

Business Insurance

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Teale sentenced to 17 years in prison for insurance scams

MOBILE, Ala.—A federal judge last week sentenced insurance con man Alan Teale to more than 17 years in prison and his wife Charlotte C. Rentz to 13 years for carrying out a massive insurance fraud conspiracy.

U.S. District Judge Richard Vollmer Jr. far exceeded prosecutors' recommendations of 10 years for Mr. Teale and 6½ years for Ms. Rentz, suggesting at the Thursday hearing that the recommended sentences were too lenient.

Appearing contrite, Mr. Teale was quoted *Continued on next page*

Texas court limits bad faith suits

Supreme Court places limits on claims by non-policyholders

By MICHAEL SCHACHNER

AUSTIN, Texas—Thanksgiving came a day early for insurers when the Texas Supreme Court ruled that state law does not permit injured third parties to sue insurers for bad faith without first obtaining a summary judgment against the policyholder.

Texas property/casualty insurers say the Nov. 24 ruling will save them billions of dollars in litigation and settlement costs over the next decade.

All types of premiums could

have risen, they say, had the high court not overturned *Kathleen D. Watson vs. Allstate Insurance Co.*, a 1992 appeals court ruling granting third parties a direct cause of action against insurers for unfair claims settlement practices.

That unexpected ruling temporarily made Texas, a heavily-populated state with a reputation for having a very unpredictable and often consumer-oriented tort system, one of the few states to permit third-party bad faith claims

directly against an insurer.

Insurers claimed that such direct causes of action severely compromise their commitment to policyholders by pressuring them to possibly settle with a third party instead of fully defending the policyholder against the claims brought by the third party.

They also alleged that it would create a field day for plaintiffs' lawyers who would tack insurer bad faith claims onto every negligence suit against policyholders.

Big auto insurers like State Farm Mutual Automobile Insurance Co. and the United Services Automobile Assn. filed amicus briefs supporting Allstate.

Along with Allstate, they asserted that the Texas Legislature twice in the past eight years had opportunities to expand Texas insurance law to allow third-party bad faith claims, but did not in order to protect the integrity of the insurer-policyholder relationship.

Opposing that position were the Texas Department of Insurance and the state's insurance consumer protection agency. In briefs, both agencies argued that injured third-parties are virtually powerless to obtain fair settlements when they cannot sue a clearly liable policyholder's insurer for bad faith settlement practices without first winning a judgment against the policyholder.

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No day in the sun for NAIC?

Regulators say Hawaii meeting won't play in Peoria

By MEG FLETCHER

HONOLULU—Several image-conscious state insurance regulators aren't bidding "aloha" to the first National Assn. of Insurance Commissioners' meeting ever to be held in Hawaii.

While regulators flocked to last year's winter meeting in Atlanta, public perceptions of Hawaii as a vacation paradise destination prompted several commissioners either to not personally attend this week's meeting or to reduce the number of staff members attending.

For good reason: A Snow Belt commissioner likely fears that pictures of a state official in casual clothes amid balmy breezes and palm trees won't play well in a frosty home state.

Discounted air fares, pre-season room rates and other NAIC cost-

cutting measures apparently did little to ease these commissioners' minds. Neither did the prospect of 133 business sessions.

Only 34 insurance commissioners and 214 insurance department staff members were expected to attend this week's meeting at the Hilton Hawaiian Village. Those figures represent a drop of nearly 50% from the Atlanta meeting—which drew 60 commissioners from U.S. states and territories and 405 staff members.

Overall attendance at this year's winter meeting—including insurers, lobbyists, attorneys and others—was off by only about a third to an expected 1,116 this year, down from 1,721 in 1992.

"Generally, I'm not comfortable going to a meeting in Hawaii in December," said North Dakota Insurance Commissioner Glenn

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Reinsurers foresee few changes in U.S. market

By JUDY GREENWALD

With no significant market changes in sight, U.S. reinsurers are unhappily resigning themselves to the current conditions.

Despite some firming in property reinsurance rates, casualty pricing generally remains soft and will continue to be during year-end renewals, reinsurers report.

"We don't really see much change happening," said N. David Thompson, president and chief executive officer of North American Reinsurance Corp./Swiss Reinsurance Co. in New York.

"There isn't any significant change other than the obvious effects of last year's events on both catastrophe cover pricing and property business that is considered exposed to cat losses, both of which have reacted quite strongly. But other than that, I don't believe we're seeing much of a change. We're all sounding like a

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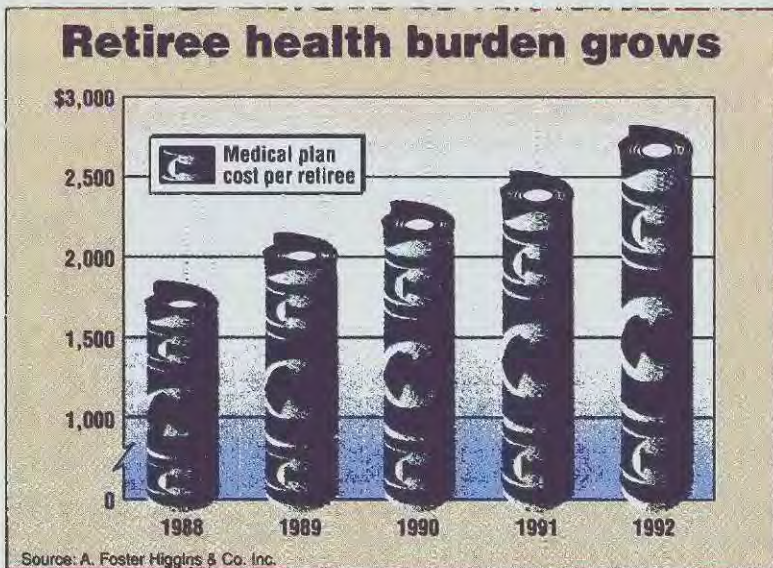
Firms continue to cut retiree health plans

By MARK A. HOFMANN

Well before President Clinton proposed relieving employers of some retiree care health obligations, more and more companies started taking matters into their own hands to reduce their liabilities.

Employers continued to cut retiree health benefits during 1992, or at least shift some of the costs to retirees, according to a survey to be released today.

Only 52% of the employers surveyed offered coverage to retirees under the age of 65, down from 56% in 1991 and 60% in 1990, A. Foster Higgins & Co. Inc. reported in its annual retiree health benefits survey. Employers also continued to cut back on coverage for



Medicare-eligible retirees over age 65: 46% offered such coverage last year, down from 49% in the 1991 survey and 54% in 1990.

Employers also tried to control rising retiree health costs through increased cost-shifting and through measures like tighter controls on prescription drug coverage, reported Foster Higgins, which polled 2,448 employers, including about half the Fortune 500 and 47 state governments.

"I think the whole issue of retiree medical benefits is one that never will be done," said Patricia Wilson, principal in Foster Higgins' Philadelphia office and national practice leader for retiree health care consulting.

Even though President Clinton *Continued on page 52*



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Updates

Teale, Rentz get stiff sentences

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explaining to the judge, "I have a longstanding Christian belief that somehow got lost."

Mr. Teale and Ms. Rentz pleaded guilty in August to charges of using a network of shell companies to defraud thousands of policyholders out of tens of millions of dollars (*BI*, Aug. 9; Jan. 25).

They separately pleaded guilty at last week's hearing to racketeering charges brought by federal prosecutors in Philadelphia, who accused the two of driving World Life & Health Insurance Co. into insolvency with fraudulent reinsurance placements.

Judge Vollmer sentenced Mr. Teale to 120 months on the Mobile charges and 87 months on the Philadelphia charges, with the sentences to run consecutively. Ms. Rentz received 78-month consecutive sentences in each of the cases. Neither will be eligible for parole.

Mr. Teale was also ordered to pay \$50 million in restitution to victims. While Mr. Teale earlier agreed to forfeit his assets, prosecutors will probably collect less than \$2 million, a "drop in the bucket" compared with the proceeds of the fraud, said Assistant U.S. Attorney Richard Moore. He said he hopes to collect more money from co-conspirators in Mr. Teale's scams.

Mr. Teale and Ms. Rentz are cooperating with prosecutors and several additional indictments are expected.

Meanwhile, insurance executive Norman Bramson has pleaded guilty to a conspiracy charge for his role in operating a network of fraudulent offshore medical malpractice insurers, including Casualty Assurance Risk Insurance Brokerage Co. of Guam and Trans-Pacific Insurance Co. (F.S.M.) of Micronesia.

Several others have already been convicted in the scam, including Mr. Bramson's son Leonard (*BI*, May 4, 1992). Another son, Martin, jumped bail in 1991 and is still a fugitive.

Norman Bramson faces five years in prison and a \$250,000 fine when he is sentenced in federal court in Baltimore Feb. 15. Also a fugitive since 1991, he was arrested in La Jolla, Calif., in July after he was featured on the television program "America's Most Wanted."

Property/casualty net up 81%

NEW YORK—U.S. property/casualty insurers' nine-month net income rose 81.4% to \$12.7 billion from \$7 billion last year, which was marked by record catastrophe losses, the Insurance Services Office Inc. and the National Assn. of Independent Insurers report.

Net income for 24 major property/casualty insurers surveyed by *Business Insurance* increased 36.2% (*BI*, Nov. 22). The III/NAII figures are based on reports from companies that account for 96% of U.S. property/casualty business.

Underwriting losses for the nine-month period decreased 32.1% to \$15.9 billion from \$23.4 billion. Net investment income, however, also decreased 5.1%, to \$24.1 billion from \$25.4 billion.

Net written premiums increased 4.9% to \$181.7 billion from \$173.2 billion, while surplus increased 9.2% to \$176.1 billion from \$161.3 billion. The combined ratio improved to 108% from 113.2%.

Hughes coverage suit revived

SAN FRANCISCO—A federal appellate court has given Hughes Aircraft Co. a second chance to try to force its insurers to pay at least part of an \$85 million settlement over water pollution in Tucson, Ariz.

In a 3-0 decision, the 9th U.S. Circuit Court of Appeals on Nov. 26 found that a federal judge should not have granted complete summary judgment to Hughes' three insurers, thus permitting the company's claim for coverage to be reinstated.

About 2,400 Tucson residents sued Hughes in 1985 for allegedly discharging trichloroethylene into unlined ponds that seeped into underground wells. The EPA did not list the solvent as a pollutant until the late 1970s, more than 20 years after the discharges began.

Hughes agreed in 1991 to settle the claims for \$85 million, but its insurers—underwriters at Lloyd's of London, Hartford Accident & Indemnity Co. and Insurance Co. of North America—sought a court declaration that they were not obligated to provide coverage.

In a series of 1991 and 1992 rulings, U.S. District Judge William D. Browning granted summary judgment for the insurers for policies in effect between 1956 and 1985 that contained the pollution exclusion.

While the 9th Circuit agreed that insurers on the risk between 1974 and 1985 should be granted summary judgment based on the pollution exclusion, it said Judge Browning erred in denying coverage to Hughes under earlier policies. The pollution exclusion was introduced in comprehensive general liability policies in 1974.

Keene files for Chapter 11

NEW YORK—Keene Corp. filed for Chapter 11 bankruptcy late Friday after an appellate court stymied its plan to settle all pending and future asbestos personal injury claims through a limited fund.

The Dec. 1 ruling by a three-judge panel for the 2nd U.S. Circuit Court of Appeals throws a major wrench into Keene's efforts to avoid bankruptcy and settle about 100,000 claims. Keene is seeking a re-hearing before the full 2nd Circuit.

Lawyers for some asbestos victims oppose such mass settlements and say the Keene ruling calls into question whether two other proposed settlements will withstand judicial scrutiny. One settlement involves the Center for Claims Resolution and two leading plaintiffs' attorneys (*BI*, Jan. 25); the other involves CNA Insurance Cos., Chubb Corp. and Fibreboard Corp. (*BI*, Sept. 6).

The court ruled that U.S. District Judge Jack B. Weinstein overstepped his constitutional authority by forcing claimants to settle when Keene, which has less than \$100 million in assets, never asserted that it would be harmed by refusing to settle with claimants.

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California firms optimistic about workers comp rules

By LOUISE KERTESZ

LOS ANGELES—California businesses say they are encouraged that perceived problems with regulations implementing the state's new workers compensation law will be ironed out before final regulations are issued.

But the proposed changes to the ailing system are so massive that even close observers are uncertain how it will all play out.

"There are still a lot of unknowns," noted Ed Woodward,

president of the insurer-supported California Workers Compensation Institute in San Francisco.

Casey Young, administrative director of the state's workers compensation division, last week pledged to issue final regulations early next year.

"My timeline is Jan. 1, though I can let (some of them) slip," he said in an interview at public hearings last week that drew scores of witnesses and hundreds of observers over four days.

That pace worries some workers

comp insurers. "We're talking about quantum changes. There's no need for this rush to judgment," said Alan Webb, vice chairman of the CWCI.

Several of those testifying contended that flaws in the proposed regulations would squelch any potential savings. Among the big problem areas are medical-legal evaluations, caps on job counseling costs in vocational rehabilitation programs, and the use of so-called Health Care Organiza-

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Superfund reform action

As administration meets, industry floats new liability idea

By JERRY GEISEL

WASHINGTON—Clinton administration cabinet officers, their deputies and other top officials were meeting Friday afternoon to try to agree on a set of recommendations to send to President Clinton to overhaul the federal Superfund program.

The Treasury Department and other agencies support broad reforms, including the elimination of

both retroactive and joint and several liability (*BI*, Oct. 11). However, other agencies do not favor major changes in Superfund's liability provisions.

Meanwhile, a new draft proposal for assessing cleanup responsibility, dubbed the "hybrid" approach, was being discussed last week in insurance and chemical industry circles as a replacement for joint and several liability under the current statute.

The proposal envisions that current Superfund taxes, such as those on certain chemical products, would be retained but would be augmented by a new tax on insurers. The tax would be designed to raise about \$300 million a year.

Under the proposed hybrid approach, liability for cleanup costs at sites on a national priorities list would be apportioned through a multi-step process.

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Injured worker can take leave rather than light duty

Return to work obstacle

By DEBORAH SHALOWITZ

WASHINGTON—The federal Family and Medical Leave Act prevents employers from requiring temporarily disabled workers to return to work at "light-duty" jobs if the workers would rather take unpaid medical leave, a Labor Department official says.

FMLA regulations "provide that if FMLA entitles an employee to leave, an employer may not, in

lieu of FMLA leave entitlement, require the employee to take a job with a reasonable accommodation," wrote Maria Echaveste, an administrator in the Labor Department's wage and hour division, in an advisory opinion letter.

Advisory opinions are not reliable precedent and are only binding on the party that sought the opinion. But this letter shows how the family leave law and the Americans with Disabilities Act

can intersect unexpectedly.

"This whole question of the interaction between the ADA and the family leave law is a very complex area," noted Stephen Bokot, vp and general counsel of the U.S. Chamber of Commerce in Washington. Mr. Bokot added that the overlap of these two laws is one of the issues that the group addresses in its comments on proposed regulations connected with

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PPO regulation upheld

Supreme Court acts on range of business litigation cases

By JOANNE WOJCIK

WASHINGTON—States can prohibit managed care organizations from selectively contracting with exclusive providers, under a ruling the U.S. Supreme Court let stand last week.

This was among several pieces of business-related litigation the Supreme Court acted on last week, as it decided among cases to

hear in the current session.

The justices declined to review a challenge to a Virginia law designed to regulate preferred provider organizations.

Critics had charged that a lower court decision upholding Virginia's any-willing-provider law would undermine managed care organizations' ability to keep health plan costs in check by contracting with preferred providers

(*BI*, June 14).

The case stems from a dispute between Richmond, Va.-based Stuart Circle Hospital Corp. and Aetna Health Management, the managed care unit of Aetna Life & Casualty Co. of Hartford, Conn.

The hospital sued Aetna in 1991, claiming the insurer violated a Virginia law governing establishment of PPOs by insurers

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• In Perspectives, Michael T. Rogers of Vermont Insurance Management touts the benefits of pairing a large-deductible plan with a captive insurer for workers comp risk financing. **PAGE 35**

• The Illinois Supreme Court will decide whether the state's premium tax structure is constitutional. **PAGE 49**

• Merrett Underwriting Agency Management Ltd. will cease active underwriting next year. **PAGE 55**

• Neither side in the massive insurance industry antitrust case is optimistic about settling soon, show status reports filed with the judge hearing the case. **PAGE 62**

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Risk Management: Systems & Analysis

Risk managers warming up to benchmarking projects

'Meaningful comparisons' are possible

By DAVE LENCKUS

To senior management's way of thinking, what's good for the gander is good for the goose.

For at least a decade, corporate America has literally opened its doors so competitors and non-competitors alike could dissect and compare their manufacturing processes to identify and adapt the best practices.

But, except at some Fortune 500 companies, risk managers have not embraced this benchmarking concept. In resisting what other areas of their companies accept as part of a commitment to total quality management, risk managers have cited the uniqueness of their companies' risks and other difficulties as obstacles to comparing their programs with others'.

"Strictly speaking, that's true. But, there's some meaningful comparisons that can be made," said Michael R. Levin, a risk management consultant in Chicago with Tillinghast, a unit of Towers Perrin.

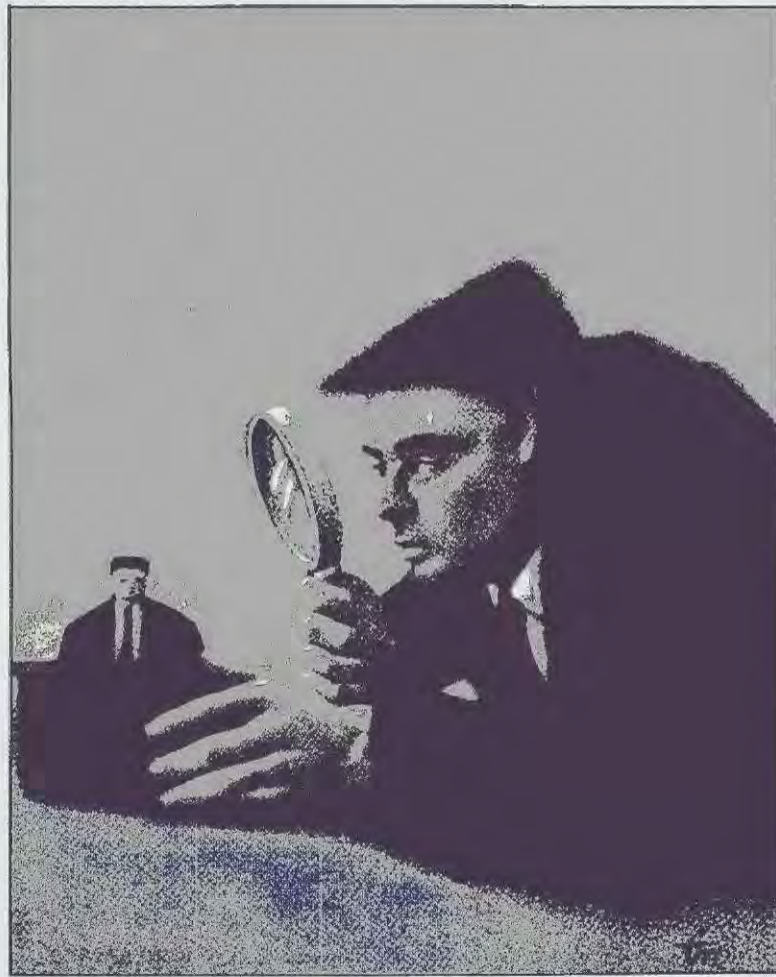
"Just like manufacturing, risk management is made up of processes," said Dan Knise, a managing principal and senior vp in Washington for Johnson & Higgins. Mr. Knise also chairs J&H's quality task force.

Those processes include risk analysis, loss control, risk financing, determining retention levels, time spent on renewals and claims handling.

And now, with TQM's demonstrated success in improving quality and productivity and with competition heating up in an increasingly global economy, senior management is lighting a fire under risk managers to benchmark.

"Their superiors have seen what it can do in other areas of the company and now are asking risk managers to do it," said John F. Roskopf, a senior vp and risk management consultant with Rollins Hudig Hall of Illinois Inc. in Chicago.

"Benchmarking serves as a basic component to the total quality



management approach," said Tillinghast's Mr. Levin. "It provides a road map to a lot of future work."

Risk managers "have to get out of the black box" of managing risk in a vacuum, said Tom Henderson, corporate risk management for Texas Instruments Inc. of Dallas.

Mr. Henderson is undertaking his first benchmarking project at TI, which has long embraced benchmarking and TQM in other areas of the company. Indeed, TI's defense systems and electronics group won a Malcolm Baldrige National Quality Award in 1992 from the U.S. Commerce Department.

Mr. Henderson has found "many risk managers don't want to share anything."

However, "that's changing," he said.

In addition, those who have embraced the benchmarking concept "are attempting to use this to help them establish in senior management's mind their role and activities that are critical to the organization," said Mark P. Charron, a senior manager at Deloitte & Touche in Hartford, Conn.

As more risk managers investigate benchmarking, which becomes more art than science when moved from the manufacturing floor to corporate staff functions, questions abound: Where do I start? What do I benchmark? Whom do I benchmark against? How rigorous does an effective benchmarking project have to be?

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Different vendors offer varied options for RMIS customers

Change of heart may not be problem

By DEBORAH SHALOWITZ

The differences between risk management information systems sold by independent companies, insurers and brokers tend to stem more from the systems themselves than from the vendor's affiliation.

There are, however, some general distinctions between the systems sold by different RMIS vendors.

Risk managers also need not worry that they are stuck forever with their initial system choice; while changing an RMIS is expensive, most systems today are flexible enough to allow users to transfer data from a broker's system, for example, to a system marketed by an independent vendor.

And, many of the RMIS sold by insurers and brokers are not designed exclusively for use in conjunction with the parent company, so users sometimes can continue using the system even if the relationship with the parent company is discontinued.

There are advantages and disadvantages to buying an RMIS from each kind of vendor.

For example, independent RMIS vendors are not bogged down by the bureaucracies that insurer- or broker-owned RMIS vendors are,

said Scott Gilmour, vp-sales and marketing for Corporate Systems Ltd. in Amarillo, Texas. "We can move very quickly with our decisions."

Furthermore, Corporate Systems' only focus is RMIS, he said. For insurer- or broker-owned RMIS vendors, "RMIS may not be their top priority."

Corporate Systems sells two products, a mainframe computer-based system called CS Online and software that runs on a personal computer called CS Prism.

Vic Paganucci, manager of workers compensation for Champion International Corp. in Stamford, Conn., believes that an independent RMIS vendor "has an interest in the type of business and is prepared to tailor a program" specifically for the business.

"An insurer would lean more toward products and insurance-type reporting," Mr. Paganucci added.

Champion has worked with Corporate Systems for 12 years. Champion and Corporate Systems together developed a custom-designed system for the company.

While independent RMIS vendors don't have to answer to anyone, some claim their resources are more limited than those of insurer- or broker-owned vendors.

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Job opportunities appear on the rise for risk managers

By MICHAEL SCHACHNER

As the nation's economy struggles to regain its health, the job market for top-level risk managers is showing some signs of recovering.

With the worst of the recession apparently behind corporate America—except in California and a few other Western states—the time between jobs for risk and insurance managers who have been displaced is growing shorter.

Certainly, the job market for risk managers is no cake walk. However, there probably are fewer out-of-work risk managers today than at any time during the past couple years.

The primary reason why the unemployed pool has been shrinking is that companies are renewing their commitment to risk management, which was sacrificed to a great degree from 1990-92 as the economy slumped, risk managers say.

Companies that had cut back on risk management as a means of controlling expenses are now reallocating resources to risk management departments, they say. Budgets, including expenses for travel and business periodicals, are being enhanced—or at least are remaining stable. And, improving

workplace safety and controlling workers compensation costs are high on the priority lists of most major businesses.

As a result, jobs that disappeared over the past few years are being refilled, occasionally by the same person who had the job when it was eliminated.

Another reason why there are fewer jobless risk managers today is that many former risk managers have left the profession entirely for jobs in the consulting and brokering fields. Therefore, the number of people competing for existing risk management jobs has become smaller.

"I'm getting business cards all the time from former risk managers who are now consulting. Apparently, that's where many of them have gone," said Kemper Smith, corporate director of risk management with Reynolds Metals Co. in Richmond, Va.

But for those determined to remain in the profession, prospects are improving.

"There has definitely been an easing of the market, but not what I would call a complete turnaround. If you're an experienced generalist capable of working with a small staff, you're most likely employable," said Gregory Hidden, director of risk and insur-

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Benchmarking

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What will I have after the project has been completed?

Experts say the answer to the last question underpins the benchmarking concept: The end of a benchmarking project is just the beginning of TQM. "Benchmarking is not an end in itself—it's a beginning," said Charles M. Armstrong Jr., manager of corporate risk management at Stamford, Conn.-based Xerox Corp., which has been a longtime advocate of TQM. Xerox's business products and systems division won a 1989 Baldrige award.

"The key is if the company does something with it and makes changes," Deloitte's Mr. Charron said.

However, risk management experts offer various answers to some of the other questions. Indeed, there

is some disagreement over the definition of benchmarking.

Many risk managers have long relied on various studies to compare their risk management costs with their peers'.

"I'm not throwing stones at those studies," RHH's Mr. Roskopf said, but "that's not true benchmarking."

"Benchmarking is when you dig into the processes that lead to good results" in a program, as measured by the program's cost efficiency or quality, concurred J&H's Mr. Knise.

Then, the benchmarking risk manager has to determine how to, or whether he or she can, adapt elements of those processes to his or her own program, Mr. Roskopf said.

Some experts believe that definition is too narrow. Although most agree that benchmarking processes is crucial to identify best practices, they say comparing metrics, like program costs or policy limits, also

constitutes benchmarking.

"It seems fundamental, but it's important to note if your program is competitive," or whether one's limits and deductibles are too high or low, said Cheri J. Hawkins, assistant treasurer/director of insurance for Weyerhaeuser Co. of Tacoma, Wash.

Such comparisons also can give risk managers better insight into available markets, observed Mike Shermer, managing director of risk management at Memphis-based Federal Express Corp., a 1990 Baldrige award winner. Fed Ex has benchmarked directors and officers liability limits with other service companies to determine whether it had appropriate coverage.

However, Tillinghast's Mr. Levin said that benchmarking the process by which limits or deductibles are selected would be more beneficial than simply comparing the metrics.

Comparing metrics may not even

be helpful for some companies.

For example, The Walt Disney Co. of Burbank, Calif., owns huge hotels, but its workers comp costs are not relevant to many other hotels' costs, said Stephen M. Wilder, director of corporate risk management.

Most hotels cater to business travelers, who stay in their rooms for a night and then check out. Disney hotels, though, cater to families that are in and out of their rooms over a several-day period. As a result, the focus of housekeepers' work in Disney hotels is different, he explained.

"So, our housekeeper's workers comp risks are not the same as in other hotels," he said. "The numbers side may not be as relevant as the process side."

Before risk managers can size up others' programs, they have to conduct some substantial self-analysis, many experts say.

The first stage is deciding what to

benchmark. Many risk managers initially focus on their workers comp programs because of skyrocketing costs. But, there may be more appropriate areas on which to focus.

RHH's Mr. Roskopf suggested identifying areas that, if improved, would make a strategic difference to the company or at least to the risk management function.

Another way to find a starting point is to answer the question, "What is it that your clients are most interested in?" said Michael W. Bryant, director of insurance for Pittsburgh-based Westinghouse Electric Corp., another company that has long advocated TQM. Its commercial nuclear fuel division was a 1988 Baldrige award winner.

"Risk managers are employed to do what some set of human beings wants them to do," he said. Without considering the clients' wants and needs, "you can make improvements and then find out it makes no difference" to them.

Mr. Bryant, with Tillinghast's assistance, recently benchmarked with risk managers at several Fortune 100 companies to determine what staffing levels are necessary to perform a broad range of risk management functions. Mr. Bryant concluded he was adequately staffed.

Experts disagree over how many programs can be benchmarked effectively at one time.

RHH's Mr. Roskopf recommends benchmarking only one program at a time because benchmarking "really takes a lot of work" to do properly. Benchmarking many unrelated programs tends to lead to only comparing cost figures rather than understanding processes, he said.

However, if many programs are interrelated, as many workers comp programs may be, benchmarking all of them at once is doable, he added.

Others say many programs can be benchmarked simultaneously.

"I think the more holistic you can be, the better," J&H's Mr. Knise said. He warned, though, that an overly broad benchmarking project can become cumbersome.

Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. of Kansas City, Mo., benchmarked several risk management areas during a project earlier this year after the company had restructured some operations.

As part of that restructuring, many risk management functions were decentralized, including environmental safety and health.

As part of his project, Mr. Heydinger benchmarked how other firms structured responsibility for environmental issues as well as "a number of risk management functions," including asset protection, risk financing and workers comp.

Benchmarking one process at a time has its merits, Mr. Heydinger said. "But, so many things are tied together, I thought it was more efficient to look at the whole thing at one time."

Mr. Heydinger learned that in the risk financing area, for example, Hallmark needed to improve its management information system to automatically consolidate loss information. The more that can be done to improve the quality of information, "the better decisions you can make," he said.

He also learned that other firms' international subsidiaries were using their captives to retain more risk.

After deciding what to benchmark, risk managers must analyze how their programs work.

"You have to test where you are and where to go to improve," explained Harry Taback, a managing director of New York-based Marsh & McLennan Inc., who heads up the broker's program to help clients

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“When it comes to controlling workers compensation costs, Corporate Systems keeps Champion International performing like a winner.”

 **Champion**
Champion International Corporation

Vic Paganucci (right)
Manager of Worker's Compensation
Chuck Gerber (left)
Director of Corporate Loss Prevention

Corporate Systems helped Champion International cut their workers compensation budget by 36 percent. How? Our two companies worked in partnership to redesign Champion's Risk Management Information System and to implement precise budget tracking and expense allocation. Champion has a loss prevention program, second to none.

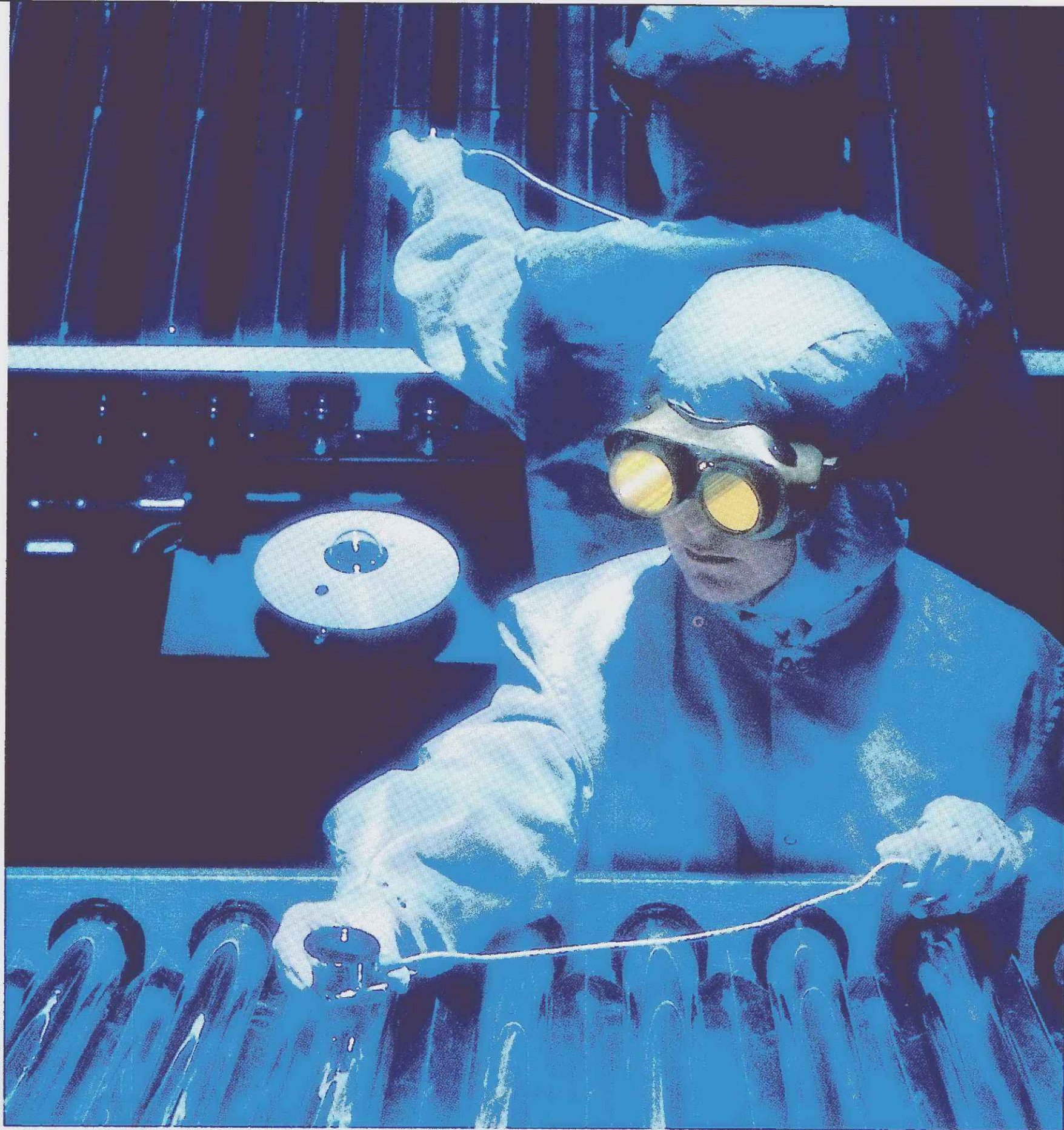
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Benchmarking

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benchmark workers comp processes. "If you haven't analyzed your process, you're not in a position to benchmark," TT's Mr. Henderson observed.

The analysis has to be in-depth, Mr. Roskopf said. "You really have to get down and dirty."

For example, an analysis of a workers comp claims handling program should determine the quality of care that injured workers receive, how well costs are being contained and if injured workers are returning to work in satisfactory numbers.

"You may want to go as far as interviewing people who had claims in the past" to better understand what went right and wrong in the claims handling process, he said.

Risk managers also should research the topic through publicly

available information, experts say.

"It's a pretty rigorous process if you do it right," said Tillinghast's Mr. Levin.

Many experts also recommend drawing on other areas of the company during this self-analysis.

For example, PepsiCo Inc.'s employee benefit's department played an "indispensable" role in the company's evaluation of its workers comp program, said Steven H. Lawrence, director of risk management and insurance for the Purchase, N.Y.-based company (see story, page 12).

At Xerox, representatives from risk management, safety, systems, human resources and finance units all were involved in a workers comp benchmarking project.

There is "a lot more than a claim that happens" in the workers comp claims handling process, Mr. Armstrong said.

But, some risk managers disagree that such a rigorous self-evaluation is necessary every time.

"The more you know, the less rigorous you have to be," said Richard Dettmer, manager-workers compensation and self-funded liability programs for Colgate-Palmolive Co. of New York.

When it's time to find benchmarking partners that have the best practices, risk management experts recommend talking to peers, contacting industry trade groups and reading literature. Brokers say they also are handy resources for potential partners outside of the risk manager's own industry.

A minimal of three benchmarking partners are recommended, but seven to 10 are better.

While risk managers naturally gravitate to others within their own industries, many experts recommend finding partners in other types

of businesses.

"People in different industries might be doing something completely differently" and better, J&H's Mr. Knise said. "I think it opens up creativity" to benchmark across industry lines.

For example, if a newspaper with home-delivery service wants to determine how it can reduce its drivers' workers comp claims, it may consider benchmarking with a bakery that operates a fleet of delivery trucks, said Lawrence L. Drake, an M&M managing director.

Fed Ex's Mr. Shermer has benchmarked against soft-drink companies, aviation caterers and an airline. One benchmarking partner for TT's defense system division was a cosmetics manufacturer.

Risk managers who benchmark only within their own industries risk just copying their competitors' processes, Tillinghast's Mr. Levin ob-

served. "You don't want to be as good as them—you want to be better."

But, some similarities between benchmarking partners may be helpful, pointed out Colgate's Mr. Dettmer.

For example, if risk managers are comparing return-to-work programs, benchmarking partners may find comparisons more meaningful if all of them are union or non-union shops.

When a risk manager is ready to begin making company-to-company comparisons, he or she typically would send a questionnaire to all benchmarking partners and follow up with in-depth, in-person interviews at the partners' offices.

Here, risk managers must be careful not to look just at what programs their partners have, experts emphasized. Benchmarking has to peel away those programs' fascia and probe what makes them tick. They are looking for what RHH's Mr. Roskopf calls "process enablers."

For example, in a return-to-work program offered by a company with excellent workers comp claims costs, a process enabler could be that the employer effectively communicates that it cares for its injured employees, he said. That may be accomplished through actions like sending the workers get-well cards signed by their coworkers.

Another process enabler may be that the return-to-work program offers meaningful work so injured employees are "not just coming back to dust window sills," he said.

Colgate last year found many process enablers in E.I. du Pont de Nemours & Co.'s safety program. Unlike Colgate, DuPont:

- Has a formal program to review all new and modified processes and equipment with employees.
- Continuously trains employees in safety and health.
- Holds all levels of the organization formally responsible for safety and health.
- Conducts regular safety and health audits that are submitted to senior management.
- Investigates all claims.

Some risk managers say they have benchmarked rather informally through phone conversations with peers or by studying surveys. But many experts say that's not benchmarking.

"We all do that," TT's Mr. Henderson said. "But, that's not going through the process. You're only picking up a piece of it."

He said he wants to sit in a risk manager's shop and look at his flow charts. He wants to find risk managers who will show him their "dirty laundry." "I'll show you mine if you show me yours," he said.

Invariably, risk managers will face increased management pressure to benchmark. And, there is a lot more to learn about doing it right, Westinghouse's Mr. Bryant said.

"I think that we're part-way up the learning curve," said Mr. Bryant, who led a group of risk managers from the Risk & Insurance Management Society Inc.'s Risk Management Roundtable in researching process analysis. A white paper on the topic was published last year.

But, any gain in the quality and cost of risk management functions through benchmarking can go a long way toward elevating risk management in the eyes of top management, experts say.

"Clearly, if we can show we're having positive results, it can do nothing but help us and make us more viable and more important to corporate philosophy," said Robert W. Esenberg, risk management administrator for the City of Virginia Beach, Va. **B**

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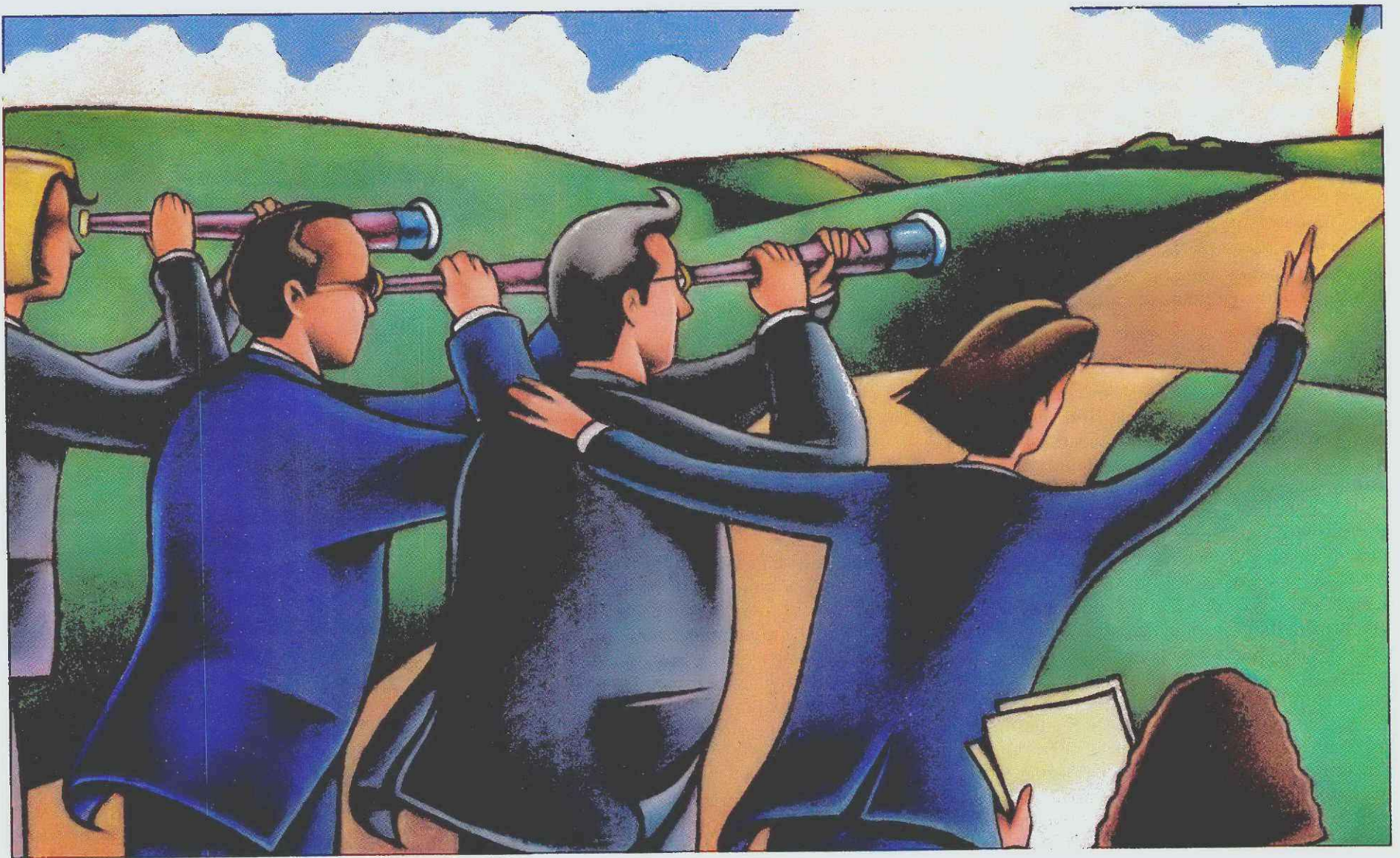
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Opinions

Making a tough decision

STATE INSURANCE regulators who chose not to fly to Honolulu for this week's National Assn. of Insurance Commissioners meeting because they were wary of adverse publicity are doing a disservice to the consumers they have sworn to protect.

As we report in this issue, attendance among regulators is off by nearly 50% compared with the turnout at last year's winter meeting in Atlanta. The reason: Many insurance commissioners are unwilling to spend the money for a flight to Hawaii, or worse yet, were afraid of being photographed in a flowered shirt and a lei while the folks back home are shivering and shoveling.

That may be smart politics, but it's dumb insurance regulation.

This week's NAIC meeting is an important one, with several vital issues—including risk-based capital standards for property/casualty insurers—on the agenda. To us, it would be unforgivable for a state regulator to miss the debate on an issue of utmost importance to insurance consumers and insurance companies strictly for the sake of appearances.

In fact, with only 34 insurance commissioners expected to attend the Honolulu meeting, we would be skeptical of any close votes. While commissioners can vote via proxy, that's a poor substitute for actually participating in hearings and engaging in debates.

Of course, the question may not be whether commissioners should venture to Hawaii in December; rather, we have to ask ourselves why regulators several years ago approved Honolulu as the site of the NAIC meeting. The apparent answer: Former Hawaii Insurance Commissioner Robin Campaniano would have been in line to assume the NAIC presidency at this week's meeting had he remained Hawaii's regula-



tor, and meetings are often arranged for the home state of the incoming NAIC president.

However, while regulators certainly did not want to offend Mr. Campaniano, they should have realized when they approved the Hawaii meeting that a trip to paradise in December probably would not play well back in their home states.

Still, with that mistake made, we salute the commissioners who have the courage to fulfill their duties and attend this week's meeting—no matter where it is held. Holding a government office means having to make tough choices; in this case, deciding to go to Hawaii was a tough and correct choice.

Letters

Readers open fire on ammunition tax proposal

To the editor: I always look forward to reading your magazine. I have from time to time disagreed with your editorial positions as they relate to insurance, benefits, etc. However, your lead editorial in the Nov. 15 issue, "A Sure-Fire Solution," is not only nonsensical, it is insulting.

I, and I'm sure countless other members of your readership, enjoy target shooting or hunting using *other than* .22-caliber ammunition. I do *not*, because of that, favor murdering my fellow humans as your editorial asserts. I believe an apology is in order to all of your readership who were the targets of your offensive remark.

Robert W. Ridley
Farmer & Ridley
Los Angeles

To the editor: I read your editorial, "A Sure-Fire Solution," and wondered what it was doing in an insurance magazine. Do you really believe this is a health care reform issue?

"Everyone who believes in reform—for the betterment of society..." should see this editorial for what it really is: a way for the anti-gun liberals in office, riding their non-victory with the Brady Bill, to seize more tax dollars.

For your information, hollow-point bullets have been used for years, from hunting

to law enforcement, because of their knockdown power. Hunters and police alike use them because they don't want "grotesque injuries," but a solid stop. A little research would have disclosed this.

If you are truly interested in taxation to support health care reform, encourage Congress to tax the most devastating producer of death and injury: automobiles. My bet is that, if you were to put your "politically correct" agenda aside, you would be too afraid to put your editorial money where your mouth is.

Barry Rose
Insurance Coordinator
Chief Automotive Systems Inc.
Grand Island, Neb.

To the editor: The thinking behind the Nov. 15 editorial is so distressing that it demands a response. Sen. Daniel Patrick Moynihan's attempt to circumvent the Second Amendment is bad enough. That you praise him for his efforts is disgusting.

Sen. Moynihan's bill proposes a 1,000% tax on certain "Black Talon" cartridges that are designed to expand and give maximum stopping power. To you, this bullet design, which allegedly causes "grotesque" injuries, deserves to be taxed out of existence. To the individual who is about to be mugged, mutilated or murdered, it may be a life-saver. I doubt that would-be perpetrators are as concerned about the type of bullet they use as you seem to think.

You also state that passing this bill could save a number of lives and a tremendous amount of waste in the health care system. However, you give no idea of what would be saved. But in spite of your admission that you have no knowledge as to the concrete, positive effect the law would have, you support it. Is it any wonder the public gives little or no credence to anything the

insurance industry and those claiming to represent it say?

Earl D. Ridolphi Jr.
Hines, Ridolphi & Associates Inc.
Birmingham, Ala.

To the editor: "Well conceived" is hardly the description that I would give to Sen. Moynihan's ammo tax proposal, and your enthusiastic support for it is a wonderful example of the old adage: "A little knowledge is a dangerous thing."

For example, exemption of .22-caliber ammunition from the tax as "target" ammo ignores that fact that more people are killed with these cartridges than any other.

And if "Black Talon" ammunition is so reprehensible because it is "designed specifically to cause grotesque injuries when fired at a human," why are law enforcement agencies exempt from the onerous tax? The reason, of which you apparently are unaware, is that "Black Talon" ammunition was specifically designed for law enforcement use. It improves officer safety by increasing the likelihood of a "one-shot stop." It also improves public safety by reducing the number of rounds fired—each of which carries a risk of missing—and the likelihood of the bullet overpenetrating, both of which would endanger innocent bystanders. These characteristics, of course, also make these cartridges ideal for legitimate self-defense by civilians.

In reality, therefore, instead of saving lives, the proposal is more likely to endanger innocent victims, because the ammunition available would be inadequate, and it is more likely to endanger innocent bystanders, because of misses due to the need to multiple shots and overpenetration.

Eric S.H. Ching
Mountain View, Calif.

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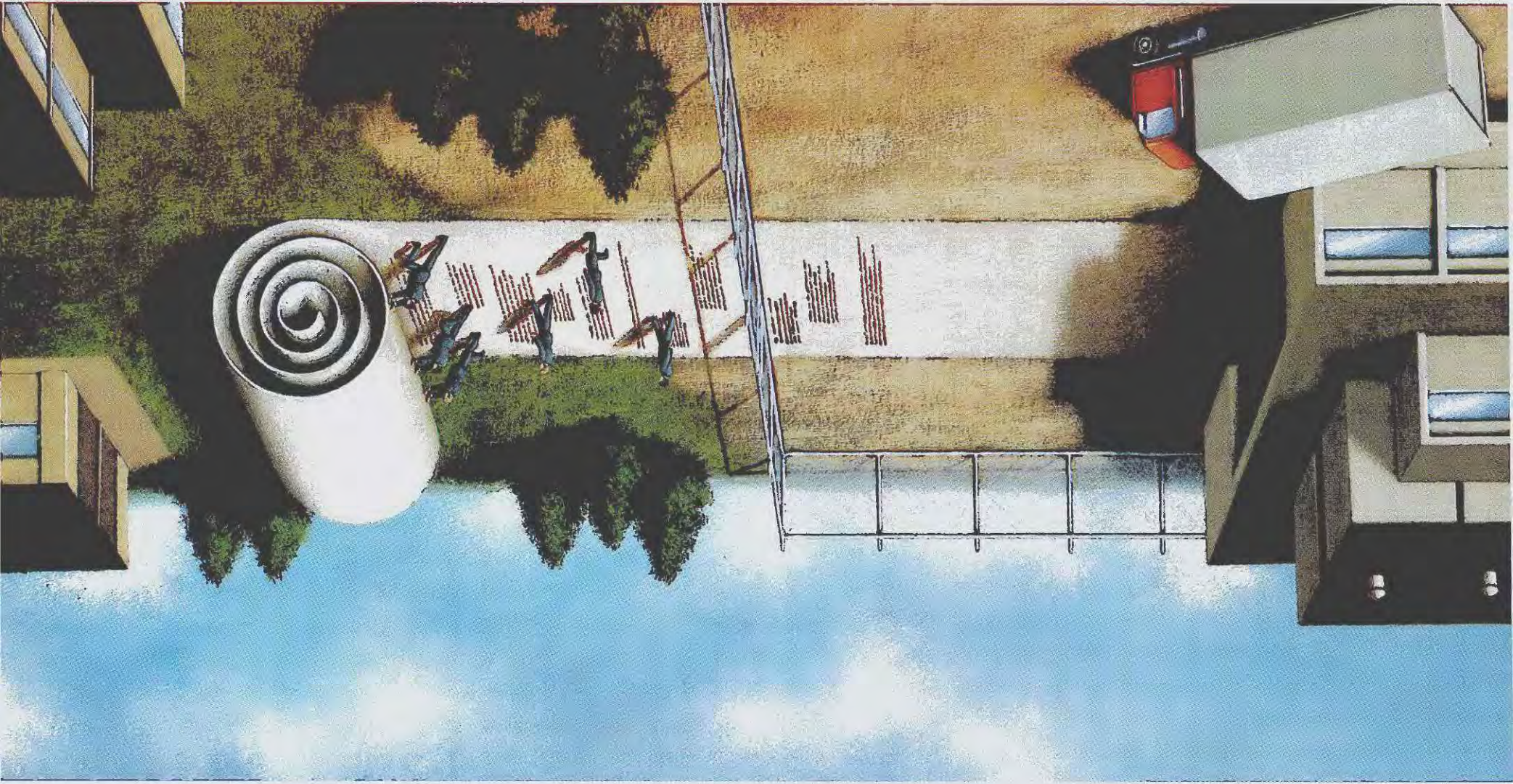
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Does benchmarking control costs? Uh huh

By DAVE LENCKUS

PepsiCo risk manager advocates vigorous process

If benchmarking is worth doing, it's worth doing rigorously, believes PepsiCo Inc.'s Steven H. Lawrence.

"I believe it's worked well for us," said Mr. Lawrence, director of risk management and insurance for the Purchase, N.Y.-based soft drink, food and restaurant conglomerate.

As a result of its lengthy two-year benchmarking project, PepsiCo will implement some workers compensation reforms on a pilot basis in January.

Among the reforms, PepsiCo will reassess all safety resources currently deployed and add resources to prevent accidents, Mr.

Lawrence said. In addition, the company will work with a "strategic partner" to cut claims costs. The partner will take over claims management and direct injured workers to a provider network.

Mr. Lawrence's benchmarking project was fairly rigorous as measured against benchmarking models advocated by theorists and consultants, though his project lacked some elements included in those models. For example, he did not prepare a report on his findings for all of his benchmarking partners. Nor did he limit the benchmarking project to one program, as some consultants recommend.

However, his project included many other elements, including the key first step of self-analysis.

"I did a very thorough analysis of the problem," he said.

The problem was not unique to PepsiCo: Workers comp claims costs were "not moving in the direction we wanted them to," Mr. Lawrence said. Costs had been rising since 1989, when responsibility for the company's workers comp risks was decentralized.

"If left as it was, it would become a more significant expense and people would be hurt," Mr. Lawrence said. He added, though, that PepsiCo later determined that it was "right there" with

other organizations in terms of workers comp losses.

Still, PepsiCo thought it could do better, he said.

"Management said we need more information" on what was driving up costs, Mr. Lawrence said.

He interviewed managers at various divisions about their safety programs and their injury management process.

Mr. Lawrence also interviewed the divisions' workers comp insurers. The insurers also gave the risk manager a line on other companies that were "doing something better."

PepsiCo eventually worked out

benchmarking agreements with 10 organizations: five manufacturers, three restaurant companies and two other well-run companies with operations unlike PepsiCo's.

Before Mr. Lawrence contacted any of the companies, he developed a two-page questionnaire designed to illuminate processes they used to hold down workers comp costs or improve quality.

He asked questions about his benchmarking partners' safety programs, risk financing, claims administration, cost allocations, cost containment efforts and risk management information systems. Information and ideas that Mr. Lawrence garnered about all of those elements were later factored into PepsiCo's pilot plan to improve its workers comp program.

Mr. Lawrence also looked at whether his benchmarking partners reported to the human resources, finance or legal department. "Does that have any impact on how (risk management) is viewed and the resources you can get when you're trying to sell your case" for changing practices to management? Mr. Lawrence wondered.

He later found that his benchmarking partners report to either human resources or finance and that "there was no advantage to one over the other" in obtaining management support. Management support generally was a factor of "how convincing a risk manager could be" with senior management, Mr. Lawrence said.

He also tapped another PepsiCo department, which rarely crossed paths with the risk management department, for help in the self-analysis before he approached his benchmarking partners.

"I realized we had these experts in the employee benefits department" who had an expertise in containing medical costs that risk management did not have, he said.

For example, unlike the employee benefits personnel, Mr. Lawrence had no experience in evaluating and selecting hospitals and doctors for a provider network.

In addition, employee benefits personnel explained the benefits of a claims administration process that captures more specific data on factors that are driving medical costs but are not producing any benefit for the injured employee.

"Data will drive decisions," he said.

He also leaned on employee benefits personnel for background information on case management.

"Too many of my peers won't talk to a fantastic resource they have in their organization called employee benefits," he said. "To me, they're just missing a tremendous opportunity."

Employee benefits personnel may not fully understand the workers comp system, but they can be educated, Mr. Lawrence said.

"I got tremendous support" from the employee benefits department, Mr. Lawrence said. "They were indispensable."

At this point, Mr. Lawrence was ready to review the questionnaires with his benchmarking partners and more fully discuss their workers comp program processes.

These discussions were best conducted in person at his benchmarking partner's site, he said.

The benchmarking study could have been completed less expensively by mailing the questionnaires, Mr. Lawrence said. But, people have a tendency not to an-

Continued on page 14

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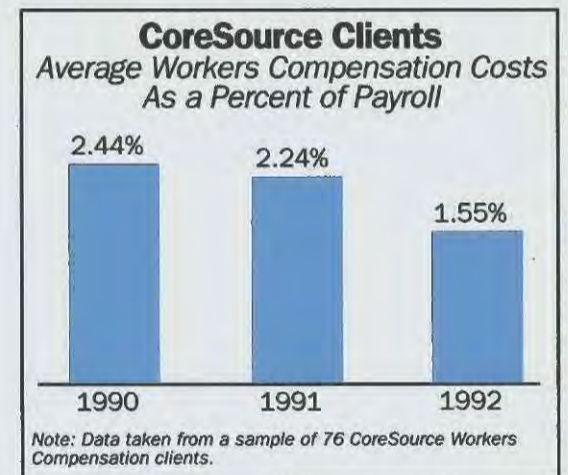
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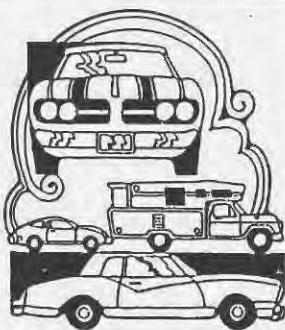
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PepsiCo project

Continued from page 12
 swer questionnaires or not complete them in full, he said.

Face-to-face review of the questionnaire often leads to additional questions and, more importantly, a better understanding of that company's processes.

And, an in-person meeting shows partners that the company that initiated the benchmarking study is serious about studying others' processes to improve itself, Mr. Lawrence said. Typically, he would fly in the day before the meeting in time to have dinner with his benchmarking partner. "We had dinner to get to know each other so the next day things would be more comfortable, less formal."

The benchmarking discussions the following day usually took about four hours to complete.

Benchmarking models call for the initiator of such a study to prepare a report of his or her findings for all partners in the study. Such a report typically examines processes used by each partner in the study, though companies are not identified in the report.

Mr. Lawrence did not commit to prepare such a report because of time constraints.

But, "I have a verbal agreement to keep in touch" with the benchmarking partners, he said.

Two companies in particular were "way ahead of the others," and Mr. Lawrence is keeping in touch with them quarterly.

After information was gathered from all of the benchmarking partners, PepsiCo developed a best-practices model program designed to show what benefits the company could expect if it implemented a series of steps.

But, PepsiCo wanted some independent confirmation that its attack on the problem was on target. It hired an independent consultant to review the program and its underlying assumptions.

"They did the analysis, looked at the assumptions and they agreed," Mr. Lawrence said.

He then approached senior corporate and division managers with his report, which was completed earlier this year. They supported the program because Mr. Lawrence had his facts, he said.

Just as PepsiCo usually introduces new products in test markets, its workers comp program changes will be implemented on a pilot basis in January in three states where PepsiCo has a significant number of employees.

"I honestly do feel this is an important process," Mr. Lawrence said of benchmarking. **EI**

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Accounting standard may help measure excellence

Risk management rule is voluntary

By DAVE LENCKUS

A new, voluntary accounting standard on determining the cost of risk is designed to reinforce the foundation of many future risk management benchmarking projects.

The just-released standard, if widely adopted, would give risk managers a powerful new tool for identifying companies with the best risk management practices as measured by cost of risk.

But, risk managers will have to sell the standard to their senior managers, said the risk management expert involved in creating the standard.

Currently, risk managers who are looking to benchmark against companies with the most cost-efficient risk management processes are stumbling over myriad ways to account for risk management costs.

Those inconsistent accounting practices make identifying companies with truly best practices a difficult and sometimes impossible challenge, said Glen MacCorkle, a former NCR Corp. risk manager involved in creating the standard.

"Part of our (accounting) infrastructure needed to be fixed before you could do benchmarking, at least in the cost area," Mr. MacCorkle said. "If cost is what we're interested in, we better make damn sure we're talking about costs in the same way."

The new standard, though, does not apply to benchmarking projects in which best practices are identified by non-financial measures.

One such example is claims handling turn-around time.

The standard, promulgated by the Montvale, N.J.-based Institute of Management Accountants, is dated June 30. But, it was just recently printed and was mailed to Risk & Insurance Management Society members only within the past few weeks.

The IMA, which focuses on internal accounting practices used

Continued on page 18

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Spotlight report

Accounting standard

Continued from page 14

by management in decision making, took on the project at the urging of the RIMS Risk Management Roundtable.

The 27-member roundtable is a loose-knit group of senior, cutting-edge risk managers that RIMS organized in 1988 to discuss and research issues that the RIMS executive council might look to for direction in strategic planning.

The roundtable's research often leads to white papers that RIMS can either accept or reject.

The accounting standard stems from the roundtable's research on benchmarking that quickly proved to be too large for a single team of risk managers.

The project, begun shortly after the roundtable was formed, was split into two.

One team, led by Michael W. Bryant, director of insurance for Westinghouse Electric Corp. of Pittsburgh, focused on process analysis, which may or may not involve benchmarking. A white paper on the topic was published last year.

Mr. MacCorkle, who retired from NCR in July and now runs an independent risk management consulting firm, headed a second team studying the cost of risk. That team researched how risk managers could determine their own costs more precisely and compare them with other companies with greater certainty that everyone's costs were figured on the same basis.

This is necessary not only to make apples-to-apples comparisons, but also because many risk managers report to financial officers who want better cost reports, Mr. MacCorkle said. "In the minds of people to whom most risk managers report to, cost is an important issue."

Scraping together such cost comparisons is difficult now.

For example, Mr. MacCorkle pointed out, in determining the cost of risk, companies account differently for:

- Self-insured risks. Some companies account for just cash payments and do not recognize reserves or the incurred-but-not-reported loss component of the ultimate risk, he said.

- Retrospectively rated insurance premiums. Mr. MacCorkle said that many companies do not break this into its various components, like the amounts insurers charge for risk transfer, retained losses, administration and other services.

"The basic problem we're getting to is, 'Hey people, let's at least score the same things,'" said Mr. MacCorkle, who now heads G.A. MacCorkle Associates in Dayton, Ohio.

Mr. MacCorkle's team worked with the IMA to develop a consistent approach to accounting for the cost of risk. The result is the new voluntary IMA accounting standard—Statement No. 4S, Practices and Techniques: Internal Accounting and Classification of Risk Management Costs.

The voluntary standard—a 27-page pamphlet, including appendices—identifies several factors that should be included in accounting for:

- Insurance premiums, defined as the "expenses associated with actual transfer of risk of loss from the entity to the insurer in consideration of a specific premium." Therefore, under a retrospectively rated program, for example, the insurer's charges for retained losses, administration and other

services should not be classified as part of the premium, according to the standard.

- Retained losses.
- Internal administrative costs.
- The cost of outside services, like claims adjusters and loss prevention engineers.

- Fees and taxes, like those incurred in self-funded and fronted programs.

- Financial guarantees, like those posted in fronted programs or for self-funded workers compensation programs.

- Income or cash flow, like the investment income earned by captive insurers and the partial reimbursements received from commercial insurers for retrospectively rated insurance premiums following a premium audit.

Risk managers now have to educate themselves on the standard and "get it moving" in their re-

spective organizations, Mr. MacCorkle said.

Senior management isn't expected to research this and direct internal accounting to adopt the standard, he said.

be revisited, Mr. MacCorkle expects.

"As practitioners get together with their accountants, they probably will find some area that is not clear," he said.

'Our idea is that risk managers should take the lead with their chief accounting officers and work with them in implementing this standard,' says Glen MacCorkle, who heads G.A. MacCorkle Associates in Dayton, Ohio.

"Our idea is that risk managers should take the lead with their chief accounting officers and work with them in implementing this standard."

The standard is a first step in a process that probably will have to

The standard, if widely adopted, also could make RIMS' Cost of Risk Survey more valuable because survey participants' accounting methods would be more standardized, Mr. MacCorkle said. And, that would attract more par-

ticipants, he said.

The survey is a joint effort by RIMS and Tillinghast, a unit of Towers Perrin.

Michael R. Levin, a Tillinghast consultant in Chicago, acknowledged that widespread adoption of the standard would make the study a more important tool for risk managers.

However, in defense of study results to date, Mr. Levin said some accounting inconsistencies are only natural with a participation rate of more than 800 companies. Such inconsistency is a tradeoff for such a large response rate, he said.

Tillinghast and RIMS do not rely solely on participants' responses to questionnaires when preparing study results, he added. There are follow-up phone calls to participants in an effort to normalize data, he said. **BI**

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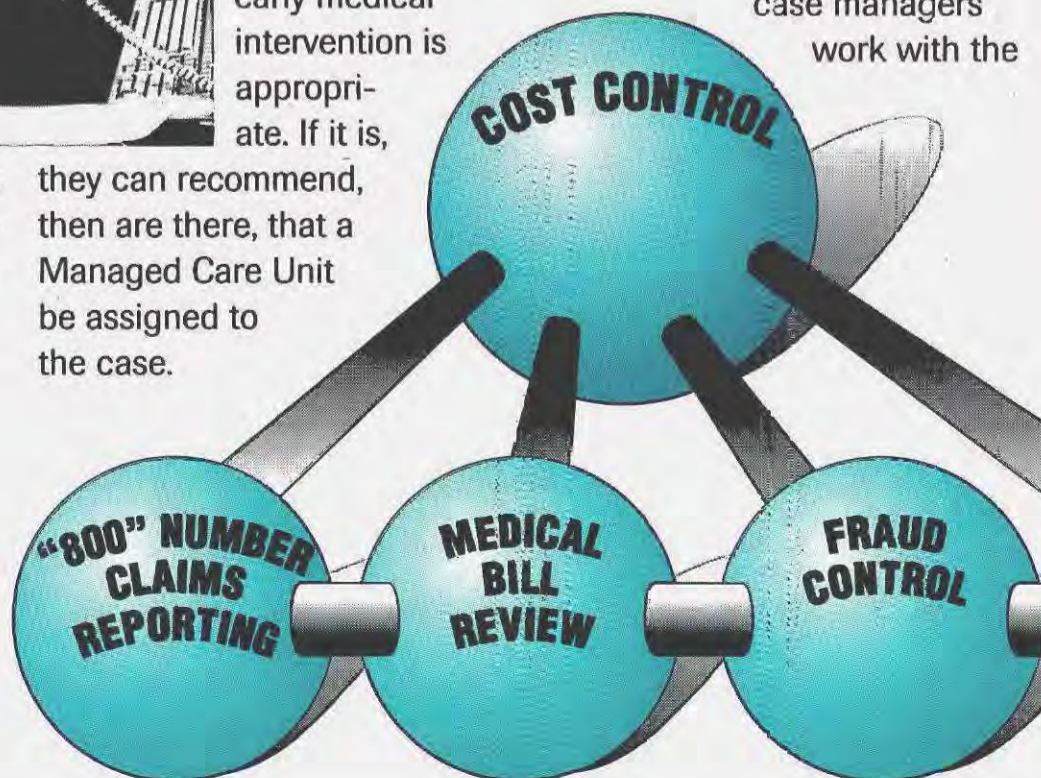


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A quality solution to improving service

By DAVE LENCKUS

Focus on clients' needs, risk managers advise

Risk managers can build stronger departments with several total quality management tools besides benchmarking, if they focus on satisfying various customers' needs, experts say.

Every company puts its own slant on TQM, observed Richard C. Heydinger, director-risk management services for Hallmark Cards Inc. of Kansas City, Mo.

For example, "We're constantly looking at the attitude that no matter how good we are, we can continuously improve," he said.

But, every risk manager has to recognize that he or she has customers to serve.

"If you take the position of helping service your clients, you help focus how you're trying to provide the best risk management for the company," said Mark P. Charron, a senior manager at risk management consultant Deloitte & Touche in Hartford, Conn.

One way of defining total quality is, "Do what the customer wants," said Cheri J. Hawkins, assistant treasurer/director of insurance at Tacoma, Wash.-based Weyerhaeuser Co.

When it's known what the customer wants, "everything you do to produce it must be quality," she said. That means completing a process without error every time

and then trying to streamline and improve the process further by adding elements or eliminating steps that do not add value.

And, "You have to be conscious of all your customers and cater to all of their needs," said Stephen M. Wilder, director of corporate risk management for The Walt Disney Co. of Burbank, Calif. There can be many. At Disney, for example, customers can be: fellow employees; operators of shows, rides or hotels; stockholders; or the public.

Risk managers as a group are "not leading-edge as regards TQM," said Michael R. Levin, a risk management consultant in

Chicago with Tillinghast, a Towers Perrin company.

But, TQM has been embraced by some risk managers at large companies, especially those that have woven the theory into the fabric of their cultures.

Among their favorite TQM tools are team building, partnering and flow charting.

Mr. Heydinger said an important goal for Hallmark risk management is getting away from "we do something and hand it off to others." That drives up costs and hurts business, he said.

Hallmark's risk management services department is working toward that goal by team building

with other operations within the organization and with brokers, insurers and consultants.

As a result, everyone sees the big picture and knows their roles. That eliminates specialists, who tend to be more concerned about only their role and not the whole picture, Mr. Heydinger said.

By "getting all the arrows pointed in the right direction," redundancies and errors of omissions are eliminated, which saves precious time, he said.

Mr. Heydinger likened this change in working relationships to moving from a football game to a fast-break basketball game. In the football game, teams huddle before each play. On the basketball court, teams have to improvise more because they can't huddle as often.

In practice, the theory is exemplified in how Hallmark handled its recent consolidation of two plants, he said.

Previously, company engineers

One way of defining total quality is, 'Do what the customer wants,' says Cheri J. Hawkins.

would have set up a redesigned operation at the site that incorporated functions previously handled by both plants. The risk management services department would have been informed about the redesigned operation later.

But, not having been involved in the redesign, risk management may have discovered that the engineers did not adequately address some risk management concerns like fire safety. Improving fire safety at this stage would require additional design modifications, which would add to the cost of the entire project and possibly delay startup of operations at that plant.

"These are all handoffs, instead of doing it as a team," Mr. Heydinger said.

Hallmark, though, included risk management as part of the consolidation team so risk management issues could be incorporated in the redesign at the onset.

"With that type of approach, people are willing to participate in the results and not ignore them," said Robert W. Esenberg, risk management administrator for the city of Virginia Beach, Va.

Mr. Esenberg used the same team-building approach to curb a growing number of employee injuries resulting from falls off municipal trucks. Mr. Esenberg created a team of risk management analysts, safety officers and representatives from the city garage and other operating departments that use the trucks.

The team determined that most employees were slipping because of their muddy boots. The team decided that an effective and inexpensive solution would be to install boot scrapers on the trucks.

Early data show that those types of injuries have been reduced since the boot scrapers were installed, Mr. Esenberg said.

A cousin of the team-building concept is partnering: establishing long-term relationships with a limited number of suppliers, like brokers, insurers and third-party administrators.

"That means having only one or two brokers instead of four or five," explained Dan Knise, a

Continued on next page

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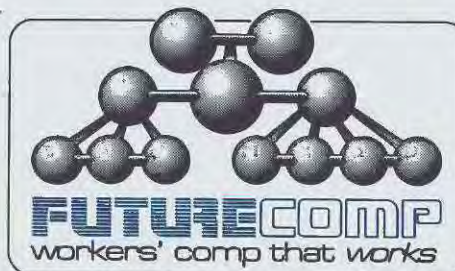
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Spotlight report**Job market***Continued from page 3*

ance for American General Hospitality Inc., a hotel management company based in Dallas.

Mr. Hidden, who joined American General Hospitality earlier this year after holding several public entity risk management jobs in California, exemplifies the improving job market.

It took him about three months to change jobs, a lag period which he said was very acceptable. "It would have taken at least six months, maybe more, had I stayed in California" rather than move to Texas. "But overall, things are brighter. We're moving in a positive direction," he said.

Executive recruiters specializing in risk management and insurance also say that job opportunities are improving as corporations

restaff after cutbacks and "right-size," a term commonly used to describe upgrading the quality of the person holding a position, as opposed to downsizing through the elimination of jobs.

"There's a marketplace out there for state-of-the-art risk managers. Ones with various professional degrees and certificates, knowledge of insurance markets and risk financing experience are finding new jobs. It's only the old-line insurance buyer who's having a difficult time holding a job or finding a new one," said Bill Perry, president of Logic Associates Inc., a New York-based executive search firm specializing in risk management positions.

"Corporations are still eyeing every position, including risk management. Rightsizing has taken over from downsizing. Consequently, opportunities are pop-

'There's a marketplace out there for state-of-the-art risk managers,' says Bill Perry.

ping up, provided that the candidate is a good communicator with technical skills beyond simply buying coverage," Mr. Perry pointed out.

"Most companies have already taken their serious cost-cutting measures, so the climate is better," added Mike Tannenbaum, executive vp with Richard Meyers & Associates Inc., a risk management recruiting firm in Florham Park, N.J.

"At the same time, the job seems

to be getting some renewed focus. Companies really want to control their workers compensation costs and that falls on the risk manager. The job has evolved from insurance purchasing to front-end cost management. Safety and claims management is probably most important these days," he said.

While risk managers say the job market is improving overall, certain regions of the country are doing significantly better than others. Specifically, the West Coast is still mired in a recession that's limiting risk management hiring.

"California is still hurting and predictions are for the recession to last through 1995," said Candace Clark, international risk manager with Apple Computers Inc. in Cupertino, Calif. "We recently had our staff reduced by one professional. For those out of work, the options include consulting in a

specialized area or part-time work for smaller companies. At least this way you're in the loop for when things turn."

"It's bad in California. I have friends there who are dying on the vine. Private companies are still downsizing and public agencies have nothing decent to offer. It's attrition and replacement with a close eye on salaries," added Mr. Hidden, who held jobs with three different public entities in Southern California before moving to Texas.

For those still battling the job market, Mr. Hidden recommended focusing on smaller companies that are just beginning to explore risk management. "Searches should begin with the smaller firms. The large companies have so many high-quality people knocking on their doors

Continued on next page

Quality management*Continued from previous page*

managing principal and senior vp in Washington for Johnson & Higgins. Mr. Knise also chairs J&H's quality task force.

The concept is that fewer partners will know a risk manager's business better than if they were just one of many such suppliers.

Noting that as much as 70% of the cost of risk is attributable to claims, Mr. Knise said that the best way to "get at that" is through a partnership approach that focuses on loss prevention and claims handling.

The popularity of the concept is being driven by risk managers' realization that "the way they handle business is more important than how they place their insurance," Mr. Knise said.

Flow charting all elements of a process also has helped risk managers find where the process is breaking down or just how it can be completed more efficiently.

Stamford, Conn.-based Xerox Corp. used a quality improvement team to map its property valuation process to weed out steps that only added time, said Charles M. Armstrong Jr., manager of corporate risk management at Xerox Corp. of Stamford, Conn.

Weyerhaeuser's Ms. Hawkins used flow charting to improve her department's handling of vendor invoices when some were not paid in a timely fashion.

The department, as a team, constructed a detailed step-by-step account of how invoices arrive through various channels and were handled by various staff through the point that a check was authorized to be cut for the vendor.

As a result, the department understood better where bottlenecks in the process occurred and where invoices could go astray. Invoice processing was then modified to eliminate those problems.

Through flow charting, "Everyone can see where their function is," Ms. Hawkins said. No invoices have dropped through the cracks since the process was flow charted two years ago, she said.

Risk managers also should "go out and steal shamelessly" from other areas of the company that already have committed to total quality management, Deloitte's Mr. Charron said.

For example, a risk management department at a company with a warehouse operation could improve its claims payment process, and possibly reduce claims costs, by studying how the warehouse redesigned its flow to cut order-completion time. That analysis could focus risk management on how a claim is routed through the department. ■

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CONFERENCE AGENDA**WEDNESDAY, JANUARY 19**

6:00 – **EARLY REGISTRATION & COCKTAIL RECEPTION**
7:30 p.m. *Hosted by Business Insurance and International Business Forum*

THURSDAY, JANUARY 20

8:00 a.m. *Continental Breakfast & Registration*

9:00 a.m. **OPENING REMARKS BY CONFERENCE CHAIRMEN**

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

James M. Burke, Editor
Business Insurance

9:15 a.m. **KEYNOTE ADDRESS**

Russell C. Coile, Jr., President
The Health Forecasting Group

9:45 a.m. **HEALTH CARE REFORM:
WHAT THE MAJOR PLAYERS WANT**

Panel Moderator:
Jerry Geisel, Editor-at-Large
Business Insurance

Larry Milroy
Director – Benefit Management and Health Services
Rockwell International Corp.

William H. Sharkey, Jr.
Senior Vice President, National Marketing
CIGNA Corp.

G. Rodney Wolford, President & CEO
California Healthcare System

10:45 a.m. *Mid-Morning Refreshments & Table-Top Exhibits*

11:15 a.m. **CONTROLLING EXPENSIVE CASES:
PRENATAL & WELL BABY CARE**

Maureen Corry
Director of Education & Health Promotion
The March of Dimes

Beverly King, Director of Human Resources
Los Angeles Department of Water & Power

12:15 p.m. **LUNCHEON FOR SPEAKERS AND ATTENDEES**
Hosted by CIGNA Corp., Intracorp and MCC Behavioral Care

1:15 p.m. **KEYNOTE LUNCHEON SPEAKER**

Jerry D. Gardner, M.D.
Professor of Internal Medicine
Associate Chairman, Department of Internal Medicine
School of Medicine
St. Louis University Health Sciences Center

Continued from previous page that the competition is too great.

"Beyond that it's network, network, network. Reading the newspaper is fine, but it won't get you anywhere," he said.

James Duggan, the new risk manager with TEREX Corp., a heavy construction equipment manufacturer in Westport, Conn., agreed that networking and participation in associations like the Risk & Insurance Management Society Inc. are the keys to finding new work.

"It really helps to know the risk management community. There are jobs out there for 'No. 1' risk managers. It's the 'No. 2s' that are finding things difficult in this age of smaller staffs," he said.

Mr. Duggan, who has been in the field for 19 years, formerly was risk manager at Bowater Inc., a paper company that recently moved its risk management operations to

Greenville, S.C., from Darien, Conn. "I didn't want to relocate to South Carolina. Fortunately, I'm comfortable enough with my ability that I felt I could get another top position."

It took him three months after leaving Bowater to catch on with TEREX. "I knew Bowater was moving last year so I started looking early. I had five offers between then and now, but this was the best for me," he said.

"I was fortunate, but as a risk manager today, you have to be prepared to explore consulting or brokering. The big consulting firms like Coopers & Lybrand and McKinsey & Co., as well as the major brokers, are hiring," Mr. Duggan said.

But a risk management consultant warned against believing the transition from corporate risk management to consulting is an easy one.

"The natural evolution for an un-

employed risk manager is to move into consulting. But consulting is a totally different field that requires completely different skills. Many risk managers who try their hand at consulting aren't as successful as they thought they would be," said Mark Charron, a senior manager with Deloitte & Touche in Hartford, Conn.

Nevertheless, consulting can keep a risk manager's skills fresh until he or she finds a risk management job, possibly with a former employer.

Larry Neighbour, who was laid off by General Instrument Corp. of Lyndhurst, N.J., in 1991, recently was rehired by General Instrument after two years of performing consulting work for the company.

"The job is basically the same as before they phased it out, except that I'm on my own. There's no longer an insurance analyst to assist me, but otherwise nothing has

changed. I'm responsible for everything from purchasing coverage to managing claims," he said.

Similar to California and the West Coast, risk managers in Canada are feeling pressure from the Canadian recession, said Mike McAndless, risk manager with United Grain Growers Ltd. in Winnipeg, Manitoba.

"In general, anyone responsible for a cost center such as risk management is being questioned. We're being forced to do more with less. Health, safety and developing environmental policies and procedures are something we never had to do before," he said.

Like their U.S. counterparts, out-of-work risk managers in Canada often are being forced into the consulting and brokerage business.

"I haven't seen a lot of people let go, but given the financial constraints we're operating under, it's a constant possibility," he said. **BI**

Cooperation between risk, benefit execs tied to comp savings

By MEG FLETCHER

Despite much talk, formal contacts between risk management and employee benefit staffs at most companies are few and far between.

Progressive companies, though, are trying to encourage fuller cooperation between risk management and employee benefit departments in an effort to cut workers compensation costs.

While risk management staffers, who typically oversee workers compensation programs, often say they work with the employee benefits department, they often do not do a good job of coordinating their functions, said Dan Miller, national workers compensation managed care consultant for The Wyatt Co. in Boston.

The vast majority of companies have—at best—unwritten policies and procedures about how to handle claims that overlap risk management and benefits departments, he said.

There are various reasons why companies don't coordinate workers comp and group health care benefits, including lack of familiarity with the concept and fear among lower-level managers that such activities may reduce their responsibility and target them for downsizing.

While support for coordination is growing, consultants disagree about how rapidly this trend is emerging.

"I'm running into more talk about getting risk management and employee benefits personnel talking about workers comp, but no action in terms of actually coordinating the programs" is being seen, said consultant Taylor Dennen, a principal with William M. Mercer Inc. in Deerfield, Ill.

However, "we are seeing an increase in the number of firms that coordinate workers comp with their group health program," said Dan McAdams, national practice leader for health and welfare for Towers Perrin in Tampa, Fla.

The number of surveyed employers reporting that they coordinated their workers comp program with their group health program more than doubled to 39% from 17% between 1993 and 1991, according to a Towers Perrin study (*BI*, June 14).

There is a big need for such coordination: Annual medical and wage-replacement costs for insured and self-insured employers will surpass \$140 billion by the year 2000, compared with \$60 billion currently, Towers Perrin estimates. Medical costs will account for nearly 50% of total workers comp costs, up from about 40% today.

However, while 39% of the companies surveyed are using some form of coordination, that was the second-least-popular workers comp cost control measure of the 24 surveyed, even though it received the highest marks in terms of effectiveness.

Continued on page 24

1:45 p.m. *Break*

2:15 p.m. **COMPLYING WITH ADA & EEOC REGULATIONS WHILE CONTROLLING COSTS**

Michael J. Lotito, Managing Partner
Jackson, Lewis, Schnitzler & Krupman

3:00 p.m. *Mid-Afternoon Refreshments & Table-Top Exhibits*

3:30 p.m. **ALLIANCES IN THE MANAGED PRESCRIPTION DRUG INDUSTRY**

Panel Moderator:
Christine Woolsey, Associate Editor
Business Insurance

Managed Health Care Director
The Upjohn Company

Dennis J. Nirtaut, Manager of Employee Benefits
Continental Bank

4:30 p.m. **COCKTAIL RECEPTION**
Hosted by The Upjohn Company

FRIDAY, JANUARY 21

8:00 a.m. *Continental Breakfast & Table-Top Exhibits*

9:00 a.m. **OPENING REMARKS BY CONFERENCE CO-CHAIR**

James M. Burcke, Editor
Business Insurance

9:15 a.m. **FAIR & ADEQUATE MANAGED MENTAL HEALTH CARE COVERAGE**

Panel Moderator:
Joan Pearson, Principal
Towers Perrin

Ann Collins, Director
Employee Benefits North America
Philip Morris Management Corp.

Stephen Connor, M.D., Medical Director
PacifiCare Behavioral Health/LifeLink

William M. Glazer, M.D.
Associate Clinical Professor of Psychiatry
Yale University School of Medicine

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

10:45 a.m. **EMPOWERING EMPLOYEES TO MAKE WISE HEALTH CARE CHOICES**

Carson E. Beadle, Managing Director
William M. Mercer, Inc.

Dorothy E. Dugger, M.D.
Chief Medical Officer, Intracorp

Paula Roe, Vice President - Compensation & Benefits
Norwest Corp.

11:45 a.m. **OUTCOMES MEASUREMENT: CAN IT REDUCE HEALTH CARE COSTS?**

Lucy Johns, Independent Consultant
Health Care Planning & Policy

William J. O'Neil
Manager of Health Care & Wellness Programs
Procter & Gamble Co.

12:30 p.m. **LUNCHEON FOR SPEAKERS AND ATTENDEES**

1:30 p.m. **KEYNOTE LUNCHEON SPEAKER**

Ellen M. Sanders, Partner
Innovative Health Care Services, Inc.
First Vice President
American Nurses' Association

2:00 p.m. *Break*

2:30 p.m. **DEBATING THE COVERAGE OF EXPERIMENTAL TREATMENT**

Panel Moderator:
James M. Burcke, Editor
Business Insurance

Terry Rogers, M.D.
Senior Vice President - Medical Affairs
King County Medical Blue Shield

Lawrence J. Schneiderman
Professor - Department of Family & Preventive
Medicine and Department of Medicine
University of California-San Diego

3:30 p.m. **WELLNESS PROGRAMS: ARE THEY REALLY EFFECTIVE AT CONTROLLING COSTS?**

Panel Moderator:
William E. Hembree, Director
Health Research Institute

William B. Baun
Manager - Health Promotion Department
Tenneco, Inc.

Kurt P. Hobbs
Supervisor - Preventive Health Education
Southern California Edison

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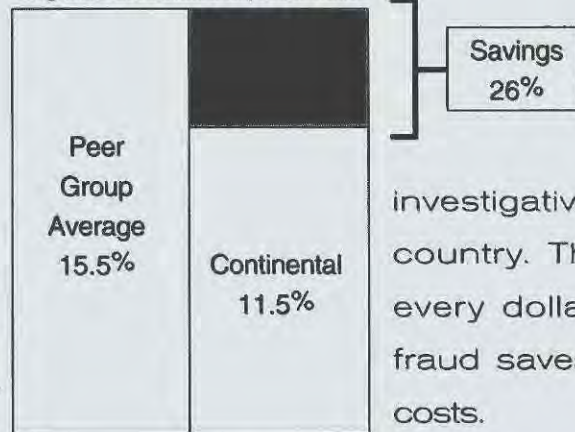
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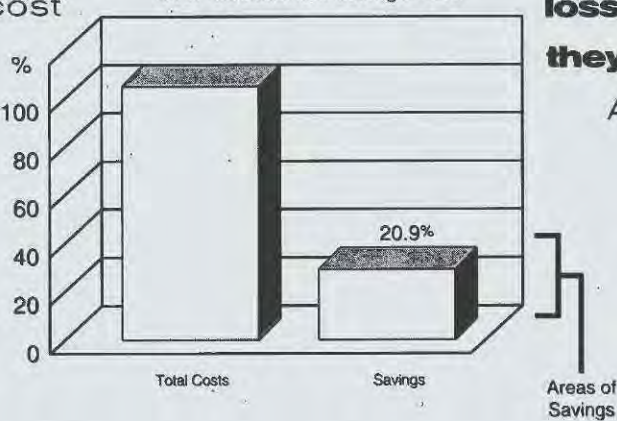
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Cooperation

Continued from page 21

Eighty-nine percent of the employers that coordinate workers compensation and group health programs rated that technique as effective.

Companies that coordinate take "a management approach" to workers comp and "know that how a company manages workers comp is really the key to how much a company spends and how well their employees are cared for," said Marcia Burgdorf, president and chief executive officer of The Guildford Group, an independent consulting firm in Baltimore.

Emerging software products, as well as health care reform proposals, are encouraging a coordinated approach.

Software vendors, insurers and third-party administrators are "scrambling" to develop products for "single source administration" of workers comp and group health programs, Towers Perrin's Mr. McAdams said. He predicted the first viable product will be available next year.

Eventually, single benefit plans will emerge and then single-source financing of both workers comp and employee benefits, Mr. McAdams predicted. "That is when we will have true 24-hour coverage."

Several states are now testing 24-hour coverage pilot programs. In addition, President Clinton's national health care reform package proposes that an injured employee receive his or her medical care from the same provider, whether they are injured on or off the job.

Companies that try to foster closer cooperation between risk management and employee benefits departments discover that both staffs can learn from each other, consultants say.

Risk managers' strength is their understanding of how to manage workers comp cases to get employees back to work, said Mercer's Mr. Dennen.

Employee benefits managers' strength is their understanding of how best to manage health care providers. In addition, they have significant employee communications capabilities, and employees' are used to accepting benefit-related information from them, consultants say.

"There is a synergy both departments can gain if they work together," Mercer's Mr. Dennen said. They can improve cost savings, quality and employee morale by streamlining the delivery of benefits so they appear to come from one program instead of two, he said.

The City of Lakewood, Colo., which has more than 600 full-time employees, went all the way and combined its risk management and employee benefit operations in 1987, when the city's employee benefits supervisor resigned.

"It's better to put the buying, the maintenance and the management of workers comp and employee benefits all in one place," said Stephen Finley, Lakewood's risk manager.

The city, the fourth-largest in Colorado, has about 660 full-time employees. It averages about 170 workers comp claims annually, valued at about \$225,000 in medical and wage-loss payments, Mr. Finley said.

Combining management of workers comp and group health benefits has made it easier for the city to get supervisors to respond quickly to employee medical

problems, even if those problems are found later not to be work-related. For example, the city paid workers comp medical benefits when a diabetic worker who fainted on the job was taken to the emergency room for treat-

were not compensable under workers comp.

"It lets us trade little dollars for a big result," he said. Employees feel taken care of and are brought back to work very quickly, which keeps litigation very rates low, he

from safety programs, case management and getting employees back to work," Mr. Finley said.

While greeting card manufacturer Hallmark Cards Inc. in Kansas City, Mo. has not merged its risk management services and employee benefits departments, the risk management unit has improved how it integrates workers comp claims administration with other departments as a result of a five-month project undertaken earlier this year (BI, April 26).

The task was given to a 36-member team that drew its members from the risk management services department—including safety, risk financing, forecasting and computer experts—as well from the company's human resources, medical, internal audit and sales departments and from individual operating units.

"The aim was overall unifor-

mity within general principles while preserving the autonomy of individual divisions or locations to adapt it for their operations," said Christine Howard, administration manager in the risk management services department.

The team made more than two dozen recommendations, which senior managers approved in August. Since then, the team has designated a six-member committee to oversee implementation of recommendations.

For injured employees, this has resulted in new explanations of the workers comp system in an information sheet and a booklet in a question-and-answer format. For supervisors, it has meant a new entry in the management notebook explaining managers' responsibilities to an injured employee.

Continued on next page

'There is a synergy both departments can gain if they work together,' says Taylor Dennen. They can improve cost savings, quality and morale by streamlining the delivery of benefits so they appear to come from one program instead of two, he says.

ment.

However, any subsequent workers compensation benefits were denied after it was determined that the worker fainted because of improper eating habits, which

said.

"These days, there is not a lot of money to be saved in being a financial wizard in terms of restructuring premium costs, but there can be a ton of money saved



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

Continued from previous page

The team also prepared a one-page state of principles on return-to-work for the company's medical staffers and others. "One of the premises is that representatives from all these areas—medical, human resources, risk management and safety—will work together to help return an injured employee to work," Ms. Howard said.

"The risk management department could have tried to develop this program alone, but it wouldn't have been as good or as well-accepted," she said. Also, the process—from discussion to presentation to implementation—would have taken longer.

"We now have this corporate, global program that can be modified location by location," Ms. Howard said. "We all know where we are going and we are going

there together. All those areas that participated in developing the integrated program consider this as their program."

Los Angeles-based Times Mirror Co. began a similar review process on Oct. 15, said Wyatt's Mr. Miller. Times Mirror's 36-member team plans to complete its work by Jan. 15, he said.

"They are getting lines of communication open on how departments can work together to control costs," he said.

"By communicating, they are learning the best practices from each other which will become written policy, corporatewide," he said.

However, Mr. Miller warned that companies establishing similar integration efforts must designate a project leader in order to avoid confusion and duplication of effort. **EI**

RMIS vendors

Continued from page 3

"The availability of resources we as an insurance carrier have" is far more extensive than that of an independent RMIS vendor, stated Matthew L. Carden, director of risk management services for Travelers Corp. in Hartford, Conn.

For example, the staff that supports Travelers' CARMA risk management information system software can call on the insurance company's actuaries, underwriters and other insurance specialists if needed, he pointed out.

Also, an insurer's data-processing resources, such as staff and storage and computing capacity, generally are very large, Mr. Carden added.

He also said that many clients prefer the "convenience factor" of

dealing with one vendor that provides a range of services. CARMA, which operates on a mainframe computer, can create an integrated common data base from several different data sources, he said.

However, even if a risk manager terminates his or her relationship with Travelers, he or she can still easily continue to use CARMA, Mr. Carden said.

Juan Rodriguez, insurance administrator for Baker Hughes Inc., an oil field equipment manufacturer and services company in Houston, said the firm signed on with CARMA when the company began using Travelers as its insurer about seven years ago.

When Baker Hughes decided to switch insurers in October 1992, it continued to use CARMA, though, he said.

CARMA is very flexible and

easy to use, Mr. Rodriguez said. And, "it's just as easy accessing other data through the Travelers system as accessing the Travelers information itself," he added.

But, there can be some conflicts between the goals of an insurer parent and an RMIS subsidiary.

For example, when David Corp., a San Francisco-based RMIS vendor, was owned by Nationwide Insurance Co., it was "kind of like the ugly stepister," quipped Dave Duden, David's director of sales. David would advise clients to self-insure and self-administer while Nationwide wanted to sell insurance, he explained.

David, which sells PC-based RMIS software, was acquired by The Wyatt Co. in September 1990. Wyatt's ownership of the company is advantageous because of Wyatt's risk management consulting resources, Mr. Duden said.

Buying an RMIS from a broker can be advantageous but more complicated than buying from another source, according to David Tweedy, a senior manager in the Hartford, Conn., office of Deloitte & Touche.

The advantage of buying from a broker is that a "very synergistic relationship" develops, he said. "That's an ideal situation."

"You've essentially expanded your risk management capabilities" because broker-owned systems often perform more varied functions, such as tracking exposures and policy information, he explained.

Many broker-owned RMIS systems are "designed to have the broker be the back-room manager of the risk management department."

In comparison, insurer-owned systems usually are claims-driven, Mr. Tweedy said.

"We are the interpreters of the data as well as a vendor," stated Bob Petrie, vp and manager of strategic systems for Johnson & Higgins in New York, whose J&H*STARS system is a PC-based RMIS.

"Our perspective on it is not just the system but all the relevant services related to the data," he said.

The forte of a broker-owned RMIS often is client service, Mr. Tweedy noted.

Gerry McCabe, director of risk management for Burlington Industries Equity Inc. in Greensboro, N.C., said one of the reasons he uses J&H*STARS is because of the responsiveness of the broker's staff.

However, brokers "want to wed the client closer and closer to them," Mr. Tweedy warned.

"Typically, a broker would be less likely to allow their system" to continue to be used by a client who terminated the relationship with the broker. And, there are usually more political considerations involved with terminating a relationship with a broker than with an insurer or an independent RMIS company, Mr. Tweedy explained.

Clients who use J&H*STARS sign a three-year service agreement that covers data conversion and telephone support, Mr. Petrie said. Clients can terminate their relationship with J&H and continue to use J&H*STARS for the duration of the service agreement, Mr. Petrie said, adding that about 10% of J&H*STARS users are not J&H clients.

After the three-year service agreement concludes, few clients that no longer have a relationship with Johnson & Higgins continue using J&H*STARS, Mr. Petrie said. **EI**



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LANs useful tools for risk managers

RMIS experts tout system benefits

By LOUISE KERTESZ

With mainframe systems increasingly being labeled the "dinosaurs" of the computer age, risk managers—and the consultants and vendors that help them develop their information systems—are singing the praises of local area networks.

Local area networks, or LANs, are the wave of the future for risk management departments, risk management information system experts agree. LANs are systems made up of powerful personal computers,

linked by a file server, that share software and data bases and allow multiple users quick access to information.

The memory storage capabilities of these systems can rival those of mainframes and, depending on the software on the file server, data can be manipulated in myriad ways.

For instance, with a LAN, a risk manager could sift through claims data and zero in on the particular machine that is causing most workers comp injury claims at a plant. Or a user could extract a series of numbers from a lengthy document, insert them on a graph and print out an attractive report.

For increasing numbers of risk managers using LANs, gone are the days when they would have to rely on an outside data base—whether a vendor's mainframe or a corporate computer department—to generate the information they required, which was both costly and time-consuming.

LANs connected in a so-called client/server network are an "exciting" technology, said David Tweedy, senior manager at Deloitte & Touche in Hartford, Conn. "It's an extremely flexible, high-speed system.

"It's where the industry is headed. The computer industry is there already, but for the insurance and risk management industry, it takes a little longer," Mr. Tweedy added.

James River Corp., a leading paper products manufacturer based in Richmond, Va., now uses a LAN with 12 PCs for its workers comp claims management system, which runs with David Corp. software.

Staffers in James River's Vancouver, Wash., office use the system to administer workers comp claims for the company's paper mills nationwide, said Nancy Taylor, workers compensation administrative supervisor, who is based in Vancouver.

Ms. Taylor recalls the old days of working with an in-house mainframe.

"Often on a mainframe system, you get involved with 'We'll have to ask data processing,' then they'll say, 'Tell us what kind of a report you want.' Then they'll put it together—it will probably take about two months—and it probably won't be pretty.

"Then you end up taking the reports and extracting the information." Then, the information would be input into a PC that can interface with a laser printer to make the reports look decent, she said.

Now, with the software installed on its LAN, Ms. Taylor can do it herself "and have it look terrific. It saves time. And we like the flexibility on a LAN of being in control of our own data. Our manager likes to be able to say, 'Can you tell me about this and this?' and have the report an hour or two later. That's very helpful when there are presentations to do," she said.

"Our primary focus in risk management is the ability to analyze information so you can tell at any time where claims are going, where they have been, how much they cost. And, there are things about injuries you might want to track, such as safety statistics," Ms. Taylor explained.

With the LAN, "you can produce very complicated, beautiful-looking output, and it's pretty easily user-generated."

Continued on page 28

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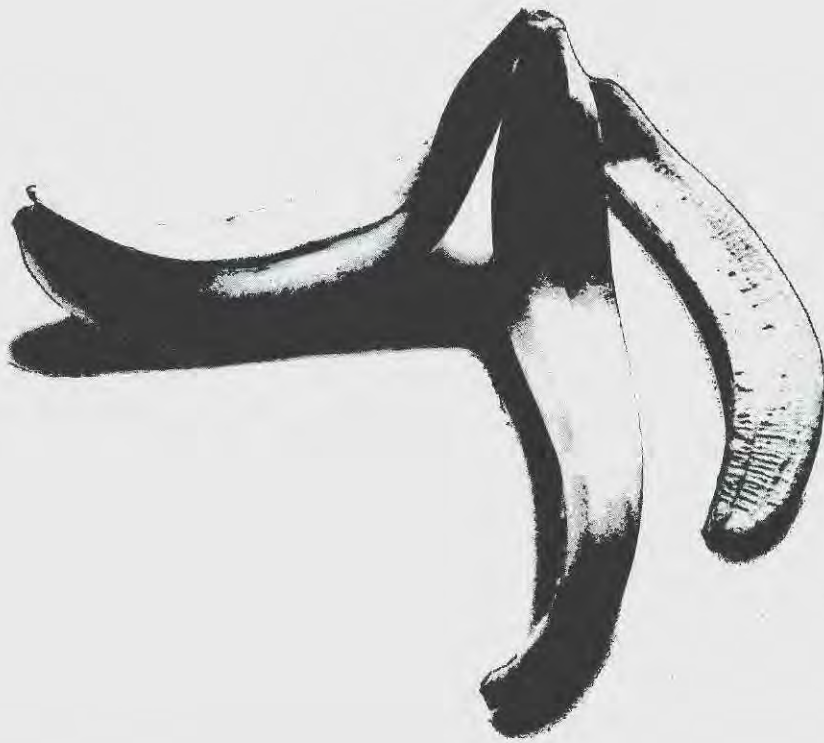
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Local area networks

Continued from page 26

Another firm satisfied with its LAN capabilities is the loss control and claims department for the management services operation of The ServiceMaster Co. in Downers Grove, Ill. ServiceMaster provides management staff for housekeeping, plant operations and food service at schools, hospitals and industrial plants, among other services.

ServiceMaster's loss control department has a LAN using eight PCs running Johnson & Higgins' J&H*STARS software program, among other programs. The department monitors workers comp, general liability and auto liability claims filed with its insurer, The Home Insurance Co., said Cara Leeman, workers compensation coordinator at ServiceMaster.

Among other things, "J&H*STARS allows us to find errors...such as employees who are not ours, and to monitor the dollars" set aside for reserves, she said.

One staff member is using the software to allocate workers comp costs to the budgets of ServiceMaster managers at 100 facilities that incurred the claims, Ms. Leeman said. Prior to getting the LAN, those costs were not allocated.

"It's working out real well," Ms. Leeman said, and the loss allocation program will be expanded to other facilities next year.

In extolling the organization's LAN, Ms. Leeman says, "We enter all our notes in there, all our diaries. We can pull them up and on a certain date they tell you that you have to look at this claim."

And the department has added an electronic mail system on its LAN that is linked with The Home.

When a LAN network spans more than one site, it becomes a wide area network, or WAN, which the risk management departments of most large national companies already have, explained Deloitte & Touche's Mr. Tweedy.

"For sure in my mind there's no doubt that LAN/WAN is where things are heading," he said.

A LAN/WAN network gives users more options than a system in which users at various locations are connected to one mainframe, said Eric Hoffberg, vp at California Interactive Computing in Valencia, Calif.

"The real difference between a WAN and the use of a mainframe" is that people in different locations across the country can share whatever information is on that mainframe "but they can't effectively share it with other co-workers," because their terminals typically are not linked, he said.

Many of CIC's Fortune 1,000 clients "have a significant investment" in their mainframes and because of the economy "are kind of in a holding pattern with regard to investment," said Mr. Hoffberg. But eventually, "we see them moving toward a LAN environment," he said.

Many smaller risk management departments—whether or not they self-administer claims—will also find a LAN cost-effective and efficient for RMIS purposes.

Take, for instance, the risk management department at Sysco Corp., a Houston-based food distributor that has only seven PCs in its LAN.

Periodically, Sysco's five insurers send it "big magnetic tapes" with information on workers comp, auto liability and general liability claims from its 60 warehouse locations, said Beverly Lannou, risk information specialist.

"We download those onto a PC and upload" into the company's David Corp. software, she said.

With the help of programs from

the software vendor, Sysco staff collocate the data from its insurers for various purposes. For example, "We bill our different locations for their workers comp liability costs," Ms. Lannou said.

Under Sysco's previous RMIS, which relied on a vendor's mainframe, "We couldn't pull the reports that we needed. To get a report you needed, you actually had to call them and have them run it for you," she said. "It wasn't user-friendly."

Sysco is also considering expanding into a WAN. "We want to get our companies to enter their own data—hopefully, within the next year," Ms. Lannou said.

Vendors like Johnson & Higgins are developing RMIS software—like J&H*STARS program—for clients' LANs, said Robert Petrie, director of strategic systems at J&H in New York.

"The trend among our clients is to

own their data, to have it on their own computers. That has moved the marketplace to LAN-based systems," he said.

Instead of getting a report "three-feet-thick" from a mainframe three months after you ask for it, a LAN with the appropriate software "can pull data out of data base and organize it in meaningful ways," inexpensively, using spreadsheets, graphics and word processing packages, Mr. Petrie said.

The flexibility of LANs to accommodate various software programs has turned many risk management staff members into computer experts. "One of the software packages that has proved to be really beneficial to people in our office is the WordPerfect Office package," which offers E-mail, group scheduling and other features, noted James Rivers' Ms. Taylor.

"As a result, most of the people in

our office have excitedly given up paper calendars, unplugged their calculators and got rid of them—they've gotten into the technology and some of the productivity things," she said.

And with the "thousands of PC applications" available to LAN users, clients have found unexpected savings, said David Ellman, manager of technical services for David Corp. in San Francisco.

For example, since David's software interfaces with a laser check printing facility, "one client told us they saved \$5,000 just on printing checks," since the client was able to consolidate its various payments to a single vendor.

But with all of their advantages, LANs have some disadvantages, warns CIC's Mr. Hoffberg. "One of the things that can bite you unexpectedly is that most LANs do not have the system management fea-

tures or the integrity of a mainframe environment. They are more likely to be corrupted and to go down. There are less controls on data, and so there may be lost data or redundant data. Those are things that have a hidden cost that can hurt a corporation if they aren't strictly controlled," he said.

All of that "will be strengthened in the future," Mr. Hoffberg said.

Another potential disadvantage for current LAN users, he said, is that the costs of a LAN can add up "a lot more than people might think," especially for a large number of users. Generally, the type of PC that is powerful enough to run LAN programs will cost more than some minicomputers/mainframes connected to dumb terminals, he said.

And the cost of licensing software to be installed on a file server for multiple PC users can also be quite steep, Mr. Hoffberg noted. **B**

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■ **RISKWATCH II:** \$15,000; software available in system package including hardware; operates on PC-based networks, including UNIX and RISC. First installation: 1987; 93 total installations. Functions include claims administration, safety, loss development, check writing, diary, policy, loss prevention, first reports, letters.

User support: On-site training included in system price; telephone assistance available eight hours a day for an additional fee.

Staff: Five total, four professionals.

Officers: Carol Nashawaty, president.

American Technical Services Inc.

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

Risk management systems since: 1987.

Software products:

■ **ATS/COMP:** \$20,000; software available without hardware; operates on DOS and Windows based PCs (requires 386 PC, 4M RAM, 100M hard drive), PC network, mini computers and mainframes. First installation: 1987; over 50 total installations, 40 in risk management departments. Functions include workers comp claims adjudication, check processing and bank reconciliation, processing of all state and federal forms, diary, reserve and cost change tracking, image scanning, ad hoc reports. Utilization review features include claim validation, billing interface, case

management, bill review, duplicate bill detection, claim validation, claimant treatment history retrieval, fee schedule review, state and client specific tables, vendor tracking, accounting interface and diary.

■ **ATS/PAC:** \$20,000; software available without hardware; operates on DOS and Windows based PCs (requires 386 PC, 4M RAM, 100M hard drive), PC network, mini computers and mainframes. First installation: 1987; 40 total installations, 20 in risk management departments. Functions include auto, general liability, property/casualty claims processing and reporting, claims screens, state and federal form preparation, bank reconciliation and check processing, diary, ad hoc report system, reserve and cost change tracking, image scanning.

■ **ATS/MED:** \$20,000; software available without hardware; operates on DOS and Windows based PCs (requires 386 PC, 4M RAM, 100M hard drive), PC network, mini computers and main-

frames. First installation: 1992; two total installations, one in a risk management department. Functions include medical, dental, vision and prescription drugs claims processing; eligibility verification; cost containment; hospital certification; precertification and second opinion; cost savings R&C tables; COBRA; flex benefits; duplicate payment edit; PPO/HMO plans; pensions; ad hoc reports.

■ **ATS/RISK:** \$6,000; software available without hardware; operates on DOS and Windows based PCs (requires 386 PC, 4M RAM, 100M hard drive), PC network, mini computers and mainframes. First installation: 1990; 60 total installations, all in risk management departments. Functions include risk analysis plans, loss forecasting, allocation of premium, catastrophic analysis, cash flow comparison, standard deviation, underwriting plans, loss distribution and development, self insurance comparisons and analysis, claim administration review, retained loss analysis, captive

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User support: 800-number telephone assistance available 11 hours a day, on-site training. User support included in system price.

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Branch offices: San Leandro, Calif.
Officers: Cheryl Wing, Craig Zivolich.
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Anistics

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fax: 212-238-1040

Risk management systems since: 1972.

Parent: Alexander & Alexander Inc.

Software products:

■ **Anistics Micro Solution:** \$20,000-\$50,000; software available without hardware; operates on IBM compatible DOS-based PCs, PC networks. First installation: 1983; 255 total installations.

Continued on next page

How to use directory of RMIS vendors

The *Business Insurance* directory of risk management information systems lists companies who produce and supply proprietary software products to corporations in response to their 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 to be included.

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 (personal computer, mini computer or mainframe) including operating system, 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 is an overview of the product's risk management functions and features.

Following the product summaries is information on continued user support, risk management information system staff figures, new clients who purchased systems in 1992 and the number of those clients who are in risk management departments. Next are locations of branch offices, 1992 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, *BI* is unable to verify all information supplied by the participating organizations.

If you wish to receive a questionnaire for next year's directory, contact Kathy Welyki, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590.



Chris De Palma
British Airways

Ken Albrecht
Frito-Lay

Bob Manning
Pepsi-Cola

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Spotlight report

Continued from previous page
225 in risk management departments. System features are available in modules which are sold separately and can be combined to operate in conjunction with each other. Functions include claims management, property management, property policy and exposure management, graphs, loss forecasting, reports, allocation, check writing.

■ **Data Consolidation:** Customized; software available without hardware; operates on IBM compatible DOS-based PCs, PC networks. First installation: 1993; three total installations, all in risk management departments. Functions include consolidation of claims data from multiple insurers.

■ **Loss Forecasting:** \$10,000-\$15,000; operates on IBM compatible PCs. First installation: 1992; three total installations, all in risk management departments. Functions include loss projection using historical loss, inflation and development factors.

■ **User support:** Telephone assistance available 10 hours a day, on-site training, user manuals, remote teleprocessing support, on-site technical support, installation. User support included in system price.

■ **Staff:** 70 total, 55 professionals. **New clients:** 35 total; 30 in risk management departments.

■ **Branch offices:** Atlanta; Dallas; San Francisco; London; Paris; Sydney, Australia; Toronto.

■ **1992 revenues:** 70% from sale of software, 30% from software services.

■ **Officers:** Peter Densen, Mary Villani, global directors; Stu Frank, Roni Gossman, Harriett Vasilopoulos, vps.

■ **Contact:** Lee Topham, national sales coordinator or Mary Villani.

B**Benefit Software Inc.**

212 Cottage Grove Ave., Suite A,
Santa Barbara, Calif. 93101;
805-568-0240; fax: 805-568-0239

Risk management systems since: 1989.

Software products:

■ **CompWatch:** \$1,520; software available without hardware; operates on DOS based PCs. First installation: 1989; 600 total installations, 540 in risk management departments. Functions include automatic creation of first report of injury; maintenance of OSHA logs; production of graphs/charts for tracking/trending of claims data by department, supervisor, location and nature and source of injury; diary system.

■ **CompWatch Master System:** \$2,995; software available without hardware; operates on DOS based PCs. First installation: 1991; 34 total installations, 30 in risk management departments. System is same as CompWatch but can be run in multiple locations.

■ **User support:** Telephone assistance available eight hours a day, on-site training. User support included in system price.

■ **Staff:** 14 total, three professionals.

■ **New clients:** 500 total.

■ **Officers:** Larry S. Dubois, president; Richard Diamond, programming manager; Kim Rajala, technical support manager; Susan Marshall, marketing director; Tom Hutchison, sales manager.

■ **Contact:** Susan Marshall.

C**California Interactive Computing Inc.**

25572 Ave. Stanford, Valencia, Calif.
91350-1102; 805-294-1300;
fax: 805-294-1310

Risk management systems since: 1977.

Software products:

■ **GenRisk-Risk Management System:** Software available without hardware; operates on PCs, mid-range and mainframe computers. First installation: 1984; 35 total installations, one in a risk management department. Functions include risk analysis and reporting, loss trending and development, total risk management.

■ **GenComp-Workers Compensation System:** Software available without hardware; operates on PCs, mid-range and mainframe computers. First installation: 1977; 297 total installations, 257 in risk management departments. Functions include workers compensation claims management and processing, case

management, cost management, permanent disability rating.

■ **GenPac-Property/Casualty Software System:** Software available without hardware; operates on PCs, mid-range and mainframe computers. First installation: 1980; 24 total installations, 22 in risk management departments. Functions include property/casualty claims administration, case management, management reporting.

■ **User support:** User groups/meetings and telephone assistance available eight hours a day included in system price; on-site training for an additional fee. Other services include consulting, custom programming, time-sharing, upgrades and product enhancements.

■ **Staff:** 28 total, 25 professionals.

■ **New clients:** 44 total; three in risk management departments.

■ **Branch offices:** Cocoa Beach, Fla.

■ **1992 revenues:** \$3 million total; 5% from sale of hardware, 50% from sale of software, 45% from software services.

■ **Officers:** Jerry C. Buckley, president; Ralph M. Flygare, vp; Eric Hoffberg, vp-systems/services.

■ **Contact:** Jerry C. Buckley.

Cantor & Co.

9100 Wilshire Blvd., Suite 445, East Tower, Beverly Hills, Calif. 90212; 310-859-7277; fax: 310-859-7415

Risk management systems since: 1982.
Software products:

■ **Riskmap Risk Financing:** \$2,195; software available without hardware; operates on PCs and PC networks. First installation: 1983; 135 total installations, 90 in risk management departments. Functions include risk financing, discounted cash flow, comparative analysis.

■ **Riskmap Loss Forecasting:** \$1,695; software available without hardware; operates on PCs and PC networks. First installation: 1984; 75 total installations, 25 in risk management departments. Functions include forecasting frequency, severity and cost of property/casualty programs overall and by line of coverage.

■ **Riskmap Loss Development:** \$1,695; software available without hardware; operates on PCs and PC networks. Functions include producing development factors for total loss reserves and pay-

out, integrates with Riskmap Loss Forecasting software.

■ **Riskmap Captive Risk Financing:** \$2,500; software available without hardware; operates on PCs and PC networks. First installation: 1984; two total installations. Functions include income statements, equity and available cash loss reporting and payment, discounted cash-flow analysis.

■ **MQMS Plus-Medical Quality Management System:** \$6,000-\$15,000; software available without hardware; operates on PCs and PC networks. First installation: 1987; more than 250 total installations. Functions include safety and loss control, quality assurance, utilization review, inflection control information, risk management, incident reporting, concurrent review, custom reports library, fully integrated custom graphics, custom reports, network ready, multi-user and corporate licenses available.

■ **Exposure Base Management Systems (EBMS):** \$6,000-\$10,000; software available without hardware; operates on PCs and PC networks. First installation: 1986; one installation in a risk manage-

ment department. Functions include tracking and reporting on worldwide exposures.

■ **Hospital RIMS:** \$7,500-\$35,000; software available without hardware; operates on PCs and PC networks. First installation: 1984; 13 installations in risk management departments. Functions include claims management, financial analysis and reporting, actuarial analysis, reinsurance analysis and management cost allocation.

■ **Riskmap Claims Management System:** \$7,500-\$37,500; software available without hardware; operates on PCs and PC networks. First installation: 1984; 150 total installations, more than 100 in risk management departments. Functions include claims management and incident reporting.

■ **Generic Incident Reporting Claim Tracking version:** \$7,500-\$10,500; software available without hardware; operates on PCs and PC networks. 12 total installations, 10 in risk management departments. Functions include claims tracking and management, safety and loss control, cost allocation, financial

Continued on next page

HCM

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number 1 in California - the largest manager of self-insured work-

ers' compensation claims in the state. We're also number 1 in cus-

tomized service, developing programs that meet your own specific

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needs. **Hertz Claim Management**

Not Our Promise, Our Guarantee.

Continued from previous page

analysis and reporting, statistical analysis, fully integrated graphics.

■ **Underwriting Analysis System:** \$8,000-\$15,000; software available without hardware; operates on PCs and PC networks. First installation: 1984; two installations in risk management departments. Functions include profit analysis and reinsurance recovery.

■ **MQMS Plus/Incident Reporting & Claims Management System:** \$11,000; software available without hardware; operates on PCs and PC networks. First installation: 1985; more than 200 total installations, 100 in risk management departments. Functions include incident reporting, claims tracking and management, quality assurance, utilization review, litigation monitoring, reporting and graphics.

■ **Insurance Schedule System:** \$8,500; operates on PCs and PC networks. Applications include course of construction schedules, property locations schedules and policy schedules.

■ **User support:** User groups/meetings, telephone assistance available eight hours a day, onsite training. User sup-

port included in system price.

■ **Staff:** Eight total, seven professionals. **New clients:** 120 total; 60 in risk management departments.

■ **1992 revenues:** 5% from sale of hardware, 70% from sale of software, 25% from software services.

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

Control Software Group Inc.

3205 E. Dublin Granville Road, Columbus, Ohio 43231; 800-336-7475 or 800-535-7107; fax: 904-372-8676

■ **Risk management systems since:** 1986.

Software products:

■ **Risk-Control:** \$595; software available without hardware; operates on IBM compatible/DOS PCs. First installation: 1988; 19 total installations. Functions include safety management.

■ **Risk-Control Plus:** \$995-\$2,235; software available without hardware; operates on IBM compatible/DOS PCs. First installation: 1988; 70 total installations. Functions include safety management.

■ **OSHA Control:** \$295; software

available without hardware; operates on IBM compatible/DOS PCs. First installation: 1990; 150 total installations. Functions include OSHA compliance.

■ **OSHA Control Plus:** \$395; software available without hardware; operates on IBM compatible/DOS PCs. First installation: 1993; 24 total installations. Functions include OSHA compliance and safety management.

■ **Control IQ:** \$795; software available without hardware; operates on IBM compatible/DOS PCs. First installation: 1990; 14 total installations. Functions include ad hoc reporter.

■ **Add-In Modules:** \$395; software available without hardware; operates on IBM compatible/DOS PCs. First installation: 1988; 38 total installations. Functions include workers compensation and OSHA modules.

■ **User support:** Telephone assistance available 24 hours a day, onsite training. User support not included in system price.

■ **Staff:** 10 total, six professionals.

■ **New clients:** 41 total.

■ **Branch offices:** Safety Management Resources Inc., Gainesville, Fla.

■ **Officers:** John P. Nipps, president; John P. Nipps II, vp; Randall C. Nipps, treasurer; Melvin R. Irwin, vp-research/development.

■ **Contact:** John P. Nipps, 800-336-7475.

Conway Computer Group

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

■ **Risk management systems since:** 1986.

Software products:

■ **Paccasso:** \$42,000-\$75,000; software available without hardware; operates on multi-platforms. First installation: 1986; 37 total installations, 15 in risk management departments. Functions include adjuster security, litigation, imaging.

■ **Pabblo:** \$42,000-\$80,000; software available without hardware; operates on multi-platforms. First installation: 1993; two total installations. Functions include policy and premium administration.

■ **User support:** User groups/meetings included in system price; telephone assistance available eight hours a day and onsite training for an additional fee. Other services include remote diagnos-

tics and source code.

■ **Staff:** 65 total, 45 professionals. **New clients:** 12 total; eight in risk management departments.

■ **Branch offices:** New Orleans.

■ **Officers:** Jack Conway, president/CEO. **Contact:** Ken Walz, marketing manager.

Coopers & Lybrand-Casualty Actuarial & Risk Management Consulting

1251 Ave. of the Americas, New York, N.Y. 10020; 800-232-2717; fax: 212-536-2163

■ **Risk management systems since:** 1984.

Software products:

■ **EXHIBITMAKER 5:** \$12,000; software available without hardware; operates on IBM compatible PC or IBM PS/2 series with DOS 3.0 or later. First installation: 1984; 325 total installations; 27 in risk management departments. Functions include estimating/testing loss reserves; performs loss reserve analysis on net, excess and gross loss information; user-defined statistical analysis; additional arrays; exhibits and methods for loss; loss expense, salvage and subrogation; management reporting and graphics capabilities.

■ **User support:** Telephone assistance available eight hours a day and onsite training included in system price. Other services include custom-designed interfaces to existing data bases.

■ **Staff:** Six total, three professionals.

■ **New clients:** 50 total; four in risk management departments.

■ **Branch offices:** Atlanta; Boston; Chicago; Los Angeles; San Francisco; Parsippany, N.J.; Philadelphia; Seattle.

■ **1992 revenues:** \$11.5 million total; \$480,000 from risk management information systems; 100% from sale of software.

■ **Officers:** Reed Keller, vice chairman; Fred Kist, managing partner; Orin Linden, Terrence O'Brien, partners; Brian Jones, director.

■ **Contact:** Sally Zylfers, 206-628-8156.

Corporate Systems Ltd.

P.O. Box 31780, Amarillo, Texas 79120; 806-376-4223; fax: 806-376-4077

■ **Risk management systems since:** 1967.

Software products:

■ **CS ONLINE-(Mainframe time-share/remote computing):** Software available without hardware; operates on IBM PS/2 or compatible PCs and 3270 PC terminals. First installation: 1967; 3,835 total installations, all in risk management departments. Functions include all property/casualty coverages, including financial, risk, safety and claims management; check writing; legal tracking; integrated word processing; data extraction to PC software; cost of risk allocation coverage verification; reinsurance tracking; policy management; property inventory; management of bonds and certificates of insurance.

■ **CS PRISM/Midrange:** \$30,000-\$500,000; software available without hardware; operates on IBM AS/400. First installation: 1986; 33 total installations, all in risk management departments. Functions include all property/casualty coverages, including financial, risk, safety and claims management; check writing; legal tracking; integrated word processing; data extraction to PC software; cost of risk allocation coverage verification; reinsurance tracking; policy management; property inventory; management of bonds and certificates of insurance; online and batch risk management reporting.

■ **CS Plus Managed Care (Workers Comp Medical Cost Management):** Available for CS ONLINE or CS PRISM. \$10,000-\$150,000 plus per bill charges; software available without hardware-account can be customized; operates on IBM PS/2 or compatible PCs, IBM AS/400, IBM 3090 and ES 9000 mainframes. First installation: 1989; 394 total installations, all in risk management departments. Functions include automated coding of diagnoses and procedures, online review for normative patterns of treatment, rebundling of unbundled procedure codes, professional online review of flagged medical bills, disability duration review, managed care screening, prescription drug repricing and utilization review (flags for dosage and dangerous interaction of drugs), medical fee schedule review and repricing (data base of state fee schedules, usual and customary fees and PPO discounts), online savings reports, analysis of provider practice patterns.

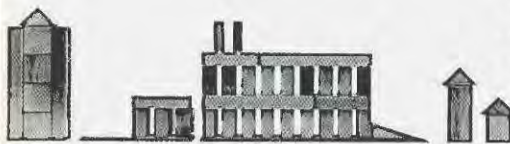
■ **CS TeleClaim (Automated Accident**

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Continued from previous page

Reporting): Available for CS ONLINE or CS PRISM. \$5,000-\$15,000 (CS ONLINE); \$10,000-\$50,000 (CS PRISM); software available in customized system package which includes hardware; operates on IBM PS/2 or compatible PCs, 3270 terminals, IBM AS/400, IBM 3090 and ES 9000 mainframes. Requires Xerox 3700, Xerox 4045 or HP laser printer. First installation: 1989; 186 total installations, all in risk management departments. Functions include 800-number central control desk for accident reporting; production of state-required reports for workers compensation, general, product and automobile liability, property and crime claims; location coding; additional safety analysis; production of OSHA recordkeeping; claims adjusting; online access to claims data; report/form generation.

■ CS Disability Management System (STD, LTD, Sick Leave Claims Management): Available for CS ONLINE. \$20,000-\$25,000; software available in customized system package which includes hardware; operates on IBM PS/2 or compatible PCs, 3270 terminals, IBM

AS/400, IBM 3090 and ES 9000 mainframes. Requires Xerox 3700, Xerox 4045 or HP laser printer. First installation: 1991; 46 total installations, all in risk management departments. Functions: unlimited plan designs for short- and long-term disability, union, non-union and sick leave; employee demographics; check writing and fund management; report generation; disability duration guidelines; claims processing and record keeping; complete tax accounting.

■ CS InfoEasy (Ad-Hoc Report Writer): Software available in customized system package which includes hardware; operates on 386/20MHz PC with minimum 8MB RAM, 30MB hard drive. First installation: 1993; three total installations, all in risk management departments. Functions include download of summary risk data, executive level reports and graphics, produces five-year risk cost reduction business plan, financial and safety statistics by profit center, corporate and profit center actual to budget comparisons, total cost-of-risk to revenue ratio analysis, flexible interactive report writer.

■ CS FORESTAR (Loss Development & Forecasting System): \$6,000-\$15,000; software available in system package which includes hardware; operates on IBM PS/2 or compatible PCs. First installation: 1986; 55 total installations, all in risk management departments. Functions include custom developed loss development triangles for claims frequency, including paid-to-date and total incurred; projection of ultimate incurred losses.

User support: User groups/meetings, telephone assistance available 12 hours a day, on-site training, regional seminars, regular client conferences, CS Users Assn. User support included in system price.

Staff: 505 total, 320 professionals.
New clients: 235 total; all in risk management departments.

Branch offices: Chicago; Dallas; Hartford, Conn.

1992 revenues: \$27.4 million total, all from risk management information systems; 2% from sale of hardware, 15% from sale of software, 83% from software services.

Officers: Guyon Saunders, founder/presidential adviser; Johnny Mize, president/CEO; Scott Gilmour, vp-sales/marketing; Bob Holeman, vp-technology; David Chzaszcz, director-product development.

Contact: Scott Gilmour.

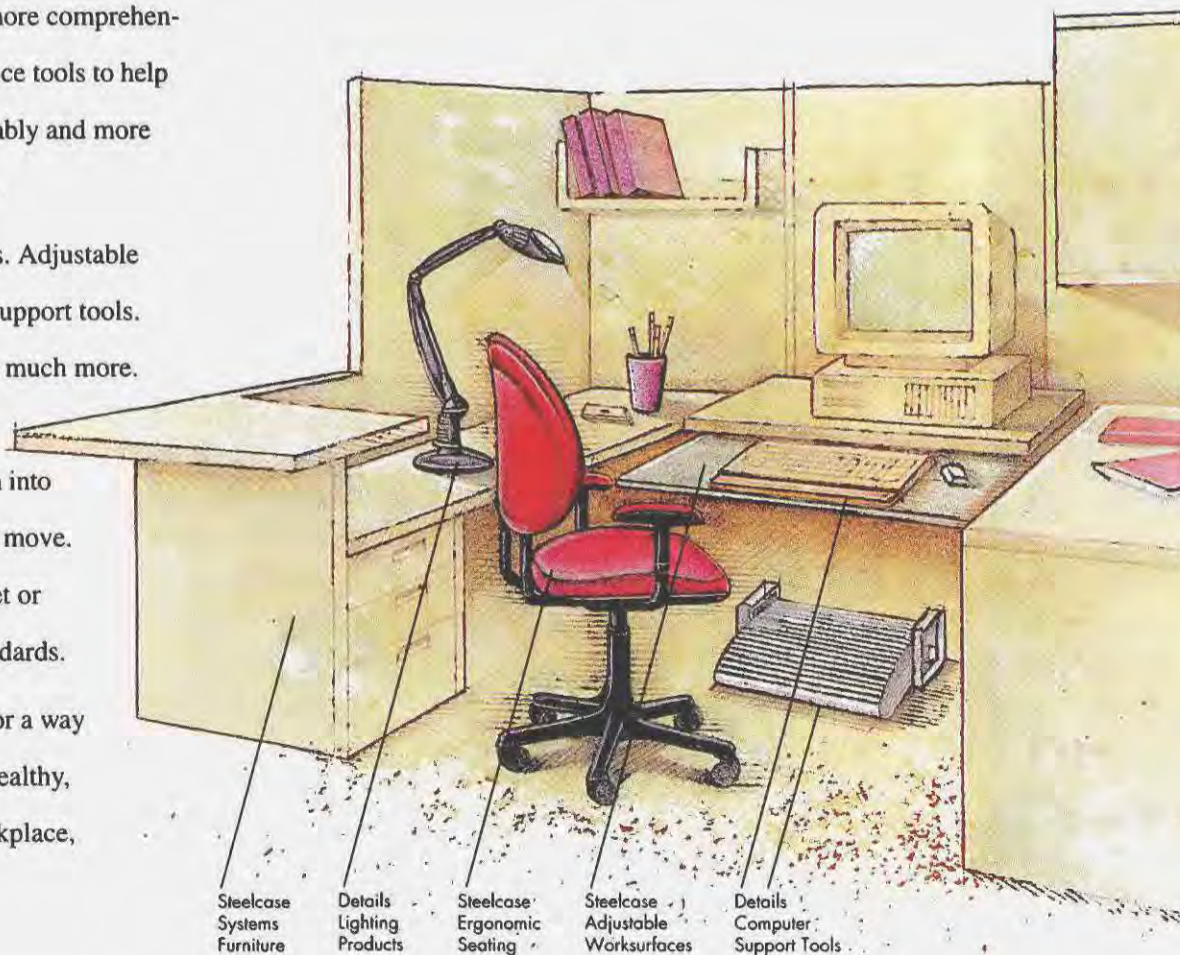
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DAVID Corp.

580 California St., 23rd Floor, San Francisco, Calif. 94104; 415-362-4555; fax: 415-362-5010

Risk management systems since: 1986.
Parent: The Wyatt Co.

Software products:

■ CompPlus: Software available without hardware; operates on DOS based PCs, DOS/UNIX PC networks. First installation: 1986; 196 total installations, 150 in risk management departments. Functions include claims administration support, payment processing, online inquiry and reporting tools, state and federal reporting, loss control analysis for safety programs, experience rating, policy tracking, document imaging, laser check printing. Interfaces with P&C Plus and Incident Plus software.

■ P&C Plus: Software available without hardware; operates on DOS based PCs, DOS/UNIX PC networks. First installation: 1986; 80 total installations, 60 in risk management departments. Functions include property/casualty claims administration and payment processing; online inquiries; management reporting tools; tracking and issuance of certificates of insurance; policy information storage; establishes reserves by line of business and coverage code; document imaging; laser check printing; supports auto, property, general liability, professional liability, etc. Interfaces with CompPlus and IncidentPlus software.

■ IncidentPlus: Software available without hardware; operates on DOS based PCs, DOS/UNIX PC networks. First installation: 1991; four total installations, all in risk management departments. Functions include comprehensive record keeping for unusual occurrences, online inquiry and reporting tools for analyzing and trending incidents. Designed for use in hospitals and other health care facilities. Interfaces with CompPlus and P&C Plus software.

User support: User groups/meetings, telephone assistance available 12 hours a day, on-site training. User support included in system price.

Staff: 40 total, 20 professionals.
Branch offices: Dallas; Lincoln, Neb.; Southfield, Mich.

Officers: Alan Burns, president; David Duden, director-sales; Brian Adams, director-operations; Ted Burns, director-software development.

Contact: Chris Zaballos, marketing manager.

DORN Technology Group Inc.

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

Risk management systems since: 1982.
Software products:

■ RiskMaster Software Series: \$18,000 PC, \$45,000 UNIX/LAN; software available without hardware; operates on PCs, UNIX network. First installation: 1982; 610 total installations.

Continued on page 38

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

Health reform threatens to squeeze out agents

By SALLY ROBERTS

While independent agents support some parts of President Clinton's health care reform plan, they strenuously oppose a key aspect of the proposal that would severely restrict their role in placing health care coverage.

If the president's "Health Care Reform and Health Security Act," which was introduced in Congress last month (BI, Nov. 29), were to pass in its current form, independent agents would be excluded from the health insurance sales process.

The president's plan calls for small businesses to be enrolled in regional purchasing alliances organized by the states. The alliances, in essence, would act as agents and would purchase coverage on behalf of employers and individuals from insurers, health maintenance organizations and other health care providers.

While agents generally support some aspects of President Clinton's proposal—such as a commitment for establishing universal coverage, elimination of pre-existing condition exclusions and waiting periods, and the adoption of several tort reforms, among others—they claim that many health insurance agents would be rendered obsolete if alliances become the exclusive source of coverage for most employers.

In addition, they contend that exclusive alliances ultimately would harm the insurance purchaser by limiting choice and cutting independent advocates and advisers—the agents—out of the system.

The current proposal also could hurt agents that do not sell health insurance.

Under the proposal, insurance agents—like many small employers—would see their cost of providing health care coverage to employees increase sharply. While most agencies now offer health care benefits, they generally pay less than 80% of the total pre-

mium, as would be mandated by the president's proposal.

Sam Reda, president of Lockton Benefit Co., a subsidiary of Prairie Village, Kan.-based agency Lockton Cos., estimated that small employers, including agencies, currently pay only about 50% of the cost of employees' health care coverage.

In addition, agents that do not sell health insurance could be hurt by the Clinton plan if the medical portions of workers compensation

Producers determined to retain role in health insurance delivery system

and automobile insurance coverage are eventually integrated with the group health benefits provided by the regional alliances. President Clinton's plan calls for a commission to study the feasibility and appropriateness of such a move (BI, Sept. 20).

Not only are the jobs of health insurance agents in "great danger," but agents brokering life, disability and long-term care insurance are also in jeopardy, said Neil Trautwein, director-government affairs for the National Assn. of Health Underwriters, a Washington-based trade group for health insurance agents.

Despite this dour outlook, agency groups are telling their members not to throw in the towel.

"There is not a snowball's chance in hell" that the regional alliances will remain exclusive, contends Patricia A. Borowski, senior vp-government/industry affairs for the National Assn. of Professional Insur-

ance Agents in Alexandria, Va.

There will be a distinct role for agents in the health care system, predicts Mr. Trautwein. "It's hard to tell now how it will change, but agents have always been able to change with the times."

The current health care reform plan would not dramatically affect Spalding Insurance Agency Inc., said President Bob Spalding. Only about 5% of the Perry, Mich.-based agency's nearly \$3 million in gross revenues is derived from selling health insurance.

However, he added, if the medical portions of workers comp and auto coverages are coordinated into the health plan, "it would be a disaster." The agency would be cut in half in terms of revenues, staff and clients, he said. About 22% of Spalding's revenues is derived from workers comp and about 40% from auto insurance.

"It would not be the end of the independent agency system," contends George Stancil, vp of Cornell Agency Inc. in Grayling, Mich. "It would hasten mergers, but it would not be the death knell."

About 10% of Cornell's roughly \$2.2 million premium volume is derived from health insurance.

At least one broker sees opportunity in the health reform plan.

"We're kind of looking forward to the challenge," said Mike Henning, executive vp of Indianapolis-based Acordia Inc., which derives roughly 53% of its gross revenues from health insurance.

"We feel we have enough thoughts on the drawing board" and are aware of the market forces already moving into place to react quickly to whatever is passed by Congress, he said.

For example, Acordia is preparing for the opportunity to provide services to the accountable health plans that would bid for the business of the regional alliances, Mr. Henning said. There is a tremendous amount of information needed to manage the plans, he said, noting that the broker recently installed a computer system that has "a myriad of managed care capabilities."

While agents wait to see what form health care reform ultimately takes, they need to educate their clients, as well as their employees, about possible changes.

"Agents need to be aware that the government is trying to take over part of our business," said John C. Hawley, president of Hawley Insurance Agency Inc. in Montrose, Pa.

"Most agencies don't understand that a good portion of their business could be at risk," said Mr. Spalding, referring to the possibil-

Continued on next page



'Image is everything' Creative agency marketing suggestions...Page 32D.

Trouble in paradise. One hotel recovers from Iniki...Page 32E

Insurer consolidation. All things to all people no more...Page 32F

Surviving Andrew. How a Louisiana agency persevered...Page 32G

Agent/Broker Topics

Health reform

Continued from previous page
ity of coordinating the medical portions of workers comp and auto insurance into the health care delivery system. Fortunately, "we're beginning to see property/casualty agents begin to wake up and get fired up."

"A lot of what happens is up to the agents," said David E. Hebert, counsel-government affairs for the National Assn. of Life Underwriters in Washington, a life insurance agent trade group. "There is no substitution for good ol' fashioned constituent lobbyists."

In addition to lobbying members of Congress and educating employees about the impact of health care reform, agents need to "remind people gently and consistently about the

value of their agent," advises Mr. Stancil of the Cornell Agency.

Clients need to be made aware that they may not have any choice of health care plan under the president's reform proposal, he said.

"There is a reason to be optimistic," Mr. Stancil added. "The public hasn't been heard from yet."

The public would be hurt most if regional alliances remain the exclusive source of coverage for most employers, agents contend.

With no competition, the exclusive alliance would have no incentive to offer the counseling and advocacy that employers are accustomed to receiving from their insurance agents, they say.

"Agents are the human resource department for independent small businesses," said NAHU's Mr. Trautwein.

If employers are unhappy with advice from an agent or broker, they can "vote with their pocket books," noted Donald C. Brain Jr., CEO of the Kansas City, Mo., office of Jardine Insurance Brokers Inc.

With a government-organized alliance, "There is no other alternative for the employer," he said.

"I would feel real uncomfortable if a federal or state employee was assisting me through a personal medical decision," said Mr. Reda of Lockton Benefits. "I prefer doing that with the help of a professional with my interests at heart."

Agents point to recent studies that they say shows employers would prefer to retain the services of agents under health care reform.

According to statistics compiled by The California Managed Risk Medical Insurance Board, a division of the

Department of Health and Welfare in Sacramento, many employers prefer to use agents to access a health insurance pool for small companies despite added costs.

Of the 1,189 employer groups currently enrolled in the California Health Insurance Purchasing Cooperative, 78.8% continue to use agents or brokers to obtain coverage from the pool—even though it is more expensive because of fees charged to cover their services—rather than go directly to the HIPC.

A study conducted by NALU found that 83% of 410 small businesses that provide health insurance for their employees want their participation in government-sponsored alliances to be voluntary. Under the current proposal, only employers with more than 5,000 employees would have the option of not partici-

pating in regional alliances.

The administration did not inadvertently leave agents out of the picture when developing its health reform package.

Their perception is that "we're a bloated part of the cost factor and we're not," Mr. Spalding said. "We're nothing more than a deliverer of a product and an information source and we're paid a fee for that."

Agents point out that the money the government saves from cutting agents out of the system will only be shifted to pay for the government workers that ultimately replace them.

There will be no net savings by leaving agents out of the system, said NALU's Mr. Hebert, who contends the government will have to hire someone to do the same job as the agent. **BI**

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Errors & Omissions

• Richard N. Goldman & Co. has about 80 employees, not 80 clients, as was incorrectly reported in the October *Agent/Broker Topics*.

• Agency Management Services was misidentified as American Management Systems Inc. in the October *Agent/Broker Topics* Perspective column.

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Specialization key to industry's future

By SALLY ROBERTS

HONOLULU—In the next 10 years, a host of factors will lead the property/casualty insurance marketplace toward a greater concentration of insurers, according to a leading insurance industry expert.



Two current trends that contribute to this assumption will continue into the year 2003, he said.

"Fewer insurers will try to be all things to all people for all risks, in all states. And, niche marketing, by line of business and by class, will increase dramatically," said Fred R. Marcon, president and chief executive officer of the Insurance Services Office Inc., the insurance statistical and ratemaking organization based in New York.

"There are 10 factors that will push the industry toward greater concentration in various market segments," he explained during a session at the National Assn. of Professional Insurance Agents' 62nd annual conference, which was held Oct. 24-27 in Honolulu.

- The pressure to cut costs has led to a rise in direct writers compared to independent agency insurers.

The latest data shows that direct writers account for 66% of personal lines premium volume, Mr. Marcon said. Specifically, direct writers have gained nine points of market share in the past 11 years, which is worth about \$14 billion in premium.

Market share for direct writers in commercial lines however, has remained "basically unchanged" at 24% since 1982, he said.

- Market concentration may be driven by catastrophes.

"Over the past four years, we've witnessed a dramatic increase in catastrophe losses," with the U.S. property/casualty industry incurring \$40 billion in total cat losses from 1989 through 1992, he noted.

"The last four years' worth of cat losses was more than the industry's cat losses of the previous 26 years combined," Mr. Marcon said. In addition, based on the first three quarters of this year—when cat losses totaled about \$4.6 billion—1993 will go down as the third-worst year on record for catastrophe, behind 1992 and 1989.

If cat losses continue at this pace, "smaller, less geographically diversified insurers heavily committed to catastrophe-prone areas will suffer the most," he said.

In addition, insurers' competitive advantage will weaken if catastrophe reinsurance costs continue to rise and availability of cat coverage shrinks, he said. To partially offset those forces, "I believe that government should serve as a backstop by reinsuring catastrophic exposures," he said. This would promote insurance availability by encouraging insurers to commit capital to catastrophe-prone areas.

- Continuing weakness in premium growth—especially in commercial lines—points toward increased market concentration.

Property/casualty premium growth for all lines in 1992 dropped to a record low of 2%, Mr. Marcon said. "That marks the fifth consecutive year that premium growth remained below 5%—the longest period of such low growth

Insurers increasingly to focus on specific market segments: Marcon in 40 years."

Commercial lines premium volume fell 2% last year, marking the second consecutive year of decline, he said.

"If the industry continues to ignore the principles of cost-based pricing in the face of increasing losses, overall financial performance will deteriorate, strength will continue to erode, and marginal players will be forced to reassess their book of business," Mr. Marcon said.

To survive, some companies will be forced to choose between merging with a competitor, withdraw-

ing from some markets or continuing to "deliver chronic adverse financial performance," he added.

Agents shouldn't wait for the market to turn, either, Mr. Marcon said. "History is not on our side," he said, referring to the seven-year soft-market cycle. Instead, agents should expect more intense competition, expert specialization and "pinpoint marketing."

- Fraudulent claims could also alter the shape of the industry over the next decade.

"The increasing incidence of fraud is an alarming trend," he said. In 1992, U.S. insurers lost \$18

billion to fraud. In addition, public opinion polls say that one in five Americans believes it is acceptable to inflate an insurance claim to make up for premiums paid when no claim exists. Another survey found that nearly one-third of those asked said it is OK to understate how much a car is driven when applying for auto insurance.

"Eight cents of the average insurance premium dollar pays for fraud," Mr. Marcon said. "It is in our best interest to fight fraud by educating consumers and exposing it whenever possible."

- Growing litigation and de-

fense costs may lead to market concentration.

In the late 1950s, general liability defense costs were 13 cents for each dollar of indemnity loss compared with 41 cents now. This is "more than triple the proportion in the '50s," Mr. Marcon said.

In addition to "civil justice reform," larger insurers and agents with sufficient resources can lower expenses by "bringing a great deal of their defense work in-house or negotiating special fee arrangements with outside counsel." This would ultimately give larger insurers another competitive advantage over smaller insurers.

- Increasing consumer pressure may contribute to the changing marketplace.

"In 2003, our industry will bear
Continued on next page

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Continued from previous page
the imprint, for better or worse, of restive consumers," he said.

Consumers have every right to demand that coverage will be available and affordable and that insurers will be there when it is time to pay a claim. However, legitimate consumer expectations "have been exploited by politically motivated officials" who blame insurers instead of addressing the root causes of affordability and availability problems, he said. The best defense against "shrill demagogues" is a knowledgeable relationship between producer and consumer, he said.

• More direct government involvement may lead to more changes in the structure of the market.

The government could take over some or all responsibility not only

for health insurance but also personal auto and workers compensation insurance, Mr. Marcon said.

"Would someone please tell me how can that kind of regulation promote greater competition?" he asked.

• Rate suppression could also lead to possible thinning of insurer ranks in particular markets.

Due to a "recurring regulatory mindset" in some states that "trades the long-term health of a competitive market for cosmetic changes and dramatic headlines," rate suppression has increased in personal lines and workers compensation, Mr. Marcon said. A hostile insurance environment and inadequate returns "push insurers back from markets they could succeed in."

• Intensifying competition for limited capital may lead to larger in-

surers.

Risk-based capital requirements that markedly increase capital needs may hasten market concentration, since such requirements are only met by producing more capital or accepting less business, he said.

• Technology will shape the industry's future.

"Mastery over automation systems is an important key to business survival," Mr. Marcon said.

Not too long ago, electronic access "meant having to own million-dollar mainframes, which were pretty much the province of giant insurers," Mr. Marcon noted. Today, with reasonable system prices available for any small insurer or agent, "those who fail to (buy and use) will become less competitive, and their share of markets will fall to stronger players." **B**

Agents working together to create their own insurer

United Agents to be run with "common sense"

By SALLY ROBERTS

HONOLULU—When Hurricane Andrew cut a swath of destruction through southern Florida and parts of Louisiana in 1992, it almost put Gassie Insurance Agency out of business.

While the Port Allen, La.-based agency suffered only minor roof damage, 10 of its 12 admitted insurers either went out

of business or left the state, said William Gassie, vp and manager.

The agency was at the point that "if we lost one more (insurer), we would have had to shut down," Mr. Gassie said during a session at the National Assn. of Professional Insurance Agents' annual convention. "We took our own destiny into our own hands."

Destiny came in the form of a proposed insurance company now being formed by Louisiana independent insurance agents.

Mr. Gassie is the initiator and chairman of United Agents Insurance Co., a multiline insurer that will have headquarters in Baton Rouge, La.

So far, 86 independent agencies have bought the minimum \$15,000 worth of stock each to help capitalize the insurer, Mr. Gassie said in an interview.

He hopes to have a total of 124 agencies buy shares in United Agents, raising a total of more than \$1.8 million.

To receive a certificate to operate in Louisiana, the company must have at least \$3 million in capital, Mr. Gassie explained. While his goal is to raise \$20 million before any policies are written, he said United Agents would start operating at the beginning of 1994 if \$5 million is raised.

To fill the gap between the agents' subscriptions and the total amount of capital needed, Mr. Gassie is attempting to raise additional capital from investment banking firms in the Northeast, as well as from corporations based in Louisiana.

The problem is that "start-ups are tough to get funded," he conceded. The plan is to get \$5 million in capital, get "cranked up," and then in six to 12 months seek out more capital.

"It's a heck of a lot easier to get capital" if there is an indication that the business is up and running successfully, he said.

"We are doing our best to emulate Cincinnati Insurance Co., which was started in the '50s by a group of agents," Mr. Gassie said.

While that insurer is no longer majority-owned by agents, "it is probably the finest-run company in the U.S.," he said, noting that the insurer has yet to report a combined ratio exceeding 100%.

Cincinnati Insurance, established by Ohio insurance agents in 1950 and controlled by Cincinnati Financial Corp. since 1969, writes multiline property and casualty risks nationwide.

"There is a lack of common sense from major insurance carriers today," Mr. Gassie said, adding that Cincinnati Insurance runs its business with common sense.

Mr. Gassie also said he has met with three "major" reinsurers, one of which has agreed to make a commitment that in the event of an insolvency, United Agents is "reinsured down to the first dollar." This will help overcome the "stigma of being unrated for five years."

A long-range goal for the insurer is to diversify outside the state of Louisiana, Mr. Gassie said. "We would like to operate in (other) states without coastlines." Also, Mr. Gassie said he eventually would like to turn the agency's management over to his son, while he manages United Agents full-time. **B**



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Agent/Broker Topics

1,000 agents attend PIA convention

HONOLULU—About 1,000 independent agents gathered near Honolulu's beautiful Waikiki Beach to attend the 62nd annual convention of the National Assn. of Professional Insurance Agents, held Oct. 24-27.



Session topics included catastrophe preparedness plans, agency technology and marketing techniques.

Charles E. Crowley, president of Tacenda Management Services and a partner in agency consultant Morrison Associates in Cheshire, Conn., was inaugurated as the 1993-1994 PIA president. He succeeds Jerry T.

Hargrove, president of Northside Insurance Services in Roswell, Ga.

Other awards included:

- Gregory A. Larson, owner of the Wolfe-Daniels Agency in Scobey, Mont., was named the 1993 Professional Agent of the Year.

- Dennis McGanty, marketing manager of Oregon Mutual Insurance Co. in McMinnville, Ore., was named the 1993 Company Representative of the Year.

- Grange Insurance Cos. in Columbus, Ohio, and Aetna Life & Casualty Insurance Co. in Hartford, Conn., received the 1993 Company Award of Excellence.

The PIA's 1994 convention will be held Oct. 8-11 in Las Vegas.

Brokerages' future foretold

Aon chief predicts more specialization, fewer smaller brokers

By DEBORAH SHALOWITZ

The successful insurance brokers of the future will be specialists that serve clients through extensive knowledge of the insurance industry, a top brokerage executive predicts.

Successful brokers also must have the backing of a strong, global organization, said Patrick Ryan, chairman, president and chief executive officer of Chicago-based Aon Corp., the parent of Rollins Hudig Hall Group Inc.

"Knowledge is really what this industry's about," Mr. Ryan told members of the Chicago-Northwest Suburban chapter of the Society of Chartered Property & Casualty Underwriters last month.

"Today, people pay very little for a transaction," such as buying or selling stocks, he said. However, "they pay for value added."

"Broker is today a misnomer," Mr. Ryan said. "We're really in the insur-

ance services business."

Customers "will pay us for advice; they'll pay us to consult" with them about the best products to buy, Mr. Ryan said. "Particularly, they'll pay us for our specialist expertise. Specialization is where the money is.

"The age of specialization is not a fad, it's not a trend; it's reality," he stated.

While brokers should be specialists, brokerages must also be large global concerns, Mr. Ryan said.

"It's very difficult not to be large" and compete well in the brokerage industry, he said. Large companies benefit from lower costs and more buying power to hire good people, he noted.

And while there is a place in the market for some boutique firms, "consolidation is going to be even more rapid" than it has been in the past several years, he predicted. "You absolutely have to be in the business of providing advice and services around the world wherever the business is."

Brokerages must not only be big, but they must also be financially sound, Mr. Ryan stated.

"It is critical now that we in our business have strong balance sheets," he said. A strong balance sheet provides clients the security they want, he explained.

Furthermore, strong financial backing enables brokers to provide needed capacity, Mr. Ryan explained. "Brokers have been called on to provide additional capacity," he said. "We think it's important for us to participate in providing capital, providing capacity."

The most important challenge for Aon and its subsidiaries is "change and the ability to deal with change," Mr. Ryan said. "Change to us is an ally," not an adversary. "It gives us an opportunity to move forward."

It is important to anticipate change and be "out in front of change on the learning curve," instead of learning after changes have already taken place, Mr. Ryan recommended. **BI**

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What's right.

ACORD president retiring

Merriman foresees rapid advances in technology

By MARK A. HOFMANN

When Robert E. Merriman looks to the future, he doesn't just see the baseball, tennis and seaside flower gardening that he says will take up much of his time as a retiree.

Instead, the ACORD president, who will retire next July at the age of 65, also sees an increasingly sophisticated world of automation, a world of which he intends to remain a part, probably as a part-time consultant.

ACORD is a non-profit property/casualty insurance association devoted to making the independent agency distribution system more efficient. More than 850 insurers and 33,000 independent insurance agencies are affiliated with the Pearl River, N.Y.-based group, as are many national property/casualty trade associations.

An executive search committee has begun seeking a successor to Mr. Merriman, who joined ACORD in 1975 as executive director and became president in 1978.

He started his insurance career in Allstate Insurance Co.'s New York City office during the mid-1950s and was working in that insurer's Long Island regional office in the 1960s when Allstate began using electronic data processing in its billing operations. In 1968, he joined Johnson & Higgins, where he served as manager of corporate systems and programming.

When ACORD merged with the Insurance Institute for Research in 1983, Mr. Merriman became executive vp of the new organization, which was called IIR/ACORD. In 1988, he was named president and chief executive officer of the group, which had resumed the name ACORD a year earlier.

ACORD's greatest achievement since its creation as a project of the Independent Insurance Agents of America in 1970 "is the fact that the

property/casualty insurance industry now recognizes it as the standards-setting organization for the industry," Mr. Merriman said.

The IIAA wanted to make the insurance distribution system more efficient, and the first fruits of the ACORD project came in 1972 with the release of the inaugural ACORD forms, which were standardized loss notices. ACORD was incorporated in 1974 and seven years later published its first electronic standards.

Mr. Merriman said he takes his greatest personal satisfaction from his tenure at ACORD in the fact that ACORD forms now have a wide industry acceptance. About 200 million ACORD forms are used annually. Between 80 and 90 million of those forms are delivered electronically. He added that there are currently about 85 ACORD forms of all types in use, with 850 insurers using all or some of the forms.

Mr. Merriman said the number of ACORD forms in use should grow considerably in the next year or so as the organization introduces state-specific forms.

As a driving force behind insurer/agency automation and interface, ACORD published the "Agency System Requirements Report" nine years ago. The report outlined what independent insurance agents needed from their computer system. It served as a sort of blueprint for the next generation of agency systems.

In 1990, ACORD published its "Interface System Requirements Report." This report described what agents needed from interface systems and the business reasons that drive those needs. That report led to an industrywide move to download data via computers.

Mr. Merriman noted that as recently as 1982, only 10% or so of U.S. insurance agencies used any form of automation. According to a survey ACORD took last year, more than 88% of agencies now use some sort of automation, he said.

Agencies' use of automation exploded in 1985 and 1986, when agencies began relying heavily on what were then still relatively novel personal computers, Mr. Merriman said.

Despite the dramatic increase in

automated agencies, "the pace of automation in the industry at large is too slow," said Mr. Merriman, citing that slowness as his greatest disappointment. "We've had standards out here for 11 or 12 years."

He said he realizes that "the industry is large and it takes a long time for things to get done."

He added that the insurance industry is conservative as well and that companies guard their proprietary interests.

But too often insurers and agents just don't put automation at the top of their lists, he said.

Getting the most out of automation means "a real commitment" in terms of money and education, he said. And often the two parties can't see how the things one side does benefit the other.

Mr. Merriman made clear that he sees the pace of technological progress quickening rather than slowing down.

Systems with Windows applications already allow users to work directly with ACORD forms on their screens, he said.

"Forms are something everybody knows. That's their livelihood; they use it every day," he said. Such sophistication reduces the amount of training needed to put automation to work, Mr. Merriman explained.

Equipment continues to get faster and smaller, he said. Now, simply slipping a new card in the back of the unit upgrades the computer's abilities instantly, he said.

As a result of this constant change, agents, underwriters and support personnel will all become more dependent on emerging technologies such as ever more sophisticated laptop computers, electronic notebooks and powerful workstations, Mr. Merriman said.

In some workstations, users will be able to call on such capabilities as LOTUS 1-2-3 and enhanced graphics capabilities while tied into local area networks, he said.

In fact, Mr. Merriman believes that the insurance agency workforce of the next decade will demand to have workstations.

"Client-server technology is the future of the business," said Mr. Merriman. **BI**

'Redlining' runs up against Fair Housing Act

By MARK A. HOFMANN

Insurers must often prove that denials of coverage aren't based on race or location

BALTIMORE—Federal agencies and courts appear more likely to view the unavailability of homeowners insurance in urban areas—which many say amounts to redlining—as a practice that violates the Fair Housing Act because it makes housing unavailable.



And, insurers are increasingly asked to prove that denial of insurance is based on sound business reasons rather than a conscious effort to deny coverage to inner-city residents because of their race or location, according to industry experts.

The discussion about redlining took place during the recent annual meeting and seminars of the Society of Chartered Property & Casualty Underwriters in Baltimore. Coincidentally, the panel convened only one day after the House Energy and Commerce Committee passed a bill that would require insurers to provide federal authorities more data about underwriting practices as part of a study on redlining (*BI*, Nov. 1).

That bill, drafted by Rep. Cardiss Collins, D-Ill., replaced a harsher measure backed by Rep. Joseph P. Kennedy II, D-Mass.

The Federal Fair Housing Act of 1968 is "increasingly important to the business of insurance," noted Leo J. Jordan, vp and counsel of the State Farm Insurance Cos. of Bloomington, Ill. The act in essence says it is unlawful to refuse to sell or rent "or otherwise make unavailable or deny" a dwelling to a person on the basis of race, national origin or several other factors.

Mr. Jordan said the question confronting insurers is: Does the refusal to insure a house make the house "unavailable" as defined by the law?

The courts have not given a clear answer regarding insurers' actions, though rulings have made clear that the act applies to the activities of such industries as real estate appraisers and mortgage lenders, he said.

He added that the Department of Housing and Urban Development has adopted regulations prohibiting the refusal to provide property insurance on the basis of race.

Plaintiffs can establish prima facie cases by showing that the refusal was racially motivated or that the refusal had a racially discriminatory effect or impact, Mr. Jordan said.

Insurers can refute such charges by showing a valid, nondiscriminatory reason—a "compelling business justification"—for their actions, he said.

He urged underwriters to take accusations of redlining seriously and to try to work out solutions with would-be policyholders, such as explaining how a property can be upgraded to qualify for insurance.

Robert Willis, the District of Columbia's insurance commissioner, said that in addition to considering whether conduct is discriminatory, he looks for signs of a lack of competition in the property marketplace.

If there is inadequate insurance in an urban area, then someone is violating one of the central tenets

of insurance, that there be an open and competitive marketplace, he said.

"How committed are companies to writing the business when there are no agents?" he asked.

Joseph D. Decaminada, executive vp, secretary and counsel of the Atlantic Mutual Insurance Cos. who moderated the discussion, asked whether redlining could be defined as both an unfair and fair practice.

Unfair redlining would be a practice based on racial discrimination.

However, underwriting restric-

tions could be justified when based on concerns such as the buildings in an area being in such poor shape that they would burn to the ground if a fire broke out.

Mr. Jordan said the insurers are authorized by state authorities to make such discriminatory decisions.

He added that if neutral guidelines appear to fall most heavily on a particular group of people, insurers have an obligation to explain that their actions are based on legitimate underwriting decisions allowed by law.

Mr. Willis made clear that, as a

The Fair Housing Act is 'increasingly important' to the insurance industry, says Leo J. Jordan.

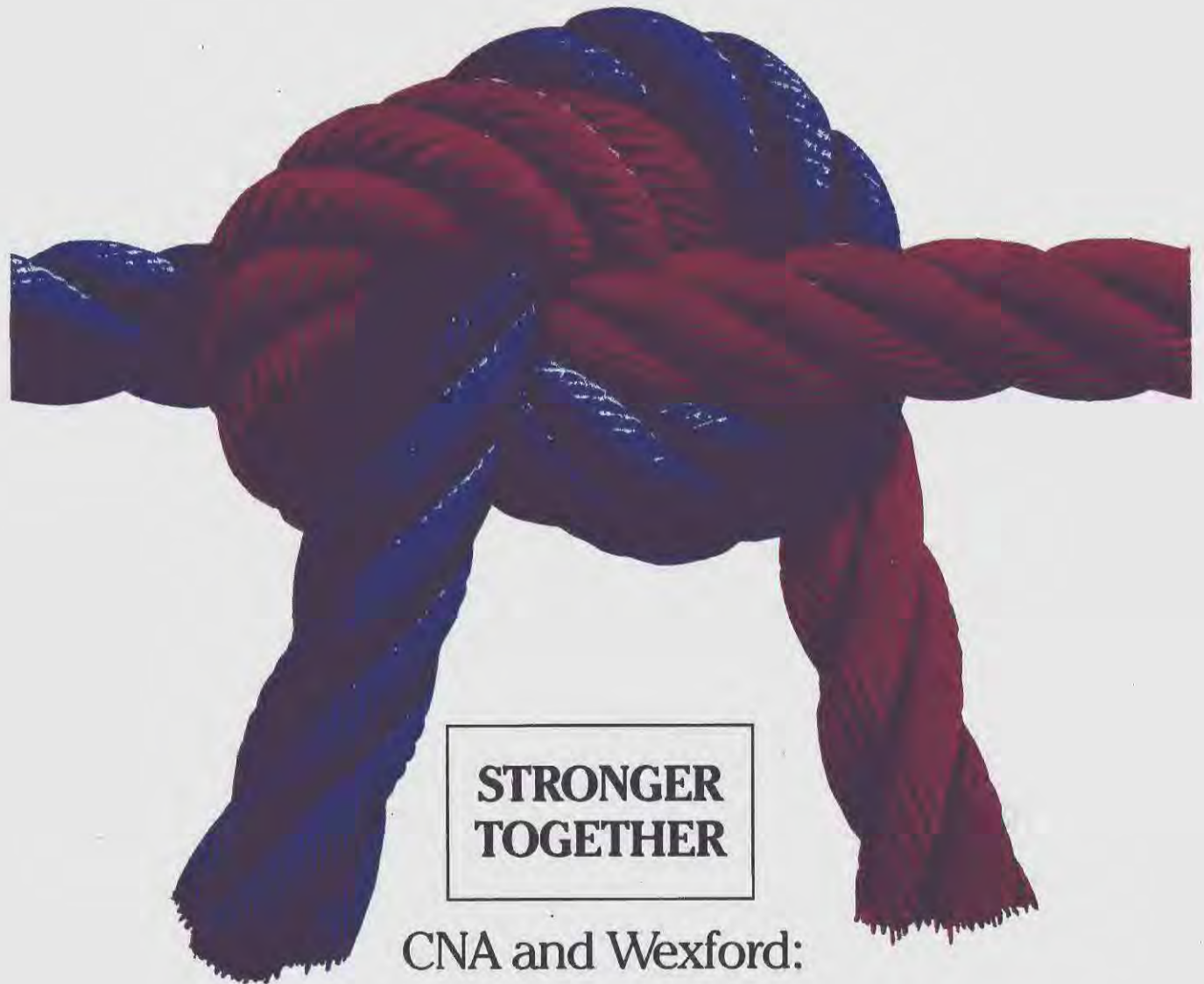
regulator, it is his job to consider both consumer interests and solvency factors.

regulator, it is his job to consider both consumer interests and solvency factors.

Mr. Willis added that he believes some elected commissioners tend to lean more toward consumer in-

terests, whereas he as an appointed regulator performs "a high-wire balancing act." He said what he seeks in redlining examinations is "unfair discrimination," noting he would be understanding if an insurance company proved that it could not underwrite profitably in a given area.

Laurence D. Pearl, a director in HUD's Office of Fair Housing and Equal Opportunity, said that if an underwriting practice is challenged, the insurer must prove that its actions were a business necessity. **BI**



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Agent/Broker Topics

P/C industry changed forever by Hurricane Andrew

By MARK A. HOFMANN

BALTIMORE—When the winds of Hurricane Andrew ravaged a major portion of south Florida in August 1992, they also blasted a hole in the property/casualty industry's belief that it didn't have to change the routine way it conducts its business.

That was the consensus of a panel of experts who sought to define "Hurricane Andrew—The Long-Term Disaster" during the Society of Chartered Property & Casualty Underwriters' annual meeting, held in Baltimore



Changes uncertain, but higher property insurance deductibles likely in some areas

last month. Just how the industry will change remains unclear. One probable response is to require higher deductibles for those properties located in catastrophe-prone areas.

"Perhaps our industry should consider Andrew the messenger, the wake-up call," suggested Alice B. Fielding, president of Heston-Fielding & Associates Inc., a Jacksonville, Fla.—based insurance agency.

Ms. Fielding moderated the discussion.

"We tend to just continue doing

'Perhaps (we) should consider Andrew the messenger, the wake-up call,' says Alice B. Fielding.

what we've always done," Ms. Fielding said.

Insurance company executives had planned and thought about dealing with "The Big One" but had defined it in terms of 1989's

Hurricane Hugo, which caused about \$5 billion in insured property damage, explained Frank R. Haines, vp-claims for Bloomington, Ill.-based State Farm Insurance Cos.

Andrew's devastation is now estimated to have caused damages upward of \$15 billion.

But, as Ms. Fielding pointed out, the Big One could have been much bigger.

Had Andrew's path taken it up the Atlantic Coast to Long Island, or through an even more densely populated area of Florida and then across the Gulf of Mexico to New

Orleans, insured damages could have surpassed \$100 billion and sent the property/casualty insurance industry into insolvency.

The surplus of the entire property/casualty industry stands at about \$160 billion, said Jack F. Weber, executive director of the Natural Disaster Coalition in Washington.

But, the surplus that could respond to homeowners exposures is only about \$100 billion, Mr. Weber observed.

"There is probably not another industry in the world that hangs by such a precarious thread," said Mr. Weber.

In addition, "most reinsurers see a changing pattern of catastrophes," said Clifford English Jr., executive vp of E.W. Blanch Co. Inc. in New York.

If average ocean temperatures rise only three or so degrees, storm winds might reach velocities as high as 275 miles per hour, Mr. English said.

As a result of the close call, insurers are rethinking the nature of the exposure they face in south Florida—to the dismay of policyholders.

"The marketplace is drying up," said Alex Soto, president of Pennekamp & Soto Insurance Agency in Miami. Mr. Soto said that the commercial market, particularly the surplus lines segment, is getting very tight.

"A lot of (policyholders) think, 'I'm being punished as a result of Andrew,'" said Mr. Weber.

It's not punishment, Mr. Weber said. Insurers simply are anticipating what could happen again, be it another hurricane or a devastating earthquake.

Many policyholders outside the hurricane zone think they are unfairly subsidizing people who live in coastal areas.

But, the question is less one of subsidy than of defining property insurance in the hurricane area as insurance against catastrophe, the panelists said.

Deductibles will have to go up to reflect the catastrophic nature of the exposure, explained E.W. Blanch's Mr. English.

William E. Bailey, co-director of the Hurricane Insurance Information Center in Miami, concurred. Like Mr. English, Mr. Bailey said insurers will have to re-examine the nature of the risk and demand more risk-sharing with their clients.

The mere presence of seemingly tough building codes means little, the panelists said. Mr. Soto said that while the code in force in south Florida is "indeed one of the toughest on paper," building codes are "moving targets" constantly undergoing revision. Houses built in the 1950s and 1960s often fared better than newer houses built during south Florida's population boom of the 1970s and beyond. Code enforcement suffered as inspectors were overwhelmed by the sheer volume of new houses, he said.

Despite evidence that some builders did cut corners, Mr. Bailey said he doesn't think insurers will bring many class-action suits against them. He said he thinks the industry has concluded that the cost of such an approach would far outweigh any returns insurance companies would be likely to get.

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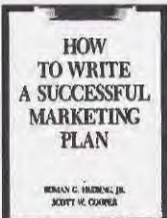
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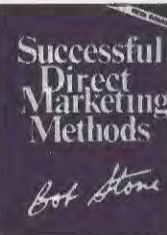
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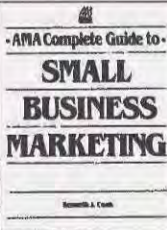


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How to avoid getting burned on arson fraud cases

By MARK A. HOFMANN

BALTIMORE—Insurers examining a claim involving possible arson-related fraud must determine the "Three M's" before pursuing the case, warns an accountant who specializes in financial investigations.



According to Steven A. Rosenthal, the Three M's are means, method and motive. Mr. Rosenthal, a principal in the San Francisco accounting firm Campos & Stratis, offered his advice at the annual meeting of the Society of Chartered Property & Casualty Underwriters in Baltimore late last month.

Arson accounted for about 15% of all fire claims in 1991, said James D. Klauke, national general adjuster for GAB Business Services Inc. in San Francisco and session moderator.

But, arson fraud "is a difficult subject for the industry," he said. In effect, an insurer has to accuse a policyholder of a felony and then leave the decision up to a jury that perceives insurance is too expensive and that the insurer has millions of dollars of premium stashed away, he said.

According to Mr. Rosenthal, the insurer must determine that the policyholder had the means and motive to start the fire, and used a method that was incendiary.

Insurers confronting a suspicious claim can turn to an accountant for an independent analysis of a business or owner's financial status to uncover a possible motive, he said.

Two of the chief indicators of possible trouble at a business are declining sales and mounting liabilities, he said. Declining sales may stem from general economic conditions, increased competition or the owner's lack of attention to the business.

Mounting liabilities can take a multitude of forms, he pointed out.

Investigators must look for lay-offs, slow payments, tax liabilities and the existence of legal judgments against the policyholder, he said. Other liabilities include the policyholder increasing his or her own salary or maintaining an inventory that's too high for the amount of business done.

Investigators should also look to see if the policyholder was about to lose his or her lease when the suspicious fire occurred, he advised.

"It's equally important to analyze the personal financial situation" of the policyholder, Mr. Rosenthal said.

Among the questions to get answered: Is this person holding several credit cards charged to their limits? Is the policyholder going through a divorce or illness? Are pre-existing loans in default? Is a balloon payment due? Is there a trail of bounced checks?

Mr. Rosenthal predicted that as the economy continues to stagnate, the insurance industry will face more incendiary fires. He warned that if insurers don't act decisively against the threat, they will send the signal that arson is acceptable.

But they must be careful how that signal is sent, members of the panel agreed. "An arson claim is still a property claim," and insurers must adhere to sound claims

Carefully investigate claimant's means, method and motive, accountant advises

practices, said Edward J. Ozog, a partner and director in the Chicago law firm Clausen, Miller, Gorman, Caffrey & Witous.

He warned his listeners to document carefully all of the steps preceding a claim denial. Insurers should make sure the claim file is in the best possible shape to avoid a sure loss later, he said.

"It is sheer folly to deny a claim where you know you cannot prove (your case)," he said.

Some steps that must be taken are: verifying the policy coverage, fairly considering each of the positions taken by or presentations

If insurers don't act decisively, they send the signal that arson is acceptable, says Steven Rosenthal.

made by the policyholder, preparing and considering a draft denial letter and making certain the action will conform to the fair claims practices act of the state involved, said Mr. Ozog.

Mr. Klauke warned that an insurer must be careful about what goes into a claim file.

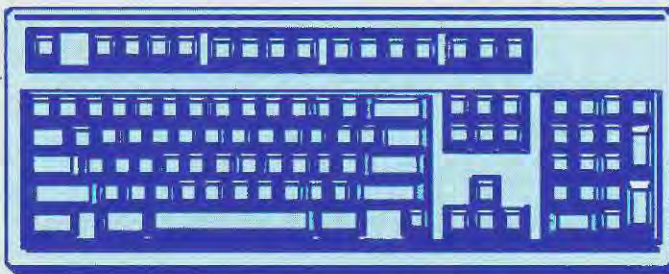
Even a seemingly trivial act, such as including a disparaging remark about the policyholder in the file, can return to haunt the insurer in court when the jury sees that remark blown up in big letters as an exhibit, Mr. Klauke said.

Trying an arson case is more expensive than trying other types of cases and requires specialized legal advice, said Winston H. Hankins, vp and counsel for United Services Automobile Assn. in San Antonio, Texas.

Insurers must be careful that they don't hurt innocent policyholders and must remember that bad-faith cases can result in punitive damages, he said.

Mr. Hankins urged his audience to consider establishing a formal arson investigation organization that includes such professionals as the claims handler, a cause-and-origin expert, a defense attorney, an investigative specialist and an arson coordinator.

"You have to make sure that the information gets to the people who need to know it," Mr. Hankins said. **BI**



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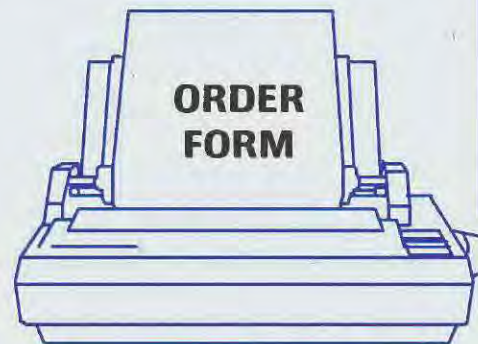
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Business Insurance®

Agent/Broker Topics

An insurance agent who's in his clients' corner

Judging bouts an attraction that agent Laurence Cole can't fight

By MICHAEL SCHACHNER

Judging a world title boxing bout should be no more difficult than underwriting a homeowners policy, says one of the few people with experience in both fields.

Underwriting basic policies is "cut and dried," says Laurence Cole, a Farmers Insurance Group agent in Dallas and an aspiring international boxing judge and referee. "You have a risk, you evaluate it and you charge a price. It's simple."

Judging boxing should just as easy. "You have two fighters and one outperforms the other. Any

qualified judge can see that," says Mr. Cole, a former Gold Gloves amateur who became a full-time insurance agent three years ago.

In a perfect world, this comparison might work. The world of professional boxing, though, is far from perfect.

Most novices who pay \$35 to see a championship fight on pay-per-view television can tell who outperformed whom. Yet often, apparently beaten fighters, especially those represented by high-profile managers and promoters, prevail in the judges' eyes.

Recently, Mr. Cole witnessed such an outcome first-hand.

In a Sept. 10 bout, challenger Pernell Whitaker by all accounts dominated World Boxing Council welterweight champion Julio Cesar Chavez in front of more than 60,000 pro-Chavez fans in San Antonio, Texas. But when the scorecards were tallied, the champion retained his title in a shocking draw.

"The fight was fixed," yelled boxing fans throughout the country. "ROBBED!" proclaimed the cover of Sports Illustrated.

Mr. Cole, who refereed one of the preliminary fights that night, offers a simpler explanation. "It's the politics," he says. "Boxing is the most political sport in the world. Fights

aren't necessarily fixed, but outcomes can be manipulated and things can certainly be worked along by the right people."

He should know. Much of his 30 years has been spent in and around the ring. Growing up in Dallas in a boxing family—his father is the ratings chairman for the WBC and his grandfather was a barroom prizefighter in New Orleans—Mr. Cole pursued the sport throughout his youth, finally hanging up the gloves for good five years ago.

"I just wasn't any good. I fought with slow hands and a weak chin, which is a terrible combination in this sport," he joked.

Not that Mr. Cole has really left the sport of his youth. He still spends most of his free time around the boxing ring, either as a ring referee or judge for local bouts or occasionally as a judge for title matches.

Over the past few years, he has met his share of the great ones: Muhammad Ali, George Foreman, Chavez, Evander Holyfield—the list goes on. "A great thrill," he says.

He has already worked as a judge on four world title fights from the United States to Australia, most recently a controversial super featherweight bout on the Chavez-Whitaker undercard.

In that fight, Mr. Cole cast his ballot for James Leija, a fellow Texan. A Ghanaian judge sided with Azumah Nelson of Ghana. And a third judge amended his scorecard in favor of Nelson after originally calling it a draw.

"It was a mess," he recalled. "But at least I scored the fight properly. That's all I can say. That's what I'm there for."

Although still young in the business, Mr. Cole has seen and heard of plenty of nights like the one in San Antonio. By now, he knows what professional boxing is about, especially when the names Don King, Jose Sulaiman, Lou and Dan Duva, and Bob Arum enter the fray.

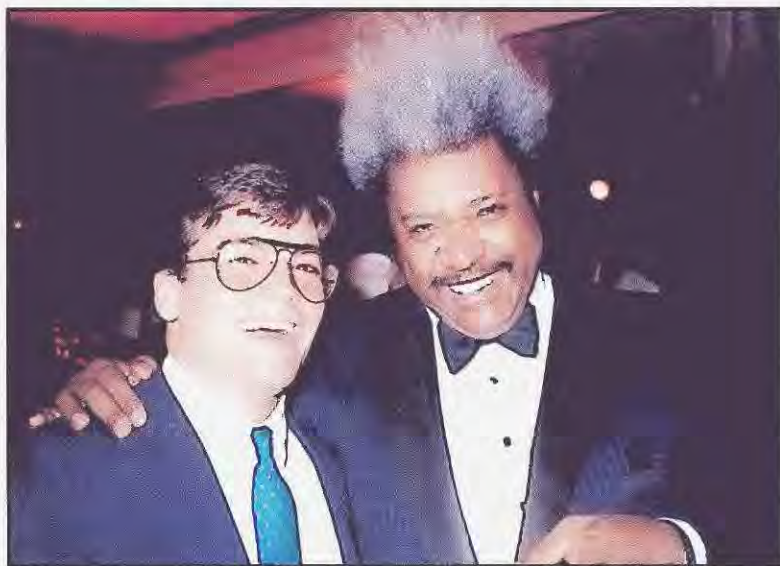
"Boxing is its own worst enemy. Don't get me wrong—I love the sport and will support it until the day I die—but there is just too much politics. I try my best to stay away from the politics, but it's hard," he said.

If it weren't for politics, it might very well have been Mr. Cole sitting as one of the three ringside judges for the above-mentioned Chavez-Whitaker fight. As a member of the WBC, which hand-selects its judges and ring officials from a pool of about 100 approved individuals, Mr. Cole was approached by Messrs. Sulaiman and King during the fight's planning stages and was offered a chance to score the fight.

It took him virtually no time to politely decline an offer others might view as the opportunity of a lifetime.

"I'm young, I'm credible and I'm seen by most as a person that can't be swayed by the powers that be. I want to keep it that way because in this business you have to be very careful about the fights you select. You can't blow your opportunities, but you can't hurt yourself, either."

"The pressure surrounding this fight was incredible. You're smack in the middle of Chavez country. What if I would have gone for Whitaker? Don King would never offer me another job. With only four title bouts under my belt, I have to keep working. Eventually, I'd like to be the ring referee for one of these big fights and to get there I



When he's not selling insurance, agent Laurence Cole judges championship prizefights put on by promoters like Don King.

have to keep working. I'm in this for the love of it, not the money."

Still, the money's not bad. "We can make up to \$2,000 for a big fight, but with attending the WBC and other conventions, it's really a break-even hobby for me."

Mr. Cole acknowledges that the opportunities for him in boxing could be enhanced over the short term if he were to acquiesce to the string-pulling and politics that control boxing.

However, he swears that he is devoted to taking the high road. "There's a long history of boxing in my family and I want to remain true to that. I do it because it's my love."

When asked if he would ever crumble under the pressure constantly applied by the Sulaimans and Kings of the sport, he quipped, "I guess everyone has a price, but mine is real high and it certainly hasn't been met yet."

So in the meantime, if it's 11 a.m. on a Thursday, Laurence Cole can be found helping Dallas residents with their personal lines insurance needs. But, if it's 11 p.m. on a Saturday night, there's a good chance

Mr. Cole is refereeing or scoring a Dallas-area professional or amateur fight. And, if it's a special Friday or Saturday night he might even be in Las Vegas or Melbourne, Australia, scoring a world title bout.

Mr. Cole says that if everything works out as planned, he'll spend the better days of his career refereeing championship fights for various organizations, including the International Boxing Federation and the North American Boxing Federation.

What is his ultimate dream? Refereeing a multimillion-dollar championship bout and holding up the hand of some future heavyweight champion at Caesar's Palace.

But, for the time being, life in Dallas with his insurance job, family ties and boxing work is treating Mr. Cole well.

"I'm just now growing into the insurance business. It's a great job that affords me the flexibility to do my boxing stuff on the side. I can make a few boxing-related calls each week or attend a meeting or a convention when I need to and still earn a steady income. Texas is a good market for direct agents like myself." E1

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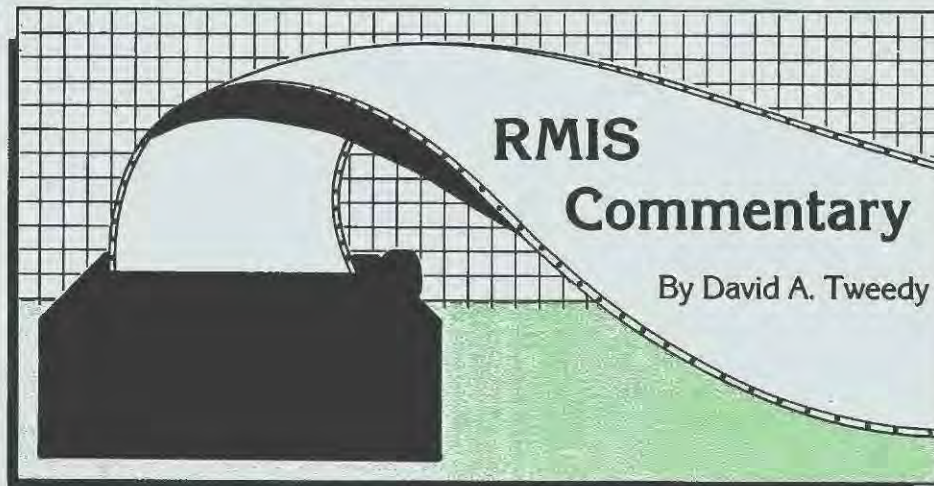
BENCHMARKING. Performance standards. Compliance audits. These are becoming familiar words and terms to risk managers. Much of Corporate America is undergoing significant changes to become more efficient and is using these tools, as well as strategies like downsizing, process re-engineering, outsourcing and others, to accomplish this goal.

This search to improve efficiency of operations encompasses all business activities: management, sales and marketing, customer service, administration, product development, research and development, information systems, etc. This drive for greater efficiency applies not only to internal operations but to external relationships with vendors, as well.

How does this apply to the user of risk management services? With the risk management department undergoing the same level of scrutiny by "corporate re-engineers," why not apply these same tools and techniques to evaluating the department's external vendors? The efficiency of brokers, insurers, third-party administrators, risk management information system vendors and a host of ancillary groups (such as medical and vocational rehabilitation providers, defense attorneys, safety engineers, etc.) all can be assessed.

In short, the bottom line today is "compare and evaluate." To decide what is the best or most efficient method to do this, clients want answers to the following questions:

Tools for gauging efficiency of internal, external services



- How is my service provider measuring up to industry standards?
- By the way, what are the industry standards, anyway?
- How does our vendor compare with other vendors for the same type of client?
- Can we do it more efficiently by either outsourcing or bringing the function inside?
- How do we quantify services that tend to be quite subjective?

Given that this is *Business Insurance's* Spotlight Report on Risk Management Systems & Analysis, I thought this would be a particularly germane topic, since organizations are

constantly looking for some methodology of evaluating their systems and vendors. Furthermore, since I will be coordinating and speaking at next spring's Risk & Insurance Management Society conference on the topic of "Measuring the Value of Vendor Services," it makes sense for me to discuss some of the more common techniques and tools available for use by risk managers. These same tools and techniques are applicable to the various types of service providers used by risk managers.

The three major methods of evaluating efficiency are performance assessment reviews, benchmarking

studies and outsourcing analyses. Lack of time and space prevent me from going into great detail to explain the usefulness of these three techniques. However, in my experience, these three are among the most valuable that can be employed.

■ **Performance assessment reviews.** This is one of the best methods of determining the efficiency of an operation, service or department, whether internal or external. For a service, such as claims administration, the operation is evaluated and compared against:

- Existing claims-handling standards by the TPA, insurer or self-administered organization.
- Industry averages.
- Best practices, or what the best organizations have as their standard.

At Deloitte & Touche, we call this method measuring the "PAR value" of a service.

Of course, to do this requires that we know what the standards are. In the claims industry, for example, there are no published standards. Yet most claims professionals would generally agree on standards based on principles of claims handling, case loads per adjuster, timeliness of claimant contact and the like. Therefore, we have gathered generally acceptable performance standards to facilitate the review process.

The RMIS is a particularly useful tool for analysis. With the right system and data, one can perform a PAR analysis

Continued on next page

A hybrid risk financing option

Combining large deductible plan with captive insurer for comp cover

By Michael T. Rogers

LARGE-DEDUCTIBLE WORKERS COMPENSATION plans are increasingly popular because they offer most of the advantages of self-insurance without the drawbacks. But these plans, though a step forward, only partially resolve the problems of financing workers compensation risks. Combining a high-deductible plan with captive risk financing provides a fuller solution, offering more control, greater flexibility and potential tax savings.

High-deductible plans provide several key benefits. The company gets more control over the program through greater retention of risk. The large deductible reduces residual market loadings, premium taxes, surcharges and assessments. The employer has more incentive to control losses because it directly benefits from favorable loss experience. The company also controls more investment income.

In contrast, pure self-insurance poses problems. An employer must obtain regulatory approval for self-insured status in every state in which it operates. In many states, the application process is fraught with bureaucratic delays, political maneuvering and irregular rules and regulations. Self-insurers with exposures crossing state boundaries sometimes have problems managing their collateral requirements over such a widely dispersed arena of regulators.

Because large-deductible plans are insured by a licensed insurer, there is much less red tape. Typically, the deductible ranges from \$100,000 to \$1 million per any one loss. Insurance companies charge a deductible

premium, which is often discounted as much as 80% from the manual premium and the actual cost of claims as paid. Most services are included in the deductible plan on a bundled basis. Because the insurer is statutorily responsible for paying claims, a letter of credit or other acceptable liquid collateral is usually required to secure the employer's payment of its share of expected ultimate losses.

Despite the many advantages of large-deductible plans, risk financing for the deductible remains a weak spot. The answer is to use a captive in a carefully crafted plan.

We call this approach a captive/deductible plan. With it, risk management costs can be allocated better and costs delineated better. The captive provides prudent, sound funding for the ultimate losses. A captive/deductible plan not only saves money, it is a powerful strategic risk management tool.

The advantages of a captive/deductible plan include:

- **More control.** With a captive, the risk manager can better control administration, claims management procedures and loss prevention programs. Even litigation and subrogation can be managed more effectively.

- **More flexibility.** The deductible can be raised or lowered in response to market conditions or corporate needs. The captive's ability to place reinsurance directly also adds flexibility to the retention levels and reduces costs. Once the captive is operating, it is not limited to workers comp. Conversely, if the company already has a captive that's active on other

lines, it can be coordinated with a large-deductible plan.

- **Improved allocation of risk management costs.** With a captive, costs can be compartmentalized, and the risk management department can become a separate cost center. Some companies actually transfer their risk management department and its payroll to the captive. Now the risk manager can more clearly document the department's bottom-line contribution. Furthermore, the captive makes it feasible to unbundle services. The risk manager can then select the most cost-effective providers of specialized services.

- **Potential tax deductions and savings.** A company and its affiliates may be able to take a deduction for premiums paid to the captive. Without a captive, only losses actually paid are tax-deductible. Furthermore, the captive can deduct its reserves and incurred-but-not-reported losses.

- **Precise delineation of costs.** Insurers are usually much more candid about what the deductible premium buys in a captive/deductible plan. The insurer should be able to tell you how much goes to administration, excess reinsurance, premium taxes, workers compensation boards and bureaus and residual market loads. If your insurer is reluctant to provide a breakdown, try the competition.

- **Sounder risk funding.** Deductible reimbursement or loss fund premiums are paid to the captive, which can build its reserves. This pool of money assures a solid source of funding for potential losses. Claims

Continued on next page

RMIS Commentary

Continued from previous page on topics like case reserving, claim resolution, legal and medical expenses, case loads and other criteria in a very quick yet thorough fashion—and on a 100% sample.

Claim audits, for example, can be improved with a preliminary file analysis via the system and problems can be detected and evaluated in more detail.

■ **Benchmarking studies.** This is another excellent tool for determining what is considered "normal" performance on a variety of key issues (see story, page 3).

The most frequent requests for these assessments from risk managers concern questions about claims data. For example, what is normal for the frequency of back claims for a manufacturer in Michigan?

Such questions can be answered through the effective use of a good information system that contains comprehensive and accurate data. In fact, several commercial RMIS vendors are starting to develop comprehensive data base services for this purpose.

Risk Sciences Group, a unit of Crawford & Co., is offering a

benchmarking service called Risk Information Benchmarking Services, or RIBS. In addition to performing comparative analyses of workers comp or liability claims frequency and severity among departments, divisions or states—which is a feature available to any RMIS user—RSG clients can use RIBS to conduct external studies within their particular industry. For example, RSG will make auto industry claims data available to a client that can be used to make frequency/severity comparisons, as well as cost comparisons.

RSG soon plans to make this service available on an unbundled basis. A company would need only to send its claims data via tape or disk to RSG, which would then perform the analysis and send back a benchmark report.

These same questions about what is normal for a particular organization are being asked about RMIS usage. We are often asked to comment on what type of RMIS is typical for an organization with certain characteristics. For example, such a query might be: What is the typical hardware and network configuration for a system that is designed to self-administer workers comp claims in three states, monitor claims in other states and interface with several different

third-party administrators?

■ **Outsourcing analysis.** The third useful tool for gauging efficiency involves the thoughtful consideration of whether a function would be most efficiently and effectively performed within or outside the organization. Once again, claims administration services, RMIS and even the entire risk management function are grist for the mill.

Clients often seek to quantify the value added by performing each of these functions themselves or whether they would be better served by selecting a professional outside the company whose primary business is that particular function.

For the most part, organizations have recognized that developing their own RMIS is best handled by professional vendors.

And, in these days of downsizing, many organizations are outsourcing some of their risk management duties to brokers, consultants or other specialists. Insurers, seeking to lower annual fixed expenses, also can outsource such activities as information systems services to outside specialists like Electronic Data Systems Corp. and Perot Systems Corp., or claims-handling services to TPAs like

Crawford or GAB Business Services Inc.

Other private and public organizations face similar decisions about outsourcing. Many, in fact, already utilize TPAs or insurers to handle their large claims programs. However, it is not a foregone conclusion that outsourcing will be the best strategy.

In many cases—and if done correctly—self-administering workers comp or general liability claims may be the least expensive strategy over the longer term because the middle layer of service is cut out and employers are dealing with employees.

Obviously, the RMIS with the proper analytical modules can be an extremely useful tool in comparing these various scenarios through matrix and spreadsheet analyses of the varied quantitative and qualitative data involved. **BI**



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

Captive/deductible plan

Continued from previous page and loss adjustment expenses are paid from the captive's reimbursement policy premium funds. This is a better system than simply paying losses from the corporate treasury.

• **A tool for strategic risk management.** With a captive/deductible plan, reserves and liabilities are moved from the parent's to the captive's balance sheet. Once running, the captive is free to write other lines of insurance. That flexibility may not be important today, but it could be crucial in the future. The captive also provides stability and leverage against premium increases. A captive/deductible plan can provide a long-term solution to both current and future insurance issues.

Here is a typical example. Best Widget Manufacturing and its affiliates or subsidiaries take out a large-deductible workers comp policy with ABC Insurance Co. The coverage is statutory for Part A, with \$500,000 limits for Part B. The deductible is \$500,000 per occurrence. The estimated standard premium would be \$1 million. In contrast, the deductible policy's premium is just \$230,000. It breaks down as: Administration and profit (6% of standard premium) would be \$60,000; taxes, boards and bureaus (7.5% of standard premium) would be \$75,000; residual market loads (5%) would be \$50,000; excess reinsurance, for statutory excess of \$500,000 for each occurrence (4.5%) would be \$45,000.

The deductible policy premium is usually billed

monthly. Most insurers collect a small escrow loss-development fund to cover expected paid losses during the first month of operations.

Best Widget and its subsidiaries form a Vermont-licensed captive called Widget America Insurance Co. to reinsure its workers compensation losses. Widget America Insurance issues a deductible reimbursement policy to insure losses up to \$500,000 for each occurrence for Part A and Part B coverage. The reimbursement premium of \$770,000 (also billed monthly) equals the difference between the standard premium and deductible premium. This goes into the captive's reserves and earns investment income.

Claims charged to the policyholders, Best Widget and its subsidiaries, are reimbursed by the captive, Widget America Insurance. Best Widget's liabilities are thus transferred to Widget America's reimbursement policy.

Additionally, Widget America Insurance purchases reinsurance directly for a layer of \$250,000 excess of \$250,000 for each occurrence. This further limits the captive's risk. By directly placing reinsurance, Widget America Insurance and its parent(s) have reduced their cost of excess reinsurance by the amount of ceding commissions normally added on by the deductible insurer. Successful negotiations with the deductible insurer can also limit the amount of security or collateral required.

Setting up and running a captive need not be expensive. An actuarial firm should charge about

\$10,000 to \$15,000 for a feasibility study. A captive management firm may charge \$25,000 to \$50,000 a year. Professional fees for CPAs and attorneys run about \$7,500 to \$10,000 per year. The annual fee for actuarial certification is about \$8,000 to \$10,000. Finally, the state of domicile charges a premium tax on direct premiums. In Vermont, for example, the tax is now 0.6%; it will go down to 0.5% in 1994 and 0.4% in 1995. (Most other captive domiciles are comparable.) Depending on the size of the risk, the total cost of managing a workers comp captive will range from 2% to 4% of standard premiums.

However, the savings in direct placement of reinsurance, favorable tax treatment and greater control can far outweigh these nominal expenses. While a captive/deductible plan offers savings and advantages today, it also gives the risk manager a strategic risk management tool. The plan can be a platform for flexible, effective response to future challenges. **BI**



Michael T. Rogers is the chief operating officer of Vermont Insurance Management in Montpelier, Vt.

Court denies duty to defend suit against contractor

The Appellate Court of Illinois affirmed a lower court decision that released comprehensive general liability insurers from defending a contractor in a suit brought by the state of Illinois for economic losses arising out of the installation of a faulty air conditioning system in a state office building.

The Chester-Jensen Co. Inc. installed an air conditioning system in a state office building that failed to cool the building during the summers of 1985 and 1986.

The state sued Chester-Jensen claiming that excessive temperatures occurred because of an inadequately designed and defectively installed air conditioning system. The state claimed it

Legal Briefs

would cost \$10 million to modify and repair the system.

In addition to these economic damages, the state sought damages from lost rent, lost work days from state employees who had become ill, lost productivity from employees and excessive electrical consumption.

Chester-Jensen was covered under two comprehensive general liability insurance policies that covered third-party "bodily injury" or property damage.

The insurance companies sought a declaration from the court that the

policies did not cover the state's suit against Chester-Jensen. The trial court agreed and ruled for the insurance companies.

On appeal, Chester-Jensen argued that coverage was present under the "bodily injury" provision of the policies.

According to the appellate court, this argument ignored the nature of the complaint made by the state. "The state is not bringing this action on behalf of its employees, seeking recovery for damages sustained by them on account of their illnesses or other bodily injury," the appellate court noted.

The fact that the state's claim for its economic damages as a result of diminished productivity may have been

occasioned in part by the illness of its employees, did not translate its economic claim for which it sought recovery from Chester-Jensen into one for "bodily injury." The trial court decision was affirmed.

Diamond State Insurance Co. vs. Chester-Jensen Inc., Appellate Court of Illinois, Feb. 11, 1993 (BI/03/D.-\$10).

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a \$10 check payable to Mayo H. Stiegler, to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.

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Continued from page 32

580 in risk management departments. Functions include general claims, workers compensation, litigation management, policy management, work processing features and enhanced reporting.

■ RiskMaster/CM 9000: \$20,000 PC, \$35,000 UNIX/LAN; software available without hardware; operates on PCs, UNIX network. First installation: 1989; 20 total installations, 10 in risk management departments. Functions include workers compensation cost containment, work processing features, new user interfaces and enhanced reporting.

■ RiskMaster/Image Management System: \$15,000 PC, \$30,000 UNIX/LAN; software available without hardware; operates on PCs or UNIX network. First installation: 1992; three total installations, all in risk management departments. Functions include full image and document management system integration.

User support: User groups/meetings, telephone assistance available 12 hours a day, onsite training, regional workshops and specific topic seminars. User support included in system price.

Staff: 36 total, 18 professionals.
New clients: 62 total; 36 in risk management departments.

Branch offices: St. Petersburg, Fla.
1992 revenues: \$4 million total, all from risk management information systems; 5% from sale of hardware, 60% from sale of software, 35% from software services.

Officers: Mark E. Dorn, president; Paul Hapeli, financial manager.
Contact: Mark E. Dorn.

E

EDS Insurance Services

13736 Riverport Drive, Maryland Heights, Mo. 63043; 314-344-8275; fax: 314-344-8691

Risk management systems since: 1972.

Parent: General Motors.

Software products:

■ Processor I: Software available in system package, which includes hardware; operates on IBM mainframe system. First installation: 1984; 27 total installations. Functions include identification of unbundled procedure codes and validation of procedures based on diagnosis for health care claims.

■ ACS-Automated Claims System: Software available in system package, which includes hardware; operates on IBM mainframe system. First installation: 1984; 11 total installations, two in risk management departments. Functions include coded accident description for loss control; complete financial reporting by account, policy, location and claimant.

■ MBR-Medical Bill Review: Software available in system package, which includes hardware; operates on mainframe system. First installation: 1988; three total installations, one in a risk management department. Functions include checking and validation of medical procedures for "appropriateness of care" to the sustained illness or injury.

Staff: 64 total, 61 professionals.

New clients: Five total.

1992 revenues: \$8.2 billion total.

Officers: James Sonnemaker, account manager-insurance services.
Contact: Jim Capes.

ERIC Systems

12828 Northup Way, Suite 120, Bellevue, Wash. 98005; 800-283-3742; fax: 206-883-9178

Risk management systems since: 1985.

Software products:

■ Risk Manager Assistant (Single & Multi-User): \$4,995-\$7,495; software available without hardware; operates on DOS-based PCs (minimum: IBM PC/AT 286, 640K RAM, 40MB hard drive). First installation: 1985; 11 total installations, all in risk management departments. Functions include automation of claims management, tracking of claims, supports multiple time loss schedules, payment summarization to vendors for 1099 set-up, tracks OSHA data and generates OSHA 200 reports, provides time loss disbursements, can be configured to allow or disallow posting of negative reserves, produces history files, calculates supplemental benefits, litigation tracking, diary and notes module, automatic generation of most government-mandated reports and forms, supports check writing and vouchers, ad hoc reporting, updated security features.

■ Risk Manager-Multi-Employers

(Single & Multi-User): \$12,495-\$14,495; software available without hardware; operates on DOS-based PCs (minimum: IBM PC/AT 286, 640K RAM, 40MB hard drive). First installation: 1985; 11 total installations, all in risk management departments. Functions: see Risk Manager Assistant.

■ RM Adjuster-integrated with Risk Manager: \$9,995; software available without hardware; operates on DOS-based PCs (minimum: IBM PC/AT 286, 640K RAM, 40MB hard drive). First installation: 1991; six total installations, all in risk management departments. Functions include automation of fee adjusting process, produces detailed explanation of benefits for vendor invoices, itemization of procedures billed and paid, short and long CPT code descriptions, maintains unit value history, permits adjustments and payments on closed claims, automatically adjusts based on assigned POAC for hospitals, onscreen display of actual status of reserve accounts, multiple fee schedules for multistate adjusting, integrates with Risk Manager for check processing, duplicate bill checking, date validation, updated security

features.

■ RM Adjuster-Stand Alone (Single & Multi-User): \$9,995-\$12,495; software available without hardware; operates on DOS-based PCs, (minimum: IBM PC/AT 286, 640K RAM, 40MB hard drive). New product. Functions: see RM Adjuster.

User support: Telephone assistance available 10.5 hours a day, onsite training, remote access training. User support included in system price.

Staff: Eight total, all professionals.

New clients: Four total.

Officers: Frank Dee, president; Doug Peterson, head programmer; Brian Hart, product manager.

Contact: Karen Sherwood, sales manager, or Tracey Sheard, account executive.

ESIS Inc.

2 Liberty Place, 1601 Chestnut St., Philadelphia, Pa. 19192-2075; 215-761-6784; fax: 215-761-5596

Parent: CIGNA Corp.

Software products:

■ CRIS (CIGNA's Risk Information

System): \$16,000; software available without hardware; operates on PCs; on-line system. First installation: 1983; 950 total installations, 350 in risk management departments. Functions include medical cost containment reports, loss runs, claims management reports and customized analyses, frequency/cost analyses, premium management, policy management, property management, billing review, bonds, downloading capability, claim history prints, account design prints, cash flow program invoice backups. CRIS Advanced Functions reports can be purchased on a fee basis.

■ CRIS Advanced Functions: \$24,000; software available without hardware; operates on PCs; online system. First installation: 1982; 70 total installations, 51 in risk management departments. Functions include all of the standard CRIS features plus risk management performance analysis, cost of risk allocation, ad hoc reporting, litigation management, loss development reporting, financial reporting, safety reporting, "as of" reporting, risk management cost allocation, customized services.

■ OMNICALMS: \$10,000; software

available without hardware; operates on PCs; online system. First installation: 1992; 35 total installations, all in risk management departments. Functions include online, real-time claims information access.

User support: Telephone assistance available 10 hours a day and onsite training included in system price; user groups/meetings available for an addition fee.

Staff: 66 total, 41 professionals.

New clients: 60 total.

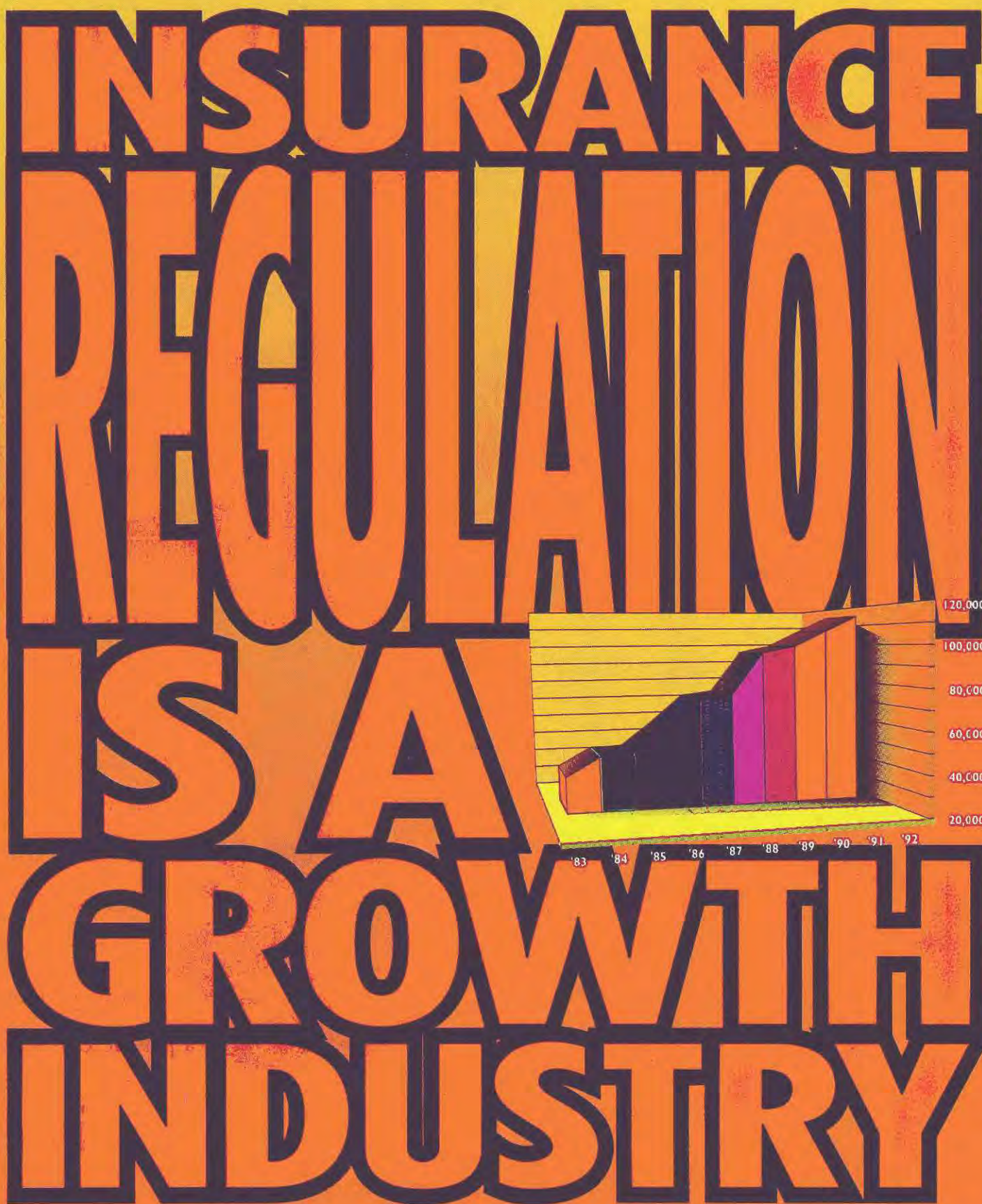
Branch offices: Atlanta; Boston; Chicago; Dallas; Houston; Los Angeles; New York; San Francisco.

Officers: Raymond E. Hafner, president; Brian P. O'Hara, CFO; Sharon E. Simpson, assistant vp-operations/sales services.

Contact: W. Bruce Hemphill, manager-product management.

Continued on next page

Directory terms and methodology explained on page 29.



The chart on this page displays the number of pages published in each of the past ten years to keep the 180-plus volumes of the National Insurance Law Service up-to-date and accurate. Now, you can get that same information—the National Insurance Law Service, over 200,000 pages—on a single CD-ROM.

Continued from previous page

F

Feedback Systems Inc.

1900 Emery St. N.W., Suite 304,
Atlanta, Ga. 30318; 404-355-6883;
fax: 404-875-8811

Risk management systems since: 1984.

Software products:

■ RIMS DBMS: \$18,000; software available without hardware; operates on PCs, mini computers and mainframes. First installation: 1991; two total installations, both in risk management departments. Functions include liability and claims management; ability to select, retrieve, view and compare data in the form of a query, graph, form letter or report.

User support: User groups/meetings, telephone assistance available 10 hours a day, on-site training, off-site training, on-going enhancements, modem support, online help and user documenta-

tion. User support included in system price.

Staff: Three professionals.

Officers: Chrissie Howell, president; Dave White, vp; Jack Hubert, secretary.
Contact: Chrissie Howell.

Frasin Ltd.

Bishops Court, 27-33 Artillery Lane,
London, E1 7LP, England;
44-71-782-0720; fax: 44-71-377-2139

Risk management systems since: 1991.

Parent: GHC Financial Institutions Insurance Services Ltd. and Price Waterhouse.

Software products:

■ SOFINE Standard Version: \$15,000; software available without hardware; operates on DOS (version 3.0 or higher) IBM compatible PCs. First installation: 1992; 23 total installations (SOFINE Standard and Enhanced versions), two in risk management departments (Standard version). Functions include integrated risk management for financial operations and institutions from a crime and fraud perspective (helps

identify potential embezzlement, computer fraud and crime, etc.), identification and consolidation of operational activities for company branches, establishment of exposure to risk for operational activities by numerical and category type, identifies security controls and systems to protect exposures, risk evaluation and production of combined bankers blanket bond and computer crime application form for insurance.

■ SOFINE Enhanced Version: \$42,500; software available without hardware; operates on DOS (version 3.0 or higher) IBM compatible PCs. First installation: 1992; 23 total installations (Standard and Enhanced versions), 12 in risk management departments (Enhanced Version). Functions include those of the standard version, with the additional capability to transfer information between the company branches via diskette.

User support: Telephone assistance available, maintenance/service/consultative information on request. User support included in system price.

Staff: Eight total, four professionals.

Officers: K. Jones, G. Puttergill, J.

Bromfield, J. Thompson, Ian Bracken.
Contact: Ian Bracken.

G

GAB Business Services Inc.

9 Campus Drive, Linden Plaza,
Parsippany, N.J. 07054; 201-993-3400;
fax: 201-993-9579

Risk management systems since: 1975.
Parent: SGS North America Inc.

Software products:

■ Centurion-Claims Financial Reporting: Price included in claims handling fee; software available in system package which includes hardware. First installation: 1975; 827 installations in risk management departments. Functions include loss analysis reports, payment reports, management reports and performance monitoring reports.

■ Centurion-Claim System Online Access: \$3,000; software available in system package which includes hardware;

operates on IBM compatible PCs with Hayes compatible modem. First installation: 1984; 95 installations in risk management departments. Functions include real time access to claims, payment, reserve data, adjuster notes and electronic mail.

■ Centurion-Query/AD HOC Reporting: \$5,000-\$24,000; software available in system package which includes hardware; operates on IBM compatible PCs with Hayes compatible modem. First installation: 1984; 45 installations in risk management departments. Functions include ability to perform "what if" analyses, download claims data, produce standard reports, design and print customer specific reports.

■ Centurion-Electronic Data Transfer: \$2,700 plus time and expense fee; software available in system package which includes hardware; operates on compatible media. 140 installations in risk management departments. Functions include claim data updated daily, claims and payment information available at various frequencies via customer choice of electronic media.

User support: Telephone assistance available 9.5 hours a day included in system price; user groups/meetings and on-site training available for an additional fee. Other support includes manuals.

Staff: 120 total, 99 professionals.
New clients: 91 total; all in risk management departments.

Branch offices: Atlanta; Brea, Calif.; Chicago; Dallas; Maitland, Fla.; Memphis, Tenn.; New York.

1992 revenues: \$237.5 million total; \$1 million from risk management information systems; 100% from sale of software.

Officers: Richard A. Simon, chairman/CEO; William F. Bergs, president/COO; Joseph L. Rizzo, executive vp-operations; John F. Darden, CFO; G. Roger Eiler, senior vp-sales/service.

Contact: John M. Kardos, vp, 201-993-3738.

Gallagher Bassett Services Inc.

The Gallagher Centre, 2 Pierce Place,
Itasca, Ill. 60143-3141; 708-773-3800;
fax: 708-285-4000

Risk management systems since: 1983.

Parent: Arthur J. Gallagher & Co.

Software products:

■ RISX-FACS: Software available with or without hardware. First installation: 1983; 1,352 total installations, all in risk management departments. Functions include medical payment processing with explanation of benefits, captures CPT and diagnosis codes, loss reserving, claims administration, standard loss reporting, ad hoc inquiry, automated diary, NCCI data capture, claim notebook, check writing, automated index bureau reporting. Additional functions available with Gallagher Bassett's health care delivery and administrative service: 24 hour coverage for group health and workers compensation, identification of bills, identification of pre-existing conditions, analysis of physician charges and trend analysis.

■ MICRO-FACS: Operates in conjunction with RISX-FACS; \$2,100 plus communications; software available in system package which includes hardware; operates on PCs. First installation: 1986; 182 total installations, all in risk management departments. Functions include security features which limit user access, online access to explanation of benefits, loss trending, exposure analysis, loss triangles, electronic mail, online ad hoc inquiry and reporting.

User support: Telephone assistance available 12 hours a day included in system price, on-site training available for an additional fee. Other services include manuals and training at corporate headquarters or client site.

Staff: 87 total, 75 professionals.

New clients: 102 total.

Officers: Peter J. Durkalski, president; Donald C. Klein, Richard R. Rothman, executive vps.

Contact: Tracy Mock, director-marketing, 708-285-3593.

Genelco

1600 S. Brentwood Blvd., St. Louis,
Mo. 63144-1330; 314-962-2040;
fax: 314-968-9589

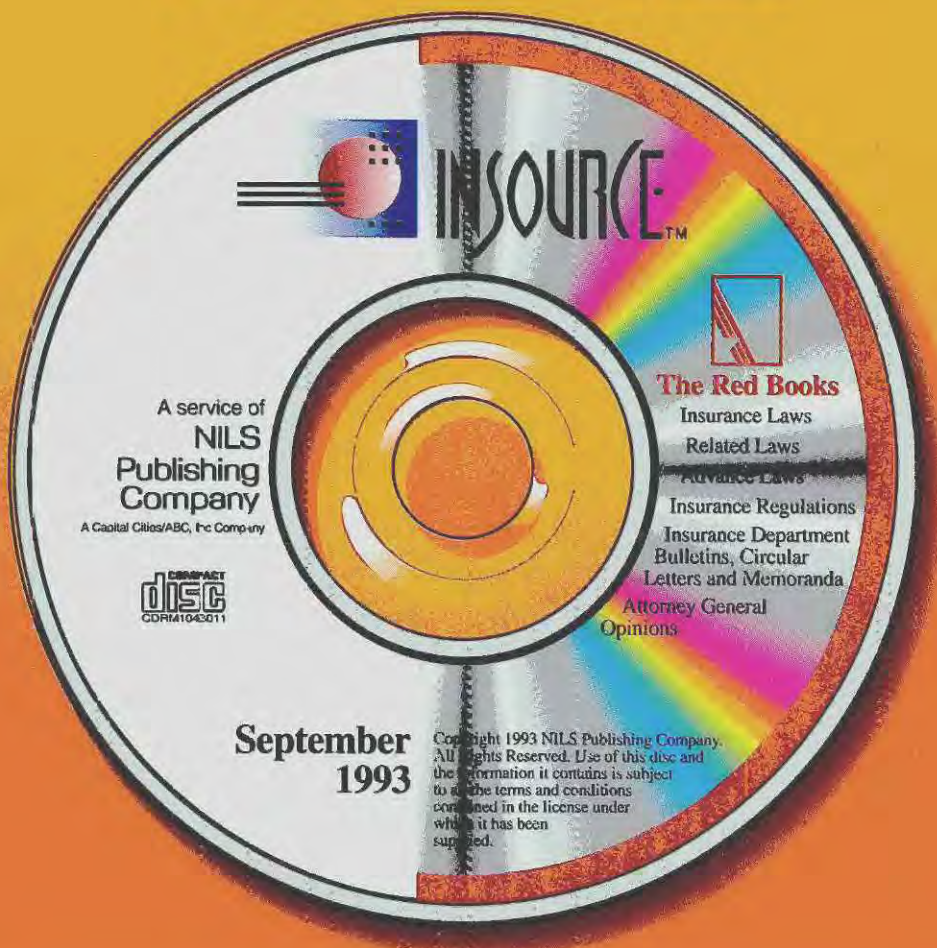
Risk management systems since: 1973.
Parent: General American Life Insurance Co.

Software products:

■ Health Claims Plus: Software available with or without hardware; operates on IBM AS/400, OS/400. First installa-

Continued on next page

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Spotlight report

Continued from previous page
 tion: 1985; 117 total installations, 72 in risk management departments. Functions include claims processing for varied health plans and coverage types including point-of-service and managed care options; report production for managed care analysis; utilization review module, including large case management, second surgical opinion and pre-certification.

■ **Benefit Administration Plus:** Software available with or without hardware; operates on IBM AS/400, OS/400. First installation: 1987; 41 total installations. Functions include administration for individual and group insurance plans, associations and multiple employer trusts; billing and collection functions; provides eligibility information; processes commissions; provides reports for management analysis and tracks new case files.

User support: User groups/meetings and telephone assistance available nine hours a day included in system price; on-site training included with most systems. Other services include 24 hour telephone support, maintenance agreements, user conferences, advisory committee, documentation, modem hook-up and technical support.

Staff: 195 total, 76 professionals.
New clients: 24 total.

Branch offices: Atlanta, Charlotte, N.C.; Dallas.

1992 revenues: \$19.1 million total; \$15 million from risk management information systems; 12% from sale of hardware, 20% from sale of software, 68% from software services.

Officers: David B. Johnson, president; Russell E. Korte, executive vp; Larry M. Amundsen, vp-software sales/marketing; David Litschgi, Mike Molinar, product vps.

Contact: Larry M. Amundsen.

H

Health Management Technologies Inc.

1150 Moraga Way, Suite 150, Moraga, Calif. 94556; 510-631-6750; fax: 510-631-6789

Risk management systems since: 1986.
Software products:

■ **RETURN:** \$12,000-\$15,000; software available without hardware; operates on DOS based (3.3 or later) IBM compatible PCs. First installation: 1988; 300 total installations, 200 in risk management departments. Functions include job analysis, job return and job-based disability duration guidelines.

User support: User groups/meetings, telephone assistance available 10 hours a day, on-site training. User support not included in system price.

Officers: Karen Wolfe, president; James Wolfe, senior vp-marketing; Eric Wolfe, director-client services.

Contact: Scott Gallucci, client services.

Helmsman Management Services

225 Borthwick Ave., Portsmouth, N.H. 03801; 603-431-1418; fax: 603-431-2071

Risk management systems since: 1983.
Parent: Liberty Mutual Insurance Group.

Software products:

■ **RISKTRAC for Windows:** \$10,000-\$25,000; software available with or without hardware (price does not include hardware); operates on IBM PS/2 compatible PCs with Windows (minimum: 386/25MHz processor, 120MB hard drive, 8MB memory, SVGA monitor, HP LaserJet II or III printer). First installation: 1992; 110 total installations, 72 in risk management departments. Functions include entry and updates of claims, standard reports, ad hoc reports, loss allocation, payment data, adjuster's notes, medical and disability information, download data, electronic corrections, modular products, electronic mail and real time access.

■ **RISKTRAC/PC:** \$8,000, additional annual fee for data downloading services after first year; software available with or without hardware (price does not include hardware); operates on DOS based PCs, Windows based PCs, DOS based networks. First installation: 1987; 243 total installations, all in risk management departments. Functions include

consolidation of insurance data from all insurers and self-insurance, online help, user defined fields and comments, data export, standard reports, location module, state tables module, reminders module, coverage module and claims module.

User support: User groups/meetings, telephone assistance available 13.5 hours a day, on-site training, online help, interactive tutorial, account support analyst, user manuals, customized services. One year of user support included in system price.

Staff: 50 total, 13 professionals.
New clients: 50 total; 48 in risk management departments.

Branch offices: Atlanta; Berwyn, Pa.; Irving, Texas; Itasca, Ill.; New York; Pittsburgh; Pleasanton, Calif.; Weston, Mass.

1992 revenues: 5% from sale of hardware, 25% from sale of software, 70% from software services.

Officers: Richard Downey, assistant vp/manager-business markets client support services; Mike Henry, director-RISKTRAC/client services; Paul Lessard, director-customer services; Bruno Federico, manager-policyholder

support; Larry Forrest, RISKTRAC marketing.

Contact: Larry Forrest.

Home Insurance Co.

59 Maiden Lane, New York, N.Y. 10038; 212-530-6867; fax: 212-701-8883

Risk management systems since: 1991.
Parent: Home Holdings Inc.

Software products:

■ **RISKOPTIONS:** Software available in system package which includes hardware; operates on DOS based 486 PCs with modem and tape drive. First installation: 1991; 43 total installations, 12 in risk management departments. Functions include loss control analysis, claims tracking/reporting, allocation by business unit and state, claim detail inquiry and drill down analysis.

User support: User groups/meetings, telephone assistance available 12 hours a day, on-site training. User support included in system price.

Staff: 11 total, 160 professionals.

New clients: Four in risk management departments.

Branch offices: Atlanta; Boston; Brea, Calif.; Chicago.

Contact: Matthew T. Craig, assistant vp or Michael Black, RISKOPTIONS manager.

I

ISS Inc.

4725 Peachtree Corners Circle, Suite 200, Norcross, Ga. 30092; 404-992-9383; fax: 404-992-9377

Risk management systems since: 1987.
Parent: The Covenant Group.

Software products:

■ **Fastrack RMIS:** \$35,000; software available without hardware; operates on DOS (version 5.0) 386 PCs, Novell Network 2.11. First installation: 1987; 15 total installations, seven in risk manage-

ment departments. Functions include claims and policy management for all property/casualty lines; workers compensation policy rating and experience rating; policy auditing, billing and accounts receivable; payment processing; check writing; policy issue; medical cost containment; statistical and financial reporting.

User support: Telephone assistance available 12 hours a day; on-site training; modern remote logon for diagnostics, training, updates and custom report programs. User support included in system price.

Staff: Nine total, five professionals.

New clients: Four total; two in risk management departments.

Branch offices: Roswell, Ga.

1992 revenues: \$300,000 total; 5% from sale of hardware, 75% from sale of software, 20% from software services.

Officers: John Spiegel, CEO; Mark Reeves, COO; Clifton Haughey, president; Tim Habeck, vp/CFO; Jim Ballew, vp.

Contact: A. Lee Stanford, sales manager.

Continued on page 50



WHEN YOU HANDLE RISK, THERE'S A FINE LINE BETWEEN SUCCESS AND FAILURE. THE DIFFERENCE IS IN THE SKILL OF THE PERFORMER. AT CRC, WE'RE EXPERTS IN HANDLING RISK. WE PERFORM AS INSURANCE BROKERS TO CREATE SMART SOLUTIONS, FAST, AT COMPETITIVE PRICES, FOR VIRTUALLY ANY TYPE OF RISK - SIMPLE TO COMPLEX. IT GIVES OUR CLIENTS THE UPPER HAND. AND IT'S MADE US ONE OF THE NATION'S TOP FIVE INDEPENDENT WHOLESALE BROKERAGES. WHEN EVEN THE MOST ORDINARY RISK DESERVES AN EXTRAORDINARY SOLUTION, CALL CRC. PERFORMANCE IS THE DIFFERENCE.



Continued from previous page

ITT Specialty Risk Services Inc.

55 Farmington Ave., Hartford, Conn. 06105; 203-520-2500; fax: 203-520-2503

Risk management systems since: 1981. Parent: ITT Hartford Insurance Group.

Software products:

■ **OSCAR:** \$15,000; software available without hardware; operates on PCs and mainframes. First installation: 1981; 200 total installations, 175 in risk management departments. Functions include online loss inquiry and reporting system, pre-formatted and ad hoc reporting, PC download, historical financial data and loss development triangles.

■ **LASER/CAL:** \$4,600; software available without hardware; operates on PCs. First installation: 1993; 22 total installations, all in risk management departments. Functions include OSCAR features plus online access to adjusters' notes.

■ **LASER/RMIS:** Software available without hardware; operates on PCs. New product: to be released in fourth quarter 1993. Functions include OSCAR features plus interactive loss query and reporting including customer data and customer-defined data capabilities.

User support: Telephone assistance available eight hours a day and onsite training included in system price. Other services include risk management and actuarial consulting along with customized report development.

Staff: 24 total, 15 professionals.

New clients: 51 total, all in risk management departments.

1992 revenues: 100% from sale of software.

Officers: Nanette Char, assistant vp-risk management information systems.

Insurance Software Packages Inc.

3625 Queen Palm Drive, Tampa, Fla. 33619; 800-237-8133; fax: 813-621-0652

Risk management systems since: 1985.

Parent: Pharmacy Management Services Inc.

Software products:

■ **FirstStar:** Software available without hardware; operates on Novell certified networks and PCs. First installation: 1991; 50 total installations, all in risk management departments. Functions include first notice of injury forms for all 50 states plus ACORD, true and multi-party forms, autofaxing, PPO directing and employers data prefill.

■ **CompStar:** Software available without hardware; operates on Novell certified networks and PCs. First installation: 1985; 190 total installations, all in risk management departments. Functions include reinsurance tracking, auto indemnity payments, enhanced security, claims adjudication, fee schedule, full fee schedule rates integration, EOBs, PPO module, correspondence module and security features.

■ **MediStar:** Software available without hardware; operates on Novell certified networks and PCs. First installation: 1986; 90 total installations, all in risk management departments. Functions include utilization review module, elec-

tronic filing, fee schedule validation of rules and values, medical bill history, duplicate checking, inquiry and enhanced reporting.

■ **Multi-Star:** Software available without hardware; operates on Novell certified networks and PCs. First installation: 1985; 25 total installations, all in risk management departments. Functions include legal module, report writer, claims entry, reserve tracking, payment claim inquiry, correspondence module, reinsurance module and enhanced reporting.

User support: User groups/meetings, telephone assistance available eight hours a day, onsite training, carbon-copy/online interactive support. User support included in system price.

Staff: 40 total, 20 professionals.

New clients: 40 total.

1992 revenues: \$3 million total; \$1 million from risk management information systems; 70% from sale of software, 30% from software services.

Officers: George Cannon, vp; Paul Harvey, director-sales/marketing; Pat Sweeney, director-software development; Kathy Shriner, director-technol-

ogy.

Contact: Paul Harvey, ext. 6680.

International Risk Management Institute Inc.

12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 214-960-7693; fax: 214-960-6037

Risk management systems since: 1978.

Software products:

■ **Umbrella Analyzer:** \$698; software available without hardware; operates on PCs. First installation: 1990; 150 total installations, 30 in risk management departments. Functions include umbrella/excess forms analysis.

User support: Telephone assistance available nine hours a day, free phone installation and training. User support included in system price.

Officers: Jack P. Gibson, president; Paul D. Murray, Cathy Roberts, vps; William S. McIntyre IV, chairman/owner.

Contact: Paul D. Murray.

M

Marathon Systems

101 California St., 18th Floor, San Francisco, Calif. 94111; 415-362-0500; fax: 415-362-5528

Risk management systems since: 1988.

Software products:

■ **COMP2000:** Software available without hardware; operates on PC networks. First installation: 1988; 44 total installations, 25 in risk management departments. Functions include workers comp claims management; client-specific menus, reports and letters, customized system interfaces; internal and external bill review; state-specific PD and commutation calculators; lien tracking; laser-printed first injury report form; payments calculator.

■ **LIABILITY CMS:** Software available without hardware; operates on PC network. First installation: 1992; five total installations, one in a risk management department. Functions include liability claims management; client-specific menus, reports and letters; customized system interfaces.

User support: Onsite training included in system price; user groups/meetings, telephone assistance available nine hours a day, state regulatory compliance, product upgrades and releases, user group membership and product support available with annual maintenance fee.

Staff: 30 total, 18 professionals.

New clients: 11 total; seven in risk management departments.

1992 revenues: 60% from sale of software, 40% from software services.

Officers: F. William Guerin, president.

Contact: Tom Corder, director-sales.

Marshall & Swift

1200 Route 22, Bridgewater, N.J. 08807; 908-231-8920; fax: 908-231-8934

Risk management systems since: 1985.

Software products:

■ **Commercial Estimator:** \$599; software available without hardware; operates on DOS-based IBM compatible PCs, networks. First installation: 1985; 5,000 total installations, 50 in risk management departments. Functions include estimates of replacement costs for commercial buildings, report generation.

User support: User groups/meetings, toll-free telephone assistance available 10 hours a day, onsite training.

Staff: 80 total, 20 professionals.

Officers: Kevin Keegan, president. Contact: Robert W. Crine or Wallace Parker.

Medicode Inc.

5225 Wiley Post Way, Suite 500, Salt Lake City, Utah 84116; 801-536-1005; fax: 801-536-1009

Software products:

■ **Claims Edit System:** \$10,000-\$100,000; operates on numerous systems, including IBM compatible PCs, Macintosh PCs, networks and mainframes; can be used with DOS, Windows, UNIX, etc. First installation: 1991; 75 total installations. Functions include identification of coding problems such as unbundling, modifier, age, sex, place of service, assistant, surgeon, cosmetic surgery and non-emergency services; flags coding discrepancies; compares proce-

Continued on next page

TONY D'ANGELO SWORD SWALLOWER



Spotlight report

Continued from previous page
 dure-to-related information and diagnoses-to-related information; security features.

■ Workers Compensation payment system: \$3,000 plus \$500 per state ordered; operates on numerous systems including IBM compatible PCs, Macintosh PCs, networks and mainframes; can be used with DOS, Windows, UNIX, etc. First installation: 1989; 100 total installations. Functions include access to all current state fee schedules, integrates both fixed fee and relative value/conversion factor schedules, provides updates quarterly.

■ Medical Bill Advisor 4.0: Operates on DOS based PCs. First installation: 1989; 13 total installations, three in risk management departments. Functions in-

clude utilization review and pricing of outpatient bills using UCR factors and workers comp fee schedules; incorporates fully automated state administrative rules; multi-state duplicate service checks; multi-company, unbundled services and analytical reports.

■ Hospital Bill Advisor: Operates on DOS based PCs. First installation: 1990; eight total installations, three in risk management departments. Functions include utilization review and pricing of hospital bills, multi-state duplicate bill checks, multi-company analytical reports and graphs.

■ Provider Analysis System: Operates on DOS based PCs. First installation: 1991; nine total installations, three in risk management departments. Functions include reporting and analysis, ca-

pability to evaluate provider billing activities/practices and treatment patterns, potential fraud practices and abuse by individual providers and provider type.

■ Treatment Analysis System: Operates on DOS based PCs. First installation: 1992; seven total installations, two in risk management departments. Functions include evaluation and establishment of appropriate services, proposed treatment parameters, protocols and plans; evaluation of treatment cost alternatives and future claim exposures.

■ Medical Case Manager: Starts at \$10,500; operates on DOS based PCs. Functions include assisting case managers in developing specific authorized treatment plans for individuals. Omits billed services inconsistent with the authorized plan when integrated with

Medical Bill Advisor system.

■ Fraud Management and Control System: Starts at \$10,500; operates on DOS PCs. First installation: 1992; Five total installations, three in risk management departments. Functions include assisting case investigators in setting up investigation requests, recording specific findings and case results, reporting fraud status and activity for management review.

User support: Telephone assistance available eight hours a day, included in system price. User groups/meetings available for an additional fee. Other services include on-site training.

Staff: 13 total, nine professionals.

New clients: Nine total; three in risk management departments.

Officers: Kenneth D. Larne, CEO;

Kevin Pearson, CFO; Eileen Shanon, president.

N

NATLSCO, A Kemper Risk Management Services Co.

One Kemper Drive, Long Grove, Ill.
 60049-0075; 708-320-2400;
 fax: 708-320-4330

Parent: Kemper National Insurance Cos.

Software products:

■ CARES-Claim Analysis and Risk Experience System: \$10,200; software available in system package which includes hardware; operates on IBM compatible PCs with Hayes modem. First installation: 1983; 198 total installations, 143 in risk management departments. Functions include workers compensation, general liability, auto and property claims processing.

■ FOCUS-Friendly On-Line Claim User System: \$5,000 (dial up), \$10,000 (dedicated line); software available in system package which includes hardware; operates on desktop terminal. First installation: 1984; 174 total installations, 114 in risk management departments. Functions include access to claim files and adjusters notes.

■ CIS-Customer Information System: \$20,000; software available in system package which includes hardware; operates on IBM compatible 486, 12MB RAM with OS/2 operating system. First installation: 1993; three total installations, all in risk management departments. Functions include customized claims data, text search and online sorting capabilities.

User support: Toll-free assistance available 10 hours a day, on-site training, manuals, newsletters. User support included in system price.

Staff: 91 total, 73 professionals.

New clients: 45 total; 40 in risk management departments.

Branch offices: Garland, Texas; New York.

Officers: F.G. Minchk, president/CEO; J.G. Weiss, vp-risk management; D.F. Benevich, vp-management services; A.D. Odom, vp-technical services; G.J. Krafcsin, vp-laboratory services; D.T. Stahoviak, treasurer.

Contact: W.F. Kahl Jr., manager-risk management.

NRM Computer Systems Inc.

4309 Hacienda Drive, Suite 483,
 Pleasanton, Calif. 94588;
 510-734-9400; fax: 510-734-8631

Risk management systems since: 1981.

Software products:

■ NRM Workers' Compensation Claim Processing System: Micro version: \$20,000 plus \$1,500 per user; mini version: \$25,000 plus \$1,500 per user; software available without hardware; operates on micro, mini and mainframe systems. First installation: 1980; 83 total installations. Functions include workers comp claim processing; automated disability payments; automated standard reporting; audit trail on costs and reserves; check processing and audits; automated benefit computation and letters; memo, credit memo, subrogation; integration with group health, RMI, FAS and liability/auto/property; reserves calculation worksheet; ad hoc reporting; unlimited cost centers; reminders and tables; federal 1099 and OSHA reporting; automated file review; reconciliation audit; personnel section; examiner/clerk trail; reserves/cost limits and check consolidation.

■ Imaging-Document Input & Retrieval: Micro version: \$375 per user; software available in system package which includes hardware; operates on micro, mini and mainframe computers; Windows based. First installation: 1991; four total installations. Functions include object linking and embedding, multiple color highlighting, handwritten and voice note capabilities, platform and data base independent, conversion of microfiche and film, low and high speed scanners, "Post-It" typed notes, embedded word processing and fax capabilities.

User support: User groups/meetings, telephone assistance available 12 hours a day, on-site training. User support not included in system price.

Staff: 12 total, four professionals.


New clients: Six total; four in risk management departments.

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A V I A T I O N P R O D U C T S L I A B I L I T Y

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FEATURE THAT
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SRS FROM
OTHER TPAs.

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If you'd like to know more, contact Joanne Larson, Assistant Vice President, ITT Specialty Risk Services, 55 Farmington Avenue, Hartford, CT 06105, or call her at 203-520-2575.

JOANNE D. LARSON, ARM
Assistant Vice President

SRS

ITT Specialty Risk Services, Inc.
55 FARMINGTON AVENUE • HARTFORD, CT 06105
(203) 520-2575

An ITT Hartford Company

Spotlight report

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Officers: Frank E. Amatelli CEO/president.

P

Paradigm Infosystems

22232 17th Ave. S.E., Suite 206, Bothell, Wash. 98021; 206-486-2956 or 800-637-5766; fax: 206-486-3173

Risk management systems since: 1991.
Parent: Risk Sciences Group.

CEO's and CFO's

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Risk Alternatives, Inc.

(305) 340-0611

Software products:

■ **ParaRisk:** \$40,000; software available without hardware; operates on Macintosh and IBM compatible PCs, supports UNIX, OS/2 or Windows, uses client/server technology. First installation: 1991; 12 total installations, six in risk management departments. Functions include multiline claims management, policy management, exposure and property value tracking, certificate tracking and issuance, loss analysis, payroll history tracking, ad hoc reporting, check writing, adjuster activity tracking through an integrated diary system, electronic state reports and ability to be customized for automatic data uploads and downloads with other data base systems.

User support: User groups/meetings, telephone assistance available 12 hours a day, onsite training, documentation, monthly newsletter, remote access to users' computers. User support not included in system price (except newsletter).

Staff: 11 total, seven professionals.

Officers: Richard Hoehne, president; Kenneth Elston, director-technical operations.

Contact: Richard Hoehne.

Premium Review Associates

35 Green Heron Lane, Nashua, N.H. 03062; 603-888-9361; fax: 603-891-0646

Risk management systems since: 1985.

Software products:

■ **EMS II:** \$1,000; software available without hardware; operates on DOS based PCs. First installation: 1985; 2,000 total installations, 500 in risk management departments. Functions include calculation of workers comp experience modification using industry standard formulas, allows verification and prediction of experience modification, works in

all NCCI states.

User support: Telephone assistance available nine hours a day. User support included in system price.

Staff: Three total, all professionals.

New clients: 300 total; 150 in risk management departments.

Officers: Norman Goodman, president.

Progressive Data Solutions Inc.

1320 N. Semoran Blvd., Suite 205, Orlando, Fla. 32807; 407-382-5920; fax: 407-382-5925

Risk management systems since: 1987.

Software products:

■ **Workers Compensation Management System:** \$50,000; software available with or without hardware; operates on AS/400 or OS/400 systems. First installation: 1987; 19 total installations, all in risk management departments. Functions as a workers comp policy and claims administration system for self-insurance funds, trust funds, single-employer group and third-party administrators; includes benefits administration and new billing for retro plans.

■ **Workers Compensation Managed Care:** \$25,000; software available with or without hardware; operates on AS/400 or OS/400 systems. First installation: 1988; 21 total installations, all in risk management departments. Functions as an insurance application that adjudicates workers comp medical bills according to state fee schedules; includes PPO network management, pre-certification management, utilization review and accounts receivable.

■ **Property/Casualty Management System:** \$25,000; software available without hardware; operates on AS/400 or OS/400 systems. First installation: 1988; three total installations, all in risk management departments. Functions as a commercial property and casualty policy and claims administration system; provides for ISO statistical reporting.

■ **Rehabilitation Case Management System:** \$16,000; software available with or without hardware; operates on AS/400 or OS/400 systems. First installation: 1987; five total installations, all in risk management departments. Designed for rehabilitation management providers to capture and manage time and materials billing, accounts receivable and claimant reporting.

User support: Telephone assistance available 10 hours a day, onsite training. User support included in system price.

Staff: 17 total, 14 professionals.

New clients: Eight total.

1992 revenues: \$1.4 million total, all from risk management information systems; 20% from sale of hardware, 30% from sale of software, 50% from software services.

Officers: Thomas L. Bittenbender, president; Marcia Bittenbender, secretary/treasurer.

Contact: Ann Dixon, marketing representative.

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 Claims & Risk Management System:** \$6,000-\$100,000; software available without hardware; operates on PCs, PC networks and client server in Windows environment. First installation: 1987; 153 total installations, 106 in risk management departments. Functions include multiple policies, user-customizable screens and fields, automated diary, online reserving and payment histories, litigation management, certificate tracking, cost-of-risk allocation, actuarial statistical functions, integrated reporting system and word processor.

■ **First Report:** \$15,000; software available without hardware; operates on PCs, PC networks and client servers in Windows environment. First installation: 1990; 31 total installations, 22 in risk management departments. Functions include all state forms, 512 user-defined prompts with customizable ordering, online edits, auto-printing and faxing, Claims/Risk program interface.

■ **Medical Management:** \$3,000-\$50,000; software available without hardware; operates on PCs, PC networks and client servers in Windows environment. First installation: 1993; one total installation, in a risk management department. Functions include medical logic, medical fee scheduling, PPO, clinical edits, rebundling, UCR repricing.

User support: User groups/meetings,

telephone assistance available nine hours a day (90 days free) included in system price; onsite training available for an additional fee. Other services include data conversions, consolidation, consulting, training and account executive program.

Staff: 25 total, 21 professionals.

New clients: 38 total; 22 in risk management departments.

Branch offices: Ann Arbor, Mich.; Concord, Calif.; Kansas City, Mo.; Pittsburgh; Morristown, N.J.

1992 revenues: \$2.4 million total; \$1.8 million from risk management information systems; 5% from sale of hardware, 45% from sale of software, 50% from software services.

Officers: William Kuebler, president; David Horton, Kenneth Luekens, Gary Michaels, vps.

Contact: Gary Michaels.

R

RDD Corp.

3825 Academy Parkway South N.E., Albuquerque, N.M. 87109; 505-345-6212; fax: 505-344-4221

Risk management systems since: 1971.

Software products:

■ **MPOWER:** Software available without hardware; operates on IBM compatible PCs. First installation: 1971; eight total installations, none in risk management departments. Functions include claims management for group/individual health, life, workers comp and other claims, enrollment billing, utilization management, claims adjudication, capitation, reporting, provider management, marketing, member servicing.

User support: User groups/meetings and telephone assistance available eight hours a day included in system price; onsite training and special training courses available for additional fee.

Staff: 42 total, 35 professionals.

New clients: Two total.

Branch offices: Farmington, Conn.

1992 revenues: 10% from sale of hardware, 20% from sale of software, 70% from software services.

Officers: William Reilly, Larry Dike, Robert Doshier, Armand Morin, Brad Stamet, Bomi Parakh.

Risk Data Corp.

2 Venture Plaza, Suite 400, Irvine, Calif. 92718-3331; 714-753-8010; fax: 714-753-8020

Risk management systems since: 1987.

Software products:

■ **MIRA-Micro Insurance Reserve Analysis:** software available in system package, which includes hardware; operates on multiple operating systems and hardware. First installation: 1989; 34 total installations, 30 in risk management departments. Functions include automating the setting of loss reserves on a per claim basis, production of ad hoc management reports.

User support: User groups/meetings, telephone assistance available 12 hours a day, onsite training. User support included in system price.

Staff: 55 total, 46 professionals.

New clients: 17 total.

Branch offices: Naperville, Ill.

1992 revenues: 100% from sale of software.

Officers: Mark S. Hammond, CEO; Kenneth Saunders, CFO; Vince Bianco, vp-operations; Sean Downs, vp-sales; John Huffman, vp-client relations.

Contact: Sean Downs.

Risk Sciences Group Inc.

5620 Glenridge Drive N.E., Atlanta, Ga. 30342; 404-256-0830; fax: 404-847-4028

Risk management systems since: 1981.

Parent: Crawford & Co.

Software products:

■ **SIGMA Systems:** \$15,000; software available without hardware; operates on PCs. First installation: 1978; 270 total installations, 260 in risk management departments. Functions include actuarial

Continued on next page

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One-Stop/Self-Insurance Market

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analysis and loss forecasting, accounting, budget planning and allocation, loss prevention and control, safety analysis, program monitoring, claims administration and monitoring.

■ **SIGMA System (License System):** \$125,000; software available without hardware; operates on midrange computers. First installation: 1987; five total installations, all in risk management departments. Functions are the same as the SIGMA System (described above).

■ **SIGMA Personal Service for SIS-DAT Data:** \$325 per report plus \$325 first-time set-up fee per report; software available without hardware. First installation: 1983. Reports are prepared by vendor staff to customer specifications and include financial analysis, claims analysis, loss prevention and control, safety analysis, actuarial reports, safety reporting and performance monitoring reports.

■ **SISDAT:** Included with claims administration service, software available in system package, which includes hardware. First installation: 1975; 1,926 total installations, all in risk management departments. Functions include production of detail loss runs in various formats and loss fund activity reports.

■ **Litigation Management Support:** \$10,000; software available without hardware; operates on PCs, mainframe systems. First installation: 1985; 12 total installations, all in risk management departments. Functions include litigation data base creation and analysis, legal diary, attorney monitoring and financial record keeping.

■ **Claims Self-Administration Support:** \$20,000; software available without hardware; operates on PCs. First installation: 1983; 25 total installations, 24 in risk management departments. Functions include workers comp and liability claims administration/processing, check writing, diary reserve worksheets, medical cost containment, 1099 reporting, ability to integrate with third-party data services.

■ **Property Asset Management:** \$7,500; software available without hardware; operates on PCs. First installation: 1990; five total installations.

Functions include processing and recording of property assets, including underwriting loss exposures, insurance policies and losses, cross-references property exposures and insurance policies, property asset management.

■ **Early Assignment Reporting Service:** \$5,000-\$15,000; software available without hardware; operates on PCs. First installation: 1989; 10 total installations, all in risk management departments. Functions include specific risk control data collection via centralized data collection hot line, first reports, assists operators in forwarding documents to local claims adjuster, provides electronic link to RMIS to update claim information.

■ **SISDAT+CAN and INSIGHTS:** New product. Functions include varying levels of online access to claims data and adjuster notes on workers compensation and liability files; views basic claims information; notes can be entered on workers compensation files; provides 24-hour, online, menu-driven access to claim information; updates claims information daily; ability to locate detailed claims information, leave notes for the adjusters while viewing a file and actively monitor claims.

User support: User groups/meetings, telephone assistance available 12 hours a day, onsite training, client advisory board, quarterly newsletters, e-mail between users and support staff. User support included in system price.

Staff: 240 total, 200 professionals.

New clients: 219 total, all in risk management departments.

Branch offices: Corte Madera and San Mateo, Calif.; Dallas; Mahwah, N.J.; McLean, Va.; Schaumburg, Ill.; Seattle; Ontario and Toronto, Canada.

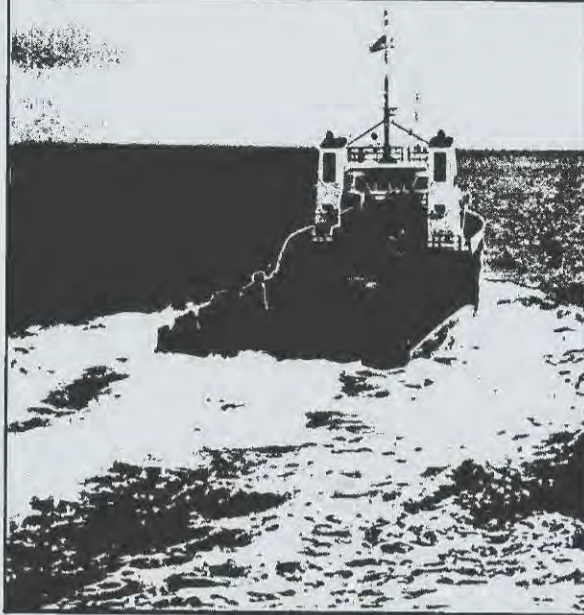
1992 revenues: \$598 million total.

Officers: Richard F. Denning, president; Andrew R. Daniels, vp-consulting; R. Michael Keating, vp-Atlanta operations; John W. Huecksteadt, vp-information services; Leo Jeffers, vp-California operations; Wayne M. Radosky, vp-Chicago operations; Jack S. Tatum, vp-New York operations; Carol F. Eskola, assistant vp-SISDAT services.

Contact: Andrew R. Daniels.

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MARATHON SYSTEMS

101 California Street 18th Floor San Francisco, CA 94111 (415) 362-0500

Continued from previous page

Risk Technologies Inc.

2480 Highway 287 N., Mansfield,
Texas 76063; 817-473-0204;
fax: 817-473-7610

Risk management systems since: 1988.

Software products:

■ **RiskVision:** \$7,500-\$30,000; software available without hardware; operates on PCs. First installation: 1988; 73 total installations, all in risk management departments. Functions include claims management, conversion of data from multiple TPAs, electronic data exchange with TPAs' system, custom reporting, state required form generation, laser check writing, can be adapted to network systems, program is customized.

■ **RiskVision TPA:** \$15,000-\$50,000; software available without hardware; operates on PCs. First installation: 1988; 14 total installations, five in risk management departments. Functions include integrated invoicing, accounting, personnel and TPA office management; claims handling system with complete diary and calendar functions, generation of state required forms and reports, laser and impact check writing, integrated medical cost management, program is customized.

■ **RiskVision MC:** \$7,500-\$50,000; software available without hardware; operates on DOS PCs, Windows based PCs, DOS based network, mini computer system, mainframe system, etc. First installation: 1992; three total installations, one in a risk management department. Functions include integrated workers comp and employee benefits management which provides customized managed care solution.

■ **RiskVision EAS:** \$3,500-\$8,500; software available without hardware; operates on Windows based PCs. First installation: 1992; seven total installations, five in risk management departments. Functions include executive analysis system adaptable to any RiskVision claims gathering product.

User support: Telephone assistance available 11 hours a day and on-site training included in system price; user groups/meetings available for an additional fee. Other services include training on commonly used PC-based software in relation to the risk management process (spreadsheets, word processors, etc.).

Staff: 12 total, nine professionals.

New clients: 26 total; 19 in risk management departments.

1992 revenues: 5% from sale of hardware, 75% from sale of software, 20% from software services.

Officers: Chuck Allen, president; Mickey Mikesell, senior vp.

Rollins Hudig Hall-**Risk Management Services**

Strandgade 4C, Copenhagen,
Denmark, 1401; 45-32-96-96-64;
fax: 45-32-96-96-34

Risk management systems since: 1992.

Parent: Rollins Hudig Hall.

Software products:

■ **CRIP—Combined Risk Information Package:** \$20,000; software available without hardware; operates on DOS based 386 PCs with 4MB RAM. First installation: 1991; four total installations, none in risk management departments. Functions include worldwide master program administration of values consolidation, currency exchange rates, primary/difference in conditions premium allocation, coverage reports and summaries, premium adjustment, policy digests, business interruption calculation.

■ **ALARM—Active Loss Analysis & Risk Management:** \$10,000; software available without hardware; operates on DOS based 386 PCs with 4MB RAM. First installation: 1989; 50 total installations. Functions include loss and claims management.

User support: Telephone assistance available eight hours a day included in system price; on-site training is available for an additional fee. Other services include context sensitive help system and user manuals.

Staff: Two total, both professionals.

1992 revenues: \$400,000 total.

Officers: Knud Petri, Niels de Bang, Lone Hertz, Stuart Henney.

Contact: Stuart Henney.

S

**Sedgwick James Inc.—
Information Systems
Division**

1290 Ave. of the Americas, New York,
N.Y. 10104; 212-830-1178;
fax: 212-830-1380

Risk management systems since: 1979.

Parent: Sedgwick Group P.L.C.

Software products:

■ **INFORM:** \$20,000; software available without hardware; operates on PCs, mainframes. 37 total installations, 22 in risk management departments. Functions include custom risk management, information systems, claims, premium allocations, actuarial loss forecasting, exposure tracking, customized and ad hoc reports, risk finance and risk control.

User support: Telephone assistance available 10 hours a day, on-site train-

ing, RMIS system consulting. User support included in system price.

Staff: Nine total, eight professionals.

New clients: Six in risk management departments.

Officers: R. Jane Hill, corporate senior vp/director-risk services; Alan R. Josefsek, executive vp-information systems.

Contact: Alan Josefsek.

Select Software Inc.

1305 Second St. S., Nampa, Idaho
83651; 208-463-8060;
fax: 208-463-8015

Risk management systems since: 1993.

Software products:

■ **Multi-Risk Manager:** \$25,000; software available without hardware; operates on DOS based 486 PCs with Windows 3.1 and a printer. First installation: 1993; one total installation, in a risk management department. Functions include incident tracking and reporting, liability, property occurrence and user definable reports.

User support: Telephone assistance available eight hours a day included in system price; user groups/meetings and

on-site training available for an additional fee. Individual customization and source coding is available.

Staff: Three total two professionals.

New clients: 18 total; one in a risk management department.

1992 revenues: \$250,000 total.

Officers: Joseph E. Weatherby, president; Gayle O. Weatherby, vp.

Contact: Joseph E. Weatherby.

Seligman Information Systems

234 Garden St., Roslyn Heights, N.Y.
11577; 516-484-5177

Risk management systems since: 1985.

Software products:

■ **CTRACK—Certificates of Insurance Tracking:** \$695; software available without hardware; operates on PCs, PC networks. First installation: 1988; 125 total installations, 120 in risk management departments. Functions include tracking of certificates received by businesses; renewal certificate followup; management reports for tracking past, current and future activity; provides A.M. Best ratings.

■ **Advanced CTRACK:** \$1,195; soft-

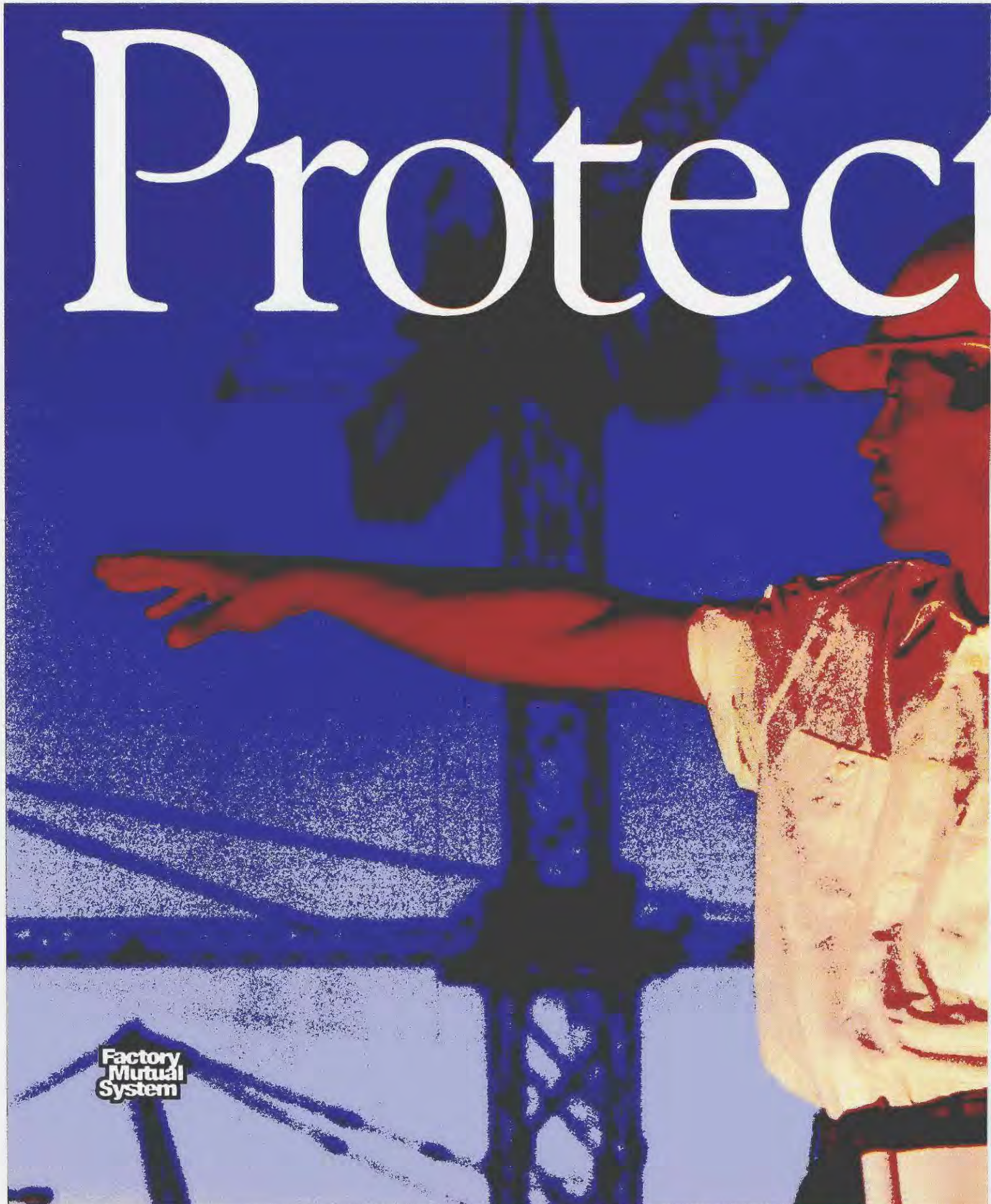
ware available without hardware; operates on PCs, PC networks. First installation: 1989; 50 total installations, all in risk management departments. Functions include basic CTRACK features plus automatic checking of certificates for clients' specifications; corrections requested for unacceptable certificates; customizable for OSHA forms, drug testing forms, etc.

■ **ACCESS—The Claims Information System:** \$7,000; software available without hardware; operates on PCs, PC networks. First installation: 1986; 18 total installations, six in risk management departments. Functions include complete risk management information processing, full financial and safety reporting system and check/voucher writing system.

■ **CERTS—Certificates of Insurance Issuing:** \$1,900; software available without hardware; operates on PCs, PC networks. First installation: 1987; 12 total installations, eight in risk management departments. Functions include issuance of large volumes of certificates of insurance forms 25, 25S and custom forms

Continued on next page

Protecc



**Factory
Mutual
System**

Continued from previous page
and letters, management reporting system and full audit trail of all certificates.

User support: Telephone assistance available 12 hours a day, on-site training.

Officers: Thomas Seligman, president.

Specific Software Solutions Corp.

P.O. Box 189221, Nashville, Tenn. 37219-8221; 615-793-7962; fax: 615-373-3713

Risk management systems since: 1985.
Software products:

■ **ModMaster Plus:** \$595; software available without hardware; operates on IBM compatible PCs. First installation: 1993; 200 total installations, 100 in risk management departments. Functions include computation of workers compensation modification factor for 42 states.

■ **Loss Forecaster II:** \$595; software available without hardware; operates on IBM compatible PCs. New product. Functions include forecasting of losses for workers comp, auto liability and

general liability.

User support: Telephone assistance available 12 hours a day. User support included in system price.

Staff: Five total, two professionals.

New clients: 200 total; 100 in risk management departments.

1992 revenues: 100% from sale of software.

Officers: Timothy L. Coomer, president; Sandy Coomer, secretary.

Contact: Timothy L. Coomer.

Surplus Risk Services Inc.

3465 Torrance Blvd., Suite N, Torrance, Calif. 90503; 310-540-8803; fax: 310-543-2391

Risk management systems since: 1986.

Software products:

■ **FORERISK Claim Tracking:** \$4,495 (single user), \$9,978 (multi-user); software available without hardware; operates on IBM compatible PCs, net bios compatible networks. First installation: 1991; 16 total installations, all in risk management departments. Functions include fully featured claims tracking system, reserve tracking, audit trails

and security, standard loss runs including claim size distribution reports and statistical analyses.

■ **FORERISK Forecasting:** \$4,200; software available without hardware; operates on IBM compatible PCs. First installation: 1988; 34 total installations, all in risk management departments. Functions include actuarial forecasting system, time series analysis, computes IBNRs in multiple ways, numerous graphing and reporting capabilities, spreadsheet compatibility and ability to import data from Lotus.

■ **FORERISK Certificate of Insurance Tracking:** \$895 (single user), \$1,695 (multi-user); software available without hardware; operates on IBM compatible PCs, net bios compatible networks. First installation: 1989; 82 total installations, 76 in risk management departments. Functions include fully featured certificate of insurance tracking, tracks renewals and non-received certificates on contracts or loans, automatically issues reminder letters and numerous management reports, ad hoc inquiry, ability to scroll through historical files and new user interface.

■ **FORERISK Cost Allocation:** \$1,495; software available without hardware; operates on IBM compatible PCs. First installation: 1992; 52 total installations, 46 in risk management departments. Functions include allocation of insurance costs between departments and subsidiaries, unlimited corporate tree structures supported and new user interface.

User support: Telephone assistance available nine hours a day included in system price; on-site training for an additional fee. Other services include optional software support and maintenance agreement after initial 90-day warranty.

Staff: 22 total, 16 professionals.

New clients: 62 total, all in risk management departments.

Branch offices: Walnut Creek, Calif.

1992 revenues: \$1 million total, all from risk management information systems; 86% from sale of software, 14% from software services.

Officers: Frederick J. Fisher, president; Aubrey Payne, vp/marketing director.

Contact: Frederick J. Fisher.

T

3R Co.

P.O. Box 518, Kings Park, N.Y. 11754-0518; 516-265-6594

Risk management systems since: 1985.

Software products:

■ **QuoteTester:** \$75; software available without hardware; operates on IBM PCs. Functions include comparison of auto, general liability, workers comp or group benefits proposals.

■ **Triangle Analysis:** \$750; software available without hardware; operates on IBM PCs. First installation: 1985; 11 total installations, two in risk management departments. Functions include workers comp loss development and loss reserve analysis, loss forecasting, graphics capabilities.

User support: Telephone assistance available one hour a day. User support included in system price.

Staff: One total, a professional.

Officers: Joseph A. Rinaldi, owner.

The Travelers

One Tower Square, 9 CR, Hartford, Conn. 06183-4063; 203-277-2770; fax: 203-277-2876

Risk management systems since: 1983.

Parent: The Travelers Cos.

Software products:

■ **CARMA:** Software available without hardware; operates on mainframe timeshare, client needs PC (DOS or OS/2) and modem. First installation: 1983; 260 total installations, 114 in risk management departments. Functions include property/casualty claims reporting and analysis, OSHA/managed care reporting, litigation management, access to adjusters' notes.

■ **SAILOR ON-LINE:** Software available without hardware; operates on mainframe timeshare, client needs PC (DOS or OS/2) and modem. First installation: 1988; 885 total installations, 742 in risk management departments. Functions include property/casualty reporting, access to adjusters' notes.

■ **PC CARMA:** Software available without hardware; operates on PCs. First installation: 1986; 83 total installations, 17 in risk management departments. Functions include property/casualty loss reporting and analysis.

User support: User groups/meetings, telephone assistance available 10 hours a day, on-site training, assigned account information representative for assistance/consulting on risk management applications. User support included in system price.

Staff: 107 total, 82 professionals.

New clients: 123 total.

Branch offices: Los Angeles; Naperville, Ill.

Officers: Jack Gardner, vp; Matt Carden, director.

V

Venture Group Inc.

3840 Myers St., Riverside, Calif. 92503; 909-352-9334; fax: 909-352-9393

Risk management systems since: 1989.

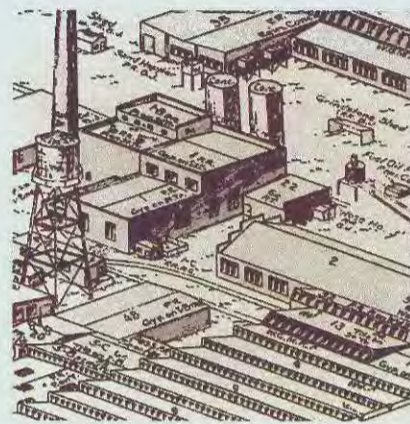
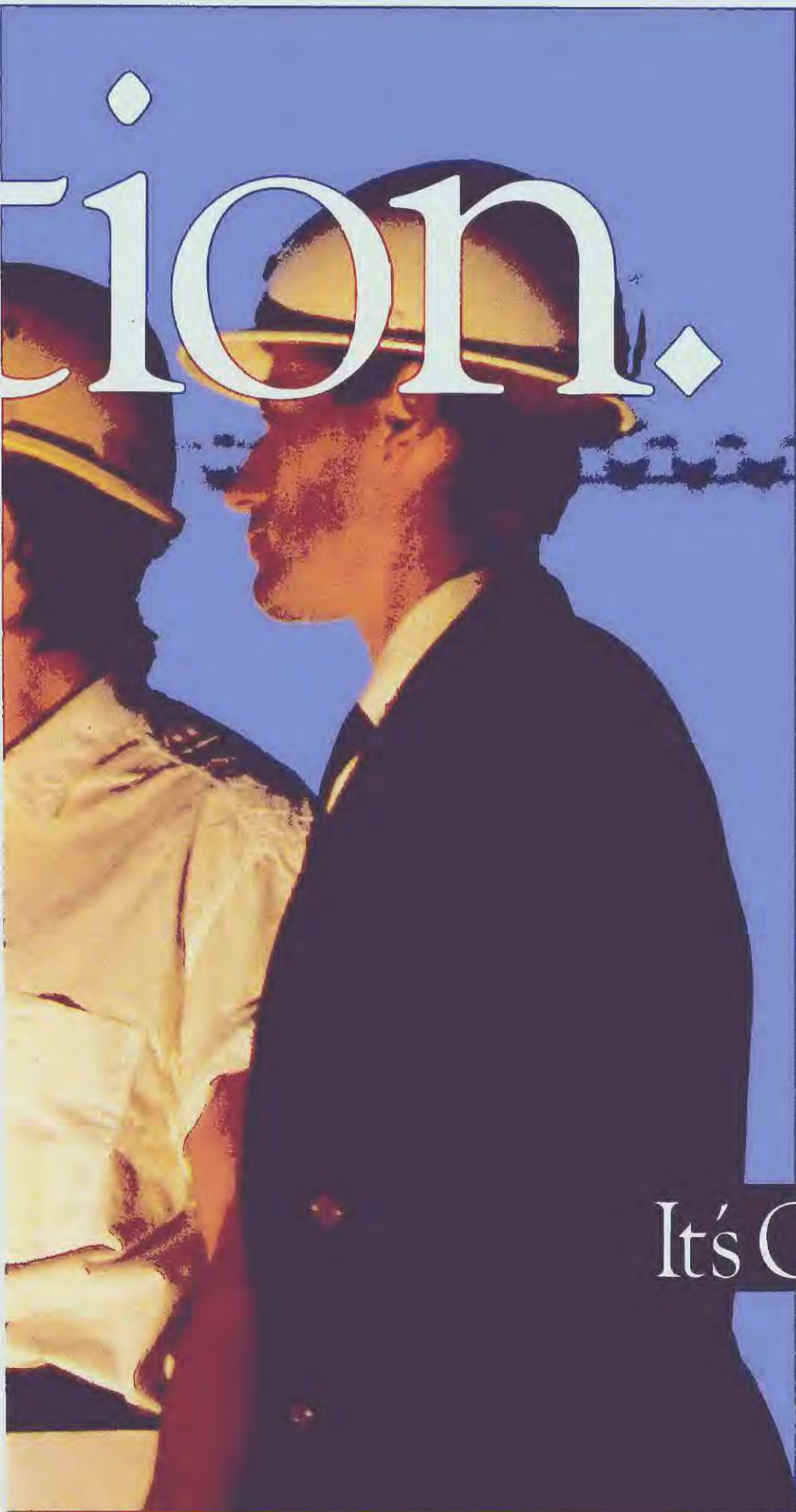
Software products:

■ **Workers Compensation Claims Management:** \$1,500-\$30,000; software available without hardware; operates on IBM compatible PCs. First installation: 1989; 50 total installations, 20 in risk management departments. Functions include first report of injury, OSHA reporting, claims management, payment processing, property interlinking, litigation/investigation tracking, produces 1099's, diary feature, reserving/trust fund accounting, state/monthly reports, pre-formatted and ad hoc reports.

■ **General Liability Claims Management:** \$5,000-\$20,000; software available without hardware; operates on IBM compatible PCs. Functions include general liability claims management and processing.

■ **Medical Managed Care/Utilization Review:** \$20,000-\$60,000; software available without hardware; operates on IBM compatible PCs. Functions include downloading, review and processing of

Continued on next page



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It's Our Word.



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Park Ridge, Illinois 60068 708.825.4474

Spotlight report

Continued from previous page
medical bills for workers comp and group health.

■ Professional Medical Malpractice Management: \$20,000-\$50,000; software available without hardware; operates on IBM-compatible PCs. Functions include comprehensive automation of incident, claims and litigation management.

User support: User groups/meetings, telephone assistance available 24 hours a day, on-site training. User support included in system price.

Staff: 14 total, seven professionals.

New clients: 10 total; five in risk management departments.

1992 revenues: \$1.2 million total; \$900,000 from risk management information systems; 10% from sale of hardware, 80% from sale of software, 5% from software services, 5% from supplies.

Officers: Niles F. Haton.

Contact: Niles F. Haton, Larry Gallant or Don Stone.

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** Workers Compensation Claims Administration System: \$20,000; software available without hardware; operates IBM-compatible PCs, stand alone or networked. First installation: 1985. Functions include tracking and payment of workers compensation claims, includes diary review, instant access to claims status, duplicate payment checks, accommodates multiple state fee schedules, automatically com-

putes PPO discounts, state and federal reporting including OSHA and 1099s, fee bill review, hospital and PPO discount tracking, letter writing, reporting and billing functions, financial accounting, on-line calculator, specific and aggregate tracking, operator security, electronic mail, remote processing, group/patient administration, management reporting and analysis and check writing.

■ **CLAIMSCHEK** Claims Editing System: \$15,000; software available without hardware; operates on IBM-compatible PCs (stand alone or networked). First installation: 1993. Functions include complete provider bill editing and billing; edits for appropriate diagnoses, procedure, place of service, age, sex, frequency and modifiers; checks primary and assistant surgeon fees; unbundled procedures; duplicate procedures; duplicate billings; cosmetic, incidental and elective procedures; checks fol-

low-up days and nonspecific diagnoses.

User support: User groups/meetings, telephone assistance available 9.5 hours a day, on-site training, modem assistance, enhancements, newsletter. User support not included in system price.

Branch offices: Arlington, Texas; Syracuse, N.Y.; Zephyr Cove, Nev.

Officers: William L. Tiner Jr., president; Ann M. Tiner, vp; Tom Brooks, sales manager.

X**Xordium Inc.**

12465 Lewis St., Suite 104, Garden Grove, Calif. 92640; 714-748-9291; fax: 714-748-9294

Risk management systems since: 1990.

Software products:

■ **Risk Controller:** \$2,995; software available without hardware; operates on IBM 386 PCs with 4MB RAM and 10MB hard drive. First installation: 1992; six total installations, one in a risk management department. Functions include management of company assets as related to occupational health and safety and workers comp including management of insurance portfolio, certificate of insurance tracking, loss management, case management, injury reporting, generation of incident rate for injury and auto liability losses, OSHA 200 log, tracks all training programs and medical surveillance, equipment safety checklists, tracking of chemicals, generates chemical manifest and right-to-know information, environmental monitoring for equipment and chemicals and note pad for loss files.

User support: User groups/meetings, telephone assistance available eight hours a day, on-site training. User support included in system price.

Staff: One total, a professional.

New clients: Two total (licensed systems).

1992 revenues: \$650,000 total; \$18,000 from risk management information systems; 85% from sale of software, 15%

from software services.

Officers: Karen J. Gillett, president; Fred C. Gillett, executive vp; Jeffrey R. Norseen, vp.

Contact: Jeffrey Norseen.

ADDENDUM

The following information was received too late to be included in the alphabetical listing.

Arena Systems Inc.

1247 Milwaukee Ave., Suite 302, Glenview, Ill. 60025-2499; 708-824-6000; fax: 708-824-6329

Risk management systems since: 1986.

Software products:

■ **Accountable Care for Medical Management:** \$40,500; software available without hardware; operates on PC-compatible Novell networks. First installation: 1987; 19 total installations, two in risk management departments. Functions as a complete managed medical care system including clinical and financial functions, population-based cost and utilization analysis.

■ **Accountable Care for Behavioral Health:** \$49,500; software available without hardware; operates on PC-compatible Novell networks. First installation: 1990; nine total installations, three in risk management departments. Functions as a complete managed behavioral care system, including clinical and financial functions, population-based cost, utilization and outcomes analysis.

User support: Telephone assistance available 24 hours a day, on-site training, remote support via modem. User support not included in system price.

Staff: Six total, four professionals.

New clients: Six total; three in risk management departments.

1992 revenues: \$350,000 total; \$275,000 from risk management information systems; 75% from sale of software, 25% from software services.

Officers: Karl Kaiser, president.

Contact: Sophia Hana. **BI**

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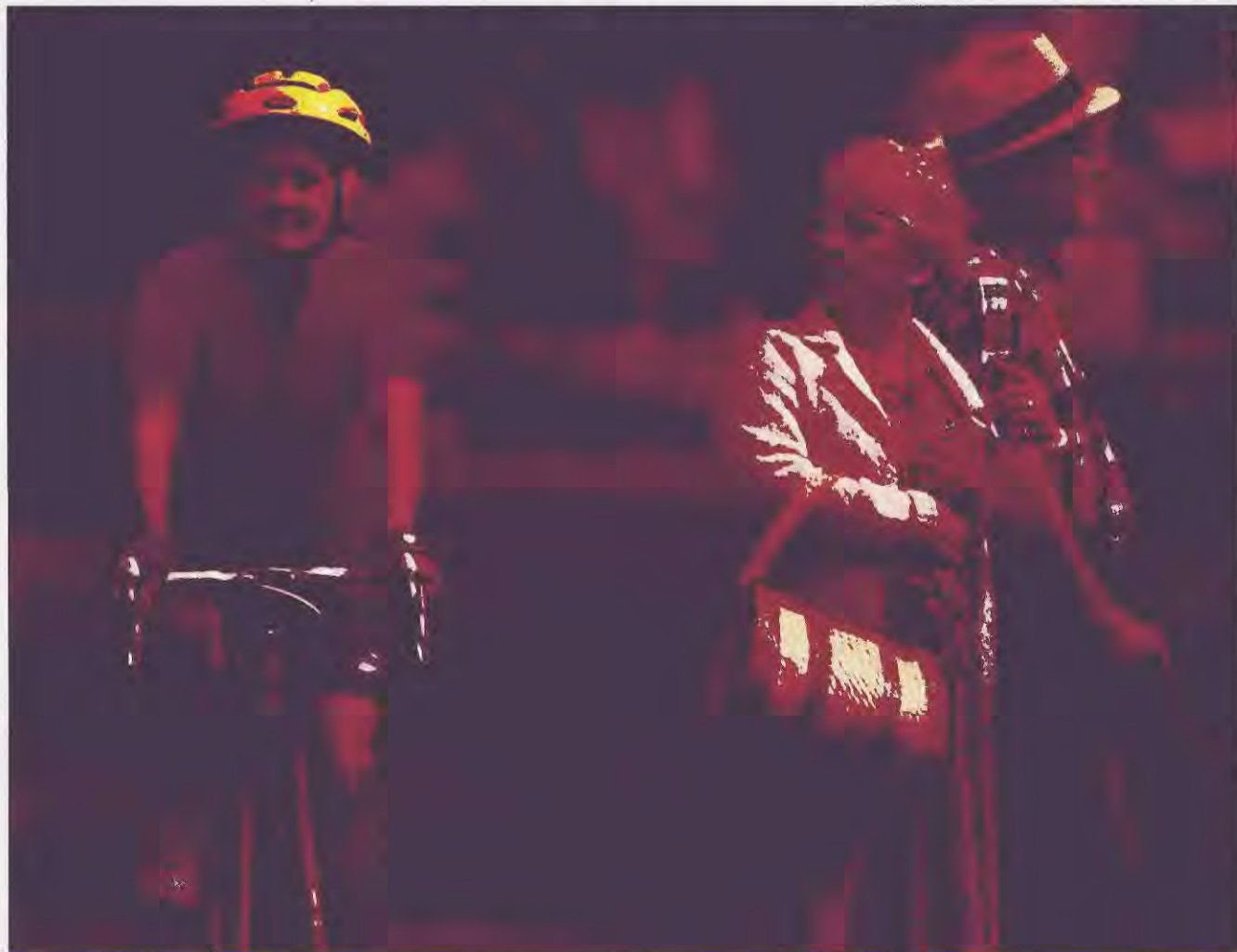
Corporate Cobra Manager, now with over 3,000 users nationwide, has been enhanced with new correspondence and premium billing /collection / reporting capabilities designed to help employers and administrators meet the requirements of COBRA and the new Family and Medical Leave Act of 1993 (FMLA). And the single-employer version is still just \$1295!

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Travis Software Corp. 1155 Dairy Ashford, Suite 315, Houston, Texas 77079

For Many Insurers, Defining The "Typical" Older American Is A Real Challenge.



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Many insurers are developing new products to tap the potential of this new market. From long-term care policies to accelerated benefits riders. Others are trying to figure out how to approach traditional products for the older ages.

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Illinois court to hear premium tax appeal

By SARA MARLEY

SPRINGFIELD, Ill.—The Illinois Supreme Court will decide whether the state's premium tax, from which only Illinois-domiciled insurers can be exempted, is constitutional.

Sangamon County Associate Judge Stuart H. Shiffman ruled in March that the tax violates the equal protection clause of the U.S. Constitution because insurers domiciled in Illinois that meet certain requirements are exempt from the 2% tax. Non-Illinois-domiciled insurers must pay the tax.

Many states changed their premium tax structures after 1985, when the U.S. Supreme Court declared Alabama's tax unconstitutional because it was applied differently to in-state and out-of-state insurers.

However, Illinois never changed its law.

The Illinois case stems from a suit filed in 1988 by former Missouri Director of Insurance Lewis Melahn, acting as receiver for Transit Casualty Co., who sought \$973,000 in back taxes paid by Transit.

Motions to reconsider Judge Shiffman's ruling were denied in September, and the state appealed directly to the Illinois Supreme Court, which accepted the appeal late last month.

Since the trial court ruling in September, more than 50 non-Illinois-domiciled insurers have filed suit against the state. Some of the suits seek refunds of previous years' taxes, which could cost the state as much as \$73 million, according to the state's appeal.

So far, insurers that have filed suit have paid \$3 million in quarterly estimated tax payments under protest in the past several months and have succeeded in preventing the state from using those funds until the litigation is resolved.

But some insurers' attorneys believe the state is overestimating the potential impact of the lawsuits.

"It is not at all clear that all insurers will want to (seek refunds)," said Richard Bromley, an attorney with Hopkins & Sutter in Chicago, which is representing 31 insurers seeking tax refunds.

The payments have been frozen in a "protest account" and the insurers' lawsuits have been stayed until the Supreme Court ruling, said Mary Kay McCalla, an attorney with Hopkins & Sutter in Chicago. The insurers that firm is representing are seeking only refunds of tax payments held in the protest fund, not payments from previous years.

Illinois has collected between \$90 million and \$200 million annually in premium taxes over the past decade, said Robert N. Enoex, chief legal counsel for the Illinois Department of Insurance.

Insurers based in Illinois can earn an exemption from the tax by maintaining their principal place of business in the state, maintaining substantially all underwriting, policy issuance and servicing operations in the state, and maintaining books and records in Illinois, among other requirements.

Without a formal premium tax, Illinois could still collect "retaliatory taxes" from out-of-state insurers equal to the amount of premium or privilege taxes that Illinois-based insurers pay in other states, Mr. Enoex noted.

The current system of state in-

surance regulation endorses different treatment of in-state, out-of-state and non-U.S. insurers, said Mr. Enoex, explaining that the ability to tax insurers differently is closely tied with the ability to regulate.

"The state has far more control when (an insurer's) authority and existence has been declared by the state," Mr. Enoex said. "What the state has given, the state can take away. It ultimately boils down to the degree of authority, and we

have far greater authority over a domestic company."

Regulating out-of-state insurers costs the state more than regulating an insurance company domiciled in Illinois. "I don't think any two domestic companies have cost as much" for Illinois regulators "in regulatory costs as Baldwin-United Corp. and Executive Life Insurance Co.," said Mr. Enoex, referring to two well-publicized life insurance insolvencies.

"The tax differential encour-

ages companies that are doing business here to locate here," Mr. Enoex said.

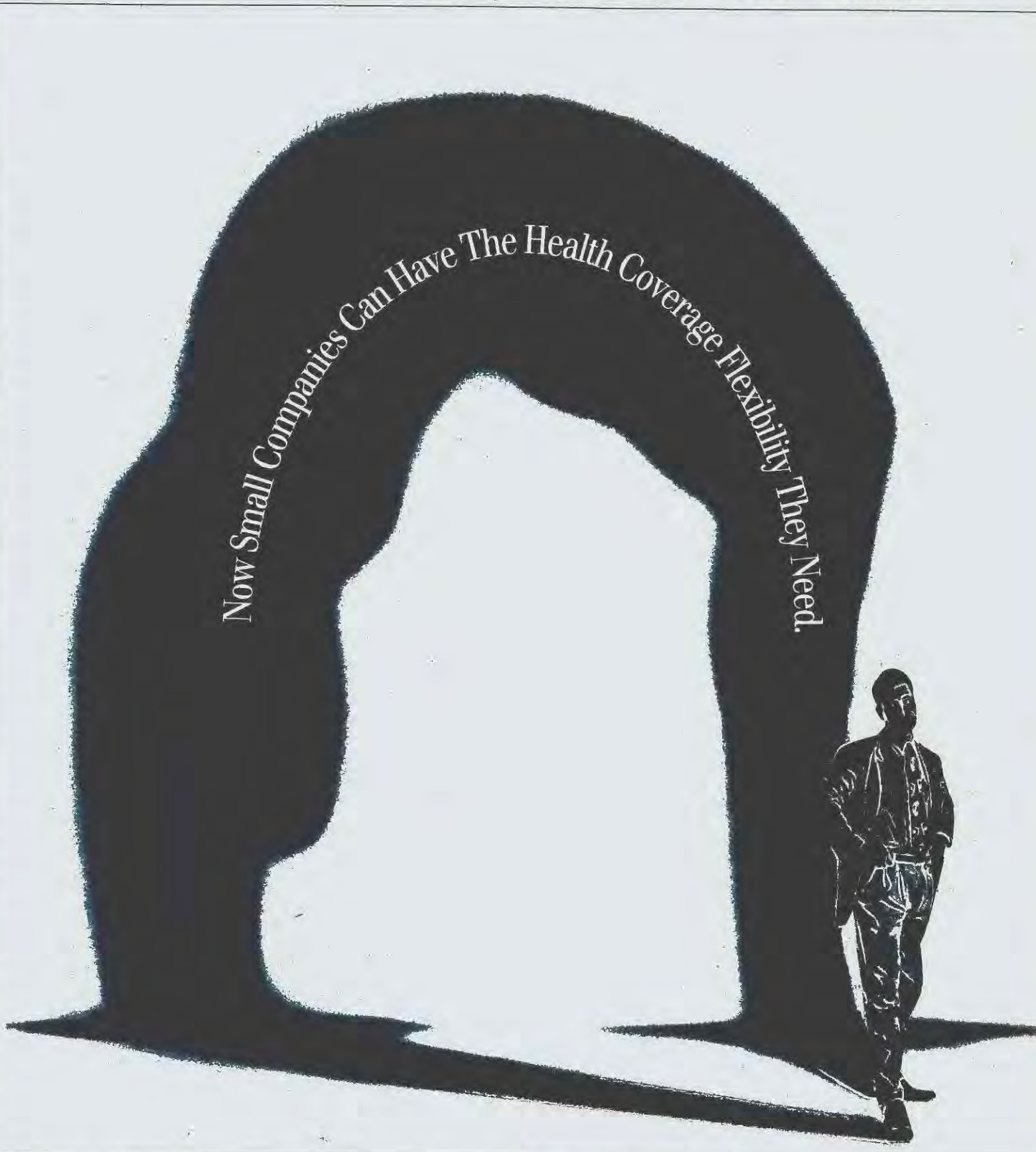
If the premium tax differentials are found unconstitutional, Mr. Enoex fears it would fundamentally change the nature of state insurance regulation.

"Once this can of worms is opened, I don't know where it will stop," Mr. Enoex said. "It will automatically reduce regulatory effectiveness."

The Florida Supreme Court last

year upheld that state's premium tax structure. However, that decision only prevented insurers from seeking refunds from the state, because the Florida Legislature changed the premium tax law in 1988 to apply to all insurers equally, with credits available to all insurers based on their Florida payrolls.

Lewis Melahn, etc. vs. State of Illinois, et al., Illinois Supreme Court, No. 76268.



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NAIC meeting

Continued from page 1

Pomeroy, who is not even sending any staff members. "It doesn't feel like the appropriate thing to do."

Not that he begrudges his fellow commissioners their moment in the sun. "People ultimately have to live in their comfort level," added Mr. Pomeroy.

Hawaii meetings are a particularly sensitive topic in North Dakota. Several years ago, the commissioner's brother, Earl, who was then commissioner, criticized the state Blue Cross/Blue Shield board for holding its annual meeting in Hawaii. That criticism surfaced last year during Earl Pomeroy's successful campaign for the U.S. House.

John Mortell, the Indiana commissioner, was spared any soul searching. His expense request was rejected by the Indiana Depart-

ment of Administration, which could not justify the cost of sending him and one or two staffers to Hawaii.

"I happen to agree with their decision," added Mr. Mortell, who like other regulators not making the trip said he did regret missing NAIC business sessions.

"It's a long and expensive trip," said a spokeswoman for Tom Gallagher, the Florida commissioner, who personally decided not to go. Two Florida staffers are being sent, down from the usual eight to 10.

New York Insurance Superintendent Salvatore Curiale won't be joining his fellow regulators in Hawaii, primarily because he has to be in Rochester to chair a town meeting on health care, said a spokesman.

"There is a perception problem about sending people to Hawaii when it is snowy outside," said the spokesman. "It's a perception issue, not an expense issue," he emphasized, pointing out that air fare from New York to other continental U.S. destinations can cost nearly as much as a flight to Honolulu.

New York will send only 17

Going to the Hawaii meeting 'doesn't feel like the appropriate thing to do,' says Glenn Pomeroy.

staffers to the meeting, down from the usual 23.

Hawaii's fun-and-sun image is one reason why John Garamendi, the California commissioner, will stay home. State officials need special permission to travel to Hawaii or Alaska because they are considered "out of country," a spokesman added.

The California Insurance Department is cutting its NAIC contingent down to three from the normal eight to 12.

Commissioners who do not attend an NAIC meeting can still have a say in matters if they officially designate a staff member to vote for them.

NAIC meeting sites are selected by a subgroup of regulators and are ultimately approved by all NAIC members when they accept the subgroup's report.

NAIC staffers try to arrange meeting sites four years in advance, partly because the quarterly meetings typically require more than 1,000 hotel rooms as well as extensive meeting and office space, an NAIC staff member said.

Regulators' room rates are typically less than those paid by non-regulators. At the Honolulu meeting, the daily room rate for regulators is \$95, while non-regulators will be charged \$185 to \$230. The NAIC also provides subsidies to some attendees, including consumer representatives.

Those who supported Hawaii as the 1993 winter meeting site several years ago pointed out that meeting was expected to coincide with the election of Hawaii's insurance commissioner as NAIC president. However, the commissioner at that time, Robin Campaniano, subsequently resigned as the state's insurance regulator.

Regardless, supporters emphasize that Hawaii—as one of the 50 states—deserves an opportunity to host an NAIC quarterly meeting.

Meanwhile, the NAIC is scheduled to announce today the accreditation of six new states: Delaware, Georgia, Oklahoma, Washington, West Virginia and Wyoming. **BI**

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Supreme Court

Continued from page 2

when it excluded the hospital from an Aetna PPO formed to serve the Richmond area.

Among other things, the Virginia statute says that an insurer cannot "discriminate unreasonably against" providers that are willing to meet the insurer's terms and conditions.

The hospital claimed it was excluded from the Aetna PPO not because it couldn't meet the insurer's standards, but because it was not a member of Aetna's existing health maintenance organization in Richmond.

Aetna's attorneys had argued that the state law was pre-empted by the Employee Retirement Income Security Act of 1974. The insurer also argued that the law was not designed to regulate "the business of insurance."

However, a ruling by the 4th U.S. Circuit of Appeals, which the Supreme Court allowed to stand, found that establishing a PPO constitutes the business of insurance and therefore is not pre-empted by ERISA.

Critics of the decision say it unfairly penalizes insurance companies that want to establish networks in Virginia, because it appears that non-insurance entities could selectively set up PPOs without violating the law.

In other action involving business-related litigation, the Supreme Court:

- Dismissed a case that would have decided the validity of a settlement practice known as "vacatur," which permits the winner of a lawsuit to ask the judge or an appeals court to issue an order "vacating" the decision in exchange for an extra payment or other compensation from the losing party.

The case, *Izumi Seitmitsu Kogyo Kaisha vs. U.S. Philips Corp. et al.*, stemmed from a patent infringement suit involving electric razors. The justices had already heard arguments on the case.

Izumi objected to the vacatur of the lower court judgment because it hoped to use that decision to bolster its own defense in another lawsuit.

When the court denied Izumi permission to intervene in the case and present its argument, the company appealed to the Supreme Court.

The issue of vacating rulings is an important one for corporate policyholders, because many significant rulings in coverage disputes have been erased from the nation's law books as a result of these settlements (*BI*, June 15, 1992).

- Voted to decide whether the Federal Deposit Insurance Corp. can sue the lawyers and accountants of a failed savings and loan for professional malpractice even though the institution itself, had it still existed, would have been barred from bringing an identical lawsuit.

The case involves the failed American Diversified Savings Bank of Costa Mesa, Calif., and the Los Angeles law firm of O'Melveny & Myers, which prepared two real estate syndications for the institution.

The U.S. District Court in Los Angeles dismissed the government's lawsuit against the law firm, but the 9th U.S. Circuit Court of Appeals reinstated it last year.

Also last week, the U.S. Supreme Court was asked by a group of Vietnam War veterans to reopen litigation, *Ivy vs. Diamond Shamrock*, against the manufac-

turers of the defoliant Agent Orange.

The veterans argue that it is unfair to hold them to the terms of a 1984 settlement reached with makers and distributors of the chemical defoliant since they were not ill at the time.

So far, courts have thwarted suits brought by veterans who became ill after Monsanto Co., Dow Chemical Co. and other chemical manufacturers agreed to pay veterans \$180 million in a class action settlement of damages for illnesses believed to be connected to the chemical defoliant used in Vietnam (*BI*, May 14, 1984).

Monsanto and Dow Chemical together paid 65% of the settlement, while lesser percentages were paid by Diamond Shamrock Inc., Hercules Inc., T.H. Agriculture & Nutrition Co., Uniroyal Inc. and now defunct Thompson Chemical Corp. **BI**

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Retiree health care

Continued from page 1

proposes that the federal government eventually pay 80% of early retirees' health care costs (BI, Sept. 27). Ms. Wilson said employers still will need to fill gaps in the federal coverage on their own.

For example, companies often find early retiree health benefits an effective tool to use in cutting jobs. Companies that cut way back on health care benefits for early retirees have difficulty finding people willing to leave their jobs early, she said.

The latest survey, like previous ones, showed employees with a pre-65 retiree health care package are willing on average to retire at age 62—two years earlier than those without such a package.

Fewer than 60% of those surveyed could separate health care costs for retirees from those for

active employees. Among those that could, medical plan costs rose 11% to \$2,760 per retiree from averages of \$2,486 in 1991.

And, for those employers that could separate benefit costs of early retirees from those of older, Medicare-eligible retirees, the average costs were \$4,244 for early retirees and \$1,663 for those age 65 and older.

"Relatively slow growth in the cost of benefits for Medicare-eligible retirees (about 8% for the past two years) helped hold retiree benefit cost increase in 1992 below the average 14.2% increase in overall medical plan costs" for active employees and retirees, the survey pointed out.

Fewer employers reported offering health coverage without charge to early retirees in 1992: 32%, compared with 37% a year earlier. Forty-five percent of employers, up from 40% in 1991, re-

quired early retirees to pay a portion of the cost of coverage, while 23% required them to pay the full cost, a figure unchanged from a year earlier.

Similarly, only 43% of employers, down from 48%, offered free coverage for retirees age 65 or older. Another 38%, up from 32%, required retirees to pay a portion of costs, and 19%, down from 20%, required retirees to foot the entire bill.

Employers were more likely to require retirees in both age categories to pay for all or part of dependent coverage. For retirees under age 65, 52% of employers required retirees to pay some of the cost, 25% required them to pay the full bill and 22% provided free coverage. For Medicare-eligible retirees, 44% required them to share in the cost, 21% require them to pay the entire cost and 35% provide free coverage.

Larger employers are more likely to offer retiree medical benefits. Among those with 40,000 or more employees, 94% offered coverage to under-65 retirees and 89% offered it to those age 65 and older.

Similarly, among employers with 20,000 to 40,000 employees, 89% offered coverage to the younger retirees and 86% offered it to those eligible for Medicare.

Most employers with at least 1,000 employees offered benefits to retirees regardless of Medicare eligibility. Among those with 500 to 999 employees, though, only 44% offered benefits to under-65 retirees and 38% to retirees 65 and older. And, among employers with fewer than 500 employees, the figures fell to 29% and 22%, respectively.

Utilities were far more likely than any other type of company to offer retiree health benefits. Nine-

ty-seven percent of the utilities surveyed offered benefits to retirees under 65 and 93% offered benefits to older retirees.

At the other end of the spectrum were health services and technical/professional services. Only 25% of health care employers offered benefits to pre-65 retirees and only 21% offered coverage to Medicare-eligible retirees. Technical and professional firms scored only slightly higher: 32% and 29%, respectively.

The percentage of employers offering retiree coverage generally increases from West to East. Foster Higgins concluded. In the Pacific states, only 40% of employers provided benefits to retirees under age 65 and only 33% covered older retirees. By contrast, in the Mid-Atlantic region, 58% provided coverage to retirees under 65 and 54% covered older retirees.

Costs may account for at least part of that discrepancy. In both the Pacific and Rocky Mountain regions, the average cost per retiree was \$2,944. In the Mid-Atlantic, the cost was \$2,738. Yet in New England, where the cost per retiree was lowest, employers reported offering coverage to only 50% of under-65 retirees and 46% of those eligible for Medicare.

Some 47% of surveyed employers reported having modified their retiree health benefits in the previous two years. Another 22% said changes were planned this year.

Larger employers were more likely to make changes than smaller ones: 51% of those with 1,000 or more employees said they had made changes, compared with only 37% of smaller employers.

Some 30% of all surveyed employers said they had raised retiree premium contributions, and 21% shifted costs by raising deductibles, coinsurance or out-of-pocket maximums. Eleven percent reported having tightened eligibility standards.

"Some changes were aimed at making retiree benefit cost more predictable, probably with (Financial Accounting Standard) 106 in mind: 9% of employers installed (or decreased) the lifetime maximum benefit, and 5% changed from a defined benefit to a defined contribution or fixed-dollar approach," Foster Higgins said.

"More than ever before," the firm concluded, "employers are looking at their retiree plans separately from their active employee plans and are developing specific retiree benefit cost management strategies."

Of the surveyed employers that had already changed their benefits or planned to do so this year, only 15% altered retiree plans because benefits for active employees had been altered. By contrast, 48% said they modified their plans to reduce their FAS 106 liability and 27% said they did so to control health care costs.


FAS 106 requires companies to accrue retiree health care benefits from the time an employee is hired until the time that employee is eligible for benefits. The rule became effective for large employers for plan years beginning after Dec. 15, 1992 (BI, Aug. 17, 1992). Under FAS 106, employers have to fully recognize their accumulated liabilities this year or amortize them over up to 20 years.

But, by the time of the 1992 survey, only half of the employers with retiree medical benefits had determined their FAS 106 liability; that compares with 37% a year earlier. Only 58% of those that had not determined their

Continued on next page

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Continued from previous page
FAS 106 liability said they would comply by the deadline.

The average FAS 106 liability was \$15,833 per active employee in 1992, up 2.3% from the 1991 average.

Prescription drug programs were a big area of interest for cost-conscious employers in 1992, Foster Higgins found. Retirees tend to use more prescription drugs than active employees, and in some cases drug costs account for half of the annual medical plan cost per retiree, the survey said.

Family leave law

Continued from page 2
the family leave law.

Experts do not expect the recent opinion letter to greatly hinder light-duty programs because most companies offer only unpaid leaves of absence. Few workers would likely choose to take an unpaid leave in lieu of paid light duty.

But the family leave law does allow workers to substitute paid sick or vacation leave for unpaid leave, so the result of this opinion letter could be that a temporarily disabled worker could stay home with full pay instead of returning to light-duty work, explained Karen H. Henry, the Sacramento, Calif., attorney who requested the opinion from the Labor Department.

"I think the Department of Labor letter is just nuts," Ms. Henry said. The family leave law "was never intended to allow people to sit out on leave if there's a job they can do."

However, the Labor Department interpretation is consistent with the traditionally voluntary nature of return-to-work programs, pointed out Liz Partyka, a consultant with Hewitt Associates in Lincolnshire, Ill.

"The rehabilitation and modified work approaches (to disability) have always been voluntary," Ms. Partyka stated. The family leave law "doesn't change any of the voluntary nature" of these programs.

Ms. Henry disagrees.

In her letter to the Labor Department, she wrote: "It is our position that FMLA should be interpreted so as to allow a continuation of mandatory modified work programs in which jobs are altered to suit medical disabilities."

Ms. Henry noted that under the family leave law, a worker may request an unpaid leave because of a serious health condition that makes the employee unable to perform the functions of the position.

"For employers who have a practice of modifying jobs for temporarily disabled employees, this raises a question as to whether, by altering a job to eliminate the essential functions an employee cannot perform, an employer can continue to require the employee's presence at work," she wrote.

Ms. Henry then posed two specific questions to the Labor Department: "May an employer require the employee to accept an alternative position (with similar pay and benefits) whose essential functions the employee can perform; and, if so, may the employer deny the requested FMLA leave if the employee does not take the offered position?"

The Labor Department responded that an employer cannot "require an employee to work in a restructured job instead of granting the employee's FMLA leave request in the example you posed in your inquiry."

Although the government's

Two of five employers had card or mail-order drug plans for pre-65 retirees in the 1992 survey. Thirty-seven percent had such plans for retirees age 65 or over. In 1991, by contrast, only 29% had implemented mail-order plans for either group of retirees.

Copies of the 1992 Retiree Health Care Benefits Survey are available from Annemarie Harte at A. Foster Higgins & Co., Survey and Research Services, 125 Broad St., New York, N.Y. 10004; 212-574-9025. The cost is \$100; prepayment is requested.

opinion letter is "quirky," the situation probably will not occur very frequently, said Francesca Bruno, a managing consultant with A. Foster Higgins & Co. Inc. in New York. **BI**



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INTERNATIONAL

Bermuda court adjourns action against Hardy

By ROGER SCOTTON

HAMILTON, Bermuda—Before one contempt proceeding against bankrupt insurance executive Mark Hardy could be cleared, he received another from Bermuda's highest court.

New contempt proceedings were served late last month to Mr. Hardy, the former chairman of insolvent Focus Insurance Ltd., while he was on his way to appear before the Bermuda Supreme Court to apologize for disobeying previous court injunctions (BI, Nov. 8).

Bermuda's chief justice then adjourned the Supreme Court hearing pending the outcome of Mr. Hardy's appeal to the U.K. Privy Council of all orders issued against him by the Bermuda court. Chief Justice Austin Ward indicated the decision to adjourn may have been influenced by Privy Council law lords' comments suggesting that Mr. Hardy may have been treated unfairly by the Bermuda Supreme Court.

The Privy Council is the highest court of appeal for litigants in U.K.-protected territories.

The verbal apology, which Mr. Hardy asked the Bermuda court to view in light of "horrendous litigation over the last three years," was delivered to Chief Justice Ward during the course of a two-hour open hearing, during which Mr. Hardy described himself as "a strong believer in the rule of law."

Mr. Hardy, who now lives in Suffolk, England, was served with an arrest warrant last year by the Bermuda court for violating orders that froze his assets worldwide. Since failing to block legal action against him last year by Focus liquidators, who sought \$19.7 million in damages, he has been highly critical of Bermuda's insurance industry and judicial system (BI, June 7; Jan. 4).

"To the extent that I have offended the rule of this court, I'm sincere in my apology," he said, adding he had made "errors of judgment" in trying to secure "a trial on the merits and not judgment obtained by what I regard as improperly obtained" injunctions freezing his assets.

The apology clears the way for legal action Mr. Hardy plans to pursue in London.

Although Mr. Hardy effectively "purged" the contempt order issued by the Supreme Court last December, he now faces a second action brought by Focus liquidators David Lines and Peter Mitchell. They allege that Mr. Hardy should be held in contempt for written remarks he made about the chief justice and the Bermuda Supreme Court in letters Mr. Hardy circulated widely in Bermuda over the past year.

Despite the renewed effort to have him imprisoned, an attempt that has been delayed until a further hearing, Mr. Hardy returned to London "satisfied that this litigation is at last on the right track."

His next move, he said, would be to seek to overturn a bankruptcy order against him in Britain before proceeding with a full appeal to the Privy Council, which will be asked to set aside the \$19.7 million default judgment against Mr. Hardy handed down in January by former Bermuda Chief Justice Sir James Astwood.

Consideration of a Supreme Court penalty against the businessman for his now-purged contempt was ruled adjourned, pending the outcome of the Privy Council appeal.

Saul Froomkin, attorney for the liquidators, repeatedly warned Chief Justice Ward that the court's chances of seeing Mr. Hardy again were remote if it adjourned the proceedings indefinitely. He accused Mr. Hardy of "making a mockery" of Bermuda's legal system.

Mr. Froomkin, who was not allowed to cross-examine Mr. Hardy, said that if Mr. Hardy failed to win his appeal to the Privy Council, "there's no incentive whatsoever for him to come back to Bermuda."

Mr. Hardy's verbal apology was not an acceptable substitute for compliance and not a means of purging his contempt, Mr. Froomkin said.

Continued on page 57

Merrett to stop writing, but 'claims will be paid'

By ADRIAN LADBURY

LONDON—Merrett Underwriting Agency Management will cease active underwriting next year because members agents did not provide its Lloyd's of London syndicates with enough capacity.

However, MUAM officials are reassuring policyholders that the syndicates' claims will be paid.

Merrett Holdings P.L.C., MUAM's parent, announced last week it would either close or sell the goodwill of its remaining syndicates to other managing agents and concentrate on its non-underwriting activities, like runoff and claims services.

Merrett Holdings Chairman Stephen Merrett and Alan Cleary, the new group chief executive, were quick to dispel any policyholder fears concerning the security of policies underwritten by MUAM-managed syndicates. "Claims will be paid. Our ability to deal with claims is unimpaired. They are being paid," said Mr. Cleary.

Mr. Merrett noted in an interview that he had spoken to "plenty" of



Stephen Merrett

policyholders over the last few weeks who were "worried, disturbed and disappointed" over the fate of MUAM.

Rival managing agents have snapped up three of the six syndi-

cates MUAM intended to manage in 1994 and are currently bidding to manage the fourth. But the two biggest Merrett syndicates—418, which was the largest at Lloyd's in terms of capacity as recently as 1990, and 1067—will be closed. The runoff of both syndicates' business will be handled in-house, Mr. Cleary said.

While syndicate 418 will be closed, Janson Green Ltd. confirmed last week that it has hired the syndicate's underwriter, Barnabus Hurst-Bannister, and three of his underwriting colleagues, with plans to set up a new syndicate—syndicate 1215—out of 418's ashes.

Janson Green said it hopes the new syndicate will reach capacity of about 60 million pounds (\$89.2 million) next year and retains much of 418's business, which primarily was composed of U.S. risks.

"If the Merrett group is able to close the syndicate's 1991 year into 1992 and then 1992 into 1993," it is possible that Merrett would be able to close 418's 1993 account into the new syndicate's 1994 year "at the

Continued on next page

U.K. dioxin settlement

Superfund-type program sought by some parties

By ADRIAN LADBURY

LONDON—A British chemical company has reached an out-of-court settlement with a group of farmers in one of the first dioxin-related pollution disputes in the United Kingdom.

In a scenario that one London environmental underwriter called "remarkably similar to the U.S. before Superfund," the chemical com-

pany is now discussing coverage of the settlement with its insurers, while plaintiffs' attorneys, regulators and politicians are calling for the establishment of a fund to finance pollution cleanups and litigation against potentially responsible parties.

Coalite Chemicals, a division of Anglo United P.L.C., late last month agreed to pay three farmers in Boleover, Derbyshire, an undisclosed sum for loss of profits.

The farmers' business was hurt following the discovery of excessive levels of the toxic chemical dioxin on their land by the Ministry of Agriculture, Fisheries and Food in July

1991. The MAFF imposed a ban on the sale of one cattle farmer's products, while a dairy marketing organization refused to accept milk from the other two farmers. The bans were not lifted until December 1992.

The farmers, with financial assistance from the National Farmers Union, began legal proceedings against Coalite.

"Coalite Chemicals has been the subject of legal claims from local farmers relating to elevated levels of dioxin which affected their farms. These claims were made in the light of measurements taken by Her Majesty's Inspector of Pollution in 1991,

Continued on next page

Bermuda insurers report drop in premiums

HAMILTON, Bermuda—Premiums written by Bermuda's international insurers and reinsurers declined slightly in 1992, but the companies' assets and surplus rose significantly.

Gross premiums written by Bermuda's international insurance and reinsurance companies, which include captive insurers, fell by

2.1% to \$15.08 billion in 1992 from \$15.41 billion in 1991, according to a report released last week by Registrar of Companies Malcolm Butterfield.

Net written premiums fell by 4.3% to \$11.3 billion from \$11.81 billion.

However, the total assets held by international insurers and re-

insurers in Bermuda rose a hefty 11.9% to \$58.83 billion in 1992 from \$52.58 billion in 1991. And, capital and surplus rose 10.1% to \$21.86 billion from \$19.85 billion.

Mr. Butterfield noted that the 1992 figures do not include about \$4 billion in capital raised during 1993 by Bermuda property catastrophe reinsurers. **BI**

U.K. budget shifts costs to employers

By ALINE SULLIVAN

LONDON

LONDON—There are few surprises for British employers in the government's new budget, though it contains measures that will increase some benefit and insurance costs.

Kenneth Clarke, Britain's chancellor of the exchequer, last week unveiled the government's budget for the fiscal year beginning April 1, 1994.

Contained in the combined report on tax measures and public spending are provisions that will shift much of the cost of sick pay benefits to employers from the state and will require employers to raise the retirement age for women to 65 from 60.

In addition, the government has imposed a 3% tax on most non-life insurance policies, despite lobbying efforts by the insurance industry against such a levy.

Large companies operating in Britain—defined as those with national health insurance premiums of 20,000 pounds (\$29,550) or more per year—will bear the full cost of statutory sick pay benefits for workers, effective April 1.

Large employers currently finance sick pay for an employee's first four consecutive days of absence from

work due to illness, while the government pays 80% of the cost for additional days up to 28 weeks.

The government currently fully reimburses smaller employers, those with annual national health insurance premiums of 16,000 pounds (\$23,640) or less, after an employee is absent for six weeks.

The budget calls for employers with national health insurance bills of less than 20,000 pounds per year to be fully reimbursed after the first four weeks of an employee's absence.

The budget also cuts the main rate for determining employers' national health insurance premiums by 0.2% beginning next April, which

will lower the number of employers subject to the higher sick-pay costs.

"This means for well-managed companies with low sickness rates there will be a net reduction in the cost of employing people," Mr. Clarke said last week.

The Confederation of British Industry said it was pleased that the changes in sickness benefits were accompanied by changes in national health insurance costs.

The move to equalize pension benefits for men and women by raising the retirement age of women to 65 from 60 was widely expected. The equalization will be phased in over a 10-year period beginning in the year 2010. That timing will ex-

empt women now age 44 or older from the measure.

"By the year 2020, the state pension age in Britain will be broadly in line with most of our industrial competitors," said Mr. Clarke.

The change in retirement age follows a May 17, 1990, decision by the European Court of Justice in *Barber vs. Guardian Royal Exchange*, which effectively ruled that employers must offer equal pension benefits to men and women.

However, the European court ruled Oct. 7 that employers are not required to pay equal pensions to men and women on a retroactive basis for work carried out before the

Continued on page 57

INTERNATIONAL

Merrett

Continued from previous page right price and under the right conditions," said Richard Youell, active underwriter for Janson Green syndicate 79 and a director of the agency.

The first managing agent to win the right to manage one of the former Merrett syndicates was Venton Underwriting Agencies Ltd., which said soon after the Merrett announcement that it had reached an "agreement in principle to assume the management of syndicate 1038," whose underwriter is John Fenn.

Terms were not announced.

Mr. Fenn specializes in direct non-marine business. The syndicate made a profit of 922,000 pounds (\$1.4 million) for 820 names with allocated capacity of just over 18 million pounds (\$27.3 million) in 1990, the last year to have closed under

Lloyd's accounting system. Its 1993 capacity was just over 13 million pounds (\$19.7 million) and so far it has more than 6 million pounds (\$8.9 million) in capacity for 1994.

Venton hopes to accumulate up to 20 million pounds (\$29.7 million) in capacity for 1038 for 1994.

Wellington Underwriting Agencies Ltd. subsequently announced it had struck a similar deal to acquire syndicates 1184 and 332. Syndicate 1184, underwritten by Martin Gibbins and was formed in 1991, is a motor syndicate that has capacity of 37 million pounds (\$54.9 million) in 1993. Syndicate 332, underwritten by Stephen Benham, specializes in individual life, accident and group life and made a profit of 21,000 pounds (\$31,800) in 1990 on 2.5 million pounds (\$3.8 million) in capacity. Syndicate 332's 1993 capacity was 5 million pounds (\$7.4 million).

Reinsurance syndicate 179, underwritten by Richard Lark, is the only Merrett syndicate—apart from 418 and 1067—that faces an uncertain future, but managing agents are said to be keen to take it over.

The failure of MUAM was caused by the members agency community, which refused to commit sufficient capacity to MUAM syndicates to enable them to continue underwriting under MUAM management.

Several factors—including Mr. Merrett's personal management style, poor forecasting of results, litigation connected with 418's loss-filled 1985 year and other old Merrett syndicates, and the decision to leave the 1990 underwriting years of 418 and 1067 open—precipitated the crisis. The crisis deepened after Travelers Corp. withdrew from a proposal to purchase a majority stake in Merrett (*BI*, Nov. 22).

Members agents estimate that immediately prior to MUAM's announcement that it would cease underwriting, it had amassed about 150 million pounds (\$222.8 million) in capacity for all six syndicates for 1994, compared with the 385 million pounds (\$571.7 million) in capacity it had originally intended to raise.

In its 1994 business plan, MUAM had forecast 150 million pounds in capacity alone for syndicate 418 and another 55 million pounds (\$81.7 million) for syndicate 1067. But members agents estimate they drummed up just under 60 million pounds (\$89.1 million) in capacity for 418 and between 22 million and 23 million pounds (\$32.7 million to \$34.2 million) for 1067 before Mr. Merrett decided to pull the plug.

"It is with the greatest possible regret that I have to confirm the virtual certainty that syndicate 418

and 1067 will not be underwriting next year, as they have not attracted sufficient capacity to enable them to go forward on a viable basis," Mr. Cleary said. "We are therefore making the necessary arrangements for economic management (runoff) of the open underwriting years, and the group has the expertise, the systems and the experience to handle this activity in-house."

Mr. Merrett and Mr. Cleary, who last month succeeded Dennis Purkiss as group chief executive following Mr. Purkiss' defection to Zurich Re (U.K.) Ltd. along with two Merrett underwriters, refused to rule out the possibility that MUAM could return to active underwriting.

"We will not be underwriting in Lloyd's in 1994, but there is always the possibility in due course that the Merrett group will involve itself in some form of underwriting. But there are no definite plans," Mr. Cleary said.

Mr. Merrett refused to "speculate at this stage" but did not rule out the possibility of a comeback.

For the moment, however, the company will focus on its non-underwriting insurance service companies, which Mr. Cleary says are profitable and will not be affected by MUAM's troubles. "I ought to emphasize that the major problems recently experienced by the Merrett Group's underwriting division have had no impact on the other trading divisions which have continued to flourish and grow," he said.

"The insurance services and loss adjusting divisions comprise many well-known companies which have made a useful contribution to the group's earnings in recent years. These companies are wholly unaffected by the difficulties experienced by the syndicates and by current restructuring," said Mr. Cleary.

Merrett Holdings' non-underwriting interests comprise:

- Loss adjusting. Merrett has a major share in the U.K. loss adjusting consortium Miller Knight. This consists of two companies—Graham Miller & Co. (Northern), owned by Merrett Holdings, and Peter Knight & Co., owned by founder Peter Knight. Merrett also owns a smaller loss adjusting firm called Robert Bishop (Southern) Ltd.

- Insurance services. Merrett Health Risk Management Ltd. is a risk management consulting firm specializing in the health care industry. BCS Management Inc., based in New York, and BCS Management (U.K.) Ltd. are insurance and reinsurance consultants that conduct runoff, reinsurance recovery and litigation support work.

- Information Technology. Merrett over the past four years developed its own automated underwriting support system, and in April launched a wholly owned subsidiary, Creechurch Technology Services Ltd., which sells the system to the rest of the Lloyd's market. ■

Dioxin

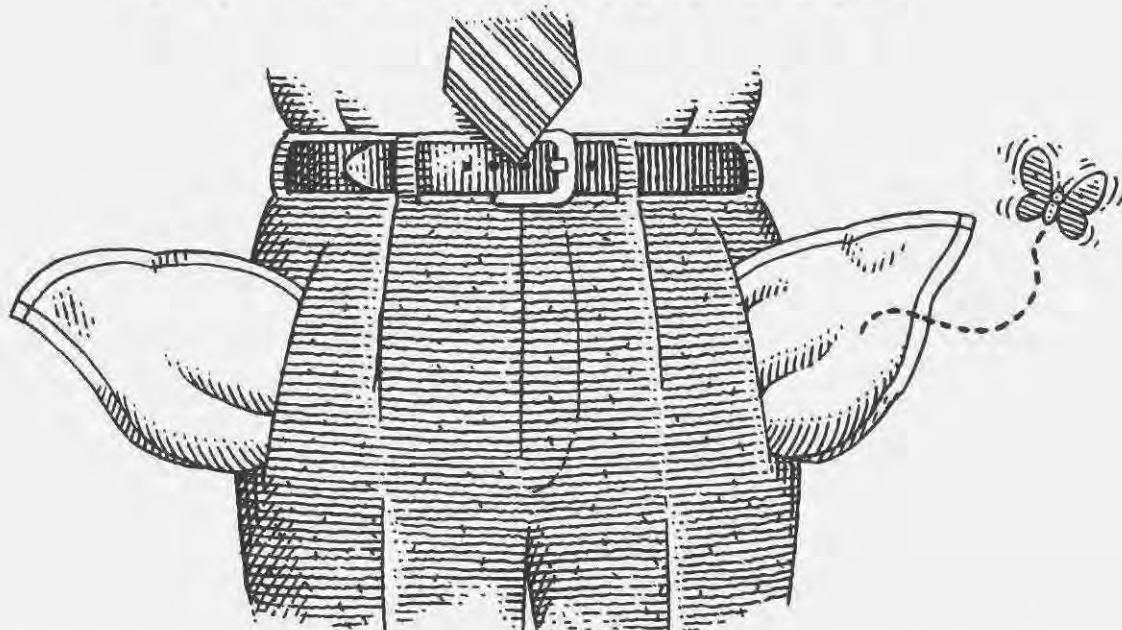
Continued from previous page indicating that one of the sources of dioxins... was probably the old incinerator at Coalite Chemicals, shut down since November 1991," according to a statement from Coalite's law firm, Clifford Chance in London.

However, Coalite has not admitted liability for the damage to the farmers' land, nor has the MAFF directly linked its ban to emissions from Coalite's plant.

"Coalite Chemicals has never accepted that it has any legal liability for elevated levels of dioxin and does not do so now. However, the company has always been sym-

Continued on next page

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INTERNATIONAL

Continued from previous page
thetic to the disruption to the farmers' businesses caused by the period of restrictions on the sale of their produce imposed by the MAFF. Accordingly, Coalite Chemicals offered some limited compensation," the firm stated.

The firm is now discussing coverage with its insurers.

"Royal was not involved in the negotiations which led to a settlement at any stage," said a spokesman for Royal Insurance P.L.C., Coalite's lead general liability insurer. "Royal, as the lead insurer on the policy, and the other insurers have not accepted that the policy is liable on the basis of non-disclosure" of possible pollution exposures, he said.

"Royal has not refused to indemnify Coalite, but reserved its position while the liability issue is resolved," said another Royal spokesman.

The liability issue could be influenced by a report on the Bolsover dioxin contamination currently being prepared by Her Majesty's Inspectorate of Pollution.

The National Rivers Authority also eagerly awaits the HMIP's report. The NRA is preparing to serve a writ on Coalite seeking 1 million pounds (\$1.48 million) to clean up the Doe Lea River, which it claims was polluted by Coalite's Bolsover plant.

The NRA, which has threatened to act on the river pollution for more than two years, has to take

Coalite to civil court and prove it is responsible for the pollution before it can begin the cleanup because it cannot afford to clean up first and then try to recover its costs from a potentially responsible party. "We have to take it to the civil court as a means of getting the money up front. We can't afford to do it any other way," a spokeswoman for the NRA Yorkshire branch said.

The National Farmers Union agreed it is costly to bring action against potential polluters and does not expect a flood of similar claims until the route to the civil courts is made easier.

The Coalite case "endorses the government stance that the polluter must pay for business losses suffered as a result of contamination but also highlights the legal complexities and expense in-

involved in attempting to recover those losses," the NFU said.

NFU Legal Adviser Richard Vidal said that U.K. law sets standards and identifies contaminated land in need of cleanup, but neither individual plaintiffs nor regulatory bodies have the financial means to carry it out.

The Labour member of Parliament for Bolsover, Dennis Skinner, in a speech during a parliamentary debate on the Coalite case in February, called for the creation of a government fund that would lift the burden on plaintiffs in pollution cases.

But the government refused to consider a U.K.-style Superfund then and again underlined its objection to the idea in its response to the European Commission's Green Paper environmental damage (BI, Nov. 15). **BI**

Mark Hardy

Continued from page 55
charged.

Mr. Hardy should be required to explain why he did not comply with court injunctions and establish to the court's satisfaction that he genuinely did not intend to flout its orders, Mr. Froomkin argued. And, Mr. Hardy should be made to comply with outstanding discovery orders, the attorney maintained.

But, in allowing an adjournment of the proceeding, Chief Justice Ward referred to a Privy Council meeting in October at which Mr. Hardy was given "special" leave to appeal "all" orders against him, provided he first purge his contempt of the Bermuda court.

The council's three law lords said they were surprised at "the draconian penalty of striking out Mr.

Hardy's defense and giving judgment against him for the whole amount of the claim."

"This may or may not have been the right course to take, but we are surprised to find it there," reads a transcript of remarks attributed to Lord Templeman. He went on to say that if Mr. Hardy apologized to the Supreme Court and if people will be sensible," then Focus could "abandon its judgment in default and proceed with the action against you..."

But Mr. Froomkin argued, "with the greatest respect," that the Privy Council was confused and the law lords "proceeded on the basis that the contempt was of a disclosure order," rather than an injunction freeing his assets.

He told the Bermuda chief justice, "The Privy Council has no jurisdiction to tell you what to do." **BI**

LONDON

Continued from page 55
Barber ruling (BI, Oct. 18).

Mr. Clarke's decision to introduce a 3% tax on non-life insurance premiums was less widely anticipated but did not come as a great surprise to British insurers. The tax, which will take effect in October 1994, will apply to most non-life policies covering risks located within the U.K.

The Assn. of British Insurers said it "regretted" the decision to impose the non-life tax but welcomed the plan to exempt life and pension business, as well as reinsurance and international insurance like marine, aviation and export credit insurance from the tax.

—By Aline Sullivan

A&A buys actuary

Alexander & Alexander Services Inc. will significantly expand its European human resources consulting practice with the acquisition of Clay & Partners, a leading actuarial consulting firm based in London.

A&A acquired the firm, which reported 1993 gross revenues of about 16 million pounds (\$23.7 million), for about 2.27 million shares of A&A common stock. A&A stock was trading at about \$18 per share last week, which would put the value of the deal at \$40.9 million.

The purchase of Clay & Partners will add 250 professional and support staff to Alexander Consulting Group's European human resources consulting practice, bringing the total to 650 employees. Following the acquisition, the London-based ACG operations will be known as Alexander Clay & Partners and will continue to provide benefit-related consulting services to U.K. employers.

Brian Kennedy, chairman and chief executive of ACG's European operations, will also serve as chairman and chief executive of Alexander Clay & Partners. Alan Fishman, Clay's senior partner, will become managing director of the firm.

—By Christine Woolsey

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PAMELA WEBSTER (State Bar No. 105937)
PAUL S. ARROW (State Bar No. 136870)
BUCHALTER, NEMER, FIELDS & YOUNGER
A Professional Corporation
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 891-0700

Attorneys for Philip J. Singer and Christopher John Hughes, as Joint Administrators of ICS Reinsurance Limited

UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA

In re

Petition of Philip J. Singer and Christopher John Hughes, As foreign Representatives of RMCA Reinsurance Limited,

Debtor in Foreign Proceedings.
Bk. No. MI 93 00140 ER
In a Case Under Section 304 of the Bankruptcy Code

Philip J. Singer and Christopher John Hughes, As Joint Administrators of RMCA Reinsurance Company Limited,
Plaintiffs

V.

Creditors of RMCA Reinsurance Limited identified in Exhibit 1,

Defendants.
Adv. No. LA1 064892
NOTICE OF PRELIMINARY INJUNCTION
Date: December 1, 1993
Time: 9:00 a.m.
Cttrn: 1445
Roybal Federal Building
255 E. Temple Street
Los Angeles, California

NOTICE IS HEREBY GIVEN that on November 8, 1993, Philip J. Singer and Christopher John Hughes, the foreign representatives (the "Joint Administrators") of RMCA Reinsurance Limited (the "Company") filed a petition for relief under 11 U.S.C. §304.

NOTICE IS FURTHER GIVEN that pursuant to a preliminary injunction issued by the Bankruptcy Court all creditors and subsequently identified parties with interests adverse to the Company (the "Subsequent Claimants") are preliminarily enjoined and restrained from:

1. commencing or continuing any judicial, administrative and regulatory actions against the Company or its property in the United States;
2. commencing or continuing any act or any judicial, administrative or regulatory proceeding to create, perfect or enforce any lien, set-off or other claim against the Company or its property; and
3. relinquishing any property of the Company in the United States to any persons other than the Joint Administrators.

NOTICE IS FURTHER GIVEN that the Subsequent Claimants may file a motion with the Bankruptcy Court, with not less than 21 days notice to counsel to the Joint Administrators at the address set forth in the upper left-hand corner of this Notice, requesting a hearing to vacate or modify the Preliminary Injunction.

NOTICE IS FINALLY GIVEN that all persons affected by the Preliminary Injunction or desiring a copy of the relevant documents may contact Paul S. Arrow at the address set forth in the upper left hand corner of this Notice.

DATED: December 1, 1993
BUCHALTER, NEMER, FIELDS & YOUNGER
A Professional Corporation

PAUL S. ARROW
Attorneys for Philip J. Singer and Christopher John Hughes, as Joint Administrators of RMCA Reinsurance Limited

LEGAL NOTICE

JONATHAN F. BANK (State Bar No. 43210)
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PAUL S. ARROW (State Bar No. 136870)
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A Professional Corporation
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 891-0700

Attorneys for Philip J. Singer and Christopher John Hughes, as Joint Administrators of ICS Reinsurance Limited

UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA

In re

Petition of Philip J. Singer and Christopher John Hughes, As foreign Representatives of ICS Reinsurance Limited,

Debtor in Foreign Proceedings.
Bk. No. MI 93 00139 ER
In a Case Under Section 304 of the Bankruptcy Code

Philip J. Singer and Christopher John Hughes, As Joint Administrators of ICS Reinsurance Company Limited,
Plaintiffs

V.

Creditors of ICS Reinsurance Limited identified in Exhibit 1,

Defendants.
Adv. No. LA1 064881
NOTICE OF PRELIMINARY INJUNCTION
Date: December 1, 1993
Time: 9:00 a.m.
Cttrn: 1445
Roybal Federal Building
255 E. Temple Street
Los Angeles, California

NOTICE IS HEREBY GIVEN that on November 8, 1993, Philip J. Singer and Christopher John Hughes, the foreign representatives (the "Joint Administrators") of ICS Reinsurance Limited (the "Company") filed a petition for relief under 11 U.S.C. §304.

NOTICE IS FURTHER GIVEN that pursuant to a preliminary injunction issued by the Bankruptcy Court all creditors and subsequently identified parties with interests adverse to the Company (the "Subsequent Claimants") are preliminarily enjoined and restrained from:

1. commencing or continuing any judicial, administrative and regulatory actions against the Company or its property in the United States;
2. commencing or continuing any act or any judicial, administrative or regulatory proceeding to create, perfect or enforce any lien, set-off or other claim against the Company or its property; and
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Dated: This 25th day of November, 1993

PETER C.B. MITCHELL
JOINT LIQUIDATOR

Business Insurance Circulation Breakdown Commercial Consumers

Administrative: CEO's, Presidents, and Owners,	2681
Vice Presidents, General Managers and Other Administrative Personnel	4140
Financial Chief Financial Officers and Vice Presidents of Finance	2495
Secretaries, Treasurers, controllers and other Financial Personnel, 3702	
Risk/Employee Benefits: Vice Presidents, Directors, Managers, and other realted department personnel of: insurance, risk em- ployee benefits, personnel, compen- sation, pension, safety, security, in- dustrial relations, human resources and employee/labor relations	15,094
Sub-total	28,112
Associations	385
Government, Unions and Educa- tional Institutions	1,075
Commercial Consumers Sub-total	29,572
Insurance Agents and Brokers	8,714
Insurance Companies	7,981
Accountants, Actuaries, Attorneys & Consultants	3,532
Managers & Health Care Providers	1,936
Others Allied to the Field	1,936
TOTAL	52,816

* Source Business/Occupational breakdown of qualified circulation, May 31, 1993 Issue, as submitted to BPA for June 1993 BPA Publisher's Statement.

Work comp rules

Continued from page 2

tions—or managed care networks. The regulations will implement the law passed in July designed to wring \$1.5 billion in savings from an \$11 billion-a-year system (BI, Aug. 30).

"We think we have an obligation" to issue the regulations as quickly as possible, Mr. Young said. "Of course," he quipped, "there are those that hope it never gets done."

Mr. Young surely had many people in mind, for the law makes new demands on everyone in the system—from injured workers to employers, insurers, third-party administrators and providers of care.

Take vocational rehabilitation, for instance. Legislators hope to save \$500 million by capping re-training costs at \$16,000 per employee.

"A lot of people are looking at how to slice this salami," observed one trade group representative at the hearings.

"We're all under a lot of stress to maintain our business," agreed Greg Foster, a vocational evaluator, who testified that fee reductions and caps on counseling expenses in the regulations would "wipe out" the 75 evaluation centers in California.

Not unexpectedly, several doctors and medical groups testified that cuts in medical fee schedules were unwarranted.

Ironically, though, even some cost-conscious corporations worry that the cuts in physician compensation might prevent many good doctors from offering certain services to injured workers.

"We are very interested in having good doctors stay in the system," said Diana Rich, workers comp manager at Freedom Newspapers Inc. in Irvine. She noted that in Massachusetts, payments had to be made over and above the fee schedule "to keep doctors in the system."

On the other hand, at least one witness lauded the belt-tightening required by the new law as a needed corrective.

California's workers comp system has become "very much like the junk bond industry in the 1980s—out of control," said Robert O. Gilmore, rehabilitation coordinator at C.E. Heath Compensation & Liability Insurance Co. in Burlingame, Calif. "These regulations have a chance" to change that.

"But people have to change their minds," Mr. Gilmore said. "I like the law and the regulations because everyone is affected. We're all going to have to look at our business practices."

At the hearings last week, Mr. Young struck a conciliatory and solicitous pose that won praise from business groups.

"He's encouraging input and dialogue," said Ms. Rich. She added that Mr. Young was "doing a much better job" than the judge presiding over regulatory hearings related to a 1989 workers comp law.

Mr. Young and his staff have been very receptive to changes suggested by California Administrative Service Organizations, agreed Barbara Hester, chair of that group's regulatory committee. CASO represents the state's largest third-party administrators.

For example, when Ms. Hester, a vp at Hertz Claim Management Corp. in Pasadena, testified that recordkeeping requirements on doctor payments in the new regu-

Continued on next page

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Work comp rules

Continued from previous page
lations were "burdensome and time consuming," Mr. Young said he would "appreciate any suggestions" on how to get the information more efficiently.

And Mr. Young asked Ms. Hester and other witnesses to suggest ways the regulations would allow employers dealing with injured workers to demonstrate that they have met their obligations under the Americans With Disabilities Act.

Not everyone was so encouraged by the hearings. Several groups

testified that the regulations needed major overhaul before they could be issued in final form.

Workers comp insurers and others, for example, argued that the law was designed to save millions by limiting costly medical-legal reports to one per side in disputed cases, but the proposed regulations won't achieve that goal.

"There's no definition of a 'comprehensive medical legal report,'" said Michael McLain, an attorney at Industrial Indemnity Co. in San Francisco. "We need to know clearly what we pay and what we deny."

Unless the regulations clearly de-

fine the terms of the law, the courts will have to and "that chaos will take quite a while to resolve itself," he said.

Another term the regulations could clarify is "supplemental reports," that is, reports provided by doctors other than the primary physician.

"Are these... considered to be... medical-legal reports?" asked Ms. Hester of the TPA group. "Of greatest concern, who will pay for these extra reports?"

Employers and consultants faulted the current regulations for failing to do enough to encourage the use of managed care firms or

HCOs.

The new workers comp law permits companies to use qualified HCOs to treat injured workers and requires companies to offer only one additional HCO if one is run by the workers comp insurer. Companies could control care for 90 days under the law.

But the managed care firms will have to offer quality care at low prices to attract business and the current regulations will make that difficult by imposing redundant administrative requirements, testified Ron Markson, medical rehab claims specialist with the CWCI.

"(The regulations) will result in

no starts, false starts, and delays down the road," said Mr. Markson. "They do not encourage HCOs, they hinder their use."

At the hearings, Wells Fargo & Co. and other companies urged state officials to not increase the administrative costs for managed care groups, said Donna M. Dell, a vp and counsel at Wells Fargo.

Also, the proposed regulations would give managed care firms responsibilities in some areas—such as workplace safety—that are simply beyond the scope of a managed care organization, testified Karen L. Thomas, Wellpoint's director of workers compensation products.

Other witnesses at the hearings faulted the regulations for their treatment of vocational training expenses. The workers comp law itself places an internal cap of \$4,500 on job counseling expenses within the \$16,000 allowed for a vocational training program. The regulations go further and place restrictions on amounts within the \$4,500 cap. For instance, only \$1,000 can go toward job evaluation services.

Representatives of the California Assn. of Rehabilitation Professionals and others testified that the additional caps will make it impossible for vocational counselors to provide the most important phase of retraining: proper assessment.

The California Applicants' Attorneys Assn. endorsed CARP's proposals to allow flexibility in spending the \$4,500 allocated for job counseling.

Workers comp insurers balked at that idea. The CWCI's Mr. Woodward cautioned that allowing costs above the \$16,000 maximum to pay for job evaluation services would "create another cottage industry of forensic specialists." **BI**

Garamendi cuts work comp rates by 12.7% for 1994

LOS ANGELES—Crediting workers compensation reform, California Insurance Commissioner John Garamendi last week ordered a 12.7% cut in the workers comp minimum rate effective Jan. 1, the largest single decrease in the state's history.

Combined with a cut of 7% mandated by new reform legislation, the decreases are expected to save California employers more than \$500 million in premiums next year, according to the Department of Insurance.

Reasons for the rate cut include a projected decrease in reported losses, increased use of managed care, a reduction in the number of medical-legal reports, a decrease in psychiatric injury claims and a crackdown on fraud, the department said.

But workers compensation insurers say that instead of a rate cut, the commissioner should have approved the 2.1% rate increase they requested in October. Mr. Garamendi is expecting too much from the new workers comp law, they contend.

"The problem is that the language in the new laws is vague and savings are elusive and therefore non-quantifiable," explained Peter Gorman, associate vp and regional manager of the Alliance of American Insurers in San Francisco.

"Many in the industry argue that most of the fraud prosecution savings is squeezed out into the system, and managed care has delivered most of its savings already through large employers," Mr. Gorman said.

—By Louise Kertesz

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Largest U.S. reinsurers' nine-month 1993 results

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

Reinsurers	Net reinsurance premiums written 1993	Net reinsurance premiums written 1992	Policyholders surplus (reinsurers only)	Net income 1993	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1993	Combined ratio 1992
1. General Re	\$1,695,895	\$1,624,258	\$3,651,185	\$459,117	\$1,148,519	70.6%	\$539,227	31.8%	102.4%	107.7%
2. Employers Re	1,519,390	1,111,841	1,705,180	190,412	1,144,168	80.0	359,544	23.7	103.6	102.6
3. American Re	1,020,495	733,038	1,020,685	76,179	599,259	64.8	354,907	34.8	99.6	101.9
4. North American/Swiss Re	620,246	519,861	659,228	36,406	436,594	74.6	224,463	36.2	110.8	120.7
5. Prudential Re	555,463	512,890	569,130	48,786	431,452	79.4	182,976	32.9	112.4	132.9
6. Munich Re	500,373	470,584	708,748	19,544	411,027	83.0	160,906	32.2	115.2	124.4
7. Berkshire Hathaway	462,896	473,934	N/A	N/A	264,051	116.8	28,421	12.6	129.4	146.9
8. Transatlantic/Putnam	447,958	357,284	517,503	47,538	333,151	81.3	118,247	26.4	107.7	112.4
9. Kemper Re	367,850	429,095	394,733	(40,904)	388,624	105.1	94,758	25.8	130.8	110.9
10. Constitution Re	337,717	273,039	273,991	15,949	233,171	70.9	108,941	32.3	103.2	110.9
11. F&G Re	317,790	181,549	N/A	N/A	175,536	58.5	105,615	33.2	91.7	95.2
12. The St. Paul Cos.	318,209	277,509	N/A	N/A	235,440	84.4	84,838	26.7	111.0	174.7
13. Hartford Re Mgmt. Co.	297,100	N/A	N/A	N/A	223,800	75.0	69,600	23.4	99.7	N/A
14. National Re	259,191	182,518	354,013	41,050	147,311	64.1	92,608	35.7	99.9	103.9
15. Transamerica Re	252,603	270,113	320,265	46,777	191,821	78.6	79,928	31.6	110.2	110.7
16. NAC Re	240,708	196,393	403,570	25,828	156,833	69.6	101,140	42.0	111.7	126.4
17. SCOR U.S. Group	164,467	150,556	271,769	26,551	118,973	73.4	53,332	32.4	105.9	115.9
18. Winterthur Re	163,674	170,069	188,134	21,793	120,683	74.6	55,415	33.9	108.4	116.3
19. CIGNA Re	161,339	254,795	203,292	(991)	203,417	100.1	34,565	21.4	121.5	121.6
20. Underwriters Re	146,708	96,549	185,015	17,352	117,804	82.8	36,145	24.6	107.4	107.4
Totals for Top 20	9,850,072	8,285,875	11,426,441	1,031,387	7,081,634	77.1	2,885,576	29.3	106.4	115.7
Total for all companies	10,873,635	9,370,910	15,724,732	1,339,559	7,813,858	75.6	3,381,537	31.1	106.7	115.4

Source: Reinsurance Assn. of America and Business Insurance

Reinsurers

Continued from page 1

broken record on this," he said.

"I think the prospects for change are still dim at best," said Mark W. Hinkley, executive vp of Transamerica Reinsurance Co. in Stamford, Conn., pointing to reinsurers' healthy capital levels. "The supply/demand ratio is still unfavorable for a turn in the market.

"What has to happen is surplus has to go down, not up," said Mr. Hinkley, who predicted a turn in the reinsurance market is "at least 12 months away."

Paul Malvasio, vp and chief financial officer of NAC Reinsurance Corp. of Greenwich, Conn., said that "we're not anticipating much improvement on the casualty side, and at least through Jan. 1, our current thinking is we won't see much change on the property side," though he added it is unclear what all the new capital coming into the property market bodes for next year's renewals.

While property reinsurance rates are generally firm, "casualty is just kind of 'funking' along, doing nothing," said John F. Donahue, chairman of Hartford Re Management Co. "There's probably too many dollars of capacity chasing that premium, and there's not much of anything happening here."

Mr. Donahue also said, "I would be concerned that once Bermuda finds out they can't write all the cat business in the world, they will undoubtedly broaden their window and broaden their scope of operation and bring some capacity to a casualty market that doesn't need it."

"I think the attitude is there" about a need for a change, said Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan.

"We're beginning to hear serious discussions about it, but we haven't really seen it in action yet," said Mr. Ahlmann. "The key is whether companies are willing to stand up and let business go."

Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., a unit of USF&G Corp., predicted that this time next year, barring a major catastrophe, property catastrophe rates will be declining 15% to 25%.

But otherwise, "I don't see any change in the cycle. There are a lot of good reasons why it should

change—interest rates are down, a lot of capital gains have been taken, cat coverage is expensive and that puts pressure on the net, but there's nothing to make it change. And results seem to be improving, for some strange reason," he said.

The U.S. reinsurance industry reported a 106.7% combined ratio for the first nine months of 1993, a vast improvement from a 115.4% combined ratio for the comparable period a year ago, which reflected Hurricane Andrew and other catastrophes, according to a survey of 58 reinsurers by the Washington-based Reinsurance Assn. of America. The nine-month figure also was an improvement from the 107.2% combined ratio reported for the first half and 107.9% in the first quarter.

The 20 largest U.S. reinsurers reported a 106.4% combined ratio for the first half; the 19 reinsurers in that group that reported results for the first nine months of 1992 had posted a 115.7% combined ratio. Slightly different groups of Top 20 reinsurers posted a 106.2% combined ratio during this year's first half and a 110% combined ratio in the first quarter.

Net reinsurance premiums written for all U.S. reinsurers increased 16% to \$10.87 billion in the first nine months of this year from \$9.37 billion in the corresponding period of 1992. The 19 largest reinsurers that reported results for both years posted a 15.2% increase in volume to \$9.55 billion from \$8.29 billion.

There has been a lot of interest in prospective loss reserve covers, and "that may be one reason why premium is up substantially," said F&G Re's Mr. Ingrey. "Much of the risk comes from the property cat area," he said, adding that "most people use it not as total substitute but a partial substitute" for cat coverage.

"Many people are using quota-share to avoid buying a lot of property catastrophe cover, which isn't available anyway," said Bard E. Bu-naes, chairman and CEO of Constitution Reinsurance Corp. in New York. "That definitely increased the premiums written."

"Generally, when primary companies can't get rate increases and they become uneasy about the results in the future, they start buying more reinsurance," he said. But, Mr. Bu-naes added he does not know whether this has already started to happen.

"It's obviously only partly rate re-

lief on property cat business," said North American/Swiss Re's Mr. Thompson. "That would be the lesser factor" accounting for the increase in volume.

"I think what you're seeing is more flight to quality," he said. While this is a "grand-sounding phrase," he admitted, "it is the case that companies want to buy reinsurance from large, well-capitalized reinsurers." The RAA member companies are "well-known names," he said.

There has been a continued flight to quality, agreed NAC Re's Mr. Malvasio, adding that the premium volume increase "seems to be fairly consistent with what we've seen happening in the prior two quarters."

"You still see some large increases here and there by certain companies," he said. "There's been an increased demand on the property side, and that's reflected in the numbers," even though there has not been an improvement in demand or pricing for casualty reinsurance.

Jerome Karter, president and CEO of SCOR Reinsurance Co. in New York, said, "I think there is some premium growth, partly because of some pricing changes in the general property area," and there is "probably some growth for companies who are truly developing business."

"But that masks another reality, which is that the casualty market is in terrible shape. Prices are unrealistic, if not inadequate" compared with even the soft market in 1983, he said.

Mr. Karter said he feared prices were being cut to put business on the books, "so if there's growth going on in general casualty business, then it may look nice as premium now, but it's going to look horrible in losses in about five years."

"When you put that against the background of the investment opportunities that are out there, which are extremely marginal, this is not a good condition under which to be writing a lot of casualty business," said Mr. Karter.

Michael Smith, an analyst with Lehman Bros. in New York, was more optimistic.

"The cycle's clearly turned for the reinsurers. We're very clearly seeing a pickup in demand for reinsurance," he observed.

"Companies have finally recognized together that they are overex-

posed to large loss potentials and they are now seeking to reduce their exposures in whatever way they can," Mr. Smith said. Because it is "almost politically impossible" to stop writing policies, "the only way out is to put whatever business they can into the reinsurance market."

Casualty business is increasingly moving into the reinsurance market, he said. While primary insurers would like to buy more property cat capacity, it does not exist, but there is capacity for casualty business, "and therefore companies are moving business into the casualty market simply as a way to reduce their overall exposures."

While this is clearly positive for the reinsurers, who are obtaining double-digit increases in volume, "it also bodes well for the overall underwriting cycle" because the reliance on reinsurance is putting greater pressure on primary insurers and accelerating the point in the future when the overall cycle has to turn, said Mr. Smith.

Other observers, who do not believe the market has turned for reinsurers, say declining investment income and a lack of capital gains will be a factor in any eventual overall turn.

"I think that ultimately, the investment markets will have an effect," said North American/Swiss Re's Mr. Thompson.

"Investment income is declining, and sooner or later most of the capital gains will have been harvested. Then, people are going to have to

look to underwriting, because they will not be bailed out nearly as strongly or as much by the actions of the investment markets," said Mr. Thompson.

"If you can't be subsidized by the investment side of the house, then underwriting has to improve" and rates will rise, he said.

"Where that factor could come into play, hopefully, is in the casualty end of the business," said Hartford Re's Mr. Donahue. "When people begin to see the margins that they're writing that business at and understand their return on that, one can only hope they can begin to see the error of their ways. Meanwhile, they're living off the fat of their property cat premiums."

"The overall profitability or margins is continuing to slip, so you'd like to think that will cause pressure on the casualty side to eventually turn the cycle, but we've seen no evidence of that yet," said NAC Re's Mr. Malvasio. However, he said he hopes this pressure soon will force rate improvements.

SCOR Re's Mr. Karter also noted the insurance industry can no longer rely on investment income. "Overall, the reinsurance industry, as the whole industry, is dependent on underwriting profits for its results," he said. "You can forget about investment income. You can't run your business looking to investment income to bail you out, so the reinsurance industry and the primary industry ought to recognize that and take a market posture accordingly."

IRM to manage Risk Exchange

HAMILTON, Bermuda—Captive manager International Risk Management (Bermuda) Ltd. on Jan. 1 will take over as manager of the Risk Exchange Assn., a Bermuda-based captive reinsurance exchange.

Graham Brice, president of IRM, said his company bid for the Risk Exchange management contract against three other bidders.

The exchange had been managed by Skandia International Risk Management Ltd. Robert J. Rosser, vp at the captive management subsidiary of Sweden's Skandia Group, said, "We understood that the members of the association were pleased with our 10 years of service but that they were interested in expanding capacity."

Skandia's U.S. reinsurance unit, Skandia America Reinsurance

Corp., withdrew as lead underwriter of the exchange Jan. 1, 1993, as part of a change in its business strategy (BI, April 26). It was replaced by Sphere Drake Underwriting Management (Bermuda) Ltd.

The Risk Exchange derives its capacity from capital committed by each of its 12 member captives and from its lead underwriter. Sphere Drake provides up to \$2 million of casualty capacity and \$500,000 of property capacity on any one program.

Substantial additional capacity is expected to come into the Risk Exchange from Chubb Atlantic Indemnity, a unit of Chubb Corp., and from reinsurance pool Hopewell International, both of which are managed by IRM.

—By Roger Scotton

Antitrust case to continue

Settlement not 'realistic prospect' in insurance litigation

By JUDY GREENWALD

SAN FRANCISCO—Nearly half a year after the Supreme Court sent the massive insurance industry antitrust case back for trial, neither side sounds optimistic about settling the dispute soon.

In separate status reports filed with U.S. District Judge Charles Legge before a Friday conference, both the 20 state attorneys general and the 32 industry defendants present their views of the case and advise the judge on how to proceed.

In urging the judge to permit extensive pretrial information-gathering, the plaintiff states contended that "defendants will not engage in meaningful settlement discussions until they are assured that the litigation cannot be further delayed. Allowing plaintiffs to proceed with discovery will not only advance the litigation but also enhance settlement opportunities."

The insurance industry defendants argue, however, that discovery should be restricted to a more limited "issues-narrowing process."

Several settlement talks have already been held over the course of the litigation, the plaintiff states disclosed.

The primary insurer defendants said in their report that "settlement does not appear to be a realistic prospect at this time," while reinsurers similarly say a court-supervised settlement conference "would not be productive at this time."

The case will be heard by Judge Legge, 63, who has described himself as a moderate Republican. He was appointed to the bench by President Reagan in 1984. Previously, he specialized in business litigation at

the San Francisco law firm of Bronson, Bronson & McKinnon.

The judge is "respected and hard-working," said A. James Robertson II, an attorney with Howard, Rice, Nemerovski, Canady, Robertson, Falk & Rabkin in San Francisco.

"He's not probusiness, he's not antibusiness," Jerome Braun, an attorney at Farella, Braun & Martel in San Francisco, who described himself as a good friend of Judge Legge. "He's one of the hardest working judges and I think he tries very hard to decide the case according to the law."

In its 5-4 decision on June 28, the Supreme Court established very narrow grounds for a trial court to find that the defendants' alleged attempt to limit liability coverage in the mid-1980s constituted a "boycott" (BI, July 5).

The insurance industry's exemption from federal antitrust laws contained in the McCarran-Ferguson Act does not extend to boycotts or coercion.

Following the Supreme Court decision, the case was sent back first to the 9th U.S. Circuit Court of Appeals, then to Judge Legge for discovery proceedings and trial.

Until now, the courts have assumed that the states' allegations against the industry defendants are true. The discovery process leading up to a trial could take years, and the entire process could cost both sides millions of dollars.

Full discovery should take place, though, the 20 plaintiff states say in their status conference statement. While only 19 states presented their case to the Supreme Court, both sides have agreed to let Florida,

which did not join the case until 1991, consolidate its action with the other cases (BI, Nov. 25, 1991).

"After the five years consumed by defendants' broad-based motions to dismiss, all of which were denied, discovery should begin in full," the states say. There should be no limitations on discovery or other limits "on moving this litigation toward trial."

Under a proposed schedule submitted by the plaintiff states, the states would file complaint amendments by Jan. 31, 1994. Motions, depositions and discovery would then take place, with the first day of trial scheduled for May 1, 1996.

But, primary insurer defendants criticized that schedule for failing to simplify the issues before discovery.

"We believe that a more efficient plan of case management would be first to conduct an issues-narrowing process... so that (1) unduly broad and wasteful discovery can be avoided and (2) potential dispositive issues can be identified at a relatively early stage," the defendants said. This process would focus "on the facts which plaintiffs claim are sufficient to meet the Supreme Court's boycott standard and to prove the allegations remaining after the court's decision," they said.

The reinsurers say they generally support the procedure suggested by the primary defendants. But, they add, they would also like the court to rule on motions originally filed in 1988. Deferred at the time, those motions call for dismissal of the case against domestic reinsurers and the Reinsurance Assn. of America on the grounds that there was no evidence they had entered into any unlawful conspiracies. ■

Superfund reform

Continued from page 2

First, any federal agencies identified as potentially responsible parties would pay their share of site cleanup costs out of their operating budgets.

Second, in exchange for being relieved of liability for cleanup coverage claims from policyholders, a proportion of the proceeds from the new insurance tax would be applied to reduce the costs of the remaining PRPs.

Insurers, though, still would have

to respond in situations where their policies explicitly obligated them to pay Superfund costs or respond to government cleanup orders.

Under the third step, the balance of costs to clean up a priority site would be divided among large PRPs—as a group—and the federal Superfund.

Liability would be assigned through a yet-to-be determined administrative process but would be based on "objective" factors and not on the ability to pay. This same then

would be used to apportion the aggregate liability of large PRPs.

Finally, the federal Superfund would pay for the shares of missing PRPs, such as firms that have gone out of business, as well as very small firms and maybe local governments.

Advocates of the hybrid approach cite a number of advantages including a significant reduction in transaction or legal expenses.

The proposal could be presented to the administration once a final draft is completed. ■

For the Record

N.Y. court orders new libel trial

NEW YORK—New York's highest court has thrown out a \$15.5 million libel verdict against Capital Cities Communications Inc., ordering a new trial in the case of a man who was wrongly identified by the company's former Buffalo, N.Y., television and radio stations as the victim of an organized crime beating.

John Prozeralik, a Niagara Falls restaurateur, alleged in a lawsuit that his reputation and business were destroyed by 1982 broadcasts on the stations, which New York-based Capital Cities sold in 1986.

In ordering a new trial, the New York Court of Appeals last month ruled that a trial judge improperly instructed a jury that the TV station followed up its false broadcast with a false retraction, claiming that the FBI had identified Mr. Prozeralik as the beating victim. The jury should have been allowed to decide whether the retraction was false, the

appeals court found.

The appellate panel also threw out the \$10 million punitive damage portion of the award.

However, a 6-1 majority of the high court panel also rejected Capital Cities' motion to dismiss the case, finding "sufficient and convincingly clear evidence" to present the case to a jury.

Georgia can collect punitive award: Court

ATLANTA—The state of Georgia can collect \$75 million of a \$101 million award against General Motors Corp. after the state Supreme Court upheld a state punitive damages statute.

The parents of Shannon Moseley, who was killed in a 1989 accident in his GMC pickup truck, claimed that the law apportioning 75% of product liability punitive damage awards to the state was unconstitutional (BI, March 15). The teen-ager's parents were awarded \$101 mil-

lion in punitive damages and \$4.2 million in actual damages (BI, Feb. 8).

The state high court, though, unanimously ruled that the law does not violate equal protection and is not a revenue-raising measure.

GM is appealing the award.

Information in brief

Minneapolis-based Express Airlines II has hull and liability insurance to cover claims stemming from a commuter plane crash in Minnesota last week in which 18 people died... Willis Corroon Group P.L.C. hopes to raise \$101 million in an initial public offering of about 56% of the common stock of its Gryphon Holdings Inc. unit in a continuing effort to withdraw from the underwriting business... Dow Chemical Co. and Corning Inc., the parent companies of Midland, Mich.-based Dow Corning Corp., have been dismissed from more than 3,000 federal lawsuits involving silicone breast implants. ■

Updates

Salomon Lloyd's fund alive

LONDON—Salomon Brothers International Ltd., the London-based U.K. arm of the New York investment bank, vociferously denies rumors circulating through Lloyd's of London that it is on the verge of abandoning its planned \$300 million corporate capital fund.

A spokesman did confirm that Salomon had failed to meet a self-imposed Dec. 1 deadline for raising the capital and had been granted an extension by Lloyd's until Dec. 17. "This is not a problem, and we are not the only one to do this. We were under the pressure of time. Lloyd's has said that all the deals could have used a little more time," said the spokesman for Salomon, which five weeks ago teamed up with Johnson & Higgins to launch the venture.

Salomon Brothers is still confident of raising "between \$200 million and \$300 million" through private placements.

Securing capacity within Lloyd's has not proven to be a problem for Salomon Brothers, despite its decision not to link with a Lloyd's members agent, he said. "Capacity is not an issue; we are very happy with it, and we are happy with investor interest."

Amtrak crash losses insured

KISSIMMEE, Fla.—Amtrak has more than \$75 million in liability coverage above a retention that would apply to a passenger train crash last week.

Amtrak has a \$25 million self-insured retention and has \$75 million in coverage from Bermuda-based Transportation & Railroads Assurance Co. Ltd. and Railway Assn. Insurance Ltd., said Rodney Schraven, Amtrak's risk manager. TRAC offers limits of \$25 million excess of \$25 million, while RAIL offers limits of \$50 million excess of \$50 million. Amtrak also has excess liability coverage from Bermuda-based X.L. Insurance Co. Ltd., but losses from the crash would not trigger that coverage, he said.

The train was en route from Tampa to New York when it struck a truck stalled on the tracks. Sixty people were treated for injuries and eight were hospitalized.

Roundtree Transportation of Jacksonville, Fla., the trucking firm, would not comment.

Insurers oppose NAIC formula

HONOLULU—The National Assn. of Insurance Commissioners is considering a more conciliatory risk-based capital formula for property/casualty insurers, but insurers say it is still too arbitrary and punitive.

Insurance regulators were scheduled to vote at this week's NAIC winter meeting on the latest draft.

The new formula, adopted Nov. 23 by an NAIC subcommittee, would reduce—at least in the first year—the weight of a factor in the formula designed to measure the likelihood of multiple risks occurring simultaneously. It also would reduce the penalty for investment in affiliated non-U.S. insurers and non-insurance affiliates.

If adopted by the NAIC, insurers would be required to use the new formula for their 1994 annual statements.

But, insurers say the latest draft still would give some insurers an undeserved poor rating. For example, a company whose major asset is a non-insurance affiliate—like a bank—would be unfairly penalized, said Richard Hefferan, vp and general counsel at the Alliance of American Insurers in Schaumburg, Ill.

Briefly noted

A Pennsylvania workers compensation reform package that takes effect Jan. 1 will reduce rates by at least 6.7% and cut premiums by about \$300 million annually, says Insurance Commissioner Cynthia Maleski. Employers can obtain an additional 5% one-time rate reduction by implementing various voluntary safety standards... Continental Risk Management and Discover Re Managers Inc. have agreed in principle to produce and underwrite direct excess coverage for workers comp risks. Discover Re will market, and underwrite the policies, which will be written on Continental Insurance paper. Discover Re will reinsure a portion of the business... LaSalle Re Ltd., a Bermuda-based reinsurer formed by Aon Corp., CNA Insurance Cos. and Corporate Partners, has raised more than \$370 million in capital and is now accepting submissions from brokers (BI, Nov. 1)... Harold J. Clark will become president and chief operating officer of United States Aviation Underwriters Inc., manager of United States Aircraft Insurance Group, effective Jan. 1. He replaces John V. Brennan, who will remain chairman and CEO until he retires next July... ACE Ltd. has filed a registration statement for a secondary offering of 8 million common shares now held by a group of its shareholders. The offering follows ACE's sale of 21.4 million shares in an initial public offering in March... Citing uncertainty in the medical malpractice market, Moody's Investors Service lowered the senior debt rating of The St. Paul Cos. Inc. to Aa3 from Aa2. Moody's also lowered the insurance financial strength ratings of members of St. Paul's intercompany pool to Aa1 from Aaa. The insurer is the nation's largest provider of malpractice coverage... A federal jury convicted California insurance lobbyist Clayton R. Jackson of racketeering, conspiracy to commit mail fraud, money laundering and obstruction of justice. Mr. Jackson, who lobbied for the Assn. of California Insurance Cos. and the American Insurance Assn., was found guilty of, among other things, bribing former state Sen. Alan Robbins, D-Van Nuys, who headed the Senate Insurance Claims and Corporations Committee. Mr. Robbins resigned in 1991 and turned government witness (BI, Nov. 25, 1991)... Court procedures designed to streamline civil litigation became law last week despite a hard lobbying campaign to change them. The amendments to the Federal Rules of Civil Procedure include a rule requiring litigants to exchange basic information, including insurance details, before discovery begins (BI, July 26).

The snowshoe rabbit changes color with the season, adopting a white coat in winter and a brown coat in summer. This change, which is governed by the shortening length of day, enables the rabbit to blend into its background for protection.



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