

Business Insurance

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

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Government may close loophole in mental benefit parity law

WASHINGTON—Benefit lobbying groups are warning that federal agencies are close to recommending a regulation that would make it harder for employers to be exempt from a mental health care benefits parity law.

That law, which takes effect Jan. 1, makes it illegal for an employer to offer a health care plan that has lower annual and lifetime dollar limits for mental disorders than for physical ailments. Employers still can limit coverage for mental disorders in other ways, such as through higher copayment requirements.

See Updates on next page

J&H retirees charge fraud in sale

By DOUGLAS McLEOD

NEW YORK—Nine months after the \$1.8 billion sale of Johnson & Higgins to Marsh & McLennan Cos. Inc., a bitter fight is erupting among former J&H directors over how their shares of windfall profits were allocated.

In what amounts to a coup de grace to the famously clubby relations among top J&H managers, nine retired directors charge in a lawsuit that J&H's board of directors fraudulently manipulated the broker's corporate structure to allow the sale of its restricted stock to Marsh & McLennan.

The aim of the alleged manipu-

lation was to keep the lion's share of the proceeds for themselves and to block the retirees from having any say in whether the sale should have gone ahead at all, the suit charges.

Named as defendants are former J&H Chairman David A. Olsen, who the suit claims pocketed about \$63 million in the deal; former Vice Chairman Richard A. Nielsen, said to have received about \$55 million; and the remaining 22 J&H directors, said to have received at least \$36 million each.

The retiree plaintiffs include former J&H Chairman Robert V. Hatcher Jr., former Vice Chair-



Mr. Olsen



Mr. Nielsen

Retired directors of Johnson & Higgins claim in their lawsuit that former J&H Chairman David A. Olsen pocketed about \$63 million in the deal, while former Vice Chairman Richard A. Nielsen received about \$55 million.

man Kenneth A. Hecken and former Executive Vp Richard E. Meyer.

As a group, 45 J&H retirees split \$297 million in the sale, Securities

and Exchange Commission filings reported. The nine retiree plaintiffs received between \$9 million and \$12 million each, according to their lawyer, Michael L.

Hirschfeld of Milbank, Tweed, Hadley & McCloy in New York.

"It is inherently wrongheaded (to think) that if you happen to be on the board of directors at the time (of the sale), you have a disproportionate share of the proceeds," Mr. Hirschfeld said. "It was pretty darned overreaching and greedy on the part of the people who did it."

"What really aggravated them," Mr. Hirschfeld said of the retirees, "is that the corporate machinery was monkeyed with in order to do it."

"It was probably a textbook case of greed and betrayal," he said. See Retirees on page 38

Lower benefit costs may be at an end

1996 costs down 3.9%: Survey

By JERRY GEISEL

The days of stable health care costs and declining overall benefit expenses may be nearing an end.

For the third consecutive year, employers' average total benefit costs declined in 1996, according to a U.S. Chamber of Commerce survey of just over 800 employers.

In 1996, total benefit costs slipped to an average of \$14,086 per employee, down 3.9% from 1995. The last time benefit costs were under the \$14,000 per employee level was in 1992, when they averaged \$13,631 per employee.

Just as surging health care costs were the chief culprit for

soaring benefit expenses in the late 1980s, the stability—and in many cases a decline—in health care costs are the major reason that employers' total benefit costs are dropping.

In 1996, employers' medical plan costs declined to an average of \$2,568 per employee, down 3.8% from the year earlier.

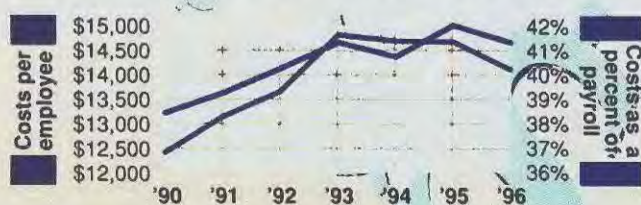
With health care costs nearly stable, employers' benefit costs are continuing to fall.

But with health care premiums rising in 1997 and 1998, total benefit costs soon could be marching upwards once again.

The more favorable health care cost trends of the past sev-

See Costs on page 28

Total benefit costs



Source: U.S. Chamber of Commerce

GRAPHIC BY ADAM DOI

Employers likely to see a boom in disability costs

By JOANNE WOJCIK

Now that the oldest baby boomers are in their 50s, employers should brace for an explosion in non-occupational disability costs.

Non-occupational disabilities usually are treated more conservatively than those filed under the workers compensation system. If that conservative treatment delays recovery, the result is higher medical costs for employers and longer lost work time, experts point out.

While so-called integrated dis-

ability management has been touted as the panacea for escalating disability costs, such programs will be worthless unless they apply an aggressive return-to-work strategy to all types of disability, disability experts say.

"As this huge generation starts rolling into old age, we're not going to be able to retire," observed Richard K. Pimentel, senior partner of Milt Wright & Associates Inc., a Chatsworth, Calif.-based organizational design, training and development company.

Regular retirement at age 65 won't be possible for many baby

boomers, he says, because they are part of the "sandwich generation," supporting their parents at the same time they are paying expenses for the children they postponed.

"Medical retirement," whether in short stints or for the years remaining in a career, "will start looking real good to them," he predicts. "And they won't be faking it; they're going to get something."

Because a 60-year-old has lost much of his or her "physiological reserve," it takes longer to recover. See Disability on page 39

Florida tort reformers optimistic

Lawmakers continue hearings on proposed reforms

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—Tort reform efforts that were derailed in Florida earlier this year are back on track and gathering steam.

The Florida House and Senate last week continued monthly meetings that began in September to hear testimony from employers, plaintiffs lawyers and others. A final meeting is scheduled for early January, and reform legislation could be drafted in time for the legislative session that begins March 3.

Tort reform advocates say they have a good shot at seeing some

type of reform law passed in 1998, after a bill fell short this year.

"We feel better about it than we have in a long time," said E. James Brainerd, vp and general counsel for the Florida Assn. of Insurance Agents in Tallahassee.

"We think our chances are better than they have ever been," agreed Jodi Chase, an attorney with the firm Broad & Cassel and a lobbyist for Associated Industries of Florida, a 7,000-member business group based in Tallahassee.

But, she cautioned: "Passing tort reform is harder than anything else. While we feel this is a

good opportunity, we certainly are not confident. It's going to take a lot of work."

The Florida House and Senate have been collecting testimony from business groups, trial attorneys, insurance industry representatives, government officials and others at the monthly hearings. The Senate has indicated it is particularly interested in hearing how the current civil justice system may be dampening economic development in the state.

Employers indicate that Florida's tort system has kept them bottled up.

See Tort on page 34

Spotlight on: Employee Benefit Marketplace

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Updates

Benefit groups fear new rule

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The law, however, exempts employers from equalizing dollar limits on coverage for mental and physical problems if they can prove such an upgrade would boost plan costs by at least 1%.

The Assn. of Private Pension & Welfare Plans, in a special alert to members, says the Labor and Health and Human Services departments are close to recommending the administration adopt a regulation that would require employers to upgrade their plans and incur a cost increase of at least 1% before they could obtain a waiver.

The APPWP says employers should get a prospective exemption for three years if they can prove, such as through actuarial estimates, that equalizing mental and physical benefits would boost costs at least 1%.

Any recommendation made by the Labor or HHS departments still would have to be reviewed by the Office of Management and Budget and ultimately the White House.

Benefit unit speculation arises

NEW YORK—Speculation surfaced last week over whether KPMG Peat Marwick L.L.P.'s and Ernst & Young L.L.P.'s employee benefit consulting operations would be included as part of a merger of the giant accounting firms.

Several sources said the two firms' benefit units are likely not to be included as part of the merger of the two accounting giants announced in October (BI, Oct. 20). KPMG's benefit unit instead is expected to acquire another human resources and technology firm in an effort to build up its existing outsourcing practice, the sources said. A spinoff of the benefit consulting or outsourcing practice from the accounting firm is then likely, they said.

Over the past couple weeks, "there have been some big-time meetings to determine what they are going to do," said Donn Bleau, a principal with Global Resources Group, a San Diego-based executive recruiting firm that places employee benefit consulting professionals.

"There is a strong possibility that KPMG will pick up a different partner for its human resources/employee benefit consulting practices," he said. "The reason they are looking for a different partner is so they can maximize their strength as a benefit consultant with the technology from a different partner and together attempt to be a force in the outsourcing business."

KPMG would not comment on any aspect of the merger pending final approval, expected in the beginning of 1998.

New York eases up on Lloyd's

NEW YORK—New York's top insurance regulator last week announced plans to ease the major securitization requirement for the approximately 150 Lloyd's of London syndicates writing U.S. surplus lines risks.

At the beginning of next year, these syndicates will be required to fund their gross liabilities at 50%, down from the current 100% that is placed in one of several security funds. Those liabilities totaled slightly more than \$1.1 billion at the end of September.

However, Lloyd's also will be required to double its contribution to the Lloyd's American Surplus Lines Joint Asset Trust Fund to \$200 million.

The department considers these "prudent steps," Insurance Superintendent Neil D. Levin said in a statement, citing Lloyd's "increasing financial strength" through its recovery program, centered in runoff reinsurer Equitas Ltd. (BI, Oct. 13).

Peter Lane, managing director of Lloyd's America Ltd., agreed. "We believe that this is a sensible change," he said.

Two years ago, Lloyd's financial problems prompted New York to increase its oversight, including requiring substantial increases in U.S.-based trust funds and syndicate-specific reporting (BI, May 5, 1995).

Mr. Levin said last week that other recent positive developments for Lloyd's stem from the better tools that U.S. regulators have imposed to track Lloyd's U.S. writings, including enhanced periodic financial reporting, actuarial opinions on a syndicate-by-syndicate basis and better computer systems to keep track of the risks written and reinsured.

U.S. regulators also will have complete access to key financial claims-paying and reinsurance recoverable records, following a pledge by Lloyd's, Equitas and the U.K. Department of Trade and Industry in London, he added.

New York regulators are beginning to level the playing field for Lloyd's with its alien competitors, which are required to post 30% of their gross liabilities, Mr. Levin said.

The New York department, which plans to adopt the changes administratively, typically oversees Lloyd's U.S. operations because the market's security funds are located in New York City.

The National Assn. of Insurance Commissioners, which meets this week in Seattle, is expected to approve the changes, according to spokesmen for the Insurance Department and the NAIC Surplus Lines Task Force.

Review of stop-loss law sought

WASHINGTON—Maryland insurance regulators have asked the U.S. Supreme Court to review whether federal law pre-empts a Maryland law
See Updates on page 38

Errors & omissions

• A story on page 15 incorrectly states that Coopers & Lybrand L.L.P. acquired Price Waterhouse L.L.P. and that KPMG Peat Marwick L.L.P. acquired Ernst & Young L.L.P. In both cases, the accounting giants are merging. Also, the Coopers & Lybrand/Price Waterhouse merger was announced in September (BI, Sept. 22), not July.

• Due to an editing error, a Dec. 1 Insider Trading item misspelled the name of American International Group Inc. director Barber B. Conable.

Same-sex harassment on trial
Supreme Court to rule on whether claim violates bias law

By MARK A. HOFMANN

WASHINGTON—Employer groups hope that the Supreme Court will use a same-sex sexual harassment case to spell out just how far their liability extends under federal sex discrimination laws.

The federal government, however, would like the Supreme Court to use that case, *Joseph Oncale vs. Sundowner Offshore Services Inc.*, to expand the actions prohibited by Title VII of the Civil Rights Act of 1964 to include

same-sex sexual harassment.

The Equal Employment Opportunity Commission has long taken the position that Title VII does indeed allow recourse for same-sex sexual harassment.

But the justices didn't seem wholly persuaded by the arguments offered by either side in the matter, as lawyers argued the *Oncale* case before the high court last week. In fact, every justice except Justice Clarence Thomas—whose 1991 confirmation hearings burned with charges that he had sexually harassed a female associ-

ate—had something to ask of the opposing sides and often asked it with apparent sarcasm. At the core of many of the justices' questions was whether same-sex sexual harassment in and of itself constitutes gender discrimination covered by Title VII of the 1964 civil rights law.

Although no major national employer group filed a brief in the case, businesses are following the matter closely.

"It's one we're keeping an eye on. It basically will continue to
See Harass on page 30

Greenberg laments trade talks

By GAVIN SOUTER

NEW YORK—If financial services are included in the World Trade Organization's latest agreement later this week, insurers will be in a much more secure position as they expand into international markets, an insurer executive says.

But if talks on including financial services as a permanent feature of the General Agreement on Tariffs and Trade fail—as seems the more likely outcome—international insurers will remain ex-



Mr. Greenberg

New York-based American International Group Inc.

If that occurs, this week's WTO

posed to the whims of protective governments, contends Maurice R. Greenberg, chairman and chief executive officer of

talks will represent a third missed opportunity to improve the climate for insurance and financial services companies involved in international trade, according to Mr. Greenberg.

The other setbacks were congressional failure to grant President Clinton fast track negotiating powers on trade issues and a rejection by Congress of U.S. contributions to the International Monetary Fund to create an emergency credit fund, he said.

Outside of the specific trade-
See Trade on page 28

Mixed effort by Florida employers to promote managed comp: Study

By MEG FLETCHER

Florida employers' efforts to educate workers about the state's requirements to use managed care for workers compensation injuries are haphazard, a study shows.

"The most striking result of this study is that the required employee educational component of the managed care arrangement for workers compensation has not

been uniformly or consistently implemented at the employer level in Florida," according to the study, which was released late last month.

The recent study is the second of five planned by the state's Division of Workers Compensation.

By not striving to educate workers, employers may be missing a key opportunity to build a relationship with workers that will

encourage them, if they become injured, to return to work as soon as possible and not hire attorneys, said Catherine Johnson, president of HJH Group Inc. HJH and Rev-eley Resources Inc., both of Tampa, Fla., are two consulting firms that are helping researchers from the University of South Florida in Tampa to conduct the studies.

At the beginning of this year,
See Florida on page 30

Reinsurers remain competitive
Drive for top-line growth, absence of cats mark period

By JUDY GREENWALD

Intense competition continues to keep reinsurance rates down, but unexpectedly low catastrophe losses boosted reinsurers' results for the first nine months of the year.

"It's very competitive both in the primary business and the reinsurance business," said Kaj Ahlmann, chairman, president and CEO of Overland Park, Kan.-based Employers Reinsurance



of the same, really," agreed Bard E. Bunaes, chairman and CEO of Constitution Reinsurance Corp. in New York. Prices are continuing

to drop, "and the emphasis seems to be on top-line growth among everybody."

"Hard markets are the exception; soft markets are the rule," said Dennis Zettervall, chief executive officer of Hartford Re Co. in Hartford, Conn. "What we have today is the rule, and it'll probably be with us for some time to come, so we might as well get used to it."

"There's a saying that the best armies are the battle-hardened
See Results on page 37

Inside

• Managed care providers should find ways to tighten their own belts before putting the squeeze on employers in the form of rate increases, this week's editorial says. **PAGE 8**

• No hardening of the contingency market is expected in the wake of a dance tour cancellation. **PAGE 31**

• Captive insurer operations for medical providers are changing in light of new exposures in the health care industry, attendees learn at the 7th World Captive and Alternative Risk Financing Forum. **PAGE 35**

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Employee Benefit Marketplace



World's largest employee benefit consultants

Ranked by worldwide benefit consulting revenues. 1997 figures are estimates.

Name	Gross revenues benefit consulting ¹ (in millions)		% change	Offices U.S./total	1997 Gross revenues total operations (in millions)
	1997	1996			
William M. Mercer Cos. Inc.	\$951	\$790	20.4%	40/105	\$1,360
Towers Perrin	695	631	10.1	36/68	1,042
Hewitt Associates L.L.C. ²	624	488	27.9	29/70	709
Watson Wyatt Worldwide ³	571	537	6.4	37/92	672
Coopers & Lybrand L.L.P.-The Kwasha Lipton Group	505	363	39.1	24/92	630
Aon Consulting	470	218	15.6	64/126	545
Sedgwick Noble Lowndes	317	282	12.4	37/85	373
Buck Consultants Inc.	302	239	26.4	30/62	304
Deloitte & Touche L.L.P./Employee Benefit Group	154	129	19.4	50/88	439
Arthur Andersen L.L.P.-Human Capital Services	118	85	38.8	30/77	237
Total	\$4,707	\$3,762	25.1	329/763	\$6,311

¹ Excludes revenues from claims administration, compensation consulting, insurance commissions where no consulting is involved and other non-benefit consulting. ² Fiscal year ends Sept. 30. ³ Fiscal year ends June 30.
Source: BI survey

GRAPHIC BY ADAM DOI

Employers face rising health care rates

By JERRY GEISEL and JUDY GREENWALD

Employers in 1998 can count on rate increases from health maintenance organizations. HMOs say they need to make up for low rates offered in their drive for market share and that medical costs have risen. Some also face pressure to earn more for Wall Street, and many providers are demanding higher payments. In 1997, employers typically were hit with HMO rate increases of between 1% and 6%, though the increases often were nearer to the lower rather than the higher end of the rate hike scale. The 1997 rate hikes brought an end to a three-year run of generally flat

and, in some cases, lower rates for employers. In 1998, HMO rate hikes will again be in the 2% to 6% range, with HMO executives and others expecting most rate hikes to fall in the 3% to 5% range. Even though HMO rates are climbing, the increases will be much less than for other types of health care plans. Insurers and benefit consultants say that for traditional indemnity plans, employers in 1998 can expect rate increases of 8% to 15%, roughly in line with this year's rate increases. Preferred provider organization rates are expected to rise 8% to 12% in 1998. Rates for point-of-service plans generally will continue to be one to two percentage points more

See Costs on page 12

Benefit consultant mergers fueling hefty revenue growth

Firms see strong demand for outsourcing, benefit consulting

By ROBERT KAZEL

For many employee benefit consulting firms, 1997 will be marked as a year of soul-searching and change. Several consultants lost their independence, either because of their own wish to seek a partner for expansion or due to the mergers of their parent companies. Yet even in this climate, benefit consultants in general saw strong revenue growth, with many firms reporting robust demand for both consulting and outsourcing services. The world's 10 largest benefits

consultants, according to *Business Insurance's* 1997 ranking, increased their gross revenues from benefit consulting by 25.1% this year, sharply up from an increase of 13.2% for last year's Top 10. New York-based William M. Mercer Cos. Inc. retains its longstanding position as the world's largest benefits consultant, with estimated revenues of \$951 million this year. Much of that 20.4% increase over 1996 revenues is due to acquisition. In March, Mercer's parent Marsh & McLennan Cos. Inc. acquired Johnson & Higgins, the parent of A. Foster Higgins & Co. Inc. Foster Higgins was the seventh-largest benefits consul-

tant worldwide in 1996 with revenues of \$255 million (*BI*, March 17). Trailing at a distance in second place was New York-based Towers Perrin, with 1997 estimated gross revenues of \$695 million and a 10.1% growth rate. Ranking by U.S. benefit consulting revenues alone, Lincolnshire, Ill.-based Hewitt Associates L.L.C. for the first time pulled into the lead. Hewitt's outsourcing business grew by more than 40%, though it also enjoyed double-digit revenue growth in all other benefit consulting operations. With U.S. revenues of \$600 million, Hewitt narrowly pushed aside Mercer. *See Consultants on next page*

Fighting to hold down benefit expense

Employers adopt various strategies to keep costs in check

By JOANNE WOJCIK

With health care cost trends pointing upward once again, many savvy employers are examining the latest "treatment" options to keep their medical expenses in check. Some employers are negotiating deals with health insurers to spread the risk more evenly across plan types so that managed care savings better offset indemnity plan costs. Other employers have begun outsourcing health benefit administration to cut their overhead, while others also are using consultants to handle purchasing and negotiations. Still other employers are taking the risk away from capitated managed care providers by self-insuring their health maintenance organization costs.

Although employers have enjoyed four or five years of favorable health care cost trends, benefit managers can't afford to fall asleep at the wheel, experts warn. "Benefit managers need to stay on top of things," said Emily Twanmo, a director in the MED-STAT Group's national practice team based in Ann Arbor, Mich. She compared health care purchasing by employers to a game of musical chairs. "If you're kind of walking around not paying attention, you could be without a chair when the music stops," she said. And just as employers differ, so, too, will their solutions, said Alex Chernoff, manager of Chernoff Diamond & Co., a consultant based in Long Island, N.Y. "To try to cubbyhole all the employers into one solution just doesn't work," he said. "We recognize there's no one answer for all of our clients." One solution that Mr. Chernoff

has implemented for about 15 of his midsized employer clients is to try to spread risk more evenly across all the health plans they offer so that savings produced by one type of plan—usually the HMO—can be used to offset the higher costs of another—usually the indemnity plan. "We take the HMO and pull out the administrative costs, the margin—everything but the claim costs," he explained. "We do the same with the PPO, the indemnity plan and the point-of-service plan." "We settle on 'reasonable' fees for administration, and then we agree on margins, giving the insurers as little profit as we can negotiate," Mr. Chernoff continued. "We then put the pieces back together." "So instead of trapping fairly large margins and potential surplus in the HMO, we're using it to offset higher claims, through low-

See Strategy on page 10



Consolidations shake consulting field . . . Page 14
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GRAPHIC BY ADAM DOI

Spotlight report

Top 10 U.S. benefit consultants

Based on U.S. benefit consulting revenues

Name	1997 estimate of consulting revenue (in millions)
Hewitt Associates L.L.C. ¹	\$600
William M. Mercer Cos. Inc.	580
Towers Perrin	511
Watson Wyatt Worldwide ²	359
Coopers & Lybrand L.L.P.- The Kwasha Lipton Group	315
Aon Consulting	273
Buck Consultants Inc.	227
Deloitte & Touche/Employee Benefit Group	129
The Segal Co.	94
Sedgwick Noble Lowndes	73
Total	\$3,161

¹ Fiscal year ends Sept. 30 ² Fiscal year ends June 30.
Source: BI survey

GRAPHIC BY MIKE GARVEY

Consultants

Continued from previous page with \$580 million in estimated 1997 U.S. revenues. Hewitt came in third place in last year's U.S. ranking, with 1996 revenues of \$464 million.

Growth has been substantial almost across the board for consulting firms, with only one company in the worldwide Top 10 reporting less than a 10% gain and another two reporting less than a 15% gain.

Business Insurance ranks the benefit consultants on gross revenues generated by worldwide employee benefit consulting, defined as providing advice on benefit issues on a fee-for-service basis. Providing outsourcing services for benefits administration and record

keeping is also counted. Only revenues from majority-owned consulting affiliates are included.

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

Mergers

The merger and acquisition activity among top benefit consulting firms captured the industry's attention beginning in January.

"It's by far the most rapid pace of consolidation we've ever seen," said Paul Daoust, chief operating officer of Bethesda, Md.-based Watson Wyatt Worldwide. "I've been in the business almost 28 years, and nowhere in that time has there been anything like this."

The year had barely begun when Buck Consultants Inc., the New York-based firm ranked eighth on

last year's Top 10 worldwide chart, announced it was to be acquired by Mellon Bank Corp. It was the first time a financial services organization had acquired a Top 10 consulting firm. And, according to Buck President and Chief Executive Officer Joseph LoCicero, Buck's long-sought-after financing for expansion of its outsourcing services was now in reach.

Two weeks after the announcement by Buck and Mellon, Coopers & Lybrand L.L.P. announced that it was purchasing the far smaller Fort Lee, N.J.-based Kwasha Lipton L.L.C. (*BI*, Jan. 20).

Coopers & Lybrand's experience, size and breadth of services were key factors behind the acquisition, Kwasha Lipton officials said.

"We wanted to go with a firm that valued consulting expertise. Coopers & Lybrand is committed to its human resource advisory business and in fact had a practice that was twice the size of ours," said Robert Byrne Jr., managing principal of the Coopers & Lybrand unit that is now known as The Kwasha Lipton Group.

Kwasha Lipton was concerned that because of its relatively small size, very large clients, especially those interested in outsourcing their benefit programs, might not choose it, even if, as Mr. Byrne puts it, "they felt we were the most qualified."

Although the company was one of very few consulting firms with a profitable outsourcing operation, major potential clients were passing Kwasha Lipton up because they questioned the firm's staying power.

Coopers, with its breadth of offices and practice areas, gave Kwasha Lipton the opportunity to attract and win clients that would have been difficult on its own, Mr. Byrne said.

And business wise, the acquisition has worked. Over the past eight months "business has grown by leaps and bounds," Mr. Byrne said.

"All the accounting firms have been trying to get into this business for years, and the only one that has made a dent was Coopers," said Buck's Mr. LoCicero. "Their move with Kwasha, on their part, was brilliant. Kwasha is a great firm that gives them a lot more credibility."

In two other cases, major consulting firms combined this year when their owners, leading worldwide brokerages, completed mergers with other brokers.

Chicago-based Aon Corp. bought Alexander & Alexander Services Inc. and acquired The Alexander Consulting Group Inc. benefit consulting unit in a deal completed in January. That move increased Aon's gross revenues from benefits consulting by more than 115% by the end of this year. "They just mesh together beautifully," said Daniel T. Cox, chairman of Aon Consulting Worldwide. A&A brought its well-developed provider practice to the table, while Aon brought its well-known actuarial practice, Mr. Cox said.

"All the offices are integrated," Mr. Cox said. "All the people are in place. To say we were not distracted by a merger of this size would be incorrect. We certainly took some time to go through our internal needs. But now, for the last three months, the focus has been very much to the outside, to increasing our clientele."

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Consultants

Continued from page 4

Marsh & McLennan Cos. Inc.'s purchase of Johnson & Higgins resulted in the marriage of M&M's Mercer with Foster Higgins consultants.

After all this activity, virtually all consultants interviewed said they were not interested in their firms becoming a candidate for a corporate merger in the near future, nor did they want to acquire another consulting firm themselves. The lone exception was Mercer, whose executives said they might be interested in acquiring consulting firms outside of the United States if the opportunity seemed right.

Outsourcing

The outsourcing business took another shift when Mercer an-

nounced it would form an alliance with Automatic Data Processing Inc., a large Roseland, N.J.-based processor of payroll data, and in essence turn much of the responsibility for outsourcing authority, and its staff, over to ADP.

"We are fully committed (to outsourcing)," said Vikesh Mahendroo, president of William M. Mercer Inc. in New York, Mercer's U.S. operating company. "We just don't think we should be the sole provider of those solutions ourselves."

The merger allowed Mercer to mostly remove itself from the outsourcing business after years of difficulties in the field.

"Whether it truly makes us bigger, in a year or two the marketplace will tell us that," Mr. Mahendroo said.

ADP, with more than \$4 billion

in global revenues, had 600 outsourcing customers after the merger. Both ADP and Mercer said the future of outsourcing is integrated processing of benefits, human resources and payroll data.

"The definition of outsourcing, from our perspective, has moved by quantum leaps since this time last year," said Timothy J. Lynch, chairman of William M. Mercer Inc. The new alliance, called Administrative Solutions Group, is twice as big as Mercer's previous operation, and has a total of 1,300 workers and four outsourcing centers. The alliance, Mr. Lynch said, is necessary to compensate for the great cost of technology.

Indeed, decisions surrounding outsourcing again dominated the strategic deliberations of consultants this year. As much as last

year, consulting firms differentiated themselves by their degree of tenacity and skill in the outsourcing sector, and whether or not they wished to enter the fray at all.

Buck's Mr. LoCicero had made no secret of wanting to find a strategic partner to build the outsourcing business.

Buck, whose merger with Mellon became final in July, is trying to avoid clients who really "don't understand" outsourcing, Mr. LoCicero said.

"Our business growth in that already has been substantial," he said. "What hasn't changed is it's still a very difficult business to be good at. We're looking for new business, but we're being selective. We want to make sure it's good business. We want to make sure it's business we can make

money on."

As important as outsourcing is and will become, Mr. LoCicero acknowledged that outsourcing will never be Buck's key to fortune, even with Mellon's aid.

"Can we make money on outsourcing? The answer is absolutely yes," he said. "Will it ever be a very high-margin business? The answer is no."

Buck, with three outsourcing centers and Mellon's financial services network carrying on similar work, hopes to see its retiree outsourcing business increase soon. Mellon cuts the checks for many retirees for retirement accounts and also handles debiting of accounts for retiree medical customers. Some companies are bound to want one outsourcing vendor to handle it all, Mr. LoCicero reasoned.

"To be truly top-tier, you have to be in the outsourcing business," he said.

If the outsourcing route doesn't meet expectations, however, Buck is keeping enough consulting avenues open. "We don't care where the trend goes—we're going to be successful," he said. "We don't want to be (only) an 'outsourcing company.'"

Other consultants were equally hesitant about putting too many eggs in their outsourcing baskets.

"It's part of Towers Perrin, but it's not going to dominate our revenues," said Alan H. Dugan, managing director of global employee benefit services in Stamford, Conn.

"It's something that's very important to our employee benefit services clients to have a complete set of services we can give to them, but we're not looking at it as a business that will be a majority of Towers Perrin revenue," Mr. Dugan said.

Aon, which increased its outsourcing revenues by 30% to 35% in 1997 over 1996, has noted continuing trepidation throughout the industry.

"I think all the firms continue to have reservations," said Donald C. Ingram, chairman of Aon Consulting Americas in Chicago. "You had some early entries in the field where you had attempts to build huge outsourcing centers, and in some cases companies have gone almost diametrically in the other direction."

Hewitt, generally seen as the most successful in outsourcing, is bullish about the business. More than half its revenues now are flowing from outsourcing, and J.C. Penney Co. Inc. recently became its 100th outsourcing client. Hewitt has outsourcing centers in Lincolnshire; The Woodlands, Texas; Toronto; and Orlando, Fla. All four of those centers, because of the "success we are having in the market," are being expanded, said Thomas Schmitz, a member of Hewitt's office of the chief executive.

"What this is really about is workforce management, outsourcing some of the activities that are not strategic, not core to an employer's business. Since we handle benefit outsourcing for more than 100 companies, we can make investments in technology that would be cost-inefficient for an individual employer," Mr. Schmitz said.

While nearly all of Hewitt's outsourcing business involves benefit programs covering U.S. and Canadian employees, it believes there are opportunities to expand outsourcing beyond North America. In fact, Hewitt plans to open

Continued on next page

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Continued from previous page
an outsourcing center in the United Kingdom next year.

Still, outsourcing is a hugely expensive business, and profits for many firms remain elusive. For example, although Watson Wyatt continues to add major outsourcing clients through its joint outsourcing venture—Wellspring Resources L.L.C. with State Street Bank—"it continues to be more of an investment than we planned for or expected," Mr. Daoust said. "We aren't making money yet. We're still investing in the outsourcing business, and we think it's going to take a while before that turns around. It takes a lot of stick-to-itiveness."

Some other consultants continued to show little or no interest in outsourcing, either because of the expense and risk or because it doesn't match corporate strategy.

"We decided from the first day that we weren't going to be in that business, that it didn't fit strategically," said Howard Fluhr, president and CEO of The Segal Co. "We wonder why consulting firms have gone into it."

New York-based Segal is trying to carve a niche for itself: outsourcing consulting without the outsourcing. It will conduct studies of whether employers need to outsource and, if so, recommend vendors.

New services

Other than outsourcing, consultants reported that a good economy combined with sufficiently thorny benefits issues drove many plan sponsors to seek consulting help in 1997. Firms mentioned these services in particular as being in demand:

- Managed disability, both short-term and long-term. Employers are seeking out ways to get employees back to work and minimize absence due to illness or injury.

- Comparison of managed care options. Consultants still are finding many opportunities to analyze plan sponsors' HMOs and report on quality and employee satisfaction.

As health care premiums and costs rise, consultants will surely find more opportunities for work, said Mr. Dugan of Towers Perrin. "I don't think it will be the feeding frenzy that we had in the early '90s, when costs (increases) for almost everybody were double digits," he said.

But because consultants have more data now to measure quality of care and worker satisfaction than ever before, "The second round of managed care consulting is coming on," reports Buck's Mr. LoCicero. "Many companies put in managed care programs four to six years ago and now they're starting to reassess them."

Higher premiums "will help our business tremendously," said Mr. Cox of Aon Consulting Worldwide.

- Investment consulting and investment performance monitoring.

Consultants are aiding in the search for the ideal investment manager for an employer and monitoring its performance.

- Strategic realignments of benefits to influence the type of employees the company attracts.

An employer who wants a mobile workforce that won't put demands on the company might, for instance, be advised to put in place a shorter reward program such as a defined contribution plan with rapid vesting.

- Integrated benefits.

Consultants are advising how occupational, non-occupational and workers compensation medical care work together efficiently.

Also, according to Mr. Dugan of Towers Perrin, more clients are trying to find out their total health costs, including everything from medical insurance to lost employee productivity. This requires a broad, holistic view by consultants because the sources of information reside in many different

parts of the client company.

- More defined contribution plan consulting.

"We're seeing more and more employers turning back to the consulting firms for consulting advice about being in compliance with defined contribution areas," said Aor's Mr. Ingram.

And Mr. LoCicero reports an upswing in defined benefit pension studies at Buck. "They're not doing it out of the goodness of their heart," he said of employers, but rather out of a realization that annuity checks throughout a lifetime are more attractive to job candidates than an unpredictable stock market.

- Provider consulting.

More than ever, consultants are being called on by HMOs, hospitals, and physician groups to redesign their businesses to make them profitable.

Overseas

Leading consultants were busy establishing new offices in foreign coun-

tries in 1997 and beefing up their presence in others. Consultants, witnessing the rise of multinational plan sponsors needing worldwide consulting networks, responded in several markets.

Mercer, which derives about 40% of its revenue from outside the United States, is seeing that proportion increase annually, Mr. Lynch said. Mercer is particularly interested in increasing its presence in Latin America and establishing a consulting practice in Venezuela and Colombia, where it is absent.

Watson Wyatt is looking to build on its already considerable presence in Asia, in addition to its practice in the United Kingdom, said Mr. Daoust. The company, which had "the best year ever consulting worldwide" in 1997, saw most of its expansion happen outside North America, including the opening of offices in China, India, and Sao Paulo, Brazil.

Buck, with 25% of its business out-

side the United States, is keenly interested in strengthening its global consulting network to appeal to international employers, Mr. LoCicero said. Through its purchase of the benefit consulting unit of Willis Corroon (BI, Nov. 18, 1996), Buck has increased its presence in the United Kingdom to 300 employees from 100. Other Buck strongholds include Australia, Canada, Ireland and other parts of Europe.

Aon's acquisition of Alexander Consulting Group gave it a substantially larger slice of the actuarial consulting pie in Canada and the United Kingdom, and a good base on which to build in Europe, Australia and New Zealand, Mr. Cox said.

"The larger clients are going to look for global reach and depth of service," said Mr. Dugan of Towers Perrin. "They may not use all the services, but they want the ability to tap into it." In Latin America and Europe, a new demand is arising for provider consulting where young private health sys-

tems are supplementing weak public health structures, he said.

Memphis-based Sedgwick Noble Lowndes, ranked as the 7th largest consultant, derives 77% of its estimated benefit consulting revenues from outside the United States.

Several consultants spoke of the need to offer clients "global reach" or to achieve "critical mass" overseas, and of the hazards of appearing limited or local to employers. Seeming big, it now appears, is a key drawing card when it comes to luring customers.

Does that mean bigger is better? The consultants were slow to answer. "Size in and of itself is hardly a determinant of winning or better service," said Mercer's Mr. Mahendroo.

"I think small firms can compete," said Mr. Byrne of Kwasha Lipton. "It just depends on the quality of their people and the breadth of their services. To the extent they have a niche business, they'll still be able to compete." **BI**

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Opinions

Use alternatives to rate hikes

HEALTH CARE COMPANIES are talking rates up again and, unfortunately, many employers will do nothing but reach for their wallets.

It is unfortunate because employers still have alternatives and, thus, leverage with the market. It's also unnecessary in many cases, because there is still inefficiency to be wrung from the system—both in terms of plan design and choosing a more efficient plan provider—before employers start having to pay higher medical costs again.

Health maintenance organizations are expected to hike rates in the 2% to 6% range, with most falling in the 3% to 5% range. Point-of-service plan rates generally will be one to two percentage points higher. For traditional indemnity plans, employers in 1998 can expect rate increases of 8% to 15%. Preferred provider organization rates are expected to rise 8% to 12% in 1998.

It is worth noting that for the 12 months ending Oct. 31, the medical component of the Consumer Price Index is up 2.5%. So where do those added percentage points come from? Inefficiency, for the most part.

Indeed, many of the managed care companies seeking rate increases are trying to offset bad pricing decisions in recent years, soothe indigestion from recent acquisitions or make up losses from business errors, such as recent computer troubles cited by Oxford Health Plans Inc. and PacifiCare Health Systems Inc. Should employers have to pick up the tab to bail out insurers for those kinds of mistakes?

Many health plans are also looking to raise rates under pressure from Wall Street analysts and investors. The drive to make higher profits for shareholders, however, comes directly out of the pocket of health care payers.

Although profits are certainly necessary to attract capital and make investments in new technology, health plans have to achieve a balance between satisfying customers with reasonable rates and appeasing shareholders with reasonable returns.

Employers have the power to reject pricing decisions that strike them as unfair, because they do have alternatives.

Some employers, for example, are of a size that they have enough clout to negotiate cost increases more in line with medical inflation. Those that aren't still can band together in purchasing coalitions to wield more clout. Witness the Pacific Business Group on Health, a West Coast coalition that has held its rate increases for HMOs this year to 1% on average.

For employers that believe their health plans are scrambling to appease their shareholders more than their customers, there are still plenty of not-for-profit health plans out there without those same shareholder pressures. Although they may lack the resources of their for-profit competitors, with more employer support, perhaps that would change.

Also, plenty of inefficiencies still can be eliminated from current plan design. Roughly one-fourth of all eligible employees still are enrolled in indemnity plans, the absolutely least efficient health plan option. Employers that offer such plans are essentially giving their employees carte blanche to see whatever doctor



they choose at whatever the cost.

Companies that fail to move their employees to some form of managed care perhaps deserve what they get.

Even a relatively mild form of managed care, such as a preferred provider network, offers the payer an opportunity to negotiate discounts and obtain utilization review while still affording employees a choice.

Point-of-service options offer even more savings, with capitated payments and gatekeepers, while still offering a choice of providers to participants who want to pay for that option.

HMOs offer the greatest potential savings, yet enrollment has stagnated at about 27% of eligible employees. While HMOs are more restrictive than other forms of health care, overall patient satisfaction in these plans is consistently reported to be high.

While picking a plan with more built-in cost controls is a start, many health care plans—including HMOs—still can do more to deliver cost-effective health care, and by cost-efficient, we don't mean low-quality.

Many health care plans, for example, don't take basic measures, such as providing free screenings to detect conditions like high-blood pressure or diabetes, which if undetected can lead to enormous health care bills.

Many health plans are not doing something about the escalating cost of prescription drugs by, for example, establishing formularies and encouraging more use of generic alternatives.

Many health care plans don't get actively involved in case management before a claim reaches six figures.

Many health care plans—and for that matter, employers—don't play an active role in the legislative arena and use their considerable influence to prevent state and federal legislators from passing benefit mandates that can drive up costs but do little to ensure that better care is delivered.

In short, there is much more inefficiency to be wrung from the system before employers run out of cost-saving options and face sharply higher rates.

Letters

EPL coverage another weapon against claims

To the editor: Bruce Atkins' Oct. 13 article, "Complete Anti-Discrimination Policies Key," on actions to protect a company from gender discrimination claims concisely outlined all the proper steps except one: Purchase employment practices liability coverage.

This solution not only transfers the risk to an independent third party but, by se-

lecting the right underwriter, forms a partnership to deal with the difficult EPL issues all employers face from time to time.

The press coverage of EPL-related awards gives us almost daily examples of not only what not to do, but also of companies with good procedures and good intentions that still lost the lawsuits.

All businesses have some degree of EPL exposure. After taking the actions outlined by Mr. Atkins, we suggest a final step: Contact your agent and purchase employment practices liability insurance.

Paul W. Springman
Chief Operating Officer
Shand Morahan & Co. Inc.
Evanston, Ill.

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Strategy

Continued from page 3

administrative costs on the indemnity side," he explained.

Such an arrangement works best when a single insurer or plan administrator is used for the various types of plans, he said. That way the administrator can either underwrite all of the products itself or subcontract to other providers, he said.

So far the strategy has reduced employers' annual health plan costs between 8% and 20% over the prior year, but Mr. Chernoff acknowledges the savings may be short-lived.

He attributed some of the lower costs to competition in the health care market, with providers in some parts of the country offering deep discounts to capture market share.

"I don't expect with all the recent loss reports they'll be as aggressive" in the future, he said.

But, even over the long term, Mr. Chernoff expects his strategy will save employers money.

Many employers currently are achieving health plan cost savings by outsourcing administrative services.

For example, Stamford, Conn.-based GTE Corp. decided to hire Lincolnshire, Ill.-based benefit consultant Hewitt Associates L.L.C. when the company decided to centralize its benefit administration, according to John W. Large, team leader for benefit elections.

"We outsourced because of the systems and financial commitment GTE would have had to make," he said.

By using Hewitt, the number of full-time people at GTE handling benefits administration as part of

their jobs dropped to 40 from about 280 nationwide, according to Mr. Large.

When the cost of salaries paid to these GTE employees are compared with the fees paid to Hewitt, "it's possible it's a wash," he said. "But there are a lot of hidden costs that can't be counted."

Only when an employer hires an outside consultant to handle benefits do "you find out how much it really costs to deliver benefits—including the hidden charges that weren't quantified internally," he said, such as the cost of overtime when a secretary is asked to type a benefits-related letter.

Administrative savings definitely can be achieved when an employer with multiple HMOs and insurers in multiple states consolidate into a single health care delivery system, observed Tim Beck, a principal at Buck Consultants Inc. in Los Angeles.

But even greater savings can come if the consultant also acts as a broker, negotiating the best deals possible with various plans, he said.

Jack Bruner, a consultant for Hewitt in Lincolnshire, agreed.

"The real opportunity in outsourcing is to use consultants to shop for the best benefits deal and handle the transaction," he said during a session on outsourcing at the National Managed Health Care Congress held last month in Los Angeles.

"Benefits outsourcing will grow, funded by the savings achieved by it," he predicted.

"Health care delivery systems are changing dramatically," asserted Mr. Beck of Buck Consultants. "They're stepping all over each other. That's why there's a greater need for con-

See Strategy on page 12

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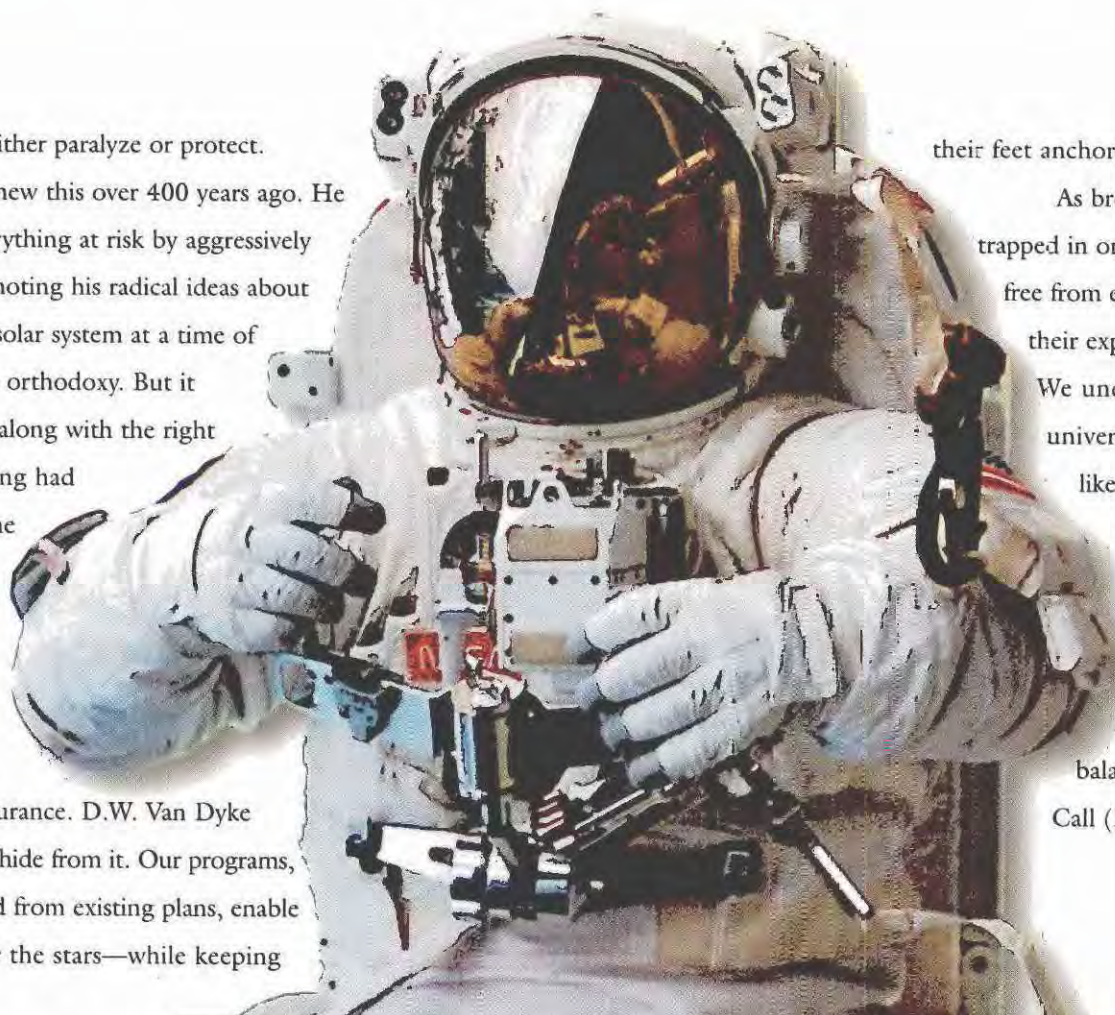
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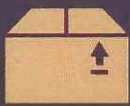
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Trends

Continued from page 3

than rate hikes for traditional HMOs.

Managed care executives say years of flat and falling rates—as HMOs battled one another for market share—have taken their toll. They say they need rate hikes to improve margins and restore battered bottom lines.

"The message has been pretty clear: HMOs have been struggling. Margins are just not at acceptable levels. Over the previous two or three years, there was a tremendous drive for membership that weakened some margins," said Dana Benbow, vp-underwriting at Prudential HealthCare Group in Roseland, N.J. Mr. Benbow expects rates to rise at traditional HMOs by between 3% and 5%, with "more in the 4% to 5% range."

David Olson, vp-investor relations for Foundation Health Systems Inc., a Woodland Hills, Calif.-based HMO, said, "We think that there's a general recognition in the marketplace that rates had probably gone down too far." He said "per-member revenues" will rise between 3.5% and 4% next year, the HMO's first increase in three years.

A spokeswoman for Oakland, Calif.-based Kaiser Permanente, the nation's largest not-for-profit HMO with about 8.8 million enrollees, said, "Our rates have been, frankly, probably too low over the last several years, and that actually is contributing to what in '97 is our first projected loss for the program as a whole, so clearly we have to look at not only controlling costs, but also at rate increases."

The Kaiser spokeswoman said rates will be going up by "single digits," though rate increases will vary from

"one group to another."

Others note that publicly held HMOs are feeling the heat from Wall Street and shareholders to boost margins and ultimately profits.

"Shareholders are demanding better results. So rates have to go up," said Randall Abbott, regional practice leader in the Little Falls, N.J., office of Watson Wyatt Worldwide.

"There has been a wakeup call from Wall Street," agreed Lew Devendorf, a principal in the Stamford, Conn., office of William M. Mercer Inc. Indeed, stock prices of HMOs such as Oxford Health Plans and PacifiCare Health Systems Inc. plunged after adverse earnings reports.

At the same time, HMOs and other managed care organizations are facing pressures from an increasingly sophisticated provider community for increased payment rates.

"Providers really are starting to

push back. Doctors are getting kind of fed up with some of the reimbursement levels. Some specialists are saying to HMOs: 'No. Your rates are unacceptable,'" said Mary Case, a principal at The Kwasha Lipton Group in Fort Lee, N.J.

"Over and over again" providers are saying they are "struggling to make it," with their current capitation rates, said Daniel Hoemke, corporate vp for national accounts at Cypress, Calif.-based PacifiCare, an HMO with about 3.8 million enrollees. PacifiCare expects rate hikes of between 3% and 5% next year for major national accounts and a sizable portion of the mid-sized market.

Higher prescription drug costs are another big driver of rate increases for all types of health care plans.

"One thing is very clear: The drug portion of health care costs is going up significantly. There have been a lot

of drug cost increases as well as an increase in utilization," said Harvey Sobel, a principal and consulting actuary at Buck Consultants Inc. in Seacucus, N.J.

Corporate benefit managers gripe that physicians deserve some of the blame for spiraling prescription drug costs.

"More and more drugs are being overprescribed. Doctors have no idea what the cost of a prescription is," says James Cole, manager of health programs at Bluffton, Ind.-based Franklin Electric Co. Inc., a manufacturer of electrical pumps. Franklin is projecting a double-digit increase in its PPO costs next year.

Frank Keenan, vp and chief actuary with New York-based NYLCare Health Plans, which has about 1.3 million HMO enrollees, said, "There has been an introduction of more

Continued on next page

Strategy

Continued from page 10

sultants than ever before. . . You just can't go to one shop anymore and buy what you need."

"Take PPOs for example. Their network may be good in urban areas, but not in rural areas. So you have to negotiate directly with rural providers. A consultant can do this," he said.

As part of their services, benefit consultants usually analyze client needs, study patient use patterns and types of services and even locations where services are rendered, Mr. Beck explained.

"Once we understand the health care needs of the employer, then we try to locate as few vendors as possible to handle these needs," he said.

The consultant also designs the benefit program, often sitting down and physically negotiating plan changes with vendors, he said.

In some cases, the consultant issues a request for proposal or request for information, whichever is more appropriate, on behalf of the employer.

"We then analyze the response and negotiate with the top vendors to assemble the program, also including performance and reporting requirements," he said.

"This is standard practice for us. Our job is to bring the technical and legal expertise to the client to assist them with managing their programs," Mr. Beck explained.

In some cases, sophisticated employers have begun using consultants to help them get back into the health care funding business, realizing that the discounts produced through HMO-style capitation and group purchasing are beginning to erode.

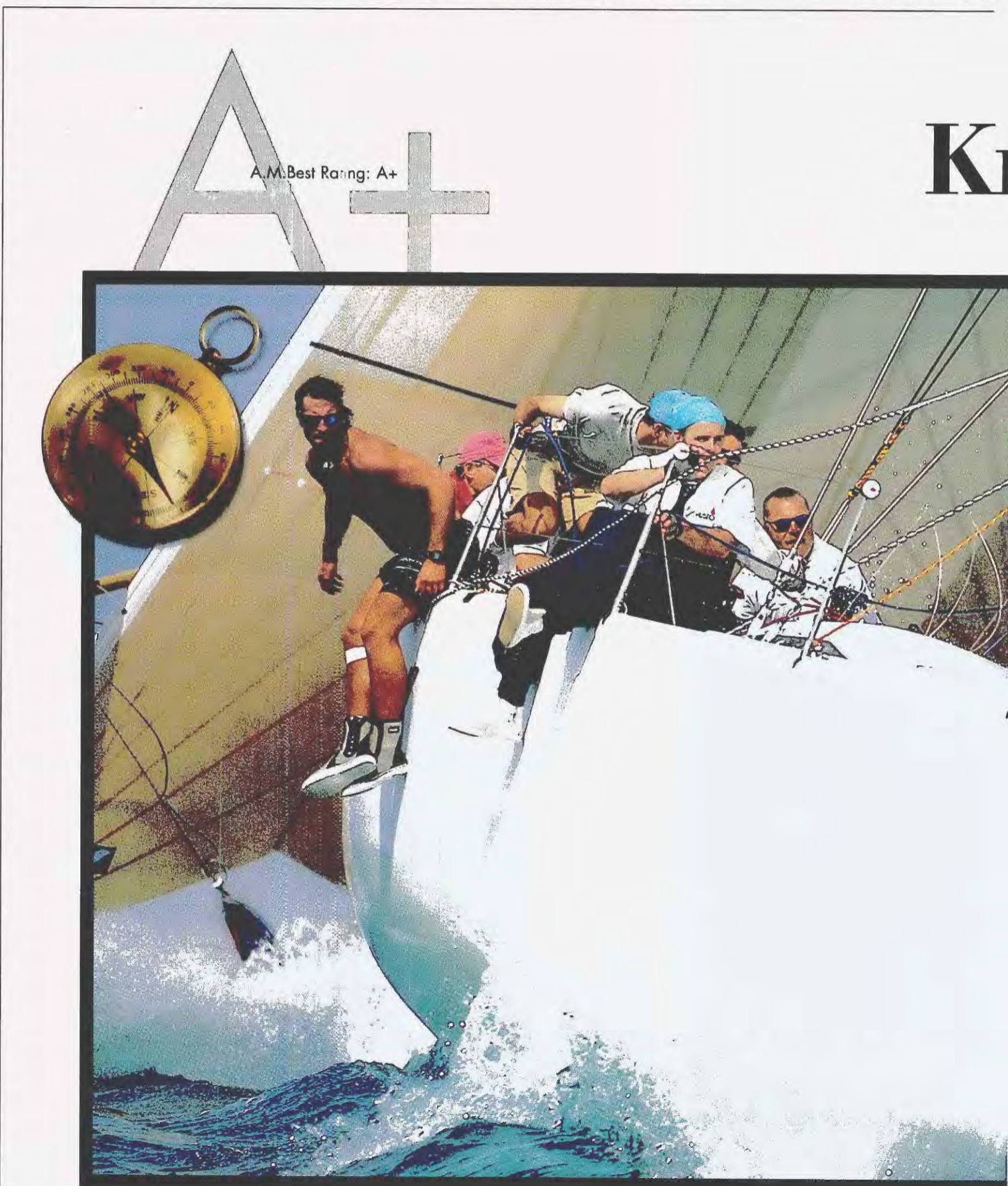
"Our larger clients are realizing that self-insuring HMOs would make more sense," said Ms. Twanmo of MEDSTAT. "In effect, the employer is taking the risk back from the HMO."

Under such an arrangement, the employer usually pays a monthly capitation premium to primary care physicians in the HMO and then funds hospital and specialist fees on a pay-as-you-go basis, she explained.

The arrangement makes it unnecessary for the HMO to purchase stop-loss coverage or capitation reinsurance, which lowers its administrative overhead, she said.

And while the self-funding employer can purchase either specific or aggregate stop-loss to cap its own liabilities, so far most of them have not, she said.

"Many large employers don't buy stop-loss because they're large enough to spread the risk across the employee population," Ms. Twanmo explained. **BI**



Continued from previous page
costly drugs, and people are aware of and asking for more" prescription drugs.

Demographic changes—especially among HMOs—are becoming an increasingly important cost driver, some say.

When HMOs first began to make inroads in the group market, a higher proportion of enrollees were young, healthier employees with low health care costs.

But as HMOs have become more mainstream and enrollment expands to cover more older employees, "Their claims experience has deteriorated, and that puts cost pressures on HMOs" said Kwasha Lipton's Ms. Case.

HMOs are "dealing with an aging workforce, and that is not going to get any better," said PacifiCare's Mr. Hoemke.

While health care premiums and costs clearly are going up, buyers in many cases still have considerable leverage—especially if their experience is good—in trimming back proposed rate increases.

"There is a lot more wiggle room than anyone ever talks about," said Helen Darling, manager of international compensation and benefits at Xerox Corp. in Stamford, Conn.

While most of the HMOs that UNUM Corp. contracts with settled for rate hikes of between 4% and 6%, those are smaller rate increases than the HMOs had initially proposed, said Thomas Hopkins, director of enterprise benefits at the Portland, Maine-based company.

While HMO decreases are now just about a thing of the past, some buyers—especially the very largest—have negotiated very small rate increases.

For example, earlier this year, the Pacific Business Group on Health, a San Francisco-based buyers' coalition generally composed of very large employers, negotiated a 1% average rate increase with the HMOs from which its members buy coverage.

"While Wall Street is talking up 4% to 6% rate hikes, our rate changes will be considerably less than that," said Xerox's Ms. Darling.

"We're talking about low single digits, not the kind of increases stock analysts have been talking up," Ms. Darling added.

Even as mergers have increased the clout of HMOs, many still can't afford to present buyers with take-it-or-leave-it rate increases.

"Competitive pressures still are high. HMOs have to be mindful of what their competitors are doing in the marketplace," said Joseph Martingale, a principal with Towers Perrin in New York.

How much rates will increase will depend on many factors, not the least of which is the size of employers.

For example, while HMO and POS rates for employers with at least 50 employees will increase by an average of 4%, smaller groups can expect rate increases averaging 6%, said Kerry O'Brien, assistant director of marketing communications for HIP Health Plan of New York.

Employer size and experience are key variables in the negotiating process, HMO executives say.

"The amount of clout that an employer would have in negotiating rate increases really will vary depending upon their size," plan design and experience, said William Hudock, vp-underwriting and pricing for Owings Mills, Md.-based Blue Cross & Blue Shield of Maryland, which expects to raise HMO rates 3% to 5% in 1998.

Mr. Keenan of NYLCare said, "You have to make your best case and say this is what your experience demands."

Employers that have banded together to buy coverage, such as the Pacific Business Group on Health, generally have had the most immunity to big rate increases.

Employer coalitions "seem to fare better, and that is because combined, they have a very large population and the risk pool is large," said Paula Wallace, HMO program manager for Hewlett-Packard Co. in Palo Alto, Calif.

"Coalitions will exert pressure where individual employers may not have a lot of clout," said Mercer's Mr. Devendorf.

Others say both employers and health plans are tough negotiators.

"I think that employers still have significant clout, but I think health plans are beginning to be much firmer in assessing their cost and making sure they are pricing properly relative to their underlying costs," said Ron Williams, president of Blue Cross of California Businesses, a subsidiary of Woodland Hills, Calif.-based WellPoint Health Networks Inc.

How much of an effect the wave of HMO mergers is having on rates is a matter of controversy.

In California, for example, where four HMOs now control about 85% of the market compared with about a dozen companies a few years ago, "Consolidation means HMOs will push buyers for bigger rate increases than what they received a few years ago," Mr. Devendorf said.

In fact, he notes, large, multistate managed care organizations already have begun to flex their muscles, knowing employers with large proportions of employees in their plans may be more willing to accept rate increases because of the disruption they would have to face in trying to move large populations of employees to other HMOs.

Others say they have yet to see any impact on rates from HMO consolidation.

"There are still many, many HMOs competing, so from the buyer perspective, we have not yet seen any adverse consequences of mergers and acquisitions," said Mr. Martingale of Towers Perrin.

While some HMO executives say mergers and consolidations eventually could lower costs through reduced overhead, they acknowledge it will take time for such savings to be realized.

In fact, mergers actually can swell costs initially.

Systems conversions and integration of membership "frequently requires that you maintain redundant systems and product lines for longer periods of time than you might like, and there are some costs associated with it," said Mr. Hoemke of PacifiCare, which is integrating its acquisition of FHP International Corp.

Indeed, in the short term, HMO mergers can result in a "significant disruption relative to claims processing and administration," said Mr. Abbott of Watson Wyatt.

Still, down the road, Mr. Abbott says the benefit of larger HMOs to the buyer is that the managed care organizations may have more leverage in negotiating with providers for better rates.

"Advantage No. 1 of mergers is more purchasing power," said Laurie Scarborough, director of investor relations at Humana Inc. in Louisville, Ky.

But another form of power that managed care executives and employers do worry about a little has been congressional meddling in the health care market.

See Trends on next page

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Consolidation creating new competition

Smaller benefit consultants see new opportunity to win accounts from big new firms

By SALLY ROBERTS

Although the acquisition trend in the employee benefit consulting arena has produced behemoth-sized competitors, smaller employee benefit consultants say they still can prosper by offering specialized services and a steady hand in a changing marketplace.

The landscape surrounding the world's largest employee benefit consultants has been redesigned by the many acquisitions completed since January.

Among them: Aon Consulting

Worldwide Inc. acquired The Alexander Consulting Group Inc.; Mellon Bank Corp. acquired Buck Consultants Inc.; Coopers & Lybrand L.L.P. acquired Kwasha Lipton L.L.C.; and William M. Mercer Cos. Inc. acquired A. Foster Higgins & Co. Inc.

While these firms say their newly combined girth will bring economies of scale and more resources, breadth of services, and expertise to the table, second-tier sized firms say they are not worried about their new formidable competitors. In fact, some welcome the consolidation with open arms.

"I love it," said Michael J. Gulotta, president and CEO of ASA Inc., for-

merly known as Actuarial Sciences Associates Inc. "While they focus on consolidating their businesses, I'll focus on growing mine."

Revenues for the Somerset, N.J.-based benefit consultant are up more than 70% in 1997 to \$72 million. Only 2% of that growth is attributable to the early 1997 acquisition of ISG (International Systems Group Inc.), a Toronto-based defined benefit and defined contribution plan administration firm. The rest is due to aggressive marketing, a new pension administration service, expanding its existing lines of businesses from both geographic and service standpoints, and new business that it obtained during

the year, Mr. Gulotta said.

"There is a great deal of uncertainty in the marketplace" right now due to the consolidation, he said. Clients are concerned that consulting firms involved in acquisitions will be distracted by the integration process for too long before any client-service benefits resulting from the deal are realized.

For example, "There was one Fortune 500 company doing a search for an employee benefit/actuarial consultant. It went to 10 firms, including the consolidated companies. No company that had recently undergone consolidation was in the final four," Mr. Gulotta said.

"That's not an accident, that's a concern—and that concern is being clearly telegraphed by decisions being made by large companies," he said, adding that ASA eventually won the account.

"A year ago, I would have only dreamed of working for this company," he said.

Bud Johnson, chairman and CEO of Howard Johnson & Co. in New York, said that consolidation also is creating opportunities for his firm because it allows employers to deal with pure benefit consulting firms and not with a large firm where benefit consulting is an adjunct or ancillary business.

"I don't feel threatened by it," Mr. Johnson said of the consolidation.

"There is no evidence that size brings advantage to the customer. Size brings advantage to the purveyor and maybe more market exposure by

Continued on next page

Trends

Continued from previous page

Last year, for example, Congress—responding to a wave of public protest—passed legislation to go into effect Jan. 1 that will require health care plans to offer 48 hours of inpatient coverage to mothers and newborns after a normal vaginal delivery and 96 hours of coverage after a Caesarean section.

In addition, legislators passed a measure, also to go into effect Jan. 1, designed to eliminate discriminatory annual and lifetime dollar limits on mental health care benefits.

For now, the impact of those legislative mandates should be minimal.

"I have never seen any HMOs say they are going to increase rates" because of a mental health care benefit mandate, said Ms. Case of Kwasha Lipton.

"I could say at least from a PacificCare perspective and most real quality health plans, I don't think it is going to have a huge impact," Mr. Hoemke said.

But there are nagging worries that if congressional intervention continues, it will have an effect on costs.

"If those things continue, they're really micromanagement," said Suzanne Mercure, manager of health programs for Southern California Edison Co. in Rosemead, Calif.

If there had been legislation mandating a four-day hospital stay in the days before gall bladder surgery could be done on an outpatient basis, "where would be today?" asked Ms. Mercure.

But if the cost impact of recently passed mandates has been negligible, there is real fear of what could lie down the road.

In particular, benefit experts are alarmed about a piece of legislation—the Patient Access to Responsible Care Act of 1997, now backed by nearly a majority of the House of Representatives—that would open up employers and health care plans for punitive damage awards for actions of physicians. The measure also would make it harder to establish PPOs and would force health care plans to provide for services they never previously covered (*BI*, Nov. 17).

If the PARCA bill is passed, health care costs "could increase by double-digits. Employers would face a liability that they can't manage in the real world," Mr. Abbott said.

Still, health care experts say HMOs and others have to do a better job of providing quality care, one of the reasons for congressional interest.

"The biggest challenge is getting quality. What good is a bargain X-ray if a radiologist can't read it?" Mr. Abbott asked. **BI**



Continued from previous page
virtue of its size, but there is no evidence that size adds value as far as the client is concerned."

Estimated 1997 revenues at Howard Johnson are up 25% to \$35 million.

"I don't think bigger is always better," agreed John Ehrhardt, a principal and consulting actuary at Milliman & Robertson Inc. in New York.

"I don't know what will happen," said Mike Mahoney, a principal and national director of pension practices for Milliman & Robertson in New York. "Right now, I don't necessarily find ourselves at a disadvantage in terms of size."

1997 revenues at the Seattle-based consultant are up 5.2% to \$65 million.

While these benefit consultants say size does not necessarily connote being better, one former second-tier sized benefit consultant begs to differ.

"Size does matter in terms of large purchasers of services in the outsourcing field," said Robert S. Byrne Jr., CEO of The Kwasha Lipton Group in Fort Lee, N.J. It also matters if the firm wants breadth of service, he said. "You can be a niche business in certain areas only for so long."

In January, Coopers & Lybrand acquired Kwasha Lipton for an undisclosed amount (BI, Jan. 20).

As a result of being acquired, "we can now truly provide a full-array of consulting services that we couldn't before," he said. Prior to the acquisition, Kwasha Lipton focused on benefits administration and retirement consulting. Now it is "a lot more well-rounded" and can offer such services as compensation consulting, change management and systems technology, Mr. Byrne said.

Furthermore, by aligning itself with Coopers & Lybrand, Mr. Byrne said

clients can put to rest any uncertainty involving Kwasha Lipton's future.

"We know five years from now, we'll still be in the business," Mr. Byrne said.

Observers say while consolidation does offer employee benefit firms the necessary resources to offer clients a wider array of services, there are still opportunities for second-tier sized firms to compete.

"Consolidation was inevitable in the employee benefit industry," said Joe Duva, president of his own consulting firm in New York and a former partner with Ernst & Young. It's the same in all kinds of industries that are consolidating today. "The only way to grow is to consolidate for efficiency and cost."

However, "bigger does not necessarily mean better," he said. While consolidating offers efficiency to clients, "there are opportunities for

smaller boutique employee benefit companies to be providing more specialized services," he said.

Donn Bleau, a principal with Global Resources Group, an executive recruiting firm in San Diego, said that he believes there will always be a place for smaller firms because many of them have built long-standing client relationships and some clients prefer partnering with smaller consultants.

"However, I also believe that some of those firms will not be with us three years from now," he said. Smaller consulting firms are "going to have an uphill battle to fight, particularly with technology."

Mr. Duva speculates that further deals like Coopers & Lybrand and Kwasha Lipton will occur. "It would be natural for some accounting firms to merge with an employee benefit consulting firm." **BI**

Big 4 moving up in rankings

While the Big 6 have consolidated into the Big 4, accounting firms are making their way up *Business Insurance's* Top 10 rankings of the world's largest employee benefit consultants.

Leading the way is Coopers & Lybrand L.L.P., which combined with The Kwasha Lipton Group ranks as the fifth-largest consultant, based on \$505 million in estimated 1997 revenues.

Deloitte & Touche L.L.P./Employee Benefit Group debuts this year in the ninth spot, based on \$154 million in estimated 1997 benefit consulting revenues, and Arthur Andersen L.L.P.-Human Capital Services debuts as the 10th-largest firm, based on \$118 million in estimated 1997 revenues.

KPMG Peat Marwick L.L.P. reported \$110 million in estimated 1997 revenues. The New York-based accounting firm, however, would rank in the top 10 based on pro-forma 1997 revenues. Together with Ernst & Young L.L.P., which KPMG announced in October it was acquiring, combined pro-forma revenues from their respective employee benefit operations are an estimated \$194 million in 1997, which would place the combined firm in the No. 9 spot among the world's largest benefit consultants.

There is speculation that KPMG's and E&Y's employee benefit practices may not merge (See Updates).

Meanwhile, executives from other accounting firms said they are looking to become big players in the employee benefit consulting arena.

The combined Coopers & Lybrand and Kwasha Lipton now are in the process of integrating the employee benefit practices of Price Waterhouse L.L.P., with which Coopers recently merged (BI, July 11).

Reed A. Keller, vice chairman of Coopers & Lybrand, said the firm's goal is to consult for companies that are increasingly more global, sophisticated and complex, he said. "These companies need global advisers that are truly connected around the world with the financial wherewithal" to support the technology.

At Arthur Andersen, the Human Capital Services unit is "one of our key critical elements that will be critical to maintain our competitive advantage," said David Walker, a partner and global managing director in Atlanta. "We have the ability to look at human capital challenges from a much higher level and broader perspective to offer clients integrated solutions on a one-stop shopping basis."

Over the past five years, the Wilton, Conn.-based Deloitte & Touche/Employee Benefit Group has maintained an annual 25% revenue growth rate, said Ainar Ayala, associate national director.

In addition to focusing on internal growth, the group will "selectively look (to acquire) niche or specialty consulting practices to help bolster a specific practice area," Mr. Ayala said.

—By Sally Roberts

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BI annual directory of employee benefit consultants

A

ASA Inc. (Actuarial Sciences Associates)

270 Davidson Ave.,
Somerset, N.J. 08873;
732-302-2100; fax: 732-356-0425

Benefit consulting since: 1984.

Parent: AT&T Corp.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 54% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, consulting on selection of investment managers, asset accumulation/investment consulting.

Welfare plan consulting: 37% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 9% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; Internet/intranet.

Locations: Los Angeles; Boca Raton, Fla.; Rolling Meadows, Ill.; Columbia, Md.; Somerset, N.J.; New York; Mcleansville, N.C.; Ontario, Canada.

Staff: 358 benefit consulting employees; 320 professionals, including 21 FSAs, 35 ASAs, seven CEBSS, three CPAs, 14 attorneys and 33 EAs.

Clients: 87.5% corporations, 1% multiemployer plans, 3% government agencies/entities, 8.5% non-profit organizations/associations. No minimum size client.

Compensation: By the project, on retainer, by the hour: senior consultant, \$280 to \$400; consultant, \$190 to \$260; clerical, \$75 to \$95; actuarial assistants, \$100 to \$150.

Gross revenues: \$66.7 million estimated from worldwide benefit consulting in 1997; \$44 million in 1996; \$66.7 million estimated total worldwide 1997 revenues.

Officers: Michael J. Gulotta, president/CEO; Scott J. Macey, executive vp/general counsel; Beverly G. Landstrom, Franklin B. Becker, senior vps; Christopher M. Bone, chief actuary/chief information officer.

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

Administrative

Management Group

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

Benefit consulting since: 1982.

Services: 90% of revenues from benefit consulting.

Retirement/savings plan consulting: 70% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, employee education/communication.

Welfare plan consulting: 10% of revenues. Includes plan design consulting, flexible benefits administration.

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

Staff: 95 benefit consulting employees; 75 professionals, including two ASAs, two CPAs, one attorney and one EA.

Clients: 100% corporations.

Compensation: By the project, on retainer, by the hour: senior consultant, \$250; consultant, \$150; clerical, \$40; systems consulting/development, \$100.

Gross revenues: \$11 million estimated from worldwide benefit consulting in 1997.

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

Contact: Will Grurer.

Altschuler, Melvoin & Glasser L.L.P.

30 S. Wacker Drive,
Chicago, Ill. 60606;
312-207-2800; fax: 312-207-2860

Benefit consulting since: 1977.

Services: 5% of revenues from benefit consulting.

Retirement/savings plan consulting: 4.5% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting.

Benefit communications consulting: 0.5% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting.

Locations: Los Angeles; Washington; Tampa, Fla.; Chicago; New York.

Staff: 60 benefit consulting employees; 50 professionals, including three CEBSS, 25 CPAs and four attorneys.

Clients: 450 total; 99% corporations, 1% MEWAs. No minimum size client.

Compensation: By the project.

Gross revenues: \$1.8 million estimated from worldwide benefit consulting in 1997; \$1.2 million in 1996; \$50 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Howard Stone, managing partner; Harvey Gaffen, senior partner.

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

225 Peachtree St. N.E., Suite 2200,
Atlanta, Ga. 30303; 404-589-4177;
fax: 404-572-5303

Benefit consulting since: 1975.

Services: 50% of revenues from benefit consulting.

Retirement/savings plan consulting: 37.5% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, risk management/compliance reviews, litigation/enforcement support, independent fiduciary and related services, retirement planning/investment education and assistance.

Welfare plan consulting: 7.5% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, cafeteria/flexible benefit plans, retiree health care.

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

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

Locations: 30 U.S.; 47 non-U.S.

Staff: 445 benefit consulting employees; 365 professionals.

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

Gross revenues: \$118 million estimated from worldwide benefit consulting in 1997 (65% from U.S. locations); \$85 million in 1996 (70% from U.S.); \$237 million estimated total worldwide 1997 revenues (53% from U.S.).

Officers: David M. Walker, Brian Friedman, Mac Gajek, partners/global managing directors.

Contact: Bruce M. Meyer.

Aon Consulting (Worldwide)

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

Benefit consulting since: 1941.

Services: 86% of revenues from benefit consulting.

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

Welfare plan consulting: 35% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, COBRA record keeping.

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

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

Locations: 64 U.S.; 62 non-U.S.

Staff: 4,277 benefit consulting employees; 3,208 professionals, including 123 FSAs, 201 ASAs, 129 CEBSS, 80 CLUs, 28 CPAs, 30 attorneys and 29 EAs.

Clients: No minimum size client.

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

Gross revenues: \$470 million estimated from worldwide benefit consulting in 1997 (58% from U.S. locations); \$218 million in

1996 (63% from U.S.); \$545 million estimated total worldwide 1997 revenues (63% from U.S.).

Officers: Daniel T. Cox, chairman-Aon Consulting Worldwide; Donald C. Ingram, chairman-Aon Consulting-Americas; J. Hunter Devine, chairman-Aon Consulting Ltd.-U.K.; Jean-Pierre Provencher, chairman-Aon Consulting Inc.-Canada.

Contact: John Canfield.

The Apex Management Group Inc.

125-310 Village Blvd.,
Princeton, N.J. 08540;
609-452-2488; fax: 609-452-2668

Benefit consulting since: 1993.

Services: 14% of revenues from benefit consulting.

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

Other services: General management consulting, claims administration, provider/reinsurer consulting.

Staff: 17 benefit consulting employees; 14 professionals, including four FSAs, two ASAs and two CEBSS.

Clients: 10 total; 90% corporations, 10% multiemployer plans. No minimum size client.

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

Gross revenues: \$510,000 estimated from worldwide benefit consulting in 1997; \$450,000 in 1996; \$3.6 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Contact: Donato J. Gasparro or David Wilson, managing directors.

B

BeneCom Associates L.L.C.

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

Benefit consulting since: 1992.

Services: 100% of revenues from benefit consulting.

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

Locations: Avon, Conn.; Schaumburg, Ill.

Staff: Nine benefit consulting employees; four professionals.

Clients: 180 total; 90% corporations, 2% multiemployer plans, 2% government agencies/entities, 6% TPAs/consultants. No minimum size client.

Compensation: By the project.

Gross revenues: \$3.2 million estimated from worldwide benefit consulting in 1997; \$2.8 million in 1996; \$3.2 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: William E. Griffin, Kay M. Griffin, principals.

Contact: Susan C. Mullins, sales-Avon, Conn. or Dan J. Fox, sales-Schaumburg, 847-969-9105.

Benefit Concepts Inc.

115 Glastonbury Blvd.,
Glastonbury, Conn. 06033;
860-633-5283; fax: 860-659-6757

Benefit consulting since: 1982.

Parent: USI Insurance Services.

Services: 95% of revenues from benefit consulting.

Retirement/savings plan consulting: 62% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, asset/investment consulting.

Welfare plan consulting: 29% of revenues. Includes plan design consulting, insurer/broker selection consulting.

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

Other services: Brokering.

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Continued from page 16

Locations: San Francisco; Goffstown, N.H.; Knoxville, Tenn.

Staff: 100 benefit consulting employees; 80 professionals, including five FSAs, 11 ASAs, five CEBSs, five CLUs, two CPAs, three attorneys and nine EAs.

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

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

Gross revenues: \$15 million estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Officers: Brian Whitney, president/CEO; William Tremko, executive vp; William Husic, Bob Cross, senior vps; Parker Elmore, vp.

Contact: Karen Guggenheim.

Explanation of terms used in this directory

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

The directory is published as an editorial service; there is no charge to be included. However, companies must generate at least \$500,000 of their gross revenues from benefit consulting. Companies that do not report estimated 1997 gross revenues from benefit consulting are not included in the directory.

Business Insurance defines benefit consulting as providing advice on benefit issues on a fee-for-service basis, excluding health care and other claims administration, compensation consulting and non-benefit related consulting including brokering insurance.

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

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

Next are the **locations** or number of locations of U.S. and foreign offices conducting benefit consulting. **Staff** information includes the number of benefit consulting and professional staff assigned to employee benefit consulting and professional designations.

The total number of **clients** in 1996 is given along with a breakout based on the clients' type of business, which usually includes corporations, multiemployer plans (pension or welfare plans jointly run by employers in the same industry and a labor union), MEWAs-multiple employer welfare arrangements (welfare plans covering a group of unrelated employers, usually small firms or individuals).

Methods of billing for services are provided under **compensation**. Estimated 1997 benefit consulting **gross revenues** and 1996 benefit consulting revenues are listed along with the percent generated from U.S. offices. Estimated 1997 worldwide gross revenues is also included when provided.

Names and titles of principal **officers**, followed by the name of a **contact** for those requesting further information, complete the listings.

Although every effort is made to publish complete and accurate listings, *Business Insurance* is unable to verify all information provided by the companies.

Listed below are the full professional designations for those abbreviated under the staff heading:

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

Benefit Controls Cos.

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

Benefit consulting since: 1978.

Services: 80% of revenues from benefit consulting.

Retirement/savings plan consulting: 10% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 68% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 2% of revenues. Includes communications consulting, booklet and audiovisual preparation.

Other services: Brokering, health care.

Locations: Atlanta; Charlotte, Hickory and High Point, N.C.; Columbia and Greenville, S.C.

Staff: 32 benefit consulting employees; 26 professionals, including three CLUs and one attorney.

Clients: 290 total; 90% corporations, 5% MEWAs, 5% government agencies/entities. No minimum size client.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$200; consultant, \$175; clerical, \$75; accounting/auditing, \$100.

Gross revenues: \$3.8 million estimated from worldwide benefit consulting in 1997; \$3 million in 1996; \$4.7 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: William A. Gantt Jr., CEO; Douglas Dellinger, William Foster, Michael Hawkins, Edwin Icard, Carl Sharpe, Donald E. Ward, Scott Gantt, branch presidents.

Contact: T. Matthew Gant, vp-marketing

Benefit Dynamics Inc.

10 Grove St., Cherry Hill, N.J. 08002;
609-662-7100; fax: 609-662-7228

Benefit consulting since: 1978.

Services: 99% of revenues from benefit consulting.

Retirement/savings plan consulting: 45% of revenues. Includes plan design consulting, defined benefit plan actuarial work,

pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 37% of revenues. Includes plan design consulting, insurer/broker selection consulting, Section 125 and Section 419 administration.

Benefit communications consulting: 17% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response system.

Other services: Brokering.

Staff: 24 benefit consulting employees; nine professionals, including one CEBS, one CLU, one CPA and one EA.

Clients: 2,450 total; 84% corporations, 4% multiemployer plans, 12% MEWAs.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$250; consultant, \$125; clerical, \$75; accounting staff, \$100.

Gross revenues: \$1.5 million estimated from worldwide benefit consulting in 1997; \$1.5 million in 1996. All revenues are from the United States.

Officers: Jo-Ann Massanova, president/secretary; Carmen La Verghetta, vp-treasur-

er.

Contact: Mark Moran or Jo-Ann Massanova.

Benefits+PPA

5435 Corporate Drive, Suite 150,
Troy, Mich. 48098-2624;
248-641-7525; fax: 248-641-7530

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 90% of revenues. Includes plan design consulting, pension plan record keeping, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 10% of revenues. Includes plan design consulting.

Staff: 50 benefit consulting employees; 45 professionals, including one CPA.

Clients: 391 total; 97% corporations, 3% government agencies/entities. Minimum size client: 25 employees.

Compensation: Asset-based fees and per eligible employee administration fees.

Continued on next page



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Continued from previous page

Gross revenues: \$4.5 million estimated from worldwide benefit consulting in 1997; \$4.5 million in 1996; \$4.5 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Mark Wayne, president/CEO.
Contact: Laura Thomas, vp-marketing.

Benefit Solutions Inc.

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

Benefit consulting since: 1991.

Services: 100% of revenues from benefit consulting.

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

Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers.

Staff: Eight benefit consulting employees; five professionals.

Clients: 100 total; 95% corporations, 5%

individuals.

Compensation: By the project, on retainer.

Gross revenues: \$800,000 estimated from worldwide benefit consulting in 1997; \$559,649 in 1996.

Officers: Louise Klimuszko, president; James W. Barber, vp.
Contact: Warren Sackman.

George Beram & Co. Inc.

233 Needham St.,
Newton, Mass. 02164-1502;
617-965-1200; fax: 617-244-5569

Benefit consulting since: 1975.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 85% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation

of service providers, health care cost containment.

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

Staff: 28 benefit consulting employees; including two FSAs, five ASAs, two CEBSs, one CLU, two attorneys and three EAs.

Clients: 90% corporations; 2% multiemployer plans; 1% MEWAs; 1% individuals; 1% government agencies/entities; 5% non-profit employers.

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

Gross revenues: \$5.2 million estimated from worldwide benefit consulting in 1997; \$5 million in 1996.

Officers: George Beram, president; Philip G. Brund, executive vp; Barry D. Cohen, CFO.

Contact: Christopher J. Nadeau, senior consultant.

Blomquist & Co.

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

Services: 100% of revenues from benefit consulting.

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

Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, plan document drafting.

Benefit communications consulting: 10% of revenues. Includes booklet preparation.

Staff: Nine benefit consulting employees; six professionals, including one FSA, one CLU and one EA.

Clients: 100% multiemployer plans. No minimum size client.

Compensation: By the project, on retainer, by the hour; senior consultant, \$195; consultant, \$195; clerical, \$55.

Gross revenues: \$1.3 million estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Officers: Jack A. Diem, president; Paul E. Hawkins, executive vp; Kurt S. Starbuck, vp;

Jeffrey J. Smaba, senior consultant.
Contact: Jack A. Diem.

T.E. Brennan Co.

2 Plaza E., Suite 750,
330 E. Kilbourn Ave.,
Milwaukee, Wis. 53202;
414-271-2232; fax: 414-271-0104

Benefit consulting since: 1985.

Services: 45% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting.

Welfare plan consulting: 29% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, expert witness, consultant outsourcing.

Benefit communications consulting: 11% of revenues. Includes communications consulting, booklet preparation, employee communications, human resources/benefit outsourcing.

Other services: Compensation consulting, general management consulting, expert witness, risk management.

Staff: Five benefit consulting employees; four professionals, including one CEBS.

Clients: 81 total; 47% corporations, 33% government agencies/entities, 20% not-for-profit employers and associations. No minimum size client.

Compensation: By the project, on retainer, by the hour; senior consultant, \$180; consultant, \$150; clerical, \$75; expert witness, \$250; conference attendance, \$1,500/day plus expenses.

Gross revenues: \$850,000 from worldwide benefit consulting in 1997; \$650,000 in 1996; \$1.9 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Arvid R. Tillmar, chairman/CEO; Tom E. Gold, president.

Contact: Arvid R. Tillmar.

Buck Consultants Inc.

2 Pennsylvania Plaza,
New York, N.Y. 10121-0047;
212-330-1000; fax: 212-695-4184

Benefit consulting since: 1916.

Parent: Mellon Bank Corp.

Services: 100%* of revenues from benefit consulting.

Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, pre-retirement and financial planning seminars, employee education, executive benefits consulting, outsourcing/re-engineering, international benefit consulting, mergers/acquisition/divestiture transactions.

Welfare plan consulting: Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, evaluation of post-retirement/post-employment benefit liabilities, managed care consulting, flexible benefits, group actuarial, workers compensation, dependent care consulting, employee focus groups, health care provider consulting, welfare plan administration/outsourcing.

Benefit communications consulting: Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive communications; participant service center; new media.

Locations: 30 U.S.; 32 non-U.S.

Staff: 2,600 benefit consulting employees; 2,106 professionals, including 89 FSAs, 151 ASAs, 45 CEBSs, 12 CLUs, 16 CPAs, 51 attorneys and 177 EAs.

Clients: 5,000 total; 80% corporations; 20% non-profit organizations, governmental, multi/multiple employer plans.

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

Gross revenues: \$302 million estimated from worldwide benefit consulting in 1997 (75% from U.S. locations); \$238.6 million in 1996 (75% from U.S.); \$304 million estimated total worldwide 1997 revenues (75% from U.S.).

Officers: Joseph A. LoCicero, president/CEO; Merrill S. Delon, secretary; Karl Lohwater, general counsel; Gary Stephen, treasurer.

Contact: Edward Gadowski, marketing department, 500 Plaza Drive, Secaucus, N.J. 07096-1533.

* Includes compensation and general management consulting.

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investment in human capital, call your local Watson Wyatt office or 1-800-851-4346, or visit our web site at www.watsonwyatt.com.



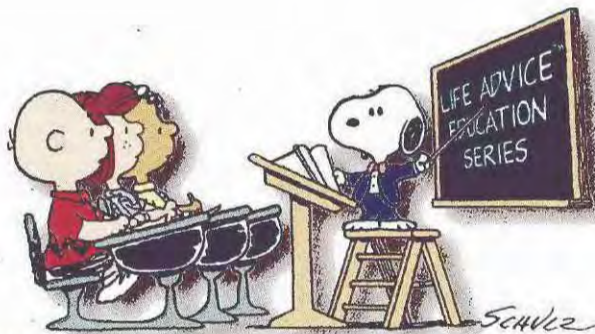
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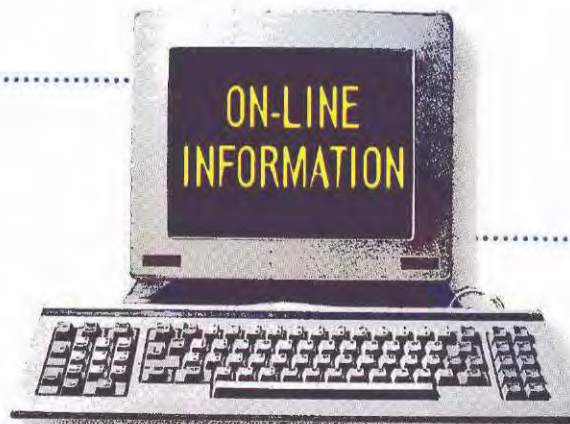


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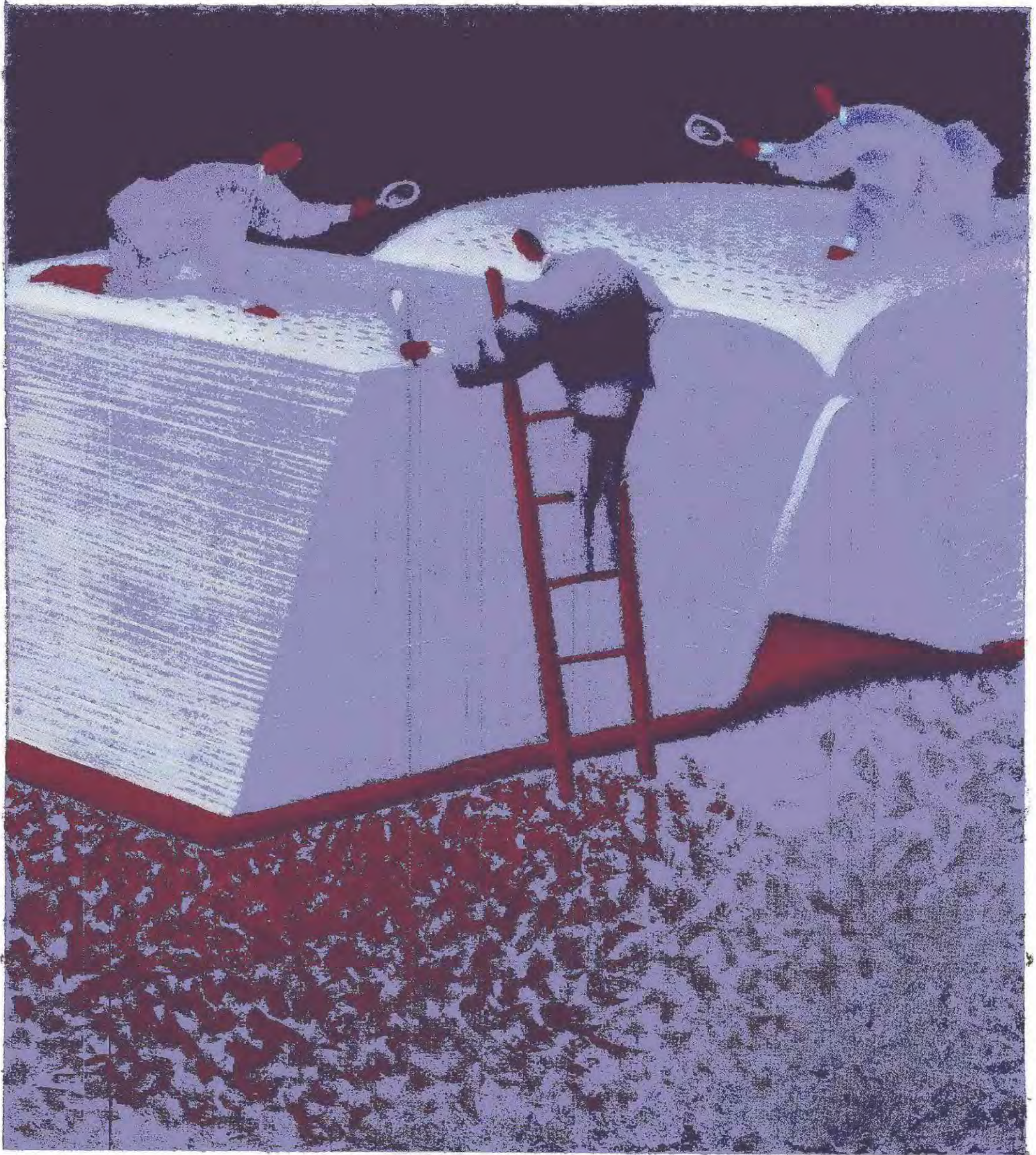
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Burke Group L.L.C.

10 East St.,
Honeoye Falls, N.Y. 14472;
716-624-5500; fax: 716-381-6724

Benefit consulting since: 1989.

Services: 95% of revenues from benefit consulting.

Retirement/savings plan consulting: 70% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping.

Welfare plan consulting: 15% of revenues. Includes plan design consulting, evaluation of service providers.

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

Other services: Compensation consulting.

Locations: Syracuse, N.Y.

Staff: 30 benefit consulting employees; 24 professionals, including two CEBSS and two EAs.

Clients: 400 total; 85% corporations, 5% multiemployer plans, 10% government agencies/entities. Minimum size client: 200 employees.

Compensation: By the project, on retainer, by the hour: senior consultant, \$100 to \$150; consultant: \$80 to \$100; clerical: \$30 to \$40.

Gross revenues: \$2.5 million estimated from worldwide benefit consulting in 1997; \$1.5 million in 1996; \$2.6 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Patrick C. Burke, managing principal; Richard E. Burke, Russell Morse, Steven Deperrior, principals; John Erdle, CFO.

Contact: Scott Tartaglia.

Byerly & Co. Inc.

7600 E. Orchard Road, Suite 250-S,
Englewood, Colo. 80111;
303-220-7575; fax: 303-220-7010

Benefit consulting since: 1959.

Parent: Arthur J. Gallagher & Co.

Services: 62% of revenues from benefit consulting.

Welfare plan consulting: 50% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, compliance services.

Benefit communications consulting: 12% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, brokering, general management consulting, claims administration, customer service, flexible spending, COBRA administration, premium administration.

Locations: Gold River, Calif.; Baton Rouge, La.; Harrisburg, Pa.

Staff: 34 benefit consulting employees; 17 professionals, including 10 CEBSS, 2 CLUs and one CPA.

Clients: 400 total; 85% corporations, 2% multiemployer plans, 4% MEWAs, 9% government agencies/entities.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$230; consultant, \$185; clerical, \$60.

Gross revenues: \$4.0 million estimated from worldwide benefit consulting in 1997; \$3.7 million in 1996; \$6.4 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Robert N. Morehead, area president; Mark E. Hogan, area executive vp; Jane M. Gruhl, David F. Uppinghouse, Robert Kauffman, area vps.

ation, employee assistance program vendor evaluation, managed mental health strategies, comprehensive monthly financial monitoring system, ERISA compliance, negotiations with insurers/service organizations, preparations of utilization review studies, general plan administration/claims settlement assistance, surveys, general research on benefits, update state/federal legislative developments.

Benefit communications consulting: 10% of revenues. Includes communications consulting, booklet preparation, document preparation (welfare plan documents/summary plan description).

Other services: Brokering, claims administration, educational seminars for clients on money management and estate planning/development of managed care workers compensation programs.

Staff: Seven benefit consulting employees; four professionals.

Clients: 88% corporations, 7% individuals, 5% government agencies/entities. Minimum size client: 50 employees.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$100 to \$135; consultant, \$70 to \$110; computer programmer, \$60.

Gross revenues: \$940,500 estimated from worldwide benefit consulting in 1997; \$865,300 in 1996; \$1.2 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Ronald Reshelsky, president; Richard J. Leonard, Gary H. Morris, senior vps; Ellen R. Segal, Mitchell L. McEwen, vps.

Contact: Richard J. Leonard, senior vp.

Chicago Consulting Actuaries L.L.C.

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

Benefit consulting since: 1991.

Services: 85% of revenues from benefit consulting.

Retirement/savings plan consulting: 70% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan administration consulting, asset/liability forecasting, asset allocation studies.

Welfare plan consulting: 15% of revenues. Includes plan design consulting, health care cost containment, actuarial valuations for post-retirement welfare plans.

Other services: Software development, PBCG premium audits.

Staff: 23 benefit consulting employees; 21 professionals, including nine FSAs, six ASAs and six EAs.

Clients: 60 total; 100% corporations.

Compensation: By the project, by the hour: senior consultant, \$225 to \$325; consultant, \$125 to \$200; clerical, \$60.

Gross revenues: \$3.7 million estimated from worldwide benefit consulting in 1997; \$3.3 million in 1996; \$4.4 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Thomas S. Terry, president; James R. Baumstark, Harold S. Cooper, Lina Flores Hilko, James G. Peard, principals.

Contact: Thomas S. Terry.

CODA Inc.

900 Roosevelt Parkway, Suite 640,
Chesterfield, Mo. 63017;
314-537-0224; fax: 314-537-0584

Benefit consulting since: 1986.

Parent: Kirke-Van Orsdel Inc.

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

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

Locations: Los Angeles; Atlanta; Chicago; Des Moines, Iowa; St. Louis; Charlotte, N.C.

Staff: 150 benefit consulting employees; 100 professionals, including two FSAs, five CEBSS, three CPAs and one attorney.

Clients: 80 total; 99% corporations, 1% government agencies/entities. Minimum size client: 2,000 employees.

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

Gross revenues: \$16.2 million estimated from worldwide benefit consulting in 1997; \$6.5 million in 1996; \$16.2 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Jeff Davis, CEO; Michael Benoit, president.

Contact: Sherry Sobacke.

Coopers & Lybrand L.L.P.-**The Kwasha Lipton Group**

1100 Campanile Building, 155
Peachtree St., Atlanta, Ga. 30309;
404-870-1100

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

Benefit consulting since: 1898.

Services: 80% of revenues from benefit consulting.

Retirement/savings plan consulting: 63% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, compliance audit.

Welfare plan consulting: 9% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, satisfaction surveys, feasibility studies, alliance and network creation, risk management.

Benefit communications consulting: 8% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive voice response; employee service center; strategic employee communications.

Other services: Compensation consulting, general management consulting, claims administration, organizational effectiveness and development, diversity, human capital management.

Locations: 24 U.S.; 68 non-U.S.

Staff: 3,710 benefit consulting employees; 2,890 professionals, including 93 FSAs, 120 ASAs, six CEBSS, three CLUs, 20 CPAs, 12 attorneys, and 121 EAs.

Clients: 90% corporations, 5% multiemployer plans, 5% government agencies/entities. No minimum size client.

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

Gross revenues: \$505 million estimated from worldwide benefit consulting in 1997 (62.4% from U.S. locations); \$363.2 million in 1996 (55% from U.S.); \$630 million estimated total worldwide 1997 revenues (57.9% from U.S.).

Officers: Reed Keller, vice chairman-human resource advisory; Frank Raiti, Robert Byrne, managing principals; Randy Harrison, Anthony Martin, principals.

Contact: Sid Mendelson, The Kwasha Lipton Group, 201-592-1300.

Frank Crystal Benefits

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

Benefit consulting since: 1982.

Parent: Frank Crystal & Co. Inc.

Services: 80% of revenues from benefit consulting.

Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Other services: Brokering; qualified retirement plan consulting/insurance placement.

Locations: San Francisco; Fort Lauderdale, Fla.; New York; Houston.

Staff: 26 benefit consulting employees; 20 professionals, including two CEBSS and three CLUs.

Clients: 500 total; 90% corporations, 10% individuals. Minimum size client: 10 employees.

Compensation: By the project, commissions.

Gross revenues: \$4.8 million estimated from worldwide benefit consulting in 1997; \$3.9 million in 1996; \$6 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: James W. Crystal, chairman/CEO; Arthur J. Littmann, executive vp/CFO; Vincent Gandolfo, senior managing director.

Contact: Vincent Gandolfo.

Deloitte & Touche L.L.P./**Employee Benefit Group**

10 Westport Road,
Wilton, Conn. 06897-0820;
203-761-3000; fax: 203-834-2246

Benefit consulting since: 1978.

Services: 35% of revenues from benefit consulting.

Retirement/savings plan consulting:

20% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, retirement plan strategy, litigation support, ESOPs, operational reviews, outsourcing, early retirement windows, personal financial planning.

Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, cafeteria and flex plans, pricing strategies for providers, claims/utilization review audits, network development, health reform strategy, performance audits.

Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; communications audits; customized computer communications; diagnostic surveys/focus groups; interactive voice response systems; multimedia; Internet/intranet solutions.

Other services: Compensation consulting; general management consulting; human resources strategies include transformation, performance management and compensation, employee communications, learning/development; integrated health group services include employer services, payer/provider services and health actuarial services; insurance consulting includes regulatory, financial reporting and actuarial valuations and risk assessment/management services.

Locations: 50 U.S.; 38 non-U.S.

Staff: 879 benefit consulting employees; 765 professionals.

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

Gross revenues: \$153.8 million estimated from worldwide benefit consulting in 1997 (84% from U.S. locations); \$128.6 million in 1996 (84% from U.S.); \$439 million estimated total worldwide 1997 revenues (49% from U.S.).

Officers: Maurice M. Smith, national director; Richard Berens, principal-in-charge, Minneapolis; Ainar Ayala, associate national director; Tim Garmager, principal-Chicago; Richard Kleiner, principal-in-charge, Los Angeles; Susan Achenbach, principal-in-charge, Chicago.

Contact: Ainar Ayala, 2 World Financial Center, New York, N.Y. 10281, 800-672-6350.

Empire Professional Services Inc.

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

Benefit consulting since: 1974.

Parent: Finger Lakes Blue Cross & Blue Shield.

Services: 44% of revenues from benefit consulting.

Retirement/savings plan consulting: 29% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, plan/trust legal document drafting, plan administration consulting, FAS 106 consulting.

Welfare plan consulting: 11% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, cafeteria plan consulting.

Benefit communications consulting: 5% of revenues. Includes communications consulting; booklet and audiovisual preparation; cafeteria plan enrollments.

Other services: Claims administration, flexible spending account and benefits administration.

Locations: Rochester, N.Y.

Staff: 14 benefit consulting employees; 14 professionals, including one ASA, one CEBSS and one EA.

Clients: 865 total; 98% corporations, 1% individuals, 1% government agencies/entities.

Compensation: By the project, by the hour: senior consultant, \$150; consultant, \$125; actuary, \$175.

Gross revenues: \$1.3 million estimated from worldwide benefit consulting in 1997; \$1.4 million in 1996; \$2.8 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Gus A. Platas, vp/general manager; Paula Moran, director-retirement plan services; Michael Tucci, senior actuary;

Karen Nicholson, manager-benefits administration.

The Epler Co.

450 B St., Suite 750,
San Diego, Calif. 92101;
619-239-0831; fax: 619-239-0807

Benefit consulting since: 1971.

Services: 90% of revenues from benefit consulting.

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

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

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

Other services: Compensation consulting; brokering.

Staff: 15 benefit consulting employees; 12 professionals, including two FSAs and one ASA.

Clients: 52 total; 75% corporations, 25% government agencies/entities.

Compensation: By the project; by the hour: senior consultant, \$250; consultant, \$125; clerical, \$40.

Gross revenues: \$1.4 million estimated from worldwide benefit consulting in 1997; \$1.3 million in 1996; \$1.5 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Jane Barry, president; Lin Ball, Lou Filliger, vps.

Ernst & Young L.L.P.

1 Indiana Square, Suite 3400,
Indianapolis, Ind. 46204;
317-681-7116; fax: 317-681-7555

Benefit consulting since: 1987.

Services: 84% of revenues from benefit consulting.

Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, operational/compliance reviews, transactional-related work.

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

Employee communications consulting: Includes communications consulting, benefit statement preparation, financial education and related tools for employees.

Other services: Compensation consulting, general management consulting.

Locations: Los Angeles; San Francisco; Washington; Tampa, Fla.; Atlanta; Chicago; New Orleans; Minneapolis; St. Louis; New York; Cleveland; Columbus, Ohio; Greenville, S.C.; Dallas; Houston.

Staff: 600 benefit consulting employees; 550 professionals.

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

Gross revenues: \$84 million estimated from worldwide benefit consulting in 1997 (79% from U.S. locations); \$82 million in 1996 (78% from U.S.); \$100 million estimated total worldwide 1997 revenues (79% from U.S.).

Officers: Jim Bosserman, Steve Harrold, John Moyer, Dave Kautter, Dan Garner, Mike Bishko, Bob Garner, Ron Barton, Bill Amone.

Findley Davies Inc.

300 Madison Ave., Suite 1000,
Toledo, Ohio 43602-1596;
419-255-1360; 419-259-5685

Benefit consulting since: 1969.

Services: 50% of revenues from benefit consulting.

Retirement/savings plan consulting: 30% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal docu-

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ment drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 15% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, claim audits.

Benefit communications consulting: 5% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; focus groups; attitude surveys.

Other services: Compensation consulting, general management consulting, claims administration, actuarial planning, retirement planning, record keeping.

Locations: Cleveland; Charlotte, N.C.
Staff: 43 benefit consulting employees; 28 professionals, including one FSA, two ASAs, three CEBSs, one CLU, five CPAs and three attorneys.

Clients: 700 total; 94% corporations, 1% multiemployer plans, 5% government agencies/entities.

Compensation: By the project, by the hour.

Gross revenues: \$5.8 million estimated from worldwide benefit consulting in 1997; \$5.2 million in 1996. \$9.5 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Robert Rogers, Marc Stockwell, Brian Hubbell, Gary Thieman, Scott Hamner, principals.

Contact: Gary Thieman.



Halliwell Consulting Group

393 Vanadium Road,
Pittsburgh, Pa. 15243;
412-429-3300; fax: 412-429-3310

Benefit consulting since: 1973.
Services: 70% of revenues from benefit consulting.

Retirement/savings plan consulting: 60% of revenues. Includes plan design consulting, defined benefit plan actuarial work.

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

Other services: Risk management consulting, professional litigation witness.

Staff: 11 benefit consulting employees; 10 professionals, including two FSAs, two ASAs, one CEBS and five EAs.

Clients: 140 total; 65% corporations, 15% multiemployer plans, 20% government agencies/entities. Minimum size client: 25 employees.

Compensation: By the project, on retainer, by the hour: senior consultant, \$185; consultant, \$150; clerical, \$50.

Gross revenues: \$1.2 million estimated from worldwide benefit consulting in 1997; \$1.1 million in 1996; \$1.6 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Paul D. Halliwell, president; Thomas S. Baily, vp.

Contact: William E. Hough, 412-429-3312.

Hay/Huggins Co. Inc.

229 S. 18th St.,
Philadelphia, Pa. 19103;
215-875-2300

Benefit consulting since: 1911.
Parent: Hay Group.
Services: 100% of revenues from benefit consulting.

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

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

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

Locations: Los Angeles; Washington; Atlanta; Chicago; Boston; New York; Dallas; Toronto; London; Utrecht, Netherlands.

Staff: 200 benefit consulting employees, including 20 FSAs, five ASAs, 10 CEBSs, five attorneys and 35 EAs.

Clients: 1,000 total; 60% corporations, 10% multiemployer plans, 20% government agencies/entities, 10% non-profit organiza-

tions. No minimum size client.

Compensation: By the project, by the hour: senior consultant, \$300; consultant, \$200; clerical, \$100.

Gross revenues: \$25 million estimated from worldwide benefit consulting in 1997 (85% from U.S. locations); \$23 million in 1996 (85% from U.S.); \$25 million estimated total worldwide 1997 revenues (85% from U.S.).

Officers: Kenneth Shapiro, president; Michael Cotter, Marie DuFresne, Edwin Hus-tead, Kurt Fichthorn, senior vps.

Contact: Kenneth Shapiro.

Hewitt Associates L.L.C.

100 Half Day Road,
Lincolnshire, Ill. 60069;
847-295-5000; fax: 847-295-7634

Benefit consulting since: 1940.
Services: 88% of revenues from benefit consulting.

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

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

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

Other services: Compensation consulting, organizational effectiveness consulting.

Locations: 29 U.S.; 41 non-U.S.
Staff: 7,400 total; 4,450 professionals*.

Compensation: By the project, by the hour.

Gross revenues: \$624 million estimated from worldwide benefit consulting in 1997 (96.2% from U.S. locations); \$488 million in 1996; \$709 million estimated total worldwide 1997 revenues (96.2% from U.S.).**

Officers: Dale L. Gifford, chief executive.
* May include non-benefit consulting employees.
** Fiscal year ends Sept. 30.



Howard Johnson & Co.

101 E. 52nd St., 11th Floor,
New York, N.Y. 10022;
212-758-5900; fax: 212-758-3625

Benefit consulting since: 1965.
Services: 97.3% of revenues from benefit consulting.

Retirement/savings plan consulting: 82% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan administration consulting, administration of multiple benefit plans in a single integrated database, total benefit outsourcing.

Welfare plan consulting: 12.7% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, experience monitoring and analysis, pricing, enrollment and ongoing administration via interactive voice response, outsourcing.

Benefit communications consulting: 2.6% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting.
Locations: Los Angeles; San Francisco; Atlanta; Jersey City, N.J.; Seattle and Spokane, Wash.; London; Dublin, Ireland.

Staff: 375 total.
Clients: 300 total; 100% corporations. Minimum size client: 1,000 employees.

Compensation: By the project, by the hour.
Gross revenues: \$35 million estimated from worldwide benefit consulting in 1997; \$28 million in 1996.

Officers: Howard J. Johnson, chairman/CEO; Nancy B. Greer, CFO; Kent P. Buckles, director-consulting offices/professional centers; John R. Claus, director-training/special projects; Brendan O'Farrell, director-Howard Johnson & Co. (U.K.) Ltd.
Contact: Nancy Rizzuto.



Keenan & Associates

2355 Crenshaw Blvd., Suite 200,
P.O. Box 4328, Torrance,
Calif. 90510; 310-212-3344;
fax: 310-212-0354

Benefit consulting since: 1972.
Services: 31% of revenues from benefit consulting.

Welfare plan consulting: 31% of revenues.

Other services: Brokering, claims administration, adjusting, risk management; managed care, insurance pools administration, eligibility services.

Locations: Campbell, Fresno, Irvine, Riverside, Oakland, Sacramento, San Diego and Westlake Village, Calif.

Staff: 118 benefit consulting employees; 77 professionals, including four CEBSs, five CLUs, one CPA and two attorneys.

Clients: 600 total; 5% corporations, 95% government agencies/entities.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$200; consultant, \$160; clerical, \$45.

Gross revenues: \$13.9 million estimated from worldwide benefit consulting in 1997; \$13.2 million in 1996; \$45.6 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: John R. Keenan, president/CEO; David J. De Wenter, executive vp/COO; Keith R. Pippard, CFO; Sean K. Smith, president-schools.

Contact: Sean K. Smith.

Kennedy Consulting Group

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

Benefit consulting since: 1990.
Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting, plan administration consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, PPO network development, HMO rate negotiation, fund/financial analysis strategic planning.

Benefit communications consulting: 5% of revenues. Includes communications consulting; customized enrollment materials.

Staff: Five benefit consulting employees; four professionals, including one CLU and one attorney.

Clients: 66 total; 71% corporations, 6% multiemployer plans, 18% government agencies/entities, 5% professional associations. No minimum size client.

Compensation: By the project, or retainer, by the hour: senior consultant, \$150 to \$200; consultant, \$100 to \$150.

Gross revenues: \$725,000 estimated from worldwide benefit consulting in 1997; \$710,000 in 1996; \$725,000 estimated total worldwide 1997 revenues.

Officers: James P. Kennedy, president; John P. Storto, vp.
Contact: James P. Kennedy.

The Kooper Group

770 Lexington Ave., 14th Floor,
New York, N.Y. 10021;
212-755-0800; fax: 212-755-0831

Benefit consulting since: 1966.
Services: 85% of revenues from benefit consulting.

Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 5% of revenues.

Other services: Brokering.
Staff: 42 benefit consulting employees; 25 professionals.

Clients: 700 total; 100% corporations. No minimum size client.

Compensation: By the project, commissions, on retainer, by the hour.
Gross revenues: \$7 million estimated from worldwide benefit consulting in 1997; \$6 million in 1996. All revenues are from the United States.

Officers: Michael Kooper, president.



MMC&P Health and Related Benefit Services

1 Gateway Center, 11th Floor,
Pittsburgh, Pa. 15222-1416;
412-394-9330; fax: 412-394-9324

Benefit consulting since: 1979.
Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 10% of revenues. Includes communications consulting, telephone/computer aided communications.

Staff: Eight benefit consulting employees; six professionals, including two CEBSs and one CLU.

Clients: 47 total; 70% corporations, 20% MEWAs, 10% government agencies/entities. No minimum size client.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$240; consultant, \$180; clerical, \$65.

Gross revenues: \$750,000 estimated from worldwide benefit consulting in 1997; \$625,000 in 1996; \$750,000 estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Jere L. Cowden, president; Merle W. McGee, secretary; Daniel A. Hynes, vp.
Contact: Jere L. Cowden.

Mack & Parker Inc.

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

Benefit consulting since: 1935.
Services: 19.3% of revenues from benefit consulting.

Retirement/savings plan consulting: 2.5% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 18.6% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 3.7% of revenues. Includes communications consulting.

Other services: Brokering, claims administration.
Staff: 100 total.

Clients: 150 total; 90% corporations, 2% individuals, 8% government agencies/entities. No minimum size client.

Compensation: By the project, commissions, on retainer.

Gross revenues: \$2.1 million estimated from worldwide benefit consulting in 1997; \$2.1 million in 1996; \$10.7 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Edward E. Mack III, chairman; Martin P. Hughes, president; Veronica E. Campbell, CFO; Robert J. Jonak, Marie E. Raninger, vps.

Mahoney & Associates

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

Benefit consulting since: 1975.
Services: 70% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 60% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

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

Other services: Compensation consulting, brokering, life insurance.

Locations: Fort Lauderdale and Tampa, Fla.
Staff: 16 benefit consulting employees; 11 professionals, including one ASA, one CEBS, one CLU, one CPA and one attorney.

Clients: 125 total; 100% corporations. Minimum size client: 25 employees.

Compensation: By the project, commissions, on retainer, by mutual agreement, by the hour: senior consultant, \$175; consultant, \$150; clerical, \$35.

Gross revenues: \$1.7 million estimated from worldwide benefit consulting in 1997; \$1.7 million in 1996; \$2.4 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: William E. Mahoney Jr., president; Martha L. Mahoney, Larry W. Brand, vps.

Masi Research

500 23rd St. N.W., Suite B202,
Washington, D.C. 20037;
202-223-2399; fax: 202-223-2392

Benefit consulting since: 1984.
Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 80% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, lecturing on program design.

Benefit communications consulting: 20% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; evaluating communications of service providers.

Staff: 32 benefit consulting employees; 30 professionals.

Clients: 90% corporations, 10% government agencies/entities. No minimum size client.

Compensation: By the project, on retainer, by the hour: senior consultant, \$200; consultant, \$100; clerical, \$25.

Gross revenues: \$500,000 estimated from worldwide benefit consulting in 1997; \$600,000 in 1996.

Officers: Dale Masi, president/CEO; Eric Masi, vp/treasurer.

Contact: Dale Masi.

William M. Mercer Cos. Inc.

1166 Ave. of the Americas,
New York, N.Y. 10036;
212-345-7000

Benefit consulting since: 1975.

Parent: Mercer Consulting Group.
Services: 70% of revenues from benefit consulting.

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

Welfare plan consulting: 18% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, health claims analysis, workers compensation, medical management, disability management.

Benefit communications consulting: 4% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation, interactive benefit communication/voice response.

Other services: Compensation consulting, general management consulting, claims administration, actuarial consulting not related to employee benefits.

Locations: 40 U.S.; 65 non-U.S.
Staff: 5,425 professionals, including 1,045 FSAs, 125 CEBSs and 30 attorneys.

Clients: 87% corporations, 1% multiemployer plans, 1% MEWAs, 9% government agencies/entities, 2% other. Minimum size client: 100 employees.

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

Gross revenues: \$951 million estimated from worldwide benefit consulting in 1997 (61% from U.S. locations); \$790 million in 1996 (60% from U.S.); \$1.4 billion estimated total worldwide 1997 revenues (63% from U.S.).

Officers: Peter Coster, president; Jean-Louis Bourbeau, Peter Felton, Timothy J. Lynch, Vikesh Mahendroo, Ronald M. Walker, vps.

Milliman & Robertson Inc.

1301 Fifth Ave., Suite 3800,
Seattle, Wash. 98101-2605;
206-624-7940; fax: 206-340-1380

Benefit consulting since: 1947.
Services: 33% of revenues from benefit consulting.

Retirement/savings plan consulting: 30% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 2% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 1% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation.

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

Locations: 28 nationwide.
Staff: 340 benefit consulting employees; 143 professionals, including 191 FSAs, 128

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ASAs, four CEBSS, five CPAs, five attorneys and 17 EAs.

Clients: 5,000 total; 80% corporations, 5% multiemployer plans, 5% MEWAs, 10% government agencies/entities.

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

Gross revenues: \$65 million estimated from worldwide benefit consulting in 1997; \$61.8 million in 1996; \$197 million estimated total worldwide 1997 revenues (99% U.S. locations).

Officers: Robert L. Collett, president/CEO; Daniel McCarthy, chairman; L.J. Lee, treasurer; Brian S. Pollack, assistant corporate secretary; William S. Pedersen, controller.

Contact: Lloyd B. Robinson.



The NIA Group

66 Route 17, Paramus, N.J. 07652; 201-845-6600; fax: 201-845-6152

Benefit consulting since: 1984.

Services: 12% of revenues from benefit consulting.

Retirement/savings plan consulting: 4.8% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 6% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 1.2% of revenues. Includes communications consulting, benefit statement and booklet preparation.

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

Locations: Miami Lakes and West Palm Beach, Fla.; Freehold and Randolph, N.J.; Monticello, New York and White Plains, N.Y.

Staff: 47 benefit consulting employees; 47 professionals, including three CLUs, two CPAs and four attorneys.

Clients: 200 total; 75% corporations, 5% multiemployer plans, 5% MEWAs, 15% individuals. Minimum size client: two employees.

Compensation: By the project, commissions, on retainer.

Gross revenues: \$4.2 million estimated from worldwide benefit consulting in 1997; \$3.9 million in 1996. All revenues are from the United States.

Officers: Paul Gross, chairman; Roger Gross, Steve Grossberg, Alan Klein, executive vps; Robert Feldman, senior vp.

Contact: Denise Angleman, regional vp.

Network Management

Services

5500 Wayzata Blvd., Suite 1450, Minneapolis, Minn. 55416; 612-525-2700; fax: 612-525-2701

Benefit consulting since: 1993.

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 100% of revenues. Includes insurer/broker selection consulting; evaluation of service providers; health care cost containment.

Staff: 105 benefit consulting employees; 13 professional benefit consulting employees.

Clients: 13 total; 95% corporations, 5% MEWAs.

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

Gross revenues: \$15 million estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Officers: Mark W. Tierney, CEO; Mike Bingham, president; Barbara Seykora, COO; Scott Halstead, CFO; Paul Smaby, senior vp-marketing.



O'Neill Finnegan & Jordan Inc.

15 Broad St., Boston, Mass. 02109; 617-523-2600; fax: 617-523-5841

Benefit consulting since: 1984.

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 100% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation

of service providers, health care cost containment, flexible benefits, life insurance, disability, health care, long-term care.

Locations: San Jose, Calif.; New York.

Staff: 27 professionals, including two FSAs.

Clients: 175 total; 98% corporations, 2% government agencies/entities. Minimum size client: 20 employees.

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

Gross revenues: \$5.6 million estimated from worldwide benefit consulting in 1997; \$5 million in 1996.

Officers: J. Brent Finnegan, managing director; Alan S. Breitman, Peter E. Marcia, Cynthia P. Newman, Margret M. Meyer, Carol S. Chandor, Stuart F. Rubinstein.

Contact: J. Brent Finnegan.



Parsons, McKee, Sommers & Co.

2001 Crocker Road, Suite 300, Westlake, Ohio 44145; 440-871-8611; fax: 440-871-7485

Benefit consulting since: 1976.

Services: 100% of revenues from benefit consulting.

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

Welfare plan consulting: 20% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, actuarial cost measurement including benefit flexible pricing.

Benefit communications consulting: 20% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; interactive communication/information/enrollment systems; personal retirement planning.

Locations: Charlotte, N.C.

Staff: 35 benefit consulting employees; 25 professionals, including one ASA, three CEBSS, one CPA, one attorney and four EAs.

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

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

Gross revenues: \$3.2 million estimated from worldwide benefit consulting in 1997; \$2.7 million in 1996; \$3.2 million estimated total worldwide 1997 revenues. All revenues are from the United States.

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

Contact: John R. Parsons.

Pension Resources

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

Benefit consulting since: 1972.

Parent: Friedman Eisenstein Raemer & Schwartz L.L.P.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 87% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting.

Welfare plan consulting: 10% of revenues. Includes plan design consulting, insurer/broker selection consulting.

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

Staff: 24 benefit consulting employees; 19 professionals, including one ASA, two CPAs and two EAs.

Clients: 700 total; 98% corporations, 2% sole proprietors/partnerships. No minimum size client.

Compensation: By the project, by the hour: senior consultant, \$235; consultant, \$190; clerical, \$70; plan administrator, \$120; trust accountant, \$50.

Gross revenues: \$3 million estimated from worldwide benefit consulting in 1997; \$2.7 million in 1996. \$3 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Michael Schwartz, president/partner; Irwin Friedman, managing partner;

Kevin Simpson, CFO.

Contact: Michael Schwartz.

Post & Kurtz Inc.

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

Benefit consulting since: 1932.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer selection consulting, evaluation of service providers, health care cost containment.

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

Locations: Glen Ridge, N.J.

Staff: Six benefit consulting employees; five professionals, including four CLUs.

Clients: 160 total; 20% corporations, 5% multiemployer plans, 25% individuals, 50% partnerships. No minimum size client.

Compensation: By the project, commissions, on retainer.

Gross revenues: \$1.1 million estimated from worldwide benefit consulting in 1997; \$975,000 in 1996. All revenues are from the United States.

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

Contact: W.J. Kuhn.



RWL Benefits Inc.

6434 Maple Ave., Suite 450, Dallas, Texas 75235-5506; 214-350-7941; fax: 214-350-8745

Benefit consulting since: 1987.

Parent: RWL Group.

Services: 100% of revenues from benefit consulting.

Retirement/savings plan consulting: 5% of revenues. Includes plan design consulting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, cash flow analysis, flexible benefits feasibility studies, funding analyses, plan surveys.

Benefit communications consulting: 5% of revenues. Includes communications consulting, booklet and audiovisual script preparation, assistance in preparation of enrollment forms.

Staff: Four benefit consulting employees; two professionals, including one FSA, one ASA and one CPA.

Clients: 15 total; 5% corporations, 95% government agencies/entities. No minimum size client.

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

Gross revenues: \$550,000 estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Officers: Robert W. Lazarus; Kenneth D. Weihe.

Contact: Courtney Griffiths.

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READER REPLY SERVICE

PRODUCTS & SERVICES LISTING

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Continued from previous page

Risk Management Group Inc.

940 W. Valley Road, Suite 1802,
Wayne, Pa. 19087; 610-971-1776;
fax: 610-971-0218

Benefit consulting since: 1983.

Services: 80% of revenues from benefit consulting.

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

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

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

Other services: Compensation consulting, brokering, general management consulting, claims administration, human resource information systems.

Staff: 10 total.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$225; consultant, \$175; clerical, \$85.

Gross revenues: \$1 million estimated from worldwide benefit consulting in 1997; \$1 million in 1996; \$1 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Contact: Jerald D. Adair, president/CEO or Don V. Barbuto, executive vp.

S**San Diego Associates Inc.**

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

Benefit consulting since: 1984.

Services: 50% of revenues from benefit consulting.

Retirement/savings plan consulting: 28% of revenues. Includes plan design consulting, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting, custom administration software.

Welfare plan consulting: 20% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, custom administration software.

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

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

Locations: Laguna Hills, Calif.

Staff: Six benefit consulting employees; four professionals, including one CLU.

Clients: 100% corporations.

Compensation: By the project, commissions, on retainer, by the hour: \$100 to \$200 (average composite rate).

Gross revenues: \$500,000 estimated from worldwide benefit consulting in 1997; \$500,000 in 1996; \$1 million estimated total worldwide 1997 revenues.

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

Contact: Bruce N. Kesler.

Schmidt, Long & Associates

4159 N. Holland-Sylvania Road,
Suite 102, Toledo, Ohio 43623;
419-885-4125; fax: 419-885-1136

Benefit consulting since: 1986.

Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 100% of revenues. Includes plan design consulting, evaluation of service providers, health care cost containment, audits of medical benefits payments/claims payments.

Locations: Atlanta.

Staff: Six benefit consulting employees; five professionals.

Clients: 24 total; 95% corporations, 5% government agencies/entities. Minimum size client: 800 employees.

Compensation: By the project, by the hour: senior consultant, \$200 to \$350; consultant, \$175 to \$200; clerical, \$75; computer programmer, \$150 to \$175.

Gross revenues: \$3 million estimated

from worldwide benefit consulting in 1997; \$3 million in 1996; \$3 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Timothy L. Schmidt, president; James A. Mauntler, Deborah J. Grenlund, vps.

Sedgwick Noble Lowndes

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

Benefit consulting since: 1934.

Parent: Sedgwick Group P.L.C.

Services: 85% of revenues from benefit consulting.

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

Welfare plan consulting: 16% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment, life insurance, executive benefits.

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

Other services: Compensation consulting, brokering, claims administration, personal financial planning, voluntary benefit schemes, workers compensation claims consulting and administration.

Locations: 37 U.S.; 48 non-U.S.

Staff: 3,880 benefit consulting employees; 3,112 professionals, including 114 FSAs, 105 ASAs, 53 CEBs, 16 CLUs, seven CPAs, 14 attorneys and 35 EAs.

Clients: 17,440 total; 78% corporations, 8% multiemployer plans, 4% MEWAs, 5% individuals, 5% government agencies/entities. No minimum size client.

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

Gross revenues: \$317.3 million estimated from worldwide benefit consulting in 1997 (23% from U.S. locations); \$282 million in 1996 (24% from U.S.); \$373.4 million estimated total worldwide 1997 revenues (21% from U.S.).

Officers: David F. Strauss, group chairman; Peter R. Brew, deputy chairman; Kenneth G. Martin, CEO-North America; John A.V. Montague, group finance director; Robert Walker, chairman-United Kingdom.

Contact: Kenneth G. Martin.

The Segal Co.

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

Benefit consulting since: 1939.

Services: 96% of revenues from benefit consulting.

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

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

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

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

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

Staff: 603 benefit consulting employees; 466 professionals, including 25 FSAs, 36 ASAs and 70 EAs.

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

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

Gross revenues: \$96 million estimated from worldwide benefit consulting in 1997; \$87.6 million in 1996 \$96 million estimated

total worldwide 1997 revenues (96% U.S. locations).

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

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

Silverstone Group Inc.

300 W. Broadway, Suite 200,
Council Bluffs, Iowa 51503;
712-325-1717; fax: 712-329-3131

Benefit consulting since: 1945.

Services: 18% of revenues from benefit consulting.

Retirement/savings plan consulting: 16% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 2% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

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

Locations: Lincoln and Omaha, Neb.

Staff: 35 benefit consulting employees; 15 professionals, including two FSAs, four ASAs, four CEBs, six CLUs, three CPAs and six attorneys.

Clients: 450 total; 98% corporations, 2% government agencies/entities.

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

Gross revenues: \$2.5 million estimated from worldwide benefit consulting in 1997; \$2.2 million in 1996; \$12 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Gary Hurley, Lew Trowbridge, John Sarich.

Contact: Pam Stone, 402-398-2314.

Siver Insurance Consultants

P.O. Box 21343,
St. Petersburg, Fla. 33742-1343;
813-577-2780; fax: 813-579-8692

Benefit consulting since: 1970.

Services: 45% of revenues from benefit consulting.

Retirement/savings plan consulting: 2.5% of revenues. Includes plan design consulting, plan administration consulting.

Welfare plan consulting: 40% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 2.5% of revenues. Includes communications consulting.

Other services: General management consulting, claims administration.

Staff: Three benefit consulting employees; two professionals, including two CLUs and three attorneys.

Clients: 20 total; 30% corporations, 50% government agencies/entities, 20% litigation support clients. No minimum size client.

Compensation: By the project, on retainer, by the hour: senior consultant, \$175 to \$250; consultant, \$125 to \$175; clerical, \$35 to \$45.

Gross revenues: \$675,000 estimated from worldwide benefit consulting in 1997; \$650,000 in 1996; \$1.5 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: Edward W. Siver, president/treasurer/director; James Marshall Jr., executive vp; Robert F. McBurney, senior vp; Jean A. Cornillaud, corporate secretary; Robert I. Siver, director.

Contact: Robert F. McBurney.

J.E. Stone & Associates Inc.

5555 San Felipe, Suite 1100,
Houston, Texas 77056;
713-622-8930; fax: 713-622-6705

Benefit consulting since: 1987.

Services: 80% of revenues from benefit consulting.

Retirement/savings plan consulting: 33% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 44% of revenues. Includes plan design consulting, in-

surer/broker selection consulting, evaluation of service providers, health care cost containment.

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

Other services: Compensation consulting, brokering, general management consulting, outsourcing of human resources/benefit management administration.

Locations: Austin and Dallas, Texas

Staff: 38 benefit consulting employees; 31 professionals, including one FSA, two ASAs, five CEBs and three EAs.

Clients: 115 total; 98% corporations, 2% government agencies/entities.

Compensation: By the project, on retainer, by the hour: senior consultant, \$240; consultant, \$185; clerical, \$40.

Gross revenues: \$5.6 million estimated from worldwide benefit consulting in 1997. \$7 million estimated total worldwide 1997 revenues. All revenues are from the United States.

Officers: J.E. Stone, K.L. Haynes, T.F. McCord, C.P. Peters, C.R. Rennpage, directors.

Contact: C.P. Peters.

T**Thesco Benefits L.L.C.**

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

Benefit consulting since: 1979.

Services: 15% of revenues from benefit consulting.

Retirement/savings plan consulting: 12% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

Welfare plan consulting: 2% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

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

Other services: Brokering, claims administration.

Locations: New York; Westchester, Pa.

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

Clients: 250 total; 100% corporations.

Compensation: By the project, commissions, on retainer, by the hour: senior consultant, \$400; consultant, \$200; clerical, \$96.

Gross revenues: \$525,000 estimated from worldwide benefit consulting in 1997; \$425,000 in 1996; \$3.1 million estimated total worldwide 1997 revenues. All revenues are from the United States.

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

Contact: Richard J. Fleder.

Towers Perrin

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

Benefit consulting since: 1934.

Services: 66.6% of revenues from benefit consulting.

Retirement/savings plan consulting: 44.4% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

Welfare plan consulting: 16.6% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 5.6% of revenues. Includes communications consulting, benefit statement, booklet and audiovisual preparation.

Other services: Compensation consulting, general management consulting.

Locations: 36 U.S.; 32 non-U.S.

Staff: 7,250 total, including 291 FSAs, 270 ASAs, 83 CEBs, eight CLUs, 21 CPAs, 49 attorneys and 19 EAs.

Clients: 95% corporations, 5% govern-

ment agencies/entities.

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

Gross revenues: \$694.7 million estimated from worldwide benefit consulting in 1997 (73.5% from U.S. locations); \$631.3 million in 1996 (73% from U.S.); \$1.04 billion estimated total worldwide 1997 revenues (71.7% from U.S.).

Officers: John Lynch, chairman/CEO; John Kneen, managing director-worldwide geographic operations; Alan Dugan, managing director-global employee benefit services; Robert Hogan, managing director-global retirement services; Mark Mactas, managing director-health/welfare services; Marvin Greene, managing director-administration/operations; John Tierney, managing director-Tillinghast-Towers Perrin property/casualty; Rollie Stichweh, managing director-human resources/general management services.

V**Virchow Krause Stafford****Waller L.L.C.**

434 S. Yellowstone Drive,
Suite 100, Madison, Wis. 53719;
608-833-6117; fax: 608-833-4097

Benefit consulting since: 1982.

Services: 6% of revenues from benefit consulting.

Retirement/savings plan consulting: 1% of revenues. Includes plan design consulting, plan administration consulting, asset/investment consulting.

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

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

Other services: Brokering, general management consulting.

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

Staff: 10 benefit consulting employees; six professionals, including one CLU.

Clients: 200 total; 100% corporations. Minimum size client: 25 employees.

Compensation: By the project, on retainer, by the hour: principal, \$175; senior consultant, \$150; consultant, \$150; clerical, \$40 to \$75.

Gross revenues: \$1.6 million estimated from worldwide benefit consulting in 1997 (95% from U.S. locations); \$1 million in 1996 (95% from U.S.); \$28 million estimated total worldwide 1997 revenues (95% from U.S.).

Officers: Daniel G. Stafford, executive vp; David A. Waller, president; Sue Chermow, Barbara Smith, Barbara Kieffer, Sharon Karls, senior consultants.

Contact: Daniel G. Stafford.

W**WTR Consulting Group**

630 Third Ave.,
New York, N.Y. 10017;
212-949-1344; fax: 212-682-0024

Benefit consulting since: 1975.

Services: 90% of revenues from benefit consulting.

Retirement/savings plan consulting: 50% of revenues. Includes plan design consulting, defined benefit plan actuarial work, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting.

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

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

Other services: Compensation consulting, general management consulting.

Locations: Baltimore and Bethesda, Md.; Richmond, Va.

Staff: 130 benefit consulting employees; 100 professionals, including three FSAs, six ASAs, one attorney and 12 EAs.

Clients: 600 total; 62% corporations, 5% multiemployer plans, 3% MEWAs, 15% government agencies/entities, 15% professional partnerships. Minimum size client: 100 employees.

Continued on next page

Continued from previous page

pleases.
Compensation: By the project, by the hour: senior consultant, \$225 to \$325; consultant, \$150 to \$250; clerical, \$50 to \$80; analyst/administrator, \$90 to \$140.
Gross revenues: \$18 million estimated from worldwide benefit consulting in 1997; \$17 million in 1996. All revenues are from the United States.
Officers: Charles Thacher, Robert Williams, Terry Stokes, Robert Northrup, principals.

Watson Wyatt Worldwide
6707 Democracy Blvd., Suite 800, Bethesda, Md. 20817-1129; 301-581-4600; fax: 301-581-4688

Benefit consulting since: 1946.
Services: 85% of revenues from benefit consulting.
Retirement/savings plan consulting: Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting, asset/investment consulting.

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

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

Other services: Compensation consulting, risk management, organizational effectiveness, communications.

Locations: 37 U.S.; 55 non-U.S.
Staff: 5,000 total; 3,800* professionals, including 100 FSAs and 300 ASAs.

Gross revenues: \$571 million estimated from worldwide benefit consulting in 1997 (62.8% from U.S. locations); \$537 million in 1996 (66% from U.S.); \$672 estimated total worldwide 1997 revenues (62.8% from U.S.).**

Officers: Pete Smith, president/CEO; Paul Daoust, executive vp/COO.
* May include non-benefit consulting employees.
** Fiscal year ends June 30.

R.H. Wohl & Associates Inc./ In Plain English
P.O. Box 3300, Gaithersburg, Md. 20885-3300; 801-340-2821; fax: 301-279-0115

Benefit consulting since: 1977.
Services: 50% of revenues from benefit consulting.

Benefit communications consulting: 50% of revenues. Includes communications consulting; benefit statement, booklet and audiovisual preparation; plan enrollment materials; surveys; strategic planning.

Other services: General management consulting, market research.

Staff: Six benefit consulting employees; five professional benefit consulting employees.

Clients: Six total; 100% corporations.
Compensation: By the project, on retainer, by the hour: senior consultant, \$250; consultant, \$200; clerical, \$60.

Gross revenues: \$500,000 estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Contact: Ronald H. Wohl, president/CEO.

W.R. Wood & Co.
5602 Midwood Road, Bethesda, Md. 20814-1111; 301-907-0170; fax: 301-907-0172

Benefit consulting since: 1991.
Services: 100% of revenues from benefit consulting.

Welfare plan consulting: 90% of revenues. Includes plan design consulting, insurer/broker selection consulting, evaluation of service providers, health care cost containment.

Benefit communications consulting: 10% of revenues. Includes communications consulting, booklet preparation.

Staff: Two benefit consulting employees, all professionals.
Clients: Nine total; 20% corporations, 80% multiemployer plans.

Compensation: By the project, by the hour: senior consultant, \$190; consultant, \$100.
Gross revenues: \$510,000 estimated from worldwide benefit consulting in 1997; \$508,191 in 1996. \$510,000 estimated total

worldwide 1997 revenues. All revenues are from the United States.
Contact: Walter R. Wood, associate.

Addendum

KPMG Compensation & Benefits Practice
757 Third Ave., New York, N.Y. 10017; 212-758-9700; fax: 212-872-5821

Benefit consulting since: 1961.
Parent: KPMG Peat Marwick LLP.
Services: 75% of revenues from benefit consulting.

Retirement/savings plan consulting: 40% of revenues. Includes plan design consulting, defined benefit plan actuarial work, pension plan record keeping, administration systems consulting, plan/trust legal document drafting, plan administration consulting, investment manager selection consulting,

asset/investment consulting.

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

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

Other services: Compensation consulting, general management consulting.

Locations: 31 locations nationwide.

Staff: 1,200 benefit consulting employees; 1,000 professionals, including 35 FSAs, 48 ASAs, 20 CEBSS, 12 CLUs, 20 CPAs, 25 attorneys and 55 EAs.

Clients: 80% corporations, 5% multiemployer plans, 5% MEWAs, 10% government agencies/entities. No minimum size client.

Compensation: By the project, on retainer, by the hour: senior consultant, \$250 to \$450; consultant, \$150 to \$250; clerical, \$50 to \$100.

Gross revenues*: \$110 million estimated from worldwide benefit consulting in 1997 (70% from U.S. locations); \$100 million in 1996 (70% from U.S.); \$145 million estimated total worldwide 1997 revenues (70% from

U.S.).

Officers: James E. Buckley, national partner-in-charge, compensation/benefits; Peter T. Chingos, partner-in-charge, compensation; Peter I. Elinsky, tax and regulatory practice leader, compensation/benefits; Richard Adams, group benefits practice leader, compensation/benefits.

Contact: James E. Buckley.
* Fiscal year ends June 30, 1998.

The MEDSTAT Group-Purchaser Division
777 E. Eisenhower Parkway, Ann Arbor, Mich. 48106; 313-996-1180; fax: 313-913-3200

Parent: Thompson Healthcare Information.
Services: 90% of revenues from benefit consulting.

Welfare plan consulting: 80% of revenues. Includes plan design consulting, evaluation of service providers, health care cost containment, integrated benefits/productivity consulting.

Employee communications consulting: 10% of revenues. Includes communications

consulting, lifestyle segmentation.

Other services: Claims administration.

Locations: San Francisco; Stamford, Conn.; Atlanta; Chicago; Cambridge, Mass. Ann Arbor, Mich.

Staff: 160 benefit consulting employees, 101 professionals.

Clients: 85 total; 90% corporations, 10% government agencies/entities. No minimum size client.

Compensation: By the project, on retainer, by the hour: senior consultant, \$150 to \$425; consultant, \$150 to \$250; clerical, \$100 to \$125; analyst, \$125 to \$150.

Gross revenues*: \$25 million estimated from worldwide benefit consulting in 1997. All revenues are from the United States.

Officers: Larry Hagerty, president/CEO; Bob Stokes, COO; Glen Cole, CFO; Deborah Young, vp-human resources; Barbara Levine, vp/general manager-purchaser division.

* Estimate.

The directory of employee benefit consultants begins on page 16. Terms and methodology are explained on page 18.

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Trade

Continued from page 2

related negotiations, all U.S. companies should be concerned about the management of the turmoil in Southeast Asian stock markets, said the AIG executive.

To greater influence international affairs, senior executives at international insurers in the United States should become more personally involved in the decision-making process, rather than simply sending in lobbyists, Mr. Greenberg advised.

"If you want to get the attention of senators or congressmen, you will only get it if you send the principal of the company," he said.

Mr. Greenberg was speaking at a conference on managing change in the property-casualty industry sponsored by Coopers & Lybrand L.L.P. in New York last week.

The deadline for the end of the WTO talks on financial services is Dec. 12, and the likelihood of securing an agreement "is very dim," Mr. Greenberg said. "The U.S. probably won't sign on, and if we don't sign on, there won't be an agreement."

The inclusion of financial services in the framework of GATT would provide a set of guidelines for insurers and other financial services providers with offices in multiple countries, Mr. Greenberg said.

U.S. negotiators are pressing for a minimum of about 10 key countries,

including many in Southeast Asia and Latin America, to agree to open their financial services markets before it signs the agreement.

While several of the countries have expressed an intention to allow greater access to their markets, few have put their offers in writing.

One of the main issues for AIG and other international insurers based on the United States is the status of existing operations in foreign countries, Mr. Greenberg said. The U.S. is pressing for other countries to guarantee companies' right to perpetually own those operations without fear of a future restriction on foreign ownership.

Another disappointment for corporations interested in promoting international trade was the failure of

Congress to grant President Clinton fast track negotiating powers. That will hinder any future trade liberalization agreements between the United States and other countries, Mr. Greenberg said. "Fast track failure is a disaster," he said.

Instead of the administration being able to negotiate a complete trade agreement and then send it to Congress for approval, congressmen will be able to change the agreements, which will greatly hamper their chances of passage, he said.

Then shortly after Congress denied President Clinton fast track powers, it also voted down U.S. contributions to the International Monetary Fund to set up an emergency credit fund, which would deal with financial

problems such as the turmoil in the Southeast Asian economies.

Congress is impairing the IMF's ability to deal with the financial crisis, Mr. Greenberg said.

Despite the vote in Congress, however, the IMF is moving to help stem the crisis and plans to lead a \$55 billion relief package for South Korea.

Although the financial crisis in Southeast Asia poses threats to the world economy, it also provides some opportunities for investment in the region, Mr. Greenberg said.

"There are many companies in those countries that six months ago looked very good, and it's hard to believe that if nothing has fundamentally changed... that they are worth 40% less today," he said. **BI**

Costs

Continued from page 1

eral years have occurred for several reasons.

The chief factor has been employers' success in moving employees out of higher-cost traditional indemnity plans and into lower-cost managed care plans, especially health maintenance organizations. In some parts of the country, HMO costs are nearly \$1,000 less per employee compared with indemnity plan coverage.

"Through managed care programs, they (employers) are reducing health care costs," the survey notes.

A competitive HMO market also has led—at least until now—to flat or even falling premiums as HMCs have battled for market share.

A booming economy also may have played a role in lower health care costs. During the early and mid 1990s, many companies restructured, letting go workers who often were older and whose benefit costs were higher than average. Now, with a booming economy, employment rolls have expanded, but companies have added a greater proportion of younger workers, whose health care costs are lower than those of older employees.

That trend reduces costs on a per employee basis, said Martin Lefkowitz, the survey's author and the Chamber's director of special projects and economic policy in Washington.

But some of these favorable trends are nearing an end.

As most employees have shifted into lower-cost managed care plans from indemnity plans, the opportuni-

ty for employers to reap big one-time savings is significantly reduced.

In addition, HMOs—whose earnings suffered as they kept rates flat or cut them to increase market share—now are raising rates to improve balance sheets (see story, page 3).

Congressional intervention in the health care arena also could swell costs, Mr. Lefkowitz says, referring to one new federal law mandating 48-hour hospital coverage for mothers and newborns after delivery and a second law requiring limited mental health care benefits parity. Both laws take effect Jan. 1.

In addition, Congress is widely expected to pass legislation next year that would impose new quality standards on managed care and perhaps other types of health care plans.

"I don't know what these mandates cost, but there is indeed a cost," Mr. Lefkowitz said.

Still, health plan coverage was not the only benefit whose costs declined.

Defined benefit pension plan costs dropped sharply last year to an average of \$1,144 per employee, down 24.3% from the year earlier, the Chamber survey found.

The bull stock market has been a boon to defined benefit plans. With defined benefit plans heavily invested in equities, the jump in the value of plan assets reduces the need for employers to make contributions to the plans to pay for promised benefits.

"A lot of companies with pension plans said they have not made contributions for years," Mr. Lefkowitz said.

Retiree health care plan costs also eased, falling to an average of \$323 per employee last year, down 44.7%

from 1995. One reason for the decline is that many employers in recent years have temporarily offered—as an incentive to get older employees to retire—heavily subsidized health care coverage for the first few years of their retirement. As these programs have expired and the retirees moved into the Medicare program, employers' health care plan costs have declined, the survey notes.

In addition, roughly 100,000 retired employees and dependents a month are moving out of the traditional Medicare program and into so-called Medicare risk HMOs. These programs, in some parts of the country, offer such rich benefits that retired workers have less of a need for employer-sponsored retiree health care plans that supplement the traditional Medicare program.

Other survey findings include:

- Benefit costs varied significantly by area of the country.

As a percentage of payroll, benefit costs were highest in the Northeast at 44.3% of payroll, and lowest in the Southeast at 39.9% of payroll.

The key reason for this geographic disparity in benefit expenditures is that hospital expenses vary so dramatically around the country.

For example, according to the study, a semi-private hospital room in New York now averages more than \$1,400 a day, while in parts of the South it is not unusual for a hospital room to cost less than \$250 a day.

In fact, health care related costs in 1996 averaged \$3,915 per employee in the Northeast and \$3,030 in the South.

- Benefit costs as a percentage of payroll were highest in the trans-

portation equipment industry—50.8%—and lowest—27.9%—in the textile products and apparel industry.

Copies of "Employee Benefits: 1997," are available from the U.S. Chamber of Commerce, Publications

Fulfillment, U.S. Chamber of Commerce, 1615 H St., N.W., Washington, D.C. 20062; 1-800-638-6582. In Maryland, the number is 1-800-352-1450. The cost is \$35. Appropriate sales tax should be added for deliveries in California and the District of Columbia.

Total benefit costs per employee

	1996	% change
Transportation equipment	\$25,304	-2.2
Public utilities	23,504	1.1
Petroleum industry	18,385	-8.3
Machinery (excluding electrical)	17,859	0.02
Instruments & miscellaneous manufacturing industries	17,771	1.1
Chemicals & allied products	17,693	16.0
Insurance companies	16,667	-1.2
Rubber, leather & plastic products	16,608	6.4
Electrical machinery, equipment & supplies	15,250	-22.9
Health & hospitals	15,028	39.6
Printing & publishing	15,025	17.1
Miscellaneous non-manufacturing industries	13,954	11.1
Primary metal industry	13,650	8.5
Fabricated metal products	13,283	3.9
Food, beverages & tobacco	13,084	5.6
Pulp, paper, lumber & furniture	12,524	4.8
Stone, clay & glass products	12,496	2.5
Banks, finance companies & trust companies	11,684	4.6
Wholesale trade	9,075	-6.2
Textile products & apparel	7,220	0.3
Retail trade	6,857	-2.5

Source: U.S. Chamber of Commerce

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Medical plan costs per employee

	1996	% change
Transportation equipment	\$4,394	-0.3
Public utilities	3,830	10.5
Primary metal industry	3,816	23.3
Chemicals & allied products	3,488	24.9
Instruments & miscellaneous manufacturing industries	3,307	19.4
Pulp, paper, lumber & furniture	3,120	13.1
Machinery (excluding electrical)	3,042	6.1
Stone, clay & glass products	2,721	7.5
Insurance companies	2,679	8.1
Miscellaneous non-manufacturing industries	2,530	1.5
Health & hospitals	2,436	16.5
Fabricated metal products	2,425	10.1
Petroleum industry	2,418	-13.6
Rubber, leather & plastic products	2,305	4.5
Printing & publishing	2,293	-14.8
Electrical machinery, equipment & supplies	2,281	-11.9
Food, beverages & tobacco	2,228	5.5
Banks, finance companies & trust companies	1,717	7.6
Wholesale trade	1,508	-11.3
Textile products & apparel	1,391	-1.2
Retail trade	1,242	-13.4

Source: U.S. Chamber of Commerce

GRAPHIC BY ADAM DOI

Fighting arson from the desktop

CD-ROM intended to train arson investigators

By MARK A. HOFMANN

WASHINGTON—A new high-tech weapon in the fight against arson will be available before the end of next year.

The new weapon is an interactive CD-ROM training program that will allow investigators to learn by "walking through" a burned-out house and—thanks to virtual reality technology—examine clues as if they were actually in the house.

The CD-ROM program will have three main components, said Pat Corbitt, principal of Corbitt Design in Old Bridge, N.J., and architect of the program, being produced with Stonehouse Media Inc. of Princeton, N.J. Those components are:

- The scenario. The program's scenario basically involves a fire that occurs at an elderly couple's house.

Investigators use the interactive technology to search for clues within the virtual scenario, examine evidence in the home and question witnesses.

Investigators using the program can select objects within the house—such as an electrical junction box—and rotate them 360 degrees, allowing them to examine them from all angles. A menu at the bottom of the screen gives investigators options on how to proceed, such as sending the object to a laboratory for tests or calling their superiors.

- The tutorial. This second component of the program provides a detailed description of how to carry out a systemic and scientific method of investigating any fire scene.

The scenario portion of the program actually provides a context in which users can apply the tutorial information.

- The reference piece. The final feature of the CD-ROM program is a file drawer-like graphic that users can click on to access additional reference material on specific investigative matters.

Although the CD-ROM won't be available to fire investigators until November 1998 at the earliest, its potential was on display at the U.S. Capitol last week as representatives of Princeton, N.J.-based American Reinsurance Co. and three other entities signed a memorandum of agreement committing themselves to the project. Two federal agencies—the Bureau of Alcohol, Tobacco and Firearms and the U.S. Fire Administration—and the National Fire Protection Assn. also are signatories to the agreement.

The CD-ROMs will be distributed free by each signatory. American Re will be responsible for distributing them to the insurance industry, which could include risk managers and corporate loss control officials, said Joseph Toscano, assistant vp and fire investigations specialist for the Princeton, N.J.-based reinsurer, which is part of Munich Reinsurance Group.

In addition to distributing the CD-ROMs, American Re is providing technical assistance to the project. Funding for the program is coming from a \$750,000 grant from the ATF.

Mr. Toscano said arson causes about \$2 billion in property damage annually, but he and other speakers pointed out that the actual cost of arson, when including such matters as cost of investigation and business interruption, is probably several times that figure.

According to Raymond Kelly, the U.S. Treasury Department's undersecretary for enforcement, the purpose of the new program is simple: to increase the number of arrests and convictions for arson.

Rep. Steny H. Hoyer, D-Md., said only about 2% of arson fires result in convictions. The new interactive technology will provide investigators more information and training, thereby increasing the chances of identifying the cause of suspicious fires earlier with more certainty and therefore increasing the chance of arrests and convictions.

Rep. Hoyer noted that the effort stemmed in part from the work of the National Church Arson Task Force, an interagency body formed last year in response to a series of suspicious church fires across the country (BI, Aug. 19, 1996).

Several speakers emphasized that

by bolstering investigators' knowledge, the new technology will bolster their testimony in court as well, thus making convictions more likely. Mr. Magaw said the CD-ROM will be constantly upgraded to reflect improvements in arson investigative techniques.

The interactive technology effort builds upon a project undertaken by American Re about two years ago. That earlier project, "Motive, Means and Opportunity: A Comprehensive Guide to Arson Investigation," includes a video of a dramatized arson investigation, a 240-page guide on arson investigative techniques and a pocket checklist for investigators. **BI**

THE FIRE SCENE



STONEHOUSE MEDIA/CORBITT DESIGN

Fire investigators will be able to look through this burned-out residence on a CD-ROM intended to help them more effectively solve arson cases.



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Harass

Continued from page 2

flesh out the parameters of liability under the sex discrimination laws. Basically, businesses want to know what's covered and what's not so they can advise their management and staff about office behavior," said Quentin Riege, deputy general counsel of the National Assn. of Manufacturers in Washington.

Stephen Bokat, executive vp of the National Chamber Litigation Center Inc., in Washington, said: "It's an important case because it will establish whether the application of Title VII is either less expansive or more expansive than people thought. We have a problem with the tremendous growth of these cases. Depending on how the court writes its opinion will determine whether there's increased ammunition for plaintiffs lawyers. There's a good chance they'll find coverage."

Mr. Bokat said the center, which files legal briefs on behalf of the U.S. Chamber of Commerce, hopes the justices will take a narrow view of the extent to which Title VII covers same-sex sexual harassment.

The case began in 1991, when Joseph Oncale signed on as a roustabout on an offshore oil drilling rig operated by employees of Houston-based Sundowner Offshore Services Inc. (BI, Sept. 29; June 16). Mr. Oncale alleges that during the next few months after he was hired, he was subjected to repeated sexual assaults and threats of sexual abuse—including homosexual rape—by a pair of supervisors and a fellow employee.

Mr. Oncale reported the incidents to company officials, but they took no action. He finally quit and sued Sundowner in U.S. District Court for the

District of Eastern Louisiana in 1994, alleging he had been subjected to unlawful discrimination under Title VII of the civil rights act.

Title VII prohibits employers from discriminating on the basis of race, color, religion, sex or national origin. But courts have split over whether same-sex sexual harassment is covered by the title, despite the EEOC's position that it is covered.

The district court disposed of Mr. Oncale's complaint by holding that, as a matter of law, male-on-male sexual harassment does not violate Title VII because Title VII doesn't deal with same-sex sexual harassment. Mr. Oncale appealed to the 5th U.S. Circuit Court of Appeals.

A three-judge panel of the appeals court accepted the district court's interpretation of the law, which led Mr. Oncale to appeal to the U.S. Supreme Court, which the court agreed to hear in June (EI, June 16).

"This case is not about the outer limits" of same-sex harassment, said Mr. Oncale's attorney, Nicholas Canaday III of the Baton Rouge, La., law firm of Gibson, Gruenert & Canaday. Rather, said Mr. Canaday, the question is whether same-sex sexual harassment "exists as a matter of law" under Title VII.

After listening to Mr. Canaday for a few minutes, Chief Justice William Rehnquist noted that "Title VII does not speak of sexual harassment."

But the chief justice later said "I don't see how we could possibly sustain" the court of appeals ruling that the Title VII can never be applied to same-sex sexual harassment.

U.S. Deputy Solicitor General Edwin S. Kneedler joined Mr. Oncale's attorney in arguing for an expansive interpretation of the statute.

As Mr. Kneedler proceeded to ex-

plain, why the government believes same-sex sexual harassment does indeed fall under the protection of Title VII, an obviously exasperated Justice Sandra O'Connor interjected, "You're leaving out the word 'discrimination.'"

But if Mr. Kneedler shied away from the word "discrimination," Sundowner's attorney showed no such reticence.

Harry M. Reasoner, managing partner in the Houston law firm Vinson & Elkins, said Title VII is a discrimination statute meant to deal with discrimination by someone of one gender against someone of the other.

That interpretation led Chief Justice Rehnquist to point out that the statute doesn't make mention of "men and women."

After fielding questions from the justices about, for example, how Title VII would apply to situations where a male boss treated women under his supervision well but men poorly, Mr. Reasoner said the question was whether Congress intended the statute to apply to "the entire gambit of sexuality" rather than only cases of discrimination involving men and women. He made clear that he took a very narrow view of congressional intent in this case.

Several of the justices' comments indicated that was too narrow an interpretation for their liking. Justice Antonin Scalia said Mr. Reasoner argued that same-sex sexual harassment was always beyond the pale of Title VII even while acknowledging that same-sex sexual discrimination can indeed exist.

After Mr. Canaday offered a brief rebuttal, Justice Scalia observed, "You say sexual harassment always constitutes discrimination; your opponent says it never does." **BI**

Florida

Continued from page 2

Florida became the first state to implement a managed care mandate for its entire workers comp system.

"The education of both employees and employers about how managed care operates was considered to be a key element for the implementation of any managed care program," the study said. The state's Agency for Health Care Administration set guidelines directing employers to provide clear documentation about how they disseminate program details.

The guidelines require that each worker receive a copy of informational materials indicating "the provisions, restrictions and limitations of the workers compensation managed care arrangement," including at least descriptions of health care providers, coverage for emergency and urgently needed care provided within and outside the service area, limitations on referrals and the grievance procedure.

"The intent is that the educational process occur beforehand," though the guidelines did not specify that, according to Jay Wolfson, a professor at the university and a researcher on the study.

Self-insurers had a better record of following the intent of the law than did insured employers, according to the 16-page study.

A majority of the 10 self-insured employers surveyed trained their workers—primarily supervisors—prior to an injury. The supervisors then were expected to train the workers.

The 13 insured employers had a different experience, however. Insurers mailed instructions to the employers and relied on employers to educate the workers.

"Recognizing that not all employers will follow their instructions and invest the time to educate the employees prior to injury," insurers have placed their emphasis on making sure workers are aware of their rights and responsibilities after an injury occurs, the study found.

It's to be expected that employers that buy insurance—generally smaller than self-insured employers—provide workers with less pre-injury education, Ms. Johnson said.

In addition, "a lot of insured employers don't know they are operating under a managed care arrangement," said Linda Knopf, assistant director of the state Labor Department's Division of Workers Compensation.

This is reinforced by the fact that workers are used to being directed to specific workers comp health care providers, because they did not have the right to choose providers previously, she said.

The five-phase study is intended to help regulators and lawmakers establish best practices, develop educational and technical assistance programs and make policy decisions regarding managed care in workers comp. The first phase examined how managed care arrangements compared on their formal field audits with state and regulatory requirements for approval (BI, Sept. 8).

Meanwhile, the workers comp division is asking the Florida Legislature to extend the time period for the total \$150,000 study from year end to June 30 of next year, so the three remaining studies can be completed. Thus far, \$85,000 remains, Ms. Knopf said.

A copy of the second phase of the study is available for \$20 from Jay Wolfson at the University of South Florida, 813-974-7663.

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INTERNATIONAL

U.K. regulator urges rail safety vigilance

By SARAH GODDARD

LONDON—Although British railway companies recently posted an improved record for fatal accidents, the companies cannot become complacent about safety, a government official warns.

"I expect operators to go that extra step in the pursuit of safety rather than stop as soon as the figures indicate that they appear to be justified in doing so," said Stan Robertson, chief inspector of railways, who last week unveiled the U.K. Health and Safety Executive's annual safety report on railways.

For the year ending March 1997, the HSE's railway figures are the lowest for several fatal accident categories.

"I am delighted to report that fatalities are the lowest on record at 25, three lower than last year," said Mr. Robertson.

No one was killed in an accident between a train and a vehicle at a level crossing—the first time this has happened in half a century, according to the HSE.

While those figures were improved, the number of train accidents that resulted in injuries have jumped to 1,753 for the period ending March 31, from 989 in the year-earlier period. That increase is partly due, however,

to changes in reporting procedures between the two years. For example, some injuries previously categorized as causing minor injuries and not reported have been recategorized as major injuries. These include hand and foot fractures; dislocation of the shoulder, hip, knee or spine; and amputation of fingertips, toes, etc. It will be another two to three years before the figures will be fully comparable on an annual basis, according to the HSE.

Mr. Robertson said he was concerned about the "real underlying increase" in accidents reflected in the figures issued by the government-sponsored body. He identified vandalism as the main cause of U.K. train accidents and noted that over the year, incidents of trains running into obstructions that vandals have placed on tracks have risen by 53%.

"This is a massive and very disturbing increase," he said.

Although vandalism is not a train company's fault, in certain circumstances a rail operator is in a position to minimize the problem, according to Mr. Robertson. For example, during the period the report covers, the HSE discovered a high incidence of vandalism at one particular viaduct. Vandals on the train were throwing items out of the windows as the cars crossed the

See Railways on page 33



PHOTO: AFP

A fire at Australia's largest mining and resources company caused two injuries and undetermined losses.

BHP response plan minimizes fire loss

PORT KEMBLA, Australia—Australia's largest mining and resources company, The Broken Hill Proprietary Co. Ltd., will not incur any business interruption losses from a fire at its Port Kembla steel plant.

A spokesman for BHP Integrated Steel Group, said the company suffered damage to a slab caster, used to mold steel, and to cabling at the plant.

BHP is expecting workers compensation claims from minor injuries, but no business interruption claim because the plant returned to normal operations the next day. Product flow to customers had not been disrupted as a result of the fire, the spokesman said.

George Edgar, general manager and chief executive officer of BHP Integrated Steel Group, said emergency procedures were implemented quickly and effectively, avoiding major injury to employees and

minimizing damage to the plant and equipment.

BHP expects to have an initial estimate of property damage losses this week. Larry Parkes, BHP chief engineer of technology, was investigating the damage last week.

The fire occurred Nov. 24, when a transformer or high-voltage power switch failed at the flat products division of BHP subsidiary BHP Steel (AIS) Pty. Ltd. The spokesman said cabling caught fire, shutting down the power supply to the plant.

Two people suffered minor injuries, but no workers comp claims had been filed by last week, he said.

Any property claims that exceed BHP's retention levels would trigger coverage written by the company's Melbourne, Australia-based captive, BHP Marine & General Pty. Ltd.

—By Yvette Higgins

E.U. outlines plan to tighten oversight

Directive would target insurer groups

By EDWIN UNSWORTH

BRUSSELS, Belgium—The Council of the European Union has agreed on the outlines of a long-awaited directive to improve policyholder security by tightening regulation of international insurance groups.

The directive on the additional oversight of insurers belonging to insurance groups aims mainly to give E.U. regulatory authorities more effective ways of measuring the viability of a subsidiary within a larger group.

The draft of the directive was published in October 1995, but it has taken on more importance as global mergers and acquisitions by insurers and reinsurers have created many subsidiaries.

However, implementation of the directive still is a considerable

way off. The text has to be finalized and then go before the European Parliament for acceptance. This is unlikely to happen before the second half of 1998, making adoption under each member country's national legislation unlikely before the end of 1999, according to the Assn. of British Insurers.

Measures in the directive would establish a test for an insurance holding company's solvency and set a 20% stake as the threshold for deciding whether a company is part of a group. Other measures would set stricter terms for reporting subsidiaries' results.

The directive would increase the supervision to which E.U. insurance companies are subjected, including where financial data must be made available.

See Directive on next page

Single-market laws add competition: E.U.

By CAROLYN ALDRED

BRUSSELS, Belgium—Europe's insurance market today is more competitive, offering buyers a greater range of products at cheaper prices and better service, as a result of single market insurance legislation enacted in 1994, according to the European Commission.

The effects of a series of insurance directives, which took effect in the European Union just more than three years ago, "are beginning to be seen in the marketplace in the form of greater competition in national markets and the selling of new insurance products," says a memo the European Commission in Brussels released recently.

The so-called Third Life and Non-life Insurance Directives put in place the basic framework for a single market throughout the European Union for all types of insurance coverage. Effective July 1, 1994, the package of directives introduced a single system for the au-

thorization and financial supervision of an insurance company by the member state in which the insurer has its head office. This provides insurance companies with a "European passport" enabling them to carry on insurance business throughout the European Union as long as they are regulated in one E.U. member state. The directives also required member states to abolish controls on premiums and rates and prior approval of policy conditions.

The effect of the E.U. regulatory liberalization is most marked in "those national markets that, before the inception of the single license regime, were characterized by strict controls over insurance policies and tariffs and a reluctance to introduce innovative insurance products," the memo states.

Larger insurance companies are increasingly offering pan-European policies, particularly for multinational companies.

See Market on next page

Rates unlikely to rise after two canceled tours

By CAROLYN ALDRED

LONDON—Millions of dollars of insured losses resulting from the recent cancellation of two major entertainment tours are not expected to harden rates in London's competitive contingency market, which covers cancellation, entertainment and event-related risks.

The entire Australia and New Zealand leg of Michael Flatley's Lord of the Dance worldwide tour was canceled last week after the hospitalization of Mr. Flatley due to a chest infection. Mr. Flatley is the lead dancer and creator of the Celtic folk dancing show, formed after he left the Riverdance troupe.

All tickets will be fully refunded, said Stephen Marks, a partner of London accounting firm Gelfand

Rennert Feldman & Brown. Mr. Marks, who is Mr. Flatley's accountant, said the tour's cancellation is covered by insurance, though he would not comment on any aspect of the insurance or the size of the loss.



Mr. Flatley

Australian newspapers last week estimated the cancellation would cost \$10 million Australian (\$6.8 million).

Ticket refunds also are being made in connection with the cancellation.

See Canceled on page 33

Global Briefs

Richard Gamble has stepped down as group chief executive of Royal & Sun Alliance Insurance Group P.L.C. in the first major board-level changes since RSA was formed by the merger of Royal Insurance P.L.C. and Sun Alliance Group P.L.C. last year. Robert Mendelsohn, chief executive officer of Royal & Sun Alliance USA Inc., will succeed Mr. Gamble as group chief executive, subject to regulatory approval. Additionally, Roger Taylor has relinquished his position as executive deputy chairman to become non-executive deputy chairman and senior adviser on external affairs.

The Institute of London Underwriters and the London International Insurance & Reinsurance Market Assn. plan to merge after a poll of members showed a majority favors forging a closer relationship between the two. The ILU committee and the LIRMA council are putting together merger terms, but they still need the formal ratification of member companies before a single trade organization can be formed.

The North of England Protection & Indemnity Assn. Ltd. and Newcastle Protection & Indemnity Assn. are joining forces. The Newcastle P&I Club will pay the North of England a reinsurance-to-close premium to close its account, including the Newcastle's net insurance liabilities at Feb. 20, 1998, its free reserve at Feb. 20, 1997, totaling \$8.3 million, and a risk premium of up to \$7.2 million. The new club will cover about 5% of the world merchant fleet.

Julian James has joined Lloyd's of London to head up the London operations of Lloyd's North American business unit. Insurance fraud is on the up in the United Kingdom, according to statistics released last week by the Assn. of British Insurers. Estimates suggest fraudulent claims have risen to £595 million (\$1 billion) for 1997, 6.3% over last year's level. Commercial insurance buyers contributed less than 7% of the total, with commercial property fraud estimated to cost the insurance industry about £40 million (\$67.2 million) this year, mainly from inflated claims.

Lloyd's corporate investor Euclidian P.L.C. has set up its own underwriting agency, claiming to be the first corporate investor spread over several syndicates to do so. Euclidian Underwriting Ltd. will start with capacity of £20 million (\$33.6 million) at the beginning of next year, writing South American and Asian liability business, general contingency business and general affinity business.

Rating agency Standard & Poor's has raised its claims-paying ability rating on Sphere Drake Insurance P.L.C. and Sphere Drake Insurance (Bermuda) Ltd. to A- from BBB and removed them both from CreditWatch. S&P made the move after Canada's Fairfax Financial Holdings Ltd. completed its purchase of the Sphere Drake Holdings Ltd. group last week.

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Directive

Continued from previous page

able and reporting by insurance subsidiaries based outside the European Union. Transactions such as loans, guarantees, investments and reinsurance among companies within the same group would have to be reported annually. The directive sets out a mechanism for calculating solvency, including measures to prevent double accounting of capital within different parts of the group.

Germany has been the chief opponent of the proposals. Among other things, Germany's chief concern is that the directive would extend E.U. supervision for the first time to reinsurers. Sever-

al of the world's largest reinsurers, including Munich Reinsurance Co., are based in Germany.

Insurers also have not embraced the directive.

The Comite European des Assurances, a Paris-based lobbying group for European insurers, said criteria other than the 20% participation threshold should be taken into account. These other criteria should include the nature of the relationship between a parent company and its subsidiaries, such as the possible existence of majority voting rights, a dominant influence or a single management.

The lobbying group also thinks reinsurance companies should be excluded from the directive, believing each member country should decide the matter individ-

ually.

However, the ABI, which has been closely monitoring the progress of the directive, advocates the inclusion of reinsurers as an important part of the insurance industry.

Nevertheless, the ABI expressed concerns about the cost implications of the directive. In a statement, the ABI said the complexity of reporting under the directive, possibly on different bases and to a number of supervisors, "could give rise to significant additional costs for companies and would not provide any increase in security."

While the directive only applies to insurance groups, similar measures for financial conglomerates are expected to follow. **BI**

Market

Continued from previous page
the commission's memo observes.

Meanwhile, the number of companies that have notified their intention to provide insurance services throughout the European Union from a base in another member state has increased, which "will increase over time as the single market develops further," the memo says.

The E.U.'s single insurance market is the third-largest insurance market in the world, accounting for 25.4% of world's premium volume. The largest is the United States, with a 30.8% share, followed by Japan, with 30%, according to the commission.

In 1996, 4,800 insurance-related companies were present in the European Union, employing nearly 1 million people, according to the Comite European des Assurances, a French insurance trade association. Global premiums were valued at 455 billion European Currency Units (\$566.5 billion), or 7.1% of the gross domestic product of the combined E.U. member states.

Meanwhile, "the single market for insurance has not yet developed its full potential," the memo states.

"Without any doubt, the main impact of the single license regime... has been an increase of competition within different national markets," the memo states.

The abolition of prior approval of policy conditions and tariffs by supervisory authorities, which was the rule in many E.U. countries before enactment of the legislation, "has encouraged insurers to enter new markets, and so increased competition," according to the memo.

"It has also made possible the marketing of new insurance products in individual national markets, both as regards policy conditions and the price of insurance contracts. In many cases, customers have a much wider choice of insurance products than they had 10 years ago. Insurers are increasingly forced to compete in order to offer insurance products that meet customers' requirements, (which) is contributing to lower prices for insurance products," the memo continues.

Insurers also are improving the quality of their services and reacting more quickly to the demands of policyholders, the memo notes.

However, the memo confirmed that large price differentials still exist between member states for several reasons. This partly is due to different national characteristics—such as life expectancy, lifestyle habits, cultural differences and differing compensation levels—and because the trend toward increased competition following liberalization is only beginning to trickle down to buyers in the marketplace, according to the commission's memo.

Three years is too soon to see more changes, and there have been some delays in implementing the directives, the memo noted.

As far as implementation is concerned, the commission describes the overall level of implementation by member states of the directives now as "broadly satisfactory," though the measures have not been fully adopted by all member states (see related story).

Meanwhile, the European Commission is preparing to reinforce the insurance regulatory statutes laid down by the insurance directives and is examining whether sol-

veny guidelines need to be revised to ensure the financial strength of insurance companies. In a related move, the Council of the European Union last month completed its first reading of a proposed directive on supervision of insurance companies that are affiliated with other insurance companies. This directive will require supervisory authorities to ensure the solvency of an individual insurance company, even if it is part of a larger insurance-related group of companies. Under the proposal, supervisors would be required to look beyond an individual insurance company to assess its financial strength.

In particular, double counting of capital among insurance companies would be eliminated, inter-company transactions within an insurance group would be more carefully monitored and financial information on all insurance companies in a group would have to be available, accessible and exchanged between supervisory authorities if necessary.

"The directive would enhance the protection of policyholders and reduce the risk of unfair competition between insurance (companies) within the community," said the commission's memo, adding that it "would also pave the way for a coherent E.U. approach towards the supervision of so-called financial conglomerates."

Other related work being carried out by the European Commission relating to insurance includes an examination of the impact on insurance legislation of the planned introduction of the Euro, or single European currency; an examination of E.U. members' national legislation on insurance intermediaries; and an examination of the consistency of members' tax regimes on insurance. **BI**

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INTERNATIONAL

Railways

Continued from page 31
viaduct, endangering both people and property underneath.

In response, the HSE issued Railtrack P.L.C., the company responsible for British rail infrastructure, with an "improvement notice," essentially requiring it to fence in the viaduct to protect the area from objects thrown from a train.

Railtrack appealed the order, but the HSE proved to a tribunal that Railtrack's risk assessment had been faulty and contributed to the problem. An HSE spokesman said the work now has been done to fence in the structure.

Self-regulation of safety and risk assessment plays a large part in the HSE's monitoring of British rail safety. As the British railway network has been privatized, a process that began in February 1996, rail operators have been required to put together plans, called "safety cases," for approval by Railtrack under the Railways (Safety Case) Regulations 1994.

In turn, Railtrack's safety case is approved by the HSE. These plans outline how the organizations intend to tackle and control safety risks and are the yardsticks against which HSE inspectors measure a rail operator's safety performance.

Originally developed in 1991 for the offshore energy industry, safety cases are reviewed every three years by the relevant regulator, and cover many areas, including:

- Safety policy.
- Standards.
- Risk assessment.
- Organization.
- Arrangements for ensuring competence and fitness of systems.
- Arrangements for ensuring that safety systems and procedures are implemented.
- Monitoring, audit and review.
- Emergency procedures.
- Crowd control arrangements.

If a "material change" takes place in a rail company's operations, the 1994 law requires that the safety case be amended to reflect it.

The HSE report notes that some rail operators limit their safety activities to what they outlined in their safety cases, even though better practices may be available.

"The reality is that no safety case can cover all physical features and human aspects of a particular organization," said the report. "There will always be room for improvement 'on the ground' using the procedures and principles set out in the safety case."

The HSE's report acknowledges that risk assessments are playing an increasing role in managing safety but adds that many firms are using only basic, semi-quantified assessments. Such assessments are "generally useful as a risk screening tool, but they are a fairly coarse sieve and are of little use as a day-by-day measure of change," the report says.

In contrast, the HSE said it regards quantified risk assessments as "a valuable part of the tool kit which enables the assessment and prioritization of risks from different potential hazards."

The HM Chief Inspector of Railways' 1996/1997 Annual Report on railway safety is available for £14.95 (\$25.13) from HSE Books, P.O. Box 1999, Sudbury, Suffolk CO10 6FS England; 44-178-788-1165.

Canceled

Continued from page 31
last month of INXS's concert tour. The tour was canceled after lead singer Michael Hutchence committed suicide Nov. 22, four days before the tour was due to begin.

The band's Melbourne-based promoter, Frontier Touring Co. Ltd., refused to comment on any insurance arrangements (BI, Dec. 1).

However, London market insurance executives told *Business Insurance* that Mr. Hutchence's record company, PolyGram Records, has what is known in the market as a confidential life insurance policy worth several million pounds that reimburses the company in the event of the singer's death.

A confidential life insurance policy covers the life of a third party, who may or may not be aware of the coverage, by a policyholder that would be exposed to loss if the party dies. PolyGram would not comment.

The contingency market is very competitive at the moment, and the combined losses would have to be very large to have any chance of raising rates, said Kelvin Mercer, managing director of ASU Enterprises L.L.C. The company, which recently merged with Boston-based American Specialty Underwriters Inc., underwrites event cancellation and other contingency risks for a group of 15 Lloyd's of London syndicates.

Mr. Mercer estimated it would take combined losses of at least \$20

million to \$30 million to have any impact on the market.

"This downturn in the cycle is particularly severe," he said. "Rates have dropped dramatically in the last two to three years, and it's difficult to see where its going to end."

Rates for contingency coverage are continuing to decline, agreed John Silcock, a director at Robertson Taylor Insurance Brokers in London.

Robert Wood, a director of broker Adams Brothers in London, agreed that the market is "extraordinarily soft" but said the Lord of the Dance loss could begin to bring more realistic underwriting to the market.

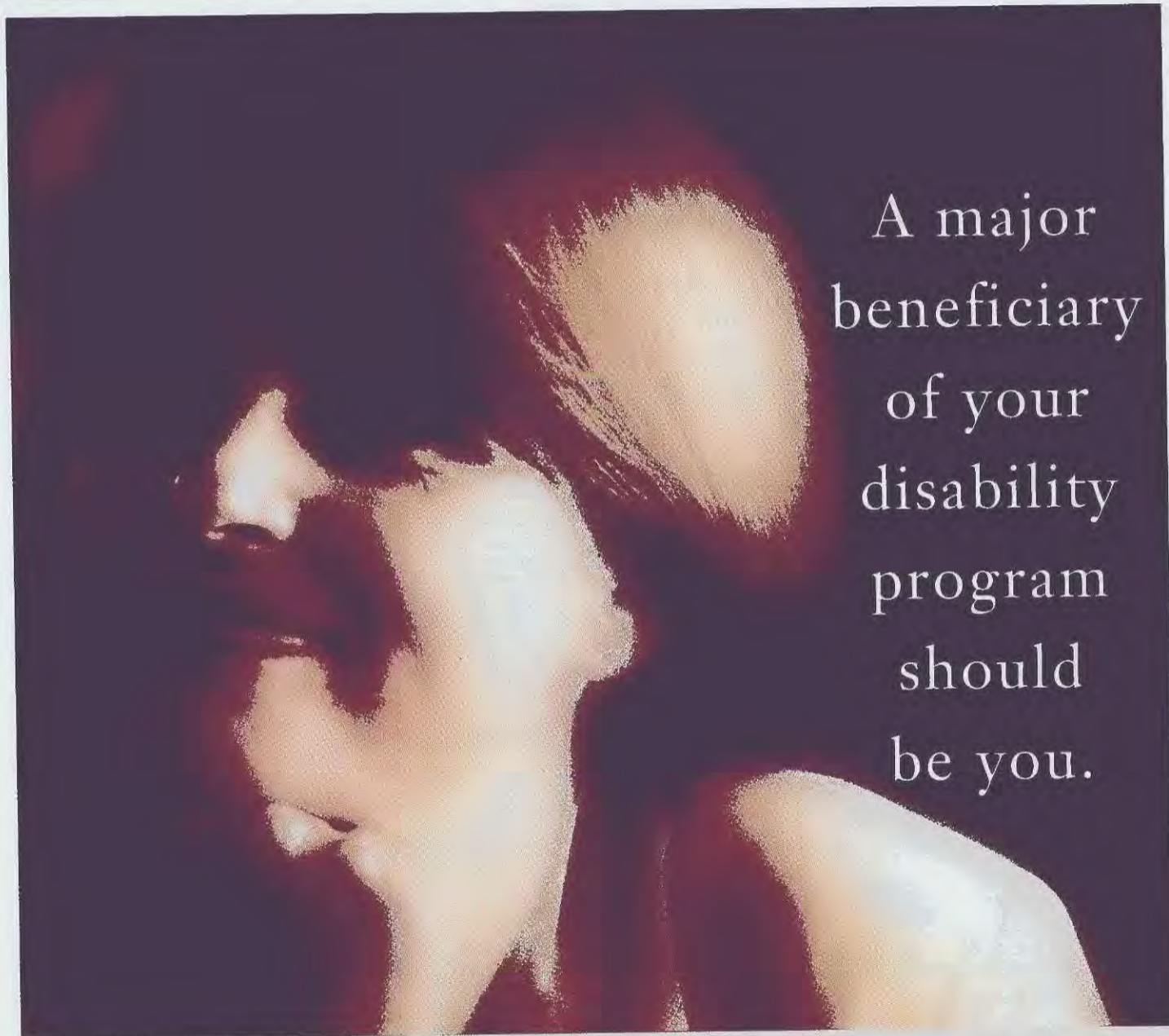
The cancellation of the entire tour of a successful show "will be a substantial loss," he predicted.

Contingency losses this year

mainly have related to events canceled due to bad weather, such as the heavy rainfall suffered by Europe in the early summer, said Mr. Mercer. Other incidents that resulted in event cancellations were the death of Princess Diana in August and a recent labor strike by French truck drivers that forced some events, including a show by British pop band Oasis, to be canceled when equipment was stuck in French truck blockades.

Meanwhile, the biggest issue troubling contingency underwriters at the moment is the approaching millennium, said Mr. Mercer.

"A lot of events are seeking insurance for the year 2000, and the general consensus in Lloyd's is that any loss due to computer non-compliance should be excluded," he said.



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Tort

Continued from page 1

In a study released earlier this year, Florida Chamber of Commerce members with 10 or more employees cited "fear of unfair lawsuits" as the main obstacle to expansion.

Small employers have the same fear, said Lance Lozano, assistant director of governmental and legislative affairs at Florida United Business Assn. Most of the group's 8,000 members have 10 or fewer employees.

"The concern in the small business community is the fear of lawsuits," he said. "They fear hiring extra people or expanding their businesses because they may get sued."

Employers have indicated during the hearings that they are reluctant to hire because liability statutes in the state hold them responsible for negligent acts of their workers. Some business owners say the fear of suits also is stopping them from introducing new products and services.

Proponents of reform hope that a version of the Florida Accountability and Individual Responsibility Act or a similar bill can make it through the 1998 legislative session. The FAIR Act failed to gain final approval before this year's session ended in May.

A study released in October by a coalition of business groups, local governments and professional organizations called Tort Reform United Effort indicates that provisions of the FAIR Act would reduce the amount of litigation in the state and lower tort costs by \$1 billion.

Mr. Brainerd of the Florida Assn. of Insurance Agents said reform is needed because of the high dollar amounts "siphoned off into attorneys fees, court costs" and other areas apart from what claimants receive.

The Academy of Florida Trial Lawyers is representing plaintiffs attorneys' interests at the legislative hearings. While the group could not provide an official comment on its concerns, summaries of testimony before the Senate committee show attorneys don't agree with em-

ployers' concerns.

Members of the academy said during the hearings that there is not an explosion of negligence or personal injury litigation in Florida. Instead, the most significant area of litigation involves businesses suing businesses, attorneys said.

TRUE is representing its members at the legislative hearings and press-

'We want that reform to take us out of the 19th century,' Howard Conklin says of abolishing vicarious liability.

ing for changes in several areas. Those changes, some of which are contained in the FAIR Act, include:

- Eliminating vicarious liability in the state.
- Raising the standard of proof before punitive damages could be awarded.
- Allowing punitive damages only

for intentional misconduct.

- Barring lawsuits against products more than 12 years old.
- Capping attorneys fees.
- Abolishing joint and several liability in cases involving non-economic damages of \$25,000 or less.

Businesses are particularly interested in seeing vicarious liability abolished in Florida, one of only a handful of states with a version of the doctrine in force.

Vicarious liability is the imposition of liability on one person for the actionable conduct of another based solely on a relationship between the two persons. In Florida, employers can be held responsible for a worker's negligent acts when those acts were carried out within the scope of employment.

Businesses such as rental car companies are especially interested in seeing the doctrine abolished.

"Vicarious liability means that if anyone driving a rental car causes an accident, liability is imputed to the owner of the car" regardless of whether the driver was at fault, explained Howard Conklin, executive director of government relations for

Republic Industries Inc., the Fort Lauderdale, Fla.-based owner of Alamo Rent A Car Inc. and National Car Rental System Inc.

"If we're negligent on the maintenance of a car, obviously we should remain liable for any acts of negligence," Mr. Conklin said, but he added that rental car companies have been held vicariously liable for judgments in accidents that were not the companies' fault.

"We want that reform to take us out of the 19th century," Mr. Conklin said of abolishing vicarious liability.

Plaintiffs attorneys argued in the Senate hearings that the doctrine encourages corporate responsibility. Attorneys said limiting the liability of rental car businesses would remove the incentive for companies to rent to safe drivers.

Trial lawyers testified that out-of-state tourists may not be available as defendants in cases involving a rental car accident. Therefore, without vicarious liability, Florida taxpayers might have to bear costs associated with care to accident victims. **BI**

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New views make room for big contributions

Broader look at risk includes balance sheet, earnings protection: Speaker

By **RODD ZOLKOS**

AVENTURA, Fla.—The shift from traditional risk management to strategic risk financing and enterprise-wide risk management offers numerous opportunities for organizations and their risk managers.

"I believe we have huge opportunities as risk managers to be chief information brokers internally," Douglas G. Hoffman, managing director at New York-based Bankers Trust Co., said during last month's 7th World Captive and Alternative Risk Financing Forum in Aventura, Fla.

In that new role, risk managers can add huge value to their organizations, said Mr. Hoffman, adding, "I think this is the future of risk management."

Speaking as part of a panel offering case studies of their companies' risk financing experiences, Mr. Hoffman suggested captives also will be an important part of advanced approaches to managing a company's risk.

"Captives are key, present a key opportunity," he said. "(They) are not the only answer but present a key opportunity and are part of the answer."

The process must begin by looking at risk in a far broader sense than has previously been the case, Mr. Hoffman suggested, an exercise that must be undertaken with two key objectives: balance sheet protection and earnings protection or smoothing.

Bankers Trust has spent the past five years analyzing its risks, and Mr. Hoffman said the company now appears to be at the point of

truly understanding them.

The company's Bermuda-domiciled captive, Long-Tail Risk Insurers Ltd., remains a focal point of the company's risk financing program.

The company's captive strategy for the 1992-1997 period called for determining actuarially derived

premiums to be paid by BT to the captive for "uninsurable risks," Mr. Hoffman said. In addition, the captive was critical for selective use of insurance and reinsurance markets and reducing insurer "frictional" costs by retaining "continually increasing amounts of risk."

"First and foremost, we wanted to aggregate and basket certain risk classes," he said.

To move to an advanced risk financing strategy, a company first must find a common language to facilitate measuring risk on an enterprise-wide basis, Mr. Hoffman said.

The method developed at Bankers Trust is Risk Adjusted Return on Capital, or RAROC, which has the advantage of providing a measure of the company's exposure to risk on an annual basis, Mr. Hoffman said.

"Operational risk is hard to measure... but we've got to get started," he said.

The risk evaluation information Bankers Trust developed now allows it to go forward and examine blended risk approaches.

Hallmark Cards Inc. is meeting now with brokers to see what sort of modeling techniques or tools exist that might be useful in analyzing the company's exposures,

said Richard C. Heydinger, director of risk management services for Kansas City, Mo.-based Hallmark.

Once they've decided on appropriate modeling tools, the company can analyze its risk profile and determine how it might use some of the more advanced risk financing techniques and what new roles

taken lightly," said Mr. Young, also noting that "multiyear/multiline programs don't work if you view them as one-night stands."

Thomas M. Regan, director of corporate risk management at Becton Dickinson & Co. in Franklin Lakes, N.J., said the worldwide medical device and diagnostic equipment manufacturer

'I believe we have huge opportunities as risk managers to be chief information brokers internally,' says Douglas G. Hoffman of Bankers Trust Co.

Hallmark's Vermont-domiciled captive might play in those programs, Mr. Heydinger said.

Speaking on another panel at the conference examining multi-year/multiline programs, J. Brady Young, president of Alternative Risk Solutions Inc. in Lexington, Mass., noted that the goal of multiyear/multiline programs is to reduce fixed costs and increase stability.

By bundling diverse risks together, such programs also can generate capacity for certain exposures that might otherwise be uninsurable, he said.

Mr. Young added, however, that the multiyear/multiline programs aren't a "panacea" for all of an organization's risk management problems, and require considerable work and commitment to be structured properly.

"Given the amount of work it takes to put one of these together, it is not something that should be

first became interested in strategic risk financing in 1994 and began studying the concept in earnest the next year.

"It was time for what I viewed as a fresh approach," he said. "We like the concept because in our view it helps us manage the risks of the firm differently."

Mr. Regan presented to his company's treasurer a white paper on the concept that discussed a few potential structures.

"Executive education in my view is one of the most important aspects of any undertaking like this," he said. "I felt that this had to be done first. I had to get the buy-in of my management."

The company decided to explore a basket aggregate approach and began an investigation of the approaches taken by peer group companies.

"The hard part in my view is engaging actuaries and really trying to understand what this means,"

Changes mean challenges for health care captives

By **DOUGLAS McLEOD**

AVENTURA, Fla.—Changes in the health care industry are creating new exposures for medical providers and changing the way their captive insurers operate.

Managed care expansion and health industry consolidation are giving rise to new liabilities and creating new challenges for health organization

group captives, said John McCarthy, president of Harvard Risk Management Foundation, the Cambridge, Mass., parent of Controlled Risk Insurance Co. Ltd. of the Cayman Islands.

CRICO, founded by 13 shareholder hospitals, now provides professional liability coverage to several dozen hospitals as well as managed care organizations and generates about \$60 million in annual premiums, Mr. McCarthy said.

A large percentage of the managed care groups, including health maintenance organizations, preferred provider organizations and physician groups, have joined CRICO in the past three years. The captive in 1995 established a Vermont-domiciled affiliate specifically to insure the managed care companies in an onshore facility, he told an audience at the 7th World Captive and Alternative Risk Financing Forum last month.

CRICO's growth obscures another trend, Mr. McCarthy sug-

gested: competition-driven mergers and acquisitions among health care organizations.

"Even if you do everything right, you can still lose some of your shareholder organizations" to mergers, he observed.

Three of CRICO's original shareholders, for example, have merged into one company that now produces 48% of the insurer's revenue, he said.

"Over time, the shift has been to larger and larger organizations," he noted.

This has precipitated changes in the way the Harvard Risk Management's operations are governed.

While each CRICO shareholder formerly had one vote on its board of directors, representation is now proportional, with large shareholders having more voting power than smaller shareholders, Mr. McCarthy said.

Consolidation among shareholders puts other pressures on captives like CRICO, he added. A captive, for example, may have excess capital at a time when its owners need more capital themselves to support mergers and acquisitions, creating an issue of how much the captive should remit as dividends.

"Capital can be a destabilizing thing," he observed. "Capital is a two-way street."

Mergers and creation of new

managed care groups also bring new management and new systems of decision-making that can create new liabilities, Mr. McCarthy said.

While liability claims in prior years typically involved one doctor, they now run up and down a

'Even if you do everything right, you can still lose some of your shareholder organizations' to mergers, says John McCarthy of Harvard Risk Management Foundation.

chain of managed care organizations and affiliates of the doctor, he explained, noting that "enterprise liability" is an issue health care providers will increasingly face.

Rationing of health care under managed care programs also can lead to claims from patients who think they did not get enough care, and "telemedicine"—such as diagnosing conditions via the Internet—will create "scary" new theories of liability, Mr. McCarthy predicted.

Operators of health care group captives should follow a few guiding principles, said Daniel Wolfson, president and CEO of The HMO Group, a New Brunswick, N.J., organization of independent group practice prepayment plans.

The HMO group has operated a

Bermuda captive writing stop-loss insurance for 13 participating plans and producing about \$4.3 million in annual premiums, he said.

These guiding principles include:

- Defining the group's mission

to include not only providing insurance but also risk management advice and managed care consulting on issues such as preventing premature births, one of the group's largest sources of claims.

• Empowerment of the group's provider members, who should run the insurance operation. "They make the rules, they live with them," Mr. Wolfson said.

• Remembering that the insurance company is "not a club." Captives should have clear underwriting guidelines and strategies for dealing with members that produce big losses. The HMO Group's strategies include claims reviews and raising the member's deductible; if nothing else works, "we will throw them out," Mr. Wolfson said.

• Maintaining fairness. HMO Group members are experience-

Mr. Regan said. "Assumptions are key," he said, and understanding those assumptions and the data and concepts that go into them is critical.

The actuaries Becton Dickinson hired were directed to review 10 years of traditional loss data and underwriting information. The studies evaluated increased retention levels for each line based on examination of 15,000 Monte Carlo simulations, which simulate random events.

Mr. Regan said the company found no shortage of insurers eager to participate in Becton Dickinson's "first generation concept," which sought to aggregate a number of exposures and also involve the company's Bermuda-domiciled captive in some fashion.

Becton Dickinson's criteria for determining whether to move forward with the plan included obtaining coverage at least as broad as provided under its existing program and preferably improved, a program that provided balance sheet and income protection, and some sort of premium benefit.

Ultimately the company took a pass on its first generation concept when the proposals it received failed to meet its criteria, most notably in that the insurance programs provided no financial benefit to Becton Dickinson when total costs were evaluated.

But the company still likes the concept of an advanced risk financing program and continues its efforts to craft such an approach, this time working with Aon Capital Markets Inc. on a "second generation" concept, Mr. Regan said.

From Becton Dickinson's perspective, the expertise the capital markets group can bring to the process is very different from that brought by an insurance-based group, Mr. Regan said.

"We believe our efforts will bear fruit but when that will happen we don't know," he said. **BI**

rated, and the rating for each member factors in the experience of all members.

• Making sure "the grass isn't greener" in the commercial insurance market. "We have to justify our rates every year," Mr. Wolfson said, noting that The HMO Group found that its rates last year were 20% below commercial market rates.

• Keeping members interested, including looking out for new lines of business for the captive.

Mr. Wolfson predicted that recent reductions in the rate of health care inflation won't last and that "we are going to see higher inflation through 1999."

One reason for this, he said, is the consumer backlash against managed care, which will trigger costly procedures for appealing claim denials.

Both Mr. Wolfson and Mr. McCarthy conceded that managed care organizations have not focused enough on the quality of the care they provide.

"A lot of what's out there masquerading as managed care is not managed care, it's managed indemnity," Mr. Wolfson said. "We are still (focusing) on price, we are still (focusing) on choice, and the market has not grappled with quality in a major way."

"If managed care is done right, it can be better care," said Mr. McCarthy, who predicted that future competition among health care organizations will be based less on price than on comparable quality of care. **BI**

7th World Captive and Risk Financing Forum

How do you bug me? Risk exec, actuary count the ways

By DOUGLAS McLEOD

AVENTURA, Fla.—David Leterman is now getting competition from actuaries and risk managers.

At the 7th World Captive & Alternative Risk Financing Forum last month, an actuary and a risk manager squared off with the top 10 problems each has with the other.

Susan J. Patschak, who analyzes captive and self-insured loss reserves as an actuary and principal with Tillinghast-Towers Perrin in Atlanta, offered her top 10 problems with risk managers, including that they:

10. Think IBNR (incurred but not reported losses) really stands for "indicated but not required" for their companies.

9. Think calendar year loss experience is the same as accident year experience and can't understand why results differ.

8. Think of claims data as the actuary's data, not their own, es-

pecially if the results are worse than the risk manager expects.

"It's important to understand what you're sending your actuary," she said. "The better your data is, the less expensive your reserve review is going to be."

7. Tell the actuary nothing has changed at their company during the year when, for example, the head of claims has died, the claims staff has doubled or the mix of business has shifted.

"You cannot use normal actuarial techniques when there have been changes in the claims process," she said.

6. Take the actuary's estimates as exact science until the results turn out worse than expected.

5. Assume loss reports don't need to balance with financial results because they are from different data sources.

"They do need to be consistent," she said.

4. Think they'd be making a profit if it weren't for actuaries.

"It's a lot easier to get upset with a bunch of nerds than guys you play golf with every week," she said of risk managers' urge to



blame actuaries for poor reserving.

3. Are sure their experience is always better than industry benchmarks.

2. Believe every large loss is a fluke that won't happen again.

1. Tell actuaries they've weeded out all their bad business.

"Yep, and the check's in the mail," Ms. Patschak deadpanned.

Meanwhile, Fred Travis, director of corporate safety and risk management for Anheuser-Busch Cos. Inc. in St. Louis, offered his own top 10 list. To his mind, actuaries:

10. Love math and focus too much on their estimating techniques and not enough on the meaning and ramifications of their estimates.

9. Don't include formal variance statistics or confidence intervals with their estimates.

8. Always want to add to reserves for large losses, even when the claims were closed long ago.

7. Present their estimates as gospel, no matter how soft the data that produced them.

6. Think IBNR stands for "increase because (we) need (more) reserves."

5. Don't understand risk managers' businesses or their risks and don't always understand the nature of the claims they're estimating reserves for.

4. Can't produce concise reports for management.

"There's an extreme disconnect between what an actuary can produce and what senior managements of corporations can digest,"

Mr. Travis said.

3. Think data grow on trees and always want more, no matter how much risk managers give them.

2. Don't understand that the risks in a captive are much better than average.

1. Never get in trouble for adding to reserves.

To get the most from actuaries, risk managers should provide good data, explain limitations to their usefulness and review inputs for errors before they are used, Mr. Travis said.

Risk managers should also seek clarity from actuaries by getting confidence intervals for estimates, and a separate analysis of large losses and estimates by line of coverage and business group, he said.

Risk managers should also be part of the actuarial review process, reviewing draft results, questioning actuarial assumptions and collaborating with the actuary on the final presentation to management, he advised.

Dates set for 1998 forum

AVENTURA, Fla.—The Seventh Annual World Captive and Alternative Risk Financing Forum drew about 325 attendees Nov. 16-19 to the Turnberry Isle Resort & Club in Aventura, Fla.

Conference sessions included such topics as domicile selection, tax and regulatory issues, reinsurance, rent-a-captives, the future of alternative risk financing and fraud, to

name a few.

Additional coverage of this year's conference appeared in the Dec. 1 issue of *Business Insurance*.

Next year's Eighth World Captive and Alternative Risk Financing Forum will be held Nov. 15-18, 1998, at the Doral Golf Resort & Spa in Miami. For more information, call the World Captive Forum at 612-928-4659.



AMA seeks Aetna concessions

Physician group criticizes health plan's Florida contracts

By ROBERT KAZEL

CHICAGO—Charging that contracts between Aetna U.S. Healthcare and doctors in Florida allow the managed care company to "unilaterally change patient care," the American Medical Assn. is urging the managed care company to grant more rights to its physicians.

The AMA's letter, written Oct. 31 but only made public last week, criticized the Florida contracts on numerous fronts.

The AMA complaint represents a new, more aggressive stance by the Chicago-based physician group against what it deems to be the managed care company's encroachment on traditional physician decision-making turf.

Blue Bell, Pa.-based Aetna U.S. Healthcare said it is reviewing its contracts and would not get into a direct dialogue with the AMA due to "antitrust and other concerns."

The complaints initially arose out of inspections of the contracts by the Florida Medical Assn.; since then, attorneys representing doctors in five other states also have lodged complaints with the AMA about Aetna U.S. Healthcare's contracts.

The complaints include the charge that the contracts have an open-ended definition of "emergency services" that allows the company to deny coverage of necessary care.

Other provisions give Aetna U.S. Healthcare the authority to judge what services are covered, yet give to the provider "sole responsibility for care."

These provisions are contradictory because they "allow you to control patient care but avoid liability for the patient's outcome based on the results of your decisions," the AMA's letter said.

The contracts also put at risk of termination those physicians in the plan who attempt to appeal Aetna U.S. Healthcare's denials of care, especially those who treat difficult cases, the AMA said.

"These physicians face...an onerous risk of termination due to their increased need for patient advocacy," according to the AMA. The AMA said it also objected to these provisions in the contracts:

- Gag clauses. Even though Aetna U.S. Healthcare last year announced it would stop the use of so-called physician gag clauses in its contracts, "the spirit of gagging physician communications to patients is still alive at Aetna U.S. Healthcare," because of rules banning doctors from indicating that managed care will lead to inferior treatment, the AMA said.
- Confidentiality. Although the

contracts in question specify that all patients' health information should be completely open to the health plan, the AMA argued that "the medical record is the personal property of the physician and that the record is a confidential document involving the patient-physician relationship."

- Appeals. The dispute resolution mechanism outlined in the contract is very vague, contends the AMA. "Aetna is giving itself the ultimate power to supersede a physician's determination regarding the necessity of medical service and to deny even clearly needed medical care," the AMA said.

- Claims submission. Aetna U.S. Healthcare requires that claims be submitted within 90 days of services and that claims must be adjusted within 30 days of the original claim. The AMA says exceptions should be made for unforeseen circumstances and that Aetna itself should also be required to make timely payment on claims.

In a statement released last week, Aetna U.S. Healthcare said it had no interest in "negotiating contract terms with the AMA."

No gag clauses exist in the managed care company's contracts, it stated.

To avoid any confusion, clauses prohibiting doctor-patient discussion of how managed care affects quality of care already have been eliminated, according to Aetna U.S. Healthcare.

The company also said that despite the AMA's desire for records privacy, the company has an absolute right to review patient records for such purposes as quality assessment, credentialing and disease management.

In addition, the company rejected the notion that appeals processes are not available to Aetna U.S. Healthcare, pointing out that grievance processes are required by state and federal law and are in place in every Aetna U.S. Healthcare HMO.

It also defended its emergency care rules, arguing it has adopted the "prudent lay person" definition of an emergency for all its HMOs, as set forth in the Balanced Budget Act of 1997. **BI**

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Largest U.S. reinsurers' nine-month 1997 results

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

Reinsurers	Net reinsurance premiums written 1997	Net reinsurance premiums written 1996	Policyholders surplus (reinsurers only)	Net income 1997	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1997	Combined ratio 1996
1. General Re	2,320,152	2,202,538	6,103,512	641,767	1,608,457	67.5	732,061	31.6	99.1	97.7
2. American Re	2,028,323	1,962,815	2,277,155	112,385	1,317,903	69.5	690,844	34.1	103.6	94.7
3. Employers Re	1,399,320	1,377,177	4,829,494	441,107	908,380	68.2	464,168	33.2	101.4	104.8
4. Berkshire Hathaway	926,100	656,400	N/A	N/A	517,300	94.7	42,800	7.8	102.5	111.3
5. Transatlantic/Putnam	821,498	789,744	1,118,553	106,503	582,229	74.5	206,937	25.2	99.7	101.3
6. Zurich Re (N.A.)	812,239	803,204	842,052	100,372	580,192	70.0	282,624	34.8	104.8	103.3
7. Everest Re	741,179	629,647	888,229	127,347	520,769	70.7	231,027	31.2	101.8	103.9
8. St. Paul Cos.	588,534	606,256	N/A	N/A	406,070	71.9	183,981	31.3	103.1	104.9
9. Swiss Re America	584,393	514,687	1,458,802	181,150	371,498	65.8	223,187	38.2	104.0	104.0
10. Hartford Re Co.	513,874	447,946	N/A	N/A	367,865	76.2	144,578	28.1	104.4	103.8
11. SCOR U.S. Group	459,341	326,321	421,574	40,513	331,027	71.2	150,281	32.7	103.9	103.8
12. Kemper Re	458,161	398,806	515,860	26,144	326,487	78.9	140,230	30.6	109.5	184.9
13. TIG Re Co.	409,904	420,986	578,446	65,699	287,844	72.1	127,847	31.2	103.3	101.9
14. NAC Re	399,736	374,360	690,984	55,208	252,860	65.8	147,980	37.0	102.8	101.1
15. F&G Re	347,895	372,605	N/A	N/A	249,629	68.2	79,304	22.8	91.0	88.8
16. Constitution Re	337,523	398,125	356,670	29,630	267,884	73.8	107,276	31.8	105.6	102.7
17. Underwriters Re	281,057	279,449	659,795	23,819	191,508	74.2	79,152	28.2	102.3	102.2
18. Signet Star Re	210,779	196,845	263,127	8,008	139,521	71.9	67,826	32.2	104.1	102.8
19. Chartwell Re	206,330	140,960	251,279	13,636	119,218	66.1	74,121	35.9	102.1	107.3
20. Gerling Global Re	162,127	—	295,594	(12,070)	63,908	77.7	40,254	24.8	102.5	—
Totals for Top 20	14,008,465	12,898,871	21,551,126	1,961,218	9,410,549	71.2	4,216,478	30.1	101.3	103.6
Total for all companies	15,065,784	14,115,283	26,281,199	2,388,985	10,085,858	69.4	4,814,285	32.0	101.3	103.1

Source: Reinsurance Assn. of America and Business Insurance

Results

Continued from page 2

armies, so I look at it this way: The market presents an opportunity for reinsurers to either get better and stronger at what they do and thereby prosper, or gives them an opportunity to get worse and eventually fail, so each reinsurer will have to chart its own course through the turbulence."

The 43 U.S. reinsurers surveyed by the Reinsurance Assn. of America reported a 101.3% combined ratio for the first nine months of the year, compared with a 103.1% combined ratio for the comparable period a year ago (BI, Dec. 1). This is a slight improvement over the 101.5% combined ratio reported for the first half (BI, Sept. 8).

The 20 largest U.S. reinsurers based on net premiums written also reported a 101.3% combined ratio for the first nine months, compared with 103.6% for the comparable period a year ago.

The Top 20 includes the results of the Berkshire Hathaway Group, which does not participate in the RAA survey, and Gerling Global Reinsurance Corp. of America, formed in January (BI, Jan. 27). In addition, results for American Re Corp. now include those of Munich American Reinsurance Co., with which it has merged.

"I think you should ask two questions," said John Berger, president and CEO of F&G Re Inc., a Morristown, N.J.-based unit of USF&G Corp. One is whether the 101.3% combined ratio should not be even better, given this year's low catastrophes. If this were a normal catastrophe year, "how much worse would these results be?" he asked.

The other question, he said, is whether people are managing results, such as underreserving, to get a better return on equity. "I just can't believe that given the price levels, the industry's at a 101.3," said Mr. Berger.

Declining premium growth reflects the soft market as well as higher retentions by primary insurers, observers say. The reinsurers in the RAA survey reported \$15.07 billion in net premiums written for the first nine months

of 1997, up 6.7% from from the comparable period a year ago. This is a decline from the 8% growth reported for the first half.

Excluding Gerling Global, the top 19 reinsurers reported \$13.85 billion in net premiums written, a 7.3% increase. Although the larger reinsurers continue to attract a greater share of the total business, this is still a decline in growth from the 8.6% increase reported by the top reinsurers for the first half.

"It looks pretty gloomy right now, and I, unfortunately, don't see any changes," said Adrienne W. Reid, senior vp and chief treaty underwriting officer for Zurich Reinsurance (N.A.) Inc. in New York.

Said Richard E. Cole, chairman of the Stamford, Conn.-based Chartwell Reinsurance Co.: "We don't see any signs of anything positive happening in our business. There's still too much capital going after the same business."

The driving factors in this market are low catastrophe losses, the intense price competition and higher retentions, said Alan Murray, vp at rating agency Moody's Investors Service Inc. in New York.

What is remarkable about the results is that despite the absence of catastrophes, reinsurers' results were very consistent between this year and last, in contrast to the primary industry, "where we have seen a sharp improvement this year vs. last year because of the absence of catastrophes," said Mike Smith, an analyst formerly with Salomon Bros.

"This simply speaks to the dramatic changes we've seen in the reinsurance market" with its current emphasis on excess-of-loss business, as opposed to the proportional business predominant in the market 15 years ago, said Mr. Smith.

The intense price competition is going to continue next year, though it is likely to be accompanied by more catastrophes, observers say.

"The interesting thing is what will happen if we have a more normal catastrophe-event year" in light of the pricing declines, said Don Watson, director at Standard & Poor's Corp. in New York.

Given there does not seem to be any exodus of capital from the sector, continued price competition and compressed margins with possibly greater catastrophes will make earnings growth "incrementally more difficult to attain," said Ken Zuckerberg, vp at Moody's.

"I think 1998 is going to be an extremely tough year for the reinsurance business," said Peter Wade, an analyst with Lehman Bros. in New York.

"I think in the aggregate, most of their customers will likely buy less reinsurance, so there's going to be pressure on both unit and price growth, which is going to hurt them. And as most reinsurers scramble to hold onto some kind of market share or increase their market share, that pressure on growth is going to transfer to pressure on margins," he said.

But Jim Miller, president of Kemper Reinsurance Cos. in Long Grove, Ill., said, "It just seems kind of clear to us that one of the things that's happening is that some of the companies are starting to differentiate themselves from everybody else, by one method or another.

"It could be some value-added services, or something else. Whatever it is, it looks like even in this market, good companies are finding ways to grow, and we think we're in that category," Mr. Miller said.

Said F&G Re's Mr. Berger: "I just see increased competition, increased mergers, increased acquisitions. What we're experiencing now is just going to continue."

Pressure on cash flow will continue into 1998, predicted John Adimari, vp at Greenwich, Conn.-based NAC Re Corp.

"I think we'll start seeing the top line showing a reduction in reinsurance premiums," said Chartwell Re's Mr. Cole. "I think more and more reinsurers are saying they're not going to write business at these rates."

But more reinsurers continue to be formed, which makes "no sense," he said. "That's just delaying a turn in the market."

While poor management and underwriting are the two biggest internal threats to the reinsurance industry, the biggest external threat is the risk of inflation, said

Hartford Re's Mr. Zettervall.

"It's a big risk, because reinsurers are promising today to pay claims five, 10, even 30 years into the future, and many reinsurers are pricing their product anticipating modest inflation will last forever" said Mr. Zettervall.

"From that perspective, the single most important person in the world to our business is (Federal Reserve Chairman) Alan

Greenspan, because were inflation to become a problem as it was in the 1970s, then I think many reinsurance companies could topple, and the reputation of a generation of management would be destroyed," Mr. Zettervall said.

"Let's hope it doesn't happen. Everybody should send a Christmas card to Alan and wish him long life and may his policies live forever." **B**

Plans for new reinsurer in Bermuda collapse

By GAVIN SOUTER

HAMILTON, Bermuda—Ambitious plans to launch a new Bermuda multiline reinsurer with \$300 million in capital have collapsed.

The pace of regulatory approval for Resource Underwriters Ltd., which has been drawn out over several months, frustrated investors, and last week the last of the proposed investors pulled his money from the table, said Robin Spencer-Arscott, who was to have been president and chief operating officer of the reinsurer.

Mr. Spencer-Arscott, previously head of Aon Corp.'s operations in Bermuda, said one of the main stumbling blocks in the regulatory approval process had been the presence of David Thirkill as chairman and chief executive officer for the proposed reinsurance company.

Mr. Thirkill previously had been named in a \$20 million negligence suit in Bermuda that ultimately was dismissed.

Since the original application to set up Resource was filed in September, however, Mr. Thirkill's direct involvement in the company was ended, according to Mr. Spencer-Arscott.

Nevertheless, the delay in the approval process was too long for the investors, he said.

"The irony is we were a week away from submitting an amended application," Mr. Spencer-Arscott said.

Under the amended applica-

tion, Resource would have had \$30 million in capital supplied by the sole remaining investor: Steven Blumhagen, an investor in Buffalo, N.Y. The other 17 investors in the United States and Canada had pulled out of the venture over the past two months, Mr. Spencer-Arscott said.

With only \$30 million in capital, Resource would have reinsured the business of an insurer in Florida that is affiliated with Mr. Blumhagen, Mr. Spencer-Arscott said.

"We were going start off with the \$30 million writing affiliated business and some reinsurance business from London, and then we planned to raise another \$100 million in 1998," he said.

Under the regulatory process in Bermuda, any new companies must be approved by the Insurance Admissions Committee, which is made up of insurance practitioners in Bermuda.

One of the main problems in obtaining approval from the committee originally was the proposed direct involvement of Mr. Thirkill, Mr. Spencer-Arscott conceded.

Previously, Mr. Thirkill underwrote financial reinsurance for Forum Reinsurance Co. Ltd. in Bermuda before leaving the company in 1990. A Forum unit, Focus Insurance Co., collapsed in December 1990, and Mr. Thirkill and other company officers were named in a \$20 million negligence suit, but the action was dismissed in November 1992.

Retirees

Continued from page 1
serted.

J&H officials named in the complaint, now officials with Marsh & McLennan, see it differently.

The retirees "certainly received payments far in excess of what they were contractually entitled to receive," said Mr. Olsen, now vice chairman of Marsh & McLennan Cos. Inc. "We expect to be fully vindicated."

"Talk about greed and avarice," one former J&H official said. "The whole thing, when it's all said and done, boils down to a bunch of guys saying after the fact, 'We should have got more money.'"

"It's going to be real messy," he predicted of the litigation.

A statement issued for the director defendants said they were "disappointed" with the lawsuit and believe the retirees "were treated not only fairly but generously."

Meanwhile, Marsh & McLennan Cos. Inc.—also named in the suit for allegedly aiding and abetting the scheme—last week issued an internal memo to employees of J&H Marsh & McLennan Inc., its insurance services arm. The memo read: "This matter is a dispute between certain former directors of J&H about the allocation among themselves of proceeds from the sale of J&H. We believe we should not be involved in this matter. Beyond that, it is M&M Cos.' policy not to comment on litigation."

Mr. Olsen would not confirm his share of the sale proceeds. Mr. Nielsen could not be reached.

J&H ended 150 years of private ownership in March when it was bought by Marsh & McLennan for \$1.8 billion in cash and Marsh stock (BI, March 17).

In SEC filings, Marsh & McLennan reported that \$1.01 billion of the total went to J&H's active directors and shareholding managing principals; \$500 million was earmarked for about 600 key J&H employees; and \$297 million went to more than 40 retired directors, all of whom had returned their stock to the company on retirement in exchange for "10-year certificates." (BI, March 31).

Under longstanding corporate rules, J&H common stock could be owned only by active directors, officers or employees, and the vast majority of the stock was held by the directors. On retirement, directors exchanged their stock for certificates that would pay annual dividends for 10 years equal to amounts payable on the returned stock. The returned stock, redistributed to active directors, paid no dividends until the 10-year certificates expired.

The certificates already had become a source of tension between retirees and active directors before the sale of J&H, the complaint suggests.

By year-end 1996, the suit says, J&H was paying 75% of its annual dividends to retired certificate-holders. J&H management responded by increasing the salary pool for active directors by 50%—to \$22 million from \$15.5 million—over a period when it raised the dividend rate only 12.5%, to \$180 per share from \$160 per share.

After a number of the retirees complained, J&H management increased the dividend, the suit says. The retiree plaintiffs had owned between 1,970 and 4,200 shares each, with Mr. Hatcher the largest shareholder.

This disagreement was minor, though, compared with the quick souring of relations that followed the March announcement of Marsh & McLennan's takeover of J&H.

None of the retirees were told of the takeover in advance, according to Mr. Hirschfeld: "They were basically kind of stunned by the transaction. They found out when the rest of the world found out," he said.

Mr. Hecken said he had heard rumors of an impending sale and dismissed them, believing J&H corporate rules required approval by the retired directors for any sale of the company.

"It all came to us as a complete shock," he said.

At a meeting shortly after the announcement, top J&H officials offered buyouts to the retired certificate-holders, and all accepted before a two-week deadline expired.

Over the following weeks, though, the retirees discovered elements of the deal that prompted nine of them to file their lawsuit, Mr. Hecken said.

In addition to Messrs. Hatcher, Hecken and Meyer, the plaintiffs are retired J&H directors Sam W. Aiena, George D. Benjamin, Peter A. Bergsten, Robert A. Cameron, George F.B. Owens Jr. and George H. Shattuck Jr.

The defendants in addition to Messrs. Olsen and Nielsen are former directors Norman Barham, now a vice-chairman of J&H Marsh & McLennan; William C. Baumann; S. Robert Beane; Rodney D. Day III; John V. Deitchman; Theodore J. Fuller; John W. Gussenhoven; Brian R. Hall; William S. Jennings; John P. Keyser; Willis T. King Jr.; Christine LaSala; James W. McElvany; John A. McMahon; Gardner M. Mundy; Alan G. Page; Thomas G. Patzau; Joseph P. Platt; Joseph D. Roxe; Gerald R. Swanson; Richard E. Valliere; and Rufus J. Williams III.

The nine retirees charge that J&H's board cheated them in allocating the vast sale proceeds and accuse them of breaches of contract and fiduciary duty, violations of securities law and common law fraud.

According to the complaint, the alleged scheme turned on a set of March 1997 amendments the J&H board made to the company's articles of incorporation and bylaws.

The amendments, made without notice to the retirees, removed the restrictions on the ownership of J&H stock, allowing sale to third parties.

Under the previous corporate rules, the sale to Marsh & McLennan would have to be structured as a sale of J&H's assets, not its stock, the complaint says. Under this structure, the proceeds of the asset sale would have been distributed as dividends to J&H shareholders, meaning the retiree certificate-holders would have been entitled to 75% of the purchase price.

Once the restrictions were removed, the J&H board was free to sell its stock to Marsh & McLennan, and a management committee assumed power to allocate the proceeds, awarding more than \$900 million to the active directors, the suit says.

Any asset sale under the prior corporate structure also would have to be approved by retirees representing two-thirds of the outstanding 10-year certificates, the suit says.

"By eliminating the requirement to obtain... approval, the incumbent directors disenfranchised the retired director plaintiffs and eliminated their ability to influence the determination of the amount they would receive... or to block the sale from occurring," the complaint says.

"That had to be based on a fear that we would veto (the sale) or a fear that they would have to change the allocation of the proceeds," Mr. Hecken added.

The retired directors' complaint cites other examples of alleged unfairness in the deal, including that:

- Mr. Beane, one of the director defendants, had elected to retire early, effective Jan. 1, but was allowed to "unretire," collect a director's share of the proceeds and retire again.

Retirees attended a December 1996 dinner honoring Mr. Beane, but "we didn't know it was a false retirement party and that they were 60 days away from selling the company," Mr. Hecken said.

Mr. Beane declined to comment.

- The director defendants, who

owned differing amounts of J&H stock, arranged stock transfers among themselves on the eve of the deal to equalize their shares of the proceeds and "facilitate approval of the transaction."

Mr. Olsen and Mr. Nielsen opted out of this arrangement, however, preserving much larger shares for themselves and creating ill feeling between themselves and the other active directors, several J&H sources confirm.

- Active directors who were less than one year away from retirement—including Messrs. Olsen, Nielsen, Keyser and Patzau—collected more than three times as much as a retiree in his first year of retirement holding a certificate for the same number of shares.

Though not mentioned in the suit, another bone of contention was a \$125 million pool of J&H retained earnings that J&H kept in addition to the \$1.8 billion purchase price.

Mr. Hecken said he believes J&H management allocated roughly half of this cash to the active directors, with the majority of the remaining cash going to retired certificate-holders and a smaller portion going to "super-retirees" whose 10-year certificates had expired. These super-retirees also received relatively little of the sale proceeds, though, and after some complained to J&H management, their part of the cash pool was roughly doubled, Mr. Hecken said.

The certificate-holders were "infuriated" to discover, though, that the added payments to the super-retirees were coming out of their share of the pool and not from the active directors' share, he said.

At a March 19 meeting, shortly after the sale was announced, J&H's senior management and a lawyer with Sullivan & Cromwell, the broker's outside counsel, met with the retirees, presented the deal as a fait accompli, and urged them to accept offers—good for two weeks—to buy back their certificates, the suit says.

Sullivan & Cromwell, the suit notes, also represents several retired directors in estate planning matters.

The J&H managers failed to disclose several pertinent facts, though, including that they had agreed with Marsh & McLennan to induce the retirees to sign the buyouts and therefore were not representing the retirees' interests, the suit says.

Retirees also asked about the shares being taken by active directors and were falsely told that the information was not available. In fact, J&H management had already agreed on the specific amounts with Marsh & McLennan, the suit charges.

Asked why retirees didn't raise their objections before accepting the buyouts, Mr. Hirschfeld said he believed they were both stunned by the whole deal and under tremendous peer pressure to go along, in keeping with J&H's "tradition of collegiality."

"The impression they got was that everyone had gone to the mat for them and had beaten up Marsh to get this good deal for them," he said.

"There was not any great hue and cry because we didn't have the facts and were in a high degree of emotional shock," Mr. Hecken added.

Included in the buyout agreements retirees signed were waivers in which they agreed to take no action against the active directors or Marsh & McLennan as a result of the sale.

The alleged non-disclosures and fraud, though, make these waivers unenforceable, Mr. Hirschfeld said.

Meanwhile, Marsh & McLennan may be picking up the tab for the possibly lengthy litigation to come: As part of the stock purchase agreement, Marsh & McLennan agreed to indemnify J&H directors and officers for any legal expenses and judgments relating to the sale, except those stemming from bad faith actions, documents show. **BI**

Updates

Review of stop-loss law sought

Continued from page 2

the state wants to use to regulate stop-loss insurance.

The justices have not decided whether to review the case.

Maryland's Insurance Department has asked the high court to review the 4th U.S. Circuit Court of Appeals' decision in *Larsen vs. American Medical Security Inc.* (BI, April 28). The appeals court affirmed a 1996 lower court ruling that the Employee Retirement Income Security Act pre-empted the Maryland regulation (BI, March 4, 1996). ERISA pre-empts state laws that relate to employee benefit plans.

The Maryland regulation holds that stop-loss insurance policies must have at least a \$10,000 attachment point for specific claims and an aggregate attachment point of 115% of expected claims. Policies below those levels are considered to be health insurance rather than stop-loss insurance and therefore are subject to state regulation under Maryland law, the state contends.

"In holding that Maryland has been pre-empted under ERISA from regulating stop-loss insurance policies that insurance companies sell to allegedly self-insured employers, the Court of Appeals has fashioned a rule that strips the states of any ability to enforce legitimate and important health insurance requirements and precludes the states from prohibiting even sham arrangements in the health insurance industry," according to Maryland's petition for review by the high court.

The National Assn. of Insurance Commissioners has filed a brief supporting Maryland's position.

But American Medical Security responded that the "4th Circuit correctly concluded that the Maryland regulation is a thinly disguised attempt to regulate the benefit structures of ERISA."

KKR buying Swiss reinsurer

BASEL, Switzerland—Leveraged buyout firm Kohlberg, Kravis Roberts & Co. is buying Rhine Reinsurance Co. Ltd. for an undisclosed sum.

Rhine Re's majority owner is the Baloise Insurance Co. Ltd. in Basel, which holds 86.3% of the reinsurer, while the remainder is held by the General of Berne Holding Co.

The reinsurer writes a broad book generating gross premiums of 504.8 million Swiss francs (\$352.5 million) in 1996, said Max Furrer, Rhine Re's chief executive officer. The company writes reinsurance worldwide and has offices in Basel, Singapore and Toronto. In the United States, Rhine Re writes only life and aviation reinsurance, but it may expand to write other lines, Mr. Furrer said.

Rhine Re has 150 million Swiss francs (\$104.7 million) in capital and produced an 11 million Swiss franc profit (\$8.2 million) in 1996, he said.

As part of the deal, KKR will inject capital into Rhine Re, Mr. Furrer said. The amount will be announced later this month.

Rhine Re will get a further capital boost when its current management invests more money into the reinsurer after the KKR purchase is completed, Mr. Furrer said.

"Today you have to have very strong capital if you want to compete in the market," he said.

Over the past few years, Baloise has concentrated on writing primary business in Central Europe. In addition to the sale of Rhine Re, Baloise previously sold its operations in Italy and France, Mr. Furrer said.

Judge decertifies implant class

NEW ORLEANS, La.—A Louisiana judge has decertified the nation's first silicone breast implant class action suit to go to trial so far.

Saying the cases were too dissimilar, Louisiana Civil District Court Judge Yada T. Magee dissolved the Spitzfaden breast implant class action involving suits by some 1,800 women against Dow Corning Corp. last week. The decision forces the plaintiffs to either pursue their claims individually or to participate in Dow Corning's bankruptcy reorganization process, according to a spokesman for the Midland, Mich.-based implant manufacturer.

Basing her order on the recent Louisiana Supreme Court decision in *Ford vs. Murphy Oil USA Inc.*, Judge Magee said: "Ford stipulates that only mass torts arising from a common cause or disaster may be appropriate for class certification. . . . this court finds that the circumstances to maintain the class action in this case do not exist."

The case also follows the precedent set by the U.S. Supreme Court's decision last summer dissolving a \$1.3 billion class-action settlement of asbestos claims. The 6-2 majority in *Amchem Products Inc. vs. Windsor et al.* held that the members formed for the class were too diverse, and that many potential class members would not even be aware of their eligibility though they would be barred by the pact from suing (BI, June 30).

Briefly noted

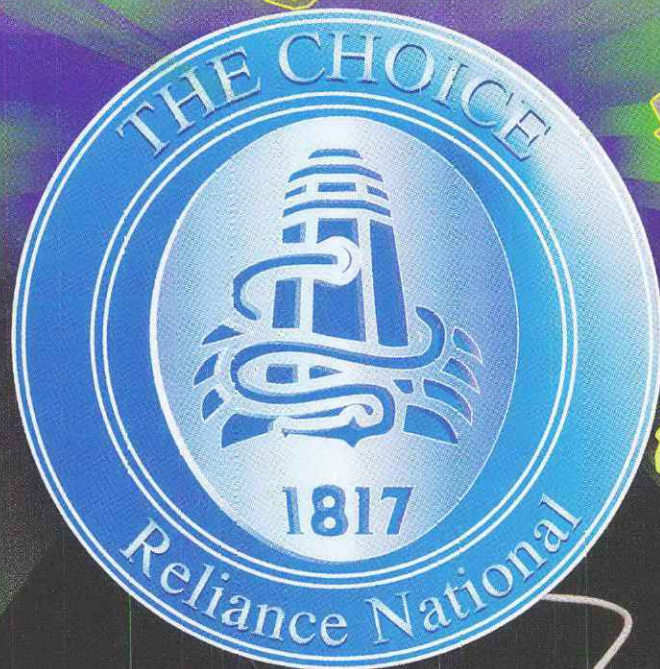
A company whose World Wide Web site is accessible in Arizona via the Internet but otherwise conducts no other business in the state cannot be sued there for trademark infringement by an Arizona company with the same name, said the 9th U.S. Circuit Court of Appeals in San Francisco in its ruling last week in *Cybersell Inc. vs. Cybersell Inc.* The conclusion is similar to one reached by the 2nd U.S. Circuit Court of Appeals in New York in another Internet case, *Bensusan Restaurant Corp. vs. Richard B. King* (BI, Sept. 22). . . . **Unisys Corp.** undertook "adequate and reasonable" steps when it purchased \$215 million in guaranteed investment contracts for employees' savings plans in the 1980s from Executive Life Insurance Co., which later collapsed, a federal judge ruled in dismissing a suit by plan participants. . . . **Kenneth J. LeStrange**, formerly executive vp of Princeton, N.J.-based American Re-Insurance Co. and president of alternative risk transfer unit Am-Re Managers Inc., has joined Chicago-based Aon Group Inc. as executive vp, effective today. . . . The Insurance Services Office Inc. has filed a series of exclusions and endorsements for primary insurance policies regarding the Year 2000 problem. Eighteen states have so far approved the wordings, and ISO expects to have the exclusions and endorsements available to the market by April 1.

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