

Business Insurance

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

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Lloyd's agents, advisers offer 1996 capacity forecasts

LONDON—Lloyd's of London's underwriting capacity could be slightly higher in 1996, or plunge as much as 16% as members leave the market, depending on whose forecast proves correct.

Lloyd's managing agents last week predicted that the aggregate capacity for the 1996 year of account would be £10.3 billion (\$16.39 billion), up from this year's £10.2 billion (\$15.96 billion).

Members agents and licensed Lloyd's corporate advisers, however, anticipate that
See Updates on next page

Risk manager charged with taking kickbacks

Criminal probe focuses on insurance consulting contracts

By JOANNE WOJCIK and ROBERTO CENICEROS

LOS ANGELES—The risk manager for the Los Angeles Metropolitan Transportation Authority subway construction project is expected to plead guilty today to charges that he accepted illegal bribe and gratuity payments from insurance consultants hired for the massive project.

The charges against Abdoul Sesay, who has held the post since 1990, are the first filed against an MTA employee in connection with the project, which is the subject of an ongoing criminal investigation being conducted by the MTA Office of the Inspector General, the federal Transportation and Justice departments, the Internal Revenue Service and the Federal Bureau of Investigation.

In a separate development, local press reports claim that MTA's primary liability insurer, Argonaut Insurance Co. of Menlo Park, Calif., may bail out of the project if demands to increase the transit authority's deductible and fees charged for claims handling are not met.

However, MTA officials are not running scared.

"That's OK; there are more insurance companies around," said Larry Zarian, chairman of the MTA's board.

Since the news of Argonaut's demands was reported, Mr. Zarian said he has received telephone calls from two insurers that

said they were interested in discussing coverage for the project. He would not name the insurers.

Argonaut declined to comment, saying it is the company's practice not to discuss its clients' business. The insurer provides \$5 million in coverage per occurrence above a \$500,000 self-insured retention.

Besides serving as primary liability insurer, Argonaut also provides claims-handling services for all of the subway construction project's other insurance programs.

Six owner-controlled insurance programs, similar to "wrap-ups," collectively provide \$100 million in general liability coverage, \$60 million in design professionals errors and omissions coverage and \$20 million in pollution liability coverage to the hundreds of contractors connected with the 30-year, \$200 billion public works project.

Premiums for the coverages, which attach above a \$500,000 self-insured retention, total about \$50 million.

Willis Corroon Corp. placed the environmental and professional liability coverages, while Secgwick James provides administrative support services.

A source said Johnson & Higgins placed the rest of the insurance coverage, but J&H would not confirm that placement.

Meanwhile, the charges against Mr. Sesay have left a vacuum of insurance knowledge at the MTA.

Mr. Sesay, who used mostly out-



JOE COOMBER

Abdoul Sesay is charged with receiving kickbacks as risk manager for the MTA subway project.

side consultants as his risk management staff, was relieved of his duties July 21.

According to sources connected with the federal probe of the project, it was the risk manager's outsourcing practice that provided fertile ground for kickback opportunities.

Mr. Sesay solicited advice on insurance, loss control and other risk management issues from a pool of five outside insurance consultants that gained work via a competitive bidding process.

Mr. Sesay also gave work to subcontractors outside of the bidding process.

Because federal funds financed the subway project, Mr. Sesay was
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U.S. insurers support stance on trade pact

Industry says market access won't suffer

By STACY SHAPIRO and GAVIN SOUTER

A new international trade agreement on financial services will open many markets to cross-border insurance trading and foreign ownership of insurers and brokers.

But the United States is not a party to last week's World Trade Organization interim agreement, contending the pact didn't go far enough to open access in developing nations, particularly for U.S. insurers.

However, insurance industry representatives say U.S. insurers likely will not be harmed by the decision, noting that many U.S. companies already enjoy extensive

access around the world.

Last Friday, 29 members of the World Trade Organization in Geneva signed the interim pact on the liberalization of financial services—banking, securities and insurance—for an initial two-year period lasting until Nov. 1, 1997. At that point, WTO members will have an opportunity to modify the terms for access to their markets.

The signatories to the pact, including the European Union, represent 90 individual countries accounting for 90% of the world financial trade, according to the European Union in Brussels. The pact could affect as much as \$2 trillion of insurance premiums,
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Winchell's plan takes a big bite from comp costs

Comprehensive claims management program reduces workers comp losses

By ROBERTO CENICEROS

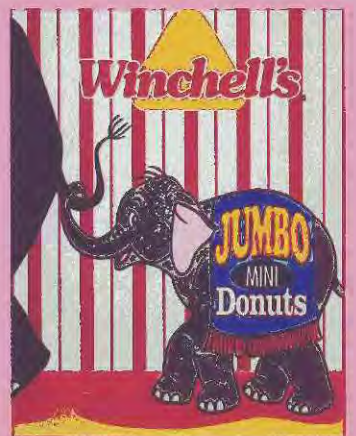
When a Canadian holding company acquired Winchell's six years ago with plans to rejuvenate the donut shop chain, the new owners thought \$6 million in annual workers compensation losses was normal for the U.S. business.

It wasn't long, though, before they realized the runaway comp claims were eating into profits with the fervor of a Homer Simpson inhaling a dozen jelly-filled.

To reverse the situation, the new parent of Santa Ana, Calif.-based Winchell's Donut Houses Operating Co. L.L.P. introduced a broad workers comp claims management program that included safety incentives, communication, return-to-work program and a new claims administrator.

"They thought they were

buying a donut business, not a work comp cesspool," said John Pinner, assistant treasurer for Mattel Inc. in El Segundo, Calif., who was hired as a consultant to help improve the
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Winchell's now has a grip on a hefty workers comp problem.

Workers on road put firms in bind

Out-of-state injuries can cause workers compensation problems

By MEG FLETCHER

As more employees take to the road for business, a workers compensation problem that has nagged employers for years is attracting the attention of insurers and state insurance regulators.

When employees are injured on the job outside their company's home state, they generally may elect to receive workers compensation benefits under either state's system. Not surprisingly, when the home state offers lower benefits, many employees choose the other state's system.

That's where the problems can start for employers.

Companies without broad enough coverage may have to defend the claim on their own if their workers comp insurer is not licensed or does not provide coverage there.

Also, employers could be exposed to employee tort suits because failure to have workers comp coverage in the state of injury may void exclusive remedy protections under state law.

Steve Cavanaugh, president of the New Orleans-based Louisiana Workers' Compensation Corp., a private, non-profit mutual that was established by the Legislature in 1991, offered a true example of how the "other states" issue can affect employers:

A Louisiana labor contractor sent an employee to a job site in Jasper County, Texas. The employee was sleeping in company-owned quarters when he was struck by a co-worker. The employee claimed and received Louisiana workers compensation benefits. But he also sued his employer in Texas courts, permissible because the employer did not have workers
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Updates

Lloyd's capacity predictions

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next year's capacity will drop 16% to £8.6 billion (\$13.68 billion).

Last year, the members agents' prediction of £10.3 billion (\$16.12 billion) for 1995 was far more accurate than the managing agents' prediction of £11.7 billion (\$18.31 billion).

Sir David Berriman, chairman of the Assn. of Lloyd's Members, said that £10.3 billion would be too much in light of the softening of insurance and reinsurance rates. With extra capacity, underwriters could be compelled to write a larger book of inadequately priced business, he believes.

Sir David said 1996 capacity of about £9.5 billion (\$15.11 billion) would be healthier for the market.

Syndicates are expected to know by the end of September what their 1996 capacity will be, but members agents said this deadline will be difficult in light of all the other activity taking place in the market, including syndicate membership auctions and the reconstruction plan.

Confed unit avoids bankruptcy

TORONTO—Confederation Treasury Services Ltd., a unit of failed Confederation Life Insurance Co. that performed various financial services for its Toronto-based parent, narrowly avoided bankruptcy proceedings last week when unsecured creditors agreed at the 11th-hour to accept less than half of what they claim they are owed.

A day after it appeared that CTSL was headed for lengthy bankruptcy proceedings, creditors consisting of mostly European bondholders and CTSL's court-appointed monitor, Deloitte & Touche, reached an agreement on how to repay a portion of creditor claims. The unit, which has about \$600 million Canadian (\$441.9 million) in assets but owed about \$550 million Canadian (\$405 million) to bondholders and other Canadian creditors, will pay this group about \$265 million Canadian (\$195.2 million). The group originally had sought at least \$375 million Canadian (\$276.2 million).

Confed's U.S. rehabilitator, which had sought to recover a portion of the \$600 million in outstanding loans CTSL owes to Confed's U.S. operations, as well as Confed Life itself, which could be due as much as \$400 million Canadian (\$294.6 million), will divide the remaining \$335 million Canadian (\$246.7 million).

Before the agreement was reached, unsecured European bondholders had moved to force the unit into Ontario bankruptcy court.

Confed's U.S. rehabilitator said the fact that bankruptcy proceedings will be avoided is positive. "Approval of the plan by all parties will allow us to focus our attention more directly on developing a plan of rehabilitation for U.S. policyholders. Claims against CTSL represent less than 10% of the \$6 billion in total assets held by the U.S. Trust," said Victor Palmieri, first special deputy rehabilitator of Confed's U.S. company.

Team to run off The Home

NEW YORK—Risk Enterprise Management Ltd., the management company created to run off The Home Insurance Co.'s business not assumed by the Zurich Insurance Group, has named its executive team, and Zurich-American Insurance Group has announced a new structure for its casualty group.

Charles F. Callahan has been named president and chief operating officer of New York-based Risk Enterprise Management Ltd. He previously was executive vp at Policy Management Systems Corp., a software company in New York. Richard Hershman, formerly executive vp and chief financial officer of the Fairfax Group, an investigations, forensic accounting and security consulting firm, has been named REM's executive vp/CFO. And, Jess D. McCavitt, formerly senior vp of Zurich Reinsurance Centre, will be REM's executive vp-ceded reinsurance and environmental claims. Previously, Peter Johnson was named REM's chairman and chief executive officer.

In another move, Zurich-American Specialties has split its specialty casualty unit. Specialty casualty will be headed by former Home manager Janet Jordan-Foster and will focus on difficult product and general liability risks. Excess casualty will be directed by Bryan Reid, the former casualty director.

A new unit called Specialty Group Programs will be headed by James Nihan, who was formerly with The Home.

Zurich Insurance Group took over The Home's profitable business in a controversial deal earlier this year in which it was not required to take on the liabilities of Home's poorly performing accounts (BI, June 5; May 22).

HMO deal questions continue

WOODLAND HILLS, Calif.—The California Department of Corporations, which regulates health maintenance organizations, still is expressing concern about the proposed merger between WellPoint Health Networks Inc. and Health Systems International Inc.

Terms of the deal call for Blue Cross of California, WellPoint's majority shareholder, to convert to for-profit status. To gain approval from state regulators, Blue Cross of California must convert its 80% equity stake in WellPoint to create a public foundation to help uninsured and underinsured Californians (BI, April 10).

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Errors & omissions

• An article in the July 17 issue misidentified the London law firm that represents Trinity Insurance Co. Ltd. in its litigation against NRG Victory Reinsurance Co. Ltd. Law firm Stephenson Harwood, not Davies Arnold Cooper, represents Trinity.

Policy paper trails go cold

Risk management audits reveal room for improving documentation

By JUDY GREENWALD

SANTA CLARA, Calif.—Poor insurance policy documentation is a problem that pops up again and again in risk management audits.

It is "amazing" how many cases there are "where I can't find the policies," says Erin A. Oberly, a San Francisco-based risk management consultant who frequently conducts audits.

Ms. Oberly discussed deficiencies in risk management programs at a meeting of the Santa Clara,

Calif., chapter of the Risk & Insurance Management Society Inc. earlier this month.

Among the problems that crop up in documentation, she said, are missing parts of policies, missing policies and missing names.

In one audit, Ms. Oberly found that different departments each were purchasing their own insurance. "I found pieces of policies stapled to invoices."

The situation was so confusing that she finally arranged to place an ad in the local newspaper in-

viting all those in town who sold insurance to give the company a call. Before the ad actually ran, though, someone realized the town had only three property/casualty agents. It turned out that all three were involved.

Ms. Oberly pointed to the number of policies companies may have had since their inception. "What if you need policies 20 years back?" she asked.

Pointing specifically to the problem of missing parts of poli-

See Document on page 16

But storm season may threaten Bermuda's good times

Cat facilities profitable

By GAVIN SOUTER

HAMILTON, Bermuda—The good times keep on rolling for Bermuda's catastrophe reinsurers.

Despite the huge insured loss produced by the Northridge earthquake in January 1994, the eight Bermuda-based catastrophe reinsurers all returned sizable profits last year and have continued to thrive in the first half of 1995, executives report.

But, as this year's hurricane season progresses, a tougher period could follow, they say.

A large loss from a windstorm likely would hit the reinsurers hard, while a continued lack of losses will likely bring pressure from clients for lower rates, the executives said.

Already this year, rates for Japanese and Australian catastrophe reinsurance have fallen, and at year-end renewals U.S. clients with good loss records will seek double-digit rate reductions, some executives said.

For now, though, the Bermuda facilities are enjoying hefty profits, ranging from \$35 million to

\$146 million in 1994.

Investors have benefited from dividends and stock buybacks as some reinsurers have distributed their excess capital.

The first half of 1995 continued the strong run for Bermuda's cat reinsurers with the combination of a booming bond market and few losses, said Donald Kramer, chairman of Tempest Reinsurance Co. Ltd.

"It will never be like this again. We had both things going for us," he said.

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Superfund reform plan limited

By MARK A. HOFMANN

WASHINGTON—Not even a quote from Woody Allen could bring smiles to the faces of insurance company executives as they heard the details of the newest Superfund plan in Congress last week.

That is because the plan stops short of advocating what insurers and risk managers alike are really seeking: a repeal of retroactive liability for legal dumping that took place before 1987.

In a Superfund proposal issued earlier this month, Rep. Mike Oxley, R-Ohio, advocates doing just

Risk managers reflect on stalled regulatory reform bill.....Page 21

that (BI, July 24).

Another proposal, by Sen. Robert Smith, R-N.H., would remove retroactive liability for any legal dumping done before 1980 (BI, July 3).

But Rep. Sherwood Boehlert, R-N.Y., who released what he called a Superfund reform roadmap last week, would not remove retroactive liability.

"The current state of the Superfund debate reminds me of the

opening line of Woody Allen's essay, 'My Address to the Graduates.' He wrote, 'Today we are at a crossroads. One road leads to hopelessness and despair; the other to total extinction. Let us pray we choose wisely,' " said Rep. Boehlert, who is chairman of the House Transportation and Infrastructure's Subcommittee on Water Resources and Environment.

Rep. Boehlert's plan would remove retroactive liability only for the 230 or so "co-disposal" municipal landfills on Superfund's National Priority List. These are sites involving multiple—in some cases

See Superfund on page 16

Is tax bill a benefit manager's dream?

WASHINGTON—Imagine if the Internal Revenue Code were overhauled so that:

• All pension and 401(k) plan non-discrimination tests were eliminated.

• Employers and employees could make unlimited contributions to pension and savings plans.

• Employers could remove surplus assets from overfunded pension plans without terminating the plans.

• Employees could remove money at any time from their savings plans, like 401(k) plans, and no longer have to pay the 10% excise tax that now applies on most pre-retirement distributions.

A pipe dream? Perhaps.

But these provisions are part of a radical tax overhaul proposal introduced this month by House Majority Leader Dick Armey, R-Texas, and Sen. Richard Shelby, R-Ga.

Their plan would wipe out

many tax breaks—including the break employees get on employer health care contributions.

In return, it would reduce the basic tax rate for employers and individuals gradually over three years until it fell to 17%, or less than half of the current maximum tax rate.

The Arney-Shelby proposal is one of several flat tax plans that have been introduced in Congress in the last few weeks. They are a

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Inside

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• China is opening its doors to more insurers. **PAGE 17**

• New U.S. insurance regulations could prompt Lloyd's to cut back its U.S. business. **PAGE 19**

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Business Insurance (ISSN 0007-6864) Vol. 29, No. 31, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207, \$4 a copy and \$80 a year in U.S. \$100 in Canada and Mexico (includes GST). All other countries \$200 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1995 by Crain Communications Inc.

Balancing work, family

Vacation child care can help calm fears of working parents

Employers finding programs are inexpensive and very popular

By DEBORAH SHALOWITZ COWANS

Remember arithmetic story problems? Try this one:

Part A: There are 180 school days in a year in most states. There are 260 non-weekend days in a year. How many days (excluding weekends) are kids on vacation from school? (80)

Part B: How many holiday and vacation days do most workers receive annually? (20 to 30)

Part C: How many days are kids out of school while parents are at work? (Subtract B from A to yield 50 to 60)

FINAL RESULT: A major headache for parents of school-age children.

To remedy the problem of caring for children on vacation from school, some employers are offering their workers child care programs targeted specifically for school vacations and holidays.

To make the programs appealing, they often combine traditional child care with a field trip.

Parents like the programs because they offer a safe, fun and affordable child care alternative. Employers like the programs because they satisfy an important employee need, are not expensive to operate and generate enormous good will and publicity.

School vacation child care is "really a win/win situation," said Kathy Hazzard, manager of work/family programs at John Hancock Financial Services in

Boston, which has been offering a school vacation program since the school year beginning September 1989.

"The feedback from the parents (about the program) has been overwhelmingly supportive," agreed Denise Cichon, a senior consultant at Aetna Life & Casualty Co. in Hartford, Conn.

School vacation child care "can be a low-cost benefit that can make a big difference for parents and kids," said Carola Endicott, manager of human resources policy and program development at New England Medical Center in Boston. "This is not as hard as you might think."

Both Hancock and the medical center discovered through employee attitude surveys that their employees wanted help with child care when children who usually are occupied with school are on vacation or there is a school holiday.

Ms. Cichon developed Aetna's school vacation child care program after hearing Ms. Hazzard describe Hancock's program at a conference.

Generally, these programs accommodate children during late winter and spring vacations and a few school holidays. Typically they do not provide child care for the major winter vacation or for summer vacation. Employers agree that making care arrangements for

See Camp on page 4



Participants in John Hancock Financial Services' Kids-to-Go program go on field trips, including this boat trip in Boston Harbor where program instructor Laura Parker Roerden teaches the children of Hancock employees about the harbor's plants and wildlife. John Hancock is one of several companies offering child care programs designed for when school is on vacation or holiday. Such programs combine traditional child care with outings. Parents get peace of mind and affordable child care, while employers get a low-cost employee benefit that generates tremendous good will.

Profiting from telecommuting

While some management and insurance issues must be considered, lower work/family stress may make more productive employees

By JUDY GREENWALD

While it may sound too good to be true, telecommuting can significantly enhance quality of life for employees, as well as help employers' bottom line.

It can enable employees to better balance their work and family obligations, while helping employers to boost productivity, reduce turnover, recruit employees and cut real estate costs.

Even companies and workers who champion the practice, though, caution that it can pose problems. Some managers, for instance, are uncomfortable managing employees with whom they do not have continuous "eyeball" contact. Workers compensation coverage is not as straightforward when workers are not on site. And some workers mistakenly think that when telecommuting they don't need to make child care arrangements.

Still, for many firms, the advantages far outweigh any potential

disadvantages.

"It's one of those things that's a win-win-win for everybody, and you couldn't stop employees from doing it once they've tried it," said Emily Bassman, the San Ramon, Calif.-based director of virtual office development for the Pacific Telesis Group, which operates phone companies in California and Nevada.

Businesses are increasingly coming to the same conclusion. Telecommunications firms, which find it in their own best business interests to promote the concept, and financial services firms are perhaps the biggest users, though a growing number of other companies are considering it as well.

"All else being equal, a bank or an insurance company is a greater potential user of telecommuting than a retail company or a steel manufacturer," said Gil Gordon, of Gil Gordon Associates, a Mcnmouth Junction, N.J.-based telecommuting consulting firm that publishes a monthly newsletter, Telecommuting Review.

But even many jobs with retailers and steel manufacturers are

suited to telecommuting, though on a selective basis, Mr. Gordon added.

In 1993, 23% of large employers offered full-scale telecommuting and another 26% were considering doing so or had pilot projects in place, Towers Perrin found in a survey of 107 companies.

By year end, 9.24 million Americans from 7.7 million households will telecommute, an increase of 10% over 1994 levels, estimates market research firm LINK Resources Corp. of New York.

More precise figures are hard to come by. Employees and managers often make informal arrangements, meaning even corporate headquarters may not have a good handle on the total number involved.

Telecommuting also is rarely a full-time, five-day-a-week proposition. Most employees telecommute at most three days a week, say observers.

Companies can realize a range of benefits from telecommuting.

People either sharing offices or giving up offices entirely can reduce costs. See Commute on page 10

Working parents get needed back-up

Relief when child care breaks down

By CHRISTINE MANY

Arranging regular child care can be a hassle for any working parent, but finding back-up care when these arrangements fall through can be an even bigger challenge.

When the nanny suddenly quits, schools are closed due to inclement weather, or the regular baby sitter is sick, parents often have no choice but to stay home from work.

On average, employees with children miss eight days of work per year due to child care breakdowns. Employers are put in a tough position: They need their employees at work but also want to be sensitive to their struggle to balance work and family.

Many employers are accomplishing these goals by providing temporary child care for employees' children.

Twelve percent of corporations now offer back-up child care, up from just 5% in 1993, Hewitt Associates L.L.C. of Lincolnshire, Ill., found in a recent survey.

And both the immediate and long-term results—reduced absenteeism—See Back-up on page 6

Camp

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those holiday periods would be a much larger and more complicated undertaking. Also, in most communities an abundance of summer camp programs are available.

Employers generally arrange liability insurance for the programs through child care companies that they work with on an ongoing basis.

Organizers of the programs take precautions including including carrying a first aid kit, cellular telephone and photo identification of all the children on all outings, and hiring personnel trained in cardiopulmonary resuscitation.

One of the first school vacation child care programs was Hancock's Kids-to-Go program.

Beginning in 1990, Boston-based Hancock began offering school vaca-

tion child care for children between 6 and 14 years old. Kids-to-Go is scheduled to coincide with public school vacations in Boston: one week in February, one week in April, the last week in June and on Columbus Day. Children can attend between two and five days during the week.

Kids-to-Go meets at Hancock in a room outfitted with games, dolls, puzzles, arts and crafts materials and other toys. Children arrive between 7:30 a.m. and 9:30 a.m., depending on their parent's work schedule. Early mornings are spent on quiet activities like playing games, doing puzzles and drawing.

At around 9:45 a.m., the children leave for a field trip somewhere in the area. Destinations have included the Boston Harbor, roller skating rinks, bowling alleys, Fenway Park for a Red Sox game, and a trolley to take the children on a tour of Boston. After the field trip the children

return to Hancock and play until they are picked up.

Enrollment is limited to 50 kids, based on the size of the school bus that transports the kids.

The program's staff comes from Ellis Memorial and Eldredge House, a non-profit social service agency that operates a day care center.

Kids-to-Go costs \$20 per day per child, which includes all field trip admission fees. Hancock puts \$2,500 to \$6,000 per year into the program. "For the attention it's received, it's not a lot at all," said Ms. Hazzard.

Liability insurance has not been the problem the company thought it might be. Originally, "the liability issue had our risk management group up in arms," admitted Ms. Hazzard. However, Hancock was able to arrange for Ellis Memorial's liability insurance to cover Kids-to-Go. And, "we have so much insurance for ourselves, it was felt we are adequately

covered," she added.

Besides providing a needed service, the program has other benefits.

For example, the program draws children from all socioeconomic groups, which broadens their horizons. And kids make friends, as do some parents, who otherwise may not meet people who work in different areas of the company.

At the New England Medical Center, the Kids' Club began in February 1994. It operates one week in February and one week in April for kids between 6 and 12 years old.

The program is limited to 16 children because of the size of the room at the medical center where they meet, Ms. Endicott said.

Children can arrive at Kids' Club as early as 7:00 a.m. and stay until 5:00 p.m. The day begins with quiet, independent activities. Then they have some structured activities, often including an arts and crafts project

or a trip to the next door YMCA to play basketball or kickball.

After the group activity, the children go on a field trip. Outings have included the circus, the aquarium, museums and ice skating. Then the children return to the hospital and play until they go home.

Participation in the Kids' Club costs \$20 per day, plus fees associated with field trips, which range from \$2 to \$8. The \$20 fee covers all of the costs of the program, Ms. Endicott said. Costs are kept down by using a hospital van for transportation and an empty room in the hospital for the play space.

Liability insurance for the Kids' Club is included in coverage arranged by the child care management company that runs the hospital's onsite child care center.

Kids' Club hires an elementary school teacher to run the program; hospital volunteers—usually high school students—also help out.

"We've filled a gap of quality of care for that week," not just a gap in care itself, Ms. Endicott said. If not for the Kids' Club, she said, these children might be staying at home all week watching a lot of television often with another child only a few years older providing supervision.

Aetna operates two school holiday programs: one near its Hartford headquarters and one in Middletown, Conn. The Hartford program meets at a YWCA center and the Middletown program meets at a YMCA facility.

Aetna started its Middletown school vacation program in September 1990. During the first year Aetna offered the program only on Columbus Day, Veterans Day, Martin Luther King Day and Good Friday. The following fall it expanded the program to include one week in February and one week in April.

Staff from the YMCA come to Aetna at 8:00 a.m. each day of the program to pick up children. They return at 4:30 p.m. Up to about 60 children—limited by bus size—between 5 and 12 years old are eligible.

During the week-long vacations, the children stay at the "Y" for traditional child care activities for two of the days. On the remaining three days they go on outings, including a riverboat ride, a steam train ride and trips to the zoo and museums.

The fee is \$25 per day. This covers nearly all the costs of the program, excluding transportation, which Aetna subsidizes.

The staff that runs the program is the same the whole year, "so the kids have continuity," Ms. Cichon pointed out. "And it's the same kids that go so they really form new friendships."

The Hartford program, which began in the fall of 1991, meets at a YWCA a block from the company's headquarters. The "Y" maintains a dedicated space and has staff dedicated to Aetna's program. Parents can drop kids off at the "Y" as early as 7:00 a.m. and pick them up as late as 6:00 p.m. The program can accommodate about 45 children.

In addition to operating the same four holidays as the Middletown program, the Hartford program operates two weeks in February, one week in March and two weeks in April to accommodate different school vacation schedules. It costs \$20 per day and does not include any field trips.

Aetna spends about \$7,000 annually to subsidize the two programs.

Aetna arranges all the field trips during the summer and publishes a schedule in September for the whole year. Ms. Cichon noted that this preparation allows parents to plan for the year in advance, "which helps us as a company because we're reducing the breakdown in care."

Liability insurance for Aetna's school vacation program is covered by the YMCA and the YWCA. **[B]**

He might be back to work already if your health insurance had specified a licensed physical therapist.

He might be a lot more productive right now if his physical therapy had been in the hands of a licensed physical therapist. They're the people who know, more than any other health care professionals, how the musculoskeletal system functions.

And their knowledge of how muscles, bones, joints, and nerves work together can mean a better, faster recovery.

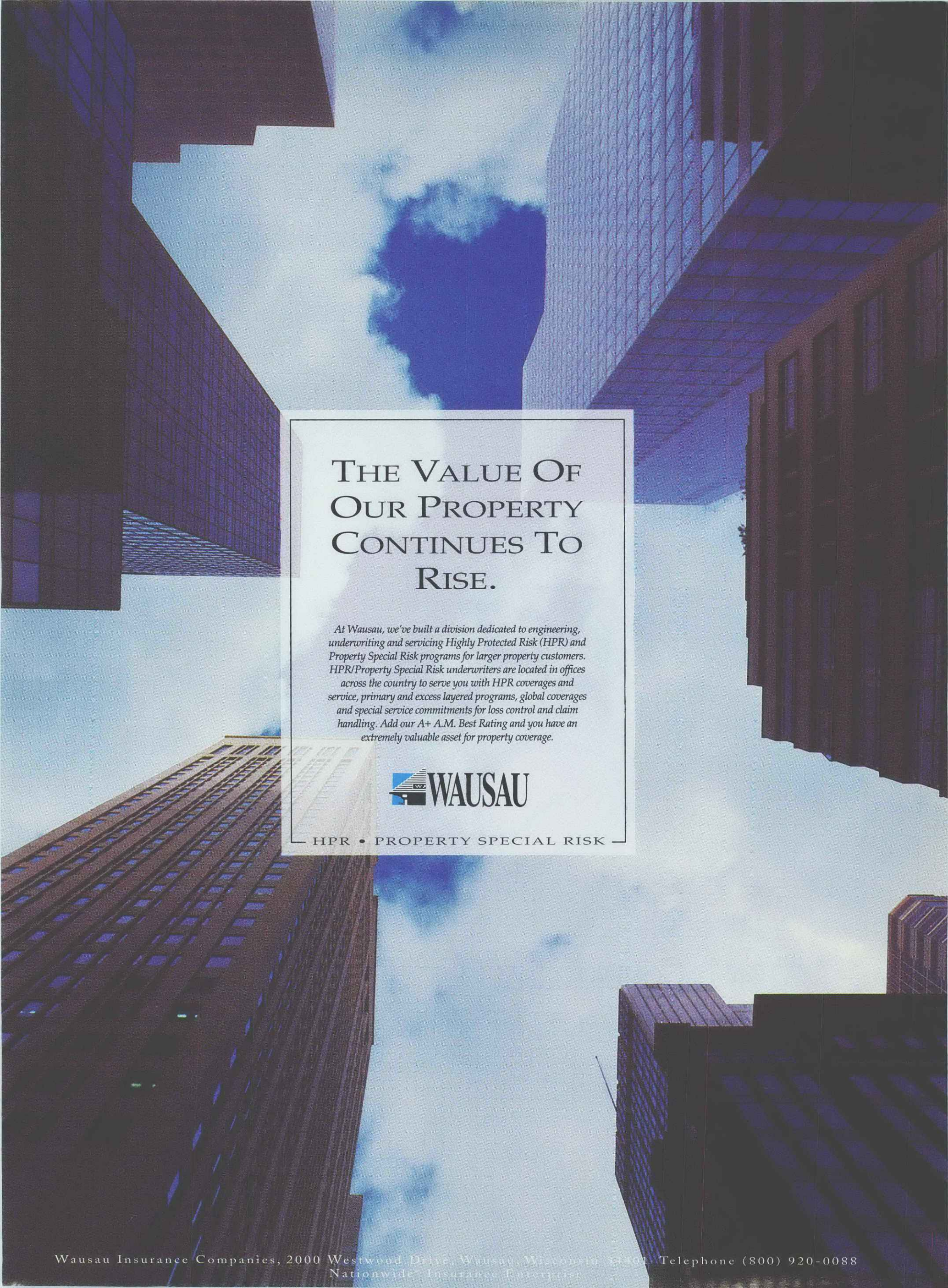
What you're most likely to appreciate is the cost-effectiveness of that kind of care. When employees and their dependents have direct access to physical therapists, their insurers can save 123% on each person's care, according to a recent study from Georgetown University. That works out to an average savings of \$1,200 per case.

Get the most for your health care dollar. Make sure your plan specifies direct access to a licensed physical therapist for your employees.

For more information, call Jim Nugent at the American Physical Therapy Association, 1-800-999-2782, ext. 3175.

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— HPR • PROPERTY SPECIAL RISK —

Back-up

Continued from page 3

teism, increased productivity and improved employee morale—are proving these programs to be wise investments.

"Back-up child care meets a well-defined, well-identified employee need," said Judith Presser, senior program manager at Work/Family Directions in Boston. "Companies are showing they understand employees' issues and they're increasing productivity at the same time."

Back-up child care comes in several forms, each appealing to companies with different needs, location and workforces: onsite centers, near-site facilities, in-home care and centers funded by a group of companies and set up at one of their facilities or at a neu-

tral site.

Although models vary, most operate on the same principles. First, parents pre-register their children. When parents need back-up care, they call to see if space is available. Reservations usually are accepted on a first-come, first-served basis. The amount of space varies among centers.

Employers usually cover 100% of the costs. Some require parents to pay a fee, approximately \$10 per day on average, to discourage employees from reserving but not actually using a space.

"It's the employer's goal to get the employee to come to work so they typically do not want to charge them, in addition to what they're already paying for their usual child care," explained Karol Rose, a partner with benefit consultant Kwasha Lipton L.L.C. in Fort Lee, N.J.

By helping workers cope with their career and family responsibilities, employers can benefit handsomely.

Last year, companies lost \$3 billion due to employee absenteeism for child-related reasons, according to the Child Care Action Campaign, a non-profit advocacy group based in New York. With back-up programs, employees get to work on-time and stay for the entire day, thereby increasing productivity.

One Fortune 100 company that Kwasha Lipton worked with spent \$419,000 to provide 30 back-up spaces free to its 8,000 New York City employees last year, reducing absentee costs by \$459,200—a net savings of \$40,200.

The back-up child care centers can also help improve employee morale.

"It's a very tangible, exciting

benefit," said Ms. Rose. "There's definite gains in terms of employee morale."

Because of the onsite programs' high visibility, even childless employees have given their companies positive feedback about the programs.

"People enjoy seeing the children eating lunch and interacting with their parents," said Joy Bunson, manager for workplace programs at Chase Manhattan Corp. in New York. "Having an onsite back-up child care facility has really changed our work environment."

Some companies have found that back-up child care has more advantages than running regular onsite child care facilities or subsidizing permanent child care.

Unlike full-time child care centers, which service only a small percentage of families, back-up

spaces can accommodate the short-term needs of hundreds of employees. Companies generally set up one back-up space for every 200 to 250 employees, consultants say.

"From a per benefit dollar standpoint, we offer a broader service to a greater number of employees," said Molly Houghton, vp of human resources for New York-based Bankers Trust New York Corp., which operates an onsite center at its Jersey City, N.J., location and participates in two consortia in New York.

In addition, onsite back-up child care centers make more sense for companies in urban areas.

"Our employees don't want to commute with their children every day, but they also don't want to miss work because their regular arrangements fall through," said Ms. Houghton. "When an emergency situation occurs, employees don't mind bringing the kids to work for a day."

Whether a company should operate an onsite center, offer in-home care or join a consortium depends on a number of factors.

"There's no single solution to the problem," Work/Family Directions' Ms. Presser said. She helps companies choose the program or combination of programs that accommodates their employees' needs and best suits the company's location and type of business.

Work/Family Directions advised Xerox Corp. when the Stamford, Conn.-based company decided to offer back-up child care four years ago. Because the company has numerous scattered facilities and wanted to work with already established providers, it developed an in-home program rather than an onsite center.

"We have about 70 locations in Rochester (N.Y.) so what's onsite for one person is not onsite for another," said Wendy Starr, manager-life cycle programs and policies for Xerox in Stamford, Conn.

When regular child care falls through or their children are mildly ill, Xerox employees can call the in-home care companies that Xerox contracts with and ask for a provider to come to their home.

Some companies offer employees more than one back-up child care option.

In addition to in-home care, New York-based Time Warner Inc. operates a 3,000-square-foot onsite center for its 7,500 employees in Manhattan.

"We knew that we had the population base to make an onsite center cost-efficient," said Nancy Platt, assistant director of training/work life initiatives for the entertainment/publishing giant.

Companies with too few employees to warrant an onsite center often join forces with other employers.

For its Manhattan locations Bankers' Trust decided on consortium-based child care facilities. It owns and operates the onsite center in its downtown building along with four other investment banks. The center is managed by Children First Inc., a Boston-based child care center management firm.

Other companies offer back-up care strictly for special situations.

In January, Visa U.S.A. in San Francisco began offering back-up child care only for mildly ill children because the employer "knew there was a need for it," said Carol Christopher, benefits supervisor at the credit card company.

"It gives parents peace of mind to know that their sick child is being cared for by an experienced professional," she said. **BI**



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Opinions

Medicare politics at work

WE COULDN'T HELP but be a bit nauseated as we watched Democratic and Republican leaders on Capitol Hill trade charges last week on the motives of each other's party for overhauling the Medicare program.

President Clinton suggested that Republicans' motivation for cutting Medicare is to pay for tax cuts for the wealthy.

For his part, House Speaker Newt Gingrich, R-Ga., says the administration is using scare tactics to frighten the elderly into believing that Republicans are out to take away their benefits.

Eventually—soon, we hope—Republicans and Democrats will cool the rhetoric and agree on what we think is obvious: Medicare cannot go on indefinitely in its current structure and changes will be necessary to avoid insolvency of the program that provides health care coverage to 37 million Americans, mainly those age 65 and older.

As we have said many times before, Medicare is a health care dinosaur. It is for the most part a traditional indemnity plan in which beneficiaries have freedom to choose their providers and the providers have little incentive to keep costs under control.

Given that structure, it's no surprise that Medicare costs have been exploding, rising at a 10% annual rate. By contrast, group health care costs in the private sector, where managed care now is the predominant way in which services are financed and delivered, have been flat in the last year and are likely to remain so in the year ahead.

If the financial collapse of Medicare is to be averted, the program will have to be overhauled—just as employers restructured their health care plans—to give retirees financial incentives to use HMOs, PPOs and other types of managed care plans.

One appealing idea is the voucher approach. Retirees would receive a voucher—with the amount adjusted to reflect age and perhaps other variables—to use to purchase health care coverage. If, for example, an individual chose a managed care plan that costs less than the voucher, he or she could keep the difference.

As politicians consider this and other approaches, they should keep a few facts in mind.

First, whatever changes are made cannot be made overnight. Important as the need to reorganize Medi-



care is, the program is simply too big and has too many people in it for an overhaul to occur in the span of a few months, as Republicans are suggesting.

Secondly, when changes are considered, we hope that legislators call in employers for their opinions and advice. Employers have far more experience than the government in introducing managed care to both employees and retirees.

Indeed, the last time federal legislators attempted to overhaul Medicare to give the elderly greater protection from catastrophic expenses, the elderly revolted.

That revolt in 1988 occurred when middle- and upper-income retirees found that an expanded Medicare program would cost them far more in new taxes than what they were paying in premiums for similar benefits provided by their former employers. A little congressional research into the extent of employer-provided retiree health care coverage likely would have avoided that debacle.

If Congress moves carefully but deliberately, we believe that the government can bring Medicare costs under control just as employers—contrary to what many thought possible only a few years ago—have done to their own health care plans.

Getting comp house in order

A critical audit of workers compensation self-administration at one of the nation's largest public housing authorities amply illustrates the pitfalls of inadequate oversight of workers comp claims.

The failure of self-administration at the Chicago Housing Authority clearly shows that comprehensive and competent administration of workers comp claims is crucial for holding down costs. We hope risk managers in both the public and private sectors take the audit's findings to heart. Simply because self-insurance is a viable option does not mean an entity also can afford to self-administer its program, as the CHA's example shows.

As we reported last week, an audit of the CHA program found that average annual workers comp costs more than tripled after administration was brought in-house in an apparent move to save money. Also, costly and questionable claims have gone uninvestigated, while open claims files have skyrocketed, the audit found.

The CHA also was severely understaffed for the task of self-administering its workers compensation program.

In 1994, the CHA found its adjusters handling 445 cases apiece compared with a caseload of 125 to 200

claims among insurance company adjusters.

In addition to being understaffed, apparently there was no one minding the store: An auditor found that the CHA risk manager at the time, who should have overseen the claims administration program, instead virtually ignored it. He has separately been linked to a pension fraud scandal at the housing agency (BI, June 24, 1994).

We do not mean to suggest that risk managers with self-administered plans should rush out and hire a third-party administrator to handle their claims. But bringing administration in-house is not something to be taken lightly. It is your organization's money at stake and that demands vigilant oversight of claims, setting goals for reducing losses, improving safety and identifying problems that could fuel an increase in costs.

Since the auditor's report was submitted, the CHA has hired several new staffers, including adjusters, administrators, investigators and attorneys. But adequate staffing is only part of the solution. Most important is comprehensive and competent oversight by a risk manager. The agency now is looking to hire one of those, too.

Maybe then it can get its house in order.

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Commute

Continued from page 3

duce real estate costs, said Ms. Bassman of PacTel, which encourages telecommuting partly to cut costs.

And productivity can rise, by some estimates, by 20% or more.

"People aren't getting exhausted because they've had to drive two hours each way on a freeway," said Susan Thomas, director of employment policies and programs at CIGNA Corp. in Philadelphia. And, working in an office "you run the risk of (being interrupted by) people stopping by every two minutes."

"It's a tremendous way to boost the effectiveness of your knowledge workers," said Mr. Gordon.

It has obvious benefits for highly motivated employees "who are frustrated by the obstacles that are thrown in their path (in the office) as they try to do an ever-increasing amount of work," he said.

Recruitment and retention is another big advantage of telecommuting, said CIGNA's Ms. Thomas. "It's wonderful in terms of recruiting and retaining people whom you might not otherwise be able to recruit and retain," she said.

Jamie Curcio, managing consultant for A. Foster Higgins & Co. Inc., who telecommutes full-time out of her suburban Chicago home, says, "If a headhunter calls me and says he has a great position in downtown Chicago, I just go, 'I'm not interested.'"

It also can be a very effective way to accommodate employees with health problems, says Carol Greenfield, a work/life consultant with Towers Perrin in Boston. And, "it is used as a return-to-work tool for people who are coming off of disabilities, enabling them to return to work in a more gradual way."

It also can help "if you just don't feel that great and you don't want to come to work and spread your

germs," said Ken Robertson, principal with KLR Consulting Inc., a telecommunications consulting firm in Vancouver, British Columbia.

Observers also note that telecommuting can help employers comply with local clean air regulations by cutting back on traffic.

And "employers are not implementing that many new benefits that cost the company money, and this is one very low-cost way of giving employees something they value greatly," said Ms. Greenfield.

But manager cooperation is crucial, and managers are having to change their way of thinking.

Managers traditionally have evaluated employees based on the amount of time spent at their desks, said Ann Vincola, national director of work/life consulting at Coopers & Lybrand L.L.P. in Boston.

"They're having to learn different ways of measuring an employee's productivity," she said. "For the most part, it's a generational thing, but of course in any generation there are people who are more sensitive than others."

"We're still in the mindset of 'I have to see them at their desks in order to be sure they're working,'" said PacTel's Ms. Bassman. But managing someone they cannot see requires managers to evaluate on the basis of their productivity, a skill that is needed in today's competitive environment.

Managers also have to decide who will not be allowed to telecommute, either because their job is not suitable to a home environment, or because they personally are not considered good candidates to work at home without supervision.

For a decade, managers have been taught that for legal reasons they must treat each individual equally, said Kathie Lingle, a senior consultant with Watson Wyatt Worldwide in New York. Flex arrangements, including telecommuting, "go in the other direction."

Employers must train managers so

they can restrict some employees from telecommuting, yet still preserve a sense of equity among employees and help them understand why telecommuting is not an "entitlement," said Ms. Lingle.

"It's like any other decision," said CIGNA Corp.'s Ms. Thomas. "If you can give them a good, solid reason...they can buy it much better"

ance roadblocks," said Mr. Gordon. "It's a risk that can be managed and doesn't have to be avoided."

Employers and employees also must decide issues such as who is paying for the equipment used at home, said Ms. Lingle.

Furthermore, the employer must know more about the home environment than it normally would. "There

family members to get on the computer, then there is the possibility of security breaches as well, she said. Employers should have employees agree that no one but themselves can use the computer.

Not everyone is suited to the social isolation involved, either.

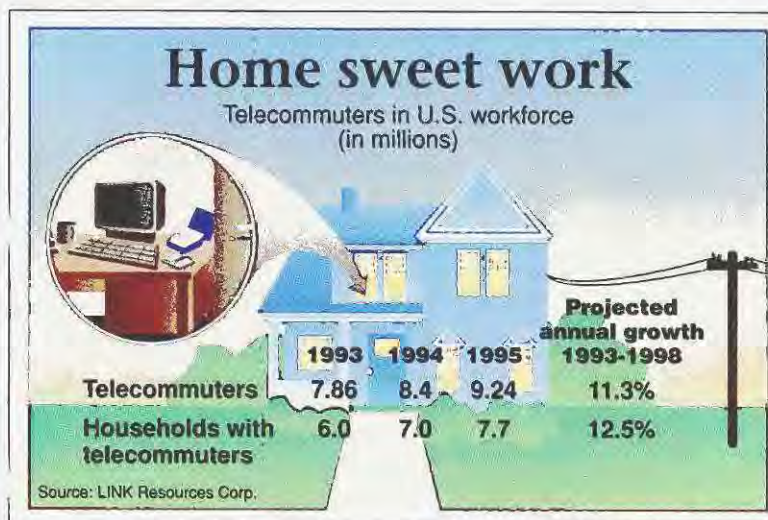
Marcia Tingley, a Minneapolis-based technical architect for ITT Hartford Group Inc., says she knows of a couple of cases where people who originally thought they would like to telecommute changed their minds once this element was pointed out to them. "They realized that wasn't something they could deal with that well," she said.

In addition, "a lot of people want to get out of the home," and the thought of telecommuting does not appeal to them altogether, said Sandy Price, who has developed telecommuting guidelines for Santa Clara, Calif.-based Intel Corp.

Telecommuting is also no substitute for child care.

"You may be able to be home with a child that doesn't need a whole lot of supervision and continue to do your work in sort of the crunch kind of times, but it's no way to substitute for day care," said Suzanne Smith, co-director of New Ways to Work, a San Francisco consulting firm and think tank.

On the other hand, it helps employees if they can telecommute and be just minutes away from their child's day care, said Francine Riley, director of workforce diversity at GTE Corp. in Stamford, Conn. "It really gives them a lift." ■



GRAPHIC BY JOHN HALL

than simply being told they cannot do it.

Workers comp and other issues also must be addressed.

For example, companies and workers need to agree on whose coverage will apply if computer equipment is stolen.

"In general, I'll tell you that there are insurance issues, but no insur-

has to be space, there has to be enough electrical outlets," she said. "You can't necessarily plunk all this equipment on the kitchen table and have the whole family work around it. You really do need a special environment."

Security concerns also must be addressed, Ms. Lingle pointed out. If there is the potential for strangers or

Elder care referral services gaining employees' interest

By LEE VELKER

Work and family resource and referral services are growing up.

Started primarily to help employees find child care, the services now handle an increasing number of requests for elder care.

And the services are evolving from simple reference tools into employee educators and consultants on a range of issues, a change that is making the services more expensive and more like employee assistance programs.

"Child care is still the most popular, but the others are catching up," said Carolyn Stolor-Peters, manager of early childhood services at Work/Family Directions Inc. of Boston.

None is growing faster than elder care.

At Work/Family Directions Inc., for instance, elder care referrals have shot up to 54,790 in just the first five months of this year from 37,401 for all of 1992.

Similarly, about 21% of the calls to Dependent Care Connection Inc. of Westport, Conn., are for adult care, up from 10% five years ago.

"They now cover the whole life cycle," said Carol Greenfield, a consultant with Towers Perrin in Boston.

"The trend was inspired by people who did not have children, saying, 'Hey, my company is spending all this money on these benefits and what am I getting?'" said Ms. Greenfield.

Responding to that sort of sentiment, some companies have abandoned the label "work/family" to describe their programs in favor of the less restrictive "work/life"

(BI, July 25, 1994).

A quarter of U.S. employers provide elder resource/referral services, Towers Perrin found in a 1994 survey. Another 20% were planning programs or already had pilot projects in place.

As baby boomers get older and medical advances help people live longer, the demand for elder care services is expected to rise. With that in mind, one resource and referral company was formed recently exclusively for elder care.

"Searching for a nursing home can be very traumatic; it is like trying to make a good decision about something that is totally foreign. This takes some of the trauma out," said Michael T. McGinn, executive vp of Atlanta-based Benefit Delivery Systems Inc., which, along with its parent, Segal Co., helped develop the new company, AdviNet Inc.

Beyond elder and child care services, some companies offer their workers referrals for grade and high schools, summer and after-school programs, colleges, adoptions and even military schools.

Even as the range of services expands, many employees do not use the services.

"Usage is a lot lower than you might expect," said Kathie Lingle, a senior consultant at Watson Wyatt Worldwide in New York.

Reasons include employee uneasiness about seeking counseling of any sort through work, fear that any information will not remain private and fear of appearing unable to cope with problems.

"Companies need to show employees these are OK to use," Ms. Lingle said.

Another reason for not using services: Many employees don't need them.

"Utilization has gone up

slightly, but at the same time it is a service that every employee does not need at times," said Alice Campbell, director of work and life programs at Deerfield, Ill.-based Baxter International Inc. Last year, 7% of Baxter employees used its referral services, up from an average of 4% to 5% in prior years.

Baxter and other companies encourage employees to use the programs by getting information to workers at the right time of year. This seems to be early summer for childhood services, with young children home from school, and the holiday season for elder care because of employee contact with aging relatives.

After Baxter and its referral firm, Work/Family Directions, sent a packet about elder care to employees last January, the response was tremendous. "Utilization in that one month exceeded our expectations for the year," Ms. Campbell said.

No matter what time of year, though, communication can be critical to these programs. Both resource and referral firms use tools like electronic mail, newsletters, posters, home mailings and benefit seminars.

"The best way to get the word out really depends on the employees and how they communicate. For some companies, that might be e-mail, while with others a monthly newsletter is more effective," said Carol Sladek, a consultant at Hewitt Associates L.L.C. in Lincolnshire, Ill.

Prompted in part by interaction with employees, referral services are evolving toward counseling.

Some referral programs, for example, give background information about the type of care em-

See Referral on page 17

Limelight

Lloyd's syndicate results 1994

Limelight is the essential reference to Lloyd's syndicate results. The syndicate-by-syndicate data is provided in an easily accessible format and shows full details of each year of account from 1988 to 1992 together with open year figures for 1992 and 1993. Useful information on the underwriter, his remuneration and participation on the syndicate, the managing agent, principal investment manager and syndicate auditor is included. The members' agent or corporate member with the highest capacity on each syndicate for 1995 is also included. *Limelight* is the essential reference point for financial advisors, analysts and Lloyd's commentators. Almost 600 pages.

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Referral

Continued from page 10

employees are looking for, tips for choosing the best service and help with translations of technical terms relating to care.

"We noticed over 10 years that something was missing and expanded from simple referrals to counseling," said Work/Family Directions' Ms. Stolov-Peters.

She gave a hypothetical situation of a mother calling the service with a complaint about her nanny.

"Before we would just offer her references for other nannies. Now we would probe the situation and suggest talking to the nanny. We would probe into other issues like maybe mom is having a tough time going back to work and leaving the kids.

"We would counsel her that this is normal and suggest maybe calling home a few times during the day before going out and getting a new nanny. We would make other suggestions, instead of going out for another nanny. This can save time and money," she said.

As referral services expand more into counseling, they are coming to more closely resemble employee assistance programs. Traditionally focused on substance abuse, many EAPs now are expanding their counseling services into areas such as stress management and family and marital problems (BI, June 26).

"There is a graying of the lines between EAPs and referral services," said Ms. Greenfield of Towers Perrin.

Pat Brown, manager of family matters at Memphis, Tenn.-based First Tennessee National Corp., agreed the lines are blurring, but she said there are still distinctions.

"There are still advantages to having both. You need both, because an EAP isn't going to be able to refer you to a day-care center," she said, adding that the areas of expertise differ but both counsel employees on work and family issues.

"You must make sure they are really working to complement each other," Ms. Brown said, adding that the bank's staff is trained to refer employees to both services if a performance problem at work is related to an outside issue, such as taking care of an elderly relative.

As resource and referral firms come to emphasize counseling, their staffs need to have more training and experience.

Unlike a few years ago, for instance, most counselors hired by Dependent Care Connection have masters degrees or are working toward them.

Counselors also are put through a "very rigorous" eight- to 10-week training program, which includes classroom lessons on all types of care the company refers, instruction on the needs-assessment process, hands-on assistance for experienced counselors and doing "mock" qualifications where experienced counselors present situations for trainees to practice, said John B. Place, president of Dependent Care Connection.

As the services provided have expanded for all referral services, the providers have raised their rates.

Standard prices for the industry average about \$15 to \$20 per employee, while services that still offer just child care average \$9 to \$10 per employee, according to Watson Wyatt's Ms. Lingle.

"As benefits go, it is relatively cheap," said Ms. Lingle. "When employers think about child care,

they think of onsite child care and that scares them. These referral services are a much cheaper alternative."

Most employers see it as a cost-effective way to assist their employees.

"The program more than pays for itself," said Jeanne Ulatowski, work/life services manager at Northern Trust Corp. in Chicago. Northern Trust also uses a small onsite day-care service but has the referral service "as an alternative for those who cannot or do not want to participate in (onsite day care)" and for those who have

needs besides child care.

Whatever the referral need, the services provide a useful and time-saving tool for employees. Although it is difficult to measure, "it has a domino effect on increasing employee performance and productivity," Ms. Ulatowski said.

The benefit of the program is increased production from employees. No more hours spent flipping through the phone book and calling nursing homes or day-care centers. Cost-effectiveness may be hard to judge because most of these are "hidden costs," according to Ms. Brown of First Tennessee.

see.

"We are not only gaining productivity, but employee loyalty to the company," she said.

Most of the vendors conduct surveys to get a feel for employee satisfaction.

"The program is probably exceeding employee expectations, judging from the feedback," said Ms. Brown, citing complete resource and referral services as one of the most important benefits for employee satisfaction.

"Employees find it so gratifying that someone can give them this information, you just would not

believe it," said Baxter's Ms. Campbell.

When employees are dissatisfied, it normally has to do with unavailability of quality care in a geographic area or a lack of individual recommendation from the resource and referral company. Despite vendor screening and counseling by the referral services, recommendations are not made for liability reasons.

"Ultimately, the decision falls on the employee," Watson Wyatt's Ms. Lingle said. "Overall, people tend to be very grateful for the services that are provided." E



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Spotlight report

Dependent care resource and referral services listed

Americare Systems Inc.

1400 Woodward Ave., Suite 20,
Bloomfield Hills, Mich. 48304-3972;
810-988-9490 or 800-842-6161;
fax: 810-988-9488

Services began: 1983.

Child care services: Frequent: Dependent care centers; parenting seminars; afterschool services; child care placement; pre-school, grade school, high school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health

care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral.

Program services: Corporate needs assessment, employee questionnaires, task force formation, cost/benefit analysis, regulatory advisement, focus groups, feasibility studies, start-up and operational budget preparation, employer/employee financing options consulting, community dependent care resource development.

Offices: Four.

Service area: Nationwide. Subcontracts with three vendors for parent seminar services and resource and referral services outside Michigan and Ohio.

Clients: 11 clients in 1994; 170,000 employee lives covered in 1994.

Staff: 19 employees at year-end 1994, including 15 resource and referral employees.

1994 revenues: \$730,000; 85% from dependent care resource and referral services.

Compensation: Child care services: flat fee: \$230 per referral case; capitated fee; hourly fee: \$90 per hour.

Elder care services: flat fee: \$190 per referral case; capitated fee; hourly fee: \$90 per hour.

Communications/Quality assurance: Provides management reporting quarterly, semi-annually, annually and upon request; customized employee communications; management training; onsite visits; employee satisfaction follow-ups; management debriefing of problems.

Officers: Marilyn Williams, president; Debra Picard, vp; Joyce Beacome, senior consultant; Cynthia Bechill, business manager.

Contact: Cynthia Bechill or Marilyn Williams.

Brown Richards & Associates

1801 Peachtree St., Suite 202,
Atlanta, Ga. 30309; 404-352-8137;
fax: 404-351-4279

Services began: 1982.

Parent: Corporate Child Care Consultants Ltd.

Child care services: Frequent: Dependent care centers, parenting seminars, afterschool services, pre-school and grade school placement, nanny/babysitting referral, summer programs.

Occasional: Adoption services, temporary illness/emergency child care, special needs services.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, retirement community placement, adult day care, hospice care, friendly visitor program.

Occasional: Medicare/Medicaid assistance, legal/financial assistance service referral.

Program services: Corporate needs assessment, employee questionnaires, feasibility studies, start-up and operational budget preparation.

Offices: One.

Service area: Nationwide. Subcontracts for resource and referral seminar services.

Clients: 20 clients in 1994; 50,000 employee lives covered in 1994; 8% utilization rate.

Staff: Six employees at year-end 1994, all resource and referral employees.

Compensation: Flat fee.

Communications/Quality assurance: Provides management reporting quarterly, semi-annually and annually; customized employee communications; management training; vendor references; onsite visits; free test cases; employee satisfaction follow-ups; management debriefing of problems.

Officers: Betsy Richards, president; Mary Brown, vp; Anita Parrish, office manager; Kelsy Smith, account manager.

Child & Elder Care Insights Inc.

19111 Detroit Road, Suite 127, Rocky River, Ohio 44116; 216-356-2900; fax: 216-356-2919

Services began: 1985.

Continued on next page



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Continued from previous page

Child care services: Frequent: Pregnancy planning; adoption services; prenatal classes/support; dependent care centers; before and afterschool services; child care placement; pre-school, grade, high school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services; literacy programs; parenting resource centers; tutors; transportation services. Occasional: Parenting seminars.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral, medical services and supplies referrals, counseling, chore/handyman services, nutrition services, grocery delivery, crisis intervention, emergency response systems, transportation services, senior centers and groups.

Program services: Corporate needs as-

essment, employee interviews, employee questionnaires, task force formation, cost/benefit analysis, regulatory advisement, focus groups, feasibility studies.

Offices: Three.

Service area: Nationwide, Canada, Guam, Puerto Rico.

Clients: 400 clients in 1994; approximately 2 million employee lives covered in 1994; 2% to 9% utilization rate.

Staff: 35 full-time resource and referral employees.

1994 revenues: 100% from dependent care resource and referral services.

Compensation: Capitated fee: \$4 to \$10 per employee per year; fee for service: \$100 to \$250 per case.

Communication/Quality Assurance: Provides management reporting quarterly, semi-annually and annually; customized employee communications; management training; provider references; limited free test cases; employee satisfaction follow-ups; management debriefing of problems.

Officers: Elisabeth A. Bryenton, president.

Continued on next page

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Guide to BI listings of dependent care services companies

The second annual *Business Insurance* directory of dependent care resource and referral agencies lists organizations that contract directly with employers to provide dependent care resource and referral services and offer these services on a stand-alone basis in at least three states. Companies that provide care services only or benefit consulting services only are not included.

Business Insurance defines dependent care resource and referral services as the determination of employee dependent care needs, research on available service providers, child care and elder care referrals, and establishment of community dependent care resources.

Listings begin with the company name, address, year resource and referral services began and parent company (if any). Next, information on child and elder care resource and referral services that are provided on a frequent or occasional basis appears. Program services that the company provides follow, including necessary preparation and research for corporate dependent care programs.

Number of office locations is included. Service area describes the area covered either directly or through contracted services. If a company subcontracts with other dependent care resource and referral agencies, the number of contracted vendors is noted along with the type of service contracted.

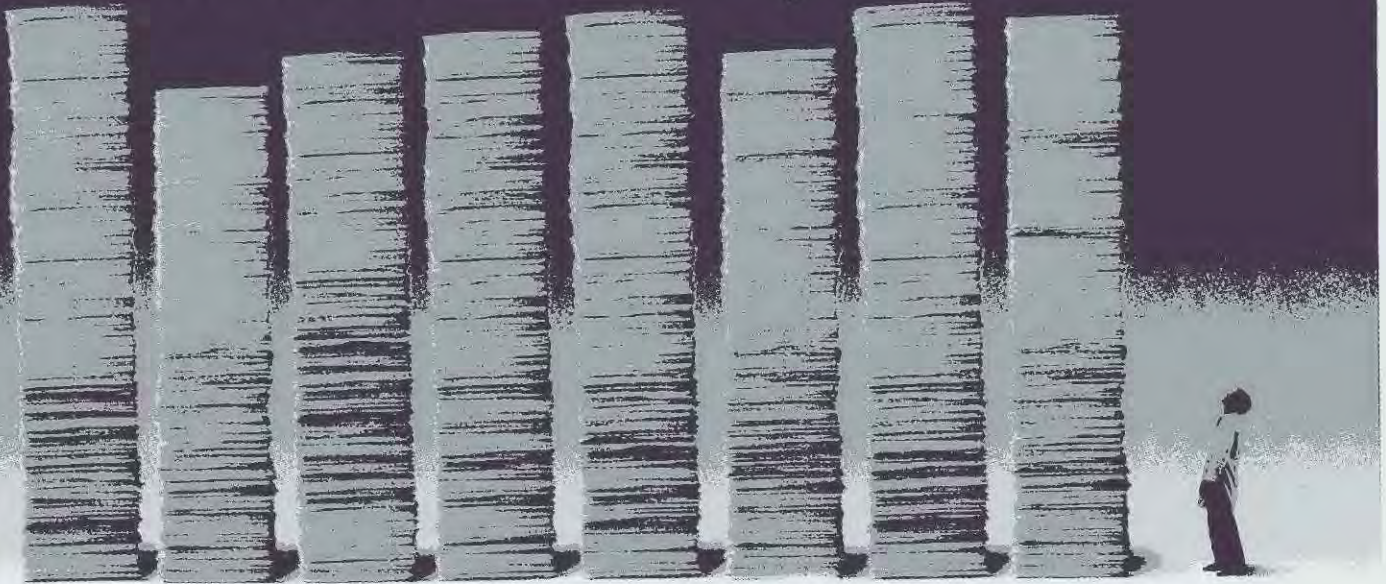
Clients includes the total number of employer clients and the total number of employee lives covered at year-end 1994. Average resource and referral service utilization rates also are given. Staff information is specified in full-time equivalents for year-end 1994. Both the total number of employees and the number of employees dedicated to resource and referral services is listed. When reported by the organization, 1994 gross revenues are included, as well as the percent of revenues derived from dependent care resource and referral services.

Compensation includes the billing methods used as well as the price range (if provided) for both child care and elder care services. Next, information on communications and quality assurance services is listed. Principal officers and a contact person for those seeking more information complete the listings.

Listings are responses to a *Business Insurance* questionnaire. The directory is published as an editorial service; there is no charge to be included. Although every effort is made to publish complete and accurate listings, BI is unable to verify all information.

To be included in next year's directory of dependent care resource and referral agencies, please contact Kathy Welyki at *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5279.

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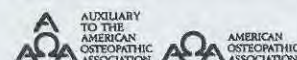
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Chicago, IL 60611

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Spotlight report

Continued from previous page

Corporate Counseling Associates Inc.

475 Park Ave. S., New York, N.Y. 10016; 212-686-6827; fax: 212-686-6511

Services began: 1985.

Child care services: Frequent: Adoption services; dependent care centers; parenting seminars; afterschool services; child care placement; pre-school, grade school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services.

Occasional: Pregnancy planning, prenatal classes/support, high school placement.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral, in-person geriatric assessment of elderly people, family counseling.

Program services: Corporate needs assessment.

Offices: One.

Service area: Nationwide.

Clients: 65 clients in 1994; 90,000 employee lives covered in 1994; 5% to 8% utilization rate.

Staff: 20 employees at year-end 1994, including 14 resource and referral employees.

Compensation: Child care services: capitated fee: \$5 to \$8 per employee per year.

Elder care services: capitated fee: \$6 to \$8 per employee per year.

Communications/Quality assurance: Provides management reporting quarterly, semi-annually and annually; customized employee communications; management training; vendor references; onsite visits; free test cases; employee satisfaction follow-ups; management debriefing of problems.

Officers: Robert Levy, Gene Cooper, principals/owners.

Contact: Georgia Critsimilios, director-marketing.

DCC/The Dependent Care Connection Inc.

P.O. Box 2783, Westport, Conn. 06880; 203-226-2680; fax: 203-226-2852

Services began: 1985.

Child care services: Frequent: Pregnancy planning; adoption services; prenatal classes/support; dependent care centers; parenting seminars; afterschool services; child care placement; pre-school, grade school, high school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral, board and care homes referrals.

Program services: Corporate needs assessment, employee interviews, employee questionnaires, task force formation, cost/benefit analysis, regulatory advisement, focus groups, feasibility studies, start-up and operational budget preparation, employer/employee financing options consulting, community dependent care resource development.

Offices: One.

Service area: Nationwide, Canada, Guam, Puerto Rico, Virgin Islands.

Clients: 85 clients in 1994; 500,000 employee lives covered in 1994; 5% utilization rate.

Staff: 70 employees at year-end 1994, including 60 resource and referral employees.

Communications/Quality assurance: Provides management reporting quarterly, customized employee communications, management training, vendor references, onsite visits, free test cases, employee satisfaction follow-ups, management debriefing of problems.

Officers: John B. Place, president; Peter G. Burki, Jeffrey A. Burki, managing partners; Mark M. Willaman, director-marketing.

Contact: Mark M. Willaman.

Employee Advisory Resource (EAR)

8100 34th Ave. S., Minneapolis, Minn. 55425-1640; 800-788-1949; fax: 612-853-4787

Services began: 1973.

Parent: Ceridian Corp.

Child care services: Frequent: Pregnancy planning, adoption services, prenatal classes/support, dependent care centers, afterschool services, child care placement, pre-school placement, temporary illness/emergency child care, summer programs, special needs services.

Occasional: Grade school, high school and college/university placement; nanny/babysitting referral.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral.

Occasional: Retirement community placement.

Service area: Nationwide, Canada, Puerto Rico. Subcontracts all resource and referral services to one vendor.

Clients: 475 clients in 1994; 500,000 employee lives covered in 1994; 8% utilization rate.

Staff: 145 employees at year-end 1994, including three resource and referral employees.

Compensation: Capitated fee.

Communications/Quality assurance: Provides management reporting quarterly, customized employee communications, management training, vendor references, onsite visits, free test cases, employee satisfaction follow-ups, management debriefing of problems.

Officers: David Robinson, general manager; Ken Larsen, marketing manager; Steve Ruff, sales manager.

Contact: Ken Larsen.

The Partnership Group

1400 Union Meeting Road, Suite 102, Blue Bell, Pa. 19422; 215-643-8383; fax: 215-643-9345

Services began: 1992.

Child care services: Pregnancy planning; adoption services; prenatal classes/support; dependent care centers; parenting seminars; afterschool services; child care placement; pre-school, grade school, high school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services.

Elder care services: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral.

Program services: Corporate needs assessment, employee interviews, employee questionnaires, task force formation, cost/benefit analysis, regulatory advisement, focus groups, feasibility studies, start-up and operational budget preparation, employer/employee financing options consulting, community dependent care resource development.

Offices: Five.

Service area: Nationwide, Canada, Puerto Rico. Provides resource and referral services directly and via subcontract with 900 vendors.

Clients: 130 clients in 1994; 720,000 employee lives covered in 1994; 10% to 12% utilization rate.

Staff: 90 employees at year-end 1994.

Communications/Quality assurance: Provides management reporting quarterly, semi-annually and annually; customized employee communications; management training; vendor references; onsite visits; free test cases; employee satisfaction follow-ups; management debriefing of problems.

Officers: Tyler Phillips, president; Nila Betof, COO; Mike Graham, CFO; Lynn Fetterolf, senior vp.

Contact: Tyler Phillips.

The Voucher Corp./Lend-A-Hand

5836 Corporate Ave., Suite 150, Cypress, Calif. 90630; 714-821-4540; fax: 714-827-6114

Services began: 1993.

Parent: Accor.

Child care services: Frequent: Dependent care centers; parenting seminars; afterschool services; child care placement; pre-school, grade school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs.

Occasional: Pregnancy planning, adoption services, prenatal classes/support, high school placement, special needs services.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, friendly visitor program.

Occasional: Hospice care, legal/financial assistance service referral.

Program services: Corporate needs assessment, cost/benefit analysis, employer/employee financing options consulting, community dependent care resource development.

Service area: Nationwide.

Clients: 82 clients in 1994; 350,000 employee lives covered in 1994; 3% to 9% utilization rate.

Staff: 51 employees at year-end 1994, including 18 resource and referral employees.

Communications/Quality assurance: Provides management reporting quarterly, customized employee communications, management training, vendor references, onsite visits, free test cases, employee satisfaction follow-ups, management debriefing of problems.

Officers: John Du Monceau, president; Denise Keller, CEO/secretary; Francois Letacconoux, treasurer; Alain Dupuis, Sue Harvey, directors.

Continued on next page

To receive a questionnaire for the 1996 Directory of Dependent Care Resource and Referral Services, call Kathy Welyki at 312-649-5279.

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Employee benefit staffs walk a fine line on rights

Employer cost control efforts can respect employees' privacy

By CHRISTINE MANY

BOSTON—Amid growing concern about the confidentiality of employee medical records, employers are faced with a dilemma.

They want to use health data to reduce medical care costs and improve health care benefits, but if employee privacy rights are unprotected, employers can face lawsuits.

By working hand-in-hand with their vendors and attorneys, more and more companies are finding that they can do both.

"We've tried to develop a model or formula that allows our company to do its job but also protects employees from any intrusions that may jeopardize their personal lives or careers," said Diana Murray, senior manager-health and welfare benefits for Sara Lee Corp. in Chicago.

Ms. Murray spoke recently at a conference in Boston on "Maximizing Health Data and Protecting Employee Confidentiality," sponsored by the Institute for International Research Inc. of New York.

When Sara Lee implemented a carve-out prescription drug plan a year and a half ago, an overwhelming amount of data was created. The company spotted several potential cases of misuse and fraud. One case involved a

person who got his inhaler prescription for asthma filled every three days at different pharmacies.

But legal barriers prevented Sara Lee from getting access to the names of potential abusers and left the company wondering, "What can we really do about it?"

"We knew the information was there," said Ms. Murray. "There was just no way for us to get to it."

Both state and federal laws prevent employers from gaining access to any employee medical data, even without names, unless it is for legitimate business concerns, such as benefit plan design, enforcing workplace safety rules or maintaining a workplace free from criminal activity and drug use.

In Sara Lee's case, the company did not want to pay for unnecessary medications.

"Our employees are shareholders, so they were losing money as well," said Ms. Murray. "Fraud hurts everyone."

Sara Lee ended its "data dilemma" by pulling together a team comprising representatives of the company, the vendor and attorneys from both sides. Together, they worked out a mutually acceptable solution.

"You also have to look at mutual risks, because it is a partner-

ship between the vendor and the company," said Ms. Murray. "We had to do something everyone felt comfortable with."

Sara Lee and its prescription drug vendor developed a process in which potential abusers are identified by the vendor.

"I don't get involved with that," said Ms. Murray. "They are the clinical people, so that's their

The crucial step in working with vendors to maximize the value of health data is to make sure everyone is operating within the same process, says Diana Murray.

job."

After potential abusers are identified, the prescription management company sends a form letter to the employee's physician asking if the patient's numerous prescriptions are medically necessary.

If the prescription manager does not receive a response within a few months, it sends another letter.

The next step, if the company still gets no response, is a letter to physicians detailing the patient's information, including all medica-

tions and pharmacies being used. Unless the physician responds, that person will be restricted to using just one pharmacy.

"This puts the doctors and pharmacies on notice that we aren't going to pay for unnecessary medical care," said Ms. Murray.

Throughout the entire process, the names of the employees and the physicians are not revealed to anyone in Sara Lee's benefit department.

"I don't know who the people are, or even at what location they work," Ms. Murray said. "All the information rests with our vendor. My job is to ensure that all medical care is paid for appropriately."

Employers also can look at general trends, which don't include the names of employees, and make changes to their employee benefit plans based on that trend information.

For example, Stamford, Conn.-based Pitney Bowes Inc.'s health management information system compiles lists of employees' lifestyle risk factors, including smoking, alcohol and drug abuse and a breakdown of health care expenses relating to these factors.

Although they do not have access to the names of employees re-

sponsible for these costs, benefit managers "use these numbers to help us identify our initiatives and target plans on certain lifestyle risk factors," said David Hom, executive director of corporate benefits for Pitney Bowes, who also spoke at the conference.

"We can't look at individuals but the collective health of our population," said Mr. Hom. The information can help companies detect, describe and plot the trends in occupational diseases and create a predictive model on general health.

Companies can track utilization patterns to suggest changes in plans or providers. For example, if a company looks at medical data and sees a high frequency of hospital emergency room admissions, it may want to consider an arrangement with a local clinic where employees can be treated, said Joy Huntington, office services manager for Cogen Technologies in Houston.

"They must then educate employees regarding the location and hours of operation so that they will use it," Ms. Huntington said.

The crucial step in working with vendors to maximize the value of health data is to make sure everyone is operating within the same process, said Sara Lee's Ms. Murray.

That process should be well documented and demonstrate that the company is trying to help itself, not invade the employee's privacy, said Ms. Murray.

An employer that can show that its goal is to help, rather than hurt, employees is likely to be supported by the courts, she added. **BI**

Continued from previous page

Work/Family Directions

930 Commonwealth Ave. W., Boston, Mass. 02215; 617-278-4000; fax: 617-566-2806

Services began: 1983.

Child care services: Frequent: Pregnancy planning; adoption services; prenatal classes/support; dependent care centers; parenting seminars; after-school services; child care placement; pre-school, grade school, high school and college/university placement; nanny/babysitting referral; temporary illness/emergency child care; summer programs; special needs services.

Elder care services: Frequent: Nursing home referrals, meals-on-wheels, household chore services, home health care, Medicare/Medicaid assistance, retirement community placement, adult day care, hospice care, friendly visitor program, legal/financial assistance service referral; living wills services.

Program services: Corporate needs assessment, employee interviews, employee questionnaires, task force formation, cost/benefit analysis, regulatory advisement, focus groups, feasibility studies, start-up and operational budget preparation, employer/employee financing options consulting, community dependent care resource development.

Offices: Three.

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Officers: Francene Sussner Rodgers, founder/CEO; G. William Helm Jr., president; Charles Rodgers, executive vp; Michael Wyman, CFO; Rebecca Haag, senior vp.

Contact: Lynne Sarikas. **BI**

Culture of confidentiality

By CHRISTINE MANY

BOSTON—Keeping employees' medical records confidential can be a challenge for any company, but those that are self-insured and self-administered face unique problems in trying to ensure secrecy.

Because more people within these companies have access to private information, the chances of leaks are greater. Also, these employers often assume that because certain employees, like benefit managers, have access to records, they should, too.

"Employers tell me that they have a right to know an employee's medical conditions and his health care costs. I tell them they may have a need to know, but they absolutely do not have a right to know," said Joan Godfrey, health care network/wellness facilitator for Armstrong World Industries Inc. in Lancaster, Pa.

Despite pressure from managers and the temptation to spread gossip, benefit administrators must maintain confidentiality or risk lawsuits. The bottom line: Companies must abide by state laws on invasion of privacy, defamation of character and intentional infliction of emotional distress as well as federal laws such as the Americans with Disabilities Act and the Family Medical Leave Act.

Even if employers have good intentions, such as helping an employee deal with an illness, they cannot, under any circumstances, be given a worker's medical history.

To ensure confidentiality, a company needs a well-defined policy, Ms. Godfrey said recently at a conference sponsored by the New York-based Institute for Interna-

tional Research Inc. "Both employers and employees should be clear on the policy and be told who will have access to their records," she said.

When employees submit a medical claim, they should sign a consent form giving certain people access to their records for the purpose of benefit administration. They should be informed that access is on a strictly need-to-know basis and no one else will be given information without their consent. But they should also be told that the records will be turned over to a court of law if they are ever subpoenaed.

Any employee who is exposed to confidential information should be required to sign a statement agreeing not to disseminate it and spelling out specific penalties for doing so, she said.

These employees should be reminded of the importance of maintaining confidentiality as well as the tremendous risks involved.

"When I read about a huge lawsuit against a big corporation because of a breach in confidentiality, I cut out the article and sent it around to my staff to remind them of the risks," said P.J. Brosmith, quality improvement administrator for health and benefit services for Coors Brewing Co. in Golden, Colo., who also spoke at the conference.

Benefit administrators also need to know that they cannot release confidential information to anyone—including family members—unless an employee consents.

Mr. Brosmith relayed a separate story of a secretary who told an employee's husband that his wife was in the hospital because of an ectopic pregnancy. It became immediately obvious that the wife had intended to keep her condition from

her husband when, after a moment of silence, he responded, "I'm sterile."

Companies should try to create a culture of confidentiality and shouldn't assume that policies alone can accomplish that, said Mr. Brosmith. In dealing with employers that want access to confidential information, he advised benefit administrators to follow three rules:

- Treat every piece of information it was about your mother.
- Focus on workplace issues.

"The only information an employer needs concerns workplace restrictions," said Mr. Brosmith. Employers can know when an employee will be returning to work and what their limitations may be but cannot be told about the specific illness.

- Question employers right back.

Instead of giving employers the knee-jerk response of "I can't tell you," benefit administrators should throw questions back at them. This practice can improve relations between employers and benefit administrators.

They can start by asking what the employer already knows and finding out what most concerns the employer. "They can also talk about general situations, without revealing any names," Mr. Brosmith recommended.

To avoid problems, employers must be clear on exactly what information they are entitled to know. For example, they can be given breakdowns of health care spending, as long as the statistics do not have employees' names attached.

Creating a culture of confidentiality means reminding employees of their rights, too. In addition to having employees sign consent forms,

companies should "go out and sell" the confidentiality issue to employees, said Mr. Brosmith. "Employees don't like to talk about confidentiality," he said. "You need to be the one to bring it up."

When employees are reassured that programs are confidential, they are more likely to use them.

"We have our medical director go around and talk to employees about the confidentiality of our programs," he said. "As soon as we do this, utilization of our onsite medical center always goes up."

Reminding employees of their rights also helps reduce the risk of them breaching their own confidentiality.

"A lot of times when there is a leak, it started with the employee, who told one person," said Mr. Brosmith.

New technologies can make controlling access to information very difficult.

Computer security measures do not necessarily ensure privacy and confidentiality, said Ms. Godfrey. "Hackers can get into systems and read employees' medical information."

Confidential information should not be sent through electronic mail because of the large number of people who have access to such systems, said Ms. Godfrey.

Fax machines also are very risky.

"If something has to be sent by fax, the person should call you and say they are faxing it and you should wait at the machine," said Ms. Godfrey. "Once you receive it, call the person who sent it and tell them."

No matter how careful benefit staff members are in protecting information, confidentiality policies are not effective unless employers and employees work together. "Everyone must understand and respect the rights of the employee," she said. **BI**

Document

Continued from page 2

cies, Ms. Oberly recommended that risk managers look at the declaration page of their insurance policies. This has a list of all the forms and endorsements attached.

Do you "make sure every piece of paper is actually there?" she asked.

She also warned risk managers against making any kind of notation on their policy forms.

"Don't ever make a mark on a policy unless you absolutely mean it," she said. Otherwise, in the midst of a coverage dispute some day, "\$300-an-hour attorneys" could be trying to decipher cryptic messages, she warned.

A clear notation is OK, but "keep it clear and assume you will have to explain this in court many years later," said Ms. Oberly.

Other problems that frequently crop up in risk management audits involve named insureds and include dormant entities and old names, past and present joint ventures and inconsistency between policies.

Risk managers should go to their general counsel and make sure all the names that should be on the policies are there, she suggested. She recommended putting together a chart that lists all the names and the relevant coverage periods. "It's amazing how often you'll find holes in the grid," she said.

The biggest problems come in the upper-layer liability insurance policies.

Some of these policies say they

will cover the underlying policy. But others require that the names must be listed in the umbrella policy itself, and differences in the named insureds can appear.

Companies that manage real estate on behalf of others have a particular problem in getting names correct. Ms. Oberly recommending retaining the names of insureds for at least 10 years.

Most liability policies will not cover joint ventures unless they are named specifically, and risk managers might not necessarily be aware of these ventures, she said.

Ms. Oberly also pointed to problems with umbrella and excess coverage. Of the hundreds of companies she has audited, not even 10% "pass," Ms. Oberly said. One reason is that umbrella insurance policies are not written on a standard form. Every underwriter has its own form, and these can differ even between different offices of the same company.

The variations among umbrella forms create problems in defense coverage, she said. Many first-layer umbrella policies cover defense costs. "But, as you start going up the layers, you see some inconsistency," said Ms. Oberly. There can be different clauses in different layers "and they simply do not work together." And some umbrella policies provide no defense coverage.

"Go back and look in your file drawer," she suggested, and see if defense costs are provided or reimbursed.

The issue of designated underlying policies can cause confusion, said Ms. Oberly. The first layer will have all the endorsements,

and all the layers above it are supposed to follow the terms and conditions of that policy. But Ms. Oberly said she often sees underwriters adding exclusions in the excess layers. If these exclusions do not match, "which one is that high excess following?" she asked. The higher policies should say "whatever the first layer covers, we cover," period. To avoid confusion, policyholders should make sure the terms agree with the company's intentions.

Turning to property policies, Ms. Oberly urged risk managers to consider coverage of contingent business interruption expenses. As companies outsource more, this is an issue "I find cropping up more and more," said Ms. Oberly.

Coverage for valuable papers is also important. "Nobody's really got a good handle on this stuff," said Ms. Oberly. "How many of you back up your own work weekly and take it off site?" she asked the risk managers in the audience. She recommended using a safe deposit box. "What are the files you don't want to lose?"

Discussing raw materials and stock, Ms. Oberly said one cover-

age problem is inconsistent valuations as partially completed goods travel around the world. As products move from place to place, they may be covered under different policies, she said. And many companies do not have worldwide policies.

A related issue arises in cases where the goods are in a customer's warehouse, but the manufacturer gets paid only after they are pulled from there. Make sure there are no collisions between your policies and those of your customers, and that you won't find yourself without coverage, she recommended. "Are you sure the policy really works well?"

The issue of the title to property in transit also can present difficulties. Ms. Oberly noted she has received different answers within the same company to the question of who holds title to property. "The risk manager really needs to stay on top of this," she said.

Turning to directors and officers liability coverage, Ms. Oberly said there is a common misapprehension among management concerning employment practices liability coverage. Management may mis-

takenly believe the company itself is covered under its D&O policy when it may not be. "You have to worry about (covering) the entity."

Ms. Oberly also urged risk managers to consider broadening their understanding of the scope of the risk management function, as risk management moves more and more into financial structures to cover risk, such as insurance futures.

Risk managers should ask: "Do I define risk management broadly or narrowly?" she asked. "How do I look at it?"

Pointing to last year's investment debacle in Orange County, Calif., which involved financial derivatives and heavy leveraging, she asked how many risk managers had asked about how derivatives were dealt with or managed within their organizations.

She advised risk managers to ask three questions: What can go wrong? What should the organization do about it? And how should the organization pay for it? Those who ask these questions are the most help to their chief executive officers, she said. **BI**

Superfund

Continued from page 2

hundreds of—potentially responsible parties.

Rep. Boehlert said the partial repeal would cost less than \$500 million annually and would not require additional revenues. He said it would greatly reduce Superfund cleanup transaction costs because of the amount of litigation involved in multiparty sites.

A complete repeal of retroactive liability is "not realistic because we

Boehlert's concern over potential costs of Superfund reform, but we continue to believe there will be adequate funds to pay for full repeal of retroactive liability particularly if, as expected, the reforms lead to more cost-efficient cleanups.

"For these reasons, we stand behind Rep. Mike Oxley's plan for full repeal of retroactive liability. We are encouraged, however, that members of Congress are concerned about this important issue and recognize the need to overhaul the system. In that regard, we welcome Rep. Boehlert's entry in the reform

A complete repeal of Superfund's system of retroactive liability is 'not realistic because we simply can't afford it,' says Rep. Sherwood Boehlert, R-N.Y.

simply can't afford it," Rep. Boehlert said. As far as insurers' concerns go, "a partial loaf is better than none at all," he said.

Insurers are unsure. "We don't support Rep. Boehlert's plan because it does not repeal retroactive liability on a comprehensive basis, as Rep. Oxley is proposing," said David Pratt, director of the American Insurance Assn.'s Clean Up Superfund Now project in Washington. "But it may be a political breakthrough of sorts, as heretofore Rep. Boehlert hasn't been a fan of repealing retroactive liability at all.

"The challenge for those seeking repeal of retroactive liability is to convince Rep. Boehlert and others like him that repeal is justified on an across-the-board basis."

The National Assn. of Independent Insurers also issued a statement full of faint praise for Rep. Boehlert but insisting that full repeal of retroactive liability is preferable. "We appreciate Congressman

effort," said the statement issued by John Lobert, the NAI's Washington-based senior vp-government relations.

The Boehlert proposal has not won support from risk managers, either. "We're still backing the Oxley proposal, but we're encouraged that Rep. Boehlert has at least recognized the need to eliminate retroactive liability," said Paul Brown, director of government affairs for the Risk & Insurance Management Society Inc. in New York.

He said RIMS supports the full repeal of retroactive liability with a cutoff date of 1987.

The Boehlert roadmap did win praise from Environmental Protection Agency Administrator Carol M. Browner at a Washington forum last week. Ms. Browner said the Clinton administration would feel "very, very comfortable" with the plan. She said the plan would target the waste sites that have generated the most litigation. **BI**

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Issue of July 31

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INTERNATIONAL

Lloyd's litigation not put on hold

Next trial: Rose Thomson Young

By STACY SHAPIRO

LONDON—Lloyd's of London members' litigation will continue throughout the year despite some members' call for a moratorium until next spring, when members must decide whether to accept Lloyd's latest settlement offer.

Justice Cresswell, who is scheduling Lloyd's cases in commercial court, recently rejected a request by action group attorney David Tip-lady of D.J. Freeman in London to put a moratorium on member lawsuits that had not yet gone to trial.

Rejecting arguments that the moratorium would give members time to decide whether to accept their portion of Lloyd's £2.8 billion (\$4.46 billion) settlement offer, the judge ruled it would unconstitutionally impair access to the courts.

But he added that if plaintiffs wished to defer the start of their trials, the court would try to accommodate them.

Of the trial dates set so far, the court has postponed the Wellington Names Assn. litigation, to January 1996 from November 1995; and the

Poland Names Assn. action to April from January. The Syndicate 90 (1982) Names Assn. trial will continue to go ahead in April, too.

The only trial expected to begin this year is that of the Rose Thomson Young Names Assn., which is to begin in November.

"People are wary about postponement," said Sir David Berriman, chairman of the Assn. of Lloyd's Members, who is involved in the Rose Thomson Young suit. Some people believe "it strengthens your position (when negotiating a settlement with Lloyd's) if you've got a judgment, but we'll have to see."

Whether to go to court has become a big question for members.

The Gooda Walker Action Group, for example, continues some of its additional litigation against members agents for 1990 losses and against the syndicates' auditors. All litigation involving the group's main negligence and quantum judgments prior to 1990, however, has been completed as all appeals have been dropped (*BI*, Oct. 10, 1994). Therefore, the Gooda Walker members

See *Lawsuits on page 19*

Lloyd's left alone

Government rejects call for oversight, seeks to let market try reforms first

By SARAH GODDARD

LONDON—Self-regulation at Lloyd's of London will not be changed until at least the beginning of the next century, the U.K. government says.

Rejecting recommendations from a select committee in Parliament that Lloyd's be externally regulated (*BI*, May 29), the government said last week in a report that the insurance market's regulatory system should be reviewed but only "once the future characteristics of the market become clear."

That would be two years at least, once members' litigation is settled and Equitas Ltd., the proposed runoff reinsurer for all liabilities up to 1992, is up and running.

But uncertainty about the "shape and structure" of the insurance market most likely will push the review back into the new millennium, the report said.

Any major changes would require amending the Lloyd's Act or passing an entirely new one, which could take up to five years, the report implied.

Lloyd's most important task right now is implementing its reconstruction plans, the report said. Any changes not directly related to the plan can be delayed.

The government rejected the committee's call for a general inquiry into Lloyd's massive losses in recent years. If there is evidence of wrongdoing, it should be given to the appropriate authorities, the report said.

The committee had charged that Lloyd's in the past failed in its obligation to protect members and, similarly, the government report said that Lloyd's regulation had not "fully met present-day standards." But, the report added, "No regulatory system can give an absolute guarantee against failure or loss."

Excessive regulation, the report said, would detract from Lloyd's ability to remain an entrepreneurial market, but insufficient regulation could weaken investor and policyholder confidence.

"Accordingly, the regulatory framework must provide adequate protection both for policyholders and for members of Lloyd's."

Lloyd's had improved its disclosure of information to names since the early 1980s, which was "typical of the developments that have taken place in the last 10 to 15 years," noted the report.

The government did, however, regret that disclosure did not extend to the breakdown of syndicate performance by specific categories of members.

But the government stopped short of calling for new disclosure requirements.

As for the scrutiny of complaints—particularly those over asbestos claims, which were a particular concern of the committee—the government said it was "not persuaded that Lloyd's treatment of these is

See *Regulate on next page*

China may open market

New insurance law could widen access by foreign insurers

By KATE TILLEY

BEIJING—Foreign insurers soon may get a long-awaited opportunity to do business in what could become one of the world's largest insurance markets.

Following the passage of a new insurance law late last month, China is planning to license at least 10 new insurers.

The People's Bank of China, which regulates insurance, is expected to give most of the licenses to Chinese companies, but also may license more foreign insurers, said John Williams, general manager of Sedgwick Insurance & Risk Management Consultants (China) Ltd. in Beijing.

Mr. Williams said the new Insurance Law of the People's Republic of China came into force on June 30, but will receive assent, which is largely a formality, when the People's Congress holds its annual meeting in September.

The law contains 152 articles in eight chapters, which cover: general jurisdiction provisions; contracts for life and non-life insurance; insurance companies; operational rules; supervision and control; insurance agents and brokers; legal responsibilities; and supplementary provisions.

Specifically, the law provides that insurers can waive a contract when a policyholder fails to act in the utmost good faith.

Insurance contracts must explain exclusions fully, and must contain mandatory details spelled out in the law. The law also requires insurance company senior management to have "professional knowledge and experience" and that insurers have minimum capital of 200 million yuan (\$24.1 million).

Life and non-life insurers must operate as separate companies under the new law. The Peoples' Insurance Co. of China in Shanghai, the largest insurer in China, currently

writes both lines but will restructure by year end to comply with the new law, according to Harvey C.H. Ho, who is a representative of the PICC.

The law also states that the Department of Financial Supervision must give approval to companies wanting to operate as insurance companies, and must approve insurance contract clauses and premium levels.

The law has been through many drafts since 1991 (*BI*, April 25, 1994).

China currently has licensed three national domestic insurers, 22 regional insurance companies and two

Brokers now have formal recognition under the new law, which means more brokers can apply for licenses.

The People's Bank has set up a new insurance regulatory department to control domestic companies. Foreign insurance companies continue to be governed by the bank's foreign financial institutions department, but Sedgwick's Mr. Williams said the two departments could be merged.

He expects the new law will provide a springboard for growth in China.

James Ing, an attorney in the



Early entries

Although many firms have representative offices, only three foreign companies have insurance licenses in China.

AIG Licensed to operate in Shanghai area only in 1992.	Tokio Marine & Fire Japan's oldest insurer, licensed in 1993.	Sedgwick Licensed in 1993, a dozen years after opening liaison office.
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foreign companies—American International Group Inc. and Tokio Marine & Fire Insurance Co. Ltd. (*BI*, Oct. 31, 1994). Sedgwick is the only licensed foreign brokerage.

Many foreign insurers do have representative offices in China. Under Chinese law, these firms must operate a representative office for two years before they can be considered for a full license. Until recently, the representative office requirement was three years.

China Practice Group at Melbourne, Australia, law firm Minter Ellison, said China's gross premium volume in 1994 was 49.8 billion yuan (\$6.0 billion), and insurers paid 26 billion yuan (\$3.13 billion) in claims.

While those premium figures included life insurance, Mr. Ing said few life policies are sold in China because of its social welfare system.

E. John Cloney, chief executive of Sydney, Australia-based QBE Insur-

See *China on next page*

GAN sets course for recovery

Insurer details strategy to trim expenses, boost profits

By MARIA KIELMAS

PARIS—French insurer Groupe des Assurances Nationales has boosted its capital and is implementing a four-part restructuring plan to turn around its fortunes.

Chairman Jean Jacques Bonnaud outlined the strategy to return GAN to profitability by 1997 at a June 30 shareholder's meeting in Paris.

The Paris-based company hopes the first signs of the turnaround will be evident in its first-half results, which could be released in late September or October.

For several years, the government-owned insurer has been posting underwriting losses in France, spurred primarily by personal lines business, and losses in its real estate financing subsidiary due to the depressed real estate market in France (*BI*, July 3).

Much will depend on the health of the real estate market, which is the primary reason for GAN's recent losses, said Michael Huttner, insurance analyst at Barclays de Zoete Wedd in London. "There is always the risk that the French property market is far worse than we realize."

Nevertheless, he added, "the plan has a fair chance of succeeding and that is why we have the stock as a 'speculative buy.'"

Other analysts remain skeptical.

Claire Barbaret, of Smith New Court in London, said she sees little hope for improved results given the lackluster French real estate market and contends that separating GAN's insurance and banking operations may be the best move for investors.

The new plan, some of which has already been implemented by the company, will involve:

- The sale of assets totaling at least 16 billion French francs (\$3.31 billion) over the next three years.

- A new concentration by its real estate lending unit on mortgages for high-end properties.

- Strengthening of underwriting controls.

- Staff cuts.

Shareholders approved GAN's plan to boost capital, which involved issuing 10.8 million GAN shares that the French government acquired in exchange for shares in other French companies. The government's stake in GAN increased to 80.5% from 75.9%.

In exchange for the GAN shares, the insurer received: 5.3 million shares in Elf Aquitaine S.A., giving it a 2% stake in the oil company; 2 million shares in banking group Credit Industriel & Commercial, which boosts GAN's stake in the bank to about 93%; and 1.1 million shares of CIC's voting certificates, giving it about 87% of voting rights.

The stock exchange deal ultimately boosted Groupe des Assurances Nationales' capital by 2.8 billion francs (\$579.6 million).

GAN's Mr. Bonnaud detailed other aspects of the insurer's recovery plan at the June 30 meeting.

The company is scaling back the operations of its mortgage lending subsidiary, Union Industrielle de Credit, which alone posted a 3.1 billion franc (\$579.7 million) loss in 1994 largely due to the real estate slump. UTC will now focus on lending for upscale residential properties and will sell part of its existing mortgage portfolio over the next three years.

GAN also is in the midst of an ongoing effort to dispose of real estate holdings of about 1 billion francs (\$207 million) annually. So far this year, it has disposed of 800 million francs (\$165.6 million) of such assets.

The company says it does not, however, plan to sell its

See *Strategy on next page*

INTERNATIONAL

Strategy

Continued from previous page

foreign subsidiaries, the most important of which are separately capitalized and profitable.

For example, GAN Insurance Co. Ltd., a U.K. property/casualty insurer, registered profits of 107 million francs (\$20 million) in 1994, compared with profits of 49 million francs (\$8.3 million) in 1993.

In addition, New York-based GAN North America Inc. posted net income of \$3.1 million in 1994, compared with profits of \$513,982 in 1993. The U.S. insurer carries an A- rating from A.M. Best Co.

The third prong of GAN's restructuring plan is the adoption of strict non-life underwriting controls and cancellation of contracts with poor loss experience.

Through April, the French company has canceled 84,000 personal lines policies and 22,000 commercial policies.

The spokeswoman said GAN hopes to improve its non-life underwriting results from a 1.27 billion franc (\$237.5 million) loss in 1994 to a 600 million franc (\$124.2 million) loss in 1995 and a break-even result by 1996.

GAN also is planning to cut its staff in France by 500 over the next three years, largely by attrition.

BZW's Mr. Huttner said that GAN is the first French insurance company to announce staff reductions.

While he said this is a milestone, Mr. Huttner predicted that such reductions would be a slow process for any company due to France's strict labor laws and a campaign pledge by French President Jacques Chirac to maintain full employment.

Meanwhile, GAN's spokeswoman rebutted rumors in the stock market and the French press that the company is underreserved. In fact, she contends, the company's reserving levels are higher than the industry average in France.

The company increased its technical reserves by 1.44 billion francs (\$269.3 million), bringing its total to 22.45 billion francs (\$4.2 billion) as of year-end 1994, from 23.01 billion francs (\$3.89 billion) as of year-end 1993.

As a result, the company's reserves-to-premium ratio reached 183.1% in 1994, compared with a French insurance industry average of 156%. **BI**

China

Continued from previous page

ance Group Ltd., which has offices in Hong Kong and Macao, said his company is interested in entering the Chinese market but has no representative office.

Despite "some problems" with doing business in China because the country lacks a democratic culture, the huge economy and population make it a good opportunity, he said.

In July, Sydney-based FAI Insurance Ltd. paid \$2 million Australian (\$1.5 million) for a 40% stake in a Sydney-based Chinese investment company, AusChina Corp. Ltd., as a means of building relationships in Asian markets with the long-term plan to enter the Chinese market.

Rodney Adler, FAI's CEO, noted that the Chinese market is the world's biggest, offering major opportunities. But FAI wants to "build relationships first" and can achieve that through its shareholding in AusChina. The other two major shareholders are the Agricultural Bank of China and the People's Construction Bank, China's second- and third-largest banks, respectively.

AusChina was established by a Chinese-Australian businessman

and has amassed a cash pool of \$5.5 million Australian (\$4 million) to invest in Chinese projects, Mr. Adler said.

FAI does not plan to enter the Chinese market for at least three to five years and is not yet seeking a li-

cense.

China is letting foreign insurers in slowly, Mr. Adler noted. "The Chinese government is nervous about losing control of a big market; they're taking a very cautious approach." **BI**

Regulate

Continued from previous page

sues demonstrates a failure of the regulatory system."

For years, the government had received complaints that Lloyd's names had not been warned about potential asbestos-related problems, said the report. Although Lloyd's-commissioned loss reviews on the syndicates with the worst losses had been used in some names' court cases, no evidence ever emerged of criminal wrongdoing.

Responding to the committee's assertion that there was "an unwarranted expansion" of the market's capacity, the government said it "is not persuaded that failure to control capacity demonstrates a failure in the regulatory regime."

It was more a problem of how the capacity was used, said the report, and that is being addressed through the risk-weighting proposals Lloyd's

is putting together.

Lloyd's had stepped up a number of its regulatory processes, said the report. General reviews of syndicates to detect potential problems and marketwide reviews on financial reinsurance arrangements and concentration of capacity into certain areas of business were among the improvements the government noted.

The lack of errors and omissions coverage for Lloyd's agents was a problem. But, "the government welcomes the action that has been taken so far by Lloyd's" in trying to set up a compensation fund.

Also, "no names can now be ignorant of the realities and no one considering joining... can be unaware of the situation," said the report.

The committee had recommended that each Lloyd's agency should have at least two external, non-executive directors on its board. The government rejected that idea.

As of late last week, Lloyd's did not comment on the report. **BI**

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INTERNATIONAL

Lawsuits

Continued from page 17

now are owed between \$325 million and \$330 million (\$517.1 million and \$525 million) for paid losses and can go back to the court every three months to get further losses paid.

Gooda Walker members are unlikely to be paid in full, however, said Nigel Brook, partner for London law firm Clyde & Co., which represents members agents' errors and omissions underwriters, which probably will pay the bulk of the award. There's only £160 million (\$254.6 million) of errors and omissions coverage available, he added.

Some members agents, too, have run out of E&O cover and will not be able to pay future losses even if other members action groups are successful in their cases against members agents.

Lawyers for Gooda Walker members, who favor Lloyd's reconstruction plan (BI, May 29), think members should continue litigating.

"You can't put litigation on hold unless you get a price for it," said Philip Rocher, of Wilde Sapte in London. "If you're at the stage of knocking heads...you don't stop litigation. It's a sign of weakness," he said.

"We'll continue litigation until there are offers on the table that Lloyd's asks members to accept," said John Mays, chairman of the Merrett 418 (1985) Names Assn., who is one of a 12-person names advisory committee to advise the Council of Lloyd's on the allocation of the £2.8 billion (\$4.45 billion) settlement offer (BI, July 10).

Separately, the first in the series of "long-tail" action group cases

to include an auditor was to be completed last week.

Up to 2,000 of the 4,018 members in the open 1985 underwriting year are suing members agency Merrett Syndicates Ltd., managing agency Merrett Underwriting Agency Management Ltd., underwriter Stephen Merrett and Ernst & Young (BI, April 10).

A judgment in that suit is expected in October.

The suit involves closure of syndicate 418/417's 1982 underwriting year and the underwriting of 11 runoff reinsurance contracts in that year. The members say the decision to leave the 1985 year open and the underwriting move cost them £163.6 million (\$242 million) at the end of 1993 and could cost as much as £723.2 million (\$1.15 billion).

Not all members are doing as well in court as they had expected, which may prompt other members to settle.

The successful Feltrim Names Assn. members, for example, will receive less compensation than the Gooda Walker members, some executives say (BI, March 13).

Justice Phillips' ruling, in fact, could be worth only tens of millions of pounds rather than hundreds of millions of pounds, said one lawyer.

The decision differed from the Gooda Walker ruling in that the judge said the Feltrim syndicates didn't have to buy reinsurance for up to 100% of the syndicates' capacity in any one year for each catastrophe. Justice Phillips was expected to clarify this point last week, but if this 100% rule applies to the lower layers of reinsurance, his ruling would "greatly reduce the loss" to agents, said Mr. Brook, who represents the agents' E&O underwriters. **BI**

Rules may curtail Lloyd's U.S. writings

By SARAH GODDARD

LONDON—New solvency requirements introduced this week are expected to reduce the amount of U.S. business Lloyd's of London syndicates write.

Under the tough new rules—agreed upon by Lloyd's, the National Assn. of Insurance Commissioners and the New York Insurance Department, following the department's 1994 investigation of Lloyd's solvency—underwriters may pull out of certain lines altogether.

Although Lloyd's has been in talks with New York regulators since they completed their initial search of Lloyd's records (BI, May 29), agents only two weeks ago received details about the changes.

The changes are most likely to affect the almost 30% of Lloyd's business last year generated by U.S. policyholders or ceding companies.

According to a document given to Lloyd's agents, the NAIC is requiring Lloyd's to set up trust funds for reinsurance and surplus lines as part of the NAIC's tightening up on alien insurers and reinsurers. Both trust funds must be funded gross of ceded reinsurance, matching Lloyd's liabilities dollar for dollar.

On their own, Michigan and New York have also toughened Lloyd's requirements in recent years.

Quarterly adjustments will be made to both trust funds from a new Lloyd's Dollar Trust Fund to maintain the right level of funds. The LDTF will deal with Lloyd's dollar-denominated business which is not U.S.-sited—about one-quarter of its

business last year—and which is exempt from the new rules.

Exempt business varies by state, but generally it covers marine, aviation and transportation insurance.

All non-exempt policies taking effect on or after Aug. 1 must comply with the new regulations.

The LDTF does not have to hold funds gross of reinsurance. All Lloyd's U.S. dollar transactions for policies taking effect on or after Aug. 1, now are managed through this fund, which includes all premiums and claims. The surplus lines and reinsurance trust funds are depository funds used as security.

Paul Archard, managing director of managing agency Murray Lawrence & Partners Ltd., said the new rules will prompt changes in administration, systems and even how some U.S. business is written.

The business that Lloyd's is expected to stop writing is that which previously had been written only when there was support from large amounts of reinsurance, he said.

The new rules demand more accurate identification of U.S. business, particularly within binding authorities and line slips.

Some in the market foresee problems with the regulations.

Robin Gilkes, chairman of Cater Allen Syndicate Management Ltd., said there will be administration problems starting Aug. 1 and that brokers and underwriters will have to classify business in 53 different U.S. insurance jurisdictions.

The requirements for Lloyd's are now much more onerous than for other insurers, he said. **BI**

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Bermuda

Continued from page 2

While several natural catastrophes devastated some areas in 1995, none seriously harmed Bermuda catastrophe reinsurers.

Many of the buildings damaged in the Kobe earthquake in Japan were uninsured; hailstorms in Texas earlier this year are expected to cost insurers more than \$1 billion but will have little impact on cat reinsurers; and floods in Norway also caused surprising amounts of damage but likely will be covered by insurers' retentions, executives agree (BI, May 22; Jan. 23).

"It's been a great two years and they can all walk around smiling," said Willis T. King, chairman of Willcox Inc., a reinsurance brokerage unit of Johnson & Higgins in New York.

The lack of losses combined with the low expenses of the Bermuda cat reinsurers and high rates have enabled the companies to take a strong position in the world market, he said.

"You need a little luck and good underwriting and they have had both," Mr. King said.

The largely loss-free stretch started in January 1994 after the Northridge earthquake, which caused estimated insured damage of \$12.5 billion, according to the American Insurance Services Group Inc.'s Property Claims Services division in Rahway, N.J.

Most of the Bermuda catastrophe reinsurers were established in the summer of 1993 and had not grown a large book of business at the time of the loss.

Mid Ocean Reinsurance Co. Ltd., which was set up in November 1992, had a more mature book and its reserves for Northridge losses are \$95 million, said Michael A. Butt, president and chief executive officer.

Still, Mid Ocean made a profit of \$91 million in 1994, up 34.4% from \$67.7 million in 1993. And, in the first six months of its 1995 financial year ending Oct. 31, the reinsurer's profits have grown to \$73.6 million, compared with \$29.8 million in the first half of 1994.

The effect of Northridge has helped increase revenues, Mr. Butt said.

"Rates went up for those clients that were badly hit and it has encouraged people to buy higher limits. . . It showed people the amount of damage that can be caused by a relatively focused quake," he said.

While rates remain high for clients with Northridge losses, some catastrophe reinsurance rates are

weakening, said Simon Barnes, a director at Alexander Howden Reinsurance Brokers Ltd. in London.

Rates for Japanese and Australian cat risks fell between 15% and 20% this year, he said.

And, rates in the United Kingdom fell between 10% and 15% at the beginning of 1995, said John P. Dowling, president and CEO of International Property Catastrophe Reinsurance Co. Ltd.

Bermuda's reinsurers are expecting rates for the United States and other areas to fall as well if there

formed during the period of large rate hikes and clients feel that they now have accumulated sufficient reserves to warrant a rate reduction, agreed Tempest Re's Mr. Kramer.

Some clients may be able to win 10% to 15% rate reductions, he said.

"The renewal season will shape up in the next 90 days. If nothing happens, there will be pressure on rates," he said, referring to the hurricane season.

If there is no major loss in the

more likely to be linked to exposures rather than simply driven by the amount of capacity available, said James N. Stanard, chairman, president and CEO of Renaissance Reinsurance Ltd.

"Buyers are looking for stability and are looking for prices based on their own exposure," he said.

Renaissance Re was one of the strongest performers in 1994 with profits of \$112 million in 1994. The strong growth has continued in 1995 with first-half profits of \$90.4 million. And its capital and surplus

Global Capital has seen an increase in its European business since it established its Brussels contact office in October 1994, said Mr. Doyle.

However, European business is more difficult to develop than U.S. business, he said.

"The exposures are not as large, so they buy from fewer reinsurers and it takes longer to make a change," he said of European ceding companies.

Some of the catastrophe reinsurers also are expected to write more non-catastrophe business if cat rates fall.

But, some of the Bermuda companies write only catastrophe business, such as Partner Re and Tempest Re.

"We feel that all of the other markets are equally or more competitively priced and we don't want to substitute reasonably priced catastrophe business with poorly priced other business," said Herbert N. Haag, president and CEO of Partner Re.

Rather than expand into other areas, Partner Re would write less business if rates dropped drastically, he said, adding that he did not expect that to happen.

Partner Re is the largest of cat reinsurers on Bermuda and produced the largest profits in 1994 with \$146.1 million. It also increased its capital and surplus to more than \$1 billion. That strong performance has continued into 1995 with first-quarter profits of \$47.7 million and gross premiums of \$131.5 million.

Other cat reinsurers are seeking non-cat business. Notably, 42% of Mid Ocean's gross premiums were for non-catastrophe business in 1994 and that is likely to approach 50% this year, said Mr. Butt.

The non-catastrophe business is all short-tail and includes marine, aviation, energy and risk excess business, he said.

Mid Ocean is seeking the non-catastrophe business to balance its book of business, and it is possible that eventually it could exceed the catastrophe side of the business, Mr. Butt said.

"But we are not going to follow the market down," he said.

The continued high cat rates likely would slow down any expansion into other areas, even though that helps to balance a portfolio, agreed Guy D. Hengesbaugh, executive vp and chief underwriter at LaSalle Re Ltd.

About 12% of LaSalle's premium is derived from non-catastrophe business, including marine, aviation, risk excess and casualty cash business, he said.

"There is very little business in the world that can offer the same returns as catastrophe business, but it does help to balance the book," Mr. Hengesbaugh said.

But the business must be written on its own merits, "otherwise you end up writing inadequately priced business," he said.

While some of the eight catastrophe reinsurers on Bermuda are increasing their lines of business, the number of competitors there is unlikely to increase, most of the executives said.

And although the market is not expected to contract in number, if it continues to be as profitable there will be more distributions of capital, Mid Ocean's Mr. Butt said. In March, Mid Ocean began distributing a regular quarterly dividend of about \$9 million. The reinsurer is authorized to repurchase about \$75 million in shares.

Global Capital also has distributed dividends and returned capital of \$68 million to its investors. And Centre Cat bought back \$25 million.

Bermuda cat reinsurers thrive in tough year

Figures in millions

	Year-end capital & surplus		Gross premiums		Net income	
	1994	1993	1994	1993	1994	1993
Partner Reinsurance Co. Ltd.	\$1,036.0	\$959.4	\$184.0	\$16.1	\$146.1	\$6.2
Mid Ocean Reinsurance Co. Ltd. ¹	804.6	769.4	358.6	257.5	91.0	67.7
Tempest Reinsurance Co. Ltd. ²	543.3	498.4	139.8	0.6	84.7	3.3
LaSalle Re Ltd.	407.0	372.1	134.4	2.6	59.1	(0.9)
Global Capital Reinsurance Ltd.	400.0	440.0	105.0	4.6	58.0	(2.0)
Renaissance Reinsurance Ltd.	381.3	272.9	269.9	66.1	112.0	31.6
International Property Catastrophe Reinsurance Co. Ltd.	347.2	309.0	85.6	15.4	46.4	9.5
Centre Cat Ltd.	300.3	308.1	83.5	1.8	35.5	(0.6)

¹ For year ended Oct. 31. ² For year ended Nov. 30.
Source: Company reports

GRAPHIC BY MIKE GARVEY

are no major catastrophes this year.

Some reinsurance buyers think they have paid sufficient premiums back to balance out the claims they made for Hurricane Andrew and other large catastrophe losses, Mr. Dowling said.

Already, rates have fallen by between 10% and 15% for reinsurance buyers in the Midwest that have favorable loss experience, he said.

"The market has begun to recognize favorable loss experience so we could see rates fall about 8% in the U.S. I think that is not unrealistic for favorable loss experience," said Lawrence S. Doyle, president and CEO of Global Capital Reinsurance Ltd.

Any reductions will follow huge rate increases in 1992 and 1993 and a 100% increase in retentions between 1992 and 1994, he said.

The Bermuda reinsurers were

second half of the year, rates likely will fall, agreed Mr. Dowling.

"If we see a claims-free second half, there will be a softening of rates, but it is too early to tell," he said.

Rates are unlikely to fall radically as the buyers of reinsurance would rather maintain a strong reinsurer in the long term than push for rate cuts that could hurt reinsurers financially, Willcox's Mr. King said.

"People have gone back to fundamentals and price is not always the most important element because you want your losses to be paid," he said.

Both buyers and sellers are more disciplined than in prior years, agreed Paul T. Hasse, CEO of Centre Cat Ltd.

"People realize that in the long run for the industry to survive we need stable rates," he said.

Pricing of cat reinsurance now is

has increased to \$474 million from \$381.3 million at year-end 1994.

The company hopes to raise a further \$50 million in an initial public offering that is expected to be completed this week (BI, July 17).

The sophistication of reinsurance buyers also is leading to more custom-designed reinsurance contracts, Mr. Stanard said.

For example, there has been a noticeable increase in multiyear contracts over the past year, he said.

Clients now are more inclined to lock into existing prices as they view them as realistic, Mr. Stanard said.

"Typically, they are for three years and they can involve profit-sharing with the client. But the key is that they are custom designed," he said.

Centre Cat specially designs about 50% of its contracts and 30% of those are multiyear contracts, said Mr. Hasse.

The expected rate cuts in U.S. business may encourage Bermuda's reinsurers to seek more business outside of North America, said Mr. Barnes of Alexander Howden.

Most of the Bermuda reinsurers manage to fill their desired aggregate exposures in the United States and some other areas of the world but have had more difficulty securing business in Europe, reinsurance executives said.

"Some of them are looking at other ways in which they can create more income," Mr. Barnes said.

Several of the catastrophe reinsurers have established offices in Europe, he noted.

For example: Partner Reinsurance Co. Ltd. has an office in Zurich, Switzerland; Mid Ocean has an office in London; IPC Re has an office in London and a European representative, Laurence Lenard, who formerly worked at SCOR S.A.; and Global Capital has an office in Brussels, Belgium.

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Regulatory reform

Risk managers take defeat calmly

WASHINGTON—Risk managers seem more philosophical about the stalling of a major regulatory reform bill in the Senate than others in the business community.

To be sure, risk managers were not a driving force behind S. 343, sponsored by Senate Majority Leader Robert J. Dole, R-Kan., and Sen. J. Bennett Johnston, D-La. (BI, July 24). The Risk & Insurance Management Society Inc. did not even take a position on it.

The measure would have subjected certain federal regulations to cost/benefit analysis. It also would have killed off the Medicare data bank law, the never-enforced measure that requires employers to file health insurance data to enable the government to spot cases where employer plans, rather than Medicare, should pay claims.

In an attempt to garner enough votes to end debate and force a vote, Sen. Dole agreed to significant changes to the bill, including:

- Removing Superfund site cleanups from the list of activities subject to cost/benefit analysis.

- Raising to \$100 million from \$50 million the level of annual economic impact for which regulations would be subject to cost/benefit analysis. A House-approved measure set \$25 million as the threshold.

Late last week, Senate Minority Leader Tom Daschle, D-S.D., said that Democrats might "under certain circumstances" support cloture.

His conditions include "a fair hearing" on amendments by Democrats and the inclusion of a number of changes offered by GOP moderates. These include making the cost/benefit standard one that requires that a rule achieve the "greatest net benefits" rather than simply be the least costly and jettisoning a provision that certain existing rules would expire if agencies do not review them by a certain time.

Despite the compromises and the support of all GOP senators, the Senate three times rejected proposals to cut off debate.

Groups that vigorously had backed the bill were bitter.

It "is a slap in the face of the men and women who run small businesses, create jobs and fuel this country's economy," said Jack Faris, president of the National Federation of Independent Business in Washington.

Jerry Jasinoski, president of the National Assn. of Manufacturers, was even harsher. "Senate Democrats have kicked every government-regulated business in America... directly in the teeth."

David R. Haight, director-risk management for CF Industries Inc. in Long Grove, Ill., reacted with considerably less fire.

"Anything that would slow down the imposition of regulations is certainly helpful to business, and in a lot of cases to risk managers," he said. Mr. Haight added, however, that the bill had been amended to the point where he did not think it remained of much practical interest to most risk managers.

Christopher Mandel, director-risk management for KFC Corp. in Louisville, Ky., did not view the move as a major setback.

"I think we still have the momentum because of the sentiment in this Congress to restrain regulatory burdens, that we will see progress in this area eventually," he said.

—By Mark A. Hofmann

Trade

Continued from page 1
the European Union said, though some insurers said this figure is high.

The interim agreement follows the failure in the Uruguay Round of the General Agreement on Tariffs and Trade negotiations to remove financial services trade barriers when the deal was finalized in 1993 (BI, Dec. 1, 1993). The GATT talks created the World Trade Organization to implement the agreements, as well as the General Agreement on Trade in Services, which set out rules and disciplines that apply to WTO members.

GATS also sets out "schedules of specific commitments," which specify each member's rules for access to their market.

The signatories to last week's accord have agreed to implement the schedules of commitment by no later than June 30, 1996. These improvements will come into effect immediately, however, if legislation in members' countries allows it.

The U.S. had led negotiations to establish free international trade in financial services but withdrew at the end of June when it was dissatisfied with progress. The European Union subsequently helped establish last week's agreement.

"We appear to have a substantial consensus on a financial services agreement," said Renato Ruggiero, director general of the WTO. Without the United States, "this must be a second-best result. But it is a very good second best. The agreement will bring new opportunities and greater security and predictability for investors in banking, insurance and other activities in the financial services sector."

E.U. Trade Commissioner Sir Leon Brittan said he hopes the United States will enter into the agreement by the end of the initial interim period in 1997.

European insurers welcome the accord, according to Comité Européen des Assurances, a federation of insurance company associations in 25 European countries. "It represents a substantial step toward improving effective access to insurance markets in many countries," the CEA said.

For example, according to a CEA spokesman in Paris, Japan will guarantee foreign financial services firms access to the country's pension fund industry, which accounts for \$1 trillion in funds. South Korea has agreed to improve its rules on admitting foreign investors and aviation insurers.

And for the first time in 50 years, the Philippines will allow foreign insurers to set up in the local market.

But such commitments did not go far enough for U.S. negotiators. The United States had special demands on underdeveloped markets, such as Pakistan and India, to allow foreign ownership of financial services companies within five to 10 years, which the countries rejected.

For large U.S. insurers, the accord does not add anything new if access to these developing countries isn't included, the CEA spokesman said.

The U.S. trade representatives were right not to join the trade agreement, said Robert Rusis, senior vp and general counsel at Chubb Corp. in Warren, N.J.

"We felt that the offers being made, particularly by some of the

Asian countries, were insufficient and a step back from some of the bilateral agreements that already exist," he said.

The U.S. will still negotiate bilateral agreements so U.S. insurers are unlikely to be prevented from entering developing insurance markets, Mr. Rusis said.

"We feel that if necessary we will be able to have other agreements. For example, if Brazil opened up its market, the fact that we did not participate in the agreement should not prevent us entering the market," he said.

The U.S. already has extensive access to many foreign markets and allows companies from many countries to operate in the United States, agreed Margaret Wigglesworth, executive director of the Coalition of Service Industries Financial Services Group in Washington, which represents several U.S. insurers.

The United States also will likely receive the benefits of more open trade that should result from the agreement, said Gordon J. Cloney, president of the International Insurance Council in Washington. **BI**

Tax

Continued from page 2
response to public complaints that the Tax Code is too complicated and that basic tax rates are too high.

An aide to Rep. Arney acknowledges that Congress is not likely to take any action on the Arney-Shelby bill in the current session. And even if Congress did act favorably, President Clinton probably would veto the bill. But if a Republican is elected to the presidency in 1996, the outlook for flat tax legislation will dramatically improve, the aide said.

Some employer lobbying groups welcome the pension proposals in the Arney-Shelby bill, saying that the mass of complex rules has discouraged businesses from establishing new plans as well as added to the cost of administering pension plans.

"Cleansing the pension plan

system of the regulatory burden would be a tremendous boost to pension plans. We applaud that," said James Klein, president of the Assn. of Private Pension & Welfare Plans in Washington.

Other experts, though, said elimination of regulatory requirements such as non-discrimination tests for pension plans could lead to a decrease in pension plan savings.

That is because employers—in order for their savings plans to pass non-discrimination tests—have taken big steps to sell rank-and-file employees on contributing to the plans. The incentive to continue such efforts would be reduced if non-discrimination tests were eliminated, experts say.

"The question is, will lower-income employees save enough on their own for retirement?" asked Harry Conaway, a managing director with William M. Mercer Inc. in Washington.

—By Jerry Geisel

Travel

Continued from page 1
comp coverage in the state that would trigger the exclusive remedy doctrine. The suit is pending.

"Employers can be caught inadvertently in a very precarious situation if their insurer is not licensed in the state where the injured employee petitions for workers comp benefits," said H. Peter Hudson, chairman and chief executive officer of Monroe Guaranty Insurance Co. in Carmel, Ind. He is also a former insurance commissioner for the state of Indiana and former president of the National Assn. of Insurance Commissioners.

"It puts the employer in the situation of having to defend and settle a claim, which is unfamiliar territory," he said. In one such situation, he said, state officials prevented an out-of-state employer from even challenging a claim.

Many companies buy additional coverage for claims out of their home state. Others have required employees to sign agreements about which state's workers comp laws will apply to any injuries during business travel, but experts say these agreements may not be enforceable.

Out-of-state claims also may leave insurers in a bind.

Insurers can be frustrated by their inability to directly represent policyholders in states where claims have

been made. As a result, some companies are broadening their coverage agreements to indemnify employers, which in turn could pay benefits to the injured worker.

Others that do try to intervene directly have been threatened with fines for operating without a license in the states of injury.

To protect policyholders, some insurers have secured licenses in many states where they had no intention of writing new business. But the Alliance of American Insurers now is questioning that strategy, which requires companies to keep extra records and go through added state examinations.

Traveling employees' claims can also add to insurers' "friction" costs.

For example, industrial boards and other state agencies sometimes sanction unlicensed insurers when claims are filed against them, said Richard P. Hefferan, vp-general counsel of the Alliance of American Insurers in Schaumburg, Ill.

As more employees travel, more employers are getting snagged by the out-of-state coverage problem, said Steve Pratt, director of workers compensation claims for ITT Hartford Group Inc. in Hartford, Conn.

About one-third of U.S. workers travel on business—8% frequently and 22% occasionally traveling—found a 1994 poll by management consulting firm Runzheimer International in Rochester, Wis.

"It's an emerging and potentially devastating problem, especially for

small to medium-sized employers who couldn't afford to be hit with a large, uninsured workers comp claim," said Rick Katten, an insurance agent with Eagan Insurance Agency of Metairie, La.

Not everyone perceives the "other states" issue as a significant concern, however. Workers comp claims by traveling employees comprise less than 0.1% of the open claims at Wausau Insurance Co., said Don Grassl, assistant vp-workers compensation claims.

Still, the potentially dramatic differences in state benefit levels make the claims vexing to employers.

Compensation benefits in Illinois, for instance, can be as much as two to three times greater than those in neighboring Indiana, depending on the injury.

The late Arthur Larson, a former Duke University law professor, gives a hypothetical example of the disparity in his workers compensation treatise: "The maximum available benefits may vary from, for example, a total permanent disability award limited to \$63,000 in one state to a payment of \$1,114 a week for life in another state." In the case of a person totally disabled in his youth and living to an old age, the difference in what a company might have to ultimately pay out could be as much as \$3 million.

When possible, employers tailor their workers comp coverage by purchasing "other states coverage" as part of the basic policy.

"If an employer has exposure for an incidental, unexpected, out of state work-related injury, there is potentially coverage under the 'other states' coverage part of the policy. However, there is no coverage if a state is specifically excluded under the 'other states coverage' on the information page," said Wausau's Mr. Grassl.

The handful of states that provide workers comp insurance through exclusive state funds generally require that employers protect themselves for plant operations in other states through self-insuring or buying coverage.

However, while employers generally cover their exposures in all states in which they may have operations, companies sometimes find it difficult to anticipate where employees may travel.

To provide more certainty for employers, the National Council on Compensation Insurance now requires the approximately 22 NCCI residual market plans it administers to provide employers with "other states" insurance if the employer specifically lists states where it may have "unknown and unanticipated exposures," said Dick Cohen, director of residual market and producer affairs for the NCCI's regulatory and external affairs division.

But that doesn't protect contractors with employees who frequently cross state borders to work in an adjacent city, for example, because that exposure should be anticipated

and insured, Mr. Cohen said.

What the requirement does do is allow a workers compensation insurer "that is not authorized to make compensation payments directly to an injured employee in a state to make them indirectly through the employer," he added.

The Louisiana Workers' Compensation Corp. addresses the problem by emphasizing in its policy wording that if the company is not allowed to pay benefits on your behalf, it will reimburse you for the amounts you are required to pay in the designated states.

The Alliance is proposing to streamline insurance department administration through broader regulatory acceptance of insurance companies' ability to offer "incidental coverages" without becoming fully licensed in an outlying state, Mr. Hefferan said.

Those companies could be regulated through a registration system for financially secure insurance companies, while continuing to provide fee revenue for the states, he said. It could be patterned on the federal law that allows any motor carrier fleet to enter any state as long as they are licensed in their home state.

A special NAIC committee is currently reviewing that suggestion. A joint committee of the NAIC and the International Assn. of Industrial Accident Boards & Commissions is studying other aspects of the issue as well. **BI**

Donuts

Continued from page 1
situation at Winchell's.

Vancouver, British Columbia-based Shato Holdings Ltd. bought Winchell's late in 1989, free of any outstanding workers comp liabilities. But in the absence of a strong claims management program, workers comp losses for the self-insured company skyrocketed in 1990 to \$6 million, said Kim Bortnak, Shato's vp and treasurer.

The losses were due in part to the parent company's lack of familiarity with the U.S. workers comp system. Canada has a no-fault workers comp system but the program is government-run.

Additionally, many of Winchell's donut shops are in California, where workers comp fraud was prevalent before legislative reform (BI, July 26, 1993) and law enforcement (BI, Nov. 11, 1994) reduced comp scams.

"We thought \$6 million in losses was ordinary," Mr. Bortnak said. "I know this sounds silly, but we didn't know any better."

That represented 13.3% of payroll in 1990. More recently, that figure has dropped dramatically.

For the fiscal year ending Nov. 30, 1994, annual workers comp claims expenses were \$305,000, or 1.4% of payroll. So far for the current fiscal year, claims expenses are averaging \$96,000, or 0.8% of payroll. The company currently employs 2,750 workers.

Part of the reduction in losses can be attributed to selling off Winchell's shops. In 1990, the first year of Shato's ownership, there were more than 400 stores; now there are 232 across 12 western states.

But, the number of claims per store also has been pared to 0.6 in 1994 from 0.97 during the first year of operation, while the average claim has been reduced to \$1,500 in 1994 from about \$11,000 in 1990.

Mr. Bortnak attributes the results to an aggressive "in your face" claims management style. A new broker and third-party claims administrator were hired and stringent goals were set for them and for Winchell's managers.

One new broker eventually was replaced. Shato felt it had been unable to negotiate favorable terms for a fronting insurer after claims were reduced. Units of American International Group Inc. serve as a fronting insurer for the Winchell's program in states where self-insurance is not allowed for workers comp.

Constitution State Service Co. of Hartford, Conn., a TPA unit of Travelers Corp., replaced Livonia, Mich.-based Alexsis Inc.

Dynamic safety programs were introduced at the restaurants, such as one that allowed workers to play "Safety Lotto." Introduced in 1991, the incentive gives accident-free workers a ticket potentially worth \$5 to \$100.

The company's goal is to reduce claims to 0.5 per store per year by improving safety programs, encouraging store manager cooperation and reviewing daily online claims information supplied by the TPA. There are also quarterly claims-review meetings with the TPA to set and evaluate goals.

"We've used that tool to stay in everyone's face," Mr. Bortnak said. "We're very aggressive people."

But Shato acknowledges that mistakes were made along the way.

When Shato sold hundreds of Winchell's locations shortly after its purchase, the company did nothing to minimize claims from laid-off workers.

Because the shops were gradually sold off over 18 months, workers

had time to learn the new workers comp system and flooded Winchell's with hundreds of claims, many of them stress related. California law at the time allowed stress claims if as little as 10% of an ailment was work related.

In hindsight, company officials say they could have done more to reduce claims by departing workers. Outplacement assistance might have helped. Departing workers also could have been asked to sign statements saying they did not suffer injuries. While not legally binding, such statement may have provided a psychological deterrent.

"We didn't really manage that process well," Mr. Bortnak said. "The employees knew it was coming and we got nailed."

To reduce claims, Winchell's instituted a safety incentive program. Beginning in 1990, a car was offered in each of Winchell's five regions. Workers who remained accident-free for one year were allowed to enter a drawing for one of the cars, said Sandy Chylinski, risk/safety manager for Winchell's in

Ltd., a subsidiary of Alexander & Alexander Services Inc., and its TPA affiliate, Alexsis.

In 1992, Shato replaced Reed Stenhouse with Los Angeles broker Oland International. The parent company also replaced Alexsis with Constitution State.

As for the brokerage services, Oland International's knowledge of the local retail market in California did an excellent job for Winchell's, Mr. Bortnak said. But Shato wanted a broker the parent company felt had more muscle in negotiating with insurers for fronting and surety services.

About a year after contracting with Oland, Winchell's contracted with Rollins Hudig Hall Inc. With RHH's assistance in building on what Oland started and Winchell's improved loss experience, the company was able to reduce the size of the letter of credit backing its self-insurance obligations to \$3.6 million from \$14.8 million, according to Shato.

Messrs. Pinner and Bortnak say Shato was often aggressive with

'We thought \$6 million in losses was ordinary,' says Shato Holdings' Kim Bortnak. 'I know this sounds silly, but we didn't know any better.'

Santa Ana, Calif.

But with more than 400 stores and roughly eight to 10 employees per store, it was an administrative nightmare, she added.

In 1991, Ms. Chylinski replaced the car incentive with the safety lottery, which won the loyalty of workers and proved an effective incentive.

"That worked out very well because the managers did a cash payout right there," she said. "It was immediate."

During the first year, Winchell's budgeted \$120,000 for the games and later reduced the amount spent to \$90,000, though the impact on safety did not diminish.

"In comparison to the reduction in claims, it's not much" to spend, she said.

But in 1994, the reduction in claims started to flatten out at about 150 a year, or 0.6 per store. Ms. Chylinski said she also was concerned workers would lose interest in the lottery. So the safety lottery was replaced with a program that awards prizes such as six-pack coolers bearing Winchell's logo. Workers in each region that meets the goal of 0.5 claims per store receive one of the prizes.

"The employees like you to recognize them," Ms. Chylinski said. "They feel a part of the team."

Cash give away's such as Winchell's lottery program are great starter programs that raise employee awareness, said Harvey S. Staple, president of Safety & Risk Control Services Inc., a consulting firm in Metuchen, N.J.

However, workers spend the cash and quickly forget they earned it for safety conduct. That is why graduating to prizes such as Winchell's six-pack coolers is important. The gifts are more permanent reminders.

"That's definitely on the right track and they did the right thing," Mr. Staple said. "They're ahead of a lot of companies who talk about those kind of programs, but then don't implement them."

Along the way, workers comp service firms also had to be replaced. When Shato bought Winchell's, the donut chain contracted with broker Reed Stenhouse Cos.

service firms, setting stringent goals.

"I sometimes had to pull him (Bortnak) down," Mr. Pinner said. "If he set an unrealistic goal I sometimes had to pull him down. But he would set what I call a stretch call and I have no problem with a stretch call."

Winchell's now hopes to continue benefiting from its safety incentive programs.

Every month the company sends its shops a poster addressing a different work safety program. Each poster is accompanied by a lesson plan in English and Spanish and each worker has to sign off that they have read the plan.

Managers must ensure that their workers comply or the risk management department will call them.

"There is always constant follow through so they know its something we really care about," Ms. Chylinski said.

She said she selects the poster topic after reviewing claims for the most common injury of the month.

Every time a claim is filed, store managers immediately must contact the risk management department and the TPA. They have a toll-free phone number managers can call 24 hours a day to report injuries to the TPA.

Security cameras that were installed in the shops to discourage robberies also are helping to reduce workers comp claims. The donut shops often are operated by a lone employee. In the past, claims often were accepted even when they seemed suspicious because with only one worker, the lack of witnesses worked against the company. But the cameras now act as witnesses, disproving fraudulent claims.

And as part of a new return-to-work program, store managers are given "labor credit" to pay for additional labor to fill in for workers who return under modified duty.

"It shows you can turn something around," Mr. Pinner said. "Compared to other restaurants' loss ratios, they were way out of line. I would suspect now Winchell's is above average for the restaurant industry," he said, declining to provide specifics. **BI**

Updates

HMO deal questions continue

Continued from page 2

In a letter to the board of directors of Blue Cross dated July 21, DOC Commissioner Gary Mendoza reiterated the department's earlier concerns that WellPoint will "be fully able to meet its responsibilities to the 4.5 million Californians who will look to that organization for their health care." In addition, Mr. Mendoza wants to "clarify the non-profit structure of the new foundation and insure that the foundation's board represents the public's interest."

WellPoint officials said federal antitrust regulators already have granted early clearance for the transaction and six investment banks have issued fairness opinions. WellPoint last week issued a statement demanding that the DOC issue a formal ruling on the pending merger by Aug. 22. "The DOC letter raised numerous issues which Blue Cross of California and WellPoint considered resolved," the statement said.

Oil refinery damage covered

TEXAS CITY, Texas—A fire damaged one of the nation's largest gasoline refineries and sent an oily cloud of smoke into the air, causing damage to nearby property and sending more than 200 people to a local hospital with smoke-related ailments.

The July 24 fire started from an oil leak that currently is under investigation at the Amoco Oil Co. refinery in Texas City, Texas.

No loss estimates were available, said a spokesman for Amoco Oil, a subsidiary of Chicago-based Amoco Corp.

There were no reports of employee injuries, he added. The company is self-insured and has excess coverage to respond to damage claims, said the spokesman, who could not provide details of the coverage.

The fire disabled one of 30 refining units but did not disrupt the others and had little effect on overall business.

The heavy smoke covered nearby cars and houses with oily residue, causing several hundred claims. The Amoco Oil spokesman estimated that 800 property claims were filed on Tuesday and Wednesday alone.

As of Thursday, 260 people had sought medical treatment for smoke-related injuries at Mainland Center Hospital in Texas City.

Typhoon causes oil spill

LONDON—Typhoon Faye, which struck South Korea earlier this month, has caused widespread damage, including a massive fuel oil spill off the coast that is polluting the nation's shores.

Over 120 vessels, including almost 70 oil dispersal spraying ships, have been trying to contain a nearly 40-mile-wide fuel oil slick from the tanker Sea Prince, which ran aground last week during the storm.

At least 16 people died in the storm, which damaged or destroyed at least 118 ships and 187 houses. While it is too soon to determine the extent of damage, property and pollution losses are expected to total in the millions of dollars. The 5-year-old tanker had been unloading its cargo of Saudi Arabian crude oil at the Yosu port facility when the typhoon warning came. While trying to escape the typhoon, the vessel was grounded on rocks about five miles from Sori Island and about 100 tons of fuel leaked from the ship.

The tanker's owner, Hoyu Shipping Co. of South Korea, is planning to disperse the oil slick and transfer the cargo of 95,800 tons of crude oil on the Sea Prince to another vessel.

Hull and machinery coverage for the Sea Prince is placed in the Korean market and reinsured in the London and Norwegian markets. Market sources say the coverage is more than \$50 million. Hoyu Shipping has \$500 million in pollution liability coverage through the U.K. Mutual Steam Ship Assurance Assn. protection and indemnity club.

Briefly noted

A federal judge last week approved a \$1.54 billion settlement of all past and future asbestos-related claims against **Fibreboard Corp.** The settlement would require Fibreboard and its insurers to pay existing settlements and personal injury claims filed before August 1993, when Fibreboard reached a \$3 billion settlement with units of CNA Financial Corp. and Chubb Corp. (BI, Sept. 6, 1993). The \$1.54 billion would finance a trust fund to meet claims filed after that date. ... Avon, Conn.-based **Value Health Inc.** completed its acquisition of pharmacy benefit manager **Diagnostek Inc.** (BI, June 12; April 3). ... **Duncanson & Holt Group** has reached an agreement with **Cater Allen Syndicate Management Ltd.** to manage **Cater Allen syndicate 55** beginning Oct. 1 through a new D&H subsidiary. D&H also will provide up to £15 million (\$23.9 million) capacity for 1996 from its Lloyd's corporate capital vehicle, **Duncanson & Holt Underwriters Ltd.** ... **Stamford, Conn.-based Cologne Reinsurance Co. of America** has stopped underwriting new business and renewing existing policies and has been placed in runoff. ... **Employers Reinsurance Corp.** closed its deals involving both the **Frankona Group** and **Aachen Re** last week (BI, March 27; Feb. 13). ... **Bermuda-based Renaissance Re Holdings Ltd.** raised gross proceeds of \$52.7 million with its initial public offering of 2.7 million common shares at \$19.50 a share last week, according to the company. The company's net proceeds of \$49 million will be used to pay down a portion of its \$120 million outstanding revolving credit facility. ... The 9th U.S. Circuit Court of Appeals in San Francisco on July 25 upheld the **bribery conviction** of former insurance lobbyist **Clay Jackson**, who was found guilty in 1993 of offering a \$250,000 bribe to a California state senator. He was sentenced to 6½ years in prison. ... The 5th U.S. Circuit Court of Appeals will hear **tobacco companies' challenge** to class certification in the **Castano** case in New Orleans. The class of all current and former smokers addicted to nicotine is the largest ever (BI, May 22; Feb. 27). ... The New York Insurance Department has issued a broker's license to **Catastrophe Risk Exchange Inc.**, through which insurers will be able to swap standardized units of catastrophe risks. **CATEX**, formed by former New Jersey Insurance Commissioner **Samuel Fortunato**, expects to begin operating this fall (BI, May 15).

Kickback

Continued from page 1

required to use minority contractors to handle some of the MTA work.

According to the three-count indictment filed July 21 in U.S. District Court in Los Angeles, Mr. Sesay accepted a \$20,000 payment in 1992 and a \$5,100 payment in 1994 for recommending that particular minority subcontractors receive MTA work.

In addition, Mr. Sesay is charged with filing a false federal income tax return in 1992 by substantially underreporting his adjusted gross income. Mr. Sesay earned \$91,000 annually as the MTA's risk manager.

Authorities declined to identify the subcontractors that allegedly paid Mr. Sesay the kickbacks. However, subsequent news reports identified New York-based McAllister Associates as one of the insurance consultants involved.

John D. McAllister, president of McAllister & Associates, declined to comment outside his remarks contained in a July 24 statement denying any wrongdoing.

Reached at his Southern California home, Mr. Sesay said he was advised by his attorney not to speak to the media. Yet he did say that Mr. McAllister was a longtime colleague whom he has known for nearly 17 years.

Before joining MTA in 1990, Mr. Sesay served as risk manager for the city of Philadelphia from May 1988 to November 1990.

Between March 1986 and April 1988, he worked as a production coordinator in new business development for Marsh & McLennan Inc. in Africa and the West Indies specializing in construction wrap-up projects and ocean marine and political risk coverages.

Mr. Sesay also worked as New York City director of insurance from January 1982 through February 1986.

The inspector general's office began its investigation of Mr. Sesay after receiving a tip that led to evidence that he allegedly used his position to make money off contractors seeking MTA work.

Ronald J. Nessim, Mr. Sesay's attorney, said last week that the risk manager will plead guilty to the charges.

If convicted, Mr. Sesay faces a maximum penalty of 23 years in prison and a maxi-

mum fine of \$750,000.

The recent developments are just the latest in a string of debacles that has plagued the Los Angeles subway construction project since it was launched in the early 1980s:

- The MTA fired tunneling contractor Shea-Kiewit-Kenny July 13 one day after agents from the U.S. DOT and the MTA's inspector general executed a search warrant at the contractors' offices in Hollywood and Walnut, Calif.

Shea-Kiewit Kenny, a joint venture controlled by Walnut, Calif.-based J.F. Shea Co., was faulted for construction deficiencies that may have led to the sinking of Hollywood Boulevard last year.

The firm, which won the contract to build 12 miles of twin tunnels in 1992 with a bid of \$165 million, also has received numerous citations for safety violations by the California Division of Occupational Safety and Health.

- Three months ago, MTA Chief Administrative Officer Judith Pierce ordered an audit of the agency's construction risk management section after insurers complained and she became concerned about the administration of the insurance program.

The MTA would not provide details of the insurer complaints.

The audit is expected to be completed within 30 to 60 days.

- A confidential in-house report leaked to the media in March showed that transit officials compromised the awarding of a sensitive \$80 million subway contract by destroying key documents on the bids and allowing secret bid information to be leaked to the firm recommended for the job.

- A group of Hollywood-area business owners calling itself Hollywood Damage Control & Recovery Inc. filed a \$10 billion class action lawsuit after tunneling caused the legendary Hollywood "Walk of Fame" and adjacent properties to sink nearly a foot (BI, April 3; Nov. 21, 1994).

Sources at MTA and Argonaut would not say whether the Hollywood occurrence, which so far has resulted in the payment of \$15 million in liability claims, contributed to the insurer's decision to seek a higher attachment point and claims-handling fees.

- Juries last year awarded back pay and damages to two whistle-blowers who were fired from the MTA construction project:

\$518,000 to former transit official Robert S. Inouye, who alleged that he was fired for spotting contract irregularities; and \$1.38 million to Ben Pate, a tunnel quality control inspector who tipped off the FBI about contractors' use of substandard building materials.

In addition, a California appellate court found earlier this year that two transit investigators may have been fired in 1990 for alleging an agency cover-up and confronting their boss about it. Their case is still pending.

- Texaco Refining & Marketing Inc. is seeking \$35 million for damages it incurred when MTA construction interfered with the potential sale of its Wilshire Boulevard building.

- The Radisson Wilshire Plaza Hotel is seeking \$20 million in damages and lost revenues from business interruption attributed to the subway construction.

- The Wiltern Theatre, also on Wilshire Boulevard, is seeking \$200,000 in property damage and unspecified business interruption losses as a result of construction.

- A 1992 report by engineering giants Fluor Daniel Inc. and Kellogg Corp. found that the subway construction project's insurance administrator—a joint venture then headed by Sedgwick James of California Inc.—underreported work-related accidents (BI, Aug. 3, 1992).

Glendale, Calif.-based Willis Corroon Corp. of Los Angeles since has taken over as insurance administrator of the project.

When contacted by *Business Insurance*, insurance industry executives who worked with Mr. Sesay on the MTA construction project attempted to distance themselves from the risk manager.

"I haven't talked to Abdoul in months," said one.

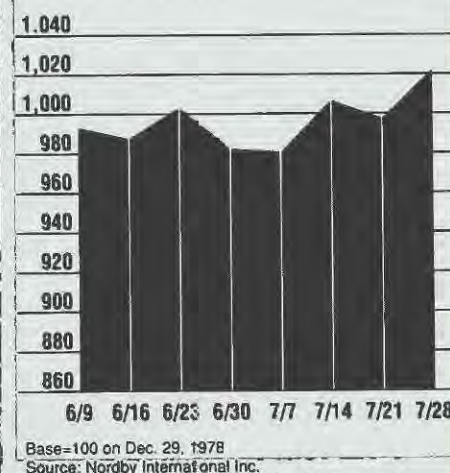
MTA board member Mr. Zarian was philosophical about the charges against Mr. Sesay.

"In an organization that has 9,000 employees there is always a bad apple," he said. "There are good people and bad people. If the charges are correct, he is one of the bad people."

In an interview with *Business Insurance* last year, Mr. Sesay expressed frustration with his job.

"You go home and you think about whether it's worth it," he said. "It's so stressful."

BI Insurance Index



Catastrophe insurance option call spreads

As of July 28					
Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
45/65	5/6.5	25/32.5	20/30	—/1.3	—/13
50/70	4/6.3	20/31.5	30/40	—/—	—/—
60/80	—/6	—/30	30/50	—/—	—/—
100c	—/—	—/—	50/70	—/—	—/—
150c	—/5	—/10	60/80	—/—	—/—
Total volume: 220			Total open interest: 1,984		
For quotes, call the CBO™ trading floor at 312-341-3342. For general information, call 312-435-3674.					
Source: Chicago Board of Trade					

British Issues

July 27 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	6C1	12.0	33.0	5.5	603—599
Genl Accident	6C5	8.9	36.3	6.0	605—597
Gdn Royal Exch	219	N/M	10.3	4.7	220—214
Independent	3C4	8.4	11.9	3.9	304—301
Royal	3C2	6.1	15.0	4.7	324—317
Sun Alliance	3C5	11.6	19.7	5.7	345—335
Brokers					
Bradstock	55	6.2	7.1	12.9	56—55
Fenchurch	1A4	10.1	10.0	6.9	144—144
CE Heath	200	12.6	20.0	10.0	200—198
JIB Group	124	10.8	9.4	7.6	124—124
Lloyd Thompson	154	10.7	9.8	6.4	154—154
Lowndes Lmbt	169	9.4	10.0	6.1	169—169
Nelson Hurst	133	10.7	8.3	6.0	139—138
PWS Holdings	16	N/M	0.8	5.0	16—16
Sedgwick Grp	133	12.4	8.1	6.0	137—134
Steel Bri Jones	53	10.9	11.3	12.2	93—87
Willis Corroon	138	N/M	8.3	6.0	138—135

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BROKERS													INSURERS/REINSURERS														
		Price	% change	Year to date	Annual	High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value			Price	% change	Year to date	Annual	High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	27.88	-10.48	-16.79	34.50	24.63	109	0.72	2.58	14	13.24	2.11	NAC Re Corp.	NDO	36.50	11.01	8.96	37.00	24.25	326	0.30	0.55	-4	19.75	1.85		
Alexander & Alexander	NYS	23.25	-1.06	25.68	26.44	18.50	303	0.10	0.43	-15	6.08	3.82	National Re Corp.	NYS	34.13	1.11	30.00	34.38	22.25	52	0.15	0.47	-20	17.31	1.97		
E.W. Blanch Holdings Inc.	NYS	17.00	-12.28	-17.58	23.00	17.00	496	0.40	2.35	14	4.55	3.74	Navigator's Group	NDO	16.25	-7.14	12.07	19.75	12.75	27	0.30	0.00	-21	10.21	1.59		
Gallagher Arthur J. & Co.	NYS	37.75	3.06	17.97	38.00	29.63	46	1.00	2.65	16	6.48	5.83	Nobel Insurance Ltd.	NDO	10.50	3.65	27.27	10.50	7.75	2	0.20	1.90	4	6.84	1.54		
Hilo, Rogal & Hamilton	NYS	12.38	-0.04	2.06	13.13	10.50	214	0.56	4.53	14	4.72	2.62	Ohio Casualty Corp.	NDO	33.00	1.54	16.81	34.25	27.00	483	1.52	4.61	-4	24.68	1.34		
Marsh & McLennan	NYS	79.63	3.07	0.47	86.25	71.25	1001	2.90	3.64	15	19.40	4.10	Old Republic Int'l	NYS	26.50	3.92	24.71	26.63	18.88	242	0.32	1.96	-0	24.60	1.08		
Poe & Brown	NDO	24.25	1.55	11.49	24.50	19.50	26	0.48	1.98	15	4.49	5.40	Orion Capital Corp.	NYS	40.38	0.94	14.54	40.50	28.13	78	0.30	1.98	0	25.86	1.56		
BROKERS	AVERAGE		-2.3	3.3					2.6	10			Partner Re Ltd.	NDO	25.00	1.50	20.48	26.25	18.50	382	0.40	1.60	8	N.A.	N.A.		
INSURERS/REINSURERS														Penn-America Group Inc.	NDO	10.63	8.97	44.07	11.25	6.50	152	0.12	1.13	11	6.21	1.71	
ACE Ltd.	NYS	29.75	-0.44	27.27	31.38	20.75	831	0.56	1.88	7	22.45	1.33	Philadelphia Cons. Holding	NDO	15.63	1.59	27.55	15.88	10.00	81	0.20	0.00	14	8.43	1.85		
Acceptance Insurance Cos.	NYS	15.13	2.54	0.83	18.00	12.63	95	0.00	0.00	9	9.83	1.54	Phoenix RE Corp.	NDO	26.00	0.97	-7.96	29.00	21.00	196	0.50	2.31	5	22.86	1.14		
AEGON N.V.	NYS	36.63	2.45	44.19	37.25	21.84	81	3.60	9.83	14	43.84	0.84	Provident Life	NYS	23.25	3.33	6.90	29.88	20.50	252	0.72	3.10	10	27.09	0.86		
Aetna Life & Casualty	NYS	62.25	2.67	32.10	64.88	42.25	2471	2.76	4.43	12	57.21	1.09	Reliance Group Holdings	NYS	6.38	-1.92	22.89	6.75	4.88	788	0.52	5.02	10	3.48	1.83		
AFLAC Inc.	NYS	42.50	0.28	32.81	44.75	31.63	658	0.52	1.22	13	57.21	0.74	Reliastar Financial Corp.	NYS	37.63	1.69	29.74	39.63	27.00	263	1.00	2.66	11	24.81	1.52		
Allied Group Inc.	NDO	29.25	4.46	18.18	31.00	22.00	111	0.68	2.32	7	23.43	1.25	RLI Corp.	NYS	23.00	1.63	40.24	23.63	15.91	35	0.52	2.26	11	20.51	1.12		
Allmerica Prop. & Casualty	NYS	23.13	0.54	37.04	23.38	14.63	164	0.16	0.69	10	19.45	1.19	St. Paul Companies	NYS	48.88	5.38	9.22	51.88	39.38	1924	1.60	3.27	9	31.88	1.53		
Allstate Corp.	NYS	31.25	2.46	31.58	33.38	22.63	12768	0.78	2.50	10	19.60	1.59	SAFFCO Corp.	NDO	59.31	4.98	14.06	59.88	46.75	1235	2.2	3.57	12	46.94	1.26		
American Financial Group	NYS	25.88	-2.36	23.21	27.63	21.63	273	1.00	3.86	12	36.30	0.71	SCOR U.S. Corp.	NDO	10.00	5.26	19.40	12.25	7.50	10	2.00	2.00	18	13.60	0.74		
American General	NYS	36.00	2.48	27.43	36.88	25.63	1760	1.24	3.44	13	20.39	1.77	Saibels Bruce Group	NYS	1.03	3.13	-58.75	3.50	0.75	29	0.00	0.00	-1	1.05	0.98		
American Heritage Life Ins.	NDO	20.38	-0.02	7.24	21.50	16.25	35	0.68	3.34	11	12.42	1.64	Selective Ins. Group	NDO	31.13	-1.19	23.27	37.75	23.25	93	1.12	3.60	10	23.36	1.33		
American Indemnity/Fin'l	NDO	9.75	-9.30	-3.70	12.75	9.75	21	0.28	2.87	6	15.92	0.61	Sphere Drake Holdings	NYS	16.50	1.13	12.42	16.50	10.75	32	0.16	0.97	8	13.15	1.25		
American International	NYS	112.75	4.40	15.05	119.50	87.63	3812	0.51	0.45	15	49.75	2.27	TIG Holdings	NYS	25.13	11.67	34.00	25.13	17.00	982	0.20	0.80	19	17.25	1.46		
American Re Corp.	NYS	36.88	-2.01	14.34	39.88	25.25	187	0.32	0.87	15	16.85	2.19	Titan Holdings, Inc.	NYS	11.88	-1.04	21.79	12.88	7.84	61	0.24	2.02	9	9.31	1.28		
Aon Corp.	NYS	38.00	2.01	18.75	39.00	29.25	531	1.36	3.58	12	21.96	1.73	Tokio Marine & Fire	NDO	60.25	2.99	-0.82	64.63	49.88	55	0.46	0.76	-	57.72	1.04		
Argonaut Group	NDO	30.50	-2.40	7.96	32.50	27.50	35	1.32	4.33	11	29.80	1.02	Torchmark Corp.	NYS	38.88	1.29	12.68	44.50	32.38	489	1.12	2.88	10	17.49	2.22		
AVEMCO Corp.	NYS	16.50	0.00	7.32	18.25	13.38	53	0.44	2.67	14	6.30	2.62	Transatlantic Holdings	NYS	65.75	3.33	17.67	66.25	47.75	129	0.40	0.61	13	32.43	2.03		
Baldwin & Lyons Inc.	NDO	15.75	-1.56	6.78	17.63	14.50	606	0.32	2.03	13	13.56	1.16	Transnational Re Corp.	NDO	21.44	0.27	-8.76	25.00	18.75	98	0.30	0.00	7	N.A.	N.A.		
Berkley W.R. Corp.	NDO	38.88	5.07	3.67	39.63	32.50	336	0.48	1.23	21	36.47	1.07	Travelers Corp.	NYS	47.00	5.31	45.17	47.25	30.38	3505	0.90	1.70	11	24.26	1.94		
Berkshire Hathaway Inc.	NYS	24200.00	0.41	18.63	25200.00	18200.00	0	0.00	0.00	59	9157.79	2.64	Travelers Group Inc.	NDO	46.25	3.93	9.14	47.25	36.50	120	1.12	2.42	12	29.20	1.58		
Capital RE Corporation	NYS	26.50	2.40	-3.20	27.38	20.50	34	0.20	0.75	9	21.48	1.23	United Fire & Casualty	NDO	29.00	-6.45	4.82	31.00	26.25	3	0.80	2.76	8	28.96	1.00		
Capsure Holdings Corp.	NYS	14.38	4.55	-1.71	14.88	12.13	51	0.00	0.00	14	13.72	1.05	Uninor	NDO	47.50	3.26	10.47	51.50	39.75	208	1.00	4.21	13	38.64	1.23		
Chubb Corp.	NYS	83.13	6.23	7.43	85.25	68.63	1949	1.96	2.36	12	48.40	1.72	UNUM Corp.	NYS	48.50	3.74	28.48	50.00	35.13	1324	0.00	2.19	24	27.78	1.75		
CIGNA Corp.	NYS	82.00	3.80	28.88	82.00	59.00	1001	3.04	3.71	8	80.98	1.01	US Facilities Corp.	NDO	17.63	2.17	76.25	18.00	9.13	354	0.20	1.13	12	11.07	1.59		
CNA Financial Corp.	NYS	89.63	3.61	38.15	89.75	60.00	91	0.00	0.00	21	73.83	1.21	USF&G Corp.	NYS	16.13	5.74	19.44	17.25	12.63	2655	0.20	1.24	8	10.04	1.61		
EMC Insurance Group Inc.	NDO	11.75	-1.09	23.68	12.50	8.63	2	0.52	4.43	8	10.77	1.24	USLIFE Corp.	NYS	41.13	2.48	17.92	42.25	30.88	260	0.40	3.40	10	40.82	1.01		
Emphesys Financial Gr. Inc.	NYS	28.88	21.58	-9.06	39.50	22.63	833	0.60	2.08	8	N.A.	N.A.	Washington National	NYS	21.13	1.17	11.18	22.88	17.75	62	0.00	5.11	8	23.61	0.89		
EXEL Ltd.	NYS	53.13	0.46	34.49	53.75	36.88	377	1.32	2.48	15	31.62	1.68	Zenith National Ins.	NYS	21.38	0.59	-6.04	27.38	19.38	37	0.00	4.68	11	17.54	1.22		
Fremont General Corp.	NYS	27.00	3.85	15.51	27.00	17.16	420	0.80	2.96	8	22.90	1.18	Zurich Reinsurance Centr.	NYS	28.00	-0.88	-3.03	30.88	25.00	47	0.00	0.00	-38	22.26	1.26		
Frontier Insurance Group	NYS	27.00	6.38	23.43	37.50	16.75	43	0.48	1.78	20	14.94	1.81	INSURERS/REINSURERS	AVERAGE		1.9	17.6					2.3	1.6				
Gaisco Inc.	ASE	9.00	-10.00	9.09	11.00	7.38	373	0.04	0.44	12	3.79	2.37	HEALTH MAINTENANCE ORGANIZATIONS														
General RE Corp.	NYS	133.63	2.79	8.20	138.38	104.50	891	1.96	1.47	15	57.17	2.34	FHP International	NDO	26.25	7.14	1.94	31.00	19.50	2766	3.00	0.00	14	12.22	2.15		
Guaranty National Corp.	NYS	16.75	-6.32	-8.84	19.00	15.13	173	0.48	2.87	10	11.84	1.41	Humana Inc.	NYS	20.25	6.58	-10.50	27.13	17.00	12702	3.00	0.00	17	6.04	3.35		
Harleysville Group	NDO	25.75	0.98	6.19	26.50	20.00	53	0.68	2.84	9	20.18	1.28	Pacificare Health Sys.	NDO	60.50	14.15	-7.10	79.50	44.50	790	2.00	0.00	-	14.21	4.26		
Hartford Steam Boiler	NYS	44.13	2.62	10.66	46.25	35.88	341	2.28	5.17	16	14.62	3.02	Safeguard Health Enter.	NDO	10.50	-2.33	13.51	13.63	8.25	5	3.00	0.00	70	6.16	1.70		
HCC Insurance Holdings	NYS	26.50	-0.49	26.19	27.38	18.50	76	0.00	0.00	16	11.76	2.25	Sierra Health Services	NYS	26.38	11.05	-16.60	33.63	22.13	607	3.00	0.00	15	6.04	4.37		
ITT (Hartford Group)	NYS	117.13	1.41	32.16	120.13	77.00	2544	1.98	1.69	10	49.95	2.34	United Healthcare Corp.	NYS	45.00	2.86	-0.28	55.38	34.13	5938	2.03	0.07	26	6.57	6.85		
Lincoln National	NYS	41.13	2.48	17.50	46.25	34.63	764	1.72	4.18	11	31.99	1.29	U.S. Healthcare	NDO	31.13	-0.40	-24.55	49.00	26.50	9841	1.03	3.21	13	5.04	6.18		
Markel Corp.	NDO	60.50	0.00	45.78	61.25	40.25	19	0.00	0.00	17	25.15	2.41	Wellpoint Health Networks	NYS	28.75	2.20	-1.29	39.00	24.25	385	2.00	0.00	13	12.73	2.26		
Mid Ocean Ltd.	NDO	32.00	0.79	17.43	34.63	22.25	195	1.00	3.13	9	20.24	1.58	HMOs	AVERAGE		5.2	-5.6					0.4	19				
Midwest Bank & Trust Co.	NYS	35.50	0.00	35.24	36.38	23.00	140	0.32	0.90	19	9.11	3.90	ALL COMPANIES	AVERAGE		1.6	5.1					2.5	14				

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