

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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House Ways and Means votes to scrap Medicare data bank

WASHINGTON—The House Ways and Means Committee last week approved legislation, H.R. 2685, that would repeal a 1993 federal law that requires employers to file health care coverage enrollment information with a federal government data bank.

Under the 1993 law, whose implementation Congress earlier voted to delay until next year (*BI*, Oct. 3, 1994), employers will be required to file the names of employees and dependents, their Social Security numbers and the health plans they were enrolled

See Updates on next page

Consolidation continues

Aetna, Travelers deal to create a new property/casualty leader

By JUDY GREENWALD

HARTFORD, Conn.—Travelers Corp.'s offer to acquire Aetna Life & Casualty Co.'s property/casualty operations for \$4 billion in cash is expected to strengthen both companies and fuel additional mergers and acquisitions in the insurance industry.

The new holding company that Travelers will form to include both insurers' property/casualty operations will immediately vault to the No. 3 spot among U.S. commercial lines insurers—behind American International Group Inc. and CNA Insurance Cos.—based on combined direct written premiums of \$7.4 billion, according to A.M. Best Co. 1994 statistics. Of that, Aetna wrote \$4.1 billion and Travelers wrote \$3.3 billion.

The company would also become the fourth-largest domestic property/casualty insurer based on direct premiums writ-

ten of nearly \$10 billion, behind State Farm Group, Allstate Insurance Co. and CNA. Of the nearly \$10 billion, Aetna wrote \$5.25 billion.

The transaction, which is subject to regulatory approval, is expected to close by the end of March 1996. Robert I. Lipp, vice chairman of Travelers, will be chairman and CEO of the new holding company.

Travelers emerged from a group of several potential buyers, including CNA and New York-based leveraged buyout specialists Kohlberg Kravis Roberts & Co., that were interested in acquiring Aetna's property/casualty business (*BI*, Nov. 13). Its \$4 billion purchase price, while slightly more than book value, is described by most observers as reasonable.

To help finance the transaction, the new company expects to raise about \$900 million in preferred stock and about \$1.5 billion of senior debt through

See Aetna on page 69



GRAPHIC BY JERRY PARKS

CIGNA argues for reorganization

By DAVE LENCKUS

HARRISBURG, Pa.—Assurances by CIGNA Corp. officials that the insurer plans to embrace—not dump—its long-tail liabilities under its plan to split into active and runoff insurance operations leaves opponents of the plan still clamoring for proof.

If they do not get the information they seek and the plan is approved, opponents intend to press their objections in court, which they hope would prevent CIGNA from implementing the plan at

least until after a court ruling.

CIGNA representatives and various consultants testified during a Pennsylvania Insurance Department hearing last week that "unprecedented" research and analysis shows that CIGNA's reserve-strengthening and reorganization plan



Commissioner Kaiser

would provide all policyholders—especially those with environmental and asbestos claims—better protection than they would have if the department scuttles the plan.

To fully appreciate how well the plan protects all CIGNA policyholders, several CIGNA witnesses said, the independent actuarial review that the insurance department commissioned Tillinghast to conduct must be studied.

"That's precisely the point we've been making since we filed

See CIGNA on page 70

Blues focus of federal suit

Insurers targeted for provider discounts

By ROBERT KAZEL

BOSTON—The federal government is increasing the pressure on health insurers to pass on to health plan sponsors and beneficiaries savings from negotiated discounts with providers.

The U.S. Labor Department late last month filed suit against Blue Cross & Blue Shield of Massachusetts, saying all Blues plans—and other health insurers—will be investigated for failing to pass through savings from discounting.

Although several suits brought by consumers have challenged discounting by Blues plans (*BI*, Nov. 13), the federal action represents a big acceleration of government intervention in this area.

The Labor Department said it has been studying the practices of

Blue Cross & Blue Shield of Massachusetts since 1992. It filed suit against the Boston-based insurer on Nov. 20 in U.S. District Court in Boston because the company refused to voluntarily refund approximately \$180 million in disputed fees to plan sponsors and beneficiaries, despite being told last January that refunds were appropriate, said Sherwin Kaplan, deputy associate solicitor with the Labor Department in Washington.

Efforts to settle the dispute were "going nowhere," he said.

Several other insurers have reached agreements with federal investigators to refund discounts. None went to court, except for a case against Memphis, Tenn.-based Blue Cross & Blue Shield of Memphis, which was settled for

See Blues on page 61

Benefit costs dip for many employers

Medical costs drive decline: Study

By JERRY GEISEL

After decades on an upward trajectory, benefit costs are finally falling.

Last year, employers' average total benefit costs—including medical and pension programs—fell 0.8% to \$14,678 per employee from \$14,807 in 1993, according to a new U.S. Chamber of Commerce survey of more than 900 employers.

Though only a slight drop, that decrease was the first in the nearly five decades that the Chamber has been doing surveys.

Benefit costs as a percentage of payroll also declined, falling to 40.7% from 41.3%.

The reason for the decline is straightforward. While health care costs have been the chief culprit in the decades-long upward march of benefit costs, the change in the health care market—with premiums flat or even falling—now is the sole reason that benefit costs have shifted downward.

Last year, employers' average medical plan costs for employees fell 9.5% to \$2,579 from \$2,851 in 1993.

That finding mirrors data from other surveys. For example, A. Foster Higgins & Co. Inc. reported earlier this year that group health care plan costs—a broader measure than that used by the Chamber—fell by an average of 1.1% in 1994 (*BI*, Feb. 13).

After decades of seemingly automatic increases in benefit costs, last year's decline "is good news for employers," said Martin Lefkowitz, the Chamber's director of special projects in Washington.

The fall in health care costs comes as employers continue to move away from expensive traditional indemnity plans toward less costly managed care programs.

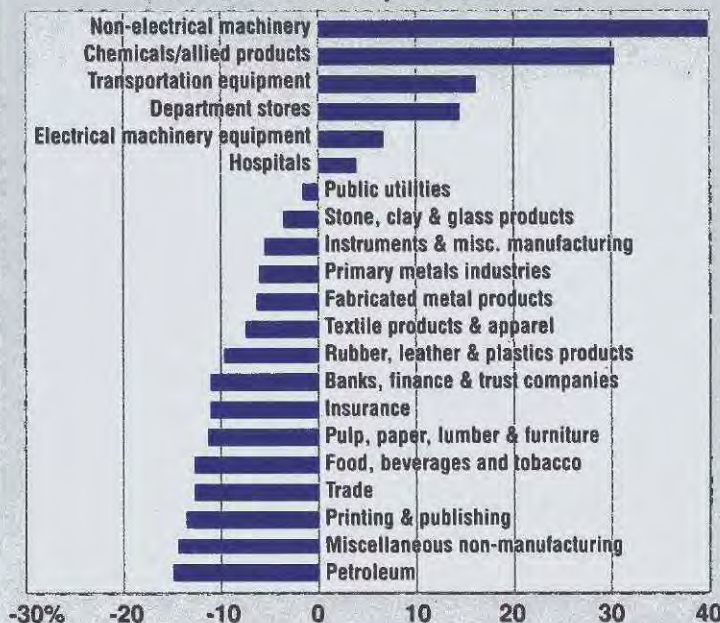
Last year, 63% of the surveyed employers that had health plans said they offered a health maintenance organization, up from 52% in 1992, while 57% said they offered a preferred provider organization, up from 46% in 1992. During the same two-year period, the number of employers offering traditional indemnity plans declined to 68% from 77%.

With managed care companies competing fiercely for market

See Benefits on page 57

Driving the overall decrease

Health costs fell in many industries in 1994.



Source: U.S. Chamber of Commerce

GRAPHIC BY KIM ROME

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Directory of R/MIS Vendors
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Updates

Bill would repeal data bank law

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in during the year with the Health Care Financing Administration. HCFA, in turn, intends to use the information to spot claims, such as those of workers who stay on the job after 65, that employers—not Medicare—are supposed to pay.

But, employers say much of the information will be useless to the government. And obtaining the data, especially dependents' Social Security numbers, can be difficult to obtain.

The repeal legislation, introduced by Rep. William Thomas, R-Calif., now goes to the full House.

Maine sued over comp reform

AUGUSTA, Maine—The Alliance of American Insurers is seeking to have Maine's Workers Compensation Residual Market Deficit Resolution and Recovery Act declared unconstitutional.

The Schaumburg, Ill.-based Alliance filed a suit against the act in Kennebec County Superior Court in Augusta, Maine, on Friday. The suit charges that the act violates constitutional due process protections because insurers that write little or no workers comp insurance in Maine will be required to pay special assessments to retire a residual market deficit that could run as high as \$300 million for the years 1988 through 1992 (BI, Oct. 9; July 3).

The suit also seeks to overturn a provision in the act that requires the state's guaranty fund to contribute \$45 million to help reduce the residual market pool's deficit.

"If this law is allowed to stand, policymakers in other states will be tempted to raid these policyholder cushions against insolvency anytime a residual market mechanism experiences deficit problems. If that occurs, the safety net for insurer insolvencies could be severely weakened or even destroyed," said Alliance President Rodger Lawson.

Maine enacted comprehensive reforms of its troubled workers comp system last year (BI, Jan. 9).

Pension funding improves

WASHINGTON—Buoyed by rising interest rates, pension plan underfunding has fallen for the first time in more than a decade.

Last year, the nation's 10,000 underfunded pension plans insured by the Pension Benefit Guaranty Corp. had \$31 billion in promised but unfunded benefits. That's a steep decline from 1993, when 14,000 underfunded plans had \$71 billion in unfunded benefits. Underfunded plans in 1994 had \$211 billion in assets and \$242 billion in liabilities.

Underfunding fell in large part due to different interest rate assumptions. In valuing 1994 liabilities, the PBGC used a 7.15% interest rate assumption, compared with 5.65% in 1993. Small changes in interest rate assumptions significantly affect the size of pension liabilities.

But employers also plowed more money into their plans. The PBGC estimates that employers put \$12 billion more in their pension plans than was legally required, partly to reduce taxable income.

The universe of single-employer plans insured by the PBGC—not just underfunded plans—had \$987 billion in assets in 1994 and \$853 billion in liabilities.

United HealthCare to buy HMO

MINNEAPOLIS—United HealthCare Corp. will pay about \$140 million in stock to acquire PHP Inc., a Greensboro, N.C.-based HMO with 117,000 members.

The acquisition of PHP, announced last week, will bring about \$150 million in new revenues next year to the Minneapolis-based managed care company. UHC's 1995 revenues are estimated at \$4.5 billion.

PHP could enroll as many as 190,000 people who were part of MetaHealth, the group health joint venture of Travelers Corp. and Metropolitan Life Insurance Co. that UHC acquired earlier this year (BI, June 26), but who had no access to managed care services.

PHP has more than 3,000 providers and 45 hospitals in its network. It also will cover Medicaid and Medicare recipients.

N.J. proposes HMO reforms

TRENTON, N.J.—With enrollment in health maintenance organizations headed toward the 2 million mark, New Jersey is proposing to overhaul its 21-year-old HMO regulations.

Last month, New Jersey Health Commissioner Len Fishman proposed proposed changes that include: requiring HMOs to be recertified every three years by the Health Department; permitting only physicians to deny or limit care; and requiring HMOs to have reserves equal to at least two months of claims.

With more than 1.4 million people enrolled in New Jersey's 26 certified HMOs, and with enrollment expected to top 2 million by 1997, the state said a "dynamic competitive health care system" necessitated the review and overhaul of the HMO regulations.

Other proposals include: precluding HMOs from penalizing physicians who advocate extensive treatment on behalf of patients; requiring HMOs to have a registered nurse available at all times to authorize services; requiring HMOs to provide quality outcome measures; and having the health department produce a consumer guide to HMOs.

An HMO advisory committee including representatives from HMOs, hospitals, doctors, civic associations, business and labor are reviewing the proposals. Final adoption of the regulations is expected in May.

See Updates on page 70

Errors & omissions

• A listing for Reliance National Insurance Co. was omitted from the Nov. 6 directory of international property/casualty insurers. A full listing appears on page 60.

Finding missing persons

PBGC to help find participants of more terminated plans

By SALLY ROBERTS

WASHINGTON—Pension plan administrators terminating fully funded defined benefit plans can turn to the Pension Benefit Guaranty Corp. for help in locating and disbursing the benefits of missing plan participants starting Jan 1.

While the government agency already has a locator program in place for people due pensions from underfunded defined benefit plans it has taken over, the Retirement Protection Act of 1994 au-

thorizes the PBGC to expand its locator service to fully funded terminated plans (BI, Aug. 14).

Late last week, the PBGC published its final regulations that establish the agency as the clearinghouse for missing plan participants in fully funded defined benefit plans and sets forth the rules for turning over pension benefits of a missing participant to the PBGC.

"We are pleased we were able to move quickly to eliminate a problem companies face in closing down fully funded plans," Martin

Slate, executive director of the PBGC, said in a release.

Before plan sponsors can terminate a fully funded plan, they must distribute—usually in the form of an annuity or lump-sum payment—the pensions owed to all plan participants. Not only is the task of locating all former employees who are due a pension a significant administrative burden, missing participants also can stymie the process of terminating the pension plan.

The PBGC estimates that about
See PBGC on page 71

HSI, Wellpoint deal on rocky ground

Dispute over control of merged HMO

By JOANNE WOJCIC

WOODLAND HILLS, Calif.—The WellPoint Health Networks Inc. and Health Systems International Inc. merger talks deteriorated further last week after one of the companies' top executives accused the other of attempting to oust him after the deal closed.

Malik M. Hasan, chairman, president and chief executive officer of HSI, charges that WellPoint and its parent, Blue Cross of California, "fraudulently represented" the duties he would perform after the merger of the two giant Woodland Hills, Calif.-based managed care companies. Under the agreement, Dr. Hasan would become chairman of the new entity.

Instead, WellPoint Chairman Leonard Schaeffer plans to assume those duties himself, Dr. Hasan charges.

But WellPoint maintains that it is Dr. Hasan who is attempting to seize control of the new entity, to be named UNICARE Health Systems. "This strategy of disinformation and intimidation, designed to advance the personal agenda of Dr. Hasan at the expense of HSI stockholders and the people of California, will not succeed," said a WellPoint spokesman.

"HSI is trying to gain through the media and threats of litigation what they failed to obtain in original negotiations. Well-

See Merger on page 70

Lowndes chief dies

Chairman Richard Shaw dead at 59

By STACY SHAPIRO

LONDON—Sir Robert Clark, non-executive deputy chairman of Lowndes Lambert Group Holdings P.L.C., has taken over as chairman of the broker following the sudden death late last month of Chairman and Chief Executive Richard Shaw.



Mr. Shaw

Sir Robert had been chairman of Hill Samuel Group P.L.C. from 1974 to 1988, when the company owned Lowndes Lambert. In addition, Lowndes

Lambert has named David Margrett group chief executive. He previously was group managing director

Mr. Shaw, 59, died of a heart attack at University College Hospital in London in the early hours of Nov. 24 after collapsing during a business dinner on Nov. 23.

Mr. Shaw led Lowndes Lambert as it grew to become the 15th-largest insurance brokerage in the world, based on gross revenues of £97.2 million (\$151 million) in 1994.

Mr. Shaw was headhunted to sort out Lowndes Lambert in 1979, after leaving broker C.E. Heath P.L.C., where he had been deputy chairman. Lowndes Lambert's gross revenues in 1980 were

See Shaw on page 57

Clinton cool to Senate's safety bill

Revisions sought in OSHA reforms

By MARK A. HOFMANN

WASHINGTON—The Clinton administration is calling for changes to Senate legislation to reform the Occupational Safety and Health Administration, even though many of the bill's provisions are part of the White House's campaign to "reinvent" government.

The measure—S. 1423, the Occupational Safety and Health Reform and Reinvention Act—would, among other things, require that at least 15% of OSHA budget be used for consultation and other non-enforcement activities; reduce penalties for non-serious violations; and call for the creation of voluntary protection programs under which employers with good safety records would be exempt from most inspections.

The reform legislation also would require OSHA to issue warnings, rather than citations, for violations that have "no significant relationship to employee safety or health."

S. 1423 was introduced late last month by Sens. Judd Gregg, R-N.H., Nancy Kassebaum, R-Kan., James Jeffords, R-Vt., Slade Gorton, R-Wash. and Sam Nunn, D-Ga. (BI, Nov. 27).

The Senate proposal falls short of the sweeping OSHA reforms contained in H.R. 1834—the Safety and Health Improvement and Regulatory Reform Act—introduced by Rep. Cass Ballenger, R-N.C. (BI, Oct. 9; June 19). The Ballenger measure would require that at least half of OSHA's budget be used for non-enforcement activities; that all paperwork vio-

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Inside

• The Senate's OSHA reform bill merits administration support, this week's editorial says. **PAGE 8**

• The NAIC is attempting to mend its fences with state lawmakers, recent actions show. **PAGE 59**

• Lloyd's has tapped a U.S. insurance executive to lead Equitas Ltd. **PAGE 63**

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Risk Management Systems & Strategies

NCCI's Headquarters in Boca Raton



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Click here for Feature of the Month

Hot sites Finding home pages that are useful or informative for risk managers among the thousands available is easier if one knows the address **Page 12**

Know the lingo The Internet community has a language of its own that can help browsers improve their online communication skills. **Page 13**

Groupware Risk managers are discovering new software that can make it easier to handle the tasks related to finding and placing insurance coverages **Page 14**

Competing for clients Risk managers will be the likely winners as competition heats up among RMIS vendors. **Page 22**

Spotlight Editor
Timothy Stanton

'Surfing' the World Wide Web, risk managers can find hundreds of sites providing information on insurance and risk management. Excerpts from several home pages are pictured on this page, including those of (clockwise from below): InsWeb, the Insurance Fraud Bureau of Massachusetts, EQE International Inc. and the National Council on Compensation Insurance. The Internet addresses of these and other sites are listed on page 12.



Risk managers reach out on the Web

Online access offers a world of information, interchange and entertainment

By JOANNE WOJCIK

If "turning on" and "tuning in" also meant "dropping out" in the 1960s, it has just the opposite connotation today.

In the 1990s, "turning on" to the Internet and its graphics-heavy World Wide Web section is fast becoming a national obsession. And risk managers on the so-called Information Superhighway will find a virtual reality where colleagues are using technology to increase their awareness of developments affecting their industries.

But beware: Prolonged use of these mind-expanding substances can be addicting.

"You have to be careful how you use it," said James Garven, an insurance and risk management professor at the University of Texas in Austin who developed a popular risk management forum on the Internet called RISKNet. "Otherwise, you'll look up from your PC and find out that four hours have gone by."

And some risk managers will find they need to get regular "fixes" because the information on the Internet is updated constantly.

"Everything I publish has a half-life of about one week," noted Mr. Garven, whose 2-year-old RISKNet

mailing list now has close to 1,200 subscribers. "Everything changes so fast."

But because of its widespread reach and fast transmission speed, risk managers must learn to be judicious about using the Internet, said David Parker, risk manager for the Arizona Department of Transportation.

"I made a big mistake about six months ago," he confessed. "My common practice is to click (with a mouse) on a return receipt request so that I know someone has received the e-mail."

But one time he didn't turn off the return receipt request when he sent an e-mail to everyone on a particular mailing list. "I realized what I'd done within seconds, but it was too late. I received over 800 return receipt e-mails within the first week," he recounted.

Since that debacle, Mr. Parker's electronic mailbox is filled with an average of 50 messages per day, even after condensing some from mailing lists like RiskNet into a single daily digest file.

"I've read interesting comments regarding benchmarking, loss control, deductible levels and some pretty good lawyer jokes," observed Cheryl Johnson, director of risk management for the Dallas Public Schools and a RISKNet subscriber for about three months.

"But it's too large and too broad. Most of the subjects don't apply to me. I get 10 to 20 messages per day. It's really a mess when I've been out of town for a few days."

But the Internet's vast scope and rapid turnaround is precisely why the global computer network and the World Wide Web can be

'I've read interesting comments regarding benchmarking, loss control, deductible levels and some pretty good lawyer jokes,' says one risk manager.

valuable tools for risk managers today, according to Larry Sherman, director of risk management services for broker Litchfield Insurance Group in Torrington, Conn.

Few barriers remain to prevent risk managers from getting onto the World Wide Web. Access requires a computer with a modem, inexpensive browser software to navigate the Web, and connection with an Internet access provider.

"Before, I used to get my information the traditional way," by reading newspaper and trade press articles, he explained. "But now, by the time I read it in the trade press, it's often old news."

Not everyone, though, agrees (see story, page 61)

The Internet also provides "a global perspective that you don't get from other avenues," such as regional professional association meetings, Mr. Sherman added. "Now when I enter a discussion on the Internet, I find out not only what people in Connecticut think, but what people are thinking throughout the nation and the world.

See Online on next page



Online

Continued from previous page

It's like having an ongoing international convention."

"I use RISKNet daily to keep in touch with current risk management and insurance issues, to share information and ideas with my colleagues, and to stimulate my brain for pieces in Risk Management Reports," said H. Felix Kloman, a former Tillinghast consultant, who edits the newsletter from Lyme, Conn.

"I also keep in touch with risk management leaders around the world this way," Mr. Kloman said.

Likewise, Arizona risk manager Mr. Parker says the Internet keeps him on his toes professionally. "It keeps me 'thinking outside the box,'" he quipped.

So what can risk managers find online?

Among the most useful information Mr. Parker has found is risk management and safety information from such sources as RISKNet; Safety List, a mailing list for safety professionals; and the Federal Register.

As a public entity risk manager concerned with high country road hazards, Mr. Parker also uses the Internet to collect weather information.

Much of the material that risk managers find useful comes not from databases or reference materials but from fellow Internet users.

Internet mailing lists, such as RISKNet, allow "no holds barred" online discussions, explained Texas' Professor Garven.

A recent sampling of e-mail posted at his site gives risk man-

agers an idea of who is seeking what out there.

In one note, a public entity risk manager asked whether speed bumps reduced traffic accidents in residential areas.

Another note, by several insurance company executives, expressed concern about how the company's computer systems would cope with the end of the century when policy dates would end with two zeros.

And still another was from a risk manager researching the efficacy of safety-incentive programs.

Discussion areas are designed "to allow you to network with other professionals in specialized areas and to share information in a collegial way that's not always possible with local competitors," explained Mr. Sherman of Litchfield Insurance.

Other sites on the World Wide

Internet mailing lists, such as RISKNet, allow 'no holds barred' online discussions, says James Garven, an insurance and risk management professor at the University of Texas in Austin.

Web offer access to risk management-related newsletters, research papers and other educational materials, statistical information, related articles in newspapers and trade periodicals, some state and all federal regulations in areas including safety, workers compensation and insurance, court rulings on coverage issues, and even information on insurance coverage and policy forms.

(A by-no-means comprehensive

list of World Wide Web sites of interest to risk managers appears on page 12.)

Once a government-funded link between the U.S. Defense Department and high-level university researchers, the Internet now connects millions of people around the world.

Developed during the height of the Cold War in 1969, the Internet was purposefully decentralized to protect its data in the event of a nuclear attack. So it has no central hub.

The current commercial free-for-all on the Internet began in 1991 with the addition of the user-friendly World Wide Web. Information is delivered on the Web in a page-like format, with some pages featuring color photographs, graphics and even sound and video programs.

Though unregulated, the Internet is divided into two types of networks: While information accessed from the Internet remains free, the World Wide Web offers profit opportunities for commercial users.

This realization has sparked some tremendous growth, with some estimates that by the year 2001 every man, woman and child in the United States will have an Internet electronic mail address.

Users need web browser software to navigate the Web, as well as a phone link to an Internet access provider, such as EarthLink, America Online, CompuServe and Prodigy. Users of such access services pay a monthly fee for a set amount of online time, plus an additional hourly charge for online usage that exceeds the basic package limits.

Security of the information published online is the primary reason cited by many insurance industry and risk management organizations for their hesitation to join the current Internet rally.

The Risk & Insurance Management Society Inc., for example, offers no services via the Internet. Its online "RIMSNet" service—which includes news digests, ratings information and information about RIMS itself, among other features—is available only to subscribers who pay a monthly fee.

"Security is a concern, so we're taking it slowly," said Robin Ellowitz, a RIMSNET program assistant in New York. RIMS is particularly concerned that other Internet providers will be able to access its membership and mailing lists, subjecting subscribers to an avalanche of junk e-mails.

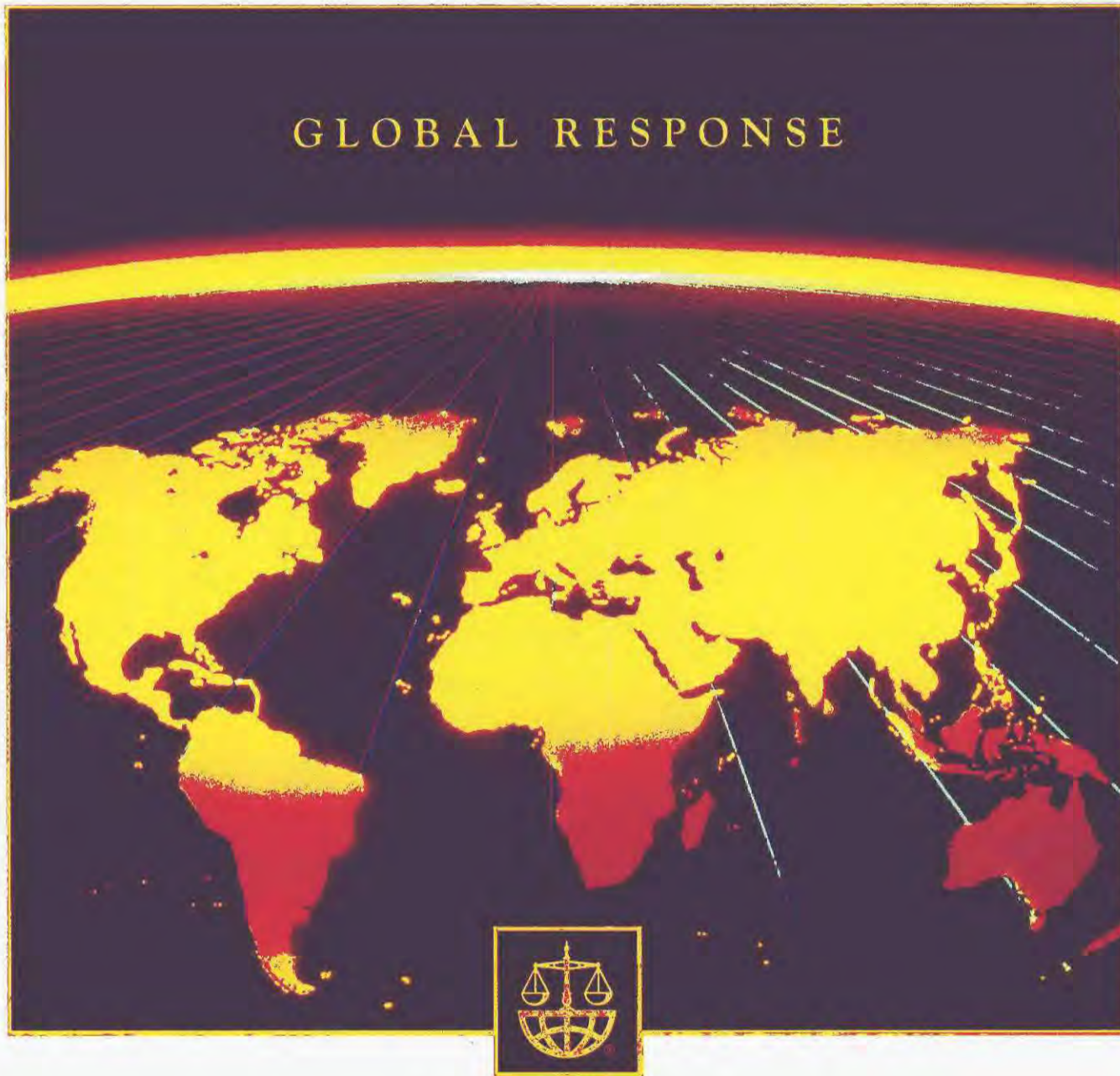
"Anything that is confidential or concerning a company secret must be encrypted," Mr. Ellowitz said.

"There are a lot of people connected to the Internet trying to intercept messages and break into your computer to see what is there."

While some organizations have built so-called "firewalls" to prevent that, "all it does is slow them down," Mr. Parker said. Firewalls are combinations of hardware and software that examine network traffic and allow only approved data to pass through.

Such concerns have not prevented companies, associations

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I N T E R N A T I O N A L L O S S A D J U S T E R S

HOW CAN YOU KNOW IF THE ROAD AHEAD
IS LIKE THE ONE BEHIND?



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Online

Continued from page 4

and individuals from creating hundreds of home pages related to insurance and risk management.

At least one RIMS chapter, in fact, has developed its own site. For the last six months, the Southwest Florida RIMS Chapter's home page has disseminated information to both members and non-members about meeting programs, speaker biographies and upcoming workshops.

"It helps to spread the word to non-RIMS members," said Doug Baird, president of the Southwest Florida RIMS Chapter and manager of treasury services for Naples, Fla.-based agribusiness and real estate company Barron Collier Co. "And it beats the heck out of mass mailings."

Chapter Director Dennis Slaybaugh approached the membership about publishing a home page early this year after the Naples Chamber of Commerce launched its online "Naples FreeNet" project to encourage economic development.

The Chamber picked up the development cost and stores the page on its own Web server.

Security is not an issue because the page only provides information installed on the Chamber's Web server.

Still, Mr. Baird says he is not concerned about whether other Internet users obtain the chamber's membership roster or start sending him unrelated e-mails.

"RIMS hands out a membership list every year at the national conference," he pointed out, adding that he'd rather get junk mail electronically than to have several

At a Florida RIMS chapter, a home page 'helps to spread the word to non-RIMS members,' says Doug Baird. 'And it beats the heck out of mass mailings.'

people in his office spend time handling it.

"I can tell which e-mails I want to read pretty quickly," explained Mr. Baird, who uses the America Online service to access the World Wide Web.

As access to the Internet increases, other organizations are developing Web sites, and numerous service providers have sprung up to target insurance industry clients.

Michael Turner, formerly of

MedStat and Corporate Systems, formed a company called Infotech Consulting Inc. in Ann Arbor, Mich., specifically to develop a Web page for risk management information systems users.

RMISWeb eventually will provide online access to the *Business Insurance* annual directory of RMIS vendors.

A California group on Nov. 1 launched InsWeb, a site designed to be an online marketplace, initially for personal lines and small

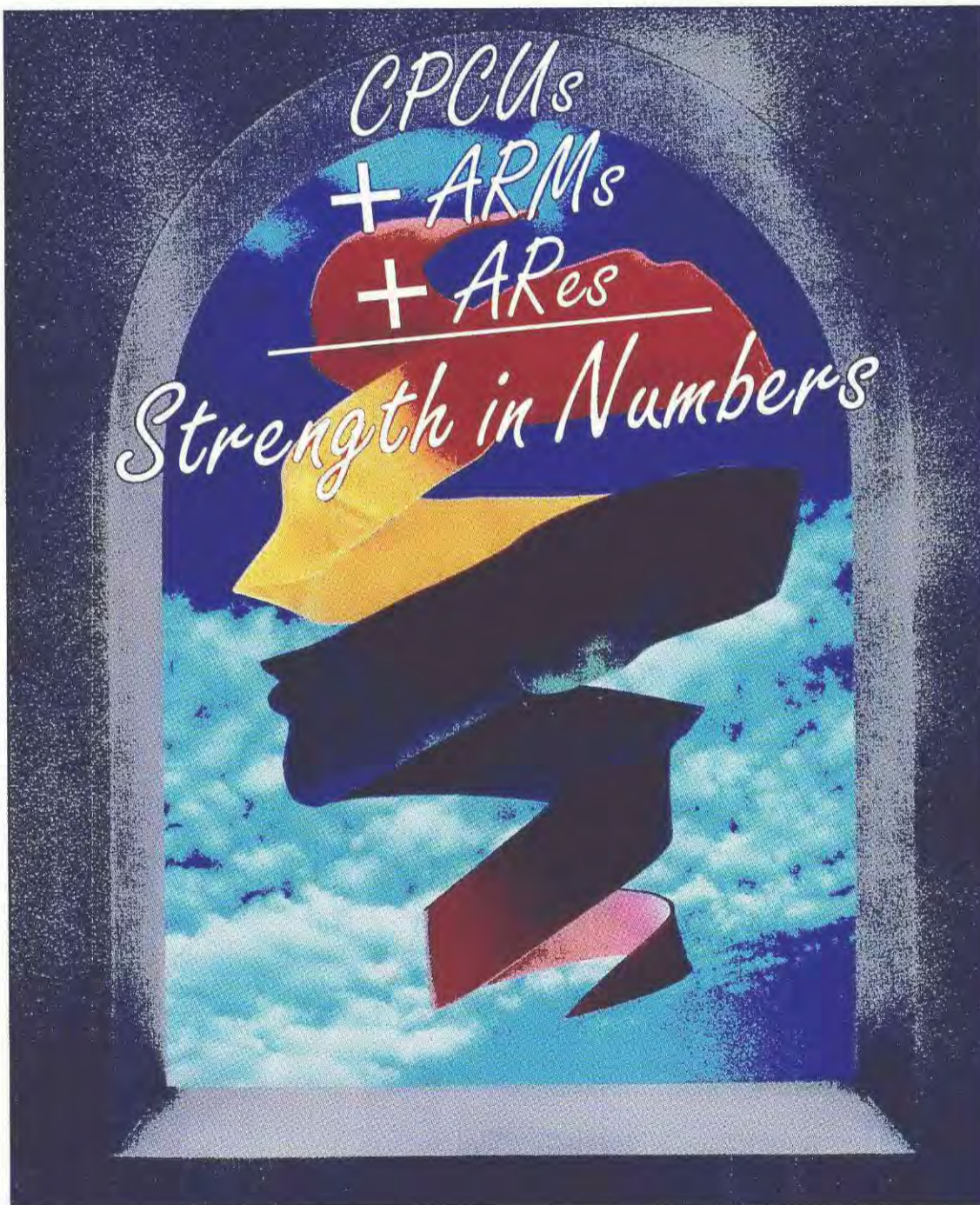
business coverages and eventually for big commercial policies as well.

And William R. Storie & Co. Ltd., a consulting firm in Hamilton, Bermuda, which previously had set up an online newsletter about Bermuda business, is starting Internet Strategic Planning Ltd.

The company, which will also have a London office headed by Peter Rolland, will help international insurance and reinsurance industry clients develop Internet marketing schemes.

As the Internet evolves, more and more insurance and risk management experts say that their financial futures will depend on whether they have online capabilities.

"It's hard to say how fast it will grow," said Infotech's Mr. Turner. "But there's one absolute certainty: It won't go down. I believe the Internet is the printing press of our time." **BI**



When it comes to reinsurance, our industry-designated facultative underwriters are highly qualified to provide a superior level of risk expertise. In fact, our ability to assist our producers and provide valuable insights and recommendations about coverage gaps, policy wordings and pricing pitfalls is well-known. No wonder so many insurance professionals count on Skandia America Re for solutions to their insurance challenges.



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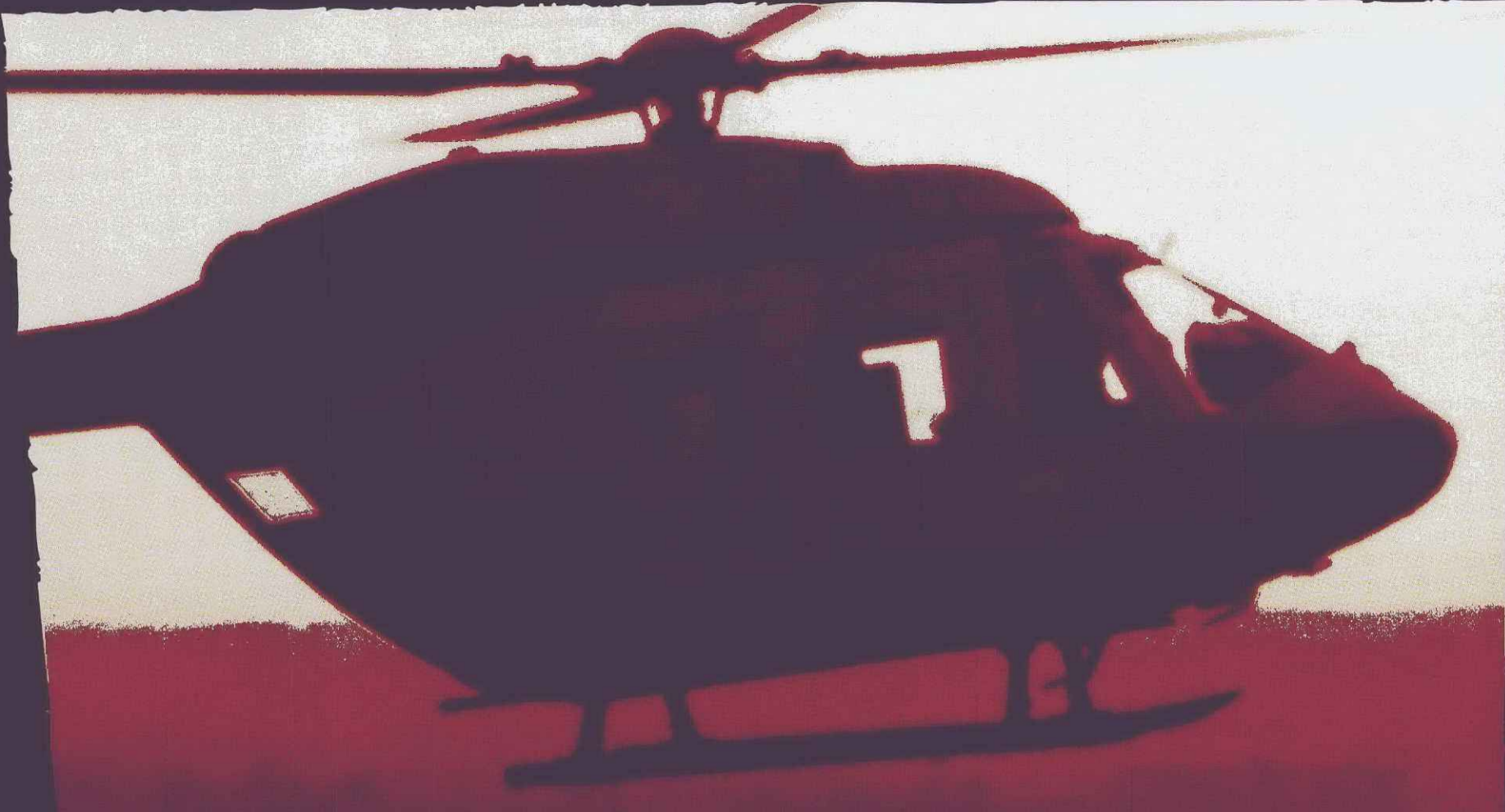
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Opinions

Put reform ahead of politics

THE CLINTON ADMINISTRATION has taken justifiable pride in its efforts to "reinvent" government. That makes it all the more curious that the administration is expressing qualms with a Senate workplace safety reform bill that dovetails so nicely with its own efforts.

The Senate's OSHA Reform and Reinvention Act is the product of bipartisan efforts to streamline the operations of the Occupational Safety and Health Administration. Its sponsors include both conservatives, such as Sen. Judd Gregg, R-N.H., and moderates, such as Sens. Nancy Kassebaum, R-Kan., and Sam Nunn, D-Ga. Unlike the House OSHA reform bill introduced by Rep. Cass Ballenger, R-N.C., earlier this year, the Senate measure doesn't call for a wholesale revamping of the agency and redirection of its mission. Instead it addresses many of the complaints employers have made about OSHA excesses while encouraging experimentation and maintaining worker protections.

In short, it reads pretty much like the type of reinvention the Clinton administration has been promoting.

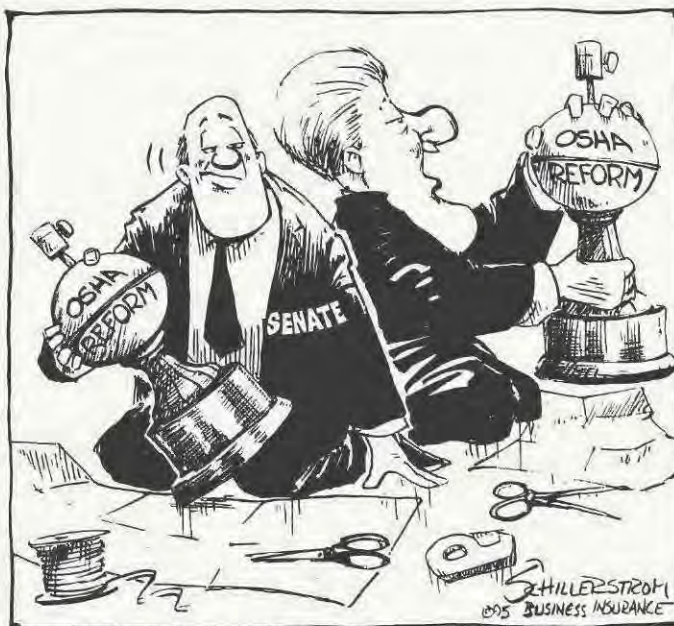
Yet when Assistant Labor Secretary Joseph A. Dear appeared last week before the Senate Labor and Human Resources Committee—which Sen. Kassebaum chairs—he spent a considerable amount of his time worrying that the bill would go too far and too fast in codifying the very initiatives OSHA has been promoting in the name of reinventing itself.

Mr. Dear pointed to the 2-year-old Maine 200 Program, which targets worksites with the largest number of workers compensation claims for special attention. While he said the program is effective, he cautioned against implementing it more widely at this point.

"I urge caution as we look toward putting into statute" many of the safety agency's reinvention initiatives, he also told lawmakers.

But it's hard to see exactly how the Senate bill would put into statute untried initiatives.

The example cited by Mr. Dear, the Maine 200 Program, wouldn't be codified by the bill. OSHA initiatives that are included in the legislation, such as the "voluntary protection program," have longer track records and it is to the administration's credit that it does not have major problems codifying this provi-



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sion. Other aspects of the bill, like reducing penalties for certain paperwork violations, fit right in with President Clinton's call in May for "common sense enforcement" of OSHA rules.

No bill is perfect—which is why legislation goes through layers of review and amendment before it hits the president's desk. But this particular OSHA reform bill appears to provide the legal framework for accomplishing an awful lot of what the administration has claimed it wants to accomplish as it reinvents OSHA.

Part of the reason for the administration's position is undoubtedly politics. An election year is almost upon us, and the White House surely knows of the applause that broke out several times from a key constituency—labor union members—during last week's Labor Committee hearing as reform opponents stated their case.

But backing away from a plan that looks so much like its own reform agenda could leave the White House open to charges that politics have trumped principles. It would be unfortunate if meaningful OSHA reform fell victim to election year maneuvering.

Letters

Missouri UST funds not 'in the tank'

To the editor: I just saw the Oct. 2 copy of your excellent magazine and compliment you on a fine issue. However, I was dismayed to see Missouri's UST fund listed among those that could face a steep deficit if all liabilities are met in a map accompanying the article, "State Insurance Funds Faltering."

The Missouri UST Insurance Fund has been in operation since May 1992 and has insured more than 2,000 underground petroleum storage tanks in the state.

Because the fund was originally structured very similar to a commercial insurance policy, properties were not eli-

gible for reimbursement until they applied for and received an insurance policy. In order to do that, the UST operator had to demonstrate that he was operating in compliance with all UST regulations.

In addition, claims have been managed on the "front end," in that the fund has required competitive bidding, has required that costs be pre-approved and has used professional claims adjusters to investigate claims. As a result of the fund's structure, claim payments have been minimal.

The Missouri fund's Aug. 31 balance sheet clearly demonstrates the fund's solvency, with total assets of \$31.2 million and liabilities of only \$2.9 million. To have the fund misrepresented on the graph as one that could suffer a \$0 to \$100 million deficit if liabilities are met was quite misleading.

The Missouri Legislature recently enacted legislation to provide clean-up monies for sites previously contaminated by USTs but which were not eligible for participation in the insurance fund.

While it is still too early to predict with much accuracy what liabilities this

new legislation has created for the fund, it is the fund's intention to utilize the same cost control and claims management procedures that have been effective in its first three years of operation.

The financing mechanism is expected to generate between \$1 million and \$1.5 million per month, and the Legislature has authorized the fund balance to grow to a level of \$100 million. Therefore, we do not expect Missouri's fund to "falter," as have many UST funds in other states.

Your thorough coverage of tank issues is appreciated, but I would encourage you to question the source used for this article.

Carol R. Eighmey
Manager-Missouri
Williams & Co. Consulting Inc.
Administrators
for the Missouri UST Insurance Fund
Jefferson City, Mo.

Editor's note: The consulting firm that provided the information for the map acknowledges that the broad methods used to assess UST fund liabilities may have inaccurately portrayed the financial outlook for Missouri's fund.

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Mapping out risk managers' possible WEB journeys

By JOANNE WOJCIK

A listing of some of the useful sites and what they offer

Dozens of World Wide Web sites may hold information and opportunities of interest to risk managers.

Here is a sampler:

- **RISKWeb**, an ancillary service of the RISKNet mailing list by James R. Garven, an insurance and risk management professor at the University of Texas at Austin. RISKNet is an Internet mailing list that allows individuals around the world to hold a "no holds barred" discussion of risk management and insurance issues. URL: <http://www.RISKWeb.com>.

- **NEWSPAGE**, an information service developed by Individual Inc., an electronic clipping service that searches news wires, newspapers and trade magazines worldwide to find articles relevant to its clients' industries. If you enter the site via RISKWeb, the search will focus on insurance and risk management topics. URL: <http://www.newspage.com>.

- **Insurance News Network**, a home page providing comparison quotes and other information on auto, home and life insurance to consumers nationwide. URL: <http://www.inn.com>.

- **Insurance Companies and Resources on the Net**, a home page that provides users with a comprehensive listing of insurance industry web sites. URL: <http://lattanze.loyola.edu/users/cwebb/hotlist.html>.

- **Insurance Net**, an online resource for buyers of both personal and commercial insurance that provides access to product and market information. It was developed by Nexus Analytical, an organization of communications and insurance industry professionals dedicated to using the Internet as an information vehicle. URL: <http://www.insurancenet.com>.

- **Captive.com**, a page that provides captives, insurance companies, self-insuring entities, risk retention groups, purchasing groups, associations, reciprocals and public entity pools with a one-stop location for the exchange of information and services related to insurance and risk management. The sponsor is First Partners L.L.P. URL: <http://www.captive.com>.

- **ARIAWeb**, the home page for the American Risk & Insurance Assn. It includes a hypertext link to the home pages of ARIA President Norma Nielson and other ARIA officers, as well as an electronic membership application. URL: <http://www.riskweb.com/aria.html>.

- **Tools for Searching Risk and Insurance World Wide Web Space** helps Web browsers conduct keyword searches of article abstracts, Risk Management and Insurance Working Paper Archives, and the Insurance Fraud Research Register. URL: <http://www.finweb.com/rmsearch.html>.

- **The Quality Insurance Congress** home page is intended to become a repository of insurance-related quality and benchmarking information. URL: <http://www.nashville.net/qic95/>.

- **Jobs in Insurance** is an electronic employment agency sponsored by the Fisher College of Business at Ohio State University to provide information to insurance and risk management job-seekers on skill requirements, key job areas, Internet resources, salary information, print resources and industry facts and trends.

URL: <http://www.cob.ohio-state.edu/dept/fin/obs/insure.htm>.

- The **CPCU Society's** home page encourages professionalism, continuing education and high ethical standards in the insurance business to promote excellence in insurance and risk management. URL: <http://insureinfo.com/cpcu/>.

- The **Health Care Liability Alliance** home page, maintained by St. Louis-based public relations firm Fleishman-Hillard Inc., tracks federal health care liability reform issues. URL: <http://www.wp.com/hcla/>.

- The **National Council on Compensation Insurance** offers free

workplace safety information on its home page. URL: <http://bocaron.com/ncci/>.

- The **Insurance Information Institute's** Internet search service provides the full text of many of its consumer brochures, recent financial results for the property/casualty insurance industry, the III's catalog of publications and other services. URL: gopher://info.infor.com:4200/.

- The **South Florida chapter of the Risk & Insurance Management Society Inc.** has its own home page at URL: <http://www.naples.net/clubs/rims.html>.

- **InsWeb**, a Web page maintained by Burlingame, Calif.-

based Strategic Concepts Corp., will act as a centralized insurance marketplace on the Internet providing not only in-depth insurance information and resources to facilitate informed insurance buying decisions but also a direct line to insurance agents, brokers and insurers. It will begin as a personal lines service, eventually branching out into commercial lines for small businesses. URL: <http://Insweb.com>.

- **EQE International Inc.'s** home page provides updates on natural catastrophes around the world and offers general information about its publications and business risk services. URL: <http://www.->

www.eqe.com.

- **"BerBiz,"** an electronic newsletter published by Bermuda consultant William R. Storie & Co. Ltd., provides information on the offshore and international insurance and reinsurance industry. URL: <http://www.webcom.com/wrsl/berbiz.html>.

- The **Insurance Fraud Bureau's** home page provides statistics on insurance fraud, tips on forming a special investigations unit and access to its quarterly publication, "FocusFraud." URL: <http://www.ifb.org>.

Besides these, many brokerages and insurance companies maintain sites that can be found by using Web browser programs, such as Yahoo and Lycos. **BI**

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A guide for those still afraid of 'spiders'

For many risk managers, venturing onto the "information superhighway" for the first time will be a little like traveling to an English-speaking foreign country.

While it may appear that everyone is speaking their native tongue, not all of the words will have the same meaning. Those who, for instance, think of Archie and Veronica as two characters out of comic books will have to get accustomed to using the two as names for computerized search programs.

The following glossary is designed to help risk managers improve their online communications skills:

America Online. One of the leading online services. It provides users a gateway to the Internet and World Wide Web for a monthly fee. Other popular online services are **CompuServe** and **Prodigy**, both of which offer similar services.

Archie. A program for searching for files and directories on the Internet and the Web.

ASCII files. An American Standard Code for Information Interchange, or ASCII, file is a plain text file that can be read by almost any computer program.

Client-server software. Software system in which users, or clients, use their personal computers to access information on host computers, or servers, usually located

offsite. Most of the Internet services, such as electronic mail and the World Wide Web, use the client-server model.

Domain name. The name used to identify the host computer on the Internet that has the content you want to access. Domain names are usually shown in lowercase letters. For example, "www.risknet.com" is the domain name for an online risk management mailing list maintained at the University of Texas in Austin.

Download. To copy a file from a remote computer to your PC.

E-mail. Short for "electronic mail."

Encryption. Scrambling a message to make it difficult for other people to read unless they have a

key for decoding it. Many types of encryption are used on the Internet for security purposes.

FAQs (Frequently Asked Questions). A file that contains answers to questions often asked by Internet and Web users.

FTP (File Transfer Protocol): The Internet program for transferring files between computers.

Gopher. A server that acts as a table of contents for the Web. After you select an element from the Gopher list by using a mouse, you can open another menu (and another and another) until you pick a file and are transferred to the site on which it is stored.

Home page. What initially appears on the screen upon entering a World Wide Web site. They can

function as tables of contents that contain links to other sites.

HTML (Hypertext Markup Language). The programming language used to communicate on the Web. HTML documents are text files with additional commands embedded in them that enable users to open several documents at once.

http (Hypertext Transport Protocol). The command used for connecting to hypertext documents on the World Wide Web. It is always typed lowercase at the beginning of a URL (see Uniform Resource Locator below) followed by a colon and two forward slashes.

Hypertext. A computer language used to create documents that contain links to other documents. When reading a hypertext document, such as a Web page, you can quickly jump to related documents by clicking your mouse on underlined or boldface words in the text.

Internet. A network of thousands of computers around the world that use a mutually agreed-upon method for communicating with one another. The Internet started about 25 years ago as an experiment in how to design a computer network that could grow easily with very little centralized control. While the U.S. government financed its development, no one owns the Internet.

LISTSERV. A program used on some Internet computers for handling mailing lists.

Mailing list. A system of duplicating one message and sending it to many people at the same time via electronic mail.

Online. The status of your PC when connected to another computer on the Internet or the Web via a modem and telephone line hook-up.

Search engine. A program to search Web sites based on key words. Popular versions include Yahoo, Lycos and Webcrawler.

Spiders. Programs that roam the World Wide Web collecting information to build indices.

URLs (Uniform Resource Locators). The World Wide Web addressing method. URLs consist of three parts: the type of Internet service used; the name of the computer on which the information or service resides; and the specific request. For example, in the address "http://www.phantom.com/zasny/," "http:" is the Internet service used, "www.phantom.com" is the name of the computer on the Web being contacted, and "zasny/" is the request. (This is the URL for Zurich-American Insurance Co.)

UNIX. An operating system like Microsoft Corp.'s DOS or Windows that is used by servers and hosts on the Internet. While today almost any computer can be an Internet host, early Internet systems ran primarily UNIX programs.

Upload. To send a file to a remote computer.

Veronica. A program for searching for files listed on Gopher servers.

Web browser. Computer software, such as Netscape, Netcruiser and Mosaic, used to navigate the Web.

Web servers. Computers that store information on the Web.

World Wide Web. An Internet service that enables users to retrieve hypertext and graphics files from various computer sites linked via telephone line. Because of its user-friendly graphical interface, the Web has become one of the most popular Internet services. Many Internet information providers now publish only on the Web.

—By Joanne Wojcik

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Groupware widens access to information

By MICHAEL BRADFORD

Buyers tout links with brokers, insurers

Risk managers are discovering that a new type of software providing electronic links between distant users is making it easier to find insurance coverages

The software, called groupware, allows many users to simultaneously communicate from worldwide locations, and it has caught on with large insurers and brokers. Now, risk managers are starting to make the connections with brokers and insurers.

Risk managers are turning to groupware primarily as a way to communicate with and supply data to help brokers and insurers com-

plete coverage-related projects. Users can swap information and track the status of tasks performed by a number of individuals while communicating easily across worldwide time zones.

"It's a highly effective communications tool," said Pat Evers, director of risk management at James River Corp. of Virginia in Richmond, Va. The consumer products company uses groupware to communicate with its broker, Johnson & Higgins, outline projects and track them.

Groupware eliminates much of the telephoning, faxing, mailing and waiting that traditionally have been a part of buying coverage.

Groupware's appeal also lies

partly in the ease with which users can add new databases—in hours rather than weeks needed for traditional methods that require extra programming.

The market leader in the groupware field is Lotus Notes, a product Cambridge, Mass.-based Lotus Development Corp. introduced about six years ago.

James River Corp. installed Lotus Notes about two years ago after discovering Johnson & Higgins was offering the hookup to its clients. "We found they had the most advanced communications tool being offered at the time," said Ms. Evers.

James River has three Notes users in its risk management department

and is linked with J&H personnel in Richmond, New York and San Francisco.

Ms. Evers explained that she turns to Notes with coverage requests or other projects that need her broker's input by first assigning an action plan through the system to a particular person or people. The plan describes "exactly what it is we are looking for," she said.

A team is formed among the users and a completion date is set. Team members post their progress and the project is tracked through the system until "we reach a consensus as to what we are looking for," Ms. Evers said.

Ms. Evers said the system's discussion database, which allows users to post problems and topics and receive

input from anyone on the system, provides "definite efficiencies."

"Say James River has a problem, something we need coverage for," she said. "That can be typed in, and everybody can come in and comment" until a solution to the coverage problem is found, Ms. Evers explained.

While programs like Notes allow for easy discussion among users, it is much more than a sophisticated electronic mail program, its users say, because it allows risk managers to use database applications to swap data and participate in projects. The number of users will depend on the company, but groupware can be used companywide for a variety of functions.

"We're trying to manage processes, rather than using it as a glorified e-mail," said David Strode, corporate director of risk management at aerospace and electronics firm Northrop Grumman Corp. in Los Angeles.

After moving to Notes through J&H last year, Mr. Strode now has links with J&H and Alexander & Alexander Services Inc., as well as Northrop Grumman offices in other cities. He has built databases to share information with the two brokers, enabling him and his staff to help manage projects.

For example, he explained, insurance renewals are handled over the system. "There will be a number of projects and tasks associated with those projects," he explained. A schedule of activities related to the renewal is established, and each person working on the coverage can see exactly when the tasks are completed and exchange pertinent data.

"The key is to utilize it but to keep it as simple as you can," Mr. Strode said of the groupware system.

There may be some resistance by individuals who are skeptical or unsure of a new system, he added, and they will have to be shown the advantages. "The system is only as effective as the people using it."

At Johnson & Johnson in New Brunswick, N.J., the risk management also uses the Lotus Notes link with Johnson & Higgins and is taking the first step towards hooking up with other in-house departments.

"We are currently putting the finishing touches on our risk management manual," said Wayne Klokis, department manager. Once completed, the manual will be available by Notes throughout the company.

Other manuals eventually will find their way online, Mr. Klokis predicted, saving time and cost associated with printing books that take up shelf space and have to be updated with supplements until a new edition is created.

Other users also consider groupware more than just e-mail.

"We are interested in focusing Notes on applications, sharing data," said Gary Lasko, senior vp of information technology for Sedgwick James Inc.'s North American operations in Memphis. Other Lotus products and Internet tie-ins can be used for tasks as simple as swapping electronic messages with clients who aren't Notes users, he noted.

"We have a risk management department at a (large) account in New Jersey that is participating in the management of its bond portfolio" through a Notes hookup with Sedgwick James, Mr. Lasko said.

And the risk management departments of three clients with worldwide operations are planning to link with the broker via Notes. Other departments at those companies, which he did not name, already swap information with Sedgwick James.

Risk managers at the companies will be able to retrieve policy forms and coverage information, property schedules, correspondence related to

See Groupware on page 18

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Spotlight report

Groupware

Continued from page 14
 their accounts and any other related data, Mr. Lasko explained.

J&H is one of the pioneer groupware users, embracing the technology in 1990 as one of the first Lotus Notes customers. With about 4,000 employees using the system, the broker is broadening its links to risk manager clients.

J&H is involving about a dozen of its risk manager clients in a pilot project that will test their interest in connecting with the broker through Notes.

Risk managers in the project participate as part of a "virtual team" with J&H, explained Bill Wilson, senior vp at J&H in New York. Like James River Corp., other users have the discussion database and action plan database capabilities.

"The discussion database is an open forum to hear the hot-button issues of the client," explained Ellen Walker, assistant vp at J&H's New York headquarters. That allows J&H employees from across the country to collaborate quickly and easily with the client, identifying goals and projects to be completed.

From there, the plan is developed, where tasks are outlined and assigned and due dates are established, Ms. Walker said.

A risk manager can participate in the project by providing data like payroll information, for example, to the file J&H develops as it hunts for coverage, Mr. Wilson noted. As team members make progress, the file can be updated and all participants can track the project's status.

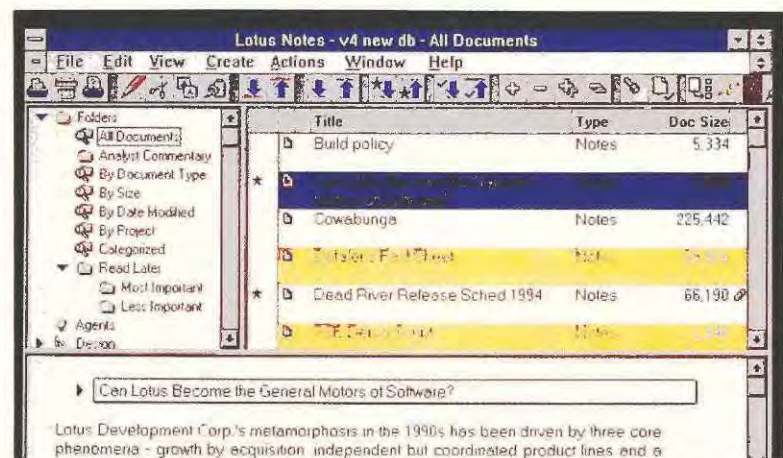
While J&H won't require its clients use a Notes linkup, the broker plans to make the technology available to all its account teams. "It will

be the J&H standard," with clients able to make the hookup easily if they desire, said Ms. Walker.

The groupware connection is most common between risk managers and brokers, but at least one insurer is providing a hookup with its policyholders. Some insurers, like Fireman's Fund Insurance Co., ITT Hartford Group Inc. and The Travelers Inc., already use groupware internally or to link up with agents and brokers, but hookups directly with policyholders are not widespread.

American International Group Inc. has developed a proprietary product called IntelliRisk that bundles together tools from Lotus Notes and Microsoft Corp. It allows risk managers to retrieve information related to their accounts, policies or claims and to generate standard or customized reports.

IntelliRisk has about 300 users, according to John R. Flynn, senior vp



User-friendly groupware like Lotus Corp.'s Lotus Notes is helping risk managers communicate with their brokers and insurers.

in domestic claims-technology at AIG in New York.

AIG provides users with training and technical support, and once the

system is up and running, risk managers are able to communicate with underwriting, claims and cost containment departments at AIG subsidiaries. An e-mail hookup allows the insurer's policyholders to communicate with their own brokers.

The ability to move data between users is important, Mr. Flynn stressed, because "more and more risk managers are wanting to take data locally and add to it. Our strategy is to bring them the tools" that will allow data to be manipulated in-house and sent out electronically to a number of people, he noted.

Beginning next year, AIG plans to increase the offerings in the toolbox, expanding its groupware offerings to make Lotus Notes available to risk managers.

"We're building Lotus Notes around the whole work flow of risk management services," said Mr. Flynn.

Linking up with clients through Lotus Notes will mean new data-sharing and reporting capabilities, he explained, and will be part of the total groupware offering that includes IntelliRisk.

While Lotus leads the market in groupware technology with Notes, Redmond, Wash.-based Microsoft followed with a 1994 entry called Exchange. It uses the same principle as Notes, integrating electronic mail, scheduling, electronic forms, document sharing and other functions.

Risk managers who don't need the comprehensive data-swapping capacity of Notes or Exchange can turn to other products that offer some groupware features.

A product called FirstClass, developed by SoftArc Inc. in Markham, Ontario, provides e-mail features but allows users to do more than just swap messages.

Users can collaborate or disseminate information about their business, explained Scott Welch, vp at SoftArc. User groups can form "virtual communities" in which they hold interactive or collaborative discussions.

Mr. Welch explained that FirstClass operates much like forums found on online services, where users with common interests gather for online discussions. However, FirstClass allows the forums to be built quickly and inexpensively without using an online service.

While SoftArc hasn't in the past targeted large companies as users of FirstClass, a new server developed recently for Microsoft Windows makes the product more attractive to companies with many users.

The FirstClass server is available for \$95 and a license for five regular users is \$395. That compares with about \$275 that companies pay for each Notes user.

Lotus also offers Notes Desktop, a simplified version without all the Notes features that sells for around \$155 per license. Lotus Notes Express is an introductory version that has an estimated retail price of less than \$100 per license. **BI**

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RMIS complaints, compliments

Systems helpful, but some are too hard to use, risk managers say

By GAVIN SOUTER

Plenty powerful, but too hard to use. Too much computer skill required. Too many problems converting to user-friendly format. Too little support. Too little flexibility.

Those are risk managers' biggest complaints with current risk management information systems, according to a highly unscientific sampling of opinion.

On balance, though, many risk managers praise their systems far more than they criticize them.

"It has saved us a lot of time and reduced a lot of paperwork," said

Keith K. Kovash, manager of risk management and benefits at The Montana Power Co. in Butte, Mont.

The self-insured utility has used an RMIS to track long-term disability claims for the past year. It plans to expand its system to include first-party property exposures and other areas of risk management over the next several years, Mr. Kovash said.

While the system is not comprehensive, the software provider, which he would not identify, offers upgrades to expand the use of the system, Mr. Kovash said.

An RMIS can be too complex for risk managers without extensive computer backgrounds.

"You have to be fairly computer literate to use them," said Walter Buce, vp of risk management at National Service Industries Inc., a manufacturing company in Atlanta.

National Service has used a Risk Science Group Inc. RMIS for several years and it is now the "backbone of the risk management department," though it needs to be modernized, Mr. Buce said.

Risk managers have also found that it is not always easy or convenient to convert from old-fashioned systems to more user-friendly ones.

Many RMIS products based on Microsoft Corp.'s widely used Windows software are still in the developmental stage, so it may be too

early to make the change from less user-friendly DOS-based programs, said Nancy Smith, director of risk management at Long John Silvers Restaurants Inc. in Lexington, Ky.

"Windows systems seem to have been in developmental stages for the past two years and they are still working the bugs out of them," she said.

A Windows format would add more flexibility to existing systems, though it would be a mistake to move from a DOS system until all the problems have been corrected, Ms. Smith contends.

With the rollout earlier this year of Microsoft's Windows 95, many RMIS vendors are creating new versions of their software to run on the new operating system, though others plan to do so only if clients demand it (*BI*, Aug. 21).

At National Service, switching to a personal computer-based system

from a mainframe system would make using it easier and cheaper. Converting would be an arduous process, said Mr. Buce, but probably worth the effort.

National Service will likely move to a PC-based system within the next two years, said Mr. Buce, who added that he would like one compatible with Windows. "Using a Windows system as a foundation block would make it more user friendly," he said.

Difficulty of use is another common complaint of risk managers.

At Long John Silvers, the current Pyramid Services Inc. system is used for a variety of tasks, including generating first reports of injury, registering customer and employee claims, data analysis and preparing materials to renew coverages.

Were the system easier to use, it could probably accomplish more, said Ms. Smith. "There are a lot of modules on the system that we don't use because they are not so user friendly."

Similarly, Phillips-Van Heusen Corp. in New York uses its RMIS for claims management and analysis but does not use the system to its full potential.

"It's overwhelming to get into and to understand the capacity and figure out exactly what you can do with it," said Carla Eberling, director of risk management for the clothing manufacturer.

Many risk management departments have undergone cutbacks in the past few years and often risk managers do not have the time to learn how to make best use of the systems, she said.

"We always seem to be waiting for a lull," Ms. Eberling said.

Related to ease of use complaints are complaints that systems are not flexible enough.

At Phillips-Van Heusen, for example, codes on workers' injury claims cannot be easily changed if the injury is re-diagnosed, such as a wrist strain eventually turning out to be carpal tunnel syndrome, explained Ms. Eberling.

But, despite those faults, the RMIS has been a great benefit to the company, Ms. Eberling said. "For example, local facilities can just call up their own claims on the system without having to call us on the telephone. It makes their lives a lot easier and that in turn makes my life easier."

Finding a flexible risk management information system can frequently be a problem, said Timothy J. Bunt, vp of corporate risk management at the Prudential Insurance Co. of America in Newark, N.J.

"A lot of vendors say, 'This is our RMIS. Do you want to buy it?' There is no flexibility," he said.

A way around the problem is to work with RMIS vendors willing to design a system specifically for the customer and also to require upgrade options be built-in to the contract with the vendor, Mr. Bunt said.

Prudential currently is developing its own tailor-made system with Anistics, a unit of Alexander & Alexander Services Inc.

"We have the flexibility to design the screens and the modules and it will allow us to manipulate our data in the way that we want to," Mr. Bunt said.

In addition, an option to upgrade the system will help Prudential keep up with the fastpaced changes in technology that affect risk management information systems, he said.

Other risk manager complaints focus on RMIS service and support.

Servicing and upgrading systems
See **RMIS** on page 22

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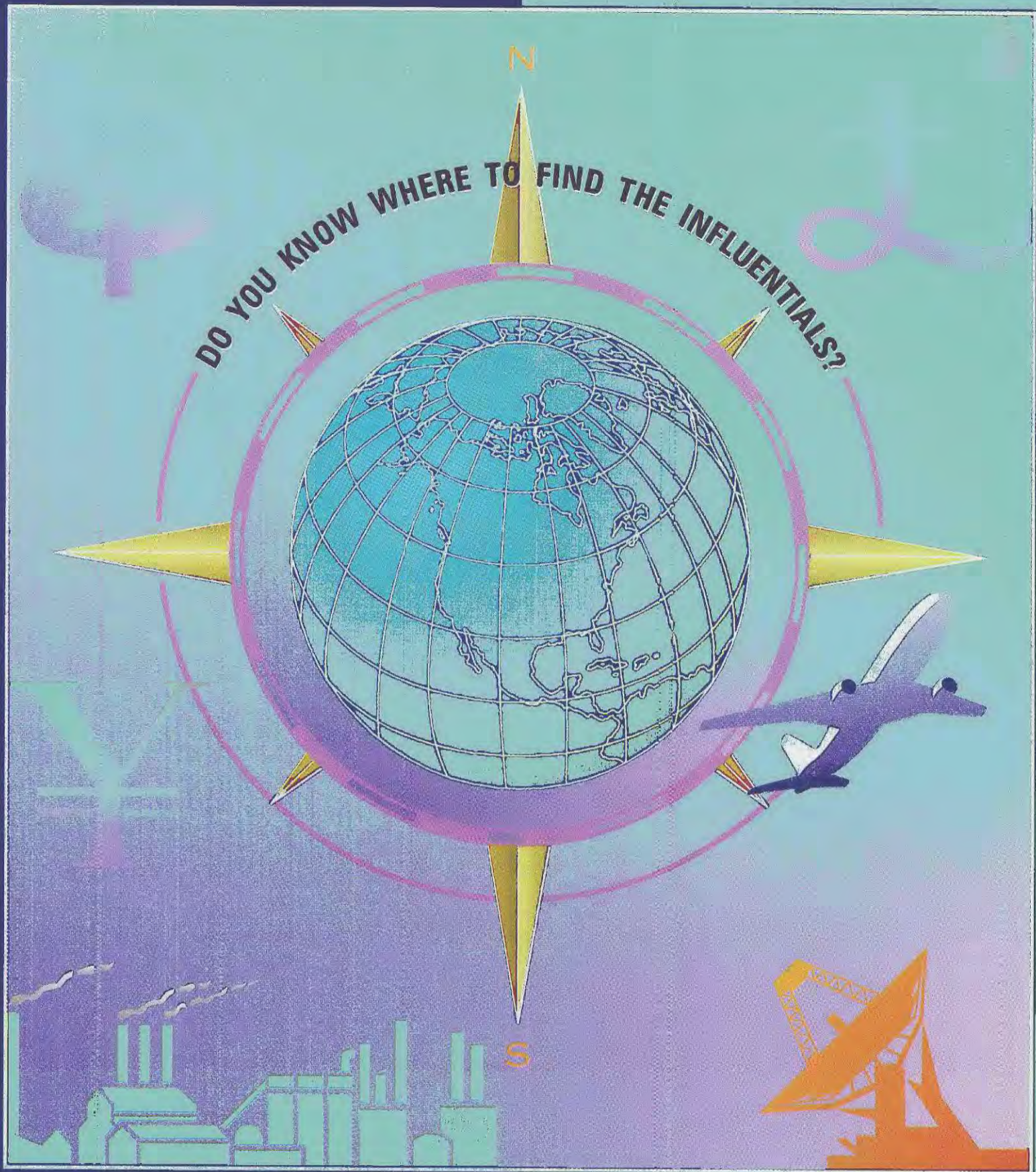
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RMIS vendors vying for business

Risk managers to benefit from growing competition

By ROBERTO CENICEROS

Risk managers will be the likely winners as competition heats up among risk management information system vendors to win new customers.

System improvements being touted include increased use of "point and click" programs compatible with Microsoft Corp.'s Windows system, and more streamlined client-server technology that allows greater flexibility in manipulating data from personal computers.

The enhancement race also is

reopening debate over who provides better RMIS products and services: standalone system vendors or insurance companies.

The standalone vendors say they will continue to outpace many insurers when it comes to offering flexibility and custom products. Insurers counter that they have more immediate access to data, which benefits users of their systems.

The good news is that all RMIS providers say they are being driven to deliver the products and service that clients demand. They expect the competition to also exert downward pressure on price, though not everyone agrees that

has happened yet.

"I think with the advent of some of our larger competitors, carriers and TPAs who are just beginning to get their Windows products out, or are in the (development) stage, it is becoming more competitive. There is no question about it," said Richard Downey, assistant vp and manager of customer information services for Liberty Mutual Insurance Co. in Portsmouth, N.H.

Liberty Mutual's RISKTRAC has used Windows and client-server technology for about three years, Mr. Downey said.

"We're seeing more and more competition," he said. "The insur-

ance buyer is a price-sensitive buyer, as are all users of risk management information services. So it is getting competitive from a price perspective, and I think over time when you are comparing features to features, we will see more and more competition."

Skeptical observers say many insurers are likely to go only so far in developing their systems, choosing to remain with their core business of underwriting insurance. They say some insurers are merely improving their products right now to cement client relations.

But others say that improved technology and customer demand have made insurer data a more valued commodity.

"Maybe five years ago it was not clear to carriers how important information was in our industry," said Lee Topham, national sales

and marketing director for Anistics, a unit of Alexander & Alexander Services Inc. in New York. "But it certainly is clear now, and I don't see how they could ever lose sight of that."

"What we are seeing out there is a small revolution," explained Larry Keough, director of information products/services in Philadelphia for ESIS, a risk management information unit of CIGNA Corp. The revolution is being led by risk managers who are more sophisticated and information savvy than in the past, he said.

They read personal computer magazines and watch television advertisements about point-and-click technology and data manipulation, then they ask when their RMIS systems will incorporate those capabilities, Mr. Keough said.

"They are starting to push the marketplace to meet the demand, which is: 'Give me better tools to handle my data, regardless if it's claims or other (risk management information).'"

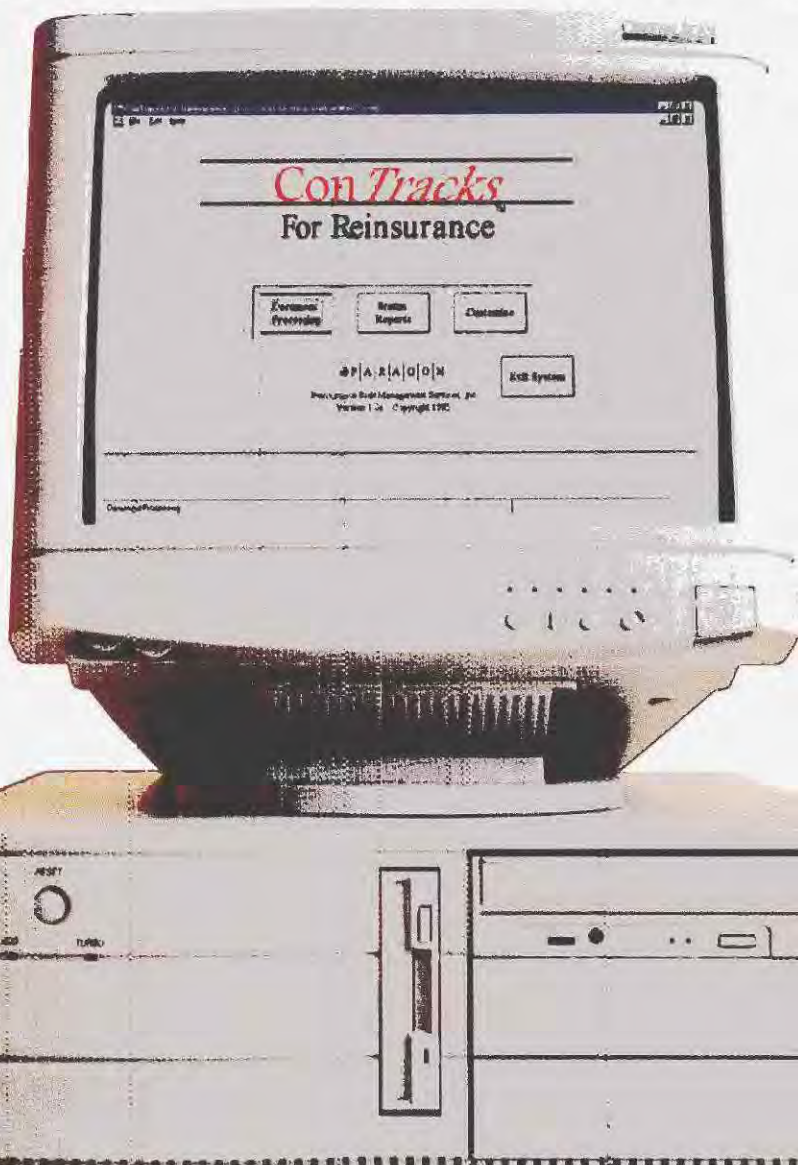
Mary Stoik Dymond, the director of risk management at ACX Technologies in Golden, Colo., says Travelers Corp.'s CARMA system serves her company well for retrieving information about workers compensation claims and loss runs.

But, she added, her system would be easier to use if it incorporated Windows software commonly available for many personal computer programs.

See Products on page 26

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RMIS

Continued from page 20

after they are installed can sometimes be a problem, said Ms. Smith of Long John Silvers.

While many systems are designed by people who have a thorough knowledge of risk management, the support staff of some vendors are not so familiar with the job, she said.

Support staff who readily understand risk management and understand what risk managers require of their systems are rare, Ms. Smith said. "Support staff that know about computers and insurance are hard to find."

Some of the problems risk managers encounter with RMIS are related to general data transfer problems, said Mark Michaud, director of risk management at Collins & Aikman Corp., a textile manufacturer and retailer in Charlotte, N.C.

"The industry has to develop a better way of exchanging data between carriers and policyholders," he said.

Collins & Aikman uses two main insurers that format data differently so it all has to be re-entered into the company's computer system, Mr. Michaud said.

RMIS vendors that produce a system that can accommodate different data formats from a variety of insurers would have a distinct advantage, he said.

"The industry recognizes this and is fitfully trying to meet our needs," he added.

But like other risk managers, Mr. Michaud is quick to point out that the RMIS has enhanced his ability to do his job.

For example, he said, the systems readily enable risk managers to keep track of department budgets and determine how funds are being spent. "Everybody wants to know what we are spending are money on and how we use it and the system helps us to answer those questions," Mr. Michaud said. **BI**



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Spotlight report Products

Continued from page 22

Travelers is listening to such requests.

About six months ago, the insurer released a Windows version of CARMA, said Mike Strietelmeier, Traveler's director of risk management information services in Hartford. So far, Windows versions have been installed for about 45 customers, and Travelers is moving to convert its remaining clients.

However, unlike many standalone vendors and some other insurers, Travelers does not plan to move to client-server technology, Mr. Strietelmeier said.

Client-server technology advocates say it allows them to provide lower-cost service and gives clients more control of their own data, making it easier to create the custom programs

they demand.

"Prices for that architecture are a lot less," Mr. Strietelmeier said. "Where many vendors and carriers have chosen to go with that architecture, they compete very well with Travelers. Travelers has decided not to pursue that kind of architecture because we think our customers are more in the business of risk management and don't want to get involved in managing hardware and software. So prices in general are coming down, mainly because of that architecture."

But he doesn't think independents have all the advantages. And, like other insurers, Travelers has a unit that specializes in customizing systems for clients.

"The independent vendors are really pushing their products, but there are several places we differentiate ourselves," he said. "We are a complete risk management product,

Travelers 'can offer the business expertise that the independent vendors normally do not have available to them,' contends Mike Strietelmeier, the insurer's RMIS director.

and we are an insurance carrier. We can offer the business expertise that the independent vendors normally do not have available to them, whether it's an actuary or a claims adjuster or a claims management specialist. All those experts are available to us to help us serve our customers."

"The real disadvantage the niche market players have is they don't have real-time information," agreed Liberty Mutual's Mr. Downey. "They are dependent on the big CPA or the

insurance carriers to provide them with information as to what is going on with a particular claim. They have to come to us to get it. They may have some slick application that will produce some nice reports, but they don't have the data, and the real key is having the data to provide up-to-date, timely information in an effective way."

Independent vendors are not feeling threatened by renewed competition from insurers in the RMIS market, nor have they noticed pressure

on their pricing. They regard themselves as able to meet special needs, and question whether some of the large insurers will ever be able to compete in their niche markets.

"Insurers have a lot of limitations in that area," said R.J. Mallette, vp of research and operations for Risk Technologies Inc. in Mansfield, Texas. "Big organizations try to typically keep things pretty consistent and make it very controllable. But then you lose a lot of flexibility. I see them coming out with some better products, but as far as providing true customer services? It could happen. But it's never happened before."

Traditionally, many insurers have been in the RMIS business mainly to protect their market share and control clients, said Alan B. Cantor, president of Cantor & Co., the Beverly Hills, Calif., maker of Riskmap Risk Financing and other risk management programs. Quality improvements to insurer systems have been reactive rather than proactive, he said.

"It's understandable because that is not their main business," Mr. Cantor said. "Now that is not to say they are going to aggressively achieve some penetration. But as the consumer becomes more educated, then the insurers are going to have to compete more on quality just like the rest of us."

While increased competition may eliminate some players, ESIS' Mr. Keough said there are potential advantages for both insurers and specialty niche companies. He cited CIGNA, which plans to aggressively pursue RMIS development, in part by teaming up with independent vendors.

Risk managers say they will always search the marketplace for the products that best fit their needs, regardless of whether they are produced by insurers or independent vendors.

"We're always looking to see what is out there; what is better than what we have," said a Seattle risk manager whose company recently decided to stay with Liberty Mutual's RISKTRAC partly because her company is also insured by that company.

Large insurers provide consistency and stability, said Jeffrey Pettegrew, vp of risk management and insurance for Western Staff Services in Walnut Creek, Calif. But one insurer's system that he relies on does not provide all the features his industry requires for tracking certificates of insurance.

For that he turned to an independent software developer. While benefiting from both worlds, Mr. Pettegrew has advice when hiring independents: "You have to make sure you're with one who is going to be around."

Other observers say control of data can be a crucial factor in negotiations with insurers.

"If you decide to change carriers, what happens if you have your whole RMIS with them and for whatever reason you decide its better for you to be with another carrier?" asked Ms. Stoik Dymond. "Do you lose support for that system? Is there a pricing penalty (to continue receiving their support). I see some downsides there unless (insurers) can divorce that unit in their company from the underwriting and the claims people and truly have a stand-alone service."

As for products, both insurers and stand-alone companies say the race is ultimately to develop systems that will integrate all risk management functions.

"What we are building is really a risk management workstation," Analytics' Mr. Topham said. "You have to give them all the information they need in one place."

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1995 DIRECTORIES

Issue Date	Directory
Feb 6	Third-Party Administrators
Feb 20	Utilization Review Providers & Case Managers
Mar 6	Benefit Information & Claims Systems
Mar 20	Risk Management Consultants
Apr 3	Prescription Benefit Managers
Apr 24	Captive Managers
May 29	Alternative Facilities
Jun 12	Property Loss Control Consultants
Jun 26	EAPs & Mental Health Networks
Jul 17	Agents & Brokers
Jul 31	Dependent Care Resource & Referral Services
Aug 14	401(k) Plan Administrators
Aug 28	Leading Reinsurers Worldwide
Sep 11	Surplus Lines Insurers & Wholesalers
Oct 2	Environmental Risk Management Consultants
Oct 9	Safety Consultants & Rehabilitation Services
Oct 23	Reinsurance Brokers
Nov 6	International Insurers & Benefit Networks
Nov 20	Benefit Communication Systems
Dec 4	Risk Management Information Systems
Dec 11	Employee Benefit Consultants
Dec '95	Managed Care Providers—HMOs & PPOs

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Dec 2	Risk Management Information Systems
Dec 9	Employee Benefit Consultants
Dec '96	Managed Care Providers—HMOs & PPOs

To reserve your 1996 directory issues, call Dorothy Wood at 1-800-678-9595. For directory information, contact Sandra Budde at (312) 649-5279.

Business Insurance

a publication of Crain Communications Inc

Annual listing of risk management information system vendors

A

AMI Risk Consultants Inc.

1410 N. Kendall Drive, Suite 208,
Miami, Fla. 33176; 305-273-1589;
fax: 305-274-4706

Risk management systems since: 1995.

Software products:

■ CLAIMSYS.

Price: \$10,000.

System requirements: IBM compatible PC system. Operates in Windows.

Customization optional.

First installation: 1995.

Total installations: Two, all in corporate risk management departments.

Claims/coverages managed: General liability, workers comp, auto.

Features*: Claim file processing, management reports, first report of injury and other regulatory form requirements, integrated with scheduler and notepad, mail merge/automatic letters, financial management reporting, safety management reporting, value-as-of reporting, terminal security, loss development reporting, experience modification factor calculation. Optional modules include computer check generator, risk management cost allocation, policy tracking, litigation management reporting, vocational rehabilitation reporting.

User support: User groups/meetings**, on site training**, telephone assistance eight hours per day**, software upgrades**.

Staff: Eight total, six professionals.

Branch offices: San Bruno, Calif.

Officers: Bob Ingco, president; Carie Ingco, vp.

Contact: Bob Ingco.

* Two versions are available (workers comp or general/auto liability). ** Included in system price.

American International Group Inc.

70 Pine St., New York, N.Y. 11270;
212-770-7000; fax: 212-785-1635

Risk management systems since: 1994.

Software products:

■ IntelliRisk.

Price: \$10,000-\$40,000.

System requirements: IBM compatible PC system. Operates in Windows. On-line system.

Customization optional.

First installation: 1994.

Total installations: 300; 156 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Claims management, payment analysis, policy information, activity notes, user notes, word processing, report distribution information, reporting facility, loss development and forecasting, electronic mail, data analysis, ad hoc reporting, litigation management. Optional modules include data conversion services, electronic claim reporting, customized RMIS reports, claim reporting via 800 number.

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

Staff: 42 total, 19 professionals.

Clients: 100 total, including 60 corporate risk management departments. Sold systems to 100 clients in 1994.

Branch offices: Los Angeles, San Francisco, Atlanta, Chicago, Boston, New York, Cleveland, Philadelphia, Dallas.

Contact: Alan T. Louison, director, 201-402-2902.

* Included in system price.

American Technical Services Inc. (ATS)

P.O. Box 1575, Pinellas Park,
Fla. 34664; 800-654-7611;
fax: 813-787-4805

Risk management systems since: 1986.

Software products:

■ ATS/COMP.

System requirements: IBM compatible PC system. Operates in Windows, Windows '95, Windows NT, AIX, SCO or OS/2.

Customization optional.

First installation: 1987.

Total installations: 80; 50 in corporate risk management departments.

Claims/coverages managed: Workers comp.

Features: Claims tracking and administration integrated with policy and exposure features; state and federal regulatory reports; over 100 standard management reports, including X/Mod, premium allocation, risk analysis, loss triangles, safety, value-as-of, check processing (direct or via interface); diary, calendar and activity logs; litigation and rehab management, integrated form letters, ad hoc reporting. Optional modules include first report of injury, case management, medical bill review, policy management, human resources/payroll interface, document imaging.

■ ATS/MED

System requirements: IBM compatible PC system. Operates in Windows, Windows '95, Windows NT, AIX, SCO or OS/2.

Customization optional.

First installation: 1987.

Total installations: 10; six in corporate risk management departments.

Claims/coverages managed: Medical benefits, including dental, vision and prescription.

Features: Tracking and administration of all medical benefit plans. Integrated with ATS/COMP for 24-hour coverage and monitoring of double-dipping, integrated with word processing. Optional modules include auto load from carrier/source, comp.

■ ATS/PAC.

System requirements: IBM compatible PC system. Operates in Windows, Windows '95, Windows NT, AIX, SCO or OS/2.

Customization optional.

First installation: 1987.

Total installations: 50; 40 in corporate risk management departments.

Claims/coverages managed: General liability, casualty, property, auto, medical malpractice, professional, cargo.

Features: Claims tracking and administration with integrated policy and exposure features; diary, calendar and activity logs; autostatutory dates; integrated form letters; certificate management; safety and loss reporting; over 100 standard management reports; payment processing (direct or via interface), ad hoc reporting. Optional modules include document imaging and incident reporting.

■ ATS/RMIS

System requirements: IBM compatible PC system. Operates in Windows, Windows '95, Windows NT, AIX or SCO.

Customization optional.

First installation: 1992.

Total installations: Six, all in corporate risk management departments.

Claims/coverages managed: General liability, casualty, property, auto, workers comp.

Features: Claims tracking, repeater analysis, location verification and reporting, loss triangles, over 100 claims and statistical reports, ad hoc report generation, diary and incident tracking. Optional modules include risk forecasting.

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

Staff: 16 total, 10 professionals.

Clients: 130 total. Sold systems to 28 clients in 1994.

Branch offices: San Francisco.

Officers: Cheryl Wing, president; Craig Zivolich, director-technology.

Contact: Cheryl Wing.

* Included in system price. ** Included in system price for ATS/COMP.

Continued on next page

The revolution is growing.



Change is risky. But standing still is even riskier. That's why Alexander & Alexander is reconfiguring itself to address the new demands of our clients and our industry.

A case in point: A&A's recent acquisition of U.S. insurance and benefits broking offices from Jardine Insurance Brokers. The purchase adds hundreds of outstanding professionals to the A&A organization. It brings more depth to industry segments such as health care, energy and construction. And it expands our already considerable U.S. presence.

It's a win-win situation all around. Former Jardine clients now have access to A&A's practice strengths and global reach. Meanwhile, A&A clients will benefit from a new group of risk management and benefits professionals who share our passion for service quality and delivery.

Look at it this way. For those of you thinking about joining our revolution, we've added more room. Join us.



Alexander & Alexander

Global Vision. Local Insight.

Continued from previous page

Anistics

1185 Ave. of the Americas, New York, N.Y. 10003; 212-238-1821; fax: 212-238-1039

Risk management systems since: 1970.

Parent: Alexander & Alexander Inc.

Software products:

■ Anistics Omega.

Price: \$25,000-\$35,000.

System requirements: IBM compatible PC system. Operates in Windows.

Customization optional.

First installation: 1994.

Total installations: 260, all in corporate risk management departments.

Claims/coverages managed: All lines, including general liability, property, casualty, workers comp, auto.

Features: Claims administration, claims

incident management, policy management, property management, inspection tracking, exposure tracking, standard and ad hoc reporting, graphics, risk financing analysis, cost of risk allocation, reserve tracking, risk control analysis, automated letters, calendar/diary, claim data consolidation, loss triangles, litigation management, faxing, risk management program analysis. Can be linked to multiple locations and human resource/payroll system. Optional modules include user-maintained organization and loss descriptors, ability to consolidate claims data from multiple insurers and management of claim/incident, policy, property and exposure.

User support: User groups/meetings*, onsite training*, telephone assistance nine hours per day*, additional training, data review and analysis.

Staff: 65 total, 55 professionals.

Clients: 50 total. Sold systems to 50 clients in 1994.

Branch offices: San Francisco; Atlanta; Dallas; Sydney, Australia; London; Paris; Edinburgh, Scotland.

1994 revenues: 60% from software sales, 40% from software services.

Officers: Mary Villani, global director; Roni Gossman, Stu Frank, Barbara Hooker, Lee Topham, vps.

Contact: Lee Topham.

* Included in system price.



California Interactive Computing Inc.

25572 Ave. Stanford, Valencia, Calif. 91355-1102; 805-294-1300; fax: 805-295-1310

Risk management systems since: 1977.

Software products:

■ GENCOMP Workers Compensation Claims Management System.

System requirements: IBM compatible PC system. Operates in Windows NT,

AIX, UNIX.

Customization optional.

First installation: 1977.

Claims/coverages managed: Workers comp.

Features: Provides claims adjudication, reserve analysis, bill repricing (multi-state), PPO discounts, state reporting, claims notes, diary/calendar, online ad hoc access to all claims information, standard and custom management reports. Optional modules include electronic data interchange, integrated optical imaging, archival retrieval system, Windows-based interface, open database connectivity compliant data inquiry and management.

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A guide to RMIS directory

The 10th annual *Business Insurance* directory of risk management information systems lists companies that produce and supply proprietary software products in response to corporations' risk management needs. To be listed, organizations must complete and return a *BI* directory questionnaire. The directory is published as an editorial service; there is no charge for companies to be listed.

The listings are organized by company and begin with the company name and address, the date the organization began offering risk management information systems and the parent company, if applicable.

Information on specific software products follows. Included in the description for each product are the average completely installed price, whether the software is sold with or without hardware, the type of hardware needed (IBM compatible PC system, Macintosh PC, mainframe or online system) including operating system requirements. Customization options are noted when applicable. Also included are the year of the first installation, the total number of installations to date since the product's introduction and the total number of installations in corporate risk management departments. Next are the types of claims or coverages managed by the products and their risk management functions and features.

Following the product summaries is information on continued user support and risk management information system staff figures. The next section lists total clients in 1994 and the number of those clients in risk management departments and new clients that purchased systems in 1994. Next are 1994 gross revenues and names and titles of principal officers. The name of the person to contact at each organization for additional information completes the listings.

Every attempt is made to publish complete and accurate listings. However, *Business Insurance* is unable to verify all information supplied by the participating organizations.

If you wish to receive a questionnaire for next year's directory, contact Directory Editor Sandra Budde, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5279.

Introducing CGS Commercial Group SalesSM

When it comes to group, association and franchise coverage, Aetna means business!

Aetna's CGS Commercial Group SalesSM is solely dedicated to the group, association and franchise market, and for good reason. We know groups have different needs than stand-alone business and we understand an organization's desire to offer the best insurance coverage it can to members.

Our experience speaks volumes. Aetna has more than 25 years of experience in this market. CGS was created to build on this experience and success by offering enhanced group buying power and innovative products. We're putting our clout to work for our customers.

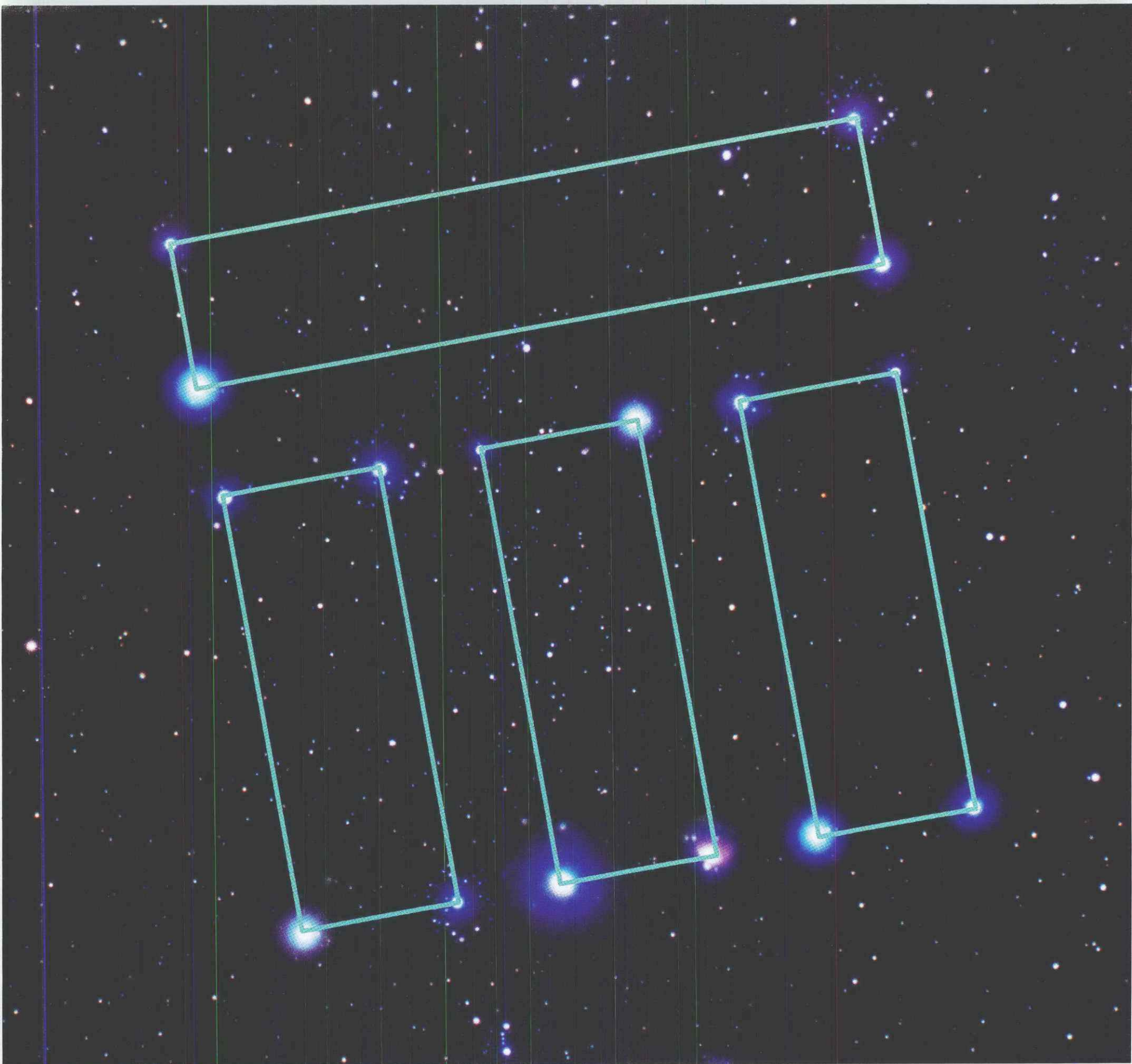
We help manage risk. Aetna's CGS embodies the art of underwriting by putting loss control at the heart of what we do. Our team includes dedicated professionals and expert underwriters who see customers as partners in the loss control arena.

Take our word for it. Our focus on group and franchise business in markets of all sizes means we can put together coverage and service that is right for just about any group.

Aetna's CGS Commercial Group SalesSM - We mean business!

For more information, please call 1-800-237-6729.

Aetna Casualty and Surety Company
Standard Fire Insurance Company
Automobile Insurance Company of Hartford
Aetna Casualty and Surety Company of Illinois
Farmington Casualty Company
Aetna Casualty and Surety Company of America
Aetna Commercial Insurance Company
Aetna Casualty Company of Connecticut



Can You Identify This New Star In Reinsurance?

It's Swiss Re America.

Our new symbol reflects the changes we're making at one of America's pre-eminent reinsurers.

This is far more than changing our name from North American Re. It signals the emergence of a bold new presence in American reinsurance.

With a capital contribution of \$850 million, Swiss Re America is now positioned to play an expanded role at the forefront of America's reinsurers.

Capital and surplus will be increased by \$150 million.

The remaining \$700 million will be added to reserves for the future

emergence of asbestos and environmental liabilities.

We will apply our enhanced capital base to benefit the specific needs of our clients.

Swiss Re America.

Call us to be sure your future losses won't end up in a black hole.

Swiss Re America



Continued from page 29

■ **GENIRIS Integrated Risk Information System.**

System requirements: IBM compatible PC system. Operates in Windows NT, AIX, UNIX.

Customization optional.

First installation: 1977.

Total installations: 400.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, group health care.

Features: Adjudicates and manages property and casualty, workers comp, group medical, claims and integrated disability management, risk analysis and reporting, interfaces between claims systems and risk management systems. Optional modules include electronic data interchange, integrated optical imaging, archival and retrieval system, Windows-based interface, open database connectivity compliant data inquiry and management.

■ **GENMED Group Medical Claims Management System.**

System requirements: IBM compatible PC system. Operates in Windows NT, AIX, UNIX.

Customization optional.

First installation: 1977.

Claims/coverages managed: Group medical, including dental, vision and prescription.

Features: Online eligibility verification, pre-certification of hospital stays, on-line access to case data, maintains standard industry tables and indices. Optional modules include COBRA processing from eligibility to payment, electronic data interchange, integrated optical imaging, archival and retrieval system, Windows-based interface, open database connectivity compliant data inquiry and management.

■ **GENPAC Property & Casualty Claims Management System.**

System requirements: IBM compatible PC system. Operates in Windows NT, AIX, UNIX.

Customization optional.

First installation: 1977.

Claims/coverages managed: General liability, property, casualty, auto.

Features: Provides multiple lines of coverage, controls reserve practices, assists in setting reserves, calculates and verifies payments, eliminates duplicate payments with online payment history, tracks and reports reinsurance levels by policy period, tracks subrogation information and recoveries, Form 1099 reports in hard copy and tape form, interfaces with other CIC claims and risk management systems. Optional modules include electronic data interchange, integrated optical imaging, archival and retrieval system, Windows-based interface, open database connectivity compliant data inquiry and management.

■ **GENRISK Risk Management System.**

System requirements: IBM compatible PC system. Operates in Windows NT, AIX, UNIX.

Customization optional.

First installation: 1977.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, group health care.

Features: Central data storage system for organizations that process their own claims, insurance companies or third-party administrators; accepts data from multiple sources and builds loss triangles according to user-specified parameters; interfaces with other industry programs. Optional modules include electronic data interchange, integrated optical imaging, archival and retrieval system, Windows-based interface, open database connectivity compliant data inquiry and management.

User support: User groups/meetings*, on site training*, telephone assistance nine hours per day*.

Clients: 270 total. Sold systems to 15 clients in 1994.

Branch offices: Cocoa Beach, Fla.

1994 revenues: 5% from hardware sales, 45% from software sales, 40% from software services.

Officers: Jerry C. Buckley, president; Ralph M. Flygare, Eric Hoffberg, vps.

Contact: Jerry C. Buckley.

* Included in system price.

■ **Cantor & Co.**

9100 Wilshire Blvd., Suite 445 E., Beverly Hills, Calif. 90212; 800-553-7267; fax: 310-859-7415

Risk management systems since: 1982.

■ **Software products:**

■ **Riskmap Risk Financing.**

Price: \$2,195.

System requirements: IBM compatible PC system. Operates in DOS or Windows. Online system.

Customization optional.

First installation: 1983.

Total installations: 140; 90 in corporate risk management departments.

Claims/coverages managed: All risks including general liability, property, casualty, workers comp, auto.

Features: Risk financing, discounted cash flow analysis, comparative analysis, fully integrated automated graphics. Optional modules to model your own plans available.

■ **Riskmap Loss Forecasting.**

Price: \$2,195.

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First installation: 1984.

Total installations: 83.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Frequency and severity forecasting, cost of property/casualty and benefit plans overall and by line of coverage computations, confidence intervals for analysis, fully integrated automatic graphics, self-insured retention and deductible analysis, inte-

grates with Riskmap Loss Development.

■ **Riskmap Loss development.**

Price: \$1,795.

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First installation: 1989.

Total installations: 22.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Produces development factors for total loss reserves and pay outs, generates graphics, includes fully integrated automated graphics, integrates with Riskmap Loss Forecasting.

■ **Riskmap Captive Risk Financing.**

Price: \$1,995.

System requirements: IBM compatible PC system. Operates in DOS.

Customization optional.

First installation: 1984.

Total installations: Two.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Produces income, equity and available cash statements; loss reporting and payment; discounted cash flow analysis; fully integrated automated graphics.

■ **MQMS Plus Claims Management.**

Price: \$6,000-\$40,000.

Continued on next page

Here's why Aetna is your best bet for managed workers' comp.

If you're a large, national company paying six figures for your worker's comp coverage, listen up! You need an insurance partner that can cut your workers' comp costs and provide the entire spectrum of managed workers' comp products and services, all under one roof. You want **Aetna's Managed Workers' CareSM**.

Minimizing the cost of an on-the-job injury – to both the employer and the employee – is what **Aetna's Managed Workers' Care** is all about.

Aetna's network of physicians and occupational therapists specialize in work-related injuries. Because they know the ins and outs of the

workers' comp system and have a sharp focus on getting the injured employee back to work, everyone wins.

Here's how it works: The moment a lost-time injury occurs, **Aetna's Managed Workers' Care** goes to work. Our disability managers – coordinating with Aetna's network of physicians – help get the injured worker appropriate medical treatment. This promotes a timely return to work.

Aetna's claim handling, billing review and oversight operations can help squeeze every ounce of productivity from your workers' comp dollars, helping insure that you pay only what you should.

To find out more about **Aetna's Managed Workers' Care**, contact your independent agent or broker.



Aetna Casualty and Surety Company
Farmington Casualty Company
Aetna Casualty and Surety Company of America
Standard Fire Insurance Company

Spotlight report*Continued from previous page*

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First installation: 1987.

Total installations: 260.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, professional liability, public risk.

Features: Incident reporting; safety and loss control; quality management; critical pathways; policy management; risk management; concurrent review; custom reports library; trending analysis; integrated custom graphics, including control charts; statistical reports; custom forms and letters modules; automated internal and external correspondence; customizable data dictionaries; financial analysis and reporting. Optional modules include interface to external information systems, notebook, scanning, exposure base management and litigation tracking.

■ Hospital RIMS.

Price: \$9,500-\$35,000.

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First installation: 1984.

Total installations: 13, all in corporate risk management departments.

Claims/coverages managed: General liability, professional liability.

Features: Claims management; financial analysis and reporting; transaction tracking, analysis and reporting; integrated automated actuarial analysis; reinsurance analysis; cost allocation.

User support: User groups/meetings**, onsite training***, telephone assistance eight hours per day*, training seminars on using computers in risk management.

Staff: Eight total, seven professionals.

Clients: 265 total. Sold systems to 15 clients in 1994.

1994 revenues: Risk management information systems sales and services: 3% from hardware sales, 57% from software sales, 40% from software services.

Officers: Alan B. Cantor, president; Judith J. Szarka, vp.

Contact: Alan B. Cantor.

* Included in system price; ** Included in MQMS system price, not applicable to Riskmap Captive Risk Financing system; *** Included in Hospital RIMS system price.

Control Software Group Inc.

3021 E. Dublin Granville Road,
Suite 100, Columbus, Ohio 43231;
800-336-7475; fax: 614-882-5570

Risk management systems since: 1986.

Software products:

■ Risk-Control Plus.

Price: \$795.

System requirements: IBM compatible PC system. Operates in Windows.

Customization optional.

First installation: 1988.

Total installations: 114.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: User-defined tracking of risk exposures, safety management, incident reporting, report generation/data analysis, unlimited notefields, diagnostic report generator, cost transaction reports by payment type, OSHA reports (101/200/incidence/severity), graphs/charts, direct and indirect cost, user and function security. Optional modules include workers comp first reports, data transfer link between Risk-Control Plus systems, ad hoc report generator.

■ OSHA-Control Plus.

Price: \$395.

System requirements: IBM compatible PC system. Operates in DOS only.

First installation: 1993.

Total installations: 85.

Features: Safety management, incident reporting, report generation for unlimited locations, OSHA reports (101/200/incidence/severity), unlimited notefields, user and function security.

User support: On site training, training seminars*, newsletters*, telephone assistance eight hours per day**.

Staff: Eight total, three professionals.

Officers: John P. Nipps, president; John P. Nipps II, Melvin R. Irwin, vps; Randall C. Nipps, secretary/treasurer.

Contact: John P. Nipps.

* Included in system price. ** First 90 days included in system price.

Conway Computer Group Inc.

6360 I-55 N., Suite 300, Jackson,
Miss. 39211; 601-957-7400;
fax: 601-957-9492

Risk management systems since: 1983.

Parent: Nichols Research Corp.

Software products:

■ PACCASSO, Property & Casualty Claims Administration Support System.

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First installation: 1987.

Total installations: 50; 20 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, marine and cargo.

Features: Data validity checking; inquiry, search and help functions; duplicate claim and payment checking; medical bill review; bank account and check writing capability; deferred payment generation; loss entry control;

comprehensive diary system forms generation; ad hoc statistical reports for reinsurance, severity, loss development and repeater's reports; experience reporting, including loss ratio information, earnings and entry of premiums. Optional modules include utilization review edit and electronic submission of first report of injury.

User support: User groups/meetings, on site training, telephone assistance eight hours per day.

Staff: 51 total, 41 professionals.

Clients: 54 total. Sold systems to five clients in 1994.

Officers: John A. Conway Jr., president.

Contact: Ken Walz.

Corporate Systems Ltd.

1200 Corporate Systems Center,
Amarillo, Texas 79102-4410;
806-376-4223; fax: 806-376-4077

Risk management systems since: 1967.

Parent: CSC General Partner Inc.

Software products:

■ CS Disability Management.

System requirements: Mainframe.

Customization optional.

First installation: 1991.

Total installations: 53.

Claims/coverages managed: Disability.

Features: Unlimited plan designs for short- and long-term disability, union, non-union and sick leave; employee demographics; check processing and fund management; disability duration guidelines; claims processing and record keeping; report generation; complete tax accounting; interface with workers compensation for 24-hour coordination. Optional modules include interface with internal general ledger, employee census and location coding database.

■ CS Knowledge.

System requirements: IBM compatible PC system. Operates in Windows or OS/2. Software product or online system.

Customization optional.

First installation: 1994.

Total installations: 65.

Claims/coverages managed: General lia-

bility, property, casualty, workers comp, auto, medical malpractice.

Features: Relational risk database with regularly updated summary data, graphical user interface self-help screens and Windows, value-as-of financial analysis, matrix grid functions to analyze two data elements against a third set of criteria, selection of disjointed or non-contiguous ranges of data, download of custom-defined risk data for use in PC spreadsheet, graphics and presentation software; information and summaries for account, claims, claim values, locations, payment, policy, procedure code, provider, hospital, premium and exposure base. Optional enhancements include senior management icons for pre-defined reports and graphics updated via dynamic data exchange.

■ CS + Managed Care.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2. Software product or online system.

Continued on next page

*The Alexis philosophy – No. 5 in a series***WIS****The ability to perceive.**

Continued from previous page

Customization optional.

First Installation: 1989.

Total Installations: 565.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, medical malpractice.

Features: Automated coding of diagnoses and procedures for physicians, hospitals, pharmacy and anesthesia bills, online review for normative patterns of treatment, rebundling of unbundled procedure codes, medical fee schedule review and repricing (database of state fee schedules, usual and customary fees, resource-based relative value system fees), duplicate identification, state rules for all fee schedule states, master drug database, global PPO network management, utilization review module, ad hoc reporting from relational database, laser check processing with explanation of reimbursement. Optional to interface with third-party claims systems, CS Claims Administration systems, internal general ledger.

■ CS Online.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2. Online system.

Customization optional.

First Installation: 1967.

Total Installations: 4,867.

Claims/coverages managed: Property, casualty, workers comp, auto, medical malpractice.

Features: Claims administration, loss prevention, policy tracking, reserve tracking, self-insurance comparisons and analysis, safety and loss control, incident reporting, online menu-driven report generation, turnkey batch reporting, laser check processing, diary and narrative, litigation management, supervisor/adjuster reporting, integrated word processing, vocational rehab tracking, allocation of premium, data conversion from over 170 sources. Optional to interface with internal general ledger, employee census, location coding database.

■ CS PRISM for Windows.

System requirements: IBM compatible

PC system. Operates in DOS, Windows or OS/2.

Customization optional.

First Installation: 1986.

Total Installations: 66.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, medical malpractice.

Features: Claims administration, loss prevention, policy tracking, reserve tracking, self-insurance comparisons and analysis, safety/loss control, incident reporting, online menu-driven report generation, turnkey batch reporting service, laser check processing, diary and narrative, litigation management, supervisor/adjuster reporting, integrated word processing, voc rehab tracking, allocation of premium. Optional to interface with internal general ledger, employee census, location coding database.

■ CS Property.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2. Online system.

Customization optional.

First Installation: 1994.

Total Installations: 2.

Claims/coverages managed: General liability, workers comp, auto.

Features: Multi-user Windows-based application to track all fixed assets, roll-up at multiple organizational units, safety inspection calendar to track values and all key dates with follow up.

■ CS TeleClaim.

System requirements: IBM compatible PC system. Operates in DOS, Windows, OS/2. Software product or online system.

Customization optional.

First Installation: 1984.

Total Installations: 495.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, medical malpractice.

Features: Automated toll-free accident reporting system, state form production for all states, ACORD-like or custom report production for liability, property and crime claims,

disability form production for required states, coverage verification, location code editing, managed care intervention, special safety analysis coding, OSHA record keeping, ad hoc reporting, special forms production. Optional modules include interface with internal general ledger, employee census, location coding database.

User support: User groups/meetings*, on site training*, telephone assistance 12 hours per day*, online help and tutorials, CS University courses.

Staff: 426 total, 357 professionals.

Clients: 4,933 total. Sold systems to 25 clients in 1994.

Branch office: Lisle, Ill.

1994 revenues: \$39 million total.

Officers: Johnny Mize, president/CEO;

Mike Unruh, vp-finance; Scott Gilmour, vp-sales/marketing; John Champlin, vp-client services.

Contact: Dave Duden, director-market-

ing.

* Included in system price.



DAVID Corp.

180 Howard St., 6th Floor, San Francisco, Calif. 94105; 415-362-4555; fax: 415-362-5010

Risk management systems since: 1984.

Parent: Watson Wyatt Worldwide.

Software products:

■ CompPlus.

System requirements: IBM compatible PC system. Operates in DOS, Windows or UNIX.

Customization optional.

First Installation: 1986.

Total Installations: 295; 190 in corporate risk management departments.

Claims/coverages managed: Workers comp.

Features: Claims administration support, loss development, loss forecasting, policy tracking, reserve tracking allocation of premium, risk analysis, certificates of insurance, safety and loss control, incident reporting, federal and state reporting, OSHA reporting, document imaging, payment processing, laser check printing, diary and notepad functions, litigation and medical detail tracking, medical fee schedules, online help. Optional modules include interface with P&CPlus and Incident Plus software and payroll/personnel systems.

■ P&CPlus.

System requirements: IBM compatible PC system. Operates in DOS, Windows or UNIX.

Customization optional.

First Installation: 1986.

Total Installations: 105; 75 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, auto.

Features: Claims administration for property/casualty and general liability claims, payment processing, policy tracking, reserve tracking, tracking and issuance of certificates of insurance, federal and state reporting, fixed asset information, laser check printing, flexible notepad and diary systems, litigation and medical detail tracking, online help. Optional modules include interface with CompPlus and Incident Plus software and accounts payable systems.

■ IncidentPlus.

System requirements: IBM compatible PC system. Operates in DOS, Windows or UNIX.

Customization optional.

First Installation: 1991.

Total Installations: Six, all in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty.

Features: Comprehensive tracking of incidents/occurrences and online inquiry/reporting tools for analysis of incidents by hospitals and health care facilities. Optional modules include interface with CompPlus and P&CPlus software.

■ Comp2000.

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Customization optional.

First Installation: 1987.

Continued on page 36



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and Factory Mutual developed the large drop sprinkler, which greatly limits fire

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as the storage of more challenging com-

modities, usually without subsequent

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just controlling high intensity fires,

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every day. We are committed to helping

you anticipate change, manage it, and to

stay ahead of it. That way, we can offer

our policyholders solutions for

their particular challenges.



Continued from page 33

Total installations: 50; 30 in corporate risk management departments.

Claims/coverages managed: Workers comp.

Features: Claims administration, reserve worksheet, diary function, disability calculation, medical fee schedule, investigation tracking, litigation tracking, subrogation module, medical claims management, word processing, government reports and forms, payment processing, state specific law and regulatory compliance for California. Optional modules include interface with accounts payable and personnel systems.

User support: User groups/meetings, on site training*, telephone assistance 15 hours per day*, product integration consulting.

Staff: 50 total, 35 professionals.

Clients: 290 total, including 230 corporate risk management departments. Sold systems to 45 clients in 1994.

Branch offices: Boston; Detroit; Dallas

Officers: Jim Swanke, president/CEO;

Allen Krakower, COO; Joe Lumpkin, director-sales/marketing; Chris Carpenter, director-software services; Greg Park, director-programming/software support.

Contact: Jennifer James, marketing manager.

* Included in system price.

DORN Technology Group Inc.

38705 Seven Mile, Suite 450, Livonia, Mich. 48152; 313-462-5800; fax: 313-462-5807

Risk management systems since: 1982.

Software products:

■ RISKMASTER/WIN.

Price: \$25,000-\$40,000.

System requirements: IBM compatible PC system; client server versions. Operates in Windows, ODBC compliant with access, SQL server, Informix, ORACLE or Sybase.

Customization optional.

First installation: 1982.

Total installations: 2,500, all in corporate risk management departments.

Claims/coverages managed: General lia-

bility, property, workers comp, auto, events/occurrences.

Features: Claims management, reserve evaluation, check processing, diaries, exposure analysis, litigation management, first report of injury, OSHA reporting, property management, ad hoc reporting, incident tracking, loss control, fund management, actuarial analysis, claim data consolidation, certificates of insurance, risk allocation, employee profiles, report and scheduling. Optional modules include bill review system.

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

Staff: 40 total, 25 professionals.

Clients: 700 corporate risk management departments. Sold systems to 200 clients in 1994.

Branch offices: St. Petersburg, Fla.; Cincinnati.

1994 revenues: \$4.5 million total, all from risk management information systems sales and services.

Officers: Mark Dorn.

* Included in system price.



EDS

13736 Riverport Drive, Maryland Heights, Mo. 63043; 314-344-8395; fax: 314-344-8691

Risk management systems since: 1963.

Software products:

■ Processor 1.

System requirements: Mainframe, online system. Operates in MVS/XA, OS/MVS or DOS/VSE.

Customization optional.

First installation: 1985.

Total installations: 26.

Claims/coverages managed: Health care.

Features: Cost containment for health claim medical bills; edits all medical charges; performs duplicate checking; calculates payables based on defined benefit schedules or reasonable and customary allowances, including administration of PPO arrangements;

services checked for appropriateness against the diagnosis; can apply additional edits based on user-maintained rule sets; issues checks for payments to providers or reimbursements to insureds with explanation of benefit. Optional modules are available for front-end data entry or tape claim input, pre-certification, procedure code bundling/unbundling.

■ WCPS-Worker's Compensation Processing System (see addendum, page 54).

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

Clients: 12 total, including four corporate risk management departments. Sold systems to three clients in 1994.

1994 revenues: \$10 billion total. \$100 million from risk management information systems sales and services, 90% from software sales, 10% from software services.

Contact: Norm Zomizer, 314-344-8263.

* Included in system price.

ERIC Systems

12828 Northup Way, Suite 120, Bellevue, Wash. 98005; 206-881-2074; fax: 206-883-9178

Risk management systems since: 1985.

Software products:

■ Risk Manager.

Price: \$9,995-\$14,995.

System requirements: IBM compatible PC system. Operates in DOS only.

Customization optional.

First installation: 1985.

Total installations: 14; 11 in corporate risk management departments.

Claims/coverages managed: Workers comp.

Features: Claims administration for self-insured companies or third-party administrators, tracks all claim activity from date of injury to closure, time loss and permanent partial disability calculation, diary/notes and financial transactions system, reserve tracking, supports up to five organizational levels per employer for multiple employers, vendor payment history, check writing with multiple check registers, check bundling, custom check/voucher designer, custom forms design, 84 user-defined fields, generation of government mandated reports and forms, tracks OSHA data and produces OSHA 200 reports, litigation tracking, open database connectivity compliant. Optional modules include vendor invoice adjuster for producing an explanation of benefits for each invoice.

■ Liability Manager.

Price: \$12,495.

System requirements: IBM compatible PC system. Operates in DOS only.

Customization optional.

First installation: 1994.

Total installations: Two, all in corporate risk management departments.

Claims/coverages managed: General liability.

Features: Incident tracking with date, time, cause, description, responsible party, vehicle information and cost center; tracks claims details per incident and allows tracking of multiple claims per incident; supports up to five organizational levels per employer for multiple employers; reserve tracking; check writing with multiple check registers; check bundling; custom check/voucher designer; diary/notes; custom forms design; 84 user-defined fields; litigation tracking; notes and financial transactions; open database connectivity complaint.

User support: On site training*, telephone assistance 12.5 hours per day**, internet electronic mail support*.

Staff: Seven total, six professionals.

Clients: 16 total, including 13 corporate risk management departments. Sold systems to three clients in 1994.

Officers: Frank Dee, president.

Contact: Kathleen Bystrom, sales manager.

* Included in system price. ** Included in system price for one year.

Continued on page 44



“Sedgwick’s INFORM™ helped Frito-Lay turn complicated data into useful information to reduce our total cost of risk.”

Ken Albrecht, Director of Risk Management for Frito-Lay, on why he chose Sedgwick’s INFORM.

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“Only Sedgwick was able to get an improved system up and running quickly. Now with Sedgwick’s new INFORM for Windows® RMIS system, not only can I get things done in minutes, but people throughout the company can pull data and immediately make better decisions.

“It’s nice to have a partner who doesn’t force easy fixes into place, but instead goes out of their way to find the right solutions to meet our specific needs.”

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Employee Benefits

If your company provides employee benefit information systems to corporations and you would like to receive a questionnaire for this March 18 directory, please call Assistant Directory Editor Rich Trout at 312-649-5483.

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

Agents feasting on niche market opportunities

Specialization is winning agents a place at the table



ILLUSTRATION BY ROGER GUNILLERS INUM

RMS describes its successful franchise

By REGIS COCCIA

A strong niche marketing strategy can pay big dividends, even for small insurance agencies.

Take, for example, Risk Management Specialists Ltd., which has seen business swell by focusing on a narrow niche.

The Islandia, N.Y.-based agency used its experience in association business to become

Agency uses association business ties to land its biggest account: McDonald's

one of only two agencies to receive approval from McDonald's Corp. to sell insurance to its franchise restaurants nationwide.

Selling coverage to associations helped Risk Management Specialists get off to a fast start since the agency was founded in 1992. This year, the agency's gross premium volume was

about \$7.5 million, and it hopes to boost that figure by more than 50% with new business next year.

"We've grown very rapidly in a short time. One of the reasons we've been able to do this is through association business," explained Diane Krause, vp and co-owner of Risk Management Specialists. "We are very niche/

program-oriented in our business."

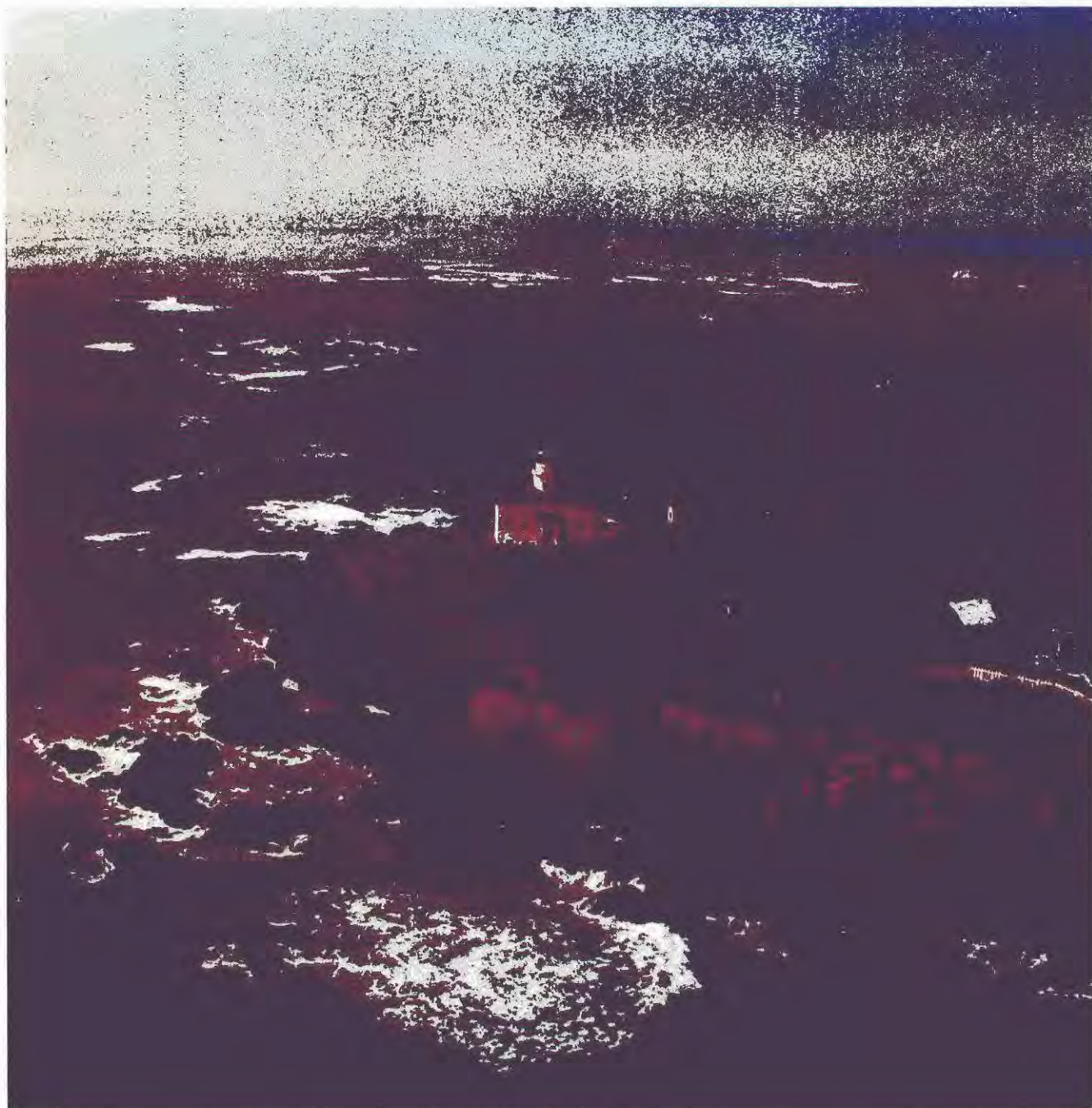
RMS sells commercial property/casualty, group benefits, long-term disability and workers compensation coverages in New York and other states. While the agency already counts as clients distributors of Pepsi-Cola, Snapple and Tropicana beverages on New York's Long Island, winning the McDonald's account this year opened the door for RMS to expand its business nationwide.

Part of the agency's niche marketing strategy is cross-selling. Once it gets a foot in the door with an association in one line of coverage, RMS offers other lines to the same clients, increasing its premium volume and cementing a relationship with customers at the same time.

RMS got its foot in McDonald's door through the New York State Restaurant Assn., which endorsed RMS after the agency sold the NYSRA a group medical plan. That endorsement, plus the agency's handling of workers comp coverage for some McDonald's operators, attracted the attention of the Oak Brook, Ill.-based restaurant chain.

Some McDonald's restaurants in the New York area had been having problems with property and casualty coverage, and owners had to pay "enormous" rates, Ms. Krause said.

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*Standard & Poor's

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NICHE MARKETING

"We were able to get McDonald's, and we did a dynamite job" with the coverages, she said.

As a result, Risk Management Specialists now places business insurance coverage for McDonald's in 31 states through Philadelphia-based General Accident Insurance. RMS sells McDonald's franchise operators property/casualty coverage nationally, and also workers compensation coverage in a few areas, she said.

RMS places commercial property and liability coverage for half of the McDonald's restaurants in California, as well as "a lot of business in Texas and North Carolina. The Northeast region is our biggest," Ms. Krause said.

"We insure about 1,000 locations. The opportunities now are endless: life, group disability, pension plans, etc., etc. Workers compensation is another area," she said.

At about \$6.5 million in premium in 1995, the McDonald's account is RMS' largest, and it could grow.

In the future, RMS also would like to sell personal lines coverages and benefits to McDonald's restaurant owners for their employee crews. "We're in the process of putting together an affordable medical benefit plan for the crews, with limited medical benefits," she said.

"By getting the McDonald's account, it shows this agency is capable of handling anything," she said. McDonald's franchise requirements are considered among the strictest in the fast-food industry, Ms. Krause noted.

See RMS on page 36D

Y

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Agent/Broker Topics

RMS

Continued from page 36B

"1995 was the year of McDonald's. Now it's time to hit the other fast-food chains nationally," she said.

While RMS plans to continue its successful niche marketing strategy, Ms. Krause said other agencies can benefit from a similar approach.

"Niche/target marketing is the wave of the future. It's a lot easier for agents to write," she said.

As in any kind of specialty, knowledge of the business is critical. For that reason, Ms. Krause

spent about two years learning all she could about McDonald's restaurants.

"I know everything there is to know about McDonald's," Ms. Krause said. "I could probably go into a McDonald's and run one."

And, that kind of in-depth knowledge helps the agency earn the respect of clients.

For most niches, learning the client's business takes about a year, Ms. Krause said.

But, "learning it is not just doing the insurance," she said. The agent must get involved in understanding a given business. One good way to do that is to attend the client's association

'Niche/target marketing is the wave of the future. It's a lot easier for agents to write,' according to Risk Management Specialists Ltd.'s Diane Krause.

meetings, she said.

"When you go to see a client and you know all the ins and outs of their business, they love it. They feel comfortable with you," she said. "Any insurance agent, if they know what they're doing, can write association business."

Association or program business is an important area for independent agents, said George Nordhaus, chairman of Insurance Marketing & Management Services Inc. in Santa Monica, Calif.

"You can't go down Main Street and find a business that doesn't have an association," he

said. "The independent agent who doesn't have access to some program business is in trouble."

But, developing a national insurance program like the one RMS formed is hard to do, Mr. Nordhaus said. "You very seldom see a successful national program. One main reason is there's so much competition."

To develop a program like RMS', an agency must find a program-oriented insurance company, Ms. Krause said. For example, RMS found General Accident willing to take on its McDonald's program.

"These days, it's the expertise, not the name" of the agency that can persuade an insurer to give an agency a contract for a niche program, said Andy Barile, an independent consultant in New York who specializes in matching agents with insurers. Once an agency proves that it has the expertise needed to service the niche, insurers are more willing to go with that agency, he said.

"To get a program together, the key is to have all the loss data, do all the work before you go to a carrier," Ms. Krause said.

For example, RMS is looking to set up a national personal lines insurance program for all McDonald's restaurant operators. Such a program would enable them to buy automobile and homeowners coverage through RMS, Ms. Krause said.

"We had hundreds of McDonald's operators send us their loss information before we went to the insurer. We did the legwork beforehand. They're already clients of ours, so we can get that info."

When RMS targets a new account, it takes a slightly different tack. "For a new group, we'll send out a mass mailer with our agency resume," Ms. Krause said. The resume shows prospective clients not only what types of coverage RMS has written but also the names of some of its current clients.

"The strategy is direct mail with a dedicated salesperson," she said. "We want one person to learn the whole concept. We concentrate on one thing at a time."

The agency's staff of 13, including two in-house salespeople, are very experienced but "youthful."

"We're a very 30-something agency," Ms. Krause said.

Risk Management Specialists began business in 1992 selling group medical and benefit business but expanded into property/casualty lines under Ms. Krause's direction.

Michael Eichinger, RMS' president and co-owner, runs the group medical side, "but we both do everything," she said. "It's a good mix. It actually works to our advantage."

RMS hopes to increase its gross premium volume in 1996 by adding \$3 million to \$5 million in new business, said Ms. Krause, adding that it's a "reachable, attainable goal."

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Finding the right niche market can be both challenging and rewarding

Agents eye evolving marketplace

By Kimberly Paterson

NICHE MARKETING isn't new to the insurance industry. In fact, you could say that the industry in this country was founded on it.

America's first insurers created

products to protect specific groups of individuals and businesses at risk. In essence, that was niche marketing. While similar in its basic approach, the current brand of niche marketing represents a highly evolved form of that technique.

In recent years, there have been a number of noticeable shifts in the industry's approach to niche marketing. As this process continues to evolve and the players search for new niches and better ways to do business, the following trends have emerged:

- **Agents are driving much more of the process.**

Traditionally, insurers have controlled the industry's niche marketing efforts. They've identified the niches, developed the products and approached agents with the opportunities. In some cases, insurers have even provided agents with leads.

Agents and brokers who have mastered niche marketing have learned to avoid the traditional market segments that most companies target.

But this is changing. Agents are taking the leading role in niche marketing efforts. Although insurer-initiated opportunities present some potential, in order to truly distinguish themselves from the competition, agents have had to seek out their own unique

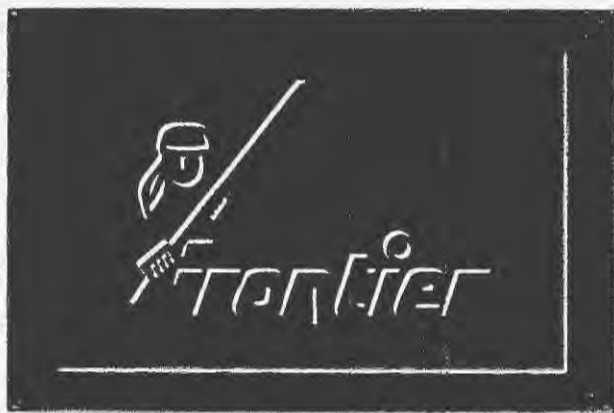
opportunities.

By identifying niches and developing proprietary programs, agents reduce the competition that's inherent in products and programs that are available to an insurer's entire agency force.

Perhaps the greatest hurdle agents experience in developing niche marketing programs comes when they seek out insurers to underwrite the opportunities they've uncovered. Agents who have been successful at securing insurer support attribute their success to extensive preparation and forethought.

They do their homework before approaching the insurer and go in with a well-thought-out strategy. Their presentations focus on how the insurer can make money writing the program. They include accurate loss experience by market segment. If the program isn't profitable at the time, they focus their presentation on what they will do to turn performance around.

Convincing an insurer to embrace a new venture is essentially no different than pitching a new account. It's a



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NICHE MARKETING

sales process that takes just the right combination of ingredients to come away a winner.

- **Niches are getting smaller.**

As insurers and agents stride toward specialization, many choose the same target markets. Consequently, a large number of companies are competing for a limited number of risks, and their new business hit ratios in those areas are poor. In today's market, low hit ratios can be devastating to profitability.

Agents and brokers who have mastered niche marketing have learned to avoid the traditional market segments that most companies target. Instead, they focus on pockets of opportunity and niches within niches. While these targets are often smaller than the more common—and overworked—market segments, they present ample opportunity for agents who can develop the expertise to really serve the market well.

Continued on next page

Continued from previous page

• **Agents are moving away from association-sponsored programs.**

For years, agents have relied on association endorsements to fuel their niche marketing efforts. While this strategy works from a marketing standpoint, it also presents some significant disadvantages. To begin with, administration costs drive up program costs across the board. At a time when cost is constantly under the microscope, some agents think that it just doesn't make sense to inflate program prices by adding unnecessary cost layers.

A second disadvantage of association-sponsored programs is their broad nature.

Association memberships are often quite varied. Programs designed for these diverse groups must be broad-based enough to have wide appeal.

But, any program that has such wide-ranging appeal will surely miss the mark with more than a few members.

As a result, the needs of certain segments within larger groups go unaddressed by association programs.

Here again, the concept of working niches within niches applies, as agents and insurers look to develop programs to meet the specific needs of members that aren't properly served by association programs.

Yet another factor that's souring agents and insurers on association business is the prevailing political climate in most associations. The need to include as many members as possible in the program makes underwriting selectivity difficult. As a result, program profits can suffer.

• **There's an increase in regionally focused niches.**

National insurers are increasing their regional focus so they may better adapt to local market conditions. A number of insurers have begun emulating their regional counterparts in both structure and operation.

In functioning like regional companies, a national insurer's regions can react to local market conditions and tailor programs to suit their immediate environment. In their drive toward regionalization, insurance companies are becoming more receptive to regional program business submitted by agents.

Agents who seek out regional opportunities and present well-thought-out programs are finding insurers more willing to take a closer look at their ideas.

• **It's not just coverages anymore.**

Today's insurance market is extremely competitive, and there's an abundance of programs on the market. As a result, it's no longer enough to approach customers with programs that are simply packages of industry-specific coverages.

Today's most successful programs are building in meaningful, "value-added" services. Agents

and brokers are using creativity and ingenuity to develop better solutions and find new ways of differentiating themselves from the pack. Many are working with customers to control losses, manage claims and keep costs down. Some are even offering these services on a fee basis. Whether offered as part of a program or for a fee, these services provide middle-market clients with resources that were previously available to only the largest companies. In doing so, agents are positioning themselves as a valuable resource.

• **Customers are playing a much larger role in the process.**

Agents and brokers who have mastered niche marketing have learned to avoid the traditional market segments that most companies target.

Many middle-market customers have become disenchanted with the insurance industry. They've grown weary of trading dollars with insurers year after year, and now they're looking to gain greater control over their insurance programs.

They're getting a handle on the

factors driving the cost of their programs by playing an active role in measures such as loss control and claims management. They are also much more receptive than ever before to options such as alternative buying mechanisms.

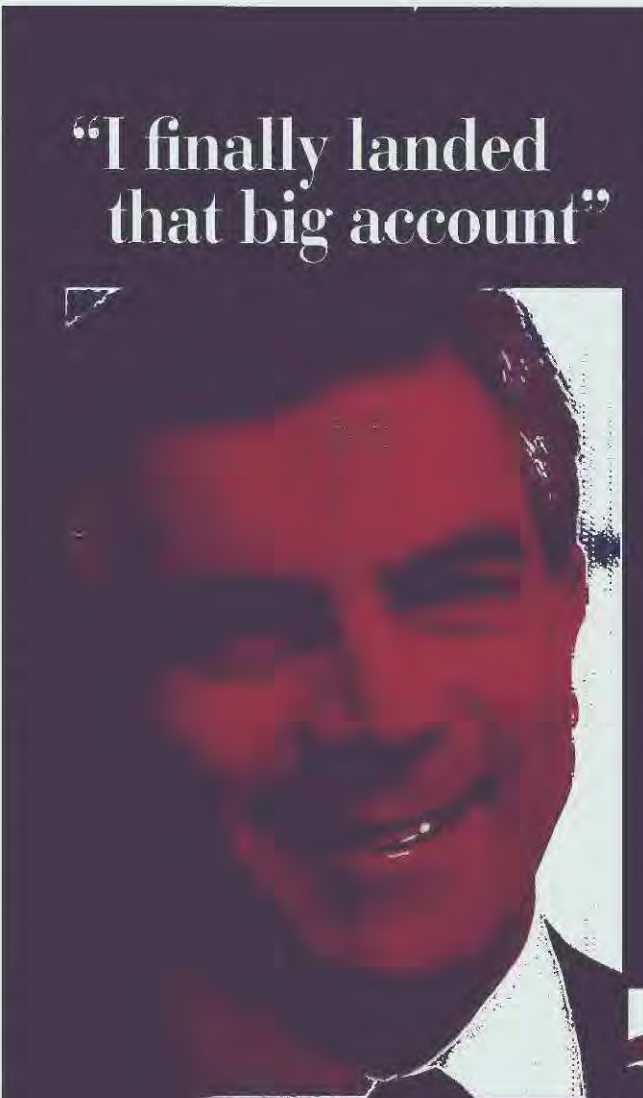
• **There's an increasing emphasis on alternative buying**

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See Niche on next page



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Agent/Broker Topics

Niche

Continued from previous page
 ket customers must consider alternative buying mechanisms.

As the evolution of niche marketing and program business continues, more and more agents, brokers and insurers are sure to jump on the bandwagon.

Those that take heed of the trends established by the insurance marketers who have mastered today's highly specialized version of the trade will be positioned for new levels of efficiency and profitability as their own niche marketing efforts take shape. **BI**



Kimberly Paterson is president of Creative Insurance Marketing Co., a Red Bank, N.J.-based marketing communications company. Throughout her career, Ms. Paterson has specialized in developing advertising and marketing campaigns for insurance companies, agents and brokers.

Success of unique agency symbolized in realist painting

Picture tells 1,000 words about program business specialist

By **RODD ZOLKOS**

One could boil down much of what the Chandler-Frates & Reitz agency is all about into a collection of symbols.

In fact, an artist has. Most of them are gathered into a corporate painting commissioned by the Tulsa, Okla.-based agency.

An eight ball and some oranges, a cherry pie and a jukebox might not seem the most likely symbols to describe an insurance agency, but in Chandler-Frates' case they tell the tale perfectly.

That tale is of a 60-year-old agency specializing in program business, which found its formula for success in both the commercial and personal lines markets with an approach that may seem like common sense

but in fact is untraditional. "There is no tradition here," according to Chuck Taylor, Chandler-Frates' chief marketing officer. "We feel that bogs you down."

According to Jack Allen Jr., Chandler-Frates' chief executive officer, the idea for the painting stemmed from works he and several of his friends owned by realist painter P.S. Gordon.

"All of these paintings tell stories about the owners of the paintings," Mr. Allen said. "He does it by putting in objects that have meaning to the owners of

Continued on next page

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A painting commissioned by the Chandler-Frates & Reitz agency depicts symbols like an eight ball and a slice of cherry pie to represent the agency's business philosophy and unusual practices.

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Continued from previous page
the painting.

"I told Pat (Gordon) I would like him to do a corporate painting. He said, 'I don't do corporate logos,'" Mr. Allen recalled. But after explaining to the artist that a logo wasn't what the agency was after, Mr. Gordon showed up unannounced at Chandler-Frates one day and spent time talking with employees about the agency.

"He never talked to me," Mr. Allen said. "He called me about a month later and said, 'I'm about halfway through with your painting. Would you like to come see it?'"

The artist had learned all he needed to know about the personality of Chandler-Frates by talking to members of the agency's "corporate family," Mr. Allen said.

In assembling that family, Chandler-Frates puts an emphasis on hiring high-quality individuals, "eights or better" on a scale of 10,

NICHE MARKETING

he said. Hence, the significance of the eight ball in the painting.

"It's OK not to be an eight or better, but it's not OK not to be an eight or better here," Mr. Allen said. "Our belief is good business starts with good people."

Fresh oranges in the painting symbolize the healthy work environment at Chandler-Frates. The agency has had a no smoking policy "forever," Mr. Allen said. More recently, it purchased an old warehouse building next to the Tulsa office and turned the upstairs into a gymnasium.

About 20 people from the office have been using the gym regularly and now the first floor of that building has been refinished into an aerobics floor, with 20 more employees signing up for an aerobics program. The agency gives employees who enroll in the program 30 minutes off at the end of the day three days a week to go to the hour-long aerobics class.

And literally, the oranges also depict the case of oranges delivered to the office each week for agency employees.

"We start with good, quality people and we give them a wholesome environment in which to work," Mr. Allen said. "At the end of the day the only things that are left are relationships and creativity. Technology can replace everything else."

Those relationships are proving a key factor as the agency's business moves in new directions.

"A larger and larger percentage of our business is coming in the employee benefits areas and the life areas," Mr. Allen said. "Over the past couple years our organization has had some incredibly large life insurance sales as a result of

the property/casualty relationships we have formed."

A diploma in the painting represents the agency's commitment to education.

"Every person in this organization is in some sort of continuing education," said the agency's CEO, noting the organization's commitment also extends to the community as well. The agency is involved in an advisory capacity with the business school at Oklahoma State University.

"We also have made a real serious commitment to public education at a primary level," Mr. Allen said.

The agency has adopted an "at

'It's OK not to be an eight or better, but it's not OK not to be an eight or better here,' says CEO Jack Allen. 'Our belief is good business starts with good people.'

risk" elementary school in one of Tulsa's poorer neighborhoods that lacks the financial support to offer some programs available at wealthier schools. Employees receive an hour off each week to go work with students there.

There's also a cherry pie in the painting, "and the meaning there

is when all of these other things go the way they should we all get a piece of the pie," Mr. Allen said.

The agency's bonus system is designed to ensure that. "If we make our goals, every member of our organization gets a bonus," Mr. Allen said.

A bell and a pile of phonograph

records also are depicted in the painting. When a sale is made at the agency, the bell is rung "and then the person who made the sale goes over to the 1952 Wurlitzer jukebox and plays a song," Mr. Allen said.

A vase of flowers in the painting represents the agency and its employees, and finally, there is also a snow globe paperweight depicted in the work containing a castle representing Disney's Magic Kingdom.

"The name of the painting is 'Whatever You Do,'" Mr. Allen said. "Disney said that whatever you do, do it so well that people

See Agency on next page



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Agent/Broker Topics

Agency

Continued from previous page

want to come back to see you do it again and they'll bring someone else with them."

The Disney connection is made elsewhere at the agency, in the form of a five-foot wooden Mickey Mouse statue in the conference room.

"It's really a piece of art," Mr. Taylor said. "We have the fourth one that Disney commissioned. The first one's at Disneyland, the second one is at Disney World, the third one is at Michael Jackson's house and we have the fourth."

Mr. Allen saw the statue being removed from the crate at a Disney World gift shop, decided he had to have it and bought it immediately.

A gym, a jukebox and Mickey Mouse might not be the typical elements of an insurance agency, but "somehow we keep making money in spite of it," Mr. Allen notes.

Whatever the reason, the agency's philosophy—which Mr. Allen said boils down to "sharing and caring"—seems to be working. The company's staff has quadrupled to 60 since 1984 and its annual gross revenues have risen to \$6 million from \$500,000.

"We don't want every client out there," explains Jim Consedine, who works in Chandler-Frates' health insurance and estate planning areas. "We want people who appreciate expertise and the value we bring to the total insurance package and we work very, very hard to give our clients that."

One area of the agency's expertise is in program business for specific industries and other group-type products.

Earlier this year, Chandler-Frates' performance in the program business area earned the agency an Award of Excellence from Travelers Insurance Co. The award marked Chandler-Frates' writing of nearly \$2 million of Travelers industry-focused property/casualty products.

Also, Travelers noted that Chandler-Frates worked closely with the insurer to develop "a highly profitable, industry-specific program and a nearly \$8 million total book of business with Travelers, while maintaining a 35% loss ratio for each of the last three years."

The agency is hard at work developing other program business. "We're currently working on three separate programs, each of which could bring in a million dollars by itself," Mr. Allen said. It also is developing several possible strategic alliances and affinity group-type products.

"We spend a great deal of time trying to find ways to deliver insurance products to very large groups of people," he said.

As for Chandler-Frates' future, the one thing that's certain is it will continue to focus on providing expertise that can benefit clients.

"Where we're going is wherever these new opportunities lead us.

We think that many of these opportunities are only going to be related to insurance products," Mr. Allen said. "We used to be dependent on insurance products, now they are only part of an overall package we offer."

"We've got a couple of insurance companies who are talking to us about producing products that really may only be a little bit like insurance products when we're through," he said. Much of the focus in those products will be on risk management, claims management and operations management.

"A lot of things that cause insurance problems are really opera-

'We want people who appreciate expertise and the value we bring,' says Jim Consedine.

tions-related," Mr. Allen said.

"We're dealing with a lot of companies that as clients are basically looking for information and dollars," Mr. Consedine said. "Just by letting them know what's going on out there, factoring in the cost of keeping clients aware of changing market costs, we feel we can

give our clients a lot of value," he said.

"Our clients aren't looking just for the lowest possible premiums," Mr. Allen said. "They're looking for the lowest ultimate cost. Sometimes they're the same, but not always."

Formed in Tulsa in 1955 by brothers Leonard and Paul Reitz as the insurance arm of their real estate firm, Chandler-Frates today has offices in Tulsa and Oklahoma City. It has clients across North America with a variety of associations and affinity groups accounting for much of its business.

Mr. Allen said the agency has discussed establishing operations

in Kansas City, Mo., and Dallas. "Those are the next logical places for us to go. It doesn't mean it's going to happen," he said.

"We're doing international business from Tulsa, Okla. You don't need to have an office in every state," Mr. Allen said, noting the agency benefits from participation in networks such as Intersure Ltd., a Falls Church, Va.-based group of 40 agencies and brokerages.

Affinity group products also have helped establish its identity across the country. "We're on the phone every day with some insurance organization somewhere in the country who knows who we are," he said. **BI**



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Clear vision needed to boost agency sales

Agencies must develop 'sales culture' to operate successfully, consultant says

By SALLY ROBERTS

The problem behind ineffective sales management is not a lack of time, it's a lack of vision, a consultant contends.

"Time is a commodity. It has a

price and it can be bought," says Randy Schwantz, president of Schwantz & Associates, a Plano, Texas-based sales management consulting firm.

"The key to making sales management happen is change," he said. And change begins with agency principals establishing a

clear sales vision.

"If there is no vision, there is no sales culture, and if there is no sales culture, agents have (lousy) sales management," he said.

Typically, an agency owner acts as sales manager and also takes on the role of administrator and accountant.

He or she "has accepted the role of sales manager out of necessity not desire," Mr. Schwantz said. "Rather than having a clear vision, they feel they have to do this."

For example, the average agency sales manager spends less than 10 hours per week on ac-

'The focus for most of us in this industry is in maintaining costs' when the focus should be more on sales, according to sales management consultant Randy Schwantz.

tual sales management. This includes conducting sales meetings, training sales people, joint sales calls, counseling and product development, Mr. Schwantz said.

These are all activities listed as the key business practices to effective sales management in the

Independent Insurance Agents of America's guidebook, "Best Practices of the Leading Independent Insurance Agencies."

Mr. Schwantz discussed these key practices during a session at the annual IIAA convention this fall in Las Vegas.

According to the best practices guide, the weaknesses associated with sales management include: lack of strategic planning; not enough emphasis on new business; lack of a focused sales effort; an inability to hire proven sales people; and low hit-ratios.

"Can you imagine having a great script and not making a movie?" Mr. Schwantz asked agents attending the session.

Agents need to develop a sales culture within the agency and it starts by changing the business environment.

"The focus for most of us in this industry is in maintaining costs" when the focus should be more on sales, Mr. Schwantz said.

Clear values should also be part of an agency's sales culture, he said. Agencies need to spend the time and effort to recruit good consultative sales people and to create "a new respect for those who sell insurance."

Too many agencies are supporting and tolerating non-productive producers, he continued. "Agents need to create an environment that you grow or you die."

Also involved in a sales culture is changing the agency's routine to create a sales environment.

Mr. Schwantz suggests implementing a continuous rapid improving sales process, in which a group of producers gathers weekly to discuss referrals and prospects. By doing this, producers begin thinking on a continuous basis of meeting new people and obtaining prospects.

He also suggests a "sales blitz," where producers once a month spend two straight hours calling potential buyers.

"In those two hours, producers will do more prospecting than they did in the last six months," Mr. Schwantz said.

Ceremonies should also be included in a sales culture, Mr. Schwantz said. Sales managers should reward behavior that they want other producers to duplicate.

"You have to reinforce what you want them to do," he said.

A team sales management approach is the best way to maintain the culture within the agency.

Instead of trying to be all things to the agency, the sales

See **Sales** on next page

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Sales

Continued from previous page
manager should "focus on strengths and delegate weaknesses," Mr. Schwantz suggested. The sales manager should "get rid of tasks that you could pay someone else \$12 per hour to do," he said.

A team sales management approach will generate more production because it places people in the areas for which they are best suited.

Mr. Schwantz suggests the sales management team be broken down into four roles.

- The culture creator answers the question, "What do we want to create?" This person should be in charge of recruiting because he or she is good at giving recognition and is a good sales person.

- The coach or mentor should hold the sales meetings and enforce the values to make the sales culture work.

This person should make producers think of their future rather than act as a motivator, Mr. Schwantz said.

- The product manager is a creative person who follows through on ideas and makes things happen and answers the question, "How can we differentiate ourselves?"

- The accountant or economist likes numbers and will answer the question, "Where will the agency be in three years if it maintains the same pace?"

To learn how to create a sales culture and to build a strong sales team, Mr. Schwantz suggests looking to the past.

Agents should ask themselves, over the past year, what are the three most important money-making activities the agency performed? How have you spent the majority of your time in the past year? Over the past year, what have been your three most successful delegations? Over the past year, what have you obtained, acquired, developed or created that supports your ability to grow?

Agents should then look to the future and ask themselves what are the most important personal and agency goals over the next three years, Mr. Schwantz said.

And finally, agents must determine the truth about the agency's current situation, he said. Are there obstacles to desired growth? What will help overcome these obstacles?

"This is where the rubber meets the road," he said. "There are lots of producers living a lie" by believing they are "maxed out" and cannot be more productive. Time is never a reason for poor sales management, he said. **EB**

'Building new expertise' goal of CPCU president

Roger Smith, CPCU Society's new chief, designates knowledge as area for growth

By MARK A. HOFMANN

Roger L. Smith will be able to draw on his 20 years as head of the oldest insurance educational organization in the country as he steers the Chartered Property Casualty Underwriters Society through the next year.

Given his background in professional education, it's entirely appropriate that Mr. Smith has chosen "Building New Expertise" as the theme of his CPCU presidency.

Mr. Smith, 59, has been president of the San Francisco-based Insurance Educational Assn. since 1975. The IEA traces its lineage directly to the Fire Underwriters' Assn. of the Pacific, a professional education society founded in 1876. Before joining the IEA, Mr. Smith worked for Crum & Forster's Industrial Indemnity Insurance Co. in San Francisco as director of training and worked previously in marketing positions. He holds a bachelor's degree from Stanford University in Palo Alto, Calif., and a master of business administration degree from Golden Gate University in San Francisco. He has been a member of the

CPCU Society for nearly 30 years.

The Malvern, Pa.-based CPCU Society is an organization of insurance professionals who have earned the Chartered Property & Casualty Underwriter designation by completing an intensive



Mr. Smith

curriculum and passing 10 examinations. The American Institute of CPCU, founded in 1942, has conferred the designation on more than 43,000 insurance industry employees since the first one was bestowed in 1943.

Mr. Smith said he picked the theme of his presidency for two reasons. "First, my whole background is professional education and training, so I wanted a theme that reflected my own commitment to professionalism. But, probably more so, I was really after trying to get across that people need new and updated knowledge and skills because of the dramatic changes in the industry," he said.

A variety of factors have fueled
Continued on next page

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those changes, Mr. Smith said. These include general corporate restructuring, with an emphasis on downsizing, and the growth of new technology.

In conjunction with the general theme, Mr. Smith has also picked two areas of concentration for the society's 152 chapters. "I've asked each chapter to conduct some type of a program or educational event to help members improve presentation and communications skills," he said.

As Mr. Smith put it, this event could involve almost anything, including having a professional speak on presentation skills or viewing a videotape on effective communication.

The fact that chapter sizes range from about 20 to more than 600 makes flexibility a must, Mr. Smith said. The aim of the program is to make CPCUs better educators within the insurance industry and to be better equipped to work with their clients, he said.

A second area of concentration is a call on all chapters to "either conduct or support an existing program that increases the public's knowledge" of the insurance industry.

Mr. Smith serves on the board of the Insurance Education Foundation, a Indianapolis-based organization that promotes insurance education for high school students and provides insurance educational programs for public school teachers at universities across the country (A/BT, Oct. 2). The IEF also distributes videotapes about insurance's place in the economy to high schools.

Looking ahead, Mr. Smith said that one of the biggest challenges facing the group stems from its success in getting people to complete the rigorous 10-course program that leads to the CPCU designation. During its annual meeting in October in Honolulu, the society conferred the CPCU designation on 4,852 individuals—the largest class in history.

Members of the CPCU Society can participate in continuing education programs and conduct research projects. They can also participate in special-interest sections, such as loss control and reinsurance and receive newsletters dealing with their area of interest.

There are also financial benefits to membership, including a no-annual-fee credit card and access to a national job network referral service for unemployed society members.

Despite this year's huge class of designees, Mr. Smith foresees a smaller pool of potential members in the near future. "There's definitely a downturn in the pipeline" because of company downsizing and the reduction in agency forces, he said. The society will have to step up its candidate development program to

deal with the probable shrinkage, he said.

The CPCU Society seeks to serve its current members better with the installation of a "major new software system in Malvern," he said. The system will allow the organization to respond more quickly to members' requests and to download information to chapters. The society also recently obtained an address on the Internet—<http://insureinfo.com/cpcu/>—and is in the process of setting up a toll-free number for members.

"We're really trying to be member-focused and member-driven," said Mr. Smith. **BI**

For states, too much of a good thing?

Regulator praises diversity of state oversight, but adds caution

By JUDY GREENWALD

The diversity of the state regulatory system is perhaps its greatest strength, but left unchecked it can also become its greatest weakness, says Iowa Insurance Commissioner Therese M. Vaughan.

She called for greater efficiency in state insurance regulation at a panel discussion recently during

the annual CPCU Society meeting and seminars in Honolulu. The panel, composed primarily of insurance company and brokerage chief executive officers, focused on a variety of barriers that need to be overcome for businesses to succeed in the insurance industry.

Ms. Vaughan said that while state regulation offers diversification and experimentation, federal regulation offers uniformity, and both have their advantages

and disadvantages.

Diversity is perhaps the states' greatest strength, she said, citing varied approaches by the states to handling health insurance. Still, state discretion should not be left unchecked as the cost of dealing with 50 different states is a legitimate concern for the insurance industry.

Illustrating her point, Ms. Vaughan noted that after she agreed to speak on the panel a

See **State** on next page

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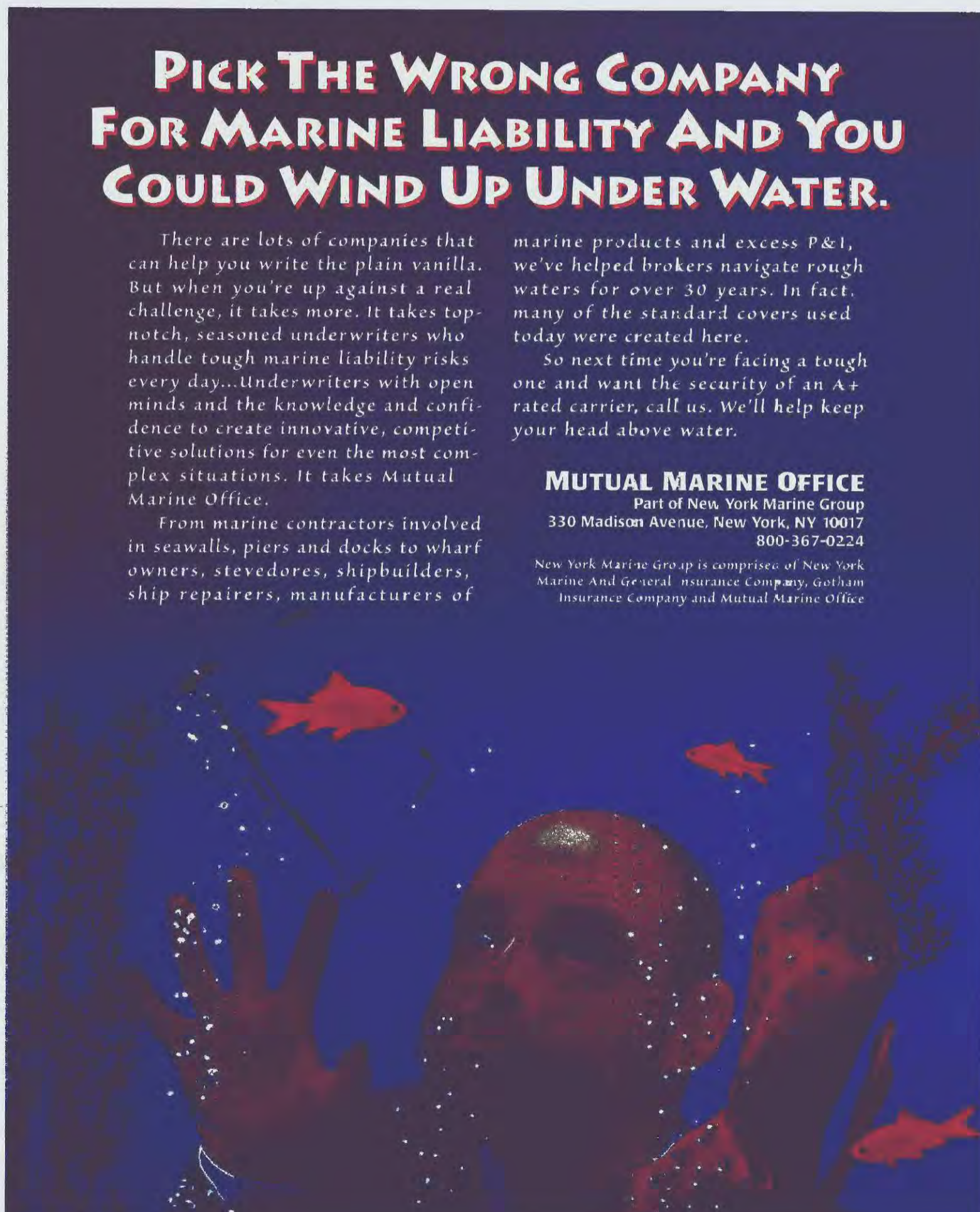
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Agent/Broker Topics

State

Continued from previous page

year ago, she received 20 different forms—which created a stack an inch thick—from as many states to fill out so that CPCUs who were residents in those states could receive continuing education credit.

All essentially asked for the same information. "It was absolutely maddening to me," she said. Multiply that by the people on this particular panel, at other panels being held at the CPCU conference and by other panels being held at conferences around the country and "it's no wonder that people are critical of this system," said Ms. Vaughan.

Such diversity "with no apparent offsetting benefits" is an "example of state regulation at its worst," she said.

State regulation can reflect different local conditions or philosophies or explore different solutions to problems, but it can also simply reflect bureaucratic tendencies, she said. "And, unfortunately, we have too much of that."

Pointing to several current National Assn. of Insurance Commissioners initiatives, Ms. Vaughan said she was confident that some of the unnecessary inefficiencies could be eliminated from the system.

State regulation will never be—

and should never be—completely uniform, she said. But now regulators can critically evaluate whether the differences across states in a particular area "really make sense in terms of protecting consumers" or whether they generate additional costs that are ultimately paid for by the consumer, said Ms. Vaughan. "We are starting to crack it."

Also speaking on barriers to success, Arthur F. Quern, chairman and CEO of Rollins Hudig Hall Co. of Chicago, observed that brokerages are moving beyond risk transfer and becoming more knowledge-based and more focused on solving problems.

The focus on risk transfer, said Mr. Quern, is giving way to finding integrated solutions that "draw on an array of specialized knowledge" involving client-driven partnerships.



Mr. Quern

What he called the "new equation" for brokerages involves specialization, creativity and delivery. Specialization refers to lines of business, as well as financial, legal and technical know-how; creativity involves acquiring a whole set of knowledge required by

clients to solve their problems; delivery involves deploying the knowledge efficiently.

While pricing is still important, brokerages are moving into consulting areas where skill and knowledge are the bases of competition, said Mr. Quern. They are moving away from the middle ground as intermediaries and toward a clear allegiance with clients in partnerships "that are driven by their needs."

Frederick J. England Jr., chairman of Hastings Tapley Insurance Agency Inc. in Cambridge, Mass., focused on the barriers overcome by independent agencies that have survived the recent industry consolidation.

Over the past 10 years about 35% of agencies have disappeared and direct writing insurance companies have gained increased market share, he said.

Mr. England cited four factors behind the success of the surviving independents:

- They have had a "total commitment" to automation.
- They have the capacity to process transactions electronically.
- They specialize in narrowly-defined market segments.
- Their sales effort is "coordinated with insurers' appetite for business."

Among the factors that will be required for continued success in the

future, Mr. England said, are that the agent should:

- Provide good and lasting value with high ethical standards.
- Have a sales staff as well as a support staff that is technically well-educated, can sell the products insurers offer, and can get and retain accounts.
- Be part of a strong network.
- Have perpetuation arrangements made to meet both financial and leadership requirements.
- Determine which products and services the agency does not wish to pursue. An agency cannot do everything, but what it does do it should do well, said Mr. England.
- Have the capacity to reach customers for sales and service through computers.
- Have the capacity to handle the needs of its clients in the areas of: financial services, self-insurance and in multiple states and overseas.
- Have the capacity to deliver products at "direct writer prices" as part of the independent agency system.

While independent agencies have broken certain barriers in the past, said Mr. England, the "real issue" is that barriers must be broken in the future.

Turning to a subject that insurers must cope with to be successful, the president and CEO of SAFECO Insurance Co. of America focused on the dangers of a major cata-

strophic loss.

The 10 worst catastrophes in U.S. history, in terms of insured losses, have occurred since 1989 and, because of the population movement, "there are more and more people in harm's way," said Dan D. McLean.

Among the goals he suggested be established to mitigate losses were: better enforcement of stronger building codes; the use of better building materials; and enhanced education and awareness of the dangers.

The industry is vulnerable to a mega-loss of as much as \$150 billion, asserted Mr. McLean. Such a "500-year event" could occur "tomorrow, next week or next year" and financially cripple the property/casualty industry because there is inadequate reinsurance worldwide to cover such a loss.

This is why, he said, passage of the proposed National Disaster Partnership Protection Act now in Congress is important (BI, June 19).

It is not an industry bail out, he said. Instead, it establishes a pre-funding mechanism, and would be a combined profit and non-profit organization that could borrow money from the U.S. government if the pre-funding is inadequate. The funds would be paid back at the market interest rate. It is "very critical" the industry support this legislation, said Mr. McLean. ■

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Ethics for those of a practical mind

Institute aims to make all parties to insurance contract more aware

By MARK A. HOFMANN

The new Insurance Institute for Applied Ethics will stress practicality in the research it funds.

The institute will also focus on professional education of a decidedly practical bent, said Norman A. Baglini, who is president of the ethics institute.

The ethics institute was created by the trustees of the American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America. Mr. Baglini also is the president of both Malvern, Pa.-based organizations.

The ethics institute currently has a total funding of \$1 million over a five-year period, which was approved by its sister institutes' trustees when they founded the new institution. Money for the new institute will come from the AICPCU and IIA, which themselves are funded by insurance industry contributions.

The ethics institute's goal is simple and straightforward, Mr. Baglini said as he announced its creation earlier this year.

The institute's purpose "is to heighten awareness of the pervasiveness of ethical decision-making in insurance and to explore ways to raise the level of ethical behavior among parties to the insurance contract."

The foundation of that effort rests on research and education. Although the AICPCU and IIA staff operate the new institute, the ethics institute plans to commission independent studies by outside researchers.

Although the institute has received numerous ideas for research proposals, it has approved only one so far because others did not apply to insurance, Mr. Baglini said.

"We put the word 'applied' in our name to show that the research is to be practical," he said. The institute will only fund practical research with sound methods.

Mr. Baglini said that the sole approved research proposal will study insurance company insolvencies over the past 20 or so years, focusing on testimony to see to what extent dishonest acts played roles in the companies' collapses. The institute has not made the name of the researcher public yet.

The institute's second focus, ethics education, also stresses the practical rather than theoretical.

The institute has already approved a proposal to develop a modular ethics course with a facilitator's guide. The materials will be formatted so that an ethics workshop could run any-

where from two to eight hours. According to Mr. Baglini, the course will involve "real-world scenarios" with discussion questions for the group to work out.

The course will be filed with regulators in all states for continuing education credit, said Mr. Baglini.

He noted that some states already require a certain number of ethics hours for agents' continuing education, and the institute wants to provide a complete

package for continuing education requirement. He added that he thinks agencies and brokers will want to incorporate this program into their training programs.

"In addition to producing these products, we're also going to be conducting a number of workshops around the country," said Mr. Baglini.

He stressed that the workshops are separate from events marking March as "Ethics Awareness

Month," which was launched in 1990 by the AICPCU, the CPCU Society, the Bryn Mawr, Pa.-based American College and the American Society of Chartered Life Underwriters and Chartered Financial Consultants.

The American College and the CLU/ChFC Society are education and service groups focused on life insurance.

The ethics institute workshops will entail presentations to senior management of insurance companies and to the education departments of companies. The effort will also extend to brokerages, with the institute "helping their instructors to incorporate

ethics into marketing training, claims training, underwriting training and management development." Mr. Baglini said he expects this outreach effort to grow substantially.

In connection with Ethics Awareness Month, all of the co-sponsors will sponsor six ethics summits across the country, said Mr. Baglini.

The ethics institute is funding the keynote speakers and is currently looking for noted ethicists and the heads of major ethics institutes in the United States to speak, "to challenge us to apply ethics everyday in insurance," he said. BI

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Award to honor communities for minimizing disaster losses

Leaders in loss control will be awarded and cited as examples

By SALLY ROBERTS

Communities demonstrating exemplary achievements in establishing innovative, cost-effective loss control programs in the event of

a natural catastrophe will soon be recognized for their achievements by the Insurance Institute for Property Loss Reduction.

Starting in 1996, the Boston-based IIPLR will honor those communities that have protected lives and property through a natural hazard mitiga-

tion program with the Community Spotlight award.

The ultimate goal of the award is "to get more communities to adopt mitigation measures" to protect themselves from such catastrophes as earthquakes, floods, tornadoes, hailstorms or hurricanes, an IIPLR spokesman said. "One of the ways to do that is to give those with good programs a pat on the back," he said.

By sharing success stories, the IIPLR hopes other communities will follow in their footsteps and set up a natural hazard mitigation program.

Entries for the award will be judged by a panel of catastrophe loss mitigation experts appointed by the IIPLR against eight criteria, though it is not

necessary that the community's performance be exemplary in all categories. The criteria are:

- Success in identifying the natural hazard mitigation needs and resources of the community.
- Success in developing a strategic plan, a program and an implementation plan that includes goals, action steps and a time line.
- The extent to which the program addresses natural hazard issues in an innovative, practical

mitted, without material weakening. The program will also be judged on enforcement of the code provisions.

- The degree to which the program can be replicated in other communities.
- Success in establishing an implementation structure, the extent of community group participation and evidence of a working public-sector/private-sector partnership.
- The degree to which the pro-

'The ultimate goal of the award is "to get more communities to adopt mitigation measures" to protect themselves from catastrophes,' says an IIPLR spokesman.

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Bob Diamond (l.) and Jeff Rubin at Effective Security Systems.

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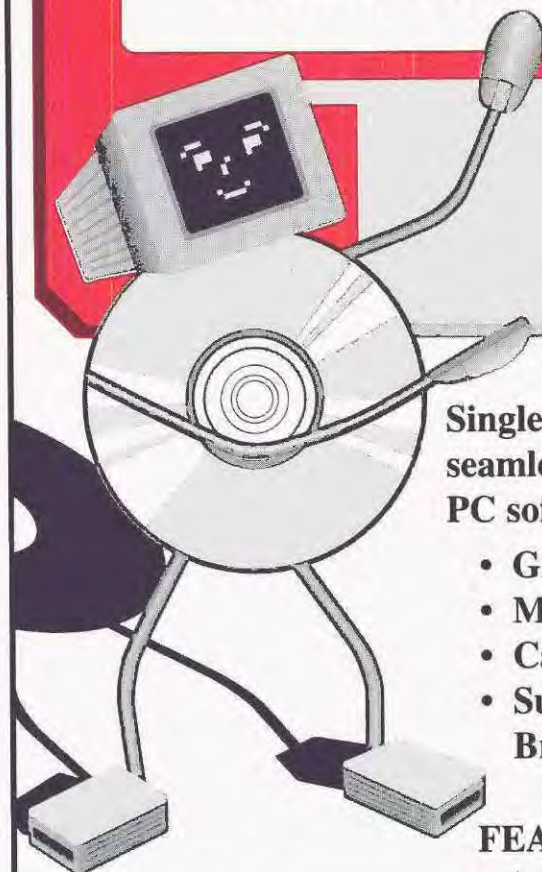
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and cost-effective manner.

- The community's grading in the Building Code Effectiveness Grading System and/or the Flood Insurance Community Grading System, if applicable.
- Success in adoption of a model building code, where per-

gram has produced measurable benefits to the community. The IIPLR spokesman said the association is looking for innovative programs but has "no preconceived notions."

While the loss control programs will vary depending on the natural hazards that plague the community, one example of an innovative program would be a community passing and enforcing a law making it mandatory for people in a community susceptible to wildfires to clear away brush around their homes, he said.

This effort could ultimately protect the home if it is on the fringe of a wildfire.

"We want the community to be clever in doing something," he said. One area that will be interesting, he said, has to do with motivation—how the community sells the measure to residents.

Winners of the award, which could be more than one community, will be honored at IIPLR's annual Natural Disaster Loss Reduction Congress June 11, 1996, in Irving, Texas.

Merit citations for programs deemed noteworthy may also be awarded.

To be eligible for the award, contestants must be a local government unit not larger than a county.

The 1996 award will be for programs conducted in 1995, though a program initiated in 1994 will be considered if significant work on it, other than just maintenance, occurred in 1995.

"We've had lots of interest from people asking for applications," the spokesman said. But, since it is the award's first year, he is not expecting a big turnout.

"I will not be disappointed if we do not get many applications," he said.

For additional information on the Community Spotlight Award or to receive an application, contact the IIPLR, 73 Tremont St., Suite 510, Boston, Mass. 02108-3910; 617-722-0200; fax: 617-722-0202.

Brokers must face global changes

Successful brokers will adjust to the changes, panelists say

By REGIS COCCIA

Changes in the global economy and in customer expectations are causing a revolution in insurance, say risk management and industry executives.

"Customers are leading us, driving us to change," said Richard A. Riley, president of Rollins Hudig Hall Co. in Chicago. "We'll either be dragged there kicking and screaming or as willing partners. The winners are going to be those who are willing partners."

Facing competition from banks and other players on one hand, and insurance buyers' increasing sophistication on the other, the insurance industry must evolve a new way of meeting customer needs, said the executives, who participated in a panel discussion on distribution systems at the Fifth Annual Insurance Executive Forum in Chicago last month. The meeting is sponsored by the Katie School of Insurance at Illinois State University in Normal.

One way that insurers, reinsurers and brokers can meet those needs is to form "strategic partnerships," they said.

"The relationship between the client and insurer or broker is a partnership. It has to create value for the customer or don't do it," Mr. Riley said.

"Any strategic partnership has to create new value. It's not one plus one equals two; it's one plus one equals three in a new way to serve the customer," he said.

That idea was echoed by Siri S. Gadbois, vp-risk management at Educational & Institutional Insurance Administrators Inc., a Chicago-based property/casualty program administrator for a consortium of 110 liberal arts colleges and universities in 39 states.

"A key for me is that a broker provide more than the selling and placing of insurance," Ms. Gadbois said.

"I need a resource that isn't going to just point to a part of a policy and say, 'You're covered.' I need a resource that is going to help me work through those difficulties" that colleges face and must respond to every day.

Ms. Gadbois, who worked at Arthur J. Gallagher & Co. Inc. before joining the consortium in 1991, said she expects brokers to make her an equal partner in building innovative risk management programs.

"As brokers, we are not in the business of delivering product, we are in the business of delivering knowledge," Mr. Riley said.

"I believe the role of the agent or broker is to be a creative arm for the customer," to find new

ways to help meet the customer's needs, he said.

Constantine Jordanou, president and chief operating officer of Zurich-American Insurance Group in Schaumburg, Ill., said he has seen two major trends in the last 25 years: the elimination of structural inefficiencies and a broadened definition of "risk."

Insurers and brokers have been led to streamline their operations by the customer's desire "to find a better way to deliver

products and services," he said.

Citing Lloyd's of London as an example, Mr. Jordanou said more attention to efficiency likely would have spared Lloyd's the financial troubles it has experienced in the past few years.

"In the business press, you never hear about structural inefficiencies associated with this wonderful institution," he said. "Lloyd's has traditionally had an economic oligopoly."

But, after a string of billion-

dollar losses, Lloyd's has been forced to become more efficient to survive.

"In my view, this is a very strong example of what the customer wants and how that affects our business," he said.

And, changes in the business world have expanded policyholders' definition of risk. Protecting against natural perils is only one facet of insurance today, according to Mr. Jordanou. "Most large corporate clients have needs going far beyond fortuitous risk; they have economic risks, business risks."

Insurers and brokers must respond to this and change the

way they service clients' needs.

"In the higher end of our business, with this expansion of risk, we need to form strategic partnerships," he said.

RHH's Mr. Riley offered some succinct advice: "Get lean, get mean, add value or get the hell out."

Emphasis on streamlined, efficient operations will mean some big changes in the way insurance is sold, the executives agreed.

Direct sales to customers, of the sort that Washington-based GEICO Corp., for instance, has used successfully in personal auto coverage, will be the win-

See **Customer** on next page

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Agent/Broker Topics

Customer

Continued from previous page
ning distribution channel in personal lines, Mr. Iordanou said.

"Efficiency, efficiency, efficiency is going to win the day," he said.

"There has been a lot of experimentation in the distribution system," Ms. Gadbois said. She sees a major role for the Internet, predicting that the global computer network will take over as a means of selling personal lines coverages.

"Brokers who recognize that insurance remains a people business and have access to technology and sophisticated insurance products will gain market

"We avoid adversarial relationships. We told our brokers that we must provide our clients access to risk-bearing decision-makers," he said. "We set service standards, something our clients valued. And we frequently share our underwriting analysis with clients."

From a reinsurance perspective, Mr. Smith said there are three areas of innovation that will be the future of the distribution system:

- Broker-driven innovation.

"Brokers and markets are more frequently working together, for example, asking ZRC to go prospecting with them," Mr. Smith said. This is a very different reinsurance industry practice 10 years ago.

'Ultimately, the customer will determine what it is willing to pay for,' says Richard E. Smith of ZRC. 'There will be serious discussions about customers want.'

share," she said. "Insurers that realize brokers are important will, too."

Large commercial risks, however, are too complex for that kind of distribution and will continue to require more traditional placements, she said.

Improved efficiency is not the only reason companies change the way they sell coverage, though.

Zurich Reinsurance Centre Inc., for example, redesigned itself to keep pace with customer demands, said Richard E. Smith, president and chief operating officer of the New York-based reinsurer.

- Capital market-driven innovation.

Buyers are looking more closely at what capital is available, including reinsurance, Mr. Smith said. "It looks like right now there are immense possibilities" for investment vehicles like catastrophe futures as a source of reinsurance capacity, he said.

Zurich-American's Mr. Iordanou agreed that cat futures could play an important role in financing risk in the future.

- Client-driven innovation.

Strategic partnerships built to satisfy customer needs will necessitate changes both in service and compensation structure in

the insurance industry, Mr. Smith said. "Ultimately, the customer will determine what it is willing to pay for. There will be serious discussions about what the customer wants."

Reinsurers, for example, will increasingly help ceding companies expand their business in areas where they couldn't write directly before, he said.

Strategic partnerships are not meant to last forever, but the industry should treat them better than "the farmer with the three-legged pig," said Mr. Riley, who then told the story:

A man was driving in a rural area one day and almost hit a pig in the middle of the road. After swerving to avoid the pig, the driver stopped his car and ran back to see if the pig was all right. The man was surprised to see that the pig only had three legs, and when he looked around to see where the pig came from, he saw a farmer in a nearby field.

When the driver told the farmer that a pig was in the road, the farmer said, "Oh, that's my pig. Let me tell you about that pig. He's a very special pig; he runs my whole farm."

"Really? That's amazing," the driver said.

"But wait, there's more," the farmer said. "That pig saved my life. When my tractor fell over on me last week, that pig came and pulled it off me. In fact, last month that pig saved my whole family. When a fire broke out in the farmhouse, that pig pulled my family to safety and put out the fire himself."

"That is an amazing story. But why does the pig only have three legs?" the driver asked.

"Well," the farmer replied, "you don't eat a pig like that all at one time." **■**

Illinois bank merger making agents anxious

Legal quirk may let banks sell insurance from small towns, not just in them

By **BETH HEALY**
Crain News Service

First Chicago Corp. and other national banks in Illinois may finally get their wish to sell insurance statewide—despite vehement opposition by local lawmakers and insurance agents—because of a legal oddity engineered by First Chicago's merger partner, NBD Bancorp Inc.

Under the National Bank Act, banks have long been barred from selling insurance except in towns with populations of less than 5,000.

But, NBD Bank of Indiana, whose Detroit-based parent is merging with First Chicago, has won a legal victory over its state insurance commissioner in the 7th U.S. Circuit Court of Appeals in Chicago, clearing the way for its agents to sell insurance almost anywhere they can call, drive or send mail.

The Oct. 4 decision, which could be appealed, is based on a quirky but crucial interpretation of the so-called "small town exemption": The banks may sell insurance from towns of 5,000 or less, not just in them.

In Illinois, that means access to an estimated \$20 billion market that's virtually untapped by banks. And the combined First Chicago-NBD is likely to be one of the first banks to exploit that

business opportunity.

"It is our desire to provide all lines of insurance, in all of our markets, to all of our customers," said NBD Senior Vp Webb Martin, who will run the merged company's insurance operations. "We will aggressively work to resolve any regulatory hurdles that the various states present us."

In practice, the new ruling means that agents stationed at a bank branch in Fox River Grove, Ill.—a suburb northwest of Chicago with a population of 4,257—could sell life insurance to an executive in Chicago's Loop. It even means that agents in Indiana could sell insurance across the border in Illinois.

NBD has long sold insurance in Indiana, mainly to commercial customers who seek property, liability and other risk protection. The bank sold \$50 million of insurance there last year, Mr. Martin said. It has sold \$30 million in Michigan since summer, when a change in state law permitted the bank to buy an insurance agency for the first time.

NBD sued the Indiana insurance commissioner because it wanted to sell life insurance through its national bank in Indianapolis, instead of through a subsidiary state bank in Elkhart, Ind. Unlike Illinois, Indiana permits state banks to sell insurance but only property and casualty products. After the state denied NBD's request for a license, the bank sued.

NBD won't say how much insurance contributes to its bottom line, but Mr. Martin calls the margins "very attractive." Indeed, as the biggest banker to middle-market companies in the Midwest, "we've got a lot of opportunity ahead of us," he said.

But, members of the powerful insurance agents' lobby won't just lay down their arms as banks test this court decision.

"That, as far as we're concerned, violates the intent of the law," said Phillip Lackman, vp-government relations for the Professional Independent Insurance Agents of Illinois in Springfield.

With their livelihoods at stake, insurance agents aren't to be ignored. In Illinois, they have defeated bills aimed at widening bank insurance powers nearly every year for a decade. And in Washington, they've added a provision to a major banking bill that would force banks to forgo insurance activities if they win hard-fought securities powers (A/BT, April 3).

They're pushing now for Indiana's insurance commissioner to **See Banks on next page**

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U.S. schools exporting expertise in insurance

Foreign students can aid companies here

By ROBERTO CENICEROS

Universities are exporting U.S. risk management and insurance practices throughout the developing world by training international students.

And, the schools are even helping U.S. brokers and insurers make inroads into markets that once were closed to them.

In one example, an economics professor earlier this year returned home to Beijing to pass on to her students the lessons in property/casualty and life/health insurance that she learned while studying for 10 months at Indiana University in Bloomington.

Sun Quixiang's U.S. studies were sponsored by Fort Wayne, Ind.-based Lincoln National Corp., which gave her access to its insurance operations. The insurer also has contributed books to stock an insurance library at Peking University in Beijing, where Ms. Sun teaches.

Lincoln National opened a liaison office in Beijing in April 1994 and hopes that its association with Ms. Sun will help the company when China eventu-

ally allows foreign insurers to sell coverage there.

"We would hope that would give us some consideration to be a licensed company," a Lincoln National spokesman said.

The association between the insurer and the Beijing university also could help develop a pool of Chinese employees.

Foreign students studying at

the graduate and doctoral level in U.S. insurance schools often return to their home countries to work, professors say. In some cases, these students are sponsored by their governments and employers. Others come on their own after receiving undergraduate degrees and working for a few years in their own countries.

Often they return home to help develop insurance practices.

Their skills are needed, particularly in Asia and Latin America, where private insurance is beginning to flourish. Premium growth in those markets is outstripping growth in the devel-

oped nations, creating incentives for their return.

"We've had quite a few doctoral students from outside the United States and they go back home—not always, but often," said Joan Schmit, a professor at the University of Wisconsin in Madison. "The U.S. schools for certain have quite an effect on the world's insurance markets, and they are developing markets."

"You've got to remember those are booming markets," said Harold D. Skipper Jr., a professor in the Department of Risk Management and Insurance at Georgia State University in At-

lanta.

At the undergraduate level, Ms. Schmit said she senses that more international students now want to remain in the United States. That was not as common a few years ago. But remaining here is often difficult because jobs and visas are not easy to obtain.

For those students, finding a job at home also may be difficult because even though their countries are opening their markets, they may not yet be developed enough to generate plenty of employment, Ms. Schmit said.

International students who do
See **Foreign** on next page

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Banks

Continued from previous page
take the case to the next level: the U.S. Supreme Court.

Indiana Insurance Commissioner Donna Bennett is consulting with the state attorney general as to the next step, a spokeswoman for the Indiana department said. The deadline for filing an appeal is Jan. 2.

"We'd like to see this thing move forward. We will obviously take part in any legal action as a fellow appellant," said a spokesman for the Independent Insurance Agents of America Inc. in Alexandria, Va.

The turf battle between banking and insurance interests isn't new to the U.S. Supreme Court. Although it has declined to hear such cases in the past, it has agreed to take a related case involving plans by Barnett Banks Inc. to enter the Florida insurance market aggressively (A/BT, Jan. 3, 1994).

For now, the 7th Circuit's ruling applies to Illinois, Indiana and Wisconsin. A wide-ranging ruling by the Supreme Court could knock it down, legal experts say, but a narrow opinion might not touch the Chicago decision at all.

NBD and First Chicago are chomping at the bit to get into the insurance game. First Chicago Chairman Richard Thomas repeatedly has ranked insurance among the bank's highest priorities for new revenue. **BI**

Agent/Broker Topics

Foreign

Continued from previous page
get hired by U.S. brokers or insurers often return home as representatives of their American employers.

"Often (their U.S. employers) will have them stay in the U.S. for a year or two" to learn the culture of the company and receive training, Mr. Skipper said. "Then they will send them back."

European students are not as common in U.S. programs because their schools already teach similar principles.

"We think we can be relatively more helpful in developing countries than in typical Western countries," Mr. Skipper said. "We think we are helping them build a solid base of insurance theory and practice that will help them for decades to come."

But how do the students living in other countries know which university programs will benefit them the most?

Respected and well-known professors can attract international students. Word of mouth can spread schools' reputation, Ms. Schmit said. Students edu-

ated here return home and tell others of their experiences and U.S. instructors.

"There is usually a connection made and that draws more connections," Ms. Schmit said. "I'm told in Korea there is a group of alums from the University of Wisconsin that meet annually."

Academics by nature enjoy sharing their knowledge and opening their campuses to colleagues from other countries, the professors said. That often results in U.S. professors receiving invitations to study and lecture overseas. For example, Mr. Skipper recently visited Taiwan to lecture on insurance issues.

Many times trips to foreign universities will include visits with government officials who oversee insurance programs, Ms. Schmit said.

Georgia State does not have a program to actively recruit international students, Mr. Skipper said. Yet they come, in part because academics understand their needs.

"We have been trying for a long time to have an international appeal and focus," he said. "We try to be sensitive to non-U.S. students. We think we can provide an education experi-

ence to them that is top-flight. We don't see our marketplace just as the U.S.; we see our marketplace as the world."

Since 1973, hundreds of international students from 50 countries and U.S. territories have enrolled in Georgia State's risk management and insurance or actuarial science programs. Slightly more than half enroll in graduate programs and the rest in undergraduate curricula.

Countries represented by students studying insurance in the United States include Canada, India, Nigeria, Pakistan, the Philippines, Russia, Singapore, Thailand and Zimbabwe.

At the University of Wisconsin, international students make up about 10% of the entire student enrollment in business courses, including insurance classes, Ms. Schmit said. But there appears to be more international students in post-graduate insurance programs than in undergraduate programs.

The international students and their countries are not the only ones benefiting from studies in the United States, Mr. Skipper said. U.S. students broaden their perspectives by learning about the business practices in other countries.

Likewise, insurance students in

China clearly will gain from Ms. Sun's studies in Indiana, where she was taught one-on-one by two retired professors who are highly regarded in their field, John DeLong and Joseph Belth.

Observers say it is likely that China, with a population of 1.2 billion and a growing number of cars and homes, will allow foreign insurers to sell their products there.

Meanwhile, there were several students in China awaiting Ms. Sun's return, the Lincoln National spokesman said. These students eventually could help lay the groundwork for writing policies. **BI**

READER REPLY SERVICE

Agent/Broker Topics

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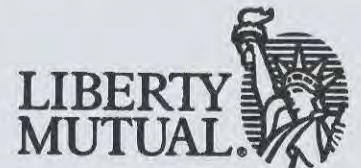
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MSAs: My money, but our problem

By Nathaniel B. Taft

THE CONGRESS HAS VOTED TO permit Medicare beneficiaries to switch to coverage under tax-preferred medical savings accounts coupled with high-deductible, catastrophic health insurance. It is apt to allow employees to choose MSAs, too. Whether MSA legislation will be signed or vetoed is uncertain now (*BI*, Nov. 20).

A typical MSA plan involves a transfer from comprehensive or HMO coverage to fee-for-service catastrophic coverage with a \$2,000 to \$10,000 deductible. The employer (the government for Medicare beneficiaries) is to deposit in each MSA up to 50% of the deductible; and the MSA owner is to be responsible for the balance. An employee would pay no tax on employer deposits or on withdrawals from an MSA for health care; and any balance in the account at year's end, plus interest, accrues to the owner tax-free.

The aim of MSAs is to stimulate each account owner to view the account as "my money," and therefore to shop among health care providers for the best price.

MSAs raise both financial and factual questions.

Financial Questions. How much can MSAs cut health care costs?

Recent studies by the American Academy of Actuaries and Golden Rule Insurance Co. cite annual savings of \$269 to \$1,002 per account. Healthy MSA owners can save most of the money in their MSAs. The most sickly, however, will be apt to pay the full MSA amount to health care providers, no matter how strongly each of them wants to save "my money." The definitive 1987 National Medical Expenditures Survey found that of all health care costs:

- Only 3% is incurred by the healthiest 50% of the population.
- 30% is caused by the sickest 1% of Americans.
- 72% is generated by the sickest 10%.

Once an MSA owner qualifies for catastrophic fee-for-service coverage, the incentive to save "my money" vanishes, because catastrophic benefits, the greatest proportion of all benefits, are paid by the insurer's money, not "my money."

Fee-for-service plans are notoriously lacking in adequate cost controls. They were largely responsible for the 1983-93 runaway inflation of health care costs, which led to the growth of managed care plans as an antidote. From covering 85% to 90% of all employees at the outset, fee-for-service plans dropped steadily. They covered only 48% in 1993 and 37% last year, A. Foster Higgins & Co. Inc. found in a study earlier this year. Figures for 1995 should show less than 30%.

Savings account proposals raise troubling questions about savings, tax impact

Will MSAs reanimate fee-for-service coverage? If so, costs would no doubt rise again. Even in this prenatal stage of MSAs, the Health Care Financing Administration has forecast that the national cost of health care in 1995 will be \$1 trillion and that by 2004 the cost will more than double to \$2.2 trillion.

More fee-for-service coverage due to MSAs will only exacerbate things. What would result if an MSA option is added to a plan on a "best case" scenario? Hewitt Associates recently told Ford Motor Co. that total cost would rise 17% if:

- Only 5% of Ford employees chose MSAs.
- Few Ford employees with HMO coverage switch to MSAs.
- Ford MSA owners receive access to negotiate provider discounts now given to Ford employees in managed care plans.

Bewitched by the prospect of saving \$1,000 or more of 'my money,' aren't the MSA owner and family apt to postpone early care?

Can America afford the tax consequences of MSAs? The Congressional Budget Office twice said they will require a huge tax subsidy. Last year, the CBO said that a 1994 bill sponsored by then House Minority Leader Robert Michel, R-Ill., would reduce tax revenue by \$3.6 billion between 1995 and 2004; and this year it said that adding the MSA option to Medicare will slash tax receipts by \$2.3 billion over the next seven years.

Factual Questions. Do MSA advocates want tax equality or tax advantages? They say they want MSAs to have the same tax deductibility of employer contributions as insured plans obtain; but they really want this—plus the exclusion from taxation of interest earned on MSAs.

Proponents of MSAs claim they are more apt to encourage early treatment of illness than comprehensive plans. Early treatment, of course, costs far less than the acute care that may be needed later. Bewitched by the prospect of saving \$1,000 or more of "my money," aren't

the MSA owner and family more apt to postpone early care than the employee and family who, after meeting a \$300 deductible, will start collecting 80% of comprehensive plan benefits? Deferring early treatment can lead to costly acute care. It is especially poignant when a child is ill.

Can MSA owners and families obtain discounts just by paying providers at time of treatment, saving them the delays involved in insurer claims processing? In some cases a 10% discount may be paid. If you were a provider, however, would you give a bigger discount to an MSA owner or to the representative of a managed care network that may bring you hundreds of new patients? Providers often give managed care networks at least 30%.

Not too long ago the Assn. of Private Pension and Welfare Plans cited in its March 9 newsletter a case in which a provider billed a network \$3,360 and pursuant to his contract, took \$850 as full payment. Suppose this had arisen in an MSA plan. Had the provider said he would settle for \$2,000, the MSA owner would have been ecstatic; but the plan would have incurred an extra \$1,150 in liability.

Last year the Congressional Research Service said wealthier people can gain most from an MSA. Wealth like Bill Gates' is not needed, just enough to comfortably pay the deductible and out-of-pocket costs. Such a person can pay these costs without withdrawing a cent from the MSA; and he or she can thus save all of "my money" in a tax-free account.

Different nations cover their citizens in different ways. In socialistic countries "single payer" schemes are used. Less developed nations expect each citizen to obtain his or her own coverage or do without it. The American tradition is that employment-based plans cover the great majority of citizens. MSAs would replace the employer by the account owner. Since employers have carefully and inexpensively managed health care options for their employees, aren't MSA advocates leading us to adopt the rationale of the less developed nations?

Given all these questions, one may question the desirability of statutes furnishing tax-preferences to MSAs. **BI**



Nathaniel B. Taft is an attorney in White Plains, N.Y., who has practiced employee benefits law for more than 40 years.

Think ahead to avoid retro policy pitfalls

Bradute W. Davenport Jr. and Clark H. Lewis

WORKERS COMPENSATION INSURANCE policies frequently contain a retrospective premium clause that compels a policyholder to pay additional premiums based upon losses incurred during the policy period. Under many retrospective clauses, the insurer first pays the actual amount of workers compensation claims asserted against the policyholder and establishes reserves for estimates of future payments. The insurer is later reimbursed for these payments and reserves by the policyholder.

The insurer's compensation for its claims-handling services is typically a percentage of claims paid out and reserves established. The insurer is able to control the timing of additional premiums charged to the policyholder because it controls loss payments and reserves.

The overall effect is that the more the insurer pays out in claims and establishes in reserves, the greater its own compensation.

This process continues periodically until all claims have been closed, at which time a final premium is established and the policyholder is either owed a

refund or owes additional premiums.

Risk managers have long recognized that retrospective premium features in workers comp policies create an inherent conflict of interest between insurer and policyholder. Until recently, many risk managers were reluctant to question their insurers' good faith in processing claims and grudgingly accepted premium charges. This trend has ended in recent years as companies have increasingly litigated challenges to retrospective premium clauses in workers comp policies.

Some practical tips for risk managers who are confronted with retrospective premium clauses follow:

Duties owed to the policyholder

Most insurance contracts contain standard policy provisions that grant the insurer the right to investigate and settle claims within policy limits without the permission or consent of the policyholder. Risk managers are well aware of this provision, as insurance companies typically rely on this clause when confronted with challenges to the processing or settlement of claims. Moreover, courts adjudicating claims against insurance companies have routinely protected the right of insurers to process and

administer claims within policy limits in a manner the insurers deem appropriate. After all, it's the insurer's money that pays the claims.

Most courts in recent years have recognized that insurance contracts with retrospective premium clauses are an exception to the general rule of insurer discretion and autonomy.

These courts have found that insurers have a duty to act reasonably in settling claims and setting reserves when administering policies with retrospective premium clauses.

Two key aspects to these decisions are the courts' recognition of the inherent conflict of interest in retrospective clauses and the fact that insurance companies are, in effect, settling claims with their policyholder's money.

In the early years, The Minnesota Supreme Court first held in 1968 in *Transport Indemnity Co. vs. Dahlen Transport Inc.* that a potential conflict of interest exists between insurer and policyholder if the settlement of a claim imposes residual consequences on the policyholder in the form of additional premiums.

Because the amount of retrospective premiums charged is based on settlement amounts, reserves

See *Retrospective* on page 42

Assessments—better safe than sorry

Richard R. Wood
and Christopher J. Bunnell

WHAT COULD BE more unpleasant than conducting a thorough value assessment of all your company's assets and exposures? Not conducting one and facing a lengthy claims dispute.

Tedious as it may seem, an assessment is the surest way to determine and monitor property and business interruption values and keep your risk management program in line with changing exposures. By taking the time to sit down with your company's operations and accounting personnel, you could save yourself some costly headaches down the road.

Maintaining accurate and updated values is fundamental and, simply, good risk management. Assessments, regularly conducted, can actually help a company better understand its own organization by revealing where the highest values are located and where new areas of lower value may have been created. This is crucial information in today's marketplace, where change is a constant, and technological obsolescence is never far behind. Knowledge gained from periodic assessments can help risk managers target expenditures where they are most needed.

Many companies conduct their own appraisals of real and personal property as a first step in negotiating property premiums with their insurers. In this process, assets are identified and catalogued, and their values are determined.

Based on the values reported by each company and the exposures identified, the insurer determines a rate and calculates the premium. Problems can arise when a loss occurs. If values are never updated or they are calculated incorrectly to begin with, the loss can exceed the expectancy.

Discrepancies can result in coinsurance penalties, claims disputes or difficult adjustments that may impede a company's return to operations.

One manufacturing company learned this firsthand when it lost a substantial amount of inventory in a fire. The company submitted a claim for the lost goods at selling price; the valuation clause in the insurance policy, however, covered inventory at cost. This discrepancy led to a prolonged loss adjustment dispute that tied up loss payments and delayed plant reconstruction.

Unfortunately, maintaining values is easier said than done in most companies.

Today, risk management staffs have been stripped down, and employees have enough to do without additional work. But the pain of regularly updating values is worth the long-term gain. If conducted by properly trained individuals, value assessments will keep you aware of your company's changing exposures and allow you to modify your risk management program accordingly. In the event of a loss, your insurance policy will respond properly, your adjustment process will flow more smoothly and business can be resumed more promptly.

In most organizations, a variety of conditions make value assessment a complicated job. Developing a risk management program requires risk managers to rely on information from any number of different sources, including internal accounting managers, facility managers, internal and external auditors, insurers and appraisers. The more people involved, the greater the potential for miscommunication and reporting errors.

It's no secret that risk managers and accountants speak different languages. As anyone who has made it through the ARM program can attest, insurance has a language all its own. Never is this more apparent than in valuations. A risk manager's "ordinary payroll" is an accountant's "direct labor." Ask your accounting department for last year's continuing expense figure, and puzzled looks may be all you get. In fact, the disparity between accounting terminology and insurance jargon has caused such confusion that at least one leading CPA firm has found it necessary to produce a glossary of insurance terms for its accountants and clients.

Just as jargon varies according to its source, so do interpretations of value. Risk managers, accountants,

tax and real estate people all consider and report values differently. Request the value of your key manufacturing plant, and, depending on whom you ask, you could be given anything from actual cost less depreciation, to the market value of the plant and the land it is on—not very useful if you are attempting to cover repair and replacement cost.

Another obstacle to accurate valuations is the changing nature of today's business.

Companies are transforming themselves at break-neck speeds through mega-mergers, acquisitions and global expansions. Internally, they are adopting efficiency strategies such as reengineering, downsizing and outsourcing to become leaner and more competitive. While these changes may streamline operations, they also can affect business interruption values and create new exposures.

All too often, risk managers are left to sort out the implications of sweeping management decisions. Sometimes, they are never informed, as was the case with one electronics manufacturer. This company's risk manager learned that one division had switched to just-in-time delivery when he made a chance visit to a critical warehouse and found it completely empty. Not only was coverage in place for inventory that no longer existed, but no provision had been made for the resulting increase in contingent business interruption exposure.

Situations like this one have become increasingly common with the growth of reengineering. More and more companies are redesigning key processes or outsourcing them altogether. Often crucial functions are trusted to outside vendors and warehouses are consolidated or replaced by new delivery systems. As a result, some companies report higher margins and lower expenses, but, at what cost? The implications for risk management grow in significance as companies become more dependent on fewer facilities. The issue: the potential for business interruption losses increases. What the reengineering gurus do not emphasize is that large-scale changes affect business interruption, if not property exposures. The growth of business interruption exposures is an area risk managers must not overlook.

Again, effective communication is vital. Too often, there isn't enough of it between senior management and risk management. Risk managers need knowledge of, and involvement in, corporate decision-making. In addition, they need regular input from operations people to help monitor any changes that may affect values and to keep risk management programs aligned with corporate strategy. Never has this been more challenging than in today's increasingly diverse and multinational companies.

Incorrect values, whatever the source, compromise the evaluation of risk. Poor information can lead to miscalculated loss expectancies or maximum foreseeable losses, two defining elements of a risk management program. In the end, insurance and contingency plans are likely to be off-target. After all, how can assets be adequately protected if no one fully understands their worth?

Determining values is nothing more than quantifying a loss before it happens. Doing so enables a company to take the most effective precautions possible to prevent a loss from happening and to plan accordingly in the event that it does. Regular valuations can offer other benefits, such as:

- Assisting the calculation of insurance limits and deductibles.
- Identifying new exposures and concentrations of values.
- Helping to determine when self-insurance is appropriate.

So you have decided an assessment of your company's insurable values is necessary. How do you begin?

First, take an inventory of the company's assets. Do not assume you or your staff can accomplish this independently—involve your accounting department, operations people and others throughout the organization. You may find it valuable to use an outside appraiser or a CPA firm that specializes in value accounting. Make sure, however, that you are specific about the information you request from people whose

backgrounds are not in risk management. The key to accurate valuations is to establish a communications system to ensure everyone involved is using the same terminology.

Next, determine what should be insured. Sit down with operations personnel and discuss your company's vulnerabilities, taking into account property damage, business interruption and contingent business interruption exposures. Consider both internal and external exposures, such as custom-designed equipment, make-up capacity, critical contacts, key vendors and outsourcing options. Are contingency plans in place? If not, see that they are. If so, investigate them fully to ensure they are viable.

Finally, review your risk management program to confirm that values specified in your policy valuation clauses are consistent with the values you have determined. Your insurer has the right to challenge any values it considers inappropriate. Should this occur, you will be in a better position to defend your values if you have a thorough understanding of how they were derived. Following are some other tips to keep in mind:

- Establish a solid value base, and update it regularly.
- Be sure you request and receive full values. For example, obtain the 12-month value of the company payroll, even if you are only planning business interruption coverage for three months. Always have full values on hand as an accurate starting point for your own calculations.

If values are never updated or they are calculated incorrectly to begin with, the loss can exceed the expectancy.

- Remember that seasonal issues affect values. Peak inventory values can vary considerably from average values. Monitor accumulations of inventory during seasonal production periods.
- Cross-check values using outside experts. When values are in dispute, consult a third party for an unbiased opinion.
- Test values by comparing the values of one site against another, or compare your company's values against industry or peer company norms. Your insurer should be able to provide you with sample industry values.
- Monitor values by establishing benchmarks and identifying changes that may affect them. Business interruption values, for example, are directly affected by changes in sales and profitability. Determine the ratio between your company's business interruption values and relevant indicators, such as return on assets, sales or profitability. Reviewing these ratios periodically will help you identify changes and keep business interruption values in line.

Values are a company's assets, quantified. Calculated or communicated incorrectly, they can present a false image of the company's exposures. Eventually, incorrect values will affect a risk management program by resulting in inadequate contingency plans or insurance. Understanding the importance of updating your company's values will help you determine the foundation for the most accurate and effective risk management program possible. BI

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Christopher J. Bunnell is assistant vp and manager of internal audit at Arkwright.

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Retrospective

Continued from page 39

established and administrative expenses, unscrupulous insurers have ample reasons to conduct indifferent investigations and to make unreasonably generous settlements to claimants. Even under the best circumstances, an insurer administering a policy with a retrospective feature does not have the usual incentive to minimize settlements, reserves and expenses to save itself money.

The second source of the duty of good faith, as it relates to retrospective policies, is that an insurer's decision to settle a claim has an economic ramification on the policyholder. These ramifications are similar to the effects felt by a policyholder when its insurer wrongfully fails to settle a claim within policy limits and thus subjects the policyholder to an excess judgment.

Courts have ruled that insurers should likewise be held accountable when administering policies with retrospective clauses because insurers are, in effect, spending the policyholder's money every time a claim is settled. In short, the more the insurer pays out in claims and sets in reserves, the more the policyholder owes in retrospective premium adjustments.

Burden of proof

Although most courts have found that policyholders have a right to sue because their insurers have not acted in good faith in administering policies with retrospective clauses, it is less clear who bears the burden of proof that an insurer has acted in bad faith. Insurers routinely say the policyholder must bear that burden since the policyholder is the one challenging the reasonableness of an insurer's actions in the form of settlement amounts and reserves established. Insurers fear they will face exorbitant administrative and legal expenses if forced to prove the reasonableness of every challenged workers comp claim.

In 1983, a state appeals court in Kansas held in *Transit Casualty Co. vs. Topeka Transportation Co.* that insurers' fears of high expenses in proving the reasonableness of workers comp claims were "exaggerated."

The court correctly reasoned that the issue in dispute in litigation involving retrospective clauses is whether the insurer had a good faith belief in liability, and whether settlement amount of the various claims was reasonable.

The Kansas court reasoned that to settle claims, insurers must have documentation that bears on the issues of

liability and the amount of settlement. This documentation is in the form of accident, medical and investigative reports, and most importantly, recommendations from the responsible adjuster and lawyer. Placing these documents in evidence should easily answer the question of why an insurer settled a claim or set a reserve in a particular amount.

As the court noted, there is "no reason why such ultimate accountability to the insured for what is done with the insured's money should require any change in the operations of an insurance company dealing in good faith with its insured."

Clearly, the better view is that the insurer must establish its good faith and reasonableness once the policyholder calls its actions into question. This is especially the case since the insurer is the one charged with investigating and adjusting claims and has the relevant information in its possession to determine whether a settlement is reasonable and made in good faith. The policyholder will likely not have this information in its possession, since it has delegated the right and duty of investigation and settlement to the insurer.

Indeed, by the terms of the policy in dispute, the policyholder has put the information critical to the issue of reasonableness and good faith in the exclusive possession of the insurer. In essence, if the policyholder is to be charged retrospective premiums based on losses paid and reserves established, the policyholder should at least be entitled to have the insurer produce the information pertinent to reasonableness and to assume the burden of proof, according to the Minnesota Supreme Court's ruling in *Transport Indemnity vs. Dahlen*.

Practical tips for risk managers

Risk managers should be aware that the law is on the policyholder's side. With this knowledge, risk managers should not accept the standard argument of insurers that they, alone, have the right to investigate and settle claims without input from the policyholder. Risk managers should request that their insurer consult with them when deciding liability issues, settling claims and establishing reserves. To do this, risk managers must maintain and actively monitor files and demand that the insurer keep them informed about the progress of active files.

Moreover, insurance policies with retrospective agreements are complex and sometimes difficult to understand. Risk managers must make certain that they understand how these agreements work and, most

importantly, how premium calculations are established. Risk managers should also be mindful of insurance companies establishing reserves or settling claims at figures larger than the average for a similar type of claim in their geographic area. This situation may occur if a policyholder is confronted with a large number of employee claims involving soft tissue injuries to the neck and back. Typically, insurers will establish reserves for the settlement of routine injuries by using an "average number" for the geographic area.

If risk managers have concerns that reserves established for the settlement of routine claims are inflated and excessive, they should consult with brokers, risk management consultants or their attorney. These experts can provide independent analysis on the propriety and appropriateness of case-reserving and claim-handling practices used by a given insurer. These consultants can also assist in negotiations for a reduction of reserves that the risk manager believes are too high and help explain the sometimes complex formulas insurers use when justifying premium adjustments and calculations.

If insurers are reluctant or simply cannot justify their actions in administering claims, risk managers should consider taking active steps, including litigation, to enforce their rights under the policy.

Risk managers monitoring policies with retrospective clauses must remember that insurance companies owe them the duty to act in good faith in administering claims. The rationale for this position is quite simple, for the insurer lacks the usual incentive to minimize payments, reserves and expenditures since it is spending the policyholder's money.

Risk managers are thus in the unique position of being able to take an active role in monitoring files and demanding that they be involved when their insurers take any steps that will have residual consequences upon the policyholder. E1

Bradfute W. Davenport Jr. is a partner and Clark H.

Lewis is an associate at law firm Mays & Valentine in Richmond, Va.



A new wave in risk management literature

Book on quality will interest neophytes and veterans alike

"Fourth Generation Risk Management"

By Jay T. Deragon

Published by The Quality Insurance Congress, P.O. Box 305024, Nashville, Tenn. 37230-9943; 800-323-6467

\$19.95 plus \$1.50 postage and handling for members of RIMS or the Quality Insurance Congress; \$29.95 for non-members.

By Kevin M. Quinley

QUALITY HAS BECOME THE MAIN "Q-word" of the '90s, affecting business, customer service and now risk management. Many management fads come and go as fast as Dairy Queen's Flavor of the Month, but the emphasis on quality endures. How does the quality revolution in business, however, affect the field of risk management?

The answer is offered in this thoughtful and provocative new book by Jay Deragon, executive director of the Quality Insurance Congress and chairman and chief executive of Nashville, Tenn., consulting firm Alternative Management Solutions Inc.

This 142-page book is tailored to the needs of the new generation of risk managers and contains innovative tools and concepts to guide them in applying quality principles to risk management.

If we are now into the fourth wave of risk management, what were the first three? Mr. Deragon offers a useful historical overview. In phase one, 1920-1960, risk management was primarily a

transaction-oriented process where companies bought insurance and insurers paid claims. Generation two, 1960-1980, saw the rise of retros, captives, retentions and self-insurance. Generation three, 1980-1990, was the era of unbundled services and cash-flow programs.

The book includes chapters on the dynamic face of risk management, changes within the insurance industry, ISO

'Fourth Generation Risk Management' is highly conceptual, but not so ethereal that readers will be befuddled.

9000 (the well-known quality standards developed by the International Standards Organization), and quality teams, as well as an introduction to "systemic thinking" and benchmarking. At the end of the text, Mr. Deragon provides an index and suggestions for further reading.

Mr. Deragon attempts to apply broad-based principles of quality—especially W. Edwards Deming's 14 steps—to risk management. In his acknowledgement, the author explains that the greatest contribution to the book was made by insurance industry customers with whom he has interacted over the past 16 years, especially those who experienced industry ineptitude and those who found an inability to control risks.

The book utilizes case studies, work flow diagrams and charts to guide readers through various processes, including those for accident reporting. The text does not include gobs of number-crunching, but some of the diagrams may be heavy sledding for neophyte risk managers. Mr. Deragon also introduces improvement strategies that underscore the value of instituting quality-driven operating systems. He is heavily influenced by Deming, the guru of statistical methods applied to quality processes.

"Fourth Generation Risk Management" is a highly readable book, suitable for new as well as veteran risk managers. It is highly conceptual, but not so ethereal that readers will be befuddled. It is not necessarily the type of book that will enable you to slice 20% off your next property insurance renewal, but it does offer a useful big-picture analysis of the risk management process.

If you don't read but one risk management book this year, make it "Fourth Generation Risk Management" and start your own quality revolution. E1

Kevin M. Quinley is vp of risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.





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Spotlight report

Continued from previous page
risk management departments.

Claims/coverages managed: Medical, dental, disability, vision, prescription.
Features: Administers and adjudicates medical, dental, vision, disability and prescription claims; processes claims for a variety of health plans. Optional modules include claim editing module to unbundle claims and detect upcoding; utilization review module to administer large case management, second surgical opinion and precertification; source code; interfaces available for batch claim adjudication through electronic data interchange.

■ **Benefit Administration Plus.**

System requirements: IBM AS/400 midrange computer. Online system.

Customization optional.

First installation: 1986.

Total installations: 53; two in corporate risk management departments.

Claims/coverages managed: Medical, dental, disability, vision, prescription.

Features: Billing and collection of premiums, salary-based billing, supports and tracks COBRA payments and exceptions outside normal billing process, supports multiple carriers and multiple companies.

User support: User groups/meetings*, on site training, telephone assistance nine hours per day*, seminars held at Genelco.

Staff: 210 total, 75 professionals.

Clients: 110 total, including 44 corporate risk management departments. Sold systems to 12 clients in 1994.

Branch offices: Birmingham, Ala.; Miami.

1994 revenues: \$21.3 million total. \$19 million from risk management information systems sales and services, 18% from hardware sales, 20% from software sales, 62% from software services.

Officers: E. Christopher Simonds, president/CEO; David B. Johnson, president-software division; Russell E. Korte, executive vp; Mike Molinar, product vp

Contact: Susan Wagy, 314-963-8114.

* Included in system price.

If your company provides risk management information systems to corporations and you would like to receive a questionnaire for next year's directory, please call Assistant Directory Editor Rich Trout at 312-649-4483.



Health Management Technologies

1150 Moraga Way, Suite 150, Moraga, Calif. 94556; 510-631-675C; fax: 510-631-6789

Risk management systems since: 1986.

Software products:

■ RETURN for Managed Disability.

Price: \$50,000.

System requirements: IBM compatible PC system. Operates in DOS Windows.

First installation: 1988.

Total installations: 250.

Claims/coverages managed: Workers comp, short- and long-term disability, absence management.

Features: Facilitates coordination of the case process and management of a FPO or network; includes electronic

rolodex of all providers, treatment sites, resources, ad hoc report writer, documents activity log, case notes, utilization monitoring, estimated cost savings worksheet, analyses outcome data.

User support: User groups/meetings, on site training, telephone assistance 10 hours per day, annual support and maintenance.

Staff: 17 total, 10 professionals.

Branch office: District of Columbia.

Officers: Karen J. Wolfe, president; James W. Wolfe, chief marketing officer; Eric Wolfe, senior vp-technical services.

Contact: James Wolfe, 800-647-7007.

Helmman Management Services

225 Borthwick Ave., Portsmouth, N.H. 03801; 603-431-8400; fax: 603-431-2071

Risk management systems since: 1984.

Parent: Liberty Mutual Insurance Co.

Software products:

■ RISKTRAC.

System requirements: IBM compatible PC system. Operates in Windows. Online system.

Customization optional.

First installation: 1984.

Total installations: 700; 300 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, crime, disability.

Features: Claims administration; generates 31 standard reports and ad hoc reports; loss development, forecasting and prevention; policy tracking; reserve tracking; allocation of premium; risk analysis; loss trending; safety and loss control; data analysis and litigation management; claim inquiry and claim data available; data provided on a real-time, weekly and monthly basis. Optional modules include

User support: User groups/meetings*, on site training*, telephone assistance 16 hours per day*.

Continued on next page

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• SERVICES •

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of how
to do
business
is making
Royal
the
company
to watch.

I HAVE

Continued from previous page
Staff: 95 total, 90 professionals.
Clients: 750 total, all corporate risk management departments. Sold systems to 300 clients in 1994.

Branch offices: Pleasanton, Calif.; Atlanta; Itasca, Ill.; Weston, Mass.; New York; Berwyn and Pittsburgh, Pa.
Officers: S. Zielinski, president; W.G. Gourley, senior vp; F.J. Downey, assistant vp/manager; M.W. Henry, director-marketing.
Contact: M.W. Henry.
** Included in system price.*

I

ITT Specialty Risk Services Inc.

55 Farmington Ave., Hartford, Conn. 06105; 860-520-2500; fax: 860-520-2503

Risk management systems since: 1981.
Parent: ITT Hartford Insurance Group.
Software products:

■ **LASER** (Loss Analysis System to Evaluate Risk).

Price: \$8,000-\$25,000.

System requirements: IBM compatible PC system. Operates in DOS or Windows*. Online system.

Customization optional.

First installation: 1992.

Total installations: 110, all in corporate risk management departments.

Claims/coverages managed: General liability, property, workers comp, auto.

Features: Claim management and risk analysis via online inquiry to vendor's TPA clients, access to adjuster notes, electronic mail communication, formatted and ad hoc report generation. Optional modules include historical loss triangle reports*.

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

Staff: 24 total, 15 professionals.

Clients: 80 total. Sold systems to 80 clients in 1994.

Officers: Dennis R. Replogle, president; Lonnie Maytubby, senior vp; Joanne D. Larson, vp-national sales/marketing; Holly Potvin, senior vp/director-field operations; Jim Leonard, vp-account management.

Contact: Ruth Grande, director-risk management information services, 860-520-2528.

** Available in 1996. ** Included in system price.*

J

Jury Verdict Research

747 Dresher Road, P.O. Box 980, Horsham, Pa. 19044-0980; 215-784-0941; fax: 215-784-9639

Risk management systems since: 1988.

Parent: LRP Publications.

Software products:

■ **JVR Case Evaluation/Basic Settlement Software.**

Price: \$890.

System requirements: IBM compatible PC system. Operates in DOS, Windows.

First installation: 1988.

Claims/coverages managed: Casualty.

Features: Claims administration, loss development, loss forecasting, reserve tracking, self-insurance comparisons and analysis, litigation management, claim value determination.

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

Staff: 30 total, 10 professionals.

Clients: Two total.

Branch offices: West Palm Beach, Fla.

Officers: Ken Kahn, CEO.

Contact: John McNeff, 215-784-0941, ext. 233.

** Included in system price.*

K

Kemper National Insurance Cos.

1 Kemper Drive, Long Grove, Ill. 60049; 708-320-2000

Software products:

■ **KRM System.**

System requirements: IBM compatible PC system. Operates in DOS or Windows. Online system.

Customization optional.

Total installations: 326; 76 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Loss prevention tracking, reserve tracking, safety and loss control tracking and reporting, incident reporting, report generation, litigation information, viewing of adjuster notes and checks.

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

Staff: 53 total, 44 professionals.

Clients: 50 total. Sold systems to 25 clients in 1994.

Branch offices: City of Industry, Calif; Chicago; Summit, N.J.

Officers: Alfred Kenyon, CEO; Beth Lindner, executive vp-KRMS; Mark O'Brien, vp-marketing/underwriting; Joe Zuniga, marketing officer.

Contact: Bill Kahl, system product manager, 708-324-3454.

** Included in system price.*

L

Lindsey Morden Claims Management Services Inc.

3910 Brookside Drive, Tyler, Texas 75701; 903-561-6700; fax: 903-561-7013

Risk management systems since: 1990.

Parent: Morden Helwig.

Software products:

■ **Flex System.**

Price: \$40,000.

System requirements: IBM compatible PC system. Macintosh PC. Operates in DOS or Windows. Online system.

Customization optional.

First installation: 1990.

Total installations: 45; 10 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Automated claims management, multi-user access, tracks coverages, built-in notes and diary ability, report generation including reserve analysis, safety reports, detailed loss reports, full and complete check printing module, interface and data transmission with insurers and clients. Options include custom screens.

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

Staff: 28 total, 20 professionals.

Clients: 300 total, including 10 corporate risk management departments. Sold systems to 50 clients in 1994.

Officers: Paul Maggi, senior vp; Randy Neal, vp; Steve Keefer, assistant vp; Farid Nagji, assistant vp-MIS.

Contact: Randy Neal.

** Included in system price.*

M

MBA Inc.

36 Midvale Road, Suite 1G, Mountain Lakes, N.J. 07046; 201-335-6423; fax: 201-335-9665

Risk management systems since: 1988.

Software products:

■ **Customized systems.**

System requirements: IBM compatible PC system. Operates in DOS or Windows.

Continued on next page

OUR ATTENTION.



Royal Insurance

Spotlight report*Continued from previous page***Customized system.****First installation:** 1988.**Claims/coverages managed:** General liability, property, casualty, workers comp, auto, ocean marine, inland marine.**Features:** IBNR projections, future lost cost projections, workers compensation long-term disability and survivors benefits, experience rating plan testing and development, management reports.**User support:** On site training, telephone assistance eight hours per day.**Staff:** Five total, all professionals.**1994 revenues:** 75% from software sales, 25% from software services.**Officers:** Charles Cook, president.**Contact:** Peter Bennett.**Software products:**

■ 80 Series.

System requirements: IBM compatible PC system. Mainframe. Operates in DOS.**Customization optional.****First installation:** 1986.**Claims/coverages managed:** Property.**Features:** Replacement cost estimator for residential and commercial properties, localized by ZIP code.**User support:** On site training*, telephone assistance eight hours per day*.**Staff:** 100 total, 50 professionals.**Branch offices:** Princeton, N.J.**Officers:** Robert Dowden, CEO; Kevin Keegan, president; Robert Crine, president-national services; Peter Wells, senior vp-national services.**Contact:** Peter Wells.

* Included in system price.

MedView Services-Insurance Software Packages

3625 Queen Palm Drive, Tampa, Fla. 33619; 800-237-8133; fax: 813-620-4973

Risk management systems since: 1985.**Parent:** Beverly Enterprises Inc.**Software products:**

■ MediStar.

System requirements: IBM compatible PC system. Operates in DOS, Windows or Windows NT.**Customization optional.****First installation:** 1986.**Total installations:** 25.**Claims/coverages managed:** General liability, workers comp, auto.**Features:** Fully automated PPO repricing, utilization review, electronic filing, fee schedule validation of rules and values, medical bill history, duplicate checking, inquiry and enhanced reporting. Options include integration with CompStar; pharmacy module for repricing pharmacy bills.

■ MedView 2000.

System requirements: IBM compatible PC system. Operates in DOS, Windows or Windows NT.**Customization optional.****First installation:** 1995.**Total installations:** Six.**Claims/coverages managed:** General liability, property, casualty, workers comp, auto, group health.**Features:** Includes all features of MediStar plus rule generator, state fee schedules, bill review criteria, batch processing, ad-hoc reporting security feature, expanded client set-up, enhanced invoicing capabilities, usual and customary review capabilities. Optional pharmacy module for repricing pharmacy bills.

■ CompStar.

System requirements: IBM compatible PC system. Operates in DOS, Windows or Windows NT.**Customization optional.****First installation:** 1985.**Total installations:** 80.**Claims/coverages managed:** Workers comp.**Features:** Reinsurance tracking, automated indemnity payment capabilities, enhanced security, claims adjudication, full fee schedule rates integration, PPO and correspondence module, reserve tracking, OSHA reporting, first report of injury. Option to inte-

grate with MediStar and MedView 2000. Access Immediate module also available.

■ MultiStar.

System requirements: IBM compatible PC system. Operates in DOS, Windows or Windows NT.**Customization optional.****First installation:** 1985.**Total installations:** 16.**Claims/coverages managed:** General liability, property, casualty, workers compensation, auto.**Features:** Legal module, report writer, claims entry, reserve tracking, payment inquiry, correspondence module, reinsurance module, report generation, allows multiple claimants per claim, allows multiple payments to single provider on one check.**User support:** User groups/meetings*, on site training*, telephone assistance 10 hours per day*, online interactive support*.**Staff:** 60 total, 55 professionals.**Clients:** 125 total. Sold systems to 20 clients in 1994.**Branch offices:** El Segundo, Sacramento and San Francisco, Calif.; Monument, Colo.; Maitland, Fla.; Chicago; Farmington Hills, Mich.; Irving and Houston, Texas.**Officers:** Robert H. Marks, president; Debra Cerre-Ruedisili, COO/senior vp; Valerie Wilson, vp; Marina Popovetsky-director-MIS; Jack Dugan, director-sales/marketing.**Contact:** Don Konen.

* Included in system price.

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LINDSEY MORDEN

P

PTI Technologies Inc.

P.O. Box 309, Woodstock, Ill. 60098; 815-568-2602; fax: 815-568-2604

Risk management systems since: 1984.**Software products:**

■ Claims Master for Windows.

Price: \$3,500-\$15,000.**System requirements:** IBM compatible PC system. Operates in Windows.**Customization optional.****First installation:** 1984.**Total installations:** 100; 50 in corporate risk management departments.**Claims/coverages managed:** General liability, property, casualty, workers comp, auto.**Features:** Claims processing and reporting, integrated diary system, transaction log for history of each claim, integrated word processing, industry standard and user defined claim category codes, ad hoc reporting, actuarial forecasting and analysis, spreadsheets and graphics support, monitors claim payments and reserves. Optional modules include interface with actuarial system and service, remote reporting and risk analysis.**User support:** User groups/meetings, on site training, telephone assistance eight hours per day.**Staff:** 10 total, 10 professionals.**Clients:** 100 total, including 50 corporate risk management departments. Sold systems to 12 clients in 1994.**1994 revenues:** 40% from software sales, 60% from software services.**Officers:** Daniel S. Deserto, president; Janine M. Jozwiak, executive vp.**Contact:** Daniel S. Deserto.

Paradigm Infosystems

15395 S.E. 30th Place, Suite 210, Bellevue, Wash. 98007; 206-746-4559 fax: 206-746-4826

Risk management systems since: 1990.**Parent:** Risk Sciences Group.**Software products:**

■ ParaRisk.

Price: \$39,000.**System requirements:** IBM compatible PC system operating in Windows. Macintosh PC.**Customization optional.****First installation:** 1991.**Total installations:** 30; 26 in corporate risk management departments.**Claims/coverages managed:** General liability, property, casualty, workers comp, auto.**Features:** Claims administration and management for multiple lines of coverage; user-defined data inquiries; claimant medical treatment history;*Continued on page 50*

Jack and Jill went up the hill

to fetch a pail of water. And as you'd expect when you mix water and hills, Jack fell down and broke his crown. He also **threw his back out** and had to go on **disability**. Now Jill was the brains of the operation, which isn't surprising since her partner wore a crown around the office. She made sure Jack & Jill Water Holdings, Inc.

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They put Jack back on **light duty**, fetching

cups of water. And pretty soon he was back

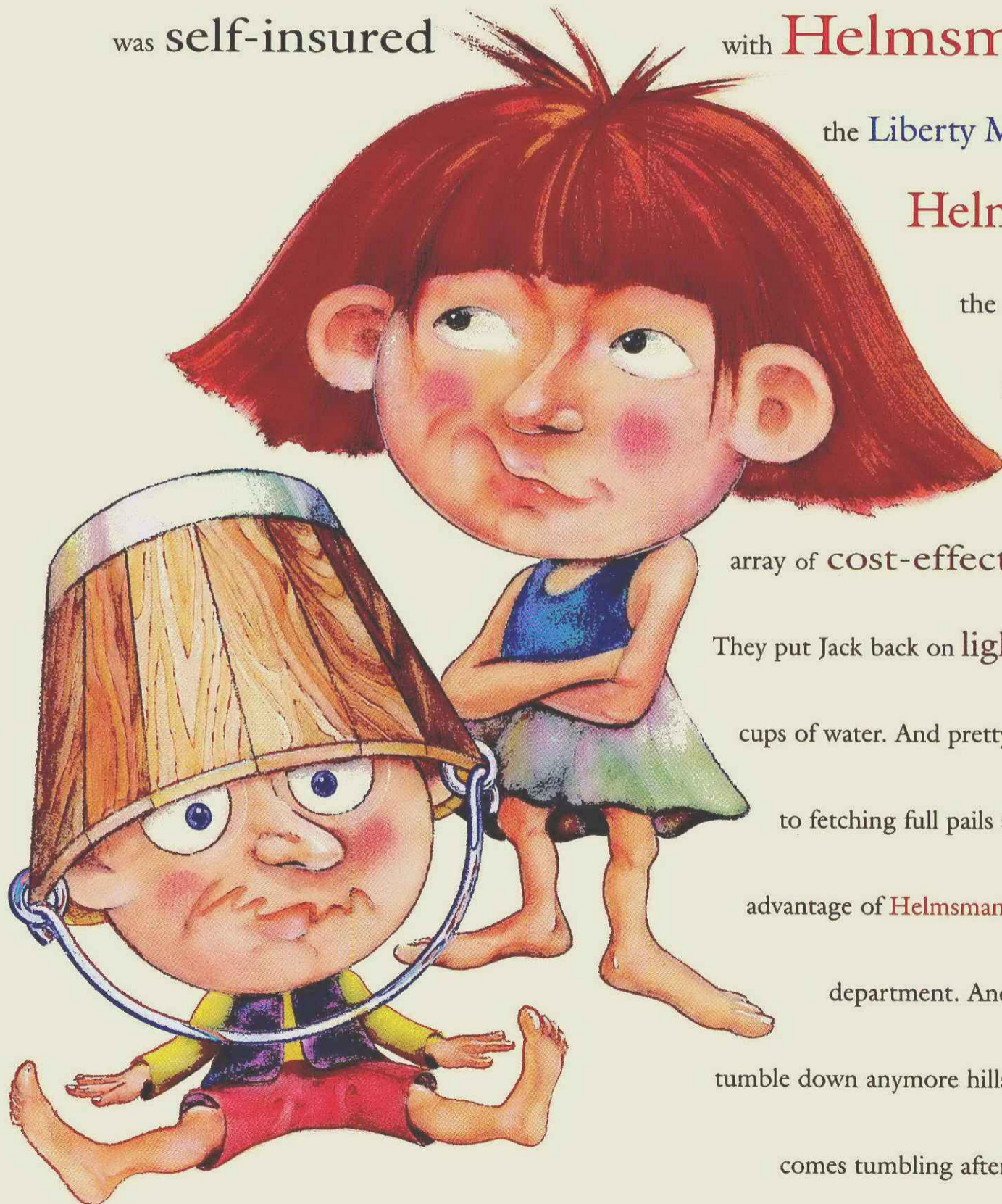
to fetching full pails again. Then Jill took

advantage of **Helmsman's loss prevention**

department. And now Jack doesn't

tumble down anymore hills. And Jill never

comes tumbling after.



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Spotlight report*Continued from page 48*

check processing and bank reconciliation; statements, file notes, word processing and spreadsheets; policy management, exposure and property value tracking; OSHA 200 log; claim and loss analysis reports; ad hoc reporting; data export capabilities. Optional modules include import of non-claim database creation and integration, loss forecasting, cost of risk/premium allocations, self-insured regulatory reporting, loss development analysis, and custom claim/RMIS software development.

User support: User groups/meetings*, onsite training*, telephone assistance*, custom programming*, software enhancements*.

Staff: 20 total, 18 professionals.

Clients: 30 total, including 26 corporate risk management departments. Sold systems to 10 clients in 1994.

Branch offices: San Francisco; Atlanta; Chicago; Minneapolis; Mahwah, N.J.; New York; Dallas; Seattle.

1994 revenues: \$1,300,000 total. \$1,200,000 from risk management information systems sales and services, 10% from hardware sales, 60% from software sales, 30% from software services.

Officers: Jack Tatum, president; Wayne Radosky, managing vp; Rick

Hoehne, assistant vp-business processes; Ken Elston, assistant vp-development; Meredith Randall, director-product design.

Contact: Shira Wilson.

* Included in system price.

Premium Review Associates

35 Green Heron Lane, Nashua, N.H. 03062; 603-888-9361

Risk management systems since: 1985.

Software products:

■ EMS II.

Price: \$595.

System requirements: IBM compatible PC system. Operates in DOS.

First installation: 1985.

Total installations: 1,000; 100 in corporate risk management departments.

Claims/coverages managed: Workers compensation.

Features: Calculates the workers comp experience modification; allows verification and prediction. Optional rate support module.

User support: Telephone assistance eight hours per day.

Staff: 4 total, 3 professionals.

Clients: 40 total, all in corporate risk management departments. Sold systems to 40 clients in 1994.

1994 revenues: 100% from software sales.

Officers: Norman Goodman, president.

Contact: Norman Goodman.

Progressive Data Solutions Inc.

1300 N Semoran Blvd., Suite 200, Orlando, Fla. 32807; 407-382-5920; fax: 407-382-5925

Risk management systems since: 1987.

Software products:

■ AssuranceWare.

System requirements: Mainframe, AS/400

Customization optional.

First installation: 1987.

Total installations: 45; 13 in corporate risk management departments.

Claims/coverages managed: General lia-

bility, property, casualty, workers comp, auto.

Features: Claims administration for most lines of coverage; policy tracking and full policy administration including rating, quotations, endorsements, coverage documents, billing; managed care including network management, fee schedule, case management, pre-certification, utilization review and claims editing interface for workers compensation; generates workers comp experience modification; reserve tracking; check processing and diary for most lines of coverage; report generation. Optional modules include reinsurance reporting for workers compensation, accounts payable, general ledger, check printing, deductible processing.

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

Clients: 40 total. Sold systems to 13 clients in 1994.

Contact: Barry L. Kelly, senior product specialist.

* Included in system price. ** With purchase of maintenance agreement.

Pyramid Services Inc.

90 Grove St., Suite 207, Ridgefield, Conn. 06877; 203-438-3883; fax: 203-438-7128

Risk management systems since: 1987.

Parent: Aon Corp.

Software products:

■ Pyramid.

Price: \$80,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows.

Customization optional.

First installation: 1988.

Total installations: 210; 103 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Loss forecasting, actuarial modeling, exposure management, cost of risk allocation, policy management, report writer, billing, safety audit tracking, data consolidation, claims administration functions, including

Continued on next page

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Protecc

Factory Mutual System

Continued from previous page

first report of injury and check writing, report writer, online payment and reserve history, medical fee schedule and medical case management.

User support: User groups/meetings, onsite training, telephone assistance 11 hours per day.

Staff: 39 total, 33 professionals.

Clients: 141 total. Sold systems to 35 clients in 1994.

Branch offices: Los Angeles; Kansas City, Kan.; Boston; Ann Arbor, Mich.; Pittsburgh.

Officers: William Kuebler, president/CEO; David Horton, Kenneth Luekens, Gary Michaels, Cathleen Nettune, vps.

Contact: Patricia Sojak, 203-438-3883, ext. 260.

Please refer to page 29 for an explanation of the terms and methodology for the risk management information systems directory.

R

Risk Alert Inc.

201 Alhambra Circle, Suite 800, Coral Gables, Fla. 33134; 305-444-3277; fax: 305-444-318

Risk management systems since: 1989.

Parent: Aon Corp.

Software products:

■ Healthcare Advisor Series.

Price: \$20,000.

System requirements: IBM compatible PC system. Operates in Windows.

First installation: 1989.

Total installations: 50.

Claims/coverages managed: General liability, property casualty, workers comp, auto, medical malpractice.

Features: Claims administration, loss development/forecasting, policy tracking, reserve tracking, payment tracking, check processing, reporting, notes/diary function, litigation management.

write-off tracking. Optional modules include risk management, claims management, UR, credentialing, patient relations, workers comp.

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

Staff: 18 total, all professionals.

Clients: 40 total, including 5 corporate risk management departments. Sold systems to 20 clients in 1994.

Branch offices: Chicago.

Officers: Irriaz H. Sattaur, president; Corbette Dcyle, president-Aon Alliance; Estee M. Wishterich, vp-client services.

Contact: Marjorie, regional vp-sales, 312-456-8695.

* Initially included in system price, after second year annual maintenance fee is charged at 20% of purchase price.

Risk Enterprise Management Ltd.

59 Maiden Lane, New York, N.Y. 10038; 212-530-7473; fax: 212-530-3348

Risk management systems since: 1991.

Software products:

■ Risk Options.

Price: \$10,000.

System requirements: IBM compatible PC system. Operates in Windows.

First installation: 1991.

Total installations: 200; 40 in corporate risk management departments.

Claims/coverages managed: General liability, casualty, workers comp, auto.

Features: Loss development, loss trending, report generation, data analysis, allocation of losses, downloading data bases, exports data to other PC formats. Optional modules include consolidation of data from multiple insurers.

■ HomeNet.

System requirements: IBM compatible PC system. Operates in DOS. Online system.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Claims administration, reserve tracking, adjusters notes.

User support: Onsite training, telephone

assistance eight hours per day*.

Staff: 13 total, all professionals.

Clients: 279 total, including 223 corporate risk management departments. Sold systems to 67 clients in 1994.

Branch offices: Brea, Calif.; Atlanta; Chicago; New York and Syracuse, N.Y.; Philadelphia; Nashville, Tenn.; Dallas.

Officers: Peter Johnson, CEO; Chuck Callahan, COO; Joseph Campbell, executive vp; Stewart Nazzaro, Matt Craig, vps.

Contact: Michael Black.

* Included in system price.

Risk Sciences Group

900 N. National Parkway, Suite 200, Schaumburg, Ill. 60173; 708-619-2500; fax: 708-619-2534

Parent: Crawford & Co.

Software products:

■ SIGMA.

Price: \$29,000.

System requirements: IBM compatible PC system. Mainframe. Operates in DOS or Windows. Online system.

Customization optional.

First installation: 1978.

Total installations: 289; 261 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Incident, occurrence and claims management; user-defined claim selection; online claim history and loss analysis; notes and diary; user-defined loss runs; safety analysis; frequency and severity rankings; ad hoc reporting; GASB and FASB compliance; allows for remote access via laptop computers and downloading report to PC; electronic mail; quantitative analysis and risk/data management consulting. Optional modules include data consolidation and code mapping from multiple sources, non-claim database creation and integration, loss forecasting, cost of risk/premium allocations, self-administration, OSHA 200 reporting, litigation management system, managed care tracking, self-insured regulatory reporting, loss development analysis, custom claim/RMIS software development.

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

Staff: 165 total, 150 professionals.

Clients: 315 total, including 285 corporate risk management departments. Sold systems to 45 clients in 1994.

Branch offices: San Francisco; Atlanta; Chicago; Minneapolis; Mahwah, N.J.; New York; Dallas; Seattle.

1994 revenues: \$17,500,000 total. \$17,500,000 from risk management information systems sales and services, 30% from software sales, 70% from software services.

Officers: Jack Tatum, president; Wayne Radosky, managing vp; Leo Jeffers, vp; Roger Dunkin, Rick Aman, assistant vps.

Contact: Wayne Radosky.

* Included in system price.

Risk Technologies Inc.

2480 Highway 287 N., Mansfield, Texas 76063; 817-477-2197; fax: 817-473-7610

Risk management systems since: 1988.

Software products:

■ RiskVision.

Price: \$7,500-\$125,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows or Windows NT. Online system.

Customization optional.

First installation: 1988.

Total installations: 112; all in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, student injuries, medical malpractice, 24-hour.

Features: Claims administration and check processing, vendor custom and ad hoc report generation, data export, remote access, reserve worksheets, notes and diary, premium and policy management, cost allocation, loss development, loss control and OSHA reporting/record keeping, state fee schedule verification and payment discounting, form letter generator.

■ RiskVision TPA.

Price: \$25,000-\$150,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows, Windows NT or UNIX. Online system.

Continued on next page

tion.



Changing technologies present risks which are harder to identify, quantify and control. For over 100 years, Protection Mutual has supported extensive research aimed at controlling loss. Today, full-scale fire testing is performed at one of the world's largest laboratories for the study of simulated fire situations. Protecting the assets of a business not only requires the application of HPR standards, but on-going research into changing fire protection requirements.

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Spotlight report

Continued from previous page

Customization optional.

First installation: 1988.

Total installations:

18; nine in corporate risk management departments.

Claims/coverages managed:

General liability, property, casualty, workers comp, auto, student injuries, medical malpractice, 24 hour.

Features:

Claims administration, check processing, vendor management, integrated invoicing and accounting, TPA office management, electronic mail, generation of statutory forms and reports, state fee schedules, integration with medical cost management vendors, custom and ad hoc reports, data export, remote access, reserve worksheets, diary and calendar functions, exposure information management, premium and policy management, cost allocation, loss development, loss control, OSHA reporting/record keeping, form letter generator.

■ RiskVision EAS.

Price: \$3,500-\$8,500.

System requirements: IBM compatible PC system. Operates in Windows or Windows NT. Online system.

Customization optional.

First installation: 1992.

Total installations: 23; 15 in corporate risk management departments.

Features: Executive analysis system that can be integrated with other RiskVision products.

User support: User groups/meetings, on site training*, telephone assistance 11 hours per day*.

Staff: 12 total, nine professionals.

Clients: 253 total. Sold systems to 27 clients in 1994.

1994 revenues: 15 % from hardware sales, 60% from software sales, 25% from software services.

Officers: Chuck Allen, president; R.J. Mallette vp-product development, Ron Watts, vp-customer services.

Contact: R.J. Mallette.

* Included in system price.

Rollins Hudig Hall Groep bv

16 Marconistraat, Rotterdam, Netherlands; 31-10-448-8911; fax: 31-10-477-1551

Risk management systems since: 1989.

Parent: Aon Corp.

Software products:

■ ALARM & CAIRO.

Price: \$12,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows. Online system.

Customization optional.

First installation: 1990.

Total installations: 120, all in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, cargo/logistics.

Features: Loss/claim registration and input; analytical, reporting and graphics capabilities, premium and policy management, multi lingual and multi currency.

User support: On site training*, telephone assistance 10 hours per day*, manuals and documentation*.

Staff: 15 total, 12 professionals.

Clients: 120 total, all corporate risk management departments. Sold systems to 30 clients in 1994.

Branch offices: Antwerp, Belgium; Copenhagen, Denmark; London, Paris; Monham, Germany; Milan, Italy; Lisbon, Portugal; Madrid, Spain; Lucerne, Switzerland.

Contact: Neil Harrison, European coordinator-risk information consulting, 31-10-448-7367 or 44-171-705-7519.

* Included in system price.



Sedgwick James Inc. Information Systems Division

1290 Ave. of the Americas, New York, N.Y. 10104; 212-830-1178; fax: 212-830-1372

Risk management systems since: 1979.

Parent: Sedgwick Group P.L.C.

Software products:

■ Inform for Windows.

Price: \$30,000.

System requirements: IBM compatible

PC system. Operates in Windows or UNIX. Online system.

Customization optional.

First installation: 1979.

Total installations: 70; all in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto, crime.

Features: Color graphics, claims management, premium allocations management, actuarial loss forecasting, exposure tracking, customized and ad hoc reports, risk finance, risk control.

User support: On site training*, telephone assistance 10 hours per day*.

Staff: 11 total, all professionals.

Clients: 70 total, including 20 corporate risk management departments. Sold systems to five clients in 1994.

Branch offices: 76 nationwide.

Officers: Jane Hill Flemming, corporate senior vp/director-risk services; Alan R. Josefsek, managing director-information systems.

Contact: Alan R. Josefsek.

* Included in system price.

Seligman Information Systems

234 Garden St., Roslyn Heights, N.Y. 11577; 516-484-5177; fax: 516-621-2154

Risk management systems since: 1985.

Continued on next page

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Continued from previous page

Software products:

■ **CTRACK-Certificates of Insurance Tracking.**

Price: \$695.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2.

Customization optional.

First installation: 1988.

Total installations: 180; 150 in corporate risk management departments.

Features: Tracks certificates received; follows up for renewal certificates as policies expire; management reports for tracking past, current and future activity; provides access to A.M. Best ratings for all property/casualty insurance companies.

■ **Advanced CTRACK-Certificates of Insurance Tracking.**

Price: \$1,195.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2.

Customization optional.

First installation: 1989.

Total installations: 80; 70 in corporate risk management departments.

Features: Includes same features as basic CTRACK plus automatic checking of certificates for compliance with requirements, checks and records coverage clauses and policy limits, tracks and verifies any type of form such as OSHA safety forms and drug testing forms.

■ **ACCESS-The Claims Information System.**

Price: \$5,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2.

Customization optional.

First installation: 1986.

Total installations: 18; six in corporate risk management departments.

Features: Full featured risk management information system for organizations managing insured accounts, providing third-party administration or those self-administered. Full financial and safety reporting, check/voucher writing system available for users issuing payments.

■ **CERTS-Certificates of Insurance Issuing.**

Price: \$1,900.

System requirements: IBM compatible PC system. Operates in DOS, Win-

dows or OS/2.

Customization optional.

First installation: 1987.

Total installations: 15; 10 in corporate risk management departments.

Features: Designed to issue large volumes of certificates of insurance forms 25 and 25S as well as custom forms and letters; maintains an audit trail of certificates issued; management reports aid the issuing process.

User support: Telephone assistance 12 hours per day, training, consultation.

Clients: 300 total.

Officers: Thomas Seligman.

Specific Software Solutions Corp.

P.O. Box 359, Antioch, Tenn.
37011-0359; 800-929-4052;
fax: 615-793-7962

Risk management systems since: 1991.

Software products:

■ **ModMaster 2000.**

Price: \$395.

System requirements: IBM compatible PC system. Operates in Windows.

Customization optional.

First installation: 1991.

Total installations: 1,500; 300 in corporate risk management departments.

Claims/coverages managed: Workers comp.

Features: Computes workers compensation modification factors; reporting and graphing options available.

User support: Telephone assistance 10 hours per day*.

Clients: 1,000 total, including 200 corporate risk management departments. Sold systems to 50 clients in 1994.

Officers: Timothy L. Coomer, president; Al Rhodes, vp; Sandy Coomer, secretary.

Contact: Timothy L. Coomer.

* Included in system price.

3R Co.

631 Durham Road, Sayville,
N.Y. 11782; 516-589-8515

Risk management systems since: 1985.

Software products:

■ **Triangle Analysis.**

Price: \$750.

System requirements: IBM compatible PC system. Operates in DOS only.

Customization optional.

First Installation: 1985.

Total Installations: 11; three in corporate risk management departments.

Claims/coverages managed: General liability, casualty, workers comp, auto.

Features: Loss development, loss reserve tracking, inflation trending, cost of risk forecasting; user-friendly, including one-touch graphics and color. Optional modules include premium adjustment module (for retro programs) and loss rating module.

User support: Telephone assistance one hour per day*.

Officers: Joseph A. Rinaldi, owner/consultant.

* Included in system price.

The Travelers Insurance Co.

1 Tower Square, 9CR, Hartford,
Conn. 06183; 203-277-2770;
fax: 203-277-2876

Risk management systems since: 1983.

Parent: The Travelers Group Inc.

Software products:

■ **CARMA/CARMA On-Line.**

System requirements: IBM compatible PC system. Operates in DOS, Windows or OS/2. Mainframe/timeshare system that can be accessed by single user or network.

Customization optional.

First installation: 1983.

Total installations: 1,709; 612 in corporate risk management departments.

Claims/coverages managed: General liability, property, casualty, workers comp, auto.

Features: Claims management/loss analysis, including adjusters notes, workers compensation lost time analysis, loss development and forecasting, loss prevention, reserve tracking, premium allocation, risk analysis, self-insurance comparison and analysis, loss trending, safety and loss control, ad hoc reporting, ability to take in data from other sources (prior carrier/TPA/self-administered data). Insurance and risk management analysis available through actuarial, loss control/safety,

claim and underwriting staff, all accessing same information source as client and broker. Optional modules include exposure, policy, certificate, of insurance, OSHA, managed care, litigation.

User support: User groups/meetings*, onsite training*, telephone assistance 10 hours per day*, quarterly newsletter*, assigned account information representative*.

Staff: 100 total, 78 professionals.

Clients: 1,709 total, including 612 corporate risk management departments. Sold systems to 258 clients in 1994.

Branch office: Los Angeles.

Officers: Jack Gardner, vp; Matt Carden, second vp.

Contact: Matt Carden.

* Included in system price.

Continued on next page

The directory of risk management information systems begins on page 28. See page 29 for directory terms.

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Spotlight report

Continued from previous page

V**Venture Group Inc.**3840 Myers St., Riverside,
Calif. 92503; 909-352-9334;
fax: 909-352-9393

Risk management systems since: 1986.

Software products:

■ VGI Workers Comp Claims Management System.

Price: \$70,000.

System requirements: IBM compatible PC system. Operates in DOS, Windows or UNIX.**Customization optional.****First installation:** 1989.**Total installations:** 68; 32 in corporate risk management departments.**Claims/coverages managed:** General liability, workers comp.**Features:** First report of injury; OSHA reporting; claims management; payment processing; property interlinking; litigation/investigation tracking; generation of 1099; diary feature; reserving/trust fund accounting; state, monthly, pre-formatted and ad hoc reporting; credentialing; automated data import and export available. Optional modules include professional medical malpractice management.**User support:** User groups/meetings*, onsite training*, telephone assistance 24 hours per day*.**Staff:** 14 total, 7 professionals.**Clients:** 25 total, all corporate risk management departments.**1994 revenues:** \$1.5 million total, \$1.2 million from risk management information systems sales and services, 10% from hardware sales, 85% from software sales, 5% from software services.**Officers:** Niles Haton, chairman.**Contact:** Niles Haton or Jim Bradley.

* Included in system price.

W**WLT Software of Florida Inc.**831 N. Hercules Ave., Clearwater,
Fla. 34625; 813-442-9296;
fax: 813-443-4936

Risk management systems since: 1985.

Software products:

■ CompClaims.

System requirements: IBM compatible PC system. Operates in DOS or Windows.**Customization optional.****First installation:** 1985.**Claims/coverages managed:** Workers comp.**Features:** Workers compensation claims administration, including reinsurance tracking; accounting; fee schedule and PPO processing; billing; claims processing attorney tracking; management; administrative, government and safety engineering/cost management

reporting; bill review; 24-hour coverage and online documentation.

User support: User groups/meetings, onsite training, telephone assistance 9½ hours per day.**Officers:** William Tiner, president; Ann M. Tiner, executive vp; Thomas Brooks, vp-sales; Chuck Brooks, marketing manager.**Contact:** Thomas Brooks.**X****Xordium Inc.**P.O. Box 10, Orange, Calif. 92666;
714-771-3733; fax: 714-771-1579

Risk management systems since: 1991.

Software products:

■ Risk Controller.

Price: \$4,000.

System requirements: IBM compatible

PC system. Operates in DOS only.

Customization optional.**First installation:** 1991.**Total installations:** Eight; one in corporate risk management department.**Claims/coverages managed:** General liability, property, casualty, workers comp, auto.**Features:** Manages insurance policies, certificates issued and received, job descriptions, training, equipment, personnel, incident reporting, statistical analysis, inspections, equipment maintenance, medical surveillance requirements, environmental/hazardous materials monitoring, licensing requirements. Can be customized for special report generation, data analysis and loss trend reports.**User support:** Onsite training, telephone assistance eight hours per day*.**Staff:** Three total, one professional.**Clients:** Eight total. Sold systems to three clients in 1994.**1994 revenues:** \$250,000 total. \$10,000 from risk management information systems sales and services, 100% from software sales.**Officers:** Karen Gillett, president; Fred Gillett, executive vp.**Contact:** Karen Gillett.* Included in system price. **BI**

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File	Partnership	Options	Window	Help
	Corporations			 <p style="font-size: 1.2em; font-weight: bold;">Corporate Systems sets a higher standard in new risk information systems for its partners.</p>
	Claims Administrators			
	Insurance Brokers			
	Insurance Companies			
	Risk Retention Groups			
	Public Entities			

CS EDGE SERIES

File	Client /Server	Options	Window	Help
	CS PRISM for Windows			
	CS CERTIFICATES			
	CS TELECLAIM			
	CS KNOWLEDGE			
	CS PROPERTY			



THE RISK MANAGEMENT EDGE

Addendum

The following was omitted from the EDS listing on page 36.

EDS

13736 Riverport Drive, Maryland Heights, Mo. 63043; 314-344-8395; fax: 314-344-8691

■ WPCS-Worker's Compensation Processing System.

System requirements: Online system, uses SUN, Sequent or Data General computers. Operates in UNIX.**Customization optional.****First installation:** 1991.**Total installations:** Two.**Claims/coverages managed:** Workers comp.**Features:** Online claims processing and management system; coordinates daily claims processing and management activities; captures first report of injury information; creates claim files; reserve worksheets assist in setting reserves; issues checks and drafts for payments; tracks subrogation, second injury, litigation and rehabilitation programs; diary, electronic mail and file comments provided; generates standard and ad hoc correspondence; includes cost containment modules and reporting functions.**User support:** User groups/meetings*, on site training*, telephone assistance eight hours per day*.**Contact:** Steve Fleming, 314-344-2642.

* Included in system price.

The following listing was not received in time to be included in the alphabetical part of the directory.

Dakota Technologies

1115 Prospect Ave., Suite 306, New York, N.Y. 11218; 718-369-1477; fax: 718-369-2836

Risk management systems since: 1994.

Software products:

■ PROCLAIM Workers Compensation Claims System.

Price: \$20,000.



System requirements: IBM compatible PC system. Operates in Windows, Windows '95 or Windows NT.**Customization optional.****First Installation:** 1994.**Total Installations:** Two, all in corporate risk management departments.**Claims/coverages managed:** Workers comp.**Features:** Claims administration, policy tracking, reserve tracking, risk analysis, user-defined reporting, check processing, multiple fund management. Optional modules include voice response, electronic mail integration, medical bill review modules by state.**Contact:** Robert Rice.

1-800-9-CS-EDGE

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New Mexico comp reform challenged

By MEG FLETCHER

SANTA FE, N.M.—Business and labor representatives are joining insurers in asking the New Mexico Supreme Court to uphold the constitutionality of the impairment rating process for work-related injuries.

Specifically, they want the court to reject challenges to provisions in the state's 1990 workers compensation reform law that outline the authority of physicians to determine an injured worker's impairment rating in accord with the American Medical Assn.'s formal guidelines.

In addition, the New Mexico law considers other factors, like age and education, in determining disability benefits.

Workers comp authorities in most states endorse the use of the AMA's "Guides to the Evaluation of Permanent Impairment" as a key component in calculating a worker's permanent partial disability benefits.

Experts view using such disability evaluation guidelines as a way to reduce litigation, because the guide-related component of an injured worker's disability rating are supposed to be objective.

While physicians' findings in using the AMA guides still vary, the average disparity is less than when the guides weren't used, the Cambridge, Mass.-based Workers Compensation Research Institute found in a 1992 study of Maryland.

The New Mexico Business and

Labor Workers' Compensation Coalition, which includes representatives of major employer and union organizations, wants the state Supreme Court to uphold the 1990 reform law—which it helped draft—because it provides certainty about the outcome of workers comp cases, said Jack Milarch, chief executive officer of the New Mexico Home Builders Assn. in Albuquerque.

"Previously, there was very little predictability for injured workers or their employers," he said.

"Overall, labor is supporting the reform law because New Mexico was in a crisis situation in 1990, and since the law has passed, things have improved dramatically," said Chuck Reynolds, ex-

ecutive secretary of the New Mexico District Council of Carpenters in Albuquerque.

Before the reforms workers compensation insurance in the state was more expensive and more difficult to purchase.

However, Mr. Reynolds said he personally is "uncertain" about the appropriateness of allowing updated versions of the AMA guides to be used without specific authorizing legislation.

As a member of the governor's advisory council, Mr. Reynolds said he would consider a recommendation that the law be changed to allow only the 1990 version of the AMA guides and other rating criteria.

Two women injured in separate work-related accidents are chal-

lenging the law and asking the high court to overturn use of the AMA guides. In their joined cases, known as *Rodriguez vs. Wal-Mart*, the plaintiffs allege that the Legislature acted unconstitutionally in delegating authority to the physicians and that use of the guides in determining their disabilities results in unfair treatment.

The women were dissatisfied with the ratings and the resulting disability benefit levels they received in individual cases heard by the state's workers compensation adjudicatory process. Their case skipped deliberations in the New Mexico Court of Appeals because the state Supreme Court indicated that it wanted to hear the case.

"Basically, it all comes down to this: To overturn the law, the court must find that the Legislature did not have rational basis for adopting the AMA's guides in 1990," said Eric Goldberg, associate counsel with the American Insurance Assn. in Washington.

Also, legislatures often delegate policy decisions to expert groups like the AMA because such groups can react quickly to new developments and interpret new understandings in their area of expertise.

"Doctors, not lawmakers, should be making medical determinations," Mr. Goldberg said.

Adoption of reforms, including the AMA guides, brought certainty to case outcomes in New Mexico and helped improve the workers compensation market. Voluntary market rates were cut more than 20% in the past two years, according to the workers comp administration's spokeswoman.

Supporters of the law cite a favorable track record in other courts thus far.

"No state has struck down use of the AMA guides as unconstitutional, though they have been regularly challenged," Mr. Goldberg said.

Amicus briefs supporting use of the guides have been filed on behalf of the coalition, the AIA, the state's workers compensation administration and the New Mexico Defense Lawyers Assn.

Meanwhile, amicus briefs supporting the claimants have been filed by the Trial Lawyers for Public Justice in Washington and the New Mexico Trial Lawyers Assn.

If the state's high court overturns the impairment rating process, it could increase workers comp claims litigation generally, which may lead to higher workers comp rates in the state, said a spokeswoman for New Mexico's Workers Compensation Administration.

A negative decision by the high court may also lead other states to reconsider their use of the AMA guides.

The latest edition of the guides states that 19 U.S. jurisdictions mandate their use, while 10 recommend it. Several of the remaining jurisdictions often use it, said Robert A. Martin, an attorney with Bradley & McCulloch P.A. in Albuquerque.

According to Mr. Goldberg's tally, the AMA guides are used in at least 36 states, because their influence is also broadly seen in states' scheduled rating of obvious impairments.

The New Mexico Supreme Court will hear oral arguments in the case on Dec. 11.

Rodriguez vs. Wal-Mart, New Mexico Supreme Court; No. 23226.

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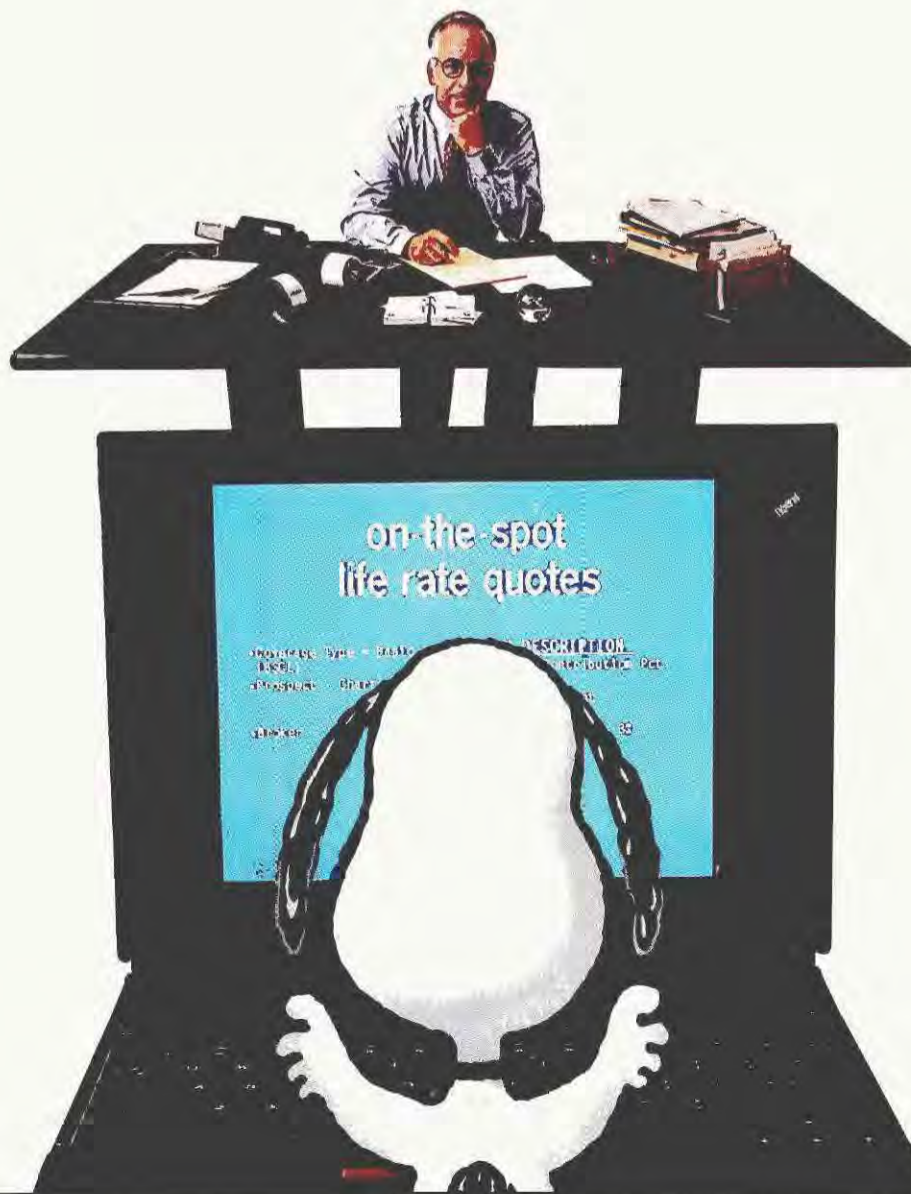
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Shaw

Continued from page 2

£31.6 million (\$50.3 million at current exchange rates), but the broker was losing money. Lowndes Lambert turned its first profit in five years in 1982, which its then-owner, Hill Samuel Group Ltd., credited to Mr. Shaw. In 1987, Lowndes Lambert broke into the ranks of the world's 20 largest brokers at No. 20, based on 1986 revenues £38.1 million (\$61.3 million at 1986 exchange rates).

In 1988, Mr. Shaw headed a management buy-out of the broker from Hill Samuel and became Lowndes Lambert's largest shareholder, owning 10% of the firm. Though the sale price was never disclosed, reports at the time put the total near £15 million (\$23 million) (BI, July 1, 1991).

In 1991, Lowndes Lambert was floated on the London Stock Exchange, raising about £70 million (\$23 million), of which Mr. Shaw's stake was £4.5 million (\$7 million).

Mr. Shaw built the firm through internal growth and acquisitions, including the 1994 acquisition of U.K. broker Whiteley Henshaw Hindle Holdings Ltd.

Just recently Mr. Shaw was promoting the group's potential growth in the U.S. market. Early last month, Richard Kerr, chief executive officer of Lowndes Lambert U.S. Holdings Inc. and its subsidiary Lowndes Lambert of Texas Inc., was appointed to the group's board. Lowndes Lambert U.S. Holdings was set up to own and develop businesses in the United States.

About one-fifth of Lowndes Lambert's 1994 revenues was generated by U.S.-based clients.

Mr. Margrett described Mr. Shaw as the "public image" of Lowndes Lambert. Mr. Shaw spent a lot of time building up Lowndes Lambert to become a public company and he would want its growth to continue, Mr. Margrett said. He added that the chairman worked "48-hours a day" on his major projects, which was mainly his work, but also his golf.

Lowndes Lambert's share price dropped six pence to £1.26 last Monday from £1.32 on Friday morning on word of Mr. Shaw's death. But that isn't surprising as he was such an integral part of the company, according to Mr. Margrett. "I think he would have been insulted if it hadn't dropped." The stock price started to bounce back last week, however, rising to £1.31 last Wednesday.

A sense of shock pervades Lowndes Lambert, but "we are all committed to carry on the way he'd want," said Mr. Margrett. "It's very sad, and judging by the calls we've had from around the world, everyone agrees."

Mr. Shaw, known in the London market as "Champagne Rocky," was born in Southampton on June 7, 1936. He attended Dragon School in Oxford and then the elite Eton, followed by two years as a sub-lieutenant in the Royal Navy. He began his insurance career with what is now Minet Group P.L.C. and moved to Heath in 1970.

Mr. Shaw celebrated as his horse "Hello Dandy" won Britain's greatest steeplechase event, The Grand National at Aintree race course in Liverpool in 1984.

Many in the insurance industry also looked forward to his hospitality on his yacht "The Moon Maiden II" during the annual reinsurance Rendezvous de Septembre in Monte Carlo.

Although Mr. Shaw underwent heart bypass surgery 15 years ago, he continued to smoke heavily and appeared overweight. But he always said that he had every intention of living life to the fullest and planned to enjoy it the way he saw fit. Otherwise, he would say, life was not worth living.

After his bypass, for example, he and a friend bet each other £10,000 that the other could not give up smoking for good. When Mr. Shaw started smoking again shortly after the surgery, his friend called him and told him to pay up. Mr. Shaw thought he was joking, but the friend was serious.

"You know," Mr. Shaw once said. "It was the best £10,000 I ever spent."

But Mr. Shaw had not been feeling well in recent months, and was scheduled to have a second heart bypass operation in February or March. Despite his recent complaints, doctors attributed his symptoms to a virus and other non-heart related problems and agreed to delay the surgery until early spring, said Mr. Margrett.

Mr. Shaw is survived by his wife Yvonne and his 20-year-old son Rupert. A family funeral was held last Friday.

Benefits

Continued from page 1

share, declining health care costs, and even overall benefit costs, could be more than a one-year phenomenon.

Health cost declines were widespread. Average per employee costs fell for companies in 16 of 21 industrial sectors in 1994.

Even as health costs fall for many companies, defined benefit pension plan costs are rising. Last year, they averaged \$1,425 per employee, up from \$1,108.

Some of that increase, though, may be a result of the booming economy. With many companies reporting higher operating profits, plowing more money into pension plans reduces taxable income.

Other findings in the survey include:

- Benefit costs among manufacturers averaged \$16,253 per employee in 1994, significantly higher than the \$14,333 average for non-manufacturers.

- Medical plan costs varied significantly by geographic region. For example, medical plan and related costs—which includes disability, dental and vision plan costs—were lowest in the East North Central states. In that area, they averaged \$3,029 per employee in 1994, up 1.4% from \$2,987 in 1993.

Medical plan and related costs were highest in the West: \$4,991 per employee, up 2.1% from \$4,887 in 1993.

However, medically related costs plunged 18.8% in the Northeast, falling to an average of \$4,318 per employee in 1994, from \$5,315 in 1993.

Other surveys also have reported falling costs in the Northeast as managed care has finally taken root there and plans have begun to market aggressively.

- As a percent of payroll, benefit costs were highest in the West at 43.4% and lowest in the East North Central states at 38.5%. Employers in the Northeast reported that benefit cost—as a percent of payroll—averaged 41.7%, while benefit costs as a percent of payroll among Southeastern employers averaged 39.1%.

Also, by company size, benefit costs were lowest among employers with fewer than 100 employees, averaging 34.5% of payroll. The highest, at 41.1%, were reported by employers with 2,500 to 4,999 employees.

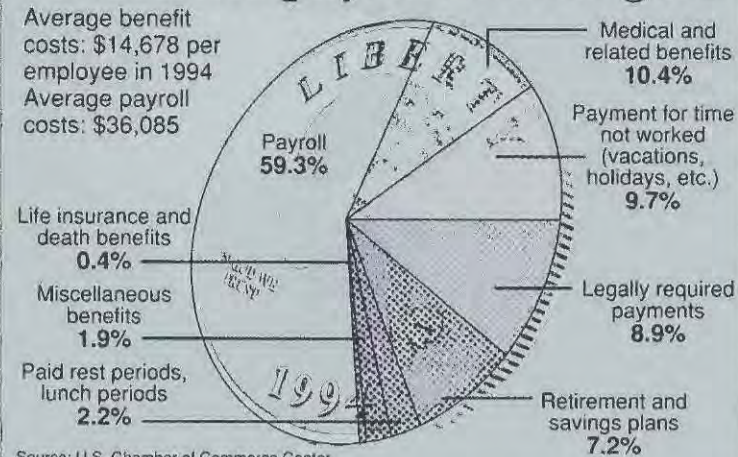
- The cost of legally required benefits, such as Social Security and workers compensation, averaged \$3,172 per employee in 1994, up 1.3% from \$3,130 in 1993.

- Among all U.S. employers—not just those surveyed—1994 benefit expenditures were \$1.31 trillion, up from \$1.22 trillion, the Chamber estimates.

Copies of "Employee Benefits: 1995 Edition," will be available later this month from the U.S. Chamber of Commerce Publications Fulfillment (RKVL), 1615 H St., N.W., Washington, D.C. 20062; 800-638-6582; or in Maryland only, 800-352-1450. The cost is \$29, sales tax should be included for deliveries in California and the District of Columbia.

Where the payroll dollar goes

Average benefit costs: \$14,678 per employee in 1994
Average payroll costs: \$36,085



Source: U.S. Chamber of Commerce Center

GRAPHIC BY MIKE GARVEY

Benefit costs per employee

	1994	% change	% of payroll
Transportation equipment	\$24,570	29.8%	54.5%
Public utilities	22,605	5.7	45.9
Petroleum industry	19,334	1.9	39.9
Electrical machinery equipment & supplies	18,334	8.2	42.7
Machinery (excluding electrical)	17,237	15.2	45.7
Chemicals & allied products	17,163	-9.7	39.1
Rubber, leather & plastics products	16,045	-0.8	41.5
Instruments & miscellaneous manufacturing	15,833	10.8	38.3
Insurance companies	15,101	2.9	40.2
Printing & publishing	13,467	1.8	41.7
Fabricated metal products	13,139	-5.6	38.4
Food, beverages & tobacco	12,810	0.5	37.5
Stone, clay & glass products	12,584	9.8	40.3
Pulp, paper, lumber & furniture	12,423	-9.3	37.5
Hospitals	12,085	2.3	36.8
Miscellaneous non-manufacturing industries	11,931	13.0	38.1
Primary metal industries	11,763	-16.6	34.2
Banks, finance companies & trust companies	10,436	-6.4	31.4
Trade (wholesale & retail)	9,469	-1.6	39.0
Department stores	8,792	47.0	40.1
Textile products & apparel	7,198	-10.0	29.6

Source: U.S. Chamber of Commerce Center

GRAPHIC BY KIM ROME

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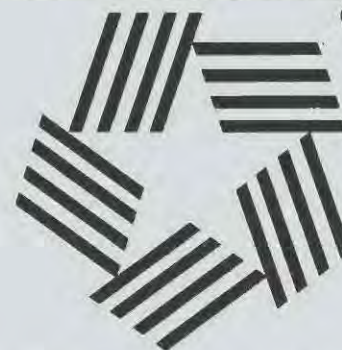
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OSHA

Continued from page 2

lution penalties be abolished; that the National Institute of Occupational Safety and Health be abolished as a separate entity; and that the Mine Safety and Health Administration be merged into OSHA.

While not as sweeping as the House bill, the Senate reform bill still faces considerable opposition, as was evident last week as the Senate Labor and Human Resources Committee—which Sen. Kassebaum chairs—held its first hearing on OSHA since the reform proposal was introduced.

In fact, the first witness before the committee expressed concerns about the legislation because it contains reforms that he himself has been promoting.

Joseph A. Dear, the U.S. assis-

tant secretary of labor and head of OSHA, urged a "great deal of caution before casting even OSHA's own reinvention initiatives in legislative stone."

He cited the agency's own Maine 200 Program, which emphasizes a cooperative relationship between OSHA and employers along the lines of that advocated by the Senate bill as an example of a good idea that should not be codified—at least not yet (*BI*, Oct. 9). That state program still needs to be refined before it can be put into wider use, he said.

"The notion of codifying the administration's initiatives bothers me," because they have not been adequately tested, Mr. Dear repeated as he was questioned by Sen. Jeffords after his formal testimony ended.

Mr. Dear added that he was comfortable that an OSHA initiative like the voluntary protection pro-

gram, which has existed for a decade or so, could be codified, though other initiatives, such as automatically reducing penalties for workplaces with marginally better than average safety records, should be resisted.

Mr. Dear also said that the administration believes the Senate bill would not improve worker protection. "While the bill provides employers with inspection exemptions, means of avoiding citations, defenses against citations, penalty reductions and other relief from enforcement, it does not appear to include provisions which would strengthen workers' rights or protections," he said. He also criticized the bill for not granting sufficient protection to "whistleblowers" who report workplace hazards to authorities.

Sen. Kassebaum said later that Mr. Dear had raised "justifiable concern" about protecting

whistleblowers.

Mr. Dear's mild criticisms paled beside those offered by one of the senators at the hearing.

Sen. Paul Wellstone, D-Minn., said that the OSHA reform bill represented "no less than an effort to overturn" more than a quarter-century of workplace safety progress. He demanded more hearings on the measure, promising that "if there are not, there will be one big fight on the floor of the Senate."

The back of the hearing room, which was packed with union members, exploded into applause at this pledge.

There was more applause from the trade unions as one of their leaders testified against the bill.

S. 1423 "is by no means a moderate proposal," said Linda Chavez-Thompson, executive vp of the AFL-CIO in Washington. She blasted both the Senate and House bills as having the same effect: "to

weaken OSHA enforcement and limit workers' rights resulting in more workplace injuries, illnesses and deaths, and less safety and health protections for workers."

Business representatives testifying before the committee had kinder words.

Katherine Gekker, owner of the Huffman Press in Alexandria, Va., praised the bill for reducing penalties for paperwork violations and called on its authors to take the matter even further by eliminating all penalties in some cases. "Common sense must have a place in setting parameters for violations. Mistakes and accidents occur everywhere, sometimes with no one to blame," she said.

David J. Heller, executive director-environmental health and safety at US West Inc. in Englewood, Colo., endorsed the bill on behalf of the Labor Policy Assn., an employer-backed group in Washington.

"The result will be an OSHA that will use its resources to help employers who are dedicated to providing a safe and healthful workplace while preserving a strong enforcement component to go after the bad actors," he said.

Voluntary health and safety programs "need the involvement of employees and management at all levels of the company," said Dr. T. Forrest Fisher, director of occupational safety and health for Campbell Soup Co. in Camden, N.J., and co-chair of the government affairs committee of the American College of Occupational and Environmental Medicine in Arlington Heights, Ill.

Dr. Fisher warned that "a company health and safety program should be viewed as a value to the company, not as a mechanism to avoid inspections."

The bill has drawn praise from other business groups as well.

"My initial reaction is obviously it is a much more moderate bill than the Ballenger bill. Because it is a moderate bill, it has a better chance of passage, if not this year, it can be reintroduced next year," said Thomas Soles, chairman of the Risk & Insurance Management Society's health and safety committee and group director-insurance and safety for the Sheet Metal & Air Conditioning Contractors National Assn. in Chantilly, Va.

Mr. Soles said the RIMS committee will review the bill later this month and will provide Sen. Kassebaum's office with specific comments where it could use "some tweaking."

"We believe that the introduction of the bill starts the dialogue that is needed in reforming OSHA," said June D'Zurilla, associate director-employee relations at the National Assn. of Manufacturers in Washington. She declined to favor one bill over the other, saying, "We don't like to put the House and Senate against each other."

"It's a bipartisan bill, so that's a good sign. It's important that the Senate give as much attention to it as the House is in the process of doing. The bipartisanship is essential—it's good in both Houses but it's essential in the Senate because of cloture. It needs at least 60 votes in the Senate," said Tom O'Day, associate vp of the Alliance of American Insurers in Washington.

Mr. Dear's concepts "are in sync" with concepts contained in the House and Senate, even if details differ, said Mr. O'Day.

"This is a serious problem, we've wasted a lot of resources under the guise of occupational health and safety and we can't afford to do that, it's too serious an area, and we can't afford it to be partisan," he said. **BI**

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NAIC seeks to mend fences with lawmakers

Regulators and legislators move closer to a partnership, though differences remain

By **RODD ZOLKOS**

SAN FRANCISCO—At a midyear meeting in Chicago, the National Conference of Insurance Legislators left little doubt about its differences with the National Assn. of Insurance Commissioners and its intention to seek legislative remedies.

At NCOIL's annual meeting last month in San Francisco, state insurance regulators in attendance made a clear statement of their own: They got the message.

As NCOIL members discussed resolutions related to the NAIC's model investment law and proposals for greater state oversight of the NAIC, insurance commissioners spoke in terms of partnership and an eagerness to receive legislators' input on issues deliberated by the NAIC.

"We have taken a number of significant steps over the past year which we think are responses to some of the concerns NCOIL has raised, as well as concerns others have raised," said Maine Insurance Superintendent Brian Atchinson.

Mr. Atchinson, NAIC vp, noted that the regulators' organization has made efforts to be more open—including opening its budget process—and has undertaken an examination of its accreditation process.

"It is an ongoing process," he said

of the NAIC reforms. "We know the job isn't over yet."

Later, in a luncheon address at the NCOIL meeting, Mr. Atchinson noted that the room was considerably "warmer" than at its July meeting, leaving little doubt that he wasn't talking about the temperature. "It's amazing what some dialogue can do," he added.

"If there's one word I would look to today following these last few days of discussion it would be 'partnership,'" he said.

"As plainly as I know how to put it, the NAIC and its members...value our relationship with NCOIL. Please don't ever believe otherwise," said Mr. Atchinson. "The NCOIL-NAIC link is a crucial link for state insurance regulation."

"We as state insurance regulators need to communicate with our legislative counterparts," he said.

To that end, Mr. Atchinson said he is optimistic that within the next few months the NAIC will develop some sort of guidelines for maintaining that communication.

The new spirit of partnership cited by the NAIC official didn't stop NCOIL members from passing a resolution at the meeting related to the NAIC's model investment law. The resolution approved by NCOIL's Task Force on the Model Investment

Law cites a lack of legislative input into the model's development, and calls on state legislatures to scrutinize it closely before passing it.

"Basically, this resolution, as all the members know, is telling the legislators we have not had any input, we've been handed something," said New York Sen. Martin Solomon, D-Brooklyn, the task force chairman. "I think what our resolution is saying is that the legislators would like to participate more in the process in the future," Mr. Solomon said.

New Hampshire Sen. Leo Fraser Jr., R-Pittsfield, the outgoing NCOIL president, described the resolution as "a red flag, that should a model investment law be introduced to any state, that state should be very careful about not adopting it without a hearing."

But Arkansas Commissioner and NAIC President Lee Douglass told the task force that, as with any model the NAIC puts forth, the organization's next step will be to put out an exposure draft of the model investment law, then take comment for at least three or four months.

The earliest a model investment law possibly could be adopted would be March, said Mr. Douglass, who noted it probably would actually be June before the full NAIC membership votes on it.

He also said that the model investment law, if approved, would not be a factor in state accreditation decisions—at least not for the time being.

The NAIC president said he doesn't see the NCOIL resolution as a threat, however.

"I would encourage every legislature to look at everything that's put before them and consider the ramifications of it," he said.

The NAIC president also said that someone from the NAIC would attend NCOIL meeting spring meeting to discuss the draft model investment law and encourage legislators to comment.

"We'd welcome any comment," Mr. Douglass said. "It's premature here to say we'd accept everything you might say, but we'd certainly consider those comments."

Maine's Mr. Atchinson said he was pleased with the "recognition" reached at the November NCOIL meeting that "the model law process is just that. It is a model and it is a process."

Meanwhile, NCOIL's Task Force on Insurer Solvency also continues to weigh the issue of legislative accountability over the NAIC, though the group tabled action on model NAIC oversight legislation.

Vermont Rep. Kathleen Keenan,

D-Franklin County, a co-sponsor of NAIC oversight legislation pending in her state (*BI*, Jan. 30), said Vermont will make a presentation on the issue at NCOIL's spring meeting in Washington, D.C., in March.

Rep. Keenan and others suggested that a key stumbling block for now is how to fund state NAIC oversight activities. She suggested, however, that she believes it would be appropriate to spend public money on overseeing the NAIC. "I think oversight expenditures are legitimate public expenditures."

And N.J. Assemblywoman Clare Farragher, R-Monmouth County, chairwoman of NCOIL's insurer solvency task force, said she intends in 1996 to press for passage of the NAIC oversight bill she introduced in her state during the 1995 session.

On the issue of NAIC accountability, Mr. Atchinson told legislators, "I am pleased to tell you we've come a long way. Your criticisms in this area have been largely constructive and we have responded."

Among the other steps it has taken, the NAIC is considering creation of a secretary/treasurer position, he said. "This will put added emphasis on getting information about our financial affairs to our members and to the public."

He also said the NAIC appreciates "continued interest" in the NAIC's accreditation program, and said NAIC membership is looking at making accreditation more "results oriented," and has authorized an operational audit of the program. **BI**

States must tackle disaster issues, exec says

By **RODD ZOLKOS**

SAN FRANCISCO—States must act to reduce natural disaster losses and help ensure property coverage availability and affordability, rather than wait for federal action.

That was the message from a panel of lawmakers discussing natural disaster and catastrophe legislation during the National Conference of Insurance Legislators' annual meeting in San Francisco last month.

Edward L. Schrenk, senior vp of United Services Automobile Assn. in San Antonio, told the state legislators and others in the audience that too many people believe the recent run of massive natural disasters is an isolated occurrence.

"We tend to think this is a new phenomenon and that causes far too many people to feel this is a fluke and therefore isn't likely to repeat itself," Mr. Schrenk said. "The fluke is that in the '60s and into the '70s we didn't have serious hurricanes."

But he also pointed to the growth in the value of insured property and said, "There is \$3.15 trillion of insured property in that (hurricane) exposed area in the U.S. In contrast, the entire property/casualty industry has \$240 billion in surplus."

California Sen. Herschel Rosenthal, D-Van Nuys, chair of the California Senate Insurance Committee, said he "supports in concept" the National Natural Disaster Protection Act now pending in Congress but added that "California is not waiting for a federal solution."

The state has put in place a framework for a California Earthquake Authority that would provide basic quake insurance to homeowners, he said, but "this is only an exploratory effort that must be implemented with further legislation."

Sen. Rosenthal said he has "serious doubts" about the CEA. He said he is concerned over possible state liability as well as insufficient responsibility for financing the facility being placed on the insurance industry.

He said he hopes legislation that would let insurers offer a "no-frills

basic earthquake policy" will be implemented quickly by California Insurance Commissioner Chuck Quackenbush. Sen. Rosenthal noted that he has authored a bill aimed at helping homeowners retrofit homes to reduce earthquake losses, probably through a combination of loan guarantees and some grants.

Another bill he has authored would let the state treasurer help meet insolvent insurers' claims following a disaster. That plan would issue revenue bonds to be repaid by increasing the assessments charged members of the state's insurance guaranty association.

"While these disasters strike locally, they spread their effects nationally," he said. "Until we recognize this reality, we will not be able to build a framework for a national solution."

The debate on a federal natural disaster act in Congress is a "good beginning," the California senator said. Serious issues remain unresolved, however, including how much risk the U.S. Treasury would face, how much coverage mandatory policies would provide and how much state authority would be pre-empted by a national act, he said.

He was particularly concerned about the amount of state authority that would be ceded to federal officials under federal legislation.

NCOIL has approved model legislation for a state model natural disaster cat fund, which draws heavily on Florida's Hurricane Catastrophe Fund. Florida's program, meanwhile, continues to evolve.

Leonard Schulte, a staff attorney for the Florida House Insurance Committee, noted that many issues related to the Florida cat fund have been revisited over the past three years and said, "Where we go from here, I'm not sure."

Rep. John Cosgrove, D-Miami, chairman of the Florida House Insurance Committee, said the state has a new incentive program to reduce reliance on the joint underwriting association to cover homeowners.

"That program would invite new

(insurance) companies to be formed in Florida with a \$100 bonus for every policy that is taken out of the JUA," he said. And, the program would offer insurers a JUA assessment hold-harmless arrangement structured over a four-year period.

In the future, Florida will look toward privatizing the JUA, he said.

The state also is looking at ways to allow homeowners to take higher deductibles on their hurricane coverage—up to a 10% deductible "if you have a financial way to cover that deductible, such as a home equity line of credit, a pledged CD, a savings account"—the insurance committee chairman said. "So consumers are not in the position of having a loss, having a large deductible and not having a way to pay for it."

"We have to find a way to cover larger deductibles or I promise you it will come back on the public," Rep. Cosgrove said. The tradeoff for a plan to finance those higher deductibles "would be premiums that would be reduced 30% to 40%." "This type of plan would address two major problems we have in Florida: availability and affordability."

Florida also continues to look at a cap on insurers' hurricane losses, so companies "would know exactly what their exposure was in Florida and they could plan for that."

State officials are considering a cap of two times the residential losses in Hurricane Andrew—about \$25 billion, though Rep. Cosgrove said he is now having second thoughts about that plan.

Such a cap has two problems, he said: "How do you pay for unfunded liability if you have a loss above \$25 billion?" And, "How do you pay? Do you pay everybody 50% up front? How do you rebuild your house then? It would be an administrative nightmare" to figure it out.

USAA's Mr. Schrenk stressed the importance of loss control through an improved approach to building codes, and cited work in this area by the Insurance Institute for Property Loss Reduction, an insurer-supported organization.

"In that vein, the organization has a role as a building code watchdog," Mr. Schrenk said. Poor enforcement currently renders building codes of little use in trying to prevent or minimize disaster losses, he said. Besides building code improvements, IIPLR is developing superior building materials and retrofitting technologies.

"In the area of building codes, we really need to bring about a cultural change," he said. While current codes are aimed at allowing people to leave those structures without injury—"a very good objective, but it really doesn't help us in the area of loss control due to natural

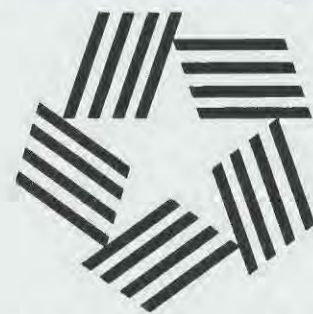
disaster"—there needs to be more emphasis on damage resistant structures, he said.

Florida Rep. Cosgrove supported Mr. Schrenk's claims and said 30% of losses from Hurricane Andrew resulted from code enforcement problems. He encouraged states to work on code issues, and said Florida is taking such steps, going as far as planning to rate building code and code enforcement problems for insurance premium purposes.

Premiums in Florida, he said, will soon note, "Your premium is \$600, you live in a B-rated coded enforcement area. If you lived in an A-rated area your bill would be \$525. If you want more information, contact your city manager." **BI**

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Banks in insurance inevitable?

Similar concerns may have set industries on crash course

By **RODD ZOLKOS**

SAN FRANCISCO—Banks involvement in the insurance business may be an inevitable outcome of the similar operating concerns facing both banks and insurance companies, analysts say.

Both businesses are concerned with reducing their costs. For insurance companies, tapping banks' distribution systems provides a way to reduce cost by improving distribution efficiency.

For banks, the advantage comes in moving more products through the branch networks they support.

A look at the challenges facing insurers today clearly shows insurers aren't getting their money's worth in the distribution area,

Larry Mayewski, a senior vp with A.M. Best Co. in Oldwick, N.J., said during a panel discussion at the National Conference of Insurance Legislators' annual meeting last month.

"In a competitive market, companies are jockeying for ways to strengthen distribution," Mr. Mayewski said. "Most CEOs, most insurance people, will tell you it's not a question of if costs need to come down, it's a question of how much."

The insurance industry, he suggested, "is an industry that is financially secure but strategically challenged."

"The competitive landscape is changing and competition continues to heat up," Mr. Mayewski

said. "Clearly the economic environment is a strategic challenge that insurers need to manage within."

In addition to distribution and the economic environment, other strategic challenges facing insurers are competition, demographic trends and regulation, he said.

In the regulatory arena, Mr. Mayewski called market conduct a "major industry challenge."

Confidence in the insurance industry is on the wane and, if that trend continues, it may be difficult to rebuild, he said.

Distribution improvements also represent a critical area, and one where the insurance industry can help itself by working with banks, Mr. Mayewski suggested.

"There are going to be fewer and fewer superior companies as we move forward," Mr. Mayewski said. For those that are to succeed, he said, "distribution productivity must be enhanced in order to be able to meet some of the financial targets that companies are shooting for."

From the banks' perspective, the same phenomena are occurring as in insurance, according to Forrest Ward, national director of financial service industries at Ernst & Young in New York.

Those essentially are the need to provide consumers what they want, and coupling distribution of insurance products with other financial services would help address that need, he explained.

"The banks have the distribution system in place," he said. "They want to lower their cost."

If they can use their existing distribution systems to distribute a

new financial product, then they can lower their costs as well as the costs of the insurance company whose product they are distributing, he said.

While banks face burdensome costs associated with maintaining their branch networks, insurance companies are having a hard time getting their product distributed to the consumer in a cost effective manner, Mr. Ward said.

'There are going to be fewer and fewer superior companies as we move forward,' Larry Mayewski says.

But in many places, local laws are already in place to allow bank activity in insurance products. "A significant portion of our states already have enabling legislation allowing banks to sell insurance," he said.

And many banks have already moved in that direction, noted Mr. Ward, adding that he doesn't believe that all the fears raised by independent agents of banks' moving into insurance products are valid.

"Today, banks already employ over 10,000 agents," Mr. Ward said. "I'm not sure the fears of agents are as well-founded as they might think. Brokers that add value will have a place."

And banks are clearly more interested in acting as distribution vehicles for insurance products rather than getting involved in actual underwriting, Mr. Ward said. "They have little interest in buying a life insurance company or an insurance company period," he said.

The largest banks have superior returns on equity to insurance companies, he noted.

"Why would they want to acquire an insurance company that might lower their return on equity?" he asked. "They don't want to acquire the insurance company. They want access to the customer for fee income." ■

International insurer omitted from directory

The following listing was omitted from the Nov. 6 directory of international property/casualty insurers.

Reliance National

77 Water St., New York, N.Y. 10005; 212-858-5002; fax: 212-858-6595

	1994	1993
Int'l premiums.....	\$168,578,000	\$124,321,000
U.S.....	10.3%	11.9%
Non-U.S.....	89.7%	88.1%
Offices: Claims.....	3	3
Underwriting.....	6	3
Employees.....	NA	NA
U.S.....	13	8
Non-U.S.....	151	210
Foreign countries.....	15	12
Owned offices.....	6	3
Combined ratio.....	98.6%	90.9%

Intl. P/C operations began: 1991.

Parent: Reliance Group Holdings.

Specialties: Excess and surplus, financial procedure, professional liability, environmental, accident and health, property, aviation, marine.

Services: Captive programs, loss control services; retrospectively rated programs; statistics in support of international programs.

Licensed or accepted insurer in: Argentina (Seguros Reliance Nacional de Argentina), Canada, Germany, Mexico (Seguros Renamex), Netherlands, Spain, United Kingdom.

Affiliates/fronting arrangements: Poland (WARTA), Portugal (Imperio).

Officers: Dennis Busti, CEO; Pennington Way executive vp; Joseph Graziano, executive vp-international; William Parisi, Christopher Cron, vps.

U.S. contact: Joseph Graziano.



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Blues

Continued from page 1
\$2 million last year.

Federal officials said that the suit in Massachusetts may be just the beginning of such actions and note that the Labor Department is investigating 40 insurers at this time.

All 66 Blues plans in the country will eventually come under scrutiny, as well as other health insurers that may not be passing on discounts, according to Mr. Kaplan.

"We are looking at other Blues and non-Blues," he said. "Our goal is to settle voluntarily when we can."

overpayments to consumers.

According to the Labor Department's suit, BC/BS of Massachusetts over a seven-year period contracted with the self-insured plans to provide claims administration services for a fee.

BC/BS of Massachusetts would estimate total claims for a six-month period for each plan sponsor, and every six months reconcile the account to see if the Blues plan owed the employer money or vice versa.

BC/BS of Massachusetts and hospitals also reviewed the accounts at the end of the year to ensure that they were in compliance with a state law, in effect from 1985 to 1992, that limited the

flated claims administration fees since they were based on the original, unreduced claims payments.

And plan participants were charged too much, since their copayments were based on a fixed percentage of hospital expenses rather than on actual hospital expenses after the end-of-the-year settlement of accounts, the suit charges.

The Labor Department is asking the court for an independent audit of BC/BS of Massachusetts' books, the company's full cooperation in the audit and restitution to the plan sponsors and participants.

BC/BS of Massachusetts issued a statement denying charges that it had breached its fiduciary duties under ERISA and argued it had always complied with Massachusetts laws on hospital refunds.

The insurer noted that it has \$275 million in statutory surplus, up 21% during last year, and had sufficient funds available for "any potential settlement with the Department of Labor."

The federal lawsuit against BC/BS of Massachusetts was preceded by two other lawsuits against the health insurer covering similar legal ground and filed by a non-profit advocacy organization, Health Care For All, a Boston-based citizens health care group with 1,200 members statewide, on Nov. 14 filed suit in federal court alleging that Blue Cross' failure to rebate discounts was an ERISA violation. The group had filed a suit in state court Oct. 24 with similar accusations. It is seeking class action status for both suits.

"We had suspected that there

'Play or pay' postponed Massachusetts delays benefit law again

BOSTON—A new law, signed by Massachusetts Gov. William Weld last month, delays to Aug. 1 implementation of a 7-year-old law that requires employers to either pay a substantial tax or offer and pay for a substantial portion of group health care coverage costs.

Under the 1988 law, which had been slated to take effect Jan. 1, employers are required to pay a tax of \$1,680 per employee. But that tax is offset by what employers spend on their group health care plans. Employers that have group health care costs exceeding \$1,680 are exempt from the tax.

The law, though, never has been implemented, due in part to opposition from small-employer groups that say a health care mandate will drive businesses out of the state (BI, Oct. 9). Last week's delay marks the third time Massachusetts' so-called play or pay approach to expanding coverage has been delayed.

State legislators next year are expected to consider a variety of alternatives to expand coverage, including easing eligibility requirements to qualify for Medicaid.

Separately, Gov. Weld signed legislation that requires health insurers and health maintenance organizations to provide mothers at least 48 hours of inpatient care following normal childbirth and 96 hours of care after a Caesarean section.

—By Jerry Geisel

If the Labor Department presses its case against other insurers, insurance companies are likely to reach agreements readily instead of trying to fight, says Charles K. Kerby.

The Massachusetts suit pertains to 263 self-insured, ERISA-covered group health plans for which the Blues provided claims administration services, in addition to individual policyholders and several non-ERISA group plans such as government and church plans.

The scenario in Massachusetts is more complex than many other cases because it also involves alleged violations of state laws that cap hospital charges and dictate how health insurers must refund

charges that hospitals could assess for medical services, according to the suit.

Following such reviews, the suit alleges that BC/BS of Massachusetts received rebates from hospitals amounting to about \$180 million, of which about three-fourths was from claims by group plans with the remainder from individual policyholders.

In addition to failing to pass along the rebates, the suit charges, the self-insured plans paid in-

were some kinds of discounts that were not being passed on to the consumers," said Laurie Martinielli, legal coordinator for Health Care For All. "Then in the past year, we had suits popping up all over the country."

If the Labor Department does indeed press its case against other insurers, insurance companies are likely to reach agreements readily instead of trying to fight, predicted Charles K. Kerby, a principal with William M. Mercer Inc. in Washington.

"I think they must feel like they have a pretty strong case," Mr. Kerby said. "No federal bureaucracy likes to take chances, and if they have what they feel is a winner or a gold mine they're likely to take it."

Stephen Caulfield, a managing director in Mercer's Boston office, added that benefit managers who want to be sure that discounts are passed on to their companies should insist on aggressive procedures for year-end disclosure of fees and auditing. **BI**

Risk managers not yet ready to surf the 'Net

By GAVIN SOUTER

But, Internet is next wave of innovation, experts say

NEW YORK—In the future, risk managers will be able to conduct numerous transactions and solve myriad problems through services on the Internet, experts say.

They predict the Internet will become the medium to conduct business with insurers and brokers, review services and products available, access industry loss trend data, and to buy insurance.

Already the Internet is saving risk managers time and money. And Intranets, which are private, internal networks, are enhancing internal corporate communications.

Still, there is little really valuable information available free and often it is difficult to separate useful information from junk, experts contend. What's more, the plethora of information available can lead to wasted time.

The Internet is not yet an indispensable business tool, but it soon could be, said John Riley, director of corporate risk management at Dun & Bradstreet Corp. in New York. "The Internet is an idea whose time has not yet come. But it is almost here."

He was speaking last week at a conference on the Internet as a risk management tool, which was co-sponsored by Sun Microsystems Inc., The College of Insurance and the Risk & Insurance Management Society Inc.

When risk managers do take to the Internet en masse, it could revolutionize their jobs.

"The Internet will reduce errors, reduce labor costs and give immediate access to global information," said Carol Harrington, director of risk management at Sun Microsystems in Mountain View, Calif.

Risk managers will be able to

communicate quickly and directly with their brokers and insurers, she said, including delivering contracts and invoices.

And, ideally, insurers will use compatible software to allow risk managers to manipulate the data they get from different insurers, Ms. Harrington said. "Also, I would like to be able to find products and services available by using the Internet."

The Internet will also be the tool to access loss trend information from insurers and brokers, Ms.

'The Internet is an idea whose time has not yet come. But it is almost here,' says John Riley of Dun & Bradstreet Corp.

Harrington said.

The Internet could feasibly be a tool for risk managers to buy last-minute catastrophe coverage from a financial exchange if a hurricane is forecast, added Brian M. Kawamoto, executive vp in the major account brokerage division at Rollins Hudig Hall Co. in San Francisco.

"You will have the potential to arrange cover immediately," he said.

Already the Internet—or similar internal computer networks called intranets—can help risk managers save time and do their jobs more effectively, said Ms. Harrington.

Sun Microsystems has its own risk management home page, accessible to persons connected with SWAN—Sun Microsystems

Worldwide Area Network—which it uses to manage the worldwide operations of the company, she said.

The home page sets out who works in the risk management department and the objectives of the department, according to Ms. Harrington.

It also carries answers to questions which the department is most frequently asked by other departments, she said.

And by using the Internet, company units can communicate with Sun Microsystems' broker, Sedgwick James Inc., on routine matters without bothering the risk management department, Ms. Harrington said.

Conversely, the intranet can be used by the risk management department to disseminate information to company units quickly, she said.

But using the Internet is not without problems. Wary of security problems, many companies are reluctant to use it to exchange information. And, as the information is free, it is often of little value, said RHH's Mr. Kawamoto.

Also, many people regard the information on the Internet as credible simply because it is there, he said. "There is a lot of junk out there, and once it comes in the form of the written word it tends to be looked at as fact not fiction."

Conducting business by computer also takes the human element out of business and this can make it difficult to assess unfamiliar businesses, Mr. Kawamoto said.

"How can you get a gut feeling about people?" Mr. Kawamoto asked.

The volume of information on

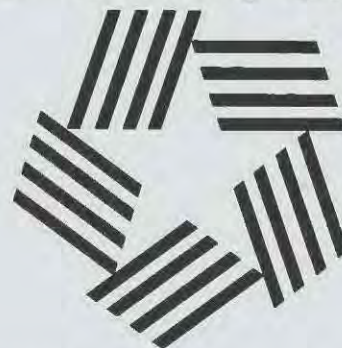
was available.

He had to check himself and return to the information he was really seeking, he said.

"The next thing you know, it's 10 after 5 and you haven't talked to a customer yet," Mr. Redmond warned.

All users of the Internet should assess whether it is really helping them create wealth before they use it, he said. **BI**

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AGF agrees to sell Chilean affiliates

Insurer's restructuring prompts sale

By MARIA KIELMAS

Assurances Generales de France Group is selling three of its affiliates in Chile to a local financial services company, Banco Security Holdings, for between 375 million and 425 million French francs (between \$77.3 million and \$87.6 million).

Paris-based AGF, which has invested about \$20 million in Chile since it first entered the market in 1990, will continue to operate an insurance subsidiary in Chile after the sale.

The French insurer is selling the affiliates as part of an ongoing in-

ternational restructuring program initiated when Antoine Jean-court-Galignani became president of AGF in January 1994.

Santiago-based Security Holdings is the former Chilean subsidiary of Bank of America.

AGF said that the sale involves AGF's full share, 59.6%, of the pension fund manager AFP Proteccion.

This company manages a pension fund that had assets 833.2 billion Chilean pesos (\$2.08 billion) as of June 30. The pension fund had 166,397 clients as of June 30, compared with 128,000 a year earlier. It is the fifth-largest

pension fund in Chile.

AGF is also selling its 62.7% stake in the La Prevision Generales, a non-life insurance company with 3.3% of the Chilean market, as well as its 64.3% stake in the life insurance company La Prevision Vida, which has 2.6% of the market.

AGF will continue business in Chile through its general insurer, Consorcio General de Seguros, of which it owns 97%.

Consorcio wrote 395 million French francs (\$81.4 million) in gross premiums in 1994 and has a 9.3% share of the Chilean insurance market.

Consorcio is planning to diversify its distribution network in 1996. Currently, this is done mainly through intermediaries. Beginning next year, though, Consorcio plans to sell its products via banks and in direct sales, the statement said. **BI**

Maxwell arguments claim justification

By EDWIN UNSWORTH

LONDON—Kevin Maxwell believed he had "abundant justification" for pledging shares that were owned by company pension funds, according to his attorney's closing arguments last week in the Maxwell pension fund trial.

Lawyer Alun Jones said his client believed that ownership of the shares in two Israeli companies had been transferred from the company pension funds to Robert Maxwell Group P.L.C., a holding company for the Maxwell family's private interests. The shares were subsequently pledged as collateral for loans to RMG.

The Serious Fraud Office charges

that Kevin Maxwell, his brother Ian and Larry Trachtenberg, a former adviser to the late Robert Maxwell, with conspiring to defraud the pension funds by using £22 million (\$33.7 million) worth of fund-owned shares in Israeli company Teva Pharmaceutical Industries Ltd., to raise money for RMG, which was in financial difficulties following the November 1991 death of Robert Maxwell (*BI*, Nov. 27).

Kevin Maxwell also faces a second charge of conspiring to defraud Maxwell company pension funds by pledging shares worth £100 million (\$153.4 million) in Scitex Corp. Ltd., an Israeli computer-imaging company, to obtain credit for RMG from National Westminster Bank. If convicted, the defendants face prison terms of up to 10 years on each charge.

Robert Bunn, another Maxwell financial adviser, was also charged with fraud, but was discharged from the trial after suffering a heart attack. The SFO said it reserves the right to proceed against him in a separate trial should he recover.

Mr. Jones, the defense attorney, claimed that three administrators of Bishopsgate Investment Management, which managed the pension funds, are involved in a "cover-up" to protect themselves at Kevin and Ian Maxwell's expense.

After Robert Maxwell's drowning in 1991 off his yacht near the Canary Islands, the three Bishopsgate administrators became concerned about the position of pensioners and themselves and rewrote documents to indicate that owner-

Bishopsgate Investment Management is involved in a 'cover-up,' contends Alun Jones.

ship of the shares had never been transferred from the pension funds to RMG, alleged Mr. Jones.

He reminded the jury of testimony by Kevin Maxwell that in July 1991 his father had shown him an amended version of a contract in which RMG agreed to buy 5.4 million Scitex shares from Bishopsgate. Kevin Maxwell argued that the amended version, which mysteriously disappeared before the trial, deleted the final paragraph of the original, which had stated that the beneficial ownership of the shares remained with Bishopsgate until RMG paid for them.

Mr. Jones said that Kevin Maxwell similarly believed that the Teva shares belong to RMG.

Mr. Jones also accused six National Westminster Bank executives of lying both in court and to liquidators of the Maxwell pension funds when they claimed they did not know the pension funds were managed by Bishopsgate. He said it was "ludicrous" to believe the bankers did not know about Bishopsgate.

Over the next few days, defense lawyers for Ian Maxwell and Mr. Trachtenberg are scheduled to sum up their cases. Lord Justice Phillips, who is hearing the trial in London's Central Criminal Court, or the Old Bailey, is expected to give his summation in mid-December. The jury will give its verdict later. **BI**

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INTERNATIONAL

In the spotlight at Equitas

Crall, former Argonaut CEO, says he's prepared for 'different world'

By JUDY GREENWALD

MENLO PARK, Calif.—It's a big move from the relative quiet of running a workers compensation insurer based in Menlo Park, Calif., to becoming a focus of the world insurance market's attention as head of Equitas Ltd. in London, but Michael Crall says he's prepared.

Earlier this month, Mr. Crall, who has served as president and chief executive officer of Argonaut Insurance Co. since 1986, was named chief executive designate of Equitas, the reinsurer that Lloyd's of London proposes to assume 1992 and prior liabilities.

Mr. Crall, 51, whose last day at Argonaut was Nov. 22, assumed his new position Dec. 1.

On Jan. 1, Mr. Crall will assume the executive responsibilities of Equitas from Heidi Hutter, who has been project director for the last two years but is leaving to become chairman and chief executive of Swiss Reinsurance America Corp. in New York.

Until the end of February, Ms. Hutter will divide her time between her new position and supervising the reserving work of Equitas.

"I think I'm prepared to deal with the attention, and will do so in a way, I

think, that doesn't distract from getting the job done," Mr. Crall said. However, he admits, "It's a different world."

Mr. Crall said he was approached about taking the position about two months ago. "The more I dug into it, the more challenging and interesting it looked," he said.

"I think it's a huge challenge," he said. "The success of Equitas is very important to the world insurance market. It's certainly center stage in the world insurance market, and it's just an exciting and challenging opportunity to really build an organization and achieve something that's very worthwhile."

Mr. Crall said he believes he was asked to take the job because "they were specifically looking for someone who was familiar with the London market who was not directly connected with it."

In addition, Lloyd's was "looking for someone with direct experience building an organization and doing that successfully, and I think the track record at Argonaut and a few prior assignments probably contributed to the decision to offer me the position."

Certainly Mr. Crall, who has been in the insurance business since 1968, is no stranger to international insurance. His entire career before joining Argonaut

was with the former INA Group of Cos., which subsequently became CIGNA Corp., most of it in CIGNA's international division. His tenure included five years in Europe, from 1974 to 1979.

For the immediate four or five years before he joined Argonaut, he was in charge of the U.S. region of CIGNA Worldwide Corp., providing overseas products and services to U.S.-based companies.

Discussing his approach to his new assignment, Mr. Crall said, "I think the Equitas project has been laid out in terms of three requirements" that sound simple, but are actually "quite difficult."

"Equitas has to be fair, and by that is meant being fair to the names. It has to be equitable in terms of treating all syndicates on an equivalent basis, so that the reserves of one syndicate are arrived at by the same technique as another syndicate. And thirdly, it has to be sustainable. The funding has to be sufficient to carry it forward."

"Now each of those goals is to some extent in conflict with another, so it's very much a balancing act."

The groundwork has already been laid by Ms. Hutter and a team that has been working on the project for the

See Crall on next page

Accidents on the rise

Includes employees, self-employed individuals and members of the U.K. public

	'90	'91	'92	'93	'94
Fatal	572	473	452	403	406
Major	31,203	29,707	28,722	29,531	30,092
Other	162,888	154,338	143,283	137,459	138,786
TOTAL	194,663	184,518	172,457	167,393	169,284

Source: U.K. Health and Safety Commission

GRAPHIC BY JERRY PARKS

Job accidents falling in U.K.

By STACY SHAPIRO

LONDON—There has been a striking reduction in the number of fatal workplace accidents during the last 20 years in the United Kingdom, says the head of the Health and Safety Commission.

Indeed, the total number of employees and self-employed individuals who died on the job fell 4.4% to 283 in fiscal 1994, which ends in April 1995, from 296 in fiscal 1993, HSC Chairman Frank Davies said late last month.

"I am very pleased to report that fatal injuries are still around last year's historic low," he said.

Unfortunately, however, the number of self-employed who died rose to 73 from an average of 62 over the past three years, said the HSC. More than 70% of these deaths reported were in the agricultural and construction sectors.

The number of occupational accidents fatal to third parties also rose to 118 from 107 in the previous year. Most of those fatalities occurred in service industries, such as medical and health services and nursing homes.

These statistics were published in the HSC's three-volume fiscal 1994 annual report. The report is collated by the HSC, the quasi-governmental agency designed to protect the health, safety and welfare of employees and the public; and the Health and Safety Executive, which enforces the health and safety laws applicable to 650,000 workplaces. The HSC also is responsible for setting enforcement policies on 1.25 million other establishments for which municipalities have enforcement responsibility.

The report is a minefield of data on workplace health and safety in the United Kingdom. Statistics show:

- Falls from a height are the most common cause of employee fatalities. Other leading causes of fatal injuries are caused by the collapse or overturning of an object onto an employee, or being struck by a moving vehicle.
- Most workers killed in the past two years were men.
- Employees age 45 to 54 account for more workplace deaths than any other age group.
- There was a rise in the number of serious injuries to 30,092 in 1994 from 29,531. The most common form of non-fatal injury was a slip, trip or fall.

In 1994, the Health and Safety Executive investigated 33,000 complaints and accidents. Of those, the HSE issued 10,750 notices requiring "remedial action by employers on

See Safety on page 65

U.K. budget offers some tax relief

By SARAH GODDARD

LONDON—Several provisions in the British government's new budget will come as a relief to businesses and insurers, though others could raise their costs.

The government's budget statement was delivered last week to a packed House of Commons by the Chancellor of the Exchequer, Kenneth Clarke.

Following speculation that the insurance premium tax, introduced two years ago, would be increased to 6% from 2.5%, the insurance community was relieved to hear the chancellor state that he never intended to change the tax.

"I am pleased the chancellor decided not to target insurance policyholders as a source of further government revenue," said Mark Boleat, director general of the Assn. of British Insurers.

Before the government's budget was unveiled, the ABI had calculated that

a possible rise in the tax would lead to policyholders paying an additional £1 billion (\$1.53 billion) in taxes on top of the £3 billion (\$4.59 billion) already collected from premium taxes and value-added taxes.

Chancellor of the Exchequer Kenneth Clarke said higher premium taxes were never considered under the new budget.



Also welcome to many insurers was the government's introduction of tax relief on non-life insurers' equalization reserves, which will be contained in the forthcoming Finance Bill.

Setting up tax-free equalization reserves—which are used to fund future losses, such as natural catastrophes—is expected to iron out inherent volatility in certain classes of non-life

business. The proposed lines of business to be covered by the legislation are: property; consequential loss, which is similar to business interruption coverage; mortgage indemnity; marine; nuclear; proportional reinsurance of those classes; and all non-proportional business.

Equalization reserves will be compulsory for insurers in the classes of business in the final measure. The levels at which reserves must be maintained, and the level of losses that must be reached before the reserves can be tapped, will vary depending on the class of business.

Although additions to the reserves will be made on a pretax basis, transfers from reserves will be subject to taxes.

The budget was not all good news, though.

U.K.-owned captive insurance companies in offshore domiciles will be hit by the chancellor's introduction of corporation tax on controlled foreign companies. The measure is designed to bring tax treatment of CFCs closer to that of onshore U.K. companies.

See Budget on page 65

Insurers pledge to reduce environmental risk

49 companies sign environmental pact to initiate change

By DON LEWIS KIRK

GENEVA, Switzerland—A group of 49 international insurers and reinsurers has signed a statement of environmental commitment aimed at reducing global environmental risk.

Insurers have pledged to make the environment a factor in their risk management, loss prevention, product design, claims handling and asset management.

"By supporting the use of loss-prevention measures and other contract terms, insurers hope to motivate industry adherence to sound environmental practices," said Walter Jakobi, administrative director of Gerling Global Reinsurance Group, which is one

of the signatories.

In a statement signed Nov. 23 at the United Nations Environment Program headquarters in Geneva, Switzerland, insurance companies committed to making the management and reduction of environmental risk a "core activity" of their businesses.

Insurers can initiate such change in many ways, Mr. Jakobi said. For example, insurance products can be designed to reward communities that have tough safety standards for waste-removal operations, or can offer lower premiums for companies that don't build in flood- or earthquake-prone regions.

Rudolf Kallenberger, a member of Swiss Re Group's executive

board who helped write the statement, called it an "important step" in meeting the threat of global climate change.

"With a greater occurrence of environmental catastrophes in recent years, we see environmental consideration as an important aspect of our business," he said.

Swiss, German, British and Japanese insurers and reinsurers that initiated the agreement have since been joined by other international insurers and reinsurers. Of the more than four dozen signatories, 14 companies attended the presentation in Geneva.

To verify progress on environment policy, companies have pledged to report to the public on a regular basis the steps they have

taken.

In addition, companies agreed to share information on managing risks with clients, intermediaries, shareholders, employees and regulators.

"Our intention is to improve society's response to environmental challenges," said Mr. Jakobi.

Insurers plan to meet in London in May to detail steps they can take to ensure industry adherence to environmental protection, he said. What could come of this is "a kind of bible for evaluating companies' environmental risk."

"We are not looking to establish guidelines at this point but rather share information. We hope we can show each other how to deal with environmental risk."

The insurers signing the agreement also have pledged to bring

their asset management more in line with environmental considerations, in effect committing themselves to investing in companies that protect the environment. The insurers believe they can profit from so-called "green" industries like renewable energy providers.

Mr. Jakobi said insurers are not interested in applying sanctions on the industrial sector but in fact are supporting behavior which is to insurers' economic benefit.

"The growing severity and number of natural catastrophes in recent years makes it essential that policyholders improve risk management," he said. "The only way they can afford insurance in the future is if they apply loss-control measures and minimize their risk."

All insurers and reinsurers that are preparing or already have environmental plans are eligible to sign the statement. **BI**

INTERNATIONAL

Equitas board filling up

LONDON—Now that Equitas Ltd.'s chief executive officer and finance officer have been named, remaining board appointments are beginning to fall into place.

Only days after the appointments of Michael Crall as CEO (see story, page 63) and Jane Barker as CFO were announced (*BI*, Nov. 20), Lloyd's last week named the first executive and outside directors to the board, the final size of which still has not been disclosed.

Andy Coppel, who will become operations director, has been with the Corporation of Lloyd's for five years, most recently as director of systems and operations. He was also a member of the Lloyd's Market Board. Mr. Coppel had worked in the insurance industry previously, at Sedgwick Group P.L.C. between 1972 and 1985. He will continue in his Lloyd's post during his one-year contract at Equitas.

Jim Teff, the new claims director, is general manager of the Lloyd's unit that administers all Lloyd's asbestos, pollution and health hazard claims. That unit, the Specialist Claims Unit, is to become the basis of the claims department at Equitas next year.

Finally, John Webster was named the first non-executive Equitas director. The former managing director of Sun Life Asset Management, the investment arm of Sun Life Assurance Society P.L.C., is a director of several financial companies. Mr. Webster will head the Equitas board's investment committee.

Although the appointments were effective Dec. 1, they are subject to approval by the U.K. Department of Trade and Industry.

—By Sarah Goddard

Crall

Continued from previous page
past two years, noted Mr. Crall. "Once the company is launched, then the mission becomes really very straightforward, and that is to settle the claims on the basis that I would define as the highest quality possible.

"In terms of my objective for the company, it will be to make Equitas a model of how to handle the difficult claims that Lloyd's has been involved with over the years that in particular center around pollution, asbestos and other long-tail, very difficult liabilities. So the challenge will be to really establish world-class standards in handling that kind of business."



Mr. Crall

Mr. Crall noted that he will have more than a month to work with Ms. Hutter. "One of my initial tasks will be to make sure I do the very best I can to absorb all the knowledge and work that she's done before she departs."

Mr. Crall says he does not view his Equitas position as a short-term assignment. "I think Equitas actually will be around for quite a number of years. I'm doing this as an open-ended, permanent assignment and not just a short tour of duty.

"I would think at a minimum it will take four to five years to get the company fully launched, and to be sure we've got everything on the right track, and to be able to see the full results of the work that's been done so far and that I'm intending to do when I get there.

"I don't have any preconceived notions about how this might develop, and it's quite possible that Equitas is the company I would retire from. It's too soon to make any kind of judgment on that, and beyond that, I would think I would be inclined to take opportunities as they arise, rather than operating on a career plan. I'm kind of too old

for that."

For the more immediate future, Mr. Crall, who has spent a month or two at a time in London, but never set up residence there, says he is excited about the move to London. "It might be one of the most agreeable cities in the world, so I'm very much looking forward

to it."

And, Mr. Crall points out, other differences notwithstanding, the quaint seaside village of Half Moon Bay where he has been living does have at least one thing in common with London, which should make him feel right at home: At times, "they're both foggy." **BI**

Lloyd's issues first of runoff licenses

After years of talk, plan having an impact

By SARAH GODDARD

LONDON—Lloyd's of London has finally completed its runoff approval process by issuing licenses to eight companies that are now officially authorized to conduct the runoff of Lloyd's syndicates.

The insurance market stated its intention to formally license runoff companies in its April 1993 business plan. But the process did not visibly start until August 1994, when Lloyd's issued a consultative document outlining the proposals.

Lloyd's Council did not issue a bylaw covering runoff conditions until January 1995, taking effect Feb. 1.

The bylaw defines two types of licenses:

- An interim license for companies that are currently running off Lloyd's syndicates but do not intend to specialize in the business. This license can be either for four years for managing agents wanting to manage their own runoff syndicates for the longer term, or until the end of September 1996, by which time the runoff syndicates must be transferred to a fully licensed operator.

- A full license for companies and managing agents that want to be involved in Lloyd's syndicate runoffs as a long-term business proposition.

There is also a license exemption for managing agents that are now in the process of—or soon will be—transferring their syndicates to approved runoff companies.

Some applicants were dissatisfied with the process because, beginning next year, the runoff companies will

be supplying their services to Equitas Ltd., not Lloyd's. As an independent company, Equitas is not bound by Lloyd's decisions and is free to purchase runoff services from any provider whether or not they hold a Lloyd's license.

Angus Scrimgeour, head of market management at Equitas, said that the licensing process had been done in this way to allow the applicants "to be judged on their own merits rather than by Equitas' parameters."

He stressed that the independent professional input of the accounting firms, which screened the applications, "sharply focused" the process.

Equitas will be reinsuring all of Lloyd's 1992 and earlier liabilities. According to Mr. Scrimgeour, Equitas' plans for a phased transfer of claims administration for these syndicate years into approved runoff companies are well under way.

He said a number of managing agencies, including Holman Managed Syndicates Ltd. and Cater Allen Syndicate Management Ltd., are already in the process of transferring syndicates to approved runoff administrators.

While the Council bylaw did stipulate that unlicensed managing agents with more than one runoff year must have delegated runoff operations to one of the approved companies by Oct. 1 of this year, exemption provisions gave them more time, explained Mr. Scrimgeour.

While only half of the 16 applications made for full licenses have been approved, unsuccessful applicants have received an interim license so that the syndicates they currently manage can be transferred to approved companies in an orderly way. Details of this process are still being developed by the Lloyd's Regulatory Board.

The companies that have received licenses are: Barder & Marsh Ltd.; Christopherson Heath Claims Management Ltd.; City Run-Off Ltd.; Market Underwriting Management Ltd.; Norwich Winterthur Services; Run-Off Services Ltd.; Syndicate Underwriting Management Ltd.; and Whittington Syndicate Management Ltd.

SUM, which is wholly owned by Lloyd's, has been in talks with Run-Off Services for several months about taking over the management of its runoff syndicates.

SUM has also been in similar negotiations to assume runoff business from Sturge Insurance Services Ltd. and Sturge Non-Marine Insurance Services Ltd., both of which were turned down for full licenses.

According to Anthony Hines, SUM chairman, the transfer of these runoff services and Sturge syndicates into SUM will give Lloyd's members economies of scale in the short term.

It will also give SUM the "critical mass" necessary to perform its future role in Equitas.

SUM will become a wholly owned subsidiary of Equitas next year, but Mr. Hines declined to be more specific about a date. **BI**

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INTERNATIONAL

Safety

Continued from page 63
specific breaches in the law and prosecuted 1,789 cases," the annual report said.

In particular, HSE launched a formal public inquiry into a serious railway accident at Cowden, Kent, in October 1994, in which two passenger trains collided, killing five people. The HSE is expected to publish a detailed report on the safety of Britain's railway system this week.

The HSE also has reviewed safety in the nuclear industry, particularly

'I am very pleased to report that fatal injuries are still around last year's historic low,' says Frank Davies.

in light of proposals by the government to privatize part of the industry. The result has been that some nuclear sites will have to be relicensed by the safety agency, which is under way and should be completed in fiscal 1996.

The Health and Safety Commission and Executive also wish to "secure more competent and effective management of health and safety by employers." As a result, the HSE in the past year distributed about half a million copies of its free leaflet, "Five Steps to Risk Assessment," which provides "simple, straightforward advice" on how to carry out a

risk assessment of safety hazards.

The HSC, meanwhile, sought public views on ways to simplify legislation. These views are currently being considered. It is the largest review of regulation in 20 years, said Mr. Davies.

The Health and Safety Commission and Executive also continues to promote better management of occupational health. In the past year, the agency conducted an advertising campaign on musculoskeletal risks and on specific respiratory hazards. "Good health is good business," said Mr. Davies, quoting the advertising slogan.

There is no single comprehensive source for occupational disease statistics, according to the HSC/E. However, physicians observed an estimated 3,300 new cases of occupational respiratory diseases in 1994 and 3,500 new cases of occupational skin diseases in the 12 months to April 1995, the annual report stated.

Asbestos-related disability and death continue to rise, particularly for those suffering from mesothelioma, a rare form of cancer caused by asbestos exposure. "The number of male mesothelioma deaths is expected to go on rising for at least 15 and more likely 25 years, reaching a peak of between 1,300 and 3,300 annual deaths," the report said.

Copies of the "Health and Safety Commission Annual Report," ISBN 0-7176-1009-8, are available for £15 (\$23), and copies of "Health and Safety Statistics 1994-1995," ISBN 0-7176-1019-5 are available for £12.50 (\$19.18), from HSE Books, P.O. Box 1999, Sudbury, Suffolk, CO10 6FS, England; 0178-788-1165; fax: 0178-731-3995.

Budget

Continued from page 63

In the past, "trading" CFCs, which are offshore companies other than investment firms, have been able to reduce their U.K. tax liability through accounting and reserving practices in their country of domicile, practices that may not be allowed under U.K. tax law. Also, only half of the investment income generated by the CFC's profits had to be paid in dividends to the U.K. parent.

Under the new regulations, CFCs must distribute 90% of their taxable profits, minus capital gains and foreign taxes, to the parent.

Pensions administrators also are not particularly impressed with proposed long-term health care amendments put forward by the chancellor.

Just days before the budget, the National Assn. of Pension Funds warned against occupational pensions being used to fund long-term care benefits for the elderly.

Nevertheless, Mr. Clarke stated his intention to develop a way of using occupational pension programs to finance nursing home care. This may involve the occupational pension purchasing an annuity whose payments start low and increase with time, when the pensioner may require more funds to pay for long-term care.

Andrew Scrimshaw, pension research manager with Croydon-based employee benefits consultant Sedgwick Noble Lowndes Ltd., pointed out that while this proposal is workable, many people may not want—or even be able to afford—a drop in pension payments at the beginning of their retirement.

At the same time, the chancellor offered tax relief on long-term care insurance policies, which was universally welcomed.

"The insurance industry has an important role to play in the provision of long-term care insurance and in meeting people's pension needs and expectations," said the ABI's Mr. Boleat.

The chancellor also clarified the government's tax position for victims of misleading advice about private pension programs.

Many individuals claim they were

induced to switch to private pension programs, only to find benefits far less than promised (BI, Oct. 31, 1994).

Not only will any compensation won from the private pension advisers be free of both income and capital gains taxes, Mr. Clarke said, but the victims who subsequently join an occupational pension scheme will be subject to the tax regime in place either at the time they left the scheme or at the time they would have joined the scheme if they hadn't opted for the private plan. **BI**

Lloyd's fills Council Working, external members named

LONDON—Lloyd's of London has elected a new Council for 1996.

Among the three working members elected to the Council by working names is Lloyd's Chairman David Rowland, whose statutory four-year term of service was due to expire at year end. His membership on the Council has effectively now been renewed for another four years, though he must be formally re-elected chairman at the first meeting of the new Council in January to continue in that post.

Paul Archard, managing director of agency holding company Murray Lawrence Holdings Ltd., and John Charman, underwriter for marine syndicate 488 and managing director of Charman Underwriting Agencies Ltd., were newly elected to the Council.

The two vacancies for external members were both filled by leaders of members action groups. Michael Deeny, chairman of the Gooda Walker Action Group, which was the first to win a court case against Lloyd's agents, was resoundingly voted onto the Council by the external members.

Also, Marie-Louise Burrows, who leads the Lime Street Action Group, will take a Council seat beginning next year.

The Council has six working and six external members, as well as six other members who are chosen by the Council but must be endorsed by the governor of the Bank of England.

—By Sarah Goddard



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Claims Attorney

You will assist and advise in the pro-active identification and protection of subrogation potential on losses, proactively manage subrogation cases to assure timely and appropriate recovery, assist Fidelity/Crime and Ocean Cargo claims personnel relative to subrogation, provide advice and input relative to legal strategy and alternatives on policy defense and other loss related litigation matters. To qualify, you must have a Law degree and 5+ years' experience in or working with an insurance environment and at least 3 years of specific subrogation recovery work. Job Code: CA

Principal Research Specialist, Natural Disaster

You will lead hurricane, typhoon, earthquake and flood research, as well as perform forecasting, aggregate modeling, and reinsurance modeling. You will also be responsible for original research in the areas of hurricanes and earthquake damage severity, along with probability distributions for frequency. To qualify, you must have a BA/MA/Ph.D in meteorological or seismic forecasting, strong statistical background and familiarity with the practical aspects of business implementation or research. Job Code: PRS

Reinsurance Specialist

You will analyze the company's facultative and treaty reinsurance protection on an on-going basis; advise senior management on enhancements in coverage, structure and capacity of existing reinsurance programs; develop and implement new reinsurance approaches and facilities; monitor the reinsurance market; complete on-going financial analysis of existing and new facultative and treaty reinsurance; assist with the underwriting of all treaty reinsurance programs; maintain and enhance the future reinsurance automation system; and liaise with field operations. To qualify, you must have a minimum of a BA and 5+ years with a professional reinsurer or in the reinsurance department of a commercial property insurance company. Job Code: RS

Underwriting Information Specialist

You will be responsible for systems coordination; acting as an MIS liaison; and designing and overseeing the development of systems and software tools to implement research findings and providing ongoing review of feeder systems software integration. In addition, you will supervise all issues of data conversion and develop systems standards for business applications. Researching and analyzing tools and the Internet environment and working with the field to monitor system integrity are also required, as well as ensuring efficiency of design and preventing redundancy between different systems. To qualify, you must have 5+ years' experience in computer programming in DOS; Windows, Dbase, Microsoft Access, VMS, DCL, RDB, SQL, C programming and statistics (all preferably in an insurance environment). Job Code: UIS

ASSUMED REINSURANCE

Senior Claims Specialist

You will investigate, reserve, and dispose of reinsurance claims and pro-rata accounts within authority; handle complex casualty claims/accounts; lead audits and negotiate commutations; direct the process, defense and settlement of disputed claims; and assist supervisors and managers with claims operations and training. To qualify, you must have a BA degree or equivalent insurance experience with 3+ years' casualty reinsurance and/or excess and surplus lines claims and/or pro-rata treaty accounting experience and solid understanding of reinsurance and reinsurance run-off. Must also have supervisory experience and strong PC skills. Job Code: SCS

Claims Specialist

You will investigate, reserve, and dispose of reinsurance claims and pro-rata accounts within authority; interpret reinsurance contract wording; correspond with cedents and brokers; target audits and negotiate commutations. To qualify, you must have a BA degree or equivalent insurance experience with 2 years' reinsurance claims or pro-rata treaty accounting experience and previous reinsurance and insurance company, agency, brokerage or management firm experience (casualty preferred). ARE certification and CPCU courses a plus. Must have excellent analytical, math and PC skills. Job Code: CS

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Publishers cautioned on risks of online publishing ventures

By JUDY GREENWALD

PALO ALTO, Calif.—If a publisher sends a story that has already appeared in its newspaper over the Internet, is it analogous to republishing a hard cover book as a paperback, or to pulling a newspaper out from the archives?

The answer could determine the extent of a newspaper publisher's liability for online material, an attorney says.

James F. Brelford, an attorney with San Francisco-based Steinhart & Falconer, noted that, at least in California, when a hardcover book is republished in soft cover it starts a new statute of limitations against the publisher.

However, the law is still unclear as to whether a new statute of limitation also begins when previously published material is put online, he said. Is online publishing more similar to the republication of a book in soft cover, or "like going to the back room of the library grabbing a stack of paper and bringing it out and putting it in the front room? Nobody knows the answer to that one at this point."

Mr. Brelford discussed these and other liability issues that arise when newspapers go online during a session last month at "Managing Risk in Cyberspace," a conference sponsored by Kansas City, Mo.-based Media Professional Insurance Co.

An issue of timing is involved here as well, according to Mr. Brelford. He noted that most newspapers have faced libel suits that were filed the last possible day before the statute of limitations runs out.

While you receive your paper in the morning, "it may well be available online 11:30 the night before," Mr. Brelford noted. Invoking the

'A distributor is liable only if it had reason to know the information distributed was defamatory,' says James F. Brelford.

statute of limitations that way would be a highly technical defense, but "it's one of the cheapest ways out of a lawsuit," he added.

Charges that could be brought against publishers that put material online—as well as those publishing in more traditional means—include libel and invasion of privacy, said Mr. Brelford. The latter is the public disclosure of private facts about an individual that would be highly offensive to a reasonable person, such as a report of a medical condition or matters related to sex.

"Liability is going to follow function," said Mr. Brelford. Courts will look at the function the online provider is engaged in and apply the rules of law by analogy.

Mr. Brelford discussed three possible roles to which an online provider's function could be considered analogous: telephone company, distributor and publisher.

Common law, for instance, says the "mere transmitter of another's statement" is not responsible for that statement, he said. Therefore, a phone company would not be responsible for statements made over its wires.

A distributor is liable only if it had reason to know the information distributed was defamatory, Mr. Brelford said.

A publisher is generally held to be responsible for the information it

disseminates, he said.

The defining issue in each case is how much control the provider has over the communication, according to Mr. Brelford.

Currently, approximately 100 domestic newspapers are online, ranging from the West Maui Times to the Wall Street Journal, as well as 80 foreign newspapers, ranging from a Singapore business newspaper to a Ukrainian publication, according to Mr. Brelford.

He noted that some newspapers also operate electronic bulletin boards. In these cases, the publisher may be viewed as exercising control over the contents, just as it controls the contents of a letter to the editor column.

The two basic issues that publishing risk managers face in this area, said Mr. Brelford, are whether the company has the right to put the particular content online, and whether it violates anyone's rights when it is distributed.

Retractions are another area where the law will have to adapt to online publishing.

Under California law, for instance, people have 20 days after publication to demand a retraction. The timing is significant. If people wait more than 20 days, they are limited to seeking special damages, not general or punitive damages. But will this same limit apply to bulletin boards published by the newspaper? asked Mr. Brelford.

Furthermore, if the publisher prints a retraction, he is expected to publish it in as conspicuous a manner as the original material. Questions remain as to whether this should be in a correction box, on the "back of Section A" or on the same page on which the original story

Managing cyberspace risks Let common sense be guide: Lawyer

PALO ALTO, Calif.—Risk managers should use common sense in protecting their companies from liability on "cyberspace"-related issues, says an attorney.

"At some level, it's your educated experience that tells you what's going to happen," said James W. Wagstaffe, an attorney with San Francisco-based Cooper, White & Cooper in San Francisco.

"It just can't be," for example, that online services will eventually be held liable for material going over their networks that they cannot control, which is an issue that has become the subject of litigation, he said.

Mr. Wagstaffe discussed risk management issues in cyberspace during a seminar sponsored by Kansas City, Mo.-based Media Professional Insurance Co. in Palo Alto, Calif., last month.

The problem facing risk managers in this area, he said, is that because of the newness of the field, "You don't have historical data to look at."

Among the exposures that must be considered, he said, are copyright liability for parts of work that are sent by computers; privacy liability, such as in cases where addresses are given out over the Internet; trademark infringement; and unwelcome E-mail and junk mail.

Malpractice liability is an issue, as well, for attorneys. For instance, if an attorney does not search the net for material relevant to his case, is he guilty of malpractice? And what happens if a legal brief goes over the net and someone else reads and uses it?

Despite these questions, Mr. Wagstaffe was optimistic that businesses can minimize their exposure.

"As you analyze your risks, there are antecedents that you can rely on. They still work," he said. "We're not flying without radar in these circumstances."

He recommended that risk managers ask: "Even though we don't have historical data, is it commonsensical?"

Applying this approach in the copyright area, for instance, means one should obtain consent before using someone else's material, or put in disclaimers that one does not control the content of material sent over the network, Mr. Wagstaffe suggested.

"Apply your common sense in this area," he recommended. "And keep your eye on legislation," because in that arena, common sense does not necessarily apply, he added.

Common sense, though, is not found "by thinking alone in your closet," said Mr. Wagstaffe. "You must communicate with others."

—By Judy Greenwald

ran.

The courts have said that the question of conspicuousness is one that should be determined by a jury. However, Mr. Brelford warned, juries "don't like lawyers and they don't like journalists."

In addition, "What does a retraction look like online?" he asked. One possible approach is to have a notation on the original story indicating a correction had subsequently been made so the reader of the online article can then call it up separately.

Mr. Brelford also pointed to a request made by the San Jose Mercury News for tips on cases of fraud and other abuse. He showed a response that was distributed on the paper's online bulletin board that may libel a local store owner.

"Is the Mercury News responsible for this?" he asked. "Didn't they ask

for these posts? Think about what the plaintiff's lawyer would argue."

Other speakers at the session included Richard Kurnit, an attorney with Frankfurt, Garbus, Klein & Selz in New York, who warned, "You should be sensitive to the liability that publishers have" when distributing an ad that includes the unauthorized use of a person's likeness.

Unauthorized use of a person's likeness in California, if done in advertising or in commerce, is considered a liability "and you're going to have to be sensitive to that," said Mr. Kurnit.

It is possible, for example, that a model would grant only limited rights to the use of his or her image, and a publisher could be liable for using it in an unauthorized manner, Mr. Kurnit said. **BI**

German employers may veto cost hikes

BONN, Germany—German employers could block a 1996 increase in national health care contributions by refusing to pay higher payments to sickness funds.

Klaus Murmann, president of the German Employers Assn., urged employers in a public address late last month not to pay increased premiums to the sickness funds, which form the basis of Germany's national health care system and are financed equally by direct employer contributions and employee payroll deductions.

Facing a 5.4 billion DM (\$3.91 billion) deficit in the first half of 1995, German sickness funds have announced an across-the-board 0.5% increase in contributions next year.

In the first move of its kind, the German Employers Assn., a lobbying group, has urged employers to veto the higher contributions.

Employers, which are represented on the regulatory body that adminis-

ters sickness funds, can attempt to veto an increase, but have never done so before.

"Higher health care contributions add to additional wage costs and overburden companies," said Mr. Murmann.

Employers instead favor tapping sickness fund reserves to pay for mounting deficits, he said.

While sickness funds reported 2.2 billion DM (\$1.42 billion) surplus in 1994 due to health care reform budgeting caps, deficits grew because of rising hospital costs not included in the caps.

German Health Minister Horst Seehofer supports tapping reserves and called employer resistance a "important signal" in efforts to contain health care costs. State representatives are also calling for a permanent solution to the exploding health costs and are looking into capping hospital costs.

—By Don Lewis King

Carvill

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Aetna

Continued from page 1

public offerings, which may be temporarily financed through bank facilities.

The new company also expects to raise about \$1.3 billion in equity through both private sales, including a separate \$200 million investment from Aetna, and a public offering of common stock sometime in 1996.

Travelers says it also plans to contribute about \$1.1 billion to the new company, including \$800 million from the issuance of additional senior debt. Travelers said it intends to maintain about an 82% ownership in the new company, though there has been some speculation it may eventually spin off the new insurer.

"I think they want to see how profitably they can grow the business first," said Lori Weeks, associate director at rating agency Standard & Poor's Corp. in New York.

Sanford I. Weill, Travelers chairman and CEO, said that as the insurance industry continues to consolidate, "the winning competitors must be efficient, low-cost producers, must be financially sound and technologically superior, and must have strong distribution networks."

The new company, he added, clearly will be among the industry leaders.

Travelers said it anticipates cutting at least \$300 million in expenses over the next two years. Up to 3,300 people—half of them in the Hartford area—are expected to lose their jobs as a result of the deal, though some of that could be through attrition. Aetna employs approximately 11,600 people in its P/C operations, while Travelers employs 10,700.

Aetna says the sale will permit it to focus on its three core businesses—Aetna Health Plans, Aetna Retirement Services and Aetna International. Aetna Chairman Ronald E. Compton said proceeds of the sale will be used to make strategic investments. Aetna operates one of the country's largest general service HMOs, Aetna Health Plans.

The stock market saw the sale as benefiting Travelers more than Aetna. On Wednesday, the day the deal was announced, Travelers closed at \$58.88, up \$3.75 a share, while Aetna fell \$3.88, to \$72. At the close on Friday, Travelers stock stood at \$59.38, while Aetna shares were up to \$72.75.

The transaction will immediately boost Travelers' earnings, while Aetna has acknowledged the sale will dilute its 1996 earnings.

"From what we can see, the investor is pleased with the Travelers' move and seems to be split on Aetna as to whether most of the good news is out and it's time to sell vs. they're rid of an unwanted business and they've got \$4 billion to work with. I think for a while that the two approaches will balance each other off," said David Seifer, an analyst with Donaldson Lufkin & Jenrette Securities in New York.

The Aetna and Travelers property/casualty operations are expected to complement one another.

"There's kind of a complementary fit between the two companies in that the Travelers is very large in national accounts and has a much more modest so-called middle or small commercial lines book of business with agents as well as a rather modest personal lines book," said Jack Snyder, senior vp with A.M. Best Co. in Oldwick, N.J.

On the other hand, while Aetna has a smaller national accounts book, it has a much larger share of middle-market and smaller commercial lines accounts, said Mr. Snyder. "Personal lines is the only areas where there's some overlap," he said.

At the same time, "only about

20% of the agents overlap between the two companies," he added.

"They're going to be one of the top players in each of the markets they're in," said S&P's Ms. Weeks. The combined entity will be particularly strong, she predicted, in the workers comp, commercial multi-peril and fidelity & surety markets.

"What will result is a very large, well-run, profitable insurance company with a significant product portfolio, which one would think is appealing to a customer," said John Kris, managing director at Moody's Investors Service Inc. in New York.

Travelers is expected to absorb the Aetna business with little difficulty.

Observers point to the track record of Mr. Weill, who was chairman and CEO of Primerica Corp. when it acquired Travelers about two years ago (BI, Sept. 27, 1993).

"There's a few things you learn in life and one is never to sell short Sandy Weill," said Michael A. Lewis, first vp with Dean Witter Reynolds in New York. "He has an amazing ability to produce superior results in a business that doesn't seem to have the ability to generate those kinds of results."

"I think Sandy Weill's a damned good financial manager, and I think from a financial standpoint they'll make it work," said Doug Moat, chairman of New York-based Manhattan Group, a consulting and investment banking firm.

Sandy Weill's "been able to get the right people to do the right things in a very efficient, cost effective manner. Simply put, it comes down to whether one goes to the traditional Hartford insurance management or whether one goes with Sandy Weill, and to me, there's no choice," said Robert Branche of the Branche Research Group in Morrisville, Pa.

"Travelers has been extremely well-managed in the last couple of years, and it's been reflected in significant cost savings," which are viewed positively in the marketplace, said John Wicher, managing director at Russell Miller Inc. in San Francisco, an investment banking firm specializing in the insurance industry.

Attitudes about how Aetna will fare following the deal were mixed.

"I think Aetna's supposed management deficiencies are overstated," said Alan Levin, managing director at Standard & Poor's Corp. in New York. The insurer has "competent, professional management," he said, adding, "We believe the \$4 billion is an enormous amount of financial strength in cash."

"I guess from Aetna's perspective, we think the fact that they could get a clean \$4 billion in cash for the P&C business is a pretty strong statement that the environmental reserves are more or less adequate, there are not contingencies of any material amount and it gives them the capacity to make strategic acquisitions in health care, asset accumulation and international life insurance, all of which have double-digit growth potential," said Weston Hicks, an analyst with Sanford Bernstein & Co. in New York.

Efforts to streamline and focus on core businesses "almost always end up in positive reactions in Wall Street and in the core earnings performance for the long term," said John L. Ward, chief executive officer of Cincinnati-based consultant Ward Financial Group. "I would expect it would be positive for Aetna's performance going forward as well."

"From Aetna's standpoint, it frees up their capital, which makes their effort more focused," agreed Gloria Vogel, managing director and senior insurance analyst at Ladenburg, Thalmann & Co. Inc. in New York. "This enables them to become a real formidable player in the business in which they've chosen to stand."

However, she added, "I have real reservations about the health care business, to be perfectly honest. Travelers got out of that business, there are many other companies who have gotten out of that business."

Those who have done so, she added, "could be called more savvy than those who have stayed in."

Michael LeConey, a health care analyst with Coleman & Co. in New York, questioned whether Aetna could be successful in the competitive managed care arena.

"I don't think there's enough money to buy and successfully integrate the ability to service those markets with their base business, which is large employers," he said. "They're just pouring good money after bad."

Nevertheless, the day after the announcement of the deal, both trading and prices were up for health maintenance organization stocks, noted Robert Mains, an analyst with First Albany Corp. in Albany, who attributed the activity to anticipation of an Aetna acquisition. "If you believe the stock market, they're going to buy every HMO on the face of the earth," he said. Presumably, he added, Aetna's \$4 billion is "burning a hole in their pocket."

News of the deal also drove up the stock of CIGNA Corp. to a 52-week high of \$115 on Thursday, as investors apparently hoped a similar price could be obtained for a spinoff of its property/casualty operations. CIGNA has proposed restructuring its property/casualty operations and said it is not considering exiting that business (BI, Oct. 9).

The Aetna-Travelers deal follows a busy period of mergers and acquisitions that also includes the CNA-Continental deal and the Zurich Insurance Group's acquisition of much of the insurance business of Home Holdings Inc.

We are looking at the "rapidly evolving consolidation of the property/casualty industry brought about by a combination of slow growth, soft pricing and inflated cost structures, and what we're seeing is again the streamlining of the industry and an industry evolving into fewer, yet bigger and smarter players," said Dean Witter's Mr. Lewis.

The trend toward consolidation is expected to continue.

The pace of property/casualty acquisitions will accelerate, predicted S&P's Mr. Levin. Companies will feel the need to "stand to toe" with Travelers. "It is likely that other companies are going to feel as if 'The harder we work, the further behind we get,'" said Mr. Levin. "We think this is likely to encourage other companies to think about consolidation." Ms. Vogel agreed. This is "certainly the very early stages of what we're going to see, and there's going to be tremendous consolidation among the big companies, not just the little ones," she said.

"I think it's going to increase the market for insurance companies generally because it's going to be perceived as the first of many consolidating actions," said Ms. Vogel.

However, A.M. Best's Mr. Snyder disagreed. "I don't think it puts any pressure on the top 20 companies to look for merger partners," he said, adding that while there may be more mergers, "I don't think it necessarily makes people rush now to find a merger partner."

The Aetna-Travelers deal is not expected to change the soft pricing environment for property/casualty insurance.

"I think the biggest significance to me of this transaction is that the so-called current soft market is going to continue to persist as companies find ways to enhance their profitability by looking inwardly at their operations" and becoming more efficient, said Mr. Snyder. **B**

Multiline insurers called dinosaurs

CNA chief views industry's direction

By GAVIN SOUTER
and DEBORAH SHALOWITZ COWANS

Multiline insurers are an endangered species that could soon be extinct, according to Dennis H. Chookaszian, chairman and chief executive officer of CNA Insurance Cos. in Chicago.

With the sale of Aetna Life & Casualty Co.'s property and casualty business to Travelers Corp., there are only two true multiline companies in the United States that have significant property/casualty, life and health divisions, he said: CNA and CIGNA Corp. in Philadelphia. "And you have to question whether they will be multiline five years from now," Mr. Chookaszian said of CIGNA during a speech at the Coopers & Lybrand sixth annual executive conference for the property/casualty industry held in New York last week.

Reorganization plans like CIGNA's proposal to separate its long-tail environmental and asbestos liabilities should be put on hold by the National Assn. of Insurance Commissioners while industry standards on the plans are established, Mr. Chookaszian said.

"If this is a transaction that one company is allowed to do, then we shall all have to do it," he said.

CNA, meanwhile, is considering how it will run its health care business in the future, he said. In the future, CNA's health care business will be too small to compete effectively with larger rivals, Mr. Chookaszian said.

"We are a \$3 billion company (in group life/health) competing with \$20 billion companies, and we are a company that does not have its own managed care distribution network. The business is going to be different in 10 years, so we can't keep doing what we are doing," he said.

CNA will have to either acquire another company, enter a joint venture, grow the health care business organically, or exit the market, Mr. Chookaszian said.

CNA is now in a position to acquire another company despite sealing its deal to buy Continental Corp. only six months ago, he said.

Indeed, CNA was among those interested in buying Aetna's property/casualty business but was not prepared to beat the \$4 billion that Travelers paid.

If the Travelers/Aetna deal goes through, Travelers will be faced with the same challenges that CNA faced with Continental, Mr. Chookaszian said.

It will have to communicate effectively with agents and employees and what it intends to do; lay off a significant amount of employees; and sell off excess real estate.

CNA had a communications strategy to inform its agents when it planned the Continental deal, but still it lost \$200 million in commercial premiums it had not intended to lose, Mr. Chookaszian said in a later interview.

"Continental had already planned on running off 25%, and we agreed that that was right. But we lost about 10% more because some other companies targeted our business before the merger was completed," he said.

The most positive aspects of the merger were the good fit between the management, the acquisition of some specialty business and expertise, the strengthening of existing CNA business, and the reduction by about \$300 million a year of management costs for the combined company, Mr. Chookaszian said.

The merger of the commercial operations of the two companies seems simple on reflection, but was certainly not while it was happening, said Carolyn Murphy, president of commercial operations for CNA Insurance Cos.

Ms. Murphy, speaking last week to a Chicago meeting of the Assn. of Professional Insurance Women, noted that as of Jan. 1, 1996, all of Continental's former commercial operations officially will be integrated into those of CNA.

CNA officials used several guiding principles throughout the process, Ms. Murphy said.

First, "do not compete with yourself," she said. "Think integration" was a theme to minimize confusion to distributors and customers.

And, CNA sought to "realize the (savings) in the shortest period of time." CNA decided that it would spend only one year—from last January to this January—reducing staff, real estate and system operations in an effort to save money. In this transition year, however, CNA spent as much money as it saved on severance pay, outplacement benefits and other administrative costs associated with the process, Ms. Murphy added.

Handling employment issues was complicated, Ms. Murphy acknowledged. "Nobody was assured of a job," she said. "All jobs were in play, so everyone had to compete for a position."

At the time of the acquisition, the two companies had a combined workforce in commercial operations of 10,600; CNA felt the workforce could be reduced to 9,000 employees. Everyone had at least two interviews for jobs in the new organization, while some people had many more, according to Ms. Murphy.

Employees need to know as soon as possible whether they have a job, where that job will be, how much money they will make, what they will do and who their boss will be, Ms. Murphy explained.

In addition to streamlining, CNA used the integration process to do a complete overhaul of its commercial operations.

An acquisition "presents a rare opportunity to step back and assess every business result," Ms. Murphy noted. The integration process "caused us to examine every segment of the business."

During the whole process CNA "bent over backward to be respectful of" antitrust laws, Ms. Murphy added.

CIGNA

Continued from page 1

our first objections in October" over the supporting plan analysis that regulators and CIGNA are withholding for proprietary reasons, CIGNA policyholder attorney John N. Ellison said after the hearing.

Attorneys for several dozen CIGNA policyholders and three insurers were irked that so many witnesses told Insurance Commissioner Linda S. Kaiser that the Tillinghast report addresses all concerns about the plan, when CIGNA and Ms. Kaiser are denying public access to the report.

Without the information, opponents cannot bring in their own experts to evaluate whether the plan is financially viable and should be supported, said Mr. Ellison, a partner with Anderson Kill Olick & Oshinsky P.C. in Philadelphia.

Some opponents, though, oppose the plan in principle.

Opponents also want a hearing at which witnesses can be cross-examined, which they say Pennsylvania's business corporation act requires. Last week's hearing was "more of a show-and-tell" procedure that violated the act, said attorney Lawrence T. Hoyle Jr. of Hoyle, Morris & Kerr of Philadelphia, who represents several CIGNA policyholders, Chubb Corp. and The St. Paul Cos. Inc.

Ms. Kaiser and regulators from several other states did not pose any questions. Regulators and opponents are scheduled to testify at the next hearing on Friday.

Under the plan, CIGNA would fence off 80% of its environmental and asbestos liabilities in a new runoff subsidiary (BI, Oct. 9).

That largely would be accomplished by dividing the CIGNA company with the greatest amount of environmental and asbestos liabilities, Insurance Co. of North America, into two entities. The entity with most of INA's long-tail liabilities then would be merged into Century Indemnity Co. Century, an existing subsidiary of CIGNA Property & Casualty Insurance Co., would be the lead runoff company under a new holding company that still would be a subsidiary of CIGNA Corp.

The other half of INA, which would retain the company's 203-year-old moniker and largely would be free of its long-tail liabilities, would continue writing new and renewal business as part of CIGNA's active operations.

The 20% of CIGNA's long-tail liabilities that would remain in the active operations would be reinsured by the runoff operation.

CIGNA would provide the runoff operations with \$500 million of capital support, and it has boosted environmental and asbestos reserves by nearly \$1.03 billion to about \$1.8 billion.

The runoff operation also would be protected by a \$500 million excess-of-loss finite risk reinsurance policy written by CIGNA's active operation.

For most of the 5½-hour hearing, a dozen CIGNA officials and consultants read from prepared statements fashioned to both explain the plan and address many of the objections that opponents have raised so far.

The only digressions were a few tense exchanges between Ms. Kaiser and primarily Mr. Hoyle over her refusal to release the Tillinghast report or allow cross-examination of witnesses.

However, days earlier, she permitted limited access to two investment banks' peer review opinions of how Tillinghast conducted its study and the plan's financial im-

pact on CIGNA.

Later at the hearing, Ms. Kaiser also allowed opponents to at least file objections to the hearing process.

Ms. Kaiser also explained why she will not recuse herself from the case, even though she is a former CIGNA attorney (BI, Nov. 27; Nov. 20).

"This plan revitalizes CIGNA P&C as a major force in the marketplace and sets a new standard of analysis and security for companies with asbestos and environmental exposures," said Gerald Isom, CIGNA P&C president, who was visibly annoyed by one of the exchanges between Ms. Kaiser and Mr. Hoyle moments into his testimony.

CIGNA has "no reasonable alternatives" to the plan because other traditional funding approaches have failed, he said.

Already, rating agency A.M. Best Co. has said it anticipates rating the active companies A-, or excellent, after the reorganization plan is completed, Mr. Isom noted. The Best rating for CIGNA's old property/casualty pool fell to B++ in December 1994, before CIGNA announced plans in February to segregate its operations that write rating-sensitive business from other active operations. The rating-sensitive operations regained an A- rating (BI, Feb. 20).

"Since over 60% of our business is rating sensitive, this action threatened our franchise and limited our access to many of our major markets," Mr. Isom testified.

George K. Bernstein, a former New York insurance regulator and now a Washington attorney specializing in insurance regulatory matters, asserted in even stronger terms why the plan should be approved: Without it, policyholders with environmental and asbestos liabilities have no assurance they "will see their claims paid in full."

If the plan is not approved, he explained, CIGNA would not warrant an A- rating. As a result, CIGNA Corp., the ultimate parent company, would not likely commit stockholder equity to fund a \$500 million capital infusion and \$500 million of reinsurance to cover those liabilities, he said.

The lower rating also would relegate CIGNA's market to "second-class business" and would stunt cash flow, a "classic prescription for financial disaster," Mr. Bernstein said.

However, opponents of the plan say it would enable CIGNA to dump its long-tail liabilities into what they fear will be an inadequately funded runoff operation that would fail. That would strain state guaranty funds and marginally capitalized insurers.

"Why is this split any better than putting the \$1 billion (of additional reserves) in the whole operation?" asked Florence A. Davis, vp and general counsel for American International Group Inc. of New York, which opposes the plan outright. "The only answer is it insulates them from those claims."

But, Mr. Isom asserted during testimony that the plan reduces threats to guaranty funds. In addition, the active and runoff operations would remain linked by, among other things, common customers and tax-sharing, reinsurance and intercompany service agreements, he said.

Some opponents say they would be satisfied if CIGNA Corp. provides a guarantee that it will financially prop up the runoff operation if the long-tail liabilities exhaust the \$500 million reinsurance protection.

Mr. Isom said during testimony that a parental guarantee is not

commercially feasible.

During a break, Arthur Chandler, vp of capital management at CIGNA P&C, explained that such a guarantee would hurt CIGNA with capital markets.

"The plan is superior to a parental guarantee," he added. "A guarantee is just a piece of paper. Cash is cash," he said, referring to the proposed runoff operation's funding.

Taking into account investment income, the runoff operation's funding would generate at least \$7.3 billion to pay environmental and asbestos liabilities, Mr. Chandler testified earlier.

But, under the worst-case liability scenario of high liabilities and fast payouts, the runoff operation would have excess capital of \$350 million currently and \$2.8 billion in 2050, when Tillinghast expects all liabilities will be extinguished, Mr. Chandler testified. Those estimates do not reflect the \$500 million of reinsurance protection.

Measured against eight other insurers that together wrote nearly one-third of the industry's general liability business, CIGNA's reserve-to-market share ratio is 2.4, which is significantly higher than the ratios for seven of those companies, said Robert Irvan, chief financial officer for CIGNA P&C.

Policyholders still would vote unanimously for the parental guarantee, said attorney Mr. Ellison.

To determine its ultimate long-tail liabilities, CIGNA first analyzed the likelihood that Fortune 200 companies still may file large claims, explained Geraldine Prusko, chief claim officer at CIGNA P&C's management facility. It concluded that, at most, it may face new, large environmental claims from 14 of those companies. No number for potential new asbestos claims was cited at the hearing.

Based on those surveys, CIGNA P&C concluded that most other large companies also have filed their pollution claims already.

The next stage in determining its ultimate liabilities was reviewing accounts on a case-by-case basis that represent 70% of CIGNA's environmental liabilities and 55% of its asbestos liabilities in dollars, Ms. Prusko said.

Findings then were extrapolated to all of the insurer's reported claims.

The canned testimony, with no opportunity to pose questions, annoyed opponents because they have no information to evaluate the assumptions that Tillinghast and CIGNA used to determine the runoff operation's reserves.

For example, was the survey of the Fortune 200 companies a reasonable sample, and how were those claims valued? Mr. Ellison asked. In addition, why did CIGNA figure defense costs would equal policy limits? he questioned, noting his clients' defense costs typically range between four and five times their policy limits.

During a break, Mr. Isom said the actuarial information will not be released because it shows, for example, how CIGNA handles claims, which he said gives CIGNA a competitive advantage.

"That doesn't quite ring right when you're talking about a dead book of business," said Mr. Hoyle.

In any case, that concern pales to policyholders' rights to understand how they would be affected, Mr. Ellison said. He suggested releasing the information only to attorneys who sign confidentiality agreements. "Proprietary information is released all the time in disputes" in this manner, he said.

"You can't do something like this without giving something up," said AIG's Ms. Davis. ■

Updates

Securities bill passage likely

WASHINGTON—With U.S. House and Senate negotiators agreeing to the details of a securities litigation reform package, the House is expected to approve the legislation and move it to the Senate, where passage also is expected.

Proponents of the bill believe it will help curtail frivolous securities fraud suits. The reform package approved out of conference committee would protect companies from any liability for inaccurate corporate forecasts and would expand Securities and Exchange Commission authority to further exempt corporations for liability for other company statements.

The legislation also would limit the liability of accountants, underwriters and others who advise publicly held companies.

Corporate capacity increasing

LONDON—Lloyd's of London continues to edge toward becoming a corporate limited liability market with two managing agency groups increasing their commitment to corporate capital vehicles.

Bermuda-based Western General Insurance Ltd. is acquiring managing agency Catlin Underwriting Agencies Ltd. for an undisclosed sum. The agency also is forming a dedicated corporate capital company, Catlin Westgen Ltd., which will form a parallel corporate syndicate, 2003. The corporate syndicate will write the same business as Catlin's main syndicate 1003.

Also last week, Cox Insurance Holdings P.L.C. placed 28.8 million shares on the London Stock Exchange, raising £52.6 million (\$80.6 million). The company also acquired the remaining 75% of managing agency Cox Agency Holdings Ltd. that it didn't already own, in exchange for about 11 million Cox Insurance shares.

Cox Dedicated Corporate Member Ltd., a wholly owned subsidiary of Cox Insurance, is raising its capacity to £67 million next year from £22.3 million (to \$102.8 million from \$34.9 million) this year and will underwrite through a new corporate syndicate.

Briefly noted

Senate leaders have appointed 11 lawmakers to a conference committee to work out differences between House and Senate **product liability reform** bills (BI, Nov. 27). The conferees are expected to begin meeting as early as this week. . . . A federal judge in Philadelphia has sentenced Edward M. Zinner to 68 months in jail for defrauding participants in two **multiple employer welfare arrangements**. Mr. Zinner pleaded guilty in March to a racketeering charge stemming from his operation of the now-defunct Atlantic Healthcare Benefits Trust and a successor MEWA, American Fidelity Trust (BI, March 27; Feb. 13). . . . Allen Thomas, non-executive director of Lloyd's managing agency Ockham Holdings P.L.C., will become Ockham's chairman Jan. 1, replacing the retiring **David Coleridge**, former chairman of Lloyd's. . . . **Willis Corroon Group P.L.C.** completed its final withdrawal from U.S. insurance underwriting after selling its remaining interest in Gryphon Holdings Inc. last week to several U.S. investors for \$48.5 million. . . . Charles Earle, managing director of London broker **Windsor P.L.C.**, resigned abruptly last week following an internal business review and a warning to the London stock market that pretax profits for the year ended Sept. 30 will be "significantly below those reported in 1994." Windsor CEO Mike Eagles has taken over Mr. Earle's duties.

Merger

Continued from page 2

Point and Blue Cross categorically reject as untrue the allegations that HSI made today. HSI's actions are a smokescreen for renegotiating the deal."

In a letter to be attached to a Securities and Exchange Commission filing, Dr. Hasan accuses WellPoint and Blue Cross of breaching the terms of the merger agreement with HSI. He also alleges "factual misrepresentation in at least seven material areas," which "fraudulently induced" him and other shareholders into agreeing to vote for the combination.

The allegations were made last week after HSI's chairman and five other stockholders revoked proxies to vote in favor of the deal.

Among the allegations Dr. Hasan asserts in his letter are:

- WellPoint allowed individuals with close personal and/or business ties to Mr. Schaeffer to be nominated to the proposed board of directors of the new company. These individuals were supposed to be neutral and designated by Blue Cross to represent the charitable foundations created by HSI and Blue Cross, according to HSI.

- WellPoint attempted to deny Dr. Hasan the duties and responsibilities established for him in the definitive merger agreement.

- WellPoint failed to disclose that prior to the signing of the definitive

agreement the National Committee on Quality Assurance had sent a negative preliminary report to WellPoint, giving clear notice that its CaliforniaCare Health Plan would be denied accreditation. CaliforniaCare ultimately was denied NCQA accreditation.

- WellPoint misled HSI that it had 1.5 million "full-risk" PPO members when, in fact, it had only 1.1 million such members.

- WellPoint concealed more than \$40 million in stock options received by 12 executives.

- WellPoint failed to pursue tax exemption applications in time, causing the Internal Revenue Service to stop processing the applications.

- WellPoint failed to timely file for state regulatory approvals and to request a new license agreement with the Blue Cross & Blue Shield Assn. in Chicago.

In a separate letter to WellPoint and Blue Cross, HSI demanded that the companies cure these material breaches within 10 business days, consistent with the terms of the agreement. The merger agreement has not yet been made public.

HSI also proposed that former California Attorney General John Van de Camp serve as a non-binding mediator during these negotiations.

In the agreement approved March 31, 1995, WellPoint would acquire HSI for \$1.8 billion in stock and donate more than \$3 billion to two unnamed charitable foundations (BI, April 10). ■

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