

# Business Insurance

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / \$4

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**Employers told steps to take to ensure safety of annuities**  
 WASHINGTON—Employers purchasing annuities to pay promised pension benefits must take a series of steps to ensure they are buying the "safest available" annuity, the Labor Department says under a new interpretative bulletin published in today's Federal Register.  
 Employers must conduct a thorough and analytical search in identifying annuity providers. Among the factors an employer has to consider are:  
 • The quality and diversification of its in-

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## Employers ask HMOs for option to self-fund

By CHRISTINE WOOLSEY  
 Some employers that believe their claims experience deserves better rates than a community-rated HMO are pushing their managed health care plan to offer them a self-funded product.

Under this arrangement, the employer retains the underwriting risk while leaving the managed medical care to the health maintenance organization. It differs from other self-funded arrangements in that the managed care company generally continues to contract with doctors and provide utilization management.

Employers turning to such an arrangement hope it will eliminate excessive premiums and administrative charges not connected to actual medical care. They also want to obtain greater flexibility in benefit plan design, something they complain is not possible with commercially insured health plans.

Employers expect this arrangement will require HMOs and other managed health care plans to focus their efforts exclusively on managing patient care, which may lead to lower costs.

A growing number of group health insurers and managed care companies recognize the large share of the market that self-insured employers represent and have begun developing self-funded managed care products.

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## State legislators slam NAIC

By MEG FLETCHER

A committee of state insurance legislators is broadly criticizing the National Assn. of Insurance Commissioners and its accreditation program for usurping state power to regulate insurance.

"The NAIC accreditation process has encroached upon the ability of state legislatures to autonomously make public policy relating to the business of insurance," concluded the Special Solvency Accreditation Committee of the National Conference of State Legislators in a 62-page report to be released today.

The committee also proposes

### Greater oversight of insurance departments proposed

several reforms, such as an interstate compact for minimum insurance standards, that "are aimed at greatly increased legislative oversight of state insurance departments and at checking the 'exponential' growth of the NAIC, whose annual budget is close to \$40 million, up from \$12 million in 1990," says a statement accompanying the report.

The NAIC and its supporters counter that accreditation-related legislation has significantly improved the quality of regulation. They also say that the NAIC re-

**NAIC accreditation on the firing line at Vermont hearing.**  
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cently has taken steps to address many of NCOIL's criticisms, including making sanctions against non-accredited states optional, rather than mandatory.

The report will be considered along with several recommendations for increased oversight of state insurance regulation at an

NCOIL meeting March 25. "I think it is pretty likely that it will become NCOIL policy," New Jersey Assemblywoman Clare Farragher, chairwoman of the solvency accreditation panel, said in an interview.

According to the report:  
 • There are "serious questions regarding the even-handedness of the accreditation and related processes," worsened by the fact that many NAIC meetings and reports have not been open to the public. As an example of those questions,

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## Barings collapse may trigger claims on several policies

By ADRIAN LADBURY

LONDON—Insurers could face claims exceeding £100 million (\$158.6 million) on bankers blanket bond and directors and officers liability policies after the spectacular collapse last week of blue chip British bank Barings P.L.C.

Barings and various subsidiaries hold a number of bankers bond, D&O and professional indemnity policies that are led in Lloyd's of London and followed in the London company and international markets.

It is unclear whether a guarantee given by any potential buyers would stem potential insurance

claims. Last week Dutch banking and insurance giant Internationale Nederlanden Groep N.V. was in exclusive talks about buying the entire Barings operations and assuming "substantially" all its liabilities. No bid had been made as of Friday.

Also late last week, Nicholas Leeson, the 28-year-old Singapore-based Barings trader thought to be responsible for its huge trading losses, was being held by German police in a Frankfurt prison. His lawyer says he will fight efforts to have him extradited to Singapore.

London underwriters are uncertain which policies would be triggered by the failure and how

Long before trader Nicholas Leeson became a household name, a still-viable Barings unit became a major asset manager for captive insurers, P&I clubs and pension funds.  
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GRAPHIC BY JOHN HALL

much they might have to pay. Some, in fact, say that losses may not even be insured and that no claims can be filed or reserves set until the exact cause of the failure can be determined.

"There is nothing to suggest it is an insurance matter. So far as I'm aware, no claim has been filed and there is no indication that this is an insurable loss at this stage. We

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## D&O rates remain competitive

Study finds relatively few industries hit by rate increases

By RODD ZOLKOS

Even with directors and officers liability claims costs at record levels, the market for D&O coverage remains soft, The Wyatt Co. concludes in its annual market study to be released today.

On average, premiums for generally equivalent coverage rose about 4% in 1994, but two industry sectors accounted for that increase. D&O premiums only rose for high-technology and, to a lesser extent, communications companies, said Phillip N. Norton, the Wyatt consultant in Chicago who wrote the study. Premiums

for high-tech firms rose more than 50% on average.

"Everyone else is showing a decline," Mr. Norton added.

Premiums for most industries declined about 5% last year, with banking companies leading the way, often with double-digit decreases, he said.

"To some extent (banks) are getting back a lot of what they lost a couple of years ago when there was a hardening in that market," he said.

For the first time, the Wyatt survey included a question asking participants about their D&O claims exposure due to investment

losses in derivatives, which are complex securities with values based on the value of some underlying asset.

Of the 1,050 policyholders surveyed, only three reported making claims against their D&O policies due to derivatives losses.

Well-publicized derivatives losses—including those that crippled Barings P.L.C. of London (see related story) and Orange County, Calif.—will have little impact on favorable D&O premiums for banks, predicted Mr. Norton.

But the losses, he said, might prompt underwriters to modify

their policies in order to clarify which claims would be covered by D&O policies and which would be covered by professional liability coverages.

The 1994 Wyatt survey showed a continued trend toward companies purchasing D&O coverage. Eighty-five percent of the companies surveyed bought the coverage last year, up from 84% in 1993 and 77% in 1990.

Asset size remains a factor in buying D&O coverage. Among those participants with assets below \$50 million, 70% reported having D&O coverage, while 95% of companies with assets over \$10 billion had D&O insurance.

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**Updates**

**Annuity research required**

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vestment portfolio.

- The size of the insurer relative to the proposed contract.
- The level of the insurer's capital and surplus.
- The lines of business of the annuity provider and other indications of the insurer's exposure to liability.

There may be situations, the department said, where an employer would not have to purchase the safest available annuity. One would be where an annuity is only marginally safer but disproportionately more expensive and participants would bear a significant portion of the risk.

The interpretative bulletin was triggered by the 1991 collapse of Executive Life Insurance Co. Dozens of companies bought ELIC annuities to pay benefits to employees and retirees covered by plans that companies terminated to recoup surplus assets.

The bulletin applies not only to terminations, but also to many other situations such as when an employer buys an annuity for participants but does not actually terminate the plan.

**Lloyd's cash collection OK'd**

LONDON—Despite member opposition, Lloyd's of London is amending its premium trust deeds after getting permission from U.K. Board of Trade President Michael Heseltine.

The changes, which the Council of Lloyd's imposed last Friday, will force damages owed litigating members to be paid to Lloyd's first to cover the members' market losses. The Lloyd's Names Information Network estimates that thousands of members are seeking up to £3 billion (\$4.8 billion) in damages.

The changes will "maintain and enhance the protection offered to policyholders," said Mr. Heseltine.

But, until several court cases are resolved—including the "Clementson" case in which members allege violation of European Union competition law (*BI*, Nov. 14, 1994) and a test case on the validity of the changes to the deeds—Lloyd's must hold the funds in a separate account and cannot use them for Central Fund debt, Mr. Heseltine said. "Recoveries... will not be called into the Central Fund without my consent," he said.

This means Lloyd's will not be able to reduce the debt in the Central Fund to meet individual members' solvency requirements on Aug. 31. However, Lloyd's could use the additional money as an asset toward individual members' solvency, a Lloyd's spokesman confirmed.

Michael Deeny, chairman of the Litigating Names' Committee and Gooda Walker Action Group, said Mr. Heseltine's decision was "deplorable but not surprising."

**Coffee claims top \$30 million**

NEW YORK—Insurers must pay more than \$30 million to two coffee importers after failing to prove that the companies made claims for coffee that never existed, a federal court has ruled.

Atlantic Mutual Insurance Co. must now pay \$28.9 million to Balfour Maclaine International Ltd., and Insurance Co. of North America, a unit of CIGNA Corp., must pay Armenia Coffee Corp. \$1.7 million, U.S. District Court Judge Leonard B. Sand ruled.

The claims were made in 1990 when both importers said their coffee was stolen from warehouses used by their Mexican trading partner, Cafetalera Zardain Hermanos S.A. de C.V. Maclaine said 25.2 million pounds of its coffee was stolen; Armenia Coffee said 1.8 million pounds of its coffee had been taken.

The insurers alleged that the coffee was never in the warehouses, which are in the Chiapas region, and noted the Zardain principals faced fraud charges in Mexico in another case.

The policyholders produced audits by various parties to show that the coffee they purchased had been stored in the warehouses.

Judge Sand ruled that the insurers failed to prove any fraud. "The problem with insurers' rebuttal case is that it presumes, without proper support, that much of the evidence relied upon by insureds in making out their prima facie case is fraudulent," he wrote.

Atlantic Mutual says it will appeal. CIGNA would not comment.

**HCFA views Medicare options**

WASHINGTON—The Clinton administration is considering what steps to take after the U.S. Supreme Court refused to review an appeals court ruling that makes it harder for the government to recover millions of dollars—chiefly for older workers—that employer health plans, and not Medicare, should have paid.

The 1994 decision by the U.S. Circuit Court of Appeals for the District of Columbia involved a challenge by the Health Insurance Assn. of America and Blue Cross & Blue Shield Assn. to several Health Care Financing Administration regulations.

The appeals court struck down two HCFA regulations. Under one, HCFA said it had the right to seek reimbursement from employers' third-party claims administrators for group health plan claims that Medicare improperly paid—even if the TPA only processed and paid claims but did not provide insurance.

The court also struck down a regulation in which HCFA essentially said it had an unlimited amount of time to seek recoveries from employers, insurers and administrators for improper Medicare payments. HCFA had said in its regulation that it could seek reimbursement from employer plans regardless of the claims filing deadlines the plans imposed on their own beneficiaries.

That last ruling could prove especially troublesome to HCFA because it may take the agency years to find out Medicare paid a claim that an employer plan should have paid.

*Updates continued on page 38*

**Money laundering scheme is linked to Utah insurer**

By DOUGLAS McLEOD

CAMDEN, N.J.—Two Texas businessmen have pleaded guilty to criminal charges arising from a scheme to launder illegal gambling proceeds by funneling the money through a now-defunct Utah life insurance company.

Michael Clark, a Houston businessman, and J. Darrell Jordan, former president of United Republic Life Insurance Co. of Salt Lake City, have agreed to plead guilty to money laundering and aiding and

abetting wire fraud, respectively.

Caught in an FBI sting operation, the two men were charged with accepting \$210,000—including a briefcase with \$100,000 in cash—that they planned to use to inflate the assets of United Republic before returning the money to its source.

Mr. Clark also proposed other money laundering schemes to an undercover FBI agent, according to a brief filed by the prosecution in the case. Though not mentioned in the indictment, one of these

schemes would have used a small-business investment company operated by David L. Hale, a former Little Rock, Ark., municipal judge, prosecutors allege in the brief.

Mr. Hale, who has pleaded guilty to unrelated charges of defrauding the federal Small Business Administration, drew national attention after his indictment when he accused President Bill Clinton of pressuring him to make loans to the wife of a Clinton partner in the Whitewater Development Corp.

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**Careful examination**

**Union health plan sues doctors for alleged billing scam**

By GAVIN SOUTER

NEW YORK—Two doctors in Queens, N.Y., conspired to defraud union health plans of more than \$1 million by filing claims for bogus tests and overcharging for their services, a suit brought by one of the unions alleges.

Health insurers billed by the doctors are also rejecting some of their claims.

The Federal Bureau of Investigation and a grand jury are cur-

rently investigating the alleged health care billing scam, sources say.

Dr. Olga Benitez and Dr. Bruce Herzog filed false claims for sonogram tests and charged inflated amounts for office visits, according to the suit, which was filed in the U.S. District Court for the Eastern District of New York by the Local 808 International Brotherhood of Teamsters Health & Welfare Fund.

In a scam that dates back to

1989, Dr. Benitez advertised her services as a gynecologist on a local Spanish-language television station, court papers say.

"At least 54 plan participants went to Dr. Benitez for treatment. Some went with specific symptoms, while others merely went for checkups. Regardless of the reason for the visit, nearly all of these women were given one or more sonograms," court papers say.

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**Senator says Congress will pass incremental reform**

**Health care reform in '95**

By MARK A. HOFMANN

WASHINGTON—The current Congress will pass health insurance reform legislation, predicts the chairman of the Senate Finance Committee.

But the changes won't entail "mega" reforms like President Clinton's failed health insurance reform package, predicted Sen. Robert Packwood, R-Ore., during an address to the Group Health

Assn. of America's policy conference in Washington last week.

Sen. Packwood noted that although President Clinton wanted savings achieved by his plan to pay for universal health coverage, any savings achieved under the more modest reforms likely to pass the 104th Congress will go toward reducing the federal deficit.

According to Sen. Packwood, an insurance reform package would probably impose restrictions on the use of pre-existing conditions to limit or deny coverage. In addition, there will be some guarantee of renewability so the people who change employers won't automatically lose coverage, he said.

Malpractice reform of some sort also will have a place in the package, the senator predicted. The re-

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**Savings that bring a smile**

**Growth of managed dental plans seen**

By DEBORAH SHALOWITZ COWANS

Although employer-sponsored managed dental care programs are still the new kid on the health care block, interest is increasing and is expected to grow.

Managed dental care programs are popular with employers because they cost less than indemnity programs and premiums escalate at a slower rate.

And dental plan vendors are expanding networks, making them

more acceptable to employees.

Managed dental care is "a natural next step in the managed care continuum," said Valerie Grayson, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill. "I think 1995 will be a big year" for managed dental care programs, she said.

According to dental plan vendors, enrollment in managed dental care programs is increasing at an annual rate of 10% to 35%.

For example, enrollment in CIGNA Dental Health Inc., a dental health maintenance organization based in Plantation, Fla., rose 20% in 1994 and 34% in 1993, said Aaron Groffman, director of marketing. At the end of last year, CIGNA Dental Health had 2 million members.

Although membership in an indemnity dental care program offered by CIGNA unit Connecticut

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# Benefit plan design and administration

By MICHAEL SCHACHNER

## Carve out programs help pare plan costs

*Managing a single benefit yields savings*

The cost savings and improved outcomes from carving out the management of prescription drug and behavioral care benefits is encouraging a growing number of companies to explore the rewards of separating out other aspects of their health care plans.

High on employers' carve out lists are cardiac and cancer treatment, which together can account for 35% to 40% of a self-insured employer's total health care expenditures. Other likely candidates are laboratory and diagnostic services, radiology and other forms of imaging, and possibly orthopedics.

In carve out programs, a company manages and administers a certain type of benefit separately from its comprehensive health program. The key to a good program is discounted fees from a single provider or network of providers. Solid plan administration, either internally or through an outside firm, also is important.

Large employers generally can justify splitting health care into various individual benefit plans and managing them separately, benefit managers and consultants say. And, a number of large corporations now are carving out benefits other than prescription drugs and mental health care.

For example, Delta Air Lines Inc. in Atlanta, with 72,000 domestic employees, carved out its cardiac care program in 1993.

Pitney Bowes Inc., with 23,000 U.S.-based employees, is in the process of carving out laboratory and diagnostic benefits and hopes to carve out radiology and imaging services sometime in 1996.

Meanwhile, General Electric Co., AT&T and Tenneco Inc. are all in preliminary contract discussions with the newly formed National Comprehensive Cancer Network, a group of 13 leading cancer treatment and research facilities across the country. And, Tenneco, which has a workforce of about 75,000 nationwide, has for the past 10 years maintained cost-effective contracts for cardiac and cancer care with a pair of hospitals in Houston, which is where the company is based.

What is it that makes a certain health care procedure or benefit appropriate for a carved-out, separately managed plan?

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## Prenatal programs helping cut birth costs

By DAVE LENCKUS

A joke making the rounds among maternity care experts is that delivering a baby has become an outpatient procedure.

With the length of hospital stays following uncomplicated deliveries typically around 24 to 36 hours—and beginning to drop to 12 hours or less in some areas of the country—employers cannot count on future cuts in the length of approved hospital stays to help them contain maternity-related costs.

However, employers still can pare those costs—as well as absenteeism, disability and turnover costs—with small investments in prenatal education programs, say consultants and employers. The programs try to prevent costly pre-term births by focusing on health issues for the expectant mother and fetus and by alerting mothers of the early signs of pre-term labor.

One employer says its prenatal education program saved it more than \$2 million over two years.

"It's an important issue for the country and an important issue for employers," said Stewart Beltz, director of CIGNA Corp.'s Employee Health Management department in Philadelphia, which oversees the company's Healthy Babies program for a growing number of its U.S. employees.

But, not every measure designed to help detect and prevent pre-term labor is effective, a recent study found (see story, page 11).

Among large employers, hospital inpatient costs for maternity and newborn infant care represented 13.4% of their total health care costs in 1993, reports the MED-STAT MarketScan Data Base.

But, while many large employers have begun offering prenatal education programs as part of their increasing focus on family issues, many others haven't. And the programs are still rare among midsize and small employers, experts say.

High employee satisfaction levels aside, the cost of even a single pre-term delivery underscores the importance of prenatal education ef-

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ROY WIEMANN/THE IMAGE BANK

# System update costs overwhelm benefit departments

By RODD ZOLKOS

*Outside administrators promise better service, increased access*

It's no coincidence that employer interest in outsourcing benefit administration is growing as current benefit information systems become outdated.

Whether companies are concerned with cutting costs, improving employee service, or both, technology is the major factor driving their decisions to hire outside firms to administer benefit plans.

"A number of the benefit systems have elements of cost that are no longer appropriate," said Edward G. Pringle, an executive vp at William M. Mercer Inc. in Deerfield, Ill., where the company operates its benefit administration center.

Such operations are "paper-driven" and haven't

taken advantage of opportunities to cut costs provided by voice-activated systems or other technologies, Mr. Pringle said.

Somewhat more advanced are companies that built in-house benefit administration systems in the 1970s or early '80s. Today, the technologies they used are outdated and the companies now must determine whether to bear the cost of upgrading those systems.

Westinghouse Electric Corp. is one company that decided upgrading an in-house system was not worth the

money.

"The human resources function by its very nature is an overhead function, so the decision to make those investments is a very tough one," said Joe Kennedy, manager-human resources transformation at the Pittsburgh-based company. "If you can devote those investments to operations vs. support, you'll choose operations every time."

Westinghouse turned to Wyatt Preferred Choice, a Jacksonville, Fla., unit of The Wyatt Co., in March 1994 to outsource pension, health and welfare benefit administration. The electric company had already contracted with Bankers Trust Co. to administer its employee savings plan.

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## Carve out

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It has to be expensive, driven either by volume, such as prescription drugs, or by intensity, such as cancer or heart-related care.

Volume is what makes lab work and imaging ripe for carve out at Pitney Bowes, said David Hom, executive director of corporate benefits and medical services of the Stamford, Conn.-based company. Volume is also why some consultants and benefit managers think orthopedic benefits may be carved out in the future.

At this point, however, many employers are focusing on cancer and cardiac care.

Separating cancer care from an overall program would encourage better management and administration of cancer care, said Dr.

Catherine Harvey, executive director of the new cancer hospital network, which includes notable facilities like Memorial Sloan-Kettering Cancer Center in New York and the Dana Farber Cancer Institute in Boston.

"I think carve out is the way to approach this. Cancer will account for 20% of health care costs by the year 2000. We're prepared to develop master contracts for each center, though each facility will still have to remain competitive in its own market," Dr. Harvey said. "But nobody wants to create an administrative nightmare for themselves, so that question has to be answered. Although we're not an insurer, we may eventually be able to administer the plans, too."

Dr. Harvey said that GE, AT&T and Tenneco all have approached the network about setting up con-

tracts under which the centers would be designated centers of excellence under company health plans and employees given an incentive to seek care at those loca-

**Separating cancer care from an overall program would encourage better administration, says Dr. Catherine Harvey.**

tions.

One of the NCCN member centers is Anderson Cancer Center in Houston. Tenneco has had a proprietary contract with Anderson for years, under which Tenneco receives a discount on services from Anderson and then passes

some of the savings on to employees in the form of no deductibles or copayments.

For cardiac care, Tenneco has a similar arrangement with St. Luke's Episcopal Hospital in Houston.

Tenneco does not formally carve out cardiac and cancer care, though such "centers of excellence" arrangements do produce better care and more accurate diagnoses that ultimately reduce costs, said Karen E. Miller, corporate health care manager.

"As a self-insurer, we don't want to pay hundreds of thousands of dollars on an incorrect diagnosis. These facilities are the best," Ms. Miller said.

One of the first true cardiac carve outs was instituted by Delta Air Lines in 1993.

Channeling Delta employees with serious heart ailments to one

of six specialized centers has saved the company as much as \$1 million in some months and almost \$20 million over the course of the program, said Clay McConnell, the Delta communications manager who was responsible for rolling out the program in 1993.

"We wanted to get employees the best possible care, but also get control over cardiac costs, which can be extraordinarily (high) and can range all over the map depending on where a person is treated," said Mr. McConnell.

Delta's network offers employees care at renowned cardiac centers in Atlanta, Boston, Cleveland, Houston, Los Angeles and Salt Lake City. Employees who agree to have major procedures performed at one of these centers pay no out-of-pocket costs and receive free transportation, room and board for themselves and two family members.

Mr. McConnell said Delta has negotiated discounted rates with the centers, which for Delta employees generally perform only the most complicated and costly procedures like angioplasty, open heart surgery, bypass and valve work, and catheterization.

"Incentives to use designated facilities is how to make these plans work," noted Tom Reepmeyer, a vp and chief financial officer with Dun & Bradstreet Health Care Information L.P. in Chicago. "You can't force employees to travel to a center, but zero or very low copayments is quite an incentive."

Mr. Reepmeyer said his firm, which is a joint venture between Dun & Bradstreet and Electronic Data Systems Corp. of Dallas, has spent a lot of time recently putting information together on outcomes data and costs of various types of medical procedures. Employers and providers are using the data to find out where costs are concentrated and what benefits could be more tightly managed.

"People are doing a lot of talking about specialty PPOs and carve outs for cardiac, oncology and other chronic diseases that can be managed in the same way mental health and prescription drugs have been. It's the (managed care and TPA) vendors that are trying to attract employers to these plans," he said.

"Disease management" has become something of a buzzword in benefits circles.

Dr. Jack Mahoney, a consultant with Hewitt Associates in Lincolnshire, Ill., defines the term as taking steps to control the progression of chronic illnesses and conditions, including high blood pressure, asthma and diabetes.

"All of these conditions have a break point where they go from controllable to uncontrolled. About 30% of people in the workforce have some chronic condition that takes at least two years to care for. These people account for about 60% to 80% of costs, so if you can do something to manage their problems, you'll save some money," Dr. Mahoney said.

Mr. Hom of Pitney Bowes also supports disease management. "We're concerned about longitudinal health over an employee's service with us. If we are going to pay years of claims, we'd like to improve an employee's health. Things like asthma, diabetes and depression are treatable if you educate employees to the fact that it's OK to have one of these conditions and we will help them deal with it."

Pitney Bowes is also one of the few companies that is carving out

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# How Does Your Health Plan Sit With Your Employees?

If your employees find their health care plan hard to handle, sit down with EBP HealthPlans. We've been designing and administering cost-effective managed care benefit plans since 1974. We'll develop a program that meets your employees' needs while helping you control costs — maximizing health care choices for everyone.

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Wausau's group health and workers compensation claim reps work closely with our Special Investigative Unit to explore fraud cases. We have a hotline for anonymously reporting suspected fraud. And we assist state fraud bureaus and local prosecutors. Because fraud costs us all.



## Carve out

Continued from page 4

laboratory and diagnostic benefits from its comprehensive health care plan.

These benefits account for about 5% to 7% of costs, said Mr. Hom.

"Many doctors are performing lab work internally because it's high margin work that is a good supplement to income. But our studies show that quality of work done in a doctor's office is not as good as what the major lab companies do. Duplication and varied results are a problem," said Mr. Hom.

And by 1996, Pitney Bowes will likely have a carved out radiology and imaging plan.

"There are just so many firms doing radiology and MRIs today

that they're driving the market. We have to get some control over this in the next year," Mr. Hom said.

About the only barrier to specific disease management programs and carve outs is that they're perceived to create administrative overload, several consultants and benefit managers said.

"Employers often see carve out as a negative because it means more administration. We've done many employer interviews on this subject and the response isn't exactly warm and fuzzy," said Hewitt's Dr. Mahoney.

"It's the managed care firms that are really behind selling this concept. They're working feverishly to develop plans to manage these conditions just like they have with prescription drugs," he said. **BI**

## Outsourcing

Continued from page 3

By July 1 last year, Westinghouse had 8,000 employees on the system. It added 17,000 in August and 21,000 more in September, before bringing 80,000 retirees onto the system in December.

"Wyatt told me that no one has ever done it this fast," Mr. Kennedy said. "We paid a price for moving fast, but we're getting very stable at this point and I believe we're going to be a world-class operation very soon."

"We are just now seeing the new technology being applied now that we're up and running and have all these groups on board, and that's just a thrill to see," he said.

When Westinghouse started working with the benefit administration facility that Wyatt runs in Jacksons-

ville, Fla., information packages for new hires took 18 days to produce. Error-free benefit information packages are now produced in a single day.

"When you see that, you really think, 'Man, we made the right decision,'" Mr. Kennedy said.

"Technology is clearly driving a lot of what we have here in terms of best serving clients," said Mark Mitter, national practice leader for outsourcing at Hewitt Associates L.L.C. in Lincolnshire, Ill. Hewitt operates two outsourcing centers, one in Lincolnshire and another in nearby Deerfield.

Even organizations that see servicing their employees as their top objective realize that if they want to "jump on the technology bandwagon," they have to commit to keeping up with change, Mr. Mitter said. "Most organizations recognize they're having a tough enough time

making the commitment in resources to their own core business." Concern with core operations is another factor driving the move to outsource benefit administration. As many companies focus their attention on "core competencies," said Mr. Pringle, they are reducing employment in other areas, such as benefits administration.

Outsourcing benefits administration began a few years ago, as the job of administering defined contribution plans became more complex, said Mike Hager, implementation manager for Wyatt Preferred Choice in Washington.

Once companies had contracted out for pension recordkeeping services, they began looking to outsiders for other services, including those involving participants directly.

Recently, corporate "re-engineering" has accelerated that move to outsourcing. As a company restructures its operations to increase efficiency, it wants to "turn around and look at the benefit plan from the participants' perspective," Mr. Hager said. "And the participants pretty much only look at the benefit plan when they need it."

So employers began to favor event-oriented systems, which are designed to answer benefit questions that come along with major events like marriage or retirement. And as those systems were put in place, at the same time corporate staffs were being cut, companies began contracting more with outside service firms.

An emphasis on "employee empowerment" in today's business environment—that from a benefit perspective takes the form of letting employees shape their own benefit program through flexible benefits or 401(k) allocation options—also is driving the trend toward outsourcing benefit administration by increasing programs' complexity.

In determining whether to outsource benefits administration, companies are having to decide whether the HR department is "a kindly grandfather there to look after the employees or an efficient administrator of options available to the employees," Mr. Pringle said.

Another reason companies are opting for outsourcing is their concern that employees are not receiving quality benefit services internally. Contracting with outside firms could improve the technology and expertise of benefits administration.

"I wouldn't say that benefit administration outsourcing should be done solely for pure savings, though savings should come in the long run," Mr. Pringle said. "I would like to see a client focusing both on savings and improved service."

That combination led Westinghouse to outsource benefit administration, Mr. Kennedy said. And, monthly surveys by Westinghouse show that service is improving, he said.

Westinghouse employees used to have to call a range of separate 800 numbers for information on various aspects of their benefit program.

Now they can make one phone call, Mr. Kennedy said. Having made that call, an employee can transfer seamlessly from the voice response system in Wyatt's Jacksonville, Fla., center to Bankers Trust if he or she has a savings plan question or to an insurer for a claims question.

"It winds up as a good focal point for access to your benefit plan," he said. "An employee in their mind is calling into our organization."

"You don't want to tell somebody that they have to call another person," Wyatt's Mr. Hager said. "They want a virtual HR environment."

Continued on page 10



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## Opinions

## NAIC oversteps its bounds

THE National Assn. of Insurance Commissioners is not a regulator.

Although that statement might seem obvious, we think it bears reminding, especially to state insurance regulators who are now grappling with the organization's identity and purpose.

One goal of the NAIC—essentially a private trade association composed of public officials—is to promote uniformity in state oversight of insurance and to recommend legislation for adoption by the states. There is no question that the insurance industry benefits from a more consistent approach to regulation.

But regulators must not forget that one of the hallmarks of the current state-based approach is the flexibility that it provides. If simple uniformity is what the industry needs, then federal regulation starts to look much more attractive.

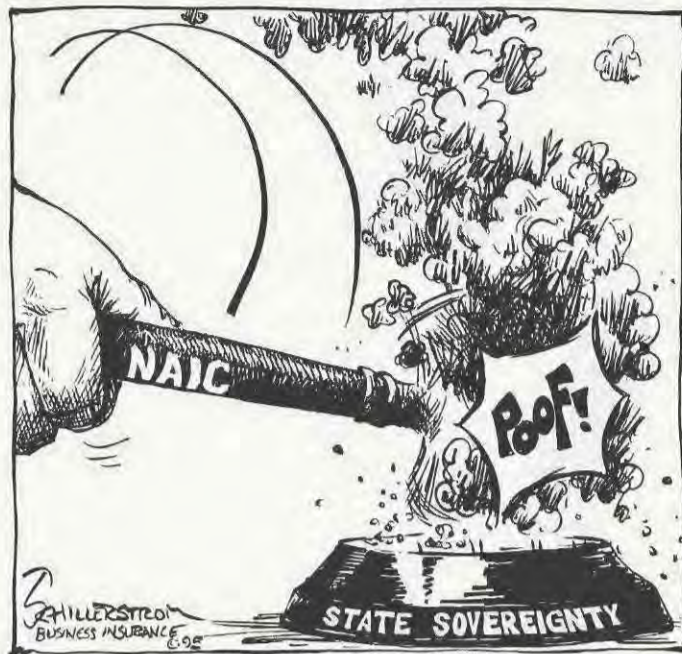
Unfortunately, in recent years the NAIC has become inflexible in pushing its agenda and even punitive toward states that don't fit its "model" for regulation. The organization's accreditation program, originally intended as a voluntary program to provide states with a body of legislation that could improve solvency oversight, has evolved to what to many seems like the NAIC holding a gun to state lawmakers' heads.

There are plenty of examples of this approach, but one needs only to look at Vermont, which has been frustrated in its bid for accreditation due primarily to its method of regulating risk retention groups.

We realize the NAIC's aggressive stance is a defensive posture to deflect criticism in the wake of several well-publicized insolvencies. The group also was under fire from congressmen like Rep. John Dingell, D-Mich., who proposed federal solvency regulation.

Nevertheless, the NAIC is not an enforcement agency and has overstepped its bounds. Its attempts to enforce its will on the states have rankled and alienated many parties, ranging from individual states to insurance companies to the very consumers its members are supposed to protect.

As we report on page 1 this week, the National Conference of Insurance Legislators is condemning



the heavy-handed approach taken by the NAIC in its accreditation program. The organization of state lawmakers has issued several recommendations for improving the accreditation process and limiting the NAIC's authority.

The NAIC has begun to make changes in response to its critics, such as opening more meetings to the public, as well as inviting scrutiny of its budget. Perhaps none of these changes is more sweeping than a quiet move to make sanctions against non-accredited states optional rather than mandatory.

We would like to see the NAIC build on such changes. Rather than ram its agenda down the throats of states and the industry, the NAIC should seek to foster greater cooperation among state insurance commissioners, state and federal lawmakers, the insurance industry and consumers. This can only improve state regulation.

Indeed, if it stays on its current course, the group risks encouraging the very federal regulation it is trying to prevent.

## A chance to cash in on MSAs

TO THEIR supporters, medical savings accounts have it all.

In a typical program, an employer substantially increases deductibles and reduces its premium costs.

The employer then shares some of the resulting savings by giving employees a pot of money—typically \$1,000 for those with individual coverage and \$2,000 for those with family coverage. Employees can use the money to pay medical bills that fall under the deductible or for other uncovered services. At the end of the year, employees are free to take unused contributions in cash.

The opportunity to receive medical savings account balances gives employees a powerful financial incentive to use health care services more carefully, advocates say.

To illustrate that point, J. Patrick Rooney, chairman of Golden Rule Insurance Co., which markets medical savings account programs and offers one to its own employees, cites a Golden Rule employee who was told that medical tests she needed would cost \$785. She shopped around by calling several hospitals and got the tests done for \$114. No one ever shopped around like that under Golden Rule's traditional indemnity plan, Mr. Rooney says.

But opponents of the accounts—and there are plenty—view them as something approaching evil incarnate. They see the accounts creating a "dog eat dog"

world in which young, healthy employees would opt for medical savings accounts, and the older, sicker employees would remain in other plans, whose costs would skyrocket.

Opponents also say that, anecdotes to the contrary, employees in general are far less able to negotiate medical services—both on cost and quality—than employers and managed care vendors.

Our own view is that while the opponents and proponents both have probably overstated their cases, the idea deserves a fair hearing.

Specifically, for a trial period, the tax laws should be changed so that medical savings accounts receive more equitable treatment.

If an employee can make pretax contributions through a flexible benefit program to cover his or her health care premiums and expenses, why shouldn't an employee also be able to make tax-deductible contributions to a medical savings account?

Similarly, if an employer can fully deduct all health care expenses—without employees being taxed on the contributions—why shouldn't an employer be able to make contributions to a medical savings account without those contributions being added to an employee's taxable income?

If the idea is as good—or bad—as its supporters and critics say, the evidence, rather than anecdotes, should become clear in a few years.

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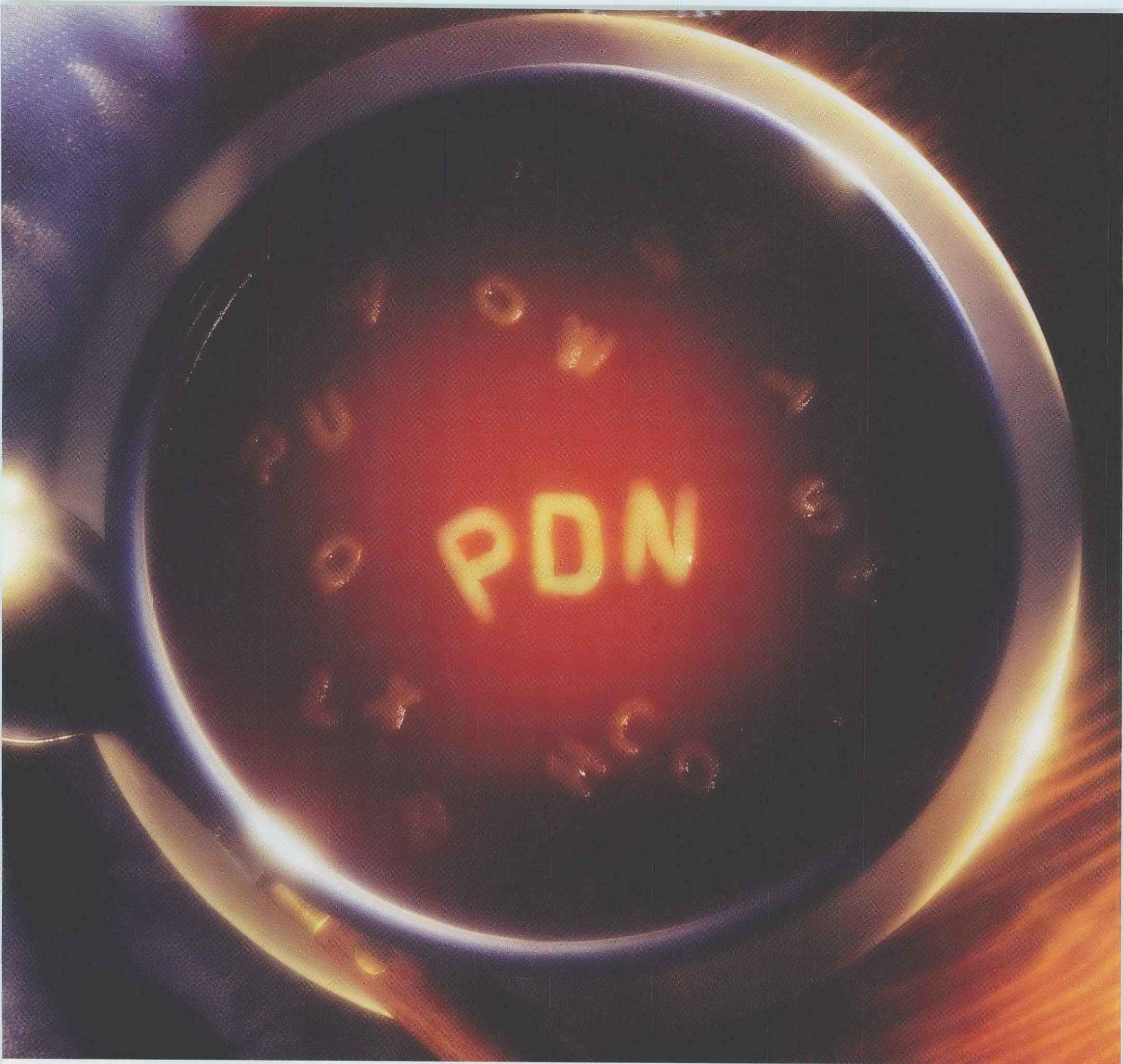
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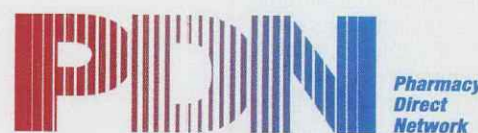
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# Outsourcing

Continued from page 6

To accomplish that, the players must work together closely. "In this process, if a company decides they're going to go ahead and do this it's pretty much a marriage. You really are a partner with the vendor," he said.

Westinghouse has had three meetings with the company's benefit plan insurers at Wyatt's benefit administration center in the past year to discuss the standards Westinghouse expects them to meet and to get the ideas for process improvement from the insurers and Wyatt.

Feedback can benefit the employer in several ways. Mr. Pringle noted that Mercer's benefit administration center staff tries to meet quarterly with clients "to give them feedback on the kinds of calls we're getting." That can give the employer "a window into its labor relations."

Employers' move toward an event-oriented benefit plan focus is changing the way many companies look at placing benefit administration contracts, said Dale Allen, marketing director at Towers Perrin's National Employee Benefits Center in Philadelphia. Many employers believe an event-oriented approach is best served when a single vendor handles the entire range of benefit administration.

"I think in years gone by the focus of client companies was to look at plan-by-plan administration," Ms. Allen said. "Now they are looking toward bundled administration."

While more employers are outsourcing the administration of the entire range of their benefit plans, many start with a single plan and work up, an approach most of the administration firms advocate.

Also, the scope of service that employers can choose typically varies from simple record keeping to providing voice response systems and customer service representatives to field participants' questions, to even preparing employers' benefit newsletters and reports to employees.

In some cases, the choice of one level of service drives the use of others.

"We still have many more clients where we do record keeping only and not the participant interface," said Pat Amendola, national director of the administrative services group at Buck Consultants Inc. in Secaucus, N.J. "But it really wouldn't be practical to do the participant interface without the record keeping."

Hours that service representatives are available to plan participants also vary, and some vendors offer up to round-the-clock access if employers demand it.

Large employers and those outsourcing their entire plan administration will typically have a team of service representatives dedicated to fielding their plan participants' questions. Others will have questions answered by representatives serving multiple employers.

With an eye on quality, however, rather than cutting costs by offering less skilled service representatives who basically work from a universal script, most outsourcing vendors offer representatives who are trained in the client's benefit plans and its company culture.

The approach is one in which the service representative takes on an advocacy role for the participant, and "the advocacy role cannot be played out by reading off a script," Hewitt's Mr. Mitter said.

With such a range of service

choices, fee structures also vary. Typically, they are based on the service demands of the client and the number of plan participants.

Those involved in benefit administration outsourcing believe it is indeed the wave of the future, not simply a fad.

Westinghouse's experience has made Mr. Kennedy a believer in benefit administration outsourcing. "I really believe that from what I've seen, this is the way to go," he said.

And Wyatt's Mr. Hager said while he has seen some employers that have decided they outsourced some portion of their administration to the wrong vendor, "I've never seen anyone bring it back in-house."

For Mr. Mitter, employers fall into two categories: "Those who have a vision of outsourcing and those who do not yet realize they have a vision of outsourcing." ■

# Prenatal

Continued from page 3

forts that could prevent a premature birth.

Employers that say their voluntary prenatal education programs have helped them cut maternity-related health care costs typically combine numerous educational materials on the importance of prenatal care with financial incentives to encourage expectant mothers to obtain the care.

The materials encourage proper nutrition and exercise, outline symptoms of pre-term labor and warn of the dangers that smoking, alcoholic beverages and drugs pose for fetuses.

Many employers also enlist experts at no cost from the March of Dimes to conduct seminars on those and other pregnancy-related topics,

including what older expectant mothers should expect, how stress affects pregnancy and the role of expectant fathers.

The prenatal care program run by the Los Angeles Department of Water and Power places a heavy emphasis on the role expectant fathers play in expectant mothers' lifestyles, said Rona Cohen, an independent consultant who runs the department's program.

"The goal is to educate people early and to educate the family," said Ms. Cohen, who is an assistant clinical professor at the University of California at Los Angeles' School of Nursing. "We feel that the father plays a very important role in this."

The program, for example, encourages fathers to abstain from smoking near their partners, support their partners' need for good nutrition by eating more healthy foods as well and assume more

household duties so their partners get needed rest. It also encourages expectant fathers to support breastfeeding, because of the health benefits to infants and mothers.

The LADWP's program also teaches participants how to effectively use the health care system. For example, it conducts a kind of assertiveness training program that shows expectant parents how to corral time-pressed physicians to answer all of their questions.

The program also clearly outlines participants' maternity benefits and explains appropriate alternatives to emergency room care for medical problems during pregnancy.

Prenatal care programs also typically help assess whether an expectant mother is at risk for pre-term delivery and check with all expectant mothers to encourage them to keep their prenatal care appointments.

Continued on next page



## Need for pre-term labor monitor questioned

NORTHBROOK, Ill.—A high tech device that physicians can use to help recognize and prevent pre-term labor is no more effective than relying on the diagnostic skills of nurse specialists, a new study concludes.

A 33-month, nationwide study of 1,355 women with high-risk pregnancies found that perinatal nurses who relied solely on their diagnostic skills during daily phone consultations with expectant mothers were as successful detecting the onset of pre-term labor as nurses who also used data provided by a uterine contraction monitoring device.

The nurses who did not have access to the data also were more cost-effective: The device boosted the cost of the consultation service by about 10%.

The study contradicts most previous studies' findings on such devices, said Dr. Lawrence Devoe, the study's principal investigator and professor of obstetrics/gynecology and director of maternal-fetal medicine at the Medical College of Georgia in Augusta.

Hospitals typically use the monitoring devices to keep tabs on expectant mothers' contractions after the women are admitted to deliver.

Under U.S. Food and Drug Administration rules, most manufacturers of uterine monitoring devices may not attempt to persuade physicians to prescribe the devices for home use by women with high-risk pregnancies. FDA rules, though, do not prevent physicians from prescribing the devices for home use.

Collaborative Home Uterine Monitoring Study Group, a group of 19 physician investigators from major U.S. academic medical centers, conducted the study.

The demographically diverse group of study participants were monitored from home by 18 medical centers in 17 cities from January 1992 through September 1994. All of the women were 24 to 36 weeks pregnant. All of the women used a uterine monitoring device

manufactured by diversified health care services provider Caremark International Inc. of Northbrook, Ill., which funded the study.

The Caremark device, which is not FDA-approved for home use, is a sensing disc or pad that is strapped onto the abdomen. It senses physical contractions in the uterus and converts this data into electronic signals.

For the study, the signals were transmitted via phone lines to nurse base stations. The study participants used the device twice daily for an hour each time. In addition, all of the women were taught how to recognize the symptoms of pre-term labor and how to monitor their uterine activity by placing their hands on their abdomens.

The data that the uterine monitoring devices gathered were revealed to only about half of expectant mothers' nurse consultants. The expectant mothers did not know whether their nurse consultants saw the data.

Study results show no statistical difference between the two groups in, among other things, the gestational age at delivery, birthweights, neonatal intensive care admissions and major neonatal complications.

Dr. Devoe said he "was not really surprised" by the results. "Simply measuring contractions alone is not a very accurate way of detecting pre-term labor," he said. Recognizing other, more subtle symptoms, like back pain or pressure, are more important, he said.

Denise Taylor, director of Caremark's Women's Health Program, said the study's findings reflect the effectiveness of Caremark's perinatal nurse consultation service.

The study results have been submitted to the FDA for review. An advisory panel to the FDA's Center for Devices and Radiological Health is holding a public hearing in Rockville, Md., on April 24 that in part will focus on new information about home uterine monitoring devices.

—By Dave Lenckus

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## Prenatal

Continued from previous page  
ments with physicians.

Many employers reward expectant mothers who make all of their prenatal physician office visits by waiving their office copayments or their hospital deductible when they deliver. Other incentives include free car child-safety seats and U.S. Savings Bonds.

Banking company First Chicago Corp., for example, saw the participation rate in its prenatal care program steadily climb to 60% over the last few years from 5% to 10% before implementing incentives in 1989, said Dr. Wayne Burton, vpcorporate medical director.

For participants covered by First Chicago's self-insured plan, the bank waives \$300 of a \$450 hospital deductible. For those covered by health maintenance organizations, the bank waives up to \$400 of office-visit copayments for a year after delivery.

There is no one-size-fits-all program, though, experts say. Employers have to pull together various ideas that will work best for their employees. First Chicago, for example, has been offering free examinations by an obstetrician/gynecologist at its headquarters since the mid-1980s.

Without such customizing, "you can have a great program that will totally flop," said Mary Hebert, manager of the Washington Business Group on Health.

For the programs to be truly effective, employers must take a more comprehensive approach than just providing prenatal education, according to Ellen Cutler, national director/worksite programs for the March of Dimes Birth Defects Foundation in White Plains, N.Y.

Employers should put their money where their mouth is by, for example, giving expectant mothers time off that does not count as an absence to keep their prenatal physician appointments, Ms. Cutler said.

Some employers develop the programs themselves.

Others turn to vendors, like health insurers, third-party administrators and nursing services firms.

Some of those firms are more aggressive than others, noted Leanna Sterbank, a consultant with William M. Mercer Inc. in Cleveland.

For example, besides following up with the expectant mother, some will contact her physician to make sure she has kept her appointments, Ms. Sterbank said.

Another very inexpensive source that 500 employers have turned to is the March of Dimes, which offers

Continued on next page

# Prenatal

Continued from previous page  
many free services as well as materials at cost.

Indeed, for only the cost of materials, the organization will train an employer's health professionals how to design and implement a prenatal care program.

The organization, with the help of about four dozen large employers, also has prepared a guidebook, "Healthy Babies, Healthy Business," that walks an employer through the process of assessing what its prenatal care program should include. It is available in book form for \$95 and on computer disk for \$110.

Meanwhile, the National Business Partnership to Improve Family Health is heavily promoting programs designed to improve the health of mothers and children. The

WBGH established the public/private organization in 1990 with funding from the U.S. Maternal and Child Health Bureau.

Among other things, the Partnership identifies state-of-the-art corporate practices and conducts regional seminars.

Among employers that say they have been able to master the difficult task of measuring the financial impact of their programs, findings show significant cost savings or changes in health care utilization that suggest costs are being contained.

CIGNA figures that the prenatal care program for its employees saved it more than \$2 million between June 1991 and June 1993.

The savings were reflected in the cost for infant care: \$5,141 on average for those whose mothers participated in the prenatal care program, compared with \$14,116 on average

## Baby blues

Maternity-related costs represent the largest component of some employers' total health care costs, ranging from 10% to 49%.

Of the 4 million births in the United States annually, 10% are high risk and 7% to 8% are pre-term.

One day of intensive care for a low birthweight baby in a hospital neonatal unit costs \$1,300 on average. Infants typically spend 14 days there for a total average cost of \$18,200.

40% of babies weighing less than 3.3 pounds at birth will be rehospitalized twice for an average of 16 days during their first year.

Sources: Washington Business Group on Health; March of Dimes; U.S. Health Care Financing Administration; Emergency Care Research Institute.

GRAPHIC BY MIKE GARVEY

for infants whose mothers did not participate.

CIGNA's study found that among 225 prenatal care program participants, 60.4% had normal, uncomplicated deliveries, compared with 40% of the 2,100 non-participants. Slightly more than 5% of the participants had premature deliveries, while more than three times that percentage—17.4%—of non-participants delivered early.

The percentage of low birthweight

babies among all First Chicago employees is 3%, less than half the national average of 7% to 8%, Dr. Burton says.

And, 19% of employees who participate in the bank's prenatal care program have Caesarean-section deliveries, compared with 28% of those who do not participate.

Figuring in both types of deliveries, the average hospital cost for program participants is about \$7,600. The cost for non-participants is nearly \$10,000.

The 22 members of the Business Health Care Action Group in Minneapolis, a group of large self-insured employers that have taken many innovative steps to control health care costs, have relied heavily on financial incentives and risk contracts with physicians in their provider network to control medical costs.

The coalition, which plans to begin providing prenatal educational materials next year, is still studying the cost impact of those other measures, but some statistics suggest their efforts so far are making a difference, according to Steve Wetzell, the coalition's executive director.

For example, according to Mr. Wetzell, the coalition's pre-term delivery rate is 3%, compared with 8.8% in Minnesota and 5.7% nationwide. The coalition's Caesarean-section rate is 14%, compared with 16% in Minnesota and 24% nationwide. And, the percentage of vaginal-deliveries among mothers who previously had Caesarean sections is 41% for the group, compared with 35% in Minnesota and 25% nationwide.

Employers and consultants believe that any sound prenatal care education effort will help drive down costs. But, measuring the impact of the program is still important, said Stephen Parahus, a consultant with Kwasha Lipton in Fort Lee, N.J.

For example, if data shows that Caesarean sections are far below normal, an employer may want to investigate whether there has been an increase in medical complications for mothers and infants following vaginal deliveries, according to Mr. Parahus. "You have to look at data to see if the program's working."

CIGNA is studying why there was a 27% Caesarean-section rate among its program participants. The rate is three points higher than the national average and 10 points higher than for non-participants.

Many employers also are looking beyond maternity health care issues and are adding lactation programs to encourage new mothers to breast-feed. Various studies show that breast-feeding reduces the risk of respiratory illnesses, ear infections and allergies in children and breast and ovarian cancer risks in women. But, women returning to work a few months or weeks after delivering often face logistical problems with continuing breast-feeding for the six to 12 months experts recommend.

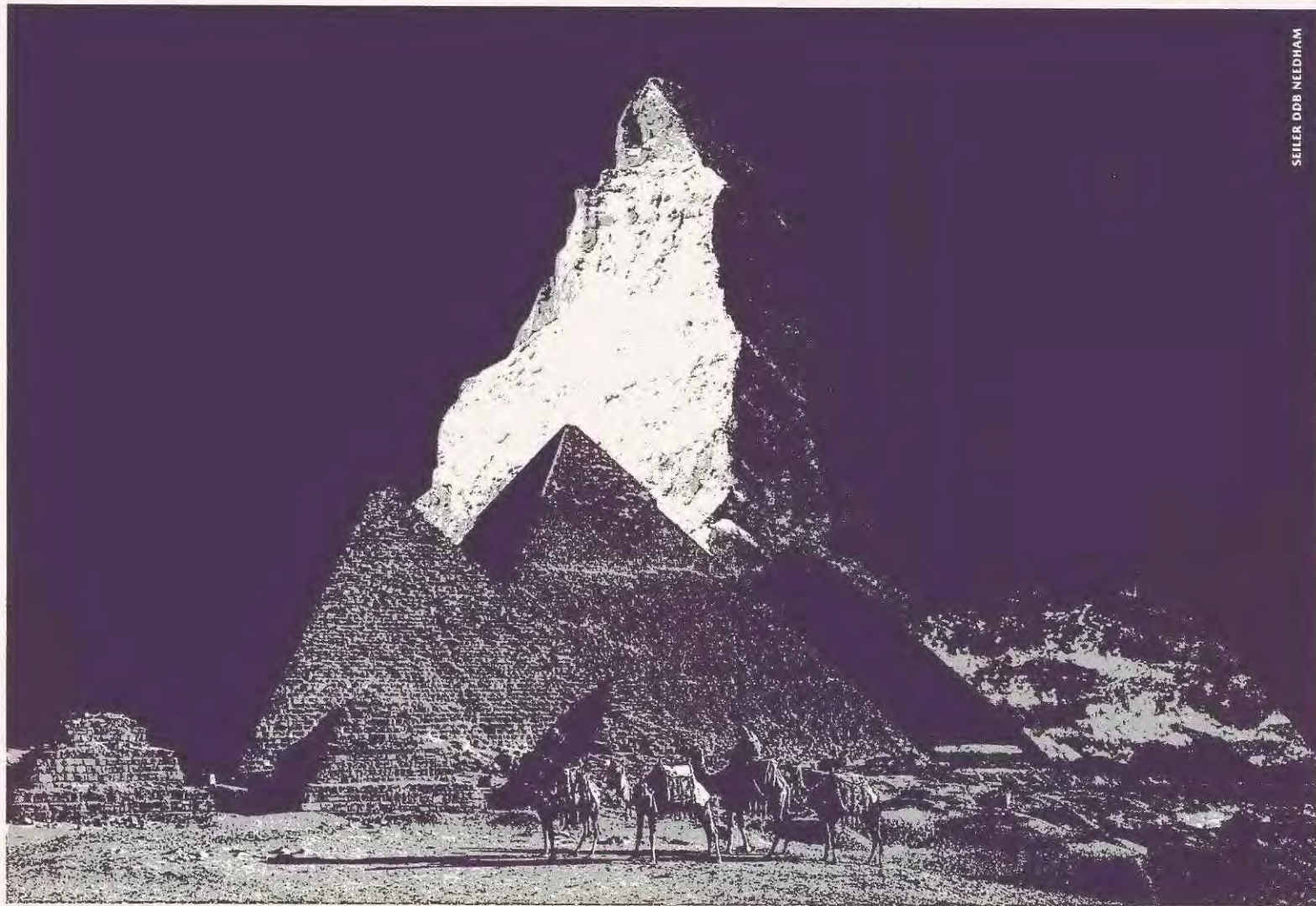
Some employers, as part of their prenatal program, provide only educational materials on the benefits of breast-feeding.

But many others supply new mothers returning to work lactation counseling, a private area to lactate, free breast-pumping supplies and a refrigerator to store their milk.

The L.A. Department of Water and Power even provides new mothers a cooling bag so those who feel uncomfortable storing the milk in a public area can keep it with them at all times.

In a study of the LADWP's program and a similar one run by The Aerospace Corp. of Los Angeles, Ms. Cohen found that children who were breast-fed had 35.7% fewer illnesses that led to health care claims.

In addition, absenteeism among women who breast-fed was 27.3% lower. **BI**



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Hong Kong: Jardine CMG Life;  
Hungary: Glória; Indonesia: Lippo  
Life; Ireland: Irish Life; Israel: La  
Nationale; Italy: Swiss Life (Italia);  
Japan: Meiji Life / Yasuda Life; Korea:  
Korea Life; Luxembourg: Swiss Life  
(Luxembourg); Mexico: Comercial  
America; Netherlands: ZwiiterLeven  
(Swiss Life); New Zealand: Colonial;  
Norway: Vital; Panama: Aseguradora  
Mundial; Philippines: Jardine CMG  
Life; Poland: PZU; Portugal: Império;  
Russia: Rosgosstrakh; Singapore:  
NTUC Income; Slovakia: Kooperativa;  
South Africa: Southern Life; Spain:  
Swiss Life (España); Switzerland: La  
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Venezuela: Orinoco.

By SALLY ROBERTS

# Employers find EBIS industry eager to fulfill data needs

Lucille A. Gallagher, vp-risk manager for self-insured ConAgra Red Meat Cos./Monfort Inc., is looking for a new benefits information system and has narrowed her choice to two suppliers.

Ms. Gallagher wants a paperless system that is easy to use, and she wants to be able to allocate costs by location and by plan group within each location.

The system must be capable of integrating information from all of the meat-processing company's health maintenance organizations and preferred provider organizations across the country so the risk management department can analyze the data and write reports from one database.

Furthermore, Ms. Gallagher wants the data online within three to five minutes so she no longer has to rely on later and more costly reports from a third-party administrator.

The sooner it can determine where costs are coming from, the sooner the Greeley, Colo.-based company can negotiate plan changes with providers and implement prevention and wellness plans to reduce overall costs, Ms. Gallagher explained.

Though demanding, she is hardly alone. Software firms say companies today are looking for systems that will recognize multiple reimbursement schemes as well as produce data to help them reduce overall costs.

And, now that the national health

care reform debate is not holding up the benefits system marketplace, software firms say the EBIS market is once again booming.

"Interest came back in a big way in '94," said Ellen Lockwald, manager-market development at Resource Information Management Systems Inc., adding that it was the Naperville, Ill.-based company's best year ever.

"Employers want to take health care reform into their own hands, and they need the systems to do that," said Jose A. Lopez, vp-sales and marketing for FACTS Services Inc. in Coral Gables, Fla. "Employer groups are now trying to find systems to help them with managed care."

Other software companies say it is primarily third parties that are interested in the systems as employers keep moving toward outsourcing of benefits administration (see story, page 3).

"The trend is moving away from self-administration," contends Robin Lissak, managing director-information technology for Alexander Consulting Group Inc. in Lyndhurst, N.J.

"We see a lot of interest in benefit and compensation managers wanting to outsource."

Among companies that self-administer their benefit programs, de-

mands for data are driven in part by the shift toward managed care. Companies that deal with multiple managed care firms must learn to administer claims from plans that use varying reimbursement schemes—including capitation, fee-for-service and diagnostic related groups.

Not only do companies want systems that will recognize different health plans, they also want systems to quickly provide comparative information from the data to determine if health plans are truly cost-effective.

To do this most efficiently and most effectively, providers and payers must transfer data electronically rather than rely fully on paper claims.

The trend is "data, data, data," said Russell W. Sherlock, a senior vp who concentrates on selling, administering and designing managed care programs at Acordia Inc. in Indianapolis. The focus is on how to gain access to data and how to increase the amount they can access, he said.

Systems can analyze data on everything from average hospital length of stay to Caesarean section rates for health plans. Employers are attempting to assess different providers according to quality standards to

cut costs, Mr. Sherlock said.

"We found if (the system) doesn't decrease costs and increase quality, they are not interested in buying it," said Rob Noel, senior vp and chief marketing officer for Athena of North America Inc. of Minneapolis, which sells health care data software.

In addition to providing data, employers want systems that will enable them to monitor their health plans' compliance with accreditation programs like those developed by the National Committee for Quality Assurance (BI, Feb. 27).

"Employers are becoming more aggressive and are looking for systems to ensure the providers they are doing business with meet quality standards," according to Mr. Noel.

Benefits software companies say these systems can provide much more.

"There are a number of transactions and lots of capabilities available to employers once they are involved" with electronic data interchange, said Tony Bellomo, president of ERISCO Inc. And the benefits are just as numerous, including lower costs, improved efficiency, reduced errors and improved service, he said.

"All clients say they want paperless systems, voice response and on-

line transaction capabilities," said Dick Anderson, partner and chief information officer at Kwasha Lip-ton in Fort Lee, N.J.

However, those systems still must have built in assurances that patient medical records are kept confidential, he said.

For example, the elimination of paper needs to be supported by authority codes and voice-pattern identification, Mr. Anderson said.

Nonetheless, the paperless claims environment is becoming reality as providers send benefit claims electronically to payers.

Electronic claims are "starting to really hit the wires and are coming through (the systems) with serious volume," Mr. Bellomo said.

Employee benefit information systems today can scan claims by using optical character recognition, said Mr. Lopez of FACTS. Optical character recognition converts the visual character image to a digital format that can be edited. The system can translate data to a claims format, subtract pertinent fields from the forms, create a claim electronically and then adjudicate it, thereby minimizing the paper involved.

"There is always going to be some paper," Mr. Lopez said, but electronic data interchange speeds the process and makes systems more productive by reducing excess paper.

In addition to electronic claims administration, employers are also looking to EDI technology for other benefit needs, such as determining patient eligibility, referral tracking and physician pre-authorization, said Mr. Bellomo. **BI**

# Special accounts can add up to health care cost savings

## But medical savings accounts may not work for everyone

By JERRY GEISEL

Victoria Craig loves her medical savings account.

She has the freedom to choose any health care provider and can draw upon the \$1,000 that her employer, the Council for Affordable Health Insurance, adds to her MSA each year to pay uncovered medical expenses.

If funds remain in the MSA at the end of the year, employees like Ms. Craig can withdraw those amounts as taxable cash.

"I feel I got the very best care at a price I could afford. And I certainly relish the freedom of choice," said the 27-year-old research associate.

By contrast, she said the Council's former insurance plan, a preferred provider organization, offered a very limited network of providers with the added frustration of difficulties in scheduling appointments.

Ms. Craig also said she has benefited financially from the MSA program, which was launched in 1993, even though the plan has a \$1,000 deductible and a 20% copayment.

Ms. Craig incurred more than \$2,500 in medical claims in 1994. However, because of funds left over from the previous year, she said more than \$400—before taxes—remained in her MSA at the end of last year. She estimates she would have paid more than \$600 in out-of-pocket costs for the same services under the PPO.

Ms. Craig isn't the only one pleased. The Council, an Alexandria, Va.-based trade group of small and medium-size insurers that is promoting MSAs, has seen its health insurance costs—including premiums and contributions to MSAs—remain virtually flat since it adopted the MSA in 1993.

"There is a myth that the only way you can save money is through

managed care," said Greg Scandlen, the Council's executive director.

Other employees and employers are satisfied with their MSA-type programs as well.

For example, at Golden Rule Insurance Co., a health insurer in Indianapolis, employees who participate in its MSA program and receive single coverage had an average of \$704 left in their accounts last year, while those with family coverage received an average of \$1,066. Golden Rule contributes \$1,000 to the accounts annually for employees with individual coverage and \$2,000 annually for those with family coverage. The company's insurance policy pays 100% of medical expenses over \$2,000 for those with individual coverage and \$3,000 for those with family coverage.

Golden Rule employees can opt to roll over unused MSA contributions into an annuity, which currently pays 7% interest.

Departing employees can use MSA balances to cover COBRA insurance premiums.

"There is immense employee satisfaction," said Golden Rule's chairman, J. Patrick Rooney, noting that the company's insurance costs have remained flat since the MSA program was launched in May 1993.

But not everyone has such positive feelings about MSAs.

Jack Burry, chairman and chief executive officer of Blue Cross & Blue Shield of Ohio in Cleveland, says MSAs threaten to turn health insurance into a "dog-eat-dog" market.

Massive adverse selection would result, Mr. Burry and other MSA critics argue, with young, healthier individuals who don't anticipate medical claims choosing MSAs, and older, sicker individuals scrambling to find coverage.

"How long can such a program last?" Mr. Burry asked.

The controversy over MSAs would be of little consequence except for one key factor: several Republican congressional leaders—including House Ways and Means Chairman Bill Archer, R-Texas, Senate Finance Committee Chairman Bob Packwood, R-Ore., and Senate Majority Leader Bob Dole, R-Kan.—all support the concept.

Given that high-level support, lobbyists and consultants say there is an excellent chance that Congress will pass legislation this session giving new tax breaks to MSAs and increasing their appeal.

"We think the chances of enactment are very good," said Dan Perrin, executive director of The Business Coalition for Affordable Health Care, a Washington-based lobbying group composed primarily of trade associations representing smaller employers.

"The new Congress is very sympathetic to MSAs," agreed Frank McArdle, a consultant in the Washington office of Hewitt Associates L.L.C.

Observers expect Rep. Archer to introduce MSA legislation after the House of Representatives completes action on the GOP's "Contract with America."

While the details of the Archer bill still are being worked out, it is expected to include a provision that would allow employers to contribute several thousand dollars a year to employees' MSAs. Employees would not be taxed on those contributions as long as the funds were used to pay for medical care expenses. Amounts taken out for certain non-medical purposes would be subject to a small excise tax.

Unlike flexible spending accounts, in which unused contributions must be forfeited at the end of the year, unused MSA contribu-

tions could be rolled over to pay for future medical expenses.

Details that still need to be ironed out, lobbyists say, include whether taxes would be levied on account balances.

Even without favorable tax legislation, employer interest in MSA-type programs is growing, consultants say.

"More employers are saying, 'Maybe this is something we should look at,'" said Tom Kuhlman, a principal with Towers Perrin in Chicago.

The MSA concept has its roots in studies conducted in the late 1970s by The Rand Corp. Those studies found that individuals with low cost-sharing requirements were more likely to use medical services during the year than those with higher deductibles and coinsurance.

A basic economic principle is that "when a commodity is free it will be used more than when it is not," said Guy King, former chief actuary with the Health Care Financing Administration and now national director of government insurance programs at Ernst & Young L.L.P. in Washington.

A high-deductible plan—coupled with an MSA feature that allows employees to take as cash any remaining amounts in the accounts—would be a powerful incentive for individuals to use medical care services more carefully, MSA advocates say.

Indeed, Ms. Craig of the Council for Affordable Health Insurance says directly paying for medical services has made her a more careful consumer of medical care.

She recalls painstakingly examining a medical bill and then confronting a billing clerk to demand that \$290 in charges for a test that was not medically necessary be removed. The charge was removed.

If insurance—rather than funds from her MSA—had covered the tests, Ms. Craig doubts she would

have paid much attention to the bill.

"With a high-deductible plan, I didn't want to pay any more than was necessary. With a (low-deductible) insurance plan, I wouldn't have cared," she said.

MSA critics, though, question how many people, like Ms. Craig, have the expertise to question medical bills.

"How good a shopper will the 83-year-old be? You take insurance buying away from professionals and instead it is everyone for himself and herself," said Mr. Burry of BC/BS of Ohio.

Critics also say that MSA programs don't address the biggest component of health care expenses, such as hospital bills totaling hundreds of thousands of dollars for premature babies.

They say it is impossible to give employees freedom of choice and an MSA program and expect that employees themselves can hold down the cost of big-ticket expenses as well as managed care programs can.

"Can individuals buy as well as professionals? I doubt it," Mr. Burry said.

Regardless of the pros and cons of MSAs, actuaries say they have to be carefully designed to ensure that they save—rather than cost—employers money.

For example, if an employer contributed to employees' MSAs the difference in premium costs between a low-deductible indemnity plan and a high-deductible MSA plan, the employer's costs could increase.

That is because employees who rarely use medical services and have below-average health costs would receive cash.

Meanwhile, the employer could face the same medical costs for other employees. "If you give away the full difference, an MSA is not going to be a cost-saver," said Dale Yamamoto, a Hewitt consultant in Lincolnshire, Ill. **BI**

# Directory of benefit information and claims systems

A

## Alexander & Alexander Consulting Group Inc.

125 Chubb Ave., Lyndhurst, N.J. 07071; 201-460-6600; fax: 201-460-6677

**Benefit systems since:** 1970.

**Parent:** Alexander & Alexander Services Inc.

**Software products:**

■ ABACUS.

**Price:** Starts at \$50,000.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows\* platform.

**Online, customized system.**

**First Installation:** 1990.

**Total Installations:** 16; 15 in employee benefit departments.

**Benefits managed:** Retirement/pensions, social security benefits.

**Features:** Calculates future retirement income, including optional forms of payment to employees; generates election forms; provides customized communications and annual pension statements; determines accrued benefits and cashout values for terminated employees. Options include employee communication voice response system and Retirement Benefit Tracking module that stores retiree medical and life insurance dates, calculates insurance premiums and generates information needed to generate pension checks.

\* Windows version available 7/95.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance 10 hours per day.

\* Included in system price.

**Staff:** 2,008 total, 150 professionals.

**Officers:** Donald L. Seeley, president/CEO-The Alexander Consulting Group

Inc. (worldwide); Neil A. Burger, chairman/CEO-Alexander & Alexander Consulting Group Inc.; John L. Goodyear, chairman/CEO-Alexander & Alexander Benefits Services Inc.; Brian E. Kennedy, chairman/CEO-Alexander Clay & Partners (U.K. and Europe); Robert Braun, chairman/CEO-The Alexander Consulting Group Ltd. (Canada); Robert K. Burden, executive vp-The Alexander Consulting Group Inc.

**Contact:** J. Kevin Dew, 404-264-3277.

## Ampro Data Systems Inc.

155 Franklin Road, Suite 250, Brentwood, Tenn. 37027; 615-377-2020; fax: 615-377-2030

**Benefit systems since:** 1978.

**Parent:** American Progressive Corp.

**Software products:**

■ OmniClaims.

**Price:** \$27,600 to \$42,500.

**System requirements:** PC with 8MB RAM; single user or LAN; FCO UNIX platform.

**Online or client based system.**

**First Installation:** 1992.

**Total Installations:** 16, all in employee benefit departments.

**Benefits managed:** Flexible benefits, disability, COBRA, group health plans.

**Features:** Eligibility verification, claims management, reinsurance liability tracking, disability duration monitoring, standard and ad hoc report generation, UCR control, supports multiple plans and fund accounting.

**User support:** User groups/meetings, onsite training\*, telephone assistance 10 hours per day\*, direct logon via modem\*.

\* Included in system price.

**Staff:** Five total, three professionals.

**Clients:** 16 total, all benefit departments.

**Sold systems to 16 clients in 1994.**

**Officers:** Ernie Clevenger, president; H.

Guinn Nixon, vp; Tommy Zumbro, treasurer.

**Contact:** H. Guinn Nixon.

## Apex Data Systems Inc.

6464 E. Grant Road, Tucson, Ariz. 85715; 602-298-1991; fax: 602-296-7948

**Benefit systems since:** 1974.

**Software products:**

■ CHIPS: Consolidated Health Insurance Payment System.

**Price:** \$10,000 to \$75,000.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**

**First Installation:** 1977 (mainframe), 1988 (PC).

**Total Installations:** 75; 14 in employee benefit departments.

**Benefits managed:** Disability; COBRA; group health plans, including dental, vision, prescription drug and long-term care; life insurance.

**Features:** Consolidated administration and claims adjudication for numerous plan types, including flex, cafeteria and dual and triple option PPO; provides enrollment; eligibility verification; precertification; claims management; utilization review; reinsurance monitoring; stop-loss reporting; correspondence; free-form notes, user query and reporting features. Options include ad hoc report writer, imaging, EDI and claims edit bundling/unbundling modules.

■ COGNAC\*PLUS: Administration & Claims System.

**Price:** \$20,000 to \$100,000.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**

**First Installation:** 1977 (mainframe), 1988 (PC).

**Total Installations:** 75; 14 in employee benefit departments.

**Benefits managed:** Disability; group health plans, including dental, vision, prescription drug and long-term care.

**Features:** Consolidated administration and claims adjudication for numerous plan types, including flex, cafeteria and dual and triple option PPO; provides enrollment; underwriting; multi-function billing; premium collection and premium accounting; eligibility verification; certificate issue; precertification; utilization review; claims management; dental pre-estimates; disability repetitive payments; reinsurance monitoring; stop-loss reporting; provider contract management; online UCR, ICD and CPT coding; fund accounting; check issuance; 1099 generation; free-form notes, user query, reporting and claims analysis features. Options include ad hoc report writer, imaging, EDI and claims edit bundling/unbundling modules.

**User support:** User groups/meetings\*, onsite training, telephone assistance\*, enhancement releases, personalized modifications, system documentation, conversion support, claims processing staff, PPO consultation, TPA services.

\* Included in system price.

**Staff:** 16 total, 10 professionals.

**Clients:** 40 total, including 12 benefit departments. Sold systems to two clients in 1994.

**Officers:** Dwight W. Babcock, president.

**Contact:** Cynthia Stewart, director-marketing.

## Aspetuck Systems Inc.

1 Selleck St., Norwalk, Conn. 06855; 203-852-9100; fax: 203-855-0111

**Benefit systems since:** 1990.

**Software products:**

■ PERFECT Defined Contribution Manager.

**Price:** \$1,295 to \$4,995.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS platform.

**Customized system.**

**First Installation:** 1990.

**Total Installations:** 150.

**Benefits managed:** 401(k) plans, profit sharing, retirement/pensions (defined contribution only).

**Features:** Allows up to 99 contribution accounts and 999 investment accounts, immediate or deferred matching, customized vesting schedules, balances in dollars and/or shares, loan tracking, 5500 worksheet, non-discrimination testing, report writer, word processor,

Continued on next page

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Continued from previous page  
generates several different employee statements. Options include an import/export function.

**User support:** Onsite training, telephone assistance nine hours per day.

**Staff:** Nine total, seven professionals.

**Clients:** 150 total.

**Officers:** Michael Gabriele, president; Stephen Schwartz, vp; David Winkworth, vp-sales.

**Contact:** David Winkworth.

### Associated Systems Inc.

1425 N. Broadway, Wichita, Kan. 67214; 316-263-1035; fax: 316-263-0961

**Benefit systems since:** 1991.

**Software products:**

■ "Complete" Health Benefit Administration for Medical Claims.

**Price:** \$25,000 to \$60,000.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS platform.

**Customization optional.**

**First Installation:** 1990.

**Total Installations:** Eight; one employee benefit department.

**Benefits managed:** Disability, COBRA, group health plans, retirement/pensions.

**Features:** Eligibility verification, precertification and claims adjudication for medical, dental, vision, prescription and disability benefits; PPO management; COBRA tracking; coordination of benefits; reinsurance tracking and reporting; loading of ICD-9, CPT and UCR medical codes; provides automatic bank reconciliation; EDI with automatic claims adjudication; laser checks with logo, signature and bank MICR coding; billing and administration, including retirement billing, com-

missions and general accounting. Options include interfaces for other benefit systems for managed care, flexible benefits and workers compensation benefits. Medicode claims edit system available.

**User support:** User groups/meetings, onsite training\*, telephone assistance nine hours per day, modem support.

\* Included in system price.

**Staff:** Ten total, five professionals.

**Clients:** Eight total. Sold systems to four clients in 1994.

**1994 revenues:** \$390,000 total. \$145,000 from employee benefit information systems sales and services, 100% from software sales.

**Officers:** Francis I. Smith, president.

**Contact:** Sharon K. Steele.

B

### Basys Inc.

849 International Drive, Suite 350, Linthicum, Md. 21090; 410-850-4900; fax: 410-850-0494

**Benefit systems since:** 1977.

**Software products:**

■ Employee Benefit Plan Administration Software.

**System requirements:** PC LAN or mainframe with UNIX server.

**Customization optional.**

**First Installation:** 1977.

**Total Installations:** 60, all in employee benefit departments.

**Benefits managed:** Flexible benefits, disability, COBRA, group health plans, retirement/pensions.

**Features:** Provides enrollment, eligibility verification, claims adjudication and management, accounting, ad hoc reporting, multiemployer fund administration. Options include Medicode claims edit, imaging and employee access to eligibility and payment status information via telephone.

**User support:** User groups/meetings, onsite training, telephone assistance 8½ hours per day, project management, consulting services.

\* Included in system price.

Continued on next page

## Systems directory explanations

The directory of employee benefit information systems lists companies that produce and supply proprietary software products to employee benefit personnel in response to their information management needs.

Companies that produce and supply software products used primarily to communicate benefit programs to employees will be listed in a separate directory that will be published in the Nov. 20 issue of *BI*.

Listings begin with the year the company began offering employee benefit information system products and the parent company, if any.

Information on software products follows. Software can be purchased without hardware unless noted.

Software descriptions include the average completely installed price; the system requirements, listing the type of hardware required by the client to run or access the system, including type of computer, memory required and operating platform; whether the system is an on-line system that is based at a vendor site and accessed via a remote terminal or PCs at the client site; and whether the system requires or provides customization to user specifications. Included also is the year of the product's first installation, the total number of installations to date, and the number of installations to date in corporate employee benefit departments.

Next a list of benefits managed by the system are provided. The product's features provide a brief description of standard functions performed by the system, employee communication features and optional modules or functions that can be added to the system.

Information on the company overall follows the product listings.

This section includes user support offered and whether it is included in the system price and staff figures, given in full-time equivalents for year-end 1994.

Also provided is the total number of employee benefit information system clients in 1994, including the number of corporate benefit department clients (both sales and service) and the number of clients which bought systems in 1994.

1994 revenues are next. This section specifies the organization's total revenues; revenues from employee benefit information systems sales and service; and a percentage breakout of the employee benefit information system revenue between sales of hardware, software and services. Names and titles of principal officers and a contact person complete the listings.

The directory is published as an editorial service; there is no charge for companies to be included. However, to be listed companies were required to complete a questionnaire provided by *Business Insurance*.

Although every effort is made to publish complete and accurate information, *Business Insurance* is unable to verify all the data supplied by vendors.



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**Spotlight report**

*Continued from previous page*

**Staff:** 34 total, 29 professionals.  
**Clients:** 298 total, including 130 benefit departments. Sold systems to 12 clients in 1994.  
**Officers:** Michael E. Davis, president.  
**Contact:** Thomas F. Dowling.

**Benefit Concepts Systems**

10 Risho Ave., East Providence, R.I. 02914-1287; 401-438-7100; fax: 401-438-5420

**Benefit systems since:** 1986.

**Software products:**

■ **Benefit Continuation Management System.**

**Price\*:** \$6,495 to \$6,595.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 400; 350 in employee benefit departments.

**Benefits managed:** COBRA.

**Features:** Generation of required letters and notices, carrier reports and ad hoc reports; produces billing coupons and invoices; maintains complete audit trail; provides eligibility verification. Employee benefit communication features available through optional add-on modules.

*\* Prices stated are for client owned and operated systems. Access to system is also available via on-line connection with vendor.*

■ **Flexible Benefit Management System.**

**Price\*:** \$7,495 to \$13,995.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 100; 75 in employee benefit departments.

**Benefits managed:** Flexible benefits.

**Features:** Supports all types of flexible benefit plans, including cafeteria plans; provides enrollment, eligibility verification, vendor reporting and billing, FSA claims administration, ad hoc report generation. Employee benefit communication features available through optional add-on modules.

*\* Prices stated are for client owned and operated systems. Access to system is also available via on-line connection with vendor.*

■ **Reimbursement Account Management System.**

**Price\*:** \$2,495 to \$6,495.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 125; 85 in employee benefit departments.

**Benefits managed:** Flexible benefits.

**Features:** Supports medical and dependent care flexible benefit plans; provides enrollment, eligibility verification, FSA claims administration, check processing, non-discrimination testing. Employee benefit communication features available through optional add-on modules.

*\* Prices stated are for client owned and operated systems. Access to system is also available via on-line connection with vendor.*

**User support:** Onsite training\*, telephone assistance 8.5 hours per day\*.

*\* Included in system price.*

**Staff:** 14 total, four professionals.

**Officers:** John W. Hoder, Frank J. Hoder.

**Contact:** John W. Hoder.

**Benefit Plan Systems Corp.**

15 Technology, Suite 161, Irvine, Calif. 92718; 800-523-8047; fax: 714-753-0845

**Benefit systems since:** 1986

**Software products:**

■ **COBRA EAS.**

**Price:** \$2,000 to \$10,000.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**First Installation:** 1986.

**Benefits managed:** COBRA.

**Features:** COBRA administration system that automatically performs all required functions, from notification through conversion; handles numerous plans and rates; provides user customized features, including all system codes, correspondence and creation of new fields; user support via tutorial, online help and illustrated reference manual; offers complete compliance audit trail. Available in employer or TPA versions. Optional bar code reader allows rapid entry of payments.

■ **GIBS.**

**Price:** \$2,000 to \$10,000.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**First Installation:** 1986.

**Benefits managed:** Leave of absence, retirement/pensions.

**Features:** Group insurance billing system for retiree, leave of absence, family medical leave and other non-COBRA continuing coverage; handles any benefit or rate, including rates based upon changing variables such as length of service; user customizable functions include special fields, eligible time frames, system codes, reports and cor-

respondence; tutorial and illustrated guides; online help. Available in employer or TPA versions. Optional bar code reader allows rapid entry of payments.

**User support:** Onsite training, telephone assistance eight hours per day.

**Staff:** 17 total, 13 professionals.

**1994 revenues:** Employee benefit information systems revenue: 90% from software sales, 10% from software services.

**Officers:** Leonard B. Wierzba, president; C.R. Jarl, vp; G. Schuessler, corporate secretary.

**Contact:** Leonard B. Wierzba.

**Benefit Resource Management Inc.**

530 Howell Road, Suite 107, Greenville, S.C. 29615-2000; 803-268-4955; fax: 803-268-5018

**Benefit systems since:** 1991.

**Software products:**

■ **DOCS (Disability Operational Control System).**

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or OS/2 platform.

**Customization optional.**

**First Installation:** 1992.

**Total Installations:** Five; four in employee benefit departments.

**Benefits managed:** Disability, leave of absence, life insurance.

**Features:** Reinsurance liability tracking; certificate level information; policy plan design; claims management, loss detail reports and history; offset management; automatic calculations; flex benefit plan support; online benefit history; profile alerts; coverage edits; statutory warnings; medical tracking; rehabilitation tracking; investigation tracking; payment generation; diary; direct deposit capabilities; custom report writer; instant ad hoc reports; query by example, pre-programmed reports for claim detail, tax detail, benefit detail, reserves, benefit offsets, management information and paid and incurred claims; disability duration monitoring and control; form letter generation; user maintainable tables. Standard and optional employee benefit communication features include explanation of benefits, pre-programmed messages for Social Security scenarios, claims statements, claims payment information. Optional free-form text and letter writing interface available. Interfaces with DOCS-LTD, DOCS-STD, DOCS-LIFE, DOCSTRX and ENTER-DOCS systems.

■ **DOC-LIFE.**

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or OS/2 platform.

**Customized system.**

**First Installation:** 1995.

**Benefits managed:** Disability, life insurance.

**Features:** Manages group life claims. Features include policy, coverage and class management, eligibility verification, waiver management, claims management, benefit generation, accelerated benefit management, risk and administrative controls, ad hoc report writing, query by example, report scheduler, user modifiable tables, reserve and reinsurance management module.

■ **DOCS-LTD.**

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or OS/2 platform.

**Customization optional.**

**First Installation:** 1991.

**Total Installations:** Six; two in employee benefit departments.

**Benefits managed:** Long-term disability, life insurance.

**Features:** Long-term disability benefits system, including policy coverage and class management; eligibility verification; claims management; benefit calculations; risk and duration controls; administrative and statutory controls; graphic analysis; ad hoc report writing; query by example; report scheduler; user modifiable tables; reserve management and reinsurance management. System includes standard and optional employee benefit communication features.

■ **DOCS-STD.**

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or OS/2 platform.

**Customization optional.**

**First Installation:** 1991.

**Total Installations:** Six; two in employee benefit departments.

**Benefits managed:** Disability, life insurance.

**Features:** Short-term disability policy, coverage and class management; eligi-

bility verification; claims management; benefit calculations; risk controls and duration guidelines; activities tracking; diary management; administrative and statutory alerts; ad hoc reports; graphic analysis; query by example; report scheduler; user modifiable tables; comprehensive security.

■ **DOCSTRX.**

**System requirements:** PC with 4MB RAM; single user or LAN; DOS or OS/2 platform.

**Customized system.**

**First Installation:** 1993.

**Total Installations:** One, in an employee benefit department.

**Benefits managed:** Disability.

**Features:** Employee sick pay policy plan management, eligibility verification, claims management, duration guidelines, tracking of medical disability status, form letter generation, activities diary manager, standard and ad hoc report writer, query by example, claim administrative alerts and warnings, user maintainable tables, online user guide, security access and menu system. System includes standard and optional employee benefit communication features.

■ **ENTER-DOCS (Enterprise Disability Operational Control System)**

**System requirements:** IBM compatible PCs with 8MB RAM; client/server system; DOS, Windows or OS/2 platform.

**Customized system.**

**First Installation:** 1995.

**Benefits managed:** Workers comp, disability, life insurance, retirement/pensions.

**Features:** Policy, coverage and class management; eligibility verification; claims management; offset management; auto benefit calculations; flex benefit plan support; 24 hour coverage; short- and long-term disability integration; online history and audit trail; explanation of benefits and communications manager; direct deposit; custom report writer; instant ad hoc reports and query-by-example; output scheduler; comprehensive security system; reserves and reinsurance management modules; administrative and case management controls; activities management for investigations; rehabilitation, Social Security and medical duration guidelines. System includes standard and optional employee benefit communication features.

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

*\* Included in system price, excluding DOCS.*

**Staff:** Five total, four professionals.

**Clients:** Six total, including three benefit departments. Sold systems to two clients in 1994.

**Officers:** Theodore W. Mahler, president; David Sowinski, treasurer; Jay R. Inglis, secretary.

**Contact:** Ted Mahler.

**Benefit Systems & Services Inc.**

760 Pasquinelli Drive, Suite 320, Westmont, Ill. 60559; 708-789-2082; fax: 708-789-2093

**Benefit systems since:** 1984.

**Software products:**

■ **DATA-PLUS Administration System.**

**System requirements:** IBM AS/400 mainframe.

**Customization optional.**

**First Installation:** 1985.

**Total Installations:** 10; three in employee benefit departments.

**Benefits managed:** Flexible benefits, workers comp, COBRA, group health plans.

**Features:** Provides benefit calculations; supports contract and pricing arrangements; provides administration form enrollment through payment and reporting; includes word processing; auto follow-up; online note book. Options include a front-end graphical user interface and EDI interface.

**User support:** Onsite training, telephone assistance 12 hours per day.

**Staff:** 55 total, six professionals.

**Clients:** 10 total, including three benefit departments. Sold systems to two clients in 1994.

**1994 revenues:** \$6.5 million total.  
**Officers:** David Lloyd, president; Carmen James Morreale, executive vp; Roy Wapiennik, vp.

**Contact:** Carmen James Morreale.

**BeneSoft Inc.**

P.O. Box 3530, Bethany, Conn. 06524; 203-393-0320; fax: 203-393-0325

**Software products:**

■ **Flexible Software.**

*Continued on next page*

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Continued from previous page

**Price:** Leased.  
**System requirements:** IBM compatible PC, DOS or Windows platform.  
**Customized system.**  
**First Installation:** 1987.  
**Total Installations:** 100.  
**Benefits managed:** Flexible benefits, group health plans.  
**Features:** Administration and management of flexible benefits, flexible spending accounts and traditional benefits; performs administration, analysis. Provides employee communications via enrollment forms, benefit statements and confirmation statements. Options include voice response system; accounts receivable program.

**User support:** User groups/meetings, on-site training\*, telephone assistance 12 hours per day\*.  
 \* Included in system price.

**Staff:** 20 total, 15 professionals.  
**Officers:** Faisal Saleh, president; Steven Froebel, vp.  
**Contact:** Faisal Saleh.

#### BLAZE SSI Corp.

P.O. Box 333, Brielle, N.J. 08730;  
 908-223-5575; fax: 908-223-6683

**Benefit systems since:** 1980.

**Software products:**

■ **Benefits Administration System.**  
**Price:** \$20,000.  
**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or Windows platform.  
**Customization optional.**  
**First Installation:** 1993.

■ **Benefits managed:** Profit sharing, life insurance, retirement/pensions.

**Features:** Contribution, loan and pension history and maintenance; loan application feature with payment schedule; automatic calculation of contributions and loan repayments; 1099R reporting; online help documentation. Optional modules offer employee retirement plan distribution counseling, actuarial functions, forms preparation, data transfers and non-discrimination testing.

■ **DISTRIBUTION PLANNER System.**  
**Price:** \$500.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1985.

■ **Features:** Illustrates the potential income and tax (income, excise and estate) consequences of employees' retirement benefit distribution option selections, includes IRS Minimum Distributions Report specifying the minimum mandatory distribution amount for individuals who have reached age 70½. Provides easy to understand hard copy report of what-if scenarios to employees. Optional modules include benefits administration, plan valuation/record keeping, employee statements and compliance testing.

■ **EAS106.**  
**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1995.

■ **Features:** Produces reports detailing FAS106 liabilities for sponsors of insured post-retirement medical benefit plans.

■ **EBP/DB Valuation System.**  
**Price:** \$10,000.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1980.

■ **Features:** ELG verification, benefit calculation, cost-of-retirement and ancillary benefits and actuarial calculations. Fixed format and ad hoc reports illustrate current and retirement date benefit levels, percent vested and other data on both the plan level and participant level. Optional modules offer employee retirement plan distribution counseling, forms preparation, data transfers, non-discrimination testing and benefits administration.

■ **EBP/DC/401(k) Valuation System.**  
**Price:** \$10,000 (license fee).

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1980.

■ **Features:** Automated administration of

DC and 401(k) retirement plans; provides 401(k) processing; calculates and allocates employer discretionary and matching contributions; tracks/identifies eligibility, vesting, forfeiture and top heavy; complies with regulations; generates ad hoc and standard reports; links with fund managers. Communicates benefits to employees via standard and custom reports. Optional modules provide non-discrimination testing, benefits administration, government forms generation and distribution planning.

■ **GOVFORMS.**

**Price:** \$500.  
**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1985.

■ **Features:** Generation of IRS approved facsimiles of Series 5500, 5300 and PBGC forms and associated schedules and summary annual reports; prints blank or completed forms for both current and prior year; allows for electronic import of data for forms from BLAZE SSI and other systems. Forms generated include: IRS 5500, C/R, EZ and Schedules (A, B, C, F, P and SSA); 5558; PBGC form 1, 1-ES, Form 1 and Schedule A; summary annual reports for 5500 and 5500 C/R; ERISA edit test; IRS 5300, 5307, 8717, 5310, 6088, 1099R and 1096 forms. Options modules offer employee retirement plan distribution counseling, actuarial functions, forms preparation, data transfers, non-discrimination testing and benefits administration.

■ **PENDEASII-401(k).**

**Price:** \$500.  
**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1990.

■ **Features:** Enrolls employees in existing 401(k) retirement plan; supports employee deferral, employee match and profit sharing plans; automatically checks IRC415 and IRC401(k) deferral limitations; provides client-ready reports. Communicates benefits to employees by providing what-if scenarios, including plan advantages for user-selected range of deferrals; compares 401(k) to personal savings; illustrates tax savings with user-selected tax rates and performs retirement-age account projections. Provides personalized hard copy reports specifying tax benefits of various referral rates to employees. Options modules offer employee retirement plan distribution counseling, actuarial functions, forms preparation, data transfers, non-discrimination testing and benefits administration.

■ **Regulatory Testing System.**

**Price:** \$2,500.  
**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1990.

■ **Features:** IRS non-discrimination and qualification, highly compensated status determination, participation tests, coverage tests, automatic correction of failed tests, comprehensive formatted reports, electronic or manual data entry. Optional modules offer employee retirement plan distribution counseling, actuarial functions, forms preparation, data transfers, valuation and administration of qualified plans and benefits administration.

■ **Tax-Sheltered Annuity System.**

**Price:** \$2,500 (license fee).  
**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.

**Customization optional.**  
**First Installation:** 1992.

■ **Features:** Calculates exclusion allowances and projects accumulated funds at retirement for contributors, compares tax advantages against other forms of savings, calculates limitations on employees and employee contributions. Produces employee reports to illustrate the exclusion allowance, current and anticipated fund values; includes explanation of plan provisions. Optional modules available for non-discrimination testing.

**User support:** User groups/meetings\*, onsite training; telephone assistance eight hours per day\*; assistance via mail, fax and modem\*.  
 \* Included in system price.

**Staff:** 20 total, 10 professionals.  
**Officers:** Janice Vittes, president/CEO;

Joseph Blaze, executive vp-technical services; Elizabeth Masto, executive vp-operations; James Carlson, vp-technical services; Gordon Megibow, chief actuary.

**Contact:** Carol Malone.

#### Buck Consultants Inc.

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

**Benefit systems since:** 1970.

**Software products:**

■ **BASIS.**  
**System requirements:** IBM compatible PC; LAN; Windows platform.

**Customized system.**  
**First Installation:** 1993.  
**Total Installations:** Six.

■ **Features:** Windows-based system that performs record keeping tasks required to administer defined contribution plans. Includes complete valuation processing, report capabilities. Standard features and optional add-on modules provides benefit communication to employees via terminals, phone and service center. Options include a report writer.

■ **BASK (Buck Actuarial Systems Kit).**  
**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; Windows platform.

**Customization optional.**  
**First Installation:** 1970.

■ **Features:** Actuarial valuations, actuarial valuation of pensions and other post-employment benefits; cashflow projections; gain and loss analysis; plan mergers and spinoffs; allows for up to 20 age-specific decrements, age and/or service related salary increases; provides census data management features.

■ **BITS (Buck Inquiry & Transaction System).**  
**System requirements:** IBM compatible PC with 512K RAM; single user or LAN; DOS platform.

**Customized system.**  
**First Installation:** 1991.  
**Total Installations:** 50; 22 in employee benefit departments.

■ **Features:** Interface to Buck's mainframe defined contribution valuation system. Provides data from the most recent valuation on customized screens; accepts requests for transactions to be processed in the next valuation; consolidates various data functions through the use of customized and third-party software. Optional modules provide custom letters that merge data with word processing documents, links to electronic mail, estimation of fund transfers and interfaces for benefit and payroll systems.

■ **Buck BENCAL PC.**  
**System requirements:** IBM compatible PC with 1MB RAM (DOS version); single user or LAN; DOS or Windows platform.

**Customized system.**  
**First Installation:** 1986.  
**Total Installations:** 100; 70 in employee benefit departments.

■ **Features:** Maintains all required participant data; allows data editing and reporting; provides communication to trustees and management; generates management reports and prepares employee benefit statements. Communicates with employees by providing information on benefits, eligibility and Social Security; assists in pre-retirement counseling and projects the results of what-if scenarios. Communicate to employees via terminals, phone and service center. Optional modules provide interfaces to various payroll and human resource systems.

■ **Buck-Benefit Information Management System.**  
**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or Windows platform.

**Online system; customization optional.**  
**First Installation:** 1988.  
**Total Installations:** 30, all in employee benefit departments.

■ **Features:** Supports enrollment; eligibility verification for health, dental and vision plans; hospital precertification; claims management; utilization review; allows for notes and diary for medical case management; tracks reinsurance for specific and aggregate liability; health care provider contract management; PPO information; ad hoc data analysis for cost management; change of benefits analysis; outcomes analysis; billing; COBRA administration.

■ **RecordKeeping Plus.**  
**System requirements:** IBM compatible PC with 4MB RAM; DOS or Windows platform.

**Online, customized system.**  
**First Installation:** 1987.  
**Total Installations:** 34; 27 in employee benefit departments.

■ **Benefits managed:** 401(k) plans, profit sharing, retirement/pensions.

■ **Features:** Administration of all types of defined contribution and defined benefit plans, including online data entry and modification of account balances, loan balances and requests, investment elections, pending voice transfers, distributions and withdrawals; ability to integrate with voice or service center; pre-retirement and financial planning; generates management reports and participant statements; provides balance projections and what-if calculations. Standard features and optional add-on modules provide benefit communication to employees via terminals, phone and service center. Options include windows-type graphical user interface for client/server processing.

**User support:** Telephone assistance, project and implementation support.  
**Staff:** 1,500 total; 1,100 professionals.  
**1994 revenues:** \$175 million total.

**Officers:** William E. Giegerich, president/CEO; Joseph A. LoCicero, secretary.  
**Contact:** Carolee P. Martin, 201-902-2524.

tests for non-discrimination in flexible plans; interfaces with payroll and insurance systems; generates ad hoc reports and data analysis. Accommodates multiple benefit options, including variations by division or operating unit and provides tracking by election and by type of money used. Provides enrollment from production and election confirmation statements. Optional modules available for benefit statement and telephone enrollment/inquiry.

■ **GENIRIS, Integrated Risk Information System.**  
**System requirements:** UNIX/AIX.  
**Customization optional.**  
**First Installation:** 1977.  
**Total Installations:** 358; 280 in employee benefit departments.

■ **Benefits managed:** Workers comp, disability, COBRA, group health plans.

■ **Features:** Claims administration system to manage workers compensation and group medical risks; accepts data from multiple sources and builds loss triangles using any combination of organization levels, lines of coverage an payment reserve categories; interfaces with other industry programs for actuarial analysis. Optional modules available for bill review, loss forecasting, bill audit, permanent disability rating, PPO network information, billing, ICD9 to DRG conversion.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance 10 hours per day\*.  
 \* Included in system price.

**Staff:** 32 total, 28 professionals.  
**Clients:** 252 total, including 95 benefit departments. Sold systems to 20 clients in 1994.

**1994 revenues:** Employee benefit information systems sales and services revenue: 5% from hardware sales, 50% from software sales, 45% from software services.

**Officers:** Jerry C. Buckley, president; Ralph M. Flygare, Eric Hoffberg, vps; Nora Kenner, assistant vp.  
**Contact:** Jerry Buckley.

■ **MQMS Plus.**  
**Price:** \$12,500 to \$33,000.  
**System requirements:** IBM compatible PC with 550K RAM; single user, LAN and laptop versions; DOS or Windows platform.

**Online system, customization optional.**  
**First Installation:** 1991.  
**Total Installations:** 200.

■ **Features:** Tracking and analysis of any type of benefit; customizable screens, fields and forms; ad hoc custom reports library; matrix reports; period-to-period comparison reports with variance analysis; integrated graphics are compatible with numerous application programs; custom reporting and trending; pre-programmed ability allows users to add modules or modify existing modules without programming. Optional modules include Riskmap Loss Development, Riskmap Risk Financing, Riskmap Loss Forecasting. Riskmap products can run independently or can be integrated with one another and MQMS Plus.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance nine hours per day\*.  
 \* First year included in system price.

**Staff:** 35 total, 31 professionals.  
**Clients:** 10 total, including four benefit departments. Sold systems to three clients in 1994.

**Officers:** Bill Byrne, president; Mark Cutler, Bob Cook, vps.  
**Contact:** Mark Cutler.

■ **Health Claims System.**  
**Price:** \$6,500 to \$18,500.  
**System requirements:** IBM compatible PC with 580K to 680K RAM; single user or LAN; DOS platform.

**Customization optional.**  
**First Installation:** 1987.  
**Total Installations:** 12; five in employee benefit departments.

■ **Features:** Processing and payment of medical, dental and disability claims. Produces explanation of benefits after each claim paid.

**User support:** Onsite training, telephone assistance nine hours per day\*.  
 \* First year included in system price.

**Staff:** 35 total, 31 professionals.  
**Clients:** 10 total, including four benefit departments. Sold systems to three clients in 1994.

**Officers:** Bill Byrne, president; Mark Cutler, Bob Cook, vps.  
**Contact:** Mark Cutler.

■ **California Interactive Computing Inc.**  
 25572 Ave. Stanford, Valencia, Calif. 91355-1102; 805-294-1300; fax: 805-294-1310

**Benefit systems since:** 1979.  
**Software products:**

■ **GENMED.**  
**System requirements:** UNIX/AIX.  
**Customization optional.**  
**First Installation:** 1979.

■ **Benefits managed:** Workers comp, COBRA, group health plans.

■ **Features:** Supports enrollment; eligibility verification for health, dental and vision plans; hospital precertification; claims management; utilization review; allows for notes and diary for medical case management; tracks reinsurance for specific and aggregate liability; health care provider contract management; PPO information; ad hoc data analysis for cost management; change of benefits analysis; outcomes analysis; billing; COBRA administration.

■ **Professional Capital Accumulation System (ProCAS).**  
**System requirements:** IBM compatible PC with 540K RAM; single user or LAN; DOS or OS/2 platform.

**Customization optional.**  
**First Installation:** 1985.  
**Total Installations:** 300; 12 in employee benefit departments.

■ **Benefits managed:** 401(k) plans, profit sharing.

■ **Features:** Defined contribution record keeping system that includes parameterized plan setup; data conversion module; comprehensive report

■ **Staff:** Six total, five professionals.  
**1994 revenues:** Employee benefit information systems revenue: 5% from hardware sales, 70% from software sales, 25% from software services.

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

tion. Options include Medicoes claims edit logic for medical coding, unbundling and rebundling; integrated imaging for documents, data and text; electronic data interchange; voice response.

■ **GENIRIS, Integrated Risk Information System.**  
**System requirements:** UNIX/AIX.  
**Customization optional.**  
**First Installation:** 1977.  
**Total Installations:** 358; 280 in employee benefit departments.

■ **Benefits managed:** Workers comp, disability, COBRA, group health plans.

■ **Features:** Claims administration system to manage workers compensation and group medical risks; accepts data from multiple sources and builds loss triangles using any combination of organization levels, lines of coverage an payment reserve categories; interfaces with other industry programs for actuarial analysis. Optional modules available for bill review, loss forecasting, bill audit, permanent disability rating, PPO network information, billing, ICD9 to DRG conversion.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance 10 hours per day\*.  
 \* Included in system price.

**Staff:** 32 total, 28 professionals.  
**Clients:** 252 total, including 95 benefit departments. Sold systems to 20 clients in 1994.

**1994 revenues:** Employee benefit information systems sales and services revenue: 5% from hardware sales, 50% from software sales, 45% from software services.

**Officers:** Jerry C. Buckley, president; Ralph M. Flygare, Eric Hoffberg, vps; Nora Kenner, assistant vp.  
**Contact:** Jerry Buckley.

■ **MQMS Plus.**  
**Price:** \$12,500 to \$33,000.  
**System requirements:** IBM compatible PC with 550K RAM; single user, LAN and laptop versions; DOS or Windows platform.

**Online system, customization optional.**  
**First Installation:** 1991.  
**Total Installations:** 200.

■ **Features:** Tracking and analysis of any type of benefit; customizable screens, fields and forms; ad hoc custom reports library; matrix reports; period-to-period comparison reports with variance analysis; integrated graphics are compatible with numerous application programs; custom reporting and trending; pre-programmed ability allows users to add modules or modify existing modules without programming. Optional modules include Riskmap Loss Development, Riskmap Risk Financing, Riskmap Loss Forecasting. Riskmap products can run independently or can be integrated with one another and MQMS Plus.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance nine hours per day\*.  
 \* First year included in system price.

**Staff:** 35 total, 31 professionals.  
**Clients:** 10 total, including four benefit departments. Sold systems to three clients in 1994.

**Officers:** Bill Byrne, president; Mark Cutler, Bob Cook, vps.  
**Contact:** Mark Cutler.

■ **Health Claims System.**  
**Price:** \$6,500 to \$18,500.  
**System requirements:** IBM compatible PC with 580K to 680K RAM; single user or LAN; DOS platform.

**Customization optional.**  
**First Installation:** 1987.  
**Total Installations:** 12; five in employee benefit departments.

■ **Features:** Processing and payment of medical, dental and disability claims. Produces explanation of benefits after each claim paid.

**User support:** Onsite training, telephone assistance nine hours per day\*.  
 \* First year included in system price.

**Staff:** 35 total, 31 professionals.  
**Clients:** 10 total, including four benefit departments. Sold systems to three clients in 1994.

**Officers:** Bill Byrne, president; Mark Cutler, Bob Cook, vps.  
**Contact:** Mark Cutler.

■ **California Interactive Computing Inc.**  
 25572 Ave. Stanford, Valencia, Calif. 91355-1102; 805-294-1300; fax: 805-294-1310

**Benefit systems since:** 1979.  
**Software products:**

■ **GENMED.**  
**System requirements:** UNIX/AIX.  
**Customization optional.**  
**First Installation:** 1979.

■ **Benefits managed:** Workers comp, COBRA, group health plans.

■ **Features:** Supports enrollment; eligibility verification for health, dental and vision plans; hospital precertification; claims management; utilization review; allows for notes and diary for medical case management; tracks reinsurance for specific and aggregate liability; health care provider contract management; PPO information; ad hoc data analysis for cost management; change of benefits analysis; outcomes analysis; billing; COBRA administration.

■ **Professional Capital Accumulation System (ProCAS).**  
**System requirements:** IBM compatible PC with 540K RAM; single user or LAN; DOS or OS/2 platform.

**Customization optional.**  
**First Installation:** 1985.  
**Total Installations:** 300; 12 in employee benefit departments.

■ **Benefits managed:** 401(k) plans, profit sharing.

■ **Features:** Defined contribution record keeping system that includes parameterized plan setup; data conversion module; comprehensive report

■ **Staff:** Six total, five professionals.  
**1994 revenues:** Employee benefit information systems revenue: 5% from hardware sales, 70% from software sales, 25% from software services.

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

■ **Cascade Technologies Inc.**  
 333 Thomall St., Edison, N.J. 08837-2220; 908-906-2020; fax: 908-906-2018

**Benefit systems since:** 1985.  
**Software products:**

Continued on next page

## Spotlight report

Continued from previous page  
writer allows for standard and ad hoc reports/statements; transaction capabilities such as contributions, withdrawals and loans; compliance testing; maintenance of all demographic and financial information required by the IRS. Optional interactive voice response system. Additional copies of reporting and transaction system modules available for use at remote locations.

**User support:** Onsite training\*, telephone assistance eight hours per day\*, 24 hour bulletin board service\*\*.

\* Included in initial license and first year maintenance agreement.

\*\* Included in system price.

**Staff:** 21 total, 19 professionals.

**Clients:** 300 total, including 12 benefit departments. Sold systems to 30 clients in 1994.

**Officers:** Vigdis Austad, president; Frank Joicy, executive vp/chief technical officer; Michael F. George, vp-sales/marketing; Tom Loch, vp-client services.  
**Contact:** Colleen Lew, marketing coordinator.

### Ceridian Employer Services

8100 34th Ave. S., Minneapolis, Minn. 55425; 800-729-7655; fax: 612-853-6662

**Benefit systems since:** 1982.

**Parent:** Ceridian Corp.

**Software products:**

■ Ceridian's Integrated HR/Payroll System.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows\* platform.

\* Windows version scheduled for release in April 1995.

**Customization optional.**

**First Installation:** 1994.

**Total Installations:** 542.

**Benefits managed:** 401(k) plans, flexible benefits, COBRA, stock options.

**Features:** Table driven system provides customizable screens; data import/export availability; online help, documentation and security; ad hoc report writer; date sensitive functions; government compliance features for ADA, COBRA, EEO, VETS 100 and OSHA. Employee communication features include eligibility worksheets, confirmation documents, what-if scenarios, voice response unit interface capability. Options include applicant tracking, check detail, remote check printing and attendance accrual modules.

**User support:** User groups/meetings, on site training, telephone assistance, customer conferences.

**Staff:** 3,300 total.

**Clients:** 25,000 total.

**1994 revenues:** \$316,300,000 total.

**Officers:** Patrick Sommers, president; George Klauser, vp-sales; Tanna Moore, vp-marketing; Frank Reid, vp-human

resources; Diane Shelgren, vp-service; Ken Weber, vp-technology; Brian Burton, vp-finance.

**Contact:** Ron Hanscome, 612-853-8100.

### Computer Associates International Inc.

1 Computer Associates Plaza, Islandia, N.Y. 11788; 800-225-5224

**Benefit systems since:** 1987.

**Software products:**

■ CA-HRES.

**Price:** \$80,000 to \$100,000.

**System requirements:** IBM mainframe, Hewlett Packard 9000 (UNIX) or IBM RS/6000 (UNIX) attached via client/server to IBM compatible PCs with Windows operating platform.

**Online system, customization optional.**

**First Installation:** 1987.

**Total Installations:** 800; 12 in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, workers comp, disability, leave of absence, COBRA, group health plans, profit sharing, life insurance, retirement/pensions, social security benefits.

**Features:** Provides benefits administration, compensation management and payroll administration, personnel management, defined contribution plan management, position control, recruitment and applicant tracking, career development planning and recordkeeping, pension administration. Allows for integrated e-mail. Options include decision support functions for ad hoc, query and reporting; integration with financial systems

**User support:** User groups/meetings\*, on site training\*, telephone assistance 24 hours per day\*, online access to technical support\*.

\* Included in system price.

**1994 revenues:** \$2.1 billion total.

**Officers:** Charles Wang, chairman/CEO; Sanjay Kumar, president/COO; Russel Artz, executive vp; Peter Schwarz, CFO.  
**Contact:** David Cahn, 516-342-2113.

### Computer Workware Inc.

5409 Eglinton Ave. W., Suite 108, Toronto, Canada M9C 5K6; 416-620-1704; fax: 416-620-5692

**Software products:**

■ FAST.

**Price:** \$25,000 to \$60,000.

**System requirements:** IBM compatible PC with 450K RAM; single user or LAN; DOS, Windows or OS/2 platform.

**Customization optional.**

**First Installation:** 1984.

**Total Installations:** 1,600; 1,200 in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, disability, leave of absence, COBRA, group health plans, life insurance.

**Features:** Supports enrollment, eligibility verification, health care precertification, claims management, reinsurance liability tracking, accounting, discrimination testing, ad hoc data analysis, ad hoc report generation. Options include a trust accounting module.

**User support:** Onsite training\*, telephone assistance eight hours per day\*.

\* First year included in system price.

**Staff:** 10 total, four professionals.

**Clients:** 1,200 total, including 1,100 benefit departments. Sold systems to 200 clients in 1994.

**1994 revenues:** Employee benefit information systems revenue: 75% from software sales, 25% from software services.

**Officers:** Edward G. Robinson, president; Keith Formosa-Blundell, vp.  
**Contact:** Keith Formosa-Blundell.

### Coopers & Lybrand L.L.P.

1301 Ave. of the Americas, New York, N.Y. 10019-6013; 212-259-2596; fax: 212-259-2625

**Benefit systems since:** 1961.

**Software products:**

■ Integrated Benefits Administrator.

**System requirements:** IBM compatible PC; LAN or client/server; Windows platform.

**Online system available.**

**Customized system.**

**First Installation:** 1992.

**Total Installations:** Six, all in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, leave of absence, COBRA, group health plans, profit sharing, life insurance, retirement/pensions, Social Security benefits.

**Features:** Provides interface to numerous human resource databases; performs defined benefit valuations, certifications, estimates and recordkeeping; compliance testing for qualified plans; maintains unlimited history of data elements. System includes employee benefit communication features, including eligibility and what-if scenarios. Communicates via terminals and phone.

**User support:** User groups/meetings, on site training, telephone assistance.  
**Staff:** 2,830 total, 2,063 professionals.

**1994 revenues:** \$271 million total.

**Officers:** Reed Keller, vice chairman-Human Resource Advisory Group; Iris Goldfein, Frank Raiti, managing principals-Human Resource Advisory Group; Ed Kozemchak, principal/Human Resource Technology Group leader.  
**Contact:** Derek Romanoux, sales/marketing manager.

### Corbel

1660 Prudential Drive, Jacksonville, Fla. 32207; 904-399-5888; fax: 904-399-5551

**Benefit systems since:** 1979.

**Parent:** Broadway & Seymour Inc.

**Software products:**

■ Pentabs.

**Price:** \$5,000 to \$20,000.

**System requirements:** IBM compatible PC with 28MB; DOS or OS/2 platform.

**Customization optional.**

**First Installation:** 1979.

**Total Installations:** 1,000; 400 in employee benefit departments.

**Benefits managed:** 401(k) plans, profit sharing, retirement/pensions.

**Features:** Retirement plan administration, including defined benefit and target benefit/age-weighted; provides ESOP/share accounting, participant loan system, trust accounting, age 70½ minimum distribution system, generalized data transfer/collection, professional proposal generation system, government forms generation.

■ Quantech.

**Price:** \$5,500 to \$19,000.

**System requirements:** IBM compatible PC with 16MB; single user or LAN; Windows platform.

**Customization optional.**

**First Installation:** 1994.

**Total Installations:** 300.

**Benefits managed:** 401(k) plans, profit sharing, retirement/pensions.

**Features:** Performs daily valuations, traditional plan administration, electronic import/export of daily investment values from satellite link, user defined report building, data entry and electronic transaction routines, cross-planning queries based on point and click criteria, flexible editing of standard reports. Optional features include government forms, proposals, voice response system, participant loan functions, investment data downloads, investment quotes and transaction downloads.

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

\* Included in system price.

**Staff:** 190 total, 15 professionals.

**Clients:** 1,000 total. Sold systems to 150 clients in 1994.

**1994 revenues:** \$15 million.

**Officers:** Duncan McPherson, president; Don MacKanos, senior vp; Dave Phillips, vp/general manager; Lori Prouty, CFO; Rob Johnson, director-sales.

**Contact:** John Latson.

### Corporate Health Strategies

2 Whitney Ave., New Haven, Conn. 06510; 203-781-5100; fax: 203-624-7935

**Benefit systems since:** 1981.

**Parent:** Metra Health.

**Software products:**

■ Parallax.

**Price:** \$50,000 to \$150,000.

**System requirements:** IBM compatible PC with 8MB RAM; Windows platform.

**Online system, customization optional.**

**First Installation:** 1985.

**Total Installations:** 85; 78 in employee benefit departments.

**Benefits managed:** Workers comp, disability, leave of absence, group health plans, employee assistance programs, wellness programs, pharmaceutical benefits, mental health benefits.

**Features:** Integrates health care plan data from numerous sources to manage, forecast, monitor and evaluate various benefit plan issues, including cost, quality and access; provides modeling, trend analysis and network comparisons. Options include benefits modeling for indemnity, network and HMO plans using a claims repayment methodology.

**User support:** User groups/meetings; on-site training\*; telephone assistance eight hours per day\*; analytical and consulting assistance for outsourcing of data analysis, report generation and interpretation.

\* Included in system price.

**Staff:** 70 total.

**Officers:** Donald A. Foscolo, president/CEO.

**Contact:** Susan Addiss, marketing manager.

### Corporate Systems Ltd.

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

**Software products:**

■ Disability Claim Management System (DCMS).

**System requirements:** IBM compatible PC.

**Online system, customization optional.**

**First Installation:** 1986.

**Total Installations:** 43, all in employee benefit departments.

**Benefits managed:** Disability.

**Features:** Provides claims management, disability duration monitoring and control, health plan provider contract management, ad hoc data analysis, ad hoc report generation. Options include integration with Corporate Systems workers compensation system.

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

\* Included in system price.

**Staff:** 402 total, 283 professionals.

**Clients:** One, a benefit department. Sold systems to one client in 1994.

**Officers:** Johnny Mize, president/CEO; Michael Unruh, vp/CFO; Scott Gilmour, vp-marketing/sales; John Champlin, vp-client services; Bob Holeman, vp-technology development; Dave Chaszcz, director-new product development.

**Contact:** David P. Duden, 800-927-3343.

# D

### DATAIR Employee Benefit Systems Inc.

735 N. Cass Ave., Westmont, Ill. 60559-1100; 708-325-2600; fax: 708-325-2660

**Benefit systems since:** 1967.

**Software products:**

■ DATAIR's Defined Benefit Pension System.

**Price:** \$1,000 to \$3,750.

**System requirements:** IBM compatible PC with 640K RAM (DOS) or 8MB RAM (Windows); single user or LAN; DOS or Windows platform.

**Customization optional.**

**First Installation:** 1969; 1984 (PC version).

**Total Installations:** 400; two in employee benefit departments.

**Benefits managed:** Retirement/pensions.

**Features:** Provides eligibility testing; discrimination testing, including 401(a)(4), 401(k), 401(l), 401(m) and 410(b); proposals; determines cost of benefit; contribution recordkeeping; accounts for participant, plan and data changes; software regulatory updates; valuations; calculates and implements payouts; forfeiture allocations. Communicates to employees through individualized proposals, on-screen or hard copy, at pre-enrollment; individualized status reports and statements for active participants. Options include data import utilities (no charge); report writing functions; module for government reporting (5500s, schedules, etc.), termination payouts and IRS-approved plan documents (plans, trusts, summary plan descriptions, summaries and checklists).

■ DATAIR's Defined Contribution/401(k) System.

**Price:** \$1,000 to \$3,750.

**System requirements:** IBM compatible PC with 640K RAM (DOS) or 8MB RAM (Windows); single user or LAN; DOS or Windows platform.

**First Installation:** 1969; 1984 (PC version).

**Total Installations:** 675; 75 in employee benefit departments.

**Benefits managed:** 401(k) plans, profit sharing, retirement/pensions.

**Features:** Provides eligibility testing; discrimination testing, including 401(a)(4), 401(k), 401(l), 401(m) and 410(b); proposals; determines cost of benefit; contribution allocation; accounts for participant, plan and data changes; software regulatory updates; contribution accounting; payouts; directed investments; gain/loss allocations; loan processing; forfeiture allocations. Communicates to employees through individualized proposals, on-screen or hard copy, at pre-enrollment; individualized status reports and statements for active participants. Options include data import utilities (no charge); data export and report writing functions; module for government reporting (5500s, schedules, etc.), termination payouts and IRS-approved plan documents (plans, trusts, summary plan descriptions, summaries and checklists).

■ DATAIR's FlexPlus System.

**Price:** \$1,750 to \$2,750.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 150; 30 in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits.

**Features:** Eligibility testing, discrimination testing, proposals, determines cost of benefits, allocates contributions, software regulatory updates, contribution accounting, calculates and implements benefit payouts, claims administration, check writing. Communicates to employees through individualized proposals, on-screen or hard copy, at pre-enrollment; individualized status reports and statements for active participants. Options include data import utilities (no charge); data export and report writing functions; module for government reporting (5500s, schedules, etc.) and plan documents (plans, trusts, summary plan descriptions, summaries and checklists).

**User support:** User groups/meetings, on-site training\*, telephone assistance nine hours per day, 24 hour fax service, 24 hour electronic bulletin board service.

\* Included in system price.

**Staff:** 30 total, 19 professionals.

**Clients:** 800 total, including 100 benefit departments.

**1994 revenues:** \$2.5 million total. \$2.4 million from employee benefit information systems sales and services, 31% from software sales, 68% from software services.

**Officers:** Aaron Venouziou, president; Andrew Hoskins, senior vp; Gary Saake, vp-systems/programming; Judy Ringlein-Dunn, vp-customer support; William E. Lilliquist, director-marketing.

### Digital Insurance Systems Corp.

3455 Mill Run Drive, Suite 400, Hilliard, Ohio 43026; 614-771-5423; fax: 614-771-6064

**Benefit systems since:** 1986.

Continued on next page



CELEBRATING  
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of Professionalism  
1945 - 1995

The New York Chapter - CPCU  
was formed on March 5, 1945

Jamie J. Barth, CPCU  
President



New York Chapter - CPCU  
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914-699-2020 Fax: 914-699-2025

Continued from previous page

**Parent:** The Associated Group.

**Software products:**

■ HCPSys.

**System requirements:** Digital Equipment VAX and Alpha computers.

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 42.

**Benefits managed:** Disability, group health plans, life insurance.

**Benefits managed:** Group health plans.

**Features:** Provides enrollment; health care precertification; health care utilization review; case management; claims management for medical, dental and vision claims; medical code re-bundling; premium billing/accounts receivable; provider administration; fee schedules; administration of benefit plans, including medical dental, vision, pharmacy, life\*, short- and long-term disability\*. Optional modules for agent/broker commissions, provider capitation, trust fund accounting, EDI, communication management and pharmacy claims processing.

\* System does not support claims processing for life and disability benefits.

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

\* Included in system price.

**Staff:** 34 total, all professionals.

**Clients:** 42 total. Sold systems to four clients in 1994.

**Officers:** Don Demers, president; Geneva Burgdorf, Paul Balcerzak, vps.

**Contact:** Paul Balcerzak, 614-771-4303.

**DORN Technology Group Inc.**

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

**Benefit systems since:** 1982.

■ Riskmaster.

**Price:** \$25,000 to \$100,000.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS, Windows or OS/2 platform. Also operates on UNIX based client/server.

**Customization optional.**

**First Installation:** 1982.

**Total Installations:** 700; 300 in employee benefit departments.

**Benefits managed:** Workers comp, disability.

**Features:** Provides claims management, health care utilization review, medical coding/unbundling, medical case management, reinsurance liability tracking, disability duration monitoring/control, user-defined ad hoc data analysis and report generation, image management, generation of state forms and electronic state government filing. Optional modules available for general claims; vehicle accidents, including accident tracking and accident property/casualty claims management.

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

\* Included in system price.

**Staff:** 35 total, 15 professionals.

**Clients:** 20 total.

**1994 revenues:** \$4.5 million total.

**Officers:** Mark E. Dorn, president; Paul Hafeli, treasurer.

**Contact:** Mark Dorn.

sured and individual plans, including medical, dental, vision, prescription drug, HMO and PPO plans; allows for unlimited plan design; eligibility maintenance and verification, online codes; batch check processing; group specific EOBs; duplicate claim checking; claims editing; automatic letter generation; comprehensive standard reporting; user definable data tables; system security; online documentation; enrollment; multiple effective dates; benefit accumulators; cost containment reporting; automatic claims adjudication; single screen claim entry; alphanumeric benefit, ICD-9 and CPT code control; HIA, MDR, RBRVS and custom fee schedules; EOB generation. Also supports multiple deductibles; multilevel co-insurance; stop-loss; co-pays; benefit limits by dollars, percentage or visits by diagnosis, benefit or providers. Options include: Fax and voice modules (available through third-party vendor). COBRAPac for automatic eligibility monitoring, notification and termination letters, history, billing and accounts receivable functions. ADMINpac-Billing and Ad-

ministration provides group and individual billing; rating information; accounts receivable, payable and fund accounting; reinsurance processing; G/L interfaces; ID card generation; billing information. DENTALpac features tooth chart; tooth history, including service and surface tracking; eligibility verification; multiple fee schedules. FLEXpac for section 125 administration, supports flexible spending accounts, check and EOB generation, reporting. URpac-Utilization Management provides precertification; concurrent, retrospective and ancillary review; user defined criteria; interface to length of stay tables; 250 client-specific managed care protocols; large case management; automated correspondence; utilization review; clinical case edits. PPOpac-PPO Management offers repricing, confinement analysis, length of stay analysis, flexible plan definitions, multiple benefit options, identification card generation. CONTRACTpac-Contract Management provides application of fees by effective dates, accommodates any contract scenario, uses claim data to

trigger correct contract fees, automatic tracking of contract utilization, provides DRG table, tracks denied contract fees. EDITpac-Claims Edits identifies true procedure code unbundling and offers 26 comprehensive claim edits. IQpad-Ad Hoc Report Generator provides ad hoc, operational, cost containment and analytic database reporting; profile utilization; providers profile. PROFILEpac-Health Data Reporting includes HEDIS 2.0 reporting, plan participant and provider profiling, creates analytic database, evaluates and trends health care performance, provides ad hoc queries, 3-D charts and graphs, allows for data exports. Additional options include MICR laser check printing, electronic data interchange, imaging and voice response.

■ MCS 2000 Managed Care System.

**System requirements:** Operates on numerous systems, including IBM compatible PCs, single user or LAN, with DOS or OS/2 platform; RS/6000 and other RISC-based systems (UNIX operating system); DEC/VAX (VMS operating system).

**Customization optional.**

**First Installation:** 1993.

**Total Installations:** Five.

**Benefits managed:** Managed care plans.

**Features:** Claims repricing and contract management; reprices HCFA 1500 and UB 92 claims; supports virtually any reimbursement scheme; natural language contract rule definitions; provides explanation of contract allowable calculations; reimbursement calculations within context of "episode of care"; contract maintenance and modeling; outgoing/incoming electronic claims; claim edits and unbundling; bill review by category, including specialty, diagnosis, procedure or provider; PCP/referral tracking; administrative functions. Can be linked to Eldorado utilization review systems.

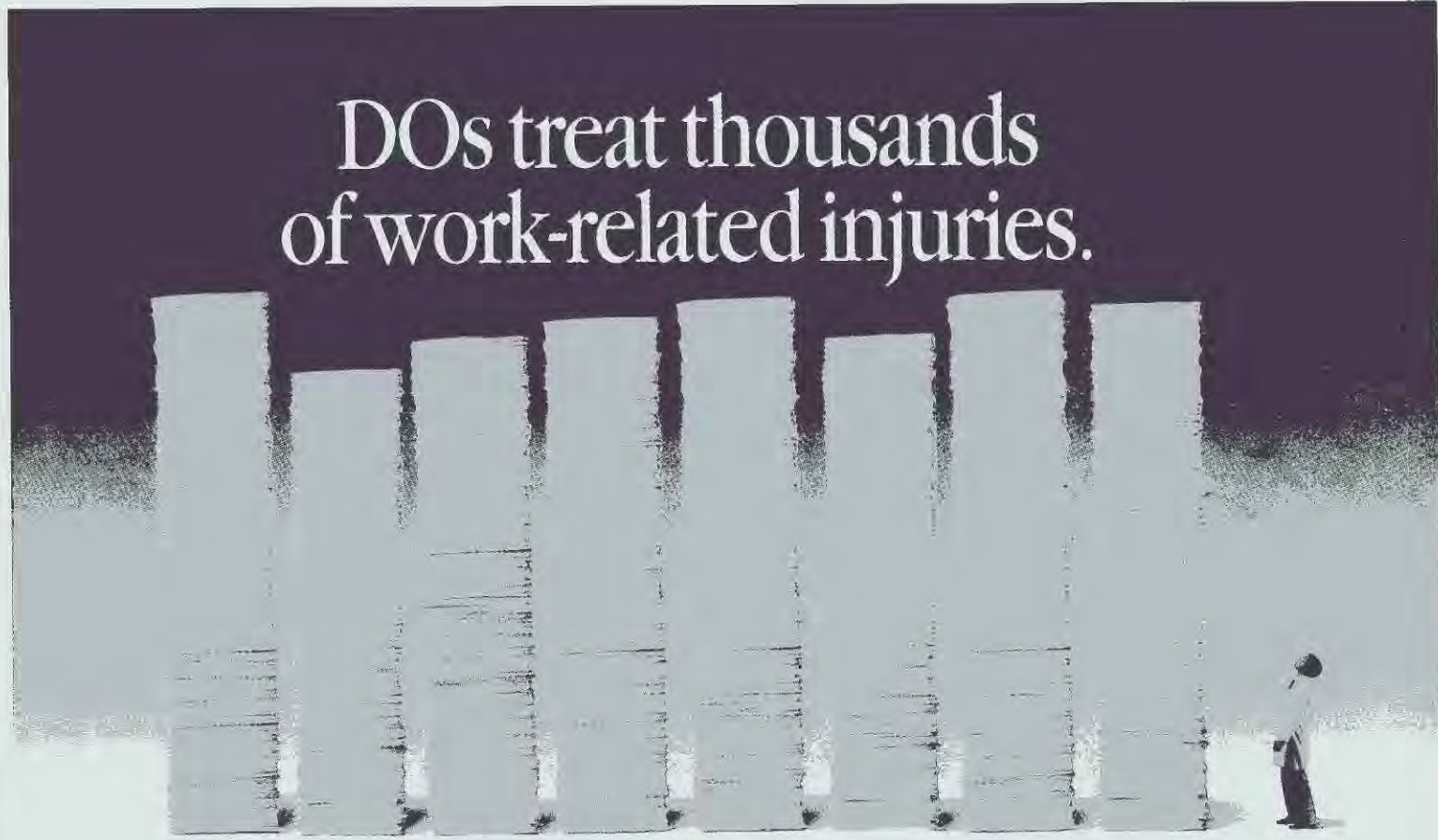
**User support:** User groups/meetings, onsite training, telephone assistance nine hours per day.

**Staff:** 50 total, 20 professionals.

**Clients:** 90 total. Sold systems to 18 clients in 1994.

**Officers:** Zane D. Bell, president/CEO.

Continued on next page



# DOs treat thousands of work-related injuries.

## How many they prevent is an even better story.

Osteopathic physicians (DOs) take an aggressive approach to employee wellness and accident prevention. They believe a majority of the estimated \$115.9 billion spent last year on employee injuries and illnesses could be avoided.

DOs incorporate special knowledge of the musculoskeletal system, exercise, fitness, and nutrition into their wellness plans.

And if structural injuries do occur, DOs offer a unique diagnostic and treatment technique: osteopathic manipulative treatment (OMT). It may be used instead of or in combination with other medical technologies to provide high-quality, cost-effective care.

Most of all, DOs are concerned with the whole person. They treat people, not just symptoms. In fact, the osteopathic medical profession trains DOs first as primary care doctors, mostly at community hospitals. Then they may choose a specialty such as surgery, ophthalmology, and psychiatry. That's why DO generalists and specialists need to refer patients far less frequently.

To learn more about how DOs and osteopathic clinics and hospitals can fit your employee benefits plan, send for a **FREE** 12-page kit that includes a list of DO occupational medicine consultants and

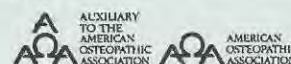
osteopathic hospitals. Simply return this coupon or call **1-800-621-1773, ext. 7403.**



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 City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
 Office phone ( ) \_\_\_\_\_

Names of others in your organization who should also receive information about osteopathic medicine: \_\_\_\_\_  
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**E**

**Eldorado Computing Inc.**  
 2880 E. Northern Ave., Phoenix, Ariz. 85028; 602-493-0288; fax: 602-867-7920

**Benefit systems since:** 1981.  
**Software products:**  
 ■ HEALTHpac II-Automated Claims Management.  
**System requirements:** Operates on numerous systems, including IBM compatible PCs, single user or LAN, with DOS or OS/2 platform; RS/6000 and other RISC-based systems (UNIX operating system); DEC/VAX (VMS operating system).  
**Customization optional.**  
**First Installation:** 1981.  
**Total Installations:** 85; 15 in employee benefit departments.  
**Benefits managed:** Flexible benefits; disability; COBRA; group health plans, including medical, dental, vision, prescription, Taft-Hartley and Davis-Bacon Plans.  
**Features:** Supports self-funded, fully in

Continued from previous page

F

**FDP-Financial Data Planning Corp.**

2140 S. Dixie Highway, Miami, Fla. 33133; 800-337-2677; fax: 305-854-6305

Benefit systems since: 1968.

Software products:

■ Easy Laser 5500/SAR Forms. Price: \$595 to \$845.

System requirements: IBM compatible PC/XT/AT; DOS platform.

Customization optional.

First Installation: 1985.

Total Installations: 575; 100 in employee benefit departments.

Features: Uses automated calculations, data merge ability and year-to-year mapping to generate laser printed IRS 5500 and related forms and summary annual report; provides extensive IRS help screens and edit checks. Electronic filing available.

■ FDP/125 (Cafeteria Plan Enrollment &amp; Administration System). Price: \$1,995 to 7,500.

System requirements: IBM compatible PC/XT/AT; DOS platform.

Customization optional.

First Installation: 1987.

Total Installations: 80.

Benefits managed: Flexible benefits.

Features: Feasibility testing, enrollment, administration for all phases of Section 125/cafeteria plans, what-if scenarios for onsite enrollment, computes tax savings for employer and employee, generates checks, performs non-discrimination testing and full rollback capabilities.

■ FDP/PEN.

System requirements: IBM compatible PC/XT/AT; DOS platform.

Customization optional.

First Installation: 1984.

Total Installations: 450; 15 in employee benefit departments.

Benefits managed: 401(k) plans, profit sharing, retirement/pensions.

Features: Proposal and administration of various defined benefit and defined contribution plans, including 401(k), age-weighted and ESOPs; handles non-insured, insured (traditional or interest-sensitive) and self-insured plans; computes solutions to specific cost goals, formulas and Keough salaries; includes top-heavy testing, non-discrimination testing and other compliance features.

User support: User groups/meetings, onsite training, telephone assistance 10 hours per day\*.

\* Included in system price.

Staff: 50 total, 175 professionals.

Clients: 1,600 total. Sold systems to 200 clients in 1994.

1994 revenues: \$18.9 million total. \$5.3 million from employee benefit information systems sales and services, 2% from hardware sales, 80% from software sales, 18% from software services.

Officers: Michael C. Goldberg, president; Douglas Kennedy, executive vp; Chris Stroud, Ed Pick, Richard Fleischman, Beverly Price, Kathy Muro, vps; Cindy Goldberg, secretary/treasurer. Contact: Chris Stroud.

**FACTS Services Inc.**

1575 San Ignacio, Suite 406, Coral Gables, Fla. 33146; 305-284-7400; fax: 305-661-6710

Benefit systems since: 1980.

Software products:

■ FACTS (Health Claims Processing System).

System requirements: IBM compatible PC; single user or LAN; DOS or Windows platform. Also operates on mini-computers.

Online system; customization optional.

First Installation: 1980.

Total Installations: 140.

Benefits managed: Disability, COBRA, group health plans.

Features: Automated claims processing system for administration of medical, dental, vision, drugs, disability and COBRA claims for PPO, HMO and indemnity plans. Optional systems provide enrollment; eligibility and plan verification; claims management; medical case management; provider contract management; clinical auditing (flags for bundling/unbundling codes); reinsurance tracking; age, sex and area-rated premium billing and commission accounting; MICR laser check and EOB encoding; optical imaging and intelligent Optical Character Recognition; automated adjudication; EDI/electronic claim submission; allows preauthorization, precertification and utilization review; over 150 reports; custom report generator.

■ FACTS 125.

System requirements: IBM compatible PC; single user or LAN; DOS or Windows platform. Also operates on mini-computers.

Online system; customization optional.

First Installation: 1983.

Total Installations: 55; 10 in employee benefit departments.

Benefits managed: Flexible benefits.

Features: Parameter-driven Section 125/flexible benefit claims administration system; offers full range of programs from spending accounts to cafeteria plans; provides enrollment, benefit accounting year-end allocation of funds, online calculation of tax consequences at time of enrollment, eligibility verification, claims management, spending account administration and premium and expense coding. Can be integrated with other FACTS software.

■ FACTS COMP.

System requirements: IBM compatible PC; single user or LAN; DOS or Windows platform. Also operates on mini-computers.

Online system; customization optional.

First Installation: 1985.

Total Installations: 10; one in an employee benefit department.

Benefits managed: Workers comp.

Features: Flexible workers compensation claims administration; integrates claims processing routines for medical, indemnity, vocational rehabilitation, lump-sum settlements, legal and miscellaneous expenses; supports administrative processing codes, state fee schedules, benefit parameters and special fund allocations; allows for unlimited expansion. Optional modules provide enrollment; detail tracking of case history and reserve status; accident and cause code definition and tracking. Can be integrated with other FACTS software.

■ FACTS HMO (HMO Processing System).

System requirements: IBM compatible PC; single user or LAN; DOS or Windows platform. Also operates on mini-computers.

Online system; customization optional.

First Installation: 1994.

Total Installations: Three.

Benefits managed: Group health plans.

Features: Provides physician election option information for employees and dependents; primary care provider profiling; physician referral and patient encounters tracking by physician, diagnosis and procedure; physician capitation and sub-capitation payments; risk pool monitoring and reporting; provider discounting on fee-for-service; detailed member enrollment reporting.

User support: User groups/meetings\*, onsite training, telephone assistance nine hours per day, 24-hour modem support\*, consulting.

\* Included in system price.

Staff: 33 total, 26 professionals.

1994 revenues: \$4.5 million total, all from employee benefit information systems sales and services, 15% from hardware sales, 33% from software sales, 52% from software services.

Officers: Robert S. Graham Jr., president; David L. Graham, vp. Contact: Jose A. Lopez, vp-sales/marketing.

**Flex Compensation Inc.**

10405 Sixth Ave. N., Suite 170, Plymouth, Minn. 55441; 612-544-8332; fax: 612-544-8287

Benefit systems since: 1986.

Software products:

■ FlexAdmin-Enrollment Administration.

Price: \$5,500.

System requirements: IBM compatible PC with 640K RAM; DOS platform.

Customization optional.

First Installation: 1990.

Total Installations: Five, all in employee benefit departments.

Benefits managed: Flexible benefits.

Features: Provides benefit election and enrollment record keeping; supports any type of plan design through user definable plan parameters; tracks eligibility; calculates and stores benefit credits and prices for eligible employees; produces personalized enrollment forms; generates multiple election analysis reports and administration reports, including insurance enrollment information and monthly premium transmittal; performs several discrimination tests; allows for ASCII data imports and exports to link with payroll and human resource systems. Options include spending account administration module.

■ FlexAdmin-Spending Account Administration.

Price: \$1,495 to \$3,495.

System requirements: IBM compatible PC with 640K RAM (DOS) or 4MB RAM (Windows); single user or LAN; DOS or Windows platform.

First Installation: 1986.

Total Installations: 225, all in employee benefit departments.

Benefits managed: Flexible benefits.

Features: Administration of flexible spending accounts; maintains separate participant records for health and dependent care accounts for two simul-

taneous plan years; processes deposits; audits and adjudicates claims; prints checks and explanation of benefit reports; allows for ASCII data imports and exports to link with payroll and human resource systems. Options include multiple company processing feature; enrollment administration module for comprehensive cafeteria benefit plans.

User support: Onsite training, telephone assistance eight hours per day\*, reimbursement administration guidebook\*, periodic newsletters containing legislative updates\*.

\* Included in system price.

Staff: Five total, all professionals.

Clients: 225 total, all benefit departments. Sold systems to 15 clients in 1994.

Officers: Gary Bohline, president; Allison Hendrickson, vp.

Contact: Allison Hendrickson, 800-333-5597.

**Fringe Benefits****Management Co.**

P.O. Box 1878, Tallahassee, Fla. 32302-1878; 800-872-0345; fax: 904-425-6220

Benefit systems since: 1993.

Software products:

■ VISTA Benefits Management System.

Price: \$3,600.

System requirements: IBM compatible PC with 4MB RAM (8MB suggested); single user or LAN; DOS platform.

First Installation: 1993.

Total Installations: Six; five in employee benefit departments.

Benefits managed: 401(k) plans, flexible benefits, disability, group health plans, life insurance.

Features: Provides enrollment; discrimination testing; confirmation notices; payroll premium processing for pre- or post-tax benefits; vendor remittances (common remitter) with reports; FSA administration, including claims entry, rejection notices, check printing, Y/E W-2 reports, accounting and Form 5500 worksheets. Provides employee benefit communication via computer terminals.

User support: Onsite training, telephone assistance eight hours per day.

Staff: Three total, two professionals.

Clients: Four total, including three benefit departments. Sold systems to three clients in 1994.

1994 revenues: \$11.02 million total.

Officers: Michael Sheridan, president; Agnes McMurray, executive vp; Lorraine Ritch, senior vp-marketing; Mel Yoder, senior vp-operations.

Contact: James J. Bracher, vp-market development.

G

**Gallagher Bassett Benefit Administrators**

2 Pierce Place, Itasca, Ill. 60143; 708-773-3800; fax: 708-285-4000

Benefit systems since: 1990.

Parent: Arthur J. Gallagher &amp; Co.

Software products:

■ Processor 1.

Price: \$5,000.

System requirements: IBM compatible PC.

Online, customized system.

First Installation: 1990.

Total Installations: Five, all in employee benefit departments.

Benefits managed: Disability, group health plans.

Features: Provides eligibility verification; billing; precertification; claims management; utilization review; medical coding; PPO adjudication and claim processing; medical case management; tracking stop-loss liability; disability duration monitoring; provider contract management; verification of premium payment for claim dates of service; capture of 1099 data; automated check issue; ad hoc report generation; detail reports for actuarial, accounting and management reports. Optional module includes customer interface to other applications.

User support: User groups/meetings, onsite training\*, telephone assistance 10 hours per day\*.

\* Included in system price.

Staff: 245 total, 90 professionals.

Clients: Five total.

1994 revenues: \$26 million total.

Officers: Leonard E. Wood III, presi-

dent/CEO; William R. Talcott, executive vp.

Contact: William R. Talcott, 708-285-3744.

**Genelco Inc.**

1600 S. Brentwood Blvd., St. Louis, Mo. 63144-1330; 314-962-2040; fax: 314-968-9589

Benefit systems since: 1973.

Parent: General American Life Insurance Co.

Software products:

■ Health Claims Plus.

System requirements: PC with modem (for online access); IBM AS/400 midrange operating under OS/400.

Online or client based.

Customization optional.

First Installation: 1955.

Total Installations: 66.

Benefits managed: Flexible benefits, disability, group health plans.

Features: Claims adjudication and administration of medical, dental, disability, vision, indemnity and prescription drug plans; supports managed care point-of-service plans; provides reporting for management analysis. Options include automatic adjudication of claims entered through data entry facility or sent electronically; medical claims editing interface allows users to access claims editing database; utilization review modules provides case management, second surgical opinion, precertification and other UR services. Optional New Business module reports and tracks all facets of new business for third-party vendors.

■ Benefit Administration Plus.

System requirements: IBM AS/400 midrange operating under OS/400.

Customization optional.

First Installation: 1987.

Total Installations: 47.

Benefits managed: Disability, COBRA.

Features: Provides administration for group insurance plans and COBRA, includes billing and recording of premiums and/or fees, provides online eligibility information for health claim administration.

User support: User groups\*/meetings, onsite training, telephone assistance nine hours per day\*, documentation\*, user newsletters\*, remote processing.

\* Included in system price.

Staff: 400 total, 80 professionals.

Clients: 116 total, including 57 benefit departments. Sold systems to 20 clients in 1994.

1994 revenues: \$22,000,000 total. \$19,300,000 from employee benefit information systems sales and services, 9% from hardware sales, 14% from software sales, 77% from software services.

Officers: E. Christopher Simonds Jr., president/COO; David B. Johnson, president-Software Division/CEO; Russell E. Korte, executive vp-Software Division; Larry M. Amundsen, vp-Software Sales. Contact: David B. Johnson.

H

**HarrisData**

611 N. Barker Road, Brookfield, Wis. 53045; 800-225-0585 or 414-784-9099; fax: 414-784-5994

Benefit systems since: 1982.

Software products:

■ HarrisData Human Resource Management System.

System requirements: IBM AS/400 or S/36.

Customization optional.

First Installation: 1982.

Benefits managed: 401(k) plans, flexible benefits, workers comp, leave of absence, COBRA, group health plans.

Features: Human resource management; satisfies all government reporting requirements, including EEO, OSHA, 401(k), COBRA and Affirmative Action; generates management/plan reports; provides magnetic media feature to comply with W-2 and quarterly magnetic media reporting; time entry feature allows hourly data to be entered automatically; allows user-defined voluntary deductions; includes data access security features. Options include integration with HarrisData accounting and manufacturing systems.

User support: Onsite training, telephone assistance 10 hours per day\*.

\* Included in system price.

Staff: 100 total, 85 professionals.

Continued on next page

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# Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

## Brokers building revenues through global construction

By MICHAEL SCHACHNER

As developing nations, particularly in Asia, turn to large international construction companies to carry out massive projects in infrastructure, power generating and communication systems, insurance brokers are seeing enormous potential in providing consulting and coverage placement services for those contractors.

One global broker said the construction industry has current-

ly bid on approximately \$700 billion in infrastructure projects around the world, but only slightly more than 10% of these projects are fully financed and have satisfied their insurance needs. Therefore, brokers see almost

unlimited opportunities in servicing international construction projects.

Brokers say the bulk of global construction involves U.S. and European contractors building or assisting in the construction of new

power generating plants in countries still operating with rudimentary power systems that supply inadequate power to all regions.

Infrastructure projects, predominantly toll roads and bridges, are also in demand, as are improvements to existing telephone and cable television systems.

Some of the most active areas today in global construction projects include China, India, Vietnam, Malaysia, Indonesia and Thailand. South American nations like Argentina, Colombia, Chile and Ecuador have also seen a spurt in construction over the past few years. Mexico, which has an abundance of construction needs, has been providing opportunities but is now in a state of flux due to the recent devaluation of the peso, brokers say.

Conversely, Eastern Europe, which after the fall of commu-

nism was hailed as the next great region for infrastructure projects, has not materialized as a building hotbed because of political unrest in Russia and the Balkans, brokers lament. In addition, monetary and governmental problems in other countries have contributed to the shortfall.

Meanwhile, construction in India and the Far East is booming, and the large U.S.-based construction firms like Bechtel Group Inc., Fluor Daniel Inc., Brown & Root Inc. and Foster Wheeler Corp., among others, are thriving overseas.

Bechtel, for example, generally derives 30% to 40% of its annual revenues outside the United States, said Terry McAloon, corporate risk manager-projects. And, in 1993, the San Francisco-based contractor generated more than \$2.3 billion in revenues from active international projects.

One of the trends in international construction is that contractors are more than just builders. They're often responsible for arranging or participating in the financing of the projects and then running the finished operation for a time—sometimes as long as 20 years—for a profit. Later, they turn the project over to a local authority or government.

These "build-operate-turnover" contracts, as they are known in the construction industry, can be very lucrative for contractors. But they also take a contractor's insurance needs far beyond the typical construction/all risk policies that firms normally require if they are only performing construction duties.

And, the financing portion of a project really drives insurance, brokers insist.

With financing generally coming from a bank rather than a foreign government, protection against delays in completion and start-up have become vital, construction brokers concur.

"There's major infrastructure development going on in every corner of the world, but what's different about today's projects from 10 years ago is nearly every one is being financed with private funds," said Len Battifarano, senior vp and managing director with Alexander & Alexander Services Inc.'s global construction division in New York.

With private financing behind the bulk of international construction, lenders—primarily powerful banks in leading financial centers like New York, London, Tokyo and Hong Kong—are demanding that the contractors carry insurance to ensure that debt is serviced if delays occur or revenue expectations aren't met, brokers said.

"These lenders have extremely strict standards on recourse and non-recourse projects. It means coverage for contractors beyond typical property and casualty. They need all the delay coverage: political risk protection and more."

Continued on next



Construction projects such as Bechtel Group's gas processing plant in Tu and Motorola telecommunications production facility in Tianjin, China, are providing big business opportunities for global insurance brokers.

## Construction

Continued from previous page  
non-standard forms of builders risk, including force majeure," said Greg Parnell, chief executive with Willis Corroon Construction Risks Ltd. in London.

"Any coverage that can protect against a breach in revenue flow is important," Mr. Battifarano added.

Brokers agreed that power plants are where the international construction industry is primarily focused.

Hydroelectric, coal burning and combined gas cycle power generators are being built at a cost of more than \$1 billion each in countries like India and Indonesia, to name a few.

Marsh & McLennan Cos. Inc., for example, helped broker some of the coverages for the contractor on a \$1.8 billion, state-of-the-art combined gas cycle plant that is under construction in Indonesia.

"This is a new prototype. It required errors-in-design protection, which the market is a little queasy about offering," noted James Halvorson, managing director with M&M in New York.

He said the projects U.S. firms are working on today are different from those in the 1980s.

"Ten years ago, it was mainly petrochemical plants being built in the Middle East. That has given way to power generation in the Far East, specifically China, India, Malaysia and Thailand. Those countries are starving for power. If you're going to make advance-

ments commercially, power is the first step," Mr. Halvorson said.

And if the contractor is going to operate the plant after its completion, insurance addressing delays and efficacy of operation are mandatory, said David Langman, chairman of Johnson & Higgins' Construction Group in Atlanta.

He said all forms of systems coverage, political risk protection and force majeure coverage, which protects against losses related to any act or omission of God or government, including earthquake, flood and insurrection, are necessary.

"There are some big, deep-pocket consortiums of contractors and lenders that are getting together to finance, build and operate these facilities. The institutional investors are a bit skittish about getting their debt serviced.

But, over the long term, the capital markets will be there. The sustained drive for power in developing countries will make their investments pay off," Mr. Langman said.

Bechtel is an example of a large U.S.-based contractor that sees no international borders. It is currently building a tollway in China's Shenzhen Province, for which it arranged the financing. Bechtel will operate that road after its construction in order to recoup its construction costs. Bechtel is also working on a large power plant in China but has not yet decided whether it will operate the plant after it is finished.

Over the past couple of years, Bechtel has done petroleum pipeline work in Tunisia and India and also helped build Motorola Inc.'s

new facility in Tianjin, China.

Mr. McAloon, Bechtel's project risk manager, said he relies on the construction firm's stable of international brokers to help put together insurance packages that protect the company and its financiers from unforeseen problems.

"Generally, we take the same approach overseas as in the U.S. There are no real borders in insurance," he said. Key issues are protection against delays in completion and start-up. "Since we're involved in financing, we know what we and the lenders need, but brokers can find it for us. The deal isn't concluded just because we strike it with the client."

Bechtel uses brokers in London, the United States and in cities where its branches are, including Bangkok, Beijing, Singapore, Kuwait and Mexico City, according to Mr. McAloon. "We know what we want and tend to use brokers as a sounding board to see if our wishes are feasible."

While Peoria, Ill.-based Caterpillar Inc. is not a construction company, it provides heavy equipment used on many big foreign construction sites and has subsidiaries and joint ventures for manufacturing, sales and distribution in Russia, China and Vietnam, among other locations.

Therefore, its global insurance needs are sizable.

Risk Manager Joe Negro said Caterpillar looks to brokers to help them out in emerging markets. "When you're getting into a new market, insurance questions loom large and we need some help sizing up what's necessary and available," he said.

Caterpillar uses primarily Rollins Hudig Hall Group Inc. and J&H for placing its international coverages, Mr. Negro said.

"Doing a job in another country is a lot easier if the business risk is well covered. It's nice to get a global program that will sit over everything, but you still need local primary coverages, safety and compliance with local regulations," which is where brokers help, he said.

Most important to Caterpillar, Mr. Negro said, is liability protection. "We need to know where our products are going and what the liability exposure is in those countries. We also need to analyze how litigious the countries are where we have operations. Most aren't now, but that could change. Management and D&O exposures are also something we assign to our brokers."

Brokers unanimously assessed global construction as a land of opportunity, but they offered mixed impressions of how willing the international insurance market has been to write construction risks.

"These contractors require innovation, which goes against most insurers' nature," said Willis Corroon's Mr. Parnell. "It's the brokers that are driving this market and the insurers are coming in kicking and screaming. They have to go beyond straight P/C and move into sophisticated financial and technological coverages. To get this requires a true global search," he said.

M&M's Mr. Halvorson agreed. "Every project has to be written on its own merits. Capacity depends on the zone, how susceptible it is to earthquake and how financially stable the participants in the project are," he said.

"You have to keep in mind that these contractors aren't in and out

Continued on page 20D

## A LOT HAS CHANGED SINCE WE ARRIVED IN THE UNITED STATES IN 1895.



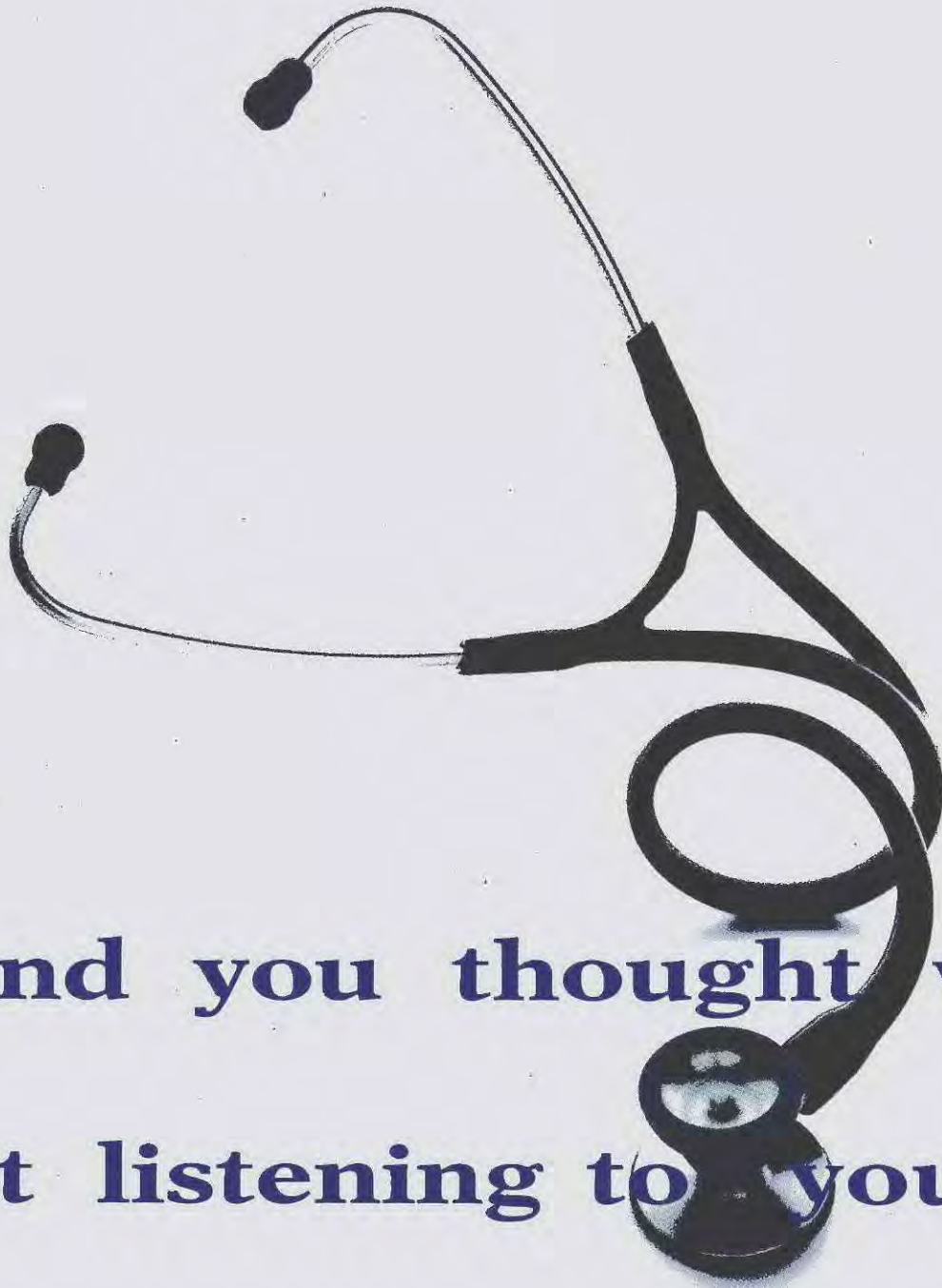
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Agent/Broker Topics

# Brokers see potential Latin American boom as demand for risk management help grows

By GAVIN SOUTER

Latin America is increasingly beckoning international insurance brokers.

The combination of deregulation of insurance markets, investment in the region by international insurers, privatization of state-owned companies and a growing interest in risk management is opening up opportunities for insurance intermediaries.

Although many of the Latin American markets are still often

seen primarily as opportunities for international reinsurers and reinsurance brokers, an increasing amount of primary coverage is now being handled by international brokers.

And, as governments in the region continue to open up the markets, brokers expect they will be increasingly called on to offer their risk management expertise, negotiating skills and access to new products.

The Latin American insurance markets still demonstrate substantial growth potential, said Jack R.



Perez, senior vp and chief executive officer at Alexander & Alexander International in New York.

Only about 1.2% of the world's gross premium volume currently is

derived from Latin America. But that is likely to climb as international brokers and insurers take advantage of the region's newly liberalized insurance markets, he said.

"There has been a fairly large increase in the marketplace because of the liberalization over the past three to five years," Mr. Perez said.

Previously, the markets were tightly controlled with state-owned insurers and tariffs. Most of the opportunities for foreign brokers and insurers came through offering reinsurance support.

Now brokers are able to negotiate the best deals with local insurers and the numerous foreign insurers that have established offices and subsidiaries in Latin American countries, Mr. Perez said.

"Latin America has always been a broker market, but in the past the brokers did not need a great deal of expertise because of the tightly controlled tariff markets," he said.

Now the role of the insurance broker is changing.

"There's a great deal of interest in risk management as opposed to insurance placement," Mr. Perez said.

Interest in risk management services is growing but is still largely undeveloped throughout Latin America, said Eliot Pardee, international director at Sedgwick James Inc. in San Francisco.

For example, self-insurance is usually limited to deductibles and there is minimal use of captive insurers, he said.

"There is still a lot of selling on price and a lot still depends on who you know rather than how professional you are," Mr. Pardee said.

To alleviate this problem, most of the U.S. brokers that have invested in the region have formed alliances with local brokers or have bought local companies or stakes in them, he said.

At the same time, the local policyholders are starting to change their insurance buying practices, said Harald Feldhaus, president of Brockman y Schuh in Mexico City, which is a member of the UNISON network.

"The major Mexican companies are becoming more and more professional and personal friendships are not as important as they have been in the past when the companies buy their insurance," Mr. Feldhaus said.

The companies in Mexico are looking primarily for professional advice and, to best meet those needs, major brokers in Mexico need to be part of international networks, Mr. Feldhaus said.

Most of the clients in Latin America that international brokers

*Continued on next page*

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## Construction

*Continued from page 20B*  
in two or three years. It's more like 23 years with the (build-operate-turnover) contracts. It changes the coverage issues," A&A's Mr. Battifarano said.

J&H's Mr. Langman called insurers' appetite for global construction "scarce."

He said costs are high and capacity is a tough issue.

"There is definitely a capacity shortage for political risk and force majeure. We'd like to be able to customize the (construction/all risk) policy to absorb that, but it's tough."

But John Lamberson, chairman of Lamberson, Koster & Co., a specialty construction broker in San Francisco, said coverage on international projects is fairly easy to obtain.

"We're tapping the world market without much problem. The only difficulty we're encountering is in countries that require that all coverage be placed with domestic insurers or state-owned insurers. Africa and Mexico can be a problem that way, but it's not an obstacle we can't deal with. The job always gets done," Mr. Lamberson said.

Continued from previous page currently serve are multinational companies with operations in the region, large domestic corporations that have sophisticated risk managers or recently privatized Latin American corporations.

"The newly privatized companies have now become targets for us. Before, the coverage was automatically placed by the government," Mr. Feldhaus said.

The companies being privatized throughout Latin America include large utility and energy companies, whose managements realize that they need the services of international brokers, Sedgwick's Mr. Pardee said.

"These are large, complicated risks and the companies realize that they need the services of a strong broker and a strong main underwriter," he said.

In Brazil, for example, brokers' services are more in demand, said Mike Liddle, president of Tudor Marsh & McLennan in Sao Paulo.

"We should see growth in Brazil because of substantial direct investment in Brazil and we are seeing the Brazilian companies becoming professionally managed as opposed to family-managed," he said.

Since the partial deregulation of the Brazilian insurance market in 1992, commercial policyholders have begun to use brokers for risk management services and to negotiate the best price for their coverage, Mr. Liddle said.

However, the growth of new products in Brazil is restricted by the requirement that large contracts be reinsured with the country's monopoly reinsurer, Instituto de Resseguros do Brasil, or IRB (*BI*, Nov. 7, 1994).

"Any risk that has above \$25 million in loss limits for combined business interruption and property damage has to go to the IRB," Mr. Liddle said.

The bureaucratic nature of the IRB effectively puts a stop on developing sophisticated insurance products, he said.

For example, coverages like financial institution bonds, environmental liability insurance and product liability insurance are little used in Brazil due to difficulties in reinsuring them through the IRB, Mr. Liddle said.

However, there is pressure for reform of the reinsurance market in Brazil and new legislation may be passed in 1996, he said.

Several U.S. and European insurers have invested in South America and they are receiving much of the business being placed through in-

ternational brokers.

Tudor Marsh & McLennan generally uses either local insurance companies with foreign investments or foreign insurers to cover large risks since they are the most likely to have the expertise to handle the coverage, Mr. Liddle said.

Foreign insurers often provide the best security for large policyholders, said A&A's Mr. Perez. "We deal with underwriters that we are familiar with and are comfortable with from a security standpoint. Many of the local companies suffer from a competitive and capacity standpoint."

Sedgwick often advises its clients to use local insurers only for as much of the risk that they are required to by local regulations, Mr. Pardee said.

"There are requirements of local

policies in the many Latin American countries, but for multinational companies we would recommend that they have a local policy and a master policy above that."

Using a master policy for a

Mr. Pardee said.

In Mexico, regulations require policyholders to place their business with local insurers, but much of the risk is then reinsured into international markets, Brockman y

holder may prefer to obtain coverage from a foreign-owned insurer in Mexico rather than a locally owned company to access the facultative reinsurance capacity of the foreign insurer's parent company, he said.

However, locally owned insurers throughout the region are beginning to fight to retain the business, said Mr. Pardee.

At the first Latin American Conference of Risk & Insurance Management in Cancun, Mexico, last November (*BI*, Nov. 14, 1994), many local insurers were trying to learn from each other, he said.

"It was obvious that the Latin American insurers were trying to pull together. They were anxious to learn from each other to help stop the business from going overseas," Mr. Pardee said. **BI**

## Some of the companies being privatized throughout Latin America realize they need the services of international brokers, says Sedgwick's Eliot Pardee.

global program gives policyholders better leverage in negotiating with their insurers and enables them to maintain a comprehensive claims record for all of their operations,

Schuh's Mr. Feldhaus said.

In fact, the need for reinsurance often affects where the primary business is placed, he said.

For example, a large policy-

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ALBANY, N.Y.—Independent insurance agent associations in Connecticut, New Jersey and New York have established an Industry Resource Center to handle members' inquiries on industry and legislative issues.

Formed by the PIA of New York State, the PIA of New Jersey and the PIA of Connecticut, the resource center will fill requests for information and assist agencies in buying, selling and merging and in obtaining company appointments. The resource center will also administer a PIA program through which agents can find markets for hard-to-place risks.

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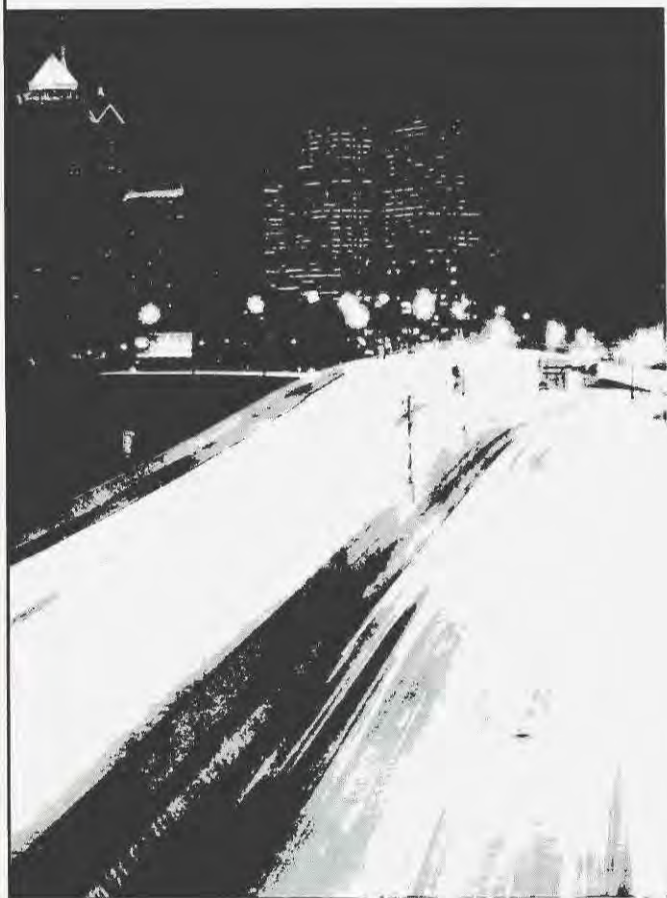
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## Agent/Broker Topics

# International intrigue: How a regional takes on world's largest brokers

By SALLY ROBERTS

What can a regional broker do when it must compete with the world's largest brokers for multinational accounts but lacks the critical mass to support a truly global operation?

Lockton Cos. Inc. thinks it has found the answer.

The Kansas City, Mo.-based property/casualty broker, which is among the 20th-largest brokers of U.S. business based on estimated 1994 revenues of \$57.5 million, has serviced numerous Fortune 1,000 multinational clients for many years, according to Tim Higgins, the director of international operations.

International placements account for about 5% of its estimated 1994 gross revenues, or \$2.9 million.

Not surprisingly, Lockton's biggest competitors for those accounts aren't other regional brokerages. Instead, Lockton says it often competes with Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc., the world's largest and fourth-largest brokers, respectively, with hundreds of offices around the globe.

To compete, Lockton must provide the same resources "even though we don't have a network of owned offices worldwide," Mr. Higgins said.

Instead, Lockton has entered into formal relationships with about 70 "service partners" that are active in about 50 countries.

Under these worldwide agreements, Lockton's international clients are serviced through brokers domiciled in their own or a neighboring country. Lockton's goal is for these brokers to provide the same level of expertise and service clients have come to expect from Lockton.

While some of these arrangements are exclusive or priority relationships—in which Lockton clients are the only or the top business serviced—few are reciprocal.

Only in some "key relationships" in Europe and South America will Lockton place U.S. business for clients of those brokers, Mr. Higgins said.

"We see this as an added value to our clients and not a profit center" for the company, he said.

Service partners provide better services than would small, fledgling Lockton offices around the world, he said. "You need critical mass to offer the best services (from such offices)."

Lockton currently employs about 500 people in five offices, while M&M employs more than 25,000 and A&A about 14,000.

However, any broker with significant networks around the world will have some strong offices and some weaker ones, Mr. Higgins said.

For Lockton, "the rule of thumb is that we work with the strongest independent broker in that country," he said. Many clients want the flexibility to work with the best broker in a given country for their specific needs, he contended.

Because Lockton isn't forced to service clients through its own offices abroad, which may not be the best-suited to meet a client's needs, it does not have to fit "a round peg in a square hole," Mr. Higgins said.

While this is not the only way to service international clients, "we find this allows us to bring the best ser-



vices to our clients with international needs.'

About two years ago, Lockton set up Lockton International, a division that provides consulting services, program design services and global service coordination to multinational clients, Mr. Higgins said. "We've formalized how to provide for international needs."

Consultants say that other brokers can successfully compete for international business, as Lockton has, without offices abroad.

Regional brokers "can handle international exposures, but it has to be done through partnering," said John Wicher, managing director of Russell Miller Inc. in San Francisco. "The exciting thing about the '90s is that partnering doesn't mean giving up an equity interest or forming a joint venture."

For example, regional brokers with little or no international experience that have clients with some global exposure can turn to domestic insurance companies with big international operations for assistance (A/BT, March 7, 1994).

Many insurers are "geared up to help mid-sized brokers deal with a myriad of foreign issues from regulatory to coverages," said Timothy J. Cunningham senior consultant at Hales & Associates in Westchester, Ill.

"It's not 100% absolutely necessary to have offices overseas," he said, though he admitted that some large accounts with big exposures in many countries may be better served by brokers with offices abroad.

Servicing a client that owns offices abroad is usually no different than servicing a domestic account with multiple U.S. locations, Mr. Cunningham said. A broker doesn't need an office in each of those cities to service the account. "They must be in the position to jump on a plane, but the only difference with international accounts is you have to have a passport," he said.

International clients are less concerned with whether the broker has an office overseas than how it will respond if an insurable event occurs overseas, consultants say.

"They want to hear, 'We're going to do these five things...,'" Mr. Wicher said.

One client that seems satisfied with Lockton's approach to overseas offices is engineering and construction firm Black & Veatch.

Lockton handles the Kansas City, Mo., company's professional liability worldwide and its general liability in 16 of the 45 countries where it does business.

"We don't see much of a difference in the international service provided by Lockton and other alphabet brokers" with owned offices in those countries, said Kirk Woodward, general partner and vp-administration.

Brokers thinking about establishing relationships abroad will need to

Continued on next page

# Uncertainty vies with optimism as brokers eye China

By GAVIN SOUTER

**B**rokers' dreams of drawing commissions from placing business in the world's most populous country may be moving closer to reality.

New regulations that could open up the vast Chinese market to more foreign insurers and possibly also brokers are expected later this year.

If foreign brokers are ultimately able to get licenses, they hope to generate substantial revenues from placing business for the many multinational companies with facilities in China as well as for local companies.

But for now, brokers are unsure just what any final regulations may say. Indeed, their hopes could be dashed with a change of government due to the waning health of Deng Xiaoping, some brokers say.

Still, most international brokerages are optimistic about their ultimate prospects in China.

"We are waiting for the new law to be ratified and I understand that the ratification is imminent," said Michael Faber, chairman of the international reinsurance group at Willis Faber & Dumas, a Willis Corroon P.L.C. unit in London.

The proposed law is scheduled to be put before the executive committee of the People's Congress in April. Few details are available but the hope is that it will allow foreign brokers in China, Mr. Faber said.

Currently, most brokers are required to place coverage for any Chinese business with the seven insurers operating in China but they are not permitted to collect a commission for that service, Mr. Faber said.

Willis Corroon has about 30 clients with interests in China, he said.

The lone exception to the restrictions on brokers is Sedgwick P.L.C., which in 1993 was permitted to set up a unit called Sedgwick Insurance & Risk Management Consultants China Ltd.



Sedgwick was permitted to enter the market as a "prototype broker" so that the Chinese regulators could see how it worked without disrupting the market, in which most insurance is sold through agents of the country's insurers, said David Brewer, chairman of the Far East region for

Sedgwick in London.

Sedgwick is allowed to collect commissions and it has more than 100 clients, including both multinationals and domestic businesses, he said.

Sedgwick deliberately left the word broker out of the title of its Chinese unit as the image of brokers in China is of intermediaries who take a commission without providing much service, Mr. Brewer said.

"By taking in risk management advice, we can help clients and they feel that they are getting something for the commissions... they are paying," he said.

And Chinese insurance buyers are beginning to adopt risk management concepts as they realize the impact it

can have on the cost of insurance for joint-ventures with foreign companies, Mr. Brewer said.

"They are becoming more insurance conscious and they understand the wisdom behind introducing risk management to reduce the likelihood of a loss," he said.

The level of commissions are around the international norms of 8% or 9%, Mr. Brewer said.

Brokers with only representative offices in China have to make other arrangements to get paid for their work. To ensure that they receive compensation, most brokers with clients in China make their insurance transactions in Hong Kong, said Terry Paradine, a managing director

and regional head of Asia-Pacific for Marsh & McLennan Inc. in Sydney.

"We have to find some way of getting remunerated and that is usually through a fee—though it is a problem getting paid in hard currency—and in Hong Kong," he said.

Most of the Western companies with facilities in China are involved in joint ventures with Chinese companies. Consequently, it is not a straightforward process of billing the multinational client for brokerage services, Mr. Paradine said.

"It is complicated and in some instances you do not get paid at the same level as you would normally," he said.

*Continued on next page*

## Lockton

*Continued from previous page*  
consider two things.

"It's a very costly endeavor" to expand services overseas, though it is clearly more expensive to open an office in a foreign country, Mr. Cunningham said.

Most of this expense comes from the extensive travel involved. Setting up the relationship means traveling to meet foreign brokers as well as frequent follow-up visits to maintain the relationship.

Brokers that want to set up relationships with foreign brokers "have to travel and meet people," agreed Lockton's Mr. Higgins.

Before establishing an international agreement, the regional broker should ensure that its new partner's international operations mirror its standards for expertise, resources, technology and philosophy.

"We perform tremendous due diligence" in establishing a relationship, he said.

Lockton makes "absolutely sure" it is working with people who are committed to remaining independent and have the resources to service Lockton's clients' international needs. It is also critical, Mr. Higgins said, that senior management at the brokers have the same business philosophies.

"We want to feel comfortable with the people we're working with," he said. **BJ**



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## Agent/Broker Topics

## China

Continued from previous page

Any changes to China's insurance laws will be only gradual, Mr. Paradine predicted. "China is not simply going to deregulate. The process of evolution is going to be long and controlled."

Even if brokers are licensed, they will still face restrictions. For example, they may only be allowed to place business for joint ventures involving a foreign partner, Mr. Paradine said. "You would probably have that for four or five years and, in that time, brokers would have to prove that they add value to the marketplace."

But if brokers do win a place in China they will find rich opportunities there, Mr. Paradine said.

"Though we would start off servicing our multinational clients, we would look to power projects and large construction projects where we think our expertise can add value."

Marsh & McLennan currently has about 100 clients with business in China, Mr. Paradine said.

About 50 Alexander & Alexander Services Inc. clients have interests in China, said Leonard J. Battifarano, vp in the global business development group of Alexander & Alexander International Inc. in New York.

"Most of the business that we have in China results from following our multinational clients there, but we are also involved in some infrastructure construction projects which are being carried out by a combination of domestic and foreign firms," he said.

The Chinese market itself has gone through dramatic changes since 1988, when the monopoly of the Peoples Insurance Co. of China was abolished.

Now there are seven insurers in China, including two foreign insurers with restricted licenses to operate in the Shanghai region: American International Assurance Co. Ltd., a unit of American International Group Inc. was granted a license in 1992; and Tokio Fire & Marine Insurance Co. Ltd. in 1993.

The PICC still has more than 90% of the market, but that has not restricted policy wordings for Chinese business, said Mr. Brewer of Sedgwick. "We've found that the insurance companies are very flexible and the PICC particularly so."

The Chinese insurers see dialogue with Western experts as an opportunity to develop the Chinese insurance system, Mr. Brewer said.

"If you go to them and say you want a certain type of wording, you are likely to end up with something akin to that," he said. "They say to us that seeing the foreign policies helps to modernize their thinking."

The PICC's open-minded approach typifies the mood in the Chinese insurance community, Mr. Brewer said.

"They want to expand the insurance system and they want to get it right. They don't want to fall into the same trap as other countries... where people are having difficulty getting paid for the insurance they provide," he said.

And despite the PICC dominance, there is competition in China for much of the business that international brokers are placing there, said Mr. Faber of Willis Faber.

For example, marine and aviation business and some large property business is extremely competitive as the new companies try to win some of the business, he said.

The claims service provided by the Chinese insurers is also acceptable to foreign companies operating there, said Mr. Faber. "You will always get cases where something has gone wrong but in my experience, the claims service which they provide for foreign companies is pretty good," he said. **BI**

## New product offerings require insight, effort

### Producers' input helps tailor coverages

By MARK A. HOFMANN

**K**nowledge, modern management theorists are fond of saying, is power. Underwriters hoping to ensure the success of a new product certainly wouldn't disagree.

But acquiring knowledge—in the form of every available scrap of information concerning the exposure the proposed coverage seeks to insure—is only one step in developing a new coverage.

There are meetings with the lawyers and actuaries to determine language and rates, and discussions with brokers and potential clients to find out if the product meets a real need. There are also regulatory and marketing hurdles. After all that, there still is the disturbing possibility that the product might prove to be an expensive dud, whether through a lack of understanding of the market or sheer bad luck.

The first bit of information required is whether there is a need for the product. This is where feedback is needed from brokers and agents. Successful product launches require time to refine ideas with client and broker focus groups to make sure the proposed coverage fulfills not just a small niche need but offers something to the broader market.

"Initially, the way most new products are developed at AIG is through client discussions," explained Anthony S. Coddling Jr., an assistant vp at National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

Sometimes clients ask for a coverage that doesn't exist, and other times new legislation spurs the need, said Mr. Coddling, who played a key role in developing National Union's patent infringement liability policy, which was introduced about a year ago (*BI*, Jan. 2).

"It all starts with listening to the client. Our best source is asking our clients, and that includes brokers," said William Kronenberg, president of Environmental Compliance Services Inc., a privately held insurer in Exton, Pa.

One product that was driven by client demand, the consultants environmental liability policy, was introduced by ECS in 1990 and is today one of the insurer's mainstays.

Before then, ECS sold a contractors pollution legal liability policy and a professional liability policy for environmental consultants. But clients said that, as they grew, consultants hired contractors and vice versa.

"They told us there were going to be fewer and fewer stand-alone" contractors and consultants, said Mr. Kronenberg.

ECS responded by creating a single policy with coverage A and coverage B to cover both contractors and consultants, with the policy provisions rated separately, he said.

"That matched the market. The product really took off," he said.

Once an underwriter has identified a need, a great deal of background information is needed to determine how often claims would come in, how severe they would be and which sort of companies might have more claims than others.

The information is gathered from "any source available," said Thomas R. Cornwall, vp-electronics industry group in the commercial lines division of Chubb & Son Inc. in Warren, N.J.

One of the best sources is trade associations, said Connor M. Harrison, director-underwriting education for the Insurance Institute of America in Malvern, Pa.

"Those folks can also give you a good idea of what is a good risk and a bad risk," he said.

ECS's Mr. Kronenberg agreed, say-  
*Continued on next page*

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**BSC America**

Continued from previous page  
ing that ECS joins trade groups as an associate member to find out what exposures certain industries face.

He said access to the association publications is particularly valuable. The insurer also subscribes to periodicals dealing with an industry's environmental exposures and scours state, federal and even county environmental regulations, he said.

Another source of information, one unavailable only 20 years ago, is on-line databases, noted David J. Firstenberg, a vp with Chubb who was instrumental in developing Chubb's Customaq policy that recently hit the market (IT, Jan. 16). He said databases like Nexis and Lexis make information gathering somewhat easier than it was in the past.

Mr. Kronenberg called databases a "dual-edged sword." On one hand, "you can find out almost anything you want to know about any square acre in the U.S. by plugging in." But, databases cannot replace the importance of sending a trained professional to a site to get firsthand information about the exposure, he said.

As the insurer gathers information, an underwriting team meets with inside and outside counsel, actuaries and experts in the field to look at every angle of the exposure, said National Union's Mr. Coddling.

"One of the key things we were looking for was some historical experience" on the frequency and severity of patent infringement suits, he said. Such data is the key to pricing.

The team had the counsel draft policy language and worked with actuaries to develop initial rate guidelines. Mr. Coddling said that when the team developed rates, it looked at other products National Union knew a lot about, such as directors and officers liability insurance and various errors and omissions policies because claims in both appeared to be similar in frequency and severity.

ECS's Mr. Kronenberg also follows the team approach, with representatives of loss control, claims handling and underwriting helping to formulate the new coverage.

After a proposed product is outlined, the insurer brings in potential customers and asks them about their concerns, and what they would want to know about an account like this, he said. In fact, clients have helped develop the applications for the new coverages, he said. The lawyers actually write the policy.

Mr. Kronenberg said that over the years, he has realized that almost any property owner has a potential pollution exposure. As a result, when ECS is developing a new coverage, the insurer tries to determine which other customer groups might have the same risks and tries to "tweak" policies to fit the needs of new potential industries as clients, he said.

An example of how pending legislation can spur new products came in 1974, when National Union launched the Employee Retirement Income Security Act fiduciary liability policy, said Joseph DeAlessandro, a one-time National Union officer who also is credited with developing the directors and officers liability policy. Mr. DeAlessandro, who is now a senior vp with The Travelers Inc. in New York, said he began tracking the ERISA debate through legislative bulletins months before the bill became law. As the probable shape of the new law became clearer, he said he realized that "if this happens, we have an absolute need to protect these people."

He assembled a team that included inside and outside counsel and senior underwriting staff to devise an ERISA fiduciary liability policy. That task was somewhat easier than expected because ERISA fiduciary liability is

"awfully close to" D&O liability. The team explored policy wordings with inside and outside counsel and discussed the exposure with actuaries. The team sought to know whether ERISA fiduciary liability would generate much litigation and how many fiduciaries would be affected by the law, he said.

"Pricing was tricky because there was no great body of knowledge" about the exposure, he said. As a result, National Union proceeded on a "what-if basis," by examining worst-case scenarios and their likelihood.

Tricky though it may have been, the brainstorming and research paid off, said Mr. DeAlessandro. "We did not change the premium structure for a number of years."

And the morning after President Gerald R. Ford signed ERISA into law in September 1974, the insurer had

its product on the market. But Mr. DeAlessandro noted that simply introducing a product isn't the end of the process. In fact, the aim of a successful marketer of a new product is to make it "basically competition proof." While competitors play catch-up, the underwriters that introduced the new coverage attempt to refine and improve it by adding new features or options, he said.

Regulators can also present problems for a new product launch.

"The hardest part is to get the state insurance departments to let you develop something for which there is no statistical base," said Mr. Cornwell of Chubb.

A truly new product means a truly new policy form, and that "can really jar the regulator," said Chubb's Mr. Firstenberg.

Regulators' pace in approving

changes generates "enormous frustration" among underwriters. Insurance departments sometimes require "rafts of paper" concerning how an insurer has developed its rates, he said.

Even with regulatory approval, some products simply don't fly according to plan.

Mr. Kronenberg noted that a few years ago, ECS—like many other insurers—put a lot of resources into persuading lenders that its pollution legal liability policy would help lenders. But ECS failed to do two important things: Listen to the bankers and work closely with their trade associations. Had it done so, ECS would have realized "we're trying to sell a policy to somebody who's convinced that the problem we're insuring against is going to disappear shortly."

Bankers felt their environmental liability would be circumscribed by fed-

eral and state authorities, which is now happening. The policy turned out to be a slow seller. Then there are the new coverages insurers wish they never sold, the Insurance Institute's Mr. Harrison said. Working for an insurer a few years ago, he helped develop a beekeeper's liability policy, an uncommon coverage. After months of research, the first policy was issued.

The owner covered by that first policy had to move his hives, driving through a small town. But, the truck overturned, freeing thousands of bees. The mayor ordered the town sprayed to kill the bees. It worked, the bees were a total loss and all of the insurer's assumptions went up in smoke because of a freak accident.

"We probably could have gone for 20 years without that happening," said Mr. Harrison.

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# Agents team marketing with technology

By Jeff Neilson

TELEMARKETING and infomercials are a sophisticated marketing tool that the insurance industry is beginning to tap. These marketing strategies require a careful approach if they are to be successful for agents and brokers.

There were half a million people employed in telemarketing 10 years ago. By the end of the decade, there will be 8 million, experts predict.

It's hard not to notice the infiltration of infomercials into business marketing plans. This includes agencies, insurers, vendors and even policyholders. We have seen businesses like Imperial Premium Finance, Chubb Corp. and small and large agencies and brokerages customize infomercials.

It's no longer buyer beware—it's seller beware. How do we convert the suspect into a prospect and convince them to call us? What a concept: call us. An infomercial approach is one of the strongest means of getting your message in front of your prospective clients. However, the agency or insurer that is about to embark on a telemarketing/infomercial campaign must be prepared. The infomercial business has evolved a great deal, as has the response

## Combining infomercials with telemarketing can be successful tactic

handling.

Independent agencies and insurance companies must train their staff to manage the inbound and outbound telemarketing activity that results from an infomercial campaign. If the internal commitment to a complete follow-up process is weak, opt for an outside telemarketing firm.

Many agencies and insurers outsource this task to companies that specialize in and understand the process. Few telemarketing firms can claim a specialization in infomercials and telemarketing. Agencies and insurers using these firms will experience measurable success due to precise planning, exceptional implementation and strong follow-up, as well as constant communication throughout the campaign. Technology has become an essential component in each of these areas.

Everyone agrees that a carefully planned program has the best chance for success and that ample set-up time for all is essential. However, when a schedule must be tightened, the planning time often gets hit the hardest. Involving the response handling team members in the program

### A/BT Perspective

from its inception will help to alleviate this problem.

Automation lets your response team expedite many of the more time-consuming aspects of infomercial/telemarketing program planning. Tasks such as handling calls, appointment-setting, scripting, staffing, mailings and 800 numbers can be done by an experienced telemarketing firm.

An outside firm that specializes in infomercial telemarketing can give you more accurate response-rate projections. This leads to more effective staffing of coordinators and producers for leads and appointment follow-ups. Training a sales center coordinator, producer and an outside telemarketing firm is essential with infomercials. Test the script in a realistic environment. Most firms that specialize in infomercials will help implement the script and training.

As for contacts, tell 'em, tell 'em again, and tell 'em what you told 'em. The use of a customized pre-approach letter, newsletter and the infomercial mailing to a target class of businesses will encourage that audience to call an 800 number. Many agencies have started using infomercials and telemarketing to improve the quality of—as opposed to increase the number of—leads.

The key is to time each mailing well. Mail the infomercial seven business days after a pre-approach letter to give ample time for the post office returns. Inbound telemarketing calls typically begin three days after the suspect receives the infomercial. The outbound telemarketing should start seven business days after the videos have been mailed. With an average response rate between 1%

and 3%, direct mail alone is no longer an effective option. It takes 11 contacts before someone associates your name with your agency and what you do.

It's important to integrate a custom newsletter or ongoing form letter to the target list with the marketing program throughout the year. These contacts will eventually allow you to set an appointment and plant a seed to establish an ongoing relationship.

Just as call handling can make or break a successful response, good service can break an agency's renewal business. The servicing of inbound and outbound calls is a prospect's first contact with your firm. Automation can help make that contact as convenient and pleasing to the prospect as possible.

The first step in the infomercial process is to be armed to answer the inbound and outbound calls. It's important that the telemarketing firm, agency or insurer have the phone calls answered and conducted by a well-trained telemarketer who can discuss insurance in layperson's terms.

This person doesn't need to have a CPCU or CIC designation but must be able to gather the following information from the caller: current agency, insurers, expiration date by line and premiums paid; number of full-time employees; sales; SIC code; number of locations; claims history; and number of owners, partners and decision makers. The ultimate objective is to set an appointment for the producer to visit the company. The producer then can determine if the prospect is truly a candidate to add to your book of business.

Automation is essential to quickly and accurately feed marketing data into your format of choice. A telemarketing firm

should support an automated lead delivery system to hard copy, diskette, tape or electronic data transmission to the agency or insurer. This marketing intelligence will vary depending on whether the infomercial telemarketing campaign is oriented to commercial or personal lines.

The agency, company or outside automation ensures quality and accuracy of the marketing data. Another important component in this process is a sophisticated phone system that will let an operator or receptionist know the call is from the infomercial. Most telemarketing firms have this capability and can address this need. This phase of the process is only the beginning of creating a mature database of prospective clients. It's important to have constant follow-up and ongoing contact to keep marketing intelligence updated and the database current.

During the entire program, the agency or insurer must work as a team with the outside telemarketing company to ensure the highest possible degree of success. Each member of the team must understand and have the skill to represent the product in a way that is consistent with and supportive of the agency's or insurer's image and goals. Communication throughout the program is vital but can be a challenge if the telemarketing firm doesn't have insurance experience.

Technology is essential to ensure successful communication between the telemarketing firm and agency during the life of the program. Use available technology: contact management software, sophisticated phone systems and electronic delivery to generate useful and easy-to-read reports.

Marketing data can be gathered and dynamically analyzed. Agencies can accurately measure the cost per lead, appointment and sale. A telemarketing firm with a sophisticated phone system will give you the capability to dial in by phone to monitor the results of your program. A telemarketing firm with this capability allows you to evaluate and make script adjustments on an ongoing basis. The flexibility of the telemarketing effort means you can change at a moment's notice.

Automation has become an invaluable tool in telemarketing/infomercial response handling. Used correctly, technology can provide quantitative and qualitative benefits to everyone involved in the telemarketing infomercial process. As the telemarketing/infomercial concept continues to evolve, so will the response handling technology. The key to a successful telemarketing/infomercial program is to find a strong response handling team that understands your goals and can effectively offer and manage the program to achieve them. Technology, combined with the right team, can make a difference between an average response rate and an exceptional one. **EB**

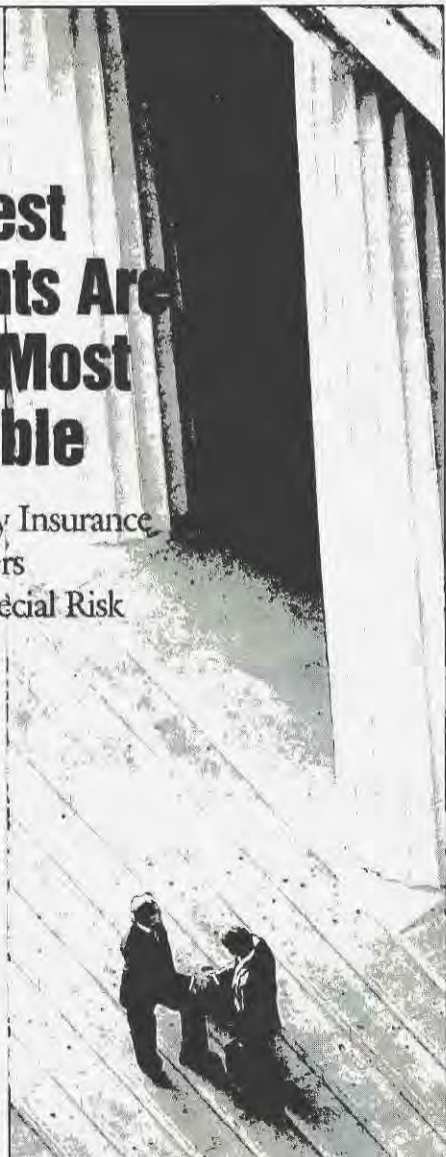
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Jeff Neilson is executive vp and co-founder of National Marketing Services, a fully automated telemarketing firm based in California and New York that specializes in industry-specific infomercials and telemarketing programs.

# Homework helps firm profit from niche: Agent

By ROBERTO CENICEROS

**A**gents and brokers that want to build specialty niche programs must take several steps to ensure the programs' profitability, an agency principal says.

Speaking at a recent conference in San Francisco on "Designing and Managing Specialty Niche Insurance Programs," Martin E. O'Brien outlined six critical factors in maintaining a quality, profitable and stable book of business. The San Francisco conference was sponsored by the Insurance Advisory Council, a division of the International Quality & Productivity Center.

Mr. O'Brien, president of Pittsburgh-based Allied Insurance Brokers Inc., told the audience that in the late 1970s he had heard that scaffolding manufacturers were finding it nearly impossible to obtain insurance.

"I realized there was an entire industry out there that needed coverage," he said. "I went about trying to develop a systematic way to identify prospects to place."

Today, Allied is a "medium-sized, predominantly retail agency with an expanding wholesale program department," Mr. O'Brien said. His producers place some local property/casualty business, but Allied's anchor is in national, specialty pro-

grams for scaffolding, aerial lifts and ladder manufacturers and the contractor equipment rental industry.

Allied is among the nation's top three producers of property/casualty coverage for those industries, he said.

Mr. O'Brien said he has been a dedicated student of his specialty market, clients and competition since he discovered the niche.

Over a period of several months he searched through stacks of telephone directories, jotting down the name of every scaffolding company in the United States. Then he sent out letters and followed up with telephone calls.

"This is how I discovered in the early 1980s a great untapped void in the market and the tremendous opportunity to develop a national niche market insurance program," he said.

According to Mr. O'Brien, the six critical factors for maintaining a profitable specialty program are:

- A properly trained and qualified sales staff.

- Program applications and forms that provide a comprehensive and accurate picture of the applicant's operation.

- "I firmly believe the backbone to a program is a good program application," he said.

Allied helps clients improve their risk management by, for example, requiring rental and sales company

contracts to contain mandatory hold harmless clauses. Clients must also supply the broker with equipment inventory lists, loss runs and demonstrate an understanding of proper safety guidelines. Allied will not place coverage for businesses whose risk management efforts fall short.

"I cannot even tell you how many accounts we refuse to quote but end up written by our competitors, who do so without requiring this information," Mr. O'Brien said. "Yet we refuse to change our requirements because we believe that in the long run, not following your guidelines will kill a program."

- Maintenance of a new-business desk by an account executive who collects information during the quotation stage through direct contact with a prospective client. The new-account executive forms an opinion separate from the salesperson.

- Discussion of every potential account.

At Allied, new business is reviewed at meetings where the salesperson, a marketing manager, the new-accounts executive and Mr. O'Brien are all present. "Each and every prospect is discussed," he said.

- Cooperation with insurers and their underwriting personnel.

The final decision to write a policy does not rest with a broker, Mr. O'Brien noted. Insurers have the final say on pricing.

"Therefore, it is incumbent that we avail ourselves of each other's expertise so we both know more about the nuances of our niche," he said. For example, when Allied noted an increase in claims frequency for rental equipment businesses, the agency worked with the insurer to jointly develop additional questions to insert into customized applications.

That type of cooperation can help a specialty niche program avoid unknown exposures and remain profitable.

- Loss control and claims management.

This is the most critical factor, Mr. O'Brien said.

Allied developed a standardized loss control form to help establish a profile of what constitutes a good account and further improve the agency's loss ratios.

"Of course, what we are paying on claims, what we are paying out on meritless claims, will decrease a program's profitability and increase the account's loss ratio, making it more difficult for a program to remain viable," he said. "The importance of claims management cannot be overstated."

Besides the six critical factors, other practices contribute to maintaining a profitable specialty program, Mr. O'Brien told the conference audience.

For example, Allied has its own

in-house attorney, a dedicated renewal department, state-of-the-art computer capabilities and has invested heavily in advertising, he said.

"Program business has very significant financial costs and it takes years to get your name out" in the stream of consciousness, he advised. "Be patient and be persistent."

Tracking prospects and knowing their current broker and insurer has given Allied a competitive advantage in its market, Mr. O'Brien said.

"If the (competing) broker or insurer has a problem we can immediately capitalize on, then we sit and develop a game plan to focus on winning over their clients," he said.

"As a case in point, in the fall of 1993, in the scaffolding field, one of our longstanding competitors who used a foreign insurer lost its market, leaving its clients without coverage.

"That day we ran a list of his clients. We sent letters to them and followed up with phone calls and ended up (placing) 90% of his clientele within a two-week period," Mr. O'Brien said.

In a specialty niche market, establishing rules for dealing with competitors is a priority, he said.

In addition, businesses for which coverage is difficult to place will attract a few offshore and non-rated insurers. Obtaining financial information about them and communicating it to prospective clients can help win over business, he said. "I only bring this up because alternative markets can siphon business from a well-run program," he said. **BI**

## Industry group announces awards

ALBANY, N.Y.—The Professional Insurance Agents of New York State Inc. has named Arthur I. Golden as Professional Agent of the Year.

Mr. Golden, the owner of Golden & Golden Associates in St. Albans, N.Y., was honored recently for his contributions to the insurance industry, his fellow agents, PIANY and the community.

He is a past president of PIANY and has served on several of the organization's committees, including as chairman of the government relations, nominations, executive and continuing education committees.

Mr. Golden has been a member of the board of directors for the Council of Insurance Brokers of Greater New York.

Mr. Golden has served as a state-appointed public member of the New York Property Insurance Underwriting Assn.'s board of directors and as chairman of its anti- arson committee.

He also is a member of the Insurance Services Office Inc.'s producer liaison committee.

In other news, the agent association named Edward Smitkin as its Company Person of the Year.

PIANY honored Mr. Smitkin, marketing representative at New York Central Mutual Fire Insurance Co. in Edmeston, N.Y., for his efforts to improve the relationship between his company and the agents with whom the insurer works.

Mr. Smitkin, who has been active in the insurance industry for the past two decades, has also served a stint as president of the Insurance Managers of Eastern New York.

The Professional Insurance Agents of New York is a trade association representing independent insurance agencies through New York state. **BI**

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**Agent/Broker Topics**

By **MATT ROUSH**

*Crain News Service*

**F**or a look at just how major banks are getting serious about insurance sales, consider Comerica Inc.

The Detroit regional bank has hired about 25 life insurance agents and is looking to hire 15 more as it moves into life insurance in a big way.

Comerica first bought an insurance agency last February, when a state court ruling temporarily allowed Michigan banks to own insurance agencies. The agency was owned by a third party that had been supplying insurance services to Comerica—a requirement for banks before the court ruling.

The result of that ruling was formalized late last year through a state law allowing banks to sell insurance in Michigan.

Agent groups initially fought the measure but dropped their opposition when it became clear that Gov. John Engler was on the banks' side. Then the agent groups settled for restrictions in the law barring banks from making their customers' insurance decisions a factor in loan approvals.

Last October, Comerica subsidiary Access Insurance Services Inc. began hiring agents.

"We expect we're going to get up

# Comerica taking advantage of Michigan law allowing banks to sell insurance

to 40 by the end of the second quarter," said Andrea Martin, managing director of Comerica's securities and insurance group.

Those 40 agents will be spread among Comerica's approximately 290 Michigan branches, selling just about every form of life insurance from a list of 10 underwriters, including AIG Life Insurance Co. of Wilmington, Del., and UNUM Life Insurance Co. of Portland, Maine.

Each agent will work six to eight branches and will make appointments to see customers based on referrals from branch staffs and their own prospecting work.

"We've trained the branch staffs on the basics of insurance services and how to identify good referral prospects," Ms. Martin said. "We're also doing some direct mail."

Comerica has also placed advertising on posters at branches and on automated teller machine screens.

Though insurance sales may never be a major revenue source, banks consider the business valuable for other reasons.

"I'd expect insurance to be probably less than 4% or 5% of their revenues on a near-term basis," said

Tony Howard, a Roney & Co. banking analyst in Detroit. In fact, he said, annuity sales are growing faster for banks.

"But I think a lot of this has to do not necessarily with what this business does in revenues but that it will keep the bank in contact with its customers more often, so they can continue to sell the customers the core banking services," Mr. Howard said.

Banks hope life insurance will be big business, but for now they are just trying to meet customer needs, agreed Michael Moran, a bank analyst at First of Michigan Corp. in Detroit.

"The lines are becoming so blurred between traditional banks, traditional insurance companies and traditional brokerage houses that all these firms want to be able to deliver all of the financial services a household might need," Mr. Moran said.

At Comerica, the securities and insurance group employs 160 people. While that's only a fraction of Comerica's total employment of 14,000, it's a huge increase from just three employees when Ms. Mar-

tin took over the division in 1990.

Agent and small-business groups opposed giving banks the power to sell insurance, arguing that banks might make purchasing insurance from them a condition of loan approval.

"We took great pains to make sure our business plan would... clearly separate these activities and make sure there is no conflict," Ms. Martin said. "We do not even talk about insurance sales when a loan approval is pending. It's against our policy, and the branch staff has been trained in that."

Comerica's banking competitors in Detroit have long offered some forms of insurance through third-party companies but haven't gotten into life insurance in a big way.

NBD Bancorp Inc. of Detroit and Michigan National Corp. in Farmington Hills are selling life insurance through New York-based Essex Corp., the nation's biggest third-party marketer of bank insurance services.

NBD did take advantage of the change in Michigan law to buy the 80% share of Charter Oak Insurance

of Michigan Inc. that Essex had owned to provide NBD's insurance services.

The bank is training its existing force of Charter Oak annuity and term life insurance sales representatives to sell whole life insurance, said Russ Browne, an NBD first vp in charge of the bank's retail investment and insurance group. NBD plans to push life insurance products through in-branch signs and direct mail this spring, he said. NBD as yet plans no new hires to boost sales, Mr. Browne said.

NBD also owns an Indiana agency that was part of a 1986 acquisition. Indiana has allowed banks to sell property and casualty insurance since the turn of the century but doesn't yet let them sell life insurance.

Michigan National uses the same 45 Essex representatives who sell securities, such as mutual funds and annuities, to sell life insurance, said Dean Kelly, president of Independence One Brokerage Services Inc.

But, Ms. Martin said Comerica believed a major push into life insurance required hiring agents who sold life insurance more or less exclusively.

"We didn't feel we would get the same penetration into the life market the way that we would get using a dedicated set of life insurance agents," she said. **BI**

## A/BT Briefs

### IMUA essay contest

NEW YORK—The Inland Marine Underwriters Assn. is accepting entries for its fourth annual inland marine essay contest.

This year's topic is computer technology and the opportunities it presents to the inland marine underwriter. The contest is open to all insurance industry personnel, including agents, brokers and underwriters as well as full-time college students.

First prize is \$1,000, a trip to IMUA's 1995 annual meeting in San Antonio, Texas, and a commemorative plaque. The runner-up will receive \$500 and a plaque.

The deadline for submissions, which must be original works, is March 17. Essays will be judged by a panel of inland marine insurance professionals and representatives from the Insurance Institute of America and The College of Insurance. Winners will be notified by April 28.

For information and entry forms, contact Tracey O'Donnell at IMUA, 212-233-7958.

### Ethics awareness

MALVERN, Pa.—March is Ethics Awareness Month in the insurance industry.

Established in 1990, Ethics Awareness Month features discussions and video presentations throughout the nation by chapters of the CPCU Society and American Society of Chartered Life Underwriters & Chartered Financial Consultants.

More than 200 property/casualty and life/health insurers, as well as trade associations and professional societies, are expected to participate in the program.

The monthlong program is sponsored by the American Institute for Chartered Property Casualty Underwriters, the CPCU Society, The American College and the American Society of CLU & ChFC.

CPCU chapters and companies that endorse Ethics Awareness Month will receive copies of the AICPCU's "Code of Professional Ethics." CLU/ChFC chapters will receive

ethics case studies and the booklet "Selling Ethically: How Do I Benefit?" published by the Life Insurance Marketing & Research Assn. Inc.

For more information about Ethics Awareness Month, contact Karen Burger at the American Institute for CPCU, P.O. Box 3016, Malvern, Pa. 19355-0716; 610-644-2100, ext. 7504. Or, contact the American Society of CLU & ChFC, 270 S. Bryn Mawr Ave., Bryn Mawr, Pa. 19101; 610-526-2500.

### Broker honored

NEW YORK—Ernesta G. Procope, chief executive officer and president of insurance broker E.G. Bowman, was recently named "Woman of the Year" by the Police Athletic League of New York.

Ms. Procope was honored for her humanitarian efforts and contributions to business. Among other honors, she has received a special award from former First Lady Patricia Nixon and was named special ambassador to Gambia by President Ford.

New York-based E.G. Bowman is the nation's largest minority-owned commercial insurance brokerage, with clients ranging from colleges and churches to Fortune 500 companies (A/BT, July 5, 1993).

### Recruiting down

FARMINGTON, Conn.—The number of new life insurance agent recruits is falling, according to the Life Insurance Marketing Research Assn. International.

Inexperienced full-time ordinary agent recruiting declined 18% in the third quarter of 1994 from the same period in 1993. Through the third quarter of last year, recruiting of inexperienced ordinary agents was down 17%.

The findings are based on "U.S. Recruiting Trends," a quarterly survey of 65 companies by LIMRA International.

LIMRA International is a Farmington, Conn.-based financial services research organization. **BI**

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## Business Insurance

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*Continued from previous page*

**Officers:** William Nelson, chairman; Al Seyler, president.

**Contact:** Christine Englund.

### Hay/Huggins Co. Inc.

229 S. 18th St., Philadelphia, Pa. 19103; 215-875-2837; fax: 215-875-2833

**Benefit systems since:** 1982.

**Parent:** The Hay Group.

#### Software products:

■ PCL—Pension Calculation Language.

**Price:** \$20,000.

**System requirements:** IBM compatible PC with 2MB RAM; Windows platform.

#### Customized system.

**First Installation:** 1992.

**Total Installations:** Eight, all in employee benefit departments.

**Benefits managed:** Retirement/pensions, Social Security benefits.

**Features:** Provided defined benefit administration, benefit calculation and estimates, customized reports to communicate benefit program information to employees.

**User support:** Onsite training\*, telephone assistance eight hours per day\*.

\* Included in system price.

**Staff:** 200 total, 75 professionals.

**Clients:** 50 total, including 25 benefit departments. Sold systems to 10 clients in 1994.

**1994 revenues:** \$20 million total. \$4 million from employee benefit information systems sales and services, 25% from software sales, 75% from software services.

**Officers:** Ken Shapiro, president; Kurt Fichthorn, Don Samples, executive vps.

**Contact:** Erwin Lerch, assistant vp.

### Health Management Technologies Inc.

1150 Moraga Way, Suite 150, Moraga, Calif. 94556; 510-631-6750; fax: 510-631-6789

**Benefit systems since:** 1988.

#### Software products:

■ Return, Managed Disability PC Software.

**Price:** \$35 to \$100,000.

**System requirements:** IBM compatible PC; LAN version; DOS or Windows platform.

#### Customization optional.

**First Installation:** 1988.

**Total Installations:** 450.

**Benefits managed:** Workers comp, disability.

**Features:** Manages case process; channels to cases to selected providers; coordinates return to work; provides electronic address book of providers, treatment sites and resources; documents case activity, referrals and case notes; monitors medical utilization, case outcomes and estimated cost savings; includes standard letter generator, accounts receivable for case management, ad hoc report writer, job analysis with disability duration guidelines, "front ends" bill audit and claims system; electronic data interchange support.

**User support:** User groups/meetings, onsite training, telephone assistance 10 hours per day\*, newsletter\*.

\* Included in system price.

**Staff:** 17 total, five professionals.

**Officers:** K.J. Wolfe, president; James Wolfe, chief marketing officer; Mary McDevitt, vp-client services; Eric Wolfe, senior vp-technical services.

**Contact:** James Wolfe.

### Hewitt Associates L.L.C.

100 Half Day Road, Lincolnshire, Ill. 60069; 708-295-5000; fax: 708-913-9509

**Benefit systems since:** 1974.

#### Software products:

■ Defined Contribution Administration System.

**System requirements:** IBM/MVS mainframe.

#### Online customized system.

**First Installation:** 1974.

**Total Installations:** 250.

**Benefits managed:** 401(k) plans, profit sharing, ESOPs, KSOPs.

**Features:** Administers all types of defined contribution plans, including savings, qualified and non-qualified plans; maintains database of employee and plan information; processes plan data; provides complete reporting capabilities; ability to administer up to 15 plans and 20 investment options; monitors limits on 401(k) contributions, calculates employer matching; administers withdrawals, final distributions, and loans. Options include

telephone voice response system; access to account representatives at Hewitt Associates Benefit Center; interactive software for modeling or transaction purposes via PC or kiosk.

#### ■ FlexSystem.

**System requirements:** IBM compatible PC with 512K RAM; DOS platform. Also operates on IBM/VMS mainframe.

**Online or client based; customized system.**

**First Installation:** 1985.

**Total Installations:** 250; 170 in employee benefit departments.

**Benefits managed:** Flexible benefits, COBRA, group health plans, life insurance.

**Features:** Administration of all aspects of flexible compensation program; administers employee enrollment, including calculation of flexible credits, preparation of personalized enrollment statements, processing of employee confirmation statements, calculating and reporting payroll deductions; handles flexible spending account recordkeeping and administration for health care and dependent

care accounts; updates employee coverages; processes new hires and terminations; reports benefit plan information; monitors employee coverages throughout plan year. Options include telephone voice response system and interactive PC software to automate enrollment; connection to Benefit Center where representatives answer employee questions.

#### ■ Pension Administrator.

**System requirements:** IBM compatible PC with 460K RAM; single user or LAN; DOS or Windows platform. Also operates on IBM/MVS mainframe.

**Online or client based; customized system.**

**First Installation:** 1986.

**Total Installations:** 150; 140 in employee benefit departments.

**Benefits managed:** Retirement/pensions, Social Security benefits.

**Features:** Calculates numerous types of pension benefits, including actual, estimated and projected; prints employee statements and letters; manages and maintains a comprehensive employee database which is used to calculate retirement, disability, termination and

death benefits; determines eligibility; calculates actual benefits for future termination dates based on users growth assumptions; up to 32 optional forms of payment may be displayed for benefit calculations; performs on-line or batch processing; produces benefit statements; generates ad hoc reports, letters and worksheets; estimates Social Security benefits based on input earnings; monitors IRS Code Section 415 benefit limits. Options include voice response system to access accrued and projected retirement benefit information; employee and retiree access to account representatives at Hewitt Associates Benefit Center.

■ Total Benefit Administration System.

**System requirements:** IBM compatible PC; OS/2 platform.

#### Online, customized system.

**First Installation:** 1992.

**Total Installations:** 15, all in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, group health plans, profit sharing, Social Security benefits.

**Features:** Administers any combination of defined contribution, defined bene

fit and flexible and welfare plans through a single database of benefit information; produces all necessary statements; includes telephone voice response system. Options include employee access to Benefits Center where account representatives talk to participants on an interactive computer link, allowing employees to do modeling and perform transactions via kiosk.

**User support:** Onsite training\*, telephone assistance eight hours per day\*.

\* Included in system price.

**Staff:** 3,800 total, 2,400 professionals.

**Clients:** 721 total. Sold systems to 36 clients in 1994.

**1994 revenues:** \$396 million total. \$132 million from employee benefit information systems sales and services, 100% from software sales and services.

**Officers:** Dale L. Gifford, CEO; Richard W. Hutson, director-business development; Gerald I. Wilson, chairman-executive committee; Christine A. Seltz, director-public relations; David J. Wille, director-human resources.

**Contact:** Barbara V. Rueth.

*Continued on next page*

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**Spotlight report**

Continued from previous page

**Human Resource Consulting Group Inc.**

428 E. 6400 S., Suite 220, Salt Lake City, Utah 84107; 801-261-6555; fax: 801-261-6575

**Benefit systems since:** 1983.**Software products:**

■ 401k Bonus System.

**Price:** \$5,000 and up.**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.**Customization optional.****First Installation:** 1983.**Total Installations:** 100; 45 in employee benefit departments.**Benefits managed:** 401(k) plans, profit sharing, life insurance, retirement/pensions.**Features:** Defined contribution plan administration; supports stock bonus, 401(k), money purchases, profit sharing, tax shelters and annuity plans; provides complete discrimination testing and share accounting. Optional modules include employee communications via computer terminals, voice response and touch screen enrollment; provides eligibility information and what-if scenarios.

■ COBRA.

**Price:** \$3,000 to \$10,000.**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.**Customization optional.****First Installation:** 1993.**Total Installations:** Five, all in employee benefit departments.**Benefits managed:** COBRA.**Features:** Provides enrollment; eligibility verification; automatic or ad hoc letter generation; billing and accounting; provides administration for employees, spouses, dependents and retirees; generates custom letters and printouts for enrollment, eligibility verification, what-if modeling and inquiries. Options include interactive enrollment and voice response systems. Can be linked to flex, medical claims, direct dental reimbursement and benefit statement systems.

■ Debit Card/Eligibility Systems.

**System requirements:** IBM compatible PC with 2MB RAM; single user or LAN; DOS or Windows platform.**Online system, customization optional.****First Installation:** 1993.**Total Installations:** Two.**Benefits managed:** Flexible benefits, workers comp, disability, COBRA, group health plans.**Features:** Employee debit cards that allow access to an employee's database files for eligibility information, automatic payment of deductibles, copayments and flex claims via debit/credit card terminals; allows mass access to any employee data and claims transfers using voice response and the debit/credit card. Also communicates benefits to employees via computer terminals. Can be expanded to provide electronic funds transfers for claims and can be linked to flex, COBRA and workers compensation systems.

■ Direct Dental/Medical Reimbursement.

**Price:** \$10,000 to \$50,000.**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.**Customization optional.****First Installation:** 1990.**Total Installations:** Three, all in employee benefit departments.**Benefits managed:** Group health plans.**Features:** Handles direct reimbursement of medical or dental claims paid by employees; tracks dependents, doctors and procedures/diagnosis codes for medical and dental reimbursement; generates ad hoc reports. Can be linked to flex, medical claims and COBRA systems.

■ Flex Corp.

**Price:** \$2,500 and up.**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.**Customization optional.****First Installation:** 1983.**Total Installations:** 250; 120 in employee benefit departments.**Benefits managed:** Flexible benefits.**Features:** Supports all cafeteria, FSA and premium only plans; provides features for all phases of Section 125 benefits; support medical savings account plans. Standard and optional features provide employee communications via computer terminals, touch screen and voice response systems; provides custom letters and printouts of enrollment, eligibility verification, what-if modeling and inquiries. Can be linked to COBRA, direct dental reimbursement, medical claims and benefit statement systems.

■ Medical Claims.

**Price:** \$30,000 and up.**System requirements:** IBM compatible PC with 5MB RAM; single user or LAN; DOS or Windows platform. Also operates on DEC VAX and other UNIX machines.**Customization optional.****First Installation:** 1988.**Total Installations:** 150; 40 in employee benefit departments.**Benefits managed:** Flexible benefits, workers comp, disability, leave of absence, COBRA, group health plans, life insurance.**Features:** Supports managed care plans, including HMOs and PPOs; provides billing and administration; claims adjudication; eligibility verification; claims and health care management; testing; ad hoc report generation. Provides employee benefit communications via computer terminal or telephone access. Can be linked to COBRA and flex systems.

■ PC-Active Benefits Statements.

**Price:** \$1,800 to \$5,500.**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.**Customization optional.****First Installation:** 1988.**Total Installations:** 140; 80 in employee benefit departments.**Features:** Provides statement of all benefits in a laser printed or hard copy printout; statements can vary in length and size. Can be linked to voice response system.**User support:** User groups/meetings, on-site training\*, telephone assistance 10 hours per day\*.

\* Included in system price.

**Staff:** 45 total, 30 professionals.**Clients:** 675 total, including 210 benefit departments. Sold systems to 25 clients in 1994.**1994 revenues:** Employee benefit information systems sales and services revenue: 5% from hardware sales, 80% from software sales, 15% from software services.**Officers:** Rob J. Thurston, president; E. Richard Packham, Eric Krueger, vps; Bill Wunderlich, operations; Brent Dudley, programming; Casey Sawyer, voice response.**Contact:** Rob J. Thurston.**Human Resource Microsystems**

160 Sansome St., Suite 1050, San Francisco, Calif. 94104; 415-362-8400; fax: 415-362-8595

**Software products:**

■ HRIS-Pro.

**Price:** \$7,500 to \$15,000.**System requirements:** IBM compatible PC with 8MB RAM to 16MB RAM or Macintosh PC; single user or LAN (Netbios compatible or Apple file protocol); Windows or Macintosh platform.**Customization optional.****First Installation:** 1984.**Total Installations:** 450; 325 in employee benefit departments.**Benefits managed:** 401(k) plans, flexible benefits, workers comp, disability, leave of absence, COBRA, group health plans, profit sharing, life insurance, retirement/pensions, Social Security benefits.**Features:** Supports equal employment opportunity and affirmative action OSHA, ADA, I-9 and family medical leave programs; provides ad hoc data analysis, queries and reports; manages enrollment; provides eligibility verification; disability duration, health plan and contribution tracking; generates benefit statements. Optional modules for time off benefits, position control/succession planning, applicant and requisition tracking, user defined benefit statement generation, organization charting, custom interface to internal/external payroll systems, power tools.**User support:** User groups/meetings\*, on-site training\*, telephone assistance 10 hours per day\*, multi-user license\*, corporate roll-up pricing\*.

\* Included in system price.

**Staff:** 15 total, eight professionals.**Officers:** Don Helt, president; Arlene Roberg, vp; Peter Howley, national sales manager.**Contact:** Rowena Derobles.**IQ+ Systems**

5705 W. 98th St., Los Angeles, Calif. 90045; 800-777-5311 or 310-641-5994; fax: 310-641-5997

**Benefit systems since:** 1990.**Software products:**

■ IQ+ Administration.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS or OS/2 platform. Also operates on IBM mainframes.**Online or client based system, customization optional.****First Installation:** 1990.**Total Installations:** Six, all in employee benefit departments.**Benefits managed:** 401(k) plans, workers comp, disability, COBRA, group health plans, retirement/pensions.**Features:** Health and welfare features include multiemployer billing and re-

ceipts accounting, member enrollment, dependent enrollment, eligibility calculation and verification, health care claims management, 1099 forms, government reporting via tape or disk. Pension features include defined benefit, defined contribution and 401(k) management; pension calculation and payment; Social Security and Pension Benefit Guaranty Corp. reporting; 1099R forms, government reporting via tape or disk; benefit notification. Communicates benefits to employees via printed notices and computer terminals.

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

\* Included in system price. \*\* First year included in system price.

**Staff:** Four total, all professionals.**Clients:** Sold systems to one client in 1994.**1994 revenues:** \$250,000 total, all from employee benefit information systems sales and services, 40% from software sales, 60% from software services.**Officers:** J. Patrick Broman, president; Edna Buttery, vp-sales.**Contact:** J. Patrick Broman.**Information Learning Systems**

56 Harrison St., Suite 504, New Rochelle, N.Y. 10801; 914-576-4190; fax: 914-576-4197

**Benefit systems since:** 1992.**Parent:** Information Learning Inc.**Software products:**

■ The Plan Expert.

**Price:** \$25,000 to \$225,000.**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform.**Customized system.****First Installation:** 1991.**Total Installations:** 38; 35 in employee benefit departments.**Benefits managed:** 401(k) plans, flexible benefits, workers comp, disability, leave of absence, COBRA, group health plans, profit sharing, life insurance, retirement/pensions, Social Security benefits.**Features:** Online benefit and payroll system that answers plan design and informational questions; contains a knowledge base of scripted answers to employee benefit and payroll questions; provides non-technical staff and/or employee with requested plan information. Can be integrated with human resource systems, VRU and IVR systems. Optional administrative reporting module provides information on system activity and usage.**User support:** Onsite training, telephone assistance eight hours per day\*.

\* Included in system price.

**Staff:** 25 total, 23 professionals.**Clients:** 20 total, including 19 benefit departments. Sold systems to 10 clients in 1994.**1994 revenues:** \$2 million total. Employee benefit information systems sales and services revenue: 20% from software sales, 80% from software services.**Officers:** Joan Breiner, president; Bruce Breiner, vp/comptroller; Diane Cummins, director-operations; Stephen Rappaport, technology officer; Lani Jo Leigh, maintenance/training.**Contact:** Joan Breiner.**Insurance Software Packages**

3625 Queens Palm Drive, Tampa, Fla. 33619; 813-621-6069; fax: 813-664-1486

**Benefit systems since:** 1985.**Parent:** PMSI.**Software products:**

■ CompStar.

**Price:** \$25,000.**System requirements:** IBM compatible PC; single user or LAN; DOS platform.**Customization optional.****First Installation:** 1985.**Total Installations:** 100.**Benefits managed:** Workers comp.**Features:** Claims management system with multiple organizational levels, notepad and flexible diary; creates state forms; calculates wage loss; generates checks or voucher; provides complete audit trails; reinsurance/excess capability; produces multiple reports; generates OSHA 200 and 1099 forms; allows for PPO discounting and integrated cost containment; medical fee schedule; medical coding unbundling. Optional modules include MEDISTAR medical bill processing as part of claims payment, includes unbundling, retrospective utilization flags, state fee schedule or UCR. MEDISTAR is also available as a separate, self-contained system.

■ HealthStar.

**Price:** \$35,000.**System requirements:** IBM compatible PC; single user or LAN; DOS platform.**Customization optional.****First Installation:** 1987.**Benefits managed:** Group health plans.**Features:** Claims management; uses ICD-9, CPT4 and ADA codes; warns for pre-existing conditions; supports multiple plans and coverages; generates checks and EOBs; monitors employee and dependent yearly and lifetime plan limitations; Tax Equity and Fiscal Responsibility Act (TEFRA) reporting; provides commission and billing module; includes UCR tables; generates 1099 forms.**User support:** Onsite training\*, telephone assistance 10 hours per day\*, on-line service\*.

\* Included in system price.

**Contact:** George H. Cannon.**Insurdata Inc.**

5215 N. O'Connor Blvd., 800 Central Tower at Williams Square, Irving, Texas 75039; 214-402-4000; fax: 214-556-0572

**Benefit systems since:** 1973.**Software products:**

■ Insurdata Claims.

**System requirements:** Hardware required to access system is included with system license.**Online system, customization optional.****First Installation:** 1973.**Benefits managed:** Flexible benefits, COBRA, group health plans.**Features:** Provides eligibility verification, claims processing, medical unbundling, precertification tracking, COBRA notification and premium tracking, cafeteria plan administration, flexible spending account administration, ad hoc reporting, physician profiling, treatment patterns, includes imaging and optical character recognition features.**User support:** User groups/meetings, on-site training, telephone assistance 24 hours per day.**Officers:** Raymond C. Morrison Jr., president; Jim Taylor, vp-finance/administration; Doug Freeman, vp-data processing.**Contact:** Jim Taylor.**Lawson Software**

1300 Godward St., Minneapolis, Minn. 55413-3004; 800-477-1357 or 612-379-2633; fax: 612-379-7141

**Benefit systems since:** 1987.**Software products:**

■ Lawson Client/Server Benefits System.

**Price:** Starts at \$20,000.**System requirements:** IBM compatible PC; LAN version; Windows platform. Also operates on IBM AS/400, RISC System 6000, HP 9000, DEC Alpha OSF/1, Sequent Symmetry, Sun Solaris, Unisys U/6000.**Customization optional.****First Installation:** 1987.**Total Installations:** 39 in employee benefit departments.**Benefits managed:** 401(k) plans, flexible benefits, workers comp, disability, leave of absence, COBRA, group health plans, profit sharing, life insurance, retirement/pensions, Social Security benefits, defined benefits, defined contributions, spending accounts, savings bonds, stock purchases.**Features:** Manages flexible benefits options; provides COBRA processing, including letter generation capability for required notification and invoice generation for premium billing; produces personalized election forms and benefit statements; allows for benefit modeling/what-if scenarios and forecasting to help employees select benefit options and estimate take-home pay; verifies eligibility; provides benefit record keeping and processing. Options include integration with Lawson client/server Payroll and Personnel systems.**User support:** User groups/meetings, on-site training, telephone assistance 24 hours per day\*, system enhancements and upgrades\*\*, online documentation\*\*.

\* Included in system price for support provided 8 a.m. to 7 p.m. Monday through Friday (central standard time). \*\* Included in system price.

**Staff:** 580 total**CLAIMS****OVERLOAD****SYSTEMS****SETTING THE STANDARDS FOR TEMPORARY INSURANCE PERSONNEL****Providing Experienced General Liability, Auto & Workers Comp. Adjusters, Medical Claim Examiners, Underwriters/Technical Assistants, That are . . .****Screened & Tested****Professional & Reliable****Hireable As Permanent Employees****Covered By Fidelity, GL, W/C and E&O Insurance****Immediate Service — Offices Nationwide We Make It Easy!****CALL FOR THE LOCATION NEAREST YOU ■ 800-822-2422**

# Changes in ideal level of retention

By The Insurance Institute of America

*This question and answer, adapted from a recent national examination in ARM 56: Essentials of Risk Financing, help explain why an organization's ideal levels of retention, or self-insurance, change when any factors that influence this ideal change.*

*This question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the types of questions asked on, and possible answers to, the three examinations for the ARM designation.*

**Q:** A kitchen refrigerator manufacturer's senior management is deciding the extent to which it should retain, rather than insure, its product liability exposures. Its decision should be guided by the characteristics, at any given time, of this organization, its product liability exposures and the markets in which it regularly buys or sells goods and services.

**A.** Identify four characteristics of this organization that should guide this product liability retention decision and, for each characteristic, describe when that characteristic would suggest retention rather than the purchase of insurance.

**B.** Identify four characteristics of this manufacturer's product liability exposures that should guide this decision and, for each characteristic, describe when that characteristic would suggest retention rather than the purchase of insurance.

**C.** Identify two characteristics of the specific markets in which this manufacturer regularly buys or sells goods or services that should guide this decision and, for each characteristic, describe when that characteristic would suggest retention rather than the purchase of insurance.

**A:** Four of the many characteristics of any organization that should influence this refrigerator manufacturer's retention levels are its financial condition, the attitude of its management toward uncertainty, administrative ability of the managers involved in implementing retention decisions and the company's ability to adapt to change. (A change in any of these four characteristics is likely to alter ideal retention levels.)

## ARM Exercises

Whenever the financial position of this refrigerator manufacturer grows stronger, it should consider increasing its retention levels (if other factors allow).

For example, if its net cash flow increases and becomes more predictable, its net worth increases or if the profitability of its operations rises, this manufacturer's senior management should consider whether increasing its "self-insurance" of some exposures to accidental loss would be a very effective way of using the financial resources of the company.

If the manufacturer's senior managers have substantial tolerance for uncertainty, if they are particularly willing to take risks to achieve gains, then they should evaluate possible larger retentions. Because current events may change management's attitude and level of optimism from time to time, this factor may introduce fluctuations into the organization's ideal retention levels.

Strong administrative ability in risk financing also would enhance this manufacturer's ability to retain losses. For a retention to work, all the managers who are responsible for making risk financing decisions, or whose budgets are affected by them, should be able to understand and should support this manufacturer's retention decisions.

Because substantial "self-insurance" retentions need to be adjusted regularly to adapt to changing conditions, retention will work well for this refrigerator manufacturer only if its managers can continue to operate efficiently in the face of these changes.

**B.** An organization should retain exposures to losses that, ideally, are nearly as predictable as other expenses the organization incurs. Therefore, for this refrigerator maker, four of the numerous characteristics of its product liability loss exposures that it should consider in making this retention decision relate to loss frequency, loss severity, loss development patterns and the loss payout patterns.

In general, exposures that produce more frequent losses are easier to retain. As long as their severity is not too great, such losses can be more easily predicted and budgeted than can less frequent losses. Moreover, as this company's product liability claims become more frequent, retention may become preferable to insurance, if only because insurance may become too costly or unavailable.

Exposures that produce losses of limited severity are easier to retain than those that may be very large. When the maximum possible amount of each loss is known to be relatively small, aggregate losses for any one period can be more readily budgeted—provided

that loss frequency does not greatly increase. For this manufacturer, product liability losses may be unlimited in size.

The loss development pattern for a set of claims indicates how the projected ultimate value of these claims changes between the time a claim is first reported and its settlement date. A development pattern that is stable for many claims over a long period favors retention because this pattern allows early, accurate predictions of the ultimate value of claims.

The loss payout pattern for a set of claims describes the timing of the payments on a claim once the first payment has been made. Stable payment patterns promote retention by making claim payments more easily budgetable.

Moreover, when loss payout patterns indicate many partial payments over an extended period, as is often true of product liability claims, retention becomes more attractive because an organization retaining its own claims has longer use of these funds than if these claims were insured.

**C.** Two of the markets where this refrigerator manufacturer normally buys or sells goods or services are the market in which it buys its metals and other raw materials and the market in which it buys insurance.

Stability and low prices in this manufacturer's raw materials markets would tend to foster retention. Purchasing raw materials at low prices would give this company greater net cash flows to devote to retention. Stability of the raw materials market would also make it easier for this manufacturer to forecast accurately its cash available in future periods for retention or other purposes.

In the markets where this manufacturer purchases insurance, the situation is somewhat different. Because insurance and retention are alternatives in its risk financing budget, the high price for insurance would encourage greater retention.

Instability (fluctuating coverage rates) in the insurance market also would encourage this manufacturer to rely more on retention rather than try to redesign its insurance program to take advantage of fleeting premium changes. **BI**

*Sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the ARM program, write Dr. George L. Head, Vp, Insurance Institute of America, 720 Providence Road, P.O. Box 316, Malvern, Pa. 19355-0716, or call the IIA at 800-644-2101.*

# 8th Circuit denies cover for gradual pollution

The 8th U.S. Circuit Court of Appeals ruled that, under Minnesota law, a "sudden and accidental" exception to a pollution exclusion did not apply to the gradual release of contaminants over a period of many years.

Modern Constructors Inc. brought this suit against Continental Casualty Co., its comprehensive general liability insurer, seeking a declaration of coverage for its potential liability in an underlying CERCLA action. In this case, the United States had sued Modern, as a waste oil source, to recover the cost of cleaning up a waste refinery site.

Continental's insurance policy contained an exclusion barring recovery for any damage resulting from the discharge of released contaminants or pollution into or onto the land, water or air. The policy provided, however, that the exclusion did

## Legal Briefs

not apply if the discharge was "sudden and accidental." The trial court dismissed Modern's suit.

On appeal, Modern argued that the term "sudden and accidental" was ambiguous and did not require the release to be temporally abrupt for the exception to apply. The federal court reviewed Minnesota Supreme Court decisions in which the state court held that "sudden" had a temporal connotation, meaning abrupt or the opposite of gradual. The trial court decision was affirmed.

*Modern Constructors Inc. vs. Continental Casualty Co., 8th U.S. Circuit Court of Appeals, Oct. 20, 1994 (BI/05/M.-S10).*

## Harassment stress not compensable

Post-traumatic stress syndrome allegedly caused by co-workers' harassment was not compensable under the Workers Compensation Act, according to Maryland's Court of Appeals.

Robert L. Davis had been employed as a computer operator at Dyncorp since 1986. Mr. Davis alleged that, beginning in 1987 and extending over a couple of years, he was subjected to numerous incidents of harassment at work. As a result, Mr. Davis claimed he experienced restlessness, sleeping problems, headaches and developed a post-traumatic stress syndrome, which prevented him from returning to work.

Mr. Davis filed for workers comp benefits. The workers compensation commission denied his claim and was

affirmed by the trial court.

The appeals court concluded that fellow employees' harassment was not a hazard within the nature of a computer data operator's employment. In affirming the commission, the court emphasized that it saw nothing peculiar to Mr. Davis' duties that made him more susceptible to harassment than any other kind of employment.

*Davis vs. Dyncorp, Maryland Court of Appeals, Sept. 15, 1994 (BI/02/M.-\$10).* **BI**

*These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a \$10 check payable to Mayo H. Stiegler, to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

## Spotlight report

Continued from page 22

**Clients:** 375 total, all benefit departments. Sold systems to 45 clients in 1994.

**1994 revenues:** \$70 million total. Employee benefit information systems sales and services revenue: 50% from software sales, 50% from software services.

**Officers:** Richard Lawson, president/CEO; John Cerullo, chairman; Bill Lawson, COO; Dan Metzger, vp-marketing; Don Slusarski, vp-sales.

**Long Consulting Services Inc.**

4747 Lincoln Mall Drive, Suite 305, Matteson, Ill. 60443; 708-747-4010; fax: 708-747-7269

**Benefit systems since:** 1988.

**Software products:**

■ Logical Claim Solutions.

**Price:** \$35,000 to \$50,000.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; Windows platform.

**Customization optional.**

**First Installation:** 1988.

**Total Installations:** 90; 11 in employee benefit departments.

**Benefits managed:** Flexible benefits, workers comp, disability, COBRA, group health plans, life insurance.

**Features:** Provides enrollment, eligibility verification, health care pre-certification, claims management, health care utilization review, medical coding/unbundling, medical case management, reinsurance liability tracking, disability duration monitoring/control, health plan provider contract management, discrimination testing, ad hoc report generation, electronic data interface, bulk payments to providers, capitation maintenance and payment to providers, PPO and other provider contract automated adjudication, medical outcomes and total care comparative data generation.

**User support:** User groups/meetings, on-site training, telephone assistance 24 hours per day.

**Staff:** 15 total, 12 professionals.

**Clients:** 39 total, including 11 benefit departments. Sold systems to four clients in 1994.

**1994 revenues:** Employee benefit information systems sales and services revenue: 40% from software sales, 60% from software services.

**Officers:** Donald Long, president; Kathleen DelFavero, vp; Stan Sadlik, programmer; Annette Stiltz, CFO.

**Contact:** Don Long.

**Magnus Software Corp.**

2233 Lake Park Drive, Suite 400, Smyrna, Ga. 30080; 404-431-0554; fax: 404-434-7040

**Benefit systems since:** 1986.

**Parent:** New York Life Insurance Co.

**Software products:**

■ FLEXTRAK.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; Windows, OS/2, Micro Focus or CICS Option platform. Also operates on IBM 4300 and 3000 series mainframes.

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 12; six in employee benefit departments.

**Benefits managed:** Flexible benefits, group health plans, life insurance.

**Features:** Annual or pay period costs reports; beneficiary information; dependent information; provides enrollment history; 401(k) and 401(m) discrimination testing; FSA claims processing; generates numerous reports, including Section 125 reports. Optional modules allow phone enrollment and interfacing with payroll systems.

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

\* Included in system price.

**Staff:** 30 total, 29 professionals.

**Clients:** 12 total, including six benefit departments. Sold systems to one client in 1994.

**Officers:** Duke Croxton, chairman/CEO; Dan Pisello, president; Craig Timony, CFO; Lorna Johnson, vp-health/benefits.

**Contact:** Lorna Johnson.

**William M. Mercer Inc.— Mercer Technologies**

1417 Lake Cook Road, Deerfield, Ill. 60015; 708-317-7513; fax: 708-317-7412

**Benefit systems since:** 1975.

**Parent:** Marsh & McLennan Cos. Inc.

**Software products:**

■ 415 Express.

**System requirements:** IBM compatible PC with 1MB RAM; DOS platform.

**Customized system.**

**First Installation:** 1988.

**Total Installations:** 50; eight in employee benefit departments.

**Benefits managed:** 401(k) plans, profit sharing, retirement/pensions.

**Features:** Provides testing for compliance with Section 415 combined limits, allows customized defined benefit plan provisions, recognizes benefits grandfathered under pension laws, allows projection of limits to future termination dates.

■ Allocation Express.

**System requirements:** IBM compatible PC; DOS platform.

**Customization optional.**

**First Installation:** 1989.

**Total Installations:** 50.

**Benefits managed:** 401(k) plans, profit sharing.

**Features:** Participant accounting system for all aspects of defined contribution plan administration. Standard and optional features provide employee communications via employee statements and other printed material and voice response system.

■ CHAMP (Comprehensive Healthcare Analysis & Management Program).

**System requirements:** IBM compatible PC; single user or LAN; DOS, Windows or OS/2 platform.

**Customization optional.**

**First Installation:** 1991.

**Total Installations:** 83; 34 in employee benefit departments.

**Benefits managed:** Group health plans.

**Features:** Provides enrollment, benefit plan modeling and claimant impact analysis; claims management; medical case management; medical coding/unbundling; utilization review vendor evaluation; HMO and PPO pricing; reinsurance liability tracking; reserve calculations; specialized normative data comparisons; rate setting and cost allocation; ad hoc data analysis; hospital and physician negotiations; provider contract management; preventative health trend analysis; workers compensation analysis; plan renewal pricing evaluation.

■ Data Collection System (DCS).

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; Windows platform.

**Customized system.**

**First Installation:** 1994.

**Total Installations:** Three; one employee benefit department.

**Benefits managed:** 401(k) plans, flexible benefits, COBRA, profit sharing, retirement/pensions.

**Features:** Data repository used to collect and centrally maintain employee data for numerous benefit plans; provides batch import and export of data, on-line access and report/query functions. Options include voice response system for employee benefit communication.

■ Data Reconciliation System (DRS).

**System requirements:** IBM compatible PC with 1MB RAM; DOS platform.

**Customized system.**

**First Installation:** 1988.

**Total Installations:** 60; 31 in employee benefit departments.

**Benefits managed:** Retirement/pensions.

**Features:** Provides reconciliation of yearly census data, increments service fields and updates other pertinent data.

■ FlexKey/FlexLink.

**System requirements:** IBM compatible PC with 256K RAM (640K RAM recommended); DOS platform. Also operates on mainframes.

**Online system, customized system.**

**First Installation:** 1984.

**Total Installations:** 51; six in employee benefit departments.

**Benefits managed:** Flexible benefits, group health plans, life insurance.

**Features:** Flexible benefit and other health and welfare plan enrollment and processing; access to enrollment and eligibility information; produces personalized enrollment materials and confirmation statements; automated eligibility testing and computation of credits, prices and benefit coverage; interface file to pass information to other systems; ad hoc queries and reports; online display and remote or local printing; allows for transfer of data between PC and FlexKey; provides

mailing services to send and receive forms and statements to and from employees.

■ FlexKey PC FSA.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS or Windows platform.

**Online system.**

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 71; 46 in employee benefit departments.

**Benefits managed:** Flexible benefits.

**Features:** Flexible spending administration; accommodates several separate accounts; processes multiple plan years concurrently; incorporates up to five organizational levels and up to three employee identification numbers; handles uniform coverage regulations; assists in reconciling account activity to other systems and provides audit trails; allows for defined processing period; provides participant statements, management reports and details historical records for deposits, requests and payments; retrieves basic data and election information and deposit amounts from downloaded or transferred files; includes user ID/password system and functional level security. Options include integration with FlexKey for Windows for full flexible plan administration.

■ FlexKey for Windows.

**System requirements:** IBM compatible PC with 4MB RAM (6MB RAM preferred); single user or LAN; DOS or Windows platform.

**Customized system.**

**First Installation:** 1993.

**Total Installations:** Three, all in employee benefit departments.

**Benefits managed:** Flexible benefits, group health plans, life insurance.

**Features:** Flexible benefit and other health and welfare plan enrollment and processing; automatic eligibility testing and computation of credits; includes employee prices, employer contributions and benefit coverage amounts; online help; custom interfaces to other systems, including payroll and HRIS; ad hoc report; automated, on-demand production of personalized enrollment materials and confirmation statements. Communicates benefits to employees via statements, telephone system and interactive PCs. Optional modules include FlexKey PC FSA for FSA administration.

■ LoanKey.

**System requirements:** IBM compatible PC with 640K RAM; DOS platform.

**Customization optional.**

**First Installation:** 1986.

**Total Installations:** 100; 60 in employee benefit departments.

**Benefits managed:** 401(k) plans, profit sharing.

**Features:** Loan administration, authorization schedules, generates promissory notes and non-disclosure statements, truth-in-lending, provides loan modeling (what-if module), produces numerous standard reports, conforms to regulation Z requirements, functions independently of record keeping system. Options include the ability to install complete modules or limited installation of specific features. Security/authorization feature can be implemented at time of installation.

■ Pension Express.

**System requirements:** IBM compatible PC with 540K conventional memory and 6MB extended memory; Novell Network; DOS platform.

**Customized system.**

**First Installation:** 1989.

**Total Installations:** 100; 40 in employee benefit departments.

**Benefits managed:** Retirement/pensions.

**Features:** Provides eligibility verification for defined benefit events including normal retirement, vesting, early retirement, disability and death benefits; records defined benefit calculation results; provides data impact and batch printing.

■ SSCalc (Social Security Calculation System).

**System requirements:** IBM compatible PC with 640K RAM; DOS platform.

**First Installation:** 1979.

**Total Installations:** 140, all in employee benefit departments.

**Benefits managed:** Social Security benefits.

**Features:** Calculates OASDI benefits under Social Security law in effect at any time since 1975.

■ TestKey.

**System requirements:** IBM compatible PC; DOS platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 50; six in employee benefit departments.

**Benefits managed:** 401(k) plans.

**Features:** Performs non-discrimination testing in accordance with the rules established by the Tax Reform Act of 1986.

■ Total Retirement System (TRS).

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS or Windows platform. Also operates on MVS mainframe.

**First Installation:** 1989.

**Total Installations:** 62; six in employee benefit departments.

**Benefits managed:** Retirement/pensions.

**Features:** Provides modules for valuation and reporting on various kinds of retirement plans, including pension valuation, retiree medical valuation and asset/liability modeling/projection; also provides associated reports, including results of valuation/modeling, regulating and accounting reports and management reports; includes data management module for data collection and editing.

■ TRACS OnLine.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS, Windows or OS/2 platform. Also requires SDLC card and a leased line to tie into Mercer's system.

**Online system.**

**Customization optional.**

**First Installation:** 1993.

**Total Installations:** 65; 50 in employee benefit departments.

**Benefits managed:** 401(k) plans, profit sharing.

**Features:** Allows inquiries and changes to investment elections and contribution percents; initiation and modeling of loan requests; initiation of withdrawals and distributions; performs balance rearrangements and fund transfers; generates numerous reports, including confirmation statements based on employee initiated activity.

**User support:** Annual user groups/meetings\*, onsite training\*\*, vendor site training\*, telephone assistance nine to 15 hours per day\*\*\*, installation support\*\*\*\*.

\* Available for Champ system only, included in system price.

\*\* Available for all systems except FlexKey for Windows and SSCalc, included in price for Champ system only.

\*\*\* Available for all systems, included in price for Champ, FlexKey/FlexLink, FlexKey PC FSA and FlexKey for Windows systems only.

\*\*\*\* Available for TestKey, LoanKey and TRACS OnLine systems only.

**Staff:** 3,548 total.

**Clients:** 880 total, including 473 benefit departments.

**Officers:** Peter Coster, chairman; Timothy J. Lynch, Vikesh Mahendroo, Edward Pringle, executive vps.

**Contact:** Edward R. Angel, principal.

**Methods Development Inc.**

431 Carlisle Drive, Hemdon, Va. 22070; 703-478-2490; fax: 703-478-2490

**Benefit systems since:** 1981.

**Software products:**

■ Clean Claims.

**System requirements:** IBM compatible PC; single user or LAN (Novell); DOS platform.

**Customization optional.**

**First Installation:** 1982.

**Total Installations:** 18, all in employee benefit departments.

**Benefits managed:** Group health plans.

**Features:** Claims processing program. Performs clinical and plan adjudication; automatic vector pricing capability for UCR, RBRVS, CRVS, multiple PPOs and plan pricing schedules. TIN management; COB control; extensive reporting; simplified loading/maintenance of benefit schedules. Worksheet layout matches new HFCA 1500. Is procedure driven. Controls plan through date and dollar threshold values. Integrates group billing, administration and eligibility. May be combined with other Methods Development programs.

■ Disability Income System.

**System requirements:** IBM compatible PC; single user or LAN (Novell); DOS platform.

**Customization optional.**

**First Installation:** 1982.

**Total Installations:** 16, all in employee benefit departments.

**Benefits managed:** Disability.

**Features:** Performs all functions to record, register, set-up manual or automatic payout schedule, complete diary functions, check printing and accountability. Provides check history file screen. Full management reporting. May be combined with other Methods Development programs.

■ KidCOBRA.

**Price:** \$99.

**System requirements:** IBM compatible

PC; single user or LAN (Novell); DOS platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 2,000, all in employee benefit departments.

**Benefits managed:** COBRA.

**Features:** Provides notification statement; automatically monitors "time-event" sequences; produces monthly billing statements, termination and cancellation notices; tracks individual claims activity and status in participant ledger record; generates reports to aid in monitoring/control of plan, audits and IRS compliance. May be combined with other Methods Development programs.

■ Pension System.

**System requirements:** IBM compatible PC; single user or LAN (Novell); DOS platform.

**Customization optional.**

**First Installation:** 1982.

**Total Installations:** 11, all in employee benefit departments.

**Benefits managed:** Retirement/pensions.

**Features:** Online modular system. Records contributions to pension entitlement, provides historical record for payout and actuarial activities, provides for pay out of scheduled benefits. Designed to accommodate multi-users and multi-companies. May be combined with other Methods Development programs.

■ Taft-Hartley Fund Administration.

**System requirements:** IBM compatible PC; single user or LAN (Novell); DOS platform.

**Customization optional.**

**First Installation:** 1982.

**Total Installations:** Eight, all in employee benefit departments.

**Benefits managed:** Taft-Hartley organization funds.

**Features:** Administers membership and employers, provides contribution posting for up to five funds, complete eligibility processing system including hour bank administration, comprehensive financial/demographic reporting. May be combined with other Methods Development programs.

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

**Staff:** Six total, five professionals.

**Clients:** 274 total, including 32 benefit departments.

**Officers:** Martin Alfonsi, president; Robert Steel, vp-operations; Daniel Platko, vp-finance.

**Contact:** Gilbert Mehling, vp-marketing.

**P&W Software**

5655 Lindero Canyon Road, Suite 403, Westlake Village, Calif. 91362; 818-707-7690; fax: 818-707-9097

**Benefit systems since:** 1984.

**Software products:**

■ PowerPlus.

**Price:** \$15,000 to \$22,000.

**System requirements:** IBM compatible PC with 530K RAM; single user or LAN; DOS platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 204; 147 in employee benefit departments.

**Benefits managed:** Flexible benefits, disability, leave of absence, COBRA, group health plans, life insurance.

**Features:** Allows for data import/export; generates ad hoc reports; determines eligibility; records benefit elections via bar code and IVR entry, provides payroll deduction interfaces; insurance carrier eligibility interfaces; calculates premium report information; prepares benefit ID card; performs non-discrimination testing and highly compensated and key employee determination; COBRA benefit management; retiree billings. Flexible spending account features include FSA claim management, FSA check printing, direct deposit payments, employee statements and letters, complete audit trails, W2 report data, forfeiture reports. Standard and optional employee communication features include personalized enrollment forms with eligibility and individual pricing, telephone enrollment, eligibility verification, ability to add FSA account balances to the basic system. Options include links to medical claim processing systems for FSA claim import; MICR check printing; electronic interfaces to payroll systems, insurance carriers and claims processors.

**User support:** User groups/meetings, on-

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site training, telephone assistance 10 hours per day\*, system setup, enrollment assistance.

\* First year included in system price.

Staff: Eight total, all professionals.

Clients: 204 total, including 147 benefit departments. Sold systems to 33 clients in 1994.

Officers: Tom Philipp, president; Mike Wilson, vp.

Contact: John Tefft, 301-854-2068.

## PeopleSoft

4440 Rosewood Drive, Pleasanton, Calif. 94588; 510-227-3510

Benefit systems since: 1989.

Software products:

■ PeopleSoft ARMS, Benefits Administration, Flexible Spending Account. Price: \$90,000 to \$600,000.

System requirements: Client/server based system with IBM compatible PC, PC LAN, midrange computer or IBM compatible mainframe; Windows platform.

Customization optional.

First Installation: 1989.

Total Installations: 300.

Benefits managed: Flexible benefits, COBRA, group health plans, life insurance, retirement/pension benefits\*.

Features: Flexible benefit plan administration, including eligibility rules automation, open enrollment, event maintenance. COBRA administration, provides benefit communication to employees via PCs, phone or kiosk.

User support: User groups/meetings\*, onsite training\*, telephone assistance 24 hours per day\*, consulting services\*, account manager\*, system installation.

\* First year of support included in system price.

Staff: 750 total, 225 professionals.

Clients: 300 total. Sold systems to 80 clients in 1994.

1994 revenues: \$113,000,000 total. \$5,000,000 from employee benefit information systems sales and services, 83% from software sales, 17% from software services.

Officers: Dave Duffield, CEO; Al Duffield, vp-sales/marketing; Peggy Taylor, vp-customer services/product development; Ken Morris, vp-technology; Ron Codd, CFO.

## Pruden Risk Management Inc.

206 W. Crawford St., P.O. Box 308, Dalton, Ga. 30720; 706-278-1149; fax: 706-226-0495

Benefit systems since: 1990.

Software products:

■ Healthexec, Compexec and Repricing Module.

Price: \$50,000 to \$60,000.

System requirements: IBM compatible PC; LAN; Windows platform.

Customization optional.

First Installation: 1991.

Total Installations: 50; 10 in employee benefit departments.

Benefits managed: Workers comp, COBRA, group health plans.

Features: Supports enrollment, eligibility verification, claims management, reinsurance management, managed care credentialing, claims repricing. Options include physician/employer interface.

User support: Onsite training\*, telephone assistance eight hours per day, software upgrades\*.

\* Included in system price.

Staff: 50 total, 10 professionals.

Clients: 10 total.

Officers: David E. Pennington III, president; Randy B. Vaughn, chief information officer.

Contact: Randy B. Vaughn, 706-226-9121.

benefit departments.

Benefits managed: COBRA, group health plans.

Features: Provides eligibility verification; enrollment; benefit contract management; provider contract management; complex contract modeling; health care precertification; claims adjudication and management; benefits management; capitation and risk pool accounting; health plan utilization management; customer service support; standard and ad hoc report generation; standard and ad hoc data analysis of health plan utilization, costs and premiums; EDI; external systems integration; integration with export systems. Optional features include benefit inquiry, eligibility and benefit history screens to communicate benefits to employees; customer service support. Optional modules include GMIS products, including Auto-coder for bundling/unbundling of claims and ClaimCheck for claims auditing.

User support: User groups/meetings, onsite training, telephone assistance 12 hours per day, support programs.

Staff: 50 total, 45 professionals.

Clients: 10 total, including two benefit departments. Sold systems to one client in 1994.

1994 revenues: \$4.5 million total, all from employee benefit information systems sales and services, 53% from software sales, 47% from software services.

Officers: William F. Reilly, president; Armand O. Morin, COO; Bradley E. Stamets, CFO; Lawrence S. Dike, Robert A. Doshier, vps.

Contact: William F. Reilly.

## Resource Information Management Systems Inc. (RIMS)

P.O. Box 3094, 500 Technology Drive, Naperville, Ill. 60566-7094; 708-369-5300; fax: 708-369-5168

Benefit systems since: 1981.

Software products:

■ HealthFocus Data Warehouse and Executive Information System.

System requirements: IBM compatible PC; Novell LAN; Windows platform. Also operates on HP 9000 or IBM RS/6000.

Customization optional.

First Installation: 1995.

Total Installations: Seven; three in employee benefit departments.

Benefits managed: Workers comp; disability; group health plans, including dental, prescription drugs and mental health benefits.

Features: Assists in managing the cost, risk, quality and market aspects of providing health care by assembling and analyzing data from disparate sources, including claims data, membership and demographics, hospital rates, length-of-stay and disease incidence rates; allows queries that generate the indicators key to a particular business, such as high cost cases or above average admitting rates; creates summaries.

■ QicClaim/2 Health and Managed Care Benefits Administration System.

System requirements: IBM compatible PC; Novell LAN; DOS platform. Also operates on HP 9000, IBM RS/6000 and DB AViiON (UNIX).

Customization optional.

First Installation: 1981.

Total Installations: 434; 63 in employee benefit departments.

Benefits managed: Flexible benefits; workers comp; disability; COBRA; group health plans, including dental, prescription drugs and mental health benefits.

Features: Provides tracking, reporting and adjudication for numerous benefits plans or program combinations; monitors provider, client and financial performance, including capitation and sub-capitation payments, PPO repricing, referral processing, eligibility verification, comparisons of current charges to accumulated history and provider payment updates; includes per member per month reporting; procedure-driven claims processing that provides automatic PCP encounter processing, place of service variability and specialty and diagnostic decision tree logic; standard and customized reporting tools. Optional modules include HealthFocus Enterprise executive information system offers standardized queries to provided analysis of quality, cost, risk and market data; HealthFocus Desktop provides data and structured reports to assist in monitoring delivery of health care; Procedure Driven QicClaim/2 provides procedure code claims adjudication;

Cost Containment Reporting generates key data tracking and analysis reports from online utilization information; Provider Network Management includes fee schedule management, claims administration and savings and provider panel profile reports; PPO Repricing allows for the determination of a provider's negotiated benefit payment without the actual processing of claims records; Managed Care Administration (HMO/PPO Management) calculates primary physician payments and capitation on a per member/per month basis; Medical Claims Auditing uses patient history and clinical logic to screen claims; Utilization Management tracks the entire patient cycle, from pre-admission certification through medical discharge and follow-up; Premium Billing performs eligibility-based premium calculations, age and area rating and employee surcharge factors that may be applied, allows for group and MET billing; Dental Benefits Administration allows for entry of dental claims by tooth number and American Dental Assn. procedure; Prescription Card Administration provides prescription claims administration, including direct bill entry, duplicate claim editing and a wholesale price database interface; Flexible Spending stores pledge and contribution data, calculates employee expenses, interfaces with claims history to calculate unreimbursed health care expenses; Disability Processing provides automatic diary payments with supervisor and processor review scheduling; Document Image Management/OCR loads documents via scanner or fax modem so documents can be displayed when processing, allows for user-defined automatic workflow routing; Electronic Claims Submission/Batch Adjudication accepts batch data electronically from a provider group, network, etc., also supports batch claim editing and auto-adjudication; Worker's Compensation (24-hour Coverage) checks for duplicate claims and shares medical information with QicClaim/2.

User support: User groups/meetings\*, onsite training, telephone assistance 24 hours per day, customized training and consulting services for hardware and software, continuing education programs and executive forums\*.

\* Included in system price.

Staff: 215 total, 146 professionals.

Clients: 434 total, including 63 benefit departments. Sold systems to 29 clients in 1994.

1994 revenues: \$27.62 million total. \$26.7 million from employee benefit information systems sales and services, 20% from hardware sales, 43% from software sales, 37% from software services.

Officers: Terry Kirch, president; Thomas Heimsoth, chairman; Andrew Schriever, COO; Jerry Horwitz, vp-finance; Michael Waller, vp-client services.

Contact: Ellen Lockwald, manager-market development.

Benefit communications systems will be listed in the Nov. 20 issue.

S

## SBC Systems Co. Inc.

30 Perimeter Center E., Suite 203, Atlanta, Ga. 30346; 404-399-6321; fax: 404-399-6322

Benefit systems since: 1977.

Software products:

■ Benefits Workstation.

System requirements: IBM compatible PC; LAN; Windows or Windows NT platform.

Online system, customization optional.

First Installation: 1977.

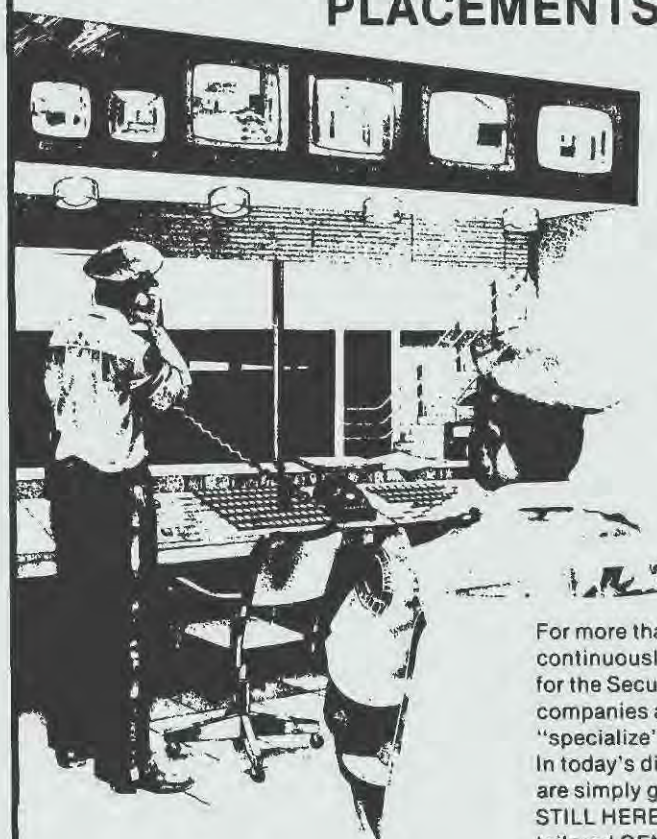
Total Installations: 140; 85 in employee benefit departments.

Benefits managed: 401(k) plans, flexible benefits, COBRA, profit sharing, retirement/pensions.

Features: Manages defined contribution, 401(k), 403(b), defined benefit, health and welfare flexible benefit plans and other plans such as deferred compensation; benefit information is stored in a single database if desired; provides eligibility verification; complete non-discrimination testing; ad hoc reporting; flexible benefit administration, including enrollment, credit calculations, spending account management and employee benefit statements; allows for pre- and post-tax benefits; defined contribution administration of contributions, investments and loans; defined benefit administration features

Continued on next page

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R

## Reilly Dike Doshier Corp. (RDD)

3825 Academy Parkway South N.E., Albuquerque, N.M. 87109; 505-345-6212; fax: 505-344-4221

Benefit systems since: 1989.

Software products:

■ MPOWER.

System requirements: IBM compatible PC (online system); IBM ES/9000 mainframe (client based system).

Online or client based system, customization optional.

First Installation: 1985.

Total Installations: 10; two in employee

## Spotlight report

Continued from previous page  
include valuation capabilities, benefit calculations. Optional modules available for COBRA benefits and retiree payroll. System can interface with voice response systems to communicate benefit information to employees.

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

\* Included in system price.

**Staff:** 20 total, all professionals.

**Clients:** 140 total, including 85 benefit departments. Sold systems to 15 clients in 1994.

**1994 revenues:** 65% from software sales, 35% from software services.

**Officers:** Murray Goldman, president; Eva Chang, executive vp; Margaret King vp-product services.

**Contact:** Runae Sawdey, sales/marketing.

## SBPA Systems Inc.

10777 Westheimer, Suite 125,  
Houston, Texas 77042; 713-974-7272;  
fax: 713-974-3544

**Benefit systems since:** 1975.

**Software products:**

■ GBAS (Group Benefits Administration Systems).

**System requirements:** DEC ALPHA or VAX mainframe.

**Customization optional.**

**First Installation:** 1975.

**Total Installations:** 55; 13 in employee benefit departments.

**Benefits managed:** Flexible benefits, disability, COBRA, group health plans, life insurance.

**Features:** Provides claims adjudication; unbundling; letter and ID card generation; billings; eligibility verification; carrier reports; commission calculations; agent licensing; utilization review; claim review; claim registration; PPO repricing; reinsurance flags and reporting; fund accounting; EDI; electronic claims; procedure code driven claims recognition; online editing for unbundling charges; automatic adjudication; managed care processing, including capitation and withholdings. Optional modules available for ad hoc report generation, MICR encoding of checks, claims editing for unbundled charges, electronic claims.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance\*, seminars\*, user interface publications\*.

\* Included in system price.

**Staff:** 16 total, 15 professionals.

**Clients:** 38 total, including six benefit departments. Sold systems to four clients in 1994.

**1994 revenues:** \$1.6 million total, all from employee benefit information systems sales and services, 10% from hardware sales, 40% from software sales, 50% from software services.

**Officers:** Arnold Heinrich, president; Tim Stunz, executive vp; Donna Smith, vp.

**Contact:** Arnold Heinrich or Donna Smith.

## The Segal Co.

1 Park Ave., New York, N.Y. 10016;  
212-251-5000; fax: 212-251-5490

**Software products:**

■ AnswerQuest.

**System requirements:** IBM compatible

PC; single user or LAN; DOS or Windows platform.

**Customized system.**

**First Installation:** 1992.

**Total Installations:** 25, all in employee benefit departments.

**Features:** Assists administrative staff of all levels by answering benefit questions; the system uses a pre-programmed question database and tailored answers to specific benefit plans, policies and procedures; uses a series of menus, indexes and search options to pinpoint answers; provides scripted easy-to-understand responses; can generate printouts of screens. Can interface with other programs, databases and voice response systems.

■ PensionPartner.

**System requirements:** IBM compatible PC with 8MB RAM; single user or LAN; DOS platform.

**Customized system.**

**First Installation:** 1993.

**Total Installations:** Four; all in employee benefit departments.

**Benefits managed:** Retirement/pensions, Social Security benefits.

**Features:** Eligibility verification; vesting; benefit calculations; all optional forms calculations; IRC Section 415(b) testing; IRC Section 401(a)(17) testing; what-if scenario calculations; benefit recalculations; participant notification forms, letters and annual statement of pension benefit entitlement generation. Optional features include ad hoc report generation, word processing mailmerge and database management.

■ SegalEvaluator.

**System requirements:** IBM compatible PC; single user or LAN; DOS platform.

**Customized system.**

**First Installation:** 1981.

**Total Installations:** 120.

**Benefits managed:** Compensation.

**Features:** Internal job evaluation system, correlates job content with pay, quantifies job components in dollars, produces reports and automated job descriptions.

■ SegalFlex.

**System requirements:** IBM compatible PC with 580K RAM (additional 1MB-4MB of extended memory required for complicated processes); single user or LAN; DOS platform.

**Customized system.**

**First Installation:** 1993.

**Total Installations:** 10, all in employee benefit departments.

**Benefits managed:** Flexible benefits.

**Features:** Provides enrollment, FSA administration, ad hoc report writing, discrimination testing, eligibility reporting, premium reporting, tracking of employee election history, payroll file/report production, form letter generation, automated rule processing, automated conversion from current system to SegalFlex, enrollment forms and confirmation statement generation. Ability to interface with Segal-Voice

**User support:** User groups/meetings\*, onsite training\*\*, telephone assistance seven to nine hours per day\*\*, online support via modem\*\*\*, AnswerQuest system and database updates.

\* Included in system price for SegalEvaluator only.  
\*\* Included in system price for SegalEvaluator, PensionPartner, SegalFlex.

\*\*\* Available for PensionPartner, SegalFlex.

**Staff:** 672 total, 537 professionals.

**Officers:** Robert D. Krinsky, chairman; Dale B. Grant, vice chairman; Howard

Fluhr, president/CEO; Richard M. Frenzel, executive vp.

**Contact:** AnswerQuest: Werner Gliebe, 212-251-5207, or Michele Wohl, 212-251-5229; Pension Partner: Joni Schreer, 212-251-5393; SegalEvaluator: Howard Goldsmith, 212-251-5258; SegalFlex: Catherine Mele, 212-251-5242.

## Select Software Inc.

912 12th Avenue St., Suite B, Nampa,  
Idaho, 83651; 208-463-8060;  
fax: 208-463-8015

**Benefit systems since:** 1986.

**Software products:**

■ MultiFlex-2000.

**Price:** \$2,800 to \$4,500.

**System requirements:** IBM compatible PC with 4MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 62; 40 in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, disability, leave of absence, COBRA, group health plans, life insurance, Social Security benefits.

**Features:** Provides employee and dependent enrollment and re-enrollment with eligibility verification; confirmation letter generation; form return tracking; enrollment form generation; accommodates correspondence tracking and file notation; tracks benefit changes for employees and dependents; includes transaction history; provides vendor reporting, ad hoc data analysis and reporting with query and drag and drop reporting tools; FSA check writing. Options include Windows report writing for typeset quality form generation; employee benefit statement generation can be integrated or used as a stand-alone system.

■ MultiFlex Benefit Statements.

**Price:** \$2,000 to \$8,000.

**System requirements:** IBM compatible PC; single user or LAN; DOS, Windows or OS/2 platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 62; 40 in employee benefit departments.

**Benefits managed:** 401(k) plans, flexible benefits, workers comp, disability, leave of absence, group health plans, profit sharing, life insurance, retirement/pensions, Social Security benefits.

**Features:** Produces employee benefit statements; allows user to specify form, format and content of statements; provides complete control of formulas for traditional and non-traditional benefits.

**User support:** User groups/meetings\*, onsite training, telephone assistance 10 hours per day\*, system updates.

\* Included in system price.

**Staff:** Five total, four professionals.

**Clients:** 100 total, including 80 benefit departments. Sold systems to 15 clients in 1994.

**Officers:** Joseph E. Weatherby, president.

## SPECTRUM Human Resource Systems Corp.

1625 Broadway, Suite 2700, Denver,  
Colo. 80202; 303-534-8813;  
fax: 303-592-3227

**Benefit systems since:** 1984.

**Software products:**

■ HRVantage.

**System requirements:** IBM compatible PC with 4MB RAM; Windows platform.

**Customization optional.**

**First Installation:** 1993.

**Benefits managed:** Group health plans, retirement/pensions, Social Security benefits.

**Features:** Benefit statements, benefit eligibility notices, COBRA letters; provides benefit communication to employees via PC.

**User support:** User groups/meetings, onsite training, telephone assistance 11 hours per day, data conversions and customization assistance.

**Staff:** 150 total.

**Officers:** James Spoor, president; Nancy Spoor, vp-marketing.

**Contact:** Suzanne Smith.

T

## Travis Software Corp.

P.O. Box 820469, Houston, Texas  
77282-0469; 713-496-3737;  
fax: 713-496-4022

**Benefit systems since:** 1986.

**Software products:**

■ Corporate Cobra Manager/Travis Cobra for Windows.

**Price:** \$1,295 to \$4,400.

**System requirements:** IBM compatible PC with 640K RAM or 4MB RAM (Windows version); single user or LAN; DOS or Windows platform.

**Customization optional.**

**First Installation:** 1986; 1994 (Windows version).

**Total Installations:** 3,412; 2,923 in employee benefit departments.

**Benefits managed:** Leave of absence, COBRA.

**Features:** Automatically produces all required letters and notices for COBRA administration and FMLA premium billing; tracks enrollment periods; bills premium; provides full reporting of COBRA activity; communicates costs of continuation health benefits FMLA and COBRA participants. Options include custom letter writer, report writer, data downloading capabilities, network modules.

■ Retiree Premium Billing System.

**Price:** \$1,295 to \$3,750.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS platform.

**Customization optional.**

**First Installation:** 1988.

**Total Installations:** 521; 511 in employee benefit departments.

**Benefits managed:** Group health plans.

**Features:** Provides billing of premiums using premium notices or coupons; allows for multiple billing frequencies; provides receivables aging; full reporting capabilities; communicates benefits to employees via printed reports on eligibility and cost information for retiree health and welfare plans. Options include custom letter writer, report writer, data downloading capabilities, network modules.

■ TravisFlex.

**Price:** \$1,295 to \$3,750.

**System requirements:** IBM compatible PC with 640K RAM; single user or LAN; DOS platform.

**Customization optional.**

**First Installation:** 1987.

**Total Installations:** 753; 685 in employee benefit departments.

**Benefits managed:** Flexible benefits.

**Features:** Administration and enrollment for flexible plans, including spending accounts, FSAs and cafeteria plans; includes check writing capability and full reporting module; generates printed output for benefit election and eligibility. Options include report writer, data downloading capabilities and network modules.

**User support:** Onsite training, telephone assistance seven hours per day\*, in-office training courses.

\* Included in system price.

**Staff:** 17 total, 10 professionals.

**Clients:** 3,286 total, including 2,973 benefit departments. Sold systems to 121 clients in 1994.

**1994 revenues:** \$1.8 million total, all from employee benefit information systems sales and services, 33% from software sales, 67% from software services.

**Officers:** Alan H. Williams, president; John Worner, vp.

**Contact:** Alan H. Williams.

## TXEN Inc.

10 Inverness Center Parkway, Suite  
140, Birmingham, Ala. 35242;  
205-995-9898; fax: 205-995-8640

**Benefit systems since:** 1989.

**Software products:**

■ Managed Healthcare System.

**Price:** \$100,000 to \$350,000.

**System requirements:** IBM compatible PC LAN; DOS or Windows platform. Also operates on IBM AS/400 midrange.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1989.

**Total Installations:** 28; three in employee benefit departments.

**Benefits managed:** Flexible benefits, disability, COBRA, group health plans, life insurance.

**Features:** Modular system including the following: membership/eligibility, providers, claims, billing, correspondence, references, general ledger, accounts payable, accounts receivable, PPO repricing, provider withholdings, risk funds, capitation, referral and authorization processing, primary care provider processing and utilization review reporting modules. Options include flexible spending, unbundling/bundling, electronic claims and ACCISS/MHS PC reporting system modules.

**User support:** User groups/meetings\*, onsite training\*, telephone assistance 24 hours per day\*.

\* Included in system price.

**Staff:** 48 total, 44 professionals.

**Clients:** 28 total, including three benefit departments. Sold systems to 10 clients in 1994.

**Officers:** Tom Patterson, president; Paul Reaves, executive vp; Roy Sailor, vp-operations; Dick Waggener, vp-development.

**Contact:** Amy Knowles, 800-962-2540 ext. 115.

W

## WLT Software of Florida Inc.

831 N. Hercules, Clearwater,  
Fla. 34625; 813-442-9296;  
fax: 813-443-4936

**Benefit systems since:** 1981.

**Software products:**

■ CHECKCLAIMS.

**System requirements:** IBM compatible PC with 2MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1993.

**Features:** Provides claims editing and billing; edits for appropriate diagnoses, procedure, place of service, age, sex, frequency and modifiers; checks primary and assistant surgeon fees, unbundled procedures, duplicate procedures, duplicate bills and cosmetic, incidental and elective procedures; provides EDI capabilities. System can interface with WLT's health claims administration, for auto adjudication, and workers compensation claims administration systems. Optional employee benefit communication features available.

■ COMPCLAIMS.

**System requirements:** IBM compatible PC with 2MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1985.

**Benefits managed:** Workers comp, 24-hour coverage.

**Features:** Claims administration; reinsurance tracking; accounting; fee schedule and PPO processing; billing; claims processing; attorney tracking; management, administrative, government, safety engineering and cost management reporting; bill review; interfaces with WLT's health claims administration system and claims editing/unbundling systems. Optional employee benefit communication features available.

■ MEDICLAIMS.

**System requirements:** IBM compatible PC with 2MB RAM; single user or LAN; DOS, Windows or OS/2 platform.

**Online or client based system.**

**Customization optional.**

**First Installation:** 1981.

**Benefits managed:** Flexible benefits; disability; leave of absence; COBRA;

Continued on next page

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# Vermont hearing probes NAIC accountability

By **RODD ZOLKOS**

MONTPELIER, Vt.—Testimony at a recent hearing on a Vermont bill that would give the state oversight of some National Assn. of Insurance Commissioners activities highlighted that Vermont is not alone in its concerns.

The Feb. 23 joint hearing of Vermont's Senate Finance Committee and the House Commerce Committee drew testimony from officials of several states, as well as from an insurer—Liberty Mutual Insurance Co.—that said it had decided it was time to speak out on perceived problems with the NAIC's accreditation process.

"We obviously were aware the bill had ramifications beyond our borders, so we wanted to provide the opportunity to take testimony," said Herb Olson, Vermont legislative counsel.

The Vermont bill among other things would give the state leverage over fees the NAIC charges Vermont-domiciled insurers and require an annual fiscal report be filed with the state (*BI*, Jan. 30).

NAIC officers did not address the hearing, though Lee Douglass, Arkansas insurance commissioner and NAIC president, was to testify

to the Vermont legislators by telephone late last week.

Vermont has been engaged in a running battle with the NAIC over the accreditation issue, with the NAIC denying the state accreditation in large part because of the way Vermont regulates risk retention groups. Vermont treats risk retention groups like captive insurers, rather than as traditional property/casualty insurers as the NAIC model stipulates.

Vermont officials say the legislation they're considering intends to make the NAIC more accountable for the fees it assesses insurers and its overall regulatory practices.

The dispute in Vermont is watched carefully around the nation because Vermont is home to 30 of the 75 or so existing risk retention groups.

Among those offering testimony or written statements at the recent hearing were legislators from New Jersey, New York and Texas. Texas Rep. David Counts, executive committee chairman of the National Conference of Insurance Legislators, testified at the hearing. New York Sen. Guy J. Veleva, a vocal critic of the accreditation program, submitted written testimony.

James W. Schacht, acting direc-

tor of the Illinois Department of Insurance, also testified, saying that he agrees with "the overall thrust and concerns expressed by the proposed legislation."

The Illinois official cited recommendations he made in a discussion paper submitted to an NAIC meeting in January. That paper called on the commissioners' group to be more open and accountable in its financing and funding, and challenged the organization's current database fee system.

Mr. Schacht's paper questioned the fees' role in the NAIC's fast-growing budget. In addition to funding database activities, his paper said, it now appears the database fees that insurers are charged also finance non-database activities and even activities unrelated to solvency issues. Earlier the NAIC had assured states and insurers that database fees would be used only for the database.

Mr. Schacht's report argued that the NAIC's graduated fee structure, which now charges a \$50,000-per-company maximum to process insurers' annual statements, is actually a tax table based on insurers' size or ability to pay rather than the cost of processing their statements. Such taxing

power is beyond the NAIC's and the individual commissioners' authority, Mr. Schacht wrote.

His paper "received quite a bit of discussion," from other NAIC members, Mr. Schacht said. "We spent at least two or three hours talking about it and, as a result, now the officers have appointed a group to look at the issues I raised. They're really not dissimilar to some of the concerns being raised in Vermont and elsewhere."

Discussing his testimony to the Vermont legislative hearing, Mr. Schacht said he appreciates Vermont officials' "concerns and, in some cases anger, frustration, irritation with the NAIC and what's gone on in the past but...I don't know what the answer is."

"I think there's a lot of things the NAIC can do with respect to being more open, more accountable with its budget, make more disclosure, that kind of thing," the Illinois insurance official said. "Whether that's enough, I don't know."

In particular, Mr. Schacht said he agrees with Vermont legislators on the idea that any fees insurance companies must pay for NAIC services "ought to be set by statute and I think that's something that should be done in every state."

Among other things, the Vermont bill would require that any fees the NAIC charges Vermont-domiciled insurers be approved by the state's commissioner of banking, insurance and securities.

The bill also would require the NAIC to provide the state an annual fiscal report detailing spending and revenue by category, along with an audit opinion of the fiscal report and details of salaries and compensation of officers, employees and compensation provided under personal service contracts.

Other provisions of the Vermont legislation would require the NAIC to document policies ensuring that accreditation "is determined solely based on the merits of a state's regulatory effectiveness," and to provide Vermont with a yearly report detailing accreditation requirements along with an explanation of why they are preferable to "alternative means less restrictive of state sovereignty and innovation."

Peter Rice, legislative counsel for the Liberty Mutual Group, Boston, testified at the hearing that Liberty Mutual, whose Liberty Insurance Corp. unit is domiciled in Vermont, has supported the NAIC accreditation process in the past, believing it benefited the state-based system of insurance regulation that Liberty

Mutual favors.

The company still endorses "the principles which led to the development of accreditation," Mr. Rice testified. But, in taking the accreditation process "far beyond its original objectives," the NAIC appears to have lost sight of the principal advantage of state-based regulation—the opportunity for flexibility and innovation in the states, he said.

"By refusing to permit even the slightest deviation by a state from the NAIC models, the NAIC is frustrating the very innovation and flexibility that is such an important part of state regulation," Mr. Rice testified.

In discussing the company's position later, Mr. Rice said Liberty Mutual believes accreditation "was a good idea. It's still a good idea in concept and largely in practice, but it's beginning to become more of an end in itself as opposed to a means to an end."

The Vermont law isn't the ideal solution from Liberty Mutual's perspective, Mr. Rice said.

"The remedy to that situation that we would significantly prefer to states having to draw a line in the sand, as Vermont is, is for the NAIC itself, the regulators themselves, to step back and say, 'Gee, what have we done here,'" he said. "Not to scrap accreditation, not to scrap reasonable standards but to rethink some of the particular things that are going on now."

Mr. Rice said he doesn't believe Liberty Mutual is alone among insurers in its sentiments.

"I would guess that the overwhelming majority of the insurance industry would agree with the position we took," he said. "We felt the time had come to come forward and say it in support of Vermont."

"My sense is, in fact nothing is done at the NAIC level to address these concerns that the industry is beginning to have, then you would begin to see some more companies begin to say things publicly," Mr. Rice said.

While Liberty Mutual would prefer to see the NAIC act on the accreditation concerns without being pressured by legislation like Vermont's, Mr. Rice isn't convinced it will.

"I guess we're not optimistic enough not to have gone up and testified," he said. "If we didn't find that the Vermont bill is the kind of thing a state needed to do to send the right message, then we wouldn't have felt any need to testify on it."

## Albrecht to head St. Paul major markets

Susan J. Albrecht has been named president of the major markets division at The St. Paul Cos. Inc. in St. Paul, Minn., which includes the construction division and surety and national accounts underwriting operations. Previously, Ms. Albrecht was region president for the Eastern metro region of St. Paul Commercial.

Also at St. Paul: James Hom joined the parent company in the newly created position of senior vp-corporate planning and development. Previously, he was vp-corporate claims and project management services for The Home Insurance Co.

### In other insurer changes:

Neil H. Ashley retired March 1 as chief executive officer of 20th Century Industries in Woodland Hills, Calif. Mr. Ashley, 71, became interim CEO in 1993 after retiring as president and chief operating officer in 1989. William L. Mellick, president and chief operating officer of the company, has taken on the additional role of CEO.

William G. Poortvliet, chairman, president and CEO of MetLife International Holdings and executive vp of Metropolitan Life Insurance Co., will retire April 1. Stephen E. White, senior vp, will succeed Mr. Poortvliet as CEO of MetLife International Holdings.

Win J. Neuger joined American International Group Inc. as senior vp and chief investment officer. Previously, he was managing director, global investment management-equity at Bankers Trust Co. in New York.

Richard C. Vaughan named executive vp at Lincoln National Corp. in Fort Wayne, Ind.

Dominic J. Frederico named ex-

## Comings & Goings: Industry

ective vp-financial lines at ACE Ltd. in Hamilton, Bermuda. Previously, he was senior vp, CFO and general manager of four regional territories in the United States for AIGRM, a subsidiary of the American International Group Inc.

### Agent/Broker

Thomas A. Caldwell Jr. named senior vp of Alexander & Alexander Inc., the risk management and insurance services unit of Alexander & Alexander Services Inc. in New York. Previously, he was director of risk management for American Cynamid Co. in Wayne, N.J.

Russell W. Sherlock named senior vp of Acordia Inc. and will concentrate on Acordia's managed health care lines in Indianapolis. Previously, he was president and chief executive officer of Acordia of Evansville, an Acordia company.

Bart Schwartz named senior vp and general counsel of Willis Corroon Corp. in Nashville, Tenn., succeeding Joseph V. Ambrose, who retired at the end of the year. Prior to joining Willis Corroon in July 1994, Mr. Schwartz was executive vp and general counsel at Werthan Packaging Inc.

Also at Willis Corroon, Paul F. Mahaffey named president and CEO of the property/casualty programs division in Nashville. Mr. Mahaffey will continue with his current position as president and CEO of the Professional Liability Underwriting Managers Inc. unit.

Mitchell E. Blaser named chief

financial officer of Marsh & McLennan Inc., the retail brokerage subsidiary of Marsh & McLennan Cos. Inc. in New York.

Sandra L. Berkowitz named managed care practice leader for the national health group of Johnson & Higgins in Philadelphia. Also at J&H, Jane M. Torikai named vp in the Costa Mesa office.

### Reinsurance

Allen B. Binder joined TIG Reinsurance Co. as vp responsible for the finite risk unit in Stamford, Conn. Previously, he was with Cologne Re.

David W. Tritton named senior vp-claims division for American Re-Insurance Co.

Also at American Re, Vp Gary S. Colton, transferred to the company's corporate underwriting division in Princeton, N.J., after serving as vp and chief underwriting officer of Am-Re Managers (Bermuda) Ltd. since 1990. **BI**

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# Self-fund

Continued from page 1

Large insurers, such as CIGNA HealthCare and Aetna Health Plans, as well as a number of independent managed care companies, including United HealthCare Corp. and Oxford Health Plans, are accommodating large and medium-sized employers that request self-funded arrangements.

So far, the move to self-insure managed care plans is not a "breakthrough trend," but more employers are entering into such arrangements, consultants say.

"There is an interest, particularly among large employers, but it's far from the norm," said Mary Case, a partner with Kwasha Lipton in Fort Lee, N.J.

"It's a purely financial decision," she said. "Basically, you look at a comparison of expected claims costs on an experience-rated basis vs. a community-rated basis. But you need to go into it with enough knowledge to know it's a calculated risk."

Groups with as few as 250 lives can self-insure their managed care plans, though most consultants suggest—and some insurers offering the plans require—that they purchase stop-loss coverage.

Most self-funded managed care plans resemble an administrative-services-only contract for a hybrid HMO/PPO. Employers pay the insurer or managed care organization an administrative fee—much like a self-insurer might pay an insurer under a typical ASO agreement—to cover functions like utilization management and claims processing.

What makes the arrangement different from an indemnity plan ASO arrangement, however, is the fact that some services are paid on a capitated basis and others on a discounted fee-for-service basis.

"It's just like an ASO, but certain elements are capitated," explained Michael McGinn, a senior vp in the Atlanta office of The Segal Co. "In a typical HMO, you capitate laboratory work, primary care office visits and drugs. But, specialty care, inpatient hospital care and ambulatory care, which can be about 60% of expenses, is often paid on a fee-for-service basis," he said.

"In most of the arrangements I've worked on, hospital inpatient services are paid on a per diem basis, ambulatory hospital services are paid based on case rates, and imaging and specialty physician services are typically paid according to a fee schedule," Mr. McGinn said.

Self-insured employers usually adopt the insurer's or HMO's capitated rates, rather than negotiate their own with providers, but they should always verify that those rates are reasonable, he advised.

Fee-for-service prices are typically negotiated between the insurer or HMO and the provider and are simply passed through to the employer. The charges resemble the standard community rates for such services. Most employers can feel comfortable with those rates, because large HMOs use their considerable size as leverage when negotiating rates with providers, Mr. McGinn added.

A number of the advantages to self-insuring a managed care plan are similar to the gains employers get from self-funding indemnity benefits: namely, avoiding premium taxes and state benefit mandates and gaining short-term cash flow advantages.

Employers that self-fund managed care plans also tend to gain control over the data that HMOs

use to calculate premiums and capitated payments to providers. Under commercially insured arrangements, that information usually remains in a "black box."

Some employers have been able to rack up considerable savings by self-insuring their HMOs.

Mr. McGinn of Segal, which is credited with forging one of the first self-funded HMOs for Circle K Corp. in 1987, said the Phoenix-based company saved \$700,000 the first year. "We self-funded their staff model HMO for 1,000 people because we felt the company's HMO risks were better than the community rate."

But, employers and consultants that have experience in self-funding HMOs caution against self-funding for purely financial reasons.

"Self-insuring has financial rewards, but it's also a major change in the relationship," Mr. McGinn said. "It takes the HMO's focus to care manager vs. risk manager," he explained, noting that larger employers don't need health plans to be risk managers because they have a big enough claims pool to predict their risks.

"The advantage to self-insuring in managed care is (that) it requires both organizations to sit down in a partnership role," agreed Jim Margerum, an in-house benefit consultant at Arizona Public Service Co. The Phoenix utility has been self-funding its two CIGNA HealthPlan HMOs since 1992.

"I try to de-emphasize costs and focus on the partnership," Mr. Margerum said. "We've all tried to lower costs, and look where it's gotten us: nowhere. The beauty of self-insured HMOs is you develop a partnership to work together to manage the health care, not the costs."

Nonetheless, he credits the self-funded managed care plans with holding the company's annual per employee cost increases to 3.2% over the last three years. That's well below average annual cost increases for similar employers in Arizona, he said.

Mr. McGinn said the savings associated with the self-funded HMO were in the seven figures.

Kellogg Co., of Battle Creek, Mich., which has self-insured its indemnity medical plan for years, began self-insuring the five HMOs it offers to employees in January 1994. The food products company also set up a self-insured exclusive provider organization to offer employees in Battle Creek.

"Kellogg has offered HMOs for some time, alongside a very rich indemnity plan," explained Dr. William Mayer, vp of medical affairs. "Initially, we took an approach of benign neglect with our HMOs, but in recent years we became very aggressive in managing the care in terms of improving quality and enhancing the plans' cost-effectiveness," he said.

"We have always taken the view that we'd rather not pay a premium for insurance," Dr. Mayer said. "But we also want flexibility and control over plan design." Offering a self-insured managed care plan allows the company to restrict or enhance the benefits normally found in commercial products, he said.

For example, Kellogg was able to carve out a "centers of excellence" program for organ transplants, as well as a separate mental health/substance abuse program and prescription drug program, which the company feels will be more cost-effective and provide higher quality than programs marketed within commercial managed care plans.

While it's still too early to gauge

the results, Kellogg did project its self-insured HMOs would cost 12% less than its self-insured indemnity plan and would enable the company to reduce its overall health care cost trend by 1% in 1994, Dr. Mayer said. "The most recent data suggests we'll do better than that."

Self-insured managed care is not for everyone, though. It is a more complicated arrangement that requires a good deal of negotiation over plan design and administrative functions. And, it is not always less expensive than fully insured plans.

"Employers have the perception that community rates are grossly inflated, but it's not always borne out by fact," pointed out Harvey Sobel, a principal at Buck Consultants Inc. in Secaucus, N.J. For example, some community-rated HMOs have a large share of young, healthy members who join to take advantage of better wellness bene-

fits, which means the community rate could actually be lower than an employer's experience rate.

And, employers that believe self-insuring will allow them to escape some HMOs' excessive administrative fees should realize that self-insuring does not always guarantee lower administration costs.

"I sometimes think self-insurance is an overused proposition," especially when the focus is solely on lowering administrative costs, said John Jeffries, president of Group Benefits Agency Inc., a Columbus, Ohio-based broker and consultant that helped the Catholic Diocese of Columbus self-insure its managed care program in January. "My focus is on savings through lower claims."

What's more, consultants point out, self-insuring managed care plans generally requires greater due diligence.

"Employers cannot think of a

self-insured HMO in the same way as self-insured indemnity," explained David Wilson, managing director at Apex Management Group Inc. in Princeton, N.J. "Part of what you are looking for in an HMO is utilization management, and when you self-insure, you have to make sure they are still doing that, especially since the employer is now taking the risk."

The employer should be certain that clinical practice guidelines and other methods to manage patients' care are being followed as though the HMO is managing its own money rather than the employer's, he said.

With health care inflation coming down and competition heating up, consultants note that fully insured HMOs are becoming very cost-effective. Employers that are pleased with the rates and performance of their HMOs may not want to pursue self-funding. **BI**

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# Simple steps can help limit D&O risks

By JUDY GREENWALD

SAN FRANCISCO—Establishing a clear insider trading policy is one way a high-technology company can significantly reduce its risk of being hit with a securities lawsuit, a broker advises.

High-tech companies do have a somewhat greater exposure to securities litigation, acknowledged Douglas J. Morton, vp at San Francisco-based broker Woodruff-Sawyer & Co., and director of its D&O, high technology and bioscience division.

However, there are plenty of risk management steps that a company can take to minimize its exposure, Mr. Morton said last month during a session on high-technology risks at The Wyatt Co.'s 24th annual symposium on D&O liability.

Underwriters cannot automatically assume all high-tech companies are poor D&O risks, Mr. Morton said. Instead, each company should be looked at on an individual basis, he said.

"The industry group is irrelevant. The key is individual risk profile, and if I'm underwriting a risk, that's what I'm going to look at," according to Mr. Morton.

Mr. Morton said he has examined the frequency with which different types of high-tech companies become involved in securities litigation, which could give rise to a D&O claim.

For example, he found that among 10,000 actively traded publicly held companies, 1.1% were sued in 1994.

Among biotech drug companies alone, though, the rate was 5%, with rates for most other types of high-tech companies also greater than the overall rate for all industries.

An examination of some of the individual claims filed against biotech drug companies, however, reveals that many suits are later dismissed or result in claims payments that are well within the company's self-insured retentions, according to Mr. Morton.

People incorrectly assume that if there is a precipitous drop in a high-tech company's stock price, the firm will get sued, the brokerage executive said.

But "I can tell you with certainty that's not true, absolutely not true," he said.

Mr. Morton noted that the biotech industry, for example, lost more than 70% of its value in 1994. But looking over a list of some of these companies, he said, "I don't believe there's any of these companies that got sued."

However, Mr. Morton added, the risk of a shareholder lawsuit does rise if there is insider trading followed by a stock drop.

Insider trading is "probably the most critical single issue" in determining a company's vulnerability to a lawsuit, he said.

However, Mr. Morton told the audience, even that liability exposure can be reduced.

"There are things you can do as a company to avoid litigation," he said.

One of the most effective ways for a company to break the patterns that often lead to lawsuits is to establish specific rules about insider trading.

"Communications policy becomes another critical component," said Mr. Morton, pointing to the frequency of allegations in lawsuits that companies have made misleading statements or have failed to disclose informa-

tion.

"That's repeated over and over again," he said.

Companies that have an insider trading policy as well as a good communications policy are "far less likely to be sued than those that don't," he said.

Mr. Morton said that companies that used one particular investor relations firm to communicate with shareholders, for example, had one-third the lawsuits of the comparable firms that did not use such a firm. Using an investor relations firm "will change your risk profile significantly," Mr. Morton said.

Another important component in reducing the chances of being sued is a company's "aftermarket strategy," said Mr. Morton. This involves having buyers ready to purchase stock so that the company's stock prices will flatten rather than fall when stock is sold off.

Mr. Morton said other factors

that can affect a company's exposure to D&O litigation include:

- Document retention.

"It is obvious to me that there has to be a way to catch that doc-

## Using an investor relations firm 'will change your risk profile significantly,' Douglas Morton says.

ument flow," he said. It is "common sense" that if there are no existing documents that could be considered "smoking guns," a company can easily win a dismissal.

- Revenue recognition.

The point at which a company recognizes revenue in its financial statements is a factor in 40% of the instances of shareholder litigation, Mr. Morton said.

# How a biotech firm fights shareholder suits

By JUDY GREENWALD

SAN FRANCISCO—Not every shareholder lawsuit needs to drag on as legal fees mount, says an executive in biotechnology, an industry more commonly targeted by securities lawsuits than other industries.

Take a recent suit against Ventritex Inc. of Sunnyvale, Calif., for example.

Spending only nominal amounts on legal fees, the company won dismissal of a shareholder suit that sought class-action status, said Eric J. Keller, vp and chief financial officer.

The company also successfully renegotiated its D&O coverage after its underwriter sharply raised rates at renewal, Mr. Keller said at a recent symposium on D&O liability sponsored by The Wyatt Co.

Ventritex is growing rapidly; revenues rose to more than \$105 million its most recent fiscal year from \$25 million the previous year. It is essentially a one-product company, manufacturing implantable defibrillators, and competes with two giants in the medical device field. It is followed by 15 Wall Street analysts.

In December 1993, two days after an unfavorable article on the company came out, shareholders sued the company, charging that it had failed to disclose material information, had inflated sales figures and that its directors or officers traded on inside information.

The lawsuit was dismissed only eight months after filing, and cost the Ventritex only \$125,000 in legal fees, which was well below its self-insured retention on its D&O policy.

Five factors contributed to the rapid dismissal of the suit, according to Mr. Keller:

- "We had active programs in place to manage risk," including insuring that appropriate disclosures were made in the company's Securities and Exchange Commission filings.

• The company was accustomed to litigation, which he said has been a "constant part" of its 10-year history.

The company has a strong bias towards fighting suits, not settling them, Mr. Keller said.

- There is active management

involvement in securities litigation.

Senior management actively managed the litigation and hired an aggressive outside attorney in addition to Ventritex's in-house staff.

• The company's objective was to demonstrate to plaintiff attorneys that their allegations were not sustainable.

It is not enough to believe the allegations are wrong, said Mr. Keller.

Instead, a defendant company must discuss its position with the plaintiffs "before either side has made a large investment in the case."

• The company did that by providing the shareholders with the information needed to support that position.

It responded to information requests as expeditiously as it could and provided access to information, as well as management, so that the plaintiffs could do their due diligence.

Ultimately, a judge dismissed the suit.

The largest difficulty the company encountered as a result of the lawsuit was a dramatic increase in its D&O premium rates at its January 1994 renewal, when its insurance company hiked rates 250% and refused to offer higher

An aggressive use of revenue recognition, for instance, would be to report revenue on an item as soon as it leaves the door, even if it is shipped only to a warehouse, he said.

"Clearly there's a right way and a wrong way," said Mr. Morton. He noted that a certified public accountant once told him that revenue recognition is like a freeway, with a slow lane, a fast lane and several in between, all of which can be within generally accepted accounting principles guidelines.

However, this is an issue that is different for every single company, he said.

- Market capitalization.

Lower-capitalized companies are less likely to be sued, Mr. Morton said.

For instance, companies that have less than \$25 million in capital had a 0.37% chance of being sued on an annualized basis over a five-year period running from

April 1988 to March 1993, according to a study.

With that rate, even if an insurer has to pay out the policy limits, the company is still likely to make a lot of money writing the business, he said.

- Product mix.

"Product mix is an incredibly important issue," he said. One-product companies are more likely to be sued than companies with diverse offerings, he explained.

Based on these and other factors, Mr. Morton said he believes underwriters can develop an expected frequency rate of litigation for an individual client, and develop appropriate D&O premiums from there.

How companies market themselves to the underwriter is very important, though.

A good relationship between the D&O underwriter and the company is critical, according to Mr. Morton. **BI**

limits.

Ventritex eventually decided in mid-term to switch insurers.

In less than two months it was able to double its limits at a 40% reduction in rates.

The company accomplished this by working with its broker to develop a proposal for its D&O coverage, then marketed this in face-to-face meetings with underwriters. Mr. Keller noted that during one 2½-hour meeting, two hours was taken up just responding to basic questions about the company and its business. "They wanted to understand our business and management team," he said.

Mr. Keller noted that some underwriters looked at the company's latest D&O premium rate and tried to offer a discount off of it, but the company refused to use its existing coverage terms as the basis of its new policy.

The first lesson to be learned is "you must take the lead in the D&O process," said Mr. Keller. "You're in the cockpit. You're not the passenger in this process."

It is also important to view the underwriter the same way as a large investor, said Mr. Keller. "You must tell your 'own story,'" he said.

He also advised other companies to take steps to minimize the

chances of a successful D&O lawsuit.

As an example, he noted how Ventritex handled disclosures about insider trading. To take advantage of a stock option plan that expired last month, most executives would have had to sell some of their stock for tax reasons, he recalled. The company held conference calls with the analysts who cover the company beforehand to warn them that such insider trades would happen.

"Be aggressive in your disclosures," Mr. Keller recommended.

"Be conservative in your financial reporting process," he also advised. Follow the most conservative revenue recognition policy "you can imagine," so investors cannot claim revenue projections are overblown.

He said that Ventritex does not recognize the revenue on its product until a hospital sends an invoice, which is only after the device has already been implanted in the patient. "You can't get much more conservative than that," he said.

And if a suit is filed, Mr. Keller said, do not let the lawyers—either plaintiff or defense attorneys—"run the show."

In fact, push as much as possible to have the suit dismissed, he said. **BI**

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# D&O

Continued from page 1

That 25% gap between the prevalence of coverage for the largest and smallest asset groups examined was considerably narrower than the 48% gap in the 1993 survey, however. Wyatt attributes the change to the fact that small companies are increasingly seeing the need for D&O coverage plus the attraction of favorable pricing.

The average D&O coverage limit for all companies surveyed was \$31.3 million. Companies with more than \$2 billion in assets reported an average limit of \$60.2 million and those with assets of less than \$100 million reported an average limit of \$5.6 million.

With companies in most industries enjoying lower D&O premiums, the Wyatt survey showed some seizing the opportunity to increase limits, lower personal deductibles and eliminate some exclusions and restrictive endorsements.

Some 19% of companies increased their limits last year, and only 2% decreased their limits. And 5% of companies reduced their deductibles; 86%, though, kept the same levels and 9% reported higher deductibles.

On the claims front, the survey found that of 561 claims reported as closed, nearly 100 were dropped by the claimant. The majority of claims that were not dropped were closed without an indemnity payment being made.

Where indemnity payments were made, though, payments averaged \$4.62 million, up from \$3.25 million in Wyatt's prior survey.

And defense costs continue to represent a significant component of D&O losses, the survey found, with the average defense cost hitting \$967,000 in 1994, a record high since Wyatt started doing the surveys in 1973. Defense costs av-

eraged only about \$750,000 in 1993.

Congress is currently considering several bills designed to curb securities lawsuits their sponsors describe as frivolous. Mr. Norton said he expects Congress to pass some sort of limits, and doing so will reduce future D&O liabilities, resulting in more outright victories for corporations and possibly fewer claims altogether.

Shareholders accounted for a smaller portion of D&O claims in 1994 than in previous years. Forty-one percent of the 1994 claims involved actions by shareholders, down from 47% in 1993 and 52% in 1992.

Of the remaining claims covered in the 1994 survey; 25% stemmed from employee claims, up from 22% last year; 21% came from customers and clients, up from 19%; and 13% from other third parties.

"I think that's the smallest shareholder percentage and the largest employee percentage in 10 years," Mr. Norton said.

The increase in employee claims reflects the fact that wrongful termination claims represented 11% of the total D&O claims reported by survey participants.

Shareholder claims are the most expensive source of D&O claims, however, with non-zero settlements or awards averaging \$7.7 million, compared with a \$1 million average for all other claims sources combined.

Inadequate or inaccurate disclosure was a major source of shareholder claims, representing 11.1% of the total reported. Since the 1980s, disclosure has replaced

mergers and acquisitions as the most common issue in shareholder claims.

The survey indicated that the competitiveness in the D&O market reflects the fact that full-limits capacity in the market stood at \$825 million in 1994, its highest level ever. The increased capacity resulted from individual insurers raising their limits, as there were no new major entries in the D&O market last year.

Two insurers continue to dominate the primary D&O market: American International Group Inc. and Chubb Corp.

Wyatt found that, by policy count, each had a 28% share of the market. By premium volume, AIG had a 39% share and Chubb a 24% share.

AEGIS Ltd. underwrote 9% of the primary business by premium volume in 1994, while the London market represented 7% by policy count.

In the excess D&O coverage market, ACE Insurance Co. Ltd. remained in the position it has held since Wyatt's 1987 survey as the largest excess insurer by premium volume with 14% of the market, while Chubb had 12% of the excess market share by premium volume and AIG 10%. Chubb held 12% of the excess market on the basis of policy count, while ACE held 10% and AIG 8%.

The 1994 survey is based on responses from 1,231 for-profit U.S. companies. The median asset size was approximately \$600 million and 494 corporations with more than \$1 billion in assets participated in the survey.

## D&O cover, up close and personal

SAN FRANCISCO—It is critical for policyholders to have face-to-face meetings with their directors and officers liability underwriters, an insurer executive says.

Holding a meeting is actually the "single most important aspect of having an effective D&O program," contends Stephen J. Sills, president and chief underwriting officer of Executive Risk Management in Simsbury, Conn., which is the D&O liability insurance underwriting manager for the Aetna Casualty & Surety Co.

In the mid-1980s, when companies were on "pins and needles" about obtaining D&O coverage, there was no problem arranging these meetings, Mr. Sills said at a session of The Wyatt Co.'s annual symposium on D&O liability in San Francisco last month.

But as the D&O market softened, companies developed the attitude that such encounters were "very, very expendable."

However, "it makes for a much better relationship over time," he said.

During his presentation, Mr. Sills also recommended what to avoid in a D&O underwriter, including:

- Those who use time as a weapon. An example would be if a company asks for quotes 30 days in advance of renewal and an incumbent insurer does not provide its quote until five days before the deadline.
- A "one size fits all" approach, with no customizing of coverage.
- Threats of retribution, such as where an insurer threatens to cancel another property/casualty policy if the D&O policy is not renewed. If an insurer does that, what makes you think it will be any easier to deal with if a claim comes in? asked Mr. Sills.
- A "pay now, pay later" attitude, such as when an insurer says one-third of the claims paid that particular year will be reflected in premiums next year.

—By Judy Greenwald

Participants submitted data primarily in the second half of 1994 in response to a written questionnaire.

In addition to Wyatt's mailing, the Risk & Insurance Management Society Inc. sent the survey package to 3,000 of its first deputy members.

Copies of the 1994 D&O liability report can be obtained from The Wyatt Co.-D&O Services, 303 W. Madison St., Suite 2400, Chicago, Ill., 60606. Attn: Mary Maze. The price of the survey report is \$290, \$225 for RIMS member non-participants and \$145 for 1994 survey participants.

## New captive insurance company directory available

STAMFORD, Conn.—Towers Perrin has published the 1995 Captive Insurance Company Directory.

This year's edition provides information on about 3,400 single-parent and group or association captives worldwide. A subsection categorizes captives according to major domiciles, including totals for each domicile.

Listings run alphabetically by captive name and are cross-referenced by parent or sponsor.

Also, the 1995 directory lists 188 captive managers in 28 domiciles, including the number of captives under management, staff and ownership. Principal investment advisers used are also listed.

Sections on risk retention groups and shipowners' protection and indemnity clubs are included.

The Stamford, Conn.-based consulting company assembles the in-

formation from public records, captive owners, managers, service providers and other sources.

To order the 1995 Captive Insurance Company Directory, call 203-326-5468.

### Construction cover

NEW YORK—Zurich-American Insurance Group's specialties division has introduced the Owners Protective Professional Liability coverage.

The excess policy provides coverage for construction project owners who require significant architectural and engineering services and who are concerned about the future availability or adequacy of the architectural and engineer-

ing companies' coverage. The errors and omissions coverage applies in excess of the architectural and engineering companies' coverage and is available on an indemnity basis for the policyholder.

The product is aimed at policyholders with annual construction work in excess of \$20 million.

Annual limits of up to \$10 million are available through a non-admitted Zurich-American company in all states except Alaska, Delaware, Hawaii, Maine, New Hampshire and South Carolina.

For more information, contact Ray Bustamonte, product manager, at 212-748-2341.

### Combined policy

NEW YORK—Commerce & Industry Insurance Co., a unit of American International Group Inc., offers a policy combining general liability and pollution legal liability coverage on one form.

The Environmental and General Liability Exposures program, or EAGLE, provides coverage for bodily injury, property or personal injury under the general liability portion and covers losses arising from pollution at scheduled locations causing third-party bodily injury, property damage and cleanup costs under the pollution legal liability portion.

EAGLE provides a combined single limit of up to \$1 million, with the general liability portion providing first-dollar coverage and the pollution legal liability portion having a \$25,000 deductible. EAGLE general liability is written on a claims-made or occurrence basis, while the EAGLE pollution legal liability is written on a claims-made basis only.

### Products & Services

The policy will be available nationwide on an admitted or non-admitted basis.

For more information, contact Janet Moylan in the marketing department at 202-861-8659.

### Fighting fire

SANTA BARBARA, Calif.—The Idea Bank has produced an award-winning videotape, "Fire...in the Workplace," to combat the risks of death by fire in the workplace.

The 25-minute video uses dramatic footage of real workplace fires throughout the United States and expert interviews to show the reasons for the high fire death rate.

Featuring California State Fire Marshal Ron Coleman, the video is designed for group training to show employees how to prevent fires at work and to get out alive in the event of fire.

The video and reference materials cost \$195 plus \$5 shipping. For more information, contact Richard Lambert, Idea Bank president, at 1-800-621-1136.

### Loss data system

LONG GROVE, Ill.—Kemper Risk Management Services has developed a new risk management information system for Kemper clients that integrates financial, claim and managed care information into one database.

The KRMS System enables users to access their loss data to spot accident trends, locate loss-prone areas, isolate problems and identify medical procedures and practitioners that produce cost savings or cost increases.

For more information, Kemper clients may call their broker or the Kemper help desk at 1-800-733-5767.

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(FAC RE)  
(Stamford, CT)

Michael J. Nicholas was named Senior Vice President of this facultative underwriting unit of Signet Star Holdings, Inc. Branch Manager of Fac Re's Atlanta office, he was previously Vice President and opened the Atlanta Branch in December 1993.

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## INTERNATIONAL

## Kobe fails to shake Japanese renewals

By KATE TILLEY  
and STACY SHAPIRO

LONDON—Rates will stay steady and capacity will be plentiful during April 1 catastrophe reinsurance renewals for the Japanese insurance industry, despite losses from the devastating earthquake in Kobe.

Though the renewal season is likely to be late as a result of the ruinous quake on Jan. 17, which killed more than 5,000 people, London underwriters expect rates for earthquake reinsurance to stay steady or even drop marginally for most Japanese insurers.

Any upward movement in rating or changes in coverage is more likely to happen during next year's Japanese reinsurance renewal season, when the effects of the Kobe quake are better known, underwriters say.

Renewal negotiations stalled slightly last week as underwriters questioned whether Japan's Ministry of Finance was going to expand earthquake coverage, which

would increase reinsurers' aggregates. The Ministry of Finance has said it is considering whether to make earthquake insurance compulsory with the purchase of homeowners fire insurance policies. Quake cover currently is optional in Japan and only about 3% of homeowners in Kobe, for example, purchased it.

Mandatory homeowners earthquake coverage, though, would primarily affect government earthquake insurance programs. Underwriters say they don't think the Japanese authorities will make earthquake insurance compulsory for industrial risks, which would affect the risks borne by the reinsurance industry.

This April 1 Japanese reinsurance renewal season will be "cautious" and "unchanged," summed up Herbert Haag, president and chief executive officer of Bermuda-based catastrophe reinsurer Partner Reinsurance Co. The quake "confirms our evaluation that Japan is a highly exposed area (for earthquake) and it could

happen again in Tokyo."

The Kobe quake also shows that earthquakes of this extent are not causing great reinsurance losses, which "may strengthen the Japanese belief that reinsurers are not as exposed as they thought," said Mr. Haag.

Like other reinsurers, Partner Re is in the Japanese reinsurance market for the long term, so "I expect if there is a change in pricing it will be for next year's renewal, not this year, once we see the effect (of claims) on the cargo market and on (non-Japanese) insurers who wrote risks of foreign owners," he said.

"My own view is that the earthquake has made very little difference to rating during this renewal season," added Lloyd's of London catastrophe underwriter Cliff Simmonds. Quake rates are expected to stay stable during this renewal season, while there is "pressure" to reduce windstorm rates, he said.

So far, the Japanese Earthquake Fire Expense Pool which is owned

*Continued on next page*



AP/WIDE WORLD

Although the Kobe quake caused widespread devastation, the relatively limited insured damage generally is not affecting reinsurance renewals.

## Risk management standard progressing in Australia

SYDNEY, Australia—Standards organizations in Australia and New Zealand are preparing to adopt a general risk management standard.

While the standard is designed to provide companies and government entities with a common basic starting point for their risk management efforts, more specific standards may be introduced later.

The two countries' standards associations formed a committee that will meet this month to review a second draft of the proposed standards. A final draft is expected to emerge from the meeting.

The standard will be the first of its kind, according to Kevin W. Knight, chairman of the International Federation of Risk & Insurance Management Assn., and risk management consultant to Queensland's Education Department in Brisbane. Mr. Knight is a member of the committee, established early in 1993, that is developing the standard.

The Canadian Standards Assn. also is drafting risk management guidelines (*BI*, Oct. 10, 1994), though they are not as fully developed as those of Australia and New Zealand, according to Mr. Knight.

The committee of risk managers and risk management organizations has issued a first draft and incorporated suggestions from almost 60 organizations and individuals into the current document.

The guidelines propose a generic framework for identifying, analyzing, assessing and treating risk. They include a glossary of terms and application guidelines for the risk management process.

The next draft will more closely follow the format of the ISO 9000 standards, which set international quality assurance benchmarks.

Colin Blair, a group manager at Standards Australia, the federal government body responsible for formulating standards, said it will still be a generic standard. Specific standards to suit particular industries and applications could be drawn up by subcommittees once the formal standard is in place, he said.

Mr. Knight said the first draft was criticized for not covering engineering and project management. He countered, "You can't write a standard to fit everything; it would be a very confusing document. We need to have a generic standard first that looks at risk management in its purest form. Then there can be variations to suit specific needs."

For example, a separate standard could focus on engineering project management activities, and another for the corporate sector could focus on traditional risk transfer, like buying property/casualty insurance.

"We need a standard because every man and his dog is talking about risk management, but no one has really defined what it is," Mr. Knight said. "We started with a blank piece of paper."

The final document could be used by small and medium-sized companies as well as state governments to implement public sector risk management, he said.

"In any size organization, there needs to be someone who is responsible for managing risk. It can't be an outside consultant—they can't get into the heart and mind of the organization," Mr. Knight said.

"The standard gives someone an understanding of risk management so it is not viewed as purely an insurance function," he said.

Garry Richardson, Canberra-based policy manager with Purchasing Australia, a division of Australia's Department of Administrative Services, also on the committee, said the standard would help the government's effort to implement risk management in its departments.

Stuart W. Bassett, executive consultant-risk management division with Alexander & Alexander Ltd. in Sydney, and a committee member representing the Australian Institute of Risk Management, said the standard is needed as "a common-sense base" to provide a mutual understanding of the terminology of risk management.

—By Kate Tilley

## Employer liability reform

U.K. risk managers plead for changes to law, coverage

By CAROLYN ALDRED

LONDON—U.K. risk managers are calling on the government to consider radical reform of the nation's laws on employers liability.

Attendees at a recent one-day conference organized by the Assn. of Insurance & Risk Managers in Industry & Commerce said they want the government to address the possibility of adopting no-fault liability and claims-made policies in its review of EL laws.

After the insurance industry announced that it would cap EL policy limits as of Jan. 1, 1995, the British government agreed to examine EL legislation (*BI*, Jan. 9). A consultation paper is expected to be published in the next few months, allowing debate on the issue before the government's review is completed by year end.

A number of questions on EL remain unanswered, AIRMIC Chairman Peter Lerwill said.

EL laws and insurance coverage have gone unchanged, despite huge changes in society and the workplace in the past several decades, experts speaking at the conference said.

"Employers liability insurance has been relatively static in terms of the cover provided for many years," said Nicholas Munday, a lawyer at Clifford Chance in London.

Meanwhile, workplace safety expectations and regulations have increased in recent years and are likely to continue to do so, spurred in part by "the development of a new political agenda in Europe that is having a direct effect upon the way in which we do things in Britain," he said.

Among recent moves in Europe is the establishment of a European Agency for Health and Safety, which will be based in Bilbao, Spain, Mr. Munday said. And, proposed European Union safety directives now being considered will likely redefine and may in some cases extend employers' liability, he said.

John Parker, head of general in-

surance for the Assn. of British Insurers, agreed things have changed in recent years.

"When considering how EL might change in the future, it is important to have in mind what is causing tension within the present system. Two of the most important causes are changes in employment practices over the last 25 years, and the lack of profitability for insurers underwriting EL business," he said.

"Vastly different working prac-

## EL laws and insurance coverage have gone unchanged despite big changes in society and the workplace.

tices exist today as compared to the situation when the EL Act was introduced in the early 1970s. There are many more small companies, which employ a far higher proportion of the workforce than was the case in 1972," he said.

And the widely used practice of subcontracting makes "it difficult for an insurer to determine what its catastrophic exposures are—and therefore how to structure its reinsurance program—when an indefinite number of its policyholders may have employees working on a single site," he explained.

Employers liability coverage is unattractive to insurers because of increased court awards; litigious claimants; improved medical techniques to identify work-related injuries and diseases; and increasing long-term disease claims, especially for noise-induced hearing loss, asbestos-related diseases and work-related upper limb disorders, Mr. Parker said.

"Occupational disease was not a significant problem in the early 1970s" when the EL legislation was passed, but today accounts

for almost half of EL claims and more than 20% of claims costs, he told attendees.

Donna Thomas, AIRMIC consultant, said that a 1994 Health and Safety Executive survey showed that work-related illnesses and accidents in the United Kingdom cost between £1.1 billion and £16 billion (\$17.39 billion and \$25.29 billion) annually.

An AIRMIC position paper presented to the conference showed just how far risk managers are prepared to embrace changes in EL legislation and coverage.

A recent AIRMIC survey of 85 risk managers found that 63% of the respondents believe the present adversarial legal system for British claimants is not an efficient use of money. Many risk managers favor some form of a workers compensation exclusive remedy system or a no-fault regime, Ms. Thomas said.

Currently, an employer's legal fees can be as high as 50% of the amount an employee is seeking in a lawsuit. Plaintiffs receive compensation only after years of litigation, and disputes over negligence cause costly delays in the rehabilitation process, she said. The system also imposes restraints on the methods available for risk financing, she added.

"No country in the world has a perfect system, but the workers compensation-type approach adopted by most Western nations could offer a logical alternative to the U.K. fault-based system," Ms. Thomas suggested.

Even Mr. Munday, the lawyer, acknowledged, "There are some benefits in having a more simplified (legal) procedure in dealing with claims."

But Mr. Parker said insurers would resist changes to the current system and might exit the already small EL insurance market. However, he added, insurers might be more amenable to introducing claims-made policy wordings.

Although most risk managers

*Continued on next page*

## INTERNATIONAL

## Kobe loss

Continued from previous page  
by Japanese insurers, is the only program known to have renewed, underwriters say. The pool offers an ex gratia payment to homeowners for quake losses that total 5% of the value of each homeowners policy, up to a maximum of ¥20 million (\$207,280).

The pool has received about a 5% rate reduction for the renewal of its ¥60 billion (\$621.8 million) of reinsurance excess of a ¥250 million (\$2.59 million) retention. Mr. Simmonds, who leads the London placement of the reinsurance program, would not comment. Partner Re also participates on the pool's reinsurance program, but Mr. Haag wouldn't comment.

One of the reasons for the steady rating during Japanese reinsurance renewals is the lack of losses being reported to reinsurers from the Kobe quake.

"We have not yet had a single loss advice from Japan," said Mr. Simmonds.

Although marine claims from the Kobe port area were expected to be large, fewer than five claims have been reported so far to the marine underwriters of the Institute of London Underwriters, said an ILU spokesman. Cargo claims may be delayed, however, until "cargo fails to arrive at its destination" and is reported, he said. Loss adjusters also say it is difficult to evaluate the state of the cargo in their containers until the port returns to full activity.

Loss adjuster Graham Miller International Ltd. worked on several insurance claims for the London market, including two damaged cranes and cracks in the port area jetties. Shaun S. Coyne, director of Graham Miller, said these losses totaled "many millions" of dollars.

Overall, though, the marine losses at the moment "are not a problem and that's a fact," said the ILU spokesman. "There will be losses, but I don't think they will be as large as first thought. But then I'm an optimist."

Partner Re expects its losses from the Kobe quake to be less than its losses from the 1994 Northridge earthquake in California, said Mr. Haag.

Insured losses from the Kobe quake will probably not top the initial estimates of ¥200 billion (\$2.06 billion), many analysts say.

Other analysts, though, caution that in coming months losses could exceed the initial figures from the Marine & Fire Assn. Insurance of Japan (BI, Jan. 30). Loss estimates in many recent catastrophes, such as the Northridge earthquake and Hurricane Andrew, have escalated well beyond early projections, they point out.

J. Brian Waterhouse, a senior analyst at James Capel Pacific Ltd. in Tokyo, has not formally revised his earlier estimates of net insured losses of ¥220 billion (\$2.28 billion) and gross insured losses of ¥600 billion (\$6.2 billion).

But he notes there was not as much reinsurance placed into foreign markets as he had initially thought, and the insured losses could be lower, though it will take some time for marine cargo insurers to be notified of claims.

Tallying the companies it rated immediately after the quake,

aged areas.

Mr. Windsor also warned of business interruption losses in other countries caused by an inability to get products and machinery from damaged facilities in Japan.

"The just-in-time system widely used in Japanese manufacturing and advance loss of profits for overseas contractors and engineering projects are expected to create a minefield for the unwary," he said. Mr. Windsor said an oil refinery outside Japan currently was facing potential delays of up to six months because of problems getting plant and machinery equipment from Japan.

Also, the port of Kobe, which is Japan's largest container port, may not be able to re-open for six months, he said.

Although insured losses seem light so far, the quake has been devastating to Japan's people and economy.

## In Kobe, 94,000 people are still living in temporary shelters, and the city's population has dropped by 7,350 as people move elsewhere.

Standard & Poor's Rating Group had suggested insured losses could be \$8 billion to \$10 billion—a level that would have made it the second- or third-highest insured catastrophe loss ever.

But now insured losses appear "surprisingly small," said Ian Thompson, director of S&P in Melbourne, Australia.

"That figure was based on an expected escalation," like that experienced after the Northridge quake, he said. "It does appear now that there was a very low level of insurance in the region."

Mr. Thompson, too, cautioned that marine insurance losses may not yet be fully recognized.

International insurers and reinsurers "are not, and will not for some time, be accurately informed of their exposure," warned Brian R. Windsor, managing director of loss adjusting firm Robins (Hong Kong) Ltd., who spent a week in Kobe after the quake. Too few loss adjusters have been in the area, and marine surveyors were called on to do some building assessments, he said. Adjusters had trouble just getting to some dam-

Patrick Cleary, managing director of loss adjuster McLarens Overseas in London, said the scene when he visited Kobe recently was "quite incredible. I've not seen anything like it in 20 years."

Dozens of major structures had collapsed. Walking through the city, one street would be "buckled like New York on a good day" and turning the corner three major buildings would have collapsed, he said.

Some of the modern buildings are virtually undamaged, though there may be extensive damage to contents like computers, desks and filing cabinets, he said.

Other structures, though still standing, had one or two collapsed floors.

The problem now is getting people to work with the damaged railway and roads, said Mr. Cleary.

The total insured loss, however, could ultimately be minimal, he admitted. Of the 57,000 homeowners policies in the Kobe area, only 3% had quake cover. And on the commercial side it is esti-

mated that only about 30% of the total loss is insured, he said.

The official Japanese estimate of the total economic losses from the quake, which includes uninsured damages, still stands at a staggering ¥10 trillion (\$103.4 billion).

A group of 102 publicly traded Japanese companies have reported an aggregate ¥1,005 trillion (\$10.39 billion) in damages, according to financial news service Nihon Keizai Shinbun Inc. The hardest hit included gas and electric utilities, steelmakers and retailers, the service said.

Kobe Steel suffered a ¥74 billion loss (\$765.2 million) (BI, Feb. 20), which Nihon Keizai Shinbun estimated would increase to ¥100 billion (\$1.03 billion) with the cost of lost production.

Japan's life insurance industry also faces major claims.

Life insurers expect claims of ¥41.4 billion (\$428.1 million), said Takahide Sakurai, president of the Life Insurance Assn. of Japan.

Mr. Sakurai, who also is president of Dai-ichi Mutual Life Insurance Co., said the payment exceeded the previous high of ¥11 billion (\$113.8 million) for the victims of a 1985 Japan Airlines jetliner crash (BI, Aug. 19, 1985).

London sources speculate that the life insurance industry's will suffer its biggest losses due to its heavy investments in property that wasn't insured for earthquake, rather than from payouts due to loss of life.

The National Land Agency has estimated property damage at ¥9.6 trillion (\$99.27 billion). Damage to structures, including homes, offices, stores and factories is ¥6.3 trillion (\$65.15 billion), with another ¥2.2 trillion (\$22.75 billion) in damages to transportation systems, including highways, railways and ports, the agency said. No separate estimate was given for the Kobe port.

Damage to gas, water and sew-

age services totaled ¥600 billion (\$6.2 billion), and another ¥500 billion (\$5.17 billion) in losses came from "agricultural land rendered unusable," the agency said.

In Kobe, 94,000 people are still living in temporary shelters, and the city's population has dropped by 7,350 as people have moved elsewhere since the earthquake. Reports say the figure may be higher, as the municipal government has not been able to tally all departures.

On Feb. 17, a month after the quake, the Kobe Chamber of Commerce & Industry said it was still unable to reach 3,000 of its 14,000 members, while 2,000 had reported damage.

Because of the lack of insurance and reinsurance coverage available to pay for quake damages, the government and Japanese insurers are taking other steps to refund their losses.

For example, the Japanese government plans to introduce tax relief measures for earthquake victims, which would lower or waive property and housing taxes, before the current fiscal year ends March 31. Income tax breaks already have been announced.

At least one Japanese insurer is issuing ¥10 billion (\$103.41 million) of commercial paper to raise additional funds to pay quake claims, said James Capel's Mr. Waterhouse.

The Japanese government only began allowing non-life companies to borrow funds or issue commercial paper in 1991 in the aftermath of Typhoon Mireille, he said. No other companies have announced plans to seek additional funds.

Mr. Waterhouse also said the Ministry of Finance had asked insurers "to re-open their files" and be less strict in their assessments of total loss. As a result, insurers may reconsider their evaluations of some buildings and declare more of them total losses. **BI**

## EL cover

Continued from previous page  
responding to the AIRMIC survey were concerned about EL coverage availability only in claims-made policies, Ms. Thomas said it may be time to look at the claims-made form's impact on long-tail EL exposures.

"How comfortable are you that the insurers you choose today, and indeed the limits of liability, will be the ones you want to adequately respond to claims which occur 10, 20 or even 30 years from now?" she asked.

"The traditional claims-made product may not be attractive, but that is not to say that it cannot be modified to provide an acceptable degree of continuity," Ms. Thomas said. "As this may become a reality in any event, risk managers may well be advised to ensure that it is developed to meet their needs," she added.

AIRMIC's EL task force expects

to discuss the claims-made and occurrence issues with the ABI and others, she said.

Ms. Thomas also acknowledged in her speech that much of the solution lies with risk managers. "The introduction of limits will only partially alleviate the insurance market's problems with EL business. The real issue is to reduce the losses," she said.

"We may have to accept that insurers are no longer going to underwrite this business at heavily unprofitable terms. Therefore, we must use the full arsenal of risk management weapons to attack losses," Ms. Thomas said.

Risk managers should "alert their employers to the true cost of workplace accidents and diseases," she suggested.

A report published last year by the U.K. Health and Safety Executive estimated that workplace accidents and illnesses cost employers 5% to 10% of gross company profits each year.

Effective cost containment will

demand improved identification and quantification of EL exposures, focused risk control, active claims management and creative risk financing.

In addition, disability management, including rehabilitation counseling and early return-to-work programs, remain "an undeveloped area of claims management" in the United Kingdom, Ms. Thomas said.

Henry Koszarek, national marketing director at Alexander & Alexander (U.K.) Ltd. in London, agreed that risk managers cannot just look to insurers and the government to solve the EL problem.

Aside from establishing good risk management and work safety practices and improved methods of risk analysis, risk managers have a range of risk financing options to improve their risk control, he noted.

Deductibles, aggregate arrangements, retrospective rating and captives, all give the risk manager greater control, he said. **BI**

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# Fraud

Continued from page 2

In some cases, Dr. Benitez would bill the union health plan for as many as four sonograms on the same woman, said Robert Eaton, administrator of the 808 fund.

The doctor also would perform mammograms and other unrelated tests on the patients, he said.

"As part of the scheme to defraud, the defendants performed treatments with no medical need or justification, including batteries of tests, on women who were known to be fund beneficiaries," court papers say.

Dr. Herzog, who ran Queens Diagnostic Imaging Services, would then supply Dr. Benitez with falsified results for the tests, enabling her to bill the union health fund, court papers allege.

In addition, Dr. Benitez overbilled the union for office visits, sometimes charging more than \$1,200 for a visit, Mr. Eaton said.

Over the course of three years, Dr. Benitez billed the Local 808 fund for at least \$93,800 in falsified claims, court papers say.

In its suit alleging fraud under the Racketeer Influenced and Corrupt Organizations Act, Local 808 is seeking over \$3 million in compensatory and punitive damages.

The total amount all the union plans were defrauded is approximately \$1.5 million, Mr. Eaton said. The other IBT unions are: Local 272, Local 707, Local 32B-32J, and United Auto Workers Local 365.

All of the union plans are self-insured, Mr. Eaton said.

Several of the plan members later suffered from inadequate treatment as a result of the scam, he charged, adding that the doctor would "only go through the motions of a test."

Local 272 stopped paying bills submitted by Dr. Benitez in 1992, after deciding they were excessive, said Marc Goodman, fund manager at the union.

On investigating the claims, the union discovered that Dr. Benitez was submitting bills on plans where the union pays 80% of the costs and then not billing the patient for the rest of the payment or the deductible, he said.

"We are only responsible for paying 80% of what the member is responsible for, so if the member is paying nothing, we pay 80% of nothing," Mr. Goodman said.

Health insurers, too, are turning down some of Dr. Benitez's bills.

Aetna Life & Casualty Co. in Hartford, Conn., is reviewing all the claims that Dr. Benitez submits and seeking verification for the services for which they are charged, a spokesman said. "We're familiar with the case and are cooperating with the FBI," the spokesman said.

Dr. Benitez was also a member of the physicians network for Cigna Healthcare of New York, a unit of Cigna Healthcare Inc. in Bloomfield, Conn. She joined the network in 1989, but Cigna removed her in March 1994. Cigna would not disclose details.

Dr. Benitez did not return telephone calls. **BI**

## Knoxville risk exec next PRIMA president

ARLINGTON, Va.—Abigail S. Hudgens, risk and benefits manager for Knoxville, Tenn., will become the next president of the Public Risk Management Assn. in June.

Ms. Hudgens will succeed Sharon Rodebaugh, risk manager of Grand Prairie, Texas.

Ms. Hudgens is a former vp of PRIMA's Region V and has served on numerous PRIMA committees, including stints as chairwoman of the education and training committee and the conference planning committee. She also wrote one chapter of "Public Sector Risk Management," PRIMA's how-to manual on risk management.

Ms. Hudgens has a bachelor's degree in political science and a master's degree in public administration, as well as an Associate in Risk Management designation.

PRIMA also will install two other new officers at its June conference in Seattle: Stewart Ellenberg, risk manager for Fort Collins, Colo., as vp of Region II; and Corey Stein, risk manager for Harrisburg, Pa., as vp of Region IV.

Remaining on the board are Ms. Rodebaugh, who will serve as immediate past president, as well as the vps of regions I, III, V and VI.

## Employer settles suit brought under leave act

AMARILLO, Texas—One of the first employers sued under the Family and Medical Leave Act will pay \$10,000 to settle the suit.

Without admitting or denying that it violated the law, Associated Milk Producers Inc. of Amarillo, Texas, agreed last month to pay the money to Randy Seale.

According to a suit brought on his behalf by the U.S. Department of Labor, Mr. Seale was fired for taking leave to care for his wife when she was hospitalized late in her pregnancy and when their premature triplets were hospitalized.

A U.S. District Judge in Amarillo approved the settlement.

## Oregon court allows worker to sue employer

SALEM, Ore.—The exclusive remedy provision of Oregon's workers compensation law does not bar a worker's negligence lawsuit if a work-related condition is not a compensable injury, the state's Supreme Court recently ruled.

The case, *Errand vs. Cascade*

## For the Record

*Steel Rolling Mills Inc.*, involved a manufacturing plant employee who suffered upper respiratory tract irritations.

The worker had pre-existing chronic sinusitis and was predisposed to developing the respiratory tract irritations. The employee filed a workers comp claim alleging his condition was worsened by exposure to workplace substances.

The Workers Compensation Board agreed with a referee finding that work exposure was not the major cause and, therefore, his affliction was not compensable. The worker then sued alleging the company was negligent for allowing him to be exposed to the irritant.

A trial court and an appeals court agreed with Cascade Steel's motion for summary judgment, finding the employer was protected by the exclusive remedy provision.

However, the Oregon Supreme Court reinstated the suit and held the exclusive remedy provision did not apply because the employee did not have a compensable injury.

Two dissenting justices, Susan B. Graber and Chief Justice Wallace P. Carson Jr., stated the majority's opinion guts the fundamental purposes of exclusive remedy and that the worker does have a compensable injury under the statute. The dissenting opinion states that claimants will now have an incentive to try to opt out of the workers compensation system.

## EEOC age bias claim challenged by J&H

NEW YORK—The Equal Employment Opportunity Commission is not acting in the public interest in suing Johnson & Higgins for allegedly violated federal anti-discrimination law in its retirement policy, the brokerage contends.

That assertion came in a pretrial motion in a suit that alleges that, by requiring directors to resign at age 62, or age 60 if they have been directors for 15 years, J&H violates the Age Discrimination in Employment Act (*BI*, Aug. 9, 1993).

The New York-based brokerage contends that the EEOC should not have filed the suit as none of the directors that has retired since 1982 sanctioned it.

Meanwhile, J&H intends to petition the U.S. Supreme Court to review a January 1995 3rd U.S. Circuit Court of Appeals ruling in a suit in which Burt N. Sempier, a former J&H chief administrative officer, charges the brokerage violated the ADEA with an early re-

tirement program.

A U.S. District Court had granted summary judgment to J&H in March 1994, but the 3rd Circuit reversed.

## Risk group not liable for claims against priest

SACRAMENTO—A risk retention group that provides liability coverage to the Catholic Diocese of Sacramento doesn't have to pay a default judgment against a priest who engaged in sexual relations with a parishioner, a California appellate court has ruled.

The decision stemmed from a 1990 lawsuit filed against the diocese and Father Michael Dermody by a woman who claimed the priest persuaded her to have sexual relations with him during counseling sessions over a 20-year period.

The suit resulted in a default judgment against the priest when the diocese was dismissed from the case (*BI*, Jan. 3, 1994).

The plaintiff then sued the diocese's insurer, The Ordinary Mutual, A Risk Retention Group Corp. of Vermont, which provided \$15 million in coverage for bodily injury and property damage.

Plaintiffs who obtain judgments against insured individuals are permitted under California law to file a third-party claim against the defendant's insurer, explained Barbara Goode, a partner with San Francisco-based Fisher & Hurst, who represented the diocese in the case.

However, the District Court in Sacramento found there was no coverage because Ordinary Mutual policies exclude coverage for sexual misconduct by priests. The plaintiff appealed, but the 3rd District Appellate Court affirmed the lower court decision.

*Jane D. vs. Ordinary Mutual, No. C018198, California Court of Appeal, 3rd Appellate District., Feb. 3, 1995.*

## Information in brief

The House Ways and Means Committee last month passed legislation to allow the self-employed to retroactively and permanently deduct 25% of their health care insurance premiums as a business expense. The law providing the deduction expired at the end of 1993. . . . The National Council on Compensation Insurance is requesting a workers comp rate decrease of 13.9% in the voluntary market and 1.9% for the assigned risk program in South Carolina. **BI**

# Reforms

Continued from page 2

forms will be more than the trial bar wants but fall short of what physicians would like, he added.

Sen. Packwood also said that he hopes Congress won't "knuckle under" to proposed restrictions on managed care, such as "any willing provider" laws, which require managed care plans to include in their network any provider willing to meet the plan's contract terms. Such provisions, enforced in several states, have been blamed by plans with driving up the administrative costs of managed care.

Then, to the appreciative chuckles of some in the audience, the Finance Committee chairman predicted that this "modest reform bill" will be approved by a 90-to-10 vote in the Senate and a 400-to-35 vote in the House of Representatives.

Gov. Howard Dean, D-Vt., did not share Sen. Packwood's optimistic assessment during the GHAA meeting.

Gov. Dean—a physician and the most outspoken advocate among the nation's governors of extending coverage to the uninsured—said he believes it "highly unlikely anything serious will happen" on health care reform in the current Republican-controlled Congress.

He added that the GOP leadership does not seem anxious to make changes to the Employee Retirement Income Security Act of 1974 so that states would have more leeway in their health care reform experiments.

"There are a lot of states that are trying to deal with health care reform," said Gov. Dean. Financing is the biggest problem facing the states, he said. The drive to balance the federal budget means that Medicaid funding won't be plentiful to pay for reforms, he said.

This point played into a remark

made by Sen. Packwood a few minutes earlier. He noted that if the budget deficit is to be tamed, the growth of Medicare and Medicaid spending will have to be curbed. The senator warned that if a majority of the providers and consumers of health care can't agree on an approach to hold down costs—such as greater dependence on managed care, currently used by only about 10% of Medicare recipients—Congress


## 'Serious' health reform is highly unlikely in the current Congress, says Vermont Gov. Howard Dean.

could "out of frustration" simply order pro-rated cuts in the programs across the board.

Gov. Dean said he believes the country faces two options in dealing with health care reform: some sort of employer mandate or a single-payer system. He noted that even as he was speaking last week, Rep. Jim McDermott, D-Wash., was introducing a bill that would create a single-payer system. Gov. Dean said that there was no chance that the bill would pass in this Congress, and probably not for several Congresses to come.

But "if we do not make incremental changes" to the health care system, the country could well end up with such a dramatically different system, said Gov. Dean. There is "no easy way out" of including some sort of employer mandate in those reforms, he said. If not, the push to replace the current system with a single-payer system will gain strength, he said.

"We have a few years to make that choice" between sound incremental reform or a government-run system, said Gov. Dean. **BI**



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## LEGAL NOTICE

### UNITED STATES BANKRUPTCY COURT Southern District of New York

#### IN THE PETITION OF GARETH HUGHES AND ANTHONY JOAQUIN, AS JOINT PROVISIONAL LIQUIDATORS OF THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED (THE "COMPANY")

CASE NO. 93-B-46013 (PBA)

NOTICE IS HEREBY GIVEN that on February 23, 1995, an Order was entered by the United States Bankruptcy Court for the Southern District of New York continuing the Preliminary Injunction Order originally issued on December 14, 1993, (the "Order") which (a) enjoins and restrains the commencement or continuation of any judicial action, arbitration proceeding, administrative or regulatory action or proceeding against the Company or any of its property in the United States; (b) enjoins and restrains the enforcement of any judicial proceeding, arbitration award, administrative or regulatory proceeding to create, perfect or enforce any lien or other claim against the Company or any of its property in the United States; and (c) requires all persons to turn over and account to the Petitioners for all funds resulting from the drawdown of letters of credit in excess of what is expressly authorized by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit have been posted in their possession, custody or control after written demand for turnover and accounting is made by the Petitioners against such entity. The Order shall remain in effect pending a hearing scheduled to be held in Room 617 of the Alexander Hamilton U.S. Custom House, One Bowling Green, New York, New York on June 28, 1995 at 10:00 o'clock a.m. Any party in interest who has not received a copy of the Order should contact counsel for the Joint Provisional Liquidators in writing at the following address:

**Margaret M. Groarke, Esq.**  
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**Sub-total** ..... **30,001**

Associations ..... 343  
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**Total Qualified** ..... **53,701**  
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★ Source Business/Occupational breakdown of qualified circulation, November 28, 1994 Issue, as submitted to BPA for December 1994 BPA Publisher's Statement

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# Dental

Continued from page 2

General Life Insurance Co. is much larger at 8 million members, enrollment growth in that plan has been flat, he said.

Prudential Insurance Co. reports similar statistics.

Enrollment in the insurer's dental HMO increased about 23% last year to 1.6 million, said John LeDell, senior vp of dental operations in Roseland, N.J. Enrollment in Prudential's indemnity dental care program remained flat at 8 million, he said.

Delta Dental Plans Assn., a Chicago-based organization with 26 million members served predominantly through indemnity programs, intends to offer its first national dental HMO this year, said Carl Zimmerman, president and chief executive officer. Some local Delta Dental Plans already offer dental HMOs that covered 792,000 people in 1993, the latest year for which figures are available.

"The trend of development of more capitation and additional managed care will accelerate," Mr. Zimmerman predicted.

One attraction of managed dental care programs is that they cost significantly less than indemnity programs.

Mr. LeDell estimated a dental HMO costs 30% less than an indemnity program, while a dental preferred provider organization costs 10% less than indemnity plans.

Hewitt's Ms. Grayson came up with virtually the same estimate: She said premiums are between 10% and 30% less for managed dental care plans than for indemnity plans.

Instead of looking to managed dental care to save money, though, some employers use the savings to offer a richer dental benefit than they otherwise might.

Pearle Vision Inc., for example, spends the same amount for its dental HMO as for its indemnity plan, said Karen Arnold, benefits supervisor in the company's Dallas headquarters.

However, the benefits available through the dental HMO are more generous. For example, there is no maximum annual benefit limit in the dental HMO, compared with a \$1,500 maximum annual benefit imposed by the indemnity plan. And employees enrolled in the HMO do not have to fill out claim forms, among other differences.

About half of Pearle's employees are enrolled in the dental HMO and the other half in the company's self-insured indemnity plan. Pearle has offered the dental

HMO for six years.

"The word of mouth on the (dental HMO) is excellent," Ms. Arnold said. "We really never have to sell that plan at all."

Chicago-based S&C Electric Co. began offering a dental HMO this year, said Diane Taylor, manager of benefits services. Workers who

In some cases, employers are offering generous dental benefits in a managed care plan as "a carrot when they're taking away on the health side," commented Scott Wayne, a consultant in the Chicago office of The Wyatt Co.

Another reason employers like managed dental plans is that pre-

miums increase between 8% to 10% annually for indemnity dental plans and 4% to 7% for managed dental care plans.

One of the keys to making managed dental care successful is having a comprehensive network of providers, experts agreed.

"The level to which these plans are accepted by employees really depends on the extent of the network," said CIGNA's Mr. Groffman.

In addition, more dentists are joining managed care networks, "and that's truly the key to the plans," agreed Mr. Wayne.

At the same time, inadequate provider networks are an obstacle preventing some dental networks from growing faster.

Ball Corp., for example, does not offer its workers a managed dental care benefit because none of the dental program vendors offers an adequate network of providers in the Muncie, Ind., area where the firm is located, said Victor J. Gilla, director of corporate employee benefits.

A few Ball Corp. employees can participate in a dental HMO if they are members of a certain medical HMO that offers a dental benefit, he said. But, the majority of Ball employees participate in the company's self-insured indemnity dental program. **BI**

## Managed dental care plans do not just cut costs. Some companies are using them to offer more generous benefits than they otherwise could.

enroll in the dental HMO will not be subject to an annual maximum benefit limit of \$700 imposed by the firm's self-insured indemnity plan. Also, workers enrolled in the dental HMO do not have to pay for dental services up-front and wait for reimbursement.

S&C decided to offer the dental HMO to help workers who have high dental costs and who would have cash flow problems by paying for services up-front, Ms. Taylor said. Cost savings and enrollment figures for the dental HMO are not available because the program is so new.

miums increase more slowly for managed dental plans than for indemnity plans.

According to a Wyatt survey of 16 dental plans nationwide, premiums increased an average of 9.6% for indemnity plans from October 1993 to October 1994. But, premiums only increased an average of 5.2% for dental HMOs during the same period.

Prudential reported an average annual premium increase for the past five years of 2.8% for its HMOs, 6.5% for its PPOs and 6.7% for its indemnity plans.

Hewitt's Ms. Grayson estimated

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### LEGAL NOTICE

#### UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

#### IN THE PETITION OF DAVID LLEWELLYN MORGAN AND MARK W.R. SMITH, AS JOINT PROVISIONAL LIQUIDATORS OF STOCKHOLM RE (BERMUDA) LTD. (THE "COMPANY") Case No. 95-B-40543 (PBA)

NOTICE IS HEREBY GIVEN that on February 24, 1995 an order was entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in connection with the case filed with respect to the Company pursuant section 304 of the Bankruptcy Code (the "Order"):

1. Enjoining and restraining all persons and entities from (a) transferring, relinquishing or disposing of any property of the Company in the United States, or the proceeds of such property, to third parties; (b) commencing or continuing any action or other legal proceeding against the Company or any of its property in the United States, or any proceeds thereof; (c) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or any arbitration award, and commencing or continuing any act or any action or other legal proceeding to create, perfect or enforce any lien, set-off or other claim against the Company or any of its property in the United States or any proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts; and (d) drawing down any letter of credit established by, on behalf or at the request of, the Company, or withdrawing from, setting off against, or otherwise applying property that is the subject of any escrow agreement or similar arrangement in which the Company has an interest, in excess of what is expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established, except, however, no drawing against any letter of credit shall be made in connection with any commutation unless the amount has been agreed in writing with the Petitioners or permitted by further order of the Bankruptcy Court;
2. Requiring all persons and entities that are beneficiaries of letters of credit established by, on behalf or at the request of, the Company, or parties to any escrow or similar arrangement in which the Company has an interest, to (a) provide notice to Petitioners' United States counsel of any drawdown on any letter of credit established by, on behalf or at the request of, the Company, or any withdrawal from, setoff against, or other application of property that is the subject of any escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Petitioners to assess the propriety of such drawdown, withdrawal, setoff, or other application, including, without limitation, the date and amount of such drawdown, withdrawal, setoff of other application and a copy of the agreement pursuant to which any such drawdown, withdrawal, setoff or other application was made and provide such notice and other information contemporaneously therewith; (b) turn over and account to the Petitioners for all funds resulting from such drawdown, withdrawal, setoff, or other application, in excess of what is expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established;
3. Requiring every person and entity that has a claim arising under a contract of insurance, reinsurance, retrocession or otherwise, written or entered into by the Company and who is a party to any action or other legal proceeding in which the Company is or was named as a party, or as a result of which a liability of the Company may be established to place the Petitioners' United States counsel on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (a) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, arbitrator, administrator, regulator or similar official having jurisdiction over such action or legal proceeding and (b) any and all correspondence, or other documents circulated to parties named in the master service list.

The Order shall remain in effect pending the hearing scheduled to be held in Room 617 of the Alexander Hamilton U.S. Custom House, One Bowling Green, New York, New York on June 28, 1995 at 10:00 o'clock a.m. Any party in interest who has not received a copy of the Order should contact counsel for the Joint Provisional Liquidators in writing at the address listed below.

Chadbourne & Parke  
30 Rockefeller Plaza  
New York, New York 10112  
Attention: Margaret Groarke, Esq.

# Barings

Continued from page 1

will just have to wait for more information to unfold. I, like everybody else, await further information with bated breath," said Alec Sharp, underwriter with Lloyd's syndicate 839, which is managed by Tower Managing Agents Ltd. Syndicate 839 is the lead insurer for Baring Securities Ltd., which is the parent of the unit where Mr. Leeson worked.

Each of three main units of Barings—Baring Securities, Baring Asset Management Ltd. and corporate finance arm Baring Brothers & Co.—has bankers bond, professional indemnity and D&O coverages separate from the parent company, sources say.

Neither the units nor the parent company would comment on their insurance coverage.

Barings P.L.C. itself has £100 million (\$158.6 million) in bankers bond coverage and also £100 million in coverage for professional indemnity, but has no D&O coverage, market sources say. D&O coverage is normally excluded in the case of family-owned firms like the investment bank, said one underwriter.

Leading both coverages, sources say, is syndicate 1007, which is managed by Spreckley Villiers Burnhope & Co. Ltd. Rupert Villiers, deputy underwriter of syndicate 1007 and managing director of the company, would neither confirm nor deny having a role in the bank's coverage.

Neither of the two brokerages on the policies—Sedgwick Group P.L.C. and Johnson & Higgins U.K. Ltd.—would discuss the firm's coverage.

Baring Securities Ltd.'s coverage is led by syndicate 839 and sources say the limits could be as high as £30 million (\$47.6 million) in bankers bond, professional indemnity and D&O coverage. Mr. Sharp would not comment on the coverage.

Sources say that Baring Bros. and Baring Asset Management have similar levels of coverage but could not say where the coverage was placed.

Urging caution, London market leaders said it is too early to even say whether insurance claims will be made in the Barings debacle.

"We are saying to members and members agents, 'It's just one client and this is exactly what we are in business for,'" said Reg Brown, leading Lloyd's liability underwriter with syndicate 702, which is managed by Octavian Syndicate Management Ltd. Mr. Brown is president of the Insurance Institute of London.

Before the ING news was known last week, one specialty D&O broker said he expected a D&O loss from the Barings failure but said any loss would probably not affect rates for other policyholders. "One hundred million pounds is a lot of money if it came to that, but it wouldn't be a huge loss for this market," he added.

It may be some time before the full story behind the collapse of the more-than-two-century-old investment firm is known. Initial reports focused almost exclusively on Mr. Leeson's activities.

Barings would not comment on Mr. Leeson's trading, but futures traders say that his aggressive trading strategy fell apart when the Japanese stock market fell after the Jan. 17 earthquake.

In late 1994, these sources say, Mr. Leeson made immediate big profits by selling up to 40,000 put and call options on the Nikkei index of 225 stocks. The continued success of that strategy relied on a

stable Japanese stock market.

When the market fell sharply after the quake, traders say Mr. Leeson may have panicked and bought heavily into Nikkei futures in an attempt to stabilize the market. Following further drops, they think he might have bought more and more contracts in a fatal game of double or nothing.

The Bank of England predicted last Sunday that Barings would lose "in excess of £500 million (\$792.8 million)" on the trades, an amount sufficient to wipe out its capital base, and so decided to place the bank into administration, which is similar to bankruptcy proceedings. The contracts were finally closed by the end of the day last Tuesday and analysts in London predicted the eventual loss would be in the region of £700 million (\$1.1 billion).

It was unclear last week whether or not the 28 year-old trader had attempted to defraud Barings or whether he simply panicked. But Peter Baring, Barings' chairman, publicly suggested that it could well have been fraud on Mr. Leeson's part. Mr. Baring said that management had not been aware of his plight until Thursday, Feb. 27,

when he resigned by fax message and left the country.

Similarly, the Bank of England said that "Barings has been the victim of losses caused by massive unauthorized dealings by one of its traders in Southeast Asia."

Mr. Leeson's disappearance fueled suspicion of fraud and sparked an international manhunt. He was eventually picked up for questioning by German police when he arrived in Frankfurt last Wednesday, and last week was detained by the police, though he had not been arrested in connection with criminal charges. The Singapore Commercial Affairs department issued a warrant for his arrest last Wednesday.

Mr. Leeson has claimed he was merely a scapegoat and that his superiors were fully aware of his trades and indeed financed him with credit transfers from London.

According to U.K. newspaper reports, Mr. Leeson told friends in London on the telephone just before leaving for Frankfurt that he personally had only been responsible for about £200 million (\$317.1 million) of the loss. He allegedly said that he was merely the "sacrificial lamb" in a strategy gone awry that Barings' senior staff had hoped

would make them all a lot of money.

Barings refused to comment, as did Ernst & Young, which was hired as its administrator in the United Kingdom. Administrators are similar to bankruptcy trustees in the United States.

The Bank of England, which tried but failed to save Barings in a desperate bid to find a buyer last Sunday before the trading losses wiped out its capital, subsequently started its own investigation but it also said it was too early to comment.

On Friday, the Serious Fraud announced that it had started an investigation into the bank in conjunction with the City of London police, following allegations of fraud "as far as they might relate to England."

Underwriters will watch developments very closely because the facts will determine which, if any, of the bank's insurance policies will be triggered.

One underwriter outlined a number of possible scenarios:

- If criminal intent by Mr. Leeson caused the collapse, Ernst & Young could file claims on the bank's bankers bond coverage.
- If Mr. Leeson is innocent of any

wrongdoing, London underwriters say claims could be filed under D&O coverages.

In this case the creditors may accuse Mr. Leeson's immediate and higher superiors of negligence and failure to prevent the losses, even if they were not aware of the situation because the firm failed to identify the impending disaster.

• D&O coverage also could be triggered if it is discovered that senior management knew of Leeson's gamble and helped him try to trade out of his predicament by supplying more funds without alerting creditors.

• No coverage would be triggered at all if Mr. Leeson was found to have acted deceitfully but not fraudulently and management is not found guilty of negligence.

If Mr. Leeson is found to have acted unlawfully for his own personal gain, claims could be triggered on both bankers bond and D&O coverage, suggested one London specialty broker.

A claim could be made for Mr. Leeson's illegal acts on bankers bond coverage and also on D&O policies for the manager's failure to spot the trader's wrongdoings, he explained. ■

## Captive owners may feel repercussions from Barings mess

By ADRIAN LADBURY

LONDON—Shock waves from the collapse of Barings P.L.C. are hitting captive insurance company managers, protection and indemnity clubs, and pension funds.

Through its Baring Asset Management Ltd. unit, the London-based bank is one of the world's biggest captive insurance company asset managers and also manages funds for P&I club funds and U.K. pension plans.

Assets that the unit holds as equities, bonds and other investments are safe—"ringfenced"—from the bank's creditors because the investments are held in trust. But any cash deposited with the bank could be in danger of being drawn down to cover Barings' debt because it is not held in trust.

Leading asset managers say that the collapse could lead to a flight of assets to other managers. The sooner a buyer can be found for the bank entirely or just its profitable asset management arm, the less business it will lose, say London analysts.

One leading asset manager predicted that captive owners would sue their captive managers if any deposits are lost, and a British trade union pledged legal action if pension funds are lost.

Managers of captives, P&I clubs and pension funds were all breathing a bit easier last week after Ernst & Young, the firm hired to oversee Barings' sale or liquidation, said it had entered into "exclusive negotiations" with Dutch banking and insurance giant Internationale Nederlander Groep N.V.

"ING intends to acquire substantially all of the business, assets and liabilities of the Barings Group, including substantially all of the Baring Brothers & Co. bank, Baring Securities and the Baring Asset Management operation," Ernst & Young and ING said in a joint statement.

Baring International Investment Management Ltd., a unit of Baring Asset Management, is one of the world's largest captive insurer asset managers. In 1993, its London and Washington offices managed 43 captive accounts with assets of \$1.3 billion, according to Tillinghast, a consulting unit of Towers Perrin. Most of that business comes from entities domiciled in

Guernsey and Bermuda.

In fact, Barings is especially big in Guernsey, where its various units employ 280 people.

Steve Butterworth, the domicile's superintendent of insurance, predicts that some captives will shift assets to other management firms and some captives could be hit by "minor losses." He predicts that captive owners will not sue captive management firms.

Baring Asset Management also is a leading investment manager and provider of guarantees to some of the world's largest P&I clubs.

Assuranceforeningen Gard in Raendal, Norway, has about \$230 million of its \$460 million investment fund invested with Barings, said John Bernander, deputy managing director.

Mr. Bernander confirmed that Gard may lose some cash deposits held by Barings, but that loss would not exceed 2.5% of its total investment fund, or \$11.5 million.

"We are not at all concerned about the security of the funds, because Barings is only the manager of the account. It is ringfenced from any claimants on the bank," he said.

London Transport P.L.C., which uses Baring Asset Management and two other firms to manage its pension fund assets, believes it could lose up to £20 million (\$31.7 million) as a result of the bank's collapse.

## HMO to cover bone marrow treatment—for now

ROCKVILLE, Md.—After some not-so-gentle regulatory and judicial prodding, a Maryland health plan will cover what it considers an experimental treatment for a young boy with a life-threatening disease and settle its claim dispute later.

Maryland Associate Commissioner Randi F. Reichel ordered health maintenance organization Optimum Choice Inc. of Rockville, Md., on Feb. 17 to cover a bone marrow transplant for a boy afflicted with a rare disease that could claim his life before he turns 10. And a Montgomery Circuit Court judge on Feb. 23 issued a temporary injunction ordering the HMO not to hold up the claim.

The boy, 23-month-old David Raymond of Crofton, Md., has Hurler's syndrome. The disease prevents

A spokeswoman said that LT believes the main investments are safe but, before details about the ING proposal are known, losses could be incurred on its cash deposits.

John Edmonds, leader of the 800,000-member trade union GMB, pledged to take legal action on behalf of union members whose pensions may be at risk. The union has no assets managed by Barings, but the employers of union members may have hired Barings to manage pension fund assets.

"We are extremely concerned to determine whether any pension funds have been lost as a result of the collapse of Barings. The funds should be ringfenced, but we need urgent assurances from the administrators and the regulators that the money is safe. The GMB will take court action against trustees who have not fulfilled their obligations to protect our members' hard-earned funds," said Mr. Edmonds.

Captive insurers are relatively conservative investors and it is thought unlikely that cash deposits or investments placed directly with the bank would be sizable. But asset managers believe some captives could lose some cash deposits placed with Barings.

One leading London asset manager said he expects captive owners to sue their captive managers if this happens.

"Questions will be asked what

the boy's body from producing an enzyme that breaks down naturally occurring harmful chemicals in body tissues. Typically, by age 1, the disease begins causing cardiac, skeletal, vision and other serious physical and mental problems.

The HMO covered the boy's first bone marrow transplant last May, which failed due to a dosage error in the boy's concurrent chemotherapy, said his mother, Susan Raymond. The HMO said a second transplant is not locally accepted medical practice, Ms. Raymond said.

But, doctors say the boy's only hope is another bone marrow transplant, Ms. Raymond said. An HMO spokesman could not comment.

The boy is covered by his father's health plan at Computer Sciences Corp. in Lanham-Seabrook, Md.

the captive managers did with any spare cash. There is a lot of money to play with and a lot of managers will have placed some deposits in local markets. It's quite possible that much of this will be placed with Baring. If this is the case, it's likely that captives will lose money and captive managers could be sued by the captives," said Mike Rawson, director-fixed income with Barclays de Zoete Wedd Investment Management Ltd., which managed about \$1.1 billion in assets of 26 captives in 1994.

Mr. Rawson agreed with most leading asset managers that Barings' demise may not mean all of its asset management captives could go elsewhere. But, he does believe the bank's failure will hasten the flight to bigger and better-capitalized firms.

"The assets will be ringfenced, so I don't see any big losses among the captives," said Paul Berriman, asset manager with Morgan Grenfell Asset Management Ltd. of London, which in 1994 managed the assets of 46 captives valued at about \$2.2 billion.

"But, generally, the thing a captive does appreciate is a safe pair of hands, and they do not appreciate surprises such as this. It's still very early days yet, but I do suspect that there could be some redistribution of the assets. It all depends how quickly a buyer can be found for BAM," he added. ■

In her order, Ms. Reichel notes that the HMO's policy covers the treatment and that it is the only available treatment.

The HMO spokesman, though, said not all transplants are covered.

But the regulatory order was subject to the HMO's right to appeal, and the temporary injunction expired March 9. To prevent any further delays in care, which could jeopardize its chance for success, the parents agreed to work out coverage issues later with the HMO, which will front the cost of the treatment.

Despite the agreement, schedule conflicts with the bone marrow donor will delay the boy's treatment at the Fred Hutchinson Cancer Research Center in Seattle until March 15, Ms. Raymond said.

—By Dave Lenckus

# Pleadings

Continued from page 2

when Clinton was governor of Arkansas.

Mr. Hale is cooperating with Kenneth W. Starr, the independent counsel investigating Whitewater and other matters. The deal Mr. Clark allegedly proposed to Mr. Hale fell through, court records say.

Messrs. Clark and Jordan are scheduled for sentencing May 12, though lawyers in the case say that date will probably be postponed.

Under the plea agreement, federal prosecutors will recommend that Mr. Clark receive a jail sentence of 24 to 30 months, said Noel Hillman, assistant U.S. attorney in Newark, N.J.

Mr. Jordan and prosecutors have not agreed on a sentencing recommendation, and the matter will likely be argued before U.S. District Court Judge Joseph E. Irenas, Mr. Hillman said.

Judge Irenas initially sealed the plea agreements and related court records, citing the possibility that they might prejudice ongoing investigations, Mr. Hillman said.

However, the judge last month partially lifted the order, releasing edited versions of the records.

Neither Mr. Hillman nor Richard Coughlin, a public defender representing Mr. Clark, would comment on the investigations or whether the defendants are cooperating.

Messrs. Clark and Jordan and Mr. Jordan's lawyer could not be reached.

The indictment, handed up last April, charged that Messrs. Clark and Jordan conspired to inflate the assets of United Republic by using the insurer as a money laundering conduit for \$210,000 in what the two men believed to be illegal gambling proceeds (BI, May 2, 1994).

Briefs filed by the government and Mr. Clark last year outline how the two men were caught up in an undercover FBI money laundering investigation.

Sometime before February 1992, a Mexican investor group was trying to acquire AMS Life Insurance Co. of Phoenix, and the Arizona Insurance Department, concerned about the group "and the background of the people associated with it," contacted the FBI, according to a brief filed by prosecutors.

Posing as an insurance department consultant, an undercover FBI agent was introduced to Mr. Clark, who was the investor group's insurance consultant, the filing said.

The FBI pursued Mr. Clark because he "was proving to be a valuable source of information about the Mexican group and its associates" and because it believed Mr. Clark himself "might have been involved in questionable or illegal conduct," prosecutors say.

The brief does not identify the Mexican group or its associates.

In his own court filings, though, Mr. Clark noted that he was participating in the AMS negotiations with "a group of Mexican businessmen" including Hugo E. Pimienta, a naturalized U.S. citizen and president of Interamericas Investments Inc. of Woodlands, Texas.

Though never charged with a crime, Mr. Pimienta and Interamericas' parent company have had run-ins with insurance, thrift and banking regulators, and he and Interamericas have been named in civil lawsuits alleging fraud in their dealings with various life insurance and financial institutions.

The Louisiana Insurance Department accused Mr. Pimienta of several improper transactions in his 1992 acquisition of Bradford National Life Insurance Co., which he took over after the AMS deal fell through (BI, May 2, 1994).

After Mr. Pimienta filed a civil rights complaint against the regulators, the department agreed last September to withdraw its allegations and lift conservation and supervision orders against Bradford.

In 1991, Mr. Pimienta consented to an Office of Thrift Supervision order fining him and barring him from certain transactions with federally insured depository institutions. The order followed an OTS review of his affiliation with a San Antonio S&L whose holding company was 70% owned by Mr. Pimienta's wife. He admitted no wrongdoing.

In addition, the Federal Reserve Board is now pursuing administrative charges that Interamericas Investments Ltd., the Cayman Islands-based parent of Interamericas Investments Inc., illegally gained control of a Texas bank, National Bank of Conroe, in 1985.

The Caymans company is headed by Peter Ulrich, a Texas-based Mexican national who represented "a group of wealthy Mexican" investors in the acquisition, according to the Federal Reserve. The Fed is seeking to fine the Cayman company \$1 million for violations of the Federal Bank Holding Company Act.

Mr. Pimienta is not a respondent in this action.

Mr. Clark's pleadings identify another participant in the AMS negotiations as Daniel S. De La Garza, a former business associate of Mr. Pimienta.

Mr. De La Garza is scheduled to go to trial in April on Texas criminal charges that he and two other men illegally transferred more than \$11 million from Bankers Protective Life Insurance Co. of Austin to outside bank accounts, including accounts set up by one of Mr. De La Garza's companies.

Some of the funds related to Bankers' purchase of mortgages from Interamericas Inc. and National Bank of Conroe, prosecutors allege.

An original 1993 indictment also named Mr. Pimienta as an unindicted co-conspirator, but his name was dropped when Mr. De La Garza was re-indicted last November.

Mr. De La Garza was also arrested in Bogota, Colombia, in 1984 after police said they found cocaine in two of his suitcases, according to testimony in a separate criminal case in which Mr. De La Garza was not a defendant.

In a deposition in a civil suit over AMS, Mr. De La Garza confirmed he spent about two years in a Colombian jail but said he had been working as a contract agent for the U.S. Drug Enforcement Agency and was held in Colombia as a political prisoner.

Mr. Clark—who has been enmeshed in litigation with Mr. Pimienta over several deals—also says in his brief that he was interviewed in 1993 by FBI and Internal Revenue Service agents who were seeking information about his dealings with Mr. Pimienta.

Mr. Clark's lawyer said he could not comment on the meeting; Mr. Hillman, the assistant U.S. attorney, said he could not confirm or deny the meeting took place.

In a statement, a lawyer representing Interamericas Inc. said, "the Interamericas companies and its officers are outraged that this publication would rely on unsubstantiated statements of a convicted felon"—a reference to Mr. Clark—"and allegations that have been dismissed or proven to be false to attempt to smear their good names and reputations."

Carla Herron, Interamericas' lawyer with Chamberlain, Hrdlicka, White, Williams & Martin in Houston, said Interamericas severed its ties to Mr. De La Garza over concerns about his "methods of doing business." And they learned later

that Mr. Clark had misrepresented his experience as an auditor, she said.

She called it "reprehensible to reprise allegations" made by the Louisiana department when Mr. Pimienta and Bradford were "exonerated of civil regulatory charges."

Referring to the indictment of Mr. De La Garza over Bankers Protective, she added, "Had the district attorney in Austin been aware of any reliable evidence concerning any misconduct by Mr. Pimienta, he would have been obligated to have brought charges. Instead, he re-evaluated the evidence and concluded it was inappropriate to have mentioned Mr. Pimienta's name."

"The Interamericas companies and its executives vigorously deny that they have engaged in any business misconduct," Ms. Herron said. "The accusations have come from disgruntled persons, convicted felons and con men."

In early 1993, after Mr. Clark had ceased working with Mr. Pimienta, he had a series of discussions with the undercover FBI agent in which he allegedly outlined a money laundering scheme that would use a so-called "special small-business investment company" that would be entitled to obtain loans from the Small Business Administration based on the amount of private capital it raised.

Mr. Clark was seeking up to \$21 million, which would first be put into a charitable foundation—generating a tax write-off—and then contributed to an SSBIC. The money would then be funneled back to the original investor through loans from the SSBIC to a "vehicle of the investor's choice," according to a prosecution brief.

Mr. Clark told the agent he could use either an SSBIC he was acquiring with Mr. Jordan of United Republic, or one he held in partnership with Mr. Hale, the former Arkansas judge, according to the brief, which also said that Mr. Clark had bragged about purported connections to Arkansas friends of President Clinton.

The FBI agent told Mr. Clark he had friends in the casino business in Atlantic City, N.J., who had large amounts of money they wanted to hide from regulators.

In June 1993, Mr. Clark and the agent met with Mr. Hale and his lawyer in Little Rock to discuss the plan.

The deal fell apart, though, when Mr. Hale's lawyer raised questions about whether it constituted an illegal money laundering "circle," the prosecution brief says.

According to the brief, Mr. Clark immediately proposed a new scheme in which the purported gambling money would be laundered through United Republic. The FBI agent's "investors" would buy preferred stock in the insurer's parent company, and the parent would contribute the funds to United Republic.

The insurer would then loan the money to an offshore company set up by the "investors," with Mr. Clark arranging for a block of mortgages to collateralize the loan for statutory accounting purposes, the brief says.

At Mr. Jordan's suggestion, the FBI agent supplied the names of a front company that would wire funds from the agent's "investors" and a London front company that would receive the loan from United Republic, the brief says.

In August 1993, the FBI wired \$110,000 to an account Mr. Jordan set up at a Dallas bank. About a week later, Mr. Clark traveled to New Jersey and accepted a briefcase from undercover agents with another \$100,000 in cash.

He was then driven to the FBI's offices in Atlantic City, where the agents' identities were revealed. ■

## Updates

### New brokerage formed

CHICAGO—Gary R. Griffith, former Bain Hogg Robinson Inc. president and chief executive officer, has formed a new brokerage, Summit Global Partners Inc., from former Bain Hogg Robinson operations left out when Acordia Inc. bought the firm earlier this year.

With main offices in Chicago and Dallas, and others in Los Angeles, Milwaukee, Minneapolis and St. Louis, Summit will focus on domestic and international property/casualty insurance for the upper middle market.

Mr. Griffith predicts the firm, which he says is already in the midst of "significant" acquisitions, will be among the world's 10 largest brokerages within a few years.

While Bain Hogg Group P.L.C.—which sold part of its U.S. operations to Acordia in January (BI, Jan. 9)—holds no equity in Summit, it does have a reciprocal agreement with the company.

Robert Hogan, former president of the Bain Hogg Robinson service division, is president and chief operating officer of Summit in Chicago. Mr. Griffith is chairman and CEO.

### Biggest Jack in the Box payout

SEATTLE—Jack in the Box parent Foodmaker Inc., meat processor Vons Stores Inc., several slaughterhouses and their insurers will share in paying a \$15.6 million settlement, the largest yet resulting from a 1993 E-coli poisoning epidemic in the Northwest.

The companies agreed among themselves to share in the personal injury loss before reaching a settlement, said William Marler, a partner with Seattle firm Kargianis Osborn Watkins & Marler. He represented 12-year-old Brianne Kiner, who was 9 when she lapsed into a coma for 42 days after eating a tainted Jack in the Box hamburger.

Two children died in the epidemic (BI, Feb. 1, 1993).

Both San Diego-based Foodmaker and Arcadia, Calif.-based Vons said their losses were insured. Neither would give coverage details.

### Keyboard user suit settles

HASTINGS, Minn.—Saperston & Day and another New York law firm will pick up the tab for a settlement reached last week in a lawsuit against Apple Computer Inc. over alleged computer injuries.

But International Business Machines Corp., a co-defendant, is continuing to fight the suit, which was brought in a Minnesota state court by a computer user who allegedly suffered a repetitive strain injury caused by keyboard use.

The settlement is believed to be the first time a computer user claiming RSI has received a payment, though Apple did not contribute to the settlement. Houston-based Compaq Computer Corp. won the last such case to go to trial (BI, Feb. 28, 1994).

While the settlement amount was not disclosed, it is "well within" the deductible on Saperston & Day's professional liability insurance policy, said Frank Gaglione, an attorney with the Buffalo, N.Y.-based firm. He would not give coverage details.

Mr. Gaglione explained that the judge sanctioned Saperston & Day and another firm responsible for document disclosure for failing to give the plaintiff's counsel several pertinent documents. He would not identify the other firm. The sanctions resulted in the settlement of the case at no cost to the Cupertino, Calif.-based computer maker.

### Risk assessment bill passes

WASHINGTON—The regulatory reform bandwagon's next stop is the U.S. Senate following last week's overwhelming House approval of a wide-ranging risk assessment bill.

The House voted 286-141 last Tuesday in favor of H.R. 1022, the Risk Assessment and Cost/Benefit Act of 1995 after the Republican majority beat back a more modest Democratic alternative. H.R. 1022, which is based on a section of the GOP House leadership's "Contract with America," requires most new federal regulations with an economic impact of \$25 million or more to undergo cost/benefit analysis and agencies such as the Occupational Safety and Health Administration and the Environmental Protection Agency to improve their risk assessment methods (BI, Feb. 20).

The risk assessment bill is one of several regulatory reform bills that have received House attention in the past few weeks. The House approved a moratorium on implementing new non-emergency federal regulations on Feb. 24 (BI, Feb. 27).

The House is expected to begin debate on a product liability bill this week.

### Briefly noted

**Workers compensation reforms in Massachusetts** led to an average 16.5% rate reduction in 1995, following a 10.2% reduction in 1994, said Priscilla H. Douglas, secretary of consumer affairs. . . . A California appeals court has decertified its 1994 ruling that employers could be liable for injuries to fetuses if the fetuses are harmed directly by workplace hazards (BI, Dec. 19, 1994). . . . CNA Financial Corp. has completed its \$45 million purchase of third-party administration firm **Alexsis Inc.** from Alexander & Alexander Services Inc. (BI, Jan. 23). . . . Santa Monica, Calif.-based **National Medical Enterprises Inc.** has acquired American Medical Holdings, a Dallas-based hospital chain, for \$3.3 billion. The new firm, which will become the nation's second-largest hospital chain with 83 hospitals, now operates under the name Tenet Healthcare Corp. . . . F. William Sawyer, a former state lobbyist for **John Hancock Mutual Life Insurance Co.**, is to be sentenced May 2 after a federal jury in Boston last week convicted him of illegally giving gifts to Massachusetts lawmakers. Hancock paid more than \$1 million in penalties following an investigation of Mr. Sawyer's lobbying.

# NCOIL report

Continued from page 1

the report cites different treatment of states that fail to pass all necessary accreditation-related legislation.

- The NAIC has not evaluated regulatory effectiveness but focused on adoption of model laws.
- Some insurer trade groups that backed the accreditation program are beginning to question its direction and want limits on additions to the standards.
- There is a lack of state legislative oversight of NAIC income and expenses, and concern over the use of NAIC funds regarding accreditation and the lack of resources available to state legislators for NAIC oversight.
- The threatened use of accreditation sanctions developed by the NAIC as a voluntary association may fall outside McCarran-Ferguson exemption from federal antitrust laws.
- NCOIL's oversight of the NAIC process has brought about changes, including a slowdown in the addition of new standards and an increased openness of meetings.

The genesis of the study is problems encountered by insurance regulators in states like Vermont, New York and Texas, said Ms. Farragher.

Vermont's department has not yet been accredited primarily because of its handling of risk retention groups, but is still seeking NAIC acceptance of its methods. Both Texas and New York failed to pass all the model legislation required for accreditation, though the Texas department was conditionally accredited when the state indicated a willingness to do so (BI, March 14, 1994).

It is "ludicrous" that the New York department is no longer accredited, given the quality of regulation in that state, Ms. Farragher said.

"I view the NAIC as mainly run by the staff," which may be part of the problem because they are neither elected nor appointed to make public policy decisions, she said.

The NCOIL report reaches beyond the accreditation process in its scope, because the committee's analysis of that process opened questions "in regard to the NAIC, its management, its accessibility and budget," Ms. Farragher said in a letter accompanying the report.

The letter recommends reforms such as development of an interstate compact, under which states could adopt minimum regulatory standards that could be implemented by insurance commissioners. It also urges a process for state legislators to oversee NAIC operations and recommends NCOIL's endorsement of legislation in Vermont that would tighten controls on the NAIC (see story, page 27).

Essentially, the NCOIL panel calls on state legislators to reassert their legislative prerogatives rather than serve as "stamping houses" for measures proposed by insurance commissioners, emphasizing that commissioners are executive branch employees.

Initially, NCOIL endorsed the NAIC accreditation program as a way to preserve state regulation at a time when Rep. John Dingell, D-Mich., and others sought a federal role. It urged states to act quickly on accreditation-related bills, though that enthusiasm waned as the number of needed bills grew while the prospects for federal regulation dimmed.

The NCOIL report echoes growing concerns about the accreditation program and general NAIC operations from regulators and some in the insurance industry (BI, Oct. 3, 1994).

"In general, I agree with a number of (the NCOIL committee's) observations and suggestions," said James W. Schacht, who is acting insurance director in Illinois. He helped originate the NAIC's accreditation process but later criticized it for expanding to require more than minimum regulatory standards.

"It is the role of legislative bodies to control the size and shape of regulation two ways—through passage of laws and passage of appropriations to the insurance department. Because the NAIC has grown so substantially, there is a whole other 'thing' out there that no one has any control over," Mr. Schacht said.

At the root of the problem, Mr. Schacht said he sees an NAIC "identity crisis."

The officers think it is a private trade association; the NAIC bylaws say it is a non-profit corporation; and Mr. Schacht said he personally believes it is "a quasi-governmental entity," because it generates millions of dollars in voluntary fee payments from insurers at the behest of state insurance departments.

Several insurance industry officials are supportive of the NAIC, but see room for improvement.

"The Alliance of American Insurers agrees that NAIC standards have been expanded in a way that has not been carefully thought out," said Lenore S. Marema, vp-legal and regulatory affairs for Alliance in Schaumburg, Ill.

Phillip Schwartz, vp-financial reporting and associate general counsel of the American Insurance Assn. in Washington, urged the NAIC

to "be careful and not to usurp the states' rights to exercise their police powers" as it enters the second and less-objective phase of the accreditation process.

"Recently the NAIC has become more forthright in opening up its budgetary process, and I am hopeful that it will also open up its accreditation program to the sunshine," he added.

NAIC officers contend that the NCOIL report did not adequately reflect gains made by the accreditation program nor changes made by the NAIC in recent months to invite greater public scrutiny of its meetings and budget.

The NCOIL report "takes an isolated view," and "overstates the role of staff," said NAIC President Lee Douglass of Arkansas.

In addition, Stephen T. Foster, chairman of the NAIC's Subcommittee on Financial Regulation Standards and Accreditation, said that NCOIL's concern about accreditation program sanctions is no longer appropriate.

Originally, the model examination law could be read to say that the NAIC would be able to revoke the accreditation of a state insurance department that accepted an exam report from a non-accredited state. States were encouraged to pass the laws needed for accreditation so that insurers domiciled there would not be at such a competitive disadvantage.

But now there is no such sanction.

That's because Mr. Foster's committee "clarified" a clause in the model examination law in December of last year to indicate that the NAIC won't take away a state's accreditation if the commissioner chooses to accept an exam report from a non-accredited state.

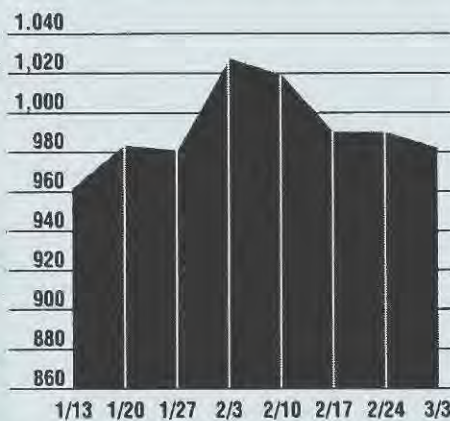
The committee's new interpretation does not require the approval of the NAIC as a whole, an NAIC spokesman confirmed. The NAIC is leaving it up to individual commissioners to determine whether to amend the model examination law in their states, Mr. Foster said.

In related action, the NAIC has established a new working group to analyze questions about the organization's identity and policies, Mr. Douglass said. Mr. Foster will head the 12-member group, which includes Mr. Schacht.

Mr. Douglass also pledged to discuss each of NCOIL's findings and recommendations with representatives of that organization.

*A single, free copy of the study is available to state legislators or insurance commissioners. Others can obtain a copy for \$50 by contacting the National Conference of Insurance Legislators, 122 South Swan St., Albany, N.Y., 12210; 518-449-3210.*

## BI Insurance Index



Base=100 on Dec. 29, 1978  
Source: Nordby International Inc.

### Catastrophe insurance option call spreads

As of Mar. 3		Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995		45/65	5.8/6.1	29/30.5	20/30	0.5/3	5/30
Western Annual 1995		50/70	5.3/5.5	26.5/27.5	30/40	0.3/1.8	3/18
		60/80	4/5.5	20/27.5	30/50	0.5/2.5	2.5/12.5
		100c	8.5/12	8.5/12	50/70	0.6/1.8	3/9
		150c	4/5.5	8/11	60/80	0.3/3.5	1.5/17.5
Total volume: 125		Total open interest: 5,066					

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.  
Source: Chicago Board of Trade

### British Issues

Mar. 2 Companies	Price pence	P/E	Div. pence %	Yield %	1 week high—low
Comm Union	513	10.7	32.5	6.3	514—506
Genl Accident	541	7.9*	36.3*	6.7	542—536
Gdn Royal Exch	176	N/M*	10.3*	5.8	180—176
Independent Royal	281	8.8	11.9	4.2	284—281
Royal Sun Alliance	281	5.4*	15.0*	5.3	283—279
	313	10.5*	19.7*	6.3	312—311

Brokers	Price pence	P/E	Div. pence %	Yield %	1 week high—low
Bradstock	89	10.0*	7.1*	8.0	91—89
Fenchurch	150	10.5*	10.0*	6.7	151—150
CE Health	245	12.5	20.0	8.2	245—245
JIB Group	122	11.1	9.4	7.7	122—122
Lloyd Thompson	153	10.6*	9.8*	6.4	153—153
Lowndes Lmbrt	159	9.4	10.4	6.5	162—159
Nelson Hurst	173	13.6	8.3	4.8	173—173
PWS Holdings	18	N/M*	0.8*	4.4	18—18
Sedgwick Grp	155	14.0*	8.1*	5.2	157—155
Steel Brl Jones	116	11.6	11.3	9.7	118—116
Willis Corroon	140	N/M	8.3	5.9	141—140

Source: Philip Olsen, London \* 1994 data, others estimated

## BI Industry Stock Report FEB. 27, 1995, THROUGH MAR. 3, 1995

### BROKERS

	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	S Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc	NYS	33.63	3.86	0.37	34.50	24.63	9	0.72	2.14	16	13.24
Alexander & Alexander	NYS	22.00	2.33	18.92	22.50	14.00	260	0.10	0.45	-8	6.08
E.W. Blanch Holdings Inc.	NYS	21.00	-0.59	1.82	23.00	15.75	34	0.40	1.90	17	4.55
Gallagher Arthur J. & Co.	NYS	34.75	-0.36	8.59	36.00	28.13	23	1.00	2.88	16	6.48
Hilt, Rogal & Hamilton	NYS	11.50	0.00	-5.15	13.38	10.75	52	0.56	4.87	14	4.72
Marsh & McLennan	NYS	81.50	-2.10	2.84	88.75	71.25	426	2.90	3.56	16	19.40
Poe & Brown	NDO	21.50	-2.27	-1.15	22.75	17.25	15	0.48	2.23	14	4.49
BROKERS AVERAGE			0.1	3.7					2.6	12	

### INSURERS/REINSURERS

ACE Ltd	NYS	24.00	-3.52	2.67	28.88	20.75	306	0.44	1.83	-8	22.45
Acceptance Insurance Cos.	NYS	15.38	-0.81	2.50	18.00	11.13	36	0.00	0.00	12	9.83
AEGON N.V.	NYS	69.25	0.73	9.06	69.25	49.38	12	2.92	4.22	12	43.84
Aetna Life & Casualty	NYS	54.25	1.40	15.12	59.63	42.25	2608	2.76	5.09	13	57.21
Allied Group Inc.	NDO	26.75	-0.47	8.08	31.00	22.00	61	0.60	2.24	6	23.43
Allmerica Prop & Casualty	NYS	19.38	0.65	14.81	20.13	14.25	132	0.16	0.83	12	19.45
Allstate Corp.	NYS	26.75	0.93	12.63	27.50	22.63	2277	0.78	2.92	25	19.60
American General	NYS	31.63	-1.17	11.95	32.00	24.88	1237	1.24	3.92	13	20.39
American Heritage Life Ins.	NYS	19.25	0.65	1.32	19.50	16.50	22	0.64	3.32	11	12.42
American Indemnity/Fin'l	NDO	11.88	-3.06	17.28	14.25	10.00	14	0.24	2.02	3	15.92
American International	NYS	102.63	-1.56	4.72	106.88	81.75	1618	0.46	0.45	15	49.75
American Re Corp.	NYS	34.13	2.25	5.81	35.75	24.88	212	0.32	0.94	17	16.85
Aon Corp.	NYS	34.75	0.00	8.59	35.75	29.25	297	1.28	3.68	11	21.96
Argonaut Group	NDO	31.00	0.40	9.73	31.50	26.25	257	1.16	3.74	10	29.80
AVEMCO Corp.	NYS	15.00	-0.83	-2.44	17.38	13.38	42	0.44	2.93	13	6.30
Baldwin & Lyons Inc.	NDO	16.50	0.00	11.86	17.63	13.75	27	0.24	1.45	12	13.56
Berkley W.R. Corp.	NDO	35.25	2.17	-6.00	42.00	32.50	263	0.44	1.25	24	36.47
Berkshire Hathaway Inc.	NYS	22400.00	-0.67	9.80	25200.00	15250.00	2	0.00	0.00	28	9157.79
Capital RE Corporation	NYS	23.00	-2.13	-15.98	27.38	18.63	63	0.20	0.87	9	21.48
Capsure Holdings Corp.	NYS	13.25	2.91	-9.40	16.13	12.13	114	0.00	0.00	14	13.72
Chubb Corp.	NYS	77.75	-1.74	0.48	82.63	68.63	1334	1.84	2.37	13	48.40
CIGNA Corp.	NYS	75.38	-0.82	18.47	76.00	57.00	853	3.04	4.03	10	80.98
CNA Financial Corp.	NYS	73.63	-0.17	13.49	74.00	60.00	81	0.00	0.00	144	73.83
Continental Corp.	NYS	19.38	0.00	1.97	24.88	12.00	317	0.00	0.00	-2	29.69
EMC Insurance Group Inc.	NDO	10.75	0.17	13.16	10.88	8.50	10	0.52	4.84	8	10.77
Empheys Financial Gr. Inc.	NYS	37.50	-3.33	18.11	38.88	21.25	243	0.60	1.60	10	N.A.
EXEL Ltd	NYS	43.75	1.74	10.76	45.13	35.00	424	1.32	3.02	17	31.62
Fremont General Corp.	NYS	20.38	-0.61	-12.83	26.00	19.75	97	0.76	3.73	6	22.90
Frontier Insurance Group	NYS	20.75	-3.49	-5.14	37.50	16.75	159	0.48	2.31	16	14.94
Genesco Inc.	ASE	9.13	0.00	10.61	9.41	7.63	222	0.04	0.44	12	3.79
General RE Corp.	NYS	126.88	-3.15	2.73	133.00	102.38	526	1.96	1.54	16	57.17
Guaranty National Corp.	NYS	17.13	0.74	-6.80	18.50	14.25	5	0.48	2.80	9	11.84
Harleysville Group	NDO	24.00	1.05	-1.03	26.50	19.75	30	0.68	2.83	17	20.18
Hartford Steam Boiler	NYS	42.00	0.00	5.33	52.88	35.88	108	2.20	5.24	17	14.62
HCC Insurance Holdings	NDO	25.50	-0.97	21.43	25.75	15.00	9	0.00	0.00	-16	10.75
Home Holdings Inc.	NYS	8.75	-1.41	-6.67	16.38	3.00	111	0.00	0.00	-3	22.36
ITT (Hartford Group)	NYS	95.25	-4.39	7.48	99.75	77.00	1371	1.98	2.08	12	49.95
Keemper Corp.	NYS	41.13	0.00	8.58	65.00	35.75	2198	0.92	2.24	22	28.69
Lincoln National	NYS	40.25	0.00	15.00	43.88	34.83	585	1.72	4.27	12	31.99
Market Corp.	NDO	44.50	-0.56	7.23	46.00	37.50	22	0.00	0.00	13	25.15
Mid Ocean Ltd.	NDO	26.00	0.97	-4.59	30.50	22.25	355	0.00	0.00	11	20.24
Mutual Risk Mgmt. Ltd.	NYS	29.00	1.31	10.48	29.25	21.13	68	0.32	1.10	16	9.11

	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	S Div.	% Yield	P/E	Book value	Mkt./Bk. value
NAC Re Corp.	NDO	32.75	1.55	-2.24	34.00	24.00	181	0.16	0.49	16	19.75
National Re Corp.	NYS	30.38	4.29	15.71	31.75	22.25	293	0.16	0.53	19	17.31
Navigator Group	NDO	17.50	-4.76	20.69	20.50	13.75	30	0.00	0.00	-5	10.21
Nobel Insurance Ltd.	NDO	9.13	4.29	10.61	9.13	7.63	25	0.20	2.19	5	6.84
Ohio Casualty Corp.	NDO	33.00	-1.49	16.81	34.00	26.50	304	1.52	4.61	14	24.68
Old Republic Int'l	NYS	24.88	1.02	17.06	25.50	18.88	384	0.48	1.93	10	24.60
Orion Capital Corp.	NYS	35.25	-0.70	0.00	37.88	28.13	69	0.80	2.27	9	25.85
Partner Re Holdings Ltd.	NDO	21.38	-1.16	3.01	22.25	16.50	845	0.40	1.87	8	N.A.
Penn-America Group Inc.	NDO	7.50	-3.23	1.69	8.00	6.50	6	0.00	0.00	10	6.21
Phoenix RE Corp.	NDO	22.75	-2.15	-19.47	29.25	18.50	807	0.60	2.64	5	22.86
Provident Life	NYS	23.50	-1.05	8.05	29.88	21.50	69	0.72	3.06	9	27.09
Re Capital Corp.	NDO	18.06	-0.34	47.45	18.13	12.00	106	0.32	1.77	16	17.63
Reliance Group Holdings	NYS	5.25	-2.33	1.20	6.75	4.88	497	0.32	6.10	14	3.48
Reliastar Financial Corp.	NYS	34.50	-1.43	18.97	35.50	27.00	631	0.90	2.61	10	24.81
RLI Corp.	NYS	22.88	2.23	11.59	24.88	19.88	31	0.60	2.62	-27	20.51

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