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Updates

P/C insurer profits down 15% due to storm claims: Survey

NEW YORK—Catastrophe claims helped drive the U.S. property/casualty insurance industry's net income for the first nine months of this year down 15% compared with the same period last year, according to a survey by the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

U.S. property/casualty insurers reported an estimated $23.2 billion in aftertax net income during the first nine months of 1998,

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Aetna buys a piece of the rock

By AMANDA MILLIGAN

HARTFORD, Conn.—Aetna Inc.'s announced acquisition of Prudential HealthCare has employers and benefit consultants wondering how much more consolidation the health care industry can withstand before competition disappears.

The deal, valued at $1 billion, would make Aetna the nation's largest health insurer overall, with 22.4 million members, and the largest managed care organization, with 18.4 million members.

While some benefit managers and consultants say the acquisition is a negative for employers, others are giving Aetna U.S. Healthcare a chance before casting judgment on the deal, which is expected to close by the second quarter of 1999. The acquisition still requires regulatory approval.

Buying Prudential HealthCare will add about 6.6 million lives to Aetna's existing membership nationwide. The transaction will rank Aetna U.S. Healthcare among the top three managed care companies in nine states and make it make it a much more significant player in other states, such as California and Tennessee, an Aetna spokeswoman said.

Prudential HealthCare's HMO, POS, PPO and indemnity lines and dental division are involved in the definitive agreements between the Hartford, Conn.-based Aetna Inc. and The Prudential Insurance Co. of America, based in Newark, N.J.

For the nine months ending Sept. 30, revenues for Aetna U.S. Healthcare were $9.6 billion. Prudential HealthCare's revenues for the first nine months of 1998 were $5.5 billion, including the dental business, according to a Prudential spokesman.

Prudential HealthCare's $1 billion price tag is a bargain-basement price, according to some consultants. In July, Aetna completed a $1.05 billion

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Consolidation continues

Aetna Inc.'s proposed purchase of Prudential HealthCare comes on the heels of Aetna's buyout of NYLCare Health Plans Inc. earlier this year. (Figures as of Sept. 30, 1998)

Plan type:	Aetna US Healthcare	Prudential HealthCare	Combined
HMOs	5.7 million	2.3 million	8.0 million
Medicare/ Medicaid HMOs	660,000	234,000	894,000
POS plans	2.8 million	800,000	3.6 million
PPOs	4.2 million	250,000	4.5 million
Indemnity	2.5 million	3.0 million *	5.5 million
Total:	15.8 million	6.6 million	22.4 million

* Includes enrollees under administrative service contracts.
Source: company reports

Regulators to consider more reforms

By MEG FLETCHER

ORLANDO, Fla.—State regulators appear willing to consider additional proposals for relaxing regulation, though the request by insurance groups was almost derailed by its inflammatory wording.

NAIC

During the National Assn. of Insurance Commissioners quarterly meeting Dec. 5-9 in Orlando, four major insurance groups jointly submitted a memorandum calling for proposed changes to model laws governing insurance pricing.

Representatives of the insurance groups say the memo stemmed primarily from a desire to see recent successes in commercial lines deregulation expanded to other areas of insurance regulation. Regulators, however, initially focused more on the memo's choice of language than its intent.

The fireworks erupted at an NAIC Industry Liaison Committee meeting Dec. 6, when Michael Lovendusky, assistant general counsel with the American Insurance Assn., presented the memo and asked regulators to designate a committee to hold a public hearing on "fair market pricing" for nearly all lines of property/casualty insurance, particularly personal lines coverages.

The five-page memo charged that it is time "to lift governmental price controls" that have "distorted" the insurance regulatory system and marketplace.

See **NAIC** *on page 31*

Y2K coverage suit filed

Insurer rejects CGL claim by computer maker

By MICHAEL PRINCE

In what attorneys say is the first coverage lawsuit over the computer millennium bug, an insurer is seeking a declaratory judgment that it does not have to indemnify or defend a policyholder facing Year 2000 liabilities.

Cincinnati Insurance Co. filed the lawsuit in a federal district court in Iowa against commercial general liability policyholder Source Data Systems Inc. The computer maker had sought coverage for a Y2K lawsuit that alleges a breach of contract.

On July 31, 1995, Cedar Rapids, Iowa-based Source Data sold computer equipment and software to Pineville Community Hospital Assn. Inc., a hospital group located in Kentucky. A year later, Pineville learned that the system was not Y2K compliant. The hospital brought suit in July of this year seeking $750,000 to $1,250,000 for a new computer system, alleging that Source Data assured the hospital group at the time of sale that the system did not contain a Year 2000 glitch, court documents show.

Source Data sought indemnity and defense from Cincinnati Insurance under a three-year policy issued in 1991 and renewed in 1994.

In its declaratory judgment suit, Cincinnati Insurance asserts no coverage exists because the suit against

See **Y2K** *on page 27*

Bay Area blackout sparks claims

By JOANNE WOJCIK

SAN FRANCISCO—When the power went off at 8:17 a.m. last Tuesday in San Francisco, many businesses got a sneak preview of what the morning of Jan. 1, 2000, could be like.

The electrical outage occurred when workers at a San Mateo substation forgot to remove grounding cables before turning on power, triggering a shutdown of two San Francisco substations and pulling the plug on most of the city and the northern half of San Mateo County.

The blackout has prompted the state Public Utilities Commission to call for a probe of the reliability of the Pacific Gas & Electric Co. distribution system.

In the meantime, PG&E has assumed responsibility for the massive power failure and mobilized a team of investigators to evaluate claims related to the blackout. So far PG&E has received 3,300 requests for claim forms and four formal claims as of Friday. It has already paid one $800 claim for

See **Blackout** *on page 29*

AP/ WIDE WORLD PHOTOS

The power outage left the floor of the Pacific Stock Exchange in the dark last Tuesday.

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NEWSPAPER

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Updates

Catastrophes cut '98 P/C profits

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compared with $27.4 billion during the same period in 1997, according to the survey. The 1998 pretax net income comprises $19.1 billion in operating income and $12.5 billion in realized capital gains, compared with $27.2 billion in operating income and $7 billion in realized capital gains during the same period of 1997.

ISO's Property Claim Services unit reports that catastrophe losses for the first nine months of the year reached an estimated $8.3 billion, compared with only $2.4 billion during the comparable period of 1997. The worsening loss experience caused the industry's combined ratio for the first nine months of this year to deteriorate to 104.1% from 101.1% a year ago.

The ISO/NAII figures are consolidated estimates for the entire domestic property/casualty industry, based on reports of insurers that account for more than 96% of the nation's P/C business.

Thai Airways jet insured

BANGKOK, Thailand—At least a dozen people were killed Friday when a Thai Airways jetliner crashed in southern Thailand.

The Airbus A310-200, which was carrying 132 passengers and 14 crew members, crashed on its third attempt to land at Surat Thani airport in bad weather.

Passenger information was unavailable late last week, though reports said the plane was carrying Thai nationals as well as British, German and Japanese tourists on domestic flight TG 261 from Bangkok.

The plane plowed into a rubber plantation near the airport and caught fire, and rescue attempts were hampered by heavy rain, according to local news reports.

Thai Airways could not provide insurance details immediately late last week, though aviation insurance sources confirmed that coverage for the hull, valued at $18.7 million, was placed in the London market.

Peter Biccars, chief operating officer of J&H Marsh & McLennan Ltd. in London, confirmed the broker led Thai Airways' coverage placement.

Thai Airways renewed its program in November, with a 30% reduction in premium, aviation brokers said.

Paul Hayes, a director at Airclaims Ltd., said there have been 21 total losses to Western-built jet aircraft in 1998. Insured values have been high, with estimated losses totaling $1.7 billion, not including the recent Thai loss. Total premium volume for the year is about $1.3 billion, said an aviation broker.

PBGC changes filing due date

WASHINGTON—Starting next year, employers will have more time to file their federal pension insurance premium forms under a new Pension Benefit Guaranty Corp. rule.

Currently, premium filings are due eight and one-half months after the beginning of the premium payment year. Under the new rule, the new due date for most plans will be nine and one-half months after the start of the premium payment year.

For example, the premium due date for an employer with a calendar-year plan now would be Oct. 15 rather than Sept. 15.

The change in the premium due date is being made so that it coincides with the latest date employers can file their Form 5500 annual reports with the Internal Revenue Service, a change that should save employers time and money because they won't have to dig up the same records twice, PBGC officials say.

CIGNA to close HMO in Ohio

PHILADELPHIA—CIGNA HealthCare of Ohio Inc. on Feb. 1 will close its group-model HMO in Columbus, Ohio, due to low enrollment.

The plan's enrollment has dropped to 11,000 subscribers from 25,000 four years ago, a CIGNA spokesman said.

Plan participants will be able to switch to CIGNA's Independent Practice Assn. HMO, which has about 80,000 members. Subscribers in central Ohio have always preferred the IPA, in part because it offers access to more physicians, he said.

In addition, some subscribers joining the new plan may be able to continue seeing their present physicians, because physicians affiliated with Provider Physicians Inc., which staffed the group-model HMO, now will become part of the IPA plan's network.

Clinton seeks Medicare info

WASHINGTON—Health plan administrators would be required to inform the government of any participants who are eligible for Medicare, under a proposal the Clinton administration will present next year in its proposed federal budget.

The proposal is intended to reduce the likelihood of Medicare paying claims for employees—chiefly those on the job after turning 65—whose primary coverage is through their employers' health care plans.

The administration backed a similar proposal this year, but Congress did not act on it.

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Errors & omissions

• Several listings in the Dec. 7 Directory of Risk Management Information Systems contained incorrect information. GAB Robins North America Inc. and Risk Enterprise Management Ltd. were misidentified, and the World Wide Web site for TecnoRisk L.L.C. is www.tecnorisk.com.

Former state regulator pleads guilty to fraud

By DOUGLAS McLEOD

NEWARK, N.J.—A former state insurance regulator has pleaded guilty to a federal charge that he operated a fraudulent offshore insurer that has left more than $1 million in unpaid claims since its 1996 collapse.

Owen Guidry, a former examiner with the Louisiana and Arizona insurance departments, last week admitted that he conspired to defraud policyholders of Westwood Insurance Co. Ltd., a now-defunct Antigua insurer he headed as managing director.

Among other things, Mr. Guidry admitted that Westwood Insurance's principal asset—a purported $15.5 million "special certificate of deposit"—was worthless. He also lied when he told Westwood agents and policyholders that the insurer was audited by a "Big Six" accounting firm, according to court records.

The single federal charge of conspiracy to which Mr. Guidry has pleaded guilty carries a statutory maximum sentence of five years in prison. However, under federal sentencing guidelines, his actual sentence is likely to be lower.

See **Guidry** *on page 22*

Oil platform dealt a setback

Deck falls into Gulf during platform's assembly

By MICHAEL BRADFORD

NEW ORLEANS—Insurance likely will cover part of the cost of salvaging or replacing a $70 million oil platform deck that fell into the Gulf of Mexico.

The deck fell into the Gulf as it was being lifted onto the giant Petronius platform, which is located about 130 miles south of New Orleans.

Texaco and Marathon Oil Co., joint owners of the platform, last week were investigating whether the deck, which contained production equipment and crew quarters, could be salvaged. A remotely operated submarine was used to videotape the deck at its resting place, around 1,800 feet below the surface.

The deck fell from the crane that was lifting it onto the platform from a barge. The U.S. Coast Guard, both oil companies and the company operating the barge were trying late last week to determine why the Dec. 3 accident occurred.

If the deck cannot be recovered another deck module will have to be constructed and put in place before the platform can begin operating. Texaco was uncertain whether the accident would delay production, which is scheduled to begin in June 1999, a company spokesman said.

As it fell, the 3,605-ton deck caused minor damage to the crane

See **Petronius** *on page 30*

Oregon plan fails to catch on elsewhere

Return-to-work rewards

By ROBERTO CENICEROS

SALEM, Ore.—A unique program that reimburses Oregon employers for their return-to-work efforts enjoys strong support in the state, even though an assessment to fund the program will increase next month.

Under the Oregon program, an insured or self-insured business that returns an injured employee to a job is reimbursed for part of that worker's salary by the state's Workers Compensation Division.

Large self-insured employers in Oregon—including national companies such as Portland-based retailer Fred Meyer Inc. and Atlanta-based United Parcel Service of America Inc.—have been among the biggest beneficiaries of Oregon's Employer-at-Injury Program, state figures show.

A spokesman for UPS said the company's safety department wishes there were similar programs in other states.

Workers comp insurers also applaud the program, noting that it provides an incentive for employers to implement return-to-work policies.

However, in spite of the program's appeal, no other state has a similar model. Workers comp experts

See **Oregon** *on page 29*

U.S. reinsurers profitable in spite of competition

By GAVIN SOUTER

REINSURER RESULTS 9 Months

U.S. reinsurers are still making money, despite the low rates they are charging.

An increase in the number and severity of catastrophes and other claims in 1998 have increased losses at some reinsurers, but the overall impact is nowhere near enough to turn the market, reinsurers and analysts say.

The plentiful capacity in the market and the seeming unwillingness of most reinsurers to exit the market or sell their companies should ensure a buyer's market for reinsurance coverage for the foreseeable future, they say. And reinsurers seem as willing as ever to cut rates in order to keep business.

"It's going to get worse before it gets better," said Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. in New York, which was recently bought by Gerling Global Reinsurance Corp.

The continued reduction in rates is driving down premium volumes, which in turn drives up expense ratios and loss ratios, Mr. Bunaes said.

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Inside

• Many employers and managed care plans can do more to prevent an explosion of serious health care inflation, one of this week's editorials says. **PAGE 8**

• U.K. insurers and risk managers must start preparing now for proposed civil litigation reforms that are expected to be introduced in England and Wales next April, attorneys and the reforms' architect warn. **PAGE 23**

• British Aerospace P.L.C. hopes that an innovative, multiyear financial risk insurance program it formed recently will keep its balance-sheet losses grounded. **PAGE 26**

Departments

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Employee Benefit Market Report

Client needs, acquisitions fuel consultant growth

By MICHAEL PRINCE

Welcome to the good old days.

For benefit consulting firms, 1998 was another year of double-digit growth, marking the fourth year in a row with strong gains after the early part of the decade saw stagnant growth. Even the worldwide financial crisis and volatility in the U.S. equities market could not stem consultants' growth this year, and may have even helped business for some firms.

Business has been so strong and consistent among the top consulting firms that the combined revenues of the 10 largest firms have virtually doubled in the past five years.

Business has boomed as consultants have helped clients with a wide variety of issues and problems, including:

- Realigning benefit programs after corporate mergers.
- Helping companies design benefit plans that mesh with corporations' overall business strategies.
- Working with companies to keep health care cost increases at moderate levels.
- Taking over from employers the administration of corporate benefit programs and administering those plans through outsourcing centers.

Industry leaders expect robust growth to continue.

"It's a great time to be in the people business," said Dale Gifford, chief executive of Hewitt Associates L.L.C. in Lincolnshire, Ill.

The world's 10 largest benefit consultants, according to *Business Insurance*'s 1998 ranking, increased their gross revenues from worldwide benefit consulting by an estimated 22.3%.

Acquisitions continue to drive revenue growth among consultants, though the pace of consolidation slowed compared with 1997.

William M. Mercer Cos. L.L.C., the world's largest benefit consultant, easily re-

See **Consultants** *on next page*

World's largest employee benefit consultants

Ranked by worldwide benefit consulting revenues. 1998 figures are estimates.

	Gross revenues benefit consulting [1] (in millions) 1998	1997	% change	Offices U.S./total
William M. Mercer Cos. L.L.C.	$ 1,266[2]	$ 881	43.7%	41/107
Hewitt Associates L.L.C. [3]	765	624	22.6	29/71
Towers Perrin	757	673	12.5	35/72
PricewaterhouseCoopers, Global HR Solutions [4]	622	505	23.2	21/55
Watson Wyatt Worldwide [4]	593	551	7.6	34/81
Aon Consulting Worldwide	520	470	10.6	71/135
Buck Consultants Inc.	327	300	9.0	29/57
Deloitte & Touche/Human Capital Advisory Services	206	154	33.8	50/88
Ernst & Young L.L.P.-Human Resource Services [3]	160	108	48.1	33/67
Arthur Andersen L.L.P.-Human Capital Services	145	118	22.9	44/98
Total	**$ 5,361**	**$ 4,384**	**22.3**	**387/831**

1 Excludes revenues from claims administration, compensation consulting, insurance commissions where no consulting is involved and other non-benefit consulting 2 Includes benefit consulting revenues projected to be merged from Sedgwick Noble Lowndes 3 Fiscal year ends Sept. 30 4 Fiscal year ends June 30

Source: *BI* survey

HMO rates to increase for many employers in '99

By JERRY GEISEL and JOANNE WOJCIK

Employers in 1999 can expect—once again—rate increases from their health maintenance organizations.

HMOs say rate hikes still are needed to make up for years of market share underwriting in which rates were kept artificially low to enable plans to increase their penetration.

But HMOs also say health care costs, especially for prescription drugs, are increasing and that providers are putting pressure on them for higher reimbursements.

In 1998, employers typically incurred HMO rate increases of 1% to 8%, though most rate increases were in the 3% to 5% range. In a relatively few isolated cases, employers last year avoided cost increases.

Next year, HMO rates typically will rise about 3% to 11%, with HMO executives and others expecting most rate increases to be in the range of 4% to 7%.

Insurers and benefit consultants say rates will increase the most for traditional indemnity plans. Rates for those plans in 1999 will rise between 10% and 15%, compared with a 1998 range of 8% to 15%.

Preferred provider organization rates are expected to rise 6% to 12%, while rates for point-of-service plans generally will be two to three percentage points more than rate hikes for traditional HMOs.

HMO executives and others say rate increases for HMOs are needed after fierce price competition between 1994 and 1997 battered their bottom lines.

"If you look back three to four years, there were price wars throughout the country," said Kevin Counihan, senior vp at Tufts Health Plan, a Waltham, Mass.-based HMO, whose rate increases next year typically will be 6% to 7%.

Lew Devendorf, a consultant in the Stamford, Conn., office of William M. Mercer Inc., added, "My best guess is that 'market-share sins' account for half of the rate increases."

"There is some catch-up because of underwriting losses in the past," said Harvey Sobel, a principal and consulting actuary with Buck Consultants Inc. in Secaucus, N.J.

Indeed, HMOs acknowledge they have some catching up to do after years in which rates were kept down artificially.

"Our rates have been much too low," said a spokeswoman for Kaiser Permanente in Oakland, Calif. Because of those low rates, "we were too successful in recruiting new members. In order to accommodate the new member growth, we've had to refer people out" to non-Kaiser-owned facilities, which is very expensive, the Kaiser spokeswoman said.

Kaiser says rate hikes will vary widely from market to market. However, the Sacramento, Calif.-based California Public Employees Retirement System, a huge Kaiser client, negotiated a rate hike of 10.75% with the HMO.

Other factors also are behind rate hikes, with perhaps soaring prescription drug costs the biggest. During the past year, many health plans say their prescription

See **Market** *on page 9*

New drugs, more demand, raising drug benefit costs

Employers retooling plans

By SALLY ROBERTS

Take the aging American population, add hundreds of new and expensive drugs that fight everything from cancer to impotence, and then add a billion-dollar advertising blitz by drug manufacturers, and you'll most likely find a benefit manager with a migraine.

But not to worry; there are new and improved drugs to cure that ailment too.

Prescription benefit costs are soaring at rates not seen by benefit managers in decades. Benefit consultants say they have seen employer drug costs increase anywhere from 11% to 40% on a year-over-year basis.

While inflation accounts for roughly 3% of the cost increase, the number of new medicines being developed to fight diseases and conditions once thought to be incurable accounts for a majority of the increase.

The U.S. Food and Drug Administration approved 121 new drugs in 1997, down from 131 new drugs introduced in 1996 but far more than the 82 introduced in 1995.

Of the new drugs introduced in 1997, roughly one-third were what the FDA calls "new molecular entities," or drugs that contain active substances that have never before been approved for marketing. Many of these drugs developed over the past few years are helping to fight serious conditions such as HIV, cancer, diabetes and asthma, but they also are fighting other, less-grave conditions, such as toenail fungus, baldness and wrinkles.

As advances in technology are creating more and better drugs, drug manufacturers are bombarding consumers with advertisements to make consumers aware of the new drugs that are now available to them.

In 1997, the U.S. pharmaceutical mar-

ket spent nearly $1.1 billion on direct-to-consumer television, print and radio advertising, according to IMS Health, a Plymouth Meeting, Pa.-based pharmaceutical information provider. Those advertising expenditures were up 35% over 1996.

Aggressive marketing of new drugs is one way that manufacturers try to offset the rising costs of developing new drugs. According to Pharmaceutical Research and Manufacturers of America, a trade group in Washington, the average pretax cost of developing a drug introduced in 1990 was $500 million, the most recent estimate. A large percent-

See **Drugs** *on page 12*

Spotlight Editor : Jerry Geisel

Top 10 benefit consultants in the U.S.

Based on U.S. benefit consulting revenues

	1998 estimate of consulting revenues (in millions)
Hewitt Associates L.L.C.[1]	$ 731
William M. Mercer Inc.[2]	608
Towers Perrin	589
PricewaterhouseCoopers, Global HR Solutions[3]	413
Watson Wyatt Worldwide[3]	344
Aon Consulting Inc.	302
Buck Consultants Inc.	252
Deloitte & Touche/Human Capital Advisory Services	173
The Segal Co.	103
ASA Inc.	100
Total	**$ 3,615**

1 Fiscal year ends Sept. 30 2 Includes benefit consulting revenues expected to be acquired from Sedgwick Group P.L.C. 3 Fiscal year ends June 30

Source: *BI* survey

Consultants

Continued from previous page

tained that position with estimated worldwide consulting revenues of $1.27 billion this year. Much of that 43.7% increase over 1997 is due to a single acquisition.

Earlier this year, Mercer's parent, Marsh & McLennan Cos. Inc., acquired Sedgwick P.L.C., the parent of Sedgwick Noble Lowndes.

Sedgwick, had it been ranked this year, would have been the world's seventh-largest benefit consultant with estimated revenues of $352 million. Mercer projects that $267 million of Sedgwick's revenues will become part of its organization. The remaining Sedgwick business will be allocated to Seabury & Smith Inc., M&M's insurance program management unit, and to the employee benefit services unit of broker J&H Marsh & McLennan. Without the Sedgwick addition, Mercer's revenues climbed 13.4% to an estimated $999 million.

While an acquisition helped to fuel Mercer's revenue growth, Hewitt Associates, which moved ahead of Towers Perrin to become the world's second-largest benefit consultant, has achieved a high growth rate without acquisitions. Hewitt, with 1998 estimated global revenues of $765 million, up 22.6%, continues to rack up double-digit revenue growth in most of its benefit consulting services, including a 36% revenue increase in outsourcing, where it is seen as the industry leader.

Dropping to third place after years at No. 2 is Towers Perrin. The New York-based consultant estimates worldwide benefit consulting revenue of $757 million in 1998, an increase of 12.5% from 1997.

Also dropping in the rankings is Watson Wyatt Worldwide, which ranks at fifth place this year, compared with No. 4 in 1997 and No. 3 in 1996. With the lowest growth rate among the top 10 firms—Watson Wyatt estimates its revenues grew by 7.6% to $593 million—it has been passed by faster-growing rivals. Earlier this year, Watson Wyatt pulled out of an outsourcing venture and sold its risk management consulting operations as part of a strategic refocusing of its operations.

PricewaterhouseCoopers Global HR Solutions, the combined entity of Coopers & Lybrand, the former Kwasha Lipton Group and Price Waterhouse's benefit consulting unit, moved into the No. 4 position among consultants. Earlier this year, Coopers and Price Waterhouse merged their worldwide consulting businesses. The new combined entity estimates 1998 revenue of $622 million, or 23.2% higher than 1997.

Ernst & Young L.L.P.-Human Resource Services is this year's only newcomer to the Top 10 list. Ernst & Young also sported the highest growth figure among the 10-largest firms, with a whopping 48% jump in estimated global consulting revenues to $160 million, which gives it the No. 9 spot on this year's list. The benefit consultant's growth was primarily due to strong business gains and not from acquisitions, the company said.

Rounding out the top 10 firms are:

- Aon Consulting Worldwide, which retains its position as the sixth-largest consultant.
- Buck Consultants Inc., taking the seventh position held by Sedgwick Noble Lowndes last year.
- Deloitte & Touche Human Capital Advisory Services, moving up from ninth to eighth position.
- Arthur Andersen L.L.P.-Human Capital Services, which retains the No. 10 spot.

Business Insurance ranks the benefit consultants on estimated 1998 gross revenues generated by worldwide employee benefit consulting, defined as providing advice on benefit issues on a fee-for-service basis. Providing outsourcing for benefits administration and record keeping are also counted. Only revenues from majority-owned consulting affiliates are included.

Revenues from claims administration, compensation consulting and non-benefit related work are not included.

One of the fastest areas of growth for consultants has been helping employers align their compensation and benefit strategies with overall corporate business strategies.

This new role by employers results from both the tight labor market and a realization of how human resource strategies can influence a company's overall success.

"It used to be that HR probably wasn't an equal partner in the business, say, to finance," said Mercer Vice Chairman Timothy Lynch in New York. "But more and more I think there's a much stronger HR voice and much more listening by the CEOs and COOs to what the HR side of the house has to say and a realization that those have a dramatic impact on the business."

Another fast-growing area has been consulting for clients involved in mergers and acquisitions. This has been one of the main reasons for the growth of Ernst & Young, said James Bosserman, E&Y's national director of HR consulting in Indianapolis.

Consultants often are called on to help integrate benefit plans and systems as part of mergers. With the pace of mergers picking up in 1998, consultants are flush with this sort of

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Spotlight report

Consultants

Continued from page 4

business.

Also, when a company becomes publicly traded or undergoes a change of management, consultants are brought in to deal with a wide range of issues, such as establishing stock option plans or redesigning plans to meet objectives of new management.

"Each of these situations create opportunities and challenges to our clients that relate to benefit and human resource issues," said Hewitt's Mr. Gifford.

Consultants also prospered from the continuing conversion of traditional defined benefit pension plans to hybrid plans, like cash balance plans. That conversion process generates consulting services as consultants are needed, among other things, to design the new plans and communicate those plans to employees.

Over the past few years, employers have adopted hybrid plans in response to employee demands for faster accrual of benefits and greater benefit portability. Benefit consultants say the growth of hybrid plans will continue at a steady, though perhaps not spectacular rate.

"We continue to see action and interest, though not a huge rush in that direction," Mr. Gifford said.

"Hybrid plans are here to stay," declared John Haley, incoming president and CEO of Watson Wyatt Worldwide in Bethesda, Md.

Another growth area for consultants has been helping employers set up work/life programs.

"We're finding that the work/life programs are getting a lot of healthy attention and activity and we'll see a lot more of that," said Howard Fluhr, president and CEO of The Segal Co. in New York. Segal ranked as the 9th-largest consultant based on U.S. consulting revenues.

Their growth is partly driven by the needs of employers that want to offer competitive benefit plans to give them an edge in attracting and keeping employees in the tight labor market.

Helping employers utilize the Internet or an Intranet has also been a growth area for consultants. Such online technology is commonly used for communicating to employees, but increasingly companies are also using it for health plan enrollment or communicating with outsourcing centers.

"We see it as a supplemental way that employees can come in, ask questions and make decisions," said Mr. Gifford of Hewitt.

And the benefit communications business continues to boom with a good part of that growth fueled by mergers and acquisitions and the corresponding need for companies to explain benefit changes that often follow.

"Whenever those kind of things happen, there's a greater need for communication-type services," said Mr. Lynch of Mercer.

Devising strategies for coping with rising health care costs—after years of stability—also is a boon to consultants as employers turn to them for help in redesigning plans or negotiating with health plans to try to hold down rate increases.

"The role of the consultant will be back to the traditional role of looking for ways to really redesign plans," said Donald Ingram, chairman of Aon Consulting Inc. in Chicago.

"Plan design is the kind of thing that always comes to mind at any time you get into this kind of rate increases," creating "great opportunities for consultants," he added.

Plan redesign includes such things as increasing the employee's share of the premium, increasing deductibles or increasing co-payments, all designed to shift some of the cost increase to employees.

This year's health plan rate increases also have led employers to a heightened awareness of the issues regarding plan costs and plan quality, as well as employees' contribution to plan costs, said Robert Hogan, managing director of Towers Perrin in Stamford, Conn.

Despite rising costs, employers increasingly are being asked by employees to provide higher quality health plans. To accomplish this, employers turn to consulting firms to evaluate different health plans.

"There is an increase in discussion about quality concerns," said Segal's Mr. Fluhr, but he noted that few companies have yet to address it.

"The reaction of the frustrated employees is a real issue," he added.

Some consultants have seen strong growth in reviewing benefit plans to see if plan documents accurately describe the plan, as well as whether the documents and the plan comply with legal requirements.

"You're going to see a lot of that activity in 1999," said Joseph LoCicero, president and CEO of Buck Consultants Inc. in New York.

For example, new federal law requires that employers in 1999 add language to benefit booklets explaining employees' eligibility for reconstructive surgery after a mastectomy.

One of the biggest business issues of the year—the Asian financial crisis—has not hurt consultants' business and may even prove to be a kind of a mini windfall for some.

"Out of that chaos is born an opportunity," said Reed Keller, head of the Global HR Solutions business for PricewaterhouseCoopers in Atlanta. "We have an opportunity to make up some pretty big ground," through acquisitions of consulting firms in Asia.

Daniel Cox, chairman of Aon Consulting Worldwide in Chicago, also pointed out that the devaluation of many Asian currencies has presented some good buying opportunities in that region.

One impact of the Asian financial crisis has been increased volatility in U.S. equities markets. Many feared that the summer's stock market drop would prompt employees to shift retirement savings funds out of stocks into safer investments.

"I don't think employees have really ever experienced the kind of volatility that we've seen this year on a routine, ongoing basis," said Mr. Cox.

Despite the drop, most employees did not panic.

"We did not see the level of activity that might have been expected," said Mr. LoCicero of Buck Consultants.

The episode has actually benefited consultants as they have been called in to help "employees better understand the risk inherent in selecting their own investments," Mr. Cox noted.

One of the fastest growing areas for benefit consulting, and perhaps the most difficult for consultants to achieve success, has been in benefit outsourcing. Outsourcing is seen by many consultants as an important area of growth.

"We're finding there is a clear trend toward outsourcing, that most major corporations and other entities are looking to turn over the operation and administration of benefit programs to a third party," Mr. LoCicero said.

This trend started a few years ago

Continued on next page

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and expanded in 1998.

"There is more demand than there is supply," said Mr. Hogan of Towers Perrin.

For some firms, the growth of their outsourcing business has pumped up their revenues. Hewitt Associates, for example, now receives over half its revenues from outsourcing.

"It's been an explosive business over the last several years," Mr. Gifford said.

ASA Inc. moved into the ranks of the 10 largest U.S. benefit consulting firms—based just on U.S. revenues—partly because of its outsourcing operations, which now represent 43% of the firm's revenue, said Michael Gulotta, president and CEO of the Somerset, N.J.-based consultant. ASA was spun off from AT&T Corp. in July.

Despite the growth of outsourcing, two leading consultants have abandoned this field.

Earlier this year, Watson Wyatt Worldwide pulled out of Wellspring Resources L.L.C., a joint outsourcing venture with State Street Global Advisors. As a result of writing off its investment, Watson Wyatt incurred a pre-tax loss of $95 million, said Mr. Haley. The company went into the venture thinking that by maintaining administrative data it would garner more consulting services. "It turned out it just hadn't worked out that way at all," he said.

Watson's withdrawal comes after Mercer in 1997 turned over its outsourcing business to payroll processing giant ADP, essentially ending Mercer's venture into the field.

The benefit consultants that still offer outsourcing say they are committed to it for the long-haul. A challenge they face is balancing the demand for the service from their clients against the huge investment required to create the large call centers and purchase the systems to administer benefits for thousands of enrollees.

'Size is just perception in terms of ability to compete. Size doesn't give you greater ability,' says Michael Gulotta.

This past year saw "consultants coming to grips with how they're going to approach the outsourcing business and making some decisions there that probably will determine how that business is conducted over time," said Aon's Mr. Cox.

Some consultants, such as Mercer and Watson Wyatt, believe they can remain among the largest consulting firms without outsourcing. Other consultants, though, say that not offering outsourcing services could cost them other client business.

"We believe that clients are looking for that entire relationship," said Towers Perrin's Mr. Hogan.

Mr. LoCicero of Buck said the capital needed for its outsourcing business led to the firm's sale last year to Mellon Bank Corp. "To be a top-tier consulting firm we felt we had to be in the outsourcing business," he said.

But Mercer's Mr. Lynch says there were good business reasons to exit outsourcing.

"It is very difficult to manage (outsourcing and consulting) under the same umbrella. We also think that over time consulting is far more profitable than administrative work," he said.

Although Segal has no plans to enter the outsourcing field, it still plans to benefit by the increased activity by helping employers choose among the firms offering outsourcing services. "There has been a clamoring for that kind of assistance," Mr. Fluhr said.

"We decided first day that we wanted to continue to stick to our core skills and be in the brain business and not be in the transaction business," he said.

Benefit consultant executives expect that consolidation of the industry will continue, thinning the current crop of firms and leading to a handful of huge, full-service consultants against numerous smaller players.

In a few years the industry will have three to five big players and "the others will be merged, acquired or reduced to niche-status players," said Mr. Keller of PricewaterhouseCoopers. His firm would consider an acquisition "whenever it's there and it makes strategic sense," he added.

Other consultants say they also only will make acquisitions when they help the consultant in a geographic region or practice area.

Perhaps the most aggressive suitor is Aon Consulting. The Chicago-based consultant has a number of targets in mind for acquisition, said Mr. Cox. The company has a vision of where it wants to be and is "actively looking for acquisitions that help us fulfill that vision," he said.

What's driving many mergers is a perceived need for size by many benefit consultants. Increasingly, the large firms feel the demand by multinational employers for a global presence to handle global benefit needs.

"Consistently, day in and day out, size is very favorable," said Mr. Lynch of Mercer.

"You've got to be pretty big and have pretty deep pockets in order to have consulting operations around the world," he added. "Increasingly, that's what multinational employers want."

Of course, it's no surprise that the largest firms believe in the benefits of size. On the other hand, some smaller firms say quality, and not size, makes consulting firms better.

"Size is just perception in terms of ability to compete," counters Mr. Gulotta of ASA. "Size doesn't give you greater ability to compete," he added.

The debate over size centers primarily around the role of the benefit consultant. The largest firms believe that their size offers a client one-stop-shopping. But some firms disagree with that philosophy, saying that employers buy consulting services from many consultants, looking for the best in each area, like using one consultant for defined benefit pension plan work and another for health plan-related services.

"Employers buy best of breed," said Watson Wyatt's Mr. Haley. Few employers get all benefit consulting services from the same firm. "I don't see it to be the way employers buy services," he said.

Although he agrees that many companies act that way, Mercer's Mr. Lynch said large employers increasingly look to have one consultant handle all their work throughout the world.

Another advantage of size, according to Mr. Hogan of Towers Perrin, is it allows a big firm to handle all of a client's benefit services, which provides it the strategic position to align compensation and benefit issues with the company's overall business strategy.

Amid robust growth, though, consultants have faced a nagging problem: difficulty in finding qualified staff.

"There is a remarkable shortage of people," Mr. Lynch said. "There are not enough people to go around." BI

Opinions

Do more to cut health costs

HEALTH CARE COSTS, after years of stability, are definitely moving up again.

Employers, depending on the type of plan they use and the area of the country they are located in, likely will be paying in 1999 anywhere from 3% to 10% more in health care premiums or claims costs than they did this year.

There are, to be sure, some good reasons that costs are going up. HMOs—to avoid financial problems—have to raise rates after years of holding rates low to win market share.

That said, employers and managed care plans can do plenty to prevent an explosion of serious health care inflation.

One step is changing the way companies buy health care services. The rage in the late 1980s and early 1990s among big, multistate employers was to buy all of their health care coverage from a single insurer. The logic was that such an arrangement would increase buying power and thereby lead to lower rates.

That logic is being questioned more and more, and for good reason. Is it possible that any one insurer or HMO really has enough clout or sophistication to be the best purchaser of health care services in every part of the country? We doubt it.

While employers don't want to dilute their potential leverage by dealing with dozens of HMOs, working with just one HMO may not be the best approach either.

In the area of plan design, there are plenty of strategies that employers and managed care plans can adopt to hold down cost increases. For example, we continue to be struck at the low level of cost sharing in many managed care plans. Plans that have virtually no cost-sharing requirements invite overutilization of services.

Companies should also consider restricting coverage of so-called quality-of-life medication that is designed to improve well-being rather than stave off death or disease. These include a host of brand name, widely advertised and costly drugs, such as Viagra and Rogaine, among many others.

Most benefit plans do not cover elective procedures such as cosmetic dentistry or chin tucks, so why cover elective pharmaceuticals?

Another strategy not widely used by employers is wellness screening. For all the talk of the benefits and savings potential from health screening and providing health incentives, relatively few companies take advantage of these programs. It's a win-win program: Employees are rewarded for improved health, while fewer hospitalizations keep employers' health care costs down.

Simple steps, such as screening workers for high blood pressure or providing financial incentives like lower premiums for non-smokers, could minimize the prevalence of catastrophic claims.

The battle to control health care cost inflation is an ongoing process. Unfortunately, many employers are not taking advantage of all the weapons in their cost-cutting arsenal. In the face of a rising trend of health insurance rates, it is time they do.

Log on to Y2K mediation plan

NOBODY KNOWS EXACTLY WHAT will happen to the world's computers on Jan. 1, 2000. But we can make an educated guess about what will be happening in the nation's courtrooms shortly thereafter if a significant number of computer systems fail as a result of the Y2K bug—there could well be a torrent of litigation unlike any seen before.

That's what makes the recent announcement by a group of companies that they will attempt to negotiate Y2K-related disputes first and sue only as a last resort so welcome.

The effort, which is being spearheaded by the New York-based CPR Institute for Dispute Resolution (*BI*, Dec. 7), could help stem that potential torrent of litigation, at least temporarily.

Fourteen major corporations initially signed the commitment to first negotiate, then mediate, and then—and only then—litigate their Y2K disputes. We are sure that other companies will join them in this effort.

And more companies should join them, for in no way are the signatories relinquishing their legal rights—all they are saying is that they won't turn to court as a first resort. While we have no illusions that all Y2K disputes can be resolved through alternative dispute resolution, the initial signatories' commitment to make every attempt to settle such disputes outside the courtroom is more than worth the effort.

Experts keep warning that there's no magic bullet for the Year 2000 computer problem, and we have no reason to doubt their word. But we also have no reason to doubt that efforts such as those of the CPR Institute—if endorsed by a sufficient number of companies—could help stem the flood of lawsuits that may inundate the nation's courts.

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Market

Continued from page 3

drug costs have leaped anywhere from 15% to 20%, as more expensive products have hit the market and as consumers—influenced by direct advertising by pharmaceutical manufacturers—demand those products (see story, page 3).

WellPoint Health Networks says prescription drug increases represent between 15% and 20% of increases in overall rates.

"Emerging drug therapies are having a tremendous impact on costs," said Dana Benbow, vp-underwriting at Prudential HealthCare Group in Roseland, N.J. Mr. Benbow expects rates at Prudential's traditional HMOs to rise in the 6% to 8% range.

Patrick Hughes, senior vp with Blue Cross & Blue Shield of Massachusetts in Boston, said: "There is greater demand on the part of the consumer. Doctors used to prescribe drugs. Now consumers say, 'I want this.'" The Blues plan said HMO rate increases in 1999 should be in the 3% to 7% range.

Still, not everyone is being hit with higher prescription drug costs.

"Our prescription drug costs have not been unreasonable. They have not been going up faster than medical claims," said Michael Pikelny, corporate actuary and employee benefits consultant at Chicago-based Hartmarx Corp.

"All the HMOs are singing the song about drug costs and utilization going up, but if you talk to employers using the same networks on a self-insured basis, they are not seeing those increases," said Ray Brusca, vp-benefits at Black & Decker Corp. in Towson, Md.

Indeed, Fort Worth, Texas-based Union Pacific Resources says costs were virtually flat in its self-funded indemnity plan this year.

"We've had good experience this year," said Paul Brubaker, director of benefits. He attributes at least some of the cost stability to a no-tobacco use credit and a requirement that an employee involved in an auto accident contributes $1,000 toward accident-related medical costs if anyone in the car is not wearing a seat belt.

Just as prescription drug costs are a factor—at least for some plans—in rate increases, health care plans say rates are going up because they also are boosting payment rates to providers.

"The doctors are pushing back to some extent," said Mary Case, a principal with PwC Kwasha in Fort Lee, N.J.

"Increasingly, providers are asking for higher reimbursement levels," said Tufts' Mr. Counihan.

While rates generally are going up for all types of plans, consultants and others say employers, especially those of considerable size and good experience, have been able to negotiate rates lower than those initially proposed by their health care plans.

"In some mature markets, HMOs have come in and proposed increases up to 7% but have come down to 4% to 5%," said Randall Abbott, regional practice leader in the Little Falls, N.J., office of Watson Wyatt Worldwide.

"There always is negotiating room," said David Olson, vp-investor relations at Foundation Health Systems Inc., in Woodland Hills, Calif. Foundation's HMO rates will increase between 5.5% and 6.5% next year.

Despite the current climb in rates, there is no concern that the current round of increases is a prelude to much bigger rises that would rival the annual 15% to 20% cost increases that occurred in the mid-1980s.

Benefit experts note the revolution that has occurred in the past decade in how most health care is delivered—to managed care from traditional indemnity—should prevent a return to annual double-digit increases.

Back in the 1980s, providers pretty much called the shots in the rates they charged. Now, providers agree to payment rates that are set in advance.

"Charges are not usual and customary. Group practices now agree to payment rates. The use of contracts is a big damper on hyperinflation," said John Erb, an area vp in the Boca Raton, Fla., office of Gallagher Benefit Services.

While doctors are pushing for—and, in some cases, winning—higher payment rates from health plans, the increases have not been dramatic.

"In many cases, physician payment rates have been flat," said Greg Devou, executive vp and chief marketing officer of Blue Cross & Blue Shield of Maryland in Owings Mills, Md.

Amid rising health plan rates, employers have made modest changes in plan designs. In some cases, for example, co-payments for prescription drugs have been bumped to $10 or $15 from $5, while deductibles and co-payments for medical and hospital services received outside employees' managed care networks have been

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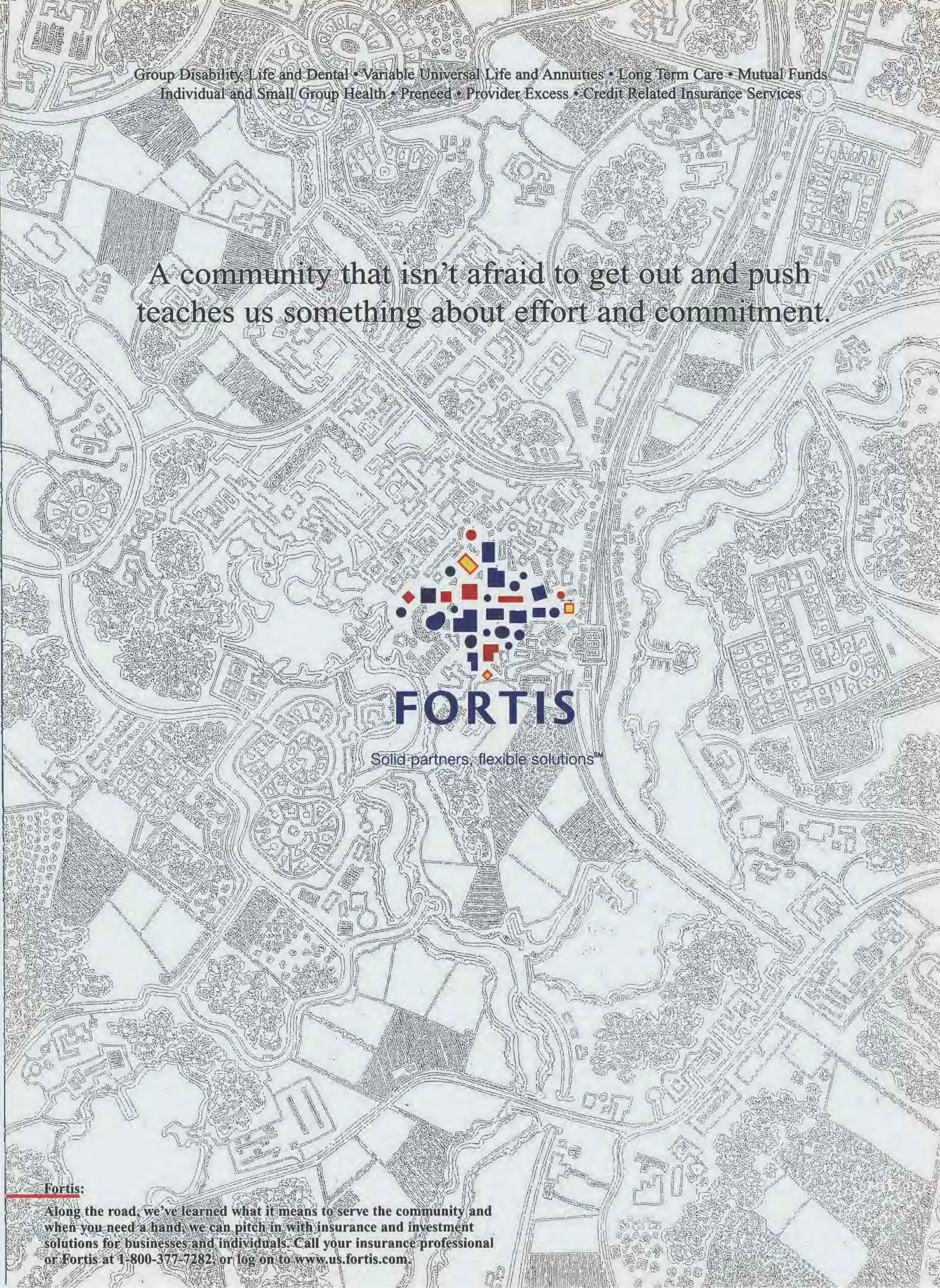
Janet Knoll

Bath, Maine:

Schoolkids take initiative and push their stalled school bus (and a few of their schoolmates) towards a gas station.



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Spotlight report

Market

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raised, said Watson Wyatt's Mr. Abbott.

But employers have been reluctant to raise employees' premium contributions significantly.

"Employers may require employees to pay more if they use services, but they are not going to make employees pay more just to receive coverage from a health care plan. We just have not seen that," Mr. Abbott said.

That general employer reluctance to shift more costs, in any substantive way, to employees is a direct reflection of the tight job market.

"A CEO doesn't want to hear that a top job prospect was lost because the company's health care plan was not equal to that of a competitor," said Mr. Erb.

Still, some believe that if certain trends continue—most notably, sharp increases in prescription drug costs—employers will have no choice but to implement dramatic design changes in their health care plans.

For example, Mr. Erb said, employers, especially smaller companies, that are reeling from soaring prescription drug costs, could begin to impose annual caps on the prescription drug costs their health care plans will cover.

Others also envision employers putting more limits on prescription drug coverage. "I see a trend toward a defined contribution approach by employers," said Arnold Hebert, senior vp-sales and marketing at PacifiCare Health Systems Inc. in Cypress, Calif.

If the economy sours and corporate profits take a tumble, some expect more detailed examinations of plan designs.

"With such a robust economy, some employers have increased contributions to their plans or enriched benefits to attract high-quality employees. When the economy becomes less robust, those things may change," Mr. Counihan said.

Plan design, in the view of some, is ripe for change. Managed care plans that have virtually eliminated cost-sharing with enrollees invite overutilization, some say.

"I don't believe it is possible to manage something that provides 100% coverage. We have created an expectation that this stuff is free," said Ms. Case of PwC Kwasha.

In the wake of rising costs, employers may move away from buying health care through just one vendor. "To gain better deals in the future, they will increasingly look for the most cost-efficient networks in each community rather than only using a national network," Jack Bruner, national health care practice leader for Hewitt Associates L.L.C. in Lincolnshire, Ill., predicted.

One of the biggest developments of the year has been the pullout of Medicare HMOs from certain markets, but it has had little impact on employers to date.

For example, after Aetna U.S. Healthcare said it was withdrawing from markets where Black & Decker retirees had coverage, the toolmaker was able to re-enroll a substantial number of its retirees in HMOs operated by CIGNA Corp., Mr. Brusca said.

Others say the exodus of Medicare HMOs has put on hold any plans to offer Medicare HMOs to retirees.

"I'm going to watch and see what happens. With all those bailouts, I'm not sure we want to be part of that," said Tom Hopkins, manager of corporate benefits with UNUM Corp. in Portland, Maine. BI

Drugs

Continued from page 3

age of that cost comes from research and development. Research-based pharmaceutical companies spent $19 billion on R&D in 1997, and will spend an estimated $21.1 billion by the end of 1998, according to PhRMA.

Consumer demand for new and expensive brand-name medicine has utilization rates soaring, and employers are left to foot the bill.

"The bottom line is, costs are going up by at least 15% for the next several years due to the introduction of new products, many of which are better drugs," said Fred Teitelbaum, vp-analysis and reporting for Express Scripts/Value Rx in St. Louis. "People are using more drugs and more-expensive drugs."

"The situation is bad," said Kenneth A. Tannenbaum, a senior consultant at Towers Perrin in Atlanta. "The cost of prescription drugs has gone up 16% to 17% for each of the last several years, and the same is expected this year. It's a problem, and it's a problem that is not going to go away."

Michael Thompson, a managing director for PricewaterhouseCoopers L.L.P. in New York said, "Employers have been on a medical care inflation honeymoon for many years now." There have been "no inflationary increases of this magnitude for almost a decade," he said of drug costs. "The outlook in the short term is that drug costs will probably continue increasing."

Some drug industry observers argue, however, that drug cost increases, while high, may not be a bad thing. Advances in medicine, they contend, not only are saving more lives and improving the quality of life for many people but also help to lower the total cost of caring for certain illnesses and getting sick employees back to work. Under this cost-shifting theory, a rise in the use of prescription drugs results in fewer hospital stays, emergency room visits and surgeries, and overall health care spending remains stable.

Alan F. Holmer, president of PhRMA, cites in a statement issued earlier this year a study supported by the National Institutes of Health that showed that while the cost of a new stroke medication was $1.7 million per 1,000 patients, it realized a net savings of more than $4 million per 1,000 patients by reducing expenditures for rehabilitation and nursing home care.

Employers need "to look at the whole health picture," agreed Lloyd McDonald, vp-marketing and client service for Eckerd Health Services, a prescription benefit manager in Pittsburgh. The well-managed asthmatic who avoids critical episodes through prescription drugs may spend more on the pharmacy side, but the overall benefit costs to the employer may be lower, he explained.

Bob Kordella, director of clinical network operations at Eckerd Health Services, added that while prescription drugs are the fastest-growing component of group health care plan costs, they represent only about 10% to 15% of the total health care pie; physician and hospital costs represent the overwhelming majority of an employer's total group health care plan costs.

"When you do the math and evaluate in total, (rising prescription drug costs) may not be a crisis; it may be good news," he said.

Rising drug costs are anything but good news for Ash Kilada, director of risk management and benefits at Sbarro Inc. in Commacko, N.Y. Prescription drug costs nearly tripled in 1996 after the restaurant chain carved out its prescription drugs and implemented a drug card program.

While the drug card program was supposed to save Sbarro money with negotiated discounts, the company dropped its deductible and implemented a set copayment of $5 for generic drugs and $10 for brand-name drugs.

As a result, "utilization went through the roof," Mr. Kilada said. "Once we allowed for the drug card, there was no more cost-sharing," he said. Because employees no longer had "a vested interest," they were

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Spotlight report

Drugs

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"trying new and different drugs because the cost to them is the same."

In 1996, Sbarro's prescription benefit costs hit $200,000, compared with $70,000 in 1995. Since then, Sbarro has been raising its copayments. They now are $10 for generic drugs and $20 for brand-name drugs. Despite the increases, drug benefit costs still rose 25% in 1997, Mr. Kilada said.

"Prescription drug costs are approaching 20% of our total" health costs, he said. "I think that we're going to have to move to more cost-sharing. I hate to do it to our employees," he said. "It's tough to afford some of these drugs, but there's a point where employers must decide. . . ."

Benefit consultants agree that rising costs are forcing employers to reevaluate their prescription drug plans.

This means looking at such tools as utilization management, restricting formularies, implementing incentive-based copayments and coinsurance, as well as possibly placing caps on total individual drug costs.

"If plan sponsors really want to control double-digit trends, utilization management is one of the most effective tools, but they have to be willing to have some disruption in care," said Nick Vasilopoulos, national practice leader-managed pharmacy practice for William M. Mercer Inc. in New York.

Utilization management, which includes prior authorization of certain medications, has been available for years, "but lots of employers are not taking advantage because of fear of disruption with participants," he said.

Express Scripts/Value Rx's Mr. Teitelbaum said he believes employers soon will be forced to define which drugs they will cover. "Payers will start being pushed into making such fundamental decisions as to what diseases they are going to treat," he said.

"If the object is to be no worse off than the next guy, use a discount arrangement and formularies," advised John Erb, area vp at Gallagher Benefit Services in Boca Raton, Fla. "If your objective is to reduce costs, caps are the answer," he said.

Mr. Erb said he believes employers will eventually go the route of some Medicare HMOs, which are beginning to stop offering unlimited drug coverage to individual enrollees.

Medicare HMOs in Massachusetts, for example, recently told the Health Care Financing Administration they will offer packages next year with annual drug benefit caps ranging from $500 to $800 (*BI*, Nov. 23).

Benefit managers agree that, in addition to placing more restrictions on drug plans, generic drugs still offer good cost savings. FDA data shows 431 new generics were approved in 1997, compared with 351 in 1996.

But while the number of new generics is increasing, many of the new brand-name drugs are still under patent and do not have generic substitutes. Consultants point out, however, that many of those patents will run out within the next five years.

Towers Perrin's Mr. Tannenbaum is not as optimistic about the savings potential for generic drugs, however. "Even though generics are available, to the extent manufacturers continue marketing to doctors and consumers, the reality is we'll continue to have some demand for generics, but not as much" as for brand names. "You're never going to see an ad that says, 'Go see your doctor about this new generic drug.'" BI

Medicare risk HMO program expected to prevail

By DEBORAH SHALOWITZ COWANS

Many employers, managed care providers and consultants are confident the Medicare HMO program will grow and flourish despite claims by many health maintenance organizations that federal reimbursement rates for Medicare beneficiaries are too low.

But some benefit experts say that without future rate increases, the Medicare HMO program will shrink.

Even those optimistic about the future of Medicare HMOs agree that benefit cutbacks and more premium increases are likely if federal reimbursement rates do not rise.

If the number of retirees participating in Medicare HMOs were to decline, employers would face higher costs, both in the short and long terms because of the cost advantages to employers. However, few experts expect retirees who already use Medicare HMOs to abandon them.

According to the Health Care Financing Administration, the federal agency that administers the Medicare program, Medicare HMO pullouts this year have affected about 440,000 beneficiaries, though most of these have been able to obtain coverage from other Medicare HMOs. Nearly 6 million retirees are enrolled in Medicare HMOs nationwide.

Many Medicare HMOs offer richer benefits at lower costs than corporate-sponsored indemnity plans that supplement Medicare, making the HMOs attractive as cost-saving tools to employers who provide retiree health care benefits.

The nation's largest Medicare HMO provider, PacifiCare Health Systems Inc. of Santa Ana, Calif., maintains that its commitment to Medicare HMOs is strong and that future pullouts are not planned.

"We are absolutely committed" to the Medicare HMO market, said Craig Schub, president of Secure Horizons USA, the Medicare HMO arm of PacifiCare. PacifiCare has about 3.5 million total members, 975,000 of whom are in Medicare HMOs.

Although PacifiCare pulled out of 20 counties this year, affecting 24,000 Secure Horizons members, a spokeswoman said the company does not expect to pull out of additional counties any time soon. And Secure Horizons this year expanded to New Mexico and Hawaii, both new areas for the provider.

Furthermore, PacifiCare is "able, interested and willing" to work with hospital and physician groups to help them set up Medicare HMOs that would operate jointly with Secure Horizons, the spokeswoman said.

While Mr. Schub said he is "hopeful" and "optimistic" the federal government eventually will raise the 2% rate increase cap imposed on most Medicare HMOs by the 1997 Balanced Budget Act, PacifiCare's confi-

Continued on next page

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dence in the market is based on operating under the current rate cap.

One of the largest employers in the nation is just as confident.

"I'm very optimistic" about the Medicare HMO program, said Maria Lyzen, manager of managed care plans-Medicare for General Motors Corp. in Detroit. "The good plans have hung in there, and they will. They're in for the long haul."

GM has about 200,000 to 220,000 Medicare-eligible retirees, and 20% to 25% are enrolled in Medicare HMOs.

Ms. Lyzen said no GM retirees lost HMO coverage due to the pullouts because GM always contracts with more than one Medicare HMO in every county in which it offers the coverage.

The average large national employer has Medicare HMOs available to about 80% of its retirees, said Joseph Martingale, a principal at Towers Perrin in New York. Most Medicare-eligible retirees in California, Arizona, Florida, New York, the Northeast, the Midwest and the Southeast have several HMOs from which to choose, he noted, and this scenario likely will continue. "In major metropolitan areas all across the country, the Medicare HMOs are competitively pursuing business," he said.

"For the near term and mid-term, there's no hesitancy by HMOs to be in the markets which they're in," he said. However, the pullouts sent "a terrible signal to the whole community of benefits people and retirees that there's trouble in Paradise."

Although most Medicare-eligible retirees were able to find new HMOs to replace providers who pulled out, there were other consequences.

Employers have been inundated with questions about the pullouts and cutbacks, noted Mary Harrison, regional director for the MEDSTAT Group Inc. in Stamford, Conn. "The retirees simply have the time to call," she said. "They're confused and they call, and those calls last longer. It's a big headache" for employers.

Employers also have the hassle of notifying retirees about the pullouts and other options, as well as enrolling the retirees in other plans, added Rich Stover, a principal at Buck Consultants Inc. in Secaucus, N.J.

Tom Broderick, manager of benefit administration for Bethlehem Steel Corp., said only a small number of the company's retirees were affected by HMO pullouts in the Baltimore area, and most of those retirees will switch to other Medicare HMOs. But the pullouts have "shaken their confidence in the system," he said. The Bethlehem, Pa.-based steelmaker has 70,000 Medicare-eligible retirees. About 21% are in Medicare HMOs.

Bethlehem Steel had to reissue open enrollment data to about 11,000 retirees because one HMO gave incorrect information on its service area. "We've had a great deal of issues in trying to serve this group because of all the confusion," Mr. Broderick said. "It's caused a real strain on us to handle all the calls."

The effects of the pullouts go beyond the actual number of people who lost coverage, agreed Bruce Taylor, director of health care for GTE Corp. in Irving, Texas. "We're concerned that this pullout undermines some already-fragile acceptance of managed health care," he said.

Furthermore, "we want our employees and retirees to have access to continuous health care as an employee, as a pre-Medicare retiree and as a Medicare retiree," he stated. It makes no sense for employees to work for GTE for many years and then, when they become eligible for Medicare, not be able to receive health care from the same managed care plan, he said.

GTE has about 91,000 active employees, 70% of who are in HMOs. Of some 60,000 retirees, about 36,000 are eligible for Medicare. Mr. Taylor declined to say how many of those retirees are in Medicare HMOs.

"I have to make sure the (Medicare HMO) market is there for that 70% (of active employees) when they retire," Mr. Taylor said. "They're going to expect continuity of services. That's the essence" of the issue, he said.

One HMO with reservations about the program is United HealthCare Corp. of Minnetonka, Minn.

"There's no question that we would like to stay in the market," said Dr. Lee N. Newcomer, chief medical officer of United HealthCare. "How much we can stay in the market really depends on HCFA and Congress" changing the 2% rate increase cap. If the cap continues for many years, "you'll continue to see some shrinkage in counties (served)," he predicted, adding that rural and areas with medium-sized populations will be most at risk.

This year, United HealthCare pulled out of 86 of the 206 counties in which it had provided a Medicare program. As of Jan. 1, the provider will have 381,000 members in Medicare HMOs, down from 440,000 this year before the pullout. United HealthCare has about 6 million HMO members total.

Meanwhile, United HealthCare is developing a Medicare preferred provider organization. Dr. Newcomer said he does not know when a proposal for the PPO will be ready for submission to federal officials.

Dr. Newcomer said that before pulling out of many more counties, the company first would cut benefits. The "pharmacy benefit (would be) the first benefit to be cut" because "pharmacy is, by far and away, the most expensive benefit that we have," he stated. One way to reduce the benefit would be to lower the annual cap on prescription drug coverage, he said.

Other cost-cutting measures HMOs might take include raising members' premiums and copayments and instituting pharmacy formularies, PacifiCare's Mr. Schub said.

If managed care providers do institute these measures, short-term costs for employers likely will increase, several consultants warned.

For example, if employers currently are paying HMO premiums for their retirees, premium increases will be an immediate additional expense, Mr. Stover of Buck Consultants said.

In the long term, if there are not enough Medicare HMOs for retirees to join, or if those options become far less appealing, fewer retirees may opt out of the employer-sponsored retiree health care program, driving up retiree health care costs. This scenario could have a significant impact on Financial Accounting Standard 106 liabilities, Mr. Stover pointed out.

The FAS 106 rule requires companies to enter on their balance sheets liabilities for retiree health care costs.

However, experts agree that retirees who already use Medicare HMOs are not likely to abandon them.

Retirees love Medicare HMOs, GM's Ms. Lyzen said.

At GM, less than half of 1% of retirees who join a Medicare HMO leave that arrangement to return to the company's indemnity plan, according to Ms. Lyzen. BI

Annual *BI* directory of employee benefit consultants

A

ASA Inc.

270 Davidson Ave.,
Somerset, N.J. 08873
732-302-2100; fax: 732-271-2680
www.asabenefits.com

Benefit consulting since: 1934.

Services: 92% of revenues from benefit consulting.

Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers.

Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.

Benefit communications consulting: Includes communications consulting; benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, actuarial and life insurance consulting.

Locations: Los Angeles; San Francisco; Boca Raton, Fla.; Rolling Meadows, Ill.; Columbia, Md.; Closter and Somerset, N.J.; New York; McLeansville, N.C.; Markham, Ontario

Staff: 400 benefit consulting employees; 340 professionals, including 25 FSAs, 29 ASAs, seven CEBSs, three Ph.D.s, three CPAs, 14 attorneys, 35 EAs.

Compensation: By the project, on retainer, by the hour.

Gross revenues: $101 million estimated from worldwide benefit consulting in 1998 (99% from U.S. locations); $70 million in 1997 (98.5% from U.S.); $105 million estimated total worldwide 1998 revenues (99% from U.S.).

Officers: Michael J. Gulotta, president/CEO; Beverly Landstrom, Frank Becker, senior vps; James Hess, president-financial services; John J. Gish, CFO.

Contact: Andrea Katz, director-marketing; 732-271-2686.

Administrative Management Group

3800 N. Wilke Road, Suite 250,
Arlington Heights, Ill. 60004;
847-577-6000; fax: 847-870-9200

Benefit consulting since: 1982.

Services: 90% of revenues from benefit consulting.

Retirement/savings plan consulting: 65% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers, flexible benefits.

Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, flexible benefits.

Benefit communications consulting: 15% of revenues. Includes communications consulting; benefit statement and booklet preparation.

Other services: Claims administration.

Locations: Arlington Heights, Ill.

Staff: 100 total.

Clients: 500 total; 100% corporations. Minimum size client: 50 employees.

Compensation: By the project, on retainer, by the hour: senior consultant, $250; consultant, $150; clerical, $50.

Gross revenues: $13 million estimated from worldwide benefit consulting in 1998.

Officers: John Salajka, CEO; David Goldenberg, CFO.

Contact: Mark Tucker, director-new business.

Arthur Andersen L.L.P.-Human Capital Services

225 Peachtree St. N.E.,
Suite 1800, Atlanta, Ga. 30303;
404-589-4177; fax: 404-221-4400
www.arthurandersen.com

Benefit consulting since: 1975.

Parent: Arthur Andersen L.L.P.

Services: 51% of revenues from benefit consulting.

Retirement/savings plan consulting: 75% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, risk management/compliance reviews, litigation/enforcement support, independent fiduciary and related services, retirement planning/investment education and assistance.

Welfare plan consulting: 15% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, cafeteria and flexible benefit plans, retiree health care.

Benefit communications consulting: 10% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, general management consulting, claims administration, human resource strategy, structure and sourcing assistance, human resource appraisal, international mobility management.

Locations: 44 U.S.; 54 non-U.S.

Staff: 500 benefit consulting employees; 425 professionals, including FSAs, ASAs, CEBSs, CPAs, attorneys, EAs, Ph.D.s.

Clients: 83% corporations, 2% multiemployer plans, 5% government agencies/entities, 10% other, including law firms and other third-party intermediaries.

Compensation: By the project, on retainer, by the hour.

Gross revenues: $145 million estimated from worldwide benefit consulting in 1998 (65% from U.S. locations); $118 million in 1997 (60% from U.S.); $285 million estimated total worldwide 1998 revenues (54% from U.S.).

Officers: Bruce Benesh, James Hatch, Kent Klaus, James Finkelstein, Bob McAndrew, Duncan Harwood.

Contact: Bruce M. Meyer.

Aon Consulting Worldwide

123 N. Wacker Drive,
Chicago, Ill. 60606;
312-701-4800; fax: 312-701-2313
www.aonconsulting.com

Benefit consulting since: 1941.

Parent: Aon Corp.

Services: 83% of revenues from benefit consulting.

Retirement/savings plan consulting: 49% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers.

Welfare plan consulting: 30% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, COBRA record keeping.

Benefit communications consulting: 4% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; structured technology consulting.

Other services: Compensation consulting, brokering, general management consulting, claims administration, human resources consulting, change management consulting.

Locations: 71 U.S., 64 non-U.S.

Staff: 4,743 benefit consulting employees; 3,558 professionals, including 130 FSAs, 220 ASAs, 135 CEBSs, 85 CLUs, 5 CPCUs, 43 Ph.D.s, 33 CPAs, 30 attorneys, 33 EAs, 2 M.D.s.

Compensation: By the project, commissions, on retainer, by the hour.

Gross revenues: $520 million estimated from worldwide benefit consulting in 1998 (58% from U.S. locations); $470 million in 1997 (59% from U.S.); $625 million estimated total worldwide 1998 revenues (65% from U.S.).

Officers: Daniel T. Cox, chairman-Aon Consulting Worldwide; Donald C. Ingram, chairman-Aon Consulting-Americas; Ron Amy, chairman-Aon Consulting Ltd-U.K.; Jean-Pierre Provencher, chairman-Aon Consulting Inc.-Canada; David Jones, president-Aon Consulting-Human Resources Consulting Group.

Contact: Tom Ference.

B

BeneCom Associates L.L.C.

152 Simsbury Road, P.O. Box 1423,
Avon, Conn. 06001-1423;
860-674-2626; fax: 860-674-2627
www.benecomassociates.com

Benefit consulting since: 1992.

Services: 100% of revenues from benefit consulting.

Benefit communications consulting: 100% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; intranet applications; enrollment kits; claim kits; payroll inserts; summary plan descriptions; plan documents; newsletters; i.d. cards; highlights brochures.

Locations: Avon, Conn.; Chicago.

Staff: Five professionals, including one CEBS.

Clients: 90% corporations, 2% government agencies/entities, 8% other.

Compensation: By the project.

Gross revenues: $2.9 million estimated from worldwide benefit consulting in 1998; $3.2 million in 1997; $2.9 million estimated total worldwide 1998 revenues. All revenues are from the United States.

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PROPERTY/CASUALTY

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Continued from previous page

Officers: William E. Griffin, Kay M. Griffin, principals.
Contact: Susie Mullins or Ed Owens, 860-674-2626; Courtney Cosgrove, 847-969-9105.

Benefit Controls Cos.

910 E. Washington St.,
Greenville, S.C. 29601;
864-242-9441; fax: 864-232-6655

Services: 70% of revenues from benefit consulting.
Retirement/savings plan consulting: 8% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 60% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 2% of revenues. Includes communications consulting.
Other services: Brokering.
Locations: Atlanta; Charlotte, Hickory and High Point, N.C.; Columbia and Greenville, S.C.
Staff: 32 benefit consulting employees; 26 professionals, including three CPCUs.
Clients: 320 total; 94% corporations, 2% multiemployer plans, 2% individuals, 2% government agencies/entities.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $200; consultant, $175; clerical, $75.
Gross revenues: $3.6 million estimated from worldwide benefit consulting in 1998; $3.2 million in 1997; $5.1 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: William A. Gantt Jr., CEO; Douglas Dellinger, Andrew Foster, Michael Hawkins, I. Edwin Icard, Carl Sharpe, Donald E. Ward, Scott Gantt, branch presidents.
Contact: T. Matthew Gantt, vp-marketing.

Benefit Dynamics Inc.

8 Renaldo Terrace,
Cherry Hill, N.J. 08034;
609-616-1400; fax: 609-616-1401
www.benefitdynamics.com

Benefit consulting since: 1978.
Services: 99% of revenues from benefit consulting.
Retirement/savings plan consulting: 45% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, call centers, section 125/419 administration.
Welfare plan consulting: 37% of revenues. Includes plan design consulting, insurer/broker selection consulting, call centers.
Benefit communications consulting: 17% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response system for all benefits.
Other services: Brokering.
Locations: Cherry Hill, N.J.
Staff: 20 benefit consulting employees; eight professionals, including one CEBS, one CLU, one CPA, one EA.
Clients: 2,600 total; 86% corporations, 3% multiemployer plans, 10% MEWAs, 1% individuals. Minimum size client: one employee.
Compensation: By the project, on retainer, by the hour: senior consultant, $250; consultant, $125; clerical, $75; accounting staff, $100.
Gross revenues: $2 million estimated from worldwide benefit consulting in 1998; $1 million in 1997; $2 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: JoAnn Massanova, president; Carmen LaVerghetta, vp.
Contact: Mark Moran, vp-sales; JoAnn Massanova.

Benefit Solutions Inc.

Vanderbilt Drive,
Sands Point, N.Y. 11050;
516-944-0023; fax: 516-944-0024

Benefit consulting since: 1980.
Services: 100% of revenues from benefit consulting.
Retirement/savings plan consulting: 15% of revenues.
Welfare plan consulting: 85% of revenues.
Staff: Eight benefit consulting employees; five professionals.
Clients: 100 total; 95% corporations, 5% individuals.
Compensation: By the project, on retainer, by the hour: senior consultant, $250; consultant, $200.
Gross revenues: $900,000 estimated from worldwide benefit consulting in 1998; $436,950 in 1997. All revenues are from the United States.
Officers: James W. Barber, vp.; Louise Klimuszko-president
Contact: James W. Barber

George Beram & Co. Inc.

233 Needham St.,
Newton, Mass. 02464;
617-965-1200; fax: 617-964-1160.

Benefit consulting since: 1975.
Services: 100% of revenues from benefit consulting.
Retirement/savings plan consulting: 90% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 5% of revenues. Includes plan design consulting, insurer/broker selection consulting, health care cost containment.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement and booklet preparation.
Locations: Newton, Mass.
Staff: 45 benefit consulting employees; 15 professionals, including two FSAs, six ASAs, one CEBS, one attorney, eight EAs.
Clients: 100 total; 100% corporations. Minimum size client: 25 employees.
Compensation: By the project, on retainer, by the hour: senior consultant, $300; consultant, $150; clerical, $75.
Gross revenues: $4.8 million estimated from worldwide benefit consulting in 1998; $4.8 million in 1997. All revenues are from the United States.
Officers: George Beram, Philip Brund, Joseph Macaulay, Theodore Huber, Art Berger.
Contact: George Beram.

R.N. Blomquist

1 Oakbrook Terrace, Suite 812,
Oakbrook Terrace, Ill. 60181;
630-620-0200; fax: 630-620-0324

Benefit consulting since: 1960.
Services: 100% of revenues from benefit consulting.
Retirement/savings plan consulting: 10% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan/trust legal document drafting.
Welfare plan consulting: 75% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, SOP 92-6.
Benefit communications consulting: 15% of revenues. Includes booklet preparation.
Locations: Oakbrook Terrace, Ill.
Staff: Nine benefit consulting employees; five professionals, including one FSA and one CLU.
Clients: 50 total; 100% multiemployer plans.
Compensation: By the project, on retainer, by the hour: senior consultant, $205; consultant, $180; clerical, $55; communications specialists, $155.
Gross revenues: $1.3 million estimated from worldwide benefit consulting in 1998. All revenues are from the United States.
Officers: Jack A. Diem, president; Paul Hawkins, executive vp; Kurt Starbuck, vp.
Contact: Paul Hawkins

T.E. Brennan Co.

330 E. Kilbourn Ave., Suite 750,
Milwaukee, Wis. 53202;
414-271-2232; fax: 414-271-0104
www.tebrennan.com

Benefit consulting since: 1965.
Services: 45% of revenues from benefit consulting.
Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting.
Welfare plan consulting: 29% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, expert witness, consultant outsourcing.
Benefit communications consulting: 11% of revenues. Includes communications consulting, booklet preparation.
Other services: Compensation consulting, general management consulting, risk management consulting.
Staff: Six benefit consulting employees; four professionals, including two CEBS.
Clients: 93 total; 47% corporations, 33% government agencies/entities, 20% non-profit employers and associations.
Compensation: By the project, on retainer, by the hour: senior consultant, $185; consultant, $165; clerical, $75; expert witness, $250 plus $1,500 retainer; $1,500/day, plus expenses for conference attendance.
Gross revenues: $900,000 estimated from worldwide benefit consulting in 1998; $856,000 in 1997; $2 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Arvid R. Tillmar, chairman/CEO; Thomas E. Gold, president.
Contact: Arvid R. Tillmar.

Buck Consultants Inc.

1 Pennsylvania Plaza,
New York, N.Y. 10119-4798;
212-330-1000; fax: 212-695-4184
www.buckconsultants.com

Benefit consulting since: 1916.
Parent: Mellon Bank Corp.
Services: 100%* of revenues from benefit consulting.
Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers, retirement and financial planning seminars, employee education, executive benefits consulting, outsourcing/re-engineering, international benefit consulting, mergers/acquisition/divestiture transactions, forecasting and planning, strategic planning, hybrid plan consulting.
Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, evaluation of post-retirement/post-employment liabilities, managed care consulting, flexible benefits, group actuarial, workers compensation, dependent care consulting, employee focus groups, health care provider consulting, welfare plan administration/outsourcing.
Benefit communications consulting: Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive communications (PC and voice); participant service center; new media.
Other services: Compensation consulting, general management consulting.
Locations: 29 U.S.; 28 non-U.S.
Staff: 3,171 benefit consulting employees; 2,761 professionals, including 82 FSAs, 131 ASAs, 43 CEBSs, 10 CLUs, 14 Ph.D.s, 16 CPAs, 47 attorneys, 169 EAs.
Clients: 5,000 total; 80% corporations, 20% other, including non-profit organizations, governmentals and multiemployer plans. Minimum size client: no minimum.
Compensation: By the project, commissions, by the hour.
Gross revenues: $327 million estimated from worldwide benefit consulting in 1998 (80% from U.S. locations); $300 million in 1997 (75% from U.S.); $332 million estimated total worldwide 1998 revenues (80% from U.S.).
Officers: Joseph A. LoCicero, president/CEO; Karl Lohwater, secretary; Gary Stephen, treasurer.
Contact: Ed Gadowski, marketing department; 500 Plaza Drive, Secaucus, N.J. 07096-1533.
** Net of compensation and general management consulting.*

C

Century Financial Services, A Summit Global Partner

185 N.W. Spanish River Blvd.,
Suite 170, Boca Raton, Fla. 33431;
561-362-0111; fax: 561-362-0133

Benefit consulting since: 1985.
Services: 20% of revenues from benefit consulting.
Retirement/savings plan consulting: 2% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting.
Welfare plan consulting: 15% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 3% of revenues. Includes communications consulting, booklet preparation.
Other services: Brokering.
Locations: Boca Raton, Fla.
Staff: Seven benefit consulting employees; four professionals.
Clients: 90% corporations, 10% individuals. Minimum size client: one employee.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $150; consultant, $115; clerical, $75.
Gross revenues: $840,000 estimated from worldwide benefit consulting in 1998; $773,500 in 1997. All revenues are from the United States.
Officers: Ron Reshefsky, president/CEO; Gary Morris, senior vp; Richard Leonard, senior vp-benefits; Ellen Segal, vp/corporate secretary; Mitchell McEwen, vp-benefits.
Contact: Richard James Leonard.

Chicago Consulting Actuaries L.L.C.

216 S. Jefferson St.,
Suite 600, Chicago, Ill. 60661;
312-454-3222; fax: 312-454-1213
www.ccasite.com

Benefit consulting since: 1991.
Services: 85% of revenues from benefit consulting.
Retirement/savings plan consulting: 70% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan administration consulting, asset/liability forecasting, asset allocation studies.
Welfare plan consulting: 15% of revenues. Includes plan design consulting, health care cost containment, actuarial valuations for post-retirement welfare plans.
Other services: Software development, Pension Benefit Guaranty Corp. premium audits.
Staff: 33 benefit consulting employees; 29 professionals, including nine FSAs, five ASAs, six EAs.
Clients: 60 total; 100% corporations.
Compensation: By the project, by the hour: senior consultant, $250 to $350; consultant, $140 to $275; clerical, $60.
Gross revenues*: $6 million estimated from worldwide benefit consulting in 1998; $4.2 million in 1997; $7 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Thomas S. Terry, president; James G. Peard, Harold S. Cooper, Lina F. Hilko, principals.
Contact: Thomas S. Terry.
** All revenue figures are estimated.*

Frank Crystal Benefits

40 Broad St.,
New York, N.Y. 10004;
212-504-5851; fax: 212-269-6612
www.fcrystal.com

Benefit consulting since: 1982.
Parent: Frank Crystal & Co. Inc.
Services: 85% of revenues from benefit consulting.
Retirement/savings plan consulting: 2% of revenues. Includes plan design consulting, plan administration consulting.
Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 3% of revenues. Includes communications consulting.
Other services: Brokering, executive benefits consulting.
Locations: San Francisco; Fort Lauderdale, Fla.; New York; Houston.
Staff: 31 benefit consulting employees; 23 professionals, including one CEBS, four CLUs.
Clients: 600 total; 90% corporations, 10% non-profit organizations; partnerships. Minimum size client: 10 employees.
Compensation: By the project, commissions, on retainer.
Gross revenues: $6 million estimated from worldwide benefit consulting in 1998; $5 million in 1997; $7 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: James W. Crystal, chairman/CEO; Arthur Littmann, CFO; Vincent Gandolfo, senior managing director; Paul Brown; Connie Chiara.
Contact: Vincent Gandolfo.

D

Deloitte & Touche/Human Capital Advisory Services

10 Westport Road,
Wilton, Conn. 06897-0820;
203-761-3000; 203-834-2246
www.us.deloitte.com

Benefit consulting since: 1978.
Parent: Deloitte & Touche L.L.P.
Services: 35% of revenues from benefit consulting.
Retirement/savings plan consulting: 24% of revenues. Includes plan design consulting; defined benefit plan actuarial work; pension plan record keeping; administration systems consulting; plan/trust legal document drafting; plan administration consulting; investment manager selection consulting; call centers; retirement plan strategy; litigation support; ESOPs; operational reviews outsourcing; early retirement windows; personal financial planning; FAS 106 and 112 requirements and compliance, valuations, financial statement disclosures.
Welfare plan consulting: 8% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, managed care consulting to purchasers and providers, health actuarial, cafeteria and flex plans, pricing strategies for providers, claims/utilization review audits, network development, health reform strategy to purchasers and providers, performance audits.
Benefit communications consulting: 3% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; communications audits; customized computer communications; diagnostic surveys/focus groups; interactive voice response systems; multimedia; Internet/intranet solutions.
Other services: Compensation consulting, general management consulting, human resources strategies consulting, integrated health consulting, insurance consulting, international assignment services, financial counseling services.
Locations: 50 U.S.; 38 non-U.S.
Staff: 1,107 benefit consulting employees; 964 professionals, including FSAs, ASAs, CEBSs, CLUs, CPCUs, CPAs, attorneys, EAs, Ph.D.s, M.D.s.
Compensation: By the project, on retainer, by the hour.
Gross revenues: $206 million estimated from worldwide benefit consulting in 1998 (84% from U.S. locations); $153.8 million in 1997 (84% from U.S.); $598.8 million estimated total worldwide 1998 revenues (71% from U.S.).
Officers: Ainar Aijala, national director; Bill Potvin, associate national director; Tim Phoenix, employee benefit service line group leader; Richard Kleinert, principal-in-charge (West region); Richard Berens, principal-in-charge (Mid-America); Susan Achenbach, principal-in-charge (Great Lakes); Mike Fucci and Rebecca Amoroso, principals-in-charge (Tri-state).
Contact: Ainar Aijala, 2 World Financial Center, New York, N.Y. 10281-1414; 212-436-4705.

Digital Horizons Inc. (DHI)

Four Seagate Building,
Fifth Floor, Toledo, Ohio 43604;
800-733-8228 or 419-244-9936;
fax: 419-249-7220
www.dhiweb.com

Benefit consulting since: 1989.
Services: 90% of revenues from benefit consulting.
Retirement/savings plan consulting: 10% of revenues. Includes pension plan record keeping, administration systems consulting, call centers, interactive voice response/Internet self-service information, on-premise and call centers/service bureau.
Welfare plan consulting: 40% of revenues. Includes call centers, IVR/Internet self-service information, on-premise and call centers/service bureau.
Benefit communications consulting: 40% of revenues. Includes communications consulting, benefit statement preparation, IVR/Internet self-service solutions.
Other services: Production of CD-ROM for training, education and promotions.
Locations: Toledo, Ohio.
Staff: Two benefit consulting employees; both professionals.
Clients: 24 total; 100% corporations. Minimum size client: 1,000 employees.
Compensation: By the project, per member per month fees.
Gross revenues: $1.5 million estimated from worldwide benefit consulting in 1998; $1 million in 1997; $1.7 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Tedd Long, chairman; Greg Hussey, president; Tim Schmidt, COO/executive vp; Mark Kneper, vp-operations.
Contact: Tedd Long.

E

Empire Professional Services Inc.

77 Sully's Trail,
Pittsford, N.Y. 14534;
716-264-4400; fax: 716-264-4450

Continued on next page

Explanation of terms in the directory

The annual directory of employee benefit consultants lists companies' responses to a *Business Insurance* questionnaire.

The directory is published as an editorial service; there is no charge to be included. However, companies must generate at least $500,000 of their gross revenues from benefit consulting. Companies that did not report estimated 1998 gross revenues from benefit consulting were not included in the directory.

BI defines benefit consulting as providing advice on benefit issues on a fee-for-service basis. Benefit consulting does not include health care and other claims administration, compensation consulting, general consulting unrelated to benefits or brokering insurance.

Listings begin with the **year benefit consulting began** and **parent** company, if any.

The services section lists the percentage of gross revenues the company derives from benefit consulting. This figure is broken down into the percentage of gross revenues generated from **retirement and savings plan consulting, welfare plan consulting** and employee **benefit communications consulting**. Specific services provided in each area are listed. In addition, non-benefit consulting services are detailed under **other services**.

Next are the **locations** of U.S. and non-U.S. offices conducting benefit consulting. **Staff** information includes the number of employees assigned to benefit consulting, the number of professional members and the professional designations held by these employees.

The total number of **clients** in 1997 is provided along with a breakout by type of client, including corporations, multiemployer plans (pension or welfare plans jointly run by employers in the same industry and a labor union) and multiple employer welfare arrangements, or MEWAs (welfare plans covering a group of unrelated employers, usually small firms or individuals).

Methods of billing are listed under **compensation**. Information on **gross revenues** includes: estimated 1998 benefit consulting gross revenues, 1997 benefit consulting revenues, estimated 1998 worldwide gross revenues, and the percentage of each generated from U.S. offices.

Names and titles of principal officers and the name of a contact complete the listings.

Although every effort is made to publish complete and accurate listings, *BI* is unable to verify all information provided.

The following are the full professional designations for those abbreviated under the staff heading:

FSA-Fellow, Society of Actuaries; ASA-Associate, Society of Actuaries; CEBS-Certified Employee Benefit Specialist; CLU-Chartered Life Underwriter; CPCU-Chartered Property/Casualty Underwriter; CPA-Certified Public Accountant; EA-Enrolled Actuary.

Continued from previous page

Benefit consulting since: 1974.
Parent: Blue Cross & Blue Shield of the Rochester Area.
Services: 73% of revenues from benefit consulting.
Retirement/savings plan consulting: 44% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, call centers, FAS 106 consulting.
Welfare plan consulting: 26% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 3% of revenues. Includes communications consulting; booklet and audiovisual preparation; cafeteria plan enrollments.
Other services: Flexible spending account claims administration, cafeteria plan administration, COBRA/HIPAA administration.
Locations: Pittsford, N.Y.
Staff: 31 benefit consulting employees; 26 professionals, including one FSA, one ASA, one CEBS, three EAs.
Clients: 1,055 total; 98% corporations, 1% multiemployer plans, 1% government agencies/entities. Minimum size client: one employee.
Compensation: By the project, on retainer, by the hour: senior consultant, $150; consultant, $100; clerical, $30, actuary, $175.
Gross revenues: $2.6 million estimated from worldwide benefit consulting in 1998; $2 million in 1997; $3.6 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Gus A. Platas, vp/general manager; Paula Maron, director-retirement plan services; Charles McLaughlin, director-actuarial services; Karen Nicholson, director-benefits administration.
Contact: Gus A. Platas.

The Epler Co.
450 B. St., Suite 750,
San Diego, Calif. 92101;
619-239-0831; fax: 619-239-0807
www.eplercompany.com

Benefit consulting since: 1971.
Services: 85% of revenues from benefit consulting.
Retirement/savings plan consulting: 75% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.
Welfare plan consulting: 5% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Other services: Compensation consulting, brokering.
Locations: San Diego.
Staff: 17 benefit consulting employees; 14 professionals, including two FSAs, one EA.
Clients: 40% corporations, 60% government agencies/entities. Minimum size client: 25 employees.
Compensation: By the project. By the hour: senior consultant, $125 to $200; consultant, $50 to $100; clerical, $40 to $60.
Gross revenues: $1.4 million estimated from worldwide benefit consulting in 1998; $1.6 million estimated total worldwide 1998 revenues.
Officers: Jane Barry, CEO/president; Lin Ball, vp; Lou Filliger, vp/senior actuary.
Contact: Jane Barry or Lin Ball.

Ernst & Young L.L.P.-Human Resource Services
1225 Connecticut Ave. N.W.,
Washington, D.C. 20036;
202-327-6000; fax: 202-327-6714
www.eyi.com

Benefit consulting since: 1987.
Services: 80% of revenues from benefit consulting.
Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers, compliance reviews, transactional-related due diligence and past merger integration, expatriate services, administrative process improvement, vendor selection.
Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, managed disability, time loss management.
Benefit communications consulting: Includes communications consulting; benefit statement, booklet and audiovisual preparation; financial education for large employee groups; executive financial planning; call centers.
Other services: Compensation consulting, general management consulting, human resources consulting.
Locations: 33 U.S.; 34 non-U.S.
Staff: 850 benefit consulting employees; all professionals.
Clients: 90% corporations, 10% individuals.
Compensation: By the project, on retainer, by the hour.
Gross revenues: $160 million estimated from worldwide benefit consulting in 1998 (60% from U.S. locations); $108 million in 1997 (61% from U.S.); $204 million estimated total worldwide 1998 revenues (60% from U.S.).
Officers: Dave Kautter, national director-human resource services; Jim Bosserman, national director-human resource consulting; Linda Watson, national director-global employee solutions; Bob Garner, national director-personal financial planning.

F

Findley Davies Inc.
300 Madison Ave., Suite 1000,
Toledo, Ohio 43604-1596;
419-255-1360; fax: 419-259-5685;
www.findleydavies.com

Benefit consulting since: 1969.
Services: 50% of revenues from benefit consulting.
Retirement/savings plan consulting: 30% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.
Welfare plan consulting: 15% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, claim audits.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; focus groups; attitude surveys.
Other services: Compensation consulting, general management consulting, claims administration, actuarial planning, retirement plan, recordkeeping.
Locations: Charlotte, N.C.; Cleveland.
Staff: 47 benefit consulting employees; 34 professionals, including one FSA, two ASAs, two CEBSs, one CLU, five CPAs, four attorneys.
Clients: 700 total; 95% corporations, 5% government agencies/entities.
Compensation: By the project, by the hour.
Gross revenues: $4.6 million estimated from worldwide benefit consulting in 1998; $5 million in 1997; $9.2 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Robert Rogers, Marc Stockwell, Brian Hubbell, Scott Hamner, Gary Thieman, shareholders.
Contact: Gary Thieman.

Fringe Benefits Management Co.
1720 S. Gadsden St.,
Tallahassee, Fla. 32302-5547;
850-425-6200; fax: 850-425-6220;
fbmc-benefits.com

Benefit consulting since: 1976.
Services: 46.25% of revenues from benefit consulting.
Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting, pension plan record keeping, administration systems consulting, drafting, plan administration consulting, investment manager selection consulting, compliance audits, communication/education services, 401(K) administration, tax-sheltered annuity administration.
Welfare plan consulting: 36.25% of revenues. Includes plan design consulting, insurer/broker selection consulting, benefit plan administration, common remitter service, payroll deduction management for insurance deductions and for 403(b) TSA.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response enrollments; multimedia (laptop) enrollments.
Other services: Brokering, claims administration.
Locations: Tallahassee, Fla.
Staff: 160 benefit consulting employees; four professionals, including one CLU, three attorneys.
Clients: 40 total; 2.5% corporations, 97.5% government agencies/entities. Minimum size client: 500 employees.
Compensation: By the project.
Gross revenues: $6.6 million estimated from worldwide benefit consulting in 1998; $6.5 million in 1997; $14.2 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Lorraine Ritch, president; Mike Sheridan, chairman; Agnes McMurray, senior vp; William Bischoff, vp/general counsel; Debra Tougas, vp/comptroller.
Contact: Darryl Beacher, marketing manager.

G

Gallagher Byerly Inc.
7600 E. Orchard Road, Suite 250-S,
Englewood, Colo. 80111;
303-220-7575; fax: 303-220-7010;
www.ajg.com

Benefit consulting since: 1959.
Parent: Arthur J. Gallagher & Co.
Services: 62% of revenues from benefit consulting.
Welfare plan consulting: 50% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, call centers, compliance services.
Benefit communications consulting: 12% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Other services: Compensation consulting, brokering, general management consulting, claims administration, customer service, flexible spending, COBRA administration, premium administration.
Locations: Baton Rouge and Metairie, La.
Staff: 34 benefit consulting employees; 19 professionals, including 11 CEBSs, three CLUs, one Ph.D. and one CPA.
Clients: 400 total; 85% corporations, 2% multiemployer plans, 4% MEWAs, 9% government agencies/entities.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $230; consultant, $185; clerical, $60.
Gross revenues: $4.9 million estimated from worldwide benefit consulting in 1998; $4.1 million in 1997; $7.9 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Robert N. Morehead, area president; Mark E. Hogan, area executive vp; Jane M. Gruhl, David F. Uppinghouse, Robert Kauffman, area vps.

H

HCC Employee Benefits Inc.
5555 San Felipe, Suite 1100,
Houston, Texas 77056;
713-622-8930; fax: 713-622-6705

Benefit consulting since: 1979.
Parent: HCC Insurance Holdings Inc.
Services: 50% of revenues from benefit consulting.
Retirement/savings plan consulting: 20% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan administration consulting, investment manager selection consulting, call centers.
Welfare plan consulting: 25% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Other services: Compensation consulting, brokering.
Staff: 55 benefit consulting employees; 40 professionals, including one FSA, two ASAs, two CEBSs, three CLUs, one Ph.D., one attorney, three EAs.
Clients: 100 total; 95% corporations, 5% government agencies/entities. Minimum size client: 100 employees.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $250; consultant, $175; clerical, $50.
Gross revenues: $7.6 million estimated from worldwide benefit consulting in 1998; $15.1 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Larry Kachler, CEO; Jim Stone, managing director.
Contact: Phil Peters.

Hewitt Associates L.L.C.
100 Half Day Road,
Lincolnshire, Ill. 60069;
847-295-5000; fax: 847-883-9019
www.hewitt.com

Benefit consulting since: 1940.
Services: 87% of revenues from benefit consulting.
Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, participant services.
Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: Includes communications consulting, benefit statement, booklet and audiovisual preparation, employee listening services.
Other services: Compensation consulting, organizational effectiveness.
Locations: 29 U.S.; 42 non-U.S.
Compensation: By the project, by the hour.
Gross revenues: $765 million estimated from worldwide benefit consulting in 1998 (95.5% from U.S. locations); $624 million in 1997 (96.2% from U.S.); $880 million estimated total worldwide 1998 revenues (93.4% from U.S.).
Officers: Dale L. Gifford, chief executive; Gerry I. Wilson, Tom L. Schmitz, Sandy Cook, Dan J. Holland, office of chief executive.

Human Resources Consulting Group Inc.
1202 E. Dover,
Provo, Utah 84604;
801-765-4417; fax: 801-765-4418

Benefit consulting since: 1981.
Services: 80% of revenues from benefit consulting.
Retirement/savings plan consulting: 15% of revenues. Includes plan design consulting, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, call centers, IVR software, Web/Internet software consulting.
Welfare plan consulting: 25% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 40% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response software; Web/Internet software consulting.
Other services: Brokering, general management consulting, claims administration, software systems sales.
Locations: Birmingham, Ala.; Los Angeles; Palm Coast, Fla.; Boston; Provo and Salt Lake City, Utah; Sydney, Australia.
Clients: 600 total. Minimum size client: five employees.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $180; consultant, $105; clerical, $35.
Gross revenues: $5.7 million estimated from worldwide benefit consulting in 1998 (95% from U.S. locations); $5.3 million in 1997 (95% from U.S.); $6.5 million estimated total worldwide 1998 revenues (95% from U.S.).
Officers: Richard D. Pelton, CEO; R. Richard Packham, senior vp; Bill Wunderlich, vp; Rob J. Thurston, vp-marketing; R. Brent Dudley, management information systems.
Contact: Rob J. Thurston.

Continued on next page

The top 10 U.S. consultants appears on page 4.

Continued from previous page

K

Keenan & Associates
2355 Crenshaw Blvd., Suite 200,
Torrance, Calif. 90501-3395;
310-212-3344; fax: 310-212-0354;
keenanassoc.com

Benefit consulting since: 1972.
Services: 30% of revenues from benefit consulting.
Welfare plan consulting: 30% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Other services: Brokering, claims administration, adjusting, risk management, managed care, insurance pool administration, eligibility services.
Locations: Campbell, Fresno, Irvine, Oakland, Riverside, Sacramento, San Diego and Westlake Village, Calif.
Staff: 122 benefit consulting employees; 80 professionals, including five CEBSs, seven CLUs, eight CPCUs, four Ph.D.s, one CPA, three attorneys.
Clients: 7% corporations, 93% government agencies/entities.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $200; consultant, $160; clerical, $45.
Gross revenues: $15.1 million estimated from worldwide benefit consulting in 1998; $14.3 million in 1997; $49.5 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: John R. Keenan, CEO/president; David J. De Wenter, executive vp/COO; Keith R. Pippard, CFO; Sean K. Smith, president-schools.
Contact: Sean Smith.

Kennedy Consulting Group
1460 Renaissance Drive, Suite 210,
Park Ridge, Ill. 60068;
847-299-7000; fax: 847-299-7071

Benefit consulting since: 1990.
Parent: KCG International Inc.
Services: 100% of revenues from benefit consulting.
Welfare plan consulting: 100% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, PPO network development, HMO rate negotiation, funding/financial analysis, strategic planning.
Staff: Five benefit consulting employees; four professionals, including one CEBS, one CLU, one attorney.
Clients: 70 total; 61% corporations, 6% multiemployer plans, 27% government agencies/entities, 6% professional associations.
Compensation: By the project, on retainer, by the hour: senior consultant, $150 to $200; consultant, $100 to $150.
Gross revenues: $650,000 estimated from worldwide benefit consulting in 1998; $700,000 in 1997; $650,000 estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: James P. Kennedy, president; Thomas J. Dolatowski, vp.
Contact: James P. Kennedy.

The Kooper Group Inc.
770 Lexington Ave.,
New York, N.Y. 10021;
212-755-0800; fax: 212-750-5345

Services: 85% of revenues from benefit consulting.
Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 5% of revenues. Includes communications consulting.
Other services: Brokering.
Locations: New York.
Staff: 48 benefit consulting employees; 30 professionals.
Clients: 750 total; 100% corporations.
Compensation: By the project, commissions, on retainer, by the hour.
Gross revenues: $8 million estimated from worldwide benefit consulting in 1998; $7.2 million in 1997. All revenues are from the United States.

Kushner & Co.
141 E. Michigan Ave., Suite 400,
Kalamazoo, Mich. 49007;
616-342-1700; fax: 616-342-1606;
www.kushnerco.com

Benefit consulting since: 1982.
Services: 100% of revenues from benefit consulting.
Retirement/savings plan consulting: 20% of revenues. Includes plan design consulting, administration systems consulting, plan/trust legal document drafting, plan administration consulting.
Welfare plan consulting: 75% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, flexible benefits.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Locations: Washington; Grand Rapids, Mich.; Cleveland; Pittsburgh.
Staff: 10 benefit consulting employees; seven professionals, including one attorney.
Clients: 600 total; 85% corporations, 15% government agencies/entities. Minimum size client: one employee.
Compensation: By the project, by the hour: senior consultant, $200 to $250; consultant, $125 to $200.
Gross revenues: $1.2 million estimated from worldwide benefit consulting in 1998; $897,000 in 1997; $1.2 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Gary B. Kushner.

L

Lockton Benefit Co.
7400 State Line Road,
Prairie Village, Kan. 66208;
913-676-9000; fax: 913-676-9180
lockton.com

Benefit consulting since: 1987.
Parent: Lockton Cos. Inc.
Services: 90% of revenues from benefit consulting.
Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, managed care planning, strategic planning.
Benefit communications consulting: 10% of revenues. Includes communications consulting.
Other services: Brokering, individual products/services.
Locations: Los Angeles; Denver; Chicago; Dallas; Houston; Kansas City, Mo.; St. Louis.
Staff: 115 benefit consulting employees; 82 professionals, including 12 CEBSs, three CLUs, two attorneys.
Clients: 90% corporations, 5% multiemployer plans, 5% government agencies/entities.
Compensation: Commissions, on retainer.
Gross revenues: $19 million estimated from worldwide benefit consulting in 1998; $9 million in 1997; $20 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Sam Reda, president-Lockton Benefit, Kansas City, Mo.; Tom Dunning, CEO-Lockton/Dunning, Dallas; Roger Lambom, president-Lockton/Dunning, Dallas; Bruce Sammis, executive vp-Lockton/Dunning, Dallas; Charles Caldwell, senior vp-Lockton Los Angeles.
Contact: Mike Frost, COO-Lockton Cos. Inc.

M

MMC&P Spectrum Benefit Options
Suite 1100, 1 Gateway Center,
Pittsburgh, Pa. 15222-1416;
412-394-9330; fax: 412-394-9324
www.hrbs.com

Benefit consulting since: 1979.
Services: 85% of revenues from benefit consulting.
Welfare plan consulting: 75% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 10% of revenues. Includes communications consulting, IVR and/or Inter/intra net enrollments.
Other services: Brokering.
Locations: Pittsburgh.
Staff: Nine benefit consulting employees; seven professionals, including two CEBSs, one CLU.
Clients: 55 total; 85% corporations, 5% multiemployer plans, 5% government agencies/entities, 5% multiple employer H&W trusts.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $210; consultant, $135; clerical, $32.50.
Gross revenues: $775,000 estimated from worldwide benefit consulting in 1998; $500,000 in 1997; $905,000 estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Jere L. Cowden, president; Merle W. McGee, vp; Debra S. Owens, secretary.

Mack & Parker Inc.
55 E. Jackson Blvd.,
Chicago, Ill. 60604;
312-922-5000; fax: 312-922-5358

Services: 19.1% of revenues from benefit consulting.
Retirement/savings plan consulting: 1% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting.
Welfare plan consulting: 16.7% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 1.4% of revenues. Includes communications consulting.
Other services: Brokering, claims administration.
Staff: 13 benefit consulting employees; 11 professionals, including two CLUs.
Clients: 145 total; 90% corporations, 2% individuals, 8% government agencies/entities.
Compensation: By the project, commissions, on retainer.
Gross revenues: $2.3 million estimated from worldwide benefit consulting in 1998; $2.2 million in 1997; $12.3 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Edward E. Mack III, chairman; Martin P. Hughes, president; Veronica E. Campbell, CFO; Robert J. Jonak, Marie E. Raninger, vps.

Mahoney & Associates
1 Monarch Place, Suite 1840,
Springfield, Mass. 01144;
413-788-7303; fax: 413-781-0701

Benefit consulting since: 1975.
Services: 70% of revenues from benefit consulting.
Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 60% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 5% of revenues. Includes communications consulting.
Other services: Compensation consulting, brokering, life insurance (COLI).
Locations: Fort Lauderdale, Fla.; Springfield, Mass.
Staff: 16 benefit consulting employees; 11 professionals, including one ASA, two CEBSs, one CLU, one CPA, one attorney.
Clients: 125 total; 100% corporations. Minimum size client: 25 employees.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $175; consultant, $150; clerical, $35; mutual agreement.
Gross revenues: $1.8 million estimated from worldwide benefit consulting in 1998; $1.7 million in 1997; $2.5 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: William E. Mahoney Jr., president; Martha L. Mahoney, Larry W. Brand, vps.

McNeary Insurance Consulting Inc.
6525 Morrison Blvd., Suite 200,
Charlotte, N.C. 28211;
704-365-4150; fax: 704-365-4155
www.mcneary.com

Services: 100% of revenues from benefit consulting.
Welfare plan consulting: 95% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, flex plans; managed care consulting/risk assessment management, disability management, life/dental/vision insurance, HMO analysis/negotiations, direct provider contract negotiation, drug plan consulting.
Benefit communications consulting: 5% of revenues. Includes communications consulting, benefit statement and booklet preparation, custom communications, training programs.
Locations: Charlotte, N.C.; Richmond, Va.
Staff: Eight benefit consulting employees; six professionals, including one CLU.
Clients: 120 total; 65% corporations, 35% government agencies/entities.
Compensation: By the project, on retainer, by the hour: senior consultant, $190; consultant, $137.50; clerical, $45.
Gross revenues: $1.3 million estimated from worldwide benefit consulting in 1998; $1.3 million in 1997; $7.4 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: William D. Yaeger, president; Carter Whitley, senior vp; Thomas Hodges, vp; Samuel Booke Jr. chairman; Lea Ann Kremer, CFO.
Contact: Carter Whitley.

William M. Mercer Cos. L.L.C.
1166 Ave. of the Americas,
New York, N.Y. 10036;
212-345-7000
www.wmmercer.com

Benefit consulting since: 1975.
Parent: Mercer Consulting Group Inc.
Services: 67% of revenues from benefit consulting.
Retirement/savings plan consulting: 46% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 17% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, health claims analysis, workers compensation medical management, disability management, managed care network management.
Benefit communications consulting: 4% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive benefit communication.
Other services: Compensation consulting, general management consulting, claims administration, actuarial consulting not related to employee benefits.
Locations: 41 U.S., 66 non-U.S.
Staff: 9,130 benefit consulting employees; 5,425 professionals, including 1,000 FSAs, 100 CEBSs, 30 Ph.D.s, 30 attorneys, five M.D.s.
Clients: 87% corporations, 1% multiemployer plans, 1% MEWAs, 9% government agencies/entities, 2% other. Minimum size client: 100 employees.
Compensation: By the project, on retainer, by the hour.
Gross revenues: $999 million estimated from worldwide benefit consulting in 1998 (59% from U.S. locations); $881 million in 1997 (59% from U.S.); $1,498 million estimated total worldwide 1998 revenues (61% from U.S.).
Officers: Peter Coster, president; Peter Felton, chairman; Timothy Lynch, vice chairman; Yves Roy, executive vp/chief information technology officer; Joseph Salerno, CFO; Charles Boylan, chief human resources officer.
Mercer is acquiring certain Sedgwick Noble Lowndes operations; figures do not reflect that acquisition.

Milliman & Robertson Inc.
1301 Fifth Ave., Suite 3800,
Seattle, Wash. 98101-1380;
206-624-7940; fax: 206-340-1380
www.milliman.com

Benefit consulting since: 1947.
Services: 30% of revenues from benefit consulting.
Retirement/savings plan consulting: 27% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers.
Welfare plan consulting: 2% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 1% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Other services: Compensation consulting, general management consulting, claims administration.
Locations: Phoenix; Irvine, Los Angeles, San Diego and San Francisco; Calif.; Denver; Hartford, Conn.; Washington; Tampa, Fla.; Atlanta; Chicago; Indianapolis; Portland, Maine; Boston; Minneapolis; St. Louis; Omaha, Neb.; Albany, N.Y.; Portland, Ore.; Philadelphia; Dallas; Houston; Salt Lake City; Seattle; Milwaukee; Bermuda; Tokyo.
Staff: 482 benefit consulting employees; 158 professionals, including 61 FSAs, 36 ASAs, four CEBSs, one Ph.D., one CPA, three attorneys, nine EAs.
Clients: 5,000 total; 78% corporations, 5% multiemployer plans, 5% government agencies/entities, 12% MEWAs.
Compensation: By the project, on retainer, by the hour.
Gross revenues: $67 million estimated from benefit consulting in 1998; $57.2 million in 1997; (both revenues figures are from the United States). $223 million estimated total worldwide 1998 revenues.
Officers: Robert L. Collett, CEO; Daniel J. McCarthy, chairman; Brian Pollack, secretary; William Pedersen, controller; John Clearman, CFO.
Contact: Lloyd Robinson.

N

The NIA Group L.L.C.
66 Route 17, Paramus, N.J. 07652;
201-845-6600; fax: 201-845-6152
www.niagroup.com

Benefit consulting since: 1984.
Parent: NIA Group LTD.
Services: 30% of revenues from benefit consulting.
Retirement/savings plan consulting: 7% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 21% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.
Benefit communications consulting: 2% of revenues. Includes communications consulting, benefit statement, booklet preparation.
Other services: Compensation consulting, brokering, general management consulting, claims administration, outsourcing.
Locations: Hartford, Conn; Miami Lakes, Fla.; West Palm Beach, Fla; Cranford, N.J.; Freehold, N.J.; Paramus, N.J.; Randolph, N.J.; Somerset, N.J.; Monticello, N.Y.; New York; White Plains, N.Y.
Staff: 47 benefit consulting employees; 47 professionals, including three CLUs, two CPCUs, three CPAs, four attorneys.
Clients: 200 total; 75% corporations, 5% multiemployer plans, 5% MEWAs, 15% individuals. Minimum size client: two employees.
Compensation: By the project, commissions, on retainer.
Gross revenues: $5.3 million estimated from worldwide benefit consulting in 1998; $4.2 million in 1997. All revenues are from the United States.
Officers: Paul Gross, chairman; Roger Gross, executive vp; Steve Grossberg, executive vp; Alan Klein, executive vp; Robert Feldman, senior vp; Donald Readlinger II, president.
Contact: Denise Angleman, regional vp.

Network Management Services
5500 Wayzata Blvd. Suite 500,
Minneapolis, Minn. 55416-1241;
612-525-2700; fax: 612-525-2701
www.nmsmn.com

Benefit consulting since: 1993.
Services: 40% of revenues from benefit consulting.
Retirement/savings plan consulting: 25% of revenues. Includes plan design consulting.
Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, health plan selection and contracting.
Benefit communications consulting: 5% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.
Other services: Claims administration, health plan selection and contracting, enrollment eligibility management and premium reconciling.
Staff: 30 benefit consulting employees; 20 professionals, including one CEBS.
Clients: 62 total; 95% corporations, 5% MEWAs.
Compensation: By the project, on retainer, by the hour: senior consultant, $250; consultant, $200; clerical, $125.
Gross revenues: $4 million estimated from worldwide benefit consulting in 1998; $3 million in 1997; $10 million estimated total worldwide 1998 revenues. All revenues are from the United States.
Officers: Mark Tierney, CEO; Mike Bingham, president; Barb Seykora, COO; Scott Halstead, CFO; Donald Lightfoot, CMO.
Contact: Mike Bingham.

NORACS
BCI Group, 211 E. Franklin St.,
Appleton, Wis. 54911;
920-734-0144; fax: 920-734-9180
www.noracs.org

Parent: Comprised of numerous firms.
Services: 85% of revenues from benefit consulting.
Retirement/savings plan consulting: 70% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.
Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.
Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.
Other services: Compensation consulting, brokering, general management consulting, claims administration, actuarial advice to insurance companies and expert testimony.
Locations: 14 U.S., nine Non-U.S.
Staff: 520 benefit consulting employees; 430 professionals, including 50 FSAs, 70 ASAs, 10 CEBSs, five CLUs, 15 CPAs, 17 attorneys, 120 EAs.
Clients: 1,000 total; 80% corporations, 5% multiemployer plans, 5% MEWAs, 5% government agencies/entities, 5% multiple employer H&W trusts. Minimum size client: 50 employees.
Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $225; consultant, $150; clerical, $37.50.
Gross revenues: $60 million estimated from worldwide benefit consulting in 1998 (70% from U.S. locations); $71 million estimated total worldwide 1998 revenues (82% from U.S.).
Officers: Dennis J. Long, chairman.
Contact: Barbara Lorenz.

O

O'Neill Finnegan & Jordan
15 Broad St., Boston, Mass. 02109;
617-523-2600; fax: 617-523-5841;
www.ofj.com

Benefit consulting since: 1984.
Services: 100% of revenues from benefit consulting.
Welfare plan consulting: 100% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, flexible benefits, life insurance, disability, health care, long-term care.
Locations: San Jose, Calif.; New York.
Staff: 30 benefit consulting employees; 25 professionals, including two FSAs, four CLUs.
Clients: 200 total; 98% corporations, 2% government agencies/entities.
Compensation: By the project, commissions, on retainer, by the hour: consultant, $175; clerical, $75.
Gross revenues: $6 million estimated from worldwide benefit consulting in 1998; $5.6 million in 1997. All revenues are from the United States.
Officers: J. Brent Finnegan; Peter E. Marcia; Alan S. Breitman, FSA; Cynthia Newman; Margaret Meyer; Stuart Rubinstein, FSA.
Contact: J. Brent Finnegan.

P

Parsons, McKee, Sommers & Co.
2001 Crocker Road, Suite 300,
Westlake, Ohio 44145;
440-871-8611; fax: 440-871-7485
www.pmsco.com

Benefit consulting since: 1976.
Services: 100% of revenues from benefit consulting.
Retirement/savings plan consulting: 60% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, call centers, both PC-based and IVR interactive communication/information systems.
Welfare plan consulting: 20% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, actuarial cost measurement including flexible benefit pricing, interactive communication/enrollment systems.
Benefit communications consulting: 20% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive communication/information/enrollment systems; personal retirement planner; other functions, PC-based and IVR.
Locations: Charlotte, N.C.
Staff: 35 benefit consulting employees; 25 professionals, including one ASA, five CEBSs, one

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CLU, one CPA, one attorney, four EAs.

Clients: 90% corporations, 8% multiemployer plans, 2% MEWAs.

Compensation: By the hour: senior consultant, $210; consultant, $160; clerical, $50.

Gross revenues: $3.6 million estimated from worldwide benefit consulting in 1998; $3.2 million in 1997; $3.6 million estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: John R. Parsons, chairman; Mark S. Sommmers, president; Richard S. Wargo, senior vp/managing actuary.

Contact: John R. Parsons.

Pension Resources

401 N. Michigan Ave.,
Suite 2600, Chicago, Ill. 60611;
312-245-1740; fax: 312-644-4423
www.pension-resources.com

Benefit consulting since: 1972.

Parent: FERS Business Services Inc.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 80% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting.

Welfare plan consulting: 17% of revenues. Includes plan design consulting, insurer/broker selection consulting, call centers.

Benefit communications consulting: 3% of revenues. Includes communications consulting, benefit statement and booklet preparation.

Staff: 25 benefit consulting employees; 22 professionals, including one ASA, two CPAs, two attorneys, two EAs.

Clients: 750 total; 95% corporations, 5% sole proprietors and partnerships. Minimum size client: one employee.

Compensation: By the project, by the hour: senior consultant, $250; consultant, $180; clerical, $50; recordkeepers, $125.

Gross revenues: $3.5 million estimated from worldwide benefit consulting in 1998; $3 million in 1997; $3.5 estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: Michael A. Schwartz, president; Irwin Friedman, CEO; Kevin Simpson, CFO.

Contact: Michael A. Schwartz.

Post & Kurtz Inc.

111 John St., Suite 2400,
New York, N.Y. 10038;
212-766-8800; fax: 212-766-8807

Benefit consulting since: 1932.

Services: 90% of revenues from benefit consulting.

Retirement/savings plan consulting: 10% of revenues. Includes plan design consulting.

Welfare plan consulting: 75% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 5% of revenues. Includes communications consulting, booklet preparation.

Other services: Key man, estate planning.

Locations: Connecticut, New Jersey, New York.

Staff: Nine benefit consulting employees; six professionals, including four CLUs.

Clients: 110 total; 40% corporations, 3% MEWAs, 10% individuals, 47% partnership. No minimum number of employees.

Compensation: By the project, commissions, on retainer.

Gross revenues: $1.1 million estimated from worldwide benefit consulting in 1998; $985,000 in 1997. All revenues are from the United States.

Officers: W.J. Kuhn, P.T. Agnew, W.H. Agnew, G. LaGrassa, principals.

Contact: W.J. Kuhn, president.

PricewaterhouseCoopers, Global HR Solutions

2100 N. Central Ave.,
Fort Lee, N.J. 07024;
201-592-1300; fax: 201-592-7608
www.pwcglobal.com

Benefit consulting since: 1944.

Services: 58% of revenues from benefit consulting.

Retirement/savings plan consulting: 42% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers, total administration with voice response system and customer service center, trustee and investment alliances, benefits and human resource strategy, human resource outsourcing, Internet applications, legal compliance services.

Welfare plan consulting: 7% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, flex pricing and credits, FAS 106, FAS 112, automated flex enrollment services, data analysis.

Benefit communications consulting: 9% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; change management, organizational effectiveness and development.

Other services: Compensation consulting, brokering, general management consulting, workforce solutions, human resources transformation, casualty and actuarial services, risk management consulting.

Locations: 21 U.S., 34 non-U.S.

Staff: 4,300 benefit consulting employees; 3,400 professionals, including 93 FSAs, 120 ASAs, six CEBSs, three CLUs, eight CPCUs, four Ph.D.s, 20 CPAs, 12 attorneys, 121 EAs, three M.D.s.

Clients: 2,000 total; 90% corporations, 5% multiemployer plans, 5% government agencies/entities.

Compensation: By the project, by the hour.

Gross revenues: $622 million estimated from worldwide benefit consulting in 1998 (66.4% from U.S. locations); $505 million in 1997 (62.4% from U.S.); $1.1 million estimated total worldwide 1998 revenues (57.5% from U.S.).

Officers: Reed Keller, global business leader; Bob Byrne, human resources outsourcing sector leader; Deirdre Davis, European Theatre leader; Fran Engoron, organization effectiveness and development sector leader; Owain Franks, workforce solutions sector leader; Iris Goldfein, Americas Theatre leader; Frank Raiti, industries leader; Richard Stanger, actuarial, benefits and insurance sector leader; Bob Zukis, Asia/Pacific theatre leader.

Contact: Steve Munch, 1177 Ave. of the Americas, Suite 317-4, New York, N.Y. 10036.

R

Risk Management Group Inc.

940 West Valley Road,
Suite 1802, Wayne, Pa. 19087;
610-971-1776; fax: 610-971-0218
www.rmgi.org

Benefit consulting since: 1983.

Services: 80% of revenues from benefit consulting.

Retirement/savings plan consulting: 20% of revenues. Includes plan design consulting, administration systems consulting, investment manager selection consulting, asset/investment consulting, call centers.

Welfare plan consulting: 50% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers, integrated comprehensive disability management programs, pre-retirement care, elder care, long-term care.

Benefit communications consulting: 10% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Brokering, general management consulting, claims administration.

Locations: Wayne, Pa.

Staff: 10 total, including one CLU.

Clients: 100% corporations. Minimum size client: two employees.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $195; consultant, $125; clerical, $75.

Gross revenues: $1 million estimated from worldwide benefit consulting in 1998 (95% from U.S. locations).

Officers: Jerald D. Adair, president/CEO; Donald V. Barbuto, executive vp.

Risk & Performance Management

6 Forest Park Drive,
Farmington, Conn. 06032;
860-676-9681; fax: 860-676-9689
rpmhealth.com

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 95% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 5% of revenues. Includes communications consulting.

Locations: Farmington, Conn.; Townsend, Tenn.

Clients: 75% corporations, 25% government agencies/entities. Minimum size client: 5,000 employees.

Compensation: By the project.

Gross revenues: $1 million estimated from worldwide benefit consulting in 1998. All revenues are from the United States.

Officers: Alex Hutchinson, Carole Myers, managing principals; Hap Leahman, Alain Roy, principals.

Contact: Alex Hutchinson.

S

San Diego Associates Inc.

3550 Camino del Rio N.,
Suite 206, San Diego, Calif. 92108;
619-283-7800; fax: 619-283-8686

Benefit consulting since: 1984.

Services: 60% of revenues from benefit consulting.

Retirement/savings plan consulting: 40% of revenues. Includes plan design consulting, pension plan record keeping, administration systems consulting, plan administration consulting.

Welfare plan consulting: 15% of revenues. Includes plan design consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 5% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Brokering.

Staff: 12 benefit consulting employees; five professionals, including one CLU.

Clients: 50 total; 100% corporations. Minimum size client: 20 employees.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $150.

Gross revenues: $1.4 million estimated from worldwide benefit consulting in 1998; $400,000 in 1997; $2.4 million estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: David N. Peterson, president; Bruce N. Kesler, director.

Contact: Bruce N. Kesler.

Schmidt Long & Associates Inc.

4159 N. Holland Sylvania Road,
Toledo, Ohio 43623;
419-885-4125; fax: 419-885-1136
www.sla.net

Benefit consulting since: 1986.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes Administration systems consulting, IVR/Internet self-service solutions.

Welfare plan consulting: 85% of revenues. Includes plan design consulting, evaluation of service providers, health care cost containment, call centers, audit, medical claims payments, focused audits of provider reimbursement by insurance carrier/administrator.

Benefit communications consulting: 10% of revenues. Includes communications consulting, benefit statement and booklet preparation, IVR/Internet self-service solutions.

Locations: Toledo, Ohio.

Staff: 10 benefit consulting employees; five professionals.

Clients: 25 total; 90% corporations, 10% government agencies/antities. Minimum size client: 1,000 employees.

Compensation: By the project, on retainer, by the hour: senior consultant, $225 to $250; consultant, $200; clerical, $100; programming/systems analysis and development, $150.

Gross revenues: $1.8 million estimated from worldwide benefit consulting in 1998; $1 million in 1997. All revenues are from the United States.

Officers: Tim Schmidt, president/CEO; Tedd Long, executive vp; Deb Grenlund, vp-audits; Jim Mauntler, vp-operations.

Contact: Tim Schmidt, president.

Sedgwick Noble Lowndes

1000 Ridgeway Loop Road,
Memphis, Tenn. 38120;
901-761-1550; fax: 901-684-4075
www.sedgwick.com

Benefit consulting since: 1934.

Parent: Sedgwick Group P.L.C.

Services: 89% of revenues from benefit consulting.

Retirement/savings plan consulting: 68% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, executive benefits, ESOPs, personal financial planning.

Welfare plan consulting: 20% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, life insurance, executive benefits.

Benefit communications consulting: 1% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice technology, individual retirement benefit projections, seminars and training programs.

Other services: Compensation consulting, brokering, general management consulting, claims administration, personal financial planning, voluntary benefits, workers compensation claims consulting and administration.

Locations: 36 U.S.; 98 non-U.S.

Staff: 4,230 benefit consulting employees; 3,450 professionals, including 119 FSAs, 131 ASAs, 58 CEBSs, 18 CLUs, 40 CPAs, 15 attorneys, 35 EAs, eight MDs.

Clients: 17,800 total; 78% corporations, 6% multiemployer plans, 7% MEWAs, 5% individuals, 4% government agencies/entities.

Compensation: By the project, commissions, on retainer, by the hour.

Gross revenues: $351.7 million estimated from worldwide benefit consulting in 1998 (23% from U.S. locations); $318.3 million in 1997 (23% from U.S.); $395.7 million estimated total worldwide 1998 revenues (21% from U.S.).

Officers: David F. Strauss, group chairman; Peter R. Brew, group deputy chairman; Kenneth G. Martin, CEO-North America; Robert Walker, chairman-United Kingdom; Christopher J. Methley, acting group finance director.

Contact: Kenneth G. Martin.

Parent firm acquired by Marsh & McLennan Cos. Inc. Operations to be integrated into Marsh & McLennan units, including William M. Mercer Cos. L.L.C.

The Segal Co.

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

Benefit consulting since: 1939.

Services: 96% of revenues from benefit consulting.

Retirement/savings plan consulting: 48% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 42% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, claims auditing, quality evaluation of managed care networks.

Benefit communications consulting: 6% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response system.

Other services: Compensation consulting, human resources strategy and consulting services, outsourcing consulting.

Locations: Phoenix; Los Angeles; San Francisco; Denver; Hartford, Conn.; Washington; Atlanta; Chicago; New Orleans; Boston; Minneapolis; St. Louis; New York; Cleveland; Houston; Seattle; Edmonton and Toronto, Ontario.

Staff: 765 benefit consulting employees; 627 professionals, including 26 FSAs, 41 ASAs, two Ph.D.s, one CPA, 18 attorneys, 82 EAs.

Clients: 30% corporations, 55% multiemployer plans, 15% government agencies/entities.

Compensation: By the project, on retainer, by the hour.

Gross revenues: $105 million estimated from worldwide benefit consulting in 1998 (98% from U.S. locations); $97 million in 1997 (98% from U.S.); $105 million estimated total worldwide 1998 revenues (98% from U.S.).

Officers: Robert D. Krinsky, chairman; Howard Fluhr, president/CEO; Robert J. Dellovo, Richard M. Frenzel, executive vps.

Contact: Mary L. Feldman, senior vp-public affairs/marketing, 212-251-5029.

SilverStone Group Inc.

11516 Miracle Hills Drive,
Omaha, Neb. 68154;
402-964-5400; fax: 402-964-5454
www.ssgi.com

Benefit consulting since: 1959.

Services: 70% of revenues from benefit consulting.

Retirement/savings plan consulting: 35% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, call centers.

Welfare plan consulting: 25% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.

Benefit communications consulting: 10% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, brokering, general management consulting, claims administration.

Locations: Council Bluffs, Iowa; Omaha, Neb.

Staff: 150 benefit consulting employees; 32 professionals, including five FSAs, eight ASAs, 12 CEBSs, ten CLUs, eight CPCUs, two Ph.D.s, two CPAs, seven attorneys, eight EAs.

Clients: 1,800 total; 90% corporations, 1% multiemployer plans, 2% MEWAs, 5% individuals, 2% government agencies/entities. Minimum size client: two employees.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $175-$200; consultant, $150-$185; clerical, $25; administrator, $45-75.

Gross revenues: $14 million estimated from worldwide benefit consulting in 1998; $16 million in 1997; $20 million estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: Lewis Trowbridge, president; Thomas Whalen, vp; Tony Sorrentino, vp; Jeff Barrett, vp; Gary Hurley, vp.

Contact: Dan Wintz, vp.

T

Thesco Benefits L.L.C.

320 W. 57th St.,
New York, N.Y. 10019;
212-603-0371; fax: 212-603-0390

Benefit consulting since: 1979.

Services: 15% of revenues from benefit consulting.

Retirement/savings plan consulting: 10% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 4% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 1% of revenues. Includes communications consulting, booklet preparation.

Other services: Brokering, claims administration.

Locations: New York; West Chester, Pa.

Staff: Three benefit consulting employees; two professionals, including one FSA, one CEBS.

Clients: 265 total; 100% corporations. Minimum size client: one employee.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $400; consultant, $200; clerical, $100.

Gross revenues: $615,000 estimated from worldwide benefit consulting in 1998; $525,000 in 1997; $4.1 million estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: Richard J. Fleder, president-Thesco Benefits L.L.C.; David Zomberg, president-Thesco Consultants L.L.C.; Ann E. Vellis, president-Bartom, Shapiro & Vellis; Mary Ann Mason-Carlisle, senior account executive-Thesco Benefits; Walter Harris, chairman.

Towers Perrin

335 Madison Ave.,
New York, N.Y. 10017-4605;
212-309-3400; fax: 212-309-3660
www.towers.com

Benefit consulting since: 1934.

Services: 65.9% of revenues from benefit consulting.

Retirement/savings plan consulting: 45.4% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, call centers.

Welfare plan consulting: 17.5% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.

Benefit communications consulting: 3% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, general management consulting, reinsurance, insurance, financial services, human resources

Locations: 35 U.S., 37 non-U.S.

Staff: 4,776 benefit consulting employees; 3,722 professionals, including 306 FSAs, 266 ASAs, 83 CEBSs, nine CLUs, 30 CPCUs, 92 Ph.D.s, 22 CPAs, 56 attorneys, 24 EAs, six M.D.s.

Clients: 95% corporations, 5% government agencies/entities.

Compensation: By the project, on retainer, by the hour.

Gross revenues: $756.6 million estimated from worldwide benefit consulting in 1998 (77.8% from U.S. locations); $673.1 million in 1997 (77.7% from U.S.); $1.2 million estimated total worldwide 1998 revenues (71.4% from U.S.).

Officers: John Lynch, chairman/CEO; Alan Dugan, managing director-Human Resources Consulting Services; Robert Hogan, managing director-Global Retirement Services; Don Lowman, managing director-People Performance & Rewards Services; Mark Mactas, managing director-Health and Welfare Services; Patricia Milligan, managing director-Change Management & Communication Services; Jeffrey Schmidt, managing director-Strategy and Organization; Marvin Greene, managing director-Administration and Operations; William H. Eyre Jr., managing director-Reinsurance.

Trilogy Consulting Group Inc.

2021 Midwest Road, Suite 200,
Oak Brook, Ill. 60521;
630-953-6278; fax: 630-953-8687
www.trilogy-consulting.com

Benefit consulting since: 1995.

Services: 75% of revenues from benefit consulting.

Welfare plan consulting: 75% of revenues. Includes evaluation of service providers.

Other services: Claims administration, Trilogy publishes "The Trilogy Claims Administrative Handbook," used by more than 300 claims administrators as a resource for processing medical, dental and short-term disability claims.

Locations: Oak Brook, Ill.; Los Angeles; Minneapolis.

Staff: Six professionals, including one CEBS.

Clients: 50% corporations, 50% reinsurers.

Compensation: By the project, by the hour: senior consultant, $125.

Gross revenues: $975,000 estimated from worldwide benefit consulting in 1998; $609,750 in 1997; $1.3 million estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: Barbara L. Baldwin, Kathy Martin-Smith.

Contact: Barbara L. Baldwin.

U

USI Consulting Group

95 Glastonbury Blvd.,
Glastonbury, Conn. 06033;
860-633-5283; fax: 860-368-2110

Benefit consulting since: 1982.

Parent: USI Insurance Services Corp.

Services: 95% of revenues from benefit consulting.

Retirement/savings plan consulting: 60% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration

A ranking of the world's 10 largest employee benefit consultants based on estimated 1998 employee benefit consulting revenues appears on page 3.

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consulting, investment manager selection consulting, asset/investment consulting, call centers.

Welfare plan consulting: 28% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 7% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation, enrollment services, retirement planning software, on-demand enrollment kits.

Other services: Compensation consulting, brokering, general management consulting, claims administration.

Locations: Boston; Glastonbury, Conn.; Knoxville, Tenn.; New York; Portland, Maine; San Francisco.

Staff: 200 benefit consulting employees; 100 professionals, including seven FSAs, nine ASAs, five CEBSs, five CLUs, two CPAs, four attorneys, 10 EAs.

Clients: 1,000 total; 80% corporations, 1% multiemployer plans, 12% government agencies/entities, 7% other. Minimum size client: 100 employees.

Compensation: By the project, commissions, on retainer, by the hour.

Gross revenues: $33 million estimated from worldwide benefit consulting in 1998; $13 million in 1997. All revenues are from the United States.

Officers: Brian Whitney, president/CEO; Dave Hess, senior vp/CFO; Doug Rubinstein, senior vp/CMO; Bill Husic, senior vp/Health & Welfare practice leader; Bill Tremko, executive vp/Actuarial Practices practice leader.

Contact: Karen Guggenheim.

V

Virchow Krause Stafford Waller L.L.C.

434 S. Yellowstone Drive,
Suite 100; Madison, Wis. 53719;
608-833-6117; fax: 608-833-4097;
www.mailbag.com/users/swco

Benefit consulting since: 1970.

Parent: Virchow Krause L.L.P.

Services: 4% of revenues from benefit consulting.

Retirement/savings plan consulting: 1% of revenues. Includes administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 1% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 2% of revenues. Includes communications consulting, benefit statement, audiovisual preparation.

Other services: Compensation consulting, brokering, general management consulting.

Locations: Appleton, Janesville, Madison, Milwaukee, Wis.; Minneapolis.

Staff: 18 benefit consulting employees; 18 professionals, including two CLUs.

Clients: 3,000 total; 70% corporations, 5% individuals, 25% government agencies/entities. Minimum size client: five employees.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, $175; consultant, $130; clerical, $52.50.

Gross revenues: $2 million estimated from worldwide benefit consulting in 1998 (90% from U.S. locations); $1.4 million in 1997 (90% from U.S.); $35 million estimated total worldwide 1998 revenues (90% from U.S.).

Officers: Daniel G. Stafford, president/CEO; Jim Johnson, managing partner; Tim Christen, partner in charge; Daniel Gorecki, partner in charge; Tom Polacek, partner in charge; Jeffrey Kersten, partner in charge; David A. Waller, president-Virchow Krause Wealth Management.

Contact: Daniel Stafford, Tim Christen.

W

W.R. Wood & Co.

5602 Midwood Road,
Bethesda, Md. 20814-1111;
301-907-0170; fax: 301-907-0172

Benefit consulting since: 1991.

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 95% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, call centers.

Benefit communications consulting: 5% of revenues. Includes communications consulting.

Locations: Bethesda, Md.

Staff: Two benefit consulting employees; two professionals.

Clients: Six total; 33% corporations, 50% multiemployer plans, 17% Taft-Hartley welfare plans.

Compensation: By the project, by the hour: senior consultant, $190; consultant, $100; clerical, $50.

Gross revenues: $502,000 estimated from worldwide benefit consulting in 1998; $503,460 in 1997; $502,000 estimated total worldwide 1998 revenues. All revenues are from the United States.

Officers: Walter R. Wood, president.

Watson Wyatt Worldwide

6707 Democracy Blvd., Suite 800,
Bethesda, Md. 20817-1129;
301-581-4600; fax: 301-581-4840
www.watsonwyatt.com

Benefit consulting since: 1946.

Services: 85% of revenues from benefit consulting.

Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: Includes communications consulting; benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, human capital, communications, M&A, organizational effectiveness.

Locations: 34 U.S., 47 non-U.S.

Gross revenues: $593.1 million estimated from worldwide benefit consulting in 1998 (58% from U.S. locations); $550.5 million in 1997 (59% from U.S.); $697.8 million estimated total worldwide 1998 revenues (58% from U.S.).

Officers: John Haley, president/CEO; Pete Smith, chairman. BI

Guidry

Continued from page 2

He is scheduled for sentencing in U.S. District Court in Newark next Feb. 24.

John Yauch, a lawyer representing Mr. Guidry with the Federal Public Defender's office, said that Mr. Guidry has agreed to cooperate with federal prosecutors and that it is "fair to say" there is an ongoing investigation of Westwood's operations.

At a court hearing last week, Mr. Guidry identified Peter M. Stanley, a New Jersey businessman, as the person who actually controlled Westwood, Mr. Yauch confirmed. Mr. Guidry said that Mr. Stanley recruited him to manage Westwood and that Mr. Guidry believed it to be a legitimate insurance company.

Later, "it became apparent to him that Westwood did not have the financial backing" it claimed to have, according to Mr. Yauch.

"Mr. Guidry's mistake was that he continued to solicit customers for Westwood knowing it did not have financial backing," Mr. Yauch said.

Mr. Stanley could not be reached. He hasn't been charged in the case.

In 1994, when Westwood was getting started, Mr. Stanley pleaded guilty to federal bank fraud and mail fraud charges in two unrelated schemes. In one, he admitted diverting loan funds from a New Jersey bank; in the other, he admitted defrauding an Illinois man of more than $240,000 in an offshore investment scam. He was released from prison earlier this year after serving about eight months.

At the time of his plea agreement, Mr. Stanley was under investigation by federal prosecutors in six other states, according to a 1997 report in the Newark Star-Ledger. Those investigations were dropped as part of the plea deal, the paper reported.

Mr. Stanley had been a high-profile real estate developer whose projects included a large New Jersey house built on speculation and later sold to Chubb Corp. Chairman Dean O'Hare, Mr. O'Hare confirmed.

Assistant U.S. Attorney Mark Winston, who is prosecuting Mr. Guidry, also handled the earlier fraud case against Mr. Stanley.

A spokesman for the U.S. Attorney's office would not comment on whether an investigation of Westwood is continuing.

The short-lived Westwood looked much better on paper than it proved to be in reality: In an unaudited 1994 financial statement, the insurer reported $13.8 million in assets, including $10 million in "Certificates—U.S. Currency notes."

This asset, Westwood claimed, was a certificate of deposit issued by the London branch of Chase Manhattan Bank. The certificate was a "special" CD purportedly backed by "U.S. currency notes issued by the United States of America to the Philippines and known as Series 66 Victory Notes," Westwood papers showed.

In fact, Series 66 notes were scrip issued by the Philippines government to U.S. troops in World War II and were never U.S. government obligations. The last of the notes became worthless in 1967, when they were demonetized by the Philippines government, a U.S. Treasury Department spokesman said (*BI*, Aug. 12, 1996).

In a year-end 1995 financial statement, Westwood reported $16.7 million in assets, including a $15.5 million "special" CD.

After questions about these assets arose in 1996, Mr. Guidry told brokers that Westwood was seeking to recapitalize. In one plan, a company identified as Suma Corp. was to deliver an initial $5 million to Mr. Stanley and make available $100 million more to support Westwood, documents show.

Nothing came of this plan, though, and Mr. Guidry shut down Westwood's management office in Charlottesville, Va., in late 1996.

Mr. Yauch, Mr. Guidry's lawyer, said that Mr. Stanley arranged Westwood's initial capitalization with Series 66 notes and that Mr. Guidry had no role in obtaining the assets.

Another plan that fell apart with Westwood's demise was its much-ballyhooed purchase of Blairsden, a 31-bedroom Peapack, N.J., mansion built in 1902 by banking magnate C. Ledyard Blair. Westwood had rented the mansion—where Mr. Stanley and Mr. Guidry entertained brokers—and had said it would buy the property from its owners, the Sisters of St. John the Baptist, an order of Catholic nuns.

The Sisters of St. John have been unable to sell Blairsden to date.

In their criminal complaint filed in Newark, prosecutors charge that Mr. Guidry "and his co-conspirators" told brokers and Westwood policyholders that the insurer held a CD worth more than $15 million when they knew the CD was worthless.

Mr. Guidry also misled brokers about Westwood's purported audit by a Big 6 firm. While not named in the complaint, the firm Mr. Guidry claimed to have engaged was KPMG Peat Marwick L.L.P.

In his previous career as an examiner, Mr. Guidry's much-criticized audit of Louisiana-based Champion Insurance Co. showed the insurer to be solvent shortly before its 1989 collapse.

Former Louisiana Insurance Commissioner Douglas D. Green was sentenced to 25 years in jail in 1991 for taking campaign contributions in exchange for favorable regulatory treatment of Champion. BI

Kumho case reviews expert testimony

By MARK A. HOFMANN

WASHINGTON—The rules governing the admissibility of scientific expert testimony also should apply to technical expert testimony, a federal government lawyer told the Supreme Court last week.

Jeffrey P. Minear of the U.S. Solicitor General's office made that appeal as the justices heard oral arguments in *Kumho Tire Co. Ltd. et al. vs. Patrick Carmichael et al.*, a product liability case stemming from an Alabama automobile accident. A judge of the U.S. District Court for the Southern District of Alabama had ruled in *Kumho* that guidelines set out for the admissibility of scientific evidence in the Supreme Court's 1993 decision in *Daubert vs. Merrell Dow Pharmaceuticals Inc.* applied to non-scientific expert testimony as well.

In the *Daubert* decision, the high court said district court judges should act as "gatekeepers" to ensure that an expert witness' scientific testimony "both rests on a reliable foundation and is relevant to the task at hand." The four broad guidelines set by the *Daubert* decision for assessing such testimony are: whether the findings can or have been tested; whether findings have been subjected to peer review and publication; whether findings are subject to professional standards; and whether the findings have been accepted within the relevant discipline.

The attorney representing the Carmichael family—Sidney W. Jackson III of the Mobile, Ala., law firm Jackson, Taylor & Martino, P.C.—argued that to apply *Daubert* to all situations would amount to a "one-size-fits-all" approach. He also argued that trial judges in their role as gatekeepers could not be expected to be amateur scientists one day and amateur statisticians the next.

Kumho's attorney, Joseph P.H. Babington of the Mobile law firm Helsing, Sims & Leach P.C., argued that without the *Daubert* guidelines, testimony of all sorts could be ruled admissible. "There has to be some objective criteria for the district court look at. Otherwise, how does the district court know the expert isn't just making it up?" he asked.

The testimony at the center of the *Kumho* case came from a mechanical engineer who said the accident had been caused by a defective tire. He had examined the tire one hour before his deposition and declared the tire defective on the basis of his experience in tire manufacturing. But the district court judge barred the engineer's testimony, holding it did not meet the criteria set out in *Daubert*.

But the U.S. 11th Circuit Court of Appeals reversed the lower court, holding that *Daubert* applied only to scientific testimony. The U.S. Department of Justice joined a number of business and insurance groups in asking the Supreme Court to reverse the appeals court ruling.

The case has drawn considerable attention because of its potential impact on a variety of liability actions, including suits stemming from the Year 2000 computer bug (*BI*, Dec. 7). In fact, the American Insurance Assn. and the National Assn. of Independent Insurers filed a joint amicus brief with the high court, asking the justices to broaden the *Daubert* standard to include computer sciences.

Mr. Minear did not mention Y2K as he joined Kumho attorney Mr. Babington in arguing for a broad interpretation of the *Daubert* rules. He said the *Daubert* decision made clear that the trial judge has to ensure expert testimony is on "solid ground."

In the *Kumho* case, the engineer had used a process of elimination to reach the conclusion that the tire was defective, Mr. Minear said. "The problem with a process of elimination is you have to make sure you've eliminated all of the possible causes."

The justices also heard oral arguments in *Ortiz vs. Fibreboard Corp.* last week. The case, involving asbestos-related class actions, revolves around determining who can belong to a class for purposes of settling a mass tort. Decisions in both cases are expected next year. BI

INTERNATIONAL

Global Briefs

Preliminary court hearings began last week in the United Kingdom to ascertain whether lung cancer victims have valid legal claims against **British tobacco companies**. Compensation claims have been filed by 53 plaintiffs, alleging that two companies, Gallaher Group P.L.C. and Imperial Tobacco P.L.C., failed to reduce the tar levels in cigarettes until 1991, causing cancer. The litigation is not expected to commence until the beginning of 2000. . . .Following Guatemala's lead, the Nicaraguan government has filed a lawsuit against **U.S. tobacco companies** for health care costs it has footed for treating smoking-related diseases. The suit was filed through the Houston-based law firm of Fleming, Hovenkamp & Grayson. . . .All the shareholders in Lomond Underwriting P.L.C. have approved plans to merge the corporate investor in Lloyd's of London with the agency Atrium Cockell Group Ltd. The newly merged organization is called **Atrium Underwriting P.L.C.**, with Sir Raymond Johnstone as chairman and Daniel Burnett as managing director. . . .**Wren P.L.C.** has proposed a merger with **Masthead Insurance Underwriting P.L.C.** Both Wren and Masthead are corporate capital investors in Lloyd's of London, though Wren also manages five syndicates through Wren Syndicate Management Ltd. Merging with Masthead will add about £40 million ($66.2 million) to the funds available to support the syndicates. In time, Wren plans to provide all the underwriting capacity to its syndicates. For 1999, it will be committing £36.2 million ($59.9 million) to Wren syndicates, representing about 15% of the syndicates' total capacity of £243.7 million ($403.4 million). . . .Bill Rendall, an underwriter at R.J. Kiln & Co. Ltd., has been named chairman of the **Lloyd's Underwriters' Non-Marine Assn. Ltd.** for 1999. Nick Marsh, an underwriter at Atrium Underwriting P.L.C. and David Foreman, an underwriter with Wellington Underwriting P.L.C., have been appointed deputy chairmen. . . .Philip Singer and Paul Evans of PricewaterhouseCoopers have been appointed joint provisional liquidators of **Compagnie Europeenne de Reassurances S.A.** by the High Court in London. CER, a French reinsurer, wrote London market reinsurance business, and the unusual step of winding it up in the United Kingdom has been taken to protect the company's U.K.-based assets. In addition, this action takes precedent over any other U.K. legal actions against the reinsurer. . . .**Moody's Investors Service** in London has assigned an insurance financial strength rating of Aaa to General Re Europe Ltd. The agency cited Gen Re Europe's "strong reinsurance franchise in the London market" and excellent capitalization and operating results as influencing factors. In addition, an unconditional guarantee from parent General Reinsurance Corp., itself rated Aaa, supported the rating. . . .**The Assn. of British Insurers** is extending its Year 2000 database to include overseas reinsurers. More than 200 insurers and 3,000 intermediaries have registered with the database, which provides information about organizations' Y2K readiness. . . .Swiss Reinsurance Co. has become the first international reinsurer to set up in India, opening a new office in **Mumbai**. Swiss Re has not received approval to write reinsurance business within India, but it will offer risk management and consulting services. . . .GIO Australia Holdings Ltd. has rejected an **increased takeover bid** from AMP Ltd. Senior GIO executives contend the new bid, worth $3.3 billion Australian ($2.04 billion), was still too low. . . .U.K. doctors and dentists would be required to carry **mandatory professional indemnity insurance** under new government proposals. Doctors and dentists generally carry professional indemnity coverage voluntarily. . . .French reinsurer **SCOR S.A.** has opened a new office in Moscow, headed by Dimitri Blagoutine.

U.K. tort reforms proposed

By MATTHEW MacDERMOTT

LONDON—U.K. insurers and risk managers must start preparing now for proposed civil litigation reforms that are expected to be introduced in England and Wales next April, attorneys and the reforms' architect warn.

The reforms—designed by Lord Woolf, the Court of Appeal master of the rolls, the highest judge in England and Wales—would speed up personal injury lawsuits, encourage settlements and cap attorneys' fees, among other things. Attorneys warn that the reforms would require insurers and risk managers to handle personal injury claims more carefully.

Lord Woolf, who has consulted insurers, attorneys and plaintiffs' groups in forming the draft proposals since 1996, is expected to introduce the reforms in Parliament in January. The U.K. government for years has expressed concerns about inefficiency, expense and inequity in the civil justice system.

The reforms will be a "big bang event," and it will be difficult for insurers and policyholders to adjust gradually, Lord Woolf said at a meeting of about 200 insurance executives in London last month at a seminar organized by the London-based law firm of Eversheds.

"The rules are going to be torn up," he said. "There will be new rules and a new culture."

If approved, the reforms would apply to all new civil cases beginning April 26, 1999. In January and February, all judges in England and Wales will attend training seminars on the proposed reforms. And details on the new rules will be mailed to all insurers early next year.

Lord Woolf said his reforms are designed to replace the "excessively adversarial legal system" with one in which both sides communicate earlier in the litigation process.

The reforms, aimed at improving the speed and reducing the cost of civil suits, would create two new "tracks" of litigation:

• A "fast track" for personal injury claims totaling less than £15,000 ($24,743). Such cases would come to trial within 20 to 30 weeks of allocation. Courts would accept only written evidence, and a trial would be limited to one day.

There also would be a greater focus on pretrial investigation and cooperation, which would be enforced through protocols, including strict timetables for the disclosure of documents, witness statements and expert evidence.

• A "multitrack" for personal injury claims totaling more than £15,000. This track also would be used for some smaller, complicated cases that require complex medical evidence, such as repetitive strain injury claims. No timetable has been proposed for this track.

Under the reforms, once a defense has been filed, a judge would hold a case management conference to try to clarify the issues at the earliest stage. A further review would take place to again try to clarify the issues before trial.

The two new civil litigation tracks would be

See **Civil** *on page 25*

Insurance growth seen in Europe

By EDWIN UNSWORTH

Insurance regulation in Central and Eastern Europe is increasingly being brought up to Western European standards, helping to increase competition and attract more investment by foreign insurers, according to a study of the area.

The study, "Insurance Industry in Central and Eastern Europe: Increasing Competition-Different Prospects for Growth," was published by Swiss Reinsurance Co. as part of its regular series of Sigma reports.

It says that despite the economic crisis in Russia, the prospects for the insurance industry in the countries covered generally are good. This should be especially so for life insurance because of mounting funding problems with the compulsory state pension insurance schemes that dominate most countries.

Insurance regulation in the area increasingly is being brought into line with European Union directives, says Swiss Re. Compliance is being led by Poland, the Czech Republic, Hungary, Slovenia and Estonia, all of which are negotiating European Union membership.

Among the legislative changes are those reducing the role of the state-owned insurers and opening up competition, including com-

See **Growth** *on page 25*

Measuring market share

Central and Eastern European countries' market share of the $14.9 billion in property/casualty premiums generated in 1997.

* includes mandatory health insurance premiums
Source: Swiss Reinsurance Co.

GRAPHIC BY JOHN HALL

Eastgate expands services

Insurance runoff specialist adds legal consulting

LONDON—Insurance services provider Eastgate Group Ltd. has doubled in size with the acquisition of Hambro Legal Protection Ltd.

Toronto-based Lindsey Morden Group Inc. sold Hambro, a Colchester, Essex, England-based legal expenses insurer that offers policyholders consulting services on legal issues via telephone, to Eastgate for £51 million ($84.6 million).

The purchase will "double our business, our staff, our profits and our potential," said Ken Randall, chief executive officer of Eastgate.

Purchasing a helpline business adds another string to Eastgate's insurance services bow. The organization was launched at the beginning of 1995 as a runoff specialist, but its services now include claims management, policy processing, accounting and computing facilities.

Mr. Randall previously headed the investigation of the demise of the infamous Gooda Walker syndicates at Lloyd's of London and became responsible for managing the Gooda Walker runoff business (*BI*, Aug. 31; Jan. 3, 1994). Even though the syndicates' liabilities were transferred to Equitas Ltd., the Lloyd's pre-1993 business runoff reinsurer, Eastgate is the "dominant processor for Equitas," said Mr. Randall.

The newest addition to the company will be renamed Eastgate Assistance and has about 450 insurance company and affinity group clients. In total, these provide more than 20 million customers with access to Eastgate Assistance services. However, Mr. Randall is quick to point out that Eastgate remains dedicated to providing services to the insurance industry and is not planning to launch direct products for insurance buyers.

Manoli Olympitis, a director of Eastgate and a former chairman of Johnson & Higgins Ltd. in London, has been appointed CEO of Eastgate Assistance.

—By Sarah Goddard

Survival a matter of planning

By KATE TILLEY

MELBOURNE, Australia—Businesses that don't have business continuity plans won't survive if disaster strikes.

That was the message from several speakers at the 22nd national conference of the Assn. of Risk & Insurance Managers of Australasia, held at Crown Towers, Melbourne, on Nov. 15-18.

But the speakers also noted that the implementation of a business continuity plan, even if it is never used, is a positive exercise for an organization because it highlights potential disaster scenarios and encourages risk managers to minimize potential losses.

Peter O'Donahoo, a litigation partner with the law firm of Arthur Robinson & Hedderwicks in Melbourne, Australia, said product liability disasters in Australia are important lessons for risk managers. Mr. O'Donahoo said such disasters demonstrate the value of good risk management strategies and BCPs.

For example, when Melbourne-based Kraft Foods Ltd. found its peanut butter contaminated (*BI*, Sept. 2, 1996), and Arnott's Biscuits Ltd. had an extortion scare with its biscuits (*BI*, March 24, 1997), both companies had strategies in place for product recalls.

Today, Kraft peanut butter is back on the supermarket shelves, and most of Kraft's lost market share has been restored; Arnott's has regained a similar position, Mr. O'Donahoo said. But a third company, Garibaldi Smallgoods, had no such recall strategy. Garibaldi, formerly based in Adelaide, is no longer in business, and its directors have paid hefty fines after the discovery of contaminated meat and the subsequent salmonella poisoning, Mr. O'Donahoo noted.

He told a conference workshop that business spending on risk management is not a "sink cost"—what Americans might call "money down the drain"—but an important investment in an organization's future. "It can ensure its continuing existence," Mr. O'Donahoo said.

It would be "foolhardy" for risk managers not to invest in business continuity plans, including strategies for coping with a product recall, Mr. O'Donahoo said. "A good recall strategy is far less expensive than the alternative."

Garibaldi Smallfoods, for example, took six days to recall all of its salami, even though tests showed that far more meat had been contaminated than was evident

See **Planning** *on next page*

INTERNATIONAL

Planning

Continued from previous page

at first, he noted.

Mr. O'Donahoo said preparing for a potential product recall has hidden benefits. It makes the management team focus more on business procedures, which means they gain a better understanding and awareness of potential risks in the distribution chain, he said.

Scott Farquarson, director and principal of Business Risk Services Pty. Ltd., a Melbourne-based risk management consultant, said too few businesses implement contingency plans.

"A lot of people say, 'It will never happen to me,' but look at Sydney Water, Victoria's gas crisis (*BI*, Oct. 5), the Arnott's extortion and the Brisbane and Auckland power problems (*BI*, March 3)," he said.

Mr. Farquarson said 30% of serious business disruptions were computer hardware or software failures, and 10% were fraud.

"Some people say, 'I don't need a BCP; I have insurance.' But insurance will only give you money; it won't keep your customers," he noted.

He said the benefits of implementing a business continuity plan are broader than disaster management. Having a plan can better focus management attention on potential disasters, he said.

"You must get the positives across, because a lot of people only see the negatives," he said. Successful plans require cultural change and an ongoing commitment. "The important message is that it's not just a one-time project."

Mr. Farquarson said a plan requires sufficient human and monetary resources to succeed. "I have seen projects that go through the processes but go nowhere because the organization is not willing to make the necessary investment."

Implementing a business continuity plan requires a committed project manager, a project sponsor and a steering committee to "get it together."

Steven York, a director at Sydney, Australia-based Corporate & Business Continuity Training Group Pty. Ltd., said every business is vulnerable and could be affected by a crisis.

Mr. York said a plan's underlying principles are to plan for the worst-case scenario, use existing structures, implement small changes to create maximum effect, and train people to identify issues and deal with crisis situations.

Risk identification has to be exhaustive, focusing on providing preventive strategies and early responses and intervention. "Areas overlooked are disputes and crises instigated by unusual events or criminal acts," Mr. York said.

He said the philosophy of "ask every question and question every answer" should be foremost in the minds of risk managers and management in general.

They must consider, if the worst-case scenario comes to pass, whether corporate governance is an issue, whether there is a legal exposure, and whether a duty of care exists.

Mr. York said the Sydney water crisis, which saw Sydney residents forced to drink only boiled water for several weeks when the entire water supply was found to be contaminated, was an example of a worst-case scenario that became a reality.

"The findings of a formal inquiry have not been completed, but it appears the crisis management plan had been written but never tested. The principal players had never had to consider what were the appropriate actions. . .until the real situation arrived," he said. BI

Compliance a top concern

By KATE TILLEY

MELBOURNE, Australia—Australian risk managers are more concerned they are in compliance with relevant legislation than the risk of problems caused by the millennium bug, a recent survey shows.

The survey, released at the Assn. of Risk & Insurance Managers of Australasia's conference in Melbourne last month, asked ARIMA's more than 500 risk manager members to rank a list of 24 concerns. The issue of greatest concern to the approximately 170 respondents was complying with state and federal legislation, the survey found. The No. 2 concern was litigiousness, followed by product liability and workers compensation costs. The survey is conducted annually by Sydney, Australia-based Aon Australia Holdings Ltd.

Legislative compliance topped the list in last year's survey as well, supplanting workplace health and safety for the first time in four years.

This year, risk managers were asked to rate Y2K exposure for the first time, but the issue ranked as No. 16 in order of importance to respondents.

Insurance cycles were not a major concern, nor were insurer or broker consolidation; all three rated low in order of importance.

The survey also found risk managers at more smaller companies responding.

Organizations with revenues of less than $10 million Australian ($6.2 million) accounted for 21% of the respondents, compared with 9% in 1997 and 5% in 1996.

Smaller organizations are now "widely embracing risk management," Aon explained.

Large organizations, those with $500 million Australian ($308.5 million) and above in revenue, accounted for 28% of respondents, down from 36% in 1997.

The survey also found the majority of respondents are relative newcomers to risk management.

Almost 60% of respondents had fewer than five years' experience in risk management, a level similar to survey findings in previous years.

"This reinforces the need for risk management bodies to provide the appropriate training and mentoring to new entrants," the Aon analysis said.

Of the approximately 170 respondents, 32% were in local government, 15% in state government and 3% federal government. Publicly listed companies accounted for 21% of respondents, private companies counted for 17%, with the remainder unspecified.

In light of the survey's findings, several speakers at the ARIMA conference said risk managers are not sufficiently concerned about the potential for Y2K risks.

Peter O'Donahoo, a litigation partner with Melbourne law firm Arthur Robinson & Hedderwicks, said the Y2K issue has prompted "a big scare campaign," and the fact that there will be business failures "seems to be well-accepted."

Mr. O'Donahoo said the outcome and cost of coping with the millennium bug are hard to predict but cited estimates that the cost of Y2K-related litigation would be 20 times as great as the cost of fixing the problem.

Estimates to resolve the problem ranged from $3 billion to $10 billion Australian ($1.9 billion to $6.2 billion) in Australia, and up to $600 billion Australian ($370 billion) worldwide, he said.

Mr. O'Donahoo said risk managers need to conduct internal audits to determine how the Y2K problem might affect their business systems. Businesses also need to assess the exposure of their suppliers and vendors, he said. "If they crash, you will suffer some of the consequential loss," he warned.

He urged risk managers to audit their insurance policies to see whether they are covered. "The reality is, you probably aren't," he warned. "My understanding is that Australian insurers are not going to cover it."

Sally Leivesley, director of Brisbane, Australia-based risk management consulting firm Sally Leivesley Pty. Ltd., said Y2K is the biggest issue currently facing risk managers, but noted it is a risk companies are aware of and can mitigate.

Addressing this risk provides "a very useful learning curve" to train organizations in the application of risk management, she said.

The ARIMA conference was held Nov. 15-18 in Melbourne.

A summary of the survey is available free from Aon Australia, L33, Aon Tower, 201 Kent St., Sydney, New South Wales, Australia, 2000; phone: 61-2-9253-7000; fax: 61-2-9253-7001.

ARIMA draws 400

MELBOURNE, Australia—Almost 400 delegates attended the 22nd annual national conference of the Assn. of Risk & Insurance Managers of Australasia at the Crown Towers, Melbourne, Victoria, held Nov. 15-18. The theme was "Risk: A Profit Source."

The 1999 conference, on the theme "Outsourcing, the Worm in the Risk Manager's Apple," will be held at the Wrest Point Hotel & Casino in Hobart, Tasmania, on Nov. 14-17.

For more information, contact Intermedia Convention & Event Management, P.O. Box 1280, Milton, Queensland, Australia, 4064; 61-7-3369-0477; fax: 61-7-3369-1512; e-mail: rimaconf@im.com.au.

Civil

Continued from page 23

backed by a fixed-cost system for plaintiffs' and defendants' attorneys. Details are still being finalized, but Lord Woolf said the concept is fundamental to his reforms. He said that set fees will bring down court costs and "legally enfranchise" more people.

Brendan Padfield, an insurance partner with Eversheds, said some insurers and policyholders have been planning for the reforms, but most have "some way to go yet." Insurers and policyholders that do not adequately prepare for the reforms risk being "ambushed" by plaintiffs under the new system, Mr. Padfield warned.

"There are not going to be the same opportunities for your lawyers to play catch-up like now," Mr. Padfield said, referring to the strict timetables.

David Gladwell, head of civil justice for the Lord Chancellors Department, which will implement the reforms, said the reforms will lead to a more equitable civil justice system.

Mr. Gladwell said the courts will be taking a much more creative approach, rather than strictly applying the letter of the law. "The focus will be on bringing cases to settlement rather than judgment," he said. For smaller claims, arbitration is available. The reforms will raise the claim limit for arbitration to £5,000 ($8,200) from the current £3,000 ($4,900).

Lord Woolf said that previously, courts were interested in disputes only when they reached litigation, but now they will "try to tackle them earlier." He said the pretrial protocols and case management conferences break new ground in case management.

Paul Coppin, an Eversheds insurance partner, warned insurers and policyholders that, under the new rules, the courts will enforce timetables and penalize "game players."

"Delays will no longer be tolerated," he said. "Those who delay are dead in the water." Under the strict timetables, cases would proceed without additional defense evidence if defendants miss deadlines.

Mr. Coppin said attorneys can comply with the timetables only if insurers and policyholders are quick to provide documents.

Mr. Padfield agreed that defendants that do not adequately prepare may be rushed into hasty preparations under the new system. It is in a plaintiff's best interests to quietly prepare a case and then give the defendant the minimum period before issuing proceedings.

Helen Molyneux, an Eversheds insurance partner, said insurers and policyholders must do a lot more work before proceedings or they risk being "hijacked." "The amount of extra work for claims handlers during the early stages of a case cannot be overemphasized," she said.

Ms. Molyneux said more cases may be settled—possibly at great cost—because defendants won't have the evidence they need to defend themselves. "The message is 'Be prepared.'"

Mr. Padfield agreed that insurers and policyholders can "fight back" under the reforms. "It is a matter of changing your outlook and refining your claims teams" to have all the necessary information handy, he said.

He said an insurer must be proactive when there is an accident report. "Get closer to your risk managers, so there is better notification," he said.

Mr. Padfield said the reforms also highlight the need for "empowered" insurance and risk managers that can go in quickly and get medical reports, documents and evidence.

"If you have good discovery processes and quality witnesses, you are back in the driving seat," he said. BI

Growth

Continued from page 23

petition from foreign companies. Countries where the market share is highest for insurers that are more than 50% foreign-owned include: Hungary, at 93%; and Latvia, the Czech Republic, Estonia and Slovakia, where it ranged from 29% to 49%. Poland will admit foreign insurance companies beginning in January 1999, and Russia will do so in June.

Most countries are encouraging the sale of private life insurance through incentives such as tax breaks on premiums and surpluses. Insurers and private pension funds also are benefiting from reforms, says the study.

Hungary at the start of 1998 became the first country in Central and Eastern Europe to introduce a three-pillar system consisting of a compulsory state pension, a compulsory fully funded private pension and voluntary life insurance with tax advantages. Croatia will introduce a similar system in 1999, as will Poland next April 1. Most other countries in Central and Eastern Europe are discussing pension reform legislation.

In most of the countries studied, life insurance spending grew rapidly in 1997 but accounted for less than 1% of national GDP, compared with an average of 4% in Western Europe.

Non-life insurers, whose penetration in 1997 was 1.9% of GDP, also can expect growth rates much higher than those in Western Europe, though not as great as life insurers in Central and Eastern Europe, says the study.

As GDP grows, the demand for insurance increases faster than income. In the future, income in many Central and Eastern European countries should rise as GDP grows more strongly than in Western Europe, Swiss Re says. Income growth will be highest in Poland, Hungary and Slovenia and considerably lower in the Czech Republic. As a result of the Russian economic crisis, the Baltic states of Lithuania, Latvia and Estonia are likely to experience slower growth than had been expected.

The study says high inflation in the former Soviet republics and Romania will hurt insurance. Non-life insurers can expect loss ratios to rise in these countries, as when they calculated their premiums, they would not have anticipated the Russian crisis or such a high rate of inflation, says the study.

However, the study adds that regulatory changes are central to the development of the insurance industry in Central and Eastern Europe. Change in the non-life sector will be dominated by auto insurance. Impetus for growth in auto insurance will come from the introduction of obligatory motor third-party liability insurance, an increase in the statutory minimum coverage, the introduction of a right of recourse for national social security programs to recover their costs from private insurers, and increasing liability awareness.

Premium volume in Central and Eastern Europe in 1997 totaled $14.9 billion, or just under 1% of the worldwide total. Of this, non-life insurance accounted for 75%, or $11.1 billion, compared with an average of 50% of total premiums accounted for by non-life insurance in Western Europe.

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Copies of "Insurance Industry in Central and Eastern Europe: Increasing Competition-Different Prospects for Growth," Sigma No. 7/1998, are available free from Swiss Reinsurance Co., Economic Research & Consulting, P.O. Box CH-8022 Zurich, Switzerland; 41-1-285-2551; fax: 41-1-285-4749. The report also is available on the Internet at www.swissre.com.

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INTERNATIONAL

British Aerospace sublease income covered

By MARIA KIELMAS

FARNBOROUGH, England—British Aerospace P.L.C. hopes that an innovative, multiyear financial risk insurance program it formed recently will keep its balance-sheet losses grounded.

After recovering from more than $1.5 billion in losses in the early 1990s on aircraft leasing guarantees, the aircraft manufacturer this year turned to a special insurance program to prevent similar future losses.

Marsh & McLennan Securities Corp., a unit of Marsh & McLennan Cos. Inc. that specializes in capital market solutions for the insurance industry, put together the program.

The 15-year program, the first of its kind, protects British Aerospace from losses arising from actual and contingent liabilities up to £2.4 billion ($4.0 billion), according to Edward Bowers, managing director of M&M Securities in New York. The program also covers the residual value of British Aerospace aircraft.

Contingent liabilities arise for British Aerospace when a client that leases or buys an airplane from the company subleases the plane to a third party that defaults on its payments. British Aerospace and other aircraft makers guarantee sublease payments to the original client.

To trigger the coverage, however, British Aerospace would have to face losses totaling £776 million ($1.30 billion). That includes a self-insured retention of 10% of the insured limits, or £240 million ($401 million), and an annual balance-sheet provision of £536 million ($895.5 million).

According to British Aerospace, the sum insured represents the company's 1997 contingent liabilities after figuring in income from some aircraft sales. British Aerospace calculated the balance-sheet provision as the estimated difference between contingent liabilities and future sales or leases and aircraft residual value.

In the early 1990s, contingent liabilities paired with low sales of aircraft had a catastrophic effect on the company's performance. "Basically, we built aircraft but didn't have the market to lease them out," said Tony Rice, group managing director-commercial aerospace at British Aerospace in Farnborough, England.

"We overproduced. It was bad management. We took a £1 billion ($1.57 billion) writeoff. It was the largest (at that time) in U.K. corporate history," Mr. Rice said. "We still produce regional aircraft, but with the insurance, we have effectively capped the downside."

M&M Securities said in a statement that Boston-based The RISConsulting Group L.L.C. developed a model to assess the value and the expected volatility in British Aerospace's aircraft portfolio.

The transaction costs amount to a charge of £38 million ($60 million) net of tax in 1998 results. Most of this charge is the premium, Mr. Rice said.

According to M&M, the lead underwriters on the program are Allianz Risk Transfer of Zurich, Switzerland; AMBAC Assurance Corp.; Munich Reinsurance Co.'s Am-Re Managers, London-based Royal & Sun Alliance P.L.C., and X.L. Insurance Co. Ltd. of Bermuda. Also participating are MBIA Insurance Corp.; Overseas Partners Re Ltd. of Bermuda; and Swiss Re New Markets and Winterthur Insurance, both of Zurich.

"Given the size of the program, a lot of education had to be done in the markets," Mr. Bowers said. "A lot of major companies were doing a lot of major analysis and transactional analysis."

British Aerospace has spent the last four years cutting back on its aircraft production rate, managing existing aircraft and working in the secondary market. "We told the underwriters, 'Here is a quantifiable risk to insure,' and they agreed," Mr. Bowers said.

It took about eight months to put together.

The coverage "separates our balance sheet from our risk exposure. The balance sheet needs to be used to fund production development," Mr. Rice said.

According to British Aerospace and Marsh & McLennan, the airplane maker is the first company to implement such a financial risk insurance program, but Mr. Rice believes other companies will follow the example.

This form of risk management is very appropriate for lease-financed liabilities, because lease-financed income carries certain tax enhancements. Refinancing its income would affect such tax advantages, whereas the insurance package guarantees the sublease income to British Aerospace and does not damage the existing top line, Mr. Rice said. BI

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LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK
IN THE PETITION OF ANTHONY JAMES MCMAHON AND PHILIP WEDGWOOD WALLACE, AS JOINT PROVISIONAL LIQUIDATORS OF **ANGLO AMERICAN INSURANCE COMPANY LIMITED**

Case No. 97-B-41556 (PCB)

NOTICE IS HEREBY GIVEN that on December 7, 1998, the Bankruptcy Court entered an order (the "Order") continuing the Preliminary Injunction Order pursuant to 11 U.S.C. §§ 105 and 304(b) originally entered in this case on March 19, 1997. The Order shall remain in effect pending a hearing schedule for June 7, 1999 at 2:30 p.m. before the Honorable Prudence Carter Beatty, in the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any person wishing to obtain a copy of the Order should contact Mary Ann Elliott at (202)862-2342.

CADWALADER, WICKERSHAM & TAFT
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Attention: Kenneth P. Coleman, Esq.
Stephen Doody, Esq.

No. 006704 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
MR REGISTRAR BUCKLEY
IN THE MATTER OF MUTUAL OF OMAHA U.K. LIMITED
And
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 4th December 1998 made in the above matters the Court has directed a meeting to be convened of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) of the above named company (hereinafter called the "Company") for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and its said Scheme Creditors and that such meeting will be held at One Silk Street, London EC2Y 8HQ, United Kingdom on 22nd January 1999 at 10:30 am at which place and time all such Scheme Creditors are requested to attend.

Any person entitled to attend the said meeting can obtain copies of the said Scheme of Arrangement, forms of proxy, claim forms and copies of the Statement required to be furnished pursuant to Section 426 of the above-mentioned Act at the registered office of the Company at Plumtree Court (PC 429), London EC4A 4HT, United Kingdom during usual business hours on any day (other than a Saturday or Sunday or public holiday) prior to the day appointed for the said meeting.

The said Scheme Creditors may vote in person at the said meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place. It is requested that forms appointing proxies and claim forms be lodged at the registered office of the Company situate at Plumtree Court (PC 429), London EC4A 4HT, United Kingdom (facsimile number +44 (0) 171 212 6316) by not later than 10:30 am on 20th January 1999 but if forms of proxy are not so lodged they may be handed to the Chairman at the said meeting. Any Scheme Creditor returning a form of proxy only will have the value of their claims determined for voting purposes by the Chairman of the said meeting on the basis of the information available to the Company in respect of such claims.

By the said Order the Court has appointed Philip Singer or failing him Paul Evans to act as Chairman of the said meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 14th day of December 1998.

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London EC2Y 8HQ
Solicitors for the Company

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LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF DAVID LLEWELLYN MORGAN AND MARK W.R. SMITH, AS JOINT PROVISIONAL LIQUIDATORS OF

STOCKHOLM RE (BERMUDA) LTD.

Case No. 95-B-40543 (PCB)

NOTICE IS HEREBY GIVEN that on December 7, 1998, the Bankruptcy Court entered an order (the "Order") continuing the Preliminary Injunction Order pursuant to 11 U.S.C. §§ 105 and 304(b) originally entered in this case on February 24, 1995. The Order shall remain in effect pending a hearing scheduled for June 7, 1999 at 2:30 p.m. before the Honorable Prudence Carter Beatty, in the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any person wishing to obtain a copy of the Order should contact Pieter Terwilleger at (212) 504-6531.

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Business Insurance Circulation Breakdown

Commercial Consumers

Administrative:	
CEO's, Presidents, and Owners	5,007
Vice Presidents, General Managers and Other Administrative Personnel	5,346
Financial:	
Chief Financial Officers and Vice Presidents of Finance	4,872
Secretaries, Treasurers, controllers and other Financial Personnel	3,927
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	13,774
Sub-total	32,926
Associations	259
Government, Unions and Educational Institutions	931
Commercial Consumers Sub-total	34,116
Insurance Agents and Brokers	7,735
Insurance Companies	6,668
Accountants, Actuaries, Attorneys & Consultants	2,520
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,432
Others Allied to the Field	759
Total Qualified	53,235
Non-qualified/Paid Subscriptions	17
Single Copy Sales	3
TOTAL CIRCULATION	53,255

★ Source Business/Occupational breakdown of qualified circulation, May 25, 1998 issue, as submitted to BPA for June 1998 BPA Publisher's Statement

Largest U.S. reinsurers' nine-month 1998 results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurers	Net reinsurance premiums written 1998	Net reinsurance premiums written 1997	Policyholders surplus (reinsurers only)	Net income 1998	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1998	Combined ratio 1997
General Re	$1,993,986	$2,319,977	$6,311,035	$642,330	$1,339,044	67.7%	671,661	33.7%	101.4%	99.1%
Employers Re	1,913,578	1,399,320	4,597,092	369,826	1,153,127	67.8	625,319	32.7	100.5	101.4
American Re	1,743,267	2,028,323	2,426,420	229,058	1,176,134	69.5	603,974	34.6	104.1	103.6
Berkshire Hathaway	951,000	926,100	N/A	N/A	662,000	85.0	146,000	15.3	103.7	102.5
Transatlantic Re/Putnam Re	931,574	821,498	1,257,096	161,349	688,003	75.4	248,716	26.7	102.1	99.7
St. Paul Re	832,813	967,951	N/A	N/A	520,423	66.2	276,729	33.2	99.4	103.1
Everest Re	754,138	1,002,828	998,730	111,503	566,014	73.5	229,563	30.4	103.9	101.8
Zurich Re	667,760	812,239	847,446	90,679	475,427	75.0	229,366	34.3	109.3	104.8
Hartford Re	537,343	513,874	N/A	N/A	419,661	79.6	145,601	27.1	106.7	104.4
Swiss Re America	531,556	584,393	1,746,476	251,968	345,253	65.8	204,254	38.4	104.2	104.0
SCOR U.S.	493,651	459,341	413,868	12,355	385,059	75.8	189,471	38.4	114.2	103.9
Kemper Re	434,856	458,161	534,149	45,248	317,015	75.9	140,341	32.3	108.2	109.5
NAC Re	370,207	399,736	701,176	72,545	238,964	66.1	139,457	37.7	103.8	102.8
TIG Re	328,737	409,904	561,730	61,744	253,611	67.7	126,998	38.6	106.3	103.3
Constitution Re	323,011	337,523	427,293	65,167	248,576	71.9	108,238	33.5	105.4	105.6
Underwriters Re	291,962	281,057	678,720	27,169	196,728	71.4	89,636	30.7	102.1	102.3
Signet Star Re	264,336	210,779	252,329	11,141	170,228	72.6	83,890	31.7	104.3	104.1
Reliance Re	172,344	118,340	N/A	N/A	103,959	66.7	59,897	34.8	101.5	102.2
PMA Re.	170,414	141,464	283,018	20,655	105,149	67.8	62,601	36.7	104.5	103.2
Folksamerica Re	163,614	160,377	298,241	27,886	129,882	71.4	58,153	35.5	106.9	105.9
Total for Top 20	13,870,147	14,353,185	22,334,819	2,200,623	8,832,919	71.4	4,439,865	32.0	103.6	102.5
Total for all companies	14,998,537	15,447,281	26,945,522	2,499,406	10,189,644	67.9	4,973,343	33.2	101.1	101.3

Source: Reinsurance Assn. of America and *Business Insurance*

Reinsurers

Continued from page 2

The 20-largest reinsurers reported an aggregate $13.9 billion in premiums written in the first nine months of 1998, compared with $14.4 billion in the same period in 1997, according to the Washington-based Reinsurance Assn. of America.

The combined ratio of the top 20 increased to 103.6% in 1998 from 102.5% in 1997.

"When it gets bad enough, it will turn around, but in the meantime, we will have more of the fire sales that we have seen lately," Mr. Bunaes said, referring to the comparatively low prices at which some reinsurers have been sold during the past year.

The reduction in overall premium volume should be expected, given the continued decline in reinsurance rates over the past nine months, said Jerome Karter, president and CEO of SCOR U.S. Group in New York.

"The market is still rotten, and no one that values technical profitability should be up unless they have specific reasons," he said.

SCOR did increase its written premiums over the past nine months, but that was due to the acquisition of Allstate Reinsurance in 1996, Mr. Karter said.

And next year, reinsurers seeking to write profitable business will likely see further reductions in written premiums, he said.

"There is no way, given the current market conditions, that I want to spend a buck fifty to get a buck back," Mr. Karter said.

It is surprising that the aggregate premium figures for reinsurers have not declined more, given the current low rates, said Peter Wade, vp at Lehman Bros. Inc. in New York.

While some reinsurers may be increasing their premium volumes by writing more program business directly with managing general agents, most have little prospect of increasing their premium volumes, Mr. Wade said.

But even in direct business there is not much opportunity to grow, said Mr. Bunaes of Constitution Re.

Constitution Re owns a direct insurer, Sirius America Insurance Co., but it writes few contracts because the primary business is also unattractive, he said.

"Of the 60 or so opportunities we've looked at this year, we've written about half a dozen," Mr. Bunaes said.

The demand for reinsurance continues to shrink, which puts even more pressure on reinsurers seeking to grow, said Susan Spivak, vp at Donaldson Lufkin & Jenrette Inc. in New York.

"Traditional buyers are merging and retaining more risk and there is more competition from non-traditional sources of capacity, so it is not a very bright outlook for the reinsurance industry," Ms. Spivak said.

Although reinsurers have continued to show an increase in profits for nine months, the results are not sustainable given the market conditions, she said.

Net income for the top 20 reinsurers for the first nine months of 1998 was $2.2 billion, compared with just under $2 billion for the top 20 for 1997's first nine months.

Although, reinsurers saw increased profits overall, several reinsurers were affected by the increase in catastrophes and other losses in 1998, said Mr. Karter of SCOR.

'They want to pay 1 to 1.2 times book, and, at the same time, they want to sell for 1.5 times book,' says Peter Wade of Lehman Bros.

"That has to have some impact on thinking," he said.

But the losses for 1998 are not as bad as they might at first seem, said Grace Osborne, a director at Standard & Poor's Corp. in New York.

Losses in 1998 are being compared with 1997 losses, which was notable for being a year that was unusually free of catastrophes, she said.

Nevertheless, reinsurers have faced some additional expenses in 1998 that likely contributed to the increase in the overall combined ratio, Ms. Osborne said.

"In 1998 you have companies incurring some Y2K-type expenses, and we had not seen that to the same magnitude in 1997," she said.

The generally rosy picture for reinsurers profitability does not necessarily reflect a healthy industry, said Dennis Zettervall, CEO of Hartford Re Co. in Hartford, Conn.

"It comes down to the question of whether the business being written today is being properly reserved for," Mr. Zettervall said.

Property and casualty reinsurers may be concealing the effect of increased property losses by reducing their reserves for casualty business or reducing their reserves for business written in prior years, Mr. Zettervall said.

"If that is correct, then it becomes a question of when that will be recognized, and that becomes a function of how long-tail the business is," he said.

More and more reinsurers will start to feel the effect of this practice over the next few years, and that should help harden the market, Mr. Zettervall said.

"They will have to take action, and I don't think that it is too far off. It won't be a hard market, but I think we'll see some hardening in the next 12 to 18 months," he said.

Currently, the glut of capacity in the reinsurance market will continue to hold back rate increases, said S&P's Ms. Osborne.

"Capital is still very, very strong in the U.S. reinsurance market," she said.

Companies with excess capital are continuing to look at ways to use it, said Elizabeth Farrell, senior financial analyst at A.M. Best & Co. in Oldwick, N.J.

"They are looking for a place to put it, by either buying their competitors or going across seas.... Those companies that have well-established business internationally will be able to forestall the downward trend more easily than those companies that only have domestic operations," she said.

Given the overcapacity in the market, there should be further consolidation in the industry, but many reinsurance companies that are up for sale will not get the prices they are looking for, said Ms. Spivak of DLJ.

"We'll see more consolidation take place, but only when pricing expectations come down," she said.

As the stock prices of reinsurance companies come down, reinsurance company executives will have to reduce the prices they are seeking to sell for, Ms. Spivak said.

Executives at reinsurers that are looking to be bought are still seeking significantly more than potential buyers are willing to pay, agreed Mr. Wade of Lehman.

And the same reinsurers that would be willing to sell for the right price are retaining their capital, rather than buying back shares, in case they have the opportunity to buy a rival for little more than book value, he said.

"They want to pay 1 to 1.2 times book, and, at the same time, they want to sell for 1.5 times book," Mr. Wade said.

Eventually, some reinsurers will have to realize that they are not going to get the money they are looking for, he said. BI

Y2K

Continued from page 1

Pineville is for breach of contract and "does not allege an 'occurrence' as defined by the policies." The insurer also alleges that the claim of property damage made by Pineville is not covered by the CGL policy.

"This is the first time that I know of that any Y2K claim has resulted in litigation" over coverage, said Jim Pabarue, an attorney with Christie Pabarue Mortensen & Young, which represents insurers in coverage disputes and closely follows Y2K legal developments.

Mr. Pabarue said that this type of Y2K suit—against computer sellers or service providers for breach of contract—represents the first wave of such suits. He generally agrees that CGL policies, such as the one written by Cincinnati, would not cover such policyholder claims and that insurers can successfully deny coverage. CGL exclusions for such breach-of-contract claims "are commonplace," he said.

Risk managers and insurers generally concur that losses directly caused by the Year 2000 computer problem will not be covered, though various consequential losses may be insured (*BI*, Dec. 7; Sept. 28).

Although this is the first coverage suit over the Y2K issue, it was inevitable, as defendants in Y2K suits look to their insurers to absorb their liability and legal costs, said Julia Frost-Davies, an attorney with Bingham Dana L.L.P. in Boston. She has been following Y2K litigation closely and has spoken on the topic.

"It's exactly the kind of litigation that's been expected in this field," she said.

"We shall see more of them in the next few years as more Y2K suits make their way through the courts," she added.

Some insurers have addressed the issue with Y2K exclusions. The exclusions might not completely resolve the problem, however, if policyholders can successfully argue that the coverage trigger occurred before the exclusion existed, Mr. Pabarue said.

But, Cincinnati Insurance Co. has decided not to put exclusions in policies, said Gary Givler, secretary-claims for the insurer. They have pursued this policy "so we can handle each claim on its merits," he said.

The insurance company would not comment further on the suit.

Exclusions could backfire and hurt insurers, Ms. Frost-Davies noted. When a Y2K exclusion is added to a policy, policyholders can then argue that older policies lacking the exclusion must cover Y2K claims. "It's a risk that insurers run," she said.

Tim Hill, Security Data System's attorney, would not comment on the case.

The next wave of suits, Mr. Pabarue warns, might be more complex. Those suits will generally involve product manufacturers and sellers whose products fail because of an embedded computer failure, causing bodily injury or death to a third party. An example would be if a pacemaker with a computer chip fails.

Those suits will create "more difficult coverage issues," he said. BI

FTR FOR THE RECORD

NYLCare faces non-compliance hearing

BALTIMORE—NYLCare Health Plans of the Mid-Atlantic Inc. will appear at a Dec. 18 hearing to contest a Maryland Insurance Administration sanction for non-compliance with a law that entitles certain patients to a 90-day supply of prescription medication.

Under the Maryland law, health plan members who require maintenance medication for chronic conditions are entitled to a 90-day supply each time a prescription is refilled. The 90-day supply cannot be limited to purchase through a mail-order program.

NYLCARE
An Aetna U.S. Healthcare Company

The Maryland Insurance Administration received complaints between April and September that NYLCare denied members covered by its prescription drug rider the 90-day supply, according to the order signed by Maryland Insurance Commissioner Steven Larsen.

NYLCare told the administration that it believed it had complied with the law by making 90-day supplies available exclusively through its mail-order service. The HMO said administrative problems prevented it from providing wider access to members whose plans were effective prior to July 1998. Now, though, members with plans effective before that date can get the 90-day supply through network pharmacies if they call to request it. Members with plans renewed or effective on July 1 or later have automatic access to this benefit.

A spokesman for NYLCare's parent, Aetna U.S. Healthcare, said the HMO has "questions about the findings of the state" and is researching the issue to make its case at the hearing.

ADR use rising in CGL claims: ISO

Nearly one in five large commercial general liability claims was settled by alternative dispute resolution techniques last year, according to a study released earlier this month by the Insurance Services Office Inc.

The percentage of claims settled by ADR for amounts in excess of $75,000 has more than doubled in seven years, reaching 18.5% last year, according to ISO's "Closed Claim Survey for Commercial General Liability: Survey Results, 1997." This compares with 15.4% in 1995, 10.6% in 1993 and 7.1% in 1991. ISO based its study on an analysis of 1,763 claims closed between July 1, 1997, and Oct. 31, 1997, that resulted in loss payments of more than $75,000 to the claimant.

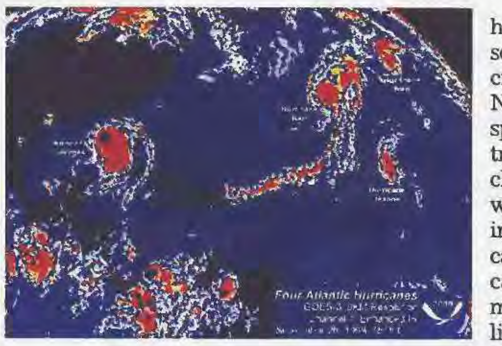
ISO

The study also found that claimants were more likely to file suit in state, rather than federal court; that the most common type of accident involved slipping or falling; and that the most common injuries were fractures.

Twenty-nine insurers, which collectively account for 66% of the commercial general liability market, participated in the study. The study itself was conducted under the auspices of the National Assn. of Insurance Commissioners.

'98 hurricane season worst in 200 years: NOAA

The 1998 hurricane season was the deadliest in more than 200 years, according to the National Oceanic and Atmospheric Administration.



The 1998 hurricane season, which officially ended on Nov. 30, spawned 14 tropical cyclones—10 of which turned into hurricanes—and caused an estimated $3.2 billion in insured property damage to the United States, according to the NOAA.

This year's hurricanes are blamed for 21 deaths in the United States and caused at least 12,000 deaths in the Western Hemisphere. October's Hurricane Mitch caused most of the deaths as it pounded Central America. Only an October 1780 hurricane that ravaged the Caribbean from Barbados to Martinique was deadlier, with an estimated death toll of more than 20,000.

MetLife to complete demutualization in 1999

New York-based Metropolitan Life Insurance Co. expects to complete its conversion to a stock company by late 1999.

According to the company, the greater flexibility afforded by the stock company structure, along with the accompanying broader access to the capital markets, will allow New York-based MetLife to strengthen its market position and better pursue growth opportunities.

MetLife®

Company management currently is developing a plan for MetLife's demutualization, under which it will convert from a mutual to a publicly traded stock company. The final plan will be subject to the approval of the company's board, its policyholders and the New York Department of Insurance.

ASHRM names president-elect

CHICAGO—The American Society for Health Risk Management has named Fay Rozovsky president-elect for 1999.

Ms. Rozovsky is president of the Rozovsky Group of Richmond, Va., which is a consulting firm specializing in regulation and risk management. In addition to consulting, she holds a law degree and has taught at the Medical College of Virginia.


Ms. Rozovsky

During ASHRM's annual meeting in October, Ms. Rozovsky received the society's Distinguished Service Award. The society said the award reflects "outstanding efforts in the field of risk prevention."

Ms. Rozovsky as president will succeed Grena Porto, director of clinical risk management for VHA Inc. of Berwyn, Pa., who began her tenure as president at ASHRM's October annual meeting.

Information in brief

CNA Insurance Cos. is shedding its group employer medical business after deciding such business does not meet the insurer's profitability goals. CNA is selling a large portion of the business to American Medical Security Group of Green Bay, Wis., for an undisclosed amount. The buyer is assuming liability for the accounts beginning Jan. 1, and CNA will administer the business until Feb. 1. The move follows CNA's recent sale of small-group health care business to Mutual of Omaha. . . . The Alexandria, Va.-based **National Community Pharmacists Assn.** is voicing its opposition to Rite Aid Corp.'s planned acquisition of pharmacy benefits management company PCS Health Systems. The NCPA, which represents independent pharmacies, contends the acquisition is anti-competitive because it would give Rite Aid, a retail pharmacy chain, access to confidential information on its members' pricing strategies. . . .The **U.S. Supreme Court** heard oral arguments Nov. 30 in a case that could spell out the scope of the McCarran-Ferguson Act, which grants states the primary role in insurance regulation. The case, *Humana vs. Forsyth,* involves whether the McCarran-Ferguson Act blocks the filing of a class-action suit under the federal Racketeer Influenced and Corrupt Organizations Act over alleged fraudulent administration of group health insurance policies because such a suit would "impair" the state of Nevada's regulation of insurance. A decision is expected next year. . . .Broker **Poe & Brown Inc.** last week announced that it has acquired The Insurance Center Inc. of Albuquerque, N.M.; The Maulden & McLendon Agency of Winter Haven, Fla.; and C.D. Petrie Inc. of Fort Lauderdale, Fla. . . .Goodwin L. Myrick, chairman, president and chief executive officer of **Alfa Corp.**, retired last week. The Montgomery, Ala.-based insurance holding company announced that Jerry A. Newby, who has served as a director of Alfa, would succeed Mr. Myrick in all three positions. Alfa recently acquired a stake in troubled Vesta Insurance Group Inc. . . . John H. Flittie will retire as president and chief operating officer of **ReliaStar Financial Corp.** June 30, 1999. The Minneapolis-based insurer has not named a successor. BI

NLRB sides with ABC in lockout over benefits

NEW YORK—ABC Inc. has prevailed in an unfair labor practices charge related to the disclosure of health plan information.

abc

The National Assn. of Broadcast Employees & Technicians filed the charge with the New York office of the National Labor Relations Board, alleging that ABC did not provide in a timely manner the negotiated network rates paid to medical providers under the Disney Signature health plan that ABC proposed in current contract negotiations. NABET also requested reasonable and customary rates in effect under the current health insurance plan that covers union employees.

The union said the information is necessary as the basis to determine what employees' out-of-pocket expenses would be to see a physician outside of a plan chosen under the Disney Signature program.

ABC informed the union that it did not have the information because insurers consider such information proprietary and thus refused to provide it, according to a Nov. 19 letter from Daniel Silverman, NLRB regional director in New York to a union official.

Responding to repeated requests from the union, ABC indicated that it was communicating with insurers, and that one insurer offered to provide some rate information in exchange for confidentiality, Mr. Silverman's letter indicates. ABC, aware of the union's plans to strike over the issue, informed NABET on Oct. 31 that the network "had engaged in additional conversations with the insurance carriers" and "believed that the union would be able to obtain information sufficient to satisfy its requests," Mr. Silverman said in his letter.

NABET employees staged a one-day strike on Nov. 2, and ABC locked them out.

Mr. Silverman said that ABC made repeated and timely attempts to obtain the information, and the network's efforts to keep the union informed of the progress complied with the National Labor Relations Act mandate to bargain in good faith.

ABC, effective Nov. 30, stopped paying for medical and other benefits for about 1,650 locked out workers. The parties are in mediation.

NABET has filed an appeal to the NLRB's general counsel in Washington.

—By Roseanne White

Commentary

'The end is near' hits closer to home

A growing amount of attention is being paid to the specter of Year 2000 computer problems faced by the business world.

Each week, we see companies disclosing to investors the millions of dollars they are spending on tackling the millennium bug, or hear of legislative proposals aimed at minimizing the liability of public and private entities to the problem. Lawsuits are being filed by companies seeking to avoid responsibility for computers that are ill-equipped to cope with the Year 2000 problem. And hundreds, if not thousands, of articles have been written about the potential inability of companies and governments to conduct their essential business.

But while attention is focused on the potential disruption to commerce and how the problem may prevent people from using their personal computers or automatic teller machines, much less discussion is spent on what could happen if the worst-case scenarios were to come true. To be sure, many a water cooler discussion has revolved around lighthearted concerns about a possible inability to obtain money from banks, or to pay taxes in a timely and accurate manner.

But there is far less open discussion and media coverage of what might happen if the computer bug really does cause utilities to crash; phone systems to shut down; transportation systems to halt; and services provided by hospitals, fire departments and police departments to experience disruptions.

Paul D. Winston

Maybe we're afraid to confront the dark side of the Y2K problem, the extreme risk faced by a society grown dependent on computers and embedded chips in everyday life.

There is, however, a current of our society that has long prepared for the end of society as we know it. So-called survivalists have long stockpiled food, water, batteries and ammunition in the belief that, some day, society would disintegrate into a lawless, primitive state akin to the Wild West.

This movement has gone largely unnoticed since the end of the Cold War, when the threat of nuclear annihilation was an often unspoken but very real possibility.

But now, with a perceived threat that modern society will come to a crashing halt, the survivalist movement is gaining a new head of steam among people who are truly afraid of what the end of the millennium might bring.

Apart from an expectation that financial services will be interrupted, there is concern about whether the nation's electrical, gas and water utilities are likely to continue to deliver the goods. And there is outright pessimism that government services will continue uninterrupted. The San Francisco outage shows the chaos that ensues when power is cut for a few hours.

A growing number of businesses and individuals are taking advantage of this worry and marketing goods and services to this new breed of survivalist. Year 2000 expos are being held around the country, where people curious about the problem are greeted by exhibitors pitching doom and gloom videos, pamphlets and survival guides. People are making big bucks by hawking freeze-dried foods, medical gear, camping gear, vitamins, survival guides, maps to "safe havens" and such.

The militia movement also is well represented at these gatherings, promoting the benefits of joining a well-armed group in the event the government comes to a crashing halt. Hundreds of books are being written that carry dire forecasts of what the winter of 2000 might look like. One such screed, by a professor at the Northern Alberta Institute of Technology, warns of "acres of fire" in urban areas as electrical outages render water pumps useless in the face of arson. He proclaims that it's too late to solve the Year 2000 problem, so citizens should begin stockpiling food, water and fuel in preparation for the worst. If he's wrong, what's the harm? he argues.

That kind of reasoning is catching on with a growing number of people.

I, for one, don't believe society will come crashing to a halt. But what do I know? Can anyone say for certain that a series of computer interruptions—occurring concurrently—won't trigger an epic cascade of system failures that freeze the basic services of society? Perhaps last week's power outage in San Francisco offers a glimpse of what the future holds.

Risk managers grappling with the practical problems posed by the millennium bug might do well to also factor into their contingencies the risks of a scared and defensive population if the lights go out on Jan. 1, 2000.

Oregon

Continued from page 2

say the concept has not spread because there is no statistical evidence that it has lowered claims costs.

In addition, the program's rising expenditures and the unpopularity of taxes may be impediments.

Even in Oregon, the growing popularity of the program could eventually mean some curtailment of benefits, though that has not yet been proposed, a Workers Compensation Division official said.

Under the Employer-at-Injury Program, a business in Oregon that returns an employee with an open workers compensation claim to a light-duty or modified work assignment can receive 50% of the employee's gross wages for a maximum of three consecutive months. The funds are paid out by the Oregon Workers Compensation Division. Employers can also collect hundreds of dollars from the state for work station modifications, rentals or purchases made to accommodate returning workers.

Oregon now funds the program, as well as other workers comp programs, by collecting a tax of 3.2 cents per hour worked by employees covered under a workers comp policy. Half of the levy is paid by employers; the remainder is deducted from workers' wages.

The amount will rise to 4.2 cents per hour beginning Jan. 1, and the state expects the tax to raise $212 million from July 1, 1999, to June 30, 2001.

But employers are not balking at the higher tax, because the Employer-at-Injury Program has been a financial boon for them, said Lisa Trussell, a legislative representative on workers comp issues for Salem-based Associated Oregon Industries.

"That is a really cool program," she said. "If we were going to cut funding on something, it would not be that."

The number of lost time days is down throughout Oregon, and employees are getting back to work quicker, Ms. Trussell said.

Ms. Trussell's observations are based solely on anecdotal evidence; there are no statistics from the state to back her assertions. Even without statistical evidence, she said, it follows that lost time would be down because employers are using the program and returning employees to work.

From 1993, when Oregon kicked off the program, through Nov. 6, the state has paid out a total of $35.5 million to employers, said Mary Hoskins, manager of the Division's Re-employment Assistance Unit. More than 29,500 workers have returned to work under the program, and an average of 52 new employers use it every month.

The program originally was limited to providing payments in cases where an employee missed three or more days. But the approach was expanded in 1995 because employers were aggressively implementing return-to-work policies, Ms. Trussell said. Now medical-only claims also qualify immediately in cases where employees make modified duty available to injured workers.

Self-insured employers, because they generally pay more attention to their claims, were among the first to take advantage of the program, ahead of insured and smaller employers, said Ms. Trussell.

Overland Park, Kan.-based Yellow Freight System Inc. launched a modified-duty program for injured workers just months before Oregon began offering financial support for employers with such programs, said Jeff Reed, workers comp counselor in Portland for the self-insured company. The state's financial reward was an added incentive for Yellow Freight to follow through with the modified-duty policy and make it a successful program, he said.

Under the state's program, self-insured employers submit claims for reimbursement to the Workers Comp Division. Insurers submit claims on behalf of their policyholders.

The program helps Oregon's competitive State Accident Insurance Fund encourage insured employers to adopt return-to-work policies, said Diane Edwards, the insurer's program manager for return to work. Ms. Edwards said she believes the program keeps costs down. SAIF currently recovers $300,000 per month on behalf of insured employers but does not track claims savings.

Liberty Northwest Companies, a unit of Liberty Mutual, also encourages its policyholders to use the program. In January, it will take on more of the paperwork required of employers to claim benefits under the program as an added incentive, said Barbara Howe, a Liberty Northwest claims manager in Portland.

"Our disabling claims have gone down," she said. "A lot of claims that were disabling in the past, the employers immediately get them back to work because of the EAIP program. But it is in conjunction with a lot of other reforms that went on in Oregon that also were intended to reduce disabling claims. So it's hard to determine what impact the EAIP has."

The lack of evidence on whether the program has reduced claims costs may be one reason other states have not followed Oregon's lead.

"For other states to implement any program, you want to have some convincing evidence," said Gregory Krohm, administrator of the Wisconsin Workers Compensation Division. The Oregon Employer-at-Injury Program "appears to work, to the delight of a lot of Oregon people, but it hasn't diffused outside of Oregon."

Mr. Krohm, who keeps abreast of nationwide workers comp trends, said a similar mechanism would not work in Wisconsin because of opposition to the taxation required to fund it. "Anything where you are imposing a tax on employers and employees would just be difficult to sell," he said.

According to the Lawrence, Kan.-based International Assn. of Industrial Accident Boards & Commissions, other states reimburse employers for vocational rehabilitation costs or on-the-job training and they also provide financial incentives for hiring rehabilitated workers. But IAIABC research could not find any other states that subsidize worker wages under modified-duty programs.

With its success, Oregon's Employer-at-Injury Program is facing growing pains. The state is reimbursing employers more than $1 million a month, Ms. Hoskins said.

"That is big dollars for Oregon," she explained. "At some point, we are probably going to think of ways of curtailing some of it because, obviously, it's an expensive program. Frankly, we don't have unlimited dollars. We can't just keep going up, up, up and never take a look." BI

Blackout

Continued from page 1

medication that needed refrigeration.

Total losses are not likely to exceed the $10 million deductible on the utility's liability insurance, a spokesman said. He did not provide further coverage information.

Since "the blackout came right at the height of the (Christmas) shopping season, it makes sense lots of retailers would say they lost business," the spokesman said.

As part of its investigation, the California Public Utilities Commission said it will also examine how PG&E handles the blackout claims.

The city of San Francisco is likely to be among those filing claims against PG&E, Mayor Willie Brown said at a press conference the day after the blackout.

The city lost revenue from a number of sources and ran up additional expenses coping with the nearly eight-hour blackout, he said.

For example, the city lost parking ticket revenue when more than 100 parking control officers were pulled off ticket-writing duties to direct traffic snarled by the failure of signals. The city also stopped towing illegally parked vehicles on busy downtown streets in the afternoon after Mayor Brown declared a state of emergency for the day. And the San Francisco Municipal Railway lost afternoon fare box revenues because commuters were given free rides.

As of late last week, businesses such as the San Francisco Newspaper Agency were still gathering information to determine their lost revenues and extra expenses as a result of the power outage.

"We did lose power at one of our facilities, which is the plant that would normally run the early edition, so we transported the plates to another facility and ran the press run from that location," said Susan K. Moreland, risk management director of the newspaper agency, which publishes both the San Francisco Chronicle and the San Francisco Examiner.

"Because of the power outage, the traffic made it difficult to get the newspapers distributed from that alternate site. So we leased a ferry in order to transport the newspapers into the city for distribution," she explained.

If the losses turn out to be significant, Ms. Moreland said, the newspaper is more likely to file a claim with PG&E than with its own business interruption insurer, Royal Insurance Co., because "we have a 24-hour waiting period for off-premises power outage."

Many area businesses were prepared for the emergency.

"We have a lot of contingency plans for this kind of thing," said Ron Julian, associate director of Genentech Inc., a biotech firm based in South San Francisco. "We have all kinds of emergency power and generators. . .for almost all of our buildings. We've got 25 buildings here and only a few office buildings do not have (emergency) power, so we essentially did not have much of a loss."

"Our main concern, of course, was our manufacturing facilities and cold storage of our product. . .but, again, we have emergency power for that, and all that kicked in, so we basically did not suffer any loss," Mr. Julian said.

"The only loss we had was a couple hours of lost time for a few hundred people in the office, including me, as a matter of fact," he quipped.

"We do not plan to file a business interruption claim. Our deductible exceeds any claim we might have. In addition, we could file a claim with PG&E, but we probably won't, as our loss really is not significant," he said.

Although many of automated teller machines operated by BankAmerica Corp. and other banking companies were shut down during the blackout, BankAmerica's customers were still able to make transactions inside its branches, a spokesman said.

"When you have a power outage and one service delivery channel is affected, it demonstrates the value of our other services," he observed. "At the height of the blackout, probably 180 of 300 ATMs were out of service. By about 1 p.m., the number of ATMs not operational fell to 70, and by mid-afternoon everything was back to normal," the spokesman said. BI

Petronius

Continued from page 2

barge owned by J. Ray McDermott S.A., a New Orleans company handling the placement of the modules onto the platform. There were several minor injuries to workers, the most serious of which was a fractured ankle.

A spokesman for McDermott said no determination has been made as to why the accident occurred, and he would not comment on reports that a cable holding the deck snapped. He said the company's barge is being inspected and that the extent of damage to it "won't be known until the inspection is completed."

The deck module was the second of two to be placed on the Petronius platform. The first, which houses power and other equipment, was already in place when the accident occurred.

The Texaco spokesman said the module that plunged into the water was worth just under half the $142 million total value of both modules.

There is coverage in place that will pay to salvage or rebuild the deck, according to the Texaco spokesman. "It is insured. It's covered by a commercial builders risk policy," he said, but could not provide details of the coverage.

Sources in the London insurance market confirmed that some coverage for the loss is placed at Lloyd's and in the London company market.

The oil platform Petronius will cost around $500 million to build and will stand 2,000 feet above the ocean floor, which will make it the world's tallest self-supporting structure, according to the Texaco spokesman.

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Sarah Goddard contributed to this report.

Aetna

Continued from page 1

acquisition of New York Life Insurance Co.'s health care unit (*BI*, March 23). The Prudential deal will be financed through fixed-income securities.

"Aetna just simply couldn't pass it up," said Michael Taylor, a Boston-based principal and national consultant on managed care delivery systems for Towers Perrin. "The price per member is considerably less than they've paid for other acquisitions." Analysts calculate that Aetna's purchase price comes out to about $200 per Prudential member, which is considerably less on a per member basis than its earlier acquisitions of U.S. Healthcare and NYLCare.

A spokesman for Prudential said the company is very pleased with the sale and that the company is eager to reallocate resources to strengthen its insurance and financial service operations.

In an environment where deep pockets are needed to fund operations, Aetna's latest venture also puts to rest rumors and uncertainty about Prudential HealthCare's future.

As insurers integrate more financial services into client offerings, "being a managed care provider was a drag on Pru," said Barry Barnett, a principal with PwC Kwasha in Fort Lee, N.J. "The question became in Pru's eyes, were they going to make the investment to become a major player. It's purely driven by business need."

"You can't be in health care half-heartedly," said Don Gasparro, managing director of The Apex Management Group in Princeton, N.J. "In order to play in this business, you need to build the number of lives under management aggressively."

Once word was out that Prudential was about to be spun off or sold to another competitor, Prudential struggled with retention of membership, said Richard Sinni, New York group and health practice leader for Watson Wyatt Worldwide. "They had to be sold to go forward and survive," he said, noting he will be interested to see what happens to the management of Prudential.

Both companies say it is too early to predict management integration.

Consultants are hoping Aetna U.S. Healthcare has learned how to correctly handle mergers and acquisitions from its problem-fraught integration with U.S. Healthcare Inc. in April 1996 and further from the work-in-progress from the acquisition of NYLCare earlier this year.

After these experiences, Aetna has "got this down to a science," said Mr. Gasparro. And because Prudential has made no secret about the intent to divest itself from the health care industry, it most likely has been isolating its health care operation from other operations, which could make for an easier integration.

An Aetna spokeswoman agrees. She said "it took a lot longer to digest" U.S. Healthcare because the new company had to consolidate service centers. But Prudential had already consolidated its 40 service centers into four locations prior to the acquisition.

"There should be considerably less disruption than last time," she said, adding that Aetna is taking a slower, two-year integration approach of the Prudential HealthCare business. Most of the integration is expected to be completed by 2001.

"I am confident that (Aetna) has learned from the U.S. Healthcare integration and that they will apply this learning to this integration," said Bob Braddick, a consultant with William M. Mercer Inc. in New York.

John Erb says further consolidation is nationalizing health care delivery. 'It's the Clinton plan in spades.'

Mr. Braddick said he doesn't think the Prudential HealthCare purchase was premature in terms of Aetna's ability to integrate. This acquisition puts the combined entity in a more dominant position in the marketplace, he said, and Aetna may have felt it could have lost out on the Prudential deal to another competitor, such as Humana, which was rumored as the most likely buyer prior to the Aetna announcement.

Towers Perrin's Mr. Taylor acknowledged that Humana and Prudential were negotiating, but their efforts were stumbling over the price. "I think Aetna basically trumped (Humana)," he said.

If Aetna U.S. Healthcare did learn from its experiences, these lessons could equate to what Michael Lichman views as quality care at a better price, but not if the market deteriorates into a two-party system, which could lead to poor customer service and non-competitive rates.

"I believe both sides are possible," said Mr. Lichman, a senior vp and New York regional benefits practice leader for Willis Corroon Corp. in New York. "I'll be watching this very closely."

When comparing Aetna's recent acquisition of NYLCare and the Prudential deal, Mr. Taylor said: "(Prudential) is probably a better deal in terms of the scale, but I think NYLCare has turned out to be a nice surprise for Aetna. I'm not sure they're going to find that at Pru."

While he expects the acquisition has given Prudential customers relief at knowing their future, Mr. Taylor said physicians and employers may be less than enthusiastic. "Employers will lose their leverage with Aetna. There will be some considerable backlash from physicians."

John Erb, area vp for the benefit consulting arm of Arthur J. Gallagher & Co. in Boca Raton, Fla., was "horrified" at the news of the acquisition. "While some people may see this as a good thing, people in the local communities probably don't," he said, adding that health care is a local trade, and further consolidation is nationalizing health care delivery. "It's the Clinton plan in spades."

PwC Kwasha's Mr. Barnett also wonders how Aetna plans to handle the small and midsize business sector that Prudential has nourished. Aetna previously had pursued business from larger employers.

Employers with 50 to 1,000 lives to insure should be wondering, "as a small employer, how are they going to treat me?" Mr. Barnett said. Prudential customers may also notice a difference in Aetna management. "They typically want to do it the Aetna way."

But the Aetna spokeswoman said the company has already proved that it values and intends to keep small-employer business.

"To some extent, we've already been successful dealing with smaller and midsize clients with the acquisition of NYLCare," she said, adding that the U.S. Healthcare merger also gave Aetna some experience with smaller employers. "We see ourselves as able to serve small and midsize customers very effectively."

Mike Pikelny, corporate actuary and employee benefits consultant for Chicago-based apparel manufacturer Hartmarx, said he is troubled by less competition in the health care industry. "The concern is rates will go up because there's not many other places to get quotes from."

But Todd Richter, a health care analyst for Morgan Stanley Dean Witter in New York, said plenty of competition still exists, and combining the entities shouldn't alarm employers.

"I don't think this has any impact on employers because health care premiums are going up (regardless)," said Mr. Richter.

Karen King, director of benefit operations for Marriott International Inc. in Washington, said she hopes the acquisition won't cause Marriott much disruption. Currently, 20% of Marriott's HMOs are Prudential and 9% are Aetna.

"I'm hoping that they will join together and build a better infrastructure that will benefit both organizations, but that is to be seen," said Ms. King. She said the acquisition's impact on rates could make negotiations in a consolidated industry more challenging, but "they're not the only game in town."

But this acquisition has made clear Aetna's strategic plan. "Aetna may be one of the companies that can figure out this business," said Mr. Lichman. "I think Aetna's making a very strong statement that they are in this for the long haul."

On Dec. 10, Oldwick, N.J.-based A.M. Best Co. affirmed the ratings of Aetna Inc. subsidiaries, most of which were rated A or A-, or excellent. BI

Updates

Reliance adds online programs

NEW YORK—Reliance Group Holdings Inc. is following a successful online workers compensation insurance offering with two other Internet insurance programs.

Express Surety, Reliance's World Wide Web-based system, will streamline the distribution of commercial bonds for small accounts. Another program will allow 180,000 members of a trade association—not yet identified by Reliance—to purchase professional liability insurance.

The new offerings, still under development, follow last year's launch of Reliance's CyberComp product, which allows agents to receive workers comp quotes and to bind coverage over the Internet.

CyberComp is expected to generate more than $100 million in gross premiums this year, after recording $60.3 million in the first nine months. The program produced gross writings of $31.5 million in 1997.

Express Surety will be available to service commercial accounts with bond requirements of less than $100,000. It will specialize in providing license and permit bonds, probate and public official bonds and fidelity bonds. The program, written by Reliance Surety Co., currently accepts fax submissions from agents.

The professional liability program, written by Reliance National Insurance Co., is in the testing phase; association members should be able to submit underwriting information and renew coverage electronically beginning next year.

Waste Management settles suit

HOUSTON—Waste Management Inc. and its independent auditor, Arthur Andersen L.L.P., last week settled a class-action lawsuit brought on behalf of the waste disposal giant's shareholders and agreed to contribute to a $220 million settlement fund.

Waste Management said it expects to record an aftertax charge in the fourth quarter of approximately $70 million to cover its share of the settlement, but declined to discuss insurance coverage. An Arthur Andersen spokeswoman would not comment about its share of the settlement, but did confirm that it has adequate insurance to cover it.

In addition to Waste Management and Arthur Andersen, certain former Waste Management directors and officers also were named in the suit. The Waste Management spokeswoman said there are other contributors to the settlement fund, but she declined to name them.

In February, Waste Management announced that it was restating its earnings for 1992 through the first three quarters of 1997. It would take a $3.5 billion pretax charge to its fourth quarter 1997 earnings to cover the adjustments and restatements.

As part of the shareholder settlement, all those who purchased Waste Management stock between Nov. 3, 1994, and Feb. 24, 1998, are eligible for compensation.

The agreement is subject to various conditions, including preliminary approval by Judge Wayne R. Andersen of the U.S. District Court for the Northern District of Illinois.

Since the shareholder suits were brought, Waste Management was acquired by USA Waste Services Inc. and moved to Houston from Oak Brook, Ill. The merged company is now known as Waste Management Holdings Inc.

MRM buys Bermuda manager

HAMILTON, Bermuda—International Advisory Services Ltd. will continue to operate as an independent unit after the purchase of the captive manager by Mutual Risk Management Ltd. for an undisclosed sum last month.

Both organizations have captive management and rent-a-captive facilities, but the operating units will not be merged, said David Ezekiel, president of IAS.

"We both have groups of clients and agents that are comfortable with one or the other company so we felt it was best to keep IAS as a separate entity," he said.

IAS was the biggest independent captive manager on Bermuda and third biggest overall with $1.05 billion in premium volume in 1997. MRM's captive management unit had a 1997 premium volume of $223 million. Based on 1997 figures the combined units would still rank third behind J&H Marsh McLennan Management (Bermuda) and Aon Insurance Managers (Bermuda) Ltd.

IAS' operations generated $8 million to $9 million in gross revenues in 1998, Mr. Ezekiel said.

IAS was owned by Mr. Ezekiel and executive vps David Pickering and Terry Power.

Briefly noted

Michael E. Satz last week resigned his positions as chairman, chief executive officer and president of **Capital Re Corp.** of New York. The financial guarantee reinsurer's board named Jerome F. Jurschak chairman and CEO and Joseph W. Swain president and chief operating officer. Capital Re said Mr. Satz left to "pursue other interests." Mr. Jurschak most recently was executive vp and chief underwriting officer, and Mr. Swain also was an executive vp. . . . **Wilbur Anthony Huff** will not appeal a Kentucky insurance regulator's order that stripped the former agency and trucking association executive of his agent's license. Insurance Commissioner George Nichols III found that Mr. Huff misappropriated nearly $5.7 million of insurance premiums and premium financing proceeds (*BI*, Nov. 16). . . . The relocation of **RISKWeb, now called RISKMail**, from Ins-Web Corp. to Louisiana State University was completed last week. While subscribers of the popular electronic mailing list discussion forum for risk managers did not suffer a service interruption during the move, visitors to the list's World Wide Web site no longer will have access to the list's archived discussions. . . . A **shareholders class action suit** was filed in Delaware's Court of Chancery last week against TIG Holdings Inc., its directors, and Fairfax Financial Holdings Ltd. alleging that Fairfax paid too little for TIG. The suit alleges that the purchase price of $840 million was 28% below TIG's $1.16 billion book value.

NAIC

Continued from page 1

Joining the AIA were the Alliance of American Insurers, the National Assn. of Independent Insurers and the National Assn. of Mutual Insurance Cos. (*BI*, Dec. 7).

Outgoing NAIC President Glenn Pomeroy, who chaired the Industry Liaison Committee meeting, strongly objected to what he called the "harsh rhetoric" in the "one-sided" memo and refused to grant the insurers' request for a public hearing.

Mr. Pomeroy instead referred the memo to the NAIC's Property/Casualty Insurance Committee for review. Backing that action was George Reider Jr. of Connecticut, who succeeds Mr. Pomeroy as president of the regulatory organization.

"I don't blame Mr. Pomeroy for his response to the wording that was used," conceded Donald S. Cleasby, assistant general counsel for the NAII. "However, I hope that the purpose of the message and its intent hasn't been obscured by the choice of words used in the memo," he said.

That hope appeared to be answered by the end of the five-day meeting.

A general consensus emerged among industry group representatives that the Commercial Lines Re-engineering Working Group, which is charged with drafting a new model rating law that will combine rate and form filing, would be open to considering their proposals.

The working group is "off to a constructive start" and is welcoming suggestions, David Eley, chairman of the working group, said in a report on the last day of the meeting. The working group is part of a broader NAIC committee charged with drafting a model law based on a white paper to reform commercial lines regulation (*BI*, March 23).

"I think we can come up with a bill that fully meets the spirit of the white paper," predicted Mr. Eley, who also is senior policy adviser in the Texas Insurance Department.

The proposed model law for rates and forms is expected to give insurance commissioners "both the authority and the charge to recognize the effectiveness of competition as a means to regulate rates," according to the assignment given to the working group.

The new model law also is expected to "provide the authority and the charge to recognize situations where the benefits of filing and/or prior approval of forms are outweighed by the burden and costs these review procedures place upon commercial lines insurers and insureds."

In addition, flexibility in the law should allow for different rate and form requirements for different types and sizes of policyholders and different lines and classes of business, according the working group's assignment.

While insurance groups are encouraged by the flexibility inherent in the drafters' assignment, they were concerned following a November conference call among regulators drafting the model law (*BI*, Dec. 7).

Several industry representatives concluded from drafters' comments during the conference call that they were approaching their assignment with traditional regulatory thinking, rather than in the spirit of deregulation.

Specifically, drafters indicated a basic preference for a "file-and-use" approach to rate regulation, where an insurer must file its proposed rates before it can use them. Some regulators during the conference call also recommended a prior-approval approach for forms.

Anne Flanagan, director of state affairs for the Council of Insurance Agents & Brokers, said: "I was very discouraged about where these processes were going after that interim conference call."

However, she said she was "encouraged" by Mr. Eley's remarks at the NAIC meeting. "The spirit of the white paper may still be there," Ms. Flanagan said.

By the end of the NAIC's winter meeting, the AIA's Mr. Lovendusky said he regretted the "unnecessary rhetorical baggage" in the insurer groups' memorandum and was "grateful" that regulators saw beyond that.

He added, "I'm very encourged" that Mr. Eley's drafting group "seemed to impress on people to think imaginatively about rate and form regulation."

Mr. Eley said the working group's plan for drafting a new model rate and form law is to review a first exposure draft at the NAIC's March 6-10 meeting, which will require two conference calls among regulators early next year. He said he wants the model law to be completed by the end of 1999.

The only concrete change in a rough draft of the proposed model that the working group made at last week's meeting was to move specific criteria for determining an "exempt commercial policyholder" under the model into companion regulation.

Leaving the criteria in the model law itself would invite unnecessary legislative debate over the definition, suggested drafter Alan Wickman, administrator of the actuarial division of the Nebraska Insurance Department.

In other action at the meeting, state regulators:

• Elected new NAIC officers, including Mr. Reider of Connecticut as president; George Nichols III of Kentucky as vice president; and Kathleen Sebelius of Kansas as secretary-treasurer.

• Learned that the National Council on Compensation Insurance plans to "vigorously" protest a recent decision of the Arizona State Procurement Office to award a multiyear contract to be the state's designated statistical agent to Insurance Data Resources Inc. instead of the NCCI.

It was the first such state designation awarded since Boca Raton, Fla.-based IDR was acquired by the Insurance Services Office Inc. in New York (*BI*, Nov. 16), though the filing of bids pre-dated the merger.

NCCI claims it was both the low bidder and, under Arizona's own rating system, the highest-rated contender for the contract.

In related action, NAIC regulators are studying the appropriate role of multiple rating and statistical organizations as a consequence of increased competition in the field.

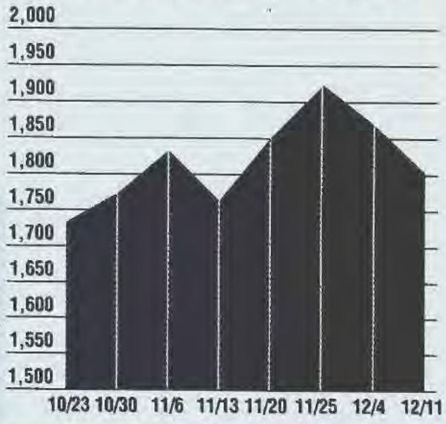
• Adopted a white paper on mutual insurance holding company reorganizations, which includes guidelines for regulatory review and approval of demutualization proposals.

Currently, 21 states and the District of Columbia have passed legislation enabling a mutual insurer to reorganize as a stock company.

• Awarded second-round accreditation certificates to 11 states: California, Delaware, Florida, Georgia, Louisiana, Massachusetts, Oregon, Rhode Island, Utah, Wisconsin and Wyoming. BI

'I'm very encouraged' that Mr. Eley's drafting group 'seemed to impress on people to think imaginatively about rate and form regulation,' says Michael Lovendusky.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Dec. 11

Call spread	Price bid/ask
National Annual 1998	
60/80	8.0/—
80/100C	—/1.2
National December 1998	
10/20	—
20/40	—
Eastern September 1999	
40/60	1.5/—
Southeastern September 1999	
40/60	1.2/—

Call spread	Price bid/ask
National Annual 1999	
40/60	9.2/15.0
60/80	5.0/12.0
100/120	2.0/—
150C	4.0/6.0
Western Annual 1999	
40/60	—
80/100	0.5/2.0
Midwest June 1999	
10/20	1.0/1.4

Total volume: 0 Total open interest: 16,215

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	340	5.3	13.4	4.0	495-227
Legal & Gen	727	21.0	13.3	2.3	796-473
Royal & Sun	476	14.3	23.6	4.8	825-437
Brokers					
Lmbrt Fenchurch	79	9.6	4.2	6.8	121-79
JLT	198	12.1	10.5	6.6	236-152
Sedgwick Grp	225	—	7.0	3.1	226-124

Note: Prices are Dec. 11 closings; other numbers from Dec. 10.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

BI Industry Stock Report DEC. 7, 1998, THROUGH DEC. 11, 1998

		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
BROKERS							
Aon Corp.	NYS	56.31	-0.88	-3.94	75.56	48.25	1450
E.W. Blanch Holdings Inc.	NYS	42.00	4.19	21.96	42.00	33.00	65
Gallagher Arthur J. & Co.	NYS	45.88	1.80	33.21	46.75	33.56	180
Hilb, Rogal & Hamilton	NYS	18.81	-0.33	-2.59	19.63	15.38	36
Kaye Group Inc.	NDQ	6.88	0.00	3.77	7.81	5.13	7
Marsh & McLennan	NYS	56.38	-2.80	13.41	64.31	43.38	1984
Poe & Brown	NYS	35.13	-3.10	18.07	42.50	27.38	21
Sedgwick Group PLC	NYS	18.25	-2.99	48.22	19.50	10.63	3
BROKERS	AVERAGE		-0.46	19.44			
INSURERS/REINSURERS							
ACE Ltd.	NYS	28.44	-9.72	-11.59	43.00	24.38	2305
Accel International Corp.	NDQ	3.00	0.00	-17.24	3.75	2.13	2
Acceptance Insurance Cos.	NYS	17.75	-5.33	-26.61	25.75	17.19	245
AEGON N.V.	NYS	110.38	2.91	146.30	112.19	42.94	203
Aetna Life & Casualty	NYS	78.13	-1.81	10.72	89.38	60.19	4825
AFLAC Inc.	NYS	38.69	-3.28	51.34	42.19	22.69	2313
Allmerica Financial Corp.	NYS	54.88	0.80	9.89	75.25	38.38	865
Allstate Corp.	NYS	38.88	-7.30	-14.09	52.38	36.06	10330
AMBAC Indemnity Corp.	NYS	54.56	-9.72	18.61	65.94	40.88	1473
American Bankers Ins.	NDQ	43.00	-2.13	-6.39	66.06	30.13	1598
American Financial Group	NYS	38.06	-0.16	-5.58	45.75	30.50	224
American General	NYS	69.81	-4.04	29.13	75.69	52.31	1992
American Heritage Life Ins.	NYS	24.13	-8.31	34.03	26.69	17.06	75
American Indemnity/Fin'l	NDQ	11.13	-4.30	-19.82	15.38	9.50	4
American International	NYS	90.44	-4.05	24.74	102.38	64.88	5931
American Safety Insurance	NDQ	9.00	4.35	-26.90	15.06	6.75	35
Argonaut Group	NDQ	24.63	-5.97	-27.31	37.50	21.25	120
AXA-UAP Group	NYS	62.38	-2.54	59.94	71.25	36.19	133
Baldwin & Lyons Inc.	NDQ	25.00	11.11	3.63	28.00	18.50	4
Berkley W.R. Corp.	NDQ	34.63	-2.12	-21.08	49.88	25.25	299
Berkshire Hathaway Inc.	NYS	60800.00	-8.98	32.17	84000.00	44800.00	1
Capital RE Corporation	NYS	20.06	-4.46	-35.35	38.69	14.75	724
Capitol Transamerica Corp.	NAS	17.25	-3.83	-19.06	23.50	15.00	17
Centris Group Inc.	NYS	9.44	-6.79	-15.41	14.81	7.94	176
Chartwell Re	NYS	29.63	2.82	-12.22	34.63	21.94	91
Chubb Corp.	NYS	68.00	-5.72	-10.08	88.81	55.38	4145
CIGNA Corp.	NYS	75.38	-4.96	31.18	82.38	51.94	2436
Cincinnati Financial Corp.	NAS	35.50	-9.77	-24.34	47.13	30.50	944
Citigroup	NYS	47.63	-3.91	-11.60	73.50	28.50	37764
CNA Financial Corp.	NYS	38.75	-6.34	-9.00	53.25	34.50	433
CNA Surety	NYS	13.88	-1.77	-10.12	16.75	12.56	137
EMC Insurance Group Inc.	NDQ	12.50	0.00	-5.66	15.88	9.00	26
ESG Re Limited	NDQ	19.75	-3.07	-15.96	28.88	12.75	543
Enhance Financial Services	NYS	27.75	2.30	-6.72	37.56	17.31	1087
Everest Reinsurance	NYS	33.88	-5.90	-17.88	45.25	28.75	685
Executive Risk Inc.	NYS	52.56	-3.56	-24.71	75.75	35.50	138
EXEL Ltd.	NYS	73.06	-1.10	15.29	83.25	61.56	684
Fremont General Corp.	NYS	23.19	-6.08	-15.30	124.25	23.19	496
Frontier Insurance Group	NYS	12.69	-10.18	-44.54	25.69	12.19	668
Gainsco Inc.	NYS	6.00	-9.43	-29.41	10.00	5.75	267
General RE Corp.	NYS	210.19	-9.40	-0.85	275.00	193.50	1880
Gryphon Holdings	NDQ	18.50	-0.67	10.45	19.38	11.38	18
Harleysville Group	NDQ	21.38	-3.93	-10.94	28.50	17.25	150
Hartford Steam Boiler	NYS	39.88	-1.85	8.38	59.56	34.75	407
HCC Insurance Holdings	NYS	18.63	-1.32	-12.35	23.94	15.63	537
ING Groep N.V.	NYS	56.00	-0.22	32.35	76.75	36.06	297
IPC Holdings Ltd.	NDQ	22.63	0.00	-29.71	33.25	19.00	147
Hartford Financial Services	NYS	54.94	0.57	17.43	60.00	37.63	2849
LaSalle Re Holdings Ltd.	NYS	23.19	-8.17	-34.45	42.94	19.50	150
Lincoln National	NYS	82.06	-4.02	5.04	98.88	67.00	1244
MAIC Holdings Inc.	NYS	32.00	6.00	19.47	32.00	23.94	263
Markel Corp.	NYS	179.00	2.87	14.65	187.00	132.00	12
MBIA Insurance Group	NYS	63.75	-1.64	-4.58	80.94	46.06	1450
Meadowbrook Insur. Group	NYS	16.38	5.65	-37.17	35.00	14.94	584
MMI Cos. Inc.	NYS	15.63	-4.21	-37.81	26.50	15.25	36
Mutual Risk Mgmt. Ltd.	NYS	35.88	-7.57	19.83	39.94	25.38	298
NAC Re Corp.	NYS	46.25	-4.15	-5.25	55.88	43.69	210
Navigators Group	NDQ	14.88	-0.83	-20.80	20.75	13.25	24
NYMagic Inc.	NYS	21.25	-0.29	-22.90	34.25	20.31	5
Ohio Casualty Corp.	NDQ	40.13	-0.62	-10.08	51.75	33.75	747
Old Republic Int'l	NYS	20.75	4.73	-16.30	32.25	17.94	2235
Orion Capital Corp.	NYS	38.06	-2.09	-18.03	59.25	28.00	410
Partner Re Ltd.	NYS	44.44	-0.70	-4.18	52.50	33.63	73
Penn-America Group Inc.	NYS	10.25	-4.09	-50.00	23.00	8.13	43
Pennsylvania Manufacturer's Co	NDQ	19.06	-2.87	13.81	23.75	16.25	28
Philadelphia Cons. Holding	NDQ	22.00	5.39	23.94	24.50	15.50	113
PXRE Corp.	NYS	22.50	-2.70	-32.20	35.25	21.50	161
Reliance Group Holdings	NYS	12.88	-1.90	-8.85	19.81	10.75	999
Reliastar Financial Corp.	NYS	43.50	-5.56	5.61	52.44	29.00	1673
RenaissanceRe Holdings Ltd.	NYS	38.19	-4.53	-13.46	50.75	36.88	183
Risk Capital Holdings	NDQ	21.00	2.44	-5.62	25.50	18.81	61
RLI Corp.	NYS	35.13	-2.94	-11.86	45.63	31.56	13
St. Paul Companies	NYS	35.06	-2.77	-14.55	47.19	28.06	2124
SCOR	NYS	61.31	-0.51	28.40	72.75	46.00	17
SAFECO Corp.	NDQ	40.75	-7.25	-16.41	56.00	38.25	3907
SCPIE Holdings Inc.	NYS	30.31	-2.02	4.75	38.38	26.63	NA
Seibels Bruce Group	NDQ	3.75	-7.69	-50.00	8.38	3.72	85
Selective Ins. Group	NDQ	19.88	-2.45	-26.39	29.25	16.69	174
Terra Nova Insurance Co. Ltd.	NYS	26.00	-7.96	-0.95	35.00	23.50	93
TIG Holdings	NYS	15.56	0.00	-53.11	34.38	11.63	4953
Tokio Marine & Fire	NDQ	56.00	-2.50	-3.03	61.38	39.00	65
Torchmark Corp.	NYS	36.38	-5.06	-13.78	49.81	31.81	1342
Transatlantic Holdings	NYS	75.50	-0.66	5.59	94.50	68.75	102
Travelers Property Casualty	NYS	30.13	-2.63	-31.53	46.06	24.13	1180
Trenwick Group Inc.	NDQ	31.38	-0.40	-16.61	41.75	26.75	207
Unico American Corp.	NDQ	11.13	0.00	-9.18	18.13	8.88	21
United Fire & Casualty	NDQ	36.13	-0.34	-18.36	46.00	32.13	8
Unitrin	NDQ	69.63	1.09	7.74	74.13	55.56	468
UNUM Corp.	NYS	55.13	2.44	1.38	59.63	41.75	3772
Vesta Insurance Co.	NYS	5.31	-1.16	-91.05	64.75	5.00	1023
Zenith National Ins.	NYS	23.75	-0.52	-7.77	30.50	23.00	100
INSURERS/REINSURERS	AVERAGE		-2.46	-5.44			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	11.75	-9.18	-47.19	32.63	5.88	3436
Humana Inc.	NYS	19.06	-2.87	-8.13	32.13	12.25	5074
Oxford Health Plans	NDQ	14.00	19.79	-10.04	21.75	5.81	24713
Pacificare Health Sys.	NDQ	70.38	-3.60	40.05	88.88	46.75	41
Safeguard Health Enter.	NDQ	4.94	2.60	-63.43	13.88	3.63	13
Sierra Health Services	NYS	22.00	-8.09	-1.86	27.63	15.88	532
United Healthcare Corp.	NYS	45.25	-3.21	-8.93	73.94	29.56	11262
Wellpoint Health Networks	NYS	83.25	-1.48	97.04	87.88	38.63	1123
HMOs	AVERAGE		-0.75	-0.31			
ALL COMPANIES	AVERAGE		-1.23	4.56			

Top advancing issues: Oxford Health Plans, Baldwin & Lyons Inc., MAIC Holdings Inc. Leading decliners: Frontier Insurance Group, Cincinnati Financial Corp., ACE Ltd. Most active issue: Citigroup. The *BI* index fell 3.5%; the Dow Jones 30 Industrials decreased 2.1%; the S&P 500 declined 0.8% and the NYSE Composite fell 1.5%. Average P/E: Brokers, 17.9; Insurers/reinsurers, 19.4; HMOs, 83.6.

Source: *Nordby International Inc.* (nordby.com), Boulder, Colo.

WITH OUR POLICYHOLDERS WE ARE ENGAGED IN A GREAT MUTUAL ENTERPRISE. IT IS GREAT BECAUSE IT SEEKS TO PREVENT CRIPPLING INJURIES AND DEATH BY REMOVING THE CAUSES OF HOME, HIGHWAY AND WORK ACCIDENTS. IT IS GREAT BECAUSE IT DEALS IN THE RELIEF OF PAIN AND SORROW AND FEAR AND LOSS. IT IS GREAT BECAUSE IT WORKS TO PRESERVE AND PROTECT THE THINGS PEOPLE EARN AND BUILD AND OWN AND CHERISH. ITS TRUE GREATNESS WILL BE MEASURED BY OUR POWER TO HELP PEOPLE LIVE SAFER, MORE SECURE LIVES.

Liberty Mutual is committed to reducing the impact of low back pain, so someone like Joe won't miss work, or the occasional piggyback ride with daughter Lisa. At our research center we analyze how variations in bending habits can affect the risk of low back pain. Our research has led to innovative products like Computask,™ a software program we use to evaluate workplace tasks and help recommend ways to ensure that Joe and daughter Lisa live safer, more secure lives.

➢ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at http://www.libertymutual.com*

LIBERTY MUTUAL.

The freedom of Liberty

WITH OUR POLICYHOLDERS WE ARE ENGAGED IN A GREAT MUTUAL ENTERPRISE. IT IS GREAT BECAUSE IT SEEKS TO PREVENT CRIPPLING INJURIES AND DEATH BY REMOVING THE CAUSES OF HOME, HIGHWAY AND WORK ACCIDENTS. IT IS GREAT BECAUSE IT DEALS IN THE RELIEF OF PAIN AND SORROW AND FEAR AND LOSS. IT IS GREAT BECAUSE IT WORKS TO PRESERVE AND PROTECT THE THINGS PEOPLE EARN AND BUILD AND OWN AND CHERISH. ITS TRUE GREATNESS WILL BE MEASURED BY OUR POWER TO HELP PEOPLE LIVE SAFER, MORE SECURE LIVES.