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Update

Court upholds ERISA violation against Continental Can

PHILADELPHIA—Continental Can Co. violated the Employee Retirement Income Security Act of 1974 by developing a plan to lay off workers before they became entitled to special pension benefits, a federal appeals court has ruled.

The 3rd U.S. Circuit Court of Appeals in Philadelphia affirmed a 1989 lower court ruling that Norwalk, Conn.-based Continental Can developed a plan to identify and dismiss workers before they

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Allianz to buy Fireman's Fund

German insurer widens U.S. base

By JUDY GREENWALD

NOVATO, Calif.—The proposed $1.1 billion acquisition of Fireman's Fund Insurance Co. by West German insurer Allianz A.G. Holding is expected to satisfy both insurers' international ambitions.

The deal between Fund American Cos. Inc., Fireman's Fund's parent company, and Allianz, Europe's largest insurance holding company with $20.1 billion in gross 1989 premiums, also may trigger additional acquisitions of U.S. insurers by European buyers.

Under terms of the complex agreement announced Thursday, the Munich-based insurer will pay Fund American $3.3 billion in cash for Fireman's Fund Insurance Co., which reported $3.4 billion in gross written premiums in 1989 and $2.8 billion in net premiums.

Fund American then will pay $2.2 billion in cash to Allianz to repurchase Fireman's Fund's common stock portfolio, including its 23.6% interest in financial guarantee insurer MBIA Inc., as well as Fireman's Fund Mortgage Corp. and other long-term investments.

Fund American also will repurchase 300,000 shares of convertible preferred stock now owned by IFINT, the investment arm of Fiat Motor Corp., for $434 million in cash plus unpaid dividends.

The acquisition of Fireman's Fund, which is subject to shareholder and regulatory approval, is expected to be completed by early next year. After it is completed, Fund American is considering either a self-tender offer, through which it would buy back its own shares, or a distribution to stockholders of more than $800 million.

The book value of Fund American's common stock following the sale but before any distribution is expected to be more than $60 per share.

Fund American common stock closed Thursday at $49.75 per share, up $11.63 from the previous day's close.

Fund American also is developing plans to liquidate its remaining assets over the next three to five years.

"We have a lot of work to do

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Invasion pushes rates up

Cover limited for Gulf risks

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—Underwriters in London, reacting quickly to Iraq's invasion last week of Kuwait, are curtailing coverage and hiking premiums for marine, trading and industrial risks throughout the Persian Gulf.

Within a day of Wednesday's invasion, Lloyd's marine underwriters announced the first additional hull war risk premiums for Persian Gulf shipping since the end of the Iran/Iraq war last year.

Lloyd's and London company underwriters also lifted their minimum cargo tariff rate and announced that underwriters could charge what they wanted.

This action, known as "held cover," means underwriters as a group are not prepared to set advisory minimum rates.

And, political risk and credit insurance underwriters in London last week stopped accepting new business involving Iraq or Kuwait while also expressing extreme concern about risks in neighboring Middle Eastern states.

Some underwriters temporarily suspended underwriting of all political risks in the Persian Gulf area.

Underwriters fear political risk, marine hull and cargo war risk losses from the invasion. But late last week they could not estimate what level of claims might result from Iraq's latest hostile move.

BI/JOHN SMITHER

The eight-year Iran-Iraq war cost marine underwriters about $1 billion, said Chris Rome, a Lloyd's marine underwriter and former chairman of Lloyd's Underwriters Assn.

Conflicts like Iraq's invasion of Kuwait are "potentially very expensive," he added.

The United States and the United Kingdom last week announced a freeze on all Kuwaiti assets and the United States banned almost all trading with Iraq. In response, Iraq suspended all debt payments to the United States.

Kuwait's largest foreign investments—totaling more than $60 billion—are managed by London-based Kuwait Investment Office, which is ultimately controlled by Kuwait's Ministry of Finance.

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Tanker, barges are covered for oil spilled in Texas bay

By JOANNE WOJCIK

GALVESTON, Texas—The owner of two barges that spilled about 500,000 gallons of heavy crude oil into Galveston Bay after colliding with a tanker has at least $500 million of pollution liability coverage to pay cleanup and liability claims.

The owner of the tanker also has $500 million in coverage to respond to cleanup and liability claims.

U.S. marshals last week seized the tanker in response to an order from the U.S. District Court in Houston where Apex Towing Co., owner of the barges and tugboat, filed suit against owners of the tanker, charging them with fault.

Apex alleged in a statement that the tanker "crossed over the red buoy line and struck two of our barges, sinking one and damaging the other. The Galveston community was victimized by the resultant oil spill, and we were victimized by the damage to our equipment and to our company's reputation."

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Self-insurers can limit AIDS benefits: Court

By JERRY GEISEL

HOUSTON—An employer that self-funds its health care plan can limit benefits for employees with AIDS, a federal court in Texas has ruled.

However, it is unclear whether the Texas decision will prompt more self-insured employers to cut health care coverage for AIDS.

And, a newly signed federal law—the Americans with Disabilities Act—could make it more difficult in the future for employers to cap health care coverage for acquired immune deficiency syndrome.

In what is believed to be the first ruling on the issue, U.S. District Court Judge Norman Black in Houston wrote there is nothing in the Employee Retirement Income Security Act of 1974 that requires self-funded employers to provide equitable health care benefits for employees diagnosed with AIDS.

"ERISA does not mandate that employers provide any particular benefits and does not itself proscribe discrimination in the provision of employee benefits," Judge Black wrote in his June 26 ruling.

The Texas case involves a lawsuit filed by John McGann, an employee of H&H Music Co., a Houston distributor of musical equipment with about 150 employees.

Mr. McGann joined H&H Music Co. in 1982. In December 1987, he was diagnosed as having AIDS and told the company of his diagnosis.

In July 1988, H&H made several changes in its health insurance plan. Under the new program, lifetime AIDS benefits were capped at $5,000 compared with a previous $1 million limit—the same limit that applied to other medical conditions. The company also eliminated benefits for chemical dependency.

At the same time, H&H changed from an insured health care plan to a self-funded plan with stop-loss coverage and administrative services provided by General American Life Insurance Co. of St. Louis.

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NEWSPAPER

Update

Court upholds ERISA violation

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became eligible for benefits (*BI*, May 15, 1989).

However, the plaintiffs still have to prove at trial that the Continental Can plan was implemented at their specific plants and led to their layoffs, the appeals court ruled.

A Continental Can attorney said the overwhelming majority of the claimants would have been laid off anyway and only a small percentage were near meeting pension vesting requirements.

"We believe the evidence will show that most, if not all, of the claimants would have been laid off anyway without the 'liability avoidance plan,' " said Edwin C. Thomas, with Bell, Boyd & Lloyd in Chicago.

However, he said: "It is an important decision because it means that companies may be operating at risk if they consider the cost of benefits in making management decisions of this nature."

National Union settles suit

LOS ANGELES—National Union Fire Insurance Co. of Pittsburgh, Pa., will pay $12.4 million to Jordache Enterprises Inc. and its founders to settle bad-faith litigation claiming the insurer wrongfully denied a defense in an underlying suit by a rival company.

The settlement will partly cover the more than $20 million Jordache has spent defending a 1984 suit in which Guess? Inc. charged Jordache and its founders—Avi, Ralph and Joe Nakash—with pirating its jeans designs.

In a February 1988 suit, Jordache and the Nakash brothers claimed the insurer should have provided them a defense under an umbrella liability policy, said Jordache attorney Bill Conkle, a partner with Conkle & Olesten in Los Angeles. They also charged National Union with breach of contract for "ignoring claims" for defense expenses.

The settlement came five days after a Los Angeles Superior Court judge ordered the case to trial after finding that National Union had a "duty to defend" Jordache under the umbrella policy. Judge Robert H. O'Brien found that Jordache gave late notice of its claims. But he also ruled the insurer would have to prove at trial that the late notice caused it "substantial prejudice."

The judge ruled that "if substantial prejudice is not established, judgment for plaintiff will be entered on the breach of contract cause of action. . .the issues of bad faith will be tried. . .and the jury will also decide damages."

Mr. Conkle said the suit against Jordache and the Nakash brothers was settled in May. Terms were not disclosed.

National Union attorney William Read of Lynberg & Watkins in Los Angeles described the settlement as "very favorable."

Asbestos claims against U.S.

WASHINGTON—The U.S. Court of Appeals for the Federal Circuit ruled last week that a lower court improperly dismissed a lawsuit by three former asbestos manufacturers claiming the U.S. government should be held liable for many asbestos injuries.

The procedural ruling involved interpretation of a statute governing the jurisdiction of the U.S. Claims Court.

The companies—UNR Industries Inc., Eagle-Picher Industries Inc. and Keene Corp.—will now argue in U.S. Claims Court that the government should have to pay for the asbestos injuries for hundreds of Navy yard workers.

To date, manufacturers have failed in their decade-long attempt to force the government to pay for most asbestos injuries. Manufacturers claim the government required shipyards to use asbestos even after its dangers were known.

NTSB spreads blame for spill

WASHINGTON—Responsibility for the Exxon Valdez oil spill should be shared by Exxon Shipping Co., the ship's captain and third mate, the U.S. Coast Guard, and local and state shipping authorities, says the National Transportation Safety Board.

In a report issued last week, the federal agency concluded unanimously that the third mate, who was navigating when the ship ran aground on reefs off Alaska, was "fatigued" from overwork and unaware of the location of the reefs.

The ship's captain was "impaired by alcohol during the critical period" near the reefs, the NTSB said.

Exxon's crew was not well-rested and, according to the agency, the company's reduced manning policies did not adequately consider the increased workload or fatigue it could cause.

The NTSB also criticized the Coast Guard for being "unduly narrow in its perspective" when evaluating the manning request for the Exxon Valdez. Officials assumed that the ship's automatic equipment made crew reductions feasible at sea, but did not consider the heavier workload while in port, the agency said.

And state and local officials that handled traffic in Prince William Sound were not monitoring tankers closely enough, because of inadequate equipment, poor staffing levels and training and "deficient management oversight," the NTSB said.

The report also said that if the Exxon Valdez had had a double hull, the "spill would have been small, and possibly eliminated."

More than 240,000 barrels of crude oil spilled into Prince William Sound in March 1989 when the ship hit a reef after leaving the port of Valdez with its newly loaded cargo (*BI*, April 3, 1989).

Increase in uninsured workers

WASHINGTON—Workers and their dependents constituted a proportionately greater share of Americans under age 65 without health insurance in 1988 than they had two years earlier, a new report shows.

Although the total number of uninsured non-elderly Americans declined to 33.3 million in 1988 from 37 million in 1986, the number of uninsured working adults did not change "significantly," according to the Employee Benefit Research Institute, a Washington-based think tank.

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IBM forming network for mental health care

By MICHAEL SCHACHNER

PURCHASE, N.Y.—International Business Machines Corp. expects to control soaring mental health care costs by setting up the largest managed mental health care network in the nation.

IBM is so confident of the network's cost effectiveness that it is offering vastly improved mental health care benefits to its 700,000 U.S. employees, retirees and dependents eligible for care from network providers.

Benefit consultants are applauding the generosity of IBM's plan, and at least one consultant expects it will influence other employers to set up similar networks.

Among other benefit improvements, IBM also soon will offer to subsidize the purchase of long-term care insurance by employees, their spouses and their parents.

IBM wants to offer "benefit plans that meet the needs of employees and are effective in terms of cost," explained William R. Matson, IBM's manager-health and welfare programs in Purchase, N.Y.

Referring to the managed mental health care network, he said: "We are hoping to aid employees in finding appropriate care and at the same time limit unintentional waste."

IBM, which self-insures its comprehensive health care plan, spent about $3,400 per employee in 1989 on health care, including mental health care, Mr. Matson said.

IBM's overall health care costs have been rising by approximately 11% annually for the past several years, he said.

However, IBM's costs for psychiatric and substance abuse treatment have been increasing 20% annually since the mid-1980s, according to a two-year study by IBM and TPF&C, the benefits consulting unit of Towers, Perrin, Forster & Crosby Inc. of New York that helped IBM modify its benefit program.

In addition, several employee surveys conducted last year revealed that IBM workers often experienced difficulty in locating appropriate providers and facilities, Mr. Matson said.

To combat cost and access problems, IBM hired American Psych-Management Inc., a unit of Arlington, Va.-based Value Health Inc., to establish a nationwide network

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Says state solvency regulation is adequate

NAIC responds to critics

By MEG FLETCHER

KANSAS CITY, Mo.—State regulation of insurer solvency is adequate and improving, following criticism by a congressional committee and others, the National Assn. of Insurance Commissioners says.

The NAIC has taken significant steps to enhance regulation of insurer solvency by adopting stricter financial reporting requirements for insurers, a variety of model laws and a certification program for state insurance departments, the NAIC emphasizes in a report that was to be made public Sunday.

Consequently, federal regulation of insurance is not needed—despite several major insurer insolvencies in the last decade—the NAIC asserts in the report.

"We are confident that the necessary reforms can be accomplished within the existing framework and we are committed to bring them about," the NAIC said in its report, titled "State Actions to Improve Insurance Solvency Regulation."

The report is the NAIC's formal response to a report released in February by the House Oversight and Investigations Subcommittee, which is chaired by Rep. John D. Dingell, D-Mich. (*BI*, Feb. 26).

The NAIC report also criticizes portions of the Dingell report. The review of only four insurer insolvencies could lead Congress to unnecessarily overhaul state regulation of the insurance industry, said NAIC President and North Dakota Insurance Commissioner Earl Pomeroy.

The Dingell report followed a series of hearings the subcommittee held beginning in September 1988 to investigate concerns about the adequacy of state regulation following the insolvencies of Mission Insurance Co., Transit Casualty Co., Integrity Insurance Co. and Anglo-American Insurance Co. of Louisiana.

The Dingell report "is a very helpful study" and—like recent studies by the General Accounting Office, the National Assn. of Independent Insurers and the NAIC it-

Continued on page 22

Com Ed property damage may not exceed deductible

By CHRISTINE WOOLSEY

CHICAGO—Electric utility Commonwealth Edison Co. has more than $200 million in property insurance to cover undetermined damage from a switching station fire that left approximately 40,000 Chicago customers without power for up to three days.

Also, more than $100 million in liability insurance could respond to claims by customers that suffered losses from the blackout.

However, a company official says damage from the fire may not exceed Com Ed's property insurance deductible.

Investigators late last week were still trying to determine the cause of the July 28 fire, which started in the basement of Switch House 1 at Com Ed's Crawford Generating Station on Chicago's West Side.

The Crawford station is one of several locations where high-voltage power is stepped down to levels used by typical consumers.

An Edison spokesman said a "possible fault in a 12,000-volt cable" leading from the transformer to the switch house may have caused the fire.

Repairing electrical distribution equipment and property at the switch house and the rest of the Crawford station could cost "several million" dollars, utility officials said. Specific damage estimates had not been released.

The loss is "not the sort of thing that will show up on someone's catastrophe list next year," said Harlan Dellsy, vp and general counsel for the company. The station "is still functional. There may be some damage, but the boilers are intact, and I presume most of the equipment is intact."

Com Ed's total property insur-

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Inside

- This week's editorial urges employers to take a cue from the award-winning benefit communication programs described in this issue. **PAGE 8**
- British Columbia is expected to pass a bill governing private pension plans. **PAGE 23**
- Britain is planning to privatize a division of the state-owned Export Credit Guarantee Department. **PAGE 23**
- Italy's Assicurazioni Generali S.p.A. has acquired Business Men's Assurance Co. of America. **PAGE 25**

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Employee Benefits Communication Awards

The 18th annual *Business Insurance* Employee Benefits Communication Awards recognize 21 employers that have done an outstanding job communicating their employee benefits programs to their workforces.

The 1990 EBC competition attracted 182 entries from 151 U.S., Canadian and Australian companies in six categories: audio-visual presentations, booklets, multi-media programs, personalized correspondence, special projects and total employee benefits programs.

A total of 22 awards were presented to employers in this year's competition. One company, Southwest Airlines, won awards in two separate categories: audio-visual presentations and total benefits programs.

Six employee benefits consulting firms also were recognized for their role in preparing the winning EBC entries. Hewitt Associates consulted on six entries that won awards, more than any of the other 30 consulting firms that helped prepare entries.

The entries were evaluated by a panel of 11 independent judges, all experts in employee benefits or communications. Entries were scored on a zero-to-20 scale on how well they fulfilled each of five basic criteria: objectives, strategy, content, presentation and effectiveness.

Profiles of the winning benefits communication efforts begin on page 4. An article on the judges and the judging process begins on page 21.

AUDIO-VISUAL PRESENTATION

1st GATX

2nd Southwest Airlines

Special Award Bankers Trust

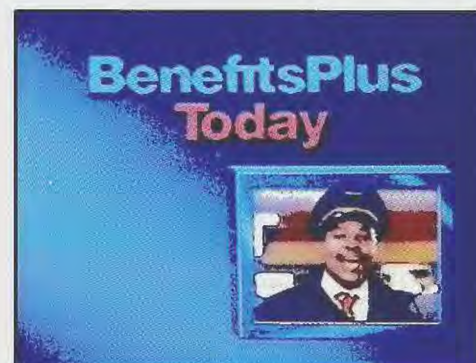
TOTAL BENEFITS PROGRAM

1st Southwest Airlines

2nd (tie) Reebok International
3M

3rd Hewitt Associates

Special Award Security Pacific National Bank



MULTI-MEDIA PROGRAM

1st American Stores

2nd Shell Oil

3rd Knight-Ridder

BOOKLETS

1st Canadian Airlines International

2nd The Howard Savings Bank

3rd (tie) The Chase Manahattan Bank
Acuson
Hershey Foods Corp.

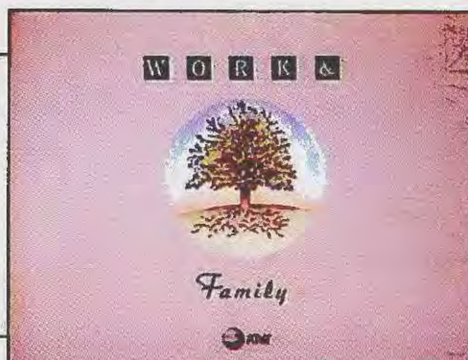
PERSONALIZED CORRESPONDENCE

1st Spiegel

2nd Coca-Cola Co.

3rd Harlequin Enterprises

SPECIAL PROJECTS



1st AT&T

2nd ALCOA

3rd Southern California Edison

Employee Benefits Communication Awards

Benefits
IN BALANCE

Firm communicates unwelcome change

GATX video explains cost sharing

By ADRIENNE C. LOCKE

CHICAGO—Bringing employees news of increased health care cost sharing and other changes to try to control rising medical costs was a difficult task for GATX Corp., particularly since the company was doing well financially.

GATX for several years had been shouldering the bulk of premium increases in its insured health care plan but last year concluded that it had to enlist the help of 2,500 salaried employees to try to control future cost increases.

However, making changes that would mean higher out-of-pocket expenses for employees in a time of prosperity for GATX could have created labor dissatisfaction if the necessity of those changes was not communicated clearly.

So, GATX produced a videotape in which management explained in a direct and uncomplicated manner how health care benefits were changing and why the changes were needed.

The result of GATX's efforts and its collaboration with consultant Towers, Perrin, Forster & Crosby Inc. was a presentation that was well-received by its employees and captured first place in the audiovisual category of the 1990 *Business Insurance* Employee Benefits Communication Awards competition.

Although the Chicago-based shipping, liquid storage and leasing company was doing well financially, rising premiums because of soaring medical costs from its health plan were starting to eat into the company's profit, said Roland I. Finkelman, vp of human resources at GATX.

GATX was very concerned that its employees understand the motives behind the changes that were made on July 1, 1989, said James Herbert, director of employee benefits at GATX.

"It was very important for us as we were planning the video that we get our message across. Because we were changing our benefits, we were concerned that it could be looked at by the employees as a benefit takeaway," he said.

There were several changes in the GATX health care plan that the company needed to communicate:

- Deductibles for employees enrolled in the company's medical indemnity plan increased to $200 from $150 for individual coverage and to $600 from $250 for full family coverage. The company also created a $400 deductible for employees opting for coverage only for themselves and their spouses.
- An optional preferred provider organization was being implemented. Employees who use network providers are subject to a 10% copayment after deductibles, while employees who use non-network providers are subject to a 20% copayment after deductibles.

Employees may switch between the company's indemnity plan and one of the health maintenance organization options every three months.

- Employees enrolled in one of the company's HMOs have to contribute 10% of the cost of coverage. Employees previously paid "little or nothing" toward the cost of HMO coverage, depending on the premium charged by an HMO, according to Mr. Herbert.
- A utilization review program was being implemented for employees.
- For employees who retire on or after Feb. 1, 1991, the insured retiree health care plan will pay a fixed-dollar benefit.

For current retirees and employees who retire before Feb. 1, 1991, the plan will continue to pay 90% of all retiree medical expenses.

While most of the changes that were made were implemented to help manage costs for GATX, some changes will help employees save money. Those include the introduction of:

- Flexible spending accounts to which employees can make pretax contributions to pay for health

Continued on page 6

EMPLOYEE BENEFITS BULLETIN:
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WHILE SPARTAN EMPLOYEES ARE CONCERNED WITH SAVING LIVES, WAUSAU'S CONCERNED WITH THEIR LIFE SAVINGS.

The people at Spartan Motors build a very important piece of equipment — fire truck chassis.

They shouldn't be distracted by the administration and paperwork that accompany most employee benefit plans.

"With Wausau, we don't waste time worrying about how we're going to administer our 401(k) or our profit-sharing plan. Or, how our workers compensation claims are being handled," says George Sztykiel, President of this booming Charlotte, Michigan, manufacturer. "Wausau does their job, and we do ours. We've been with Wausau for 15 years. We value their stability and their predictability. And we don't take their performance for granted. We periodically shop around to see how they compare. We've never been disappointed."

Spartan Motors concentrates on building custom truck chassis, leaving administration of their employee benefits to Wausau.

A Wausau 401(k) gives Spartan employees a variety of investment choices.

If you're like most business people, managing your company is enough to keep you busy. Let Wausau manage your employee benefit plans.

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Employee Benefits Communication Awards

Audio-visual

Continued from page 4

care costs not covered by their health care coverage from GATX.

• A mail order prescription drug program. Employees and beneficiaries who must take one or more prescribed medications over an extended period pay $9 for each 90-day supply. Filled prescriptions are mailed to the home within seven to 10 days.

Mr. Finkelman said the company believed the video was the best medium available to explain the benefits changes and the rationale behind them.

"The advantage of the video is that with it we were able to give the rationale and the logic behind the changes in the most polished and the strongest way possible," Mr. Finkelman explained.

In addition, the video allowed GATX to better explain the benefit plan changes, Mr. Herbert said.

"It enabled us to get past why we are doing this and get to what the changes were and how we were going to administer them," he said.

Therefore, for GATX, the most important aspect of making the video was writing the script. The human resources staff spent many hours going over the text with its benefit communications consultant, Ross Miller of the Chicago office of TPF&C, a unit of Towers, Perrin, Forster & Crosby Inc.

Mr. Miller suggested that management deliver the most important portions of the presentation to help give them credence and to emphasize that the changes were carefully considered.

Following meetings with human resources staff, Mr. Miller thought the speakers in the video should sound as genuinely concerned about the changes in the company's health plan as they did during the meetings.

So, he incorporated many of the quotes he had secretly jotted down during the meetings into the video script.

Mr. Miller did not tell the staff that he was going to do that before the meetings on the project because he "didn't want them to start thinking about being quotable," he said. "I wanted it to be natural."

As a result, the speakers in the video come across as presenting a "dead honest approach" to the issue of controlling increasing benefit costs without compromising the quality of the benefits themselves, Mr. Finkelman said.

Five versions of the video were made: one for each of the four GATX operating companies, with the chief benefits officer for the individual companies opening the presentation; and the corporate version, with Mr. Finkelman as the first speaker. However, Mr. Finkelman was a featured speaker in all of the videos.

In the opening of the videos, the benefit officers frankly state that growing health care costs no longer allow GATX to continue offering the same level of benefits.

Then, two narrators explain briefly each of the changes in the overall health plan.

In addition, Mr. Finkelman explains the relevance of each change and what it will mean to employees and the company.

"GATX cannot continue to pay future increases in these costs. The company must effectively manage its share of these costs just as it manages any other cost of doing business," Mr. Finkelman says.

Mr. Finkelman also states the heart of the issue in terms that everyone can understand: "If you tried to carry auto insurance that covered every scratch and parking lot bump, you couldn't afford to pay the premium. But, you could afford the cost of coverage that protects you against the cost of a major accident."

The presentation concludes with a statement from GATX Chairman and President James J. Glasser, who reiterates the importance of the changes and the how the company decided to make those changes.

A major portion of the videos are the various GATX officers speaking about the benefits changes. Graphics were used minimally, and those were simple charts showing how medical care costs have outpaced the overall inflation rate over several years and illustrations listing the benefits changes.

> **The video allowed GATX to better explain the benefit plan changes, Mr. Herbert says.**

The program was purposely kept simple and very low-key so the importance of GATX's message would not be lost in a glitzy, high-tech graphics production, Mr. Miller explained.

"Oftentimes, production values distract from, rather that enhance, the central message," he said.

When making the video and deciding on format and graphics, the producer must ask himself: "Do those techniques help relay those messages?" Mr. Miller said.

"We didn't go overboard with a lot of glitz and flash because we didn't think it would be appropriate and felt that it would have undercut Mr. Finkelman's credibility," he said.

GATX was pleasantly surprised to find that its employees responded positively to the video and the benefits changes it outlined.

"We were delighted that so many people understood the concept behind the changes that were made," Mr. Finkelman said. "We found out that our employees were better read on this subject than we had anticipated."

And, "our employees were pleased that we invested time and money to relay this message to them, because it made them feel that they meant something to us," he said. The video cost $100,000 to produce, or about $40 per salaried employee, according to Mr. Herbert. ■

THE HOM

OLD PROS ON

Employee Benefits Communication Awards

Bankers Trust, airline videos lauded

Audio-visual presentation runners-up

The runners-up in the audio-visual presentation category are:

• Second place: Southwest Airlines Co. in Dallas.

The airline, noted for its youthful employee population and "fun-loving culture," needed to encourage employees to think seriously about benefits when it recently began offering a flexible benefits program as an alternative to its traditional indemnity plan (see story, page 10).

Using Southwest employees from various airline operations, the company produced a video parody of a morning TV talk show—the centerpiece of a benefits communication program that also included a mock-up of newspaper USA Today.

• Special award: Bankers Trust Co. of New York.

After introducing a new pension plan in November 1989 that was not integrated with Social Security benefits, Bankers Trust needed, in a relatively short time, to replace its Benefits Orientation video to reflect the changes. The company's old plan was integrated with Social Security.

All new hires are shown three videos: one on the company's history; another suggesting how to function effectively at Bankers Trust; and the third outlining the company's benefits programs, including a timetable of eligibility.

Having learned from previous benefit communications efforts that new hires tend to be fidgety and nervous, the human resources department wanted a video that would hold their attention for 40 minutes and succinctly explain the new retirement plan and other employee benefits, said Ellen Hughey, a vp in charge of employee benefits.

"We wanted to do something different while covering all the benefits bases," she said. "We decided on a humorous route."

With only six weeks to complete the project, including casting for actors and actresses, another challenge was to find a cost-effective way to communicate the message, said Larry Voigt, the art director in a three-person consulting team from TPF&C, the actuarial and benefits consulting division of Towers, Perrin, Forster & Crosby Inc.

With time and money both running short, the consultants decided the best approach was "recycling thematic graphics from the employee handbook and enrollment materials" in a video format, said Mr. Voigt.

'We wanted to do something different while covering all the benefits bases,' says Ellen Hughey.

First, the consultants wrote a series of vignettes humorously depicting the ways employees might use their benefits.

Next, an illustrator created several "highly stylized" black and white backgrounds such as a doctor's office, a living room, and a backyard, an approach that helped to minimize costs. One camera was used to film the backgrounds, while a second filmed the actors and props. The two scenes later were electronically merged, Mr. Voigt said.

"It also enabled us to create the illusion that the on-screen narrator was interacting with the 'employees' in the vignettes, when in fact, they were shot in two different studios," said Mr. Voigt.

In one scene, a patient nervously waiting in a dentist's office says, "Going to the dentist is a concept that I've always had trouble with. I mean, why should I have to pay my hard-earned money to a stranger so he can torture me with all those little tools?"

As drills whir in the background, she continues: "Dentists love to drill, especially if you are late paying those bills.

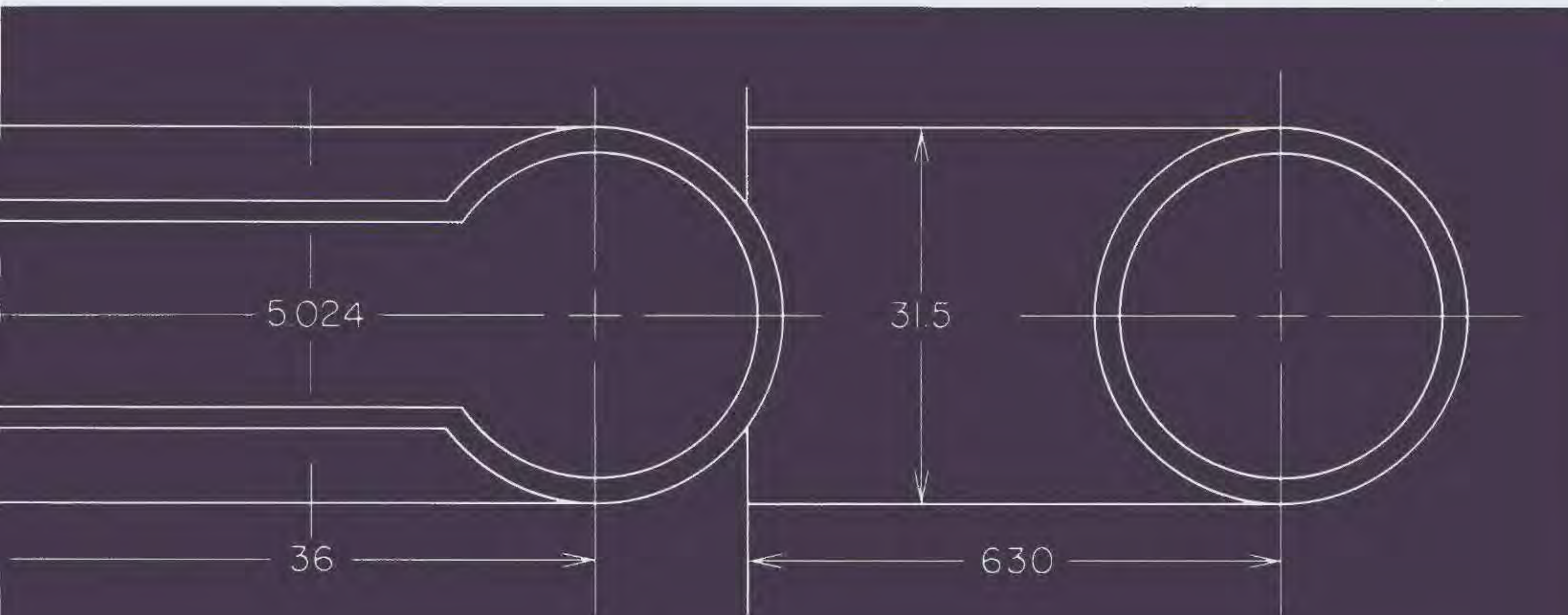
"But I don't have that problem anymore since I've enrolled in the Bankers Trust dental plan. I only pay a $25 deductible and all my diagnostic and preventative care are covered at 80% up to a maximum of $250 a year."

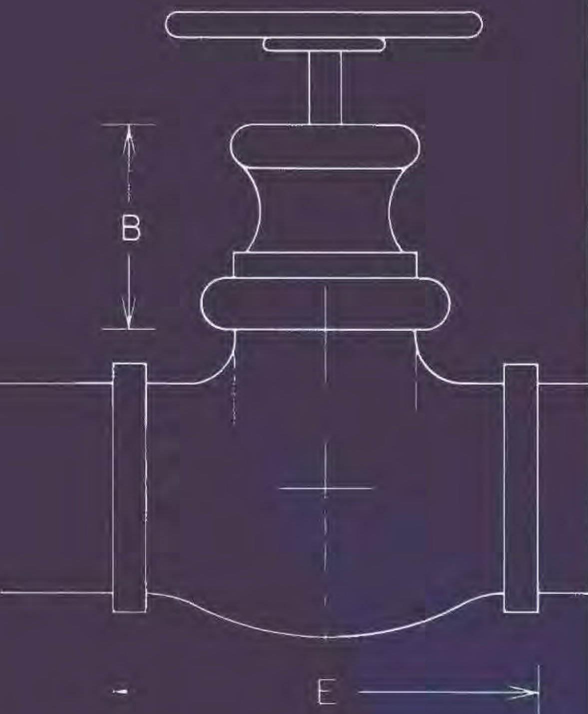
The initial response from employees to the video has been very positive, said Ms. Hughey. "New hires, expecting a standard benefits orientation presentation, have reported that the video's offbeat humor is a fun way to start their Bankers Trust career."

Producing the 12½-minute video in six weeks cost $100,000. It was distributed to orientation specialists at all 15 U.S. Bankers Trust offices.

—By Collin Nash

E TODAY





She earned her stripes in pipes.

When we made Jan Noll the head of our Jackson, Mississippi branch, it didn't catch anybody by surprise, exactly.

Trained to be a schoolteacher (in Latin and English, no less), she'd proven herself exceptionally good with people.

Indeed, Jan acquired a small army of admiring colleagues during her 15 years at The Home. And meantime, she managed to underwrite everything from pipelines to the world's largest catfish processor.

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A NEW TEAM

Opinions

Excellence in communication

EVERYONE AGREES that employees need to understand their benefits to fully appreciate their value and to use them properly.

Yet too many employers continue to do a poor job of explaining benefit plans to employees.

If your company does not effectively explain its employee benefit plans, take a cue from the 21 companies whose communication programs are described in this week's issue. They are winners in the 18th annual *Business Insurance* Employee Benefits Communication Awards.

Business Insurance sponsors these awards to recognize excellence in employee benefits communication.

The winning programs range from booklets to videos to multi-media presentations.

It's important that employees fully appreciate how much their employer is spending on employee benefits, not only for the employer to receive the credit it's entitled to, but also to retain good employees.

Employees may be attracted to another employer where benefits are perceived to be more valuable simply because they are better explained.

In addition, good benefits communication programs mean employees get the most out of their benefit plans. Participation in a 401(k) savings plan can almost be guaranteed to go up if the plan is better explained to employees.

Sometimes, the benefit news that has to be communicated is not good news, like increased cost-sharing under the group health care plan. But employees who understand why their costs are going up not only will better accept the change but also are likely to become better health care consumers.

We hope the *Business Insurance* Employee Benefits Communication Awards will motivate other employers to improve their employee benefits communication programs. Those who deliver new campaigns to employees by next spring may enter them in next year's competition.

Letters

PRIMA seeks recognition

To the editor: As a subscriber, risk manager, public agency representative and president of the Public Risk Management Assn., I was very disappointed with *BI*'s recent and historically limited coverage of the PRIMA annual conference (*BI*, June 25).

The 1990 conference attracted more than 1,300 registrants from both the public and private sectors, not including the many exhibit hall staff members, speakers, spouses and others. Ninety-five risk management consultants, third-party administrators, brokers, insurers and various other vendors exhibited at PRIMA this year.

We have many members from both government and the insurance industry who subscribe to your magazine and recognize it as the industry's leading trade publication. Several of these subscribers have commented that *Business Insurance* is doing a serious disservice to its readers by failing to cover the PRIMA conference in more depth. PRIMA is the second-largest risk management organization in the world and as one attendee from a major brokerage firm put it, we are a "major industry event."

Business Insurance does not seem to view PRIMA in the same way. Only one reporter was sent to cover the more than 80 sessions offered—obviously an overwhelming task for any one individual to adequately complete.

This is certainly not to say that PRIMA should receive top billing of any conference, symposium or meeting you cover, but based on our size, program and the importance we play in the insurance business and risk management community, PRIMA should engender more recognition.

Risk management and intergovernmental pooling in the public sector is growing by leaps and bounds. This year's conference attendance was up 30% over 1989. Much of this growth was attributable to insurance industry professionals who have recognized the need to keep abreast of risk management and insurance issues, including intergovernmental pooling, in the rapidly evolving public sector arena.

As the number of products and services available to the public sector increases, industry professionals realize the growing importance of learning about public sector risk management in order to attract and service clients more effectively. *Business Insurance* should likewise realize that the public sector is often forced to handle risk management problems in a more creative fashion due to services which must be provided to the public, while the private sector can eliminate, or avoid, a risk which it deems unprofitable.

I would hope that *Business Insurance* will consider expanding its coverage of the PRIMA conference next year.

Tom Phillips
Risk Manager
City of Santa Monica, Calif.
President

Adjusters devoted to aid claimants

To the editor: I know J.R. Kreider, who authored "Changes Needed in How Insurers Manage Claims" (*BI*, July 16), has a service to sell and it may well be needed, but he starts from a false premise when he says there are "only a handful of claims adjusters and supervisors specializing in workers compensation who treat the injured worker in a non-adversarial way. For the most part, when a worker is injured. . .all efforts are exhausted to deny the claim, deny the disability and avoid payment before any effort is made at case management."

I can assure you (and him) that the major companies and adjusting firms train their people that workers comp is a social program run solely for the benefit of the injured worker. These workers are taught that the best thing they can do for an injured worker and their employer is to pay him what he's due, see that he gets the medical attention he needs and do what they can to get him back into the workforce as promptly as possible. Adjusters are trained that to do otherwise is contrary to company policy, the rules of the state's workers compensation board or commission and possibly the Unfair Claim Settlement Practices Act. Then they are told how many cases they must handle.

The majority of cases close within a few weeks. Many that remain open do so because they did not receive the attention they should have and Mr. Kreider's points in this regard are certainly valid. But the causes for the lack of attention lie not in the attitude of adjusters but in the staffing and workload policies of their employers.

E.E. Morgan
Manager-Claims Analysis/
Investigation Division
Surplus Lines Stamping Office of Texas
Austin, Texas

Value of LUI assets clarified

To the editor: In your article on London United Investments P.L.C., you referred to the prospective sale of a number of investments held by LUI; in particular, First Reinsurance Co. of Hartford Inc., Oland International Cos. Inc. and ABC Insurance Services Ltd. (*BI*, July 30).

The article referred to valuations of those investments.

However, the amounts shown are the amounts at which the investments are held in the books of LUI. These amounts may vary significantly from market values.

C.G. Bird
Joint Administrator
London United Investments P.L.C.
London

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611.

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Employee Benefits Communication Awards

Parodies promote airline flex plan

By SAM CRISTY

Southwest Airlines Co., noted for its 1970s television commercials featuring stewardesses in short shorts, continues its playful style today in promoting its flexible employee benefits program.

The Dallas-based company took chances by promoting its redesigned employee benefits program—including a flexible benefits plan designed to reduce the company's health care costs—through parodies of newspapers and morning news shows, said Mark Schumann, a communications consultant for William M. Mercer Inc. in Dallas.

If employees thought they were trite, the effort would actually turn workers away from the communications effort, Mr. Schumann explained.

But, the gamble is paying off. About one-fourth of the airline's employees have opted to enroll in the flex plan, and more are expected to sign-up next year, according to Libby Sartain, director of benefits and compensation for the airline.

The communication effort won Southwest Airlines first place in the total benefits communication program category of the 1990 *Business Insurance* Employee Benefits Communication Awards competition.

Ms. Sartain said she knew from the beginning that communicating the airline's new benefits program would require careful navigation.

Under the flex benefits portion of the plan, called BenefitsPlus, there are four medical plan options; a dental care option; a vision care option; a dependent-life insurance option; two long-term disability options; life insurance from one to three times annual pay; accidental death and disability coverage up to $1 million; and two pre-tax spending accounts.

But, communicating employee benefits in a fashion that was "fun but not trite" was an interesting challenge for Ms. Sartain, she said.

When developing the communications program, Southwest sought the advice of 700 employees in seven cities.

BenefitsPlusToday

Southwest Airlines announces on-time arrival of BenefitsPlus

"They wanted the information to feel current," Mr. Schumann said. "We knew immediately what we had to do," he noted, referring to the presentation of benefits information in a news media format.

"We have a lot of people who were not aware of the benefits under the current plan," Ms. Sartain said.

"We had the standard insurance company booklets that everybody had, but nobody read them," she pointed out.

In April, the airline sent "BenefitsPlus Today," a 20-page paper patterned after USA Today, to the homes of Southwest's 8,000 employees.

Employees find the newspaper format less intimidating than either booklets or brochures, Mr. Schumann explained.

Horoscopes, weather maps, advice columns, editorial cartoons, a crossword puzzle and advertisements in the paper all promote BenefitsPlus.

"You can get so much information in a limited number of inches," Mr. Schumann said. "It's all giving you information about benefits, you just don't realize it because it's so funny."

The newspaper format also gives the airline a convenient format to keep employees apprised of changes in the benefits program, Ms. Sartain said.

In addition, in an effort to motivate workers to read the newspaper, the airline attempted to catch the attention of its widely dispersed workforce in the 31 cities it operates by showing a humorous 35-minute video on BenefitsPlus continuously in high traffic areas in airport terminals.

It was a good tool for reaching employees between flights, Ms. Sartain said.

If workers saw the video, it pulled them into reading the newspaper, Mr. Schumann said.

The video, a one-time effort, incorporated many of the same techniques as the newspaper.

The first portion of the tape was fashioned after a morning television news program, and the second outlined the nine steps of the enrollment form.

"I think we took a lot of risks with this package," Mr. Schumann said.

For example, not many employers include "satellite" interviews with the chief executive dropping one-liners about the "elderly status" of the vp of personnel at the same time the company is telling employees that benefit costs must be controlled to remain competitive by keeping air fares low, he said.

"We learned the benefit of letting benefits have a sense of humor," Mr. Schumann said. "Because when we went back we found that what they laughed at, they remembered."

Although she would not disclose how much the project cost, Ms. Sartain said the cost of the video would have been lower if the airline could have brought employees into one room to view it. But "an airline is not able to do that," she said.

"Videos are for special occasions —they are expensive. Not every company needs to spend money on a video," she said.

Mr. Schumann, though, disagreed with Ms. Sartain on the importance of videos.

"I haven't done a project in the last three or four years that has not involved a video," he said. "I think video is the key medium for communicating benefits."

Before Mr. Schumann joined Mercer in July, he spent six years with TPF&C, a consulting division of Towers, Perrin, Forster & Crosby Inc., and managed employee benefits communications for the now defunct Frontier Airlines Inc. of Denver.

As more employers begin using videos to communicate their benefits programs, the presentations will have to stretch the limits of conformity to maintain their appeal, he suggests.

"You have got to dig deeper and find ways to keep it creative," Mr. Schumann said. "It's got to compete with what they watch on television," he said.

"In fact, the Southwest video is where we see video going," Mr. Schumann added.

A month before the enrollment deadline, Southwest held 135 meetings at 40 locations nationwide to answer employee questions and help them enroll. A toll-free hot line was set up to answer benefits questions, and the airline offered a free-flight incentive for early enrollment.

Considering workers could choose a traditional plan with no loss in benefits, response to the project has been "absolutely phenomenal," according to Mr. Schumann.

Half of the company's employees returned enrollment forms, with 25% enrolling in the flexible benefits program, Ms. Sartain said. Enrollment would have been higher had the program not started in the middle of the year, when many employees had already met the deductibles under the old program, she said.

"We were really hoping to get about 40 percent, and I think we will" when the program renews in January, Ms. Sartain said.

Ms. Sartain would not discuss the costs of the communications program beyond saying it was under budget.

"Everything we budgeted to spend on the program we expect to recoup through savings" on health care expenses due to the flex plan, she said. "Any company of any size can offer a flex program."

Southwest—which spent $13 million on health care in 1989 and projects its 1990 tab will exceed $15 million—estimates the flex plan will cut health care expenses 6% annually. ■

4 firms honored for total effort

The runners-up in the total benefits communications category are:

• Second place: A tie between Minnesota Mining & Manufacturing Co. of St. Paul, Minn., and Reebok International Ltd. of Stoughton, Mass.

Informing without overwhelming was 3M's biggest challenge in explaining the transition to a flexible benefits program to its 43,000 employees, said Donald Kissack, benefits director for the manufacturer.

"This was something new for them—making their own decisions based on their particular situation," Mr. Kissack said. "Up until that point we had a fairly passive benefits program."

All employees, from warehouse workers to board members, were led step-by-step into the "It's Your Choice" flexible benefits program by more than 12 packages of newsletters and brochures as well as a color-coded filing folder.

Three years and $2 million went into developing and implementing the campaign, which included two videos, computer-enrollment software, a telephone hot line and three poster designs.

The manufacturer's "paternalistic" management style dictated the thoroughness of the campaign, said Joe Hasenmueller, a project manager with Maritz Communications Co., the St. Louis-based "performance improvement" consultants hired by 3M.

"There is selective redundancy in those communication pieces to insure that people got the message," said Mr. Hasenmueller. "Very

Continued on next page

Meet the Challenges of Health Care in the Next Decade

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Employee Benefits Communication Awards

Continued from previous page

often they are going to make the decision of what benefits they are going to opt for over the kitchen table."

Bruce Peterson, 3M's flexible benefits manager, said that the variety of media was intended to meet the needs of a diverse workforce. In addition to the communications materials, the company trained 450 employees—both managers and staff—to provide instruction and a personal link for employees.

Ninety-nine percent of employees turned in enrollment applications on time and with fewer errors than expected.

Only 11% of applications contained errors, in contrast to the 30% that is common among companies introducing a flexible benefits plan, according to Mr. Hasenmueller said.

Despite the limited use of color and more than 100 pages of material available, a company survey reports that 98% of employees have kept the benefits file folder almost a year after distribution.

"We worked very hard not to make it intimidating," Mr. Kissack said, commenting that many employees still bring the folder and other materials to benefits advising sessions.

In contrast, Reebok International Inc.'s campaign, also to explain flexible benefits, was designed to stop its 1,200 employees in their tracks with a brightly colored package of newsletters, a video and a pop-up postcard proclaiming, "Express Yourself."

The program, which cost $200,000 and was developed in nine months, started with no explanation, simply two wall-sized graffiti boards that invited employees to "express themselves" with markers, crayons and paint.

"The program is not traditional, the company is not traditional, so we didn't want the campaign to be traditional," said Leslie Abrahamson, Reebok's senior benefits analyst.

"You know benefits are not really the most exciting thing to talk about," she said. "If the employees don't understand and are not excited about the program, it is not going to work."

The suspense drew unsuspecting employees into Reebok's new interactive employee benefits program, said the project's manager, communications consultant Betsy Rands Taylor at Hewitt Associates in Lincolnshire, Ill.

A week after the graffiti boards were posted, employees were mailed the pop-up postcard, enclosed in a bright pink envelope. The card, inviting them to participate in the new benefits program, was made of water-color paper splashed with wild brushstrokes of red, teal and purple.

Uniquely folded and similarly splotched newsletters followed the invitation each week for five weeks preceding enrollment. The first was an overview and the following newsletters described the medical plan, the dental plan, accidental death and dismemberment insurance and reimbursement accounts.

"One of their perceptions at Reebok is that their people just really weren't going to read a lot," Mrs. Taylor said.

"It's certainly the shortest flex program I have ever done and perhaps in the history of the firm," she said. "It's opening a lot of doors and a lot of minds."

Even though more conservative companies may not adopt the Reebok campaign, they like the "splashy" nature of the campaign, she said. For example, one petroleum firm is considering taking a splashy communications approach, she said.

- Third Place: Hewitt Associates in Lincolnshire, Ill.

Before introducing "A Better Fit," a new flexible benefits program. the consulting firm often felt like a shoemaker's child, says Wendy Rhodes, a Hewitt consultant and project manager for the firm's own flexible benefits campaign.

"Everybody else had great looking shoes and sometimes we were barefoot," Ms. Rhodes said.

Dave Wille, Hewitt's director of human resources, said that the program proved not only to be a model of the firm's quality but also its efficiency, having been produced in only four weeks. Clients usually are advised to allow four to six months for production, he said.

A gray cover breaks little new ground as previous benefit packages were done in beige and other neutral shades. But the new guide opens to a spectrum of color that continues each of its chapters. The first line says, "Sometimes what seems simple on the outside isn't all that simple on the inside."

The communications package included a rewrite of the benefits guide, a personalized benefits report, a report confirming employee selections and five newsletters delivered through internal mail.

A tight production schedule pushed costs up, said Mr. Wille. But the tab remained below $500,000 to develop and deliver the package to 4,000 U.S. and Canadian employees.

Hewitt never expected to save money with the flex program and actually anticipated paying more to offer improved benefits, he added.

- Special Award: Security Pacific National Bank in Los Angeles.

Believing that retirees are just as entitled to the latest advancements in benefits programs as active employees, Security Pacific has instituted one of the country's first flex programs for retirees.

First Vp David Chandler said that with a flexible benefits program already in place for more than 40,000 employees, it seemed

Continued on next page

Gerald D. Stephens, CPCU
President & CEO, RLI Corp.

"Why does turnaround for an insurance policy have to take 60-90 days? At RLI, it takes fifteen."

Without doubt, there's no industry that comes closer to touching the lives of every citizen of our country than the insurance industry. And yet, most consumers believe insurers are ripping them off. A recent Gallup poll found that more than two out of three respondents think P & C insurers earn "excessive" profits, but fudge figures to hide profitability.

Now, we all know that, in fact, insurance companies are less profitable than other kinds of companies and our state regulators and public accountants aren't going to let us "fudge" the numbers. Where does this misperception come from? And more importantly, what can we do to change it?

I think the answer to both of these questions boils down to one word: *service*. It's service, or the lack of it, that causes consumers to be disillusioned and it's service that can change that disillusionment into satisfaction.

When I take off my hat as "insurance company president" and put on my "insurance consumer" hat, I'm appalled by what I see. I buy a commercial policy and it takes three or four months to get it. When I get it, my college education isn't enough for me to wade through the confusing verbiage. It's about time we started doing something about consumers' problems. It's time we started to demonstrate our care and compassion through our service. At RLI, that's just what we're doing. And we begin with fast service. There's no reason policy turnaround should be as high as 90 days. Our underwriters consistently succeed in making that figure fifteen days. Why can't other insurance companies do the same?

Speed isn't the only thing we're concerned about at RLI. Compassion and caring are what this business is all about. We need to be there, showing our support when our customers' business or home burns down. We need to work to change the 300 year old tort system that ends up making the insurance company the ultimate loser. We need to let the public know what the insurance industry does for their safety and well-being. Work with RLI in making the changes we need to make. I challenge you to be the best you can be.

RLI

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Employee Benefits Communication Awards

Total program

Continued from previous page
only fair to offer a similar program to approximately 7,000 retirees.

"Our basic feeling was that if we could offer this to our existing employees and not cost us anything, then why not offer it to them (retirees) as well," said Security Pacific's Mr. Chandler.

Produced in six months, the campaign included an announcement brochure; five newsletters; a 100-page handbook; a color-coded personal information kit outlining the individual's health and life insurance profile; and a long-term care packet including enrollment forms.

The campaign, "New Dimensions in Retirement," included such special features as large print for easier reading and a portfolio with the first newsletter for easy organization and storage of succeeding materials.

Paul Sanchez, director of communications consulting for The Wyatt Co. in San Diego, said the biggest challenge was reaching the retirees, who were dispersed nationwide.

"With active employees you have to work very hard to capture their attention, whereas the retirees were, we learned, very much interested in all the details and all the fine print," the consultant said.

"Once we got to them, we had their full undivided attention," added Mr. Sanchez.

According to Mr. Chandler, the program took five months to develop and cost approximately $155,000, including various expenses for 124 instructional meetings for retirees held nationwide.

—By Sam Cristy

Low-tech campaign, high-impact results

American Stores tops multi-media

By ADRIENNE C. LOCKE

Many companies that want to promote employee contributions to their 401(k) plans turn to high-powered consultants with far-flung offices and abundant technical resources.

American Stores Co.—a grocery and drug store company based in Salt Lake City—brought in the real big guns: an animated neighborhood grocer named Uncle; Greg Miner, a fictitious employee struggling to make ends meet; and Tomorrow, another character who returns from the future to counsel Greg on his savings plan.

Those three characters are the soul of a multi-media campaign credited with helping raise the company's overall 401(k) plan participation rate to 73.5% from 68.5% since May 1989.

The in-house effort also helped raise some contribution levels significantly, the company says.

Creating a simple, basic message about saving for retirement landed American Stores first prize in the multi-media program category of the 1990 *Business Insurance* Employee Benefits Communication Awards competition.

While avoiding intimidating technical jargon, the company wanted to encourage participation among the 48,000 of its 160,000 employees who are eligible for the American Stores Retirement Estates savings plan begun in 1985.

"The simpler, the better. The simpler the video, the simpler the annual report, the simpler the message, the easier it is to get our message across," said Marla Hunsaker, manager of benefits accounting and compliance.

"Our biggest concern was to let people know what a great plan this is, and to get them to contribute as much as they can," she said.

American Stores—parent of Jewel Food Stores, Osco Drug Inc. and other retailers—is one of the nation's largest grocery companies.

It makes annual contributions to the accounts it automatically opens for all eligible employees. But the company contributes more for employees who set aside money themselves, so this campaign tried to encourage active participation, Ms. Hunsaker said.

To be eligible for the plan, full-time employees who are 21 or older must have worked at least one year continuously and part-time workers need at least one year of service of at least 1,000 paid hours.

Full or part-time employees under age 21 become eligible after two years.

Union members can participate only if the collective bargaining agreement covering their particular union specifically allows them to do so.

Because the matching contribution is attractive—about 46 cents for every $1 an employee puts in up to 6% of pay in 1989—"we tried to encourage employees to contribute themselves because they can get a larger piece of the pie," said Ms. Hunsaker.

Commitments like saving for a house preclude contributions from some employees, she said. And others just don't understand the plans or don't have the extra money to contribute.

Many, however, want to save for retirement but doubt they have the resources, she said.

That's where Uncle, Greg Miner, Tomorrow and the American Stores savings plan come in.

A first-class mailing describing the plan was sent to employees in February 1989, but not before two employee groups had previewed the campaign's centerpiece.

"If Tomorrow Comes," an 18-minute video in which the characters make an emotional plea to consider the savings plan, didn't fare well with managers. Juvenile, it drags on, generally boring, said the critics.

Then a rank-and-file group previewed the video. American Stores knew right away it had a winner.

"They loved it. They said it was great, and that it really made them feel that they need to contribute to the plan," said Ms. Hunsaker.

Greg Miner, the main character, is an American Stores employee visited in the middle of the night by a future version of himself named Tomorrow.

Tomorrow tells him about the money the company will add to what he has saved. The catch, of course, is that Greg hasn't been saving and doesn't think he has any extra money to begin.

To that, Tomorrow responds: "Yeah, that's what some others think, too."

After explaining the idea behind saving money and the 401(k) plan, Tomorrow takes Greg to meet Yesterday, a past version of Greg, who shows Greg that he does have some money he should be contributing to the plan.

On the way to the ASRE "estate," Greg and Tomorrow meet Uncle, the character who represents the plan and oversees maintenance of the other employee accounts.

Employees are told that contributing as regularly as one pays the electricity or phone bills amounts to "paying yourself."

At the estate, Tomorrow and Uncle explain to Greg the other plan benefits like choices in investment vehicles, hardship withdrawals and loans.

Even as Greg sees how he can save money through this plan, he realizes that he has missed out on the previous chance for large retirement savings.

Company representatives come to the estate to contribute to each employee account. But Greg knows they can give him nothing extra because he has not saved money on his own.

Greg begins to plead with the company for a second chance, then wakes up in bed with his wife asking him if he was having a bad dream.

"Well, I guess it's all in how you look at it," Greg says.

Before going back to sleep, he sees Tomorrow across the room reminding him that it wasn't a dream.

At some subsidiaries, one-on-one meetings between employees and benefits staffers follow the video screenings. Such sessions produce even higher contribution and participation levels at those locations, said Ms. Hunsaker.

American Stores attributes part of the program's success to its being done completely in-house. "We feel more comfortable with the product we have. Doing it ourselves, we feel that we get the product that we want," said Ms. Hunsaker.

"For us, it was the best way to go," she adds.

Most of the $60,000 to $70,000 the company says it saved by producing the $300,000 program itself came through using local writers. But the grocer also cut production costs by using the facilities of a subsidiary and paper costs by having the booklets printed locally, she said.

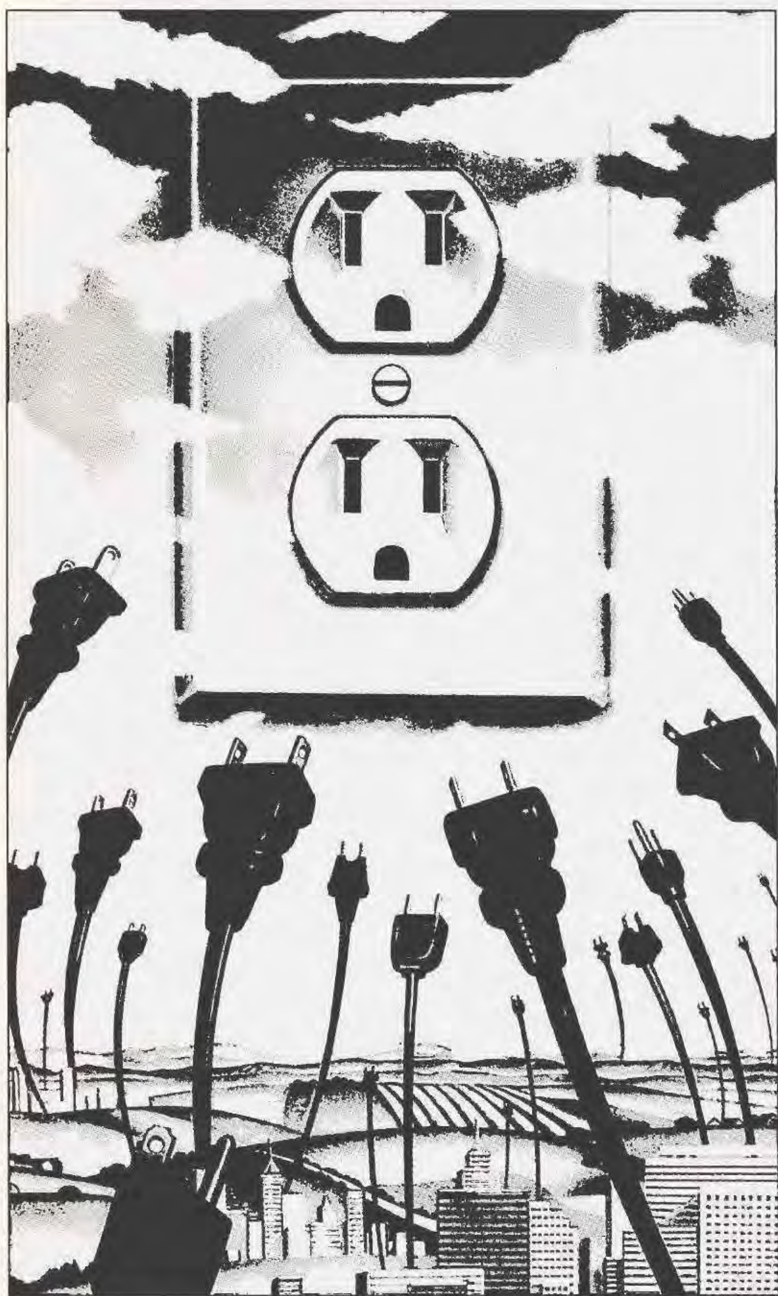
"We feel collectively that we have the expertise to pull this together," she said.

After the video release came the ASRE annual report, a booklet telling employees how to read their account statements. And information centers—a display rack of brochures, loan application forms and other plan documents—were sent to each worksite.

Uncle, the neighborhood grocer, also appeared on promotion posters sent to American Stores worksites. Slogans included: "When Tomorrow Comes. . .You'll Be Ready"; and "Personal Deposits Are The Key To A Superior ASRE Estate. Are You Depositing All That You Can?"

For American Stores, promoting the savings plan is an ongoing project, says Ms. Hunsaker. "Each year we re-evaluate and improve our presentation."

Another video emphasizing employee contributions is to be distributed later this year. And the company is reviewing employee surveys designed to detect any weaknesses in the communications program. ■



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Employee Benefits Communication Awards

2 runners-up in multi-media program group

The runners-up in the multimedia program category are:

• Second place: Shell Oil Co. in Houston.

Quality assurance, not cost-cutting, was the focus of Shell's message to employees when it introduced a managed care network for most workers July 1.

Rather than concentrate on the challenge to curb health care bills, Shell wanted to alleviate employee concerns about choice and the affordability of quality care, said Richard Bevins, manager of personnel and compensation.

"Certainly costs were a factor," in replacing the traditional indemnity plan with a point-of-service managed care network, he said. "But we wanted to make sure whatever we did, we offered quality care at a reasonable cost."

In addition to offering written materials, the company conducted nearly 1,000 meetings around the country for 35,000 employees. Employees watched a video and slide show about the Shell Hospital Surgical Medical Plan and the importance of quality health care. Employee relations directors were present to answer questions and distribute enrollment forms.

"We felt in addition to written communications, we really needed face-to-face meetings so employees could get involved," Mr. Bevins said.

Employees, spouses and retirees eligible for the plan received a pamphlet in October 1989 saying that Shell was considering starting a point-of-service managed care network. That pamphlet also announced that the company was switching health insurers from Travelers Corp. to Metropolitan Life Insurance Co. of New York.

Shell early this year decided to go with a point-of-service managed care plan, Mr. Bevins said.

New York-based consultant Towers, Perrin, Forster & Crosby Inc. helped design the plan and the communications effort. In January, Shell mailed a brochure highlighting the plan to all eligible employees and retirees.

About 75% of Shell employees live in areas covered by a MetLife network, noted Russ Dennis, employee relations associate. Similar benefits are available to employees who do not live near a network provider.

Shell explained the network concept to all group health plan participants and said the network could provide quality, affordable care, Mr. Bevins said.

The 10-page brochure explained Shell's goals for implementing a network and contained several charts designed to illustrate coverage characteristics. Examples of the need for medical care were presented, followed by a chart listing expenses that might be incurred and how much employees would be responsible for in and out of the network.

In April, Shell began showing the video, produced by TPF&C, to employees around the country.

The 15-minute video was divided into three segments, the first of which shows excerpts from two employee focus group discussions on the quality and cost of health care and the importance of having a choice of providers.

"The video was kind of an icebreaker," Mr. Bevins said. Shell used a cross-section of employees, rather than only senior executives, because the company felt audiences would relate better to them.

The second segment briefly explains the new plan using computer graphics and a voice-over narrator.

The third shows excerpts from a focus group of MetLife network physicians.

Shell wanted to tell employees why physicians would want to participate in a discount network, Mr. Dennis said.

Where it was practical, employees' spouses were invited to attend the meetings. "We identified spouses early on as being a key audience," noted David Johnston, a TPF&C consultant in Houston. He said other projects had proven to him that "it is the woman in the family that chooses the doctors."

About 2,000 copies of the video were available for employees to take home.

Shell distributed an enrollment pamphlet at the meetings as well. The 24-page pamphlet is divided into five sections and a glossary and is designed to allow the reader to skip the sections that do not apply to him or her.

Mr. Dennis said the company wanted to give employees enough facts to let them make informed choices.

"It was a very honest communication—it was not a Madison Avenue sell-job," said TPF&C's Mr. Johnston.

Mr. Bevins would not comment on the program's cost, other than to say this was the largest program Shell has ever undertaken. He said the effort was "quite successful." In addition to converting indemnity plan members to a managed care network, Shell for the first time attracted about 12% of HMO enrollees to the new plan.

• Third place: Knight-Ridder Inc. in Miami.

Internal Revenue Service nondiscrimination tests issued in June 1989 found a disproportionate number of Knight-Ridder's highly-compensated employees participated in its 401(k) savings plan. The newspaper chain had to limit those employees' participation for the remainder of the year or fail the non-discrimination tests.

But rather than just explaining those restrictions to well-paid employees, the company wanted to encourage other, non-highly compensated employees throughout the country to enroll in the savings plan.

"We felt the non-highlies were missing an excellent program," explained Robert A. Barkin, manager of compensation and communications for the media company.

"My feeling was whether a person wanted to participate or not to participate is no business of the company," he said. "But it is the company's responsibility to make sure employees know about" the program "and understand it."

From two focus groups, Knight-Ridder learned that some employees did not know about or understand the company's 401(k) plan or couldn't afford to contribute, Mr. Barkin said. Based on that information, the company developed a theme: Even small weekly contributions could grow substantially

Continued on next page

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Multi-media

Continued from previous page
over time.

Publicity was left up to human resources directors at various Knight-Ridder locations.

Keyes, Martin & Gaby Inc., an advertising agency and graphic design studio in Miami, developed the print materials for Knight-Ridder. A brochure—"Build $10 a week into $100,000 with help from the company's 401(k) plan"—explained how the program works and two other brochures explained investment alternatives.

Trying to give the material a "human quality," Keyes, Martin & Gaby used illustrations and a "stylized cartoon character" to contrast with the relatively difficult concept of savings plans and investment vehicles, said Murray Gaby, president. "We didn't want people to throw the documents away—as they often do."

Materials, he added, had to be presented in a way that would appeal to the average person.

"The intent was to de-emphasize the need for sophistication to benefit from the program," Mr. Barkin said.

Knight-Ridder's benefit directors at the newspapers decided whether to send the materials to employees' homes or distribute them in newsrooms and production areas, he said.

Employees also viewed a video featuring the cartoon character.

A female character was added to the nine-minute video "for balance and because there would be a lot of females listening," said Marilynne Starr, a writer and producer with Media Design Inc., the Winter Park, Fla., company that produced the video.

Using cartoon characters instead of live people keeps audiences interested, she said. "You continue to hear the phrase 'Just $10 a week!' That's more memorable than listening to live people."

Videos are often used to reach audiences that do not absorb a lot from written materials. "People tend to tune these things out and we try to find a vehicle they enjoy listening to without tuning out the message," Ms. Starr said.

While the video contains the factual information found in the written materials, the cartoon characters add a humorous touch with their quirky voices and comments.

Some local human resources directors made attendance at the video showing mandatory, while others set up the program and waited for interested employees to drop by, Mr. Barkin said. "Trying to get people to the meeting is half the battle," he said.

Employees that did attend were likely to enroll in a 401(k) plan.

An informal survey found that enrollment rose about 10% to 60% for lower-paid employees after the communications program, though the company is hoping for better participation, said Mr. Barkin.

"We aren't going to get 100%" participation of non-highly compensated employees, "but we want to at least reach the national average" within two years, he said. Lower-paid workers' participation is usually about 70% in a plan similar to Knight-Ridder's, he said.

Mr. Barkin adds that the communication project cost about $45,000, but "you're talking close to 20,000 employees and that is not much per person."

—*By Christine Woolsey*

AT&T booklet, video aim to ease workers' minds

By SAM CRISTY

NEW YORK—American Telephone & Telegraph Corp. is softening its benefits communications package to not only explain recent dramatic changes, but to make union workers feel comfortable with them.

Explaining the changes and winning over union workers was a challenge, said Rebecca Parkinson, manager of employee benefits communication.

Other companies praise AT&T's new managed care network and its "Work and Family" benefits program. But some of its own employees never regained confidence lost when the government ordered the company split up in 1984, Ms. Parkinson said.

A 1989 contract with two major unions allowed the company to implement moderate health care plan cost sharing. The unions also agreed to the establishment of a managed care network, which AT&T unveiled last month (*BI*, July 23).

That labor agreement also included benefit improvements like: the establishment of flexible spending accounts for medical and dependent care; increases in the company match for 401(k) deferrals and defined benefit pension plan benefits; the establishment of a $5 million fund for child and elder care projects; and the introduction of one-year unpaid family care leaves as well as the extension of unpaid parental and adoption leaves to one year from six months (*BI*, June 5, 1989).

Central to the success of AT&T's communications—a booklet and a video—was instilling a feeling of continued strength and caring in an environment that resists change.

"There really was a message of caring amid a tough environment," Ms. Parkinson said. "A message that says the company is going to provide you with resources in your family life that are going to make your work life easier."

AT&T's "Work and Family" promotional booklet and video won first place in the special projects category of 1990 *Business Insurance* Employee Benefits Communication Awards competition.

AT&T and its in-house production staff worked on the package with four outside specialists: Hewitt Associates of Lincolnshire, Ill.; Designsmith, a four-person graphic design company in Arlington, Va.; and Polestar Films and Vern Oakley Productions Inc., both based in New York.

In its sixth year of doing AT&T benefit communications, Designsmith tried to create graphic images that were as innovative as the company's new benefits program yet maintain the form and subtlety of previous efforts, said Howard C. Smith, who founded Designsmith in 1980.

The program was introduced in December with a letter from AT&T Chairman Robert E. Allen and an overview booklet.

The 9-by-6½ inch booklet is designed to fit into a box of benefits booklets Designsmith has developed in its five years with AT&T.

Subtlety was maintained by using various parts of trees as a graphic thesis statement for the booklet, said Susan Angrisani, a senior designer at Designsmith.

However, opening the booklet with a quote from Mr. Allen framed by two blossoming dogwood flowers probably stretches the bounds of conformity set by the black-and-white and graph-laden benefits booklets produced by other corporations, she said.

"To be successful now and in the years ahead, we must be sensitive to our employees' family responsibilities as well as their job concerns," the chairman says in the opening.

"I thought it was a very big step for AT&T to take to put Bob Allen's name next to a blossoming flower." That graphic is "softer" than images major corporate directors are usually comfortable with, Ms. Angrisani explained.

The remainder of the 20-page booklet describes the "Work and Family" program benefits. AT&T's image as a "caring" company is promoted with soft-colored pencil and water color illustrations of family scenes.

Despite the softer style, Ms. Parkinson said she had no difficulty selling the idea to corporate board members.

"When employees pick up the

Continued on next page

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Continued from previous page
book and open it, it is very pleasing," Ms. Angrisani said.

Employee screenings began in February for a 15-minute video, also produced by Designsmith, explaining benefit changes.

Tie-ins to the booklet are obvious.

As light jazz plays in the background, the video incorporates many of the "soft" images found in the booklet. It opens with the same tree illustration seen on the cover of the booklet.

Just as each chapter of the booklet begins with an illustration of a different part of the tree, segments of the film describing each benefit change open with "portraits" relating to the benefit to be discussed.

A spot discussing the excused workday benefit for "personal emergencies" opens with a soft-focus still-frame shot of an AT&T employee who has left work to check on an elderly loved-one.

Fran McGuire, who has produced about 50 audio visuals in his 10 years with Hewitt Associates, said his main goal on this project was producing a tape employees and outside observers of the new AT&T program could both appreciate.

Many company videos incorporate more facts and statistics than viewers can absorb, he asserted. Audio visuals should introduce printed materials which contain program details, according to Mr. McGuire.

"Its the music and the pictures that people remember from the video," he said.

Company evaluations are not complete on the 30 small-group admission meetings scheduled in 15 states this year. But so far employee response to the program has been positive, said Vicky Banach, a work/family manager in the human resources department.

So far 3,000 employees have taken advantage of child/elder care reimbursement account, which permits them to set aside up to $5,000 a year on a pretax basis.

Ms. Parkinson would not reveal the cost of the communications effort, which was developed between June 1989 and January 1990. ■

Interactive communications, anti-drug use posters honored

The runners-up in the special projects category are:

• Second place: Aluminum Co. of America (ALCOA) in Pittsburgh.

Talking computers integrated with laser video disks offer 7,000 ALCOA employees at 10 plants the latest in interactive employee benefit communications.

The program—"Insight"—communicates with employees through a recorded voice, cartoon-like graphic images on a display screen and a printout.

Employees can check savings balances, take out a loan, estimate post-retirement needs and even enroll in ALCOA's benefits program without touching a keyboard.

By responding to questions on a touch-sensitive screen, employees can receive projections of investment performance, savings interest earned and salary growth. Employees can use information provided by the computer on past performance in these areas to make these projections.

A computer-printed graph shows estimates of an individual's funds and loan availability for any year, both in the long and short term.

A year after random drug testing began, it remains a delicate issue with workers, says Terri Craig.

"You can model various saving scenarios that you can't do on paper," said Dean Stoltz, the employee benefits manager for ALCOA.

"And you can not only see the results, but you can print them out and take them home to discuss it with your spouse," he added.

Michael Trahan, a computer consultant at Hewitt Associates in Lincolnshire, Ill., who worked on the project, described the Insight system as "the most in-depth, interactive communications system" available.

"The ALCOA system is clearly the top-of-the-line system," he said. "They get the message across sometimes better than any other communications effort."

Touch-sensitive monitors are similar to those at automated bank teller machines. The rest of the computer system and laser-disk player are housed out of sight in a cabinet known as a kiosk.

Mr. Stolz said that the system is "user-friendly" to even the most skeptical computer user, but convincing employees of this was a major goal of the communications project.

"About 25% of our employees use it quarterly," Mr. Stoltz said.

In the future, the program also will offer enrollment and claims status reports for ALCOA's medical, dental and vision plans—offered through insurers. For now, it provides a complete and efficient benefits communication program for both the employee and the employer, Mr. Trahan said.

Controlling the number of employees needed in the human resources department was another goal, Mr. Trahan said. He called the program efficient because employees don't have to wait to talk to someone in the human resources department.

Mr. Trahan noted that the average session with the "all-in-one" computer system was less than eight minutes, while first-time users required 15 minutes on average.

The program, which was designed by Hewitt Associates but programmed by ALCOA staff on their mainframe computer in Pittsburgh, cost about $500,000 and took nine months to develop, Mr. Stoltz said.

In addition, each plant pays $17,000 for each kiosk. So far, 10 plants in nine states have Insight stations.

"They really like it and they want more," Mr. Trahan said.

ALCOA expects more kiosks to be installed in other plants, Mr. Stoltz said.

• Third place: Southern California Edison in Rosemead, California.

The last thing San Onofre Nuclear Generating Station's 3,500 employees wanted to hear was why drug testing was essential for plant safety. However, this was what California Edison's manager of health care communications, Terri Craig, had to tell them.

Under a January 1989 Nuclear Regulatory Commission (NRC) mandate for substance abuse education and facing an August inspection of the San Onofre Nuclear Generating Station (SONGS) by an independent nuclear power plant review organization, California Edison needed to quickly develop a new substance abuse education program.

Its response: six posters, designed by Grey Advertising Inc. in Los Angeles. The posters, with a press run of 350 each, were posted throughout the plant intermittently between August and December.

Random drug testing had begun at the station almost a year before the first poster went up, but the issue remained a delicate one, said Ms. Craig.

"It's a really sensitive subject area," she said. "To develop a program that was not considered offensive was really a high priority."

Michael Browning, the California Edison account supervisor for Grey Advertising, said the project's unique challenge was developing a program that would be well received by both regulators and employees.

"We tried to recognize what we were doing was kind of unpleasant, but that we had to do it anyway," Mr. Browning said.

With subtlety in mind, each of the 14-inch by 17-inch posters had only one substance-abuse symbol surrounded by a large amount of white space and underlined with small typewriter-styled messages. One poster with an illustration of the SONGS drug-sniffing dog, Skippy, says to employees, "If your work weren't so critical, we wouldn't be so nosy."

"The visuals are sort of understated," Mr. Browning said. "It's done in pastel colors and the illustrations are done like old-style engravings."

A spokesman would not reveal the cost of the communications program.

The spokesman said that the NRC had noted the communications effort, developed in less than nine months, was a "particular strength" of the overall drug program at the station.

—By Sam Cristy

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Employee Benefits Communication Awards

Spiegel spotlights benefits

Top honors go to an inviting personalized booklet

By DEBORAH SHALOWITZ

A desire to help employees understand the total value of their benefit package spurred direct marketer Spiegel Inc. to publish something other than a catalog—a personalized benefit statement for employees.

"Employees weren't really cognizant of how good their benefits" are, said David Cwik, employee benefits manager for the Oak Brook, Ill.-based company.

So, Spiegel developed an "Executive Benefit Statement" for each employee using a laser printer to detail both the employee's and the company's contributions toward such employee benefits as its medical, dental and disability insurance, a profit-sharing and 401(k) plan, and workers compensation and Social Security benefits.

On page two of the personalized booklet, Spiegel's total dollar contribution to each worker's benefits is added to the employee's annual earnings, yielding a total compensation figure. And, the percentage of an employee's salary that the company contributed toward benefits also is noted.

"We wanted to emphasize the value of the total Spiegel benefit package," Mr. Cwik said.

The 18-page booklet, which features general and personalized benefit information interspersed with reproductions of old Spiegel catalog covers, captured first place in the personalized correspondence category of the 1990 *Business Insurance* Employee Benefits Communication Awards.

The personalized booklet was prepared by Spiegel staff with assistance from consultant Hewitt Associates of Lincolnshire, Ill.

This is "something that really made a strong impact," noted Jennifer Watson, a communications consultant at Hewitt who worked on the project.

Mr. Cwik said Spiegel's goals for the communication project also included:

- Stimulating awareness of the company's contribution to government-sponsored benefits, such as Social Security.
- Providing a link to the company's history through photographs and references from the company's archives.
- Giving employees a resource to assist with financial planning.

"Our goal was to present a straightforward, personalized and inviting package," Mr. Cwik said.

The statement reflects the company's "straightforward approach" and gives employees a "nice, no-nonsense kind of package," Ms. Watson agreed.

The total cost of producing the package was $58,000, according to Mr. Cwik.

Spiegel's information systems specialists gathered all the data necessary for the personalized statement except for thrift and profit-sharing plan balances, which are maintained by another company that supplied Spiegel with a magnetic tape of year-end account balances, Mr. Cwik said.

Initial discussions about the communication project were begun in July 1989, Mr. Cwik said, and the correspondence was mailed to the homes of 1,500 employees in March 1990.

Spiegel previously only issued an annual statement to employees that described balances in their profit-sharing and 401(k) plans, Mr. Cwik said.

Spiegel has received an "overwhelmingly positive" response to the personalized statement, Mr. Cwik noted.

The cover of the 8-by-8-inch personalized booklet is made of a thick, glossy white paper and has two color photos. A picture of the company's spring 1990 catalog cover—showing a woman and her daughter lying in a bed made with deep blue, rose-flowered linens—is centered beneath the capitalized word SPIEGEL. A smaller picture of one of the company's first catalog covers, which shows old furniture and features the slogan "The Cheapest Furniture House in America," overlaps the spring catalog cover slightly on the left.

The cover folds out to reveal a letter from John J. Shea, vice chairman, president and chief executive officer of Spiegel, noting that this year is Spiegel's 125th anniversary.

In the letter, Mr. Shea also expresses his hope that "this booklet will help you discover that your total benefits and compensation package is significant."

The pages of the correspondence describing the employee's benefits are pale gray with a very subtle navy fleck in the paper; the standard benefit copy is printed in navy while the personalized, laser-printed information appears in black.

Separate sections of the booklet—such as "your health care benefits," "in case of disability," "protection for your survivors," "dependent life insurance," "income for your retirement," "paid time-off" and "additional benefits"—are delineated by gray capital letters superimposed on a thick navy bar at the top of the page.

Interspersed between the pages of copy are a total of eight pictures of old catalog covers printed on the same white, glossy paper as the booklet's cover.

One old cover, from a fall and winter 1913-1914 catalog, depicts a bare-armed worker with a breastplate saying "Buying Power" beckoning to a group of people. The catalog bears the slogans "The Giant Market Place" and "Wondervalues for Homelovers at a few pennies a day." The company at that time was known as Spiegel, May, Stern Co.

Another old catalog cover depicts a woman dressed in a natty tapered yellow suit, white gloves, red overcoat and matching red beret, in front of the Capitol; she is holding a poster saying "For Victory-Buy United States War Bonds and Stamps." The catalog is from 1943.

Mr. Cwik said that Spiegel is marking the occasion of its 125th anniversary in many ways, such as sponsoring baseball game outings and parties. Including the old catalog covers in the benefit statement was a way "to get in on the party a little bit," he said.

The back cover of the correspondence has a cutout window allowing the employee's name and address to show. The personalized booklet was mailed to employees in a matching pale gray envelope with a cellophane window for the name and address. ■

Coca-Cola, Harlequin selected runners-up

The runners-up in the personalized correspondence category are:

- Second place: The Coca-Cola Co. in Atlanta.

Coca-Cola relied on laser printing to produce its most recent personalized employee benefit correspondence. The technology allowed the soft drink and entertainment conglomerate to include in the margins of each page a "sidebar" that contains further clarification and information on employee benefits.

Each page is bordered with a variation of the blue and peach colors that appear on the correspondence's cover, with a question-and-answer sidebar on health coverage questions "to challenge employees to think about their benefits," said consultant Gail Harrison of Hewitt Associates in Atlanta, who assisted the company with the project.

This Q&A format, which coincided with Coke's introduction of flexible benefits, "whetted the employees' appetites for flexible benefits," which were announced to the employees by a letter enclosed with the booklet, said Larry D. Jones, manager-benefit planning and development for Coca-Cola.

"We had not had a brochure of this nature before, but for a company as large and diverse as ours, we felt it incumbent to produce something that would provide a total picture to employees and show them that their company was putting in a sizable share of their employee benefits," Mr. Jones said.

Sidebars are cost efficient because much of the information on the primary benefits can remain the same, while the sidebars can be updated annually to keep employees interested, Ms. Harrison said.

Coca-Cola has been working with Hewitt Associates in Atlanta on its personalized correspondence since 1984, updating the look each year to catch the employee's eye, Ms. Harrison said.

"It's received good reviews (from employees) in the five years we've been putting it out," Mr. Jones said.

The comments "have been very positive and supportive," he said. "Employees overall have been increasingly impressed with it, and after five years they have grown to expect it," he said.

When the personalized correspondence format was introduced five years ago, Coca-Cola was one of the first companies to personalize its benefits correspondence using the new printing and collation technology, Ms. Harrison said.

The eight-page product, titled "Something of Benefit," describes employee benefits and contains personalized information for each employee, such as accrued retirement benefit and the amount in the employee's thrift plan account.

To suggest a "futuristic" theme, Hewitt created a blue cover with splashes of complementary colors throughout the text, which are echoed on the matching envelope, Ms. Harrison said.

The cost of producing the correspondence was approximately $50,000.

The English version of the brochure is sent to 7,000 Coca-Cola employees at 140 plant locations, and a Spanish version was produced for the 400 employees at Coke's syrup-producing plant in Puerto Rico.

The personalized correspondence also contains a return reply card for employees to note changes of address and provide comments on the packet.

Coca-Cola plans to release the 1990 version in October, Mr. Jones said.

- Third place: Harlequin Enterprises Ltd. in Don Mills, Ontario.

Harlequin, a major publisher of "romance novels," designed its May 1989 personalized correspondence to look like one of those novels to create greater employee interest in their benefits.

It also began using a new printing technology that allowed it to cost effectively change the personalized information for its 400 salaried employees in Buffalo and New York and 350 salaried employees in Toronto.

The cover of the 16-page product, titled "Now and Forever: The Story of Your Harlequin Benefits," features a romantic illustration of a rugged man with his arm around a beautiful woman and is graphically designed to resemble a Harlequin romance novel, said Barbara Kaufman, a principal with TPF&C, a unit of Towers, Perrin, Forster & Crosby Inc., that has provided Harlequin with actuarial consulting for the past 12 years.

The layout of the product also follows the format of a novel.

For example, personal information—such as date of birth, hiring date, annual base salary, and spouse's name—comes in a front-page "dedication."

Also in keeping with the novel format, the dedication is followed by an "introduction" signed by Harlequin President and Chief Executive Officer Brian E. Hickey, and a "precis," which reflects the theme and itemizes benefits.

Harlequin had been issuing personal benefits statements for several years, but the earlier products were single-page, typeset forms "in the manner in which statements used to be done," Ms. Kaufman pointed out.

"The old format was very dull—people weren't reading it," said Dawna House, vp of human resources for Harlequin.

Worse, "it became very apparent that we couldn't get additional information on our statement," she said.

Harlequin also had to print different versions for its U.S. and Canadian employees due to Canadian laws requiring additional pension information, Ms. House said.

With this in mind, TPF&C showed Ms. House samples of how new laser printing technology would enable Harlequin to change the text from year to year by simply changing data on a word processor, Ms. Kaufman said.

"After several years of the same statement, (employees) were ready for a change," she said.

Although laser printing is cheaper than typesetting, first-year start-up costs can be expensive, Ms. Kaufman said. But since most of the same information will be used for at least three years, with only a few minor changes, this cost is easily recouped, she said.

The company can easily change the look of the product by modifying the cover and page designs.

The total cost for producing the correspondence was $65,000: $53,000 for developing separate Canadian and U.S. versions and $9,000 for a two-year supply of covers, paper and envelopes.

The annual cost to update the product is $15,000 to $20,000, Ms. House said.

—By Laura Mazzuca

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Agent/Broker Topics

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Improving your support

Service employees also need continuing education

By LAURA MAZZUCA

As they increasingly deal directly with clients, insurance agency support staffers need—and want—more continuing education than ever before.

The soft commercial property/casualty insurance market is forcing producers to spread themselves more thinly, increasing the demands on support staffers. One casualty of this changing environment is the long-held idea of "employee development" as simply encouraging producers to pursue professional designations.

That notion is proving outdated as agencies and brokerages are finding that education for support staffers not only steps up performance but can improve morale and help cut down turnover by fostering a career track.

"This business has turned into a profession rather than a job," said Roger Schonning, president of Commercial Risk Management Inc., an agency in Westerley, R.I., with $4 million in annual premium volume. "Continuing education is there because you can't do your job today without knowing what you're doing."

"Our mission statement is to serve the insurance and risk management needs of our clients," said Sharon Ward, human resource manager at Holmes Murphy Agency in Des Moines, Iowa. "To give them first-class service, we must have knowledgeable people on staff."

The 150-employee agency recently hired Ms. Ward to structure a formal education program (see story, page 16B).

Large brokerages often maintain in-house training centers. Smaller agencies can tap trade associations, consultants, and even insurers for affordable programs (see story, page 16E).

State continuing education requirements still apply mostly to licensed agents and brokers. But the importance of continuing education is growing for support staff—both because clients demand more knowledgeable contacts and because employees themselves want a clear-cut career track.

"We are very committed to the idea that people in our agency take continuing education courses," not just to meet state standards but because it benefits the agency, said Robert Johnson, president of Charlton-Manley Inc., a Lawrence, Kan., agency with $22 million in annual premium volume.

Charlton-Manley producers are required to take courses leading to the Chartered Property & Casualty Underwriter designation and all employees who have regular customer contact must be licensed as producers, he said.

"It's a matter of peer pressure and pride," said Mr. Schonning, whose nine employees, from receptionist to producers, have participated in educational programs.

For some agencies and brokerages, "employee development" used to mean simply letting producers and principals pursue professional designations and neglecting the potential of support staffers, said Arthur B. Friedman, senior vp at Associated Agencies Inc. in Chicago.

But today—when lower commissions mean many producers have to work harder and spread themselves thin for volume—support staffers have more direct client contact and need a higher level of competence and professionalism, he said.

Risk managers and other corporate clients, whose own education programs have made them more sophisticated about risk management, now demand that agency staffers have a comparable working knowledge of insurance.

With bankers, accountants and other knowledgeable professionals calling on agencies and brokerages, support staffers had better know what they're doing, says Mr. Schonning. "If we're looking at insurance as just a policy and a premium, we've done something wrong."

While professional designations and producer education remain valuable, Associated and other agencies now encourage all employees to participate in seminars, workshops and other educational ventures.

"We do everything but mandate it," said Mr. Friedman.

The result: Employees are smarter and "it has had a very positive effect on the morale of the support department," he said.

New York-based brokerage Frank B. Hall & Co. Inc. has restructured its programs to reflect greater balance.

Its Center for Professional Development, an internal program created in 1988 to improve sales and management training for producers, was quickly expanded.

In 1989, workshops were added on technical and communication skills—"tools that they can immediately use"—for commercial lines customer service representatives and account managers, said Donald S. Schneider, senior vp of human resources in Briarcliff Manor, N.Y.

Brokerages' continued emphasis on foreign business and growth by acquisition also makes educational programs more important.

Until recently, formal professional development plans were only a "wish list," said Ellen Kamp, vp-corporate professional development for Corroon & Black Corp. in New York.

But as the major houses expand abroad, education is becoming a necessary component of total business plans, she said.

With its merger with Willis Faber P.L.C. pending, a conference and training center C&B opened last year in Nashville, Tenn., has taken on added importance. Officials hope the training that employees from senior managers to support staffers receive there will better enable them to handle the complex merger (see story, page 16B).

Some firms also use educational programs as a tool to help retain staffers.

Near North Insurance Agency Inc. of Chicago recently hired a specialist to coordinate training for employees gained in the agency's many acquisitions.

"They recognized that the company has grown to this size and, in order to keep growing, they need to develop their human resources," said Mark Ernst, the new vp-human resources.

These new employees, he said, can become productive immediately if a company can conquer the attitude of " 'You bought us, and now you're going to fire us all.' "

Near North uses videotapes, workbooks and other materials as well as training programs run by employees to illustrate the agency's philosophy and operating methods, he said.

Having lost talented support staffers to attrition in the past, agencies and brokerages are now realizing that such people are more apt to stay if they are offered a "clear-cut" career path, said Ralph Scheffey, a vp and director of human resources training & development for Alexander & Alexander Services Inc. in Owings Mills, Md.

"They should see their employer doing something to develop them," he added.

At Hall—which began providing a career track for support staffers last year—turnover has decreased almost 3% from the first half of 1989 to the comparable period this year, officials say.

"Turnover in the industry is common, particularly at the support level," and Hall has retained these staffers in part by avoiding the "top-heavy" training at many brokerages, said Roberta Salloway-Kyle, manager of training and development.

"It isn't unusual for people to gravitate to other positions after three or four years on the job," noted Holmes Murphy's Ms. Ward.

With this in mind, the agency develops career paths within each department to offer direction toward other positions in the agency, she said. Some positions are specifically designed as "bench jobs," where an employee is placed to learn all he or she can to grow into another job.

Technical complexity has always been a feature of insurance, particularly commercial lines. But with today's plethora of policy forms, varying by insurer and type of business, the insurance professional must really know what he or she is doing in order to succeed, said Mr. Schonning.

He offers an illustration: When he started in the business 30 years ago, homeowners coverage had 20 different endorsements; today,

Continued on next page

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Agent/Broker Topics

Agents, brokers establish in-house training programs

By LAURA MAZZUCA

Long an agency and brokerage buzzword, "growing your own" employees now is becoming standard operating procedure.

Driven by market demands for more professionalism, employee development and education—for agency employees ranging from receptionists to presidents—is now a staple for virtually every agency.

At most large brokerages, in fact, education is a budget item. And, many larger agencies and brokerages have created in-house education programs, rather than using outside seminars, to hold down costs.

Regional agencies without formal education programs can use many workshops and seminars offered by agency associations, independent consultants and insurers.

Employee development, especially courses leading to professional designations, can be expensive and time-consuming, but principals say the benefits outweigh the costs.

Success stories are legion. At almost every agency or brokerage, executives say, at least one employee has worked his way up the ladder with corporate backing and encouragement.

Training employees to meet a company's individual needs can be more efficient in the long run than hiring experienced—but high-priced—people from other firms, agents and brokers say.

Besides, executives say, outside talent may have to "unlearn" old habits. "If someone is eager to learn, we'll offer them any tools we can" to help them succeed, said Kathy Romano, vp of sales at Near North Insurance Agency Inc.

A realization this year that many talented employees needed formal insurance training before they could advance prompted change at the Chicago agency.

Near North—which recorded $223 million in premium volume in 1989—hired a human resources specialist and began stressing support staff development, said Ms. Romano.

Employee education can offer a competitive edge, especially at small agencies, which often lack highly trained specialists.

Large companies see other

Continued on next page

Continuing education

Continued from previous page

there are 42.

Some of the technology that makes such complexity possible, however, squeezes budgets for traditional continuing education programs.

At Berwanger Overmyer Associates in Columbus, Ohio, the amount of money from the educational budget spent on automation training has doubled since 1986, says Jerry Esselstein, chief operating officer and treasurer.

Ten years ago, that budget went primarily to formal designation programs, but now a big chunk is set aside for purely technical training, he said.

Standardizing use of the agency's "90 various kinds of electronic devices" by its 105 employees can be a problem, said Mr. Esselstein, adding that he attends an annual seminar "that just shows us how to use all the buttons on the phone."

Of course, training programs for staffers, no matter how they're done, will cost the agency or brokerage money. But the final payback—in skilled employees, a competitive edge, and less employee attrition—means the programs can pay for themselves.

"Long term, there is no cost for education," said Mr. Esselstein of BOA. "We have to commit to ongoing professional education, with or without a designation." ■

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Continued from previous page

values to education. Such programs can help them absorb employees following the mergers and acquisitions that have become such an essential part of brokerage growth.

Holmes Murphy & Associates Inc. of Des Moines, which reported 1989 premium volume of $80 million, hired its human resources manager, Sharon Ward, after mergers and acquisitions nearly doubled its staff—to 150 from 78—since 1986.

Ms. Ward has developed management and technical training programs to teach new employees company policies and to improve teamwork.

Education programs are nothing new for larger brokerages. But many, like Near North and Alexander & Alexander Services Inc., have recently hired specialists to oversee their programs and have given branches and divisions more authority over their content.

"Our goal is to upgrade everybody's skill sets because when you go from being a small company to a big company, lack of skill can get in the way," said Mark Ernst, vp of human resources at Near North.

Near North recently broadened its program to emphasize the agency's specific procedures and services, build morale and teamwork skills, and gain "bench strength" by grooming staffers for higher positions, he said.

Some companies also are touting decentralization of training programs as a way to give regional managers more control over how their staffers are trained.

In 1987, A&A appointed six regional training managers, who in turn report to their own regional directors, said Ralph Scheffey, vp and national director of human resources training and development. Mr. Scheffey, who is based in A&A's central training facility in Owings Mills, Md., was recently promoted to develop training programs for A&A's local and regional offices.

Internal training programs can be relatively economical for large companies, which can tailor programs to meet their specific needs.

Costs can be further controlled by hiring full-time instructors, rather than paying fees to outsiders, or by having senior staffers teach workshops or seminars.

Employees at Near North and other agencies have the added convenience of attending courses leading to professional designations at their workplace. Near North hires instructors from the Insurance School of Chicago to teach in-house Program in General Insurance (INS) classes.

The thriving cottage industry of internal education indicates that brokers are abandoning their traditional sources of new producers.

"For years, brokers did recruiting from insurance companies because they did great training but the salaries weren't competitive with brokers," said Mr. Scheffey of A&A. When insurers "got smart" and raised their salaries, that pool shrank.

Brokers now bear most of the burden of developing producers, though some still turn to insurers for help with training.

For instance, when faced with a shortage of commercial property/casualty account executives in 1987, Associated Agencies Inc. hired six candidates straight out of college. The candidates received nine months of training at the agency's Chicago headquarters. They then were sent to a two-week Hartford Insurance Group program, after which they become licensed producers, said Senior Vp Arthur B. Friedman.

Associated Agencies—which reported premium volume of $164 million last year—spent an estimated $40,000 to $50,000 per trainee in schooling, training, salary and expenses.

In the long run, "$50,000 is cheap," since hiring an experienced account executive from outside would cost more, said Mr. Friedman. But best of all, he adds, Associated Agencies was able to educate "green trainees" to its own specifications.

The fledgling account execs learned "from the mailroom up," said Mr. Friedman, noting that two of the six are still with the agency.

Many brokerages recently have expanded educational efforts to include support staffers. But most agency educational programs began as a training ground for producers and this remains an important element.

Brokerages frequently train producers in conjunction with college recruitment programs because "we realize it is getting more and more difficult to recruit new people," said Ellen Kamp, vp-corporate professional development at Corroon & Black Corp. in New York.

In 1986, the brokerage began an education program specifically to train new producers in technical skills like E&O prevention. Since then, Corroon & Black also is emphasizing employee development, college recruitment and executive development as well as producer training, Ms. Kamp said.

In addition, workshops have been enhanced to offer internal training at all levels, including "non-technical" topics like sales training, communications, management development and business skills, he said.

And the National Assn. of Professional Insurance Agents' Certified Professional Service Representative program—tailored to C&B's needs—is offered in-house, said Ms. Kamp.

An estimated 4,000 employees have attended the workshops since they began in 1986. The overall program costs about $750,000 a year.

A&A also divided its educational

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Agent/Broker Topics

Training

Continued from previous page

programs into five areas: managerial supervision, sales and marketing, technical training, communications, and professional development.

Like C&B, Near North broadened the scope of its program last year. Where only insurance topics were once taught, now more professional and sales-related topics, such as communication skills and management techniques, are included, said Ms. Romano.

At least 100 employees in various Near North divisions are expected to participate in the program next year. Management and training programs are now to be dictated from the department head down, says Mr. Ernst, the vp-human resources recently hired to coordinate the efforts.

Some 630 Frank B. Hall & Co. Inc. employees attended 20 workshops offered in Briarcliff Manor, N.Y., last year, and 750 are expected to attend the 30 workshops offered this year at various locations, said Donald S. Schneider, senior vp of human resources for the New York-based brokerage.

This year's workshops—taught by outside experts or Hall personnel—include selling skills, sales leadership and financial analysis.

One of the most significant changes in educational programs is a new emphasis on offerings for support staff. Creativity may prove a hallmark of these new programs as brokerages employ video and computer programs to keep staffers up to date.

At 18 Hall field offices, for instance, support staffers use "computer games," according to Mr. Schneider. These interactive, self-study computer programs are ideal teaching tools for subjects that range from introductory overviews to more complex topics like risk management strategy. Tests are included in the programs.

Use of these programs cuts costs by keeping staffers in-house rather at seminars and workshops, Mr. Schneider added.

Alexander & Alexander also makes use of computer-based insurance training, which is approved for required continuing education credits in some states, Mr. Scheffey said.

"Our people fell in love with this computer training," he said.

The brokerage uses Dallas-based Agency Management Services Inc.'s "Insurance Games" software, which offers both intermediate and advanced training.

Libraries at many A&A branches carry the IBM-compatible software so that employees can check the programs out, he added.

Not all educational workshops are confined to business.

Berwanger Overmyer Associates in Columbus, Ohio, for example, picks up all costs for industry-related courses, but also "negotiates" reimbursement for personal enrichment programs, said Jerry Esselstein, the agency treasurer and chief operating officer.

And at the request of employees, The Woodsmall Cos., an agency in Kansas City, Mo., recently started offering in-house sessions on topics like making a will, raising healthy children, and teens and drug abuse, said Peter L. Woodsmall, president of the $65 million annual premium volume agency.

"They don't have anything to do with insurance, but they build morale," he said, noting that the education programs cost the agency $33,000 a year.

Brokers say one area that is increasingly important is executive and management training.

"The brokerage business is based on expert people, not just business managers," said Mr. Scheffey of A&A. "There is a dire need to develop these. It's now almost urgent."

Despite its separate educational division for developing managers, A&A still hires managers from other firms. Mr. Scheffey says he hopes to change that by developing a program to let the brokerage train its own management.

A&A also put together a task force in March that will develop methods "to make A&A the employer of choice" for recruiting and retaining managers, he said.

Other companies already are stressing management training and development.

In 1986, Holmes Murphy, the Des Moines agency, found itself strapped for managers after a series of acquisitions.

Its response: a program designed to foster leadership and management skills within the organization and available for everyone from team leaders to department managers and senior executives.

Management turnover has since decreased to less than 10% throughout the agency, Ms. Ward said.

'Our people fell in love with this computer training,' says A&A's Mr. Scheffey.

Even Frank B. Hall—notable in recent years for its high-profile, and reportedly top-dollar hires from competitors (*BI*, Feb. 27, 1989)—says it is changing gears.

Efforts that had gone into recruiting talent from other major brokerages is now put into management training programs, Mr. Schneider said.

Frank B. Hall is offering two management courses this year: "Front Line Leadership" and "Managing to Profitability." And, the company plans to introduce an executive training program emphasizing organization and strategic skills next year.

While larger brokerages are formalizing their training programs, smaller agencies tend to take a more informal approach, however.

"We can't afford an inside training person, but I realize it's an investment in the future," said Robert Johnson, president of Charlton-Manley Inc., an agency in Lawrence, Kan., with $22 million in annual premium volume.

Charlton-Manley pays all education costs, including seminar fees, transportation, registration and materials.

New producers work closely with their principal mentor, the agency sales manager. Mr. Johnson estimates that new producers must work at least three years to generate enough revenue to offset training costs.

High training costs mean it's usually easier for larger agencies or brokerages to "grow their own," than smaller ones, said Roger Schonning, president of Commercial Risk Management Inc., a $4 million annual premium volume agency in Westerley, R.I.

But, he warns, even the major players can lose out if employees "don't know where they're growing to. The candlemaker doesn't necessarily make a good blacksmith."

Mr. Schonning says he encourages employees to aim for advance-

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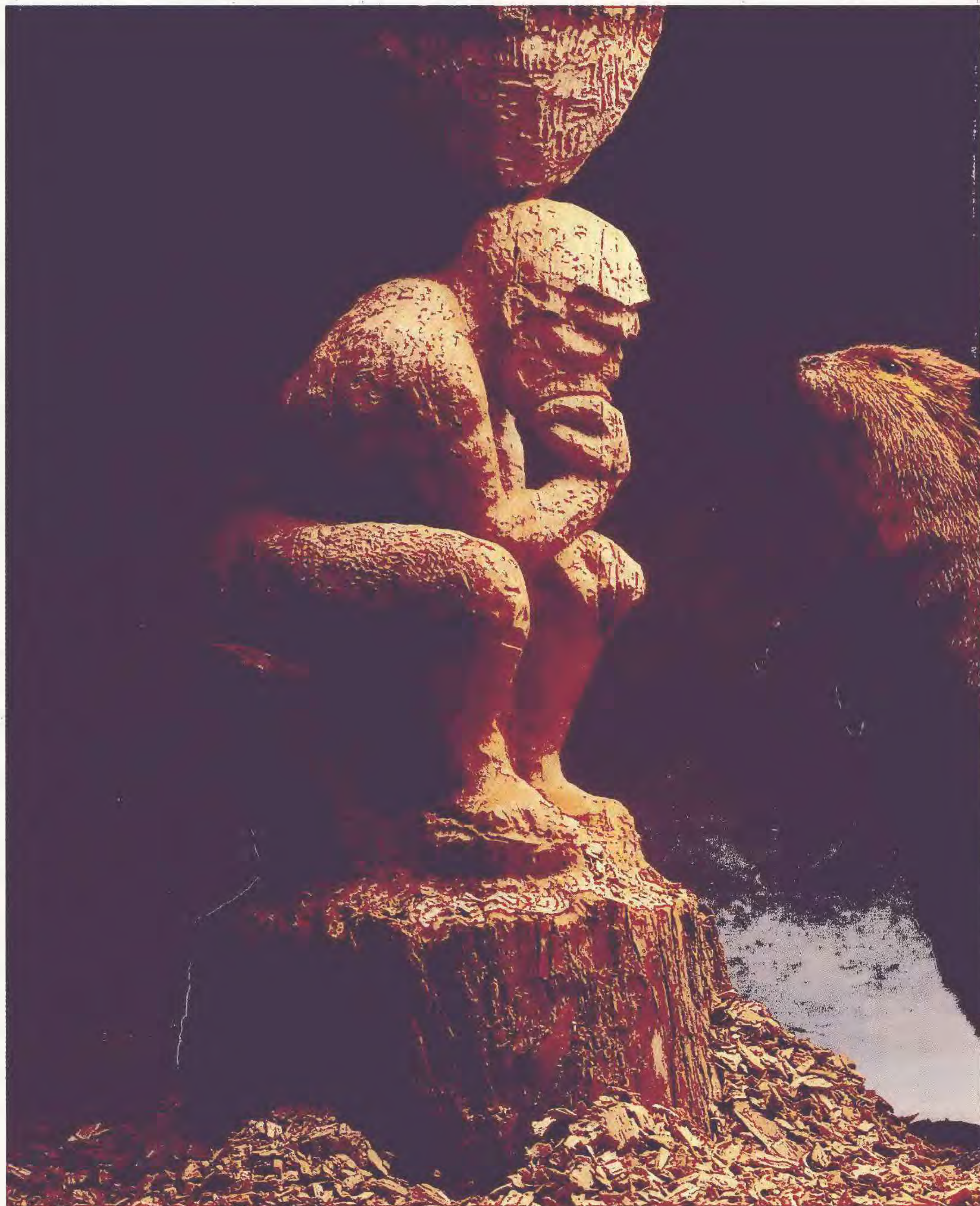

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ment. But he doesn't necessarily condone switching staffers from personal to commercial lines, for example, since they may have an aptitude for one and not the other.

At Commercial Risk Management, new employees begin with a standard personal development program provided in workbook form by the Independent Insurance Agents of America Inc. At the same time, they take weekly classes offered by state agent associations.

After completing this self-study program, neophytes are required to take the Accredited Advisor of Insurance designation program.

Most staffers stop here, but products and service account executives are expected to work toward the Associate in Risk Management designation, Mr. Schonning said. Producers planning to become part owners of the agency must add a Certified Insurance Counselor or Chartered Property & Casualty Underwriter designation as well.

Like many smaller agencies, Commercial Risk Management subsidizes the cost of education programs. Professional designation programs, not individual seminars and workshops, drive up the cost of employee development, agency officials note.

High training costs mean it's easier for larger agencies to 'grow their own,' says Mr. Schonning.

BOA plans to spend about $50,000 on continuing education in 1990. That relatively modest figure only includes direct costs such as tuition, and doesn't reflect indirect costs such as lost work time, says Mr. Esselstein. However, he believes that the total investment is well worth the cost.

And some brokerages, like Arthur J. Gallagher & Co. Inc., give employees a bonus when they receive a designation—$1,000 for a Chartered Property & Casualty Underwriter, $300 for an Associate in Risk Management—said George McWeeney, a vp of public relations and training.

However, he and other brokerage executives recommend that educational programs be monitored closely to ensure their effectiveness.

BOA has heeded such advice.

The human resources department at the Columbus-based agency not only oversees all employee education, but appoints a "lieutenant" in each department to document the coursework done by each employee, Mr. Esselstein pointed out. ■

Agencies take advantage of insurers' assistance in training employees

By LAURA MAZZUCA

Increased salaries at insurance companies make them a less promising target for brokerage recruitment, but insurers remain an important source of training for future producers.

Insurer-sponsored programs, designed for all levels of agency employees and sometimes offered to agents free of charge, are especially useful for agencies that are too small to afford internal training programs. And, even the largest brokers take advantage of the insurer-sponsored programs.

Economics aside, the training programs also can build loyalty between insurers and brokers.

"There has to be some fiber to the broker-insurer relationship besides the price and the market," said Jerry Esselstein, chief operating officer and treasurer at Berwanger Overmyer Associates, an agency in Columbus, Ohio.

BOA has made a concerted effort in recent years to tap into the "excellent" training programs its insurers offer customer service representatives, principals and producers, Mr. Esselstein said. Using such programs not only affords top-notch training, but also strengthens ties between the companies, he said.

Insurer-sponsored programs can be especially valuable for interns or new producers just learning "the real nitty-gritty" of the business, said George McWeeney, vp of training and public relations at Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

College interns at Gallagher take a four-week course on insurance. That program, offered by the insurance units of CNA Financial Corp. in Chicago, gives them an idea of how the business operates from the insurer's side, said Mr. McWeeney.

CNA has been offering agent training for 20 years and still is expanding its course offerings, said Irv Cohen, CNA's manager of agency development and product training.

Its Agency Development and Product Training program—ADAPT—is open to all CNA agents, said Mr. Cohen.

ADAPT includes agency management seminars, producer training and self-study courses for support staffers. They are "an inexpensive way of meeting" state training requirements, Mr. Cohen said.

Local agents are invited to management seminars at CNA offices around the country.

The technical training school, in which Gallagher interns are enrolled, is an intensive four-week program offered only in Chicago.

Classes typically are limited to 15 to 25 students and usually are taught by CNA personnel hired solely to run the courses.

About 1,200 people are expected to attend some 60 seminars scheduled this year. The programs and all related learning materials are offered free to agents, said Mr. Cohen.

"Our goal is to provide unique training to agents," said Mr. Cohen.

Producers for Hartford Insurance Group can participate in a six-month "cluster training" program offered for Hartford's own underwriters at five training centers, said Christine L. Davis, director of training and education for the commercial market segment at the Hartford, Conn.-based company.

Established in 1987, the program provides entry-level training for underwriters and is taught by Hartford underwriters with eight to 15 years of experience. The one or two agents allowed in each session of the twice-a-year course pay about $6,000 for materials.

Classroom work is combined with case studies and real-life underwriting examples in which pro-

Continued on next page

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Insurers

Continued from previous page

ducers are clustered with Hartford underwriters at their offices and work on actual cases, said Ms. Davis.

"They get to see exactly how an underwriter handles a piece of business," she adds. "We feel that's where we're different from other companies."

Not all insurer training focuses solely on producers.

Since 1932, Hartford-based Aetna Life & Casualty Co. has offered its agents a free four-week training course. But the insurer also recently added a program for customer service representatives to meet a growing demand for support staff training.

Its program—Systematic Training for Agency Growth and Effectiveness, or STAGE—began as a 1986 pilot project combining classroom work and self-study for CSRs, said Artemis Tsagaris, a human resources manager in the company's commercial division.

Aetna personnel teach the course at several field offices. Agencies pay $400 per student and the program takes between six months and a year to complete, depending on a staffer's pace.

Most training programs are geared toward beginning producers, though some intermediate and advanced courses are offered.

By opening its own school in September, Chubb & Son Inc. hopes to fill what it considers a "void" in training for experienced producers, said John Stites, vp and national manager of training education at the Warren, N.J.-based company.

The school, Chubb's first attempt at formal classroom training, is to begin with a three-day program on excess/surplus lines and umbrella coverages.

Designed for producers with three to five years experience, the program is highly detailed, "not just an overview," said Mr. Stites.

Instructors are to include senior Chubb managers like the managing director of excess umbrella coverage, the national claims manager and the manager in charge of reinsurance, he said.

Chubb will offer the first session offsite in New Jersey. Agents and brokers will be charged $1,200 for the three days, including housing.

Next year the company hopes to add courses on directors and officers liability, energy, underground storage tanks and other complex coverages that are in demand, he said.

"It's not Insurance 101," Mr. Stites remarked. ■

Agencies establish recruiting programs, internships to attract university students

By LAURA MAZZUCA

Insurance agencies and brokerages are giving producer recruiting and internships the old college try.

College recruiting and summer internship programs are becoming a popular alternative to hiring experienced producers from insurers or other agencies.

Costs, especially for paid internships, are "relative," since branch offices that do the training get an employee's services fairly inexpensively, said Ellen Kamp, vp-corporate professional development at Corroon & Black Corp. in New York.

C&B introduced its college recruiting program three years ago when it became evident that recruiting experienced producers was becoming difficult and more costly, she said.

The program, now used by about seven offices, begins with screening of prospective trainees. Recruiting teams set up at participating offices are responsible for final hiring decisions, said Ms. Kamp.

Recruits go through a series of on-the-job programs in conjunction with several of C&B's major insurers. After a year, they can apply for a position elsewhere in the brokerage.

Thirteen of the 17 trainees who completed the program in 1989 and 1990 have been hired for the 1990-91 year.

One of the industry's most successful recruitment programs is conducted by Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

Launched in 1965 by John Gallagher, who is now vice chairman of the brokerage, it is also one of the longest-running, said George McWeeney, vp of training and public relations.

"He knew that in order to grow, he was going to need new producers and couldn't always hire them from other brokers or insurance companies," said Mr. McWeeney, who oversees the intern program.

Early on, recruiting proved difficult. Gallagher, then a smaller brokerage, faced heavy competition from the alphabet brokerages on college campuses, he said.

But by offering internships, Gallagher found it could avoid the risk of rejection. Interns were introduced to the business and allowed to "live the life of a broker for the summer," said Mr. McWeeney.

Warren G. Van der Voort Jr., now vp of mergers and acquisitions, was the program's first intern. His brother Gary, now vp in Gallagher's eastern region, came the next year as the second intern.

Thirty-five students from around the country are participating in the program this summer, said Mr. McWeeney.

For 1990, the program was expanded to include a single intern in Gallagher's benefits services division and another at Gallagher Bassett Services Inc., the brokerage risk management consulting and claims management unit. The other 33 interns are learning property/casualty brokerage, including 13 at Gallagher's Rolling Meadows headquarters.

Each branch has an annual intern quota. Likely candidates are suggested by managers and other Gallagher employees, friends and relatives, and insurers.

Representatives of about 80 colleges also contact the broker regularly, anxiously trying to find internships for their students, said Mr. McWeeney. Gallagher prefers students who have just completed their sophomore years and can work for the brokerage for two summers.

Continued on next page

September

Most Productive Agencies/ Automation

BI editors track the most productive agencies and profile some of the industry's leading firms. This section will also have reports on how companies can pattern their operations after the success of others. Plus editors look at how advances in automation influence productivity in insurance agencies.

Issue: September 3
Ad Closing: August 21

October

Customer Service IIAA Conference Report

Are agents and brokers delivering what their clients are looking for? BI editors will focus on how agents and brokers can improve the service they give to clients and look at customer service representatives, their responsibilities and their compensation. Plus, this section will report on happenings at the annual convention of the Independent Insurance Agents of America.

Issue: October 1
Ad Closing: September 19

November

Automation: Interface With Insurers

BI editors examine state-of-the-art automation equipment and software that agents use to communicate with their insurance companies. Plus — inside views — agents talk about hardware and software, what systems and programs they're currently using, what works best for them with insurers, and what doesn't.

Issue: November 5
Ad Closing: October 24

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Agent/Broker Topics

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After nine weeks of in-house training, interns each summer participate in a one-week, classroom program on the basics of insurance and Gallagher operations.

Instructors—all Gallagher employees—"are heavily laced with former interns," he said. And addressing the classes are executives like John Gallagher; Chairman Robert E. Gallagher; and President and Chief Operating Officer J. Patrick Gallagher.

Interns returning the next summer are put into "rotational assignments" with different operating units, including at least four weeks in sales. Interns go on calls, to meetings, and put proposals together; "we try very hard not to make office clerks out of them," added Mr. McWeeney.

Weekly reports by both interns and supervisors in the various departments are used to determine who will be offered a job or another internship.

Gallagher says it spends $80,000 to $100,000 a year on the program, most of it on intern salaries of about $1,000 a month.

But the program, says Mr. McWeeney, pays off: About 110 of the 150 people who have participated since 1965 have been hired and about 75% of those hired are still with the company.

"Our goal is to let students assess a career selling an intangible product and give them an opportunity to assess the industry," he said.

But another brokerage executive warns of potential problems with internship and college recruiting programs.

For one, over-enthusiastic brokerages can take on too many trainees, overburdening the producers in charge of training, said Peter L. Woodsmall, president of The Woodsmall Cos.

The Kansas City, Mo., brokerage dropped its college graduate training program in November 1989, after fewer than two years.

Five trainees with general business backgrounds had been drawn from regional colleges and universities, said Mr. Woodsmall.

Hiring a training director to teach them may have contributed to the problem because trainees didn't get the individual attention they needed from producers, he said.

Another contributing factor may have been the lack of sales backgrounds among the first class. "They produced new business, but just were not progressing fast enough," said Mr. Woodsmall.

Another disadvantage: Trainees were not given existing books of business to work from. "Maybe it was destined to fail because of the way we structured it," he allowed.

The trainees were paid a varying base salary and new business bonuses in their second year of training. With the training director's salary, the total cost for Woodsmall was $150,000 and $160,000, he said.

Today, only two of the original five trainees remain at the agency.

Woodsmall's luck has been considerably better with a summer internship program, now in its fifth year.

With only two interns—who have just finished their sophomore or junior year—the total cost is about $6,000 a year, said Mr. Woodsmall.

Three former interns have been hired, two as producers and one as a production trainee. ■

Industry taking new step toward standard interface

By LAURA MAZZUCA and MARK A. HOFMANN

CHICAGO—Agents, insurers and automation vendors say they are one step closer to adopting a system to standardize interface between firms.

The Alliance for Production Technology, a joint venture of several insurers and system vendors, is developing standardized software designed to eliminate much of the "fragmentation" that has hampered agency/company interface, said Philip L. Engel, vp-corporate services for the property/casualty units of Chicago-based CNA Financial Corp.

Although the industry has been attempting to achieve a single-system, single-entry interface for at least a decade, most insurers still rely on proprietary systems. This forces agents to use different systems for each insurer they represent.

The new, for-profit venture will promote the use of standard software that would reduce the need for agents to enter the same data into their systems for different insurance companies, Mr. Engel said.

Standardized software would enable agents to transmit and retrieve information from multiple insurers without having to enter data on a buyer more than once, explained

Continued on next page

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Agent/Broker Topics

PIA, IIAA leaders to discuss merger this month

By LAURA MAZZUCA

ALEXANDRIA, Va.—Officials of the nation's two largest property/casualty insurance agent trade associations plan to meet Aug. 21 to discuss the feasibility of a merger that, until last month, one side had considered unthinkable.

An "open roundtable kind of discussion" is to be held at a "neutral site" near Alexandria, Va., headquarters for both the National Assn. of Professional Insurance Agents and the Independent Insurance Agents of America, said PIA President Richard Yingling.

Eight PIA officers and the eight-member IIAA executive committee are to participate, he said. Reporters and other observers probably will not be admitted.

"We want to be careful that we don't shoot each other in the media; that would impinge on the proceedings," Mr. Yingling said.

The PIA surprised observers by requesting the meeting last month. The move came in the wake of the association's July 14 directors meeting, which was followed by a letter from PIA's Mr. Yingling to IIAA's President Southgate Jones, suggesting a meeting within 30 days (*BI*, July 23).

That overture shocked observers accustomed to PIA's longstanding opposition to any discussion of a merger (*A/BT*, Oct. 3, 1988).

Mr. Yingling cited uncertain market conditions as the primary reason for the overture.

"There are too many problems within the insurance industry ranks, particularly with markets," said Mr. Yingling, who noted that insurers are pulling out of personal lines markets in several states.

A merger would help both organizations by enhancing their strengths and consolidating programs—like education, legislation, consumer outreach and advertising programs—where the groups now compete, he said.

"We have to see if there's a better, less expensive way to do the work we're doing," he added.

Mr. Yingling also admitted that the PIA board's reversal on merger talks was probably strongly influenced by merger activities between the Professional Insurance Agents of Minnesota and the Independent Insurance Agents of Minnesota (*A/BT*, July 2).

Mr. Jones expressed concern about whether PIA's offer is "for real" because of its historical strong opposition to merger discussions.

He said he is optimistic about the upcoming meeting, but a letter to Mr. Yingling dated July 17 is tempered with skepticism.

"For the past several years it has been our objective to provide independent insurance agents with a unified national voice. PIA has repeatedly rebuffed our initiatives for reasons that remain a mystery," Mr. Jones wrote.

According to a chronology prepared by the IIAA, the PIA has a long history of turning down consolidation attempts on both the state and national level.

Merger discussions were first held in 1981, when officials of both associations signed a joint resolution to study merger feasibility.

Three months later, PIA directors decided to terminate further merger talks. Members of both groups benefited from a healthy competition between the two, the directors said at the time.

PIA directors went a step further in 1983 by unanimously adopting a resolution stating that it was "not interested in merger" with the IIAA.

Attempts at consolidation on a state and regional level also were squelched by the national PIA. When the Indiana and New England affiliates of the PIA conducted preliminary surveys to determine the feasibility of merging with their IIAA counterparts, the national PIA intervened, calling such a step "ill-advised."

In 1988, a similar attempt to discuss a merger between PIA and IIAA groups in California and Nevada was terminated by the PIA of California/Nevada.

The most recent attempt at consolidation, by the IIAA and PIA in Minnesota, is close to reality, though a final vote is scheduled for the PIA of Minnesota's convention in Minneapolis Sept. 13.

The national PIA is withholding final approval of the consolidation until receiving word from its affiliates services committee, which is expected soon, Mr. Yingling said.

However, the Minnesota affiliates of both associations have voted to consolidate with or without national PIA approval.

"Hopefully, we will be able to continue with the merger on a national level," said James P. Peterson, executive vp of the Independent Insurance Agents of Minnesota. The "national PIA just needed a little push," he commented. ■

Agent-insurer interface

Continued from previous page

Tom Eustace, chairman and chief executive officer of Applied Systems Inc., an agency automation vendor based in University Park, Ill. Applied Systems is a partner in APT.

Other partners, besides Applied Systems and CNA, include: Agency Management Services Inc., an agency automation vendor based in Dallas; Fireman's Fund Insurance Cos. of Novato, Calif.; New Hampshire Insurance Co., a Manchester, N.H.-based unit of American International Group Inc.; and Hartford, Conn.-based Travelers Corp.

Agency Management Services, in turn, is jointly owned by CNA, Fireman's Fund and New Hampshire.

Other insurers and software vendors that have been invited to participate in APT include: Redshaw Inc., a Pittsburgh-based vendor; Hartford Insurance Group of Hartford, Conn.; St. Paul, Minn.-based St. Paul Cos. Inc.; Basking Ridge, N.J.-based Crum & Forster Corp.; and Kemper Group's national insurance companies in Long Grove, Ill.

APT products will conform to and build on the standards established by ACORD and the Insurance Value Added Network Services. ACORD, formed in the 1970s by the insurance industry, sets data processing standards for insurer-agency transactions, while IVANS, launched in the early 1980s, is an industry-sponsored electronic data network.

As an "alliance of competitors," APT is a first in the agency software vending industry, and stands a good chance of succeeding, said Gregory A. Maciag, vp and treasurer of ACORD, based in White Plains, N.Y.

"Our reaction is very positive because it's just another way to implement ACORD standards," he said.

Many in the industry are optimistic that APT may launch a new era of cooperation between vendors, agents and insurers.

"Automation of the exchange of information between insurance company and agency is very important to the future success of our industry," said Giles Madray, senior vp-administrative operations for Alexander & Alexander Inc. in Owings Mills, Md. "We need to reduce our overhead cost by providing the product to our clients, thereby reducing the price of the product we sell."

"What this does is put a lot of the fragmentation behind us," said CNA's Mr. Engel. "Instead of spending so much time talking about it, we'll be able to have a standard."

With consumer pressure for an improved delivery system increasing, the time seems right to break the "gridlock" of proprietary systems, said David Wroe, president and chief executive officer of Agency Management Systems, one of the APT partners. APT has been on the drawing board for nine months, he noted.

Even some consumer activists say the development of APT is a step in the right direction, although not necessarily for the same reasons cited by industry spokesmen.

"In preparation for the inevitable repeal" of the McCarran-Ferguson Act, "companies realize they can't rock along as they used to," said J. Robert Hunter, president of the Alexandria, Va.-based National Insurance Consumers Organization.

As pressure mounts from direct writers and banks entering the business, insurers finally realize that they must offer more automation to successfully compete, Mr. Hunter said. A standardized automation system "could mean a real era of head-to-head competition" between direct writers and independents, "which is good for us," he said.

CNA's Mr. Engel said that one impetus for the development of APT was a desire to hold the line on insurance costs.

"Consumers want somebody to work on cost reduction," he said. Insurers, stung by such consumer-driven measures as California's Proposition 103—which among other things required insurers to roll back "charges" 20% (*BI*, Nov. 14, 1988)—need to promote APT-style solutions, he said.

"We think customer service will improve," as a result of standardized interface, said Paul Philp, vp-information services for New Hampshire Insurance. Policy issuance will become more efficient, he said.

CNA's Mr. Engel downplayed the possibility that APT will raise antitrust questions.

"Participation in APT is completely open, and we're not reducing the competition among vendors," he said. "Strategic alliances are fairly common."

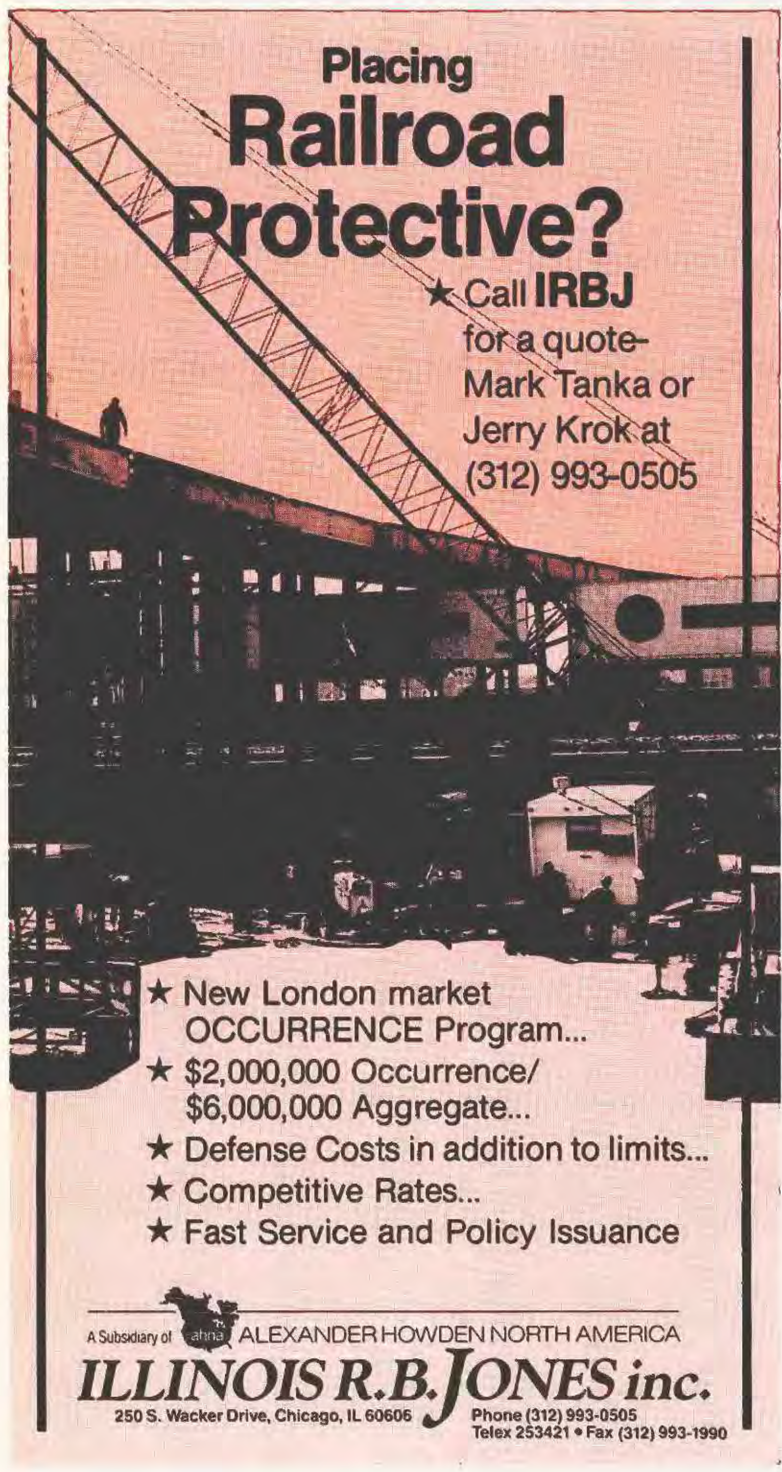
Others in the industry are more sanguine about APT's chances for success.

"We all have to be careful not to get drawn into the campaign without looking at the means and bounds," said John Pottridge, director of industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va.

For experts to assess its prospects, they need more information about the consortium such as the cost of a product to agents, "what it will look like when it sits in the agent's office," and how it will affect other software vendors, he said.

APT's success will depend on a large number of vendors joining and spurring increased involvement by insurers that have long maintained proprietary systems, according to Shirley Lukens, director of automation for the Independent Insurance Agents of America in Alexandria, Va.

"There are always those companies who don't want the playing field to be leveled," said Ms. Lukens. "But it may be detrimental for them not to be a part of this." ■



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Business Insurance

Employee Benefits Communication Awards

'Passport' leads to pension insight

By LOUISE KERTESZ

CALGARY, Alberta—Canadian Airlines International Ltd.'s 1,800 management employees across Canada have "passports" to a better understanding of their new pension plan.

The booklet explaining the airline's new pension plan program mimics a passport in many ways, even down to "the funny little lines" on the paper, pointed out Kerry J. Snider, manager of personnel and benefits administration for the airline.

In another takeoff on the travel theme, the booklet's contents page lists subjects under "Destination" and pages under "Gate."

The passport also bears authentic-looking stamps from several countries.

"We tried to have some fun with it. The idea was to make the employees want to read the stuff. Benefits are boring. People need to understand them, but they don't tend to want to try," explained Barbara Kaufman, a principal at TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. in Toronto.

The eye-catching red, white and blue 5-inch by 8-inch booklet—in Canadian Airlines' corporate colors—is slightly larger than the old-style Canadian passport. "Everyone in Canada would recognize it as being a takeoff" on those passports before they recently were revised, she said.

Ms. Kaufman, a benefits communication consultant, directed development of the booklet, "Your Pension Passport," which won first place in the booklets category of the 1990 *Business Insurance* Employee Benefits Communication contest.

"Pension is a very complex issue, and probably 98% of the people you speak to will tell you they don't know a thing about their pension plans," Ms. Snider said. "They just proceed blindly."

So, while the 24-page booklet is designed to grab and keep airline employees' attention, the explanations of benefits is straightforward.

For example, under a section called "Here's the current formula for calculating your Pension Plan benefits," there are examples of benefits at normal retirement and early retirement as well as clear formulas and charts to help each employee calculate his or her individual pension at retirement.

A chart on the last page, titled "Your Canadian Retirement Program at a Glance," lists information including allowable employee and company contributions to the pension plan.

The booklet was necessary following the development of Canadian Airlines' new pension program, which entailed the "horrendous job" of developing a pension plan program after Southwest and three other airlines merged in 1987, Ms. Kaufman said.

In that merger "a very large international carrier, a very large regional carrier and two small regional carriers were integrated into one airline virtually overnight," Ms. Snider said.

Canadian Airlines actuaries and TPF&C consultants spent a year and a half evaluating the assets of the pension plans of the merged companies and devising the new plan, she said.

Employees were given the option of staying in their plans or joining a new plan in which any employee could participate.

But because the airline's goal was to have as many employees as possible join the new plan, a savings plan was offered only to those opting for the new program.

In a survey asking what young Canadian Airlines managers wanted in a pension program, "a savings plan came through loud and clear," Ms. Snider said.

Managers can contribute between 1% and 3% of their gross pay on an aftertax basis to one of two savings plans and receive a 50% employer match. Employees also can make other contributions, though there is no employer match.

In July 1989, a week before the new plan took effect, representatives from Canadian Airlines, TPF&C and the trust company that would hold the savings plan funds presented the new plan to employees at airline facilities across Canada.

And, in what Ms. Snider called "a very complex effort," the airline mailed employees their enrollment form in a package that included the pension booklet.

The airline also included a comparison of benefits under their current pension plan with those under the new plan.

The airline also sent employees a fact sheet highlighting the provisions of their current pension plan and the new plan and forms to complete to provide feedback on the communication program.

The pension booklet itself cost $32,000, with "$10,000 for concept, writing and production supervision and $22,000 for production in English and French," Ms. Kaufman said.

"The money was spent on the communication program because we have all these employees from different cultures, different plans, different everything, so it had to be a very solid communication program," Ms. Snider explained.

As Canadian Airlines benefits managers had predicted, employees who were close to retirement and those who had worked for the large international airline—whose "very rich plan" was established in the 1960s—remained with their old pension plan, Ms. Snider said.

But most employees from the other three airlines "saw the new plan as an improvement" and signed up for it.

Currently, 51% of Canadian Airlines' managers have joined the new plan.

And improvements that "are in the very beginning planning stages" may attract others, Ms. Snider said.

Ms. Kaufman noted that based on feedback from airline employees, the booklet was "very effective" in helping 90% of them understand their pension program.

"Many of our employees told us even though they wanted to stay in their old program, that this was an excellent presentation, this was clear, understandable English to the average Joe. We heard that many times," Ms. Snider said.

The Pension Passport is a companion booklet to the similarly designed Benefits Passport issued in December 1988 to explain Canadian Airlines' group health benefits. That booklet also was developed by TPF&C. ■

WORKERS COMP

Issue: September 10

Ad Closing: August 28

In today's workplace, major cumulative trauma disorders — serious ailments caused by repetitive motions — are afflicting employees, and affecting employers and insurers.

BI's September 10 feature issue on Workers Compensation will reveal just how big a problem these injuries really are. In identifying the workers prone to this disorder, BI's editors will also look at how much these claims are costing employers and insurers and what preventive measures can be adopted.

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Freedom of services

Greater efficiency, fewer surprises seen in Europe

By Douglas N. Smith

HOW WILL FREEDOM of services, now being realized in the European Community, affect insurance buyers—both American and European—in Europe? To answer that question, we need to look at the kinds of problems likely to develop for multinationals in the emerging "single market," and to discuss some strategies for analyzing and solving these problems.

To keep things in perspective, long before freedom of services became a reality, Americans viewed Europe as one of the most flexible insurance markets in the world; certainly easier to deal with than the U.S. market, and light-years ahead of markets in Africa, South America and the Pacific Rim. Compared to the rest of the world, Europe has allowed relatively free reinsurance flows for decades, and pricing and coverage have usually been freely negotiable. The few notable exceptions have been tariff-related jurisdictions, some local variations in mandatory covers and policy limits, and government-controlled entities such as West Germany's monopoly insurers and its Pharma pool, as well as Spain's Consorcio de Compensacion de Seguros and France's Caisse Centrale de Reassurance.

Freedom of services, therefore, doesn't represent a quantum leap for the European insurance industry. It merely removes some of the last impediments to a truly free market.

Let's focus, then, on how multinational insurance buyers can best position themselves in the current and near-term financial services environment.

First, let's consider program design. Some historical perspective would be helpful in addressing this issue. Many U.S. multinationals —some beginning as long as 30 years ago— have made steady progress from autonomous, local country policies toward a single unified European risk management program. The evolution of such a program might typically begin with a difference-in-conditions, wrap-around policy and, by gradually consolidating property and casualty with a single international underwriter, move toward a "controlled master program." On top of that, a captive insurance company or deductible-funding program might be implemented.

How fast a company moves down this risk management continuum depends on a number of factors. With freedom of services, many of the technical issues will be resolved. Therefore, a company's progress will depend as much on internal politics as on external market factors. Since risk management strategies usually mirror corporate culture, progress depends heavily on strong corporate management support.

Risk managers seeking a truly global program must address many difficult questions: Does my company take a centralized approach to marketing, manufacturing and risk management—or do our subsidiaries have operating autonomy? How deeply has the pan-European mentality penetrated the hearts and minds of our upper management? Do nationalistic or ethnocentric preferences still unconsciously guide our purchasing decisions? Freedom of services offers risk managers the opportunity to ask these questions, but only the right corporate culture—i.e., one with a centralized risk management function—will allow them to take full advantage of this opportunity.

When multinationals try to meet the insurance needs of all their local subsidiaries, difficult decisions and trade-offs are unavoidable. For example, selecting a single insurance market to provide a master program for all subsidiaries will produce economies of scale and overall price reductions, but sometimes not all subsidiaries will

benefit equally. Instead, formerly tariff-rated countries will enjoy greatly reduced program rates, while a subsidiary or two may actually end up paying more. In these cases, a centralized risk management decision-making process can help to achieve the tricky objective of allocating premium savings properly.

Another trade-off sometimes occurs when the selected master program insurer cannot provide consistent local service. The fact is, there are very few insurers today that are prepared, and have sufficient resources, to service multinational accounts. In addition to using insurers and broker consultants, multinationals need to develop strong in-house risk management functions to enable them to troubleshoot effectively and to balance the conflicting objectives of their various subsidiaries.

Strong corporate support can also help risk managers in standardizing local coverage levels. Needless to say, it is the parent company's responsibility to set standards that eliminate coverage gaps or overlaps and to deal with the interdependencies and contingent exposures that exist among various countries in the program. However, policy terms and conditions, and coverage interpretations, can differ widely from one country to the next, so this becomes a very difficult task. A "top-down" approach—i.e., one with a centralized risk management function—will achieve the best results. In today's competitive marketplace, such an approach can come very close to duplicating the best local contract in all countries.

At the same time, it is important for a program subject to centralized control to be balanced by a strong local presence. Service providers—insurers and brokers—must offer such local expertise to guarantee that the program is effective.

Once all the pressing questions about policy terms and conditions, coverage interpretations, premium taxes, etc., are resolved, we then have to face the issue of practicality. In considering the use of a single policy to cover risks in all 12 of the E.C. countries, we have to ask: Can a single policy cover the client's exposure in 12 countries? As far as property programs are concerned, this will certainly be feasible because we are dealing with tangibles. By contrast, liability programs—product liability in particular—may pose problems.

Since liability coverage reflects local legislation and jurisprudence, we are faced with at least 12 different approaches to issues of liability in Europe. This may be possible to overcome, but it will be a very complex task. The issue of coverage triggers provides a good example.

Consider the case of a person who is exposed to asbestos in the 1960s, becomes ill in 1985, and then files suit against the asbestos manufacturer. In the United Kingdom, the trigger for liability is "occurrence." Thus, the policy coverage of the 1960s would be applicable. But, if the trigger is "claims-made," the 1985 claims-made policy would respond.

West Germany, too, uses an occurrence form, but ties it to a manifestation. Italy also uses occurrence, but requires that manifestation occur within one or two years from exposure. The rest of Europe uses claims-made, except for Switzerland, which has three forms: claims-made, occurrence and "action committed," which ties an occurrence to the moment of manufacture.

If a risk manager could lapse his current liability policies in the various E.C. countries and replace them with a single policy, which one should he take? Claims-made? Occurrence? It is possible for a policy to be preferable in one country but not in another. Whichever one he settles on, what about the runoff on the others? What about incidents that might have occurred prior to the date of the policy rewrite, but are not yet manifested? What arrangements should be made for loss settlement? To which underwriter should he report these losses? Clearly, these practical issues must be dealt with carefully.

Let's now examine how the cross-border marketing of insurance services is changing.

An extraordinary shakeout is occurring in Europe right now. The merger and acquisition scramble is affecting insurers large and small, and the fight for market share should keep insurance rates soft for the foreseeable future. Ten years from now only a relative handful of serious insurers of large industrial risks will be left in Europe.

In the long term, consolidation may foster a greater degree of market specialization, as companies search for new corporate identities. In the future, we will see more companies focusing on a particular line of business or targeting a particular clientele. But for now, the net effect of a single insurance market will be intense competition, which will clearly benefit risk managers.

Thus, the question becomes: How can risk managers harness these market forces to their best advantage? One answer was recently offered by Geoffrey Fitchew, director general of the E.C. Commission, who noted that "access to genuinely independent insurance intermediaries. . . indeed represents the best form of consumer protection." Barriers to free entry still exist. At the moment, a German company, for example, is still going to be reluctant to place its program with a French insurer, and vice versa. There are several reasons for this. First, legislative impediments have historically frustrated cross-border marketing, except in countries where non-admitted insurance is permitted or where a foreign insurer is locally licensed to write business. Second, nationalism on the part of European buyers has helped to support indigenous insurers. And third, this nationalism has been augmented by the conduct of major national insurance companies, which zealously protect their traditional, local clientele by aggressively competing against cross-border newcomers.

Today, cross-border marketing is largely a broker-driven phenomenon. Over time, it will become increasingly important for major policyholders in Europe.

However, the impact of freedom of services will not be felt evenly. For instance, the British, Dutch and Belgian insurance markets are very open, whereas the French and German markets are dominated by local insurers. It doesn't require a great intellectual leap to conclude that German and French insurance buyers will achieve more short-term gains from freedom of services than their British, Dutch and Belgian counterparts.

Finally, let's look at a major product development trend in Europe. One of the clearest long-range trends facing the corporate insurance buyer in Europe is a greater degree of self-assumption of risk. The commercial insurance market is resisting this trend actively, but respectable credits for higher deductibles and expanded use of captive insurance companies are destined to become more popular.

It's not easy for a corporation to convince smaller subsidiaries to accept substantial increases in loss retention, so the burden must be shifted to the corporate level. This is where deductible funding programs and the use of captive insurance companies are vital tools in achieving a risk financing equilibrium.

Before getting carried away with sophisticated

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ASK A BENEFITS ACTUARY

Disaggregation rules pose ESOP questions

Will my company's employee stock ownership plan pass Internal Revenue Service non-discrimination tests?

This question comes from the director of compensation and benefits of a corporation that installed an employee stock ownership plan in 1986. The ESOP provides for an annual allocation of preferred shares to each salaried employee's ESOP account based on a uniform percentage of the employee's compensation. The corporation employs approximately equal numbers of salaried and non-unionized hourly employees. It also sponsors two defined benefit plans: one for salaried employees and another for hourly employees.

The director has heard about the concept of mandatory disaggregation for ESOPs, which was included in the Internal Revenue Service's proposed coverage and non-discrimination regulations issued in 1989 and 1990. The director is concerned that this concept might create compliance problems.

Mandatory disaggregation of the ESOP for non-discrimination testing purposes will likely create compliance problems for the ESOP. Under the mandatory disaggregation rules, an ESOP is tested for compliance with the pension coverage and non-discrimination rules on its own, or with other ESOPs. A plan sponsor cannot elect to aggregate an ESOP with a non-ESOP for testing purposes. In the context of this corporation, mandatory disaggregation means that the ESOP must be tested on its own.

The mandatory disaggregation of the ESOP will cause compliance problems for the coverage tests under Internal Revenue Code Section 410(b). Under these rules, the ESOP must meet one of two tests:

- **Ratio percentage test.**

To meet this test, the percentage of non-highly compensated employees benefiting under the plan must be at least 70% of the percentage of highly compensated employees benefiting under the plan. In general, an employee will benefit under the ESOP if he or she receives an allocation to his or her account during the year. The percentage of non-highly compensated employees benefiting under the plan is then the ratio of non-highly compensated employees who receive an allocation during the year to all non-highly compensated employees of the employer. An analogous calculation is made for highly compensated employees.

- **Average benefits test.**

To pass this test, the plan must cover a non-discriminatory classification of employees and the average employee benefit percentage for non-highly compensated employees must be at least 70% of the average employee benefit percentage for highly compensated employees. The employee benefit percentage for a particular employee is the allocation received by the employee under the ESOP during the year divided by the employee's compensation. For an employee covered by the ESOP, the employee benefit percentage should be approximately equal to a uniform percentage of pay allocated to each employee's account.

Assumptions for coverage tests

		Number of employees
A.	Highly compensated employees in ESOP	200
B.	Non-highly compensated employees is ESOP	300
C.	Subtotal: salaried employees (A + B)	500
D.	Non-highly compensated employees not in ESOP (all hourly employees)	500
E.	Total: All employees (C + D)	1,000

If we assume that all highly compensated employees are salaried employees, it is likely that the ESOP will not pass either the ratio percentage test or the average benefits test. In order to illustrate the application of these tests, the chart provides hypothetical counts of employees consistent with this assumption.

The ESOP in the chart will not pass the ratio percentage test because 100% of highly compensated employees (200 ÷ 200 = 100%) benefit under the ESOP, but only 37.5% of non-highly compensated employees (300 ÷ {300 + 500} =37.5%) benefit. In order to pass this test, the ESOP would need to cover at least 560 non-highly compensated employees (70% of the 800 non-highly compensated employees).

Because of the mandatory disaggregation rules, the ESOP cannot be aggregated with the defined benefit plans for the purpose of applying the ratio percentage test. If this aggregation could occur, the ESOP would pass this test.

The ESOP in the chart will likely not pass the average benefit test either. If 4% of pay is allocated to each salaried employee's account, the average employee benefit percentage for highly compensated employees will be 4% (since all highly compensated employees are covered by the ESOP). However, the test must also include all other employees (the hourly employees not covered by the ESOP) with an employee benefit percentage of 0%. But due to the mandatory disaggregation rules, the test must exclude the benefits provided to hourly and salaried employees under defined benefit plans. Consequently, the average employee benefit percentage for non-highly compensated employees will be equal to 1.5% ({300 × 4% + 500 × 0%} ÷ {300 + 500} = 1.5%). And 70% of 4% (2.8%) for highly compensated employees exceeds the 1.5% for non-highly compensated employees. So this test is failed on this basis.

It should be noted that the proposed coverage regulations do provide other techniques for calculating the employee benefit percentages. Those alternatives would need to be explored before concluding that the ESOP fails the average benefits test.

If the ESOP was not subject to the mandatory disaggregation rules, the ESOP might have passed the average benefits test by taking into account the defined benefit plans. This would help if the defined benefits provided to hourly employees, as a percentage of pay, were more generous than those for salaried employees.

The IRS has indicated that it is rethinking its position on mandatory disaggregation. This regulatory project is said to be on a "fast track." It could be that the IRS may change its position regarding mandatory disaggregation. If not, the plan must be amended by the last day of the 1991 plan year to bring it into compliance with the minimum coverage rules, and such an amendment may require extending the ESOP to the hourly employees retroactive to the 1989 plan year. ■

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four features in the Perspective section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefits management issues and actuarial problems.

Mr. Miner

This month's column on actuarial issues in the benefits field is written by William J. Miner, an actuary with The Wyatt Co. in Chicago. Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions.

Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month. Ms. Werner's column appears alternately on the second Monday of each month. Mr. Miner's next column will appear in October.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Freedom of services directive

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risk financing mechanisms, however, European risk managers must seize control of their international programs as a first step. This requires getting access to information, coverage and exposure data that will facilitate a centralized marketing approach. Virtually all U.S. multinationals have controlled master programs of one sort or another. This has not been true of European companies, and the relatively few European companies that do have CMPs still must fine-tune them.

At the same time, risk managers and their service providers need to pay more attention to loss control engineering and inspection services. The loss control activities of UAP Kemper HPR Co. and some of the Scandinavian companies are still the exception rather than the rule.

Over the long run, risk managers will view quality-of-service issues as more important than price issues. Service quality will ultimately determine what will be the major insurance markets for the major corporate clients.

To meet the demands of risk managers, insurers will need better risk management information systems as well as better mechanisms for program administration, especially for claims support and cash flow to captives.

There will also be significant pressure on underwriters and other service providers to unbundle their services and move to fee-based programs.

All the factors cited above—increasing product sophistication, the trend toward service specialization, the increasing need for cross-border marketing, and the need for local expertise in multiple countries—will combine to increase the demand for quality multinational brokerage services.

Many issues surrounding freedom of services have yet to be resolved, but much can be done in the meantime to streamline, simplify and improve program conditions in Europe without going to a single policy.

All in all, it's a very exciting time to be doing business in Europe. Heightened client expectations are driving the market forward, and insurance markets and service providers are positioning themselves to meet these expectations. When the dust settles, the insurance marketplace will be more efficient. There will be fewer players, but they will be better, stronger players, and there will be fewer unpleasant surprises for the professional insurance and risk management community. ■

Douglas N. Smith is vp and manager of the International Department of Johnson & Higgins in New York. His column appears the first Monday of every month.

4 cited for benefit booklet excellence

The runners-up in the booklet category were:

• Second Place: The Howard Savings Bank, Livingston, N.J.

A dramatic shift is under way at The Howard Savings Bank, which traditionally took a paternalistic approach to benefits: For the first time, employees are being asked to choose among benefits.

A prime reason for introducing a flexible benefits program, called "FLEX: Howard Powered For Your Benefit" is to "limit future exposure and keep benefits and salary on the same keel," said August J. Morris, the senior human resources officer.

To explain the flex program to employees, the bank—which self-insures its health care program—prepared a multi-media campaign that includes a video and a overhead projection program.

But, the centerpiece of the program is a 32-page informational booklet that includes a worksheet and an enrollment form.

The booklet's inside cover tells employees how to use the book, describing its contents and listing the seven steps employees must complete to select their benefits.

In addition to explaining how a flex plan operates, the booklet describes each employee benefit plan option. At the end of every benefit plan explanation, the booklet advises employees what "questions to ask yourself" in determining if the benefit should be selected and at what level.

The bank not only wanted to present clearly the plan's medical, dental, vision care and life insurance options, among others, but it also wanted to build excitement about the bank and its benefits, Mr. Morris said.

"We came up with the idea of emphasizing the 'FLEX' theme with illustrations and photos of actual employees flexing their muscles in sporting activities," said Sallie Vroom, an associate consultant with William M. Mercer Inc. of Morristown, N.J., the consulting firm that worked on the project.

Because the employees were "excited and enthusiastic" about their photos being published, the booklet was "a great public relations measure," Ms. Vroom said.

"The sport theme also imparted a wellness message."

The gymnast on the booklet cover is female, as are most of the other athletes pictured. This was intentional: Close to 70% of the bank's employees are women, she said.

In addition, blues and greens, Howard's corporate colors, figure prominently in the campaign.

Weeks before the commercial bank introduced the flex plan in January, it recruited 15 managers and trained them in benefits design and employee benefits needs.

These "Flexreps" spoke to groups of employees at each of the company's 80 locations, distributed the booklet, showed the video and overheads and fielded questions.

"The communication got through to all levels of the organization," Mr. Morris said. "There were very few complaints."

About 98% of the 1,700 employees returned their forms on time and fewer than 50 people made errors in their benefits selection, Mr. Morris said.

Production costs for the booklet were $50,000.

• Third Place: A three-way tie among Chase Manhattan Bank N.A. of New York; Hershey Foods Corp. in Hershey, Pa.; and Acuson Inc. of Mountain View, Calif.

When Chase decided to introduce a cash-balance pension plan, the bank also completely revamped its employee benefit booklet.

With all benefit information in the one old booklet, it was difficult to update, said Stephen Jurcsek, second vp of benefits planning.

In addition, employees found the booklet confusing and "were constantly in touch with human resources to explain things," he said.

Alexander & Alexander Consulting Group Inc. of Lyndhurst, N.J., "worked with Chase on every aspect of the project from design to distribution," said Robin A. Hill, the A&A associate consultant who headed up the program.

Principal goals included clearly explaining all the company benefit plans and creating a visually appealing package that was comprehensive and easy to update, said Ms. Hill.

Separate booklets were created for each benefit plan: Retirement, health insurance, short-term and long-term disability, life and accident insurance, thrift plan and the dependent care reimbursement account. In addition, a plan administration booklet and a booklet on "Working at Chase" were included.

The title for the package—the Chase Employee Benefits Portfolio—was chosen for its obvious allusions to finance and because it "allowed us to create an identity that was both benefit- and industry-related," said Mr. Jurcsek.

The package of eight 6-by-9-inch booklets, in what Ms. Hill describes as "hip metallic colors," comes in a silver colored box with velcro catches on both corners of the flap. Chase's octagonal logo is on the upper left corner of the flap with eight colored dots corresponding with the colors of the booklets adorning part of the cover.

Information that will likely change each year is packaged together in one booklet called Plan Administration. Chase says it plans to change the color of the booklet as it is updated to help employees differentiate between current and outdated booklets.

Each booklet contains strictly type, although the color bands across the tops of pages and clear charts make them easy to read.

Everyone, including upper management, "was pleased with the initial response" to the program, said Mr. Jurcsek. "Employees didn't realize how good their benefits were and how much value existed in them. The booklets reinforced the value of the program."

The materials were distributed between February and April to more than 30,000 U.S. employees and to a handful of employees abroad, said Mr. Jurcsek.

Chase would not disclose the cost.

When Hershey Foods Corp. consolidated several defined benefit pension plans into a new cash-balance pension plan, candor was its paramount communications goal, said E.J. Collins, manager of benefits planning.

The Hershey, Pa.-based foods concern "wanted the plan to speak for us as a better way to present a pension plan to our employees," said Mr. Collins.

Because the new pension plan and a new flexible benefits plan were to be introduced simultaneously, another key objective was to make sure that the new retirement plan material was visually distinctive, explained Pamela K. Cook, a partner with Kwasha Lipton, a Fort Lee, N.J., consulting firm working on the project.

Hershey is generally known as a maker and marketer of chocolate. But employees of the company's pasta group are sensitive about that perception so "another important communication objective was to develop a style that would represent the total organization," said Ms. Cook.

Wishing to convey a sense of value, stability, and longevity in the new plan, Hershey wanted the highlight booklet and brochure to be subtle, elegant, and tasteful in design, said Ms. Cook.

The campaign also included a letter of endorsement from Chairman and Chief Executive Officer Richard A. Zimmerman, a videotape, and a personalized pension statement for each employee.

"We used subtle references, such as the program tag line 'Simply Better' and grey flannel covers to suggest richness," said Ms. Cook. "By die cutting the cover of the highlights booklet and embossing the cover of the detailed brochure, we were able to create a special effect for the Hershey logo"—an H in the form of a four-leaf clover.

The 12-page booklet explains that each employee receives an "opening balance" in the new plan equal to at least the current value of the benefit due under the prior plan as of Dec. 31, 1988.

It goes on to explain how pay-based credits will be determined, that the interest rate will be based on the average annual yield of a 12-month Treasury bill and that supplemental credits will be added to each employee's account each year equalling 4% of the year-end value of the opening balance.

An easy-to-read chart depicts how the account works for two hypothetical employees over time.

Mr. Collins would not disclose the costs of the booklet and brochure, both of which were distributed in October to 9,000 employees in Pennsylvania, California, Kentucky, Kansas and Nebraska.

How to introduce a flex plan for the first time without creating mass confusion was the problem facing Acuson Corp. of Mountain View, Calif.

The maker of ultrasound imaging systems "wanted to deliver more of what employees needed and less of what was not being used," explained Christy Moore, manager of compensation and benefits.

"The transition to a full cafeteria plan was quite vulnerable (to a negative response) if we didn't clearly communicate the message," said Ms. Moore.

Given the diverse audience—from software engineers to mailroom clerks—the principal challenge was to create a booklet that was "innovative and fun, yet detailed, brief, and concise," said Lynn Saxon, a practice leader with Alexander & Alexander Consulting Group in Dallas, which worked on the project.

"We wanted a 'user friendly' approach," she said, borrowing a term from the computer industry.

Ms. Saxon also borrowed some ideas from the Acuson's employees. "Reflections. . .Benefits In Your Image," the campaign's theme, evolved after repeated sessions with two employee focus groups.

The theme alludes to the fact that the new plan can be tailored to mirror individual employee profiles while at the same time evoking ties to computer imaging equipment—Acuson's principal product line.

Folding the 9½-square-inch booklets was one of the biggest logistical challenges.

The booklet unfolds into six sections of identical size. On the top left panel is a summary of plan choices while the 30-page workbook is stapled to the bottom left panel. An enrollment worksheet takes up both center panels and the right bottom panel houses the enrollment form, which is designed to be computer posted with personal information such as name and social security number. The top right panel is blank.

The workbook describes the benefit options, describes how to fill out the worksheet and then encourages the employee to "read on" at the end of every page. The bottom of each odd-numbered page is illustrated with a small line drawing of men, women and children, which also appears on the cover.

Acuson was "closing the books" on the old plan so it was critical that employees understood the message being communicated, said Ms. Moore.

After receiving newsletters about key components of the program in February, employees saw a video presentation during meetings in Mountain View and at regional offices. New hires received the benefits package by mail.

Despite "slight anxiety due to the element of change, the overall reception was wonderful," said Ms. Moore. "It's unique in the world of benefits that this has been so successful."

The booklet was produced in four months and distributed to 1,100 employees at a cost of $15,000.

—By Collin Nash

Judges praise focused communications

Winners kept target audience in mind

By CHRISTINE WOOLSEY

NEW YORK—Winners in the 18th annual *Business Insurance* Employee Benefits Communication Awards never lost sight of their audiences, say the judges.

"The most important thing the judges noted is that this year's winners never forgot who they were addressing," explained Ronnie Drachman, director of communications for *Business Insurance* in New York. "The audience was always primary." Ms. Drachman and Barbara Dalton, EBC coordinator at *Business Insurance* in New York, coordinated the contest.

Audio-visual productions "hit their audience most definitely," said Judy Nelson, manager of marketing and support services for GAB Business Services Inc. in Parsippany, N.J., and a judge in that category.

"In the better pieces, the communications were sensitive to the demographics of the audience," noted Elizabeth Bohn, manager of compensation for Eli Lilly & Co. in Indianapolis and a judge in the print category. "Some brochures are extremely long and it is very complicated material," so addressing the audience appropriately becomes important, she said.

Many 1990 entries, for example, concerned flexible benefit programs. Those "communications have to be targeted to what the audience has to understand" to make benefits choices, Ms. Bohn said.

Judges' comments about entries in the total benefits category indicated that "there was a definite relationship between the communication effort and the company's image, style and philosophy," Ms. Drachman noted.

They agreed that Southwest Airlines' first place total benefits program "was well coordinated and definitely reflected the company's image. And it utilized its own people most effectively," Ms. Drachman said (see story, page 10).

Reebok International Ltd., which tied for second with Minnesota Mining & Manufacturing Co. in the total benefits category, also reflected the company's unique culture. Its program was "upbeat, expressive and original and seemed to be consistent with the company's style and general marketing efforts," she said (see story, page 10).

Judges in the print category also emphasized the importance of clearly seeing the company name and logo. "They almost always deducted points" when they weren't obvious, Ms. Drachman said.

Nearly all entries this year deftly mixed communication and creativity, according to Ms. Drachman. "Some programs were really getting back to basics and the communication wasn't hindered by over-creativity."

"A couple of pieces tried to get too flashy, but in general I thought the use of graphics was appropriate," said Ms. Bohn of Eli Lilly.

GAB's Ms. Nelson said neither the music nor the graphics detracted from the messages presented in the videos she judged.

Newsletters, submitted as special projects or part of a total program, were far more common this year than in past contests, according to Ms. Drachman. Part of a newsletter's appeal is "it affords ongoing communication," she added.

Paycheck stuffers were another popular option for ongoing communications about benefits. With paycheck stuffers, "the point being, you've got a captive audience. The paycheck may be the same every week, but employees always open them and read them. This seems to be very valuable for many companies," Ms. Drachman said.

Flexible benefit plans may account for some of newsletters' popularity, she said. Ongoing communication efforts can suffer when companies adopt big, one-time programs to introduce flex plans. But this year, "there were quite a few re-enrollment communications so employers really haven't let the ball drop on that," she said.

According to Ms. Dalton, 151 U.S., Canadian and Australian companies submitted a total of 182 entries in six categories: booklets, personalized correspondence,

Continued on next page

EBC judges

Continued from previous page

audio-visual presentations, multimedia programs, special projects and total benefits programs.

Twenty-seven of the entries were produced in-house and outside consultants assisted with the other 155.

Thirty-one firms representing 107 individual consultants participated.

Among the assisting consultants, Hewitt Associates of Lincolnshire, Ill., was the leader with six awards. Next, with five, was New York-based TPF&C, the actuarial and benefit consulting division of Towers, Perrin, Forster & Crosby Inc. William M. Mercer Inc. of New York came in third with three awards.

Alexander & Alexander Consulting Group, the benefit consulting arm of Alexander & Alexander Services Inc. in New York, had two winning entries; Kwasha Lipton of Fort Lee, N.J., and The Wyatt Co. each had one.

Eleven experts in employee benefits and communications judged the entries.

Ms. Drachman said the judges apparently found the booklet category the most difficult, based on the fact that a three-way tie occurred for third place (see story page 21).

Ms. Nelson

Ms. Stewart

Ms. Winfield

Ms. Armstrong

Ms. Corpuz

Mr. Stevenson

Entries were scored from zero to 20 on how well they fulfilled each of five basic criteria: objectives; strategy; content; presentation and effectiveness.

First, judges evaluated whether a program's objectives are clear-cut, specific and practical and whether the strategy is orderly and persuasive.

When assessing the content, judges "are not evaluating the benefits being offered," Ms. Drachman said. Rather, they are analyzing whether all the components necessary to achieve the objectives are present.

Companies should, for instance, make sure employees are well enough informed to make choices about a flexible benefits plan.

Judges examine a program's tone and style to be sure it is appropriate to the particular audience, she said. And production values are examined to determine whether, for example, music or graphics draw the audience's attention away from the overall message in an audio-visual program.

Evaluating program effectiveness "is the most difficult for judges," Ms. Drachman said.

One of the components they must assess is whether a project is memorable. "That's very difficult to evaluate because the programs have a very different personality based on the corporate culture and outsiders sometimes can't identify with it," she pointed out.

When determining if an entry is memorable, "if the information the company supplies us with—about audience demographics, the nature of their business and their location—is well-written, the judges attempt to put themselves in the position of the employee who is viewing or reading the material," Ms. Drachman explained.

However, "when all is said and done, if it's selected as a winner out of 182 entries, and if the judges remember it after two days, it's memorable," she said.

Also included in judging for overall effectiveness is whether the program results in the desired action, and whether it can it be updated and adapted to different audiences over time.

Judges for 1990 were:

- Judy Nelson, manager of marketing and support services with GAB Business Services Inc. in Parsippany, N.J.
- Irene Stewart, director of corporate benefits at Automatic Data Processing Inc. in Roseland, N.J.
- Elizabeth Bohn, manager of compensation at Eli Lilly & Co. in Indianapolis.
- Richard Maduzia, manager of employee benefits at Budget Rent-a-Car Corp. in Chicago.
- Seymour Shelist, executive vp at Premier Graphics in Chicago.
- Julie Hunt, promotion director at Pensions & Investments Age magazine in New York.
- Allison Winfield, marketing and promotion manager at City & State magazine in New York.
- Nancy Armstrong, vp of benefits at American Savings Bank F.A. in Stockton, Calif.
- Dorothy Paige, director of benefits administration at Commonwealth Edison Co. in Chicago.
- Melanie Corpuz, benefits manager at the Long Island College Hospital in New York.
- H.L. Stevenson, corporate editor at Crain Communications Inc. in New York, which publishes *Business Insurance*.

Winners will be honored at a luncheon today at The New York Helmsley Hotel. ■

State regulation

Continued from page 2

self—is useful in focusing regulators' attention on problem areas, said NAIC Vp James E. Long, the North Carolina insurance commissioner.

Over the past three years, the NAIC has made "substantial" progress in enhancing solvency regulation, Mr. Pomeroy said. However, "the breadth of regulatory resources and the capabilities of the existing regulatory system have been underappreciated."

The NAIC report summarizes the changes that have been made to enhance solvency regulation, which include:

- Adopting model laws to restrict the heedless delegation of underwriting authority to managing general agents and a lack of accountability by brokers and reinsurance intermediaries (*BI*, Dec. 18, 1989).
- Amending the NAIC's Model Holding Company Act to require more complete reporting and limiting relationships and transactions between affiliated insurers.
- Beefing up insurer reporting requirements so regulators can better evaluate the adequacy of insurers' reserves and track reinsurance activity including uncollectible reinsurance (*BI*, June 18).
- Enhancing the NAIC's computerized data base for state insurance departments so departments can better monitor an insurer's financial condition and market activity (*BI*, July 23; May 14).
- Fighting insurance fraud through several successful prosecutions, including some involving the Federal Bureau of Investigation, and through closer ties with international regulators.

In addition, state insurance departments have increased their budgets and staffing for solvency regulation, the NAIC said.

Policing insurer solvency became "an imperative" this year under a special agenda Mr. Pomeroy introduced last year (*BI*, Dec. 18, 1989).

A main component of Mr. Pomeroy's plan was the June 1990 adoption of a formal certification program for state insurance departments that meet minimum financial regulatory standards, which include a list of essential model laws, regulations and regulatory resources each department should follow. Copies of that plan and several model laws are attached to the NAIC report.

The NAIC expects that the certification program will encourage each state's legislators to adopt essential model laws and regulations so its insurance department can become certified.

In addition, the NAIC currently is exploring how to better analyze insurer financial data and reinsurance contracts and establish insurer capital requirements.

However, Mr. Pomeroy, as well as others, are critical of portions of the Dingell subcommittee report (*BI*, March 5).

"I believe the conclusions of the report—while useful—were unduly overblown," Mr. Pomeroy said.

For example, the Dingell report raised "the specter of a looming solvency crisis in the insurance industry as disastrous as that which has occurred in the savings and loan industry," the NAIC said. That allegation "is not supported by the facts," the report said.

While the number of insurer insolvencies has increased since the early 1980s, that number still represents "a relatively small proportion" of the total number of insurers, the NAIC said.

In addition, guaranty fund assessments for property/casualty insurers have averaged $477 million annually from 1985 to 1989, or less than 0.3% of premiums, the NAIC said.

In contrast, the GAO estimates that more than 800 of the approximately 3,000 federally insured thrifts, or at least 26.7%, are in deep financial trouble and that the cost to taxpayers to bail out these thrifts could reach $500 billion, the NAIC said.

The "danger" of the Dingell report is that the House Oversight Committee may recommend an "unwarranted" overhaul of the existing insurance regulatory system based on a thorough analysis of only four insolvencies and may overlook the fact that state regulation has a "generally acceptable track record," Mr. Pomeroy said.

Congress could further help regulators by, for example, not interfering with state insurance regulation, the NAIC report said.

For example, Congress should not adopt bills that would weaken the Racketeer Influenced and Corrupt Organizations act. Civil RICO suits filed by regulators against industry defendants are a deterrent against insurance fraud because successful regulators can obtain triple damages from defendants, the NAIC said.

Reasonable regulation "entails a careful balancing of the goal of solvency protection with the goal of available and affordable insurance products," the NAIC said.

The NAIC believes that the steps it has taken will do this.

"But if there are a series of insolvencies or a few with a major national character, there will be federal pre-emption" of state insurance regulation, Mr. Pomeroy predicted.

A spokesman for the Dingell subcommittee had not seen the NAIC report. However, he said that NAIC representatives will be invited to address the subcommittee, probably sometime this fall. ■

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J&H announces promotions

Johnson & Higgins is promoting several executive to key positions in its international operations.

Richard E. Meyer, an executive vp now responsible for overseeing the national casualty practice in New York, has been named a board member in London for Johnson & Higgins Ltd., the firm's Lloyd's of London broker.

J. Kenneth Seward, senior international director and president of Brussels, Belgium-based UNISON, S.A., is to assume active control of J&H/UNISON operations in Europe.

Jeffrey Fieldson, a J&H vp and regional property sales manager in Clevneland, will be reassigned to London to work on developing global property business for J&H Ltd.

Also at J&H:

Kenneth J. Goodchild, a senior vp, was named manager of the Portland, Oregon, office.

Comings & goings: industry

Other agent/broker changes:

F. Herbert Brantlinger appointed chief executive officer and president of Lawrence Insurance Group Inc. of Albany, N.Y. He had been first executive vp of United Community Insurance Co., the company's major property/casualty unit. His predecessor as president of Lawrence Insurance Group, **Lawrence A. Shore**, was appointed president of Lawrence Group Inc., the holding company.

Reinsurance

Richard E. Cole named president and chief executive officer of Chartwell Reinsurance Co., an NWNL Companies Inc. unit in Minneapolis. Mr. Cole, who had been president of Cole, Booth, Potter Inc., an Aon Corp. reinsurance brokerage unit, succeeds Angus Robinson, who died in April.

Lawrence D. Nolen appointed president of the reinsurance division of the Orion Capital Companies Inc. of Farmington, Conn. He will continue as president of Massachusetts Reinsurance Corp. of Boston, the company's treaty reinsurance arm.

Mark W. Hinkley appointed director of treaty operations for Skandia America Reinsurance Co., a Skandia America Group unit in New York. ■

INTERNATIONAL

U.K. seeks bids for division of credit insurer

LONDON—The British government is selling a division of the United Kingdom's state-owned credit insurer.

Prospective purchasers—including overseas buyers—will be invited to bid by Sept. 28 for the Cardiff, Wales-based short-term credit insurance division of the Export Credit Guarantee Department, which is known as the insurance services group.

"I have decided that the short-term business of ECGD should be sold by means of a competition amongst prospective trade purchasers and consortia," Secretary of State for Trade and Industry Peter Lilley announced July 26.

The government announced plans to restructure the nation's export credit program following wide-ranging review of the ECGD last year (*BI*, Jan. 22; July 3, 1989).

The government, which has privatized several state-owned operations during more than 10 years in power, decided to privatize the ECGD's short-term credit department but retain the medium-term credit division, which is known as the project group.

On July 27, London merchant bank Samuel Montagu & Co. Ltd. issued "a preliminary information memorandum and prequalification questionnaire to bona fide investors who have indicated an interest in purchasing the company," said Mr. Lilley.

Copies of the questionnaire will be sent to prospective investors on "written application to Samuel Montagu" and responses must be submitted to the bank "by midday on 28 September 1990," he added.

"In the light of responses received, the next stage in the process will be to dispatch an invitation to tender to shortlisted bidders in due course," he noted.

The ECGD's short-term credit insurance division currently is insuring investments and risks totaling 13 billion pounds ($23.9 billion) and represents a large majority of the ECGD's operations, said Paul Richards, a director of Samuel Montagu.

Mr. Richards said that it was too early to say how much the government hoped to sell the operations for and said any sale would be based on qualitative issues as well as price considerations.

Requests for copies of the memo and questionnaire should be made in writing to O.P. Richards, Director, Samuel Montagu, 10 Lower Thames St., London EC 3R 6AE.

Meanwhile, the ECGD announced this month that its has had many inquiries since it extended its long-term Overseas Investment Insurance Scheme to cover Eastern Europe in April.

The organization has received more than 50 serious inquiries for credit insurance in the last three months from British companies seeking to do business in Eastern Europe, the ECGD announced.

Most of the British companies are seeking to invest in Poland, followed by the Soviet Union and Hungary, according to the state-owned insurer.

Two agro-industrial projects already are under way in Poland with a value of 11 million pounds ($20.2 million) and planned investments in the Soviet Union have reached 20 million pounds ($36.8 million), according to the ECGD.

The ECGD's Overseas Investment Insurance Scheme covers U.K. companies against the main political risks of investing abroad and provides long-term protection against expropriation, war or restriction on remittances back to the United Kingdom.

The ECGD also is guaranteeing repayment of a 5 million pound ($9 million) general purpose line of credit to Hungary.

The credit line is being extended to the National Bank of Hungary to finance contracts for the supply of U.K.-manufactured industrial equipment and associated services.

The loan is being provided by Midland Bank P.L.C.

To qualify, contracts must have a minimum value of 5,000 pounds ($9,192) and be placed by March 9, 1991.

Exporters can obtain further information from Alan Bortnik at Midland Bank, 071-260-5518; or Steven Carroll at ECGD, 071-382-7152.

—By Carolyn Aldred

British Columbia views pension plan standards

By LAURA MAZZUCA

VANCOUVER, British Columbia—The only Canadian province without a pension standards law is expected to join the rest of the country next year by passing a bill setting minimum standards for private plans.

British Columbia legislators are expected to pass during the spring 1991 session the Pension Benefits Standards Act—introduced in the Legislature June 26 by the British Columbia Ministry of Labor—or a similar measure.

The proposed effective date is Jan. 1, 1993.

Labor officials estimate, based on federal tax returns, that there are 3,300 private pension plans covering 750,000 employees in the province, said Bruce McCulloch, director of the political and legislative branch of the Ministry of Labor.

Nevertheless, many businesses in British Columbia expect the impact of the pension standards to be minimal.

Most companies operating there have had to comply with similar laws in other provinces, points out Don Smith, a senior vp with the Alexander Consulting Group Ltd. in Vancouver.

"The vast majority of employers are already complying voluntarily because it's standard across the country," he added.

And pension plans for many companies—like banks, communications networks and interprovince transportation firms—are already governed by federal law. For them, "the impact won't be that dramatic," said Neil Ramsden, a principal with William M. Mercer Inc. in Vancouver.

Small and medium-sized companies operating only in British Columbia will be affected the most, he adds.

In fact, the province's largest employer—the British Columbian government itself—will have to change the most to comply with the law, Mr. McCulloch said.

The province employs about 35,000. Its nine pension plans cover different employment levels like hospital workers, public school teachers and municipal workers and the average vesting period is now 10 years, he added.

Public sector plans, though, would be exempt from funding and solvency requirements to be set by regulators and exempt from an employer contribution standard.

Ontario adopted the nation's first private pension law in 1965. Most other provinces have fol-

Continued on next page

LONDON

Lloyd's underwriting agent seeks stock listing by merger

By CAROLYN ALDRED

LONDON—London Wall Holdings P.L.C. plans to become the third Lloyd's of London underwriting agency to obtain a stock listing on the London Stock Exchange.

The agency, one of the largest in the Lloyd's market, is in merger talks with Edinburgh-based Saltire Insurance Investments P.L.C.—a listed investment company.

A successful merger with Saltire will allow London Wall to obtain a stock exchange listing in the most cost-effective way, said Peter Graham, chairman of London Wall Members Agency Ltd.

If the merger succeeds, "we shall probably dispose of Saltire's investment portfolio," said Mr. Graham.

Saltire invests primarily in insurance operations and has a small stake in London Wall, said Mr. Graham.

The agency hopes to send out documents explaining the terms of the merger—which is subject to agreement by 90% of each operation's shareholders—by the end of August, Mr. Graham said, adding that he could not comment on any details of the merger at this stage.

Satellite damage suit

Underwriters of a satellite damaged on a Cape Canaveral, Fla., launch pad last year are seeking $6 million from McDonnell Douglas Space Systems Co. of Huntington Beach, Calif., the company that loaded the satellite onto a rocket.

Insurers, including a Lloyd's of London syndicate, have filed lawsuits in federal district court in Los Angeles and in a state circuit court in Florida to avoid being time-barred, said a Lloyd's legal department spokesman. Neither suit has been served on the McDonnell Douglas Corp. unit, and the insurers have not decided how to proceed with the claim, he said.

In June 1989, the Insat 1-D, built by Ford Aerospace Corp., was hit by a crane hook after being mated with a rocket. Repairs cost insurers between $7 million and $8 million.

Ford Aerospace had $58 million in prelaunch coverage for the satellite. Willis Faber P.L.C. placed $53 million of the coverage in the London market, led by Excess Insurance Co. and Lloyd's of London syndicate 448, managed by the Wellington Underwriting Agencies Ltd. The other $5 million was written by Trieste, Italy-based Assicurazioni Generali S.p.A. (*BI*, July 17, 1989). All of the insurers are plaintiffs.

The satellite was successfully launched last month following the repairs, a Lloyd's spokesman said.

Continued on next page

Size of quake losses still eludes insurers

By KATE McILWAINE

MANILA, Philippines—Insurers are still trying to get a handle on the extent of their losses from the devastating quake that hit the Philippines July 16.

Some insurers say the final figure could be as high as $800 million, although they say it still is too early to accurately assess their losses.

Philippine President Corazon Aquino has estimated that property losses from last month's earthquake total from 10 billion to 15 billion pesos ($440 million to $660 million).

Following the earthquake, which measured 7.7 on the Richter scale, almost 600 aftershocks have been felt in the worst-hit area, the mountain resort of Baguio north of Manila (*BI*, July 23). The death toll from last month's quake has risen to more than 1,600.

Juan C. Acosta Jr., claims manager for Manila-based FGU Insurance Corp., said the insurer's largest claim would be for the ravaged Hyatt Terraces hotel and resort in Baguio.

Mr. Acosta said FGU and five other Filipino insurers—which he named as Investors Insurance Co., Pioneer Insurance & Surety Corp., Philippines Home Insurance Co., Liberty Insurance Co. and Intintrasprapa Insurance Co.—were coinsurers of the hotel's property coverage.

The total coverage for the hotel was 373 million pesos ($16.4 million), he said. FGU's share of the risk is 24 million pesos ($1.1 million), he added.

"Our losses would have been negligible, except for the Hyatt," Mr. Acosta said, adding that FGU had not yet determined its total losses.

American Home Assurance Co., a unit of New York-based American International Group Inc., wrote business interruption and contents coverage for the Hyatt Terraces hotel and resort, confirmed John Bassetto, regional vp and property manager for American Home in Manila.

"We have reserved it at a 100% total loss," he said. "It's certainly a

Continued on next page

AP/Wide World Photos

Rescue workers sort through a collapsed building in Baguio last month, following the quake that devastated the Filipino resort.

INTERNATIONAL

Earthquake

Continued from previous page

few million dollars."

Mr. Bassetto said he knew of other insurers whose losses in Baguio ranged from $37 million to as high as $70 million.

Michael Yap, claims manager for the Manila-based Malayan Insurance Co. Inc., one of the largest insurers in the Philippines, said his company has not yet received reports from its loss adjusters and could not estimate the full extent of its losses.

The insurer's biggest claim, however, would be for damage to the Baguio telephone system, although Mr. Yap would not comment on limits of coverage or any details of the policy it wrote for the local telephone system.

AIG's Mr. Bassetto said he visited Baguio only days after the quake and that it is impossible to grasp the extent of the devastation.

"Two or three blocks have just been wiped out," Mr. Bassetto said.

Buildings that were still standing were leaning against others and would need to be demolished, he said.

Other resort properties in Baguio incurred heavy damage, observers say.

Mr. Bassetto estimated damage to the Nevada Hotel to be about $15 million to $20 million, while the Hilltop Hotel sustained damage of around $10 million.

He could not identify the insurers of the hotels.

The extent of damage at the Baguio Country Club, which was insured by AIG, was around $4 million, according to Mr. Bassetto. ■

Pensions

Continued from previous page

lowed suit, with all major provinces passing a law within several years, said Mr. Smith of Alexander Consulting.

British Columbia lagged because it has a leaner government than other provinces, it "tended to shy away from creating bureaucracy," and neighboring provinces set standards for many British Columbian employers, said Mr. Ramsden of Mercer.

British Columbia's Bill 44 is based on legislation enacted in Alberta. Many British Columbia employers have had to comply with that nearby province's law anyway, Mr. McCulloch said.

In fact, the proposed legislation "doesn't do anything we haven't seen in other provinces," except less stringent enforcement, Mr. Ramsden said.

To hold down costs and prevent the regulatory overload that has plagued other provinces, Bill 44 makes plan sponsors, rather than government regulators, responsible for compliance, he said. Administration will be on a complaints-only basis rather than by individual testing.

By contrast, Ontario regulators can accept or reject pension plan proposals from employers, Mr. Ramsden said.

"There is less regulation in the draft act than in any other of the provincial acts," he added.

The bill's main points include:

- Employees must become eligible to participate in a plan after no longer than two years of continuous service.
- Gender discrimination is prohibited, making unisex annuity rates and actuarial factors mandatory.
- Benefits accruing on or after the bill's effective date must be fully vested after five years of continuous service after that time.
- Employers must contribute at least half the value of an employee's pension for service on or after the effective date.
- Funding and solvency requirements, to be established by regulation.

Pension benefits were put on the table by a 1989 Ministry of Health review of senior citizens health needs, Mr. McCulloch said.

Officials are also studying the feasibility of creating a province-run pension plan similar to one now in effect in Saskatchewan, he said.

The Saskatchewan plan permits small businesses without pension plans to buy into the provincial plan.

A government study on such a plan is due to be published this fall. ■

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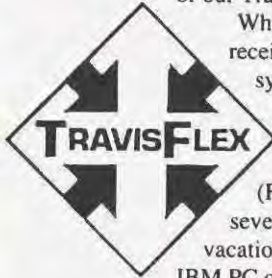

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LONDON

Continued from previous page

J&H sells Willis stake

Johnson & Higgins sold its 5% shareholding in Willis Faber P.L.C. late last month.

The U.S. broker sold its stake July 27 to several international institutional investors for 245 pence ($4.50) a share, helping push up Willis Faber's share price nine pence from 236 pence ($4.33).

The sale comes nearly two months after Willis announced plans to merge with Corroon & Black Corp.—an announcement which threw into disarray Willis' longstanding relationship with J&H and the UNISON worldwide network of brokers (*BI*, June 11).

Stock analysts who were pessimistic about the Willis-Corroon merger at the outset are now more optimistic following the sale of J&H's 5% shareholding.

The analysts—who focused on the short-term problems of the merger such as the breakup with J&H—worried that Willis's share price would drop when the 5% was placed on the market, thus jeopardizing the Willis-Corroon merger. However, Willis' share price, which has stabilized to around 245 pence per share ($4.50), and a strong dollar will assist a smooth merger, they now say.

"I think the whole thing will go through now and the merger will gradually develop," said stock analyst Chris Pountain at Morgan Stanley in London after the announcement of the sale. However, "I don't suppose it will be a smooth transition."

Meanwhile, Willis "is continuing to do business together with all the UNISON members," said a Willis spokesman.

Sturge closing syndicate

Sturge Holdings P.L.C. is closing down one of its oldest syndicates and merging two others because they are too small to operate viably as independent units, the underwriting agency says.

Marine syndicate 304, which is managed by Sturge subsidiary Edwards & Payne (Underwriting Agencies) Ltd., will stop accepting new business this year and will be closed down, confirmed Johnston Brown, Sturge's company secretary. The syndicate's existing business will be reinsured into other Sturge syndicates, he said.

The syndicate, which began trading in 1936, has a premium capacity for 1990 of 14 million pounds ($25.7 million), but it has been writing only about 40% of its total capacity, said Mr. Brown.

The agency decided that "it is no longer a viable operation. It was not writing anything like its capacity and as a result expenses were going up," he said, adding it was "difficult to trim costs on such a small syndicate."

The 350 members of the syndicate will be offered allocations on other syndicates managed by Sturge and its subsidiaries, said Mr. Brown.

According to a letter sent to syndicate members, other reasons for closing the syndicate include:

- "Deteriorating loss ratios for the 1988 and 1989 accounts." For 1987, Syndicate 304 reported a loss equal to 8% of its premium income, and the syndicate probably will report larger losses for the 1988, 1989 and 1990 underwriting years due to the large claims that have hit marine underwriters in recent years, he said.
- No "reasonable immediate prospects of a meaningful increase in marine market rates."
- The "most unfortunate (underwriting) position" in the Lloyd's building which "has had, and would continue to have, an adverse effect on business prospects."

Meanwhile, Sturge subsidiary Oxford Underwriting Agencies Ltd. announced July 27 that it was merging two of its non-marine syndicates into other syndicates, noted Mr. Brown.

Syndicates 153 and 498 are being merged into syndicates 122 and 546 respectively because the agency decided they were too small to stand alone, said Mr. Brown.

"For some time we have been aware that the increased costs of running small syndicates make it necessary for a basic re-evaluation of each syndicate's ongoing viability," said Oxford Managing Director P.R. Wilby in a letter to members.

Sturge Chairman David Coleridge warned earlier this year that it was becoming increasingly difficult for smaller syndicates to trade effectively in the Lloyd's market.

In another recent development, Sturge July 30 announced plans to acquire Lloyd's members' agency Donner Underwriting Holdings Ltd. for an undisclosed amount.

Donner represents 530 Lloyd's members with an allocated capacity of about 275 million pounds ($505.9 million). As a result of the acquisition, Sturge will represent a total of 3,150 members and have a total capacity of 1.3 billion pounds ($2.4 billion).

Donner will remain an independent members' agency after the acquisition and John Donner, the current chairman, will become president. The acquisition is expected to be completed next month.

Takeover coverage

TOI Corporate Services Ltd. and affiliate Robert Fraser Special Risks Ltd., a Lloyd's of London broker, are marketing a new insurance product to reimburse companies for expenses incurred in defending against a hostile takeover.

Takeover insurance would cover external costs associated with merchant banking, accounting, printing, legal advice, advertising, public relations and stock brokerage.

The policy—underwritten 70% by Lloyd's underwriters and 30% by London companies—provides limits of 50,000 pounds ($91,925) to 500,000 pounds ($919,250), rising in 50,000-pound increments. Additional limits are available at the underwriters' discretion.

Although the coverage has a 15-month policy period, no claims stemming from takeover bids that occur within three months of the policy's inception will be covered, according to promotional material.

The policy can be renewed for a further 12-month period.

Premiums range from 3.5% to 5% of the policy limits, TOI says.

All companies listed on the London Stock Exchange and the Unlisted Securities Market in Britain are eligible for the coverage, though it is designed for companies with at least 10 million pounds ($18.4 million) in capital, according to TOI. ■

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Business Insurance

GLOBAL BRIEFS

Italy's Generali acquires U.S. life insurer

KANSAS CITY, Mo.—Italy's largest insurance group, Assicurazioni Generali S.p.A., has completed its $285 million acquisition of Business Men's Assurance Co. of America, an insurer based in Kansas City, Mo.

The cash-and-assets purchase of the insurer from holding company BMA Corp. marks Generali's first foray into the U.S. life insurance market, according to a spokeswoman for BMA. The Trieste, Italy-based insurer has a property/casualty branch, General Insurance Co. of Trieste & Venice, in New York.

Generali has 56 insurance subsidiaries in 40 countries. About two-thirds of its reported 1989 premium revenue of $9 billion is generated outside Italy.

Business Men's Assurance, which markets group and individual life, health and disability coverages, reported $380 million in 1989 gross premium income. The insurer has extensive reinsurance operations and specializes in health coverage for agricultural firms.

The deal, which was initiated in March, was completed July 31. A new chief executive and board of directors were named for BMA after the buyout, although the company will retain its name, location and staff.

Giorgio Balzer, U.S. representative for Generali, has been named chairman and chief executive officer of Business Men's Assurance. Mr. Balzer, who will divide his time between New York and Kansas City, will continue to oversee Generali's other U.S. operations.

J. William Sayler Jr. was appointed president and chief operating officer. Most recently, he served as executive vp-insurance operations for the insurer. And, John E. Walker, formerly executive vp-reinsurance and related services, has been named managing director-reinsurance of BMA.

W.D. Grant, chairman of BMA Corp. and former chairman of its insurance subsidiary, and W. Thomas Grant II, president and chief executive officer of BMA Corp. and former president and CEO of the insurer, are among the 14 new board members of BMA. Others include: William O. Bailey, chairman and chief executive officer of White Plains, N.Y.-based MBIA Corp., and John P. Mascotte, president and CEO of Continental Corp. in New York.

Spokesmen for Generali were not available for comment.

—By Paul D. Winston

Oman insurance market

MUSCAT, Oman—The Oman National Insurance Co. S.A.O., the largest insurer in the country, will be among the first state-controlled firms to be selected for a privatization program scheduled to begin next year, Middle East insurance sources predict.

The Oman Ministry of Commerce and Industry holds a 15% stake in ONIC, while the remaining shares are held by Omani nationals. ONIC, which has a 50% share of Oman's domestic insurance market, reported 13.5 million Omani rials ($35.1 million at current exchange rates) in gross premium income in 1989.

ONIC General Manager Michael J. Adams would not confirm whether the insurer will be privatized. Although privatization of state-controlled companies has been talked about in general terms, "we are not aware of any specifics," he said.

ONIC was established in 1978 as the first national insurance company in Oman, Mr. Adams said. There are three other insurance companies in Oman that are wholly owned by Omani nationals:

- As Nisr Insurance Co.
- Arabia Insurance Co.
- Al Ittihad Al Watani Insurance Co.

In addition, 15 foreign insurers are represented in Oman.

Up until last year, ONIC was the preferred sole insurer for state-owned risks, including the government's largest enterprise, oil company Petroleum Development Oman.

However, under new insurance regulations, 45% of state-owned risks must be subject to competitive bidding between ONIC and the other three domestic insurers, which are guaranteed at least a 15% share of each state-owned risk.

"We have to bid like everyone else now. We think the government has done this to foster growth among the national companies," said ONIC's Mr. Adams.

Like all other oil-producing nations in the Middle East, Oman experienced an economic slump following the 1985-86 drop in world oil prices, he said.

But, as economies began to pick up last year with more stable oil prices, there are some indications of insurer premium growth as governments resume infrastructure projects, Mr. Adams said.

Nevertheless, insurance in the Gulf states remains fiercely competitive, he said.

—By Maria Kielmas

Munich Re results

MUNICH, West Germany—Munich Reinsurance Co. is confident it will report an increase in profits for 1990, despite suffering several major losses including the second largest loss ever to hit the company.

Munich Re announced late last month that its premium volume for the year-ending June 30 had increased 1.5% to 12.6 billion deutsche marks ($7.59 billion at appropriate exchange rate) from 12.4 billion deutsche marks ($6.36 billion) at June 30, 1989.

The company also said that it will show an increase in profits from 62.7 million pounds ($37.8 million) in 1989 when the 1990 profits are published in November. Munich Re would not disclose its 1990 profits as of June 30, but said that the increase will enable the company to produce the same dividend to shareholders as it did in 1989.

The company expects an increase in profits despite a slew of claims from natural and man-made disasters that hit Munich Re during the last half of 1989 and the first half of this year.

The losses include the series of storms that whipped Europe in January and February, which are estimated to have caused $8.8 billion in total insured losses (*BI*, April 30).

Together, the string of windstorms is the second-largest loss ever incurred by Munich Re in its 110-year history, a Munich Re spokesman said.

Although the spokesman would not say what the cost to Munich Re will be from the European storms, he said only the 1906 San Francisco earthquake has produced a greater single loss for the reinsurer.

That earthquake cost the company 11 million deutsche marks, which was greater than 10% of the company's total premium volume that year, he said.

However, Munich Re is adequately reserved to prevent a serious impact on the balance sheet from last year's losses, according to the spokesman.

Munich Re said other losses to hit its 1989-1990 results include: Hurricane Hugo (*BI*, Oct. 2, 1989; Sept. 26, 1989); the 1989 San Francisco Bay area earthquake (*BI*, Oct. 30, 1989; Oct. 23, 1989); and industrial fire losses in Belgium, West Germany and Texas, which likely includes the explosion last October of a petrochemical plant in Pasadena, Texas (*BI*, Oct. 30, 1989).

The company would not give specific details of the losses incurred by the company until its results are published in November.

The largest portion of Munich Re's premium volume in both 1989 and 1990—2.5 billion deutsche marks ($1.51 billion)—is generated by insuring industrial "fire" risks. The term fire is used by European companies to differentiate between property loss caused by fire and property losses caused by other perils such as windstorm and flood.

Roughly 2.2 billion deutsche marks ($1.32 billion) comes from auto risks, up from 2.1 billion deutsche marks ($1.08 billion) in 1989; 2.2 billion deutsche marks from life insurance, up from 2 billion deutsche marks ($1.03 billion) in 1989; and 1.4 billion deutsche marks ($843 million) from liability risks, down from 1.5 billion deutsche marks ($768 million).

The rest of the premium volume is generated from accident, marine, aviation and miscellaneous risks such as theft, water damage, hail, livestock and homeowners, said the spokesman.

Munich Re increased its share capital last December to 655 million deutsche ($387.6 million) marks from 590 million deutsche marks ($332.6 million) at year-end in 1989.

—By Stacy Shapiro

Business Insurance covers powerful issues

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Vice-Presidents, General Managers and Other Administrative Personnel	3,847
Financial:	
Chief Financial Officers and Vice-presidents of Finance	2,382
Secretaries, Treasurers, contollers and other Financial Personnel	3,562
Risk/Employee Benefits:	
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	11,566
Sub-total	**24,648**
Associations	539
Government, Unions and Educational Institutions	1,389
Commercial Consumers Sub-total	**26,576**
Insurance Agents and Brokers	10,223
Insurance Companies	7,713
Accountants, Actuaries, Attorneys & Consultants	3,353
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,115
Others Allied to the Field	2,149
TOTAL	**51,129**

* Source Business/Occupational breakdown of qualified circulation, November 27, 1989 issue, as submitted to BPA for December 1989 BPA Publisher's Statement

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NOTICES

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION OF)
ASSOCIATED LIFE INSURANCE COMPANY) NO. 88 CH 6942

NOTICE

PLEASE TAKE NOTICE, that on March 3, 1989 an Order of liquidation with a Finding of Insolvency was entered against Associated Life Insurance Company ("Associated") by the Honorable Harold A. Seigan, Judge of the Circuit Court of Cook County, Illinois. Zack Stamp, Director of Insurance of the State of Illinois, is the statutory and court affirmed Liquidator of Associated.

TAKE FURTHER NOTICE that pursuant to said Order, all rights and liabilities of Associated and its creditors, policyholders and all other persons interested in its assets are fixed as of March 3, 1989, unless otherwise provided by such further Order of the Court.

TAKE FURTHER NOTICE that any and all persons, partnerships, corporations, associations, estates, trusts and governmental units having or claiming to have any accounts, debts, claims or demands against Associated or claiming any right, title or interest in or to any funds or property of Associated in the possession of the Liquidator are required to file a Proof of Claim with the Liquidator on or before 4:30 p.m. Chicago Time, December 31, 1990.

TAKE FURTHER NOTICE, that the form and required content of all proofs of claim are described in the Illinois Revised Statutes, 1987, Chapter 73, Paragraph 821. Proofs of claim, together with supporting documents, if any, are to be filed with and may be secured from the Special Deputy Liquidator, Associated Life Insurance Company, In Liquidation, 446 East Ontario Street, Suite 700, Chicago, Illinois, 60611. Filing shall occur upon the receipt of Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claims as he may deem necessary. The Liquidator further reserves all rights to any and all defenses of Associated concerning such claim. 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 CLAIMS WITH THE LIQUIDATOR AT HIS ABOVE MENTIONED OFFICE IS DECEMBER 31, 1990 AT 4:30 P.M., CHICAGO TIME. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST ASSOCIATED LIFE INSURANCE COMPANY, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE DECEMBER 31, 1990 AT 4:30 P.M.

James W. Schacht, Special Deputy Liquidator, Office of the Special Deputy, 446 East Ontario, Suite 700, Chicago, Illinois 60611, (312) 915-4700.

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NOTICES

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION OF)
UNITED FIRE INSURANCE COMPANY) NO. 88 CH 6942

NOTICE

PLEASE TAKE NOTICE, that on March 3, 1989 an Order of Liquidation with a finding of Insolvency was entered against United fire Insurance Company ("United Fire") by the Honorable Harold A. Siegan, Judge of the Circuit Court of Cook County, Illinois. Zack Stamp, Director of Insurance of the State of Illinois, is the statutory and court affirmed liquidator of United Fire.

TAKE FURTHER NOTICE that pursuant to the Order of said court, all rights and liabilities of United Fire and its creditors, policyholders and all other persons interested in its assets are fixed as of March 3, 1989, unless otherwise provided by such further Order of the Court.

TAKE FURTHER NOTICE that any and all persons, partnerships, corporations, associations, estates, trusts and governmental units having or claiming to have any accounts, debts, claims or demands against United Fire or Claiming any right, title or interest in or any funds or property of United Fire in the possession of the Liquidator are required to file a proof of Claim with the Liquidator on or before 4:30 p.m. Chicago Time, December 31, 1990.

TAKE FURTHER NOTICE, that the form of and required content of all proofs of claim are described in the Illinois Revised Statutes, 1987, Chapter 73, Paragraph 821. Proofs of claim, together with supporting documents, if any, are to be filed with, and may be secured from, the Special Deputy Liquidator, United Fire Insurance Company, In Liquidation, 446 East Ontario Street, Suite 700, Chicago, Illinois, 60611. Filing shall occur upon the receipt of Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claims as he may deem necessary. The Liquidator Further reserves all rights to any and all defenses of United Fire concerning such claim. 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 CLAIMS WITH THE LIQUIDATOR AT HIS ABOVE MENTIONED OFFICE IS DECEMBER 31, 1990 AT 4:30 P.M., CHICAGO TIME. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST UNITED FIRE INSURANCE COMPANY SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE DECEMBER 31, 1990 AT 4:30 P.M.

James W. Schacht, Special Deputy Liquidator, Office of the Special Deputy, 446 East Ontario, Suite 700, Chicago, Illinois 60611, (312) 915-4700.

IBM benefits

Continued from page 2

of about 10,000 mental health care providers. The network will include psychiatrists, psychologists and other clinical practitioners like therapists and social workers; acute and residential treatment facilities; and counseling facilities.

APM also will manage the network and provide case management and utilization review services for the duration of the five-year contract.

Under the managed mental health care plan, cost increases are expected to decline as services rendered become more appropriate, explained Suzanne Gelber, a consultant in the New York office of TPF&C.

"Every case will be reviewed regularly. There will be no unnecessary admissions. IBM would prefer to control care rather than slash benefits," she said.

"We are hoping that by managing health care we can get annual cost increases down into the single digits," Mr. Matson said. "However, this isn't a precise science, so we cannot predict exactly how much this will do. It isn't intended to save money, but to control costs."

Mr. Matson said APM was selected from more than a dozen mental health care utilization review firms.

APM expects to "significantly reduce overall mental health trends IBM would have experienced with the absence of a managed mental health network," said Thomas J. Neville, APM's chief operating officer.

The contract between IBM and APM contains performance guarantees, but Mr. Neville declined to provide details.

IBM would not comment on the performance guarantees.

The network is scheduled to be operational on Oct. 1 in California; Texas; the Washington, D.C., metropolitan area; Chicago; and Atlanta. Initially, about 150,000 participants will be served, Ms. Gelber said. The network will be operational nationwide by the end of 1991.

IBM's managed care plan would improve coverage for those who obtain care from network providers.

IBM will pay 100% of the cost of the first year of inpatient care after deductibles for people who obtain care from network providers. IBM will cover 80% of the cost of inpatient care, after deductibles, in subsequent years.

IBM will continue to provide current inpatient coverage levels to those who do not obtain mental health care from network providers: 80% of the cost for up to the first 90 of days of care and 50% of the cost of care from 91 days up to a limit of one year, after deductibles.

All beneficiaries, regardless of whether they use network providers, are subject to deductibles equaling 40% of the cost of the first day of room and board.

The cost of outpatient care up to $15,000 will be covered at 80% when network providers are used, after deductibles. IBM will pay 50% of outpatient care costs from $15,000 to $25,000, with $25,000 the limit of covered care.

IBM will continue to provide current outpatient coverage levels to those who obtain care from non-network providers: 50% of the cost of outpatient care up to $25,000.

Deductibles for outpatient mental health care will equal 0.003% of annual salary, or $150, whichever is greater.

IBM is offering a transition period for those currently under mental health treatment, Ms. Gelber of TPF&C pointed out.

Those who are hospitalized may remain there until treatment is concluded and receive in-network benefits, Ms. Gelber said.

Those who are receiving outpatient care on Oct. 1 will receive the equivalent of in-network coverage for six months, after which they must either choose a provider within the network or receive reduced coverage.

"This, too, is pretty generous," Ms. Gelber said. "Ninety days is more normal during a transition period."

The network also provides coverage for services currently not covered under the IBM plan, Ms. Gelber pointed out. For example, counseling by social workers in the network will be covered, and group homes and halfway houses will now be covered treatment facilities.

"This will be the largest program in the country, not only because of the number of employees and participating providers, but also because of the breadth of covered services," Mr. Matson said.

At a time when most employers are attempting to curb health care costs by channeling people away from expensive inpatient services by offering incentives to use less costly outpatient clinics, IBM's plan is being applauded by employee benefit consultants for its generosity.

IBM "is doing the right thing with their mental health program," said Bill Danish, a consultant with Kwasha Lipton in Fort Lee, N.J.

"Even though (all inpatient services) are covered at first, it's managed. With exploding mental health care costs you can either cut benefits or manage them. Although it's a huge undertaking, managing a psych program like this is a good approach."

About 67% of employers "with psychiatric case management report cost savings, although these savings are usually less than 5%," said David Seifried, a consultant in the Seattle office of Hewitt Associates.

"With 700,000 covered lives and 100% coverage (for inpatient care), it will be a hell of a project. Even so, I support it," Mr. Seifried said.

Eileen McCabe-Settineri, a consultant with Buck Consultants Inc. in Secaucus, N.J., said she was "surprised to see the 100% coverage level" for inpatient care from network providers.

"The only way to achieve cost savings with their plan design is for APM to really be aggressive in setting up a network of cost-effective providers. Then, they must really monitor care."

Ms. McCabe-Settineri expects that other large employers will look at the IBM plan as model.

"IBM is a trend-setter. It's a blue chip company, and its endorsement of a program like this should have a ripple effect," she said.

IBM also is the first major company to subsidize a long-term care insurance program for all its employees, their parents, employees spouses and spouses' parents.

In April 1989, Ford Motor Co. began paying for long-term care benefits for 6,600 employees and retirees in the Louisville, Ky., area. However, the Ford plan, which came about through collective bargaining sessions with the United Auto Workers union, is a pilot program scheduled to be completed after 1991 (*BI*, March 27, 1989). Ford has not said whether the plan will be continued after the pilot program expires.

IBM's LTC program will be available to more than 500,000 lives, according to Bryan Lane, a principal in TPF&C's Stamford, Conn., office, and the supervising consultant for the IBM project.

Under the plan, which will be underwritten by Boston-based John Hancock Mutual Life Insurance Co., the company will pay up to 20% of annual premiums through a "personal health assistance/preventive care account."

IBM will increase the annual amount that it contributes to individual health assistance accounts to $500 in 1991 from $200 currently.

Employees can use the funds in the account to pay for up to 20% of LTC premiums.

Remaining funds can go toward preventive care not covered by the medical plan, such as physicals and vision and hearing exams.

The plan will offer three levels of daily nursing home care, home health care and adult daycare coverage.

Under the plan, participants can select a $150, $100 or $50 daily maximum nursing home benefit. The daily home health or adult daycare benefit options are $75, $50 and $25.

Mr. Lane said premiums for a 35-year-old selecting the $100 nursing home benefit will be about $160 annually. A 55-year-old with the same benefit will pay about $465 annually.

The program includes a non-forfeiture provision, under which participants who pay premiums for 10 years can discontinue paying premiums and still receive 30% of the value of their benefit level. Participants who drop out after paying premiums for 25 years receive 70% of their chosen benefit level.

Mr. Lane said IBM's rates will be based only on IBM participants' experience. "This is unique," he said. "All other plans, to my knowledge, are pool-rated."

John Hancock also has included several financial guarantees:

- Assets from participant premiums have a guaranteed rate of return to ensure adequate reserves.
- The amount that premiums can be increased is limited.

Mr. Lane of TPF&C would not elaborate about the limitations.

"Our eyes popped out when Hancock agreed to these requests. It has never been done before on LTC, and it's important because we don't know yet future morbidity with regard to these plans. They're relatively new," Mr. Lane said.

Open enrollment in the LTC program will occur later this month, and coverage is effective Oct. 1.

Kathy Glynn, a consultant in the Washington, D.C., office of The Wyatt Co., commended IBM for picking up a portion of LTC premiums.

"This is a significant move," she said. "Twenty percent, although small, is significant relative to no contribution at all. But, I'm not sure it will lead other employers involved with LTC to do it, too."

Other improvements at IBM include:

- A catastrophic care assistance program, under which employees and dependents with cancer, acquired immune deficiency syndrome, head and spinal injuries, severe burns, diabetes, respiratory problems and pregnancy complications, among other ailments, can call a 24-hour toll-free phone line and receive information and referrals.

Employees with these conditions also can voluntarily participate in case management administered by Berwyn, Pa.-based Intracorp, a unit of CIGNA Corp. About 1,000 cases per year are anticipated.

- The individual lifetime maximum dental benefits have been increased to $8,500 from $7,500. And, lifetime orthodontic benefits at IBM have been increased to $1,350 from $1,100. ■

AIDS coverage ruling

Continued from page 1

As a self-funded plan, H&H's plan is exempt—under ERISA's pre-emption provisions—from benefit requirements Texas imposes on health policies sold by commercial insurers. As of last year, state law bars sublimits on health policies.

After the changes in the health care program were made, Mr. McGann sued H&H, Brook Mays Music Co. in Houston—H&H's parent company—and General American. The suit, which charged that the defendants violated ERISA provisions that bar discrimination against plan participants, sought reinstatement of $995,000 in medical benefits and $4 million in punitive damages (*BI*, Nov. 27, 1989).

But Judge Black dismissed the suit. While ERISA, he wrote, establishes uniform standards on reporting, disclosure and fiduciary responsibility, it does not require employers to provide particular benefits.

Judge Black wrote that the changes in H&H's group health care plan were consistent with the purpose of ERISA: protecting the plan.

"Defendants made changes in the plan because in past years the plan suffered serious financial losses. Defendants were faced with either dropping the plan altogether or making changes. The alterations were not made to discriminate against McGann or anyone who was diagnosed with AIDS," he wrote.

Judge Black noted that summary plan descriptions H&H distributed to employees made clear that the company could amend or terminate the health care plan at any time.

"Therefore, beneficiaries were put on notice that from year to year their group medical plan could change," Judge Black wrote.

The H&H benefit program does not prohibit changes, Judge Black wrote. "Just as defendants can make the benefits larger for AIDS patients, they can also make the benefits smaller."

H&H attorney Mark Huvard, a partner with the Houston law firm of Engelhardt, Harberg & Huvard, hailed the court decision as correct.

"I'm happy that they (H&H and the other defendants) won. They followed the law as the law now exists," Mr. Huvard said.

Mr. Huvard said H&H changed its medical plan because the company could not afford to bear the risk of AIDS claims.

"There was no discrimination" against Mr. McGann, he said.

But Thomas Stoddard, co-counsel for Mr. McGann and executive director of Lambda Legal Defense and Education Fund, a New York-based legal organization for lesbians and gay men, described H&H's action as "offensive."

"The employer only was concerned with AIDS. What is offensive is that the employer singled out AIDS" in imposing the $5,000 cap on benefits, Mr. Stoddard said.

"The case has extraordinary importance" Mr. Stoddard said, adding that unless the decision is overturned, employers will be encouraged to discriminate in their health care plans against employee with AIDS.

The McGann case is now on appeal to the U.S. 5th Circuit Court of Appeals in New Orleans.

But benefit consultants say most employers, especially large companies fearing adverse publicity, are unlikely to cap benefits just for employees with AIDS.

"I don't think major employers would rush to embrace this approach," said David Young, a consultant with The Wyatt Co. in Washington, D.C.

"The public relations consequences are likely to be Draconian. You are almost assuring yourself a spot on the evening news," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

"There could be a real employee relations and public relations problem," said John Hoos, a consultant with Hewitt Associates in Lincolnshire, Ill.

Indeed, two years ago, Circle K Corp., a Phoenix, Ariz.-based national chain of convenience stores, quickly canceled—after a blast of adverse publicity—a change in its self-funded health care plan that would have eliminated coverage for AIDS in some cases.

Circle K initially said it would no longer pay for health care claims it determined were caused by "personal lifestyle decisions." Under the policy, AIDS cases caused by blood transfusions were covered, while AIDS claims filed by homosexuals and drug users were not (*BI*, Aug. 15, 1988).

Most likely to provide inequitable benefits would be smaller firms that are less likely to be in the public eye and would have more difficulty absorbing the cost of an AIDS claim, consultants say.

But the Americans with Disabilities Act, signed last month by President Bush, could make it more difficult for companies to provide discriminatory health care benefits to employees with AIDS.

Under Section 501 of the law, which does not go fully into effect until July 1992, employers and insurers can continue to offer and administer health care plans in accordance

Continued on next page

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AIDS ruling

Continued from previous page

with or not inconsistent with existing state or federal laws.

For example, Section 501 says nothing in the ADA should be construed to restrict a company from establishing or administering a bona fide benefit plan based on underwriting risks, classifying or administering risks that are not inconsistent with state law.

However, Section 501 also says this special insurance and employee benefits exemption should not be used as a "subterfuge" to evade the purposes of the act, which is to prevent discrimination against any individual with a disability.

"There is a guarantee of more litigation" on what constitutes a subterfuge, said Frederick Rumack, director of tax and legal services at Buck Consultants Inc. in New York.

Despite all the publicity, employers currently are not swamped with AIDS cases. A recent Hewitt Associates survey found that 72% of employers did not have any AIDS cases over the last year, while 12% had only one case.

In addition, a Foster Higgins survey found that 40% of employers said they had AIDS cases at some time, with the number of cases averaging five.

And, health insurance payments for AIDS cases comprise only a small percentage of health insurers' total claims.

For example, a survey of 274 insurers by the American Council of Life Insurance and the Health Insurance Assn. of America found that AIDS-related claims amounted to only 0.8% of all group health and accident claims in 1988 (*BI*, Oct. 23, 1989). Still, those numbers could grow in the future.

While about 85,000 Americans had died of AIDS as of June 30, the cumulative death count could reach between 285,000 and 340,000 by the end of 1993, according to the U.S. Public Health Service. ■

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Insurer told it must pay for transplant

NEW YORK—Empire Blue Cross & Blue Shield must pay for a bone marrow transplant procedure for a human immunodeficiency virus patient, a state trial court has ruled.

On July 31, New York Supreme Court Justice Elliott Wilk rejected the insurer's contention that it should not be held liable because the transplant, which costs up to $150,000, was an "experimental/investigative" procedure that so far has only been performed five times for an HIV patient in the United States.

Empire BC/BS does not "think the decision was justified. We will review the judge's written decision and consider an appeal," said a spokesman.

The ruling could let Thomas J. Bradley receive the transplant from his twin brother within several weeks, said his lawyer, Evan Wolfson of the Lambda Legal Defense and Legal Education Fund, an advocacy group in New York.

The transplant would be needed to replenish Mr. Bradley's bone marrow cells following chemotherapy treatment, Mr. Wolfson said.

Mr. Bradley, a 46-year-old Queens school teacher, was diagnosed as having HIV, the virus that can cause AIDS, in 1986. He has contracted T-cell lymphocyte immune deficiency as a result of the virus, which has weakened his immune system.

A spokesman for Empire BC/BS said it had to deny Mr. Bradley's claim because if his case were adopted as precedent, rates would escalate. He added he knows of no insurer that has paid for such a transplant for an HIV patient.

Mr. Bradley, a 20-year employee of the Bayport Bluepoint School District in Long Island, sought coverage from the state's public employee health plan in June, after a doctor recommended the operation, Mr. Wolfson said.

Empire's attorneys in court characterized the transplant as experimental, arguing that the procedure's effectiveness had not been evaluated in five other HIV cases.

Mr. Wolfson charges that the insurer violated the health plan contract by failing to follow guidelines the contract says were set up for the Empire Plan by the State of New York, Blue Cross and Metropolitan Life Insurance Co. to determine if medical procedures are experimental.

"They did not produce the guidelines that the case requires," Mr. Wolfson said, adding that "We don't think they exist, as a matter of fact."

Despite a request from the judge, Empire neither produced the guidelines in court nor would release them while an appeal is being considered.

—By Sam Cristy

Texas oil spill

Continued from page 1

One of the barges, which was carrying approximately 714,000 gallons of "catfeed" oil, equivalent to a No. 5 grade industrial crude, sank after the accident.

Environmental and salvage firms hired by the barges' owner have managed to transfer about 262,000 gallons of oil from the sunken barge, which spilled the remaining 452,000 gallons of its cargo.

The other barge, which sustained hull damage, lost approximately 48,000 gallons of its 966,000-gallon cargo.

However, the new, double-hulled tanker Shinoussa, which was carrying 29,400 metric tons, or 32,340 short tons, of highly volatile jet fuel, sustained only minor damage to its outer hull and did not spill any of its cargo, U.S. Coast Guard officials said.

The spill, which has created a 17-mile slick, threatens the ecologically sensitive coastal marshes that are both a bird habitat and used as nurseries for spawning commercial shellfish, Texas Department of Parks and Wildlife officials say.

Fishing in all areas of the bay was banned as of 12:01 a.m. last Thursday by the Texas commissioner of health after the Health Department determined that the July 28 spill may have rendered the area's aquatic life unfit for human consumption.

Commercial shrimp fishing in the area generates more than $10 million in annual revenues, and all commercial fishing generates nearly $20 million in annual revenues.

In addition, the owners of more than 60 ships that were stranded when the Coast Guard closed the Houston Ship Channel together are losing more than $1.5 million a day, according to the West Gulf Maritime Assn. in Houston.

The U.S. Environmental Protection Agency on Thursday approved the use of oil-eating microbes to clean up the slick, which is moving westward from the narrowest point of the bay.

Gov. Bill Clements dropped his initial opposition to the move. The microbes, last used following the June 8 KS Mega Borg II oil spill in the Gulf of Mexico (*BI*, June 18), were not as effective in eradicating the limited subsurface oil, which makes up the bulk of this latest spill, government officials had said.

The collision between the tanker and the barges occurred at about 2:30 p.m. on July 28, approximately one mile south of Redfish Island and three miles east of San Leon in Galveston Bay, according to U.S. Coast Guard officials.

The barges, which were being pushed by a tugboat, were headed toward the Houston Ship Channel.

The Greek-registered tanker M/V Shinoussa was traveling seaward.

The tanker is managed by Eletson Corp. of Piraeus, Greece, according to Lloyd's of London Intelligence sources. However, sources at Lloyd's did not know who owns the tanker.

The Coast Guard is still investigating the cause of the collision.

Apex claims in a statement that its tugboat was pushing the barges at a proper speed and on the proper side of the bay when the tanker crossed over into the barges' lane and struck them.

Apex has at least $500 million of pollution liability insurance written by protection and indemnity club Steamship Mutual Underwriting Assn. (Bermuda) Ltd., the P&I club confirmed.

Apex also had the option of purchasing an additional $200 million in pollution liability coverage.

However, Gary Ryngard, manager of the P&I club, would not say whether Apex purchased the additional coverage and Apex officials would not comment on insurance limits.

> **'Its potential impact will be far greater than the KS Mega Borg,' says the Texas Water Commission.**

The owner of the tanker also has $500 million in pollution liability limits, written by P&I club United Kingdom Mutual Steam Ship Assurance Assn. (Bermuda) Ltd., which is managed by T.R. Miller & Co. of London.

Both P&I clubs offer standard protection covering:

- Losses and damages resulting from a spill.
- The costs of any reasonable measures taken to avoid or minimize pollution and any liability for losses or damages to property resulting from those measures.
- The costs of, or resulting from, liabilities from complying with an order or direction from any government or authority to reduce pollution.

It is not yet known who owns the cargoes.

Malin Environmental Inc. of Galveston and Garner Environmental Inc. of Houston were the two primary contractors hired by Apex to contain and remove the oil from both the sunken barge and the damaged barge.

In addition, T&T Marine Salvage Co. of Galveston is pumping oil off the sunken barge while divers strap slings around its submerged hull in preparation for when its cranes arrive to raise it.

Although Apex hired the contractors, the cleanup is now under the direction of the Coast Guard. Steamship Mutual directed Apex to turn over the cleanup to the Coast Guard, the company said.

Vacuum barges were sucking up spilled oil that had been surrounded with a snake-like containment boom, while skimmer boats worked the outside oil patches.

If the oil from the spill reaches nearby marshes, it could become one of the worst environmental disasters ever in the Gulf of Mexico, state officials say.

"Its potential impact will be far greater than the KS Mega Borg. It's in a much more confined area and a much more environmentally sensitive area than the open ocean," said a Texas Water Commission spokesman.

If the spill reaches the marshes, there could be a dual loss of habitat and food sources for marine and animal life, said Leland Roberts, assistant director of resource protection for the Texas Department of Parks and Wildlife.

If oil hits the marsh, "there's no real way to get it out. The ground is too boggy" for any mechanical removal means, Mr. Roberts said.

"We can sop some of it up with absorbent pads, but most of it will have to be cut out and hauled away" manually, he said.

At least 75 species of fish inhabit the bay area, but Mr. Roberts said he is most concerned about the threat the spill poses to commercial shrimp and oyster crops.

The brown shrimp fishing season is under way until Aug. 15 in deeper waters, and white shrimp larvae that would be available for harvest this fall are currently hatching in the shallow, marshy waters threatened by the spill, Mr. Roberts said.

White shrimp fishermen "stand to lose an entire year's production of young," he said.

The oyster fishing season does not officially begin until Nov. 1.

However, Mr. Roberts is less concerned about the oyster crop because "oysters cleanse themselves pretty rapidly."

The bay-area fishing industry generated $19.7 million in revenues last year, approximately $10 million of that from shrimping, according to Parks and Wildlife Department figures.

In addition, at least 100 species of birds, including the endangered brown pelican, inhabit the bay area.

Some of the escaping oil already has washed ashore in heavily developed Texas City, a less environmentally sensitive area than the marshes because it has few beaches. The city's coastline is mostly a man-made bulkhead.

Texas imposes unlimited liability on shipowners for cleanup costs from oil spills.

Other shipowners also suffered losses last week when the Coast Guard closed off the Houston Ship Channel.

At least 60 ships were stranded as a result of the closure, according to a spokeswoman for the West Gulf Maritime Assn. She estimated the delay will cost the shipowners "at least" $1.5 million per day and possibly more.

Both inbound and outgoing traffic was still halted late last week pending removal of the sunken Apex barge.

The Coast Guard began applying oil-eating microbes manufactured by Alpha Chemicals Co. of Austin to the surface oil early Thursday morning, according to a spokesman for the Texas Land Commission.

An experiment with naturally occurring microbes that convert oil to fatty acids was "highly successful" after explosions crippled the Norwegian tanker KS Mega Borg on June 8 approximately 57 miles southeast of Galveston, the spokesman said.

About 99% of the surface oil and between 70% and 75% of the subsurface oil was removed, the spokesman said.

However, "the effectiveness of the bioremediation could be reduced" because the Apex barges were carrying a heavier grade of oil than the Mega Borg did, much of which has sunk to the bay floor, he said.

Several government officials, including Gov. Clements, have said that while bioremediation is promising, not enough data exists on its effectiveness or its impact on marine life to endorse its large-scale use.

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International Editor Stacy Shapiro in London contributed to this report.

Spill liability proposal approved by Senate

WASHINGTON—The Senate last week approved federal oil spill liability legislation that would increase the liability of shipowners for spills and improve tanker safety.

The measure, which was hammered out last month by a joint conference committee, is expected to also be approved by the House.

The Bush administration would not comment on its position until it receives the legislation.

Under the compromise legislation:

- A shipowner's liability would be increased to $1,200 per gross ton of the tanker's displacement, from the current $150 per gross ton. The liability limits would not apply under certain circumstances including cases of gross negligence or willful misconduct.

However, these limits do not pre-empt tougher state oil spill laws. Nineteen states already impose unlimited liability on those who cause oil spills.

- The types of damages for which a shipowner could be held liable would be expanded to include loss of the use of natural resources and increased costs to state and local governments for fire, police and other safety services.
- Double hulls would be required on all newly constructed tankers, and double hulls or double containment systems would be required on all tank vessels—such as barges—of less than 5,000 gross tons.

Existing single hull tankers would be phased out according to size and age, with all single hull vessels banned by 2010.

- The number of hours that tanker crews could work would be limited to 15 hours each day or 36 hours during a three-day period.

Heavy workloads and crew fatigue were cited by the National Transportation Safety Board as contributing factors in the Exxon Valdez oil spill accident (see Update, page 2).

- A federal Oil Spill Liability Trust Fund would be established to provide up to $1 billion per incident to pay cleanup costs, natural resource damage, and compensation for any victims of the damage where those responsible for the damage cannot be identified or are unable to pay, or when liability limits are reached.

The fund would be financed by a levy on the oil industry.

Commonwealth Edison fire

Continued from page 2

ance limits "exceed $200 million," said Mr. Dellsy, noting that the book value of Crawford station is about $150 million.

However, he added that "it's not clear at this point whether the loss will reach the deductible," which is "over $1 million."

Lloyd's of London syndicates wrote a "portion" of the coverage, with the remainder written by a "variety of sources around the world," he said.

Sedgwick James Group P.L.C. of London "is involved in the placement of" the property coverage, said Mike Mead, a producer in James' Chicago office. He would not elaborate.

Mr. Dellsy said Com Ed's liability insurance limits exceed $100 million. Lloyd's syndicates also wrote a portion of that coverage, he said.

He would not disclose the size of any deductible or self-insured retention.

Concomber Ltd., Com Ed's Bermuda-based captive, does not write any of its liability or property coverage, Mr. Dellsy said. Marsh & McLennan (Bermuda) Ltd. Inc. manages the captive.

The power outage occurred during a period of hot and humid weather. Many commercial and residential customers complained of food spoiling during the blackout. And stores in scattered areas were looted.

Four Chicago hospitals had to rely on their own emergency generators for backup electricity. At the Cook County Jail complex, officials resorted to emergency generators to provide limited power for lighting.

Mr. Dellsy pointed out, however, that "the utility is only liable in the event that some fault is found" on behalf of Commonwealth Edison.

State regulations protect the utility from liability for losses unless negligence is proven.

Specifically, Com Ed's tariff, effective July 1987, states: "The company shall not be responsible in damages for any failure to supply electricity, or for interruption, or reversal of the supply, if such failure, interruption, or reversal is without willful default or negligence on its part, nor for interruptions, by underfrequency relays or otherwise, to preserve the integrity of the company's system or interconnected systems."

Mr. Dellsy said, "I presume there will be some claims made, and I would hope when it's all over there won't be substantial liabilities."

> **'The utility is only liable in the event that some fault is found,' Mr. Dellsy points out.**

As of late last week, one class-action suit seeking damages against Com Ed had been filed in the Cook County Circuit Court.

The suit was filed last Thursday by Chicago law firm Alexander Fennerty & Green on behalf of La Justicia Inc., A&L Groceries, Barbara Kucia and Emilia Del Valle.

Both La Justicia and A&L Groceries are seeking compensation for perishable food items lost as a result of last week's outage.

In a somewhat similar incident, lawsuits filed in 1988 by disgruntled Illinois Bell Telephone Co. customers who claimed they lost business because of a massive phone service interruption in May 1988 were dismissed by a Cook County Circuit Court judge (*BI*, Nov. 21, 1988).

A fire at the Illinois Bell Hinsdale switching station knocked out phone service to nearly 500,000 customers for several weeks (*BI* May 16, 1988).

Illinois Attorney General Neil Hartigan has called for the Illinois Commerce Commission to investigate the cause of the Com Ed fire and whether the utility should be held liable for damages.

The ICC should determine how to compensate utility customers if it finds Com Ed was to blame for the blackout, said Mr. Hartigan, who is the Democratic nominee in the Illinois gubernatorial race.

The attorney general also has requested an ICC review of the utility's emergency preparedness procedures in general.

Com Ed is to finance the investigation, which began last Wednesday.

In addition, the ICC hired an independent consultant—Forensic Technologies International Inc. of Annapolis, Md.—to investigate the cause of the fire.

Joseph R. Reynolds, president of Forensic Technologies, also helped investigate the Illinois Bell switching station fire.

Meanwhile, many Chicago businesses likely have business interruption insurance, but "it's unlikely it will cover this type of loss," said Skip Schrayer, senior vp at Associated Agencies Inc. in Chicago.

Most business interruption policies cover losses resulting only from damage at the policyholder's property, he said. "The coverage they would need would be service interruption coverage."

And most businesses in areas affected by the blackout probably do not have that expensive coverage, said Jack Rowan, a senior vp at Near North Insurance Agency Inc. in Chicago. ■

Allianz deal

Continued from page 1

here over the next three to four months putting some meat on the plan," said a Fund American spokesman.

Fund American Chairman John J. Byrne will remain with Fund American, while Joseph W. Brown Jr., president of Fireman's Fund Insurance Co., and other members of Fireman's Fund management will stay with the insurer following the sale to Allianz, said a Fireman's Fund spokeswoman.

"There will be absolutely no effect on policyholders," she said.

"It's nothing but upside for our customers," Mr. Byrne said in an interview, noting the sale could result in increased capacity for policyholders and could lead A.M. Best Co. to increase Fireman's Fund's rating to A-plus. Fireman's Fund now has a contingent A rating from Best.

Allianz, he added, can "stitch together" a quality, worldwide network in an "absolutely sensational fit" by acquiring Fireman's Fund.

Clients repeatedly are asking asking for overseas coverage, and while coverage could be "patched together" through Fireman's Fund, it was not entirely satisfactory, Mr. Byrne said. Without a global position, "we would have a tougher and tougher time serving our bigger clients."

"It's getting to be a global environment" and the Allianz purchase offers Fireman's Fund the opportunity to expand internationally, said Robert Riordan, director of investor relations for Fund American.

He noted that in the early 1980s, Fireman's Fund had "done some things on an international basis," but reduced its position as a result of its reserve problems in 1983 and 1984.

In 1983, American Express Co.—which at the time owned 100% of Fireman's Fund—boosted Fireman's Fund reserves by $230 million on a generally accepted accounting principles basis (*BI*, Dec. 10, 1983). Then, in 1984, American Express added $130 million to Fireman's Fund's statutory reserves and $70 million to its surplus after the California Insurance Department objected to the insurer's accounting for loss reserve transfers (*BI*, Nov. 14, 1984).

And, in 1987, $374 million was added to reserves for anticipated environmental liability and asbestos losses (*BI*, July 27, 1987).

The sale's timing is right, said Mr. Riordan, because Fireman's Fund's balance sheet is now healthy and its reserve position adequate.

Wolfgang Muller, a member of Allianz' board of management and head of its American operations, said, "Fireman's Fund has tradition, name recognition, a great management team and the strength of being well-positioned within the U.S. property/casualty business.

"We have been looking for a long time, and we have finally found the right fit and the best companion," said Mr. Muller, who is based in Munich.

Fireman's Fund has followed a selective underwriting policy in recent years, noted Mr. Muller.

"It puts the company in a good position to profit from an expected upturn in the market. It has tradition and name recognition, a good management team and it's well-positioned."

Securities analysts also agree the transaction is a good one for both Fund American and Allianz.

Joanne Morrissey, a principal with Firemark in Morristown, N.J., said Fireman's Fund is a good foothold" for Allianz in the United States.

She said at first glance, the acquisition of Fireman's Fund, which last week reported a 116.5% combined ratio for the first half of 1989, may look like a bad move. But, she added, the insurer's combined ratio is high "because a lot of money's been pumped into reserves, and the next couple of years is going to be good."

Fred Hill, an analyst for Firemark in San Francisco, said, "it's a good deal for Fund American because, as you know, they've been moving more and more away from the insurance" business and toward becoming an investment company. "This is a culmination of it. They finally bit the bullet and did it all at once."

"Allianz, which has wanted for a long time to get in the U.S. market, now has its vehicle," noted Gloria Vogel, an associate director with Bear, Stearns & Co. in New York.

She noted that Fireman's Fund has a "clean" balance sheet, with no junk bonds or questionable real estate investments. As a result, Allianz will wind up with cash and bonds that are primarily of higher quality.

Meanwhile, Fund American officials have been critical of practices and conditions in the property/casualty insurance industry for a long time, Ms. Vogel said, noting that Fund American has derived the bulk of its profits from its investment activities. "I think it may be a win-win situation," she said of the deal.

Firemark's Ms. Morrissey also noted that Mr. Byrne had been moving away from running the company. "I think Jack Byrne is just ready to sit back and enjoy the rest of his life," she said. With the transaction, he is left with a financial company involving no underwriting risk, she said.

"This is Jack Byrne's way of making the fullest value for his shareholders, including himself," said David Wells, a vp with rating agency Fitch Investors Service in New York. He noted that Mr. Byrne owns the equivalent of 2.63 million common shares. At an estimated book value of $60 a share, the stock would be worth about $158 million.

David Seifer, a vp with Donaldson Lufkin & Jenrette Securities Corp. in New York, commented, "You could conclude that Jack Byrne's certainly making a comment, in one respect, in terms of his position on the insurance industry but, of course, Allianz disagrees."

Other major stockholders in Fund American besides Mr. Byrne include Equitable Life Assurance Society of the United States, based in New York, with 4.4 million common shares, or 12.8% of the total and Fund American's employee stock ownership plan, with 3.6 million, or 10.6% of the total.

Firemark's Mr. Hill said he thinks the acquisition could lead to more acquisitions of American insurers by European firms. "It could put the whole industry into play," he said.

"They seem to be willing to pay full price, so it would be difficult for one of the U.S. companies to turn it down out of hand," he said.

"I think there will be many more consolidations and acquisitions," said Mr. Seifer. "I think Fireman's Fund's is quite early, and is a special situation in that it was purchased at this time," he said.

"I think any insurance company that wants be international, or globalize, has to be in the United States," he said. However, overseas buyers want a company that "has management, reserves and can stand on its own financially, and those companies with those attributes, I think, will be the target companies.

"But, I don't think it's tomorrow. I think it's going to be evolutionary. This will take place over a period of years," Mr. Seifer said, noting that there are relatively few U.S. insurers that meet the qualifications he outlined.

The roots of the acquisition date back to 1985.

According to Allianz, American Express—which at the time owned 100% of Fireman's Fund—originally approached the German insurer about buying Fireman's Fund that year. But, the offer was rejected because of reserve problems at Fireman's Fund. A counterbid by Allianz was rejected by American Express.

American Express then spun off Fireman's Fund Corp.—which last year changed its name to Fund American—in the largest initial public stock offering in history, while retaining a 41% ownership in the company (*BI*, Oct. 28, 1985). A total of $906.4 million was raised in the IPO.

American Express has since disposed of all its common shares of Fund American, but still owns 342 million shares of Fund American preferred stock, which represents 9.5 million voting shares or 22.4% of the total voting stock.

The latest round of negotiations between Fund American and Allianz was instigated by Shearson Lehman Hutton, which acted as an adviser in the deal, said Fund American's Mr. Riordan. "Mr. Byrne has specifically said we were not looking to sell the company and the opportunity came to us because of Shearson," he said.

He noted also that "Allianz and Fireman's Fund's relationship goes back a few years." Allianz owns 25% of Munich Reinsurance Co., from which Fireman's Fund's surplus lines operations buy reinsurance, said Mr. Riordan.

Munich Re also owns 25% of Allianz.

In the United States, Allianz already owns two U.S. property/casualty insurers—Allianz Insurance Co. and Allianz Underwriters Insurance Co.—which wrote $129.3 million in net premiums last year, according to A.M. Best Co.

In addition, Allianz owns three U.S. life insurers.

An Allianz official said he expects that Allianz's existing U.S. operations will operate on a "business as usual" basis following the Fireman's Fund acquisition.

Meanwhile, there was speculation that word about the transaction may have leaked before Thursday's announcement. Fund American's stock increased on Monday by $1.38 to $36.38; on Tuesday by 13 cents to $36.50 and on Wednesday by $1.63 to $38.13.

Ms. Vogel commented that rumors about the transaction may have filtered through the market because Fund American's stock was increasing while other insurer stocks were down.

A spokesman for the Securities and Exchange Commission said the agency's policy is not to comment on any possible investigation.

A spokswoman for the Chicago Board Options Exchange, however, said the CBOE routinely conducts an investigation whenever there is unusual activity, as was the case with Fund American options last week.

Trading in Fund American calls, which would permit buyers to purchase 100 shares of stock at $40 each, increased from 41 contracts on Friday, to 415 contracts Monday and to 1,891 contracts on Wednesday.

One remaining question is the impact of the transaction on Armonk, N.Y.-based MBIA, which is a major financial guarantee insurer.

Fireman's Fund's 23.6% stake in MBIA will be transferred to Fund American after the deal is concluded.

Financial guarantee insurers' ownership is a factor in retaining Triple-A ratings from bond rating agencies, which is a crucial element in attracting business. Financial guarantee insurers lend their top rating to lower-rated issues.

Mark Cohen, who heads the financial guarantee insurance rating unit at Fitch, commented, "I think it just raises a lot of questions about the commitment of owners to financial guarantee companies."

However, Fund American's Mr. Riordan said he does not know if the transaction will have any impact at all on MBIA. "We don't think our transaction will have any effect. I think it's very early to speculate."

An MBIA spokesman said that the acquisition "does not have any impact on MBIA. Ownership essentially remains the same. Fund American continues to be the owner."

In addition to announcing the acquisition, Fund American said last week that for the six months ended June 30, first-half net income rose 31.7% to $108 million from $82 million in the first half of 1989.

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Correspondent Don Lewis Kirk in Bonn contributed to this report.

Update

Increase in uninsured workers

Continued from page 2

Among the non-elderly uninsured in 1988, 55.7%, or 18.5 million, were working adults, up from 48.8%, or 18.1 million, in 1986, EBRI reported in updating its 1988 study (*BI*, Nov. 7, 1988).

According to EBRI, 49.2%, or 9.1 million, of the working uninsured in 1988 were self-employed or worked for companies with fewer than 25 employees. And 64.8%, or 12 million, worked for companies with fewer than 100 employees.

The service, retail, manufacturing and construction industries accounted for 67% of all uninsured workers in 1988.

New prior approval regulations

SAN BRUNO, Calif.—Fireman's Fund Insurance Co. will seek to boost rates for some property/casualty lines under California Insurance Department regulations issued last week on prior approval of property/casualty rates.

Those rules implement the prior approval provision of Proposition 103, codify Commissioner Roxani Gillespie's decision on a fair rate of return and limit the expenses insurers can pass on to consumers. Ms. Gillespie in June allowed insurers "a target return on equity between 11.2% and 19%" when seeking prior approval (*BI*, June 18).

Fireman's Fund, which would not say which lines it is seeking rate increases for, and two insurers not seeking increases, State Farm Mutual Automobile Insurance Co. and SAFECO Corp., must defend their rate applications on Wednesday.

Most applications filed are for rates already in effect.

But in calculating rates of return, insurers now may not figure in, among other things, political and charitable contributions; lobbying expenses; excessive executive compensation—as determined by the Insurance Department—for the 10 highest-paid employees; fines and penalties; and the cost of specified litigation.

In a related development, a Superior Court judge dismissed insurer petitions to postpone department hearings on how much they must refund to policyholders to comply with Proposition 103's rate rollback provision. The insurers are challenging Ms. Gillespie's decision that insurers earning more than 11.2% on their combined business from 1988 to 1989 must roll back "charges" for most types of property/casualty insurance during that period to 20% below November 1987 levels (*BI*, July 16).

Proposition 65 amendment

SACRAMENTO, Calif.—An initiative that would require public entities to issue warnings to employees and consumers if their discharges pose a significant risk of cancer or face $2,500 daily fines for each individual affected will appear on California's Nov. 6 ballot.

Proposition 141 would amend Proposition 65, which now applies only to businesses with 10 or more employees.

The Legislature on July 6 passed a bill to place the measure on the ballot.

Gov. George Deukmejian failed to either sign or veto the bill, allowing it to be placed on the ballot.

The measure would "essentially preclude government entities and public water systems from releasing chemicals which are known carcinogens or reproductive toxins," said its author, Sen. Quentin Kopp, an independent from San Francisco.

Ex-MGA told to pay $2 million

MIAMI—A former managing general agent for Ennia General Insurance Co., who lost a fraud lawsuit filed by the insurer last year, has been found in contempt of court for failing to turn over $2 million in Ennia premiums.

John F. Keegan, chairman of Miami-based Commercial Marine Underwriters Inc., must turn over the money by tomorrow or face jail time under a contempt order issued last month.

State Circuit Judge Amy Steele Donner found that, prior to the jury verdict against the former MGA, Mr. Keegan violated a 1984 injunction barring CMU from withdrawing money from bank accounts maintained in Ennia's name, according to Howard Green, a partner with the Miami law firm of Nagin & Green that represents Ennia.

A jury last year ordered CMU, Mr. Keegan and other CMU officers to pay more than $31 million in actual and punitive damages to Ennia, an AEGON Group unit, which sued the MGA in 1984 for fraud and breach of contract (*BI*, Aug. 14, 1989).

CMU and Mr. Keegan have appealed the verdict, Mr. Green said.

Daniel George, a Miami lawyer for the defendants, declined to comment on the contempt order.

Briefly noted

The **KS Mega Borg II**, the Norwegian tanker that dumped about 4 million gallons of oil into the Gulf of Mexico in June (*BI*, June 18), has been sold for $2.4 million to Gibraltar-based Ailesford Ltd. The ship is being towed to Pakistan, where it will be scrapped. . . .Standard & Poor's Insurance Rating Services lowered the claims-paying ability of **Royal Indemnity Co.'s** intercompany pool to A+ from AA− in response to the insurer's lagging profitability and deteriorating combined ratio. Separately, Royal will pay the Massachusetts Commonwealth Automobile Reinsurer—the state pool for high-risk drivers—$37 million over four years beginning in 1991 to withdraw from the state's personal automobile insurance market. Royal, which held 1.8% of the market, estimated it was losing $10 million annually in CAR assessments. . . .The **Manville Personal Injury Trust** says in court papers it supports a federal court order barring the trust from making any settlements or paying any judgments because it will give the trust time to solve its cash-flow problems. . . .Managed health care vendor **ALTA Health Strategies Inc.** has filed a registration statement with the Securities and Exchange Commission proposing the sale of 1.8 million shares of common stock at $10 to $12 per share. Proceeds will be used to prepay acquisition debt, pay dividends on preferred stock, and for working capital and other general corporate purposes.

Iraqi invasion

Continued from page 1

Kuwait Petroleum International, a subsidiary of Kuwait Petroleum Corp., also owns a string of gas stations in the United Kingdom, Scandinavia, Italy and France, with total assets of about $2 billion. It is not known whether these assets are insured for confiscation.

Mr. Rome, speaking last Thursday for the London market, announced that hull war risk underwriters at Lloyd's—who dominate the world hull insurance market—would charge an additional premium of 0.025% of the ship's insured value for 14 days of coverage for all vessels entering the Persian Gulf.

The additional premium is on top of the worldwide hull war risk premium rate of 0.05% of the insured value for 12 months of coverage for ships sailing anywhere in the world, he said. The worldwide annual rate was doubled from 0.025% of insured value earlier this year.

Hull war risk underwriters were charging an additional premium of 0.5% of the insured value for ships sailing to Iraq, Kuwait and the neutral zone of Saudi Arabia for seven days of coverage, Mr. Rome said.

However, the rates only apply to ships that sailed in the first 48 hours after the invasion, he said. Hull underwriters will review the situation daily, so the additional rates may change, he said.

"If the situation deteriorates, no doubt higher rates will be charged," he said.

Mr. Rome also announced that the Joint Cargo War Risk Rating Committee of Lloyd's and Institute of London Underwriters, which issues minimum tariff ratings, would lift the tariff rate of 0.0275% of insured value for ships sailing to Iraq, Kuwait and "the neutral zone" between the two countries and allow cargo underwriters to charge what they like. This action occurs when the risk is judged to be high and unpredictable.

Marine underwriters also are concerned about Iraq's claims that the United Arab Emirates is breaking oil quotas set by the Organization of Petroleum Exporting Countries.

However, as of late last week—when Iraqi troops held Kuwait's capital city and had driven its ruler into exile—the underwriters had taken no action concerning the United Arab Emirates.

Meanwhile, political risk underwriters have put down their pens for many Middle Eastern risks until the situation stabilizes between Iraq and Kuwait.

"Underwriters are putting everything on hold and seeing how things develop in the area," said leading Lloyd's of London political risk underwriter Miles Wright of syndicate 1098, managed by Polwring Underwriting Agency Ltd.

"Everyone will want to wait until the dust has settled" before quoting any new business, agreed Anthony Palmer, director of Lloyd's broker Berry Palmer & Lyle Ltd.

Ironically, just as underwriters start to put away their pens, demand will undoubtedly increase as companies with uninsured investments in the Middle East realize they may need political risk coverage, Mr. Palmer pointed out.

One of Britain's largest credit and political risk insurers, London-based Trade Indemnity P.L.C., stopped writing credit insurance and political risk insurance for investments in Kuwait and Iraq just before the invasion, said Gerry Friend, associate director of export credit at Trade Indemnity.

Trade Indemnity will continue to "underwrite risks in neighboring countries such as Saudi Arabia, the United Arab Emirates and Qatar, but on a cautious basis," he said.

'Underwriters are putting everything on hold and seeing how things develop in the area,' says political risk underwriter Miles Wright.

"We're obviously watching events carefully and we can assume the whole area has become more risky," he noted.

"Underwriters will carry on looking at risks in neighboring countries, but if I were an underwriter I would probably hold off quoting anywhere in the region for a few days until the dust settles," said Mark Drummond-Brady, a director at Lloyd's broker Lloyd Thompson Ltd.

The invasion followed a breakdown in negotiations between Kuwait and Iraq over oil exports.

Before the invasion, Kuwait had been considered a good investment risk, underwriters and brokers agree.

Many investors in the country and companies trading with Kuwait did not even have credit or political risk insurance. The oil- and cash-rich nation always had been considered one of the region's best credit and political risks, brokers say.

However, Kuwait is a very small country and has relatively few foreign investors, underwriters add.

"We do not have many clients with Kuwaiti risks, partly because there had been little need to insure in the past," Mr. Palmer said.

Mr. Wright, whose syndicate is one of Lloyd's leading political risk syndicates, currently underwrites just three Kuwaiti policies.

Mr. Friend said Trade Indemnity has "some business in Kuwait and Iraq" but would not elaborate.

As a result of the Iraqi invasion, Kuwait has changed from being "a very acceptable risk to a non-acceptable risk," he said.

"Rates in Kuwait had been pretty low until last week as Kuwait had a very good credit rating," said Mr. Friend.

He could not be more specific on the rates for risks involving Kuwait since many companies insured investments in Kuwait as part of a worldwide investment/trading insurance package.

However, rates for neighbor Iraq had been much higher before the recent developments, Mr. Friend said. Even before the invasion, rates for risks involving Iraq were 10% to 18% of total insured value, he noted.

With its economy in dire straits after the protracted war with neighboring Iran, Iraq has been rated a very poor risk, he said.

"Iraq has been a closed market for some time because underwriters have huge exposures there already," said Mr. Drummond-Brady, explaining why underwriters had not been insuring Iraq risks. Foreign investments in Iraq and money already owed by Iraq to Western countries total tens of billions of dollars.

"There have been a lot of exporters to Iraq, but it's been a difficult market to insure because of its failing economy," Mr. Palmer said.

A capacity problem before the invasion had left the political risk market for Iraq "pretty dormant," said Mr. Wright. "Underwriters have been taking a cautious attitude for the last three to four months."

The fallout from last week's invasion of Kuwait could extend far beyond the region. Unrest in the Middle East or economic sanctions against Iraq could send world oil prices soaring, causing great shifts in many national economies, Mr. Palmer noted.

Underwriters will be "looking at the worldwide implications of rising oil prices," he said, noting that "net oil exporters likely will become richer and therefore better political risks, while oil-importing countries will be poorer and therefore worse risks."

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Correspondent Maria Kielmas in London contributed to this report.

BI Insurance Index

610 / 600 / 590 / 580 / 570 / 560

6/15 6/22 6/29 7/6 7/13 7/20 7/27 8/3

Base = 100 on Dec. 29, 1978

Source: Nordby International Inc.

Insurance industry stocks continued their downward slide last week, as the *Business Insurance* Index dropped 24.4 points to 564.35 on Aug. 3, from 558.78 on July 27. Advancing issues were led by Fund American Corp., up 38.2%; Ohio Casualty Corp., up 8.3%; and Frank B. Hall, up 7.7%. Declining issues followed Provident Life, down 20.2%; NWNL Companies, down 17.9%; and United Medical Corp., down 12.4%. The most active issue during the week was Fund American Corp., 4.8 million shares traded. The *BI* Index fell 4.2% for the week; The Standard & Poor's 500 fell 2.4%; the Dow Jones 30 Industrials dropped 3.07%; and the New York Stock Exchange Composite lost 2.3%.

British Issues

August 2 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	435	22.4	26.7	5.9	499—485
Genl Accident	503	15.3	33.4	6.6	514—503
Gdn Royal Exch	214	18.7	15.3	7.1	225—214
Royal	448	24.0	34.0	7.6	468—448
Sun Alliance	310	11.3	16.7	5.4	325—310
Brokers					
Bradstock	242	17.0	10.0	4.1	248—242
CE Heath	483	14.3	34.5	7.1	484—483
Hogg Group	158	10.4	9.7	6.1	161—158
Lloyd Thompson	320	19.9	9.7	3.0	320—317
PWS Holdings	80	12.5	3.3	4.1	80—80
Sedgwick Grp	222	16.7	6.0	7.2	228—222
Steel Brrl Jones	274	16.6	4.7	5.4	275—274
Willis Faber	238	14.9	6.0	6.7	245—238

Source: Philip Olsen, Insurance Industry Specialist London

BI Industry Stock Report

JULY 30, 1990 THROUGH AUGUST 3, 1990

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	23.00	2.79	-26.98	34.00	22.25	306	1.00	4.35	21	9.18	2.51
Corroon & Black	NYS	30.50	-3.17	-20.26	41.00	28.50	575	1.36	4.46	15	12.73	2.40
Gallagher Arthur J. & Co	NYS	22.50	[illegible]	-9.09	26.50	21.00	34	0.60	2.67	18	5.33	4.22
Frank B. Hall	NYS	3.50	7.69	16.67	4.25	2.50	111	0.00	0.00	-3	-2.80	-1.25
Hilb, Rogal & Hamilton	OTC	15.50	-4.62	-16.78	20.63	12.50	73	0.28	1.81	21	4.60	3.37
Marsh & McLennan	NYS	70.88	-2.58	-9.13	89.75	67.00	595	2.60	3.67	17	10.56	6.71
Poe & Associates	OTC	11.25	-2.17	-15.09	13.00	8.00	0	0.40	3.56	14	1.93	5.83
BROKERS	AVERAGE		-0.1	-11.5					2.9	15		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp	OTC	38.00	-9.52	-8.71	46.50	34.50	63	0.44	1.16	8	25.06	1.52
Berkshire Hathaway Inc	NYS	6825.00	-3.53	-20.87	8900.00	5675.00	0	0.00	0.00	-23	2869.00	2.38
ITT (Hartford Group)	NYS	56.00	-3.45	6.47	64.50	51.38	1577	1.60	2.86	7	56.33	0.99
Sears (Allstate)	NYS	32.50	-4.06	-16.13	47.00	32.50	2943	2.00	6.15	9	37.75	0.86
CONGLOMERATES	AVERAGE		-5.1	-13.0					2.5	0		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	49.00	-2.73	-15.52	62.50	45.25	862	2.76	5.63	8	58.11	0.84
Ambase Corp	NYS	7.00	5.66	-44.55	16.38	5.75	381	0.00	0.00	8	29.08	0.24
American General	NYS	44.38	-7.07	35.50	50.63	28.13	3854	3.20	7.21	10	34.68	1.28
American Heritage	NYS	21.38	-1.72	-25.00	24.63	19.75	3	1.00	4.68	10	22.60	0.95
American Indemnity/Fin'l	OTC	4.00	-5.88	-50.00	11.00	3.75	9	0.08	2.00	-1	17.38	0.23
American International	NYS	71.00	-2.91	-15.88	89.63	69.00	3042	0.44	0.62	11	41.92	1.69
Aon Corp	NYS	35.25	-4.08	-16.81	43.25	33.38	141	1.52	4.31	10	19.62	1.80
Argonaut Group	OTC	76.25	-0.81	10.71	78.00	61.75	41	1.60	2.10	9	36.83	2.07
AVEMCO Corp	NYS	26.75	-3.50	9.74	30.13	20.38	4	0.40	1.50	19	9.52	2.81
Baldwin & Lyons Inc	OTC	20.25	-2.41	-5.81	24.00	19.25	3	0.28	1.38	7	20.80	0.97
Belvedere Corp.	ASE	3.75	-3.23	-31.82	5.63	3.38	11	0.04	1.07	-4	8.03	0.47
Chandler Insurance	OTC	7.63	-4.69	-35.11	13.25	7.63	68	0.00	0.00	4	9.53	0.80
Chubb Corp (s)	NYS	43.38	-3.34	-54.76	51.38	36.88	1630	1.32	3.04	9	55.49	0.78
CIGNA Corp	NYS	46.25	-1.86	-23.24	66.75	45.25	681	3.04	6.57	11	66.64	0.69
CNA Financial Corp.	NYS	75.00	-3.38	-25.00	108.75	68.25	136	0.00	0.00	12	54.87	1.37
Continental Corp	NYS	28.50	1.33	-9.16	38.63	25.75	394	2.60	9.12	11	41.36	0.69
Durham Corp	OTC	28.00	0.00	-8.94	34.75	28.00	27	0.92	3.29	13	26.32	1.06
Fund American Corp.	NYS	48.38	38.21	37.23	48.25	29.50	4878	0.68	1.41	72	32.74	1.48
Fremont General Corp.	OTC	15.75	-5.97	-21.74	22.50	14.38	104	0.80	5.08	7	19.09	0.83
Frontier Insurance Group	NYS	24.25	-10.[illegible]	31.08	33.00	14.13	104	0.00	0.00	11	7.29	3.33
General RE Corp.	NYS	82.50	-0.75	-8.33	96.25	74.63	1059	1.52	1.84	13	29.04	2.84
Hanover Insurance Co.	OTC	24.50	0.00	-19.67	33.00	22.75	189	0.44	1.80	8	32.03	0.76
Harleysville Group	OTC	25.00	-2.91	-9.09	28.75	21.00	23	0.60	2.40	8	18.94	1.32
Hartford Steam Boiler	NYS	52.13	-9.15	-3.92	62.13	48.25	146	1.80	3.45	14	18.94	2.75
Kansas City Life Ins.	OTC	36.00	0.00	0.35	36.25	34.50	22	1.12	3.11	9	39.22	0.92
Kemper Corp.	NYS	39.00	-4.00	-17.46	51.88	34.00	567	0.92	2.36	60	29.97	1.30
Lawrence Insurance Group	ASE	7.50	1.69	5.26	9.13	6.50	0	0.36	4.80	[illegible]	4.40	1.70
Liberty Corp.	NYS	47.25	0.27	11.18	50.25	35.00	21	0.92	1.95	[illegible]	[illegible]	1.48
Lincoln National	NYS	50.75	-4.92	-16.80	62.88	50.88	180	2.60	5.12	[illegible]	[illegible]	1.03
NAC Re Corp.	OTC	29.00	-7.20	-20.00	41.00	28.75	285	0.20	0.69	13	22.81	1.27
Navigators Group	OTC	33.13	-1.85	20.45	33.75	25.25	13	0.00	0.00	12	15.22	2.18
Nobel Insurance LTD.	OTC	3.00	-4.00	50.00	3.75	1.50	27	0.00	0.00	-2	7.76	0.39
NWNL Companies	OTC	23.50	-17.90	-40.51	44.13	22.00	870	1.32	5.62	5	37.50	0.63
Ohio Casualty Corp.	OTC	44.25	8.26	-7.33	52.50	34.75	157	2.32	5.24	14	33.30	1.33
Old Republic Int'l	OTC	23.75	-3.06	-7.32	29.00	21.13	152	0.72	3.03	5	30.70	0.77
Orion Capital Corp.	NYS	21.00	-5.62	-9.68	28.50	18.38	44	0.92	4.38	6	19.72	1.06
Phoenix RE Corp.	OTC	10.25	-5.75	-21.15	15.50	8.75	143	0.20	1.95	-14	12.99	0.79
Protective Life Corp.	OTC	12.63	0.00	-11.40	15.88	10.88	112	0.68	5.39	[illegible]	14.54	0.87
Provident Life	OTC	18.75	-20.21	-27.54	30.13	18.75	491	0.80	4.27	5	23.24	0.81
Re Capital Corp.	ASE	14.00	-1.75	-3.45	15.25	11.25	3	0.00	0.00	[illegible]	14.43	0.97
RLI Insurance Corp.	NYS	12.25	-10.09	38.03	14.75	6.88	39	0.40	3.27	[illegible]	12.42	0.99
St. Paul Companies	OTC	59.88	-0.62	-0.21	63.50	53.00	716	2.40	4.01	[illegible]	43.47	1.38
SAFECO Corp.	OTC	32.25	-9.79	-18.87	42.38	31.50	900	1.56	4.22	[illegible]	24.87	1.30
SCOR U.S. Corp.	NYS	9.00	-6.49	-36.84	14.50	8.38	72	0.20	2.22	12	10.61	0.85
Seibels Bruce Group	OTC	7.25	-9.38	-33.33	13.50	5.75	120	0.80	11.03	-1	13.75	0.53
Selective Ins. Group	OTC	15.63	0.81	-18.30	20.25	15.50	128	1.04	6.66	5	15.72	0.99
Statesman Group Inc.	OTC	1.44	-32.33	-47.71	3.31	1.25	366	0.16	11.13	[illegible]	4.19	0.34
Tokio Marine & Fire	OTC	38.00	-7.32	-49.59	78.13	39.50	8	1.04	2.74	-	70.33	0.54
Torchmark Corp.	NYS	49.63	0.25	-13.32	58.75	42.75	261	1.40	2.82	12	13.23	3.75
Transamerica	NYS	36.00	-3.36	-19.33	48.00	33.75	527	1.92	5.33	9	34.53	1.04
Travelers Corp.	NYS	26.00	-8.37	-29.49	44.75	26.25	1016	2.40	9.23	7	44.35	
Trenwick Group Inc.	OTC	21.13	-7.14	-13.33	26.88	17.25	38	0.43	2.27	9	[illegible]	1.25
United Fire & Casualty	OTC	33.25	-4.32	0.76	35.00	30.50	14	1.20	3.61	10	22.56	1.47
USF&G Corp.	NYS	25.13	-2.43	-15.19	33.63	24.63	1232	2.92	11.62	18	22.37	1.10
UNUM Corp.	NYS	51.63	-2.59	8.12	57.13	36.00	481	0.80	1.55	11	31.20	1.65
USLIFE Corp.	NYS	36.88	-5.45	-18.51	48.13	34.75	271	1.48	4.01	9	54.34	0.68
Washington National	NYS	19.38	-8.82	-31.42	28.88	19.50	115	1.08	5.57	[illegible]	32.90	0.59
USLICO Corp.	NYS	21.75	1.16	-8.42	25.00	20.63	34	1.00	4.60	8	27.73	0.78
Zenith National Ins.	NYS	13.88	-4.31	-26.00	21.50	13.50	33	0.88	6.34	8	13.81	1.00
INSURERS/REINSURERS	AVERAGE		-3.8	-12.8					3.8	11.5		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	16.00	-5.88	-24.71	26.38	14.00	1898	0.00	0.00	[illegible]	3.54	4.52
HMO America Inc.	OTC	6.63	-5.36	-14.52	10.63	4.38	518	0.00	0.00	8	1.12	5.92
Pacificare Health Sys.	OTC	18.50	-8.64	-28.85	30.38	14.75	183	0.00	0.00	[illegible]	6.35	2.91
Safeguard Health Enter.	OTC	6.50	-7.14	-23.53	12.50	5.13	112	0.00	0.00	[illegible]	2.59	2.17
Sierra Health Services	ASE	6.88	-5.17	-22.54	9.63	5.50	31	0.00	0.00	11	0.62	11.09
United Healthcare Corp.	OTC	16.38	-11.49	33.67	20.13	7.88	1090	0.00	0.00	[illegible]	0.34	48.16
United Medical Corp.	ASE	8.88	-12.35	47.92	11.38	5.75	26	0.20	2.25	13	5.70	1.56
U.S. Healthcare	OTC	18.00	-5.88	26.32	22.25	9.63	0	0.36	2.00	20	3.07	5.86
HMOs	AVERAGE		-7.7	-0.8					0.5	[illegible]		
ALL COMPANIES	AVERAGE		-3.9	-11.1					3.3	[illegible]		

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