

Business Insurance

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

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Classic, largest syndicate at IIE, to withdraw, merge with affiliate

CHICAGO—Classic Syndicate Inc., the largest syndicate on the Illinois Insurance Exchange, is planning to withdraw from the exchange after assuming the liabilities of an affiliated syndicate.

Under a plan still being finalized last week, the syndicate will reinsure all liabilities of affiliate Geneva Assurance Syndicate Inc. and then withdraw to merge with its parent, Classic Fire & Marine Insurance Co. of Crown Point, Ind. Exchange policies issued by Classic Syndicate and Geneva Assurance will be continued by Classic Fire & Marine Insurance Co. *See Updates on next page*

CalPERS to continue asserting its clout under new executive

By JOANNE WOJCIK

SACRAMENTO—The California Public Employee Retirement System will continue the aggressive purchasing program that has brought attention to the nation's largest public employee retirement system, pledges its new head of health care purchasing.

"We will use many of the same strategies including standardized health plan benefits, basing employer contributions on the lowest-price plan" and using health plan report cards to measure quality, said Margaret T. Stanley, who takes charge of CalPERS' health care purchasing on Jan. 16.

She will provide policy direction on critical health issues and act as the key health adviser to the chief executive officer and the CalPERS Board.

Ms. Stanley also will provide a broader public policy perspective to CalPERS. She currently heads up health care purchasing for the Washington Basic Health Plan, a state-run health care purchasing cooperative for individuals and small businesses.

Bargaining clout has helped large corporate purchasers like CalPERS moderate premium rate increases. But "there are still a large number of uninsured," and this growing pool of uninsured will simply add to the cost-shifting that employers have been battling through the cost containment, Ms. Stanley points out.

Ms. Stanley was selected by CalPERS Health Benefits Committee following a nationwide search to head CalPERS Health Benefits Services, the branch of CalPERS responsible for purchasing health care benefits for more than 1 million public employees, retirees and their families. The health purchasing program encompasses 1,000 state and local public agencies and contracts with 16 health maintenance organizations, four commercial preferred provider organizations and two self-funded PPOs.

Ms. Stanley comes to CalPERS from the state of Washington, where she has headed the cabinet-level Washington State Health Care Authority and was chairwoman of the state Public Employee Benefits Board. The agency, which Ms. Stanley has directed since its inception seven years ago, is charged with purchasing em-

See Stanley on page 21



Ms. Stanley

CIGNA critics unmoved despite Best defense

By DAVE LENCKUS

HARRISBURG, Pa.—Two former regulators and a former official with the actuary that Pennsylvania regulators hired to review CIGNA Corp.'s plan to isolate its long-tail liabilities in a runoff company have urged the Pennsylvania insurance commissioner to reject the plan.

Dismissing assertions by rating agency A.M. Best Co. to the contrary, the former regulators said at a public hearing last week that the plan is unprecedented and would trigger a rash of similar restructurings by insurers that want to limit their exposure to environ-

mental and asbestos liabilities. A former official of Tillinghast, the firm that Pennsylvania regulators hired to review the plan, noted that the firm has not stated that CIGNA has made "reasonable provisions" for those long-tail liabilities, even though Til-

linghast executives have testified that the plan passed 162 stress tests.

That is because those liabilities are too uncertain to be quantified, he said.

The former Tillinghast official, who did not participate in the review, also argued that purported new actuarial techniques that Tillinghast used to evaluate the adequacy of CIGNA's restructuring and capitalization plan are nothing new and have been unsuccessful in the past.

Ironically, Pennsylvania Insurance Commissioner Linda S. Kaiser signaled she may raise con-

See CIGNA on page 22

Maryland just says no

State cancels PBM deal after pharmacies balk at Medco rates

By ROBERT KAZEL

BALTIMORE—Facing a mass defection of pharmacies that threatened to cripple its planned pharmacy benefit management program, the state of Maryland last week canceled a four-year contract with Medco Containment Services Inc. that was to begin today.

The state scrapped its agreement with Montvale, N.J.-based Medco, a subsidiary of pharmaceutical maker Merck & Co. of Whitehouse Station, N.J., after several large drugstore chains in the state announced recently they

would not accept prescriptions from state employees covered by Medco. The druggists said Medco's formula for reimbursements to pharmacies would force them to lose money on every prescription—an assertion Medco denied.

Maryland officials are investigating whether the pharmacies violated laws by collectively rejecting the Medco plan.

As more and more pharmacies dropped out of what was to become Medco's statewide network—with about 60% gone by Christmas—state officials tried to compel Medco to show it had an alternative network of stores

ready to serve 200,000 state employees, retirees and dependents. Medco had beaten out 10 other bidders for the contract, valued at \$266 million.

But Medco could not assemble a list of drugstores to satisfy the state after so many pharmacies had withdrawn, officials said.

"We were very unconvinced that we could guarantee to our members that it would be a viable network by Jan. 1," said Marita Brown, state secretary of budget and fiscal planning.

The contract for the state's PBM program will be assigned on ar-

See Medco on page 22

Therapists on the job

Employers find onsite assistance saves costs, time

By ROBERTO CENICEROS

Bringing occupational and physical therapists into the workplace is gaining popularity among employers who say it reduces the costs associated with injuries and helps employees remain at work or return earlier in the recovery process.

The onsite therapists also play a part in injury prevention, as well as case management.

While a few employers, such as Freeport, Maine-based mail-order company L.L. Bean Inc., have relied on worksite therapists for

several years, others have only started recently and now are expanding the use of worksite therapy.

At Hershey Chocolate North America, a division of Hershey Foods Corp., onsite therapists soon will help implement a program to prevent repetitive stress injuries, said Carolyn Haskell, manager of health services in Hershey, Pa. The plan to use therapists in that capacity follows successes in treating injured food production employees at the workplace.

For example, back injuries that once required surgery and cost more than \$100,000 in wage replacement, medical and legal costs may now run about \$10,000 to \$20,000. The need for surgery has decreased because of "ly

"Our therapists can put on a hair net and go out to the line and take a look," said Ms. Haskell. "It gives them a more accurate picture. When a therapist is off site they really don't know exactly what an employee does."

Therapists at the worksite see exactly how employees perform their duties, according to Ms. Haskell. That gives them an advantage in evaluating and mitigating injuries early on before they worsen.

For more problematic injuries, the therapists are there to help modify duties and determine the most appropriate ergonomic or

See Therapy on page 16

A physical therapist helps a J.L. Clark employee use a reach tool to avoid injury.



Updates

Classic to withdraw from IIE

Continued from previous page

Insurance will remain in force until they expire, at which time Classic Fire & Marine will consider renewals, those familiar with the plan say.

As part of the reorganization, the two syndicates will place most of their assets in separate trust accounts from which claims will be paid. If loss experience deteriorates in the future, Classic Fire & Marine would be called on to contribute additional funds to the trusts, said Bruce Ricci, executive vp of Classic Fire & Marine's parent, Concord General Corp. of Concord, Calif.

Geneva will remain on the exchange as an inactive syndicate.

While most of the plan's details have been worked out, the parties were still awaiting regulatory approvals last week, including approval by the Indiana Insurance Department.

Classic Syndicate was the exchange's largest, based on 1994 gross premium volume of \$64 million, or 21.7% of the exchange's total of \$294.7 million. Geneva Assurance, which stopped underwriting in May, was No. 2, with \$55.5 million, or 18.8% of the total.

"Obviously (the withdrawal) will have some impact," IIE President James M. Skelton said. But "a lot of that will be absorbed by some new players," he added, pointing to other syndicates expected to become more active under new ownership.

The IIE temporarily suspended Classic in 1995 after it failed to file a certified audit. A court ordered Classic to limit its underwriting until it complied with IIE conditions, the exchange said (BI, Sept. 11, 1995).

PBGC offers to settle claims

WASHINGTON—About 40,000 people could receive about \$100 million in pension benefits if a U.S. District Court approves a proposed settlement between the Pension Benefit Guaranty Corp. and participants in thousands of underfunded plans terminated years ago.

The settlement, which would be the largest ever between the PBGC and participants in underfunded plans, would resolve suits over vesting standards in the Employee Retirement Income Security Act of 1974. About 11,000 underfunded plans, most quite small, were terminated between 1976 and 1981 without adopting them. At the time, the PBGC held that it would not guarantee benefits that were not vested under express terms of a plan, even if ERISA requirements were met.

Several suits would be consolidated under the settlement. Participants with at least 10 years' service would get about 80% of the benefits they didn't receive; those with five to nine years would get less.

Jury finds bias in benefits

BIRMINGHAM, Ala.—An Alabama manufacturer will have to pay damages to about 500 current and former employees after a federal jury found that it used a discriminatory benefit requirement.

The jury late last month found that Birmingham-based American Cast Iron Pipe Co. discriminated against male employees by requiring that workers' children live with them to receive medical benefits. Damages, unspecified in the 1986 suit, will be determined in another phase of the trial early this year.

Jurors also held that there were racial motives behind the policy. Employees testified that company executives told them it was in place to exclude black children.

"We've always taken the position, then and now, that the rule had no origin in gender or race," said the company's lawyer, J. Frederic Ingram of Burr & Forman in Birmingham. The rule had been in effect at least 33 years until a 1993 federal law barred residency requirements.

Canadian liability ruling

OTTAWA—Manufacturers will be strictly liable for failing to warn consumers of dangerous side-effects of silicone gel breast implants under a Canadian Supreme Court ruling involving Dow Corning Corp.

Because implant makers were more likely to emphasize the value of the products than their risks, it is "highly desirable from a policy perspective to hold the manufacturer to a strict standard of warning consumers of dangerous side-effects," Justice J. La Forest wrote for the 5-2 majority in the Dec. 21, 1995, decision.

The case involved warnings from the Dow Chemical Co./Corning Inc. joint venture on implant packages in 1983. The court noted that not until 1985 did Dow Corning warn that implants could be ruptured through "non-traumatic" activity; earlier warnings "implied that rupture would occur only in extreme cases of violent impact."

Dow Corning said it still believes the 1983 warning was adequate.

The ruling could effectively cut off claims against Dow Corning by women who received implants in 1985 or later, said Derek Mullan, a partner at Clark, Wilson in Vancouver who represents Dow Corning.

Plaintiff Susan Hollis—a Vancouver woman who received implants in 1983 and had a double mastectomy four years later, after one had ruptured—is to receive \$95,000 Canadian (\$69,730).

The ruling does not affect U.S. suits against Dow Corning, which have been frozen by its 1995 filing for bankruptcy protection. In Canada, though, up to 50 lawsuits are proceeding.

Last week, U.S. District Judge Sam Pointer of Birmingham, Ala., approved a scaled-down settlement proposal. It covers five implant makers, though not Dow Corning (BI, Nov. 11, 1995).

Briefly noted

Storms that hit California, Oregon and Washington Dec. 11-13 did \$240 million in insured property damage, making them the eighth worst catastrophe of 1995, says the Property Claim Services division. . . Late last week, Willis Corroon Group P.L.C. sold its U.S. headquarters in Nashville, Tenn., to Shorestein Realty Investors Two L.P. for \$52.4 million in cash and signed a 15-year lease on about 60% of the building. Proceeds will go partly to reduce debt (see story, page 3).

Aon sells two life units

Firm will invest proceeds in expanding insurance services

By MICHAEL SCHACHNER

CHICAGO—Aon Corp. plans to use much of the more than \$1 billion in proceeds from its sale of two life insurance units to acquire new brokerage and consulting firms.

After putting the Life Insurance Co. of Virginia and Union Fidelity Life Insurance Co. up for sale this fall, Aon quickly found an interested buyer for both companies in GE Capital Corp.

GE Capital last week agreed to pay \$960 million in cash for Life of Virginia, just six weeks after the Stamford, Conn.-based unit of General Electric Co. signed a definitive agreement with Aon to pay more than \$400 million for

Union Fidelity (BI, Nov. 20, 1995).

The sales are expected to generate nearly \$1.2 billion for Aon on an aftertax basis.

Together, the two insurance companies accounted for about \$563 million, or 76%, of Aon's \$737 million in life insurance-related revenues through the first nine months of 1995.

The deals—which will be booked in the fourth quarter though they will close sometime during the first half of this year—make GE Capital one of the largest domestic sellers of annuities and individual life insurance, while giving Aon ample cash to focus on growth in what it says is its core business—global insurance brokerage and consulting

services.

With more than \$1 billion in liquid capital soon to enter its accounts, Aon likely will be very active in 1996 in the acquisition market.

Aon Chairman Patrick G. Ryan said the company's "prime goal" for the upcoming year is to "expand our service and distribution business."

Often rumored as a possible suitor for leading brokerage firms, including most recently U.K.-based Bain Hogg Group, Mr. Ryan said it is more likely that Aon instead will continue to pursue "smaller, well-run companies that were started and have been led by entrepreneurs. These companies

See Aon on page 23

Risk managers seek more action in 1996 congressional agenda

By MARK A. HOFMANN

WASHINGTON—The list of unfinished risk management-related legislative business going into 1996 looks an awful lot like it did at the beginning of 1995.

Hopes that the first Republican-controlled Congress in four decades would swiftly approve reforms to the civil justice system, revamp Superfund reform and re-orient the Occupational Safety and Health Administration remain unrealized. In fact, only civil justice reform has been voted on by both the House and Senate, and the bills approved by the two chambers are vastly different.

H.R. 956, which the House ap-

proved in March, contains comprehensive reform of the civil justice system (BI, March 13, 1995). The Senate bill, S. 565, focuses solely on product liability reform (BI, May 15, 1995).

A conference committee met for the first time last month to begin trying to iron out the differences.

The lack of action on key insurance and risk management issues after a promising start has understandably disquieted pro-reform observers.

"It's been a frustrating year. Our early optimism has been tempered by the reality. The old Washington rule is it is much easier to stop something than to pass something," said Joel Wood, vp-government affairs for the Council of Insurance Agents & Brokers in Washington.

The frustration was shared with risk managers.

"We're a little disappointed that more activity hasn't taken place

See Agenda on page 4

New CGL policy designed to clarify defense cover

By MICHAEL BRADFORD

NEW YORK—Policyholders are studying new commercial general liability policy wording set to take effect March 1 to make certain they avoid gaps in contractual liability coverage.

Already approved in 40 states, the new CGL form from the Insurance Services Office Inc. outlines the conditions under which an insurer will defend in a lawsuit against a party under contract to provide goods or services to a policyholder. The form also excludes from coverage pollution damages under the personal and advertising injury liability section.

Although ISO bills the changes as a broadening of coverage, obliging insurers to defend in cases where they weren't so obligated before, some policyholders would actually be worse off under the new form. That's because some insurers already defend policyholders against suits under the current policies, which contain none of the conditions set to take

effect March 1.

The new contractual liability language is important to scores of policyholders, including financial institutions, hospitals and municipalities that routinely enter into hold-harmless arrangements with other companies.

Current forms contain an exclusion stating that coverage does not apply in cases of bodily injury or property damage "for which the insured is obligated to pay damages by reason of the assumption of liability in a contract or agreement."

However, that exclusion does not apply to liability for damages that are "assumed in a contract or agreement that is an 'insured contract,' provided the 'bodily injury' or 'property damage' occurs subsequent to the execution of the contract or agreement."

That wording is retained in the new CGL form, which then adds: "Solely for the purposes of liability assumed in an 'insured contract,' reasonable attorney fees

See ISO on page 19

Inside

• This week's editorial looks at what will be "in" and what will be "out" for 1996. **PAGE 8**

• A court says workers comp claimants can't sue insurers for bad faith. **PAGE 16**

• An attorney whom Lloyd's is suing for overbilling claims syndicates insured illegal arms deals. **PAGE 17**

Departments

Advertiser Index.....20
Classifieds.....18
Comings & Goings: Buyers.....21
Comings & Goings: Industry.....21

Information Resource: Employee Benefits.....10
Insider Trading.....20
Insurance Services Guide.....19
International.....17
Letters.....8
London.....17

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P/C insurers to net higher earnings: S&P

By MICHAEL SCHACHNER and MARK A. HOFMANN

Property/casualty insurers will post higher earnings in 1995, due to higher investment income and fewer major catastrophes, predicts Standard & Poor's Corp. S&P projects a 5.32% industry-wide return on operating revenues—defined as net premiums and net investment income but not capital gains—in 1995, compared with a 4.3% return in 1994. Return on revenues is a pretax measurement of performance, as compared with return on equity or return on surplus, both of which are aftertax.

New York-based S&P also forecasts that the combined ratio for property/casualty insurers will drop to 107.7% in 1995 and 107.6% in 1996 from 108.5% in 1994, with commercial insurers' greatest losses driven by environmental liability claims. Strong investment gains, not better underwriting results, get the credit for improvements in earnings in 1995, said S&P. Hurricanes and other catastrophic losses hampered underwriting results in 1995, though there were no major catastrophes, said S&P.

With earnings potential being offset by the certainty of more environmental claims, S&P said it expects insurers to take even greater action to control expenses in 1996, including the reduction of overhead and distribution costs through consolidation.

S&P also predicted that "merger mania" will continue in the property/casualty industry, while pricing competition will remain a "normal condition."

Meanwhile, the Insurance Information Institute and S&P recently released a report showing that the property/casualty insurance industry's rate of return on capital improved dramatically in 1995, though it continues to lag behind other industries.

According to the III/S&P report, the insurers' return on capital—defined as aftertax net income divided by year-end surplus—should reach 9.2% for 1995, a 64% increase over 5.6% in 1994.

Return on capital is a way to compare the financial performance of insurers to that of other industries and to evaluate the industry's performance over time.

Sean Mooney, the III's senior vp and chief economist in New York, attributed the improvement in

See Insurers on page 19

Keeping Willis Corroon on track

Reeve plans to focus on improving broker's operations

By SALLY ROBERTS

NASHVILLE, Tenn.—John Reeve, the new executive chairman of Willis Corroon Group P.L.C., is determined to keep the world's fifth-largest broker on track to restore profitability following a disappointing 1994.

"In the next two to three years, all my focus will be on further improvement in developing Willis Corroon Group much as it is. And as the environment gets harsher, we will see in the insurance brokerage community winners and

losers. We at Willis Corroon are very determined that we'll be in the winning category," he said.

Mr. Reeve, 51, formerly was managing director of Sun Life Corp. P.L.C. and joined Willis Corroon Nov. 1, replacing the retiring Roger Elliott.

After a year of cost-cutting initiatives—including laying off more than 900 employees worldwide, closing and combining offices and disengaging from non-core businesses and assets—profits are improving. Willis Corroon reported a 49.1% increase in earn-

ings for the first nine months of 1995 to £47.1 million (\$72.7 million) from £31.6 million (\$48.4 million) in 1994.

In 1994, the broker's profits had plummeted 92.7% to £5.6 million from £77.3 million (\$8.6 million from \$116.1 million) the year before (BI, July 17, 1995).

While Mr. Reeve said cost-cutting measures are far from over, his initial plans are to concentrate on what he calls "strategic focusing" and "operational excellence" within each unit.

See Willis on page 16



Coalition proves quality care plays in Peoria

By ROBERT KAZEL

PEORIA, Ill.—A coalition of employers in central Illinois is gaining more influence in determining the price and quality of health care employees receive.

The Peoria, Ill.-based Central Illinois Business Group on Health—which has operated since 1993 with neither paid staff nor an office (BI, Feb. 6, 1995)—will get both this year as it prepares to embark on new group purchasing initiatives and expanded scrutiny of area hospitals.

The group gets its first full-time, paid executive director today, when Jerry Custer, benefit manager of Central Illinois Light Co. in Peoria, takes charge. Mr. Custer had been chairman of the group's

board and took early retirement to lead the coalition.

Since late last year, the group has linked with prescription drug manager ValueRx of Bloomfield Hills, Mich., to oversee retail drug sales, provide a drug formulary and manage a mail-order pharmaceutical program for any of the coalition's 34 members that sign up. So far, five companies in the group are using ValueRx, Mr. Custer said. Employers without an existing pharmacy management vendor can expect to save 15% to 25% by joining, he said.

Late next month, the central Illinois group and allied employer health groups are expected to complete the first stage of an efficiency study of 21 area hospitals, with data collected by San Mateo, Ca-

lif.-based Iameter Inc., a medical information research firm. Five additional hospitals will be added to the study this year for the Illinois cities of Champaign-Urbana, Galesburg and Macomb.

Although the information Iameter is compiling on hospital costs, lengths of stay, outcomes and other factors is still incomplete, some companies are already incorporating it into contracts as general standards for hospitals to meet, Mr. Custer said.

"These have been very beneficial to us, because they give some benchmarks on which to base our decisions when we make our PPO contracts," said Mary Nieuwkerk, employee benefits manager at Peoria-based Citizens Equity Federal Credit Union, which is a member

of the coalition.

Eventually, employers will use the data to evaluate the pricing of specific medical procedures, Mr. Custer said.

"There is a central Illinois norm (to be) developed, procedure by procedure," he said. "It's very likely we'll reward hospitals financially or provide a disincentive, a penalty for procedures that the hospital is not performing well."

But, Mr. Custer added, "We're not at that stage yet."

A long-range interest of CIBGH remains group purchasing of medical services. This year, Mr. Custer expects the group to sign agreements with physicians, creating a network of physicians who would agree to provide care at dis-

See Coalition on page 16

CEOs at health insurers outearn those elsewhere

By ROBERT KAZEL

Top health insurance executives make more money on average than their counterparts in every other major field of business, a new study finds.

CEOs in health insurance earn, on average, 80% more than top executives in industries with companies of similar size and performance.

In his yet-to-be-published study, Graef S. Crystal, the San Rafael, Calif.-based editor of the Crystal Report newsletter, looked at the total compensation packages of 896 CEOs in 22 industries from 1992 to 1994.

The highest-paid health insurance CEO, according to Mr. Crystal, was Daniel D. Crowley of Rancho Cordova, Calif.-based Foundation Health Corp., with \$6.1 million in average annual compensation including salary, bonus, performance payouts and stock options. By Mr. Crystal's reasoning, that pay is 277% better than should be expected for a company with Foundation's

size and performance record.

Mr. Crystal, well-known for opposing undue inflation of pay levels among top executives, also noted that several health insurers in his study are underpaying their CEOs based on what might be expected for their size and performance. But the highest-paid executives are reaping so many millions, he said, that they have boosted average pay scales for the industry out of proportion to other fields.

"The ones that are over (the average) are over so much more than those that are under," Mr. Crystal said.

However, a spokesman for Foundation Health Corp., as well as several industry consultants, questioned how much could be concluded from Mr. Crystal's study—and Foundation is questioning his raw numbers, as well.

Mr. Crowley received total compensation of \$3 million, on average, between 1992 and 1994, said Kurt Davis, vp for investor relations at Foundation. He also received

See Pay on page 23



'Mixed' messages helpful on savings plans

By JUDY GREENWALD

SAN JOSE, Calif.—Communicating savings plan information to the entire spectrum of the workforce is a growing challenge for employers, says the man credited with designing the first 401(k) plan.

At one end of the spectrum are new employees who have "no idea" what a 401(k) plan is; at the other there are people who have either already retired or are about to; and then "you have everybody in between," said R. Theodore Benna, now president of Langhorne, Pa.-based 401(k) Assn.,

which represents plan participants.

Mr. Benna was among the speakers at a roundtable on benefit communication last month, which was sponsored by publisher Investors Press Inc. of Washington Depot, Conn.

You must keep the whole spectrum of the workforce informed, said Mr. Benna. However, most materials go "way beyond" the understanding of those on the lower end, he said.

"Don't lose sight of your audience," he warned.

Communications is "always a challenge," said Rex Gooch, bene-

fits manager for the Golden, Colo.-based Coors Brewing Co., who also spoke during the session. Coors has a staff member who specializes in this area and "does a marvelous job" in keeping the material simple.

Some people, he observed, do not mind complex material, while others need to have it kept simple.

"I think it doesn't hurt to kind of mix it up" by making a basic information piece fairly complex, then taking advantage of the question-and-answers portion to make it simple, said Mr. Gooch.

In addition to knowing your constituency, you must be aware

of where their information is coming from, said Madeline McMenamin, director of personal financial education services for Watson Wyatt Worldwide in San Francisco.

Upon investigating why new hires were not participating in its 401(k) plan, a high-tech firm discovered a recruiter was telling them they did not have to worry about joining until they were 40 or 50, Ms. McMenamin said.

Do not second-guess workers, either, recommended Ms. McMenamin.

She said she was once approached by a forklift operator

and fully expected a simple question about certificates of deposit. Instead, to her surprise, she was presented with a spreadsheet and learned the operator had a "portfolio to die for" along with a highly technical question.

Coors' Mr. Gooch said that before 1990, like most companies, Coors' primary method of informing employees about the program was through a summary plan description, and the company did not do much in the way of retirement savings communication.

In 1990, however, "we shifted our communications strategy." At

See Inform on page 15

Agenda

Continued from page 2

on Superfund and OSHA, but it seems obvious that the budget has become the dominant focus to the exclusion of some other initiatives that we're still hopeful we'll see progress on in the future," said William J. Kelly, president of the Risk & Insurance Management Society Inc. and senior vp and risk manager at J.P. Morgan & Co. Inc. in New York.

"We were thrilled that for the first time both chambers of Congress passed civil justice reform bills, but then again, ultimately we still don't have a final bill, so that was a little disappointing," said Paul Brown, director of government affairs for RIMS.

"Like most Americans, not just risk managers, I'm kind of disappointed and bemused at the same time at our friends in Congress and

their inability to do anything," said Robert Esenberg, risk manager for the city of Virginia Beach, Va.

"We can expect some legislation to work its way through the system. It's probably going to be watered down from what RIMS would like to see," said Mr. Esenberg, who is a former vp-government affairs for RIMS.

Yet, as the new year begins, there are some signs that the progress will resume. Even though there is still no Senate Superfund bill, a meeting between insurance executives and House GOP leaders last month gave another push toward reform as the insurers emphasized their willingness to settle for less than a total repeal of Superfund retroactive liability, provided the industry was not hit with new taxes (*BI*, Dec. 25, 1995). And the mere fact that a conference committee has begun meeting to fashion a compromise product liability bill holds out some hope that the legislative logjam may be

broken, too.

Product liability reform was "on a short list of things they were going to try to do before the new year and obviously they didn't do it," said Tom O'Day, associate vp in the Alliance of American Insurers' Washington office. The budget impasse that brought Washington to a near standstill in December and the fact that many of the lawmakers involved with product liability reform were also involved with telecommunications reform legislation pushed product liability reform into 1996, he said.

Mr. O'Day said that the congressional calendar—already knocked off kilter by the budget deadlock—remains unclear. "And of course the things that complicate all of this are the presidential primaries," which begin next month. Nevertheless, he remains optimistic. "It's still on the top of the agenda for congressional action," he said.

Congressional leaders "hope to bring it back to the floor very early in the session," said Ann Gosier, executive director of the Arlington, Va.-based Product Liability Coordinating Committee. Ms. Gosier, who called herself "optimistic" about the bill's chances, predicted only that it would contain a "very strong core product element."

Another veteran proponent of liability reform is even more positive.

"I am happy with the way things are going. Obviously, we would have been happier if it had been wrapped up and under the tree before Christmas," said James Anderson, vp-government relations for the National Assn. of Wholesaler-Distributors in Washington.

"I'm very optimistic about what can happen in early 1996 on this issue. I believe it will be primarily a product liability bill" containing some broader reforms, he said.

Mr. Anderson said he believes

President Clinton will sign the liability reform measure "if this bill is, as I suspect, primarily a product liability bill." If he "does not sign it, we're going to know precisely where the president stands," which will be with the trial bar, he said.

Neither Ms. Gosier nor Mr. O'Day read much into the congressional override of President Clinton's veto of H.R. 1058—a securities litigation reform bill—as an indication of what will happen with product liability.

"They really are very different issues. I'm not sure there is really a great deal of connection," Ms. Gosier said.

But Mr. Anderson said that the passage of the securities reform legislation and subsequent override of the president's veto underscore that "there is a strong undercurrent of support in both houses of Congress for legal reform." He noted that the passage of H.R. 1058 marked the second time in little more than a year that Congress has approved a liability reform bill. The first, a measure somewhat limiting the product liability exposure of manufacturers of general aviation aircraft, became law in August 1994.

The willingness of Congress to override the president's veto "was frankly a plus" in the larger effort for legal reform, said Mr. Anderson.

Congress considered the securities plaintiffs' attorneys to be "inflating, to put it mildly" the potential impact of the measure on small investors, he said.

Mr. O'Day said he expects more resistance from the trial bar regarding broader legal reform than that mounted against the securities bill. "Clearly, this is a much bigger target for the trial lawyers than the securities bill."

The outlook for Superfund reform has also improved after months of frustration for reform advocates. The catch is that reform, as embodied in H.R. 2500, now seems very unlikely to go as far as insurers and risk managers would like. Both groups sought full repeal of Superfund's imposition of retroactive liability, but GOP leaders responded that the federal government lacked funds for full repeal unless insurers agreed to an industry-specific tax to pay for it. After meeting last month with congressional leaders, insurance executives said they would like to see as much reform as possible without any industry-specific levies.

That drew a mixed response from risk managers.

"It was a combination of emotions. We were thrilled that for the first time Congress discussed seriously the elimination of retroactive liability from Superfund, but ultimately we still find ourselves in the same place with reform that includes many good things but fails to address the most problematic aspect of Superfund, and that is the current liability scheme," said RIMS' Mr. Brown.

The third major area of concern to risk managers—OSHA reform—may also be resolved this year. Bipartisan reform bills have been introduced in both houses of Congress and the hearing process on both measures is under way. Once again, the bills are widely divergent, with the House measure, H.R. 1834, calling for wholesale changes in OSHA's operation and mission while the Senate measure, S. 1423, takes a much narrower approach (*BI*, Dec. 4, 1995; June 19, 1995).

"We were happy to see them take up the OSHA reform issue and look forward to continue working on developing an adequate reform bill," said Mr. Brown.

"Obviously, we're going to see the president veto bills he feels are inappropriate and I don't think the Republicans are going to have the votes to override the vetoes," Mr. Esenberg warned. **BI**



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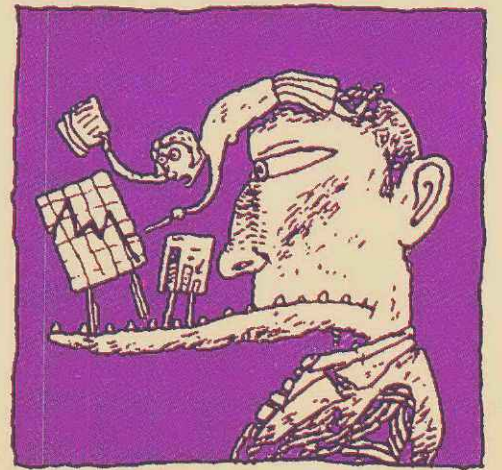
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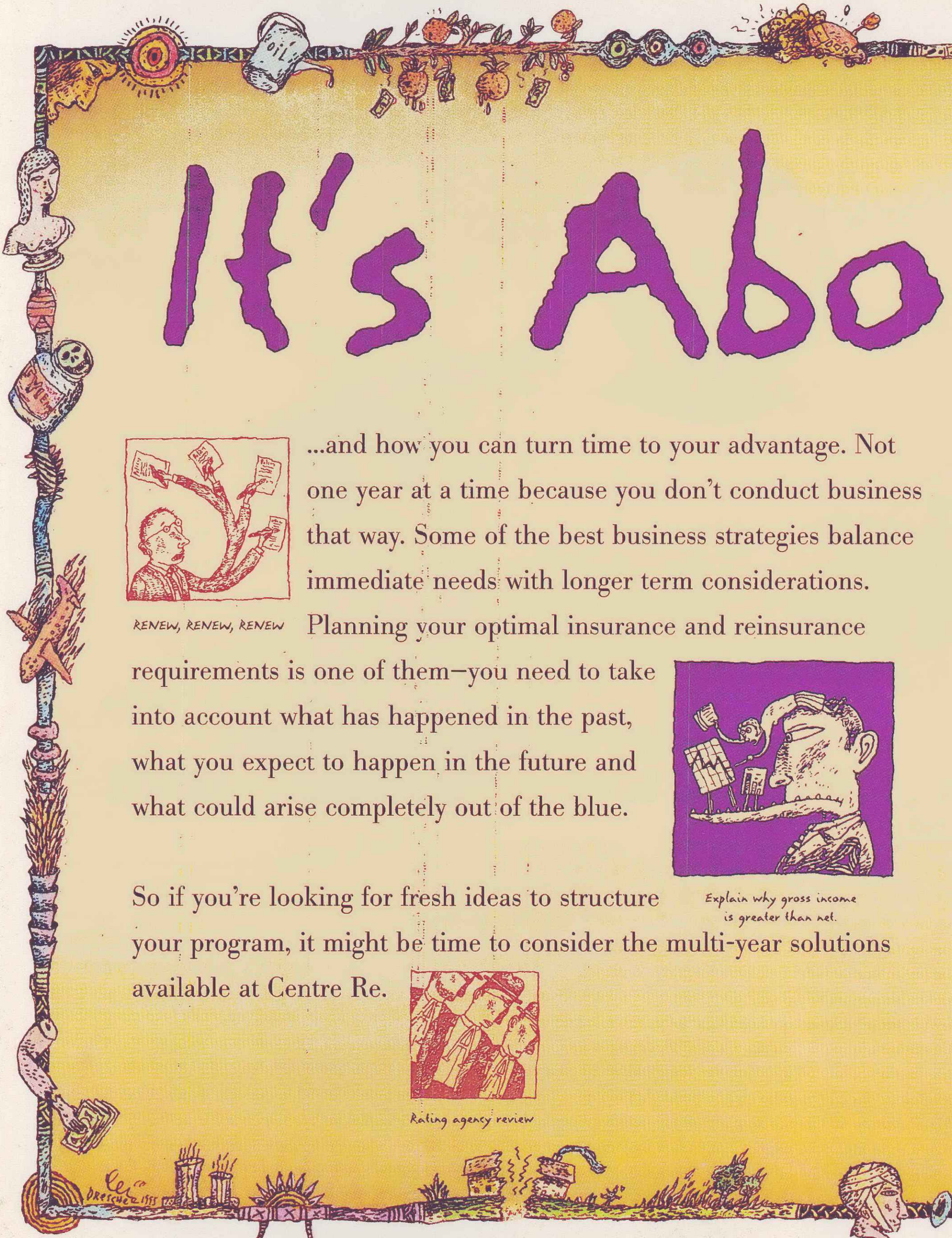


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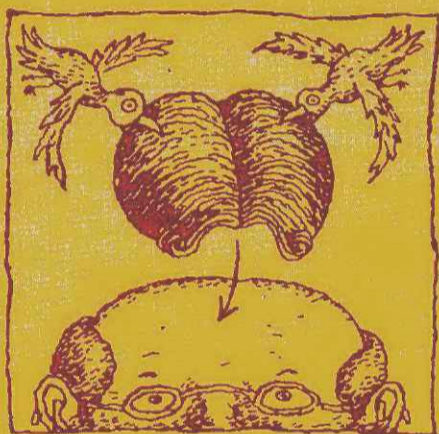


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Opinions

BI predicts trends for 1996

AS THE NEW YEAR commences, it is again time for our annual look at what will be "in" and "out" in the worlds of risk management, employee benefits and commercial insurance over the next 12 months.

While many of our prognostications are sometimes wishful thinking on behalf of our readers, several predictions of what would be "in" for 1995 were right on the mark: better-funded pension plans; Newt Gingrich; massive increases in reserves for long-tail losses; the Internet and e-mail; insurance industry consolidations; and a new settlement offer to end Lloyd's of London litigation.

Likewise, some of our predicted "outs" indeed faded from view in 1995: the Environmental Insurance Resolution Fund; Hillary Clinton; McCarran-Ferguson modification; and, to an extent, defined benefit plans.

But, like any other crystal-ball gazers, we had our share of misses, too, including forecasts for: widespread state health care reform efforts; an end to insurers keeping policyholders and regulators in the dark about pollution exposures; a settlement of claims from Pan Am Flight 103; a declining number of public offerings; and the repeal of Superfund's retroactive liability.

What follows is our ninth annual stab at divining the ins and outs of the new year:

- In:** Lloyd's of London run-off reinsurer Equitas Ltd.
- In:** A narrow federal product liability reform bill.
- In:** Business-oriented OSHA reforms.
- In:** Continued mergers and consolidation in the property/casualty industry.
- In:** Continued mergers and consolidation in the managed care industry.
- In:** Interstate compacts on insurance issues.
- In:** Modest Superfund liability reform.
- In:** Decreases in employee benefit plan costs.
- In:** Outsourcing of employee benefits administration.
- In:** Extending benefits to employees' domestic partners.
- In:** More insurers proposing segregating long-tail liabilities.
- In:** Toronto travel guides.
- In:** Greater convergence of insurance and financial products.
- In:** Rumors about the next brokerage firm Aon Corp. will buy.
- In:** Insurers buying more catastrophe reinsurance.
- In:** Corporations buying higher limits of excess liability coverage.
- In:** New legal challenges to state workers compensation reforms.
- In:** New efforts by states to regulate risk retention groups.
- In:** More state lawsuits against tobacco companies.
- In:** Greater awareness of earthquake exposures outside California.



"I HOPE YOU CAN HANDLE THE PRESSURE OF THE JOB."

- Out:** Disagreement over NAIC accreditation standards.
- Out:** Pre-existing condition exclusions.
- Out:** Overreliance on defined contribution plans for pension benefits.
- Out:** Opposition to CIGNA Corp.'s reorganization and reserving plan.
- Out:** Warsaw Convention limits on airline liability.
- Out:** Litigating Lloyd's of London members.
- Out:** Pollution coverage in European general liability policies.
- Out:** Bloated corporate employee benefits departments.
- Out:** Broad federal tort law changes.
- Out:** Full repeal of retroactive liability under Superfund.
- Out:** Failure to pass along provider discounts to health plan participants.
- Out:** Generalist commercial insurance companies.
- Out:** Secrecy at NAIC meetings.
- Out:** Paying premiums first to a broker rather than direct to insurer.
- Out:** Creation of a federal natural disaster reinsurance pool.
- Out:** Employer reluctance to introduce managed health care plans.
- Out:** Health plan data collection efforts by the federal government.
- Out:** State lawsuits alleging securities law violations by Lloyd's of London.
- Out:** Ridiculously short hospital stays after normal childbirths.
- Out:** Holding online service providers liable for content they do not control.

Letters

Ad critics should focus on ability, not gender

To the editor: I am writing in response to Ann Massie Nelson's letter in your Nov. 13 issue regarding ads in the Oct. 9 issue of *Business Insurance*.

In her letter, Ms. Nelson laments the fact that the Reliance National ad copy perpetuates stereotypes of women as care-givers and in traditional employment roles. I guess

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to Letters to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: 76735.3045@compuserve.com.

Ms. Nelson has never seen some of our other ads, where women are shown in varying roles.

For example, our Risk Management Services Division ad, titled "Where There's No Room for Doubt," shows a woman in a business suit with "serious" horn-rimmed glasses. A lawyer? An executive? A CEO? Gee, I guess we didn't spend much time thinking about it!

As marketing vp for the Risk Management Services Division, which includes our excess workers comp, alternative workers comp and managed care units, it is I who am ultimately responsible for the advertising and marketing campaigns that we generate.

I guess that I neglected to put my "female-sensitivity hat" on when we were working under deadline to come up with

something eye-catching that would help sell our product. I work with our corporate advertising director, also a woman, to develop our ad copy.

Obviously, I lack the gender-sensitivity of the politically correct that is currently in vogue today. This, despite the fact that I am in an "untraditional" work role for a woman! I guess I should be thinking about how I am not a teacher or a pink-collar worker instead.

How about focusing on abilities and outcomes, not gender, for a change? Let's put our energies into something more results-oriented! Believe me, it comes naturally to the men.

Marla Donovan Lang
First Vp
Reliance National Insurance Co.
New York

Business Insurance

Reporting weekly for corporate risk,
employee benefit and financial executives

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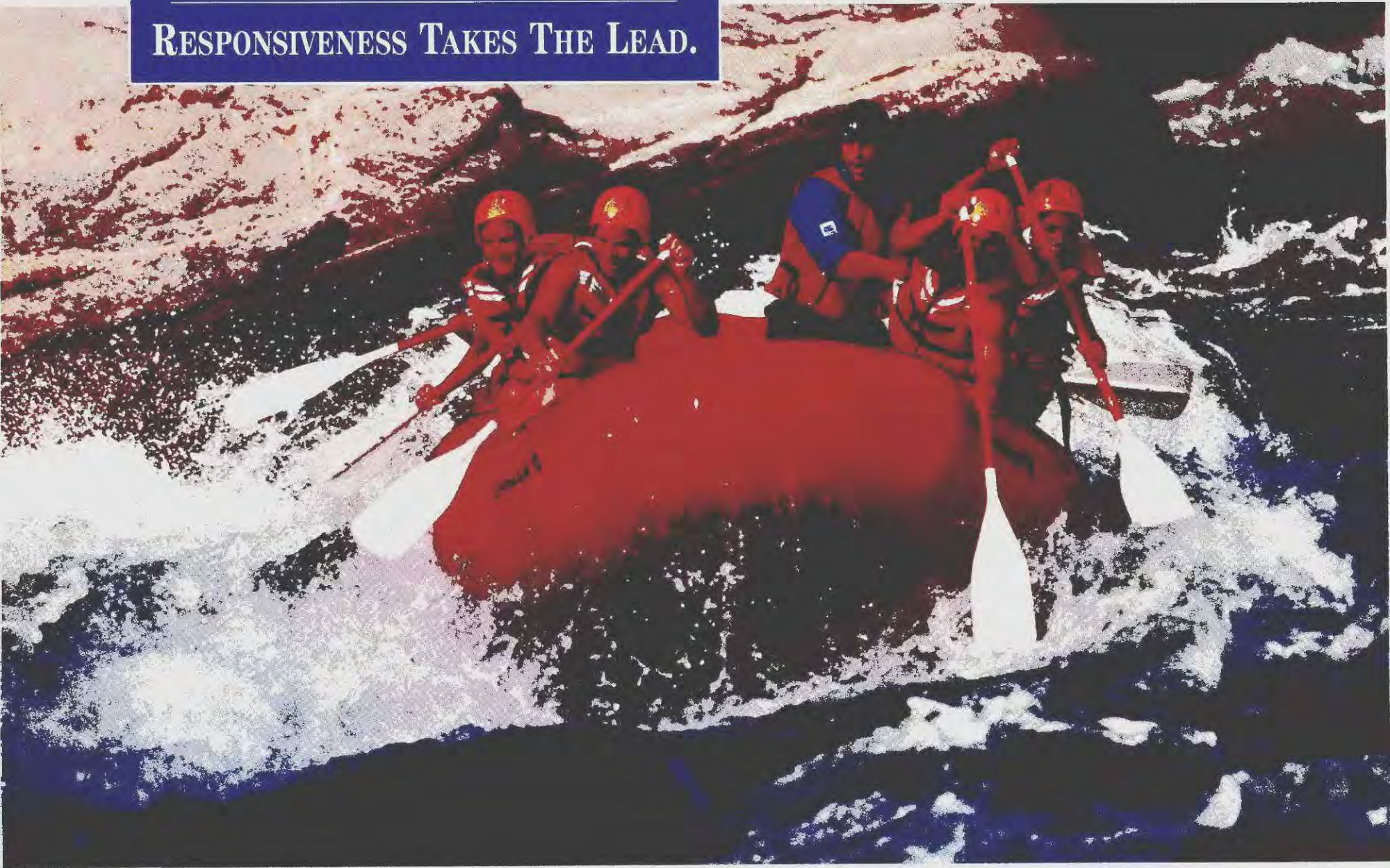
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Risk Management Information Resource listings will appear in the Jan. 22 issue of *Business Insurance*.

To receive any of the free materials listed in this special section, please write the key numbers of those items on the reader service coupons that are printed throughout the section. Fill out the remainder of the coupon and mail it to:

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All requests must be received before April 6 to be processed.

AUTOMATED SYSTEMS AND SOFTWARE FOR AGENTS AND BROKERS

■ AMS-AIM Division offers an article with tips on **buying a prospect list** from a data vendor. Request item 101.

■ An instructional guide to using a computerized system for the **quoting and preparation of premium finance agreements** is offered by Agency Premium Resource Inc. Request item 103.

AUTOMATED SYSTEMS AND SOFTWARE FOR INSURERS

■ A newsletter offered by TXEN

Inc. reviews topics like **electronic data interchange** within the third-party administration and physician health organization industries. Request item 201.

■ SPECTRUM Human Resource Systems Corp. outlines the history and future of the PC-based **human resource information system**. Request item 202.

■ **Trends in technology** use by health care and life insurance administrators are covered in a newsletter from Genelco. Request item 203.

■ INSTEC provides an article examining new approaches to improving the **delivery schedule of automated products**. Request item 204.

■ An **automated sales center for Windows** is critiqued in a magazine review provided by AMS-AIM Division. Request item 206.

■ Two fact sheets from Trans Union/DATEQ summarize several **information retrieval and database information products**. Request item 207.

■ TXEN offers a manual for a **managed health care system** for use in the administration of an insurance company, managed care organization or TPA. Request item 208.

■ The capabilities of a **group marketing system** are highlighted in an information packet presented by CSI Software Inc. Request item 209.

■ Medata Inc. supplies a brochure explaining the features of an electronic data interchange **billing review system**. Request item 210.

■ Proservices offers a paper describing its integrated information **network for providers to communicate with insurers**. Request item 211.

EMPLOYEE BENEFITS

■ Pearle Vision Managed Care provides a research summary regarding the availability of **vision benefits to seniors**. Request item 501.

■ The factors that influence **corporate absenteeism** are explored in a booklet from Martin-Dennison Press. Request item 502.

■ An article offered by Occupational Health Services details the **traits of effective therapists** in managed behavioral provider networks. Request item 503.

■ AHC supplies a newsletter covering the latest trends in **health benefit plans**. Request item 504.

■ An information kit from Blue Cross & Blue Shield Assn. outlines the **network management approach** of HMO-USA within the managed care industry. Request item 505.

■ Health care **cost control options** available to employers are explained in a brochure provided by The Mutual Group U.S. Request item 506.

■ Buck Consultants Inc. offers a newsletter discussing the advantages of **outsourcing benefit administration**. Request item 507.

■ A catalog from the International Foundation of Employee Benefit Plans lists **employee benefit books**, research reports, video and audio tapes. Request item 508.

■ Current **legislative and regulatory issues** affecting compensation and benefit plans are detailed in a booklet supplied by W.F. Corroon. Request item 509.

■ StayWell Health Management Systems Inc. presents a manual with a personal **health risk assessment test**. Request item 510.

■ Public attitude toward **eye care** is examined in a research paper from Pearle Vision Managed Care. Request item 511.

■ Several fliers offered by ADMAR Corp. detail how **expectant mothers** can prevent complications during pregnancy. Request item 512.

See Resource on page 12



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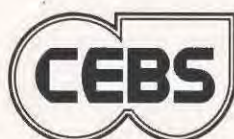
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Resource

Continued from page 10

■ **Conferences** sponsored by the International Foundation of Employee Benefit Plans are listed in a booklet. Request item 513.

■ Buck Consultants Inc. provides a paper explaining an **IRS private letter ruling** that allows the coupling of a non-qualified retirement plan with a qualified 401(k) plan. Request item 514.

■ An outline from NIA National Consulting features employee benefit **cost containment recommendations**. Request item 515.

■ **Accelerated death benefits** are defined in a research brief prepared by The Alexander Consulting Group Inc. Request item 516.

■ ReliaStar supplies a booklet on the role of **hospital executives and managers** in communicating with key audiences. Request item 517.

■ A statistical profile of the dental benefits market is available from Delta Dental Plans Assn. Request item 518.

■ The International Foundation of Employee Benefit Plans offers a course catalog for a **certified employee benefit specialist** program. Request item 519.

■ United Wisconsin Services Inc. offers a fact sheet summarizing its **managed care products**. Request item 520.

■ The Segal Co. offers a 1996 annual **reporting and disclosure calen-**

dar for benefit plans. Request item 521.

■ **Hybrid pension plans** are described and compared against traditional defined benefit plans in a newsletter from Buck Consultants Inc. Request item 522.

■ Pearle Vision Managed Care provides a research paper measuring **public opinion of vision benefits** against dental benefits and vacation days. Request item 523.

■ An article from The Alexander Consulting Group Inc. reviews the status of **state health care reforms** and the effect of the Employee Retirement Income Security Act on states seeking to expand access to health coverage. Request item 524.

■ Meridian Resource Corp. presents an article examining how utilization review providers are developing ways to deal with **new challenges of case management** in a point-of-service environment. Request item 525.

■ A magazine provided by the International Society of Certified Employee Benefit Specialists features articles on **health care, retirement and total compensation**. Request item 526.

■ Midwest Legal Services Inc. offers a booklet detailing how to choose a **group legal plan**. Request item 527.

■ A guide to identifying **provider billing abuse** in medical claims is available from Medical Opinions Inc. Request item 528.

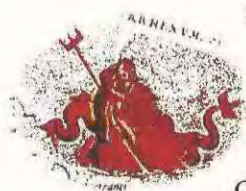
■ The review process of a **utilization management firm** is discussed in a

Continued on next page

Imagine if

CONVENTION WENT WITHOUT CHALLENGE

Despite popular views Christopher Columbus unrelentingly pursued the most ambitious economic idea of his time—a direct route west to the Orient. Public opinion was wrong of course. He

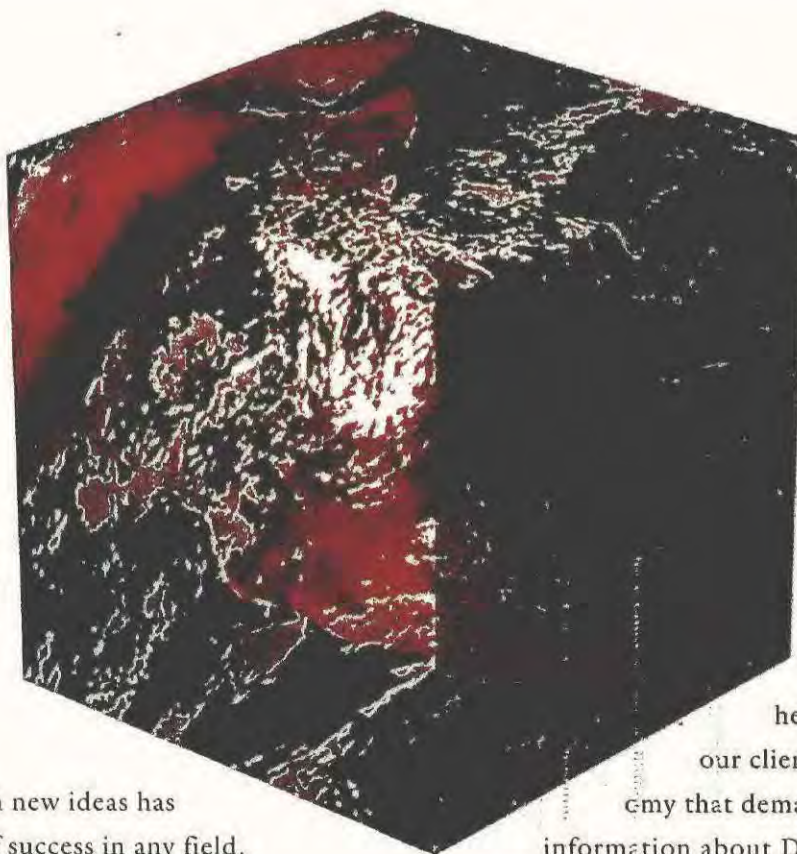


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*Combining strengths yields
international opportunities
for agency, broker networks*



Networking paying off for agents, brokers

Access to insurers, market expertise boosts opportunities

By SALLY ROBERTS

In today's competitive insurance marketplace, some agents and brokers are finding that two heads are better than one.

Agency networks are becoming more common within the

industry as agents and brokers join forces—through both formal networks and informal arrangements—to obtain an international presence, access new markets, gain clout or share information, resources and techniques.

"Short of a merger, agents and brokers are beginning to pool their resources and share information like they've never had to do in the past," said Sharon Cunningham, president of agency consultant Business Management Group in Hartford, Conn. "The market is so

Agency NETWORKS

competitive and it's so difficult to know everything" going on in the industry, she said.

"We're seeing a whole new wave of how products are being distributed" within the insurance marketplace, said Timothy Cunningham, senior vp at consulting firm Hales & Associates in Westchester, Ill., referring to the different types of agency networks being formed.

"It's a wacky network world."

While much of the networking in the marketplace today involves smaller agencies forming what are known as cluster arrangements, networking is not just for the small. For instance, six large brokers recently formed a new network called ExcelNet. The brokers—Indianapolis-based Acordia Inc.; Dale-Parizeau Inc. of Montreal; London's Bain Hogg Group; Inchcape Insurance Services of Hong Kong; Paris-based CECAR; and Eois & Begault of Brussels, Belgium—have joined

forces through a proprietary risk management information system that will enable them to provide reciprocal service to multinational clients (*BI*, Sept. 11, 1995).

Another example, though not a network for servicing clients, per se, is the World Insurance Network. Formed recently by six of the world's largest brokers, WIN is a global electronic network designed to provide the infrastructure and standards for agents, brokers, insurers and reinsurers to link up with each other around the globe (*BI*, Nov. 6, 1995). WIN is equally owned by Marsh & McLennan Cos. Inc., Sedgwick Group P.L.C., Aon Corp., Alexander & Alexander Services Inc., Willis Corroon Group P.L.C. and Johnson & Higgins.

Although more agents and brokers are pooling their resources, consultants say there is no precise definition of how an agency network is constructed. Generally, networks take one of three forms:

- Networks like ExcelNet are set up to link brokers around the globe with the goal of exchanging information, reducing inefficiencies, improving customer service and in most cases reciprocating business.

- UNISON, of which Johnson & Higgins owns a majority stake, is an example of such a network, as well as the European network FDG S.A., which Kansas City, Mo.-based Lockton Cos. recently joined.

- Networks like Assurex International and Intersure Ltd. are set up for agency members to share data with other member agencies in different regions of the country.

Under these arrangements, agencies typically pay a fee to the central corporation for such services as discounted long-distance telephone rates, errors and omissions coverage and loans. Member agents, which tend to be regional, also have access to other non-competing members around the country to learn about techniques, approaches and trends in the marketplace.

"The glue that holds these traditional affinity groups together is the ability to share information with colleagues that are not competitors," Mr. Cunningham said. Agents have to ask, though, if the network is "really delivering value on the investment."

- Clusters are a type of network that enable smaller agencies to gain clout with insurers and obtain access to more markets.

Agencies give part of their commissions to a "core entity" that takes on all or some of their administrative duties. In return, members gain markets and have more time to sell. This is "an effect of the marketplace and insurers looking for more effective ways to distribute products," Mr. Cunningham said.

Stephen C. Flowers, a partner with The Formula Group, a Hockessin, Del.-based cluster consulting group, said four factors are leading agents to join clusters: Soft property/casualty prices are stymying agency revenue growth; agents are complaining about administrative duties; insurers view doing business with agencies that

See **Networks** on page 12D

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Agent/Broker Topics

Intersure focuses on information

Exchange of ideas dominates, not marketing or placements

By MICHAEL SCHACHNER

For the past 25 years, independently owned insurance agencies have been using the Intersure Ltd. network to exchange ideas and trade sales and management tips.

Since its inception, Intersure's membership has prided itself on being one of the leading agent/broker networks committed to information exchange.

"Education and information exchange are the critical benefits of belonging to Intersure. It gives you the ability to interact with your peers," said Dennis Johnson, presi-

dent of Intersure and president of the Brooks Insurance Agency Inc. in Toledo, Ohio. "We have always felt that this would improve our member agencies."

With their primary concern information, only occasionally do Intersure members place business on behalf of each other.

Today, about 40 U.S. and Canadian companies belong to the Warrenton, Va.-based network. London-based Lowndes Lambert Group Holdings P.L.C. is an inter-

national partner.

Collectively, member companies had \$213 million in commission-based revenues last year on about \$1.3 billion in gross written premiums. Most Intersure members have annual revenues of about \$5 million. The largest produces \$20 million.

Companies that produce as little as \$2 million are eligible for membership.

Mr. Johnson said that membership has more or less leveled out in

recent years at about 40 companies.

"Each year a few join us and we lose a few through attrition. It's the independence requirement that causes us to lose members. When an agency is bought up by a large broker, they are out of the network."

Unlike networks geared toward providing members with sales and marketing arms in various regions and countries, Intersure is primarily a forum for members to exchange business ideas.

"We're not trying to become some huge marketing operation. We're not looking to become a cast of thousands. We're member-driven with a limited staff. In no

way are we a marketing organization," said Mr. Johnson.

Nevertheless, business needs do sometimes force members to turn to each other for placements and counter signatures.

"The network has evolved to include placing business, especially overseas. That's where our global affiliate, Lowndes Lambert, helps," he said.

Lowndes Lambert, the 15th-largest brokerage in the world, has offices in the United Kingdom, Europe, Asia, South America and elsewhere, "and they do allow us regional brokers to compete on a global basis. It improves our access

Continued on next page

Networks

Continued from page 12B

produce small premium volumes as cost-prohibitive; and insurers are becoming more receptive to clusters.

Indeed, insurers are just beginning to see agency clusters as an attractive way to distribute products.

"What I like about clusters is I have access to three to five to 100 agencies, and all the business is done through one controlling arm. I make only one appointment and have access to many agencies," said Mark Bowsher, regional vp and general manager for Royal Insurance in Syracuse, N.Y., which uses clusters for personal lines products.

Efficiency also draws Mike Collier, second vp-agency marketing for Travelers Corp. in Hartford, Conn.

"It's so expensive to deal with so many agencies," he said. Not only do clusters reduce costs, but smaller agencies also tend to be profitable, located in a less litigious environments, have higher client retentions and have better allegiances with their customers as well as personal customer contacts, he said.

But just as new clusters are forming, others are failing.

Clusters tend to fail due to lack of commitment. "You need a hunger and drive to make clusters work," Mr. Flowers said.

Overall, "there needs to be a high level of trust between the partners and a clear vision of who's doing what," he said.

In addition to a full-time "enlightened dictator" at the helm, clusters need "enormous critical mass" to survive, said Twig Branch, president of Iroquois Insurance Group, a 700-member cluster network in Charlotte, N.C.

A surprising number fail for that reason, said Mr. Branch, who figures it takes 250 members to "make the math work" for a cluster.

The following stories provide some examples of networks. ■



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Continued from previous page to markets around the world."

Mr. Johnson said sometimes Lowndes Lambert is called upon to provide "simple assistance," while at other times the broker functions as a wholesaler and actually places business for Intersure members.

Domestically, Intersure's members are spread throughout the country and in Toronto and Montreal. We're well spread out along the West Coast and throughout the East and South. We may be trying to fill a few holes, but we don't want to build membership based solely on geography. We only want progressive agencies that are willing to share information," Mr. Johnson

said.

"We do need a member in the Los Angeles basin, Nevada and we could use a strong, regional company in Montana, Wyoming and the Dakotas," added Edward "Ted" Troy, CEO of Bowles Troy & Associates in Dallas and a vp in charge of membership with Intersure.

Intersure members meet twice per year in the city of one of its members. During those gatherings, members tour the host agency and meetings are held aimed at improving productivity.

"We really stress attendance at these meetings and we acknowledge that there are costs involved. That's why we may not be attrac-

tive to the smaller agency," said Mr. Johnson.

"At these meetings it's really members only. We don't bring in outside people to talk and lecture. It's more like group therapy," said Mr. Troy. "Each member comes to these meetings to share ideas and examples that they have extracted from their business. Then we'll try some of those ideas on our own."

Membership in Intersure costs \$2,000 per year. Criteria for membership are unbending. Prospective members must be independent and demonstrate financial strength, a stable history and a progressive approach to client services.

In its membership brochure, the

network includes the following as benefits of belonging: access to comprehensive databases and localized information about risk management practices in other locations; purchasing clout resulting from more than \$1.3 billion in aggregate premiums; immediate representation in countries throughout the world; placement opportunities with new insurers; having "branch offices" in more than 40 cities; and participation in daily fax communications.

For more information on Intersure, contact Mildred Curtis, executive director, Intersure Ltd., 3 Hotel St., Warrenton, Va. 22186: 703-349-0969; fax: 703-349-0971. **EI**

Diversity in insurance gets Premiere opportunity

By SALLY ROBERTS

Based on the notion that diversity is not a social issue but a business opportunity, Premiere Insurance Center Ltd. is helping minority- and women-owned insurance agencies gain the markets and resources they need to prosper.

"The American agency system is not addressing diversity" by helping to provide minority entrepreneurs the access and means to start their own business, said Ezell Jones, founder and CEO of Premiere Insurance Center, which is in the process of moving to Chicago from Minneapolis.

To maintain market share and profitability in the future, insurers need to change their view of diversity from a social issue to a business opportunity, he said. "That's where the numbers are," he said, referring to the increase in the number of women- and minority-owned U.S. businesses. "There should be a distribution channel for that."

There are "people like myself who are 40-plus, who have gained all the experience in a large corporation and want to start their own agency," but the capital and market access is not readily available, said Mr. Jones, who left Alexander & Alexander Services Inc. in 1990 as a senior vp in the firm's construction wrap-up division.

That's where the Premiere Insurance Center comes into play.

Since 1994, the national agency cluster group has provided the leadership, markets, management skills and administrative services that minority and women-owned independent insurance agencies need to grow their business—resources that many small, minority-owned agencies cannot afford on their own.

Not only is the insurance center "a survival package" for women- and minority-owned agencies to build their own business, it also provides an avenue to urban America, which the industry "has woefully neglected," Mr. Jones said.

Premiere's 14 member agencies and seven insurers are targeting businesses generating between \$1 million and \$100 million in annual revenue and a minimum premium of \$25,000 within metropolitan areas containing significant minority populations.

In cities across the country, Premiere agencies specialize in such programs as: publicly funded wrap-up projects; public-subsidized private projects with minority participation requirements and major defense and aerospace industry contractors, to name a few.

See **Premiere** on next page



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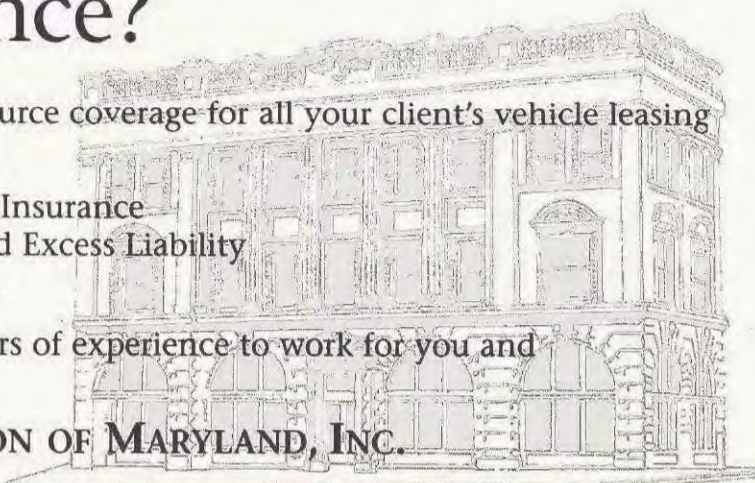
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Premiere

Continued from previous page

Premiere's marketing strategy also includes strategic alliances with larger brokers in specific coverage areas. Currently, Premiere's primary broker relationships with New York-based Marsh & McLennan Cos. Inc., with which Premiere member agencies work on major construction wrap-up business in both the public and private sectors.

By establishing a strategic alliance with Premiere, "we provide resources both financially and technically to all the members. For that, we get a one-stop-shop arrangement," said Frank McDougald, a managing director for M&M in New York.

In exchange for sharing commissions, Premiere member agencies receive access to training, systems and other resources from M&M.

Mr. McDougald said M&M has gone further and is expanding its alliance with Premiere to its traditional property/casualty business.

Premiere member agencies pay an annual fee of \$1,500 and give up 40% of any commissions made through the cluster. In return, member agencies have access to Premiere's "back room," which for

additional user fees includes data processing, access to insurance markets and programs, automation and loss control and safety specialists.

Mr. Jones recently purchased a new agency management system, which will be installed in March. Members will be able to use the system to electronically transmit coverage applications to Premiere.

Members also have access to what Mr. Jones calls "core service agencies." These member agencies have an expertise in a specific class of business and will set up income-sharing arrangements with other member agencies that need the expertise on an account, he said.

Agencies must place all commercial lines business through the cluster and be committed to producing within the first five years of membership \$2.5 million in premium volume and generate \$300,000 to \$500,000 in commissions.

Member agencies also must be committed to fostering a mentor program with minority college interns, Mr. Jones said.

To gain membership, Mr. Jones said he looks for women- or minority-owned agencies with "good, solid, confident performers."

For more information on the Premiere Insurance Center, call 800-737-4774. **EI**

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Assurex goal remains agents helping agents

Network has grown to include 65 members

Agencies and brokerages both large and small increasingly are networking. Although some of the world's largest brokers have formed international alliances recently, one organization has been networking among members for decades: Columbus, Ohio-based agency network Assurex International.

Assurex's membership has grown from just three independent agencies 41 years ago to 65 members in 23 countries. Assurex Chairman Tom Harvey spoke recently with Associate Editor Deborah Shalowitz Cowans to explain how it began and where it is heading.

How was Assurex founded? What was the network's mission then? Has its mission since changed?

Assurex was founded in 1954 by three independent, midsize agencies in different parts of the country that were pursuing a multilocation account. They realized, to their surprise, that they had an awful lot in common—in dealing with markets, in dealing with employees and in a lot of financial issues. They began working together and realized they could really help each other. They formed a company that became Assurex.

The mission has not changed a bit. Even now, the primary function of Assurex is to help our partners learn from each other.

However, the mission has been complemented by other activities to help the agencies grow.

In 1981, Assurex created an entity called the Assurex Development Corp. to provide our partners with fixed-rate loans to expand ownership and to create employee stock ownership plans. We really believe the better agencies are those that have expanded ownership. We have loaned more than \$45 million to some 30 Assurex partners. They have remained independent because of the financial resources from ADC.



Mr. Harvey

In 1986, when the agents errors and omissions market turned hard, Assurex formed Professional Agencies Reinsurance Ltd., or PAR Ltd., to provide a stable source of E&O insurance. Fireman's Fund provided the initial capital and continues to provide underwriting services. The Council of Insurance Agents & Brokers joined Assurex in sponsoring PAR. There are more than 100 members of PAR, and more than half of Assurex partners are members of PAR.

In 1990, the Assurex Marketing Group Inc. was formed to bring out specialty, focused niche programs that our partners could sell. Assurex

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Agent/Broker Topics

Assurex

Continued from previous page
active programs and generates \$10 million in premiums. We are developing three new programs.

All of these enterprises are separate corporations.

How much has Assurex grown—in members and revenue—since it was founded? To what do you attribute the network's success?

Assurex now has 65 members in 23 countries. Three years ago, there were members in only eight countries. Assurex members write a to-

tal of about \$5 billion of property, casualty, life and employee benefits insurance. Assurex would be the fourth-largest agency in the United States if it had a single owner. The 65 agencies all own an equal portion of Assurex.

Typical revenue growth rate in the last three years has been 8% to 12% annually. Assurex dominates the middle market—the Fortune 1000 down to the Fortune 2500, if there were such a list.

The success of Assurex is reflective of the success of our shareholders. They have demonstrated an ability to grow in a soft market. First of all, they've added new services. Some are showing dramatic

growth on the life, disability and health side. They've also specialized in several areas and found niches.

What are Assurex's plans for the future?

We will continue to expand. We have not declared only one part of the world as of interest to us. Assurex has partners in Europe, Asia and Latin America.

Keeping in contact with so many members around the world is a big job. How does Assurex maintain communications with its members?

Assurex holds meetings every

other month. About 80% to 85% of our members attend. We invite keynote speakers to each meeting, but that's a small percentage of the meeting. The bulk of the meeting is partners talking to each other about their businesses. The meetings are held on weekends, and the location varies.

Also, we have an electronic bulletin board. Each partner has a dedicated computer terminal that is connected to this network. It is used for ad hoc information needs, such as where to find a specific, perhaps unusual, coverage. About 70 to 80 of these ad hoc queries are posted each month.

However, this is the tip of the

iceberg in terms of the information exchange that is going on with our members. If they have a more specific problem, they'll probably call someone that they know in another market. Partners know that if they call you, you'll help.

How many employees are needed to keep everything at Assurex running smoothly? Do you travel much to meet with member agencies?

We are probably a good example of what you call a modular corporation. We manage ADC, PAR and the specialty products company with 15 full-time employees.

Partners pay service fees of \$4,000 to \$10,000 per year, depending on their size. Assurex also gets fees for organizing and managing the affiliate companies.

I am on the road about half the time. I go to the meetings every other month and some of the staff goes. We also maintain a program of visiting the top 20 insurers to wave the Assurex flag and develop specialty products.

Is there a limit to how many members a network can have and be successful?

Yes, there is a limit, but I don't know what that limit is. There is a limit beyond which we lose the intimacy of exchange. Also, there are probably just a few markets (in the United States) where we need to add some partners; most of the top metro markets are already covered.

The Internet has been widely discussed as a potentially revolutionary way to buy and sell insurance. Do you think the Internet will ever supplant the role of agents?

We see the Internet as serving three functions: the insurance shopping function, the communications function and the marketing function. The shopping piece, we're not interested in. Most of our agents aren't interested in getting 50 quotes for auto insurance. The communications piece we're very interested in and the marketing piece we're interested in. The communications part would be maybe an extension of the e-mail polling system we have. I don't see it, for us, anyway, as a way to do a lot of transactions. ■

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Agent/Broker Topics

ADVERTISER INDEX

Issue of January 1

ADVERTISER	PAGE #
A. I. Credit	12H
AI Express	12D-E
Brownyard Group	12G
Fireman's Fund	12C
Lee & Mason	12F
Mutual Marine Office	12G
Standard Insurance Co.	12B
Tri-Arc Financial Services	12F

Continued from previous page
paper available from United Wisconsin Services Inc. Request item 529.

■ Buck Consultants Inc. supplies a case study of a company **outsourcing** benefits administration as part of an overall reengineering strategy. Request item 530.

■ An article describing how to evaluate and implement a **dependent care counseling and referral** program is offered by The Dependent Care Connection Inc. Request item 531.

■ The Dependent Care Connection Inc. provides an essay with an explanation on how to conduct **quality assurance audits** and return-on-investment analyses for dependent care counseling and referral services. Request item 532.

■ Fact sheets highlighting **short-term, long-term and managed disability** products are supplied by CIGNA Group Insurance. Request item 533.

■ Duncanson & Holt Group offers a manual describing claims administration for individual **long-term care insurance**. Request item 534.

■ The opinions of employee benefits professionals regarding the **information superhighway** are featured in a survey from the International Foundation of Employee Benefit Plans. Request item 535.

■ NILS Publishing Co. supplies a newsletter with statistical data and analyses of recent **insurance and health care regulation**. Request item 536.

■ **Hospital cost indexes** are studied in a flier provided by Meridian Resource Corp. Request item 537.

■ BNA Books explains **flexible spending accounts** in an eight-page fact sheet. Request item 538.

■ A manual from Duncanson & Holt Group overviews **long-term disability**, underwriting and claims administration. Request item 539.

■ Blue Cross & Blue Shield Assn. offers a brochure for health plans preparing to meet a new **National Committee on Quality Assurance standard** for technology assessment. Request item 540.

■ An article supplied by Ameritas Life Insurance Corp. examines the emerging market of **prepaid dental plans**. Request item 541.

■ Reducing the costs of **disability benefits** is discussed in a newsletter from Buck Consultants Inc. Request item 542.

■ CIGNA Group Insurance provides fact sheets outlining insurance products, including **occupational, business and personal accident**, long-term care and group insurance. Request item 543.

■ BNA Books offers an outline explaining **Social Security and Medicare** benefits. Request item 544.

■ Duncanson & Holt Group presents a comprehensive manual on underwriting and claims administration issues in **long-term care insurance**. Request item 545.

■ The development and use of **prescription drug formularies** are examined in a brochure from Pharmacy Gold Inc. Request item 546.

■ A brochure supplied by Pharmacy Gold Inc. explains the differ-

ence between **brand name and generic drugs**. Request item 547.

■ New developments in **health care law** are detailed in a journal from Hinshaw & Culbertson. Request item 549.

■ The International Foundation of Employee Benefit Plans presents a thesaurus for searching the IFEBP's **employee benefits infomsource database** on DIALOG and WEST-LAW. Request item 550.

■ The **products and services** of United Wisconsin Group are explained in a set of brochures. Request item 551.

■ A booklet from CIGNA Group Insurance overviews **group life insurance products** such as employer and employee paid term insurance. Request item 552.

Continued on next page

Business Insurance

Information Resource

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All questions must be answered in order to have your inquiry processed.

Please check one item for each category:

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C <input type="checkbox"/> Union	H <input type="checkbox"/> Ins/Reins Co	M <input type="checkbox"/> Health Care Inst
D <input type="checkbox"/> Government	I <input type="checkbox"/> Actry/Conslt	N <input type="checkbox"/> Other
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- Number of employees:

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4 <input type="checkbox"/> 1,000-4,999	5 <input type="checkbox"/> 5,000 or more	6 <input type="checkbox"/> Unkown
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- D Government
- E Educational Inst
- F Ins Agent
- G Ins Broker
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- J Attorney
- K Adj/Apprs
- L TPA
- M Health Care Inst
- N Other

2. Number of employees:

- 1 150 or fewer
- 2 151-499
- 3 500-999
- 4 1,000-4,999
- 5 5,000 or more
- 6 Unkown

3. My title is best defined as:

- A Administrative Mgt
- B Financial Mgt
- C Risk Mgt
- D Benefits Mgt
- E Loss Prevention Mgt
- F Other

4. My purchasing involvement for the requested products is to:

- 1 recommend only
- 2 specify
- 3 approve

5. Do you now receive a personally addressed copy of Business Insurance?

- A Yes
- B No, please send Business Insurance subscription information

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650 S. Clark St., 6th Floor
Chicago, IL 60605-1702

Please print clearly

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

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Continued from previous page

■ Meridian Resource Corp. supplies a set of fliers describing its **employee benefit services**, including consulting, claims auditing and utilization management. Request item 553.

■ A brochure offered by The Mutual Group (U.S.), outlines **fully insured group products and group services**. Request item 554.

■ What employers and students can gain from using a **benefit department internship program** is explained in a brochure presented by the International Foundation of Employee Benefit Plans. Request item 555.

■ Baker & MacKenzie provides a **U.S. employment law update** with developments in the fields of labor, employment and employee benefits. Request item 556.

■ A Watson Wyatt Worldwide newsletter reports on **legislative issues** like proposals to remove surplus assets from retirement plans. Request item 557.

■ An overview of **dependent care benefits** for employers and EAPs is featured in a booklet supplied by Child & Elder Care Insights Inc. Request item 558.

■ Monumental Life Insurance Co. offers a brochure with an overview of **payroll deduction life insurance**. Request item 559.

■ The implementation of a **dental trauma review program** is explained in a guide from NADENT. Request item 560.

■ The **product portfolio** and regional service centers of Blue Cross & Blue Shield United of Wisconsin are featured in a brochure. Request item 562.

■ Using a health care program called **Exclusive Health** as an alternative to an HMO is discussed in an informational packet from ADMAR Corp. Request item 563.

■ The Mutual Group U.S. offers a brochure with an economical program designed to educate expectant mothers. Request item 564.

■ Reasons to adopt a Section 125 Plan are listed in an outline supplied by VISTA Administrators Inc. Request item 565.

EMPLOYEE BENEFIT INFORMATION SYSTEMS

■ The role of **automated systems in managed care** is explored in a Resource Information Management Systems Inc. paper. Request item 601.

■ An article from EDS explains **how to create a data warehouse** for health care organizations. Request item 602.

■ The Apex Management Group Inc. offers a demo disk profiling **health care benefits software**. Request item 603.

■ Travis Software Corp. presents a flier describing a software system for Windows and DOS that handles COBRA administration. Request item 604.

■ A flier presented by Travis Software Corp. describes a retiree premium billing system. Request item 605.

■ FACTS Services Inc. offers a package of information sheets on its automated software and hardware solutions for fully integrated managed care. Request item 606.

■ The capabilities of a group benefit administration and claims processing system are reviewed by SBPA Systems Inc. Request item 607.

■ The functions of a software system that is used to administer flexible benefits and cafeteria plans now is available from Travis Software Corp. Request item 608.

FINANCIAL SERVICES

■ The American Institute for CPCU and the Insurance Institute of America offer a flier explaining the **Associate in Insurance Accounting and Finance** program. Request item 801.

See Resource on next page

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1995 DIRECTORIES

Issue Date	Directory
Feb 6	Third-Party Administrators
Feb 20	Utilization Review Providers & Case Managers
Mar 6	Benefit Information & Claims Systems
Mar 20	Risk Management Consultants
Apr 3	Prescription Benefit Managers
Apr 24	Captive Managers
May 29	Alternative Facilities
Jun 12	Property Loss Control Consultants
Jun 26	EAPs & Mental Health Networks
Jul 17	Agents & Brokers
Jul 31	Dependent Care Resource & Referral Services
Aug 14	401(k) Plan Administrators
Aug 28	Leading Reinsurers Worldwide
Sep 11	Surplus Lines Insurers & Wholesalers
Oct 2	Environmental Risk Management Consultants
Oct 9	Safety Consultants & Rehabilitation Services
Oct 23	Reinsurance Brokers
Nov 6	International Insurers & Benefit Networks
Nov 20	Benefit Communication Systems
Dec 4	Risk Management Information Systems
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Feb 5	Third-Party Administrators
Feb 19	Utilization Review Providers & Case Managers
Mar 4	Risk Management Consultants
Mar 18	Benefit Information & Claims Systems
Apr 22	Captive Managers
May 20	401(k) Plan Administrators
Jun 3	Alternative Risk Financing Facilities
Jun 24	EAPs & Dependent Care Resource and Referral Services
Jul 22	Agents & Brokers
Aug 5	Prescription Benefit Managers
Aug 19	Property Loss Control Consultants
Sep 2	Leading Reinsurers Worldwide
Sep 16	Surplus Lines Insurers & Wholesalers
Oct 14	Reinsurance Brokers
Oct 28	Benefit Communication Systems
Nov 4	Safety Consultants & Rehabilitation Services
Nov 11	Environmental Risk Management Consultants
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Business Insurance

a publication of Crain Communications Inc

Inform

Continued from page 3

that time, there was a 73% plan participation rate, with the average contribution rate 4% and highly compensated employees limited to 9%. The company was concerned "that employees were not adequately preparing themselves for retirement," he said.

As a response to this concern, Coors developed a program called Tax Effective Retirement Account whose symbol was a turtle. To reinforce this symbol, every time there was a communication on the plan, "we put the turtle in there," said Mr. Gooch.

As a result, when employees saw the turtle in Coors' in-house newspaper, they tended to read the accompanying article "first thing" before anything else.

To promote the program, Coors introduced a number of promotional activities, including lapel pins to participants, weekly drawings with prizes of \$100 in cash for participants wearing the pins and coffee mugs, which were given to anybody already in the plan, those who increased their contribution and new participants.

"This was a tremendously successful promotion," said Mr. Gooch. He described the drawing as "the Publishers' Clearinghouse" type of approach. "That's what got people in the plan."

As a result of this promotion, plan participation increased to 89%, the average contribution rate increased to 6% and highly compensated employees' limits were increased to 15%.

In 1992, said Mr. Gooch, Coors introduced mutual funds to the investment options in addition to the existing guaranteed investment contract fund and its Coors stock fund, for a total of five funds. It also gave individuals an idea of the relative risk associated with the investment strategy of each of the plan options, said Mr. Gooch.

In 1992, the company also reorganized its retirement planning programs, and started emphasizing financial planning. It also introduced financial planning software that was available for employees' purchase.

A 1993 survey of plan participants, however, found a number of them were still exclusively invested in the GIC fund, with the attitude of "When is Coors going to tell me where to put my money?"

Meanwhile, other employees

wanted the company to introduce an international fund.

The company responded the following year by introducing three actively managed funds for people who were not sure as to where to put their money, as well as an overseas fund.

In response to a 1995 survey that indicated employees wanted still more options, Coors plans to introduce four new funds in 1996 for its 6,300 active employees and 1,800 retirees, according to Mr. Gooch.

"Have employees heard the message?" Mr. Gooch asked. "I think they have." Prior to 1992, he noted, 90% of employees were invested 100% in the fixed GIC fund. Today, this percentage is down to 52% and is still dropping.

Mr. Benna also discussed calls he receives from employees. The first group, he said, are those who are "looking to confirm what they have been told" by their employers.

Mr. Benna said 99% of the time, the association confirms that what the employees have been told is correct.

With other employees, he said, there is a "voicing of frustration" that they are not getting more information on their plans. People say their 401(k) is the largest investment they have and they "can't get basic information," said Mr. Benna.

Still other calls focus on the investments and funds available, with comments such as "How can they pick such rotten investments?" or why the selection does not incorporate a broader range of investments.

One caller, said Mr. Benna, wanted to know why his bonds were earning an 8% interest rate, yet the income fund offered by his company was losing money. Mr. Benna explained to him that if the bonds were sold, he might not in fact be able to obtain what he paid for them.

Mr. Benna said the 401(k) plan today is primarily an investment product, with the emphasis on saving enough for retirement and investing more productively, and the communications has shifted to helping employees invest for retirement.

"The investment people now dominate" he said.

As for the future, it is highly probable that 10 years from now workers will be covered only by defined contribution plans, and employers' involvement will be limited to deducting the money from their paycheck, said Mr. Benna. **BI**

Creativity and perseverance encourage 401(k) participation

By JUDY GREENWALD

SAN JOSE, Calif.—BEI Electronics Inc. has found one sure way to boost enrollment in its 401(k) plan—it simply tells employees they are joining it when they are first hired by the company.

"We don't ask them. We enroll them," said William Aber, human resources manager for the San Francisco-based electronics manufacturer. "We say, we have a 401(k) and you want to be in it, right? They say 'Yup.'"

"No one says no," he said, noting that most of its recruits have already been in a 401(k) program. He added, however, that employees—who do not actually begin to participate until after three months of employment—always have the option of withdrawing, "so it's not like signing up for life."

He was among several benefits officials who discussed challenges their plans have faced at a roundtable discussion last month sponsored by Investors Press Inc., a publishing firm in Washington Depot, Conn.

"You've got to get them up front," said Mr. Aber, who noted BEI has achieved participation rates of about 90% despite a relatively ungenerous company match of 25% for the first 4% of employee contributions.

But BEI's 401(k) recruitment program is not for everyone.

At Apple Computer Inc., for instance, the corporate culture is such that "we could never get away with that," said Sally Brewster, benefits manager at the Cupertino, Calif.-based company.

"Our main issue has been addressing a diversity of employees," she said.

Six years ago, 90% of Apple's employees were in the San Francisco area. Since then, as it has set up sites throughout the country, its workforce has grown much more diverse. Employees range from manufacturing plant workers who have never used a computer to its president.

Apple has responded with a variety of approaches "from meetings to paper to electronics," she said, weaving "key messages throughout all these media."

She noted that two-thirds of Apple participants invest in three

or more funds.

Apple issues a quarterly newsletter that is written internally and desktop published. "You don't have to spend an arm and a leg to do something like this if you don't want to," she said.

Apple's message to employees is that all paths contain risks. "That's a message we've reported in a number of different ways," she said.

For instance, in explaining the risk spectrum the company has found that giving a concrete example of "Employee Joe's" experience is very effective.

The company also takes advantage of things like its open enrollment period. During that time, employees get laser-printed brochures that show each of them

toward company stock in their investments and it's has been "a very difficult struggle" to get them to diversify, said Valerie I. Lewis, director of benefits for the San Francisco-based utility.

In 1991, the company tried to solve the problem by replacing two funds with a low participation rate and offering an explanation of the concept of risk vs. return and the advantages of diversification.

It didn't work. "It was a big ho-hum," said Ms. Lewis. "Nothing happened."

Working with outside consultants, the utility decided to re-approach the program with the use of some graphics to tell its employees that "you have the power to invest your money in the best

'We don't ask them. We enroll them,' says William Aber of BEI Electronics. 'We say, we have a 401(k) and you want to be in it, right? They say "Yup."'

how much more they could have done if they had contributed more.

One sample copy that she distributed indicated that one employee who put 6% of his base pay into the 401(k) plan would have a projected account balance of \$915,125 at age 65, assuming an 8% hypothetical rate of return. But with an investment of 16%, the maximum he would be allowed to make, this would rise to \$1.6 million.

Apple enrolls participants online, with a program that shows the risk continuum of their investments. The Retirement Government Money Market Fund, for example, appears near the low risk end of the spectrum, the Overseas Fund near the high end.

The software program can also give participants information on the individual funds. "It's a very graphic way to get across the risk," she said.

At Pacific Gas & Electric Co., the 401(k) challenge has not been improving participation, which is well over 90%, but in getting employees to diversify their holdings.

Many employees lean heavily

way possible."

It tried to explain its program more succinctly, using more graphics and more specific examples. This time, there was a little more response.

As of December 1992, the PG&E stock fund accounted for 82% of plan assets, down from 91% a year earlier, noted Ms. Lewis. This was significant, she said, because at the time the stock was doing relatively well compared to the other investment options.

Since then, that movement has continued. As of October, the PG&E stock fund accounted for only 58.3% of 401(k) assets.

Ms. Lewis said the concern behind having its employees invest exclusively in PG&E stock is the relatively high volatility inherent in investing in one stock as compared to investing in an equity fund, rather than any risk associated with investing in PG&E's stock per se.

Many employees say "I choose to take this risk," and if they understand the risk, that is okay, said Ms. Lewis. The company is just concerned that "they be fully informed." **BI**

Resource

Continued from previous page

■ An essay from Securities Software & Consulting Inc. analyzes the life insurance industry's role in helping consumers build and manage their own balance sheets. Request item 802.

■ A newsletter available from Price Waterhouse L.L.P. spotlights accounting and auditing topics such as GAAP for mutuals and risk-based capital disclosures. Request item 803.

■ Securities Software & Consulting Inc. examines how mortgage derivatives affect consumer behavior and the life insurance industry. Request item 804.

■ A software product and performance measurement module for asset management, reporting and accounting is described in two book-

lets available from Securities Software & Consulting Inc. Request item 805.

■ The valuation and appraisal services of Kemper National Insurance Cos. are listed in a brochure. Request item 806.

■ A booklet from Securities Software & Consulting Inc. details a fully integrated loan management software product. Request item 807.

■ Liberty Mutual Insurance Co. offers a newsletter exploring such topics as electronic data processing insurance and common estate planning myths. Request item 808.

INTERNATIONAL

■ The Winter 1995 issue of a Rollins Hudig Hall Co. newsletter provides a brief synopsis of market developments in Germany, Switzer-

land and Mexico. Request item 901.

■ Recent events and opportunities in the international marketplace are summarized in a newsletter provided by GLOBEX International Inc. Request item 902.

■ An article from Buck Consultants Inc. outlines the implementation of a global stock ownership plan. Request item 904.

SELF-INSURANCE SERVICES

■ A self-funded direct reimbursement dental benefits program is described in a pamphlet available from the American Assn. of Orthodontists. Request item 1601.

■ Questions and answers about a prescription drug program for self-funded employers are listed in a brochure from Pharmacy Data Management Inc. Request item

1603.

■ An outline from VISTA Administrators Inc. explains the rationale for self-insuring health care benefits. Request item 1604.

■ Court cases and claims administration issues pertaining to self-insurance are reviewed in a newsletter from Corbel. Request item 1605.

■ The Self-Insurance Exchange supplies an article describing how to reach the self-insurance market. Request item 1606.

■ Several brochures prepared by Johns Eastern Co. Inc. outline self-insurance and workers comp administration services. Request item 1607.

■ The Self-Insurance Exchange provides a paper that examines how risk managers can take steps to adapt to the dramatic shift toward self-insurance programs. Re-

quest item 1609.

■ A brochure details the results of Corbel and the Self-Insurance Institute of America's fourth annual survey of TPAs in the health care industry. Questions explore the range of services provided by TPAs and how they charge for them. Request item 1610.

■ A newsletter supplied by Management Services Inc. analyzes the move toward self-insurance and self-insured workers comp programs. Request item 1611.

■ Johns Eastern Co. Inc. provides a handbook describing its self-insurance services. Request item 1613.

■ A booklet from VISTA Administrators Inc. outlines products, services and claim payment methods for employers interested in establishing self-funded employee benefit and workers comp programs. Request item 1614. **BI**

Therapy

Continued from page 1

work hardening improvements.

Employees are also more likely to seek treatment and follow through with it. Workers on night shifts, for example, do not have to give up daytime sleep to travel to a clinic, Ms. Haskell said. At Hershey they are treated at work, even during the late shifts.

"I think we get better cooperation from the employees because it's convenient," Ms. Haskell said. "Like anything else, if you make it convenient for people, they are more likely to do it."

Employers are not the only ones who report an increased interest in worksite therapy.

"Since June, we have seen a 300% increase in the utilization of (our rehabilitation at work) program with our insureds," said Leigh Anne Foster, national director of return-to-work programs for Liberty Mutual Insurance Co. in Dover, N.H.

Liberty Mutual introduced the rehabilitation at work program three years ago on a pilot basis and now has about 150 participating companies. Among companies in the program, 85% of workers return to their pre-injury positions, compared with a 47% return rate for clinic-based rehabilitation programs, Ms. Foster said.

"We're expecting more and more employers to head this way," said Kevin Helman, executive vp of ArgosyHealth in Hershon, Pa. ArgosyHealth is one of two providers of therapy services that Liberty Mutual contracts with for its work-site rehabilitation program.

Hershey also contracts with ArgosyHealth for therapy services.

At Granite Hill Physical Therapy in Brunswick, Maine, telephone calls inquiring about the company's worksite program are coming in from insurers and occupational rehabilitation clinics,

said Steve Vance, president of Granite Hill. The callers want to know how to duplicate the service, he said.

"We do physical therapy, but really what we do is we use physical therapy as a vehicle to manage short-term disability," Mr. Vance said. "We see people extremely early and we are very education-oriented to keep them safe on the work site."

Word of the benefits of worksite therapy is spreading among employers.

"I presented what we are doing to a human resources meeting here during this summer just ended. The other divisions are looking at it with very much interest," said Jack Todd, director of employee relations for J.L. Clark, a Lancaster Pa.-based metal container manufacturing unit of Clarcor Inc.

J.L. Clark uses the services of ArgosyHealth through its workers comp insurer, Liberty Mutual.

"The first thing that happened—and it didn't happen immediately—is that our company doctors became more confident in returning people to work when they still had limitations or restrictions," Mr. Todd said. "That was something we didn't anticipate, that we were going to get that benefit."

The doctors are more confident that the appropriate duties and care will be assigned because of the presence of worksite therapists, Mr. Todd explained.

J.L. Clark, L.L. Bean and Hershey each have also taken advantage of the therapy programs to educate supervisors about reducing injury losses and why it is advantageous to offer encouragement to workers undergoing therapy.

For example, Hershey's supervisors understand that an injured worker who is allowed to perform 10% of his or her normal workload is likely to return to full production much more quickly than

an employee who is encouraged to stay home to recuperate, Ms. Haskell said.

Returning an employee to work, even with restrictions, reduces indemnity and wage-replacement costs, and employers have learned employee reluctance to return to work grows proportionately with the length of their time away from the job.

Employers also are using the physical therapists to refocus the thinking of injured workers.

Therapists at Hershey, for example, treat employees at the company's fitness facility. That helps them focus less on being injured and more on developing

'We're expecting more and more employers to head this way,' says ArgosyHealth's Kevin Helman.

physical fitness habits that minimize recurring problems.

"Because we do a lot of their treatment at the fitness center, they don't think of themselves as being sick," Ms. Haskell said. "When they go to a hospital setting, (they can) get used to that 'I'm sick' mode."

While a fitness facility has its advantages, Argosy's therapists travel to companies that lack such amenities with portable tables and all the equipment they need in their car trunks, Mr. Helman said.

"It's a very low-tech approach," he said.

Lewiston, Maine-based Cole Haan Manufacturing Inc. spent \$5,000 on physical-therapy equipment and partitioned a break room where Granite Hill therapists now see employees twice a week, said Barbara Longfellow, the shoe manufacturer's safety

and workers compensation manager.

That move was in response to a growing trend of runaway workers comp costs among its 400 workers, Ms. Longfellow said.

Employees were filing claims for repetitive stress injuries, such as carpal tunnel syndrome and tendinitis. Outside providers were resorting to surgeries and other costly procedures that required time away from work, she said.

In December 1994, therapists began treating Cole Haan workers in the workplace after two onsite nurses were hired earlier in the year, Ms. Longfellow said. The result has been a decrease in workers comp costs from "six figures" to about \$30,000 for the year.

In their enthusiasm about worksite physical therapy, some employers are also attempting to hire their own staff therapists. But a shortage of occupational therapists has posed a problem; and some companies do not consistently have enough injuries to justify a full-time staff therapist.

"We looked at doing it ourselves a couple of years ago because we thought we could get some savings," said Ted Rooney, L.L. Bean's manager of employee health management. "But we decided it is not our business."

The mail-order company now contracts with Granite Hill to staff therapy clinics at four L.L. Bean facilities.

"What we wanted was really high-quality, state-of-the-art physical therapy," he said. "Since we are a mail-order business, not a health business, we thought we

wanted to develop a long-term relationship with a quality vendor who could supply those type of services for us. That is why we decided to contract for that; and that is consistent with what we do for our EAP, our onsite physicians, our rehabilitation and our claims administration."

L.L. Bean began building its in-house physical therapy program in 1989 and has made it a part of prevention and early intervention efforts for work and non-work related disabilities. The company also has a work-site stretch break program, ergonomists who adjust workstations for individual needs, and employee and supervisor training to prevent injuries and help already injured workers.

"The supervisor training is a key component because the supervisor has such control over the worksite and is such an ally in helping employees stay at work while they are healing," Mr. Rooney said.

Once an employee reports an injury, the therapist, ergonomist, physician, supervisors and employee all work as a team to mitigate the problem and keep the worker motivated.

Immediately after bringing physical therapists in-house, claims at L.L. Bean shot up about 10% as more employees came forward with early-stage injuries. But loss claims dropped about 40%, Mr. Rooney said.

"The claims go up and anyone who puts it in without expecting them to go up will be in for a shock." ■

Coalition

Continued from page 3

counted rates. Direct contracting with physicians will be less costly than contracting with managed care organizations, he said.

"A lot of employers that are small to medium-sized simply don't have the power to go out there and look at contracting," Ms. Niekirk said.

The coalition also is likely to sign contracts this year with the Centers of Excellence network, a group of U.S. and Canadian hospitals that specialize in transplants, to provide employees with access to transplants, and with a shared

third-party administrator for self-insured members that might find it too expensive to outsource claims administration on their own.

The group is continuing to monitor the results of an ongoing group purchasing program designed to cut costs of physical therapy and rehabilitation. Nearly a year ago, 15 physical therapy and rehabilitation clinics signed an agreement with CIBGH that capped fees through 1997 and set standards for quality and patient satisfaction.

In many cases, fees have declined by 20% or more under the program without any decline in patient satisfaction, Mr. Custer said. ■

Worker bad faith suits ruled covered under comp scheme

By MEG FLETCHER

PHILADELPHIA—Injured employees who receive workers compensation benefits cannot sue their employers' insurers for bad faith or other civil damages even if a doctor working for the insurer subjects them to abusive medical exams, a federal appeals court has ruled.

In its Dec. 14, 1995, ruling, which applied Pennsylvania law, the 3rd U.S. Circuit Court of Appeals rejected the appeal of Patricia Winterberg, who sustained a serious foot injury in 1991, while working for a T.J. Maxx department store.

Transportation Insurance Co., a CNA Financial Corp. unit in Chicago, covered initial treatment, though it sought to terminate her benefits because she refused to accept her employer's offer of a job she could perform.

She said the job was inappropriate and her doctors said her injury worsened into "reflex sympathy dystrophy," causing loss of use of her left foot, falls resulting in other injuries, and severe depression. In her bad

faith suit, she alleged that the insurer's physician emotionally and physically abused her during an exam by roughly grabbing her foot, demanding that she walk and, after she fell down, refusing to help her stand up. Shortly afterward, she attempted suicide.

Even if those claims were proved true, they fall within the jurisdiction of the workers compensation scheme, the three-judge panel ruled in upholding part of a lower court ruling.

The 3rd Circuit also cited a 1992 ruling as an example of behavior that would actually give a worker a cause of action outside the workers compensation system.

In *Martin vs. Lancaster Battery Co.*, an employer withheld the results of blood tests and intentionally altered results to conceal lead poisoning from a worker. By the time the deception was discovered, the worker's condition had worsened substantially. ■

Patricia Winterberg vs. Transportation Insurance Co., No. 95-1206.

Willis

Continued from page 3

As part of the initiative, in early 1996 the major business units will analyze and project where they need to be four to five years from now and what they must do to achieve those goals, Mr. Reeve explained.

At the same time, the units also will determine what industry issues are affecting the business and how the units plan to deal with each one.

The units also will focus on operational excellence.

"There is still an enormous amount of room for operational improvement," Mr. Reeve said. For example, a "huge scope" exists to improve the efficiencies in technology and client services, he said. "Beyond this big phase, we'll be emphasizing further progressive cost reductions."

While costs will be squeezed out of the business slowly through attrition and more efficient operations, Mr. Reeve said he cannot rule out layoffs at the company in the future.

"I like to believe, though, we've done the substantial part of layoffs," he said.

He also said the broker will continue to divest from non-core business and assets to further streamline the operation.

Last month, Willis Corroon sold its 50% interest in joint venture Bermuda-based broker Heddington Brokers Ltd. to joint venture partner Heddington Insurance

Ltd.—a Texaco Inc. captive insurer—for a cash payment of \$10.1 million.

At the same time, Willis Corroon purchased the joint venture's 49% interest in Willis Corroon Heddington Ltd. for £44,840 (\$69,188) in cash.

Also in December, Willis Corroon completed its final withdrawal from U.S. insurance underwriting after selling its remaining interest in Gryphon Holdings Inc. to several U.S. investors for \$48.5 million.

The broker now is looking to complete the sale of its U.S. headquarters in Nashville, Tenn., and lease back the portion used by the company.

Kenneth H. Pinkston, chairman and chief executive officer of Willis Corroon Americas, said this should be completed by the end of the year.

Mr. Reeve said there will be more holdings divested but would not elaborate.

What is not part of Mr. Reeve's plans for the broker's near future is acquisitions, either as a seller or a buyer.

"My general attitude of major acquisitions of people businesses is fairly skeptical," he said. In most cases, shareholder value is not enhanced following an acquisition.

As far as Willis Corroon acquiring other businesses, "I see no reason why we can't develop our core businesses in the future and grow without needing any major acquisition. If it comes about in the future (and makes economic sense),

we'll look at it. But it's not my focus for two to three years," he said.

According to Mr. Pinkston, Mr. Reeve was "a unanimous choice" with the company's selection committee.

From the beginning, Willis Corroon knew it wanted "to go outside for a new chairman," Mr. Pinkston said. "We needed someone with a different perspective."

The decision is one that Mr. Reeve agrees was right for the broker.

"The global insurance brokerage industry is going through a profound change. An outsider gives fresh perspective, which is useful," he said.

It also follows a trend in the brokerage industry, highlighted by Frank Zarb's appointment as chairman and CEO of Alexander & Alexander Services Inc. Mr. Zarb, former vice chairman and group chief executive of Travelers Inc., replaced Tinsley H. Irvin at Alexander & Alexander in 1994 (*BI*, June 13, 1994).

But unlike Mr. Zarb, who came on board to initiate a restructuring plan at A&A, Mr. Reeve is coming on board Willis Corroon to carry out a year-old restructuring plan initiated by his predecessor.

"One of my strengths is leading change in a large organization," Mr. Reeve said. Even though "I'm leading a change process in Willis Corroon that began before I arrived, it still has a hell of a lot further to go." ■

INTERNATIONAL

Target of suit asks court for Lloyd's probe

By GAVIN SOUTER

MIAMI—A Florida attorney charged with overbilling Lloyd's of London for millions of dollars is accusing syndicates at Lloyd's of insuring the Iran-Contra missile shipments and other illegal arms deals.

In a motion filed last month James F. Dougherty sought an independent court inquiry into affidavits submitted by Lloyd's where Lloyd's contends that it never insures illegal arms transactions.

Mr. Dougherty also sought a stay of civil proceedings brought against him by Lloyd's until: the completion of the criminal trial he faces for overbilling, which is scheduled for February; the appearance of Lloyd's

executives in court to answer questions on the alleged coverage of the arms shipments; and Lloyd's posting of a bond to cover the more than \$25 million in fees and damages that he is seeking.

However, Lloyd's contends the allegations are unfounded and merely an attempt to confuse the issue, said attorney Jon W. Zeder, a partner at Adorno & Zeder in Miami who represents Lloyd's.

Lloyd's would never knowingly insure an illegal arms shipment due to the inherent high-risk nature of the venture, he said.

The real purpose of the motion is "obfuscation," Mr. Zeder said. "It seems to be a smoke screen which he might be using to delay the civil pro-

ceedings and move the focus away from the issue of the case."

Mr. Dougherty faces criminal charges that he overbilled Lloyd's syndicates by nearly \$2 million. The Florida Bar has also brought a complaint against Mr. Dougherty for overbilling.

Mr. Dougherty claims he underbilled Lloyd's and is seeking more than \$25 million in additional fees and damages for defamation.

Lloyd's underwriters led by syndicates managed by Sturge Holdings P.L.C. hired Mr. Dougherty in 1987 to investigate an insurance claim from Jordanian coffee trader Munther Bilbeisi (*BI*, July 29, 1991).

Mr. Bilbeisi filed a claim for losses from the alleged theft of 12,000 bags

of coffee valued at \$4 million and arts and antiques valued at \$2 million.

The underwriters denied coverage after Mr. Dougherty turned up evidence that they said showed the coffee had never been stolen but instead was illegally shipped to the United States using letters of credit and cashier's checks issued by the infamous Bank of Credit and Commerce International.

Lloyd's paid Mr. Dougherty \$9.1 million in fees before dismissing him for overbilling in April 1992.

Mr. Dougherty sued Lloyd's for at least an additional \$15 million in fees which he has subsequently increased to over \$10 million.

He claims that the large fee is jus-

tified by the personal danger he encountered while investigating the coffee claim in Guatemala.

He claims that the real reason he was dismissed by Lloyd's was because his investigations also showed that BCCI's auditor, Price Waterhouse, was negligent in its work for BCCI and that Lloyd's syndicates as professional liability insurers of Price Waterhouse would face massive losses if that was proved (*BI*, Dec. 12, 1994).

Mr. Dougherty alleges, according to a cover note in his latest motion, that Lloyd's underwriters insured the 5,000 TOW anti-tank missiles involved in the Iran-Contra venture for \$63 million in 1985.

See Attorney on next page

Lloyd's building, press up for sale

By STACY SHAPIRO

LONDON

LONDON—Lloyd's of London is selling some of its assets rather than borrow against them to raise money for its reconstruction plan.

The market's reconstruction and renewal program announced in May called for Lloyd's to raise between £200 million and £250 million (\$312 million to \$390 million) through a loan made against the Corporation of Lloyd's assets, such as its building and Lloyd's of London Press Ltd. (*BI*, May 29, 1995).

After months of speculation and rumor, however, it became clear last week that both primary assets would instead be sold to raise money for the reconstruction plan.

Lloyd's famous glass-and-steel building, designed by Sir Richard Rogers, is for sale, a Lloyd's spokesman confirmed, though he would not comment on reports that the market is seeking £200 million for the property. Real estate consultant DTZ Debenham Thorpe has been hired to sell the building, which Lloyd's will then lease from the buyer.

The Lloyd's building has become a landmark in London since it was opened by Queen Elizabeth II in 1986.

With its gleaming chrome structure and glass canopy at the front entrance, it has often been used as a symbol of modernity in advertisements. However, the building also has been the butt of jokes by people who see it resembling a giant oil rig stuck in the heart of the City of London.

Lloyd's no longer uses the entire space, due to contraction in the market in recent years. Originally located on four floors of the building, the Lloyd's market now is housed in just 2½ levels, with insurance companies occupying other boxes in the building.

Also last week, a bidding war to buy Lloyd's of London Press concluded with a management buyout team offering a winning bid of £82.5 million (\$128.7 million) for the company plus royalties for using the Lloyd's name.

The publishing company produces the 261-year-old Lloyd's List daily newspaper as well as a range of newsletters, law reports and shipping data publications.

The management buyout, led by Lloyd's of London Press Chief Executive Ian Lindsay-Smith, includes equity provided by venture capitalists 3i Group Plc. and NatWest Ventures Ltd., with loans from Intermediate Capital Group Ltd. and Samuel Montagu & Co. Ltd.

"The proceeds of the sale represent an important element of the overall reconstruction and renewal plan for the corporation, which is proceeding as planned for implementation in 1996," said Lloyd's Chairman David Rowland.

Captive tax changes

British risk managers are not worried about U.K. tax changes that could affect U.K.-owned offshore captive insurance companies.

"The financial directors and treasurers are not panicking," said Clive Pracy, risk manager for London Transport. In fact, he added, the change has focused their minds on the benefits of captives. "If there are 10 reasons to set up a captive, tax is No. 11," he said.

When announcing the government's annual budget in late November, Chancellor of the Exchequer Kenneth Clarke said captives in offshore domiciles would have to repa-

triate 90% of their taxable profits—minus capital gains and foreign taxes—as dividends back to their U.K. parents to qualify as controlled foreign corporations. Previously, such corporations were required to repatriate 50% of their profits to their onshore parents to qualify (*BI*, Dec. 4, 1995).

Under CFC legislation, an offshore subsidiary of a U.K. parent does not have to pay any tax in an offshore domicile if the parent pays full corporation tax on dividends ceded back to the parent.

The Assn. of Insurance & Risk Managers in Industry & Commerce, caught off guard by the tax change, spent several weeks last month canvassing its 750 individual members and 150 corporate members to find out their views on the change.

Based on this informal survey, AIRMIC's Captive Special Interest Group, which Mr. Pracy leads, concluded that:

- Risk managers are under no pressure to take "drastic or immediate" action to change the operation of their captives.

- The majority of captive insurers were never established "for purely tax reasons," but to provide the broadest insurance cover available to their parent companies at the lowest prudent cost.

- Risk managers still consider captives to be a "critical component of their risk financing strategies."

It is unlikely that many captives will move onshore in light of the tax changes, said Mr. Pracy. That is because it would be complicated and time-consuming to get a captive approved as an insurance company by the British Department of Trade and Industry, he said.

Rather than be taxed on the dividends, companies could instead opt to pay higher tax rates in their cap-

See London on next page

Demographic changes in Latin America require risk management shifts

By GAVIN SOUTER

WASHINGTON—The shifting population in Latin America is changing the risk profile of countries in the region, a risk management consultant says.

As second cities and other areas in Latin American countries grow, it becomes more important to use technological risk assessment tools to analyze the risk distribution in those countries, says Mark T. Broido, account executive at Risk Management Solutions Inc. in Menlo Park, Calif.

And as international reinsurers make use of computer models to assess catastrophe exposures in Latin America they will be able to offer more capacity to insurers in the region, he says.

The use of technology in all underwriting is helping insurers and reinsurers to gain a better understanding of the risks they are covering, a reinsurer added.

And policyholders are receiving claims payments more quickly through the use of computer systems, said Gerald Casey, vp at General Reinsurance Corp. in Stamford, Conn.

Demographic changes in Latin America have led to changes in catastrophe exposures in the region, said Mr. Broido, the consultant.

"In the 1960s and 1970s, the rapid growth in Latin America was in the major cities and for that reason most companies think of the earthquake risk in those countries as a one city risk," he said.

However, in the 1980s and 1990s the catastrophe exposures have changed as the cities other than the capitals have grown, Mr. Broido said while speaking late last year at the 25th Hemispheric Insurance Conference of FIDES, the Interamerican Federation of Insurance Companies, in Washington. "It becomes much more important to analyze the distribution of the risks," he said.

To that end, insurers and reinsurers now can use computer models to assess the potential economic and insured losses and estimate their own exposure to a variety of catastrophe scenarios, Mr. Broido said.

The use of the catastrophe models helps insurers in the region to be "smarter purchasers" of reinsurance, he said.

The insurers can evaluate their exposures more accurately and are in a better position to evaluate how much coverage they need to buy and at what levels, Mr. Broido said.

For example, the insurers can judge how much of their portfolio of risks are masonry buildings or concrete buildings, and how many are five stories or 10 stories high, he said.

The more extensive information also increases the ability of insurance regulators to assess insurers, Mr. Broido said.

"A blanket approach of evaluating companies is no longer valid, and

See FIDES on next page

Gulf War aviation losses ruled one event

By STACY SHAPIRO

GLOBAL BRIEFS

LONDON—Aviation war risk reinsurers do not have to pay an additional \$500 million to Kuwait Airways Corp. for the loss of aircraft and spare parts during the 1990 Iraqi invasion of Kuwait, according to a recent U.K. High Court ruling.

Kuwaiti insurers and London-led aviation war risk reinsurers paid Kuwait Airways \$300 million—the hull war risk policy's limit per occurrence per location—at the end of 1990 on the basis that the invasion of Kuwait

Gulf War, Kuwait has recovered some of the aircraft and spare parts from Iraq, reducing the outstanding loss to \$500 million.

However, High Court Justice Rix on Dec. 21 ruled that all the aircraft and spare parts were lost together on the day of the invasion. That constituted one occurrence, he decided, which means the insurers do not have to pay any more to Kuwait Airways than the \$300 million already paid.

This decision is "good news for Lloyd's and aviation insurers gener-

ally," said London law firm Clyde & Co., which represented the underwriters.

Kuwait Airways said it may appeal the ruling.

SCOR streamlines

PARIS—French reinsurance company SCOR S.A. has merged with Holding de Controle SCOR, which owned 50% of SCOR's stock, following an extraordinary general meeting to approve the merger on Dec. 20.

HCS was controlled by Union des Assurances de Paris, with 40%; Assurances Generales de France and AXA S.A., each with 20%; and various French mutual insurers, together holding the remaining 20% (*BI*, Nov. 13, 1995).

The merger will have no effect on either the profits or the shareholders' value per share of SCOR, the reinsurer stated. "It streamlines the legal and financial structure of the SCOR Group without any dilution effects," the company said.

See Global on next page

INTERNATIONAL

FIDES

Continued from previous page requiring companies to buy the same level of reinsurance on a percentage basis is no longer valid," he said.

Companies can now be evaluated for their individual portfolio, the geographical spread of their risks, and the adequacy of their reinsurance and their policyholder surplus, Mr. Broido said.

The technology is also changing the reinsurance market, allowing reinsurers to balance their portfolios more accurately. For example, a reinsurer covering the Colombian insurance market might offer better terms than another reinsurer for risks in Medellin if the latter reinsurer already has a large exposure to Bogota, he said.

"It becomes much more strategic than simply looking at the fire (probable maximum loss)," he said.

Reinsurers are also becoming "smarter" when they quote rates, he said. Rather than largely following the rates of the previous year, reinsurers can more easily base their ratings every year on the latest information they can obtain using the catastrophe models, Mr. Broido said.

The Latin American insurers that benefit from the new technology will be the ones that evaluate their risks and their distribution strategically, he said. "It will hurt those companies that rely on traditional methods."

Insurers that make good use of the technology will not only pay lower rates, they will also likely have access to more capacity than international reinsurers are currently giving to insurers in Latin America, he said.

"Reinsurers, particularly those in Europe and the U.S. that have written little business in Latin America, will be more willing to bring business and capacity to Latin America as they evaluate their risks globally and the distribution of their portfolios," Mr. Broido said.

Other technological developments are making insurers and reinsurers more efficient throughout the world, said Mr. Casey of General Re.

In particular, the exchange of underwriting information through electronic data interchange systems helps enhance communications among reinsurers, insurers and policyholders, and it helps to reduce errors in the data, he said.

EDI can be used to submit risks; give quotes; send messages, loss notices and loss information updates; and resolve discrepancies in data, Mr. Casey said.

"The essential ingredient is that the transactions are processed without manual intervention," he said.

And one of the main benefits of taking human actions out of the process is eliminating many of the human errors that are commonly found when data needs to be rekeyed several times during the duration of a policy term, Mr. Casey said.

In addition to reducing errors, EDI helps speed claims payments, he said.

"Our goal is to connect electronically with all of our clients and exchange just about anything that's of value in the form of business information," Mr. Casey said.

Although EDI systems often require a substantial cost to set up, operating costs can be lowered substantially through the use of EDI, he said. **BI**

Attorney

Continued from previous page

Additionally, he alleges that Lloyd's underwriters insured chemical weapons shipments to Libya and illegal arms shipments to Iraq.

Lloyd's executives had previously filed affidavits stating underwriters at Lloyd's never insure illegal arms dealers or illegal arms shipments, the motion says.

Requiring Lloyd's to produce evidence of the insuring agreements will "establish the falsity of the discovery position taken before this court and establish a basis of criminal prosecution against them for perjury," the motion says.

In a response to the motion, Lloyd's contends that Mr. Dougherty is trying to shift the focus of the case away from the overbilling issue.

Only four sentences of the 20 page motion deal with the original overbilling allegations, Lloyd's says.

"The balance, which sets forth a

conspiracy tract that discusses everything from the bombing of Pan Am Flight 103 to the Iran-Contra scandal, has no relevance whatsoever to the subject matter of this case and will not be responded to in any detail here," say court papers filed by Lloyd's.

The underwriters affidavits only affirmed that they never knowingly insured illegal arms transactions and there is no evidence to contradict that in Mr. Dougherty's filings, Lloyd's says.

However, if the court conducts an inquiry into Mr. Dougherty's motions Lloyd's says it will fully cooperate.

Also, there is no legal precedent supporting the posting of a bond by Lloyd's while the case is being decided, the market says in its court filings.

Mr. Dougherty may be seeking to delay the civil case until after the criminal case against him is heard as criminal trials require a greater standard of proof than civil trials, Mr. Zeder said. **BI**

GLOBAL BRIEFS

Continued from previous page

SCOR said that as a result of the merger, HCS has now been wound up and 13.1 million shares of SCOR S.A. have been allotted to HCS shareholders. UAP now owns 39% of the group, AGF owns 12%, and AXA owns 10%.

Liquidators named

LONDON—Joint provisional liquidators have only recently been ap-

pointed for Kuwait-owned Hawk Insurance Co. Ltd., even though the company ceased underwriting in 1976.

On Dec. 21, the High Court of London and Wales appointed Philip Singer and Chris Hughes, partners at Coopers & Lybrand in London, as joint provisional liquidators of Hawk Insurance, a subsidiary of insurer Al Ahleia of Kuwait.

The liquidators will study Hawk's current financial position and decide whether a scheme of arrangement would be better for creditors than a liquidation. **BI**

LONDON

Continued from previous page tives' offshore domiciles, said risk management consultant Paul Bawcutt of Risk & Insurance Research Group Ltd.

Under the law, a CFC does not have to repatriate profits if it pays a tax rate in the offshore domicile that equals 75% of the rate it would pay in the United Kingdom. Some offshore domiciles, such as Guernsey and the Isle of Man, offer sliding tax scales to captives for this purpose.

Sri Lanka war risk

Leading hull war risk underwriters in London last week added Sri Lanka to the list of countries they exclude from the market's standard war risk rates.

The move follows "continuing civil unrest in the country," said the Joint Hull War Risk Committee of Lloyd's of London and Institute of London Underwriters.

As a result, owners of ships trading with, heading toward or being within the territorial waters of Sri Lanka as of Dec. 27 must negotiate an additional war risk premium with insurers and reinsurers.

Other countries that are already on the exclusion, or "held cover," list, include: Angola, Israel, Lebanon, Liberia, Somalia and Zaire.

All hull policies that include coverage for voyages to and from Sri Lanka will automatically be canceled and immediately rewritten with the new exclusion. The additional premiums will be separately negotiated. **BI**

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ISO

Continued from page 2

and necessary litigation expenses incurred by or for a party other than an insured are deemed to be damages because of "bodily injury" or "property damage," provided that:

- Liability for the indemnitee's defense "has also been assumed in the same insured contract."

- Attorneys fees and litigation expenses are for the defense of the indemnitee "against a civil or alternative dispute resolution proceeding in which damages to which this insurance applies are alleged."

New forms also will list a number of other conditions that must be met if there is to be coverage for an indemnitee's defense.

There can be no conflict "between the interests of the insured and the interests of the indemnitee," and both must ask the insurer to defend in the suit and agree that the insurer can "assign the same counsel to defend the insured and the indemnitee."

Among other things, the indemnitee must agree in writing to cooperate closely with the insurer in the investigation, settlement or defense of the suit; send to the insurer any legal papers received in connection

with the case and notify other insurers "whose coverage is available to the indemnitee."

An indemnitee's defense costs will fall outside policy limits under the new form.

ISO contends that the changes broaden coverage because there now exists a duty to defend under the contractual liability portion of the policy where none existed before.

However, there may be no broadening for some policyholders because some insurers already provide such coverage under current policies.

The changes have come about over the past four years in response to concerns by agents and brokers that the current form did not specifically state that an indemnitee's defense would be covered, an ISO spokeswoman said.

But, some policyholders worry that the new wording won't cover all the bases when it comes time to defend an indemnitee.

"Look at the language carefully, draft contracts carefully so that you don't leave gaps in the coverage," advised Michael A. Rossi, a policyholder attorney with Troop, Meisinger, Steuber & Pasisch in Los Angeles.

Mr. Rossi said he became aware of policyholders' concerns regarding the contractual liability portion of the

form while monitoring RISKNet, an Internet mailing list that focuses on risk management issues.

Risk managers will have to be aware of their responsibilities as policyholders and indemnitees, depending on which role they fill, he pointed out.

"You don't want to enter into an agreement thinking (the policyholder) has insurance" and find out when it's needed that it's not there, Mr. Rossi said.

"The burden is on the indemnitee to be named as an additional insured or to make sure the indemnitee seeks coverage for defense expenses as well as for claims and judgments," agreed Carolyn H. Rosenberg, partner in charge of the insurance coverage group at Sachnoff & Weaver Ltd., a Chicago law firm.

Ms. Rosenberg said the changes raise some questions regarding defense of an indemnitee.

For example, the indemnitee must agree that the policyholder's attorney will control the case but also must notify other insurers that could be involved. "That raises the issue of whether the other insurer will want to relinquish control," Ms. Rosenberg noted.

And the insurer agrees to defend the indemnitee as long as there is no conflict with the policyholder's inter-

ests, which should be clear-cut from the beginning of a case, she said. But it isn't clear what would happen if a conflict arose during a defense, Ms. Rosenberg said.

The new language represents a compromise between intermediaries and insurers, according to Chris Hoiness, vp of Hoiness, LaBar Insurance Inc. in Billings, Mont., and a member of the Independent Insurance Agents of America technical committee that worked with ISO on the changes.

Agents and brokers always believed the coverage was there, but ISO and insurers did not believe it was automatically provided, Mr. Hoiness explained.

Even with the changes, "we can't believe that the issue just went away," he said. "There are conditions now that have to be met" for defense coverage to be in place. He said the conditions are not onerous

and it is reasonable to expect that policyholders could meet them to assure that coverage is in place.

The new policy form also adds a pollution exclusion to Coverage B, the portion of the CGL policy that provides coverage for personal and advertising injury liability.

Nationally, courts are divided on whether the personal and advertising injury coverage responds to pollution-related property damage claims. Last year, the highest court yet to consider the question, the Court of Appeal of New York, ruled that it did not (*BI*, May 23, 1994).

Insurers don't appear concerned about changes to the CGL form.

The Alliance of American Insurers hasn't highlighted "anything of significance" in the changes, a spokesman reported. And insurer attorneys indicated there are no potential problems for their clients in the new wording. **BI**

For the Record

Disney workers comp may cover stunt crash

NAPLES, Fla.—Walt Disney Co.'s workers compensation insurance program will likely respond to any claims filed by the victims of a freak boating accident that occurred last month in South Florida during the filming of an upcoming Disney-produced movie, "Gone Fishin'."

A stuntwoman was killed and three other stuntmen were injured when the 21-foot powerboat being used in the filming of a scene careened out of control after flying off a ramp and smashed into a group of people on the set.

The Florida Marine Patrol confirmed that a stuntwoman, Janet Wilder, 29, was killed in the accident, which also injured her husband Scott Wilder, as well as her father-in-law, Glenn Wilder. The injured victims were treated in a local hospital and released, said Officer Lar Gregory of the Florida Marine Patrol in Fort Myers.

Disney wouldn't comment on the accident or applicable insurance, but a source familiar with movie and entertainment insurance said it was almost certain that workers comp insurance would be the only coverage that would immediately apply.

"Cast insurance is never taken out on stunt personnel, and it's too early to tell if there's any liability. It sounds like a straight comp case with a death benefit," the source said.

"Gone Fishin'" stars Joe Pesci and Danny Glover as two regular guys from New Jersey who win a dream fishing vacation in Florida. Filming was taking place at the Goodland Marina near Marco Island. Both the Florida Marine Patrol and the Occupational Safety and Health Administration are investigating the accident.

Michigan comp fund returns dividends

ANN ARBOR, Mich.—The Michigan Municipal Workers Compensation Fund is returning up to \$15.1 million in dividends to more than 700 municipal fund

members. The self-insured group fund received regulatory approval last year and will distribute the \$15 million in dividends by Feb. 1, 1996.

According to the fund's risk manager, Kevin C. Murphy, the dividends are a result of workers comp legislative reforms coupled with fewer filed workers comp claims.

The actuarial assumptions, which were too high between 1989 through 1994, eventually caught up, Mr. Murphy said.

Turnaround in Ohio's workers comp fund

COLUMBUS, Ohio—The Ohio Bureau of Workers' Compensation turned a \$1.9 billion actuarial deficit in 1993 into a \$1.9 billion projected surplus in 1995 by cutting medical and wage-loss claim costs and reorganizing claims handling practices.

The deficit reduction was confirmed late last year in an audit prepared by KPMG Peat Marwick L.L.P. The audit reviewed the actuarial accounting on the bureau's reserve fund between 1993 and 1995, as prepared by William M. Mercer Inc.

"The financial audit revealed that past financial assumptions at BWC were accurate and clearly explain for the first time how the actuarial deficit" became a surplus, said James Conrad, who became the bureau's administrator in September.

Savings resulted from a variety of programs, including:

- Implementation of a medical fee schedule.
- Expansion and reorganization of the claims department, which became a case manager instead of just a bill processor.
- Concentration on investigating and fighting fraud.
- Completion of a safety pilot project for employers with sub-standard records.

The measures that created the actuarial surplus could result in further cuts in premiums for 1996, Mr. Conrad said.

Employers' 1995 premium rate was cut an average of 7.3% from the previous year.

California judge, not jury, decides bad faith

SAN DIEGO—A California appeals court has overturned a jury's bad faith ruling in an insurance coverage dispute and ruled that a trial judge, not a jury, should have decided the issue of bad faith.

The decision recently rendered by the 4th District Court of Appeals hands a victory to insurers, which tend to fare worse under bad faith decisions rendered by juries. The ruling in *Dalrymple vs. United Services Automobile Assn.* overturned a jury verdict in favor of the policyholder.

Ann Dalrymple, a Navy neurosurgeon in San Diego had been under psychiatric care and was to be hospitalized when she barricaded herself in her room on Sept. 4, 1987, with a handgun. She shot Police Officer Edward Verduzco in the leg when he broke through the barricade.

Mr. Verduzco sued Ms. Dalrymple for damages and her insurer sought a declaratory judgment, stating that her policy precluded coverage because the shooting was deliberate.

The trial court ruled against USAA, finding that there was coverage. Ms. Dalrymple then sued USAA for bad faith and a jury awarded her more than \$44,000. The appeals court reversed the finding and held that because there were no material facts in dispute, a judge, not a jury, should have decided.

Information in brief

GEICO Corp. shareholders late last month voted to approve a \$2.3 billion, \$70-a-share takeover offer from by Berkshire Hathaway Inc. Chairman Warren E. Buffett. The deal is expected to close Jan. 2. Prior to the merger, Berkshire owned 51% of the personal lines insurer. . . . EXEL Ltd.'s wholly owned subsidiaries have been assigned a "AA-" claims-paying ability rating for the first time by Standard & Poor's Corp. The units are: X.L. Insurance Co. Ltd.; X.L. Europe Insurance and X.L. Reinsurance Co. Ltd. **BI**

Insurers

Continued from page 3

part to a drop in catastrophe-related losses to about \$8 billion for 1995 from \$17 billion a year earlier and to an estimated 10.4% increase in investment income. New record highs for stocks and interest rate increases also generated considerable increases in capital gains.

In fact, the industry's estimated realized capital gains for 1995 reached more than \$5 billion, up from \$1.7 billion in 1994.

Insurers' 1995 net aftertax income is estimated at \$21.3 billion, a 95.4% increase over 1994's \$10.9 billion. Policyholder surplus grew 19.2% to a projected \$230.5 billion from \$193.3 billion in 1994.

Despite the improvements, insurers' rate of return on capital continues to lag behind that of other industries. As a whole, the

Fortune 500 companies had a 13% rate of return compared to 9.2% for insurers.

This has been a long-term problem, according to a new report by the Insurance Services Office Inc. ISO found that from 1979 to 1993 the top 20 property/casualty insurers had an average return on capital of 9.6%. The top 20 companies in each of 30 non-insurance industry groups enjoyed a return of 11.2% during the same period, according to ISO's report, "Risks and Returns: Property/Casualty Insurance Compared with Other Industries."

Property/casualty insurers ranked 24th among the 31 groups. The food and kindred products group ranked highest, with a return on net worth of 19.9% during the 14 years studied, while the oil and gas extraction industry ranked last with a 3.4% average return. Life/health insurers ranked 20th at 10.1%. **BI**

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Insider Trading

Alexander & Alexander Services Inc.: Robert E. Boni, director, sold 1,000 shares of common stock at \$21.13 each on Nov. 10, 1995. Mr. Boni no longer holds shares in the company.

L. Richard Flury, vp, sold 3,667 common shares at \$66.13 each on Nov. 9, 1995. Mr. Flury indirectly sold 469 common shares at \$66.65 each that same day and directly and indirectly holds 4,960 common shares.

William D. Ford, vp, exercised an option for 23,000 common shares between \$44.06 and \$52.44 each from Nov. 22 to Nov. 27, 1995. He sold the shares between \$67.50 and \$67.75 each during that same period and now directly holds 3,600 common shares.

A&A stock closed at \$19.25 a share on Dec. 22.

Chubb Corp.: Rardell G. Craig, vp, sold 400 shares of common stock at \$89.88 each on Oct. 27, 1995, and now directly and indirectly holds 3,271 common shares.

Thomas C. Macavoy, director, exercised an option for 2,000 common shares at \$69.19 each from Oct. 5 to Oct. 27, 1995. He sold the shares at \$91 each during that same period and now directly holds 4,450 common shares.

Donn H. Norton, vp, exercised an option for 2,502 common shares at \$66.75 from Oct. 26 to Oct. 27, 1995, and sold 3,002 shares between \$90 and \$91.50 each during that same period. Mr. Norton no longer holds shares in the company.

Chubb stock closed at \$98.13 a share on Dec. 22.

CIGNA Corp.: Lawrence P. English, officer of subsidiary, exercised an option for 1,400 common shares at \$73.88 each on Nov. 16, 1995. To cover transaction costs, he turned in 1,400 of the shares for \$103.50 each on that same day. He now directly holds 21,782 common shares.

Gerald A. Isom, officer of subsidiary, exercised an option for 23,047 shares of common stock between \$59.63 and \$72.31 each from Nov. 20, 1995. To cover transaction costs, Mr. Isom turned in 18,132 of the shares for \$102.25 each on that same day. He now directly and indirectly holds 18,933 common shares.

John K. Leonard, officer of subsidiary, exercised an option for 7,140 common shares between \$59.63 and \$73.88 each from Nov. 14 to Nov. 29, 1995. To cover transaction costs, he turned in 4,961 of the shares for \$112.44 each during that same period. Mr. Leonard now

directly holds 9,799 common shares. Donald M. Levinson, vp, exercised an option for 1,600 common shares at \$73.88 each on Nov. 15, 1995. To cover transaction costs, he turned in 1,600 of the shares for \$103.44 each on that same day and now directly holds 17,540 common shares.

Byron D. Oliver, officer of subsidiary, exercised an option for 7,291 common shares between \$59.63 and \$73.88 each from Nov. 14 to Nov. 28, 1995. To cover transaction costs, he turned in 5,430 of the shares between \$103.94 and \$106.31 each during that same period. Mr. Oliver now directly holds 10,725 common shares.

Arthur C. Reeds, divisional officer, exercised an option for 11,101 common shares between \$59.63 and \$73.88 each from Nov. 15 to Nov. 21, 1995. To cover transaction costs, he turned in 9,140 of the shares between \$103.06 and \$103.44 each during that same period. Mr. Reeds now directly holds 13,544 common shares.

James G. Stewart, vp, exercised an option for 2,700 common shares at \$62.31 each on Nov. 14, 1995. To cover transaction costs, he turned in 2,700 of the shares for \$103.94 each on Nov. 14 and now directly holds 31,851 common shares.

Gary A. Swords, vp, exercised an option for 630 common shares at \$53.81 each on Nov. 3, 1995. To cover transaction costs, he turned in 433 of the shares for \$105.94 each on Nov. 3. Mr. Swords now directly holds 1,911 common shares.

Wilson H. Taylor, chairman, exercised an option for 3,508 common shares at \$62.31 each on Nov. 14, 1995. To cover transaction costs, Mr. Taylor turned in 3,500 of the shares for \$103.94 each on that same day. He now directly holds 71,294 common shares.

Thomas J. Wagner, vp, exercised an option for 8,982 common shares between \$59.63 and \$73.88 each from Nov. 14 to Nov. 22, 1995. To cover transaction costs, he turned in 7,496 of the shares between \$103.94 and \$104.94 each during that same period. Mr. Wagner now directly holds 10,694 common shares.

CIGNA stock closed at \$105.75 a share on Dec. 22.

Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

ADVERTISER INDEX

Issue of January 1

Advertiser	Page #	Advertiser	Page #
AIG Corporate	5	Centre Reinsurance	6-7
Ameritas Life Insurance Co.	13	CNA/Disability Management	4
Burnham Systems	19	Int'l Found. of Empl. Benefits	10
Business Insurance	14,20	Met Disability	9
Caisse Nationale Deprevoyanc	11	Reliance National	24
Carvill America, Inc.	12	Richard Meyers	19
		D. W. Van Dyke & Company	12

Stanley

Continued from page 1
 ployee benefits for more than 300,000 public employees and dependents.

While the size of the CalPERS alone offers even bigger challenges for Ms. Stanley, the even bigger feat will be attempting to top the efforts of her predecessor, Tom Elkin. Mr. Elkin, who retired in July, won recognition from then-candidate Bill Clinton for successfully implementing a managed competition-like health care cost containment system.

Now coming off a third straight decline in annual HMO premiums, the CalPERS group purchasing program serves as a model for employer health care purchasing cooperatives nationwide (BI, Feb. 20

1995). It is also a major player in health care quality initiatives.

CalPERS directors are confident that Ms. Stanley will rise to the challenge.

"She will provide the kind of leadership and administrative skill that CalPERS requires to continue its leading edge approach to health care purchasing reform and management," said Kurato Shimada, chairman of the board's Health Benefits Committee.

"This leadership will be essential as CalPERS implements its aggressive business plan—which includes further pricing innovations, quality measurements, technological improvements, effective service level targets and best practices guidelines" for its health providers, Mr. Shimada added. **BI**

Comings & Goings: Buyers

Baxter set to replace Weyerhaeuser's Hawkins

Gary A. Baxter has accepted the position of director of insurance at Weyerhaeuser Co., replacing Cheri J. Hawkins, who will retire June 1.

Mr. Baxter, 50, is the assistant director of insurance at Tacoma, Wash.-based Weyerhaeuser.

In his new role, Mr. Baxter will be responsible for property/casualty, marine and other coverages.

He will report to Dave Edwards, vp and treasurer.

Mr. Baxter joined Weyerhaeuser in 1971, after working as a fire protection engineer for Industrial Risk Insurers and Factory Mutual Engineering & Research. He also is vp of Weyerhaeuser's two captive insurance company subsidiaries in Bermuda and Vermont and is a director and president of Forest Insurance Ltd., a Bermuda-based association captive.

He has been a member of the Washington Chapter of the Risk & Insurance Management Society Inc. since 1972, serving as its president in 1981.

Mr. Baxter graduated from Oregon State University's School of Engineering in Corvallis.

Randy McKnight has been named director of corporate risk management at Belz Enterprises, a Memphis-based real estate developer.

Mr. McKnight, 34, will oversee property and casualty insurance, profit liability insurance, risk identification and employee benefits.

Mr. McKnight reports to Jimmie D. Williams, chief financial officer. Mr. McKnight previously held the position of property/casualty risk manager for the Travelers Group in Hartford, Conn.

Mr. McKnight earned a bachelor's degree in public administration from Harding University in Searcy, Ark. He also holds a mas-

ter's of science in insurance degree from the University of Hartford.

Mr. McKnight also holds the Chartered Property & Casualty Underwriter designation.

Martin Hernandez named vp-risk management of Dollar Systems Inc., the Tulsa, Okla.-based operator of Dollar Rent A Car.

Mr. Hernandez, who fills a position left vacant when Dollar was purchased by Pentastar in 1990, supervises the risk management department. Mr. Hernandez's responsibilities include systems liability and subrogation insurance programs.

He reports to Lloyd St. Clair, executive vp.

Previously, Mr. Hernandez was risk manager at General Rent-A-Car, which was purchased by Dollar in 1993.

Mr. Hernandez earned a degree in business administration from Sacred Heart University in Puerto Rico.

Sean M. Rogers, 31, has joined Collins & Aikman Products Co. as a risk analyst.

His responsibilities include providing analytical support for risk management decision- and policy-making at the Charlotte, N.C. manufacturing company.

Mr. Rogers also is responsible for the organization of risk management data in the company's information system.

He reports to Mark Michaud, director of risk management. Mr. Rogers previously worked as assistant risk manager at the South Carolina State Ports Authority in Charleston.

He is a licensed all-lines insurance adjuster in South Carolina.

Mr. Rogers holds a bachelor's degree in business administration from the College of Charleston and is a member of the Carolina chapter of the Risk & Insurance Management Society Inc.

We'd like to report on staff changes in your company's risk management, safety and employee benefit departments. Send announcements to Michael Bradford, Associate Editor, Business Insurance, 8950 N. Central Expressway, Suite 114, Dallas, Texas 75231; 214-361-2295. Photographs are welcomed.

Dean leaves Sphere Drake

Ian Dean, president and chief executive officer of Sphere Drake Holdings Ltd. has resigned for personal reasons.

He has been replaced by Michael Watson, Sphere Drake's chief financial officer, who has been familiarizing himself with the group for the past year, the company announced last week.

Paul Philo, vp and chief underwriting officer, has become executive vp and will take on Mr. Dean's position as chairman of the group's two insurance company subsidiaries, Sphere Drake Insurance P.L.C. and Sphere Drake Insurance (Bermuda) Ltd.

In other reinsurer changes:

Fred G. Marziano will join Gerling-Konzern Globale Rueckversicherungs-A.G. as president and CEO of its U.S. operations, Gerling Global Reinsurance Corp. in New York. Mr. Marziano, previously president of Continental Insurance Cos., succeeds Gerhard Niebuhr, who will continue as chairman of the U.S. operations.

Sara B. Fox joined Swiss Re America Co. as senior vp in New York. Previously, she was a project manager at Lloyd's of London.

Also at Swiss Re, Kevin Lehman named senior vp-internal audit operations in New York.

Thomas J. Gallagher named executive vp of Prudential Reinsurance Co. and its parent, Prudential Reinsurance Holdings Inc., in Newark, N.J.

Munich American Reinsurance Co. announced several new appointments in New York: Cal B. Rees named vp and deputy manager in the treaty marketing department; Michael Morrill named vp and casualty treaty manager; Paul Goodwin named vp in the treaty marketing department; Malcolm Handt named vp and actuary for pricing; and Richard A. Corpus named vp in the casualty facultative department. Also at Munich American Re, Terence O. Carlin named treaty marketing account executive in San Francisco.

Gary French named to the new position of vp-customized reinsurance for St. Paul Re, the New York-based reinsurance operations of The St. Paul Cos. Inc.

Ron Colligan named to the newly created position of vp-underwriting for Cologne Life Reinsurance Co. in Stamford, Conn.

Insurers

Frank C. Herringer, CEO of Transamerica Corp., succeeding James R. Harvey as chairman of the San Francisco-based insurer, effective Jan. 1. Mr. Harvey will continue to serve as a director and as chairman of the board's executive committee.

Richard F. Russell named president and chief operating officer of Amerisure Cos., succeeding Donald R. Mandich, who will continue as chairman and CEO of the Southfield, Mich.-based insurer.

Also at Amerisure: Thomas E. Hoeg named senior vp-claims and policyholder services; R. Thomas Savage named vp, treasurer and chief financial officer; and Pamela A. Burgess named vp and general auditor.

Steve Schleisman named president of MMI Insurance Group and executive vp of MMI Cos., both based in Deerfield, Ill. He formerly was president of AIU North America.

Martin J. Welch named vp-standard accounts operations for the Midwest division of Wausau Insurance Cos. in Chicago.

Also at Wausau, Kevin Brogan

Comings & Goings: Industry

named vp-risk management accounts marketing in the company's headquarters in Wausau, Wis.

Bradford W. Rich joined United Services Automobile Assn. in San Antonio as senior vp and general counsel. He previously was executive vp-claims and general counsel at ACE Ltd. in Hamilton, Bermuda.

Betty Harris Barrow promoted to senior vp in the actuarial reserves department of Reliance Insurance Co. in Philadelphia.

Mary Wallschlaeger named vp-claims resources at American Medical Security Inc., a Green Bay, Wis.-based group health insurer.

James E. Santry named president of Bituminous Insurance Cos. in Rock Island, Ill. Mr. Santry succeeds Peter Lardner, who continues as chairman and CEO. Robert Ator succeeds Mr. Santry as senior vp-underwriting.

Michael J. Klink named senior vp-administration, human resources and engineering at the Pressure Vessel Inspection division of Employers General Insurance Group Inc. in Dallas. Also at Employers General: Thomas P. Vick named senior vp-marketing; Kevin W. Uzzle named senior vp and treasurer; and Phyllis D. Cowan named vp-methods and procedures, internal audit and actuarial divisions.

Joseph F. Fisher joined Royal Insurance Group as senior vp and chief financial officer in Charlotte, N.C. Previously, Mr. Fisher was a partner and insurance industry practice leader at Coopers & Lybrand.

Ted Athanassiades named vice chairman of Metropolitan Life Insurance Co. in New York. Previously, Mr. Athanassiades was president and chief operating officer. He will join Harry P. Kamen, chairman and CEO, who also assumes Mr. Athanassiades' role as president, in a recently created Office of the Chairman.

Also at MetLife, Gerald Clark named senior executive vp with responsibilities for the company's overall investment-related activities and James L. Lipscomb named senior vp in the company's real estate investments department.

Agents/brokers

Frederick McClure Seifert joined the national programs division of Poe & Brown Inc. as executive vp-commercial programs in Tampa, Fla. Previously, he was chief operating officer for Hinchcliff International.

Timothy J. Korman named executive vp and chief financial officer of Hilb, Rogal & Hamilton Co. in Richmond, Va.

Abid M. Kermani named global business manager and practice leader for the Midwest region of Alexander & Alexander Inc. in Chicago.

Alan S. Montague II named vp at Cincinnati-based Thomas E. Wood Inc. with responsibilities for servicing health care clients. Previously, he was director of insurance at Sisters of Charity Health Care Systems Inc.

Michael B. Adams named vp in the Columbus, Ohio, office of Marsh & McLennan Inc.

Gary Marchitello named senior vp and national practice leader-property insurance for the North American operations of Rollins Hudig Hall Co. Inc. in New York. Also at RHH: C. Don Smith named chairman and CEO and Jerry P. Bland named president and chief

operating officer of RHH Agency of Texas Inc. in Dallas; Pearl J.C. Wong joined RHH as vp of RHH's Japan business group in New York; Robert Wilson named chairman and CEO of RHH of Pennsylvania's Pittsburgh office; John Stewart named president and chief operating officer of RHH of Pennsylvania; and James H. Levine named president and chief operating officer of RHH of Southern California Inc. in Los Angeles.

Cordell W. Hull named chairman of the global infrastructure group unit of Alexander & Alexander Services Inc. in New York.

Robert A. Byrnes named senior loss control consultant in the New York office of Near North Insurance Brokerage Inc. Previously, he was senior technical consultant with Alexander & Alexander Services Inc. Also at Near North, Mark Driscoll named senior vp and Sandra Aikin named vp in the wrap-up division in Dallas.

Other suppliers

Robert L. Young named chairman of Sedgwick Claims Management Services in Chicago. David A. North succeeds Mr. Young as president. Also at CMS, Dr. Kenneth D. Wells named medical director.

Dr. Harold E. Ray named senior medical consultant at The Pace Group Inc., the Dallas-based health care consulting firm.

Joel I. Rich joined The Segal Cos. as senior vp in Segal's New York region, with responsibilities for large corporate clients. Mr. Rich was formerly a principal of William M. Mercer Inc. specializing in retirement benefit consulting.

Joe W. Sykes named president and chief operating officer of Key Risk Management Services Inc., the workers compensation third-party administration unit of W.R. Berkley Corp. in Greensboro, N.C. Mr. Sykes previously was managing vp at Alexander & Alexander of the Carolinas Inc. in Charlotte, N.C.

David P. Kendall joined the Milwaukee offices of William M. Mercer Inc. as a retirement consultant. Previously, he worked in the Milwaukee office of Watson Wyatt Worldwide, which closed.

Joe Kelly joined Deloitte & Touche L.L.P.'s employee benefit group in Los Angeles as directing manager.

Previously, Mr. Kelly was with Hewitt Associates L.L.C. Also at Deloitte & Touche, Marc Pearl has joined the New York practice as senior manager in the insurance consulting group. Previously, Mr. Pearl was a senior actuary with Continental Insurance Co.

Gerald M. Green Jr. joined Sedgwick Noble Lowndes of the Carolinas Inc. as vp and benefits manager in Columbia, S.C. Previously, he was senior director-national and major markets for Blue Cross & Blue Shield of North Carolina.

Dr. Jeremy Nobel named to the new position of senior vp-medical affairs for Access Health Inc., a health management firm in Rancho Cordova, Calif.

William J. Liccione named manager of the Alexander & Alexander Consulting Group's St. Louis office.

Michael Scofield joined Actuarial Sciences Associates Inc., the employee benefit subsidiary of AT&T Corp., as senior consultant and chief epidemiologist in Somerset, N.J. Previously, he was with the human resources department of AT&T. **BI**



Mr. Baxter

Mr. Baxter joined Weyerhaeuser in 1971, after working as a fire protection engineer for Industrial Risk Insurers and Factory Mutual Engineering & Research. He also is vp of Weyerhaeuser's two captive insurance company subsidiaries in Bermuda and Vermont and is a director and president of Forest Insurance Ltd., a Bermuda-based association captive.

He has been a member of the Washington Chapter of the Risk & Insurance Management Society Inc. since 1972, serving as its president in 1981.

Mr. Baxter graduated from Oregon State University's School of Engineering in Corvallis.

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Mr. McKnight reports to Jimmie D. Williams, chief financial officer. Mr. McKnight previously held the position of property/casualty risk manager for the Travelers Group in Hartford, Conn.

Mr. McKnight earned a bachelor's degree in public administration from Harding University in Searcy, Ark. He also holds a mas-

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Mr. McKnight

CIGNA

Continued from page 1

flict-of-interest arguments to block testimony by at least one of the regulators and the former Tillinghast official during future court battles over the reorganization plan. The firms with which those witnesses now are affiliated have performed services for the Pennsylvania department.

A group of CIGNA policyholders and competitors have urged Ms. Kaiser for weeks to recuse herself from the case to avoid the appearance of impropriety because she was a CIGNA attorney from 1985 through 1992. She has refused (BI, Nov. 20, 1995).

The testimony presented last Thursday contradicted some key points that two Best officials asserted in an unusual release two days before the hearing.

Senior Vp Jack Snyder and Vp Eric Simpson said CIGNA's plan is just the latest in a long line of insurer restructurings that are loosely modeled after the so-called "good bank/bad bank" approach that the banking industry first adopted during the Great Depression to walk away from worthless assets and start anew.

Best cited as recent examples a 1992 restructuring by ITT Hartford Group Inc., Crum & Forster Inc.'s 1993 restructuring and Zurich Insurance Group's 1995 purchase of Home Holdings Inc.'s profitable business.

Despite the history of similar insurer restructurings, not many other insurers likely will try to copy CIGNA's reorganization plan because of its huge monetary and public relations costs and its rating implications, the Best officials argued.

In addition, once an insurer embarks on this process and brings in outside experts and regulators, it will find it difficult or impossible to turn back, they said.

The Best officials also noted that they neither support nor encourage such restructurings but

are prepared to rate companies that implement them.

The hearing was the last one scheduled by the Pennsylvania Insurance Department over CIGNA's restructuring plan.

Under the plan, CIGNA's Insurance Co. of North America unit would be split in two, with one portion retaining INA's long-tail liabilities and the other keeping ongoing business and INA's name.

The entity retaining the long-tail liabilities would be merged immediately into CIGNA's Century Indemnity Co. Century would be the lead unit in a separately capitalized runoff operation.

CIGNA estimates the runoff unit would have \$7.3 billion in capital, including investment income, to pay long-tail claims. In addition, the active operation would provide \$500 million of excess-of-loss reinsurance protection for the runoff unit.

The two former regulators who testified Thursday, James W. Schacht, a 31-year Illinois department official who retired last August as chief deputy director, and David Walsh, Alaska's commissioner from 1990 until last January and past president of the National Assn. of Insurance Commissioners, noted that CIGNA now says it can estimate its long-tail liabilities even though it told the Securities and Exchange Commission on June 30, 1995, that it could not.

They questioned how CIGNA can be so sure now when it was not in June, months after it had been working with Pennsylvania regulators, Tillinghast and another actuary the insurer hired to evaluate its long-tail liabilities.

Mr. Schacht now is director of the insurance regulatory practice for Coopers & Lybrand L.L.P. in Chicago. Mr. Walsh is the general counsel of the domestic brokerage group for American International Group Inc. of New York, which has been among the most vocal opponents of the plan.

Robert Irvan, chief financial officer for CIGNA Property & Casu-

alty Insurance Co., the CIGNA unit leading the reorganization effort, later compared the situation to an entertainer "who becomes an overnight success—after 20 years of working at it."

The former Tillinghast official disputed that the firm has developed a method that would allow CIGNA to estimate and fund its long-tail liabilities with enough certainty that CIGNA policyholders with long-tail claims would be as adequately protected in a runoff operation with finite assets as they currently are.

That is because the techniques, which largely have been unsuccessful in the past, are based on historical data that "are so scanty that they do not tell us enough about the future to justify a transaction of this nature," said W. James MacGinnitie, formerly a managing director of Tillinghast and now the national director of actuarial services with Ernst & Young L.L.P. in Atlanta.

Mr. MacGinnitie also dismissed assertions by Tillinghast officials that non-traditional actuarial modeling capabilities have emerged only recently. None of those capabilities have not been subjected to peer reviews or have been duplicated, he said.

Because of these problems, Tillinghast cannot and has not stated that CIGNA has "made a reasonable provision" for its asbestos and environmental liabilities," he said, quoting the phrase actuaries use when giving a formal reserve opinion.

Mr. MacGinnitie later praised Tillinghast's work in evaluating CIGNA's long-tail liabilities and reserves. But, he said it is not good enough to support CIGNA's "walkaway" plan.

AIG's Mr. Walsh testified that CIGNA's own history is a perfect example of why policyholders should not be placed in a runoff operation. Because of reserve deficiencies, CIGNA's insurance operations would have "ended up under water" between 1984 and 1991 if they had been placed in

runoff, he argued. Only ongoing cash flows from new business and parental capital infusions, which would not be available to the proposed runoff company, saved CIGNA during that period, he contended.

CIGNA officials later said that Messrs. MacGinnitie's and Walsh's testimony was full of contradictions and inaccuracies.

For example, while stating Tillinghast used old, unsuccessful actuarial methods, Mr. MacGinnitie also acknowledged that Tillinghast used unproven new methods, said Gerald Isom, president of CIGNA P&C.

The firm used a combination of new and old methods to review the plan, he said.

Mr. Isom and other CIGNA officials also acknowledged that Tillinghast and CIGNA recognize the uncertainty associated with estimating ultimate long-tail liabilities.

"That's why we've overfunded this (runoff) entity," stressed Mr. Irvan, the CFO. "We can be off by 300% and still have enough money to pay" all of CIGNA's long-tail liabilities.

CIGNA officials also said that investment income, not revenue from new business or capital infusions, buoyed CIGNA from 1984 through 1991. Mr. Irvan said the proposed runoff unit would generate approximately \$250 million in investment income annually, which is about what CIGNA historically has paid in long-tail liability claims annually.

Policyholder attorney John N. Ellison implored Ms. Kaiser to consider the recent collapse of a General Electric Co. liability insurer soon after it reorganized—citing CIGNA's reorganization plan—to separate loss-plagued GE policies from more profitable ongoing business.

Electric Mutual Liability Insurance Co. filed for voluntary liquidation in Bermuda after recognizing a roughly \$750 million shortfall in reserves for GE-related asbestos and environmental claims.

It is at least \$500 million insolvent, making it one of the largest property/casualty insurer failures on record (BI, Dec. 11, 1995).

"The importance of this transaction and result involved striking similarities to the CIGNA plan," including the lack of both publicly available financial information and policyholder approval of the plan, argued Mr. Ellison, a partner with Anderson Kill Olick & Oshinsky P.C. in Philadelphia.

But James F. Meehan, assistant general counsel for CIGNA, later said that CIGNA's plan differs from EMLICO's in many ways.

For example, CIGNA's plan is undergoing far more regulatory scrutiny. And, CIGNA is not attempting to take advantage of Bermudian regulations that may allow a liquidated insurer to pull in its reinsurers to cover its unfunded incurred-but-not-reported liabilities, he said.

Mr. Meehan after the hearing also questioned what he called the "short memories" of Messrs. Schacht and Walsh. Mr. Schacht approved CIGNA's depooling last December, and both regulators approved a similar reorganization by Crum & Forster Inc. in 1993.

Mr. Schacht responded that the depooling approval was not tantamount to signing off on CIGNA's plan to create a separate runoff operation. And, both former regulators said that Crum & Forster, unlike CIGNA, first obtained policyholder approval.

Meanwhile, Zurich-American Insurance Group rebutted Best's characterization of Home's reorganization as a good bank/bad bank deal.

The Home Insurance Co. should not be characterized as a "bad bank," said David Bowers, general counsel for Zurich-American in Schaumburg, Ill. "It's fully funded and reinsured, the term bad bank implies that it's underfunded."

The deal would not have passed muster with regulators if there were insufficient funds to pay claims, Mr. Bowers said. **BI**

Parker Hannifin 401(k) undergoing alterations

CLEVELAND—Parker Hannifin Corp. is making several changes to the design and operation of its \$550 million 401(k) plan.

The changes at the Cleveland-based manufacturer, which are effective March 1, include:

- Three new investment options added to the existing five.
- Unlimited transfers, a change from being allowed only quarterly transfers and in amounts limited to 25% of assets.
- Daily valuation from monthly.
- Expansion of the automated voice response system.
- New performance benchmarks for investment managers.

Two mutual funds and an international equity collective trust fund are being added as options, said Sandy Sheldon, manager of benefits administration for Parker Hannifin.

Company matches will continue to be made in Parker Hannifin stock; employees will not be allowed to diversify those assets into other investment options until age 55. The company match will remain the same—dollar for dollar up to 3% of pre-tax salary deferral by a participant and 25% on employee contributions between 4% and 5%. The formula for matches on employee after-tax contributions will be reduced to encourage employees to save more on a pretax basis within the retirement plan.

Many functions now handled by the human resources staff will be taken over by SunGard, a Birmingham, Ala., record keeper.

Employees also will have access to an expanded automated voice-response system to perform many basic account management tasks.

Other plan design changes include an increase in the permitted employee pretax contribution to the 401(k) plan to 15% from 10%.

Parker Hannifin enlisted Coopers & Lybrand L.L.P.'s Chicago office to provide critical help with both plan design and communication of the new features, Ms. Sheldon said.

A poster campaign in all locations and a mailing to offsite sales people created a high awareness about the plan changes. A new enrollment kit and a fact sheet give employees the basics about plan changes. A quarterly payroll stuffer will repeat basic investment concepts. The highlight of the plan roll-out is a customized video, performed by the Chicago-based improvisation theater troupe Second City.

—Crain News Service

Medco

Continued from page 1

interim basis to Scottsdale, Ariz.-based PCS Health Systems Inc., which has held the contract for four years. PCS was acquired by drug giant Eli Lilly & Co. in 1994.

After three months, during which the state will issue a request for proposals for new bids, the state probably will be ready to choose a contractor again, Ms. Brown said.

Medco said it could not commit to rebidding for the state's business until it saw the request for proposals.

Executives of pharmacy chains, most of which had been participants in the PCS network, say they balked at Medco's plan for two main reasons: reimbursement levels were too low, particularly compared with PCS levels; and they had not signed contracts with Medco, even though the company included their pharmacies in the bid it submitted.

Some of the pharmacy chains also own PBMs that competed with Medco for the state's program.

"Medco included us in their provider network when we were not part of their provider network at those rates," said Joel Feldman, senior vp for managed care with Camp Hill, Pa.-based Rite Aid Corp., a pharmacy chain with 179 stores in Maryland. "They clearly submitted a proposal that they couldn't support."

Mr. Feldman also is president of Eagle Managed Care, a subsidiary of Rite Aid that competed against Medco on the state PBM contract.

Medco's signing on its contract with the state without first having signed contracts with pharmacies was unusual but not unheard of, said Doug Stephens, vp for pharmacy operations of PCS. Typically, PBMs go to the drugstore chains first to present their intended rates, he said. But sometimes they do not.

Patrick Berryman, broker for Mechanicsville, Va.-based Epic Pharmacy Network, said the decision of company executives not to be in Medco's network was a matter of money. "The pricing was very low," he said. "(Our) decision was totally based on economics. We hope the state will at least take a look on the rebid at the financial impact it will have on the provider pharmacies."

"I don't think there's any question a significant amount of the discounts are being done on the backs of the providers. The great bulk of those discounts are coming from the PBM hammering on the pharmacies for discounts."

But Epic, a pharmacy services management firm with more than 200 drugstores in Maryland, like several other large drug chains has tried to get some of that PBM business for itself: It teamed up with Eagle Managed Care to bid on the Maryland contract.

State officials reportedly are dismayed that the retailers that opted out of the Medco plan en masse waited several weeks after finding out the details of Medco's bid and to the brink of Medco's contract taking effect. Executives of pharmacy chains were sent letters by the state

attorney general's office last week announcing that an investigation was under way and requesting certain information relating to the contract bid, reportedly relating to anti-trust violations that may have occurred if drug chains had coordinated their efforts to resist Medco's plans.

Ralph S. Tyler, assistant Maryland attorney general, confirmed that an investigation has begun but would not give details. Messrs. Berryman and Feldman said their companies acted wholly on their own in relation to Medco and consulted with no other drug chains.

Ms. Brown said the state may require PBMs in the new bid to have signed contracts with drug chains in hand before a state agreement will be made final.

A Medco spokesman said that his company wasn't sure why the pharmacies reacted so strongly to its planned reimbursement rates, considering that most of the chains hold contracts with Medco in other states at rates that are the same or lower than those negotiated with Maryland. The spokesman also said the state's taxpayers stand to lose the most if a new contract gives pharmacies a more attractive reimbursement formula, because negotiated discounts directly benefit the state.

He said Medco believed it was legally entitled to assume that participants in PCS' current benefits network were de facto members of the new network, and that Medco intended to supply them with contracts later. **BI**

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