypso Software Corp.

137.5 Park Lane, Suite 5, Kirkland, Wash. 98033; 800-225-8246; fax: 206-889-1611

Interactive benefit systems since: 1990.

Software products:

■ RETIRE ASAP: $99; simultaneous access: one employee.

System: IBM PC compatible.

First installation: 1991.

Benefits communicated: Savings plans, pensions, retirement planning.

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; health claims status; details on investment alternatives; transfers among investment funds; reports via computer diskette, printer.

Accessed through: Employees' PC.

User support: Technical support hot line nine hours per day/five days per week.

Officers: Elizabeth Kernan, president; Russell Siegelman, vp.

Contact: Rose Fechko.

Cascade Technologies Inc.

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

Interactive benefit systems since: 1988.

Software products:

■ CAS VOICE: Simultaneous access: unlimited.

System: IBM compatible PC/PC network.

First installation: 1988.

Benefits communicated: Savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts, can be customized to include all benefits.

Features: 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, printer, fax.

Accessed through: Telephone.

User support: Training seminars, bulletin board, remote diagnostics, telephone help line, maintenance contracts.

Staff: 20 total, including 17 professionals.

Clients: 75 total, including 20 new clients and 30 who added additional features to their interactive benefit communication system in 1992.

1992 gross revenues: 70% software sales, 5% hardware sales, 10% software services, 5% hardware services, 10% user support.

Officers: Vigdis Austad, president; Frank Joicy, Bill Colgan, vps.

Contact: Neil McAdorey, account representative.

Continued on next page

How to use directory of benefit systems

The directory of employee benefit communication systems lists companies that produce and supply proprietary interactive computer-based systems to organizations for their benefit communication needs.

The systems must be designed for direct use by an organization's employees. Companies are not included if they deal in: general utility software; hardware only; or software designed to be used by personnel departments, insurance companies or consultants.

Listings begins with the year the company began offering **interactive benefit systems** and **parent company**, if applicable.

Information on **software products** follows. Price is for a purchased system, unless noted that it is 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** is given next. **Features** include the benefits and information provided to employees through the system.

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

Staff figures, which are given in full-time equivalents for year-end 1992, 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 1992 and the number of clients who expanded existing systems in 1992. Locations of **branch offices** and **1992 gross revenues**, when provided, 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.

HMO

Indemnity

Continued from previous page

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:
■ AUTOENROLL: $15,000-$70,000; operated on service bureau basis for $12,000-$80,000 per year; simultaneous access: 24 employees.
System: IBM PC, OS2/Windows system.
First installation: 1990.
Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts.
Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; reports via computer diskette, fax, mail.
Accessed through: Telephone.
User support: Consulting services for downloading information, operator assistance.

■ BENECOM: Operated on service bureau basis for $1 per employee per month; simultaneous access: 24 employees.
System: IBM PC.
First installation: 1990.
Benefits communicated: Savings plans, health, pensions, workers comp benefits.
Features: System provides plan descriptions; personal information; option selection/adjustment; reports via computer diskette, fax, mail.
Accessed through: Telephone.
User support: Operator assistance.
Staff: Six total, including four professionals.
Clients: Nine total, including five new clients and four who added features to their interactive benefit communication system in 1992.
1992 gross revenues: $560,000 total. $480,000 from employee interactive benefit communication systems sales and services, including 86% software sales, 4% software services, 10% user support.
Officers: Tedd A. Long, president; Timothy L. Schmidt, vp-marketing.

E

EBG & Associates Inc.

68 E. Wacker Place, Suite 900, Chicago, Ill. 60646; 312-580-2250; fax: 312-580-2252

Software products:
■ HERBIE: $1,500.
System: IBM PC compatible.
First installation: 1990.
Benefits communicated: Savings plans, pensions, can be customized to accommodate other benefits.
Features: System provides modeling/projections; reports via printer.
Accessed through: Kiosk, benefit department kiosk.
User support: Annual updates to adjust for regulatory limits, telephone support to benefits department.
Clients: Three total, including one new client in 1992.
Officers: Manny Garcia, Dee Holt, MaryJo Arthur.
Contact: Debbie Saeger.

Employee Benefit Specialists Inc.

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

Interactive benefit systems since: 1993.
Software products:
■ EMPLOYEE COMMUNICATION SYSTEM: Operated on service bureau basis, includes employee access hardware; simultaneous access: 20 employees.
First installation: 1993.
Benefits communicated: Health, pensions, workers comp benefits, flexible benefits, flexible spending accounts, dental, vision, life.
Features: System provides plan descriptions; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; reports via mail.
Accessed through: Telephone.
Officers: Joan L. Rhodes, Chimane M. Rhodes, Elizabeth C. Juen.
Contact: Joan L. Rhodes.

F

FLX Corp.

220 Willowbrook Lane, West Chester, Pa. 19382; 215-696-6600; fax: 215-692-2205

Software products:
■ FLX VISUAL FOR MICROSOFT WINDOWS: Simultaneous access: unlimited.
System: IBM PC compatible; interfaces with FLX Visual Flex.
First installation: 1993.
Benefits communicated: Savings plans, health, flexible benefits, flexible spending accounts.
Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; reports via electronic mail, printer, fax, mail.
Accessed through: Kiosk, employees' PC, benefit department kiosk.
Staff: 35 total, all professionals.
Clients: 15 total.
Branch offices: San Francisco.
Officers: Ed Hughes, president.
Contact: Stacey A. Kohlbrenner.

H

Human Resource MicroSystems

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

Interactive benefit systems since: 1983.
Software products:
■ HRIS-PRO: $7,500 for single-user base system; simultaneous access: unlimited.
System: PC/PC network: Windows, DOS, Mac or UNIX; interfaces with HRIS-Pro.
First installation: 1983.
Benefits communicated: Savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts, can be customized.
Features: System provides plan descriptions; personal information; option selection/adjustment; reports via printer, screen.
Accessed through: Employees' PC, benefit department kiosk.
User support: Toll-free hot line, online documentation, newsletter, user group meetings.
Staff: 20 total, including 18 professionals.
Clients: 300 total, including 50 new clients in 1992.
Officers: Don Helt, president; Arlene Roberg, vp-development.
Contact: Priscilla Eshelman, marketing manager.

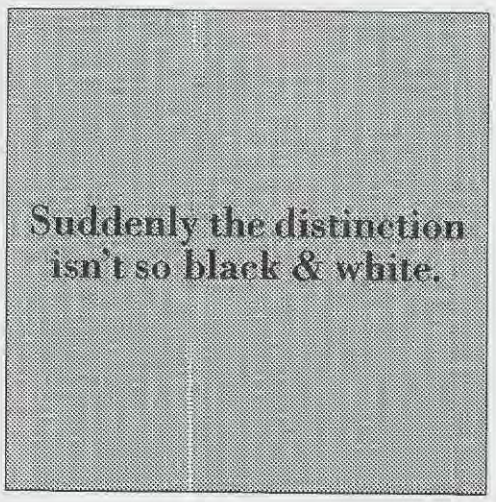
J

Howard Johnson & Co.

111 Third Ave., Suite 1700, Seattle, Wash. 98101; 206-625-1040; fax: 206-682-8562

Interactive benefit systems since: 1983.
Software products:
■ MULTIPLAN: Operated on service bureau basis.
System: Howard Johnson & Co. PC system.
First installation: 1983.
Benefits communicated: Savings plans, health, pensions, workers comp benefits, flexible benefits, flexible spending accounts.
Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; transfers among investment funds.
Accessed through: Telephone, kiosk, employees' PC, benefit department kiosk.
Clients: 62 total, including five new clients in 1992.

Continued on next page



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Continued from previous page

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

Officers: Howard J. Johnson, chairman/president; Brendan O'Farrell, Richard B. Wyman, executive vps; Nancy B. Greer, vp/CFO; John R. Claus, vp-CIS.

Contact: Howard J. Johnson.

K

Kwasha Lipton

2100 N. Central Road, Fort Lee, N.J. 07024; 201-592-1300; fax: 201-592-9075

Interactive benefit systems since: 1985.

Software products:

■ KL PLANNER, DAS, BAS: $5,000-$500,000; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

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

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; reports via computer diskette, printer.

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

Staff: 90 total, including 50 professionals.

Clients: 300 total, including 30 new clients and 50 who added features to their interactive benefit communication system in 1992.

Officers: David A. Skovron, chief executive partner; Robert S. Byrne, chief operating partner.

Contact: Mary Cavazis, principal.

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:

■ Customized products are available for $25,000-$250,000.

System: PC/PC network.

First installation: 1985.

Benefits communicated: Customized to include any benefit.

Features: 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, electronic mail, printer, fax, mail.

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

User support: Based on clients needs, may include groups/meetings, on-site training, telephone assistance and disaster recovery assistance.

Staff: 65 total, including 50 professionals.

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

Contact: H.L. (Jay) Marchant Jr., principal; 1417 Lake Cook Road, Deerfield, Ill. 60015; 708-371-7605; 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.

Software products:

■ MERIT FOR MANAGING THE FUTURE: $10,000-$20,000; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

First installation: 1989.

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

Features: 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 printer, mail.

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

Staff: Five total, all professionals.

Clients: Ten total, including eight new clients and six who added features to their interactive benefit communication system in 1992.

1992 gross revenues: $125,000 total. $121,000 from employee interactive benefit communication systems, all software sales.

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

Contact: Kenneth Decker.

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N

Noble Lowndes

3 Becker Farm Road, Roseland, N.J. 07068; 201-533-4500; fax: 201-535-1440

Interactive benefit systems since: 1990.

Parent: Noble Lowndes & Partners Ltd.

Software products:

■ NOBLE LOWNDES VOICE: Operated on service bureau basis for $1,000 per quarter; includes system and employee access hardware; simultaneous access: 24 employees.

System: IBM PC compatible; interfaces with any benefit system.

First installation: 1990.

Benefits communicated: Savings plans.

Features: System provides plan descriptions; personal information; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, mail.

Accessed through: Telephone.

User support: Telephone hot line.

■ NOBLE LOWNDES BENEFIT ENROLLMENT: Operated on service bureau basis for $5,000-$10,000 per year, includes system and employee access hardware; simultaneous access: 24 employees.

System: IBM PC compatible.

First installation: 1992.

Benefits communicated: Flexible benefits, flexible spending accounts.

Features: System provides plan descriptions; personal information; direct enrollment; option selection/adjustment; reports via computer diskette, mail.

Accessed through: Telephone.

User support: Telephone hot line.

Staff: Four total, all professionals.

Clients: Six total, including three new clients and one who added features to their interactive benefit communication system in 1992.

Branch offices: Newtown, Pa.

Officers: Peter R. Brew, CEO; Rene Mathis, CFO; Gerald I. Kranson, vp/general counsel; Fiach R. Maguire, vp.

Contact: Steven Lefkowitz.

Continued on next page

Continued from previous page

P

Parsons, McKee, Sommers & Co.
2001 Crocker Road, Gemini Tower II, Suite 300, Westlake, Ohio 44145; 216-871-8611; fax: 216-871-7485

Interactive benefit systems since: 1990.
Software products:
■ INQUIRY: Leased.
System: IBM PC compatible.
First installation: 1990.
Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts, managed care provider directory, network illustrator.
Features: 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, electronic mail, printer, fax, mail; client-specific elements such as medical plan panel providers that can be accessed by various data including zip codes.
Accessed through: Telephone; touch-screen system via kiosk, employees' PC, benefit department kiosk.
User support: Software enhancements, support staff and information via electronic media.
Staff: Ten total, including five professionals.
Clients: Four total, including two new clients and two who added features to their interactive benefit communication system in 1992.
Branch offices: Charlotte, N.C.
1992 gross revenues: $1.5 million total. $100,000 from employee interactive benefit communication systems sales and services.
Officers: John R. Parsons, president; Mark S. Sommers, vp/managing principal; Annette Abramczyk, principal; Richard S. Wargo, managing actuary.
Contact: John R. Parsons or Mark S. Sommers.

Persistence of Vision Inc.
53 W. Jackson Blvd., Suite 841, Chicago, Ill. 60604; 312-922-1150; fax: 312-939-7212

Interactive benefit systems since: 1991.
Software products:
■ SMART MONEY MACHINE: $7,500 for single initial software package plus $250 per additional copy and $500 per year maintenance.
System: IBM compatible PC/PC network.
First installation: 1992.
Benefits communicated: Savings plans.
Features: System provides plan descriptions; personal information (optional); direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; transfers among investment funds (optional); reports via printer.
Accessed through: Kiosk, employees' PC, benefit department kiosk.
User support: Quarterly updates of 401(k) investment fund and benchmark performance.
Staff: Two total, one professional.
Clients: Two total, both new clients in 1992.
Officers: Stephen Silverman, president.

R

Retirement Strategies
22 Grove Place, Unit 2, Winchester, Mass. 01890; 617-721-1046; fax: 617-721-1046

Interactive benefit systems since: 1991.
Software products:
■ NESTEGG: $12,000; simultaneous access: unlimited.
System: IBM PC/PC network.
First installation: 1992.
Benefits communicated: Savings plans.
Features: System provides modeling/projections; details on investment alternatives; reports via printer, mail.
Accessed through: Employees' PC, benefit department kiosk.
User support: Annual software update.
Staff: Two total, both professionals.
Clients: Four total, including two new clients in 1992.
Branch offices: Minneapolis.
Officers: Rebecca Keller, David Ferris, partners.

S

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:
■ SEGAL VOICE: Operated on service bureau basis.
System: IBM compatible PC/PC network.
First installation: 1991.

Continued on next page

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Continued from previous page

Benefits communicated: Savings plans, health, pensions, flexible benefits, flexible spending accounts, employee surveys, job postings, 401(k) fund transfers, changes and loans.

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; details on investment alternatives; transfers among investment funds; reports via computer diskette, printer, mail.

Accessed through: Telephone.

Staff: Seven total, including five professionals.

Branch offices: Atlanta; Boston; Chicago; Cleveland; Denver; Hartford, Conn; Houston; Las Vegas; Los Angeles; Minneapolis; New Orleans; Phoenix; San Francisco; Seattle; Washington; West Palm Beach, Fla.; Edmonton and Toronto, Canada.

Officers: Robert D. Krinsky, president; Howard Fluhr, Dale B. Grant, executive vps; Kenneth P. Camisa, Stewart D. Lawrence, senior vps.

Contact: Carole Henson, 212-251-5482.

Sequoia Retirement Services

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

Interactive benefit systems since: 1988.

Software products:

■ SURVIVORS' REGISTRY: $50; simultaneous access: one employee.

System: IBM compatible PC.

First installation: 1988.

Benefits communicated: Retirement planning, capital sufficiency.

Features: System provides modeling/projections; demographic and financial information.

Accessed through: Kiosk, benefit department kiosk.

Staff: One total.

Clients: Five total.

Officers: Charles Tellalian, principal.

T

Towers Perrin

Center Square East, 1500 Market St., Philadelphia, Pa. 19102; 215-246-6000; fax: 215-246-6187

Software products:

■ FLEXPLANNER: $25,000-$60,000; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

First installation: 1983.

Benefits communicated: Health, flexible benefits, flexible spending accounts, comparison with spousal medical options including coordination of benefits estimates.

Features: System provides plan descriptions; modeling/projections; reports via printer.

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

User support: Customization available at an additional cost.

■ FLEXPHONE/TELE-SAVE/TELE-PENSION; $15,000-$65,000; simultaneous access: unlimited.

System: Syntellect voice response hardware for turnkey, others on a consulting basis; interfaces with most human resources systems.

First installation: 1990.

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

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; meeting registrations; surveys; reports via fax, mail.

Accessed through: Telephone.

User support: Application support on a time and materials basis.

■ OUTLOOK-YOUR TOTAL RETIREMENT PLANNER: $40,000-$100,000; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

First installation: 1989.

Benefits communicated: Savings plans, health, pensions.

Features: System provides plan descriptions; modeling/projections, including comparison of projected income and projected post-retirement expenses; details on investment alternatives; reports via printer.

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

User support: Updates for tax and Social Security changes.

■ FLEXPHONE/TELESAVE/TELE-PENSION: Operated on service bureau basis for $15,000-$45,000 per year; simultaneous access: unlimited.

First installation: 1988.

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

Features: System provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; meeting registrations; surveys; reports via fax, mail.

Accessed through: Telephone.

■ SAVINGS PLANNER: $10,000-$20,000; simultaneous access: unlimited.

System: IBM compatible PC/PC network.

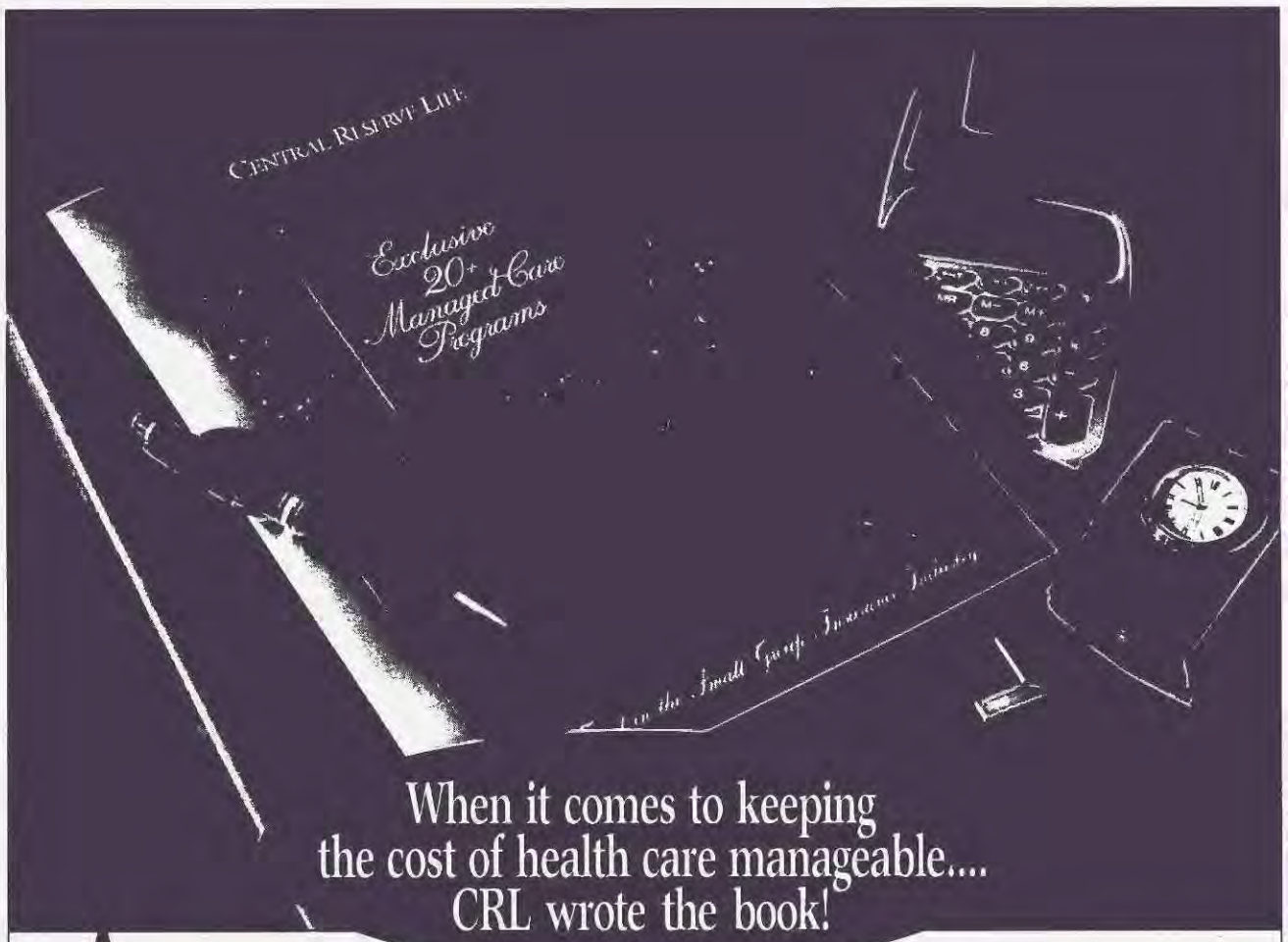
First installation: 1987.

Benefits communicated: Savings plans.

Features: System provides plan descriptions; modeling/projections; details on investment alternatives; reports via printer.

Accessed through: Kiosk, employees'

Continued on next page



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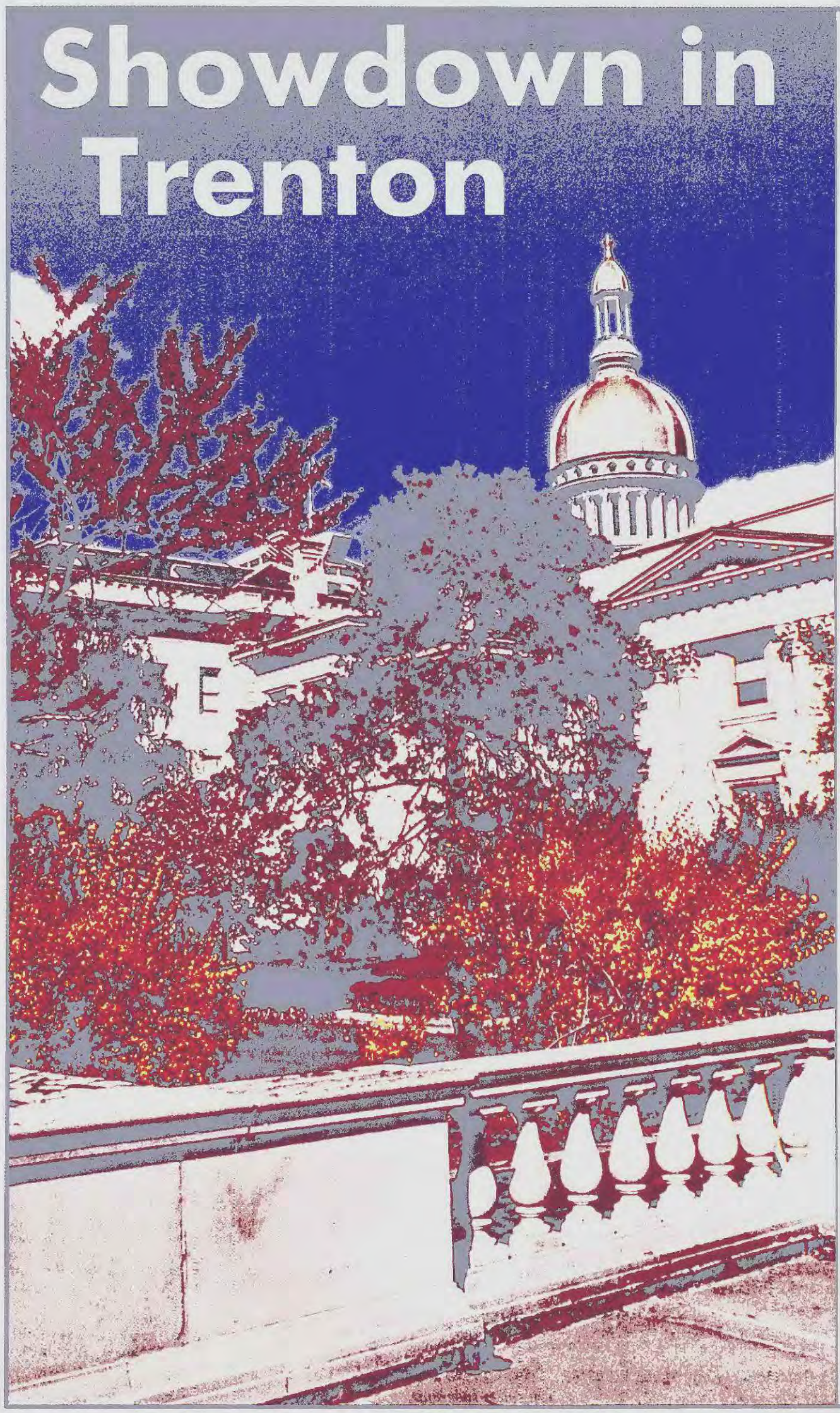
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Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers



New Jersey agents beat powerful lobby in drive to limit liability for clients' choice of auto cover

By MARK A. HOFMANN

TRENTON, N.J.—It wasn't an exercise in high technology and it didn't involve inundating the Capitol with armies of high-powered, highly compensated lobbyists.

In fact, the drive to enact New Jersey's so-called "hold harmless" law—S. 804—exemplified the effectiveness of hard work and old-fashioned grassroots organizing.



The drive was a long, hard-fought battle that pitted insurance agents against one of the more powerful interests in New Jersey politics—the trial bar—and the agents ultimately won.

According to F.P. "Skip" Campion, president of the Professional Insurance Agents of New Jersey Inc., the hold-harmless law stemmed from a 1990 change in New Jersey law that required insurance agents to "open the books" to customers, who could then demand to buy the minimum automobile liability limits available, currently $15,000 per person, $30,000 per accident and $5,000 for property. Agents had previously recommended higher limits, he said. Some agents would refuse to sell the minimum limits if they thought such limits provided inadequate protection, but under the 1990 auto insurance reform law, they had to do as the customer wished.

The problem arose after consumers who had chosen the lowest possible limits found themselves facing liabilities that far outstripped their coverage, he said. They then sued their agents for errors and omissions, fueling an increasing number of lawsuits brought against agents, said Mr. Campion, who is a principal of Connelly-Campion-Wright Inc. in Belmar, N.J.

"There was a need to protect agents from frivolous lawsuits," Mr. Campion said.

That need translated into S. 804, which was introduced in the state Senate on May 14, 1992, said Leon Zimmerman, PIA of New Jersey's lobbyist in Trenton.

The bill was designed to cover producers, insurers—including the N.J. Automobile Full Insurance Assn. and Market Transition Facility and their servicing carriers—and any auto insurance plan. Under the measure, these entities could not be held liable for damages because of the amount of motor vehicle insurance purchased, provided that the coverage limits met minimum legal requirements. S. 804 specifically excluded "any person causing damage as the result of his willful, wanton or grossly negligent act of commission or omission" from its protections.

The bill won powerful sponsors. New Jersey law allows a bill to have two prime sponsors, and "we sought out two obviously key people," said Mr. Zimmerman.

S. 804's two chief sponsors were Sen. Gerald Car-

Continued on page 20D

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Agent/Broker Topics

Gradison

Continued from previous page

zation could speak for all the commercial banks in America, no single organization could speak for all the thrift institutions in America.

As I got involved in the health care field, I saw that in a very dramatic way. There must be literally dozens of national hospital associations.

For example, the American Hospital Assn. is an outstanding group, but there are also groups representing the public hospitals, the for-profit hospitals, the teaching hospitals, the Catholic hospitals, the hospitals that have a particularly high portion of their revenues coming from the Medicaid program and so forth, to say nothing of the state associations of hospitals.

Even in the field in which I'm now involved, there's some splintering of the national effort to influence legislation. There's nothing wrong with that; there's not always a common interest. In a sense, the development of separate groups if there is a significant policy disagreement helps to pinpoint what that disagreement is and may be useful to policymakers.

BI: *What do people such as yourself who have served on the Hill bring to the table that a lawyer or a former regulator doesn't?*

Rep. Gradison: I served in elected office for over 30 years. And at the time, I never thought that I had any special insights into the way government operates or how decisions are made. But now that I'm on the outside, I think that I and others who have the same experience I had do develop a sixth sense about the rhythm of the legislative process.

That is not well-appreciated on the outside. Indeed, that rhythm has a lot to do with when we will see the president's health plan.

I'm no expert at this, but my sense is that the administration, at least up until now, feels that it has involved Congress, particularly the Democratic members, in the development of the health care reform plan because a large number of congressional staffers were part of the task force. My congressional experience says that while that's very nice, from a member's point of view, the involvement of their staff doesn't count for very much.

BI: *Does your sixth sense give you any indication of when the president will unveil this plan?*

Rep. Gradison: My hunch is August is not a great time to release a plan. It's really a down time. It would seem to me, and this is pure hunch, that a better thing would be to get the budget totally out of the way and approved.

The president and his supporters could then gear up their grass-roots and advertising efforts and maybe kick it off in a Labor Day speech in Detroit, emphasizing the need for health care security for all Americans. I hate to be so specific and I might be dead wrong, but that's my political judgment. BI

N.J. auto cover

Continued from page 20A

dinale, R-Bergen County, chairman of the Senate Commerce Committee, and Sen. C. William Haines, R-Burlington County. Mr. Zimmerman pointed out that neither man is an insurance agent: Sen. Cardinale is a dentist and Sen. Haines is a farmer.

"There were too many instances in which motorists came back to sue insurance agents, brokers and companies because the amount of coverage they chose at the time of purchase did not cover the damages from a subsequent accident, even though they knowingly selected lower limits, in all probability to save money at the time," said Sen. Haines.

"Our court system is already bogged down with unnecessary lawsuits stemming from auto accidents. We don't need to put our insurance professionals in jeopardy when they have properly carried out their responsibilities. This law does not provide immunity for damage caused as the result of willful, wanton and gross negligence," he said.

Testifying before the Commerce Committee on June 8, 1992, Robin Simko, then president of PIA of New Jersey, said she understood the bind in which consumers were caught but stressed the need for fair treatment of agents as well.

"The cost of automobile insurance in New Jersey is one of the highest in the nation. This, combined with the current recession and high rates of unemployment, has forced consumers to seek ways to cut costs. One way many consumers have found to do this is to carry only the minimum levels of insurance required by law," said Ms. Simko, who is manager of the Snyder Agency in Somerset, N.J.

"Agents and brokers are put in a precarious position. They recognize that most consumers need insurance coverage in excess of the legal minimums, and make this recommendation to their clients. But many consumers choose the minimum level of required

Continued on next page

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Continued from previous page
insurance coverage because of economic reasons.

"Additionally, agents and brokers who were concerned about the potential dangers to the public and previously refused to sell inadequate levels of insurance are now forced to sell the minimum level of coverage," Ms. Simko said.

Consumers who had chosen the minimum coverage but found themselves liable for far more than the limits they'd picked "will look to the court system to obtain additional compensation and will bring action against any potential source," she said.

"Agents and brokers cannot be held accountable for a consumer's decision to select minimum coverage despite recommendations to the contrary. Agents and brokers cannot be held accountable for a decision over which they have no control. This is not the type of risk contemplated in the relationship between the agent and the insured," said Ms. Simko.

Meanwhile, PIA of New Jersey members were explaining the situation to regulators as well.

Insurance Commissioner Samuel Fortunato "basically supported the bill," recalled Mr. Zimmerman.

The Senate Commerce Committee approved the bill after amending it to require that the automobile coverage selection form would contain an acknowledgment from the named policyholder that the limits for uninsured and underinsured motorist coverage had been explained. The form also had to contain a statement concerning the immunity the bill would provide to agents.

The bill passed the Senate by a 29-4 vote on June 18, 1992.

Meanwhile, A. 1437—the Assembly's version of the Senate bill—was making its way through the New Jersey Assembly. That bill—sponsored by Assemblywoman Clare Farragher, R-Monmouth County, who was then chairwoman of the Insurance Committee—looked likely to win quick approval as well, said Mr. Zimmerman.

That's when the process ran right into a logjam.

The trial bar began lobbying heavily against the bill. But, more significantly, a totally unrelated budget dispute between Gov. James J. Florio, a Democrat, and the Republican-controlled Legislature brought all legislation to a halt. Democratic lawmakers refused to vote on any GOP-sponsored bills until the budget impasse ended.

"We were then on hold," said Mr. Zimmerman. Because the New Jersey Legislature rarely passes significant legislation during the second half of the year, PIA of New Jersey used the rest of 1992 to build a grassroots lobbying effort, he said. "We spent six months getting ready."

Actually, it took a little longer than that to pass the bill. Some lawmakers wanted to festoon the bill with amendments that would eliminate the immunity, and these had to be defeated. The trial bar cranked up its efforts to kill the bill. Lawmakers began thinking more about the fact that they would face re-election in November, New Jersey being one of two states that holds its state elections in odd-numbered years.

PIA of New Jersey ratcheted up its efforts as well, with regular "Legislative Alerts" to members. For example, a one-page memo dated April 29 urged, "Call your state Assemblymembers TODAY to support S-804!"

The broadside listed three points for members to impress upon their lawmakers. "When you contact your state Assemblymember, tell them:

- "This bill does not grant immunity for gross and willful negligence by the producer.
- "This bill is necessary to protect insurance professionals who, perhaps against their recommendations and better judgment, are forced by law to sell minimum-limits policies.
- "The bill is crucial to preserve broad access to auto insurance by the public."

The strategy paid off. The Assembly passed the bill by a 52-13 vote on May 20. "This was a major victory. This was no small task," said Mr. Zimmerman.

Ms. Simko and other PIA of New Jersey representatives personally delivered a letter to Gov. Florio requesting that he sign the bill. PIA of New Jersey members received another mailing asking them to write to the governor and urge him to sign the bill.

Yet there was still a danger that the will of the agents and the Legislature would be thwarted, Mr. Zimmerman said.

The trial bar was urging a veto, launching their own letter-writing campaign, and state law gives the governor 45 days to decide what to do with a bill. PIA, joined by members of other producer associations, pulled out all stops, inundating Trenton with letters. Gov. Florio "heard about this on a first-hand basis," said Mr. Zimmerman.

And the governor listened. As the PIA of New Jersey gathered at its convention in Atlantic City on June 29, Secretary of State Daniel Dalton, himself a former PIA member associated with the Daniel L. Dalton Agency in Glassboro, read a letter from the governor announcing that he had signed S. 804 into law that morning.

In the letter, Gov. Florio noted that "it is no secret that there are very powerful interest groups who would seek to defeat this effort and, failing that, would demand I veto such a bill."

But, "I signed it because we have asked you, and forced you, to become part of the solution to New Jersey's auto insurance problems by having you insure any qualified driver who comes to you. It is only fair that we afford you some measure of protection from liability as you are in effect carrying out the intent of the law by providing coverage to all drivers who request it."

He also noted that "there are few groups in Trenton who have been as effective and as aggressive as the PIA has been over the past year." The governor singled out Ms. Simko and Mr. Zimmerman for particular praise.

Mr. Zimmerman said that if he drew one lesson from the yearlong effort to pass S. 804, it was a simple one: "The biggest lesson is never give up." BI

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Agent/Broker Topics

Losses still plaguing agents, brokers

By GAVIN SOUTER

Operating losses at many agencies and brokerages will lead to further consolidation and reorganization, an agency consultant says.

And agencies and brokers that concentrate on commercial rather than personal lines are more likely to be profitable, he adds.

Some brokers, though, see size as a greater factor in profitability than type of business.

Investment income is responsible for much of the current profitability, said Robert W. Reagan, chairman of Hales & Associates, a consulting firm in Atlanta.

He was commenting on a survey conducted by Hales for the National Assn. of Casualty & Surety Agents that studied the performance of NACSA member firms. Forty NACSA firms were compared to other firms.

The survey found that in 1992, NACSA firms made an average pretax profit of 6.33% of net revenues, while other agents and brokers in Hales' data base made an average 6.09% profit last year.

"These results are a bit discouraging, especially when you note that for NACSA firms, contingent and investment income represented 7.46% of net revenues, which would suggest an operating loss of 1.13%," Mr. Reagan said.

Non-NACSA members showed an operating loss of 2.37%, he said.

Given the small profits on average for the agents and brokers surveyed, several firms must be losing money, Mr. Reagan said in an interview. "These firms will have to refocus and maybe dig out a niche if they want to survive as they are."

This difficult operating environment is continuing a trend that has lasted 10 years, said Frank C. Witthun, executive vp at Acordia Inc. in Indianapolis.

"And as the market continues to be soft, this affects small agents more (than larger ones). They don't have enough working capital to grow," he said.

Small agents have more trouble in periods of lower profits than their larger rivals, agreed Dan Borbas, executive vp at Near North Insurance Brokerage Inc. in Chicago.

Small agents and brokers sometimes are more efficient than larger firms in handling small accounts in rural areas requiring a lot of personal attention, but competition from direct writers and large firms for larger accounts is hurting them, Mr. Borbas said.

"If they concentrate on small rural business, they may do well. But when you have business that lends itself to automation, they face more competition," he said.

The NACSA survey also found that commercial business is a better way to improve profits than personal lines. "The most profitable and productive firms produce less personal property and casualty commissions and fees, and more commercial property and casualty commissions and fees," said Mr. Reagan.

However, firms that can attract enough personal lines business may find that it very profitable, said Acordia's Mr. Witthun. "We have a good volume of high-value homes in Florida, and that is our most profitable business in the state."

Another way to boost profits: pay top salaries to attract top producers. "The most profitable firms actually have higher compensation expenses per employee although their total compensation as a percentage of their net revenues is lower," Mr. Reagan said.

The average compensation per employee for all the NACSA firms in the survey was $53,492, which brings total compensation costs to 64.3% of net revenues. However, the 25% most profitable NACSA firms paid an average $57,939 per employee, which represents 62.2% of net revenues, the survey said.

"It may hurt your productivity and, in turn, profitability, to hire a 'less expensive' employee," Mr. Reagan said.

Although many agents and brokers are paid through commission, the better firms do pay higher basic salaries, Near North's Mr. Borbas agreed.

Meanwhile, a growing proportion revenues comes from fees rather than commissions, Mr. Reagan said. This is especially prevalent among larger brokerages and agencies that provide consulting and other services.

Not all brokers and agents are following this trend, though.

Claims advice, risk management advice and loss-control services should be provided automatically without added charges, Mr. Borbas said. "We make more money in the long term by keeping the customers satisfied."

•

The survey is available only to NACSA members.

Court upholds state anti-rebate law

SOUTHFIELD, Mich.—A Michigan law that prohibits insurance agents from offering rebates does not violate the state constitution, a Michigan appeals court has ruled.

Peter Katt, a fee-only life insurance adviser, alleged that the law unfairly deprived him of his liberty to pursue his livelihood.

In rejecting that argument, the appeals court on July 19 upheld a lower court decision.

"Rebating of commissions could permit an agent or company to discriminate amongst applicants by offering varying rebates to different applicants or subgroups of applicants with a similarly situated class of risk," the court wrote.

The court also pointed out that the anti-rebate statute promotes insurer solvency and public convenience.

Mr. Katt said he is looking into the possibility of appealing his case to the Michigan Supreme Court.

—By Sally Roberts

Agents may risk ERISA liability if they advise benefit plans

By SALLY ROBERTS

An agent or broker who sells insurance on a one-time basis to a benefit plan does not automatically have a fiduciary responsibility to the plan under the Employee Retirement Income Security Act, attorneys say.

However, agents need to be aware that there is a risk of being found liable as a fiduciary under ERISA if they routinely sell insurance products and provide extensive investment advice to a benefit plan, they say.

And, they warn, agents' errors and omissions policies generally do not cover fiduciary liability claims.

The 5th U.S. Circuit Court of Appeals last month reversed a lower court's decision that had found a Mississippi insurance agent had breached his fiduciary responsibilities when he recommended that funds in a client's profit sharing plan be used to purchase a life insurance policy. The transaction was later found to run afoul of tax regulations, prompting this lawsuit.

Despite the appeals court's reversal, questions remain as to when agents and brokers could be held liable for fiduciary responsibilities under ERISA.

For agents and brokers, the implications of being held a fiduciary include greater liability to plan participants and beneficiaries. ERISA imposes personal liability on "any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations or duties imposed upon (them)."

According to ERISA, a person

Continued on next page

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Continued from previous page
is a fiduciary with respect to a plan to the extent that: he or she exercises any discretionary authority or control regarding management of the plan or its assets; he or she renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the plan; or he or she has any authority or responsibility to do so, or he or she has any discretionary authority or responsibility in the administration of the plan.

"A typical agent or broker dealing with a client is not going to be found a fiduciary under ERISA if he successfully markets investment vehicles to a (benefit) plan," said James O. Dukes, a partner at the law firm Bryant, Clark, Dukes, Blakeslee, Ramsay & Hammond in Gulfport, Miss., which represented the agent in this case.

However, "there have been several cases in which agents and brokers have been held to be fiduciaries," Mr. Dukes said. In these cases, though, agents have expanded their roles "much further" to have "effective control over (their clients') investment services."

Insurance agents can expose themselves to liability in two ways, contends William V. Westbrook III, a partner at Eaton & Cottrell, also of Gulfport, Miss., which represented the plan participant.

One can cross the line between an investment adviser of a plan into taking control of the plan transactions, Mr. Westbrook said. In this case, the agent basically "stands in the shoes" of plan administrators and trustees, who should be the ones making the decisions and rendering investment advice, he explained.

The second way agents may run the risk of increasing their liability is if they have an understanding with the plan and render investment advice for a fee, Mr. Westbrook said.

"There is a greater danger of accidentally becoming a fiduciary" if agents are routinely selling insurance products to smaller benefit plans, says Stuart Lewis, an ERISA attorney at Silverstein & Mullens in Washington.

These smaller employers tend to rely on their agents for advice instead of hiring an additional investment adviser, he explained.

In these cases, agents need to take some precautions, including "double-checking" that they are not the "sole adviser" on the plan, said Mr. Lewis, who is also counsel for the Assn. for Advanced Life Underwriting, an affiliate of the National Assn. of Life Underwriters.

A fiduciary liability claim could prove costly for insurance agents.

Most E&O policies for agents do not cover fiduciary liability claims, Mr. Lewis pointed out. Although there are fiduciary liability insurance policies available, few agents have found the need to purchase this coverage, he said.

The case before the 5th Circuit, *George A. Schloegel and the Hancock Bank Profit Sharing Plan vs. Laurie Boswell*, involves a licensed insurance agent in Mississippi who allegedly breached his fiduciary duties imposed by ERISA.

The agent—Mr. Boswell—in addition to helping Hancock Bank in Gulfport, Miss., establish a pension plan and selling life insurance to the plan—was a close friend of the management and regularly advised the plan from 1958 until 1979.

In 1976, Mr. Boswell recommended changes needed to bring the bank's pension plan into compliance with new legal requirements of ERISA. The next year, Mr. Boswell presented a proposal to several members of the bank's top management that it would be to their benefit to use profit-sharing funds to purchase life insurance.

Mr. Boswell told the bank that purchasing life insurance through a trust was the cheapest way to buy life insurance because it would be paid with pretax dollars and the policyholder would only be taxed for the value attributed to term life protection costs.

The Hancock Bank Profit Sharing Plan purchased two consecutive ordinary life insurance policies for George A. Schloegel, now president of Hancock Bank. Mr. Boswell procured the policies and received commissions on the premiums.

The profit-sharing plan paid insurance premiums from 1977 to 1987, using funds from Mr. Schloegel's profit-sharing account. In 1987, the profit-sharing plan discovered that its payments of insurance premiums violated federal tax regulations requiring life insurance protection to be "incidental" to a qualified profit-sharing plan.

Federal income tax regulations provided that ordinary life insurance could be purchased without adverse tax consequences to ERISA-qualified profit-sharing plans only if less than 50% of the employer's contributions to the participant's profit-sharing account were used to pay the premiums.

According to court papers, the percentage of the employer's contribution used to pay the premium far exceeded that amount.

Faced with the possibility of losing its tax-deferred status as a profit-sharing plan, the insurance policy was canceled and the cash surrender value was placed into Mr. Schloegel's profit-sharing account.

Although the plan never lost its tax-deferred status, Mr. Schloegel and the plan claim they suffered a $63,300 loss due to the imprudent investment in life insurance that Mr. Boswell advised.

The U.S. District Court in Jackson, Miss., found that Mr. Boswell breached his fiduciary duties under ERISA by recommending or inducing the profit-sharing plan to purchase the life insurance policies without first determining whether the 50% test could be met. It was further alleged that Mr. Boswell breached his duties by failing to subsequently advise the plan that its premium payments were not satisfying the 50% test.

According to U.S. District Judge Dan M. Russell Jr., "Mr. Boswell was clearly more than a mere salesman and although he may have started out as such, he did his job so well that he became what he now would deny: a person upon whom the plan trustee, administrator and beneficiary relied upon in allocating plan assets.

"Boswell exercised sufficient discretionary authority or control, vis-a-vis the subject policies purchased and maintained by the plan for Schloegel's account, to justify his being found to be a fiduciary."

In reversing that decision, the 5th Circuit found that "mere influence over the trustee's investment decisions, however, is not effective control over plan assets."

Mr. Schloegel and the Hancock Bank have petitioned the 5th Circuit to reconsider the decision. BI

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Agent/Broker Topics

Midwest brokers afloat in flood

But communicating with displaced clients is a tricky business

By JUDY GREENWALD

ST. LOUIS—The rising Mississippi River just might have enhanced the property value of broker Welsh, Flatness & Lutz's office building.

Sitting in an office seven blocks from St. Louis' Gateway Arch, Executive Vp and Chief Operating Officer Tom Etling quipped that he now has a river view.

Luckily, the more than 46 feet of water that reached the tops of street lamps along the river has not affected the broker's building or operations.

Broker Holmes Murphy Iowa in Des Moines wasn't so lucky. On July 11, when the worst of the flooding hit Des Moines' central business district, floodwaters forced the broker out of its offices and a skeleton crew was set up in its West Des Moines office, said President Jim Swift.

However, although they were back in their downtown Des Moines office nearly two weeks later, Holmes Murphy still had to contend with the city's request to reduce power usage by 60% by darkening hallways and setting air conditioning thermostats to 80 degrees.

Most Midwest brokers, though, say their own operations have been relatively unaffected by the flooding. But many still have their hands full responding to their less fortunate clients.

For instance, one Welsh, Flatness client is a cleaning firm with management offices located on a boat. First, rising water washed out the gangplank between the dock and the boat. Then, even the short boat trip to the floating office became too treacherous. So the client moved into Welsh, Flatness' offices. The phone company switched the client's phone calls from the boat to its temporary home for free.

Communication with clients has been a primary concern, too.

For instance, when Holmes Murphy gathered its agents in its temporary quarters in West Des Moines to discuss its disaster plan, "Most important was to immediately contact all customers, whether they had flood damage or not," said Mr. Swift. "We wanted them to know how we were operating and how they could get in contact with us."

"We've been inundated with phone calls" since the flooding began, said Bob Meers, president of Ellis, Rodes, Meers & Co. in St. Charles, Mo. Many of the phone calls came from homeowners wanting to buy flood insurance. "We've sold 20 to 25 new (flood) policies" in the past month, Mr. Meers said.

The brunt of incoming calls at ISU/St. Charles Insurance Agency Inc. consists of questions about flood insurance policies, said Susan Payne, an administrative assistant for the St. Charles-based agency. Policyholders want to know if they are covered or what they need to do next, she said.

Many also ask whether additional living expenses are covered under a flood policy, said Diane Link, personal lines manager for ISU/St. Charles, commenting that these expenses are not generally covered.

More time-consuming than processing claims is providing the empathy needed when clients must be told that their flood insurance does not cover living expenses, business interruption or other items, said Chip Sunderbruch, of the Sunderbruch Insurance Agency in Davenport, Iowa. "People don't understand."

Just getting in touch with clients can also be a problem.

Many clients are living in shelters or churches, making it difficult to reach them, said ISU/St. Charles's Ms. Link.

If a work number proves ineffective, mail is the best alternative, she said. However, because of the floods, policyholders must pick up their mail at the post office, and whether they do that daily is questionable, she added.

Doug Joyce, who works on surety bonds for Thomas McGee & Sons in St. Joseph, Mo., said he has also spent time tracking down clients' home phone numbers. "It's obviously impacted the availability of some people," he said of the flooding.

Another problem facing brokers is that unlike Hurricane Andrew, where adjusters were on the scene once the storm was over, the flood has continued to inhibit adjusters from going out.

"We feel so helpless," said Ms. Link. "Insureds want to turn in claims, but there is not much we can do until the river goes down and adjusters can get out. It's a never-ending situation."

Mr. Swift, however, praised insurers. "I'm impressed with the insurance companies," he said. "Several claims have already been adjusted, settled and paid."

Don Blough, president of Molyneaux Insurance Agency Inc. in Davenport, expressed regret that more of his clients had not purchased flood insurance beforehand. "Flood insurance is relatively expensive," he said, and in the past clients often chose not to buy it once they were given a quote. "It's too bad. We sure wish they would have bought it."

Meanwhile, brokerages and their employees have been helping their neighbors. About one-third of Sedgwick James Inc.'s 65 employees in St. Louis have helped with sandbagging efforts in the area, said Managing Executive Bob Ruebsam.

The office is also helping out by donating needed items to the local Salvation Army, said Mr. Ruebsam. And on a national level, Sedgwick has been working with the American Red Cross, he added.

"We've had volunteers from the staff who've helped out with relief," said Don Carlson, branch manager for Johnson & Higgins' St. Louis office. "And Johnson & Higgins has given a sizable check to the Salvation Army."

Patrick Doyle, who heads Willis Corroon's St. Louis office, said the brokerage has been matching employee donations for flood relief. Some employees also have been volunteering in their communities.

Sara Marley and Sally Roberts contributed to this story.

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Agents down but not out in bank fight

By SALLY ROBERTS

Independent insurance agents are determined not to strike out, even though they are down two counts in their effort to block national banks from selling insurance.

The latest fastball to catch agents swinging was a July 16 ruling from the District of Columbia U.S. Circuit Court of Appeals that allows banks that sell insurance in towns with fewer than 5,000 people to also sell insurance nationwide. The decision came only five weeks after the U.S. Supreme Court ruled that Section 92 of the National Bank Act, a 1916 provision that granted small-town banks the authority to sell insurance, was still in effect (*BI,* June 14).

The Independent Insurance Agents of America Inc. had argued before the high court that punctuation in the law meant Section 92 had actually been repealed in 1918 (*A/BT,* May 3).

The Supreme Court, though, ruled that the punctuation was a "scrivener's error" and remanded the underlying issue of whether small-town banks can issue insurance nationwide to the appeals court.

Back in the District of Columbia U.S. Circuit Court, the IIAA argued that Section 92 placed geographic restrictions on insurance sales by small-town banks and that the comptroller's interpretation of the provision was "unreasonable."

The appellate court, however, ruled that the words in the section do not clearly state that banks may sell insurance only to local townspeople.

The appellate court also said that to overturn the comptroller's construction, we would have to conclude that it is 'so inconsistent' with a 'sufficiently clear' statutory policy as to demonstrate that 'Congress' clear intent has been violated.' We find no basis for doing so. . . .The 'solution,' if there is to be one, lies with Congress, not the courts."

Insurance agents say they are ready for the change of pitch.

"We'd prefer to see it in Congress," contends Phil Anderson, Washington representative for the IIAA. Agents are planning to lobby Congress to draft and pass legislation that would restrict banks to selling insurance only in small towns rather than selling nationwide from a small town, he said.

Agents are not just worried about what the competition from banks would mean for them. They also fear that "megabanks" would force out competition, resulting in lower service quality and higher prices for consumers, Mr. Anderson said. BI

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Agent/Broker Topics

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Software products:

■ BENEVOICE: $15,000 purchased, operated on service bureau basis for $10,000 per year, includes system and employee access hardware; simultaneous access: unlimited.

System: IBM compatible PC.

First installation: 1990.

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

Features: 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, fax, mail.

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Contact: Henry Salley.

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User support: Human resource consulting and systems support for employee communications and training.

Staff: 35 total, including 20 professionals.

Clients: 150 total, including 40 new clients and 30 who added features to their interactive benefit communication system in 1992.

Branch offices: 30 locations.

Officers: Michael H. Davis, president/CEO; Leroy B. Parks Jr., executive vp/treasurer.

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OSHA nominee

Continued from page 2

"Joe Dear's record in Washington was clearly one in which he sought to bring the partners together," said Tom O'Day, associate vp-federal affairs for the Alliance of American Insurers in Washington.

"Based on previous experience and what he's said in the past, you see a man who's more like Gerry Scannell" than might have been expected, said Mr. O'Day.

"I think there's a chance that Joe Dear could be Bill Clinton's Gerry Scannell," agreed Win Froelich, general counsel for the Workplace Safety and Health Council, a nonprofit Washington research group.



Photo by Chien-Chi-Chang/Seattle Times
Joe Dear

Mr. Scannell, the previous OSHA director, resigned last year to return to the private sector (*BI*, Jan. 13, 1992).

Mr. Scannell came from private industry but "bent over backwards to try to accommodate the views of organized labor, and by doing that he was perceived by everyone as being fair," said Mr. Froelich. Similarly, he said, Mr. Dear comes from a labor and regulatory background but has a reputation for fairness in his dealings with industry. A former co-worker of Mr. Dear at the Labor Council said his tenure in state government led to "real improvements" in workplace conditions.

"Overall, he did a pretty good job," said Karen Keiser, the council's communications director. "He's able to bring everyone to the table, get them talking and get everyone to move forward even when the issues are contentious."

Business groups that have dealt with Mr. Dear echo those sentiments.

"The thing that's nice about Joe is he's a consensus-builder," said Don Brunnell, president of the Assn. of Washington Businesses in Olympia, Wash. "He tries to get compliance through cooperation rather than by fines or punitive measures, although he's not afraid to levy those."

Along with stiffer fines and more frequent visits, Mr. Dear put his energy into training and job-site consultation, recalled Mike Sotelo, human resources and safety director for W.G. Clark Construction Co. in Seattle.

Mr. Sotelo credited the nominee and his approach with reducing on-the-job deaths among construction workers in Washington to six in 1992 from 28 five years earlier. "He was very effective in working with associations throughout the state in partnering with employer groups to develop effective safety and health practices."

Maurice Greiner, vp and casualty loss-control consultant with Johnson & Higgins in Seattle, said Mr. Dear "provides a good bridge between labor and management."

During his tenure in Olympia, Mr. Dear was known as very accessible.

"Joe always had an open door for us and always heard our concerns," said Ms. Keiser.

"He actually treated us like clients, and that's what we are. Joe really went out of his way to make me as a businessperson and the construction business feel like a client," said Mr. Sotelo. "He strengthened business and labor's relationships and saved the taxpayers millions of dollars in a time when it was needed the most."

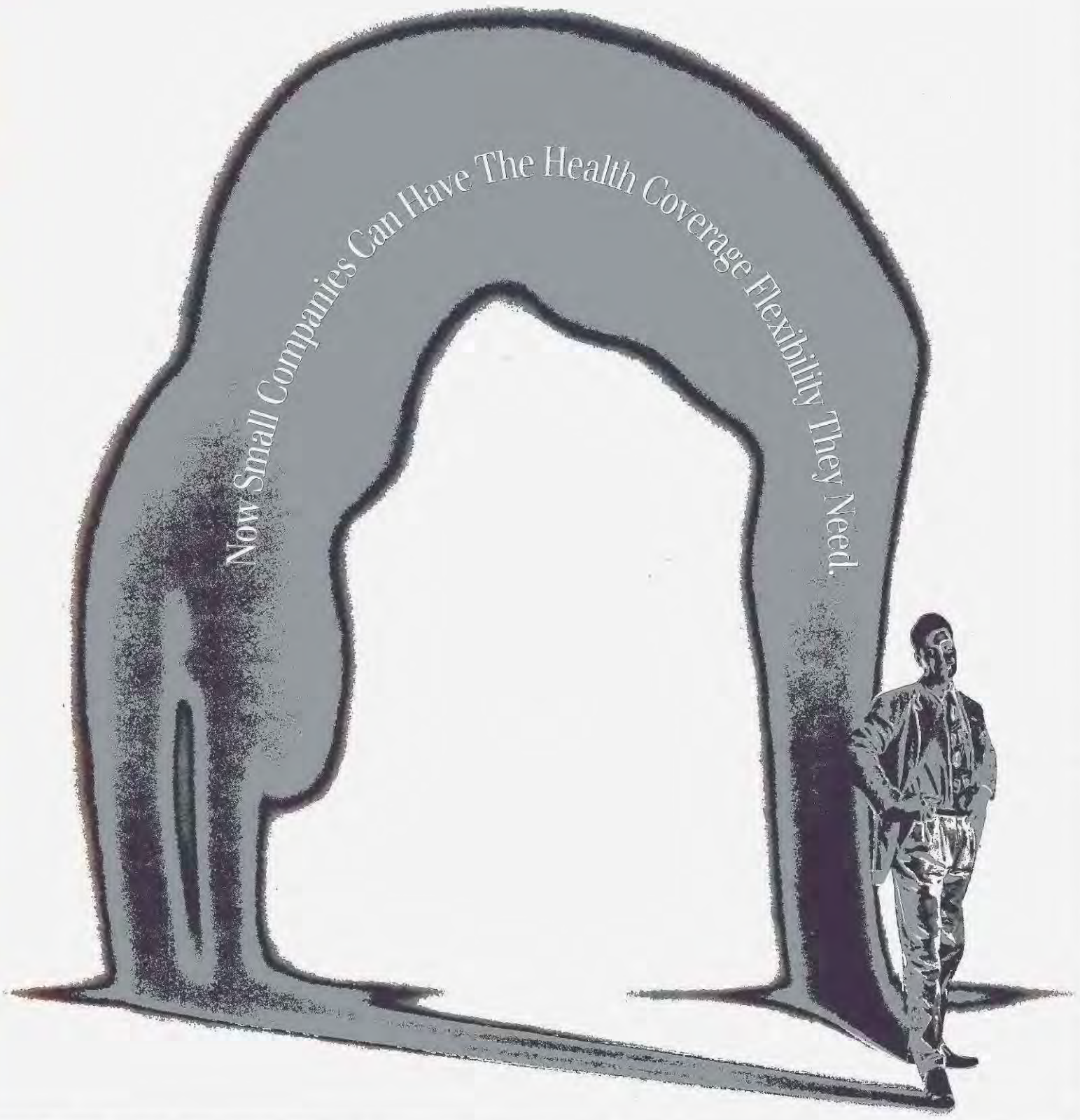
Return-to-work programs were of particular concern to Mr. Dear. "His focus was on the injured worker, because he realized that the benefit was to the workers and the employer," said Mr. Sotelo.

"The one word that would sum up Joe Dear is 'cooperation.' His representatives and consultants are very helpful to our clients," said J&H's Mr. Greiner.

State safety programs were run without an "oppressive, heavy hand," he said.

State officials also helped businesses comply with safety rules by providing accident prevention guidelines and a hazard communications program "that became envied throughout the nation," said Mr. Greiner.

"His credibility is untouchable," said Mr. Sotelo. "If Joe can do in Washington what he did in Olympia, OSHA will be considered a positive enforcement to all business communities." BI



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A waning profession?

Risk managers can use a good information system in their quest to prevent departmental 'downsizing'

RISK MANAGEMENT, as a profession, is at a crossroads.

Although it's been a few months since the Risk & Insurance Management Society Inc.'s annual conference in Orlando, I am still struck by that clearly predominant theme and mood: At best, many risk management departments are being downsized. At worst, they are either being greatly de-emphasized or completely eliminated by corporate management's determination to reduce costs and increase profitability.

How ironic. The very department whose primary mission is to identify and reduce fortuitous risk against an organization—for either private or public sectors—is risk management. Unfortunately, because the typical risk management department is staff with no direct authority, it is usually considered more expendable than others.

Further, with some notable exceptions, the risk manager is not a visible presence in executive circles. The reason is that many risk managers are focused on the important, but not the critical. Technical insurance-related issues have historically been their area of concentration.

And yet, despite these negatives, the risk manager has great opportunity for that "executive visibility." We all know that claims costs, particularly those arising from workers compensation or other casualty exposures, are boardroom issues. Solving the dilemma of rising costs is one of the keys to profitabilty—and therefore credibility—at the executive level.

Now what has all this to do with risk management information systems? Simply this: the RMIS was to be the tool to increase that visibility. To be sure, the RIMS conference, like every other one before it for the last decade, featured the RMIS in that light. From specialized managed care systems to expert systems calculating future workers compensation reserves, the array of technologically advanced products is impressive.

But has the RMIS been as effective as purported? Is the risk manager using it properly? Let's address each question separately:

- RMIS effectiveness.

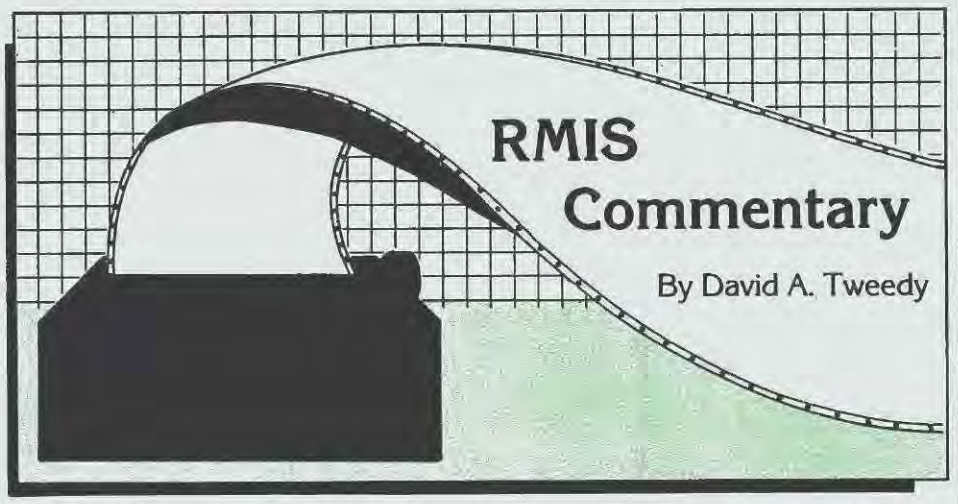
In past columns, I have discussed this point at length: A RMIS is one of the most important tools that a risk manager possesses to perform his or her job. I remain convinced of it. However, how is effectiveness measured?

Management expert Peter Drucker said in a 1991 Wall Street Journal interview: "The only way to bring costs down is to restructure work. . . .More computers to handle more data faster is rarely the right answer. . . .The task is to define what information is needed rather than how to manipulate it."

Today's systems are much better than those 10 and even five years ago. For example, most current personal computer systems are far more capable than the industry standard mainframe systems of several years ago.

Yet, with open architecture systems, the hardware platform today is less of an issue than it was a few years ago. What is important is whether true value in terms of time and dollars saved is realized.

The RMIS industry can be evaluated in this light. The systems can be divided as follows:



- Level I: Claims processing systems (mainframe system providing loss-run derivative data—such as from an insurer or large third-party administrator).
- Level II: Comprehensive claim system (stand-alone claim systems providing complete workers comp adjudication and analysis such as from a personal computer/local area network system).
- Level III: Comprehensive exposure analysis system. This is the true RMIS. It is not just focused on claims, but on all relevant exposures.

Each system has its important place today. However, for the risk manager who is looking beyond the claims adjudication process, Level III systems are probably going to be the most effective tool.

Which ones truly focus on all relevant areas affecting the particular organization? It will typically be those which take the basic claims information, merge it with other key exposure data and provide reports on combinations of data.

For example, consider workers compensation dollars paid per 100,000 man-hours or sales dollars. This information lends itself to access and use by other departments: finance, legal, safety and even senior management through executive information systems.

A truly well-designed and utilized RMIS may initially appear to be costly. Yet the dollars expended on the system should be compared to the total cost of claims. If the tool is well implemented, the payback comes quickly.

These cost paybacks can take two paths: short term and long term. Both are important, but the risk manager must really aim at the long-term solutions.

Examples of short-term savings are those realized by medical management analyses like fee schedule discrepancies, mistakes on loss runs or retrospectively rated formulas. In short, you cannot continue to count on those savings year in and year out.

Long-term examples are those that result from studying loss patterns and making informed decisions on safety and loss control/prevention strategies, or from altering the self-insured retentions for a period of time due to information gleaned from the system. Another example would include the continued use of expert systems to more accurately set case reserves and apply medical management analysis to the claims.

The results would not be measured in how much the RMIS costs in terms of hardware, software and implementation. The real measure is the money saved by using the system. Most vendors should be able to provide several examples of reasonable cost savings—both long and short term.

In short, the RMIS vendor must espouse this philosophy embracing the whole spectrum of risk management beyond generally accepted industry expectations.

- Risk manager effectiveness.

Now comes the hard part. Designing systems to address the problems and assist with the solutions is much easier than getting the risk manager to do a careful needs assessment to pick the right system, think through how to obtain approval and funding for that system and to get demonstrable results using long- and short-term strategies.

Over the years, I've stressed how critical it is to select the appropriate system.

With the proliferation of so many types of systems coupled with the explosion of technological amenities—like imaging, electronic data interchange, client server environments, CD-ROM options and the like—it is even more critical to decide what's important and to plan the process.

After all, picking the wrong system is bad enough; doing it in front of a solution-expecting senior management group quite possibly could be either a "CLD—career limiting decision. . .or a CED—career ending decision," terms used by Fred Keeton, director of claims of Promus Cos. in Memphis, in a speech on establishing accurate case reserves.

Carefully plan how to get the approval for the system. Do not settle for a solution which is less than you need.

Although upfront system costs appear high, look at the cost-benefit ratio you should have done early on.

If you look at it as a capital expense with definable dollars saved—from projected subrogation exposures through better claims management controls, or perhaps a newly acquired subsidiary's old product liability exposure identified by your RMIS, and thus not assumed—you can effectively make your point with senior management.

Getting other departmental leaders on your side with the promise of better data can also help. If you have a major problem already with workers compensation or other casualty exposures, it should be that much easier.

Finally, do not depend on the short-term fix. Going out to bid for insurance or service providers like brokers, TPAs or RMIS vendors may save initial dollars but it will be short lived. Rolling up your sleeves and digging into the real challenge of preventing losses, through sound risk management procedures with the help of the RMIS, plus the short-term hits, will be much more effective over the long haul.

Don't waste the opportunity that got you to the boardroom in the first place. The RMIS, with well-implemented risk management solutions, will help the risk manager stay there as a valuable asset in helping the organization remain profitable. BI



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



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For steel deck roofs, examine the underside of the steel deck. A greater number of fasteners should penetrate the deck in the 8- to 10-foot strip closest to each wall. If the roof lacks additional fasteners, focus repair efforts on the 100 square foot corner areas of the roof covering for each building. Providing additional fasteners and patching the penetrations will cost less than $500 per corner. Average exposures with this type of deficiency typically range from $500,000 to $1.5 million.

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Comings & Goings: Industry

Doyle joins Aon Specialty from Willis Corroon post

Corbette S. Doyle has joined Aon Specialty Group Inc., a Chicago-based subsidiary of Rollins Hudig Hall Group Inc., as senior vp. Ms. Doyle will be responsible for coordinating brokering, consulting, claims and risk management services for the health care arena. Previously, Ms. Doyle was senior vp-advanced risk management services at Willis Corroon Group.



Ms. Doyle

In other agent/broker changes:

R. Bradley Johnson named president of Sedgwick James Inc.'s Public Entity Division in Columbia, S.C. He succeeds **William R. Calamas**, who was named managing executive of Sedgwick James of the Carolinas Inc.

Bryan R. Byler named loss control manager at Brentwood Services Administrators Inc. in Brentwood, Tenn.

Insurers

John M. Petersen will retire as president, treasurer and chief financial and investment officer from Erie, Pa.-based Erie Insurance Group on Dec. 31. Effective Jan. 1, **Jan R. Van Gorder** will become president of parent company Erie Indemnity Co.; **John J. Brinling Jr.** will become president of subsidiary Erie Family Life Insurance Co.; **Maureen Q. Dwyer** will become president of subsidiary Flagship City Insurance Co.; **Thomas M. Sider** will become executive vp and chief financial officer of all Erie Insurance companies; **Douglas F. Ziegler** will become senior vp, treasurer and chief investment officer of all Erie Insurance companies; and **Philip A. Garcia** will become senior vp and controller for all Erie Insurance companies.

David E. Christman named vp-sales at The State Life Insurance Co. in Indianapolis.

Joseph J. Mistretta named vp-property/casualty field operations at Aetna Life & Casualty Co. in Hartford, Conn. Mr. Mistretta succeeds **Thomas S. Carpenter**, who will retire July 1.

Donald O. Scruggs, executive vp and chief operating officer of the agency and brokerage group of Continental Insurance Corp. in New York, died July 18. No replacement has been named.

Reinsurance

Gerard T. Tanella joined G.L. Hodson & Son Inc. as a senior vp. Previously, Mr. Tanella was managing director for Guy Carpenter & Co.

Dr. David Wesley named vp and chief medical director at Cologne Life Reinsurance Co. in Stamford, Conn.

John Kramer joined E.W. Blanch Co., a reinsurance intermediary, as senior vp in Minneapolis. Also at E.W. Blanch, **Rick Johnson** named vp.

Other suppliers

Robert E. Heitzman Jr. joined Ernst & Young as director of its international compensation and benefits consulting practice in New York.

David W. Brown named vp-medical assistance for Greater Atlantic Health Service, a health maintenance organization based in Philadelphia.

Richard D. Ekstrom joined Preferred Solutions Inc. as chief operation officer in the San Jose office of the specialty managed care firm. Also at PSI, **Glen Markham** joined as regional vp-sales in New York, and **Craig Chance Walgran** joined as vp-major accounts in New York. BI

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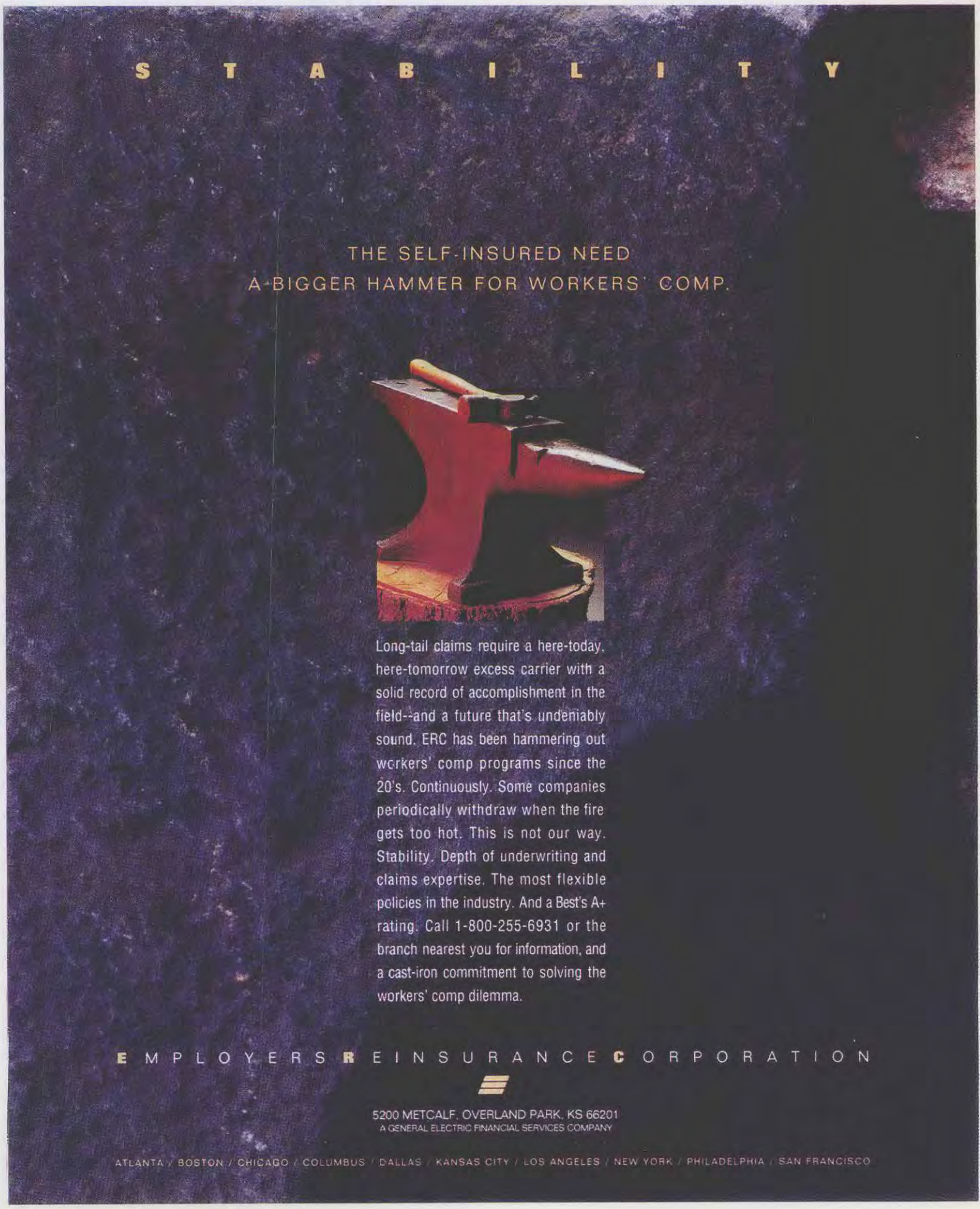
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Comp alternatives

Continued from page 1

Most alternative products carry employer deductibles and require employers to actively work to control costs and prevent losses.

"Historically, regulators have adopted the framework of workers compensation as provided by the National Council on Compensation Insurance and the industry," said Meredith Brooks, director of research for the Georgia Insurance Department, which has approved one of these new products for employers in the state.

Among the problems besetting the traditional workers comp system are medical costs that rise faster than those for group health plans.

Georgia lawmakers—with the support of activist Insurance Commissioner Tim Ryles—have launched a pilot program to determine whether "a new type of animal" can help solve this problem, said Ms. Brooks.

Critics of the new products, though, question whether their use could cripple a state's already burdened residual market by diminishing its assessment base.

Critics also ask whether all states will require that such products provide coverage comparable to a traditional workers comp policy. And they question whether most guaranty funds will provide full protection for injured workers' claims if an insurer fails.

"Too many details are still too fuzzy to seriously evaluate the impact on property/casualty or life/health state guaranty funds," said Dale Stephenson, president of the National Conference of Insurance Guaranty Funds in Indianapolis.

On a national level, state insurance regulators and workers compensation administrators are leery of the new alternative products "because we don't know what some of the ramifications are," said Arkansas Insurance Commissioner Lee Douglas. He co-chairs a committee of state regulators and administrators that is studying the alternative products.

Alternative products surfaced first in Louisiana about two years ago, and have since spread to Alabama and Georgia.

The types of products being offered in Alabama and Georgia meet employers' statutory workers comp requirement, while the product approved by Louisiana does not, because it caps worker benefits.

About 400 employers are insured through such products in the three states, estimates Jim Nau, senior vp-government affairs for the National Council on Compensation Insurance in Boca Raton, Fla.

About a dozen states have laws that would possibly permit the alternative products, if they were approved by the insurance commissioner and/or workers comp authority, said Eric Nordman, senior regulatory specialist with the National Assn. of Insurance Commissioners in Kansas City, Mo.

"These laws have been on the books for years, but people haven't used them," said Mr. Nordman, whose preliminary research shows that the plans also could be allowed in Connecticut, Iowa, Missouri, Oklahoma, Rhode Island, South Dakota, Utah and West Virginia.

Rising workers comp costs are burdening businesses in many states, prompting officials to explore new ways to improve their beleaguered systems. Among possibilities now being considered are expanding managed care, permitting 24-hour coverages and making employers more responsible for their losses.

This search led Georgia regulators to approve several alternative insurance products (see related story).

Some observers see several advantages to such alternatives.

"You'll be getting more competition into the system as other workers comp carriers enter it," said Arkansas' Mr. Douglas.

Also, policyholders may be able to save substantial amounts because the life/health insurer, which is not liable for residual market assessments, won't pass on the "load" factor.

In Georgia, the load factor is 17.2%, meaning commercial insurers are assessed $17.20 for every $100 in voluntary market premiums they write. In Alabama, the figure is at least 30%.

Some insurer trade group officials challenge that exemption from residual market assessments on public policy grounds.

"I question whether it makes good public policy sense to let some insurers escape the residual market burden," said Keith Bateman, vp-policy development for the workers compensation and commercial lines division of the Alliance of American Insurers in Schaumburg, Ill.

"We are concerned about the impact on assigned risk plans as voluntary premium erodes and the assigned risk burden gets higher because it is spread across fewer insurance companies," said Mr. Nau of the NCCI.

But an executive of Novato, Calif.-based Fireman's Fund Insurance Co., which is offering one of the products approved in Georgia, counters that the alternative products could have a salutary effect.

"Alternative markets could put pressure on everyone to find creative solutions to the residual market," said Bob King, director of workers compensation product development for Fireman's Fund.

Another criticism of the alternative products is that they may provide less coverage than traditional policies, including unlimited guaranty fund protection for injured workers' medical and indemnity claims, as is available in most states.

"The question is open whether there is guaranty fund protection for either the life/health or the property/casualty insurer," said Johnny Johnson, a rate analyst with the Alabama Insurance Department.

Alabama regulators asked one of the insurers selling alternative products to get a court ruling on the issue. But a state judge threw out the insurer's request for declaratory

Continued on next page

Three products illustrate how comp alternatives work

Georgia insurance regulators have approved three alternative insurance products to meet state workers comp coverage requirements.

The approved products are underwritten by units of Fireman's Fund Insurance Co., Zurich American Insurance Group and Travelers Corp.

These innovative products typically emphasize cost-control techniques that require an employer to take responsibility for preventing and managing workers comp losses, including employer deductibles.

The products use managed care techniques to control costs, including preferred provider networks, utilization review and bill audits.

Two units of Fireman's Fund underwrite the "Workplace Solution" product, which was developed by Ken Compton, a managing general agent who founded Atlanta-based WorkComp Solutions Inc.

The product targets "middle market" employers, those with $10,000 to $750,000 in traditional workers comp premiums annually, Mr. Compton said. This generally would be employers with about 10 to 500 employees, depending upon their risk classification, he estimated.

Fireman's Fund's product uses its own classification and rating system as well as a unique experience rating formula, Mr. Compton said.

Zurich American's alternative workers comp program, which targets larger employers, is underwritten by four units that each have both a life/health and property/casualty license.

"We target primarily large employers, those with $50,000 to several million dollars in premium," said Chuck Kimball, workers comp manager at the insurer's headquarters in Schaumburg, Ill.

He said the program emphasizes the employee's role in holding down costs by, for example, requiring the employee to "take out the policy," even though the premium is paid by the employer.

Zurich American provides employee incentives by rewarding high levels of managed care utilization within an insured workforce, Mr. Kimball said.

In addition, employers are given premium credits for establishing a bona fide return to work program, a safety program and an education program for employees, he said.

Travelers' program will be written by a subsidiary that is licensed to write both life/health and property/casualty business.

"In our efforts to have employers gain control of workers comp costs, we provide them with a 'certificate of insurance' which explains workers compensation benefits so they can educate workers pre-injury," said Jim McGinn, director of workers comp product development for Travelers in Hartford, Conn.

The certificate is similar to benefit booklets describing group health care coverage, he said.

"The goal is to reduce uncertainties for employees so when they are injured, they won't need to seek education elsewhere, like from an attorney," Mr. McGinn said.

—By Meg Fletcher

Cedar Rapids coalition

Continued from page 1

state and federal-level reforms, but I'm not sure we'd change it if it wasn't," he added.

Unlike many other areas of the country, Iowa has a dearth of managed health care plans. And acronyms like HMO, PPO and POS don't mean much to most people in this community of 110,000.

So, large and small employers, hospital executives and physician groups in Cedar Rapids are banding together to create their own version of managed care. The end result, they say, will relieve the pressure of escalating health care costs and help local providers better manage the care delivered to all patients in the seven-county region.

The Community Leadership Council—a coalition of the community's largest self-insured employers, two local hospitals, the medical society and the local independent physicians association, have agreed to form a long-term direct-contracting relationship, which will eventually include smaller, fully insured employers represented by the local chamber of commerce.

The coalition, formed in 1991, initially consisted of the city's seven largest employers, but has expanded to represent about 25 employers. The coalition members include Rockwell's Collins division, Amana Refrigeration Inc., Iowa Electric Co. and four independent school districts. The members' CEOs have five goals:

- To simplify the administration of health care claims by contracting with a single third-party claims administrator. Dallas-based Health Economics Corp. has been awarded a contract to be the sole administrator of health care claims and to perform utilization review. Several employers are set to sign up with HEC this fall, with the remaining CLC members expected to sign on in January.
- To reform provider reimbursement, moving first to a volume-based discount arrangement and then to fully capitated risk-sharing with hospitals and doctors. The companies are in the process of abandoning their administrative services-only agreements with insurers or TPAs and adopting a PPO-type arrangement set up by Rockwell in 1986.
- To design a common benefit template so that all employers can offer workers one or more of three benefit plans: one resembling a traditional indemnity plan, one resembling a health maintenance organization and one a high-deductible/catastrophic coverage plan. The employers will still be able to set specific benefits levels.
- To educate health care consumers and providers about efficient use of health care resources. The coalition also plans to introduce a series of wellness programs.
- To develop major practice guidelines and protocols so employers and providers can measure health outcomes.

"We think our approach is consistent with the emerging concepts of accountable health plans and organized delivery systems developed and managed on a local level," said Jim Tinker, president and chief executive of Mercy Medical Center, one of the two Cedar Rapids' hospitals in the CLC.

The initiative is an expansion of the advances that Rockwell—the city's largest employer—has made over the past several years to improve medical care for its 7,500 employees and their dependents.

In 1986, Rockwell's Collins division, which self-insures and administers a $32 million group indemnity plan, began contracting directly with the city's hospitals and most of the 350 or so doctors that practice there.

The company built its own hybrid PPO. Providers agreed to reduce charges 5% for treating the company's employees and dependents, in exchange for speedier payments from Rockwell than providers had been receiving from that company and other purchasers. Also, the company negotiated a fixed percentage by which providers could increase their charges each year and prohibited them from billing patients for any amounts above the agreed-upon fees.

This arrangement enabled Rockwell to keep its annual health care cost increases in the single digits, and provider fees have increased by only about 6% since 1986, Mr. Milroy said. In addition, the hospitals report that the time it takes to receive payments has dropped to about 20 days below the national average of 70 days.

But, Rockwell and the hospital executives knew any isolated efforts would not be enough to solve the community's health care cost problems.

"We recognized that by managing our own costs internally, we were cost-shifting to our brethren," Mr. Milroy said.

A couple of years ago, Mr. Milroy presented Rockwell's story to a group of local CEOs to pique their interest. It didn't take long before those companies, most of which currently offer self-insured indemnity plan coverage, became interested in striking direct deals with local providers themselves.

Meanwhile, CLC members began expressing sympathy for the health care woes of smaller employers, which do not have the advantage of purchasing clout. Most of those companies employ fewer than 50 workers and have no choice but to purchase high-cost indemnity coverage from the few commercial insurers that operate in the area, noted Gary Streit, chairman of the local chamber of commerce.

Members of the CLC have welcomed small business into their direct-contracting project. "We would support their efforts to set up a self-insured trust of some kind that would help spread the risk for them," Mr. Tinker said.

Together, small employers in Cedar Rapids represent about 4,000 employees, pointed out Dennis Wangeman, chief financial officer of Roush Products Co. and treasurer of the CLC.

The Chamber of Commerce, which represents the collective interests of Cedar Rapids' small employers, has yet to take any action. The group is working with Iowa legislators to come up with a strategy that would get around an Iowa statute that appears to prohibit small employers from pooling together for self-insurance purposes.

If they are permitted to proceed, the chamber will "try to find an indemnity program that would be amenable to most of our members at a reasonable cost," Mr. Wangeman said. The chamber wants to administer and regulate the plan on behalf of the employers, he noted.

The changes under way in Cedar Rapids are possible in part because of a long-standing cooperative effort between local business leaders and the city's health care providers. For more than a decade, the two have been working together to achieve efficient health care delivery and resource planning.

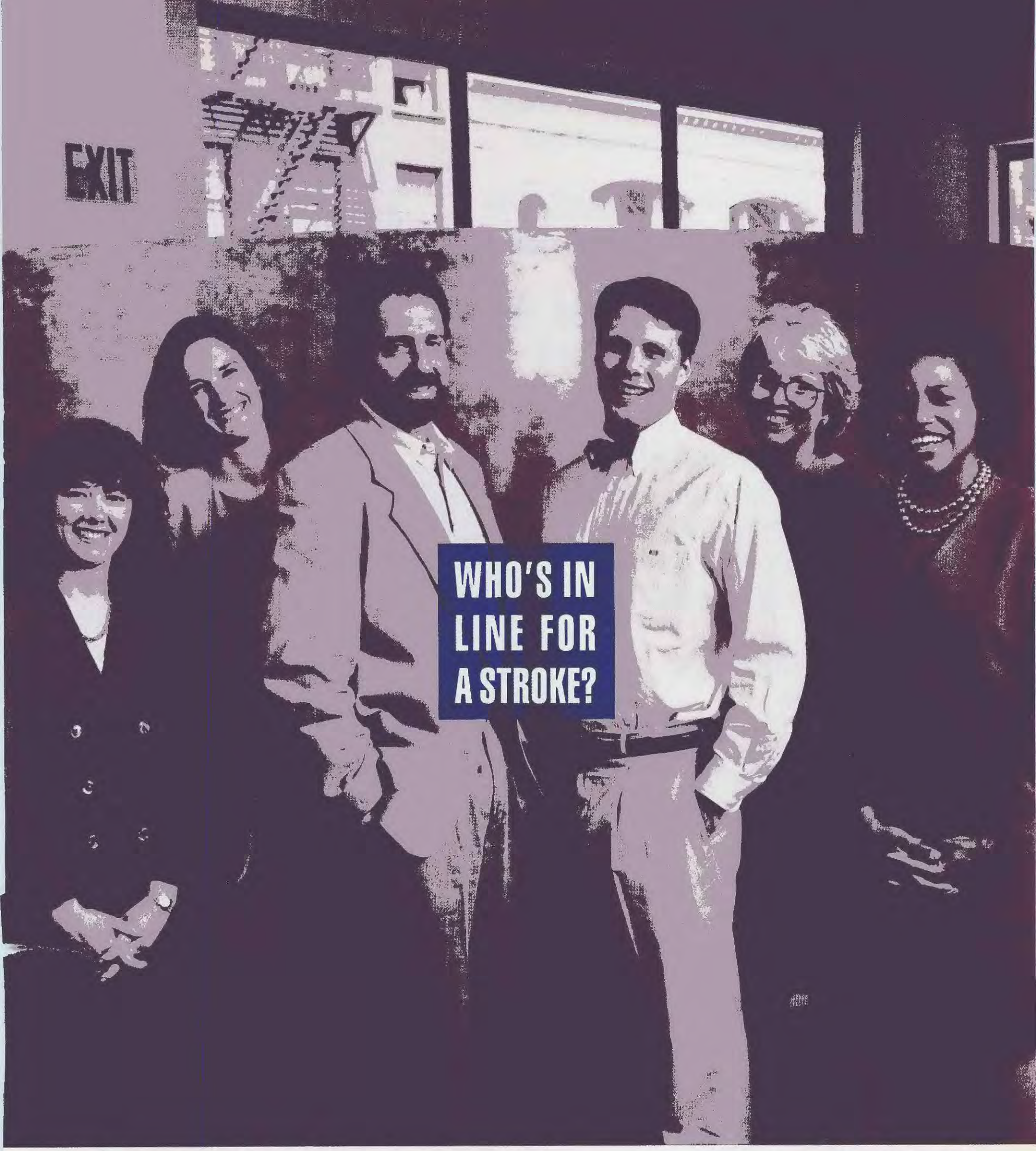
"This is a big small town," Mr. Milroy explained. "Whenever a new technology comes to town or the hospitals want to add something, they need a lot of civic funding, so they have to get the green light from us."

This oversight has enabled the corporate community to keep close tabs on providers' capital expenditures in an effort to avoid duplicating high-tech services. For example, St. Luke's Methodist Hospital is the sole provider of high-tech cardiac care, while Mercy Medical Center specializes in oncology. The hospitals don't compete with each other in those areas and they share expensive equipment like the town's one magnetic resonance imaging machine.

That type of cooperation was pioneered in Rochester, N.Y., and has paid dividends for both parties in terms of lower health care costs and increased efficiency (*BI,* Oct. 26, 1992).

Providers in Cedar Rapids are embracing the employers' efforts.

"From a defensive strategy, we decided to get involved because there are a lot of purchasing coalitions out there that aren't the best for providers. They are just trying to get discounts," noted Sam Wallace, president of St. Luke's. But after talking with local providers, Cedar Rapids employers "understand we all need to be at the table to decide the future of health care in our community." BI



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Comp alternatives

Continued from previous page

judgment.

"It may require special legislation in each state to specifically determine whether a life/health guaranty fund would have any exposure," said Jack Blaine, president of the National Assn. of Life/Health Guaranty Assns. in Herndon, Va.

Georgia lawmakers used that approach and revised state law to expressly require the life/health guaranty fund to provide unlimited coverage to workers for indemnity and medical claims.

Questions also may exist in connection with property/casualty guaranty funds.

In Louisiana, the property/casualty guaranty fund is challenging a state district court's finding that it is responsible for the unpaid claims of an insolvent property/casualty insurer that wrote the employers liability portion of an alternative workers comp product.

The defunct insurer is Presidential Fire & Casualty of New Orleans, said Chris Faser, deputy commissioner for the state's insurance rating commission. BI

Coast Guard report

Continued from page 2

Mexico and Canada, thereby increasing transportation expenses, the report added.

And, the Coast Guard warned, "Since the North American market dominates the entire world cruise market, the cruise industry would be adversely impacted by the refusal of their P&I clubs to offer guarantees."

These dire predictions are in the Coast Guard's July 12 report, "Preliminary Regulatory Impact Analysis (on) Financial Responsibility for Water Pollution (Vessels)."

The 86-page report, which many shipowners and insurers have been awaiting, is the last in a series of hurdles for the Coast Guard to begin enforcing the Oil Pollution Act of 1990. An outcry from P&I clubs and shipowners, as well as a moratorium by former President George Bush, had delayed implementation of the act.

This latest report is a discussion document and comments on the report must be submitted by Sept. 20. The Coast Guard wants to "wrap this up" and issue rules by the end of this year, said Robert S. Horowitz, chief-regulations and legislation for the U.S. Coast Guard National Pollution Fund Center in Arlington, Va.

The Oil Pollution Act was signed into law on Aug. 18, 1990, in response to the Exxon Valdez and other oil pollution tragedies in U.S. waters.

The act places high limits of liability on owners and providers of their certificates of financial responsibility for oil discharges or threats of discharges in U.S. waters.

This translates to an average of approximately $75 million to $150 million in pollution liability per tanker, said Darby Duryea, senior vp in charge of the marine office at Johnson & Higgins in New York.

But P&I clubs and tankers argue that these limits are greater than under international pollution liability conventions. The international shipping community has told the Coast Guard the limits go "beyond traditional maritime practices."

P&I clubs and many of the world's tanker owners and operators prefer to meet liability limits under two international conventions, which would limit their costs and any compensatory damages to a total of about $83 million, according to the recent Coast Guard analysis.

However, those conventions have not been ratified by the United States, to the disappointment of many of the world's tanker owners and operators, the report said.

P&I clubs have also objected to the "unlimited liability" nature of the Oil Pollution Act, because there are so many ways to break the liability limitations.

The Coast Guard admits the act "arguably makes it relatively easier to break the liability limit of the vessel owner or operator."

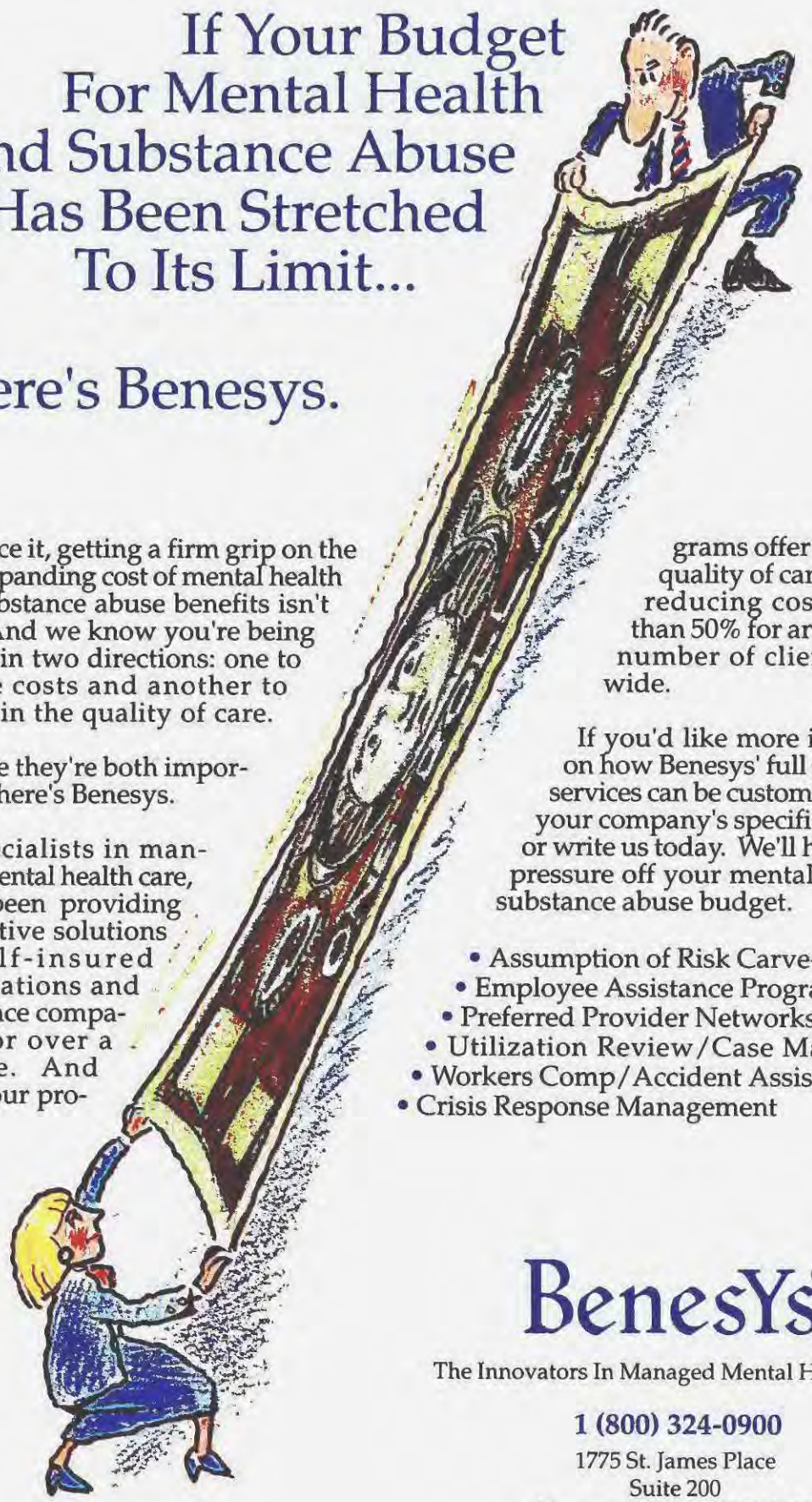
The act said the limits can be broken if the "incident was proximately caused by gross negligence, willful misconduct, or a violation of federal safety, construction or operating regulations."

Also, the limits can be broken for failure to report an incident,

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or for failure to cooperate with or comply with an order by a responsible official in connection with removal activities.

Vessel owners that lose their liability limits are responsible for total cleanup costs and damages resulting from an oil spill. "This is the so-called 'unlimited liability' provision of OPA 90," the report said.

P&I clubs also object to becoming "guarantors" by issuing certificates of financial responsibility under the Oil Pollution Act, the Coast Guard noted.

Section 1016 of the act requires a vessel operating in U.S. waters to show evidence of financial capability to satisfy pollution liability claims. This section also requires the Coast Guard to issue regulations governing financial responsibility.

As a result, in September 1991, the Coast Guard published a Notice of Proposed Rulemaking to implement the financial responsibility rules. This proposal required vessel operators to hold certificates of financial responsibility to show that damages could be paid if there were an oil spill.

But the impasse between P&I clubs and the Coast Guard and President Bush's moratorium delayed the proposal from becoming law until after comment is received on the latest analysis.

Requesting evidence of financial responsibility is nothing new, the Coast Guard noted. Certificates of financial responsibility under previous U.S. laws have been requested for the past 22 years. Indeed, more than 23,000 vessels of all types carry these Coast Guard certificates, and 97% of them are backed by insurers. Of those insured, 63% are covered by P&I clubs.

But the Coast Guard admits that the certificates required under the Oil Pollution Act allow "expanded right of direct action by third-party claimants" against an insurer. This means claimants can sue P&I clubs directly for damages under the act, even if the shipowner goes bankrupt.

Under previous legislation, the P&I clubs could use several defenses against payment of claims, such as the insolvency of a member shipowner.

Since the Oil Pollution Act was adopted, the 18 members of the International Group of P&I Clubs, which cover 95% of the world's shipping liabilities, have refused to issue certificates of financial responsibility under the U.S. law. Because the Coast Guard hasn't adopted new regulations yet, vessels can travel in U.S. waters with certificates from the P&I clubs based on previous legislation.

The International Group of P&I Clubs and others have suggested to the Coast Guard some alternatives that might break the impasse.

These alternatives are spelled out in the Coast Guard's recent Preliminary Impact Analysis, although it seems to reject the ideas. They include:

- Retaining the existing rules for financial responsibility under pre-OPA 90 regimes. However, the cost of pollution removal from a modest oil spill could quickly exceed these pre-OPA limits, and U.S. taxpayers would have to foot the additional costs, the Coast Guard said.
- Allowing shipowners to self-insure the certificates and consider the P&I club entry as an "asset" for the purposes of the regulations. This would enable the P&I clubs not to be the guarantors.

But allowing this would be contrary to the purposes of the Oil Pollution Act, which is to ensure claimants they will be compensated for cleanup and damages, the Coast Guard stated. Under this proposal, "The P&I clubs will be under no legal obligation to pay claimants for costs and damages associated with an oil or hazardous substance spill."

There might be other alternatives to P&I clubs providing the guarantees, the report suggested. The vessel owners and operators could use surety bonds or financial guarantees and guarantors, though only 2% of current shipowners use these under previous legislation.

Other underwriters also offer certificates of financial responsibility under previous legislation that might work under the Oil Pollution Act. They include: the Water Quality Assurance Syndicates; Ingosstrakh, the insurance company of Russia; Warta, the insurance company of Poland; and commercial underwriters in the United States, Japan, France and the United Kingdom.

Commercial insurers might also play a role in the future, the Coast Guard added.

Indeed, Johnson & Higgins and London broker NCC BankAssure, a subsidiary of Rollins Hudig Hall, have suggested setting up a new facility to insure pollution liabilities in the United States under the OPA 90 statutory limits.

J&H's Mr. Duryea said the broker hopes the Coast Guard will modify its regulations before they are implemented "because our clients want to see that."

However, the Coast Guard concludes in its recent analysis that the regulations it has already suggested "closely achieve" the objectives of the Oil Pollution Act. "Whether the reader believes these dire consequences would occur depends upon whether the reader also believes that the P&I clubs will, in fact, not provide or will be prevented by their reinsurance contract from providing the guarantees, and that no alternatives will be available," the analysis concludes.

The International Group of P&I Clubs is examining this latest analysis by the Coast Guard, said Luke Readman, director of Thomas R. Miller P&I, which is the London agent for the managers of the U.K. Mutual Steam Ship Assurance Assn. (Bermuda) Ltd. and a member of the subcommittee on pollution for the International Group.

However, all the boards of directors of all the P&I clubs in the group looked at the Coast Guard's regulations when they were first introduced in 1991 and came up with recommendations at the time, said Mr. Readman. The opinion of the P&I clubs hasn't changed since then, he said. BI



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Benefit proposals

Continued from page 2

etary damages under ERISA for helping plan trustees breach their fiduciary duties (*BI*, June 7).

By last Thursday, though, the alarm bells had stopped ringing. A broad coalition of business groups opposed to expanding ERISA penalties said that congressional staffers had given up efforts to reinsert the proposal into the deficit reduction package. That package has passed the House and Senate and is now before a conference committee.

"The leadership of the House Education and Labor Committee has stated that it will not go forward on this matter as part of budget reconciliation and the administration has sent strong signals to the Hill in opposition to such an action," John Kane, managing director of federal relations for the American Council of Life Insurance in Washington, wrote in a memo. "With these assurances, we believe that this puts an end to the effort to address the issue outside the normal legislative process."

Instead, business groups now expect Congress to consider a much narrower proposal that would give the Labor Department authority to require employers to buy so-called back up pension annuities when an annuity issuer fails and retirees don't receive promised benefits.

The proposal, which could be introduced this week, is in response to the failure of Executive Life Insurance Co. Many companies that terminated overfunded pension plans in the mid-1980s bought Executive Life annuities to replace benefits promised to plan participants. The annuity benefits, though, were cut by 30% after California regulators seized the insurer in 1991.

The proposal, expected to be cosponsored by Sens. Metzenbaum and Nancy Kassebaum, R-Kan., would also serve to overturn a recent U.S. District Court decision. In a case involving Pacific Lumber Co., the court reasoned that retirees covered by the annuities could not sue for lost benefits because they no longer were covered under a pension plan and thus were not plan participants or beneficiaries (*BI*, May 24).

The new proposal is expected to be introduced as free-standing legislation and is not expected to arouse significant employer opposition.

The starting point for much of this legislative activity was the recent Supreme Court ruling on pension adviser liability, *Mertens vs. Hewitt Associates*.

William J. Mertens took early retirement from Kaiser Steel Corp. in 1985, depending on his $2,000 monthly pension benefit as a financial base. Like many Kaiser employees who lost their jobs when Kaiser shut down its steel manufacturing and related operations, the 49-year-old director of industrial relations did not have his benefits actuarially reduced despite retiring well before normal retirement age.

Soon after Kaiser filed for bankruptcy in 1987, the federal Pension Benefit Guaranty Corp. took over the underfunded Kaiser plan and Mr. Mertens' monthly benefit was slashed to just over $500. The PBGC does not guarantee subsidized early retirement benefits. Mr. Mertens and other Kaiser retirees sued Hewitt, Kaiser's pension plan actuary, to recover lost benefits.

Testifying before the House Labor Management Relations Subcommittee last week, Mr. Mertens alleged that Hewitt had allowed Kaiser to select actuarial assumptions that minimized plan funding. Hewitt contends its assumptions were mainstream and conservative.

"We regret that Mr. Mertens, like too many others in the steel and other industries, is receiving a lower pension than he expected. But Hewitt Associates is not the cause of the loss or responsible for it," said Hewitt Chief Executive Dale Gifford in a statement submitted to the House panel.

The Supreme Court ruled that as long as plan advisers are not acting as fiduciaries, they cannot, under ERISA, be sued for losses caused by plan trustees' mismanagement or fraud.

After that decision, Sen. Metzenbaum, with the blessing of the Labor Department, introduced his proposed amendment to the deficit reduction bill that would have allowed compensatory and possibly punitive damages against employers and their benefit plan advisers for certain ERISA violations.

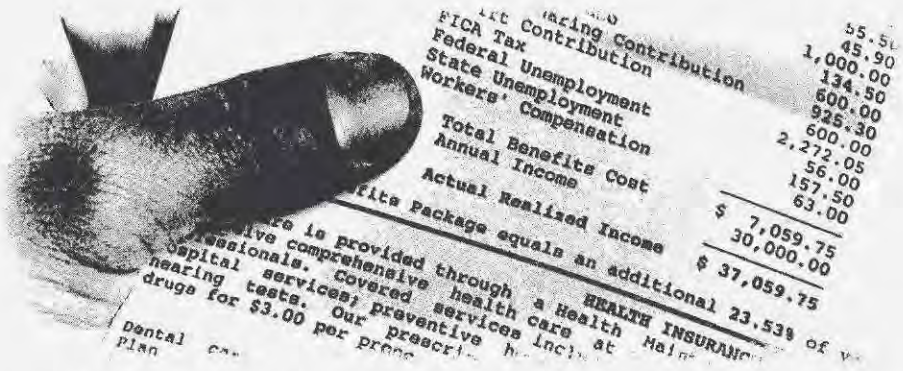
Employers denounced the Metzenbaum proposal as overkill and said the higher legal costs they and their advisers would face would force them to cut benefits.

Even after Sen. Metzenbaum withdrew his proposal, employer groups warned that other members of Congress might try to insert the proposal or something similar into the deficit reduction bill.

Rep. Pat Williams, D-Mont., chairman of the House Labor Management Relations Subcommittee, did not deny that such efforts were taking place. But he objected to characterizations that legislators were trying to "slip" something through.

"Congress is not trying to slide in a fix. We're not trying to slip anything in at midnight. We're not trying to do an end-run around an unsuspecting opposition. We have had, in both the Senate and the House, hours of testimony on this," he said at a hearing last week. BI

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INTERNATIONAL

Lloyd's members consider suing LMX brokers

By ADRIAN LADBURY and STACY SHAPIRO

LONDON—Brokers are the latest potential legal target of disgruntled Lloyd's of London members looking to lay off their syndicate losses on other parties.

Representatives of the Rose Thomson Young Action Group, Gooda Walker Action Group and the Devonshire Names Assn. met last week and agreed to jointly investigate the merits of pursuing a case against the specialist brokers that they contend misled underwriters of London market excess-of-loss reinsurance syndicates in the late 1980s.

These syndicates were hammered by losses from the so-called LMX spiral, in which syndicates reinsured and retroceded exposures among themselves, causing a large amount of losses to remain within Lloyd's.

LONDON

Ken Grant, chairman of the RTY Action Group, which is coordinating the effort, said the three organizations have agreed to set up a working group and pool resources to study the matter.

Mr. Grant also said that though the Feltrim Names Action Group has not yet agreed to join the alliance, he expects it will soon.

"We are looking to see whether (the brokers) failed to carry out their duty of utmost good faith and whether they fully discharged all material facts, to see if there are any grounds for redress," said Ian Chalk, chairman of the RTY litigation committee.

"But we are pretty sure they knew (the LMX business) was not in the interests of the underwriters," he added.

The action groups say they have a growing bundle of evidence that eventually could be presented in court against the brokers. One key piece of evidence is a chart produced for the RTY Action Group that shows the premium volume certain brokers placed with the key LMX syndicates. According to the action groups, the fact that the same small group of brokers placed most of the business on each of 10 key LMX syndicates suggests they must have known that the reinsurance and retrocession protections they were placing for the underwriters were ultimately worthless.

The action groups contend that the brokers breached the principle of utmost good faith by not alerting the underwriters to the dangers.

They hope to prove that, by placing reinsurance overseas in the knowledge that it would later return to Lloyd's as retrocession business, the brokers were guilty of malfeasance. Further, they will argue that if the brokers were unaware of the reinsurance spiral, the brokers were guilty of negligence.

The groups will also further investigate evidence of "churning" by the LMX brokers, in which the brokers allegedly generated unnecessary reinsurance and retrocession transactions purely to make more commissions.

Business Insurance contacted seven of the 24 key LMX brokers identified in the RTY table but only one would comment, and only on the condition that he remain anonymous. He indicated the brokers would deny all allegations vigorously.

"It is not our decision as brokers to sell a product. We need someone to come to us. We did not create the spiral; we had a demand. What happened was the theory of the distribution of risk taken to the extreme," said the broker.

He also said that it is ridiculous to suggest that a broker could be responsible for the retrocessional coverage-buying tastes of a big German reinsurer that wants to buy coverage in Lloyd's. "The buyer is in total control of the process," added the broker.

He also suggested the Lloyd's members' recent initiative could be linked to the shortfall in cash that they are likely to recoup from errors and omissions underwriters in the current litigation brought against the members agents that placed them on the LMX syndicates in the first place (*BI*, July 26). "It's the deep-pockets theory again. Why didn't they do this in the first place?" he asked.

Mr. Grant denied that the plan was a last-ditch effort and pointed out that information about the

Continued on next page

European employers' health care burden will expand: Report

By ALINE SULLIVAN

The private sector will assume more financial responsibility for health care costs in Europe and the United Kingdom, a recent report predicts.

"The Future of European Health Care," prepared by Andersen Consulting, predicts that more private money will be spent on health care in Europe as financially strapped governments try to shift the burden of escalating health costs.

"The main trends in health care —increasing government intervention (in efforts to lower health costs and in preventive medicine and health awareness), inexorably rising total expenditure and treatment costs, and rising consumer expectations of care—are shared experiences across western Europe," the report said.

Most countries are likely to respond to these challenges in three major ways, according to the report:

- Changing their role from providing acute care to providing primary and community care.
- Educating patients to make more-informed choices about spending health care dollars.
- Encouraging greater private-sector participation in providing health care coverage.

"Present government initiatives can only partly succeed in stemming the rise in treatment costs caused by external factors, including: more expensive procedures; aging; and harder-to-treat illnesses, such as AIDS and cancer," the report said.

Governments must find ways of restricting access to their national health care systems and, where possible, channel surplus demand into the private sector, the report said. Requiring a referral by a general practitioner to consult a specialist; limiting non-essential care, such as removal of varicose veins, for example; and encouraging outpatient vs. inpatient treatment whenever possible are ways to restrict access. Patients will also be encouraged to take more responsi-

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Doubts about Lloyd's

S&P report says the market does not offer 'AAA' security

By STACY SHAPIRO and GAVIN SOUTER

LONDON—Standard & Poor's Corp. does not consider Lloyd's of London to be a "triple-A operation" because it does not offer the highest level of security, says a recent report by the rating agency.

For years, Lloyd's has considered itself "immune from the kind of financial duress that can lead ultimately to policyholder claims not being met," John Gardner, managing director of S&P Insurance Rating Services in London, wrote in the report released last week.

But the strain of catastrophe losses, dramatic claims inflation, historical underreserving and "a diminishing and disaffected capital base have meant that such rose-tinted assumptions about Lloyd's future are simply not tenable," he said.

S&P ranks the financial performance of individual Lloyd's syndicates and not the overall market. Mr. Gardner said that is because "published figures don't tell us enough" about the overall market.

The frequent observation that Lloyd's has always paid a valid claim says nothing about future security, he said in the report. Practically every insurer can say the same thing, Mr. Gardner added.

The key to Lloyd's maintaining strength is the settlement of litigation between thousands of members and their agents, he said.

"It's got to be resolved. If it is, then Lloyd's prospects will be quite good."

A Lloyd's spokesman rebutted the report's commentary, stating that at the end of 1992, Lloyd's aggregate resources amounted to 24.4 billion pounds ($36.97 billion). This, "combined with a prudent approach to reserving, offers policyholders unrivaled security," the spokesman said.

Mr. Gardner's report also was critical of what he called the "impermanence" of Lloyd's capital, with members able to withdraw or renew their capital annually.

This criticism is invalid, according to Lloyd's Chairman David Rowland, who spoke in a teleconference last week on this and other issues. "At least we have (the capital) for 12 months. If you buy shares in a company, you can sell them tomorrow," he said.

And permitting corporate investors in Lloyd's will ensure an even more stable capital source, added Lloyd's Chief Executive Peter Middleton during the teleconference. Corporations joining Lloyd's will incur sizable startup costs, and they will want to remain in the market long enough to at least recoup that investment, he said (*BI*, July 12).

However, Mr. Rowland did not contest the main points of the S&P report.

"You can't have an organization that loses 6 billion pounds ($8.93 billion) without people asking those questions," he said.

Including the 2.92 billion pound loss ($4.42 billion) announced in June for the 1990 underwriting year, Lloyd's has lost 5.5 billion pounds

Continued on next page

Australian P/C market takes a sharp turn

By KATE McILWAINE

AUSTRALIAN RENEWALS

BRISBANE, Australia—The Australian property/casualty insurance market is hardening with a vengeance, underwriters and brokers say.

Premiums rose in most classes during June 30 renewals, with industrial special risks—a standard form of combined property-business interruption coverage used in Australia—and professional liability being the hardest-hit lines.

The June 30 renewal period is the most important in Australia, because it coincides with the end of the fiscal year for many Australian corporations.

Some liability rates are not taking big leaps yet, but underwriters and brokers expect that to begin happening by year-end renewals.

E. John Cloney, chief executive officer and managing director of Sydney-based insurer QBE Insurance Group Ltd., said this year's June 30 renewals were the most significant renewal period in Australia for more than 10 years.

Property rate increases for large industrial risks ranged from 15% to 250%, Mr. Cloney said.

And major industrial commercial risks have been hit with big rate increases for catastrophe coverage, he said.

To charge a rate of less than 5% of the insured risk—"and there are thousands of rates like that"—is "clearly insane when we know, and our statistics clearly show, that the burning cost of catastrophe reinsurance in Australia is 4% or 5%," Mr. Cloney said.

Reinsurers are not giving direct writers a choice, he said. "Unless you have capital you can put at risk, you must buy protection, and capacity has shrunk worldwide. There has been a fairly limited market, and the leaders of catastrophe reinsurance programs were not prepared to negotiate," he said.

"They'd say this is our price, that's how much it costs, end of story," Mr. Cloney said.

The practical effect is that direct writers will keep more of the risk or try to buy proportional reinsurance at the bottom end to "take some of the sting" out of a catastrophe loss, he said.

Mr. Cloney said the Australian insurance industry finally decided, when confronted with increased reinsurance costs, "this is ridiculous, these costs have to be passed on to the customer."

In addition to rate hikes, changes in terms and conditions—including bigger deductibles— were used to alleviate some of the risk to the insurer during June 30 renewals, he noted. Some industrial special risk policies "covered everything in the alphabet, but a lot of crazy (endorsements) have now been removed," he said. "The predictability of what is insured is now more certain."

Like industrial special risks, renewals of other commercial property insurance were marked by higher rates and lower capacity.

According to Len Henning, managing director of Heath Fielding (Australia) Pty. Ltd. in Sydney, commercial property rates were up a minimum of 25% and as much as 100% during the June 30 renewals. Even simple risks, like office buildings, saw increases, and risks that underwriters were fighting over five years ago were being rejected or underwriters were cutting their share back, he said.

Mr. Cloney said increased prices in the property market showed "a case of desperation, managers want their companies to survive. There is no point in writing a book of property business with $20 million, $30 million or $40 million in

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INTERNATIONAL

LONDON

Continued from previous page
LMX syndicate accounts had previously been unavailable, preventing a strong case.

The groups do not believe any action against brokers would affect the litigation against members agents or the chances for a settlement.

While a collective effort by action groups against brokers is unprecedented, members of syndicate 90, managed by Pulbrook Underwriting Management Ltd. have brought a case against brokers alleging non-disclosure. That case will be heard on Oct. 15.

Those members allege that Winchester Bowring Ltd. failed to disclose material facts concerning reinsurance bought by syndicate 90 in 1982 from syndicate 418, managed by Merrett Underwriting Agency Management Ltd., and syndicate 317, managed by RHM Outhwaite (Underwriting Agencies) Ltd. The broker denies the charges.

E&A creditors notified

The provisional liquidator of English & American Insurance Co. Ltd., which stopped writing renewal and new business last November, has sent its first status report to creditors (*BI*, Nov. 30, 1992).

A U.K. court last week granted liquidator KPMG Peat Marwick an adjournment of the liquidation to give it time to formulate a scheme of arrangement for creditors.

Tony McMahon, partner with KPMG in London, said that early claims provision estimates are currently 255 million pounds ($381.2 million), but he expects the figure to grow.

"We have had a number of problems with the figures. First, the accounts are not set off against reinsurance recoverables. And second, E&A was essentially a front (for various insurance companies), and we are not sure to what extent it was a front operation. It's very difficult to gauge the true extent of the liabilities at this early stage," said Mr. McMahon.

"There is a lot of U.S. business in the old London market book. There are actually about 200 outstanding U.S. legal cases for long-tail business like asbestosis and pollution," said the liquidator.

The U.S. based International Policyholders' Assn., which was established in 1982 to help policyholders stranded by insolvencies, already has 20 new members that are E&A policyholders.

Mark Leopold, president of the IPA, and Marialuise Golozzi, counsel to the association, met with Mr. McMahon on July 22 to air their members' views and find out how likely it is that a plan will be created.

"We are confident KPMG will come up with a good scheme and hope one will be ready by October," said Ms. Golozzi.

Syndicate merger

Three non-marine syndicates, which formerly comprised Merrett Underwriting Agency Management Ltd.'s syndicate 799, will merge again next year.

Syndicates 1066 and 1068 will be merged into syndicate 1067, which is underwritten by Stephen Burnhope. However, Mr. Burnhope is resigning from MUAM (*BI*, July 19) and will be replaced as syndicate 1067's underwriter by Ken Barrett, who now underwrites for syndicate 1066.

Maastricht impact

The imminent ratification of the Maastricht Treaty after last month's dramatic vote in Britain's Parliament will have no immediate effect on the European Community's insurance industry, a Lloyd's executive says.

The Maastricht Treaty is likely to be ratified by the United Kingdom—the last E.C. nation to do so—by autumn.

The treaty "is a further integrating force within the E.C.," said Alastair Evans, chief legislative officer in the international division of the Corporation of Lloyds.

The treaty would result in closer monetary union among the 12 E.C. countries, which could one day mean that a single-currency insurance policy could be written across E.C. borders, he said.

However, U.K. insurers are much more focused on July 1, 1994, when the third generation of life and non-life insurance directives in the European Community become effective, said Mr. Evans. This will allow a company licensed in one E.C. nation to insure risks across E.C. borders.

These directives "will give Europe a single insurance market" with or without Maastricht, said a spokeswoman for the Assn. of British Insurers. BI

Health care

Continued from previous page
bility for their own health.

The report is based on survey responses from 2,700 government health policy officials, and health industry and insurance professionals in 10 countries: Belgium, Denmark, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom. The United Kingdom accounted for 15.4% of the respondents.

Among the study's conclusions:

- Managed competition will increase. More competition will be encouraged among hospitals and other providers. Competition between public and private insurers will also be encouraged to allow increased freedom in choosing between public and private coverage.
- To remain competitive, hospitals will increase outpatient facilities while the number of inpatient beds continues to decline. Hospitals will increasingly specialize and form voluntary groups.
- Doctors' freedom to make decisions will be constrained by the need to operate within budgets. This constraint will be reinforced by financial rewards based on the effectiveness of resource management and on the cost-effectiveness of clinical decisions.

Within the European Community, a greater degree of public and private cooperation in health care issues is likely, the report forecasts. Many health care professionals would welcome the appointment of an E.C. health commissioner and further E.C. involvement in areas of health care, including drug licensing, health promotion and the establishment of standards.

•

The European study is available for 25 pounds (about $37) from The Future of European Health Care, Unit One, Eastern Countries Industrial Park, London Road Sawston, Cambridge CB2 4EF; 44-223-836564.

Lloyd's report

Continued from previous page
($8.19 billion) over the past three years (*BI*, June 28).

Lloyd's should continue to try to convince brokers and policyholders that it is changing to overcome its problems, and that Lloyd's central fund is sufficient to meet any shortfalls in claims payments by individual syndicates, Mr. Rowland said.

"It's our job to see that customers and brokers see our resilience," he said.

Policyholders can expect 1994 capacity to be similar to 1993—approximately 8.5 billion to 8.8 billion pounds ($12.65 billion to $13.1 billion), predicted Mr. Middleton.

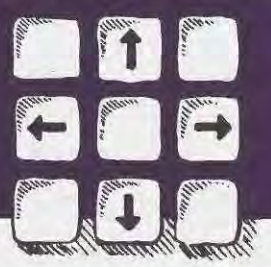
About 7 billion pounds ($10.42 billion) or more will probably be provided by individual members, and the remainder will be provided by corporate investors, he said.

On a separate issue, Mr. Middleton echoed comments made earlier by Mr. Rowland that Lloyd's may introduce a two-year accounting system. Currently, Lloyd's reports its results after three years to ensure profits and losses are allocated to the correct year.

"I think that it would be possible to move toward two-year accounting at some point, but for some classes of business the distribution of profits would not be able to take place on a two-year basis," he said.

For example, losses and profits of simple risks like automobile business might be discerned as soon as one year after they are written, but losses or profits for more complex business, such as catastrophe losses, would still take three years to be quantified, Mr. Middleton said. BI

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4C043

Australian market

Continued from page 31

premium and having $20 million, $30 million or $40 million in losses, which is what they would have done had they not increased rates."

The market will continue to harden for another year or two, but not at the same "traumatic level" of June 30 renewals, when "there was a lot of tidying up" to be done in the markets, Mr. Cloney said.

Greg Brown, Sydney-based professional liability underwriter for C.E. Heath Casualty & General Insurance Ltd., said some large property risks had "run right out of capacity."

Capacity is short among many property/casualty lines, and that will continue to be the case because of the withdrawal, collapse or limitations of reinsurers, said Heath Fielding's Mr. Henning. It is harder for the direct writers to put "anything but stock standard business into the treaties." Reinsurers are imposing cession limits and more exclusions, he noted.

"Those with tough risks will have to look more to risk retention, captives and financial reinsurance for lower layers," Mr. Henning said.

Greg Wagland, managing director of Sydney broker Wagland-Salter & Associates Pty. Ltd., said deductibles are going up and insurance companies are getting to the stage where they do not want to cover day-to-day, working losses.

"In the mining area, and some others, like petrochemicals, we are seeing fewer underwriters prepared to write primary layers (*BI*, May 17). They're looking at excess layers only," he said.

A reinsurance capacity crunch also is hitting the aviation market, which saw increases of up to 50%, said Trevor Pearsons, marketing manager for Melbourne-based Richard Oliver International Pty. Ltd.

The same scenario is being played out in professional liability and directors and officers liability insurance, where capacity is severely diminished, said C.E. Heath's Mr. Brown. Reflecting that shortage, lawyers were seeing average professional liability insurance premium increases of 35% during June renewals, while accountants with large audit portfolios were facing 60% to 80% increases. Higher layers were particularly difficult to place in the reinsurance market, Mr. Brown noted.

D&O rates were up an average of 25% to 30%, and Mr. Brown said he expects rates to remain high. And companies with poor performance records have had insolvency exclusions written into their D&O policies.

And some poor performers were unable to renew and were forced to seek new underwriters, he said.

Mr. Brown said an underwriter could "live with one bad year, but if it's still looking sick, you need to look seriously at the risk."

He predicted Lloyd's may tighten reinsurance capacity further, "in which case there will be more increases next year, but not necessarily of the same magnitude."

C.E. Heath has an estimated 40% share of the Australian professional liability market.

In the public and product liability insurance areas, increases were "only slightly more than inflation, unless there is poor claims experience," Mr. Cloney said.

The casualty market "would have hardened more had property rate increases not been so severe," Mr. Cloney said. "Human nature is such that if you are applying a blunt instrument to somebody's head, there is a time when you stop."

But he predicted larger increases in casualty rates for the Dec. 31, 1993, and June 30, 1994, renewals.

Liability lines are "still reasonably soft" and could be eight or nine months from "a real turn," said Mr. Pearsons.

He said Richard Oliver started marketing some clients with difficult risks to underwriters as early as last October, to keep increases at 10% to 15%.

Market conditions are similar to those of the mid-1970s to early-1980s said Mr. Henning, but the problems are intensified because much of the capacity lost then has never returned.

He predicted the insurance industry would change dramatically over the next decade, gradually providing less coverage at lower-layer levels.

Those changes, some brokers said, will be a boon for them.

Brokers will become more of a "focal point" in placing reinsurance and devising alternative risk financing strategies, in cooperation with banks, Mr. Henning said. "It's a time when brokers stand to do very well."

Mr. Pearsons said the broker's role will become more sophisticated as the market continues to harden.

"It is no longer a case of shopping for the best price. Brokers need to get underwriter and reinsurer support," he said. BI

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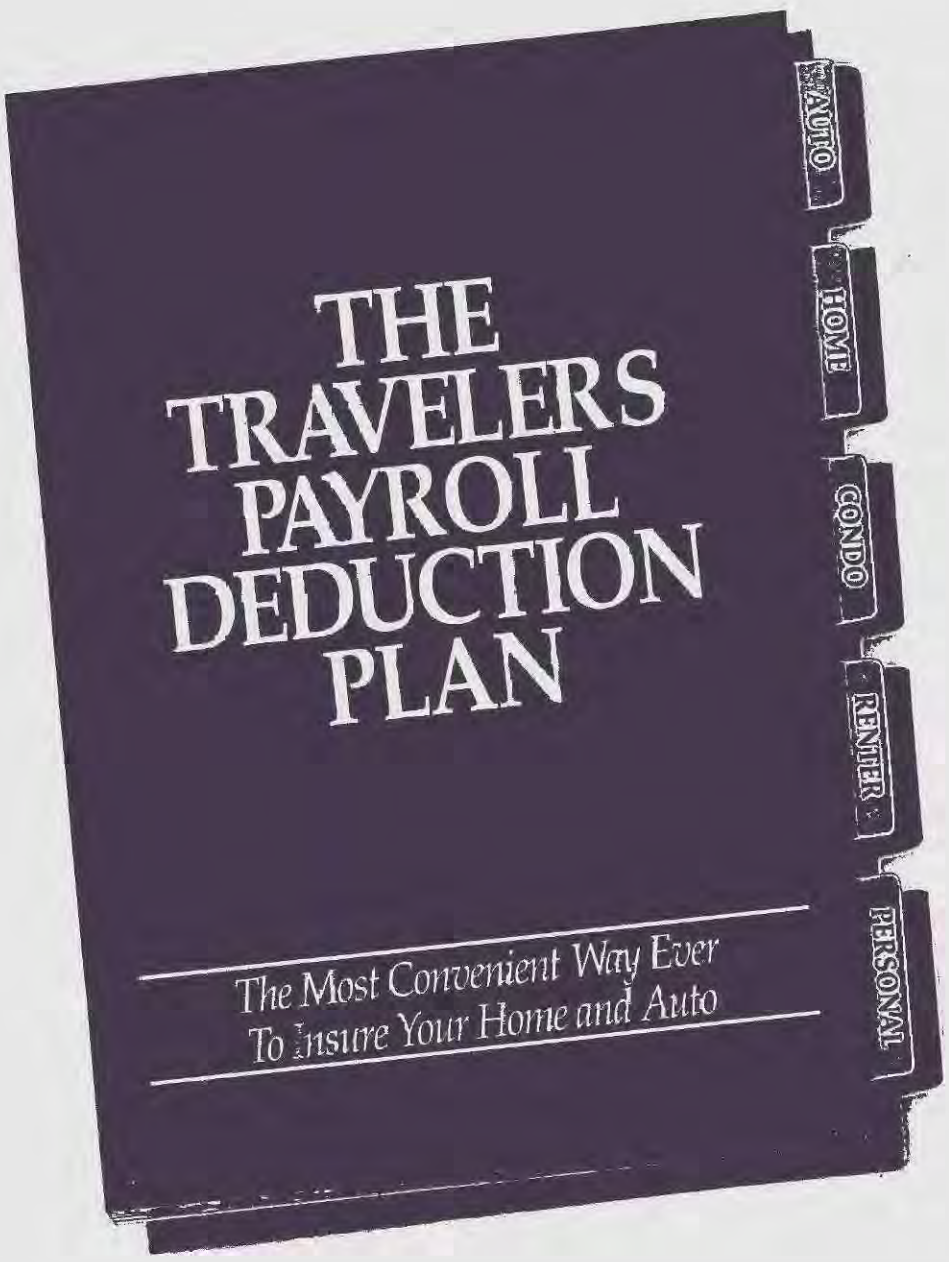
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Texas law clamps down on psychiatric hospitals

By NANCY P. JOHNSON

AUSTIN, Texas—Private psychiatric hospitals in Texas now face strict new rules—and stiff penalties—that govern how they find and treat patients, bill insurance companies and advertise.

Gov. Ann Richards' signature on the bills—the first in the nation to curb those practices by psychiatric hospitals, according to one of the sponsors—came just weeks before the announced resignations of two top officers of National Medical Enterprises Inc., whose psychiatric hospital division was accused of many of the practices addressed in the legislation.

The bills that Gov. Richards signed into law last month:

- Require that insurance companies monitor billings in an effort to detect fraud.
- Outline criminal penalties for health insurance fraud.
- Prohibit hospitals from paying "bounties" for patient referrals.
- Restrict how patients can be admitted and released from hospitals.
- Prohibit electroconvulsive therapy on children under age 16.
- Restrict how hospitals can advertise. For example, the law authorizes appropriate boards to set standards for the use of advertised telephone counseling and referral services.
- Require any facility providing medical rehabilitation or inpatient mental health services to report suspected cases of patient abuse or neglect to the Texas Department of Health.

'We had a system of mental health care that had become greedy,' says Sen. Moncrief.

Civil penalties of up to $25,000 for violation of billing, marketing and admission statutes are also allowed.

The legislative package is the result of action begun two years ago, when a Texas Senate panel, headed by state Sen. Mike Moncrief, D-Fort Worth, began to investigate complaints from people treated at psychiatric hospitals.

The committee "determined that we had a system of mental health care that had become greedy and more concerned about the bottom line than about quality of care," said Sen. Moncrief.

The panel heard hundreds of witnesses, who said they had been: locked up in hospitals against their will; dismissed as soon as their insurance ran out; given a different diagnosis to fit their insurance coverage; and charged for services never delivered.

Others told of improper medical treatment. One patient was prescribed 32 medications in one day, and another was prescribed 12 hours of therapy per day, said Sen. Moncrief.

Others testified on the practice of "headhunting." Hospitals paid police officers, school counselors and church ministers "bounties" to refer patients, Sen. Moncrief said.

"This legislation places Texas in the forefront in restoring confidence in the health care system, and provides the blueprint for other states to use," he added.

The Texas package is the most comprehensive set of state rules governing psychiatric hospitals, agreed Mark Covell, director of legislation and regulatory affairs at the National Assn. of Psychiatric Health Systems in Washington. The association is "comfortable" with the final legislation, he added.

The legislation was spurred by problems associated with National Medical Enterprises' psychiatric hospital division, said

Continued on next page

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IN THE MATTER OF THE LIQUIDATION OF STATE SECURITY INSURANCE COMPANY, IN LIQUIDATION AND VILLA PREMIUM BUDGET PLAN, INC., IN CONSERVATION: 93 CH 003963

NOTICE OF CLAIMS DATE AND PROCEDURES

PLEASE TAKE NOTICE, that on June 16, 1993 an Agreed Order Of Liquidation With a Finding of Insolvency was entered against State Security Insurance Company ("State Security") by the Circuit Court of Cook County, Illinois. Stephen F. Selcke, Director of Insurance of the State of Illinois ("Liquidator") is the statutory and court affirmed Liquidator of State Security.

TAKE FURTHER NOTICE, that on July 19, 1993, the Circuit Court of Cook County, Illinois, entered an Order Fixing the Final Date for the Filing of Claims ("Fixing Order"). Pursuant to the terms of the Fixing Order, all rights and liabilities of State Security and its creditors, policyholders and stockholders, and all other persons interested in its assets, are fixed as of June 16, 1993, unless otherwise provided in a subsequent order of the Court.

TAKE FURTHER NOTICE, that all persons and entities, who have or may have, claims against State Security, or the property of State Security, shall have the right to present and file with the Liquidator, proper proofs of claim on or before 4:30 p.m., C.S.T., on June 16, 1994.

TAKE FURTHER NOTICE, that the form of, and required contents of, all proofs of claim are described in 215 ILCS 5/209 (1993); **Ill. Rev. Stat.** 1993, Ch. 73, Par. 821. Proof of Claim, together with supporting documents, if any, are to be filed with, and may be secured from, the Liquidator of State Security Insurance Company, In Liquidation, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. Filing shall occur upon the receipt of the Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to State Security upon all filed claims. All Proofs of Claim must be duly sworn to before an Officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST STATE SECURITY INSURANCE COMPANY, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY, UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE JUNE 16, 1994 AT 4:30 P.M., C.S.T.

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* Source Business/Occupational breakdown of qualified circulation, November 30, 1992 issue, as submitted to BPA for December 1992 BPA Publisher's Statement.

Continued from previous page

Amy Johnson, public counsel at the Office of Public Insurance Counsel in Austin, a state agency that represents consumer interests.

It "has some good consumer measures and will hopefully solve some of the abuses identified in that situation," she added.

But NME was not alone in its questionable practices, according to Mark Chouteau, Texas assistant attorney general.

Last year, the Texas attorney general's office settled a suit it brought against NME and has since settled similar suits against four other facilities: Charter Medical Corp.; Community Psychiatric Centers Inc.; Ramsay Corp.; and the Texas Psychiatric Co., a subsidiary of Hospital Corp. of America.

"We felt the types of practices were endemic," said Mr. Chouteau. "I think to compete in that marketplace," companies had to do what the others were doing, he said.

Santa Monica, Calif.-based NME, which operates numerous hospitals, including 69 psychiatric hospitals and 13 substance abuse centers throughout the country, approves of the tough new laws, according to a company officer.

"We were actively involved in the formation" of the Texas legislation, explained David W. Olson, vp-corporate communications at NME. "I can't say we endorse it 100%, but we feel the time for legislative action has come, and we by and large applaud the actions of the Texas Legislature."

As to NME's plans, "We are focusing our energies on providing high-quality care," Mr. Olson added.

For example, NME is busy preparing to provide free orthopedic and plastic reconstructive surgery to Bosnian war victims, who were to be flown to Andrews Air Force Base last week and then sent on to 14 NME hospitals, he said.

Mr. Olson confirmed that NME Chairman Richard K. Eamer and Vice Chairman Leonard Cohen resigned July 19 but declined to explain the resignations.

A successor will be named soon to the chairman's post, but the vice chairman's post will not be replaced, Mr. Olson said.

Messrs. Eamer and Cohen were not available for comment.

However, NME is still embroiled with health insurers over payment disputes.

Last year, NME filed a federal lawsuit against Travelers Corp., Mutual of Omaha Insurance Co., and Massachusetts Mutual Life Insurance Co., charging that the insurance companies failed to pay $45 million in claims (*BI*, July 27, 1992).

Shortly afterward, NME was named in two federal suits filed by insurance companies, which charge that NME filed fraudulent claims (*BI*, Sept. 21, 1992; Aug. 3, 1992). The suits are pending.

NME is preparing to fight the insurance companies' suits by creating a $65 million reserve fund to cover "legal costs through trial if necessary," according to Mr. Olson.

"We think there is a need for strong legislation and strong enforcement" for such laws, said Thomas W. Brunner, an attorney with Wiley, Rein & Fielding in Washington, who is representing 13 insurance companies in one of the federal suits. BI

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Hurricane Center

Continued from page 2

Orleans after wreaking havoc on South Florida, the nation's property/casualty industry would have been pushed into insolvency.

But Mr. Sheets said the insurance industry itself bears some of the blame for Hurricane Andrew's destruction, because insurers have sold their product without considering the true nature of the risk they were assuming. "As long as there was reinsurance available, you could sell a policy to anyone you wanted," he said.

Insurers and government officials were lulled by the relative lack of serious hurricane activity between the mid-1960s and the mid-1980s, he said.

"We clearly have not done the job of educating the public" about the nature of the hurricane exposure, said Mr. Sheets. By contrast, earthquake experts have been very successful in getting their preparedness message across and getting the funds and research required to deal with that exposure, he said.

"We need to emulate what they have done," said Mr. Sheets.

For too many years, the chief response to the hurricane exposure was simple—authorities would order target areas evacuated, he said. But with population migrating to the coastal areas, particularly in the Sun Belt, there's now "no way" authorities can provide the adequate lead time needed to get people to safety, he said. The transportation network hasn't kept pace with growth, he said.

Meanwhile, the value of insured property in coastal counties prone to hurricanes has reached about $2 trillion, he said. This figure represents only the exposure to private insurers and does not count the National Flood Insurance Program's exposure, he said.

To help meet the demands of these heightened exposures, hurricane trackers must improve their forecasting abilities, he said. While there is "no question" that forecasts are more accurate than they were only a few years ago, they haven't kept up with population growth, he said.

Currently, a hurricane warning covers about 300 miles of coastline, he said. The average cost of preparing for a hurricane, whether it occurs or not, runs about $50 million. Mr. Sheets said that even a small increase in accuracy, an increase of 10% or so, could save millions of dollars per warning.

Governments and insurers should do their utmost to restrict development in high-risk areas and establish and enforce hurricane-resistant building codes, said Mr. Sheets.

> 'We need to emulate what (earthquake experts) have done,' says the Hurricane Center's director.

Insurers should react to the hurricane exposure as they have to certain automobile and homeowners insurance exposures, by giving premium "breaks" to the owners of more wind-resistant homes just like cars with airbags and houses with smoke alarms get breaks, he said.

In addition, homeowners who build the "wrong kind" of homes for hurricane-prone areas should pay more for insurance, he said. "We know how to build" houses that can withstand storms, he added.

Mr. Sheets said he recognized the political problems in having the insurance industry play a greater role in mitigation. For example, in the past, some state regulators have told insurers that they must continue insuring structures on barrier islands if they want to retain the right to keep doing business in the state, even though barrier islands are among the most exposed areas imaginable, he said. BI

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Flood cleanup

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some emergency water distribution centers due to reduced demand.

"I feel better now than when the flood first hit because of the support we've had," Mr. Larson said. "Our insurance company has been super. I'm a one-man department, and I need all the help I can get."

That help has come in the form of the Chubb Group of Insurance Cos. disaster recovery team. Donald J. Ferguson, assistant vp of non-marine claims in the insurer's Warren, N.J., headquarters, and Stephen R. Schray, senior general adjuster for Chubb & Son Inc. in Dallas, arrived in Des Moines two days after the disaster struck, coordinating cleanup activities for city facilities and writing checks.

Two weeks later they were still meeting daily with policyholders as well as structural engineers, electrical engineers, disaster-recovery specialists, local contractors, specialty contractors, firms that dry buildings out, firms that freeze and restore documents and accountants who figure business-interruption claims.

"Steve and Don walk in and take control," said Richard D. Mauk, assistant vp and branch manager of Chubb Group of Insurance Cos.' West Des Moines office. "They get things started, usually by ripping out the wet carpet."

Mr. Schray said they want to make sure they don't overlook any policyholder losses that may be covered. "We want them to feel comfortable about their insurance," he said.

Adjusting claims in Des Moines was not always so comfortable. Initial site visits were made by boat and, for the first 12 days, Messrs. Ferguson and Schray traveled nearly 20 miles to shower at a YMCA.

But they keep their spirits up and hope to bolster their policyholders', too. "You can't lose your ability to laugh and joke," Mr. Ferguson said. "It's the only relief you have."

If the flood had hit 10 days earlier, there wouldn't be much for the Chubb team to do in Des Moines. They didn't insure the city until July 1 (*BI*, July 19).

While Chubb wasn't significantly less expensive than USF&G Corp., the city's incumbent insurer of 20 years, "there are a lot of pluses," including a $500,000 check before the city even started tallying its flood losses, Mr. Larson said.

The insurance that the City of Des Moines purchased from Chubb includes $322 million in property coverage, $20 million in flood coverage, $11.3 million in business interruption and $5 million for extra expenses.

That coverage, together with federal assistance, some good risk management prior to the flood and some luck, should greatly mitigate the loss for the city.

The day before the rivers crested, Mr. Larson, his wife and three other people moved boxes and computers out of the basement of the riverfront city hall. Xerox Corp. was called in to move $100,000 worth of photocopying equipment. "We lost a lot of desks and chairs, but not one personal computer got wet," Mr. Larson said.

Across the river, city library employees moved 65,000 books and pieces of artwork to higher ground.

"With a little notice, you can do a lot if you react properly," Mr. Ferguson said.

City Hall is occupied again, and work on drying out the library continues. Cleanup of other city properties is at varying stages.

The Iowa Cubs—the minor-league affiliate of the Chicago Cubs—played in Sec Taylor stadium, at the confluence of the Des Moines and Raccoon rivers, less than two weeks after the flood. The outfield had flooded, but the built-in drainage system dried it out before the sod was damaged. However, the cedar planks that line the dugouts to protect players' cleats floated away, and carpeting in offices, souvenir shops and private boxes had to be restored.

Waste water still fills one 50-foot shaft of a sewage treatment and pumping substation where a 3 million-gallon holding tank overflowed.

Despite the mess, plant managers say it could have been a lot worse. If the water had risen another foot, it would have drenched the electrical relay panel, which would have cost an additional $500,000 in damage. The $10 million facility, which is owned by Des Moines, has been open less than two years.

Mr. Larson's best preparation for the flood, though, was the boots. He bought them for only $10 before going on a vacation to Canada last month. BI

Recovery is the number one activity at the YMCA

DES MOINES, Iowa—Not even the Village People would think it's fun to stay at the Des Moines Riverfront YMCA.

Five million gallons of water poured into the building, filling a subbasement that houses boiler and mechanical equipment and rising five feet into a lower level that is the center of member activities.

Even two floors above ground, a dance floor warped from the intense humidity in the building.

The center suffered between $1.3 million and $1.6 million in physical damage that will take eight to 12 weeks to fix, said Lee J. Jensen, president of the YMCA of Greater Des Moines.

But, more important than replacing lockers, chapel pews, washers and driers, and exercise equipment was bringing back the 167 residents who call the Y home, Mr. Jensen said. The men, who are all either disabled or recovering from alcoholism or drug abuse, moved back in less than two weeks after the flood, albeit without hot water. Most of the displaced residents had been staying at a Red Cross shelter.

"The flooding situation was extremely emotional," Mr. Jensen said. "To get a check for $250,000 on the spot helped our staff. It showed Chubb's commitment, and it helped us to think longterm."

The YMCA's policy from Chubb & Son Inc. includes $20.7 million in property coverage on four sites, as well as $865,000 in business interruption and $175,000 in electronic data-processing coverage.

Mr. Jensen chose that coverage with a flood endorsement over the YMCA's captive in Bermuda, which insures 132 of the more than 900 YMCAs nationwide.

The National Flood Insurance Program may pick up as much as $200,000. However, it does not cover contents stored below ground level.

Chubb will cover expenses beyond the flood program, adjusters said.

"It's a combination of sewer backup and flood," said Stephen R. Schray, senior general adjuster for Chubb & Son Inc. in Dallas. "It's hard to say which came first."

The insurer does not classify a loss as "flood" unless water is touching the outside of the building. Unlike many standard policies, Chubb often does not exclude water that backs up through the sewer system.

Chubb will also cover the Y's business interruption, which mainly stems from loss of program income like a child care center. The three other Y buildings were also closed down for five days due to lack of water.

—By Sara Marley

Midwestern flood losses

Continued from page 1

contacted reported extensive claims.

Last week, the Property Claim Services division of the American Insurance Services Group issued a preliminary insured loss estimate of $655 million, which is an aggregate of four consecutive catastrophes. And the U.S. Department of Agriculture, which operates the Federal Crop Insurance Corp., estimated insured crop damage at $680 million.

The remaining source of flood coverage—the underutilized National Flood Insurance Program—had made no estimates as of late last week.

Congress last week approved a $3 billion flood relief package for victims in nine states.

Despite the estimate of $655 million in insured damages, which likely ranks as one of the dozen largest catastrophes on record in the United States, several observers downplayed the flood's impact on insurers. The new benchmark for concern in insurance circles over catastrophe losses appears to be Hurricane Andrew's $15.5 billion in insured losses.

"As bad as this is on a personal level, you cannot compare it with the hurricanes from last year. It's an unparalleled travesty in human terms that eventually could be as bad as the hurricanes, but in terms of insurance, it's virtually a non-event," said Jim Costner, senior vp and chairman of Willis Corroon Group's domestic property operations in Nashville, Tenn.

"Financially, this just can't be considered a big event for the industry," said John H. Snyder, senior vp with A.M. Best & Co. in Oldwick, N.J. "Flood and crop, which are mostly federal programs, are largely uninsured. I expect at least half the claims that do come in to be auto claims."

But Gary Kerney, director of catastrophes for the Property Claim Services division of the AISG in Rahway, N.J., cautioned that "there's still a huge unknown that's under water."

He projected that several claims would exceed $1 million. "A few companies will be hit with some major losses, but overall, the industry can respond."

Most commercial policies do not cover flood or subsequent business interruption losses. Standard property policies exclude flood. And most businesses cannot get business interruption coverage for flood unless they are also covered for the underlying property loss. Only comprehensive commercial and personal automobile policies cover flood damage (*BI*, July 19).

Companies could have bought specific flood riders or flood coverage through the federal program. But the NFIP issued only 18,000 policies this year in the flooded region and most firms, especially small ones, do not buy them because the risk of flooding is perceived to be small relative to the policy price.

That perception likely has changed recently as both the Missouri and Mississippi rivers, and smaller tributaries, have crested far above flood levels and breached reinforced levees.

Yet major property insurers are reporting little in the way of claims.

"So far, we have only about 15 commercial claims for flood coverage we wrote, sewer backup and off-premises power interruptions that have affected policyholders," said Donald Pence, property claims officer with Kemper Group in Long Grove, Ill. "We only expect three or four to be large and those are in Des Moines."

The new benchmark for concern over catastrophe losses appears to be Hurricane Andrew.

Iowa's capital city is just now recovering after severe flooding in which it lost its water supply for 10 days (see story, page 1).

State Farm Group has received about 400 flood claims and about 400 auto claims, but a spokesman for the Bloomington, Ill.-based insurer could not estimate the value of the claims.

"We don't even have any adjusters in yet, but we don't anticipate this being very serious," he said. "Much of this is hurting small towns and unpopulated areas."

Allstate Insurance Co. reported 123 claims but had no damage estimate.

Industrial Risk Insurers reported fielding three dozen claims that overall produced less than $25 million in property damage.

Claims are coming from a "broad spectrum of riverside occupancies," said a spokesman for Hartford, Conn.-based IRI. "Most have sizable deductibles which will limit our losses."

Arkwright Mutual Insurance Co. reported 35 claims totaling about $20 million.

The St. Paul Cos. Inc., which writes little flood coverage, is expecting about 150 claims from policyholders in Iowa and Minnesota, primarily for backed-up sewers. St. Paul has not tallied claims from other affected states.

"Everything we're seeing to this point is small. We have had no business-related claims and we don't insure any of the barges," said a spokeswoman. "But we still haven't sent anyone in to look at the damage first-hand. Things could change."

In Omaha, Neb., the central claims office for ITT/Hartford Group Inc. has been "eerily quiet," said a spokeswoman.

Hartford reports only three claims in excess of $100,000: an Iowa insurance agency with a valuable papers loss; an inland marine loss outside Kansas City; and a Missouri school district with property damage.

Many other large insurers declined to make estimates until their loss adjusters had examined the flooded region.

When Des Moines was flooded in mid-July, two power company substations downtown took on eight feet of water. Both are still shut down and power is being rerouted from other sources.

"We're finally getting back to normal here," said Steve Verbeski, insurance services manager with Midwest Resources Inc., the Des Moines-based power company that services much of Iowa.

Mr. Verbeski said all damage will be covered by a property and flood package written jointly by CIGNA Corp. and Hartford Steam Boiler Inspection & Insurance Co. "The limits are significant to cover all our flood-related damage. We'll try to recover to the full extent of the policy." He would not elaborate.

Like Des Moines (*BI*, July 19), St. Joseph, Mo., lost its water supply when the town was ravaged by overflow from the Missouri. However, the northwestern Missouri town of 78,000 has no coverage to respond to the water shutdown, said a spokesman for the local chamber of commerce.

In fact, few municipalities and fewer small businesses in the flood plane have the necessary flood coverage.

"There just isn't much flood coverage written in these areas," said Mr. Pence of Kemper. "We issued very few flood policies along the Mississippi, so there have been even fewer claims than we expected."

Kemper seems to have narrowly escaped one claim last week when 48-foot crests passed through Kansas City, Mo., but spared an A.M. Castle & Co. warehouse it insured near the Missouri River.

"Flood coverage is part of our property policy through Kemper," said Ron Maczek, risk manager at the Franklin Park, Ill., firm, which makes specialized metal products. "We were sandbagging and moving a bunch of trucks, metal processing equipment and cutting machines to higher ground. Fortunately, the levee held."

Midwest Resources and A.M. Castle are among the large companies that regularly include flood coverage in their comprehensive property packages or on a difference in conditions basis. Other large corporations with multiple insured sites like Hallmark Cards Inc. and Quaker Oats Co. also carry flood insurance.

"Even though our DIC program covers flood, we have been moving some high value stuff away from the river," said Richard Heydinger, director of risk management for Kansas City-based Hallmark. "We moved our corporate aircraft to Kansas City International and now we're just watching the levees and keeping our fingers crossed."

Chicago-based Quaker Oats, meanwhile, idled a cereal plant in St. Joseph due to the lack of fresh water. "There hasn't been property damage, and if the city can get its pumps up by the beginning of the week, we'll meet all our orders," a spokesman said.

Santa Fe Pacific Corp. carries some flood coverage, but the railroad company is losing about $1 million per day as a result of detouring freight trains in several areas. Ten miles of its track is underwater in Missouri.

"We have coverage for damaged track and detour expenses, but nothing for business interruption," said David Burr, risk manager for the Schaumburg, Ill.-based freight carrier. "We're also subject to deductibles."

Many smaller companies had less coverage—or none at all.

"We have never bought it and probably never will. We're just lucky the water stopped 50 feet from us," said Thomas Thoms, vp-corporate development for Thoms Proestler Co., a food distributor in Davenport, Iowa.

Builders Sand & Cement Co., also in Davenport, had only "minimal" flood coverage and no business interruption coverage to respond to the flooding of its riverside plant.

"Luckily, we were able to take

Continued on next page

Flood losses

Continued from previous page
our orders and have them filled by competitors," said Art Baehnk, assistant manager. "While we're paying for these services, it's probably saving us about $300,000 in lost revenues."

Neimann Foods Inc. has some federal flood insurance to cover damage to its West Quincy, Mo., convenience store, which is under 16 feet of water and is expected to be closed for three months.

"We've had (federal coverage) since the flood of 1973," said Richard Neimann, CEO of the family-owned 20-store grocery chain. "Obviously, the coverage will not be as adequate as what we would like, but it will certainly help."

Knapheide Equipment Co., a West Quincy truck body building firm, was hard hit by the flooding, but its plant is covered by a combination of federal and commercial and business interruption coverage, said H.W. Knapheide III, president.

While flood insurance is far from abundant, crop insurance written by regional insurers and then reinsured by the FCIC is more widespread.

The FCIC said about 52% of farmers in Iowa, Illinois, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin insure between 35% and 75% of their expected yield through the FCIC. Based on the fact that 56.4 million acres of crops were insured this year to some level, the FCIC is expecting to pay out about $680.7 million to farmers.

•

Mary E. Pflum contributed to this report.

McCarran reform

Continued from page 1
the actions would promote competition and therefore be permitted, Ms. Bingaman replied. She added that she had no problem with the lawmakers specifically spelling out that such an activity was permitted.

Several witnesses and members of the committee expressed concern that restricting insurers' antitrust exemptions would mean an end to the use of standardized policy forms.

Under questioning from Rep. Charles Canady, R-Fla., Ms. Bingaman said common forms allow consumers to look at "complex, almost incomprehensible" matters and say, "This is apples, this is oranges," so they can compare coverages.

But common forms may also stifle innovation and competition, she said. Just as a common form allows consumers to compare apples to apples and oranges to oranges, "It doesn't offer grapes and somebody might want grapes."

Another witness, New Jersey Deputy Attorney General Laurel A. Price, said he believed that common policy forms would be permitted if McCarran-Ferguson were significantly altered.

Homeowners and businessowners lack the sophistication to choose among variously worded policies "unless, and there's a very significant unless" agents and brokers are willing to assume the liability of explaining the various coverages, said Mr. Price, one of the leaders in the ongoing massive insurance industry antitrust litigation (*BI*, July 5; March 1). He added that he didn't think risk managers benefit from standardized forms.

Amending McCarran-Ferguson to permit the continued use of common policy forms is one of several "safe harbors" that insurers insist upon. Others include allowing the collection of data, permitting some pooling and joint underwriting, and permitting common fire inspection and data development.

Ms. Bingaman said the Clinton administration favors retaining "carefully crafted" safe harbors where justified.

Mr. Price, who spoke on behalf of the National Assn. of Attorneys General, said the group favors eliminating the exemptions entirely.

Testimony also focused on the impact of antitrust reform on small, regional insurers.

Mr. Price said many small insurers are actually specialists that understand their markets far better than larger companies and don't need the McCarran-Ferguson protections.

Ms. Bingaman was more guarded. She said that "carefully written" modification of McCarran-Ferguson could still permit joint collection of loss data.

Without such sharing, would small insurers be able to find enough casualty actuaries? Rep. Fish asked Robert E. Vagley, president of the Washington-based American Insurance Assn.

Drawing a few chuckles, Mr. Vagley replied that perhaps the ranks of actuaries would swell to meet demand like the ranks of trial lawyers have.

The AIA has been meeting with Rep. Brooks' staff off and on since H.R. 9 first appeared. Two years ago, the trade group proposed its own McCarran-Ferguson modifications, including continuation of safe harbors for collective actions.

"I am increasingly optimistic about the possibility of resolving the issue in the near future," said Mr. Vagley.

Only once during the three-hour hearing did tempers flare. Given what he called the left-of-center orientation of both the Judiciary Committee and the White House, Rep. Bob Inglis, R-S.C., asked Ms. Bingaman what assurance she could offer that antitrust reform was anything more than a way for the federal government to supplant state regulation.

An obviously irritated Ms. Bingaman disputed Rep. Inglis' characterization of the administration as left-wing, adding that this was not an attempt to increase federal regulation of the insurance industry.

"We're not adding regulation, we're adding competition," she said.

After the hearing, David Farmer, vp-federal affairs for the Alliance of American Insurers in Washington, said he "wasn't surprised" by Ms. Bingaman's testimony. He said he had hoped the administration would wait to discuss McCarran-Ferguson until after it announced its health plan because of potential antitrust implications. BI

For the Record

GAO seeks disclosure of insurers' EIL risks

WASHINGTON—The Securities and Exchange Commission should require insurers to reveal their possible environmental liability exposures, says the General Accounting Office.

Some insurers contend that Superfund and other pollution liability threaten the industry, yet "top insurance companies have rarely disclosed the amount of this exposure. . .in their annual reports to the SEC," the GAO says in a recent report.

"The magnitude of the insurance industry's potential exposure to environmental claims and litigation expenses. . . .warrants, at a minimum, these potential claims be discussed in public disclosure reports."

Court strikes award for mental comp claim

TULSA, Okla.—A recent Oklahoma Supreme Court decision makes it very difficult for workers to file so-called "mental-mental" workers comp claims.

In the case—*Earlene Teel vs. Tulsa Municipal Employees, Cumis Insurance Society Inc. and the Workers' Compensation Court*—a credit union clerk injured her back when she dove under a desk during a January 1990 robbery, the third in recent years.

Lower courts awarded her permanent partial disability benefits based on a 12% back impairment. Ms. Teel will keep those benefits, but the high court rejected permanent partial disability benefits based on a 30% psychological impairment.

"We find that the mental condition must arise out of the accidental, work-related injury in order to be compensable," the court ruled. In this case, the court determined her psychological problems did not.

Armored car owners charged with fraud

NEW YORK—Underwriters at Lloyd's of London were defrauded by an armored car company accused of stealing more than $30 million from seven U.S. banks, federal prosecutors allege.

The fraud charges were added to the existing theft charges against Robert J. Scaretta and Susan M. Scaretta, owners of Revere Armored Car Co. of Bohemia, N.Y. The Scarettas are charged with the theft of between $30 million and $35 million in cash from Revere warehouses. Revere was put into liquidation in February (*BI*, Feb. 15).

The new charges allege the owners gave fraudulent financial statements to obtain insurance. Revere had a $1 million primary policy for property in its possession written by Sun Insurance Co. of New York via underwriting manager William H. McGee & Co. Lloyd's underwriters wrote $99 million of coverage in several layers in excess of $1 million, led by syndicate 79, managed by Janson Green Ltd.

Information in brief

General Reinsurance Corp. is setting up a wholly owned Bermuda unit, General Re Underwriting Services Ltd., to provide underwriting management services to Tempest Reinsurance. . . .**American Bankers Insurance Group Inc.** of Miami raised net proceeds of $51.9 million in a public stock offering of about 3.4 million shares. . . .New York and California lawmakers have passed legislation to allow insurers to use **Chicago Board of Trade insurance futures** and option contracts. . . .A state statute **granting municipalities immunity** from liability when they allow public land to be used free for recreational activities was reaffirmed July 13 by the Connecticut Supreme Court. BI

Update

Asiana crash losses hit Lloyd's

LONDON—The Asiana Airlines Boeing 737-500 series aircraft that crashed last Monday near Haenam, South Korea, killing 66 people and injuring 44 of the 110 passengers and crew on board, was reinsured in the London market.

The hull value was $30 million, said Richard Maylam of syndicate 270, the lead underwriter on the policy.

Asiana's liability limit in 1991-1992 had been $1 billion, and "it is very unlikely to have changed since then," a Lloyd's of London aviation broker said.

Sedgwick Aviation Ltd. placed the Korean airline's risk in London on behalf of Hyundai Marine & Fire Insurance Co. Ltd. and a group of other Korean insurers.

The cause of the crash has yet to be determined.

Ruling defeats asbestos firms

PHILADELPHIA—A federal appeals court has dashed the hopes of asbestos manufacturers facing multiple punitive damages awards.

The judges in the 3rd U.S. Circuit Court of Appeals ruled 9-to-4 that it was not the court's role to determine the legality of multiple punitive damages. "We refrain from adopting such an activist role on what is essentially a policy matter," the court said.

Instead, the defendant, Owens-Corning Fiberglas Corp., should pay the $1 million in punitive damages it was ordered to pay to former pipe installer William Dunn in addition to $500,000 in compensatory damages, the court said.

Although the ruling agrees with other asbestos case decisions, asbestos manufacturers were hopeful of a favorable ruling in this case because the judges had asked to be briefed on punitive damages, said Larry Fitzpatrick, president of the Center for Claims Resolution in Princeton, N.J.

As of December 1990, Owens-Corning had $1.26 billion in unexhausted product liability insurance, court documents said.

Aetna wins CHAMPUS contract

SAN DIEGO—Aetna Health Plans beat Foundation Health Corp. for a lucrative CHAMPUS contract covering more than 840,000 active military personnel, retirees and their dependents in California and Hawaii.

After last Wednesday's announcement, Foundation's share price plummeted 11¼ points to close at $20.75 on Thursday. The CHAMPUS contract generated $650 million a year in revenues for Foundation, constituting 40% of its business.

Uncertainty over renewal of the CHAMPUS contract was blamed for the failure of Foundation's stock to recover as other HMO stocks did after the market's earlier negative response to President Clinton's initial health care reform proposals (*BI*, July 19; March 1).

Aetna bid $3.5 billion for the five-year contract, while Foundation bid approximately $4 billion. Aetna will subcontract with Hawaii Medical Service Assn. and Blue Cross & Blue Shield of South Carolina to manage the plan, which was established in 1988 to lower costs for the Civilian Health and Medical Program of the Uniformed Services. BC/BS of South Carolina has been handling about 30% of all CHAMPUS contracts' claims administration.

Briefly noted

The Clinton administration probably won't submit its **Superfund reauthorization bill** to Congress until November, says Carol Browner, head of the Environmental Protection Agency. . . .FBI agents last week arrested **Norman Bramson** at a home in La Jolla, Calif. Mr. Bramson had been a fugitive since 1991, when he pleaded guilty to currency violation charges. His sons, Leonard and Martin Bramson, were indicted in 1991 on fraud charges related to their operation of a web of U.S. and offshore insurers (*BI*, Sept. 16, 1991). . . .Lloyd's of London **kidnap and ransom insurers** would not comment on a published report last week that they may pay $1.45 million to cover the ransom paid by Las Vegas casino executive Stephen Wynn for the release of his daughter from kidnappers. Underwriters will likely cancel the policy now that its existence has been publicized. . . .Gov. Pete Wilson last week signed into law S.B. 30, which replaces **California's minimum rate law** for work comp insurance with a competitive file-and-use system using advisory loss costs. . . .Re Capital Corp. plans to use about $45 million of the $69 million raised in a convertible debenture offering to boost the surplus of its **Re Capital Reinsurance Corp.** unit, with the remainder going to pay off debt or other general purposes. . . .**National Colonial Insurance Co.**, a Kansas-domiciled auto warranty insurer, has been declared insolvent by at least $3.7 million and ordered liquidated by a Kansas judge. National Colonial was headed by Gerald Zipper, a former New York deputy insurance superintendent. . . .Merck & Co. will buy managed prescription drug firm **Medco Containment Services Inc.** for $6 billion in stock and cash, the first time a major drug manufacturer has bought a major distributor. . . .The Home Insurance Co. has agreed to postpone its planned non-renewal of homeowners insurance policies until a **Florida moratorium** expires. Florida regulators had threatened to fine The Home $20,000 for each policy, which could have reached $400 million (*BI*, July 12). . . .Neither New Jersey police departments nor individual officers can be sued for third-party liability damages for **injuries resulting from car chases** unless a police officer demonstrated willful misconduct in conducting the chase, the state Supreme Court has ruled. . . .London underwriters have paid 3.5 million pounds ($5.2 million) in an out-of-court settlement for the death of publishing mogul **Robert Maxwell** to the administrators of Maxwell companies and Mirror Group Newspapers. . . .Two U.S. House panels last week approved competing bills, H.R. 1257 and H.R. 1188, designed to combat **insurance redlining**.

Rosy outlook for broker productivity

By LEONARD M. WILSON

Special to Business Insurance

ABOUT FOUR YEARS AGO, I wrote about progress in staff productivity of the public insurance broker. One brokerage contact in 1989 volunteered that his company was being managed as if soft markets were a permanent condition. That philosophy turned out to be prescient. The public brokers have experienced an erosion of profitability due to the long soft market and slow growth in commissions. But new business and productivity gains have prevented a profit debacle.

If new business is the lifeblood of insurance brokerage, a firm's productivity improvement is bone and sinew. In the face of the stubborn competitive insurance market, productivity is of major importance. Cost control, by necessity, focuses on headcount and greater effectiveness because employment outlays are the largest expense component. What kind of productivity gains have the public brokers achieved during the soft market?

Measuring productivity from the outside looking in is an imprecise exercise. Productivity is best assessed through measurement of physical activity, what an economist might call output per unit of labor. In the case of insurance brokerages, policy count probably works as a yardstick of physical output. An analyst, though, has access only to dollar revenues, which are subject to distortion because of fluctuations in the pricing of commercial insurance. With that caveat, we can now proceed to our analysis.

We started out by calculating revenues per employee in 1986, the first year of the downturn in premium rates. The analysis was limited to three brokers, Marsh & McLennan Cos. Inc., Alexander & Alexander Services Inc. and Arthur J. Gallagher & Co. Inc. Why these three? Because their data is the least distorted by acquisitions from 1986 to the present.

Based on our calculations, revenues per employee in 1986 were as follows: Marsh & McLennan, $96,000; Alexander & Alexander, $88,300; Arthur J. Gallagher, $102,000. The gains in productivity since then, derived from reported revenues, have varied considerably. A&A achieved the largest jump in revenues per capita at 48% during the six-year period. Significant restructuring over the past two years has resulted in an absolute reduction in the firm's headcount.

But because of premium rate reductions, the rise in revenues understates productivity improvements. If we assume that premium rates across a broker's entire book of business have declined 25% to 30% during the soft market, then we must adjust revenues upward to more adequately assess changes in productivity. Taking this into account, at a minimum something like 5% per annum should be added to any estimates of rising productivity that are based only on nominal revenues. Therefore, A&A likely achieved as much as 13% to 14% in average annual productivity increases during the past six years.

Marsh & McLennan, already the most productive of the leading brokers using revenues per capita, posted an estimated 5% annual advance in productivity for the period on nominal revenues, and probably close to 10% annually adjusting for the effect of rate reductions.

The corresponding estimates for Arthur J. Gallagher are 7% and 12%, respectively. Service businesses are traditionally not supposed to register meaningful productivity gains. The manufacturing sector, with the ability to substitute capital for labor, shines in that realm.

Accordingly, these three brokers, as well as the other public brokers, have secured productivity gains that are quite remarkable since the soft market began. Even our numbers may incorporate additional distortions that further understate the real productivity gains. For example, we believe most of the headcount expansion for Marsh & McLennan from 1987 to 1991 reflects growth in consulting activity, while brokerage staff increases were closely controlled.

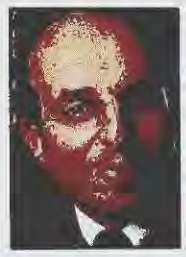
Hardly a day passes without some mention in the financial press of a company restructuring. Certainly the wave of cost reduction now engulfing the U.S. manufacturing base is virtually unprecedented in scope. Insurance brokers, faced with the intractable pricing environment, have avoided the painful dislocations associated with restructuring. The magnitude of their productivity gains, though, qualifies as a silent restructuring.

In this column four years ago, I suggested that productivity gains of 2% to 3% annually might be an appropriate bogey for a broker seeking to sustain profitability in the face of a grinding soft market (*BI*, July 31, 1989). The public brokers have exceeded our earlier targets, which in retrospect seem almost timorous. Gains can be likely ascribed to the fruits of the computer, but managements clearly deserve credit for their performances.

Can the brokers continue to sustain productivity gains of the magnitude achieved in the past six years? It is arguable that there are limits to the ability of any business to push employee productivity ever higher. This would seem to be axiomatic for insurance brokerage, where customer service is an article of faith. Nevertheless, exponents of productivity posit the idea that an organization, with a culture of cost control, can achieve gains in productivity year in and year out.

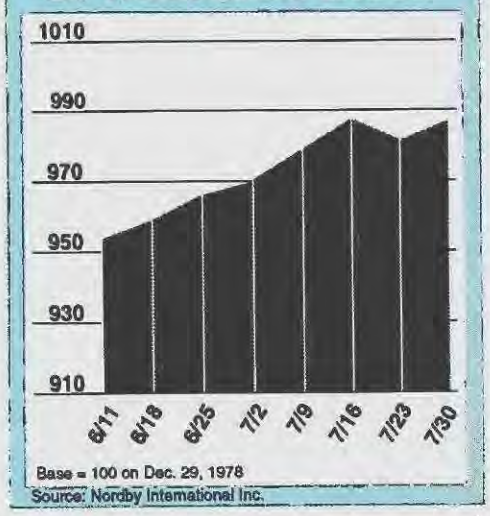
The rewards of productivity are dramatic. We estimate that a typical broker can post 8% to 9% revenue growth in a neutral or flat pricing environment. If productivity gains of 3% to 5% annually can be sustained, then share earnings could rise at least 15% annually. This is not a bonanza but rather respectable when investors are struggling to surpass 3% yields on Treasury bills.

Strongly rising premium rates in commercial lines may not be critically important to earnings growth for the brokers, as a consequence. Perhaps investors in brokerage stocks can take comfort that a neutral competitive environment—more likely than a genuinely hard market in the near term—could be a backdrop of gratifying buoyancy for the public brokers. BI



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BI Insurance Index



Insurance industry stocks rose last week, as the *Business Insurance* Index climbed 5.0 points to 986.1 July 30 from 981.1 on July 23. Advancing issues for the week were led by: American Heritage Life Insurance, up 11.4%; Chandler Insurance, up 11.1%; and US Facilities Corp., up 10.8%. Declining issues for the week followed: Gainsco Inc., down 11.6%; NAC Re Corp., down 8.8%; and USLICO Corp., down 7.3%. The most active issue was U.S. Healthcare, 9.5 million shares traded. The *BI* Index was up 0.5%; the NYSE Composite was up 0.4%; the Standard & Poor's 500 was up 0.2%; and the Dow Jones 30 Industrials fell 0.2%.

British Issues

July 29 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	618	N/M	32.5	5.2	618	612
Genl Accident	655	N/M	35.7	5.4	655	636
Gdn Royal Exch	200	N/M	9.3	4.6	200	194
Royal	333	N/M	6.7	2.0	333	323
Sun Alliance	385	N/M	19.0	4.9	385	370
Brokers						
Bradstock	140	16.3	6.8	4.8	140	138
CE Heath	364	17.5	20.5	5.6	364	355
Hogg Group	211	18.3	10.9	5.2	211	210
JIB Group	213	21.0	10.0	4.7	213	212
Lloyd Thompson	330	26.6	7.5	2.3	330	318
Lowndes Lmbrt	420	15.0	18.8	4.5	420	412
PWS Holdings	66	9.9	5.3	8.0	66	66
Sedgwick Grp	200	24.0	8.0	4.1	200	199
Steel Brri Jones	239	14.0	17.7	7.0	252	239
Willis Corroon	223	20.8	8.8	3.9	223	220

Source: Philip Olsen, London

BI Industry Stock Report

JULY 26, 1993 THROUGH JULY 30, 1993

BROKERS		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Acordia Inc.	NYS	23.88	0.00	11.05	24.75	15.13	123	0.44	1.84	14	7.01	3.41
Alexander & Alexander	NYS	25.13	-4.29	-5.19	28.88	23.38	399	1.00	3.98	21	10.00	2.51
E.W. Blanch Holdings Inc.	NYS	18.25	0.69	N.A.	20.00	16.50	275	0.00	0.00	23	3.75	4.87
Gallagher Arthur J. & Co.	NYS	31.50	-0.40	11.50	37.38	21.88	67	0.72	2.29	19	6.35	4.96
Hilb, Rogal & Hamilton	NYS	12.00	-2.04	-23.20	16.88	11.63	313	0.44	3.67	17	3.11	3.86
Marsh & McLennan	NYS	87.75	1.74	-3.97	97.63	77.25	322	2.68	3.05	20	14.40	6.09
Poe & Brown	OTC	19.75	3.95	17.91	21.25	11.25	13	0.40	2.03	35	2.64	7.48
BROKERS	AVERAGE		0.0	1.4					2.4	22		
INSURERS/REINSURERS												
ACE Ltd.	NYS	28.13	-0.44	N.A.	32.00	25.50	30	0.40	1.42	10	25.37	1.11
AEGON N.V.	NYS	44.25	0.57	6.31	49.38	36.75	53	2.90	6.55	8	34.06	1.30
Aetna Life & Casualty	NYS	58.38	0.21	25.54	59.38	38.00	1298	2.76	4.73	127	67.08	0.87
Allied Group Inc.	OTC	27.00	8.00	27.56	30.34	16.16	626	0.52	1.93	9	11.29	2.39
Allmerica Prop. & Casualty	NYS	58.00	-2.32	14.85	60.38	35.50	393	0.44	0.76	5	40.44	1.43
Allstate Corp.	NYS	31.00	3.77	N.A.	31.50	27.13	2308	0.00	0.00	-54	-	-
American General	NYS	31.00	0.81	8.77	33.25	23.63	1584	1.08	3.48	12	39.89	0.78
American Heritage Life Ins.	NYS	24.50	11.36	21.49	25.34	18.91	12	0.44	1.80	17	16.51	1.48
American Indemnity/Fin'l	OTC	15.25	1.67	154.17	15.50	4.75	183	0.08	0.52	8	14.43	1.06
American International (s)	NYS	91.88	-0.32	18.80	91.88	60.42	1385	0.60	0.65	11	54.21	1.69
American RE Corp.	NYS	36.63	-2.33	-1.01	41.75	31.38	115	0.00	0.00	80	N.A.	N.A.
Aon Corp.	NYS	54.13	-3.35	0.23	56.75	43.75	298	1.80	3.33	18	27.17	1.99
Argonaut Group	OTC	31.75	-1.55	4.10	35.25	27.00	39	1.00	3.15	10	21.70	1.46
AVEMCO Corp.	NYS	18.25	-0.68	-21.93	27.00	18.00	36	0.40	2.19	21	7.33	2.49
Baldwin & Lyons Inc.	OTC	42.00	5.00	15.07	42.00	29.50	5	0.48	1.14	10	30.85	1.36
Berkley W.R. Corp.	OTC	42.50	-2.58	-1.16	50.50	34.00	567	0.40	0.94	17	23.51	1.81
Berkshire Hathaway Inc.	NYS	16000.0	1.91	36.17	16200.0	9050.00	0	0.00	0.00	-	6437.25	2.49
Chandler Insurance	OTC	5.00	11.11	5.26	5.13	3.50	7	0.00	0.00	17	8.63	0.58
Chubb Corp.	NYS	91.50	1.81	2.95	96.38	73.50	865	1.72	1.88	13	40.67	2.25
CIGNA Corp.	NYS	58.88	0.21	0.43	68.00	47.13	618	3.04	5.16	11	81.73	0.72
CNA Financial Corp.	NYS	87.75	-3.57	-10.46	102.88	86.50	80	0.00	0.00	-12	80.24	1.09
Continental Corp.	NYS	32.25	4.03	20.00	34.75	20.00	779	1.00	3.10	24	38.32	0.84
EXEL Ltd.	NYS	45.50	3.41	-3.70	52.25	35.00	975	1.00	2.20	7	N.A.	N.A.
Fund American Corp.	NYS	87.00	2.05	20.83	87.00	68.00	106	0.00	0.00	10	81.85	1.06
Fremont General Corp.	NYS	27.00	0.47	-21.74	28.75	14.84	172	0.72	2.67	9	25.62	1.05
Frontier Insurance Group	NYS	45.25	1.69	4.02	45.50	29.31	45	0.52	1.15	16	13.97	3.24
Gainsco Inc.	ASE	10.50	-11.58	-25.66	18.56	9.41	251	0.04	0.38	13	2.65	3.96
General RE Corp.	NYS	121.38	1.78	4.86	130.50	83.00	688	1.88	1.55	17	46.07	2.63
Guaranty National Corp.	NYS	20.75	-1.78	5.06	24.00	16.25	70	0.48	2.31	12	9.12	2.28
Harleysville Group	OTC	25.50	-1.92	-9.73	32.75	20.00	20	0.64	2.51	15	16.77	1.52
Hartford Steam Boiler	NYS	50.00	-4.31	-13.42	59.88	48.50	416	2.12	4.24	24	19.74	2.53
HCC Insurance Holdings	OTC	26.25	0.96	29.63	27.00	12.25	19	0.00	0.00	27	10.12	2.59
ITT (Hartford Group)	NYS	88.75	0.00	23.26	88.75	62.75	1266	1.96	2.21	-38	68.23	1.30
Kemper Corp.	NYS	34.13	2.25	15.19	43.00	20.75	639	0.92	2.70	-8	37.66	0.91
Lawrence Insurance Group	ASE	6.13	0.00	-28.99	10.25	5.50	2	0.32	5.22	-	4.66	1.31
Liberty Corp.	NYS	32.50	1.96	15.04	33.88	25.00	49	0.56	1.72	12	18.43	1.76
Lincoln National	NYS	39.88	3.24	-45.47	41.81	30.63	1042	1.52	3.81	10	58.92	0.68
Markel Corp.	OTC	37.50	0.00	20.00	38.50	24.75	35	0.00	0.00	11	20.24	1.85
Mutual Risk Mgmt. Ltd.	NYS	39.50	2.60	-2.47	46.00	29.25	77	0.28	0.71	22	7.51	5.26
NAC Re Corp.	OTC	33.75	-8.78	-16.67	44.75	27.50	1008	0.16	0.47	43	13.60	2.48
National Re Corp.	NYS	34.25	-2.14	15.61	39.63	19.13	224	0.12	0.35	11	N.A.	N.A.
Navigators Group	OTC	32.50	-2.99	0.00	35.75	28.50	3	0.00	0.00	24	15.69	2.07
Nobel Insurance LTD.	OTC	6.88	0.00	17.02	8.25	4.25	21	0.00	0.00	3	3.91	1.76
NWNL Companies	NYS	30.38	3.85	19.41	32.44	18.13	8126	0.80	2.63	13	22.94	1.32
Ohio Casualty Corp.	OTC	66.00	5.18	4.55	68.75	59.00	197	2.84	4.30	12	43.08	1.53
Old Republic Int'l	NYS	25.75	6.74	3.52	27.38	19.50	288	0.44	1.71	8	18.63	1.38
Orion Capital Corp.	NYS	42.13	1.51	19.08	46.38	28.81	92	0.80	1.90	9	28.62	1.47
Phoenix RE Corp.	OTC	29.25	2.18	85.71	34.00	9.00	482	0.20	0.68	-64	13.32	2.20
Provident Life	NYS	27.50	2.33	-3.51	31.50	24.75	147	1.04	3.78	11	30.38	0.91
Re Capital Corp.	ASE	14.38	0.00	-12.88	16.63	12.25	0	0.28	1.95	29	16.88	0.85
Reliance Group Holdings	NYS	6.50	-3.70	6.12	8.50	4.25	511	0.32	4.92	3	2.94	2.21
RLI Corp.	NYS	25.75	-1.44	4.04	28.63	18.75	38	0.52	2.02	12	17.92	1.44
St. Paul Companies	NYS	85.38	0.44	10.88	86.75	67.88	632	2.80	3.28	-12	59.79	1.43
SAFECO Corp.	OTC	62.50	1.63	10.13	66.75	48.75	1129	1.80	2.88	11	35.37	1.77
SCOR U.S. Corp.	NYS	16.63	1.53	-5.00	20.75	13.13	3	0.32	1.92	208	14.39	1.16
Seibels Bruce Group	OTC	0.75	9.01	-60.00	6.13	0.38	12	0.00	0.00	0	6.22	0.12
Selective Ins. Group	OTC	27.25	0.00	23.86	27.75	19.00	156	1.12	4.11	15	20.22	1.35
Statesman Group Inc.	OTC	12.00	0.00	0.00	16.50	6.50	738	0.20	1.67	6	6.71	1.79
TIG Holdings	NYS	25.38	3.05	N.A.	26.50	22.88	740	0.00	0.00	-20	-	-
Tokio Marine & Fire	OTC	63.38	4.75	32.03	64.50	38.13	3	0.00	0.00	-	70.93	0.89
Torchmark Corp.	NYS	56.88	0.22	0.22	64.75	46.38	347	1.12	1.97	15	14.87	3.82
Transatlantic Holdings	NYS	54.38	1.64	-3.12	56.75	35.63	67	0.28	0.51	18	21.85	2.49
Traveler's Corp.	NYS	31.50	5.44	15.60	33.00	17.13	1415	1.60	5.08	-4	43.85	0.72
Trenwick Group Inc.	OTC	44.13	-1.94	8.28	49.75	28.25	103	0.88	1.99	16	23.87	1.85
United Fire & Casualty	OTC	38.25	5.52	-7.83	43.00	34.75	3	1.00	2.61	89	28.47	1.34
Unitrin	OTC	44.50	1.71	4.09	46.75	35.00	162	1.40	3.15	13	36.51	1.22
UNUM Corp.	NYS	57.25	5.29	8.02	58.38	38.50	739	0.80	1.40	15	21.83	2.62
US Facilities Corp.	OTC	10.25	10.81	2.50	11.50	6.50	217	0.00	0.00	13	9.64	1.06
USF&G Corp.	NYS	18.00	1.41	45.45	19.63	9.88	2504	0.20	1.11	-	10.29	1.75
USLICO Corp.	NYS	17.50	-7.28	-2.78	20.00	15.00	226	0.24	1.37	-5	29.80	0.59
USLIFE Corp.	NYS	41.63	-0.89	14.83	42.63	29.34	148	1.20	2.88	12	64.90	0.64
Washington National	NYS.	22.75	3.41	-1.09	28.00	20.25	94	1.08	4.75	12	30.27	0.75
Zenith National Ins.	NYS	29.00	1.75	46.84	29.25	16.38	154	1.00	3.45	24	14.81	1.96
Zurich Reinsurance Centr.	NYS	33.50	1.52	N.A.	36.38	30.00	156	0.00	0.00	-	23.99	1.40
INSURERS/REINSURERS	AVERAGE		1.2	8.3					1.9	14.2		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	27.25	-4.80	36.25	30.00	16.75	1774	0.00	0.00	26	9.61	2.84
Pacificare Health Sys.	OTC	38.75	-5.49	24.02	57.50	25.50	197	0.00	0.00	19	3.90	9.94
Safeguard Health Enter.	OTC	9.63	-3.75	-1.28	12.25	7.00	76	0.00	0.00	12	4.03	2.39
Sierra Health Services	ASE	19.50	0.00	-9.83	22.00	11.50	98	0.00	0.00	17	2.01	9.70
TakeCare Inc.	OTC	45.75	2.81	2.81	50.25	25.75	369	0.00	0.00	17	2.01	22.76
United Healthcare Corp.	NYS	63.13	2.23	10.99	68.00	40.00	1413	0.03	0.05	35	4.68	13.49
U.S. Healthcare	OTC	49.00	-1.51	9.80	59.75	35.66	9528	0.52	1.06	22	3.60	13.61
Wellpoint Health Networks	NYS	28.75	-6.50	N.A.	39.75	23.00	482	0.00	0.00	16	-	-
HMOs	AVERAGE		-2.1	3.1					0.1	18		
ALL COMPANIES	AVERAGE		-0.3	4.3					2.1	17		

System design: Nordby International Inc.

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