

Business Insurance

Reporting weekly for corporate risk, employee benefit and financial executives / \$2.50 a copy; \$80 a year

© Entire contents copyright 1993 by
Crain Communications Inc. All rights reserved.

Provident settles federal suit over Medicare overpayments

CHATTANOOGA, Tenn.—Provident Life & Accident Insurance Co. will pay \$27 million to settle a 1989 federal government lawsuit that charged the insurer is responsible for up to \$223 million of Medicare overpayments.

The suit charged that Provident—as either the insurer or administrator of employer health plans—violated federal laws by submitting bills for older workers and spouses to Medicare first rather than to their group health plans (BI, April 17, 1989).

Continued on next page

Reinsurer ordered to follow fortunes of cedant

By JOANNE WOJCIK

NEW YORK—A federal appeals court for only the second time has enforced the common law practice of following the fortunes in reinsurance contracts.

The 2nd U.S. Circuit Court of Appeals ruling involved marine insurance written by a captive insurer, but it could apply to policyholders with large self-insured retentions that are commercially reinsured.

The ruling "recognizes today's commercial insurance realities of large deductibles and self-insured retentions by taking the logical step of applying the follow-the-fortunes doctrine to them," said Bud London, an attorney with London Fischer in New York, who represented Mentor Insurance Ltd. in the dispute with a reinsurer.

The May 24 decision—*Mentor Insurance Co. (U.K.) and Mentor Insurance Ltd. vs. AIG Oil Rig Inc.*—affirms a trial court ruling ordering several units of American International Group Inc. to reimburse now-defunct Mentor for a \$1 million claim. That claim was paid in connection with the 1980 sinking of an oil drilling vessel owned by the Bermuda insurer's parent, Ocean Drilling & Exploration Co.

A three-judge panel found that these reinsurers, together with American Re-Insurance Co., were wrong to deny coverage to Mentor simply because the oil rig, Ocean Champion, was salvaged and returned to service.

Mentor insured ODECO's deductible on a \$22 million excess of \$1 million hull policy from Oil Insurance Ltd.

Mentor reinsured all of its 95% participation in the deductible's coverage, while a group of underwriters participating through AIG insured 5% of the deductible. AIG was designated to set coverage

Continued on page 30

Single-payer plan possible

Big changes seen as details of health reform plan emerge

By JERRY GEISEL

WASHINGTON—President Clinton's health care advisers have been touting a reform plan based on fostering competition, but as the program unfolds, it may look much more like a single-payer-type system.

Rep. Jim Cooper, D-Tenn., a member of the Jackson Hole Group, which popularized the managed competition approach President Clinton embraced during his campaign, says the administration may now be headed down a single-payer path.



"The administration may still be calling their plan managed competition but it is likely to incorporate so many elements of single-payer... that we might as

well have one," Rep. Cooper said in Washington last week at the annual meeting of the Assn. of Private Pension & Welfare Plans.

Under managed competition, individuals and small employers would band together in joint purchasing arrangements—known as health insurance purchasing cooperatives. The HIPC's would give individuals and small firms much more buying clout in the health insurance market. Participation in one of these cooperatives would be optional for big employers, which traditionally have self-insured their

health care programs.

However, according to benefit consultants who have met recently with top Clinton health care advisers, the administration's health care reform package may be structured so that all employers would be required to join a health care purchasing co-op or alliance. One proposal under consideration would require all employers to pay a premium—reflecting average health care costs in a community—to a purchasing alliance.

At that point, an employer could decide to opt out of the purchasing alliance to strike its

Continued on page 29

Bechtel leads work comp charge

By MEG FLETCHER

SPRINGFIELD, Mass.—Bechtel Construction Co. and several trade unions are leading what may be a second revolution in Massachusetts with a successful alternative workers compensation program.

Without minutemen or muskets, the huge construction company and the unions are the first—in the industry and the state—to take advantage of a 1991 reform law that allows employers to negotiate alternative work comp benefits with workers.

San Francisco-based Bechtel, which is providing workers comp benefits above the minimum levels set by state law, has cut its lost-time injury costs and appears to be curbing medical costs through a jointly chosen preferred provider organization.

The six-month-old agreement also is designed to resolve disputes more quickly by use of a company ombudsman, mediator and arbitrator.

Early results from the program, which so far has been used on one project, are so favorable that both Bechtel and the unions want to develop similar programs for other projects in Massachusetts and elsewhere.

"What you are doing is gaining control of

your destiny in the workers compensation area," said Bechtel's Ken Hedman, vp of labor relations, safety and health.

"This agreement is a win-win proposition for everyone," said Tom Manley, the company's labor relations supervisor in Gaithersburg, Md. "It increases benefits for employees and we anticipate long-term savings for the company."

Joe Dart, field representative for the Massachusetts Building Trades Council, an umbrella group representing 83 local construction unions, concurs: "I see a great deal of potential for improved benefits for injured workers and controlling costs for employers."

Word of the program is spreading, like the shot heard 'round the world.

"The first signs are very good," said John Lewis, a Miami-based attorney and workers compensation expert who helped develop the Bechtel agreement. "It's the way all workers compensation programs should be run."

Would-be imitators should keep several things in mind, though. Setting up this sort of program takes a major shift from a confrontational approach to a cooperative one, Mr. Lewis cautioned. Also, the construction industry may be particularly well suited to this

Continued on page 21



What Bechtel gets:

- Employees may get care only through a PPO.
- Employee complaints must go through alternative dispute resolution.

What Bechtel gives up:

- Better temporary total disability benefits than required by state law.
- Better compensation for some less seriously injured workers.
- Its "pay without prejudice" period was cut to 90 days from 180.

GRAPHIC BY CHRIS ROY

A matter of policy

Employers can combat sexual harassment in the workplace by adopting a policy that:

- Defines harassment, both explicit sexual harassment and a "hostile working environment." Includes examples of each.
- Tells employees who handles harassment complaints. Do not send workers to their supervisors; those are often the harassers.
- Spells out how complaints will be investigated and what will be done afterward.
- Tells employees that they are personally liable for sexual harassment.

Source: Defense Research Institute

GRAPHIC BY CHRIS ROY

Job-related litigation spurs demand for cover

By SARA MARLEY

Many employers are turning to a relatively new form of insurance to cover a growing exposure to employee lawsuits over hiring and firing, sexual harassment and discrimination.

While effective risk management of employment practices is an employer's first line of defense, insurance covers the threat of litigation that remains.

Federal laws like the Civil Rights Act of 1991, the Americans with Disabilities Act and

the Family & Medical Leave Act of 1993 have expanded employers' liability.

And events like the Clarence Thomas Supreme Court confirmation hearings and the U.S. Navy's Tailhook scandal have boosted public awareness of sexual harassment—and litigation by employees.

Several companies now offer employment practices liability insurance policies, which are designed to cover liability for wrongful termination, sexual

Continued on page 26

Update

Provident settles Medicare suit

Continued from previous page

The settlement resolves all claims by the U.S. Department of Health and Human Services against Provident and its group health policyholders. The settlement also covers self-funded employers that had administrative-services-only contracts with Provident, even though federal courts have ruled that the government cannot recover Medicare overpayments from insurers that had ASO contracts with self-funded plans (BI, July 2, 1990; Jan. 15, 1990). HHS also will not try to recover from individuals covered by the affected health plans.

However, providers that received duplicate payments from Provident and Medicare are not off the hook: Provident agreed to provide HHS with information about them.

The \$27 million will come from special reserves and an interest-bearing escrow account Provident set up in 1990.

Case may clarify lender liability

AUGUSTA, Ga.—A little-noticed federal court ruling may help clarify when secured lenders can be liable under Superfund for cleaning up pollution on foreclosed property.

Under the May 12 ruling, the U.S. government can recover unspecified Superfund enforcement and cleanup costs from Fleet Works Corp. for its involvement with the defunct Swainsboro Paint Works.

Fleet is not entitled to the ordinary exemption from liability for secured lenders because it managed the cleanup of the property after foreclosing on it, the court found.

Specifically, Fleet hired an auction company and a salvage company that aggravated environmental problems at the textile printing plant by rupturing drums of chemicals and scattering asbestos debris, according to court papers.

The ruling contained specific tests for whether lenders "participated" in management of contaminated property, both before and after foreclosure.

"Those rules, while easily applied to the facts in this case, are likely to be troubling in future cases that do not have such dramatic examples of mishandling of hazardous substances," says attorney Margaret V. Hathaway, with Thacher Proffitt & Wood in Washington.

LTV pension funding approved

WASHINGTON—LTV Corp. will initially contribute about \$1.6 billion in cash and securities to three massively underfunded pension plans under a court-approved plan that clears the way for the firm to emerge from Chapter 11 bankruptcy.

The reorganization plan, approved by a U.S. Bankruptcy Court last week, includes an earlier settlement between the PBGC, LTV and the company's creditors. Aside from the initial contribution, which would be made after LTV emerges from bankruptcy, the settlement requires the steel company to fund over 28 years the remaining \$1.4 billion of the plans' unfunded liabilities.

In another PBGC-related development last week, New York-based E-II Holdings Inc. agreed to remain secondarily liable for about \$40 million in the unfunded pension obligations of retailer McCrory Corp. and SCH Holdings after E-II emerges from bankruptcy. The three companies are now part of the same corporate family and thus are jointly and severally liable for each other's pension liabilities.

Under a proposed reorganization plan, though, E-II will no longer be part of the group and would not have retained any liability for the McCrory and SCH pension plans without the PBGC agreement.

House passes ERISA waivers

WASHINGTON—The tax bill passed last week by the House of Representatives would prevent benefit laws in four states from being pre-empted by the Employee Retirement Income Security Act, curb pension benefits for the high-paid and raise Social Security taxes.

Under H.R. 2264, certain benefit laws in Hawaii, Maryland, Minnesota and New York would receive waivers from ERISA's pre-emption of state laws that relate to employee benefit programs.

In addition, the bill would reduce to \$150,000 from about \$235,000 the amount of compensation that can be considered in calculating pension benefits and contributions.

The measure also would subject all wages to the 1.45% Medicare payroll tax. The tax, paid equally by employers and employees, now only applies to the first \$135,000 of wages.

Under the bill, approved on a 219-213 vote, 85% of Social Security benefits received by middle- and upper-income retirees would be taxed, up from 50%.

Blues plan cost-cutting move

WOODLAND HILLS, Calif.—Blue Cross of California has increased premiums in its preferred provider network while slashing payments to some doctors as part of a cost-cutting campaign.

The California Medical Assn. blasted the move, alleging that it is connected to the company's spinoff late last year of a for-profit operating subsidiary, WellPoint Health Networks Inc., that contains all of BCC's managed care operations.

Continued on page 30

Errors & omissions

• A telephone number for Adrian Tocklin, president of Continental Risk Management Services Inc., was incorrectly listed in the May 17 Markets column. The correct number is 212-440-3693.

• Paid and outstanding hull and liability claims resulting from the United Airlines flight that crashed in Sioux City, Iowa, in 1989 now total nearly \$268 million, not \$355.1 million as reported May 24.

Angry Lloyd's members wary of business plan

By STACY SHAPIRO

LONDON—By the end of September, Lloyd's of London may have worked out a settlement to extricate the market from the morass of litigation brought by thousands of members who face billions of dollars in losses.

But some members aren't willing to wait that long.

In fact, some are calling for Lloyd's to be liquidated. Others contend that Lloyd's new business plan, designed to return the

market to profitability, will further burden names by selling off the market's assets cheaply to new corporate investors while leaving current liabilities with its existing members.

Lloyd's Chairman David Rowland and Chief Executive Peter Middleton last Tuesday faced an angry, heckling crowd of about 2,500 members who were invited to the Royal Albert Hall in London to ask the executives about the new business plan.

Outside the hall, people car-

ried signs bearing such messages as: "Lloyd's is bust morally; Lloyd's is bust financially."

"The purpose of this afternoon is all for you," Mr. Rowland said at the start of the meeting.

"Liar," yelled one member in the crowd, setting the tone of the meeting.

Lloyd's has lost approximately 6 billion pounds (\$9.26 billion) in four years, Mr. Rowland observed. In light of that, Lloyd's membership must ask: "Is the

Continued on page 20

An exchange of ideas

Public entities find putting guidelines in writing a plus

By DEBORAH SHALOWITZ

CINCINNATI—Rather than let threat of claims or litigation keep them awake at night, many public entity risk managers are dreaming up new ways to manage their various exposures.

Several of these techniques were exchanged during a workshop at the Public Risk Management Assn.'s annual conference here May 16-19.

Oakland County, Mich., for ex-



ample, developed and distributed a "Worker's Compensation Information" brochure to every county employee in an effort to prevent workers compensation claims, said Risk Manager Stanley B. Fayne, who is based in Pontiac.

The brochure, "answers ques-

tions that a typical employee might call an attorney to answer," he explained.

The brochure defines workers compensation coverage, disability, the injuries and diseases that are covered under the workers comp system, how to report injuries, and rehabilitation rights, among other things.

A telephone number is also listed of a county workers comp specialist that an employee can

Continued on page 18

But Arkansas reform to crack down on 'liberal' comp rulings

Tornado injury compensable

By MEG FLETCHER

LITTLE ROCK, Ark.—Earl Angus may be one of the last workers to benefit from this state's pro-employee workers compensation system.

Mr. Angus, who was severely injured when a tornado hit the company-owned mobile home where he was eating dinner, was recently granted workers compensation benefits by the Ar-

kansas Supreme Court.

But a probusiness workers compensation law set to take effect July 1 will make such liberal treatment far less likely. In fact, the law expressly criticizes workers comp adjudicators as overly liberal.

The state's highest court based its 6-1 decision earlier this month on the fact that Mr. Angus, manager of an oil service subsidiary of Deffenbaugh In-

dustries, was required to live on the West Memphis job site in order to collect and sell waste oil as needed 24 hours a day.

On Dec. 14, 1987, Mr. Angus went to the mobile home while waiting for a truck delivering waste oil. He was eating dinner with his family when a tornado struck the mobile home, killing his wife and severely injuring Mr. Angus and his daughter.

Continued on page 31

Insurers fail to make fund pay

Ohio court denies guaranty fund owes share of settlement

By DAVE LENCKUS

COLUMBUS, Ohio—An Ohio Supreme Court ruling may discourage insurers from settling coverage disputes with policyholders when a now-insolvent insurer was involved in the risk,

an insurer attorney says.

The May 12 ruling limits when Ohio's property/casualty guaranty fund may contribute to settlements that involve solvent insurers. The 5-2 ruling was the first time a state supreme court has upheld provisions of a state's property/casualty insurance guaranty fund act.

The case concerns Dr. Anthony Chila of the Ohio University Osteopathic Medical Center, who treated Marilyn H. Archer for

shoulder pain from November 1982 through January 1987 but never X-rayed the shoulder. Another physician X-rayed the shoulder in February 1987 and found that a cancerous tumor had ruptured probably four to nine months earlier.

If the tumor had been diagnosed earlier, Ms. Archer would not have needed such extensive surgery and her resulting disability would have been less se-

Continued on page 28

Inside

✓ Enterprise liability is not a fair approach to reforming the medical malpractice liability system, this week's editorial says. **PAGE 8**

✓ Greenpeace urges insurers to become environmental activists to prevent natural catastrophes caused by global warming. **PAGE 23**

✓ Peru and Argentina have taken further steps toward establishing private pension systems, a major component of Latin American economic reform. **PAGE 23**

✓ German employers are in an uproar over insurance premium rate hikes and proposed increases in health care costs. **PAGE 25**

✓ The Chicago Bulls, Coca Cola Co. and Lettuce Entertain You Enterprises Inc. will pay \$1 million to a fan who nailed a 79-foot basket during a contest after coverage

of the feat was denied. **PAGE 30**

Departments

Advertiser Index	22
Classifieds	26
For the record	28
Global briefs	23
Insurance services guide	27
International	23
Letters	8
Opinions	8
Reader reply service	22
Ticker	31

Vol. 27, No. 23—Business Insurance (ISSN 0007-6864) is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Business Insurance, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207-3185; 800-678-9595 or 313-446-1611. Copyright 1993 by Crain Communications Inc.

Mid Ocean Re unveils plans to go public

HAMILTON, Bermuda—Mid Ocean Ltd., a newly formed Cayman Islands holding company for property catastrophe reinsurer Mid Ocean Reinsurance Co., has unveiled plans to go public with an initial offering that could raise nearly \$250 million.

Last Wednesday's announcement came two days after Ian Heap, Mid Ocean Re's chief executive officer, resigned for health reasons. The 67-year-old executive, who has headed the company since it started underwriting last November, said he will be succeeded by Michael Butt.

Mr. Butt, formerly CEO of British insurer Eagle Star Insurance Co. Ltd. and a founding director of Bermuda-based Mid Ocean Re, was named vice chairman of the reinsurer earlier this year.

Mr. Heap said he would remain on the board of Mid Ocean for some time and will be involved in the day-to-day operation of the company for one week each month until year end. Mr. Heap previously was chairman of EXEL Ltd., which invested \$100 million of the \$350 million in startup capital raised by Mid Ocean Re (BI, Aug. 10, 1992).

According to a filing with the Securities & Exchange Commission, Mid Ocean's IPO will comprise 3.5 million shares, of which 7.6 million, or 80%, will be sold in the United States and Canada. The filing indicates that the shares could sell for up to \$24.50 each, which would gross \$232.8 million if fully subscribed.

The offering will be made through J.P. Morgan Securities, Donaldson Lufkin & Jenrette and Merrill Lynch & Co., which jointly hold an option to buy up to 1,425,000 shares to cover overallocations. After the offering, Mid Ocean Ltd. will have nearly 32 million shares outstanding.

According to the filing, the proceeds from the offering will go toward supporting Mid Ocean's future growth and to increase its underwriting capacity.

The filing also disclosed that Mid Ocean, Marsh & McLennan Risk Capital Corp. and J.P. Morgan plan to form a Cayman Islands-based limited partnership called Trident.

Although capitalization plans are not definite, the three organizers are contemplating capital of up to \$500 million, with M&M Risk Capital and Morgan each contributing \$40 million and Mid Ocean contributing \$20 million.

If established, Trident would invest mainly in newly formed insurance and reinsurance ventures, and might reinsure Lloyd's of London syndicates through newly formed subsidiaries, the filing disclosed. It might also invest in existing insurance and reinsurance operations, the filing said.

—By Roger Scotton and Douglas McLeod

Future of cost containment

Managed care to become dominant delivery system: Duva

By MICHAEL SCHACHNER

NEW YORK—Much of corporate America finally regards managed care as the best means of reining in rising health care costs—but it still has far to go if those costs are to be brought under control, a managed care consultant says.

While health care policymakers deliberate to what extent managed care can be a cure-all, current costs and outcome statistics suggest that managed care should become the dominant delivery system in the United States, he said.

"In my opinion, managed care is a winner. It's more efficient than fee-for-service, because it's based on quality and outcomes. By 1995, 71% of all care will be delivered in a managed setting," said Joseph Duva, chairman and chief executive officer of third-party administrator Preferred Solutions Inc. in New York.

Speaking on a panel about managed care at the recent Second Annual Business Insurance Health Care Management & Cost Containment Conference in New York, Mr. Duva called the 1990s a "decade of evaluation" in terms of which types of managed

care plans are most effective.

Last year, for the first time, more employees were enrolled in managed health care programs than in conventional plans. More than 55% of employees covered by employer-sponsored health care plans were enrolled in managed care plans. By contrast, only 29% of employees were enrolled in such plans in 1988, according to a study by KPMG Peat Marwick (BI, Oct. 26, 1992).

THE SECOND ANNUAL
Business Insurance

HEALTH CARE
MANAGEMENT
& COST
CONTAINMENT
CONFERENCE

Mr. Duva said early signs indicate that managed care has arrived and will be prominent for at least the remainder of the decade, but other things must happen within the health care industry to maximize managed care's impact.

Specifically, hospitals and physicians must become more receptive to managed care, and managed care plan enrollment

must continue to grow, he said.

"We'll know for sure if managed care works by the end of the decade. Right now penetration isn't uniform, although we must realize that we can't make managed care uniform overnight. Managed care works differently in different areas," he said.

Currently, health maintenance organization penetration nationwide is about 17%, or about 40 million people. However, some states still have no HMOs, and in several states fewer than 5% of citizens are enrolled in HMOs, said Donna Lynne, executive director of the New York Business Group on Health.

"These figures speak volumes to the difficulty the Clinton administration may have with the concept of managed competition," she said.

Conversely, California and Massachusetts are up to 33% HMO enrollment, while Arizona and Minnesota are hovering at about 30%, Mr. Duva noted. "Unfortunately, enrollment goes down from there. So we can see that we still have a lot to do in terms of changing attitudes. I think the

Continued on next page

Health care reform concerns

Group opposes limit to purchasing groups

By JERRY GEISEL

NEW YORK—The Clinton administration's efforts to reform the nation's health care system could stall or even fail if the administration decides to curb health care purchasing groups, the head of a business group says.

Currently, the administration is considering whether to give states the authority to limit the number of purchasing groups or alliances that could negotiate with health care providers.

Under some proposals the administration is considering, a state could limit to one the number of purchasing groups—composed of employers and individuals—that would contract with providers. Some administration officials have suggested that the state would be the only entity allowed to establish and operate purchasing groups.

Such a proposal would be "out of touch with the American peo-

ple," says Sean Sullivan, president of the National Business Coalition Forum on Health, a Washington-based organization that represents about 60 employer health care coalitions.

Speaking in New York this month at the Second Annual Business Insurance Health Care Management & Cost Containment Conference, Mr. Sullivan said if states are allowed to run and control the number of health care purchasing groups, it could amount to a de facto single-payer system with each state being the payer.

"We face the threat of government taking over the purchase of health care," Mr. Sullivan warned.

Under such a system, price—not quality—becomes the only concern of the purchaser.

Indeed, Mr. Sullivan worries that the Clinton administration's health care reform package may only address the cost and access to health

Continued on page 4

Employers to be stuck with the tab for reform, says benefit executive

By CHRISTINE WOOLSEY

NEW YORK—Many business leaders are skeptical about impending national health care reform, says a member of a benefit lobbying group who has had discussions with leaders of President Clinton's health reform task force.

"I don't think what we'll see will be all that different from what the president proposed during his campaign," predicted Ellen Goldstein, director of health care policy and communications for the Assn. of Private Pension & Welfare Plans in Washington.

Ms. Goldstein participated in a panel discussion on health care reform during the Second Annual Business Insurance Health Care Management & Cost Containment Conference held recently in New York.

Letting her own skepticism show, Ms. Goldstein likened the 500 health care task force work group members, which recently wound down operations in Washington,

Continued on page 16

Employers up in arms over veterans bill

By JERRY GEISEL

WASHINGTON—Legislation on a fast track to protect the re-employment and pension benefits of employees who return to work after military service could saddle employers with new pension costs and difficult administrative problems.

H.R. 995, cleared earlier this month by the U.S. House of Representatives, goes far beyond what most employers feel is appropriate to protect returning veterans. The measure is similar to a proposal the House approved during the last congressional session—and at this point would create similar dilemmas for employers.

The legislation would require employers to retroactively provide employees returning to their jobs after military service with the same defined contribution plan payments, like profit-sharing contributions, that were provided to other workers during the time served in the armed forces.

But the legislation is riddled with ambiguities. Take, for example, a provision that would require interest to be credited on retroactive salary deferrals and matching em-

Legislation now in Congress would expand the pension benefits employers provide employees who return to their jobs after military duty.

ployer contributions to 401(k) plans. That provision provides no guidance on what formula or basis employers should use in crediting interest to a returning veteran's account.

"This is a vital issue. But the bill is absolutely silent in offering guidance or explanation," said Lynn Dudley, director of retirement policy for the Assn. of Private Pension & Welfare Plans, a Washington-based benefit lobbying group.

In addition, "the legislation does not coordinate with IRS rules. You could comply with one law and then find you violate another," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

Unless such technical problems in the legislation are fixed, employers could find their pension plans disqualified.

"This could be another Section 89 in the making," asserted APPWP Executive Director James Klein.

Section 89 was a provision tucked in the 1986 tax reform law that set non-discrimination rules for health care plans. Section 89 was repealed by Congress three years later, after legislators realized—following a massive lobbying campaign by employers—that the provisions were so complex as to be unworkable.

Unlike Section 89, though, there is some congressional awareness that legislators will have to make changes to

Continued on page 27



AP Wide World Photo

Purchasing groups

Continued from previous page
care and not the quality of care.

Limiting the number of health care purchasing groups also would go against the latest trends in the health care market, Mr. Sullivan said. More and more employers are forming coalitions to negotiate with providers over the price and quality of health care services.

"We are moving toward value-based purchases," he said. Employers are looking at medical outcomes, instead of price alone, to determine which providers offer the highest quality of services, he added.

That trend could be threatened if the government takes over, or otherwise interferes with employers' ability to negotiate with providers, Mr. Sullivan said.

The health care system does need to be reformed, but reform does not mean the good should be thrown out

with the bad, he said.

Enactment of health care reform legislation to be proposed by the Clinton administration, though, is by no means a sure thing, he said.

For starters, Congress is badly split on which direction health care reform should take. One faction, led by Reps. Pete Stark, D-Calif., and Jim McDermott, D-Wash., favor a single-payer, Canadian-style national health care program.

Others, like Reps. Jim Cooper, D-Tenn., and Mike Andrews, D-Texas, favor a managed competition approach, in which multiple purchasing groups, like employer coalitions, would negotiate price and quality with providers.

Yet another faction, which includes Sen. Phil Gramm, R-Texas, and Rep. Newt Gingrich, R-Ga., favors expanding tax breaks to make it financially easier for workers to purchase health care coverage.

Whether a congressional consensus can be forged on one approach remains to be seen, Mr. Sullivan said.

And, if a large number of Republicans in Congress oppose the Clinton plan, its chances of enactment will decline significantly, Mr. Sullivan said, noting that a bloc of Senate Republicans earlier successfully opposed a Clinton administration economic stimulus package.

Speculating on the shape of the Clinton plan, which is expected to be unveiled next month, Mr. Sullivan doubts—because of heavy union opposition—that the administration will propose taxing workers on employer-paid health premiums.

But it is possible that the administration will propose limiting the amount of the tax deduction employers can take for their health care expenses. Currently, employers can deduct 100% of group health care expenses.

Government-set limits on health care spending, or price controls, is an idea that refuses to die, but Mr. Sullivan believes that if controls are proposed, Republicans and Democrats will work together to defeat them.

In any case, health care price controls will not work, just as other government efforts to hold down prices through fiat have failed, said Mr. Sullivan, who speaks with some experience on the issue—he served as a staff member of the Council on Wage & Price Stability during the Carter administration.

Mr. Sullivan also noted that one of the most widely accepted assumptions about extending health care coverage to all Americans—that it will reduce provider cost-shifting to insured patients—may be overstated.

That is because one of the biggest sources of cost-shifting—the failure of government programs, like

Medicare and Medicaid, to pay providers the true cost of treating beneficiaries—may well continue in a system of universal coverage.

"Universal access by itself will not eliminate cost-shifting" if Medicaid and Medicare reimburse providers inadequately, he said. **BI**

Managed care

Continued from previous page
answer lies in promoting mixed models as opposed to straight HMOs."

Like the past couple of years, the immediate future of the managed care market will be defined by competition and consolidation, he said.

"If Washington has its way and purchasing cooperatives become the norm, the inefficient managed care companies will be pushed out. Employers banding together into co-ops should be able to better purchase care. I think we will find out which companies are the best," he said. "If you compare a .150 hitter to a .333 hitter, one flourishes in the major leagues and the other doesn't last. It's the same thing with managed care companies."

Regardless of managed care's positive impact on health care costs, benefits will be offset unless all providers embrace managed care and stop shifting costs against patients not yet in managed care, Mr. Duva predicted.

"Provider attitudes are changing. In 1988, we couldn't get any doctors into networks. Now, it's different. They don't want to be on the outside with major reform pending."

Meanwhile, Harry Neer, vice chairman of USA Healthnet Inc. in Houston, said true health care reform must center more on providers paying closer attention to quality than simply getting more bodies into the system.

"Managed care will have to enforce quality of care and convince its provider members of the importance of outcome quality. Today, 90% of the transplant centers in this country can't provide you with any outcome data. And that's just transplant centers," Mr. Neer said.

Ms. Lynne agreed that thorough health care outcome data is still in short supply. But it is improving. "Data collection and analysis is getting better. HMOs and PPOs are trying harder to put out good information, but it's problematic to begin collecting data now. There really aren't any new approaches to data collection. An employer's best bet is to combine data with other companies and trade it," she said.

Another problem with the current health care system—one that managed care and global access to health care probably wouldn't address—is that there are too many doctors in the United States and too many hospitals with low occupancy, Mr. Neer said.

"There's no way we need 5,000 hospitals in this country, when many are at 40% or 50% occupancy. We'll have to see some go before there's any real improvement."

Short of doctors trading in their scalpels, the best thing that can happen for the health care purchaser is that doctors either join managed care networks or form their own networks, said Ms. Lynne. "Providers are interested in forming their own networks. They want to beat the employers to the negotiating tables. Their attitude is that maybe they don't need a middleman and can go directly to the self-insured employer," she said.

"The scenario here is that providers have fought managed care for as long as they can and now are trying to form their own networks. I think they're too late and will not be successful," Mr. Duva said. **BI**



FIREMAN'S FUND. BECAUSE YOU CAN'T AFFORD TO PLAY GAMES WITH SPORTS INSURANCE.

Insurance requirements for professional sports, athletes, venues, and motor sports have changed enormously over the years.

If you are responsible for securing the insurance for a team, a stadium, a motorsport event—even individual coverages for high-profile athletes or drivers—you need specialized protection from a company with the mastery to back it up.

Fireman's Fund meets that need. Backed by Allianz A.G. of Germany, one of the world's largest insurers, Fireman's Fund is A-rated by A.M. Best and can bring up to \$50 million in capacity to your pro sports business.

Our product portfolio is second to none. It includes primary liability, excess liability, property, auto and loss sensitive workers' compensation. And, we can tailor these products to your specific team, venue or motorsports need.

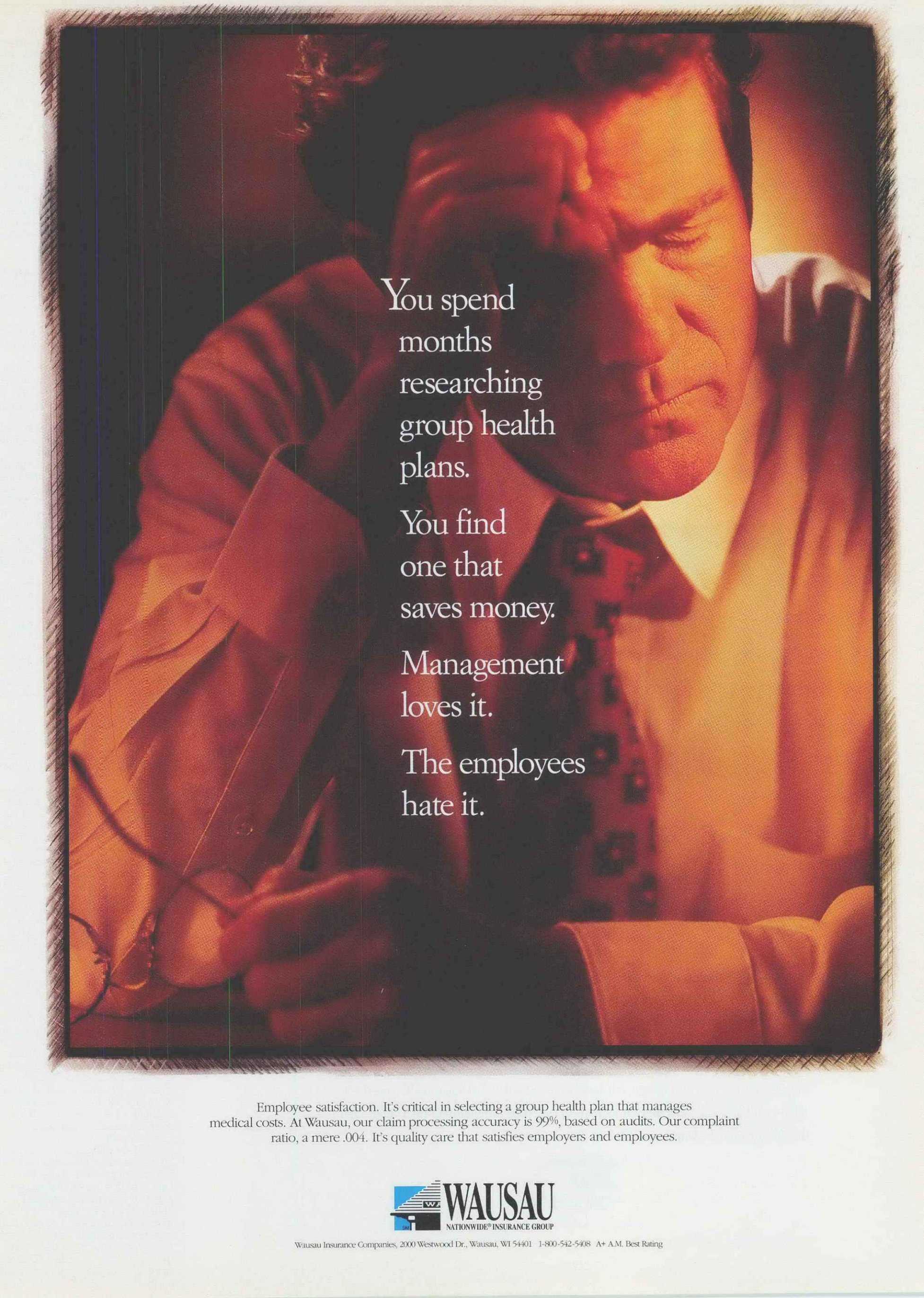
Fireman's Fund Pro Sports Insurance is offered through American Specialty Insurance Services, Inc. (ASIS). For more information call ASIS president Pete Eshelman at 219-672-8800.

ASIS is the exclusive representative of Entertainment Brokers International for Fireman's Fund Pro Sports Insurance



PRO SPORTS. WE INSURE GOOD NEWS.





You spend
months
researching
group health
plans.

You find
one that
saves money.

Management
loves it.

The employees
hate it.

Employee satisfaction. It's critical in selecting a group health plan that manages medical costs. At Wausau, our claim processing accuracy is 99%, based on audits. Our complaint ratio, a mere .004. It's quality care that satisfies employers and employees.



Wausau Insurance Companies, 2000 Westwood Dr., Wausau, WI 54401 1-800-542-5408 A+ A.M. Best Rating

Stopping a cycle of comp abuse

Employers unknowingly contribute to fraud

By MICHAEL SCHACHNER

NEW YORK—The workers compensation system—which often centers around soft tissue injuries, indemnifies claimants 100% and reimburses providers at high rates—has become one of the nation's easiest targets for fraud and abuse, according to a health care consultant.

But employers and insurers are not entirely powerless to stamp out some of the less than savory claims that plague the system, asserts a

claims investigator for a major insurer.

From a medical benefits perspective, workers compensation is a gold mine for the unscrupulous claimant, lawyer or doctor. It requires injured workers to pay no deductibles or copayments, and identical injuries are reimbursed at a higher rate than in the standard medical benefits system.

Also, the data on workers compensation claims is so poor that third-party administrators are incapable of catching the fraudulent changing of diagnostic codes that commonly occurs.

And, because workers comp injuries are often soft-tissue or back injuries, imaging is difficult, diag-

noses are often wrong and the rate of surgery is high, said Edwin Freedman, managing director with AlexComp Consulting Plus, a Lyndhurst, N.J.-based unit of Alexander & Alexander Services Inc.

From an indemnity standpoint, the system is also an easy target for abuse, he said. Because most physicians know little or nothing about the jobs their patients perform, they are ill-equipped to determine when an employee can safely head back to work.

Mr. Freedman offered these views on the workers compensation system at a session at the recent Second Annual Health Care Management & Cost Containment conference in New York.

Commenting on Mr. Freedman's assessments of why fraud has in-

festated workers comp, Robert L. Buckley, manager of special investigations with Kemper National Insurance Cos. in Long Grove, Ill., said holes in the system have created a "feeding frenzy" among workers, lawyers, doctors, insurers and politicians. "The Health and Human Services Department believes 10% of all medical costs are fraudulent. With hospitals charging twice as much for a workers comp case as they would for a similar case, and with wage replacement costs under workers comp averaging \$13,000, we're surrounded by negative statistics," he said.

Employers and insurers have been complaining vociferously in recent years about such statistics, but they—along with politicians—bear some of the blame for a system that's run-

ning amok, Mr. Buckley said.

"Employers don't want to defend against a claim, but they don't provide a safe workplace to begin with. Insurers, meanwhile, just pay the claims and pass the costs on in the form of premium increases. And the politicians aren't getting tough. What they're not realizing is that too much leniency will lead to a shrinkage of jobs," he explained.

However, methods are available to employers that can help reduce the frequency and costs of both legitimate and bogus workers compensation claims. Mr. Buckley outlined a list of steps employers should take to control workers compensation claim costs:

- Provide a safe workplace.
- Immediately and thoroughly investigate any claim and compile a thorough written report. Afterward, send a copy of the report to senior management.
- Advocate quick return to work by making available light-duty jobs to injured workers.
- Conduct pre-employment screenings of potential employees. "These screenings cost about \$75 to \$125, are reliable, and can expose criminality," he said.
- Once a job offer is made, ask the candidate about any past workers compensation experiences.
- Encourage employees to inform management of fishy circumstances or unsafe working conditions, and offer rewards. Also, let the workforce know about workers comp costs and what they mean to them.
- Prosecute phony claimants. "Don't just settle. You're a toothless warrior if you don't challenge fraud."

Insurers, meanwhile, must employ a well-trained claims-administration staff, check all claims closely, promote medical cost containment and work more closely with policyholders to cut down on fraud.

"We at Kemper found and denied over \$100 million in non-compensable workers comp claims last year. You can do something about this problem," Mr. Buckley said.

Sky Chefs Inc., an Arlington, Texas-based airline caterer, has had some success controlling its workers comp expenses by actively involving employees and managers in the battle against rising costs.

After the company determined that safety was too low a priority, it got the message out to employees that their help was needed in the fight against soaring workers comp costs, and it has worked.

"Concern, awareness, responsibility and excellence are the cornerstones of a program we call 'CARE,'" said Bill Murphy, director of risk management with Sky Chefs. "We talk about workers comp in all our management and employee training courses, which helps them understand the problem better."

While most observers believe improved safety and getting after the fraud perpetrators is the best way to reduce workers comp costs, another camp has espoused the potential value of combining standard health benefits and workers comp benefits into a single-payer, 24-hour system.

"Twenty-four hour coverage may be something whose time has come, but serious questions remain about who will pay for the benefits and whether workers comp is still too small an item to worry about," Mr. Freedman said.

"Workers comp is only about \$30 billion out of a \$900 billion annual system. Such a small amount of potential savings may not be enough to anger all the attorneys, medical providers, workers comp TPAs, risk managers, insurers, brokers and state regulators with vested interests in workers comp," he added. "Political reality may not allow 24-hour coverage to happen very soon." **BI**

We Make House Calls



The house call may be virtually obsolete in modern healthcare, but it's still alive and well at Zurich-American. We know the only way to give healthcare providers a quality program of general and professional liability insurance is to get our account teams out of our office and into yours. These teams, made up of underwriting, risk management and claims experts, provide you coordinated professional service because one person, the account manager, oversees your entire program. And the team is experienced in the healthcare industry . . . some are even registered nurses and former risk managers of healthcare facilities. Let them make your facility their next house call. For more information call your independent insurance agent/broker or Zurich-American at 1-800-382-2150.



American Creativity. Swiss Dependability.



Did a far out risk just land on your desk?

Let your wholesale broker put the capacity,
expertise and ingenuity of General Star to work for you.
Our underwriting pros will respond at warp speed
to meet your primary and excess
liability and property needs.
Ask your wholesaler today.



**GENERAL
STAR**

- Market Stability
- Financial Strength
- Underwriting Quality

Specialty underwriting through appointed surplus lines brokers.
For a list of our brokers in your area, call General Star Management Company, Stamford, CT (203) 328-5700, ext. 5985.
Atlanta • Chicago • Dallas • Hartford • Los Angeles • New York • Stamford

Opinions

Be fair in malpractice reform

WHILE THE MEDICAL MALPRACTICE system definitely needs reform, we don't think a proposal under consideration by the Clinton administration is the right approach.

Under that proposal—known as enterprise liability—injured patients no longer would be able to sue physicians. Malpractice suits would have to be directed at the patient's health care plan, which employs or contracts with the physician.

The proposal's advocates argue that exclusive liability for physicians' actions will force health plans to better examine doctors' backgrounds before retaining them and to monitor their performance more carefully.

Perhaps that would happen to a greater extent than it occurs today. But would it truly be fair to make a health plan liable in all situations?

Even if a health plan retained only physicians with the highest credentials, one of these physicians could make—for some inexplicable reason—a mistake that seriously injures a patient.

And, assuming the Clinton health reform plan allows individuals to choose physicians not affiliated with a network, would the patient's indemnity plan, which has no contractual relationship with the physician, still be liable for the damages?

Other malpractice reform ideas the administration is considering have merit. For example, administration officials have said they want to set up mechanisms that would encourage plaintiffs and medical providers to settle disputes before turning to litigation. That would cut down on litigation costs and provide faster payment of benefits to injured patients.

Regrettably, though, we've seen very little ad-



•STALKING MALPRACTICE REFORM•

ministration interest in what we think is an essential element of both medical malpractice reform and tort reforms in general: capping awards for non-economic damages.

Certainly, patients and other accident victims should be compensated fairly for their injuries. But we've seen no evidence that outlandish awards lead to better care.

We do know that outrageous awards drive up insurance premiums, which ultimately result in higher health costs. If the administration is serious about slowing down health care costs, capping malpractice awards would be one place to start.

Letters

Insurers not meeting corporate America's needs

To the editor: Having spent the past 37 years in the casualty industry, I feel compelled to speak on an issue that begs for change.

Just recently I reviewed the current commercial general liability insurance policy as part of a continuing education requirement.

I am appalled.

The purpose of all insurance is to insure and replace uncertainty with certainty. Liability policies especially should be drafted to insure all risks except those risks that are truly uninsurable.

American business should not be required to fund insuring systems that

are steeped in confusion and create doubt rather than certainty.

Liability policies should be drafted and rated on an "all risk" basis so the business community could know absolutely that if they are presented with a third-party complaint they can rely on their insurance to defend and indemnify.

The spread of risk throughout the entire business community of risks normally excluded would indeed make these risks insurable at reasonable cost.

The savings in legal costs connected with declaratory actions alone would be remarkable.

The insuring systems now in place do not fulfill the needs of corporate America.

Richard K. Fox
R.K. Fox & Associates
Noblesville, Ind.

Solvency criteria must be changed

To the editor: We are constantly seeing new insurance company insolvencies, and most recently an A-rated Missouri insurer came under the same ill fate (*BI*, April 12).

Maybe the time has come to look again at some of the major criteria various regulatory agencies are using to review the solvency of an insurance company.

The one criterion that is always used by regulatory agencies is the premium-to-surplus ratio. To date, I do not understand the logic behind using this ratio.

Premium should not be used. What should be used is actuarial ultimate expected or projected losses.

What better way is there to see if a company has enough surplus to pay for their losses?

The problem with using premium in the equation is the fact that the regulatory agencies are relying on the premise that the insurer used sound underwriting and pricing guidelines when writing its book of business.

If this were the case, we would have only a few insolvencies in lieu of the current flow going on today.

Paul M. Perry
Stamford, Conn.

RIMS reporting whets reader's appetite

To the editor: Your reporting on many of the sessions of the 31st annual Risk & Insurance Management Society conference in Orlando has been outstanding.

As a public entity self-insured joint powers authority serving the 43 public entity school districts of Sonoma County, Calif., our conference budgets do not allow us to attend RIMS, but the reporting in *Business Insurance* has been the next best thing.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611-2590.

You have capsulated many of the sessions into about a half page each, which has made for easy reading and addresses the focus of each session.

We not only self-insure, we self-administer our claims, as well as provide loss control services to our schools.

Our weekly edition of *Business Insurance* is circulated to our managerial staff, and almost all of your RIMS session articles have been highlighted by me for reading by our staff.

We encourage you to expand this type of coverage for other risk management conferences, such as the Public Risk Management Assn., Public Agency Risk Managers Assn. and California Assn. of Joint Power Authorities, etc.

Joe Myers
Executive Director
Redwood Empire Schools' Insurance Group
Santa Rosa, Calif.

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives

Vice president/
Publisher/Editorial Director: Kathryn J. McIntyre, A.R.M. (Chicago)

Editor: James M. Burke (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Paul D. Winston (Chicago)

Assistant Managing Editor/News: Timothy Stanton (Chicago)

Assistant Managing Editor/Graphics: Jeanne M. Bartels (Chicago)

International Editor: Stacy Shapiro (London)

Senior Editors: Dave Lenckus (Chicago)

Douglas McLeod (New York)

Bureau Chiefs: Michael Schachner (New York)

Joanne Wojcik (Los Angeles)

Copy Editors: Regis J. Coccia (Chicago)

Sara J. Hartz (Chicago)

Sarah E. Polster (Chicago)

Roseanne White (Chicago)

Associate Editors: Meg Fletcher, A.R.M. (Chicago)

Judy Greenwald (San Jose)

Mark A. Hofmann (Washington)

Nancy Johnson (Chicago)

Louise Kertesz (Los Angeles)

Adrian Ladbury (London)

Sara Marley (Chicago)

Deborah Shalowitz (Chicago)

Gavin Souter (New York)

Christine Woolsey (Chicago)

Staff Reporter: Sally Roberts (Chicago)

Directory Editor: Kathy Welyki (Chicago)

Assistant Directory Editor: Cynthia L. Bloom (Chicago)

Editorial Assistant: Kerry A. Dziubek (Chicago)

Assistant to the Publisher: Karen Brown (Chicago)

Editorial Cartoonist: Roger Schillerstrom (Chicago)

Advertising Director: Martin J. Ross III (New York)

Eastern Advertising Manager: Stephen P. Lincoln (New York)

Midwest Advertising Manager: Robert L. Niesse (Chicago)

District Managers: Cynthia Bykowski (New York)

Margaret Hikido (Chicago)

Charles A. Horvath (New York)

Thomas P. Loftus (New York)

Deborah D. Neale (Chicago)

Kathryn Premetz (New York)

Production Manager: Elmer Kerstowski (Chicago)

Director of Communications: Ronnie I. Drachman (New York)

EDITORIAL: Chicago: 312-649-5398

Dallas: 214-363-1066

London: 71-608-1172

Los Angeles: 213-651-3710

New York: 212-210-0100

San Jose: 408-379-1790

Washington: 202-662-7200

ADVERTISING: New York: 212-210-0228

Chicago: 312-649-5276

Los Angeles: 213-651-3710

COMMUNICATIONS: New York: 212-210-0132

CIRCULATION: Detroit: 800-678-9595

Published by Crain Communications, Inc., Chicago

Founder: G.D. Crain Jr.

Chairman: Mrs. G.D. Crain

Vice chairman: Keith Crain

President: Rance Crain

Chairman-executive committee: S.R. Bernstein

Treasurer: Mary Kay Crain

Secretary: Merrilee P. Crain

Executive Vice president-operations: William A. Morrow

Vice president-circulation: William Strong

Vice president-production: Robert C. Adams

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Telex 6871241.

Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212/210-0704, CRAIN COM NYX; 1 Northpark East, Suite 114, 8950 N. Central Expressway, Dallas, Texas, 75231-6415, Fax 214/696-1936; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202/638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213/655-8157; 540 Latimer Circle, Campbell, Calif. 95008, Fax 408/379-3257; Cawcross Court, 2nd Floor, 75-77 Cawcross St., London EC1M 6BP, England, Fax 71/608/1173. \$2.50 a copy. \$90 a year in U.S.

Canada add \$38 for surface mail. First-class mail to U.S. add \$95; to Canada add \$105. All other foreign \$200 per year expedited delivery.

SHEILA GORMLEY, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207-3185, or phone 800-678-9595 or 313-446-1611, Fax 313/446-1650. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfilm copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media.

For information and rates to reproduce in general circulation media, contact: MELANIE GLOVER, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611-2590, 312-649-5464. For reprints or reprint permission contact: KAREN BROWN, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312/280-3174.

Member of Business Publications Audit of Circulation

BPA

ABP



© 1993 Delta Dental Plans Association

To Us, Dental Plans Are Second Nature. To Others, They're Second To Everything Else.

All too often, the convenience of opting for a bundled benefits package is offset by the weakness of the dental program component.

That's why it's to your company's advantage for you to choose the expertise and quality assurance offered by Delta Dental.

Since 1954, Delta Dental has been the only national organization committed exclusively to dental benefits. Our comprehensive cost management program makes Delta Dental a greater value in the long run and limits employees' out-of-pocket costs. And our extensive network of participating dentists allows us to deliver managed care features at a level unmatched by companies for whom dental plans are merely a sideline.

That's why Delta Dental has a 98% customer retention rate, covers more than 24 million people in almost 33,000 groups and pays more than \$2 billion a year for dental care.

To learn more about how your group can share in the advantages of choosing the nation's largest specialist in dental health plans, call 1-800-441-3434 today.



America's Dental Plan Specialist

Scheduling health care savings

By MICHAEL SCHACHNER

RBRVS scale may work in private sector

THE SECOND ANNUAL
Business Insurance
HEALTH CARE
MANAGEMENT
& COST
CONTAINMENT
CONFERENCE

NEW YORK—Private-sector health care payers should consider adopting a resource-based relative value scale for physician fee schedules, according to a

health policy researcher and consultant.

Medicare is in its second year of paying physicians on a fee schedule based on the relative value of medical procedures, geographic modifiers and a complex conversion formula that translates the relative value of a service into dollars. It may very well be time for private

payors to devise their own RBRVS systems, said Zachary Dyckman, executive vp with the Center for Health Policy Studies in Columbia, Md.

"RBRVS would definitely improve the rationale behind physician fee schedules, it would clarify the incentives for performing certain procedures, and it would produce

long-term savings for payers," he said.

Speaking at a session on the feasibility of the private sector adopting RBRVS physician fee schedules at the Second Annual Health Care Management & Cost Containment Conference earlier this month in New York, Mr. Dyckman urged employers to consider crafting their own RBRVS schedules.

"With your own RBRVS-based

plan, you are insulated from the cost-shifting that occurs from other payers adopting RBRVS," he said.

Mr. Dyckman also downplayed several of the alleged pitfalls of an RBRVS payment system.

For example, when Medicare instituted its RBRVS plan, insurers, physician groups and other health care experts predicted that doctors would stop seeing patients covered under RBRVS-governed plans. That has not happened.

"There have been many discussions about providers not accepting reduced fees and withdrawing from networks. I think there has been too much attention paid to this. Doctors don't have anywhere else to go. Most other managed care plans are similar. The bottom line is doctors still need you to make a living," he said.

Two other concerns often voiced by payers considering an RBRVS schedule is that RBRVS-based fees don't really reduce overall costs and that procedures deemed to be more valuable under an RBRVS system will see increased volume.

"RBRVS does reduce fees, unless you're using a budget-neutral system that reduces some fees and increases others proportionately," Mr. Dyckman said. "And with Medicare, volume hasn't increased."

Dr. Thomas R. Reardon, a general practitioner in Portland, Ore., and a member of the Board of Trustees of the American Medical Assn., agreed the RBRVS concept is a good one, primarily because it creates equity in a payment system that has wide geographic variations and that currently rewards specialty medicine over general medicine.

"When gall bladder laparoscopy costs \$400 in Portland, \$800 in Chicago and \$1,400 in New York City, there's a need to bring equity into the system," said Dr. Reardon. "Generally, RBRVS is appropriate."

If employers do decide to create and use their own RBRVS fee schedule or join a network that is already using such a system, they must keep in mind at all times that RBRVS is only a tool, not a religion, Mr. Dyckman stressed.

"The idea is not to do exactly what Medicare does. You have to be flexible and realize that you don't have to reduce fees to the level Medicare has," he said.

However, at the same time, employers shouldn't be too lenient in the fees they implement.

"You have to be firm," Mr. Dyckman said. "You're not negotiating. Physician fees have been high for a long time. We're talking about a system that has been very generous to doctors."

He outlined a four-step method to devising and implementing an RBRVS system:

- Set goals and objectives.
- Develop the payment schedule.
- Conduct a cost-impact analysis.
- Develop an implementation plan and plot what costs should be in three years.

Even if a national health care reform package contains caps on doctors' fees, there will still be a place for RBRVS within that system, Mr. Dyckman said. "There won't be a cap on all fees, so you still can use this form of a schedule. And, if you have a point-of-service plan, you need the schedule for care provided outside the network."

"More importantly, reform could take three to four years to be fully implemented. You can save in the meantime."

RBRVS may also have some potential outside traditional medical benefits, said Dr. Reardon, who noted that Oregon is using an RBRVS reimbursement schedule for its workers compensation program.

"RBRVS is only a method. It can be used to guide any payment schedule," he said.



"I challenge competitors to match RLI in service, compassion and underwriting expertise."

John R. Coleman
Vice President
RLI Northern California
Regional Office

At RLI, service in the field is measured by how promptly we respond to our customers' needs. Our fast quote turnaround and standard 15-day policy issuance are certainly part of this service. But I'm especially proud of RLI's reputation as a caring market that works with customers to help tailor special coverages.

How do I know we're measuring up? I hear it first-hand, from our valued customers. Here's what Jim Barnes, president of Sherwood Insurance Services of Northern California, had to say about RLI:

"Whenever I need a quick response to coverages that are unique and require exceptional creativity, my first call is to RLI. For example, I had a large course of construction risk that included earthquake. The client had several quotes, but none with a satisfactory deductible. I called RLI at 9:00 a.m. By 9:30 a.m. we had worked out a deductible buy-back policy that satisfied everyone."

We can be this responsive, flexible and decisive because the underwriting talent RLI hires is the best in the industry. Regional offices are empowered with full underwriting authority. That's a tremendous advantage, because it gives us a decided edge. We can present solutions to customers and bind coverage while competitors must wait for a decision from the home office.

It is exciting to bring this new benchmark of service to customers, especially in an industry that seems reluctant to shed its old image and change its old ways. I think it's time we as an industry realized that service isn't the only thing; it is everything.

RLI

9025 N. Lindbergh Drive Peoria, IL 61615
800/445-5468

Small-business alliance sees health plan threat

By MICHAEL SCHACHNER

NEW YORK—Although the Clinton administration is talking about making health care more affordable for small businesses, some small employers are doing just that without government support, according to the leader of a small-business group.

The question of how to help owners of small businesses afford health care insurance for their workers is at the heart of the ongoing discussions pertaining to health care reform.

But as the experience of the 13,000-member Council of Smaller Enterprises in Cleveland shows, not all small companies need help in obtaining quality, affordable health care insurance.

COSE is the small-business wing of the Cleveland Chamber of Commerce. About 11,000 COSE members are currently providing comprehensive health insurance to their employees through a COSE-arranged plan that costs 35% to 50% less than what comparable small enterprises are paying for similar coverage.

In addition, health care cost inflation for COSE members was only 6% in 1992, compared with the 18% average inflation for other Cleveland-area small-group plans, said John J. Polk, senior vp and executive director of COSE.

COSE created a separate entity in 1983, Group Services Inc., to act as a health insurance purchasing group to which health insurers would be accountable. Now, member companies participate in one of COSE's 12 group health plans (BI, March 26).

But programs like the one COSE has coordinated for 10 years may be in jeopardy if the national health care reform plan that emerges from Congress contains mandates on coverage and payroll taxes, Mr. Polk said in a speech given at the recent Second Annual Health Care Management & Cost Containment conference in New York.

"We're not a political entity. We just work hard for our members, who operate on thin margins trying to do what's right for their employees and their families," Mr. Polk said. "But we could get rolled in the reform process."

What worries Mr. Polk, COSE and other small-employer groups nationwide that have successfully formed alliances to improve their health care purchasing leverage is sitting on the sidelines while the "titans of politics" ponder how to help small businesses.

"The payoff of their embrace is that they won't be affected by what they come up with. It's always easy for two people to talk about what a third person should do with his money," Mr. Polk said.

In response to these concerns, COSE has hired a lobbyist in Washington. "But we're still very concerned about other people deciding whether what we have done successfully for 10 years is good enough," he said.

COSE and its members would be pleased to continue with the plan it has, Mr. Polk said. "Two-thirds of our members have some form of managed care and the benefits are good. We'll support any reform proposal that permits us to do better

than we have been doing without government support. Unfortunately, we don't think this will happen."

Regardless of what comes out of Washington, the only way of solving the health care crisis is taking action at the local level, he said.

"We'll continue to push for solving problems where it counts—in the local communities. There's a big difference between passing laws and solving problems," Mr. Polk added.

"The administration has raised expectations and fears unreasonably. I think people will be disappointed with what they get. I wish we weren't abandoning such responsibility to the politicians and a handful of lobbyists."

BI

We've Made A Name For Ourselves.

BUSINESS INSURANCE

It's Business Insurance.

We're the weekly it takes to stay on the cutting edge of the commercial insurance marketplace.

SUBSCRIBE TODAY!

CALL TOLL-FREE on 1-800-678-9595.
Fax your order in on 1-313-446-0961. Use the card in this issue or if it's gone, use the coupon below.

Business Insurance gives you total news coverage of loss prevention, risk financing and benefit management. Every week. Annual subscription (52 issues) in U.S. dollars.

Check Here	Surface Mail		By Air	
	1 year	2 years	1 year	2 years
USA	☐ \$80	☐ \$140	☐ \$175	☐ \$330
Canada	☐ \$118	☐ \$210	☐ \$185	☐ \$350
All other countries (by expedited air)			☐ \$200 U.S.	☐ \$380 U.S.

- ☐ new subscription. ☐ renewal. ☐ payment enclosed.
☐ bill me. ☐ bill company.
☐ Please send information on your special 20%-off group rate for five or more subscriptions.

Mail to: Business Insurance, Circulation Dept., 965 E. Jefferson Ave., Detroit, MI 48207

name _____ (please print)
 title _____ telephone _____
 company _____
 nature of business _____
☐ business or ☐ home address
 city _____ state/country _____ zip/postal code _____
☐ I prefer not to receive information or advertising by mail from companies not affiliated with Business Insurance.

4C043

BE AMONG THE HEAVY HITTERS.

When you advertise in *Business Insurance* you're reaching nearly 152,000* key decision-makers who are responsible for keeping their businesses profitable and secure, and their employees happy and healthy. These risk, benefits and claims managers, insurance buyers, CFOs and CEOs need to know the score when it comes to the risks of doing business, both here and around the world. That's why they regularly read *BI*—the weekly newsmagazine of risk management and employee benefits.

THE AGENT BROKER/PROFILES ISSUE, JULY 5TH CLOSES JUNE 23

Our 22nd annual Agent/Broker Profiles Issue, an exclusive directory of agents and brokers, helps you touch base with the top performing agencies and brokerages. We'll profile the 20 largest brokers worldwide, rank the 100 largest U.S. brokers, and provide vital "stats" like premium volumes, revenues and detailed descriptions of their operations. It's a fact-filled, year-long reference guide that's always a big hit with our readers.

To double the impact of your advertising message, reserve your space in *BI's* Agent/Broker Profiles issue today. It's a steal.

TO RESERVE YOUR SPACE, CALL

Business Insurance®
Coverage Guaranteed

New York:

(212) 210-0228 or Fax: (212) 210-0704

Chicago:

(312) 649-5276 or Fax: (312) 649-7799

Los Angeles:

(213) 651-3710 or Fax: (213) 655-8157

*Includes pass along readership

Getting the word out

Smart, stylish benefit communication programs make their point

NEW YORK—Employers looking for the most effective way to convey information about new or changing benefit programs may find the answer in several award-winning communication projects.

THE SECOND ANNUAL
Business Insurance
HEALTH CARE
MANAGEMENT
& COST
CONTAINMENT
CONFERENCE

Four case studies of communication programs that have been honored in the *Business Insurance* Employee Benefits Communication Awards were presented earlier this month at the Second Annual Health Care Management & Cost Containment Conference in New York.

New managed care plan

Big Six accounting firm KPMG Peat Marwick looked for an interesting twist to introduce a new managed care program to a mostly young, college-educated professional workforce.

The firm decided the best approach was a video that detailed the benefit changes—but in a format showing how the video was made.

"We wanted a kind of mystery," said Charlotte Jerace, director and executive producer of Peat Marwick's Employee Communications Consulting Group in Boston.

Peat Marwick's video captured an Award of Excellence in the audiovisual category of the 1991 *BI* Employee Benefits Communication

Awards (*BI*, Nov. 18, 1991).

The video, "Benefits: An Inside View," opens with a graphic artist typing on a computer. The artist receives a phone call from a Peat Marwick representative and is asked how a project she is working on for the client is proceeding. The project is the video introduction of a preferred provider organization and a dental health maintenance organization at Peat Marwick.

During the conversation between the client and consultant, questions about the managed care program are asked and answers provided.

Information also is provided on the company's mail-order prescription drug plan.

At one point in the 17-minute

video, the consultant, a writer and the client appear on a stage where they are seen filming an actor who is discussing Peat Marwick's benefit plan. Between takes, the actor asks questions about the benefit plan.

In a light touch, the actor asks if he can get coverage under the plan. He is told he isn't eligible because he doesn't work for Peat Marwick. The actor jests: "What do you mean I don't? I've been under these lights since 7 a.m."

The video was mailed to employees' homes with certain print materials, including PPO directories and enrollment forms. This communication method saved the company more than \$1 million in billable time that would have been lost if the benefit changes had been explained to employees at group meetings.

The direct cost of producing and mailing the video to 23,000 employees was about \$100,000.

—By Jerry Geisel

Flex plan for franchises

What is short, sweet and spicy?

Answer: The recipe PepsiCo Inc. followed to design a benefit communication program that Taco Bell franchises could customize for their employees.

An information folder packed with lively copy, bright colors and Southwestern images gives employees concise information on how to enroll in a new flexible benefits program offered by parent PepsiCo.

But another key ingredient—a rap video—was used first to grab employees' interest. The 4½-minute video features a male singer who "raps" information about the benefit plan and then explains the rhymes more clearly in close-up shots. In the background, several dancers move to the rap tune.

Lorna Mackey, PepsiCo's former manager of benefits communication who is now communications manager of Fidelity Institutional Retirement Services Co. in Boston admitted producing the video was a bit of a risk. But, she and the company's communications consultant wanted the video to appeal to Taco Bell's young, mostly high school-educated employees.

"Our communications strategy was to keep the materials simple and short. We wanted to do something to attract and hold the audience's attention for as long as you can hold it these days," explained Vicki Dungan, principal of Dungan Communications Resources in Chevy Chase, Md., and the consultant who worked with PepsiCo to design the program.

A print-only communication strategy would not have been as effective because many of the employees could not or would not read the materials, Ms. Dungan said. The video cost \$53,000 to produce, including consultants' fees.

Traditional benefit communication videos typically feature a talking head—perhaps a company's president or chief executive—who drones on for 20 minutes about the firm's new benefits program, she said. Such an approach wouldn't work because "Taco Bell has a dynamic advertising image, and employees are young and part of the video generation," she said.

The video won PepsiCo an Award of Excellence in the audiovisual presentation category of the 1992 *BI* Employee Benefits Communication Awards competition and the printed materials won Best of Show in the multisubject booklet category (*BI*, Oct. 12, 1992).

—By Christine Woolsey

Communicating plan changes

When a company decides to alter employee benefit provisions, it must launch a thorough employee communications campaign that explains forthcoming changes, says a corporate benefits executive.

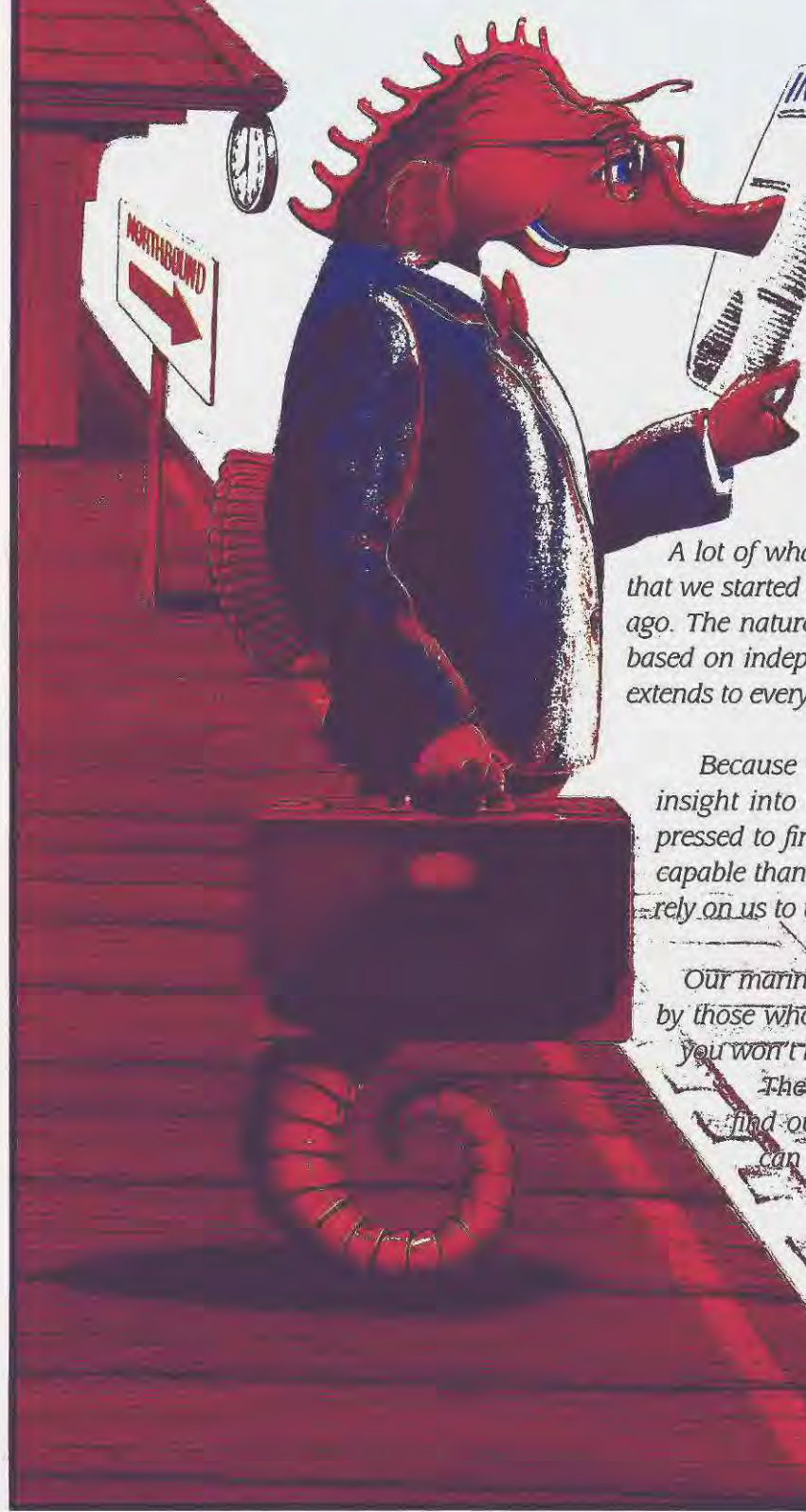
"What you should attempt to do is provide a big picture while keeping the employee both interested and involved in the process," said Richard D. Quinn III, director-corporate benefits planning with Public Service Electric & Gas Co. in Newark, N.J. "You want to accompany changes with heavy communication that tells employees not only what you're doing but why."

Mr. Quinn emphasized that the medium a company uses to communicate is not as important as the message conveyed.

"At PSE&G, we have tried to demonstrate that we're trying to provide good benefits, but we've emphasized that we can't do it alone. The point we're trying to get across is that employees must take

Continued on next page

IN THE WORLD OF INSURANCE, WE'RE A HORSE OF A DIFFERENT COLOR.



When it comes to inland marine, ocean cargo, hull, marine liability and commercial property coverages, there are lots of companies who'll take your business. But sometimes the "usual" solutions aren't enough. In situations like these, you need underwriters with the flexibility and with the experience to think creatively. Underwriters like McGee.

UNDERWRITERS WHO ARE A BREED APART

A lot of what makes McGee different has to do with the fact that we started out as marine underwriters more than 100 years ago. The nature of this business led us to develop a philosophy based on independent, creative thinking. Today, this philosophy extends to every line we write.

SPECIALISTS, NOT GENERALISTS

Because we're specialists, our underwriters have unique insight into the lines we write. As a result you'll be hard-pressed to find underwriters who are more knowledgeable or capable than McGee. The fact is, a pool of prominent insurers rely on us to use our underwriting experience on their behalf.

THE ABILITY TO MOVE QUICKLY

Our marine history has also taught us that the race is won by those who move quickly. So when you work with McGee, you won't be slowed down by red tape.

The next time you're looking for a fresh approach, find out what a difference a horse of a different color can make. Call Wm. H. McGee.

WM. H. MCGEE & CO., INC.

WORLD-WIDE COVERAGE • UNDERWRITING MANAGERS SINCE 1887



CORPORATE HEADQUARTERS
FOUR WORLD TRADE CENTER
NEW YORK, NY 10048

1-800-235-6029

OFFICES IN THE US AND CANADA
CORRESPONDENTS THROUGHOUT THE WORLD

Continued from previous page
some of the initiative," he said.

Mr. Quinn explained that in 1991, when PSE&G began planning an overhaul of its benefit plan for non-union employees, it communicated to workers through newsletters and electronic mail. Employees were told that prescription drug costs and medical benefit costs were skyrocketing and changes in the delivery system were required.

"Due to all our communication and explanations, we were able to implement the changes we wanted," he said. "Communications, we realized, included listening to employees and obtaining feedback. This allowed us to dispel their misconceptions about managed care and accomplish what we needed with little resistance."

PSE&G's newsletters were so clear that the project was awarded Best of Show in the Benefits Newsletter category in the 1991 *BI* Employee Benefits Communication Awards (*BI*, Nov. 18, 1991).

"The whole communications effort costs only about \$35 per employee per year," Mr. Quinn said. "We now do newsletters as needed, and electronic mail updates are almost an everyday thing. Employees do like to be kept informed, we learned."

—By Michael Schachner

Explaining need for flex plan

Explaining the reasons for a new flexible benefit plan was the purpose of an award-winning communication effort by American Telephone & Telegraph Co.

"We tried to convey the need to control costs, and we wanted to encourage employees to take a bigger role in cost containment," said Pamela Stout, communications team leader for the New York region with The Wyatt Co., which helped develop AT&T's multimedia communication project. "It was also important to...carve out a positive position for future communications projects."

The project occurred in two separate but coordinated phases. In phase one, AT&T distributed a brochure that "addressed every piece of news possible," said Ms. Stout. That was accompanied by newsletters that focused on the timing of the changes.

Personalized materials and a computer disk that allowed employees to model their future under the flex plan were also provided. Meanwhile, AT&T held optional employee meetings and sent out electronic mail updates.

Finally, a videotape and posters were distributed.

Phase two of the project included disseminating supporting articles on the need for change, training material and more electronic mail.

AT&T tried to contact every employee to make sure they received and understood their materials.

Lastly, AT&T conducted a media awareness campaign and made press kits available.

In 1992, the second year of enrollment, AT&T sent out personalized fact sheets, instructions for automatic enrollment and a survey to find out which communication items were appreciated and used.

"We got great results from the survey," said Ms. Stout. "Eighty-nine percent said they gained more understanding from the materials, and 50% used the diskette for modeling. In addition, 90% let us know that flex met their needs."

The communications project put together in 1991 and 1992 by AT&T and Wyatt earned AT&T an Award of Excellence in the Total Benefits Program category of the *BI* Employee Benefits Communication Awards (*BI*, Oct. 12, 1992).

—By Michael Schachner

On-site clinics promote goodwill

NEW YORK—Making health care services more convenient to employees has been a driving factor in Barnett Banks Inc. decision to establish an on-site medical clinic.

THE SECOND ANNUAL

Business Insurance

HEALTH CARE

MANAGEMENT

& COST

CONTAINMENT

CONFERENCE

Speaking this month in New York at the *Business Insurance* Health Care Management & Cost Containment Conference, Ms. Carroll said the new clinic—which is scheduled to open June 15 at Barnett's Jacksonville, Fla., headquarters—gives a

"Convenience is very important to our employees," said Deborah T. Carroll, Barnett's director of benefits and human resources information systems.

corporate message to employees: "We care about your personal time."

The medical clinic, which will provide primary care, joins other facilities on the site, including a day-care center, a YMCA and a grammar school.

"It's a very exciting environment," Ms. Carroll said, noting that employees' children can receive their education and medical care near their parents, while parents can work out while the children are at a day care center.

Barnett built the 3,155-square-foot facility with its own funds, but PruCare—Barnett's managed care provider—contracted with a physician group to provide the physicians. "We are bankers, who didn't know much about hiring physi-

cians," Ms. Carroll said, explaining why PruCare handled the selection process.

Barnett has an arrangement in which the bank—Florida's largest—receives a credit against the health care premium it pays PruCare for each employee who receives primary services from the clinic.

While Barnett will soon join the ranks of employers with on-site medical clinics, Denver-based Gates Rubber Co., a diverse, rubber and automotive parts manufacturer, has operated an on-site medical clinic for about 50 years, said Dr. Jerry Appelbaum, Gates' corporate medical director.

Corporate values were a key factor in launching the facility. The Gates family believed an "employer has a responsibility to the health

and well-being of its employees and their dependents," Dr. Appelbaum said.

The Gates medical clinic has evolved into one of the largest corporate on-site clinics. The clinic has a staff of about 200, including eight internists, two pediatricians, six dentists and four pharmacists. Patients paid nearly 225,000 visits last year. Aside from serving nearly 10,000 Gates employees, retirees and dependents, the facility also treats occupational injuries and illnesses for employees of other companies.

The cost of providing care through the facility averages about \$3,800 per employee. The same level of benefits would cost about \$4,300 per employee if purchased commercially, the company estimates.

—By Jerry Geisel

If loss reports are delayed in the mail, your cost control program is history.

Speed on demand SAFECO Commercial Lines

Nationally, the average interval between worker injury and a first report to the insurance carrier is more than 10 days. For on-line SAFECO clients, it's right now—so there's earlier claims contact, quicker resolution, and less likelihood of attorney involvement. Plus detailed summary loss runs on your computer screen, on demand. If you're serious about cutting worker's comp costs, let's talk.



What's right.™

Meeting voters' expectations

By JERRY GEISEL

Congress fears backlash if reforms not passed: Torricelli

NEW YORK—Congress, fearful of a political backlash if it fails to act, is almost certain to pass health care reform legislation before the November 1994 congressional elections, a lawmaker predicts.

"This Congress and this president will not face the American people again without passing some kind of comprehensive health care reform" said Rep. Robert Torricelli, D-N.J.

Speaking this month at the Second Annual Health Care Management & Cost Containment Conference in New York, Rep. Torricelli said health care reform is shaping up to be an unparalleled political battle.

"It will be one of the great legislative battles of all time," he said, adding that the impact of reforming the health care delivery system would be far greater than other landmark domestic programs, such as Social Security or Medicare.

Once President Clinton unveils his health care reform package—expected sometime next month—the debate over that package will dominate Congress' domestic agenda for

the rest of the year, he said.

Mr. Clinton is at least the fifth U.S. president to try to reform the nation's health care system, Rep. Torricelli said. But unlike others, he said, "This president may well succeed."

President Clinton and many Congress members recognize that so many other economic problems cannot be resolved until the health care system is reformed, he said.

Soaring health care costs, for example, make it more difficult for U.S. employers to compete in world markets. U.S. automakers, Rep. Torricelli said, spend nearly twice as much on health care as their Japanese counterparts.

At the same time, rising health care costs mean fewer resources are available to improve the nation's infrastructure, like building new bridges and roads, he said.

And meaningful progress on reducing the federal budget deficit is not possible until two key components of that deficit—rapidly escalating federal outlays for the Medicare and Medicaid programs—are brought under control.

If health care costs can be brought under control, a huge dividend—perhaps as much as \$250 billion—would be available for other programs.

But, for now, the outlook for health care costs—without reform—are grim. By the year 2000, health care spending could equal 18% of the gross domestic product, up from just over 9% in 1981 and 14% this year.

The high cost of health care possibly could be justified if the dollars were well spent. But billions of dollars are wasted on unnecessary procedures, while more than 36 million Americans are uninsured and 40 million people are underinsured, he said.

And the numbers are worsening, Rep. Torricelli said, noting every month as many as 100,000 people are losing health care coverage.

Surging health care costs are being driven by a number of factors, Rep. Torricelli said. These include:

- A lack of sufficient incentives for insurers, physicians and patients to control costs.
- An overreliance on expensive medical technology.
- An increase in the number of medical specialists and a decline of physicians who practice general medicine.
- An aging population that consumes more medical care services.

The Clinton health care reform plan will attempt to deal with some of these problems. For example, employers will be given more incentives to join managed care programs, he said.

At the same time, the Clinton plan will offer remedies, like more electronic claims processing and uniform billing forms, to cut down on both the huge administrative overhead that chews up a huge chunk of health care dollars.

It is a virtual given that the administration will propose universal coverage at an annual cost—depending on the breadth of the basic benefit package—of between \$30 billion and \$90 billion, Rep. Torricelli said.

Where the financing will come for universal coverage remains to be seen, but Rep. Torricelli envisions huge new "sin" taxes on certain products like cigarettes.

The Clinton plan also is likely to propose some mechanism to control prescription drug costs, which, since the early 1980s, have risen six times faster than the overall increase in the Consumer Price Index, he said.

Employers also will have to do their share. All employers likely will have to pay a significant portion of their employees' health care costs.

While not taking a position on the issue, he said small employers could be "losers" if they have to bear the brunt of paying for a federally mandated health care payroll tax or contribution.

Such a contribution would have a major financial impact on small employers and the overall economy because smaller firms create many new jobs, he said.

EMPLOYEE BENEFITS BULLETIN: UNIFIED DISABILITY PROTECTION FROM CNA

This short-term disability doesn't need to become long-term.

Without immediate, appropriate care, some injuries or illnesses can develop into long-term disabilities. This can cause unnecessary suffering for an employee and result in increased costs for disability benefits, retraining and overtime, as well as lost productivity.

With CNA's Unified Disability Protection, our disability claims specialists flag short-term disability claims that could become long-term

and coordinate appropriate treatment with physicians and rehabilitation and vocational specialists.

And, CNA's Unified Disability Protection provides your employees with solid STD and LTD coverage without "gaps" that can result from separate programs.

Ask your independent agent or broker about Unified Disability Protection from the CNA Insurance Companies.



CNA

For All the Commitments You Make®

Group Benefits from CNA: Life & Health • AD&D • Vision • Dental • STD • LTD • Pensions • Long-Term Care • Managed Care

Coverages are underwritten by Continental Assurance Company and Continental Casualty Company, two of the CNA Insurance Companies/CNA Plaza/Chicago, IL 60685.

A prescription for savings

Managed drug plans can make costs easier to swallow

By MICHAEL SCHACHNER

NEW YORK—It's inevitable. Prescription drug costs, which have doubled and in some cases more than tripled over the past decade, will continue to rise. But a well-managed prescription drug program that strives to dispense only the most appropriate drugs can reduce hospital and nursing home admissions and prevent or defer expensive medical and surgical procedures, a drug company official says.

Expenditures for prescription drugs now account for between 7% and 10% of total health care costs. Virtually all health care experts agree that prescription drugs are a valuable benefit both for employers that sponsor comprehensive health plans and employee beneficiaries, said James W. Heenan, director-corporate account sales with The Upjohn Co. in Kalamazoo, Mich.

"Prescription drugs are clearly a cost-effective means of treatment relative to other health care dollars and represent a reasonable percentage of health care expenditures in the United States," Mr. Heenan said during a session on how to gain value from a drug plan during the recent Second Annual Health Care Management & Cost Containment conference in New York.

He also said the rate of annual inflation for prescription drugs is slowing. Last year, prices for pharmaceutical products increased by about 5.5%, compared with 10% inflation in 1990. "I'd say value is on the rise rather than in decline."

K. Jim Miller, vp-marketing with PreferredOne, a Minneapolis-based preferred provider organization, agreed that drug prices will continue to climb as new products hit the market. And with improved products comes increased utilization.

"The newer drugs are more ex-

pensive, but nobody is going to stand in the way of progress. Drugs today have good outcomes with no side effects. The problem lies in the fact that there's a price for success," he said.

Mr. Miller said that by the year 2000, the average person under age 55 will have 6.9 prescriptions filled per year, compared with 5.9 prescriptions in 1991. The figures are even more pronounced for the elderly, he said. The average person over the age of 65 will get 26 prescriptions filled per year by the end of the decade.

Accepting the assertions of Messrs. Heenan and Miller, employers need to explore and employ several means of controlling drug utilization to maximize the value of the

drug plans they offer.

Topping the list of ways employers can control utilization and costs, and ensure their prescription drug plans meet employees' needs are drug formularies, which mandate what drugs must be prescribed for a certain ailment.

Mr. Heenan said plans can also include therapeutic substitution, in which the pharmacist replaces a prescribed drug with a similar drug that's more effective or equally effective but less expensive.

Other cost-control methods suggested by Mr. Heenan include: sequencing prescriptions, a regimen of taking drugs for a specific period of time as prescribed by a doctor or the managed drug plan; applying purchasing limits on drugs; and requir-

ing that a plan administrator pre-authorize a prescription before it's dispensed.

"None of these restrictive policies is bad by itself, but they must be looked at in their entirety in light of your employee mix and their needs," Mr. Heenan advised.

Beyond that, the health care industry, including employers and drug manufacturers, must collect and process meaningful data on drug outcomes relative to costs in order to have "some impact on where it all starts—the physician's office," Mr. Miller said.

Norrie Thomas, president and chief operating officer of Minneapolis-based Clinical Pharmacy Advantage, a unit of Scottsdale, Ariz.-based prescription drug card firm PCS Inc., said the key to controlling the costs of prescription drugs is bringing patients, pharmacists, pharmaceutical manufacturers and physicians onto the same

page.

"Without a coordinated program that relies on the 'Four P's,' you'll only get a one-time hit," said Ms. Thomas, who recommended that employers look at the problem like a big jigsaw puzzle.

The puzzle she described has six interconnecting pieces, all playing an equal role in prescription drug cost control.

The pieces are: educating physicians on prescription patterns; monitoring prescriptions at the point of sale; plan design; patient education; volume discounts from the manufacturer; and drug formularies.

"Formularies have evolved into an educational tool for physicians. We feel formularies improve usage and outcomes by encouraging generic substitutions and contracting with pharmaceutical companies," Ms. Thomas said. "The savings potential from generic usage is immense," she said.

BI

Data processing is good. Thinking is better.

Information on demand SAFECO Commercial Lines

What makes our customer interface systems so powerful isn't computers. Or software. It's thinking. Timely, useful data in a clearly understandable form, not just so many numbers. It's analysis, not just facts. It's an array of solutions, not just a recitation of problems. Let's talk.

BI conference attracts 160

NEW YORK—Nearly 160 employee benefit executives and leaders from group health insurers and managed care companies attended the Second Annual

THE SECOND ANNUAL

Business Insurance

HEALTH CARE

MANAGEMENT

& COST

CONTAINMENT

CONFERENCE

Business Insurance

Health Care

Management

& Cost Containment

Conference

May 16-18 in

New York.

The conference, co-sponsored by BI and the International Business Forum Inc., featured panel discussions on national health care reform, employer coalition activity and new initiatives in managed care. In addition, workshops on enrolling retirees in managed care programs and employee benefit communication strategies were offered.

The next health care conference will be held Jan. 19-21 in San Diego.

For more information, contact the International Business Forum, 50 Charles Lindbergh Blvd., Suite 400, Uniondale, N.Y. 11553-3619; 516-229-2375.



SAFECO

What's right.™

AMERICAN DRUG STORES

Oscodrug R America Savon drugs

Can **SAVE** you money and
LOWER your company's prescription drug costs.

For further information call

1-800-999-1242

2100 Swift Drive, Oakbrook Illinois 60521

Health care reform

Continued from page 3

to a group of monkeys with typewriters. "The saying goes, if you have an infinite number of monkeys and typewriters, eventually they'll write Shakespeare," she said.

"Excuse me if I seem a little cynical," Ms. Goldstein remarked, adding that much of the task force's work probably consisted of writing innumerable memos no one will read.

Speaking from a business perspective, she said, "Our sense is there are two things going on." Two groups—the American Assn. of Retired Persons and the American Federation of Labor—are being listened to most. "They will shape the policy." And, the task force has put the drug companies and insurers at the top of their "enemies list."

Ms. Goldstein likened American business' role to that of "father of

the bride. Once the arrangements are made with the caterers, etc., business will be called in to write the check." And, she said, "At the end of the process, the single-payer advocates will have won," since President Clinton's managed competition model could call for creating large purchasing alliances run by a single administrator.

According to Ms. Goldstein, who has met with Senior Domestic Policy Adviser Ira Magaziner, coordinator of the health care task force, his view seems to be, "What will it take to get business to sign on to this?" Ms. Goldstein said she has tried to communicate employers' concerns with federal health care reform.

"Business wants to contain costs, because in this economy business can't grow. And, they want to control their liabilities and obligations (for health care) because they cannot continue to pay the bills."

When the president finally proposes a specific reform strategy, which few observers feel will be passed before 1994, "I think all the interest groups will be split in different ways and coalitions will form that either favor the president or not," she predicted.

APPWP members are concerned with a number of issues, including how the president's proposal will define an "employer-based system," she said. "We think it is one where employers design, finance and negotiate to provide benefits for employees. But as I talk to the White House staff, they think an employer-based system means employers play a passive role, but they pay," Ms. Goldstein said.

"Some businesses want out of health care altogether, but overall my members say they want to play a positive role," she said.

APPWP members also are concerned with the so-called health alliances that may be proposed under a system of managed competition.

"In the original discussions of managed competition, health alliances were where small companies could pool their populations and buy health care like big companies," Ms. Goldstein said. "But now they are saying health alliances are for everyone. They say the Medicaid population will be in the alliances. That means they will have to raise the number of companies that have to come into the alliance," and employers will probably have to pay more per capita to cover such high-risk individuals.

In addition, Ms. Goldstein said the task force has indicated that large employers can remain outside the health alliances. "But they are saying you will basically be in them" because (government) will community-rate outside employers, which most likely will raise self-insured employers' costs, or will require them to pay a surcharge to help fund the alliances.

"Business' response is, 'If you charge us, charge us upfront. Cost-shifting is not a solution,'" Ms. Goldstein said.

The state autonomy issue also has employers worried, she added. "If they want employers involved, the last thing they should do is give states full autonomy" to reform their health systems to their liking. "My members won't play, period."

Finally, Ms. Goldstein said, "I don't think APPWP members will sign on to a masqueraded employer-based system." But, she admitted, "To do nothing would be worse."

Dr. Thomas Reardon, a trustee of the American Medical Assn. in Portland, Ore.; and J. Richard Petersen, chief counsel and vp of government affairs for Intracorp, a health care cost-containment firm in Berwyn, Pa., also spoke at the session.

BI

The Get-Well Book.

YOU CAN'T BUY IT AT ANY PRICE, but the MultiPlan Directory is worth hundreds of thousands of dollars, or more, to several hundred plan administrators. Cataloging the more than 6,000 *health care facilities nationwide* in MultiPlan's Preferred Provider Network that offer our clients savings, The Get-Well BookSM helps *more than 3 million people* to keep their health costs reasonable.

The Get-Well Book is only available to MultiPlan clients, which include insurance companies, corporate benefit plans, third-party administrators, and labor-management and government benefit plans.

As one of the largest Preferred Provider Organizations in the nation, and the fastest-growing, we offer:

- general hospitals
- subacute facilities
- rehabilitation/orthopedic facilities
- psychiatric and alcoholism and substance abuse treatment facilities
- home health care providers
- workers' compensation specialists
- facilities with specialties in organ transplants.

In addition, our clients benefit from our growing network of physicians.

Additional savings are available through our MultiPlan Managed Care Inc. subsidiary, which provides a full range of managed care options.

We have more experience helping our clients save money at health care facilities than anybody else. We've been at it for more than two decades, and *it's our only business*.

To become eligible to get your own copy of The Get-Well Book, please call Ed Rothstein at 800 677-1098 or write to us at MultiPlan Inc., 17 West 17th Street, New York, NY 10011.

MultiPlan
Savings Nationwide



Interest in coalitions growing

Employers band together to negotiate health care costs

By CHRISTINE WOOLSEY

NEW YORK—A shared sense of frustration is the tie that binds employers belonging to health care coalitions, a benefit consultant says.

THE SECOND ANNUAL
Business Insurance
HEALTH CARE
MANAGEMENT
& COST
CONTAINMENT
CONFERENCE

"Employer health care coalition activity is widespread throughout the country, in large and small communities, and growth and interest in coalitions are increasing," said Dr. Bryan Bushick, a consultant with Towers Perrin in Minneapolis.

"There are no hard facts, but based on my own involvement, I can see new interest and a re-dedication among groups that already exist," he said during a panel discussion on multiemployer coalitions at the Second Annual Health Care Management & Cost Containment Conference recently in New York.

In the past, "employers as major purchasers of health care services have in large part been in a reactive mode," he said. "Employers have been reacting to rising health care expenses and high health insurance trend factors year after year."

Employers also have been reacting to the indemnity and managed care products offered in their particular health care markets, he said. And, employers have tended to focus on administrative and supportive features in their health plans, rather than actual health care elements, he said. "Employers looked at things from a benefit plan design mindset. Many have acted independently, focusing on their own benefits and costs needs."

Times have changed, though, he asserts. "Employers now are much more involved in driving the local health care market to meet their needs. They have moved beyond benefits and insurance aspects and are getting more involved in health care issues like quality vs. cost," Dr. Bushick said. "The focus now is on the value of health care services, not just administrative services. And, they are more concerned with the effectiveness of outcomes, consumer satisfaction and continuous improvement over time."

Although employers are frustrated with rising costs, quality concerns have become more of an issue in the past three to five years, according to Dr. Bushick. "They are concerned with variations in physician practice patterns and the levels of unnecessary services," he said.

Purchasers are tired of being overwhelmed with data that is insufficient to compare the different health plans they offer, he said.

Managed care in general has helped slow what Dr. Bushick said is a still unacceptable cost trend, but the approach will only be successful if the "entitlement attitude" among employees is eroded, he added.

Many employers are looking at health care at a community level, rather than seeking strategies to buttress their own fortresses. Those employers are now more likely to pool resources to drive change within a local health care market.

Two types of employer coalitions exist, Dr. Bushick explained. Employer-only groups try to build a consensus among participating companies. Mixed memberships, which include employers, providers, insurers, consumers and others, also work together to build a consensus.

But, a bias exists among employers that the employer-only groups

are the best way to meet their needs, he said.

Four major employers in Cincinnati—Procter & Gamble Co., Kroger Co., General Electric Aircraft Engines and Cincinnati Bell Telephone Co.—broke away from a large coalition there and recently implemented their own health care purchasing directive with local hospitals (BI, Dec. 14, 1992).

The employers gave local hospitals 1½ years "to work with their medical staffs and administrators to understand variations in physician practice patterns and do something about it," explained Lawrence Frye, president of Iameter Inc. in San Mateo, Calif. Mr. Frye, who also spoke during the panel discussion,

worked with the Big Four in Cincinnati to implement an outcome measurement tool the purchasers could use to value the health care they buy for approximately 168,000 employees and dependents.

Both public and private payers in Cincinnati had been reeling from double-digit health care cost increases, but after implementing the outcome study, costs community-wide rose just 6.8% in 1992, saving the community \$75 million the first year. Mr. Frye said. Cincinnati Bell actually saw health care costs decrease 5% (BI, April 12).

Mr. Frye said certain keys to success can translate to other communities. "It takes a combined commitment on behalf of payers. Begin to

work together cooperatively to channel employees and their families to the best hospitals."

Also, "The program must be collaborative with hospitals and physicians. Don't try to proliferate discrepancies among physicians. It's important to work with the physicians because they drive the costs."

Employers also must sell the credibility of any outcome analysis to physicians. "This is the foundation by which you'll measure quality and efficiency and make network decisions. The data will also be used to determine benchmarks for continuous improvement."

Dr. Bushick pointed out that coalition approaches differ in their goals. Some employers, like the Business Health Care Action Group

—a coalition of 14 large employers in the Minneapolis area—pool their populations and resources to purchase health care or drive the development of a new product, he said.

Others pool their resources to gain access to health care data, collect it and then disseminate it community-wide to aid purchasers.

Among the coalition success factors Dr. Bushick proposes are focus and communication. "When you think about the complexities of health care, it's clear employers can't fix everything. They need to focus their attention in order to make an impact."

Communication is critical, even for coalitions with a small number of companies, he said.

Compromise also is key. "It took intense work and compromise," for the Business Health Care Action Group to come up with its community purchasing effort, agreed Dee

Continued on next page

The difference between our customer interface and theirs is that ours works your way.

Flexibility on demand SAFECO Commercial Lines

Several carriers offer off-the-shelf, on-line computer interface programs. But you have to arrange your data their way. SAFECO is different: we arrange our program to fit your reporting practices, your coding, your timetable, your needs. Let's talk.



What's right.™

Employer coalitions

Continued from previous page

Kemnitz, vp of employee benefits at Carlson Cos. Inc., a BHCAG member in Minneapolis. (BI, July 13, 1992).

In January, the BHCAG's 14 member companies began offering employees a new point-of-service-plan developed with four local health care providers.

The focus of their effort "is not on price, but health management and delivery," Ms. Kemnitz said. "We still purchase health care on behalf of our employees, but the

guiding principles are increased provider accountability, continuous quality improvement, increased employee responsibility, improved efficiency and streamlined administration," she explained. "Historically we always concentrated on skyrocketing medical costs. Now we work with providers to attack the inefficient delivery system."

The BHCAG employers expect a modest first-year cost decrease of about 10%, then hope health care costs average 2% below medical care inflation for two years until increases level off to the Consumer Price Index, she said. **BI**

Communication eases shift in retiree benefits

By CHRISTINE WOOLSEY

NEW YORK—Enrolling retirees in managed care plans is a bit like getting a child to swallow bitter medicine, but effective communication can do wonders to ease the bad taste, a consultant says.

Only 6% of health maintenance organization enrollees are age 65 or older, while 77% are younger than 45, pointed out Marcia Inch, a principal with William M. Mercer Inc. in Stamford, Conn.

"Older people resist change; they don't like to change doctors or hospitals," she said during a session on enrolling retirees in managed care plans at the recent Second Annual Health Care Management & Cost Containment Conference in New York. "Unfortunately, they may no longer have a choice."

Getting retirees to accept restrictive provider networks "won't be easy for them and they won't make it easy for you," Ms. Inch told a group of attending employers and others. "The challenge is to make change less difficult for everyone, and communication will help significantly."

Employers can take four steps to communicate managed care to retirees to overcome their fear and resistance, Ms. Inch explained.

First, "Understand their point of view," she said. Retirees are most concerned with access to quality doctors and hospitals, followed by the freedom to choose any doctor. A retiree's current medical condition also is important when he or she is faced with choosing a health plan. Premium and other costs, as well as what type of coverage a spouse carries, also top the list.

Employers should be aware of the most common questions retirees will ask when confronted with a benefit plan change. These include: Why would a good doctor join the network? What if my doctor doesn't join? What happens if I go to Florida for vacation and cannot see my primary care physician? Will my primary care physician keep me from my specialist? Does coverage end at age 65?

"These are all issues you need to address," Ms. Inch said.

Second, employers should communicate the positive aspects of managed care, "because when it's well-managed and well-run, retirees will like it," she said. Among the features to stress are the low per visit charge most HMOs use and that there are no claims forms. Retirees also will be glad to know their health care will be coordinated by their primary care doctor, that all providers are screened for quality

and that they typically will receive more preventive care and less invasive treatment, she said.

Conducting focus groups with retirees is critical, and some employers may want to select a "retiree advisory group" of opinion leaders to determine what they think are the major issues among all retirees. That group can also be used to present the new managed care plan to other retirees, Ms. Inch said.

Senior management commitment is the third crucial element, she said. But, supervisors and other employees should be aware of the process as well. "They should feel educated, not caught off-guard." Leadership briefings and advance notice and training can help ease the process.

In addition, a public relations alert should be established so company spokespersons can respond to outside questions. "The community press may get wind of what is being done, so make sure your PR department is informed," Ms. Inch advised.

Lastly, face-to-face enrollment works best when introducing retirees to managed care, she noted. "The message has more impact and you can answer questions so that retirees understand in a more human way. Make meetings a social event—serve doughnuts, invite spouses and children, offer transportation."

The enrollment meetings can serve as a way to give retirees the rationale behind the change and then encourage them to ask questions. "Inviting a network physician is a good idea," Ms. Inch said.

Employers with retiree populations that are too dispersed for one meeting can work with local retiree associations, but their leaders must be trained, she said.

"Written communications are needed regardless of whether you hold meetings," Ms. Inch pointed out. All written pieces should be attractive, informative and printed in large type. Booklets and other communications also should use simple language and avoid jargon.

Once materials are distributed and retirees are enrolled, employers may consider offering them a toll-free number to call with questions, Ms. Inch added. "You have to realize retirees have the time to call and you should have a trained staff to deal with annoyed retirees."

Most importantly, don't oversell, Ms. Inch stressed. "Be clear, simple and straightforward. A good managed care plan will sell itself."

William Boyle, director of benefits and human resource information systems for Western Union/New Valley Corp. in Upper Saddle River, N.J., and Charles Newman, program manager-health care management for GE Industrial & Power Systems, a General Electric Co. unit in Schenectady, N.Y., also spoke during the session. **BI**

Comp brochure

Continued from page 2
call with questions.

The employee "knows he can reach somebody on site" and does not have to call the county's third-party administrator, Mr. Fayne noted.

The brochure was distributed at the beginning of 1993. Mr. Fayne said the county will be tracking litigated workers comp cases and expects to see a decline within the next three to five years.

Mr. Fayne noted that the brochure was accompanied by a letter from the county executive. "I strongly advise that you have a cover letter from the highest official... so that the employees don't think (the brochure) is just lip service."

Nancy Germond, risk management specialist for the Los Angeles County Office of Education in Downey, Calif., also put together a brochure to help prepare county employees for a deposition or a trial.

Ms. Germond's four-page brochure is packed with 29 easy to understand, practical tips for employees, such as: don't volunteer information; dress and speak conservatively; and don't agree with any summaries of your testimony.

Mr. Germond suggested giving an employee involved in a lawsuit paid time off from work to read the brochure. Then, review the brochure "point by point" with the employee, she suggested.

"The risk manager, with the supervisor, is the best one to prepare the employees" for a deposition or a trial, Ms. Germond advised.

The risk manager and the employee's supervisor should give the employee as much support as they can, she added. "It's very important when (employees) go into the deposition that they feel the public agency is behind them," she said.

Support is important after the trial, as well, she advised.

Another way to manage litigation is to manage the attorneys who are involved in the litigation, a California pool has found.

The Assn. of California Water Agencies/Joint Powers Insurance Authority, a Fair Oaks, Calif., pool for 300 state water agencies, has published a 15-page booklet, "Guidelines for the Procurement of Legal Services."

The booklet, introduced in 1992,

has been an effective tool for the pool in controlling litigation costs, noted Jerry Stockett, general manager.

The booklet notes that the pool's general manager must authorize any general counsel and coverage opinion work before it begins. Also, the pool must be notified of the hourly billing rate for each legal specialist and a time limit must be established for each assignment. If the assignment is not completed within the allotted time, additional work must be authorized in advance.

The booklet also includes a section on the effective use of legal personnel. It notes that "every legal task does not require the expertise of the most seasoned trial lawyer in the firm," so the pool encourages "the effective use of less experienced lawyers."

Also, "in general, we expect that only one attorney will attend depositions, meetings, hearings, trials, etc.," the booklet states.

Defense counsel must, within 60 days following the receipt of a case, present to the pool an analysis of the case, a strategy for handling it and a budget for each phase of the case, the booklet says.

Four pages of the booklet are devoted to billing guidelines. A sample billing statement and legal services procurement authorization form are also included.

Keith Gibson, risk manager for the Municipal Insurance Assn. of British Columbia in Richmond, British Columbia, is helping his pool of 180 small municipalities prevent litigation through a post-loss analysis program.

All closed litigated claim files from each of the municipalities are sent to Mr. Gibson for review, regardless of the case outcome. Mr. Gibson said he reviews approximately 360 claims per year.

The municipalities, which have very small staffs, "truly appreciate this service," he said. "It's another set of eyes looking at their problems."

After Mr. Gibson has reviewed the case, he writes a letter to the municipality staff director suggesting how to avoid a similar situation in the future. He also sends a copy of this letter to the municipality's highest elected official because it "keeps risk management in their eyes."

"Probably about 90% of (the suggestions) are acted on," he added.

Although Mr. Gibson feels that the program is effective, he admits it is hard to quantify results: "How can you prove that a loss didn't occur?"

The Cuyahoga County Board of Mental Retardation and Developmental Disabilities, a Cleveland public agency with 1,500 employees at 20 sites, is performing a similar post-accident analysis in an effort to heighten employees' "safety awareness," according to Risk Manager Eunice Brown.

Every month, she reviews the accident reports from each of the agency's sites and examines which ones could have been prevented. At the end of each quarter she determines if preventable accidents have increased or decreased at each site.

Sites are recognized if preventable accidents have decreased for a quarter or for an entire year.

The program "allows the various sites to police themselves," Ms. Brown noted. The program also has stimulated a healthy competition between the sites, she said.

Greene County, Ohio, has developed a stringent set of driver eligibility standards in an effort to reduce the amount of accidents involving county employees.

Safety Risk Manager Howard Poston, based in Xenia, noted that roughly half of the county's 1,100 employees are required to drive during the course of their jobs at least once a year.

Under Greene County's program, if an employee has three or more moving violations within the past three years, that employee is not allowed to drive on county business. If an employee has two moving violations, he or she must attend an eight-hour course on defensive driving.

All employees are required to report to the county within two weeks any moving violations they receive. Both on- and off-duty driving records are included in the eligibility standards, Mr. Poston added.

Each new employee is required, regardless of his or her driving record, to take the eight-hour defensive driving course within the first two months of employment, Mr. Poston said.

"We've had a lot of good responses" about the class, Mr. Poston noted.

And, "we've seen a reduction in the accident rate" since the program was instituted in 1992, he noted. **BI**

Some assembly required

Construction insurance can be tricky

By DEBORAH SHALOWITZ

CINCINNATI—Building an insurance program for a public entity construction project can be a complicated endeavor.

Depending on the circumstances and the size of the project, a public entity risk manager might want to self-insure or

buy wrap-up coverage for the project itself, or contractors may be required to supply their own insurance.

Each of these choices has advantages and disadvantages, pointed out speakers at the Public Risk Management Assn.'s conference here May 16-19.

When contractors and subcontractors—like architects, engineers and builders—supply their own insurance, this cost is passed along to the public entity as part of the contractor's bid for the project.

Contractor-supplied insurance is most appropriate for small to medium-size projects, according to Michael J. Natale, vp of the risk management division of Stone & Webster Management Consultants Inc. in New York.

In larger projects, though, keeping the insurance documentation from all the contractors involved in the project can be difficult, he warned. And, having so many different insurance companies increases the chance of cross-liability lawsuits. It could also be hard to deal with multiple claims administrators, he said.

Also, some contractors' policies can have non-standard additional insured clauses that eliminate coverages for public entities in certain situations, Mr. Natale pointed out.

For example, he related the problem that the Glenview Park District in Glenview, Ill., faced because of a non-standard additional insured clause in a contractor's coverage. The clause has been interpreted by two state courts to deny the park district coverage for a negligence lawsuit filed after the contractor's

employee was injured (BI, Jan. 18).

Self-insurance is a possibility for public entities, but should be considered only by the largest entities because of the financial commitment and administrative responsibilities involved, Mr. Natale said.

However, the administrative responsibilities associated with self-insurance can be reduced by hiring outside firms for claims administration and loss control, he noted.

For some public entities, though, self-insuring is not an option. Laws in some states prevent public entities from self-insuring the workers comp coverage for a contractor's workers because they are not actually employees of the public entity, Mr. Natale said.

A wrap-up insurance program, in which the public entity buys general liability coverage for all contractors participating in the project, can have several advantages over the other two options.

Although traditionally wrap-ups were thought to be appropriate for only projects with values of \$75 million or more, "I would not be a slave to those numbers," Mr. Natale said.

Continued on next page

County stretches booklet budget

By DEBORAH SHALOWITZ

CINCINNATI—Employee benefit communication packages can be flashy, slick and even exciting.

But such packages usually are out of reach for public entities because of their limited operating budgets.

However, where there's a way—as one public entity has proved.

Employees of Marion County, Ore., were having difficulty keeping their benefits package straight, explained Salem-based Manager David M. Hartwig. So Marion County hired a graduate student to help it put together a benefit communication package for employees.

Mr. Hartwig, speaking at the Public Risk Management Assn. conference in Cincinnati May 16-19, said that the resulting 10-page booklet presents in an organized, easy-to-read format all of an em-

ployee's benefits.

The booklet summarizes: medical, vision and dental coverage; the employee assistance program; life and accidental death and dismemberment, and long-term disability coverage; optional additional benefits, such as life, auto, homeowners and renters insurance; the Oregon public employees retirement system; and a deferred compensation plan.

The county spent about \$2,500 to produce almost 1,000 copies of the two-color booklet. The charges included the graduate student's payment and in-house printing costs. It took six months to produce, including the graduate student's time spent in focus group discussions with employees.

"We've found it successful" to have all the information in one

place, Mr. Hartwig said.

A chart in the booklet compares the differences in coverage and cost between two medical, dental and vision options employees have: an indemnity-type plan with built-in utilization review features and an exclusive specialty provider organization; and a health maintenance organization. The telephone number for each plan is listed at the top of the chart.

The chart shows that the out-of-pocket maximum charge per individual per year is \$800 under the indemnity plan and \$600 under the HMO. And, routine physicals are paid at 90% of the usual, customary and reasonable rate under the indemnity plan while they are paid in full after a \$2 charge per visit under the HMO.

PRIMA meeting attracts 1,000

More than 1,000 people and 140 exhibitors attended the Public Risk Management Assn.'s 14th annual conference in Cincinnati May 16-19. PRIMA's 15th annual conference will be held next May 15-18 in Denver.

For more information, contact PRIMA, 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

The chart also includes information about the county's wellness program.

The booklet addresses in question-and-answer form several practical areas; for example, what pre-authorization is, why it is used and how to use it.

The booklet also answers questions about the Oregon public employees retirement system, such as what the county's contribution is and when an employee can retire with full benefits. Similarly, the booklet answers questions about the

county's deferred compensation program.

A glossary at the beginning of the booklet defines words like co-payment, deductible, pre-authorization and pre-existing condition. And, a letter from the Marion County Board of Commissioners introduces the booklet, telling employees they "hope this (booklet) helps you to easily compare your choices in medical and dental plans, as well as to understand the entire benefit package available to you and your family."

Construction cover

Continued from previous page

A wrap-up is most appropriate for a job that is labor intensive, he added.

A public entity considering a wrap-up program for a construction project should allow approximately one year to do a feasibility study of the idea, Mr. Natale suggested.

Insurance bought through a wrap-up costs less because of mass buying power, he added.

There is a "definite potential premium savings" when a public entity uses a wrap-up program, agreed Clifford I. Johnson, a managing director of Marsh & McLennan Inc. in New York.

And, a wrap-up program "does provide for each of the contractors...to be insured for a higher limit of liability" than they might be able to negotiate on their own, Mr. Johnson said.

This is especially useful in opening up the bidding process on the project to small and minority-owned businesses, pointed out Mr. Natale.

There are some disadvantages to wrap-up programs, though "I don't find these to be too overwhelming," he said.

For example, the potential lack of contractor cooperation with a wrap-up program "is a major drawback," Mr. Natale said.

Generally, contractors do not want to participate in wrap-ups because they cannot pass through their insurance costs. And, larger contractors generally have their own existing insurance programs, so a wrap-up only duplicates coverage they already have, he explained.

Also, "gray areas" of coverage such as unloading situations, which could be covered under either a general liability policy or an automobile policy, could present problems, Mr. Natale pointed out. Auto liability usually is not provided under a wrap-up.

Another drawback is that claims not related to the job can possibly be submitted under the wrap-up because contractors often move workers between job sites, Mr. Natale noted.

Michael E. Deaton, a master surety underwriter for CIGNA Bond Services, a division of CIGNA Property & Casualty Cos. in Cincinnati, also spoke at the session. Rebecca Haven, administrative aide to the controller of Kent County, Mich., moderated the session.

BI

Shop well and you might cut your front-end insurance costs a little.
Buy smart and you can cut your claims costs a lot.

Value on demand SAFECO Commercial Lines

Front-end costs are important, sure. But the real challenges lie in minimizing losses, managing costs and tracking and analyzing claims. SAFECO competes with the best on premium. But where we really make a difference is in attacking the larger challenges our clients face. Let's talk.



SAFECO

What's right.

Lloyd's meeting

Continued from page 2
system worth preserving (and) do we have the right people in charge to run it?"

Mr. Rowland said the market's new business plan sets the course Lloyd's should take to preserve itself. But about the future, he added, "Like you, I'm a member of this society (trapped on open years) and I'm frightened, too."

Messrs. Rowland and Middleton stressed that they take full responsibility for their actions.

Mr. Middleton added that the business plan calls for Lloyd's to return to overall profits as high as 900 million pounds (\$1.39 billion) by the end of 1995.

If this target isn't achieved, "you should fire me," he told members.

Shooting him might be a more appropriate punishment, one member grumbled.

One of the external members of Lloyd's Council, David James, told the crowd the business plan "was the only way forward."

Only time—which new capital will give the market—can heal Lloyd's and help members out of their plight, he argued.

Lloyd's current 8.8 billion pounds (\$13.33 billion) of capacity will be eroded further after 1990 losses are announced June 22, which will dampen any influx of new names in the market, said Mr. James. So Lloyd's "survival" depends on corporate capital, he said.

A heckler in the audience of members shouted that "someone should turn out the lights at Lloyd's and walk away," to a round of applause.

But Mr. James strongly disagreed, sparking another round of applause, indicating the hall was divided in their support for the plan.

Mr. Middleton announced to the members that Lloyd's has set up two panels to try to resolve the legal disputes that plague the market. The panels, which will include representatives from some of the 29 members action groups, will report to the market by the end of September.

A "legal panel" chaired by Sir Michael Kerr, retired Lord Justice of Appeal, will assess the strength of the legal arguments of the 29 action groups. The advice from the legal

panel will not be legally binding on any party.

A "financial panel" chaired by Sir Jeremy Morse, a nominated Lloyd's council member, will investigate the financial contributions available and recommend a structure for a possible settlement offer to members litigating with members' agents over their placement on loss-riddled syndicates.

The financial panel also will examine whether Lloyd's should turn to the financial markets to raise 1 billion pounds to 2 billion pounds (\$1.54 billion to \$3.09 billion) in the form of a bond to help pay for losses. Mr. Rowland noted that this idea has been discussed and rejected by the council but would be debated again by the panel.

The financial panel will also discuss the availability of members agents' errors and omissions insurance and reinsurance to settle the litigation.

The fate of members on E&O syndicates that would pay these losses will be taken into account as well as the willingness of E&O reinsurers outside Lloyd's to settle.

Lloyd's member Clive Francis reminded members that legal fees for the members action groups now total about 120 million pounds (\$185.3 million) and will cost millions more before the cases make it to court.

Michael Deeny, chairman of the Gooda Walker Action Group, expressed disappointment that the action groups weren't consulted about the formation of the two new panels until the day before the Royal Albert Hall meeting.

He said his group will consider the panels' recommendations, but they will have to address two key questions:

- Whether members who are not in action groups will be paid the same as those who have joined the groups.

Mr. Deeny said he didn't see why members on action groups should share the money with "those who didn't lift a finger in our struggle."

- And whether the same level of compensation will be extended to working members of Lloyd's, particularly to underwriters and agents who created the problems in the first place.

"I'm prepared to listen. It's your society," said Mr. Middleton, who also said he admired the action groups and would join one himself if he were in the same position. But, he added that a settlement of litigation brought by members of the Outhwaite syndicate—in which only those members who joined the action group received part of a 113 million pound (\$174.5 million) settlement—"wasn't the highest point in Lloyd's history."

Subsequently, another action group was set up by working members who were not part of the Outhwaite settlement to seek additional remuneration.

Some members at the meeting were not mollified by the talk of settlement.

"It's been a long time since I last purchased a new suit," said one member from London. "The ones I have won't fit anymore. I've lost a considerable amount of weight through worry. My business and health have suffered. My family faces the possibility of bankruptcy."

The member said he placed his trust in Lloyd's and that trust was misused.

"This should be a liquidation meeting," the member continued, *Continued on next page*

CLAIMS

OVERLOAD

SYSTEMS

**SETTING THE
STANDARDS
FOR TEMPORARY
CLAIMS PERSONNEL**

**Providing Experienced
General Liability, Auto & Workers Comp. Adjusters,
Medical Claim Examiners, Ins. Billers and Collectors,
& Data Entry/Clerical Support Personnel
That are...**

Screened & Tested

Professional & Reliable

Hireable As Permanent Employees

Covered By Fidelity, GL, W/C and E&O Insurance

**Immediate Service—30 Offices Nationwide
We Make It Easy**

CALL FOR THE LOCATION NEAREST YOU ■ 800-822-2422



Continued from previous page
and Lloyd's should be distributing its assets to the membership. The business plan proposals—including the formation of NewCo. to run off the pre-1985 liabilities of the market—are nothing more than Lloyd's "closing down one company and starting up another, but with the same management, the same customers, but different funding," he said.

"There can be no plan for the future unless there's an equitable settlement of the past," the member said.

Mr. Middleton explained that the two new panels would attempt to bring about the equitable settlement that members seek.

And, in the one instance during the meeting in which he lost his temper, Mr. Middleton warned the membership: "You've got to start deciding what it is that you want. There are two attitudes—either you give in or you fight. Now we want to fight. If you do not want to try and solve the problems... you better tell us. Because otherwise we're wasting our time."

"Let me remind you that under our constitution, if the society fails each one of us is liable for each risk that is written under each policy without any limitation. We do not have assets to distribute to you. We have assets there to pay claims and it's impossible to give them to anybody other than to the claimants," added Mr. Rowland.

Mr. Middleton said Lloyd's has devised a way, though, to ease the impact of members' 1990 losses, which are due this year, and other obligations.

Members can borrow up to 5% of their 1993 allocated capacity totaling 8.8 billion pounds (\$13.33

billion) against their premium trust funds to reduce or cancel solvency shortfalls and debts to Lloyd's Central Fund. This could amount to as much as 440 million pounds (\$679.4 million) of credits to members.

Lloyd's also intends to allow members up to another 440 million pounds of cash transfers from 1993 premium trust funds to pay open year cash calls and closed-year losses.

Mr. Rowland said he understands members' loss of confidence. However, he added, "I do believe that confidence can be rebuilt slowly" and members' trust regained through the new openness of the council.

"As a corporation you're morally and financially insolvent," accused an angry Sally Noel, who called herself a representative of a number of "innocent" women who joined Lloyd's. "You've been responsible for ruining thousands of peoples' lives, and for divorces, deaths and debts. Over 10,000 people now face a life sentence... a living nightmare. Innocent people, who were never gamblers like myself, were persuaded to put their trust in Lloyd's but were given half truths, false reassurance and incompetent advice." Ms. Noel said the council is in "cloud cuckoo land" to think that the old membership, which has been "crippled by your incompetence," will lay down and watch Lloyd's make the market attractive for a new class of membership.

The "lost tribe" of suffering members "will not lie down and die. It will stand up and fight for justice," Ms. Noel said. "We will say, 'Don't touch Lloyd's with a bare pole.'" **BI**

Comp alternative

Continued from page 1

type of program because the companies and unions have long jointly administered health and welfare plans.

Arrangements like Bechtel's were made possible by a 1991 workers comp reform law that set statewide standards but also let employers and unions collectively bargain over certain responsibilities and procedures (see story, page 22).

At its peak, Bechtel said the deal covered about 350 pipefitters, carpenters, electricians and other union workers building a power plant near Springfield, Mass. Construction on the plant began in 1991, though the workers comp deal did not take ef-

fect until Dec. 1, 1992.

Bechtel was looking for a way to "improve medical care, get the injured workers back to work and eliminate adversarial claims," said Jim Yawn, manager of workers comp administration in Bechtel's safety and health unit.

Another consideration: Rising workers comp costs were becoming a significant cost factor in operations and bids.

Bechtel employees from the risk management, labor negotiations and health and safety divisions worked on the problem together. They were encouraged by the success of a workers comp self-insurance pool run by electrical companies in New York (*BI*, March 8), said Paul Goodrich, a workers compensation law-

yer with Morrison, Mahoney & Miller in Boston.

At first, the unions thought "This sounds too good to be true—is the employer trying to put one over on me?" recalled Bechtel's Mr. Manley.

Sitting down to draft an agreement, both sides began by listing what they didn't like about the state's workers compensation system. Their lists were identical. "I was surprised it was that easy," said Mr. Manley.

Drafting the actual agreement, especially the medical portions, was not so easy.

"We had to write the agreement in English because the members of the locals had to vote on it," explained

Continued on next page

• EXPRESS SCRIPTS • EXPRESS SCRIPTS • EXPRESS SCRIPTS • EXPRESS SCRIPTS •



ExpressNet - Our Perx card is recognized at over 27,000 pharmacies nationwide.

ExpressMail - Our Mail Service Pharmacy ships maintenance medications to your home or office.

ExpressDirect - For clients who want to integrate prescription drug benefits with existing major medical programs.

ExpressComp - Our money saving program for workers' comp payors.

Express Review - On-Line Drug Utilization Review monitors for interactions, "too early refill", duplicate therapy, etc.

**EXPRESS
SCRIPTS**

14000 Riverport Drive • Maryland Heights, Missouri 63043 • (314) 770-1666 • 1-800-332-5455

You learned the value of trust early. All of your life, you've tried to never let anyone down. So when it comes to recommending an employee benefit plan, you're especially careful. Because the companies you work with, and their employees, depend on you.

You've worked hard to earn people's trust. That's why you work harder to keep it.



At PM Group, we've always focused on helping businesses find cost effective, intelligent employee benefit solutions. And we have the expertise to meet your clients' specialized needs, through multiple managed care networks, prenatal care and education, innovative new dental plans and alternative funding mechanisms. And of course, we'll give you the service and dedication you'd expect from an A.M. Best A+ "Superior" company. If you'd like to know more about PM Group Life Insurance Company, call 1-800-733-7020 ext. 4246, or in Orange County, California, call 1-714-760-4246. When it comes to satisfying you and your clients, no one will work harder.



PM GROUP
A Pacific Mutual Company

When people depend on your choice.

Comp alternative

Continued from previous page
Frank Callahan, executive director of Pioneer Valley Building and Construction Trades Council in Northampton, Mass.

One key component of the new arrangement is a statewide network of about 400 preferred providers. Workers can use only these providers, even for second opinions, when seeking treatment of work-related injuries and illnesses.

Low fees, litigation and administrative hassles had driven many of these providers away from workers comp cases. Now they are being paid 8% to 25% more than the statutory fee schedule to encourage them to take the cases, explained Michael J. Shor, executive vp of Healthcare First Inc. in Newton, Mass. Healthcare First Inc. is the occupational health PPO selected by the two sides.

Other factors encouraging providers to participate were the alternative dispute resolution process and a

new "patient advocate" who could help coordinate a worker's treatment and return to work, according to Mr. Shor.

Bechtel, the providers and the workers all say the new system gives workers access to much better care than they ever had before.

"The quality of care has gone through the stratosphere," Mr. Shor said.

As an example, he cites the cases of two workers, one with a torn knee ligament and the other with a herniated disc. Conservative treatment was prescribed for only a couple of weeks, rather than the typical three to six months. When the injured workers did not improve, surgery was done promptly, he said.

The arrangement "creates expectations on everyone and prepares the employee to return to work safely—that's No. 1—but also promptly," Mr. Shor said.

"Having employers and employees directly involved makes a big difference," said Mr. Dart of the

'Having employers and employees directly involved makes a big difference,' says Joe Dart.

construction union council. "Handing responsibilities off to other people created a climate for abuse."

Another selling point for the unions was improved benefits.

Temporary total disability benefits are set at 66.7% of average weekly wage. State law requires only 60%.

In addition, compensation is paid from the onset of any incapacity that lasts at least two weeks. State law does not require compensation to begin until incapacities have lasted three weeks or more.

Also, the "pay without prejudice period" is shortened to 90 days, while state law allows 180 days. That is the period during which the company can pay a claim without losing its rights to later challenge the claim.

Another thing working in Bechtel's favor was its long-standing ties with its workers compensation insurer, Industrial Indemnity Co. Decades ago, Bechtel co-founded the insurer, which is now a subsidiary of Crum & Forster Inc. Bechtel has a retrospectively rated program with a large self-insured retention.

"We are delighted we could be looking for creative ways to work for a customer," said Jack Miller, chief operating officer of Industrial Indemnity.

Preliminary results of the Bechtel program look promising.

During the six-month period, the company has had two lost-time cases in 220,000 hours worked, said Lucy Gallagher, an Alexander & Alexander of California Inc. employee who is "on loan" to Bechtel, where she is a "designated risk management representative." In the previous six months, it had 11 lost-time cases in 225,000 hours worked.

Another cornerstone of the agreement—an alternative dispute resolution system—has not been seriously tested. Injured workers are required to take their claims first to a Bechtel-paid ombudsman. Only after the company has had five days to re-

spond can workers go to a jointly selected mediator or, if ultimately needed, an arbitrator.

Bechtel says the ombudsman has answered worker questions more quickly. No cases yet have gone to either mediation or arbitration.

Bechtel and several unions are encouraging use of similar agreements on other projects in Massachusetts and elsewhere. Several general prototype agreements have been drafted by the company and national unions, which will help make local union reps more receptive to the idea, said Bechtel's Mr. Hedman.

Most states do not allow companies and workers to negotiate alternatives to the workers comp system, though that may be changing. Legislation that would permit alternative programs is pending in Florida and California.

Meanwhile, labor unions and others are discussing it in many of the eight to 10 other states where laws currently can be interpreted as allowing such arrangements, according to Mr. Lewis. Those states include Connecticut, Delaware, Georgia, Maine, Oklahoma and Rhode Island. **BI**

Law allows firms to negotiate eight aspects of workers comp

Bechtel Corp.'s program is made possible by a 1991 Massachusetts law that set workers comp standards but let employers and unions collectively bargain over "certain binding obligations and procedures relating to workers compensation."

The Bechtel agreement covers four of the eight areas outlined in the law: benefits, limited use of providers; limited use of impartial physicians; and dispute-resolution procedures.

The agreement did not address four other areas mentioned in the law: light duty, modified job or return-to-work programs; 24-hour health insurance programs; safety committees and safety procedures; and vocational rehabilitation or retraining programs.

apiw

a professional association of women
within the insurance and reinsurance industry

**Congratulates
"APIW Insurance Woman of 1993"**

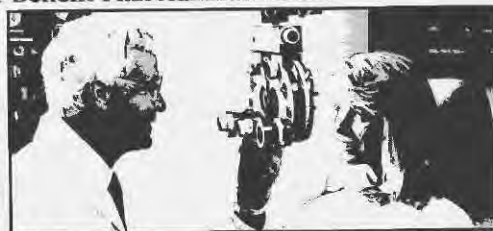
ELLEN THROWER, Ph.D.
*President
The College of Insurance*

New York City • June 10, 1993
(212) 587-3323

Exam Plus

**Better Vision Benefits
For Benefit Plan Administrators**

For a nominal fee, Cole Vision provides health insurers and third party administrators with the complete administration of a national network of optical providers and a comprehensive vision benefit, including paid-in-full eye exams and scheduled discounts on eyewear.



Exam Plus is an innovative program that provides plan sponsors with the advantages of traditional vision benefits at a fraction of the cost.

For detailed information contact:

CVMS - (Tucson, Arizona) CVMS - (Bala Cynwyd, PA)
1 (800) RX-EXAMS 1 (800) 793-9267 1 (800) 949-0270

READER REPLY SERVICE

PRODUCTS & SERVICES LISTING

Issue of May 31

READER SERVICE #	ADVERTISER	PAGE #	READER SERVICE #	ADVERTISER	PAGE #
1	American Drug Stores	16	7	Wm. H. McGee & Co., Inc.	12
—	A.P.I.W.	22	8	Multiplan Inc.	16
—	Business Insurance	11, 28	9	Pacific Mutual — PM Group	20-21
2	Claims Overload Systems	20	10	Reliance National	32
3	CNA Insurance Co.	14	11	RLI Corp.	10
—	CVMS	22	—	Safeco Insurance Co.	13, 15, 17, 19
4	Delta Dental Plan Assoc.	9	12	Trans General Life & Casualty	25
5	Express Scripts	21	—	Trinity Square Services Inc.	28
—	Fireman's Fund	4	13	Wausau Insurance Company	5
6	General Rehab	24	14	Zurich-American Insurance Co.	6
—	General Star Management	7			



To obtain free information on the products and services advertised, turn to our post-paid Reader Service Reply Card bound in this issue, or complete the coupon below and mail to:

BUSINESS INSURANCE
Reader Service Center
650 So. Clark St., 6th Fl.
Chicago, IL 60605-1702

Business Insurance

FREE LITERATURE FOR READERS

Issue Date: MAY 31, 1993

Card Expiration: JULY 26, 1993

All questions must be answered to process inquiries.
PLEASE CHECK ONE ITEM FOR EACH CATEGORY:

1. My organization is best described as:

- ☐ A [Mfg/Svcs] ☐ F [Ins Agent] ☐ K [Adj/Apprs]
☐ B [Association] ☐ G [Ins Broker] ☐ L [TPA]
☐ C [Union] ☐ H [Ins/Reins Co] ☐ M [Healthcare Inst]
☐ D [Government] ☐ I [Actry/Consl] ☐ N [Other] _____
☐ E [Educational Inst] ☐ J [Attorney]

2. Number of employees:

- ☐ 1 [150 or less] ☐ 2 [151 - 499] ☐ 3 [500 - 999]
☐ 4 [1,000 - 4,999] ☐ 5 [5,000 or more] ☐ 6 [Unknown]

3. My title is best defined as:

- ☐ A [Administrative Mgt] ☐ D [Benefits Mgt]
☐ B [Financial Mgt] ☐ E [Loss Prevention Mgt]
☐ C [Risk Mgt] ☐ F [Other] _____

4. My purchasing involvement for the requested products is to: 1 [I recommend only] 2 [I specify] 3 [I approve]

5. Do you now receive a personally addressed copy of Business Insurance?
☐ A [Yes] ☐ B [No, so please send subscription info]

Circle the numbers below that correspond to the companies listed on our Advertiser Index for the May 31, 1993 issue. Cards with more than 20 items circled will not be processed. This card expires July 26, 1993.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15
16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
31 32 33 34 35 36 37 38 39 40 41 42 43 44 45
46 47 48 49 50 51 52 53 54 55 56 57 58 59 60
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75
76 77 78 79 80 81 82 83 84 85 86 87 88 89 90
91 92 93 94 95 96 97 98 99 100 101 102 103 104 105
106 107 108 109 110 111 112 113 114 115 116 117 118 119 120
121 122 123 124 125 126 127 128 129 130 131 132 133 134 135
136 137 138 139 140 141 142 143 144 145 146 147 148 149 150

Please print clearly

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone () _____

INTERNATIONAL

Greenpeace blasts insurer 'complacency'

New ways to combat global warming sought

By ADRIAN LADBURY

LONDON—Insurers and reinsurers must pull their heads from the sand and see that current business strategies will not save them from the ravages of climatic change, a Greenpeace scientist says.

If they just continue tinkering with rates, deductibles and policy wordings, they will face an ever-growing level of uninsurable risks worldwide and a dwindling client base as big businesses and personal customers are forced to self-insure or go without.

Jeremy Leggett, scientific director of the environmental group's climate campaign, is calling for "solidarity among the risk community" and insurers to deal with the problem of global warming and the so-called greenhouse effect.

Scientists presented this scenario to catastrophe insurers and reinsurers at a one-day conference organized by Greenpeace last Monday.

The conference was a followup to the January release of "Climate Change and the Insurance Industry," a report by Mr. Leggett (BI, Feb. 8).

Speakers at the event, attended by about 70 people, were drawn from insurance, reinsurance and risk management as well as the scientific

community.

While insurers and scientists at the conference agree the world is getting warmer, their disagreement over how to halt the process underlines the gulf between commercial and scientific thinking.

Mr. Leggett used the 1992 natural catastrophe figures published in April by Swiss Reinsurance Co. and Munich Reinsurance Co. to bolster his case. The Swiss Re report indicates that the \$22.5 billion in insured losses from natural catastrophes in 1992 were the main cause of the huge growth in catastrophe losses to a record \$27.1 billion last year (BI, April 19).

Munich Re is warning insurers to expect stronger storms and larger claims as a result of global warming. The company in April released a report on windstorms' effect on insurance that shows a dramatic increase in the number and intensity of natural catastrophes in the last decade. The cost to insurers reached \$52 billion for the decade 1982-1992 (BI, April 5).

Mr. Leggett attacked the insurance and reinsurance industry for complacency in its response to the ever-growing body of evidence in favor of human-induced climatic change. As examples of complacency, he cited Lloyd's looking to

Continued on next page

Broker sees exodus from cat market

LONDON—It is too late to stem the flow of corporate insurance dollars away from the catastrophe insurance market simply by altering products and rates and pumping in new capital, says a broker.

This opinion put Tim May, development director of Alexander & Alexander (U.K.) Ltd., at odds with his insurer colleagues and on the side of scientists during a session at a Greenpeace conference on global warming (see related story). The scientists are urging the insurance industry to play a more active role in trying to solve the global warming problem.

Mr. May said businesses are increasingly turning to self-insurance and other alternative risk financing methods to deal with catastrophes and other risks. "There is a cultural change going on among buyers. . . . The insurance mechanism is not giving them all they want, so they're leaving the market to do without it," he said.

As an example of this trend, Mr. May cited one client, a major U.K.-based oil company that recently decided to buy its subsidiaries insurance with coverage limits of only 10 million pounds (\$15.4 million).

Business Insurance contacted British Petroleum, and a spokesman verified that BP is the company to which Mr. May referred. According to internal company documents, the oil company in 1991 revised its insurance arrangements because it calculated that "in the 1980-1990 period, (the company) paid premiums totaling \$1.15 billion and made only two claims together totaling \$250 million. . . . Even assuming a normal (industry aver-

age claims) position in the future, (the company) sees significant cost savings as a result of ceasing to pay for cover in this \$10 million-\$500 million claim range." The company estimated in 1991 that it would save \$20 million annually.

Mr. May also cited a major materials producer that he has worked with that has also turned away from the catastrophe insurance market.

"This company used to be driven by this year's bottom line, but this is no more. The project financiers within the company have to produce business plans which cover the entire life of the projects—which can be up to 25 years. And they want all the potential pure losses, including catastrophes, worked into those calculations," explained Mr. May.

He said that this attention to long-term financing will increasingly limit the potential market for catastrophe insurers and reinsurers because of the market's cyclical nature. The higher prices and tighter conditions forced by recent catastrophe losses will accelerate this process, Mr. May said.

"Big business now believes it is better equipped to deal with the problems than insurers," he said. "They feel that by running their own insurance company they can insulate themselves from the cycle, because those losses assumed are those perceived to be predictable."

Insurers and reinsurers must also look long term to address the "real problems, (which) are climate change, the increasing complexity and interdependence of business, population growth, fear, terrorism, lack of vision and the historic orientation of underwriting," Mr. May said.

Private pensions advance in Latin America

By MARIA KIELMAS

Peru and Argentina are taking steps to reform their state-run pension systems and create private pension funds.

Privately run life and accident insurance funds will begin operating in Peru on June 16. Insurers predict that these funds will be able to supply private pension products within two years.

Argentina's Chamber of Deputies, the nation's lower house of Congress, in mid-April passed legislation that would allow the creation of

private pension funds.

The creation of private pension systems is part of ongoing economic reform throughout Latin America.

Peru and Argentina are following in the steps of Chile, which introduced private pension funds in 1980 in an effort to stem government spending on social security and create a local capital market. At the time, Chile was spending 11% of its gross domestic product on social security, while pensioners were paid minimal benefits.

The Chilean government introduced a system whereby pension

fund administrators, known as Administradores de Fondos de Pensiones, or AFPs, managed private pension funds. Chilean pension funds today have assets of \$13 billion, according to government statistics.

Peru will follow the Chilean model of pension fund reform, said Marino Costa Bauer, general manager of Compania de Seguros Condor in Lima.

Last year, Peruvian President Alberto Fujimori issued a decree allowing the creation of the AFPs. The system will be supervised by a gov-

ernment body known as the Superintendencia de Fondos de Pensiones.

The AFPs will have to buy life and disability coverage for their clients from the insurance industry. According to detailed regulations issued by the government, the AFPs will solicit bids from insurers for particular insurance programs. "The winning bid does not have to be the cheapest, it's up to the AFP to decide," Mr. Costa said.

Individual employees, who will be able to contribute up to 10% of their salaries toward a pension scheme on

a pretax basis, will be able to join any AFP and switch AFPs at will. Those who currently participate in the government-run social security system will be able to switch to the private system. They will receive a bond equivalent to their previous contributions to the state system that they may choose to invest in a private pension fund. The Peruvian government has provided for a two-year transition between private and state systems.

Many of the eight or nine AFPs already have some individual share-

Continued on next page

Ontario levies tax on group premiums

TORONTO—Ontario employers will soon have to pay a new 8% sales tax on all group insurance premiums. In an effort to increase revenues, the Ontario government enacted legislation earlier this month that, beginning July 1, levies an 8% tax on premiums paid for insured group products like life insurance, supplemental health care and long- and short-term disability coverage.

The new law also requires employers that self-insure such plans to pay a 10% tax on the combined value of the benefits they provide and administrative service fees.

"This could cost employers as much as \$450 per person per year and should lead to companies peeling back the value of their plans by about 10%," said Fred Holmes, a consultant in the Toronto office of benefit consultant William M. Mercer Inc.

Mr. Holmes said the tax plan hurts employers much more than employees, who pay virtually nothing for health insurance in Ontario

GLOBAL BRIEFS

and usually receive additional coverages like life and disability insurance through their employer.

By Michael Schachner

Gas platform claim

PERTH, Western Australia—Australian natural gas explorer Woodside Offshore Petroleum Pty. Ltd. has notified its insurers that it expects to file a \$200 million Australian (\$140.4 million) claim for damage to a gas platform under construction on the North West Shelf, off the western coast of Australia.

The 61,000-ton, \$2 billion Australian (\$1.4 billion) platform, Goodwyn A, is the second platform installed as part of a major offshore gas project. The platform's foundation piles were damaged in October when they were inserted nearly 600

feet below the seabed, a spokesman for Perth-based Woodside said.

The claim will be made under Woodside's construction all-risks policy. Woodside is the operating partner for the project.

Lloyd's of London underwriters are the lead insurers, but the spokesman would not name other insurers or reveal policy limits. He said Australian, Japanese and European insurers also are on the risk.

The claim will be submitted late this year when the costs of repairs are known, the spokesman said.

Although the damage will delay construction of the Goodwyn A platform for eight months, the spokesman said there would be no business interruption loss. The existing platform, Rankin A, will be able to meet "all gas production needs until 1997," he said.

The project will supply gas for western Australia and Japan.

While repair work is done at Goodwyn A, construction will continue on a 14-mile-long seabed pipe-

line to connect the two platforms.

"The delay . . . is indicative of the high risks involved in oil and gas development, particularly in a tough, offshore environment like the North West Shelf," Woodside said.

Joint-venture partners in the project are Woodside Petroleum Ltd., BHP Petroleum (North West Shelf) Pty. Ltd., BP Developments Australia Ltd., Chevron Asiatic Ltd., Japan Australia LNG (MIMI) Pty. Ltd., and Shell Development (Australia) Pty.

By Kate McIlwaine

UNI Storebrand profit

OSLO, Norway—UNI Storebrand New A/S, a holding company formed last year after the insurer went into administration, posted a first-quarter profit of 209 million Norwegian kroner (\$30.6 million).

When results are consolidated with those of UNI Storebrand A/S, the original holding company, the first-quarter result is a 150 million

kroner (\$21.9 million) profit. That profit compares with a loss of 151 million kroner (\$23.4 million) in the first quarter of 1992, before the company was restructured. UNI Storebrand New was formed to encompass the company's three operating subsidiaries. It is 100% owned by the original holding company, but did not inherit its liabilities to creditors (BI, Aug. 31). The holding companies are going to be merged under the latest restructuring plan.

UNI Storebrand New alone posted a 1.44 billion kroner (\$207.6 million) loss for all of 1992.

The holding company attributed the profitable first quarter to falling interest rates that have improved the performance of securities markets, and recovery from the negative effects of UNI Storebrand's failed takeover attempt of Skandia Group.

UNI Storebrand's 28% stake in Skandia now is held in a separate subsidiary (BI, May 3).

By Maria Kielmas

INTERNATIONAL

Climatic change

Continued from previous page
corporate capital as one way of solving the market's financial problems, and the U.S. industry talking about catastrophes as an opportunity to harden the market.

These kinds of responses, coupled with premium increases, increased deductibles, redistribution of the losses and reviews of the extent of cover, will "at best only buy time," argued Mr. Leggett.

He said the only way the insurance and reinsurance industry can continue to offer catastrophe coverage in the future is to try to shape and accurately predict the future. Accurate forecasting, he said, can only be achieved by creating a "multimillion-dollar lobby" to try to force governments and business to turn the rhetoric of the Earth Summit in Rio De Janeiro last June into action. One objective that came from the summit is to stabilize the greenhouse gas concentrations in the atmosphere.

The insurers agreed that action is better than words, but they poured cold water on the global lobby idea.

"This is not a world market like the oil industry which has only about 10 major players. We've got more like 10,000, and we are not well-organized," responded Richard Keeling, underwriter of syndicate 362, one of the biggest Lloyd's non-marine syndicates. Mr. Keeling was chairman of the conference.

Greenpeace delegates pushed the global lobby idea further. "The insurance industry invests heavily in fossil fuels. Could it not hedge its own risks in the future by shifting investments to alternative energy

source providers?" asked Marcus Rand, researcher in energy policy at Greenpeace International.

"It's traditional for investment departments to operate independent of underwriting departments. They work to make maximum profits in a given time scale. It is possible that objectives will be changed because of profound underwriting arguments, but there is a long tradition going against it," argued Tony Paish, chief economist at the Assn. of British Insurers.

Jeremy Hindle, senior underwriter at Swiss Reinsurance Co. U.K. Ltd., more bluntly rejected a worldwide investment strategy. "Our shareholders want profits. But if we need to restructure capital in the future, then we must," he said.

Mr. Hindle argued most strongly in favor of a determined response to the potential catastrophe crisis through new ways of rating and structuring the coverage. "I want to look at the insurance product that we are selling, analyze what reinsurers have let happen to themselves and suggest better ways of examining the risk," he said.

He described how more detailed rating models could be constructed by type and geographical location of the risk coupled with an overall analysis of each portfolio. "Unless we can develop a better way of assessing the size and frequency of the losses, we cannot hope to manage it when it happens," Mr. Hindle said.

"Cheap mechanisms of smoothing risk no longer exist. Prices must be increased not only to pay for the increased frequency of events but also to deter new assumption of risk. 'The risk will get out of control unless the product is changed.' [B]

Private pensions

Continued from previous page
holders or managers with links to insurers, but no banks or insurers will be able to hold equity in or manage an AFP, said Mr. Costa.

Two examples of AFPs soon to begin operation are AFP Integra, whose management is comprised in part by former Condor executives, and AFP Union, which is jointly managed by an affiliate of American International Group Inc.'s Chilean unit and some Peruvian companies. The government has set minimum capital requirements for AFPs at \$500,000. Total foreign ownership is permitted.

Initially, the effect of private pension systems on employers, which will not be required to offer private plans to workers, is expected to be small because the largest Peruvian employer is the government, and public employees are mostly covered by the social security scheme.

Argentina's road to pension reform has been more complicated. Under its agreement with the International Monetary Fund, Argentina was scheduled to introduce a private pension system no later than December 1992.

The Argentine government's pension obligations this year are \$16 billion, and the whole system is between \$7.5 billion and \$10 billion in debt. But legislation enabling this reform had been held up by political opposition in the Chamber of Deputies.

In the face of congressional opposition, President Carlos Saul Menem had threatened to introduce pension reform through presidential decree.

The government's original bill sti-

pulated that private pension schemes were obligatory for employers, but the final bill gave employers a choice between the private system and a state-run system that will be established.

The (state-owned) Banco de la Nacion will be entitled to set up pension funds and will guarantee a minimum return to people who choose to join," said James Riley, assistant director of the Kleinwort Benson investment firm in Buenos Aires. Kleinwort Benson is acting as adviser to the Argentine government in the privatization of the country's largest life insurer and savings bank, Caja Nacional de Ahorro y Seguro.

The government, meanwhile, will use receipts from the forthcoming partial privatization of the state oil company, Yacimientos Petroliferos

Fiscales, to meet some of its imminent obligations to the current state pension system. These funds will be insufficient to meet all the obligations, but when the money from privatization runs out, "the government just won't pay," predicted one Argentine insurer.

Argentina's president has said the government expects to get \$3.2 billion from all privatizations this year.

Insurers also point to the cost of administering the future transition between the state and the new private pension system. According to various estimates from both government and insurance industry sources, this cost could be about \$2.3 billion, compared with the \$3.4 billion the new private funds are expected to raise in their first year of operation. [B]

Groups bid for Argentine state insurer

BUENOS AIRES, Argentina—Two consortia have shown interest in buying a majority stake in the Argentine state-run insurer, Caja Nacional de Ahorro y Seguro.

One of the groups is led by New York-based insurance holding company Lecadia National Corp. and Argentine bank Banco Mercantil; the other group consists of another Argentine bank, Union Bank Prive, and the Quantum Fund, headed by the Hungarian financier George Soros. Both groups have submitted financial information, which the government considers in allowing companies to bid on state assets, said James Riley of investment house Kleinwort Benson in Buenos Aires, an advisor to the government on the privatization.

The two groups are scheduled to submit bids on May 31. The winner will be announced the same day.

The groups are bidding for 60% of the government's interest in CNAS. The remainder will be floated on the stock market, probably sometime next year, said Mr. Riley. No estimate of the value of the company has been publicized.

CNAS, which began writing business in 1946, holds 13% of the overall Argentine insurance market and is 2½ times the size of its nearest competitor. Its 1991 premium volume was \$363.1 million, according to the Argentine Ministry of Public Works. Life and auto policies make up 84.7% of CNAS' premiums, and general insurance makes up 15.3%.

—By Maria Kielmas

GENERAL REHABILITATION SERVICES INC.

THE FAST TRACK TO A COMEBACK

cost containment n. efforts used to check, monitor and control the cost of rehabilitating disabled workers while at the same time ensuring that they receive quality care.

GRS gives new meaning to the word "rehabilitation" by offering you a variety of well-defined medical and vocational **COST-CONTAINMENT PROGRAMS** that benefit employers as well as workers. That's because all of our programs are designed to put disabled workers on the *fast track to a comeback*.

As America's largest **INDEPENDENT DISABILITY MANAGEMENT ORGANIZATION**, GRS can help you develop and administer a disability cost containment program of your own.

With **MORE THAN 100 OFFICES** in the United States, Puerto Rico and Canada,

GRS now serves well over 1,000 clients. Clients who rely on our extensive experience in **DISABILITY COST-CONTAINMENT**, and the quick response of our nationwide network to help them keep disability management costs in line while getting their disabled workers back on the job — quickly and cost effectively.

For more information on GRS' nationally-coordinated programs to help you **CONTROL THE COSTS** of rehabilitating disabled workers, please call or fax today. Phone 215-993-2800. Fax 215-993-2819.



GENERAL REHABILITATION SERVICES INC.
THE FAST TRACK TO A COMEBACK

735 Chesterbrook Boulevard, Suite 200
Wayne, Pennsylvania 19087
215-993-2800 ■ Fax 215-993-2819

Temper of the times

German buyers angered by rate hikes

By DON LEWIS KIRK

FRANKFURT, Germany—An attempt by German commercial property insurers to raise rates could backfire as recession-hit companies complain of overkill and look beyond the country's borders for cheaper coverage.

German employers also are rejecting government plans to expand state health insurance to cover long-term care at home or in convalescent centers for the aged or infirm.

Anger over commercial insurance rate hikes is growing, said Fritz-Jurgen Cremer, chairman of Hoechst Versicherungs A.G., a Frankfurt-based captive insurer of chemical manufacturer Hoechst A.G. "Across-the-board rate hikes don't benefit anyone. We expect insurers to look at companies individually and consider their history of premiums and claims before they raise rates," he said. "It's hardly reasonable for insurance rates to jump more than 100% in some cases. Insurers are just going too far. It wouldn't surprise anyone if companies took their business elsewhere and there's a reversal soon."

Karl-Heinz Jager, director-insurance division for Ludwigshafen-based BASF A.G., believes midsize companies in particular may turn to foreign markets for more affordable coverage. "In times of recession, insurers are doubling and tripling rates. That's incredible. While large companies remain less inclined to switch for capacity reasons, middle-size companies could avoid this kind of pressure by looking outside Germany," Mr. Jager said.

Insurers insist they're compensating for huge commercial property and business interruption losses in recent years. In 1991 alone, the premium volume of commercial lines insurers was 3.6 billion deutsche marks (\$2.38 billion at the year-end 1991 exchange rate), while claims exceeded 4.4 billion deutsche marks (\$2.9 billion). The loss ratio on commercial property business climbed to 156% in 1991. Over the past 10 years, commercial property insurers have paid 8 billion deutsche marks (\$4.96 billion) in claims.

"Companies need to face the reality of today's risks," said Dietmar Novak, managing director of Cologne-based Gerling Consulting Group. "A high degree of corporate interweaving and increased concentration of valuable property has created the need to re-evaluate risk. Company insurance demands collide with demand of the insurance industry. It's natural for insurers to increase rates and be more selective about the risks. The insurance industry can't afford to ignore profitability."

Wolfram Rhode-Liebenau, director-insurance division for Siemens A.G. in Munich, says the hardening market is forcing companies to shop around. "If this continues, German insurers may lose their best companies to foreign competition and end up holding only the bad risks."

Mr. Rhode-Liebenau blames German insurers of treating policyholders unfairly. "Companies are being hurt," he said. "On the basis of what I know from other companies, insurers are overdoing it."

Glintzer Schlicht, managing director of Deutsche Versicherungs-Schutzverband, an insurance consumer protection agency and lobbying group, goes so far as to say insurers are sharing information about rates to harden the market.

"There is an indication insurers are agreeing among themselves not to cover certain risks," he said. "We lack effective competition between direct insurers, reinsurers and greater orientation on the consumer. Insurers are even trying to meet the individual needs of companies."

The German Cartel Office in Berlin is examining charges of an illegal tacit agreement among insurers to drive up rates.

Representatives of insurers and corporations will meet in early June in the hopes of bridging their differences. "We understand insurer's position, but we expect a sense of proportion," said Mr. Cremer.

Without that proportion, he expects the "Matterhorn syndrome" to take effect. "It's like climbing a mountain, reaching the top and going down right again. We had the same situation in 1975. Extreme rate increases can turn into extreme rate decline. If insurers want stability, this is not the way to get it."

German employers also are in uproar over the government's plans to expand health coverage with insurance coverage for long-term nursing care. The state-regulated coverage would be financed through 1.7% levies on employer payrolls and employees' wages that would go into an insurance fund to pay for care for the chronically ill. This care currently is not paid for by the German

health system. However, those who cannot pay for such nursing care now are covered by welfare.

The government is considering ways to partially compensate companies for this rise in health care contributions, such as allowing companies to withhold employees' pay for the first two days of each sick leave.

Already burdened by high welfare costs and contributions to existing health care, business and employers' associations say they cannot accept new annual costs estimated at 13 billion deutsche marks (\$7.99 billion). Employers currently pay about 40% of payroll in health care, pension and social security costs.

Tyll Necker, president of the German Federation of Industry, called the plan a "declaration of war" on business. The expanded insurance would cause severe damage to Ger-

many's ability to compete internationally, he said.

In a statement, German Labor Minister Norbert Blum said business had no choice: "They must recognize that this is the political will of a large majority in Parliament."

The government's reason for expanding the health insurance system to cover the chronically ill is to shift part of the cost of caring for an aging population. Currently 1.65 million people, most of them elderly, need long-term care in Germany. The number is expected to rise to 1.9 million by the year 2010.

The expansion plan could fail without the support of the pro-business Free Democratic Party, which is the government's coalition partner. The party favors private insurance for long-term illness, and welfare funds for those who cannot afford premiums.

SUCCESSFUL PERFORMANCES REQUIRE A DELICATE BALANCE BETWEEN STRENGTH AND FLEXIBILITY.



In today's uncertain environment, you need an insurance company that's financially stable. And you need a company that balances its strength with flexibility.

That company is Trans-General.

Our financial portfolio consists of highly liquid investments that achieve attractive returns. All are rated AA or higher.

Our flexible approach to underwriting allows us to respond

to your client's exact needs. And our strategically located offices allow us to respond to regional opportunities with local solutions.

If your clients are looking for reliable coverage from a company they can depend on, consider that Trans-General is the subsidiary of a multi-billion-dollar firm with an excellent Standard and Poor's rating. And 50 years' experience in employee benefits design and delivery.

For more information, call 1-800-328-5433



TRANS-GENERAL
LIFE AND CASUALTY GROUP, INC.
A VERITUS COMPANY

Atlanta • Baltimore/Washington • Cincinnati • Dallas • Indianapolis • Newport Beach • Pittsburgh • Salt Lake City

EPL coverage

Continued from page 1
harassment and discrimination.

Statistics show the concern over such exposures is justified.

Sexual harassment charges filed with the Equal Employment Opportunity Commission from Oct. 1, 1992, to March 31, 1993, rose 30% to 3,293 claims, compared with the comparable six-month period a year earlier.

The total for all types of claims reported to the EEOC increased 20% over the same period.

"Lawsuits filed by employees are becoming more and more numerous," said George H. Meeker, director of risk management and insurance at Cornell University in Ithaca, N.Y.

Cornell purchases coverage from United Educators Risk Retention Group Inc., which covers employment practices claims in its educators legal liability policy.

Since its inception in 1987, the Chevy Chase, Md.-based risk retention group has received more claims for wrongful termination than any other type of claim, said Senior Vp Arthur Broadhurst.

That trend is largely due to the practice of tenure, in which colleges and universities select teachers who will receive immunity from dismissal, he noted.

"I suspect the insurance companies will be surprised when they figure out the volume of claims," Mr. Broadhurst said of the commercial insurance companies entering the market. "There's clearly a need for this."

"It's an important product," agreed Cornell's Mr. Meeker. "I would want it no matter who addressed it."

Insurers now offering employment practices policies are: American International Group Inc. units Lexington Insurance Co. and New Hampshire Insurance Co.; Chubb & Son Inc.; Reliance National Insurance Co.; and NAS Insurance Services Inc., which brokers policies written by syndicates at Lloyd's of London.

Interest has been building since Chubb and Lexington introduced their products in early 1992 (BI, March 23, 1992). And Reliance has offered the coverage since 1990.

"More (employers) are looking at it now than there were a month ago," according to Kathleen Sevier, vp of Rollins Hudig Hall's financial services group in Chicago.

Policyholder concern prompted Chubb to explore the product, said Christine Cahill, assistant vp of Chubb & Son in Warren, N.J.

"With the changes in the law they were interested in an insurance product specifically designed to cover" liability arising from employment practices, she said.

"We are very, very high on the coverage," said Rick Betterley, president of Betterley Risk Consultants in Worcester, Mass. "It will get to the point where more organizations buy EPL than D&O," he predicted.

"It's one of the hottest new products around," said David King, vp of Reliance National's excess and surplus lines division in New York. "It's exploding."

"We are seeing universal acceptance of the product," said Ed Robin, executive vp of NAS in Los Angeles. "The broker community believes every client should be made aware of it."

While some brokers consider the product expensive, "it's worth it,"

contends Rob Fishman, vp of Lexington's professional liability division in Boston. "The coverage is not provided under comprehensive general liability or most D&O policies."

Some insurers, though, offer an endorsement to their D&O policies that covers employment practices

'You can do everything perfectly and still get sued,' says M&M's Peter Taffae.

claims (see story, page 27).

However, not everyone sees employment practices liability insurance as the next D&O coverage for companies.

"I would be surprised if it became a popular coverage to buy," said Jenny Emery, risk management practice consultant with Towers Perrin/Tillinghast in Hartford, Conn.

Companies should look into managing their risk before they decide how—or whether—they need to finance that risk, Ms. Emery contends.

Employment practices are a manageable risk, she said, and companies may decide to invest their money in loss control programs rather than in purchasing insurance.

Employers can take steps to prevent employment-related claims, although insurers generally do not offer premium discounts for such measures, said Steven D. Baderian, a partner with Jackson, Lewis,

Schnitzler & Krupman in New York, which has represented management in employment disputes.

For example, employers can adopt alternative dispute resolution mechanisms to address employment-related complaints and offer preventative training for managers and supervisors, he said.

During a recent conference sponsored by the Defense Research Institute, a Chicago-based organization for defense lawyers, attorneys offered employers several tips for preventing sexual harassment in the workplace (see chart, page 1).

However, having strongly worded internal policies against sexual harassment and discrimination, firing and hiring guidelines, and sensitivity training for supervisors may not be enough.

"You can do everything perfectly and still get sued," said Peter Taffae, vp and manager of the financial and professional insurance brokers department of Marsh & McLennan Cos. Inc. in Los Angeles. "I explain it as a human resources malpractice policy."

"If you drive carefully, do you need auto insurance?" asked Mr. Baderian of Jackson Lewis.

"You can be the best employer in the world, but all it takes is one lawsuit," added Clifford R. Atlas, also with Jackson Lewis. "When you go before a jury, it's like taking out the crap dice."

And, the Civil Rights Act of 1991 allows jury trials.

Concerns that this kind of coverage may violate public policy may be holding back some potential buyers, said Mike Cancelliere, president and CEO of broker Acordia of Ohio in Cincinnati.

"Detractors of this insurance

policy might see it as a license to discriminate," but buyers do not view it that way, Mr. Atlas said.

The insurance covers defense costs, judgments and settlements arising from employment-related claims, but it does not cover fines and penalties.

In addition, most policies include a coinsurance requirement that forces policyholders to contribute toward payment of their losses.

Intentional acts are excluded, but not until a court has found that a person acted intentionally, so legal expenses up to that point are covered.

Also, an employer can still be covered for the intentional act of an employee, provided the employer was not aware of and did not condone the behavior, said Lexington's Mr. Fishman.

"We can carve out a bad actor or a bad situation" without affecting coverage for the company or other individuals named in a lawsuit, he said.

That's one example of how current employment practices policies are superior to earlier coverages that essentially prepaid legal expenses with low limits and many exclusions, said Mr. Cancelliere of Acordia.

"Initially it was a gimmick that has evolved into a fairly useful coverage," Mr. Cancelliere remarked.

Middle-market companies were most interested in the coverage at first, but now larger corporations are becoming interested, said Reliance's Mr. King.

"It's a product anyone can use. There's no one who doesn't have the exposure."

However, larger corporations are

Continued on next page

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$130.00 per column inch, minimum of one inch. Straight classified is \$11.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$17.50 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in typewritten form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for all advertisements. Mail ads to Margaret Hikido, Classified Advertising, 740 N. Rush St. Chicago, IL 60611. For more information call 312-649-5340. FAX 312-649-7799.

FINANCIAL MANAGER RISK MANAGEMENT

Pentastar Services, Inc., is seeking a detail oriented Financial Manager. The successful, best-matched candidate will possess the following qualities:

- Bachelor's Degree Accounting, Finance or related field
- 6 yrs. Accounting/Financial & Insurance Management experience
- Knowledge of insurance industry & insurance programs
- Knowledge of liability practices tort/contract law & litigation management
- Experience in budgeting & forecasting
- Proficient PC skills
- Excellent communication skills

Qualified candidates are invited to apply Mon.-Fri., 10am-3pm at 5330 E. 31st St., Main Lobby, City Plaza, Tulsa, OK 74153 or fax resume to (918) 669-2389. Applications/resumes must be received by 06/07/93.

Equal Opportunity Employer M/F/D/V



**PENTASTAR
SERVICES,
INC.**

WANTED

Licensed admitted A rated carrier to write residential homebuilders program including general and artisan contractors in GA, AL, TN profitable book to be replaced. Reinsurance is not a problem. Would also like to propose other programs for the southeast. Contact Dennis Petriella, American Insurance Managers, Inc. Box 725247, Atlanta, GA 31139-9247 404-980-0591 Extension 3113.

UNDERWRITER

National Dental Plan headquartered in Michigan seeks executive level Underwriter experienced in areas of dental indemnity and managed care products. Requires history of progressive responsibilities, including 3-5 years complete accountability. Salary commensurate with experience.

Send resume to:

Personnel
2000 Town Center, Ste. 2200
Southfield, MI 48075
EOE

**GET RESULTS!
Advertise in the
PROFESSIONAL
MARKETPLACE**

DIRECTOR OF RISK MANAGEMENT

A national, private, not-for-profit organization, the Marine Spill Response Corporation (MSRC), has the crucial task of providing a best effort response to major oil spills in U.S. coastal waters. The key position of Director of Risk Management, which requires an international marine and property insurance background and 5-10 years experience planning, directing and coordinating a corporate risk program, is responsible for developing and overseeing our risk management and loss prevention department. B.S. degree in business or related field and knowledge of a full range of coverages, including P&I, marine liabilities, Comprehensive General Liability, worker's compensation, business automobile liability, hull and machinery and builder's risk, is desired. ARM certification desirable.

We offer an excellent salary and benefits package in a professionally challenging work environment. Please mail resume to: MSRC, Dept. LP-RM2, 1350 I St., NW, Suite 300, Washington, DC 20005. An Equal Opportunity Employer.



LEGAL NOTICE

INSURANCE LAWYERS
Experienced insurance lawyers emphasizing insurance company, agency and brokerage related matters, including compliance, coverage issues and litigation; also broker and agent errors and omissions — available for representation. Contact Daniel Warriner or Paul Brennan, Brennan, Olson & Warriner, 32222 Camino Capistrano, Suite A, San Juan Capistrano, CA 92675. Tel. (714) 893-5358 or (714) 240-6711; Fax (714) 893-4451 or (714) 240-3761.

OPORTUNITIES

**Insurance
PROPERTY/CASUALTY COMPANY.**
P/C Co. wanted, either active or shell, for purchase by securities firm. Sales information to Box 2796, Business Insurance, 740 N. Rush St., Chicago, IL 60611-2590

HELP WANTED

**Insurance
SURPLUS LINES**
CEO and other top management sought for new Property/Casualty unit of large securities firm. Entrepreneurial ability, wide knowledge of surplus lines crucial. Resume, compensation history to Box 2795, Business Insurance, 740 N. Rush St., Chicago, IL 60611-2590

Associate Actuary Reinsurance
To perform risk analyses, pricing and experience monitoring of financially oriented reinsurance products by: (1) gathering and analyzing information from client companies on potential reinsurance transactions; (2) developing computer models and preparing financial protection for proposed reinsurance transactions; (3) preparing detailed risk analysis report projects; (4) monitor quarterly the experience of existing reinsurance treaties; (5) assisting in the design of reinsurance programs, treaty terms and conditions as required; (6) other projects as assigned. **SALARY:** \$68,875 per year/ 37.5 hour work week/ 8:00 am to 4:30 pm. **REQUIREMENTS:** B.S. degree in Math, Actuarial Science or Related Areas plus five years Life Insurance Actuarial Experience necessary. Applicant must be Associate of Society of Actuaries and have completed 300-450 credits in the SOA Education Program including course 1550 - reinsurance topics ; 1441U - Advanced Pricing and Design - United States. Five years of experience must include both traditional and non-traditional life insurance and annuity product design & pricing, asset/liability modeling techniques. Must have experience using APL and Lotus 1-2-3 software packages. Submit resumes to: Mrs. Jimmie Gaston, ALC Specialist, Missouri Division of Employment Security, 505 Washington, St. Louis, Missouri 63101, Refer to Job Order # 678481. Respondents must presently be eligible for permanent employment in the U.S. An employer paid ad.

HELP WANTED

**Texas Department of Insurance
Request for Proposals
To Collect Statistical Data**

The Texas Department of Insurance (TDI) announces Requests for Proposals (RFP's) to solicit proposals from qualified entities to collect statistical data for three Statistical Plans: Private Passenger Automobile, Residential Property and Commercial Lines. Due to the nature of work, consideration will only be given to entities with sufficient computer resources and technical expertise in areas of data collection, maintenance, quality control, insurance, accounting and related fields. Consideration will only be given to entities that are sufficiently independent of constituents of the insurance system. Detailed information regarding the data collection requirements, required qualifications and schedule to be followed are set forth in the Requests for Proposals for data Collection for each statistical plan above and are available from Donna Garrett, Deputy Commissioner, Texas Department of Insurance, Mail Code 104-4a, P.O. Box 149104 Austin Texas 78714-9104, (512) 475-3017 or Fax (512) 463-6122. Deadline for responses to the Automobile Statistical Plan RFP is July 9, 1993; deadline for residential Property and Commercial Lines is July 8, 1993. Responses received after these deadlines will not be considered. TDI reserves the right to reject any and all proposals. TDI is under no legal requirement to execute a contract on basis of this notice or RFP. TDI specifically reserves the right to vary all provisions set forth any time prior to execution of a contract where TDI deems it to be in the best interest of the State of Texas.

Continued from previous page
loath to give up control of defense of employment-related claims to insurers, which is mandated in the policies, Ms. Sevier of RHH said.

But companies with internal counsel that demonstrate expertise in the area may negotiate to gain control of defense, said Chubb's Ms. Cahill.

"We haven't run against many objections to the duty to defend," she said.

In fact, many employers are pleased to know that law firms specializing in employment practices defense will be handling their cases, she added.

"There's a lot of room for negotiation because the coverage is still young," M&M's Mr. Taffae said. "Pricing is all over the board."

Some insurers are pricing employment practices as a high-end coverage like D&O, while others seeking to build a book of business are being more aggressive in writing, he said.

"Depending on the underwriter's appetite and the client's sensitivity to the exposure, it doesn't have to be expensive."

This is how the various employment practices liability policies are priced:

- Lexington offers limits up to \$10 million, but most companies are looking for lower limits, Mr. Fishman said.

Lexington is targeting companies with more than 250 employees. Minimum premium is \$25,000 and minimum deductible is \$10,000. Coinsurance ranges from 2.5% to 10%, he added.

- Chubb also offers \$10 million in limits, with a minimum deductible of \$10,000 and coinsurance of 5% to 10%.

Chubb is not selling the product in Texas and California due to the legal climates there, Ms. Cahill said. There is no minimum premium.

- Reliance National offers \$5 million in limits, with minimum premium and deductible of \$10,000.

Optional coinsurance extends to 5%, but companies may take more if they want a lower premium.

Veterans' proposal

Continued from page 3
the Uniformed Services Employment & Reemployment Rights Act of 1993.

House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., says he expects committee members to demand a role in amending the legislation before it receives final congressional approval.

During the last congressional session, Rep. Rostenkowski proposed—as part of a separate bill—a number of changes to the earlier veterans' bill. Those changes would have made the legislation much less onerous to employers (BI, July 6, 1992).

Right now, though, the latest veterans' bill poses plenty of problems to employers, and chief among them is mandating benefits that employer lobbying groups and consultants say are excessive.

Under the House bill, employers with profit-sharing plans would have to make retroactive contributions—plus interest—to the accounts of returning veterans covering the years they were on leave in the military. The contributions would have to be equivalent to contributions that were made on behalf of other employees during that period. The Senate bill does not contain a similar requirement.

Benefit experts say profit-sharing payments should be provided

Using D&O policy for added risks

Employers looking for another way to insure their employment practices liability exposure can add an endorsement to their directors and officers policy.

However, a drawback to the endorsement is that it does not provide coverage for the entity itself, as do employment practices liability policies, brokers and consultants say.

National Union Fire Insurance Co. of Pittsburgh, Pa., recently introduced such an endorsement.

"D&O in most cases is silent on the issue," said Gordon Knight, vp of the American International Group Inc. unit in New York. "This is a clarification and expansion of certain exclusions."

The endorsement broadens the D&O policy to cover all employees for employment practices and removes exclusions for emotional distress and libel and slander, he explained.

The CNA Insurance Cos.' D&O policies include coverage for employment-related actions against directors and officers, a spokesman said. In addition, Chicago-based CNA provides coverage for the entity in D&O coverage for non-profit organizations.

At about 20% of D&O premium, the price of an endorsement is "substantially less" than a stand-alone employment practices liability policy, "but the coverage is also less," said Peter Taffae, vp and manager of the financial & professional insurance brokers department of Marsh & McLennan Cos. Inc. in Los Angeles. "I rarely see a wrongful termination case without the entity being named."

The employment practices liability policy handles the exposure better than D&O policies, agreed Rick Betterley, president of Betterley Risk Consultants in Worcester, Mass. "It's not just the individuals you want to have insured."

However, entities are not covered for other D&O claims either, noted Mr. Knight of National Union.

Another potential glitch in the D&O endorsement option is that, after a settlement or judgment, policyholder and insurer must then divide liability between the covered directors, officers and supervisors, and the uninsured entity, Mr. Taffae said.

While adding an endorsement to a D&O policy may provide higher limits than under standalone employment practices policies, an employment-related claim reduces the amount of coverage left to cover directors and officers, critics say.

"The single most important issue is the dilution of limits," said Phillip N. Norton, a consultant with The Wyatt Co. in Chicago. "With a stand-alone policy you get a whole new aggregate."

"You could be exposing your directors and officers by adding this coverage to their aggregate," agreed Rob Fishman, vp of professional liability for Lexington Insurance Co. in Boston.

While many smaller companies that do not purchase D&O coverage are purchasing independent policies, larger corporations may benefit from the endorsement. Fortune 100 companies may be interested in the D&O endorsement because they are able to self-insure the corporation's exposure, said M&M's Mr. Taffae.

"We're seeing tremendous interest across the whole spectrum, from non-profit to Fortune 500," said Mr. Knight of National Union.

—By Sara Marley

- NAS offers separate coverages for legal expenses and damages, Mr. Robin said. Both have \$1 million in limits. Minimum premium

for the combined coverage is about \$2,000, while the minimum deductible is \$2,500 to \$5,000 with a 10% coinsurance requirement. **BI**

Insurance Services Guide

Advertise In The Insurance Services Guide!

FAX your ad
for the next issue:

FAX: 312-649-7799
PHONE: 312-649-5340

InPhoto Surveillance



Experts in long range
video surveillance.
Agents stationed with-
in a 3 hour drive of
80% of the U.S. popu-
lation.

800-822-8220 FAX 800-752-0720

Control Staffing Costs

In Medical/Dental Claims Processing



Use CSRG's **FLEXIBLE STAFFING** to:

- Reduce staffing costs immediately
- Increase claim production instantly
- Reduce overhead permanently

800-288-3920

Proven Results in Over
1,300 Companies Nationwide.



Software of Florida, Inc.

Insurance Software Specialists

- SOPHISTICATED SOFTWARE
- QUALITY SERVICE
- AFFORDABLE PRICING

- HEALTH CLAIMS ADMINISTRATION AND BILLING
- WORKERS' COMPENSATION CLAIMS ADMINISTRATION
- FLEXIBLE BENEFITS ADMINISTRATION
- COBRA ADMINISTRATION

STAND ALONE AND NETWORK BASED PC SYSTEMS

CALL TODAY FOR MORE INFORMATION OR A FREE DEMONSTRATION
831 NORTH HERCULES AVENUE • CLEARWATER, FLORIDA 34625

813-442-9296

...ANYTHING ELSE IS A COMPROMISE

5TH GENERATION LANGUAGE • ARTIFICIAL INTELLIGENCE • FULLY INTEGRATED APPLICATIONS

CLIENT/SERVER • ENTERPRISE MODEL

PROVIDERS INSURERS

BIVEN HEALTH

SMART SOFTWARE FOR MANAGING HEALTH CARE

Experience breakthrough solutions with the first application systems designed for industry-wide flexibility, functionality and high performance.

BivenHEALTH FOR BENEFITS
BivenHEALTH FOR PROVIDERS
BivenHEALTH FOR THE ENTERPRISE

ADMINISTRATORS EMPLOYERS

BIVEN SOFTWARE

2531 BRIARCLIFF RD. N.E. #200 ATLANTA, GEORGIA 30329 1-800-248-3610

OBJECT ORIENTED • EXPERT SYSTEMS • KNOWLEDGE BASES

ISP Insurance Software Packages

A (PMSI)® Company

✓ Micro & LAN Based Claims Systems since 1985

Workers Comp W/ Fee Schedule & PPO

Employee Benefits

Auto, GL, Property

- ✓ Fee Schedule and PPO repricing System
- ✓ First Notice of Injury Service & Software
- ✓ Over 300 Systems Country Wide
- ✓ Powerful, Complete systems, Easy to use
- ✓ Mini & Mainframe Integration
- ✓ Certified IBM, Novell, Microsoft



ISP systems can provide information interfaces with the PMSI family of services and other 3rd party systems and services. For the best in claims and cost containment software, Call ISP.

Call us for more info at 800-237-8133

For advertising information in the INSURANCE SERVICES GUIDE
Contact: Margaret Hikido, 740 Rush Street, Chicago, Illinois 60611.
Telephone (312) 649-5340

Business Insurance®

• EVENTS •

RISK MANAGER OF THE YEAR AND RISK MANAGEMENT HONOR ROLL AWARDS

These awards recognize individual accomplishments in the field of risk management. For nominating forms and rules, write or call:

BUSINESS INSURANCE • Editorial Department
740 Rush Street • Chicago, IL 60611-2590
phone: 312/649-5319 • fax: 312/280-3174

EMPLOYEE BENEFITS COMMUNICATION AWARDS

The EBC awards honor employers for excellence in communicating benefits programs to their employees. Insurance companies and consulting firms also are recognized for their participation in the preparation of award-winning communication programs. For entry forms and rules, write or call:

BUSINESS INSURANCE • Communication Services
220 East 42nd Street • New York, NY 10017-5806
phone: 212/210-0299 • fax: 212/210-0704

HEALTH CARE MANAGEMENT & COST CONTAINMENT CONFERENCES

Presented in conjunction with IBF Conferences, these events address the specific concerns of corporate executives purchasing health care for their employees. Sessions cover the rapidly changing managed care industry and creative and innovative strategies to curb costs. For details on registration or exhibition, write or call:

BUSINESS INSURANCE • Communication Services
220 East 42nd Street • New York, NY 10017-5806
phone: 212/210-0299 • fax: 212/210-0704

• SERVICES •

EDITORIAL INDEX

All news reports and feature articles since 1981 are indexed in annual editions by subject, persons quoted and companies mentioned. The current year's annual service includes three quarterly reports and a cumulative annual perfect bound volume. To order, write or call:

BUSINESS INSURANCE • Editorial Index
220 East 42nd Street • New York, NY 10017-5806
phone: 212/210-0137 • fax: 212/210-0704

REPRINT SERVICES

BI's Reprint Department can provide reprints, in quantities of 100 or more, of any article appearing in the weekly newsmagazine. Legal permission, complying with U.S. copyright laws, also can be provided to companies wishing to reprint, on their own, material appearing in the newsmagazine. For information, write or call:

BUSINESS INSURANCE • Reprint Department
740 N. Rush Street • Chicago, IL 60611-2590
phone: 312-649-5319 • fax: 312/280-3174

SINGLE COPY ARTICLE PHOTOCOPIES

For article photocopies, send a request specifying BI issue date and article headline along with \$3.50 per copy/per article, \$10.00 per copy of any in-publication directory, and a self-addressed envelope to:

BUSINESS INSURANCE • Reprint Department
220 East 42nd Street • New York, NY 10017-5806

SINGLE COPY SALES

To order any current or back issue of BI, call the single copy sales division of BI's circulation department:

800/678-9595

• DIRECTORIES •

DIRECTORY OF BUYERS

The *Business Insurance* Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services contains alphabetical listings of nearly 2,200 U.S. corporations. You'll find names and titles of over 13,000 executives responsible for risk management, employee benefits, and more — plus, vital company facts and figures. To order a printed copy or the directory on disk, call:

313/446-1623

The directory is also available on computer tape. For details, call:

313/446-1625

DIRECTORY OF HMOs and PPOs

The 1992-1993 *Business Insurance* Directory of HMOs and PPOs is published as part of a special Managed Care Market Report. The directory contains profiles of over 1,000 HMOs and PPOs across the country — organized alphabetically by state. To order, call:

313/446-1609

IN-PUBLICATION DIRECTORIES

In 1993, *Business Insurance* will publish 19 in-publication directories making access to services and suppliers easy. Providing comprehensive listings of firms in specialized areas, BI's directories give readers a direct route to better management techniques and eliminate frustrating hours researching services and suppliers available in the marketplace. For a listing of 1993 in-publication directories, call:

Directory information: 312/649-5279

For more information, call one of the numbers listed below:

Advertising information: 212/210-0228
Subscription information: 800/678-9595

Ohio ruling

Continued from page 2

vere, according to court papers.

Ms. Archer, who has since died, sued Dr. Chila and the OUOMC for medical malpractice.

Professional Mutual Insurance Co., one of three medical malpractice insurers that covered the defendants in successive periods over the course of Ms. Archer's treatment, was declared insolvent in 1987. The other insurers—Physicians Insurance Co. of Ohio and PIE Mutual Insurance Co.—and OUOMC settled with Ms. Archer in June 1989 for \$690,000. The two insurers contributed \$300,000 each, and OUOMC paid the remainder. The Ohio Insurance Guaranty Assn. refused to contribute to the settlement.

The three insurers each wrote \$1 million of medical malprac-

tice coverage. However, PICO was on the risk only for the first seven months of Ms. Archer's treatment, and PIE was on the risk only for the last eight months. Professional Mutual was on the risk for about three years.

In their litigation against the guaranty association, PICO and PIE argued that Ms. Archer's injuries could be apportioned to specific policy periods. Therefore, they said, the OIGA should have participated in the settlement.

But, affirming lower court rulings, the Ohio Supreme Court ruled that because the case was settled, there was no factual determination that damages could be apportioned. And, since the insurers settled for less than their policy limits, the OIGA, by law, cannot contribute to the settlement, the court ruled.

"This decision makes it more likely that these cases would be

tried" in the future rather than settled, said PICO attorney Gary W. Hammond of Columbus, Ohio.

However, OIGA attorney F. James Foley disagrees.

Mr. Foley, a partner with Vorys, Sater, Seymour & Pease in Columbus, said the court made an "offhand remark" that was not a point of its holding when it said the underlying settlement precluded apportionment of liability. "People aren't going to read too much into it," he said. "Settlements are going to be made for the same reasons they've always been made."

Mr. Foley also predicted the ruling would discourage solvent insurers from litigating with the OIGA in the future.

PIE Mutual Insurance Co. vs. Ohio Insurance Guaranty Assn., Supreme Court of Ohio; Nos. 91-2392, 91-2399.

For the Record

Insurance simplified for trucking firms

WASHINGTON—Interstate trucking firms will soon only have to file proof of insurance with one state rather than with all states in which they operate.

The Interstate Commerce Commission regulations issued earlier this month supersede the so-called "bingo card" program, under which truckers had to obtain a stamp from each state they did business in, put them on cards and carry each card in a specific truck.

The new program, which takes effect Jan. 1, 1994, requires truckers to: file proof of insurance with one state, most likely the one in which the trucking firm is domiciled; pay a fee to that state to be allocated among all the states in which the trucker operates; and carry a copy of the receipt issued by the registration state in each vehicle.

"The ICC has gone a long way toward achieving the cost savings that Congress intended" when it

told the ICC in 1991 to work to eliminate the old "bingo card" system, said David Snyder, senior counsel for the American Insurance Assn. in Washington. AIA joined other insurance groups and trucking interests in pushing for the changes.

Harvard grants benefits to domestic partners

CAMBRIDGE, Mass.—Harvard University will extend full health benefits to the partners of gay and lesbian employees beginning in November.

Family health and dental benefits will be offered to same-sex domestic partners of faculty and staff and the partners' dependents. To qualify for the coverage, the partnerships have to be formally registered.

Granting these benefits "will enhance Harvard's ability to attract and retain high-quality faculty and staff, eliminate compensation inequities, and serve as a practical and symbolic acknowledgment of the diversity of the University's work-

force," a faculty-staff planning committee said.

Harvard joins Stanford University, the Massachusetts Institute of Technology, the University of Chicago and Clark University as colleges that provide health benefits to the same-sex partners of employees (BI, May 17).

Chubb endorsement covers defense costs

WARREN, N.J.—Chubb Corp. has begun offering an "optional guaranteed defense costs allocation" endorsement to its directors and officers liability policyholders.

According to John P. Coonan, vp of Chubb's Executive Protection Department, the "strictly optional" allocation, which will cost an additional 25% of premium for an 80% allocation agreement, is designed to smooth "a very frustrating, negative and polarizing issue." The allocation allows policyholders the option of agreeing before a claim occurs to re-

Continued on next page



T S S T S S



TRINITY SQUARE SERVICES

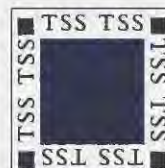
has been acquired by affiliates of

JOHN HEAD & PARTNERS L.P.

Trinity Square Services provides run-off management, audit and investigation, reinsurance recovery and consultancy services to insurance, reinsurance companies and regulatory authorities in the U.S., U.K. and international markets.

New York:
59 John Street
8th Floor
New York, NY 10038
Morton L. Mann
(212) 964-0800

London:
America House
2 America Square
London EC3N 2LU
Robert Barclay
011 44 071 265 1688



Chicago:
1144 Lake Street
4th Floor
Oak Park, IL 60301
Robert D. Miller
(708) 445-8776

Amsterdam:
World Trade Center
Strawinskylaan 517
1077XX-Amsterdam
The Netherlands
Diderik Molhuysen
011 31 20 5753170



S S L

S S L



Continued from previous page
ceive a pre-arranged percentage of defense costs from the insurer.

"Customers want some assurance that their defense expenses will be advanced as they are incurred and that there will be an up-front agreement in place," said Ralph E. Jones III, senior vp and managing director of the Executive Protection Department. He said the new allocation endorsement meets both needs.

For further information, contact the Executive Protection Department, Chubb Corp., 15 Mountain View Road, P.O. Box 1615, Warren, N.J. 07061-1615; 908-580-2000.

Pro-policyholder ruling erased in Texas

AUSTIN, Texas—A pro-policyholder decision in a Texas pollution coverage case has been wiped off the books as part of a settlement reached between the policyholder and its insurer.

The withdrawal of *Circle "C" Ranch Co. vs. St. Paul Fire & Ma-*

rine is part of a growing trend in which coverage rulings have been expunged from the law books through private settlements (*BI*, June 15, 1992).

The Texas Court of Appeals for the 3rd District ruled May 5 that the "sudden and accidental" pollution exclusion "only applies where the pollution was intentional or expected." This reversed a trial court judgment denying coverage for law-suits filed by cotton farmers who claimed that aerial spray drifted from the policyholder's ranch and damaged their crops.

It was believed to be the first time a Texas appellate court had spoken on the meaning of the "sudden and accidental" clause in the pollution exclusion.

However, the court on May 19 approved a joint motion filed by the policyholder and insurer to withdraw the court's opinion and approve a settlement reached between the parties. The court further ordered St. Paul to pay all costs relating to the appeal. Details of the settlement were not disclosed.

Pool Re law enacted but future questioned

LONDON—The fate of Pool Re, the company set up to reinsure terrorism risks in the United Kingdom, hangs in the balance this week and may even fail to get off the ground.

The House of Lords last Thursday approved the Reinsurance (Acts of Terrorism) Bill, which activates the pool. However, before Pool Re begins operating, the government and the pool must sign a retrocession agreement that commits the government to pick up the tab if terrorism claims payments exceed the pool's funds (*BI*, May 17).

According to the Assn. of British Insurers, which is negotiating on behalf of Pool Re, the government could jeopardize the deal because it is putting "severe pressure" on Pool Re to raise its rates in time for the next renewal season, which begins July 1. Pool Re began selling coverage for the January renewal season.

The ABI contends companies will

refuse to buy the terrorism coverage if prices are raised.

The issue has come to a head because this Friday is the "practical deadline" for new coverage terms and conditions to be set before July renewals get under way, an ABI spokesman said. If the ABI refuses to raise the pool's rates the government can refuse to sign the retrocession agreement, thereby effectively killing the initiative.

Information in brief

Continental Corp. is selling its premium finance unit, **AFCO Credit Corp.**, to Mellon Bank Corp., for between \$200 million and \$278 million. . . . The Tennessee Insurance Department has obtained a liquidation order against **Anchorage Fire & Casualty Insurance Co.** of Antigua. Anchorage's Tennessee business included the now-defunct United Physicians Insurance Risk Retention Group (*BI*, June 1, 1992). . . . The Texas Insurance Department is looking into an agent's complaint that **Nationwide**

Mutual Insurance Co. failed to provide six to 24 months notice that it will terminate its contracts with its business lines agents in June and July and move all business to an affiliated company (*BI*, May 17). . . . Kentucky insurance regulators have ordered **Kentucky Central Life Insurance Co.** to cease writing business in all states following a preliminary financial report that the company has a \$70 million statutory deficit. The insurer continues to pay claims (*BI*, Feb. 22). . . . **Kansas** will prohibit workers comp insurers from raising premiums in the voluntary market, though insurers can make "necessary and appropriate" changes to individual classification rates. Insurers had sought a 9.5% hike (*BI*, May 24; May 10). . . . **ERIC Syndicate Inc.** will no longer underwrite **Illinois Insurance Exchange** risks because it fails to meet exchange capital standards. . . . **Sedgwick Group P.L.C.** last week issued 41.5 million pounds (\$64.3 million) in convertible bonds for the year 2008 at 7.25% interest. Proceeds will go to reducing debt. **BI**

Clinton health reform plan

Continued from page 1
own deal with health care providers.

However, the employer would not receive its full premium back.

Certain amounts would first be deducted to cover a share of the administrative costs of operating the purchasing alliance as well as a "risk adjustment" charge.

This "risk adjustment" charge probably would reflect demographic differences, like age and sex, between the employer's workforce and that of the community as a whole.

The more favorable the employer's demographics, the bigger its risk adjustment charge would be.

The highest charge would be for companies with predominantly young, male workforces.

The combination of administrative and risk adjustment charges, and possibly a charge to help cover the alliance's cost of purchasing coverage for the uninsured, would be such that few employers would have a financial advantage to opt out of the alliance, according to benefit

consultants.

"What is the incentive of opting out? I just don't see it," said Edward J. Davey, a principal with A. Foster Higgins & Co. Inc. in New York.

'It would appear (the Clinton administration is) trying to create a state-based single-payer system,' says Mark Ugoretz, president of the ERISA Industry Committee, a benefits lobbying group representing large employers.

At the same time, the administration already has suggested that it may give the states the freedom to limit the number of health care purchasing alliances and to actually operate the alliances.

The result of effectively curbing an employer's ability to opt out of the alliances and limiting the number of alliances would be a type of single-payer system dominated by a relative handful of purchasing alliances, some consultants say.

"You could end up with a kind of 'King HIPC,'" said Foster Higgins' Mr. Davey.

"It would appear (the Clinton administration is) trying to create a state-based single-payer

ally, we have tried to break up monopolies. Now, it seems, they will be trying to form monopolies," commented Carson Beadle, a managing director with William M. Mercer Inc. in New York.

Some employers—especially those with older workforces and high health care costs—might welcome simply paying a premium to a purchasing alliance and walk away from its health care plans.

But other employers will object, believing they can do a better job of providing health care benefits and controlling costs than what may be a big state bureaucracy.

Benefit experts do caution, though, that the Clinton administration still has not finalized its health care reform package and that changes are possible.

In fact, Senior Domestic Policy Adviser Ira Magaziner recently stated that whether large employers will be able to opt out of health care purchasing alliances and, if so, on what terms, will be among the last decisions that President Clinton will make before presenting the health care reform package to Congress next month.

According to Rep. Cooper, health care purchasing co-ops or alliances were originally intended to be large enough to spread risk, but still allow large employers to have their own plans.

HIPCs were not intended to "run the world," Rep. Cooper said.

Some observers say that if the administration plan leads to giant, monopolistic purchasing groups with community-based rates, the very nature of health insurance programs would change.

"Health insurance becomes something more like a social insurance where costs are allocated across the board," said Frank McArdle, a consultant with Hewitt Associates in Washington.

"Managed competition was intended to level the playing field between small firms and corporate giants. Now, it would appear, the administration is trying to level the costs of all players," Mr. Davey said.

Associate Editor Mark A. Hofmann in Washington contributed to this story.

Scope of benefits in administration's reform package is still a question

WASHINGTON—One of the most important decisions that President Clinton must make before he unveils his health care reform package remains up in the air: the level of benefits health care plans must offer.

Benefit experts who have recently met with White House officials say the administration still has not decided the scope of benefits that will be mandated.

"Benefit designs are changing day by day," said Carson Beadle, a managing director with William M. Mercer Inc. in New York.

But President Clinton said one design decision has been made: the benefit plan will be comprehensive rather than only providing protection against catastrophic health care expenses.

During a television interview last week following a ceremony in the White House Rose Garden, the president acknowledged that some of his economic advisers suggested that the basic benefit package only provide "major medical coverage and protect people from disaster."

While President Clinton said benefits might be phased in, the initial package still would be "something worth having."

Some administration officials have described the basic package as comprehensive and above-average but not a Cadillac-like plan.

In an address last week before the Assn. of Private Pension & Welfare Plans, Senior Domestic Policy Adviser Ira Magaziner said employers and employees will be required to contribute toward the cost of coverage. He did not spell out how cost-sharing would be split.

Aside from medical care coverage, benefit experts expect that the basic health care plan also will cover mental health and substance abuse expenses, prescription drug benefits and children's dental benefits.

Deductibles are expected to be in the \$200 to \$250 range for employees selecting an indemnity-type health plan, and much lower for those who enroll in an health maintenance organization.

—By Jerry Geisel

Rosty calls for straight talk on health reform

WASHINGTON—The Clinton administration will make a huge mistake if it "oversells" its health care reform package and isn't candid with the public about both the pros and cons, warns Rep. Daniel Rostenkowski, D-Ill.

"There will be a powerful urge to describe health care reform in glowing terms. . . a tremendous temptation to accentuate the positive and bury the negative. That would be a great mistake," he said last week at he Assn. of Private Pension & Welfare Plans' annual conference.

The chairman of the House Ways and Means Committee said the public uproar over and the ultimate repeal of the Medicare Catastrophic Coverage Act of 1988 is an example of what can happen when the public feels legislators haven't been candid in explaining all aspects of health care legislation.

The Medicare Catastrophic Act "was a good law, but it died because it wasn't adequately explained to the American people," he said.

Initially, legislators focused on how the expansion of Medicare would give retirees' much greater protection from catastrophic medical expenses while adding a new prescription drug benefit. But once middle- and upper-income retirees discovered how much in new taxes—initially as much as \$1,600 a year—they would have to pay, they mounted a campaign to convince Congress to scrap the law. Congress repealed the Act in 1989.

The lesson that should be drawn from the

Medicare Catastrophic Act debacle is that the administration and legislators this time have to do a better job of defining the problems of the health care system and explaining exactly what is going to be fixed, Rep. Rostenkowski said.

"That will require a lot of work and, above all, courage," he said.

Rep. Rostenkowski acknowledged the administration is holding the details of its health care reform close to its vest, adding that he largely is relying on secondary sources, like the media, for clues of what will be in the package.

But once the package is unveiled, the initiative for shaping the package will shift to Congress.

"We will fashion the bill. We are an equal branch of government," he said.

Rep. Rostenkowski said he hopes Republicans join the effort to reform the health care system. Lately, he said, Republicans have tried to block other initiatives from President Clinton without offering viable alternatives.

If health care reform fails, though, the big loser will be the American people, not Congress or President Clinton, Rep. Rostenkowski said.

Enactment of health care reform legislation will not be easy, he said, noting there will be opposition from special interest groups that are benefiting from the status quo.

In seeking passage of health care reform legislation, "President Clinton truly has his work cut out for him," Rep. Rostenkowski said.

—By Jerry Geisel

Following fortunes

Continued from page 1
terms and to take the lead in underwriting and handling claims.

AIG also subscribed to 40% of the \$950,000 in ceded reinsurance, acting on behalf of New Hampshire Insurance Co., American Home Assurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa. American Re subscribed to 25% and the remainder was ceded to a group of European insurers.

The case arose out of the sinking of the Ocean Champion while it was being towed from an Egyptian shipyard to an offshore drilling location. At issue was whether the rig, which was ultimately salvaged and put back into service was a "total loss."

One day after the sinking, ODECO told OIL, Mentor and AIG of the loss. The following day, Mentor wrote to the intermediary, Thos. E. Leeds Co. Inc., to notify its reinsurers that the sinking of the Ocean Champion could result in a constructive total loss.

OIL retained loss adjusting firm Rush Johnson & Associates Ltd., which also adjusted the deductible coverage.

ODECO's broker, Marsh & McLennan Inc., advised AIG and Mentor in January 1982 that the Ocean Champion was being repaired, that repair costs would exceed the \$1 million deductible, and that the OIL policy had already made partial payment net of the deductible.

M&M asked AIG and Mentor to pay their limits under the deductible policy, and the insurers promptly remitted \$1 million to ODECO on a partial loss basis.

Meanwhile, OIL and ODECO had begun negotiations to settle ODECO's claim under the policy written by OIL, and ODECO ultimately agreed to accept payment on a constructive total loss basis.

In April 1983, ODECO received \$18 million from OIL, representing the Ocean Champion's loss value of \$22 million less the OIL policy's \$1 million deductible and \$3 million as the agreed-upon salvage value of the rig.

On Aug. 4, 1983, Mentor sent a notice of reinsurance loss to Leeds, the reinsurance intermediary, describing the Ocean Champion as a constructive total loss. Leeds then notified American Re and AIG that the claim was covered under the reinsurance contract and requested them to pay Mentor.

AIG refused, asserting that because the treaty only paid on a total loss basis and that initial payment had been made on a partial loss basis, it did not have

to pay.

Meanwhile, American Re sent a check for its full share of the reinsurance coverage, but Leeds returned it a year later after it became clear the case would remain unresolved for some time. The foreign reinsurers also remitted their share of the coverage, and Leeds placed those funds in an interest-bearing account pending resolution of the dispute.

On March 1, 1985, Mentor sued AIG and American Re in federal court, where admiralty disputes are handled, rather than state court, where insurance cases are usually heard.

AIG denied liability on the grounds that the Ocean Champion claim "was never a constructive, compromised or arranged total loss and was never abandoned to underwriters."

Pretrial discovery took four years, and in 1991 a special master found that the settlement of the Ocean Champion loss under

**This decision
'reaffirms what has
been standard
operating procedure,'
says Jonathan Bank.**

the OIL policy "triggered the total loss risk ceded to the reinsurers" and that the reinsurers were required to pay. The trial court adopted the special master's findings.

The reinsurers lost again on appeal to the 2nd Circuit. The appeals court found that even though the deductible coverage's reinsurance could only be triggered by a constructive total loss, the magnitude of the loss could not be determined unless the OIL policy were also triggered.

Therefore, in order to follow the fortunes of the deductible coverage, the reinsurers had to also follow the fortunes of the primary policy written by OIL.

"The court ruled that the loss transaction is determined by its bona fide conclusion and not by its initial or original designation," said Mr. London, Mentor's attorney.

This is only the second time a federal appeals court has enforced the follow the fortunes doctrine against a reinsurer, pointed out Mr. London.

Of the four follow the fortunes rulings issued by the federal appeals courts, *Mentor* is only the second to require reinsurers to follow the fortunes of cedants when cedants makes good faith payment within the scope of in-

surance coverage, Mr. London explained.

The first such ruling was a 1990 case also in the 2nd Circuit, *Unigard Inc. vs. North River Insurance Co.* (BI, Sept. 3, 1990). That case has been appealed.

The other two rulings—*American Insurance Co. vs. North America Co. for Property Casualty Inc.* in 1982, and *Bellefonte Reinsurance Co. vs. Aetna Casualty & Surety Co.* in 1990—simply recognized the practice, said Mr. London.

Even though the Mentor case involved a reinsurer-insurer dispute, policyholders should be pleased because the decision prevents reinsurers from second-guessing an insurer's claims adjustment practices, said Stephen L. Thomas, a partner with law firm Thomas & Elliott in Los Angeles.

"If it were decided otherwise, insurers would have trouble adjusting losses" without first getting the consent of reinsurers, he said.

Other reinsurance law specialists said the decision is significant because it affirms common reinsurance industry practice.

"This articulates the recognized custom and practice of following the fortunes," observed Jonathan Bank, a partner with Buchalter, Nemer, Fields & Younger in Los Angeles.

"It reaffirms what has been standard operating procedure," he said.

The Mentor ruling does not, however, expand reinsurers' obligations, said Frank M. Nicoletti of Ober, Kaler, Grimes & Shriver in New York.

Instead, he said, it merely affirms the ruling in *Bellefonte* that "follow the fortunes provisions do not change the reinsurance contract, but simply require payment where a cedent's good faith settlement is within the scope of coverage that was reinsured" (BI, May 28, 1990).

Rarely do federal appeals courts devote such time and resources to reinsurance issues as the 2nd Circuit did in its 41-page Mentor ruling.

"It's an extremely thorough, well-reasoned decision written by a judge who is obviously knowledgeable about reinsurance issues," said Barry Ostrager, a partner with Simpson, Thatcher & Bartlett in New York.

Before being appointed to the bench, Judge Dennis G. Jacobs successfully argued the Unigard case before the 2nd Circuit.

Attorneys for the reinsurers could not be reached.

Mentor vs. AIG Oil Rig Inc., U.S. Court of Appeals for the 2nd Circuit, No. 92-7905.

Contest sponsors will split uninsured award

CHICAGO—Coca Cola Co., Lettuce Entertain You Enterprises Inc. and the Chicago Bulls will split the \$1 million award to a fan who nailed a 79-foot basket during a contest they sponsored during a basketball game last month.

The sponsors had purchased an insurance policy through American Hole 'n One Inc., a managing general agency based in Oakwood, Ga., that was underwritten by Great American Insurance Co. of Cincinnati (BI, April 19).

However, under the sponsors' policy, the randomly selected contest participant must fill out an affidavit stating he or she was not currently playing nor had previously played college basketball.

The sponsors did not have Don Calhoun fill out the form until after he made his winning shot. At that time, they found out Mr. Calhoun had briefly played college basketball, invalidating the policy's coverage.

Meanwhile, Texas Insurance Commissioner Georgia Flint last week issued a cease-and-desist order to American Hole 'n One.

The MGA was operating in Texas without a license in 1992 and 1993, according to the Insurance Department.

In a single month in 1992, American Hole 'n One wrote coverage for about 50 golf tournaments in Texas for an average premium of \$320, the department said.

American Hole 'n One had been under the impression that Texas and Georgia had reciprocity for insurance credentials, but has already taken steps to meet Texas' requirements, which include having a licensed agent living in Texas, said Trent P. Gaites, president and chief executive officer of the MGA.

The department's inquiry occurred because a Texas-based competitor of American Hole 'n One had sent a letter of complaint to the insurance departments of all 50 states, including photocopies of contracts that didn't list the MGA's underwriter or policy number, according to Mr. Gaites.

—By Nancy P. Johnson
and Sally Roberts

Update

Blues plan cost-cutting move

Continued from page 2

The 6% average rate increase, which mostly affects small-group and individual enrollees, is intended to keep up with medical inflation, a BCC spokesman said. In addition, payments were reduced to approximately 40% of the plan's 34,400 specialist providers, and adjustments were made in reimbursement rates on approximately 200 medical services in response to increased utilization.

The rate hikes take effect July 1, and the reimbursement cuts were retroactive to May 1.

BCC's move "demonstrates just how powerful WellPoint is (in California)," said Lucy Olwell, a Merrill Lynch analyst who recommended "aggressive purchase" of the publicly traded subsidiary's stock.

BCC denies acting to enhance profits. "They were cost-cutting moves," said a spokesman. While enrollment rose 12.5% in 1992, the rate of increase in the number of professional services billed by participating providers rose to 16% from 4% in 1991, he said.

The physician group, though, argues that WellPoint, as a publicly traded company, puts shareholders' interest ahead of policyholders'.

Property contributions ruling

WASHINGTON—Employers cannot contribute property in lieu of cash to their pension plans, the U.S. Supreme Court has ruled.

In drafting the Employee Retirement Income Security Act, Congress intended to bar employers from transferring property to their pension plans, the high court said last week.

ERISA was intended to end abuses such as the sale of property to a plan "at an inflated price" or the satisfaction of a sponsor's funding obligation by "contribution of property that was overvalued or non-liquid," according to the 8-1 decision.

The decision overturns a lower court ruling that had allowed Keystone Consolidated Industries Inc. of Dallas to contribute property—including land in Key West, Fla., and several truck terminals valued at about \$15 million—to its defined benefit pension plans.

The decision will have only limited impact because few employers have been contributing property to their pension plans, said Pat Rotello, a partner at Kwasha Lipton in Fort Lee, N.J.

TPA chief to be charged

BOSTON—The head of a third-party administration firm is expected to be indicted for making illegal campaign contributions to Massachusetts Gov. William F. Weld.

Gov. Weld held a press conference last week to announce that Peter A. Cook, chairman of Marshfield, Mass.-based Cook & Co., was about to be charged by federal authorities.

Mr. Cook allegedly gave \$9,000 to Gov. Weld and \$7,000 to Lt. Gov. Paul Cellucci in 1990 under assumed names. State law allows individuals to contribute a maximum of \$1,000 per year.

Cook & Co. holds a contract to audit payments made to Blue Cross & Blue Shield by the state-run Group Insurance Commission, Gov. Weld disclosed last week.

Briefly noted

Some 20 insurers are suing Minnesota state officials to prevent employers from receiving a \$404 million surplus in the state **workers compensation reinsurance fund**. A state law mandates that the surplus go to 70,000 Minnesota employers, rather than the insurers that paid premiums to the fund. . . **Keene Corp.** failed in another attempt to get the federal government to contribute to asbestos settlements and awards for Navy shipyard workers when the U.S. Supreme Court last week upheld the dismissal of Keene's suit against the government (BI, Oct. 26, 1992). . . An employer's obligation to provide **lifetime health benefits** to retirees is not limited to the language of a collective bargaining agreement, the 7th U.S. Court of Appeals ruled. The decision runs counter to the court's 1992 ruling in a similar case. . . London brokers and underwriters say the **bomb damage to the Uffizi Gallery** in Florence last week will likely be paid for by the Italian government. Immediate repairs to the building after the blast outside the museum are reported to total at least 30 billion lire (\$20.3 million). Three paintings were destroyed and 30 were badly damaged. . . The combined ratio for a group of 53 reinsurers surveyed by the **Reinsurance Assn. of America** deteriorated to 108% during the first three months of 1993 from 106% in the same period in 1992. Net premiums written rose to \$3.1 billion from \$2.9 billion. . . A federal judge has approved the proposed settlement between **Navistar International Corp.** and its retirees and employees that would impose health care cost-sharing requirements on union retirees for the first time (BI, Dec. 21, 1992). . . The Florida Legislature approved a bill last week that would bar insurers from **not renewing or canceling homeowners policies** through hurricane season. Gov. Lawton Chiles is expected to sign it. The bill extends a 90-day moratorium issued by regulators (BI, May 24). . . The Court of Appeals in London ruled last week that Lloyd's of London members' losses can be paid directly to them under their **personal stop-loss insurance policies**, rather than having coverage paid directly to Lloyd's. . . A federal jury in Philadelphia has ordered National Union Fire Insurance Co. of Pittsburgh, Pa., to pay \$14.8 million to First Fidelity Bancorp. The jury held that the AIG unit, which underwrote the bank's **D&O liability insurance**, unreasonably withheld its consent to settle a shareholder lawsuit. . . Johnson & Higgins is working with Goldman Sachs & Co. to develop a new **property catastrophe reinsurance facility**. . . **Rubinstein & Perry**, the law firm handling the Executive Life Insurance Co. rehabilitation for California regulators, was cleared of charges of overbilling by an audit commissioned by the state (BI, May 17).

Arkansas comp ruling

Continued from page 2

The state Workers Compensation Commission voted 2-to-1 to affirm an administrative law judge's ruling that Mr. Angus suffered compensable injuries "arising from and in the course of his employment." His work required Mr. Angus "to maintain a constant presence on the premises and exposed him to the risk of the danger which caused his injury."

The Court of Appeals on a 3-3 vote affirmed the commission's decision, applying a "positional risk doctrine." Under that doctrine, an injury is compensable if it would not have happened if the "conditions and obligations" of employment had not put the worker in the position where he was hurt.

However, the appeals court "declined to draw a fine distinction" between positional risk and other types of risk, the Arkansas Supreme Court found.

The issue before the Supreme Court was whether there was substantial evidence to support the commission's finding that Mr. Angus sustained injuries "arising out of and in the course of his employment."

The employer and its workers comp insurer, Travelers Insurance Co., argued that Mr. Angus was not performing any job-related duties when he was injured.

Rejecting that argument, the high court found that there was substantial evidence that he was engaged in employment because he was required to live on the employer's premises and was continuously on duty.

The employer and insurer also argued that his injuries did not arise out of the employment because a tornado is an "act of God" which has no known cause, rather than "a natural and probable consequence or incident of the employment."

The high court based its decision on the "increased risk doctrine"—rather than the positional risk doctrine used by the appeals court—saying that Mr. Angus "was more at risk than the general public due to the performance of the duties of his job."

Phillip A. Pesek, a defense attorney handling general workers compensation cases, said, "It's exactly the kind of case that, had it occurred after July 1, probably would have resulted in a lack of compensability because he was not on duty when the storm hit."

"Adjudicators will now have to make some tough anti-employee decisions, despite compelling situations," like this one, said Mr. Pesek, an attorney with Mitchell Williams Selig Gates & Woodyard in Little Rock.

Workers injured after July 1 will be covered by a new workers compensation law

that expressly voids previous pro-employee legal precedents that are not in accord with the new law.

In writing the statute, legislators took the unusual step of explicitly criticizing workers comp adjudicators because they "continually broadened the scope and eroded the purpose of the workers compensation statutes of this state."

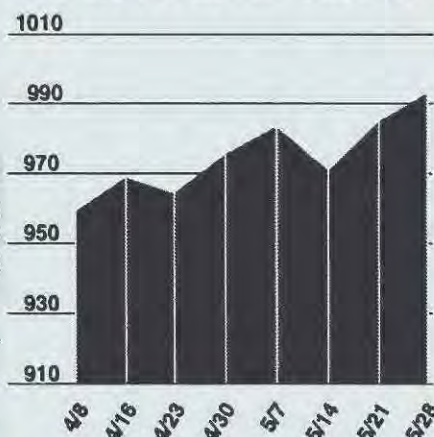
Adjudicators now must "strictly"—rather than "liberally"—interpret compensable injuries under the new act, and let legislators decide other issues, the act says.

Arkansas employers hope the new law will help trim soaring premium increases and make the system more cost-effective, said Gary Houser, employee relations manager with Potlatch Corp. in Warren, Ark., and chairman of a workers compensation committee jointly formed by the Arkansas State Chamber of Commerce and the Associated Industries of Arkansas.

Also included in the new law are some pro-employee provisions to improve safety and penalties for employers that do not return workers to the job or promptly pay legitimate claims.

Deffenbaugh Industries and Travelers Insurance Co. vs. Earl Angus, Supreme Court of Arkansas, No. 92-838.

BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance industry stocks continued to rise last week, as the *Business Insurance Index* climbed 8.1 points to 992.8 May 28 from 984.7 on May 21. Advancing issues for the week were led by: Safeguard Health Entertainment, up 14.3%; Frontier Insurance Group, up 10.9%; and Old Republic International, up 8.7%. Declining issues for the week followed: Gainsco Inc., down 11.3%; Mutual Risk Management Ltd., down 5.6%; and United Fire & Casualty, down 5.4%. The most active issue was U.S. Healthcare, 4.3 million shares traded. The *BI Index* was up 0.8%; the NYSE Composite was up 1.0%; the Standard & Poor's 500 was up 1.0%; and the Dow Jones 30 Industrials rose 1.0%.

British Issues

May 27 Companies	Price	P/E	Div.	Yield	1 Week	
					High	Low
Comml Union	569	NM	32.5	5.7	569-561	
Genl Accident	559	NM	35.7	6.4	566-559	
Gdn Royal Exch	174	NM	9.3	5.3	177-174	
Royal	287	NM	6.7	2.1	289-286	
Sun Alliance	325	NM	19.0	5.8	325-324	
Brokers						
Bradstock	119	13.9	6.8	5.7	119-119	
CE Health	326	18.7	21.3	6.5	326-324	
Hogg Group	180	16.8	10.9	6.0	180-180	
JIB Group	189	18.7	10.0	5.3	190-189	
Lloyd Thompson	273	22.0	7.5	2.7	273-273	
Lowndes Lmbt	345	13.8	16.8	4.9	347-345	
PWS Holdings	60	8.9	5.3	8.8	60-60	
Sedgwick Grp	163	19.7	8.0	4.9	167-163	
Steel Brl Jones	212	12.4	17.7	8.3	212-208	
Willis Coroon	195	18.2	8.8	4.5	198-195	

Source: Philip Olsen, London

* Estimated

June lineup for insurance show now in TV Guide

Listings for the cable television program "Premium Dollar Today" can now be found in TV Guide.

The weekly half-hour program is broadcast on the USA Network every Tuesday at 6 a.m. EDT.

The show, which tackles insurance industry issues, is sponsored by The American Council of Life Insurers, A.M. Best Co., KPMG Peat Marwick Financial Services, Reliance National Insurance Co. and The Society of Chartered Property & Casualty Underwriters. *Business Insurance* provides editorial assistance to the program.

The schedule through June follows:

• June 1. "Hit Me! I Need the Money," a look at auto insurance reform featuring Marjorie M. Berte, author and the governor's insurance adviser in California. The program first aired in 1992.

• June 8. "Homeowners Insurance," with panelists Eric Nordman, senior regulatory specialist for the National Assn. of Insurance Commissioners; J. Wesley Ooms, assistant vp of State Farm Fire & Casualty Co.; and Mary Zavada, vp/publications of the Insurance Information Institute. The program is being broadcast for the first time.

• June 15. "Earthquake Insurance," with panelists Dr. Thomas Henyey, executive director of the Southern California Earthquake Center; Linda Noson, director of the seismic hazards division of Ratti, Swenson, Perbix Inc.; Vincent Randazzo, legislative director for U.S. Rep. David Dreier, R-Calif.; and State Farm's Mr. Ooms. The program first aired in 1992.

• June 22. "Long-Term Care," with panelists Paul E. Forte, general director/sales and marketing for the group long-

term care division of John Hancock Financial Services; Robert B. Maxwell, immediate past president of the American Assn. of Retired Persons; and Susan Van Gelder, assistant director at the Health Insurance Assn. of America. The program is being broadcast for the first time.

• June 29. "Insurance and the Small Business," with panelists John Bryant, chairman and chief executive officer of the Bryant Group Cos. Inc.; Stephen Horn II, managing vp of Calco Insurance; and Joseph D. Macchia, chairman, CEO and president of GAINSCO. The program first aired in 1992.

"The Premium Dollar Today" is also available on satellite. Access America airs the program at 12:30 p.m. and 11:30 p.m. EDT Monday through Friday on GE Americom Satellite F-2 Transponder 7.

—By Sara Marley

BI Industry Stock Report

MAY 24, 1993 THROUGH MAY 28, 1993

BROKERS

	Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Acordia Inc.	NYS	19.00	-4.40	-11.63	24.75	15.13	28	0.36	1.89	17	7.01
Alexander & Alexander	NYS	25.50	-1.92	-3.77	28.88	20.50	359	1.00	3.92	22	10.00
E.W. Blanch Holdings Inc.	NYS	18.13	2.11	N/A	20.00	17.75	220	0.00	0.00	-	10.00
Gallagher Arthur J. & Co.	NYS	33.38	-3.61	18.14	34.63	21.00	364	0.64	1.92	21	6.35
Hilt, Rogal & Hamilton	NYS	14.75	-0.84	-5.60	16.88	11.00	124	0.44	2.98	20	3.11
Marsh & McLennan	NYS	89.88	0.56	-1.64	97.63	73.50	499	2.68	2.98	21	14.40
Poe & Brown	OTC	19.75	0.00	17.91	21.25	11.25	2	0.40	2.03	66	2.64
BROKERS AVERAGE			-1.2	2.2				2.2	24		

CONGLOMERATES & HOLDING COMPANIES

	Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Berkley W.R. Corp.	OTC	41.25	0.61	-4.07	50.50	32.00	525	0.40	0.97	16	23.51
Berkshire Hathaway Inc.	NYS	14975.0	5.46	27.45	14975.0	8875.0	1	0.00	0.00	40	6437.3
ITT (Hartford Group)	NYS	83.88	3.39	16.49	84.25	62.50	1100	1.96	2.34	-36	68.23
Sears (Allstate)	NYS	54.38	0.93	19.51	55.75	37.75	3239	1.60	2.94	-10	40.18
CONGLOMERATES AVERAGE			2.6	14.8				1.6	3		

INSURERS/REINSURERS

	Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
ACE Ltd.	NYS	28.63	-4.98	-	32.00	27.50	245	0.40	1.40	24	34.06
AEGON N.V.	NYS	47.00	3.87	12.91	49.38	33.63	59	2.94	6.26	8	34.06
Aetna Life & Casualty	NYS	53.38	0.47	14.78	54.88	38.00	1035	2.76	5.17	116	67.08
Allied Group Inc.	OTC	37.50	-3.09	18.11	45.50	19.50	169	0.72	1.92	8	11.29
Allmenra Prop. & Casualty	NYS	55.50	1.60	9.90	60.38	34.75	61	0.44	0.79	5	40.44
American General	NYS	31.00	1.64	8.77	33.25	22.63	1252	1.08	3.48	12	39.89
American Indemnity Life Ins.	NYS	24.00	1.59	19.01	25.34	18.91	7	0.44	1.83	16	16.51
American International	OTC	13.00	8.33	116.67	13.00	4.75	10	0.08	0.62	7	14.43
American International	NYS	128.50	2.39	10.78	132.75	84.25	1294	0.56	0.44	16	54.21
American RE Corp.	NYS	34.75	-0.71	-6.08	41.75	33.13	182	0.00	0.00	32	N/A
Aon Corp.	NYS	52.13	2.21	-3.47	56.75	41.25	843	1.80	3.45	17	27.17
Argonaut Group	OTC	32.63	-1.14	6.97	35.25	25.75	16	1.00	3.07	10	21.70
AVEMCO Corp.	NYS	20.88	7.05	-10.70	28.00	18.50	74	0.40	1.92	25	7.33
Baldwin & Lyons Inc.	OTC	39.25	7.53	7.53	39.25	28.00	10	0.48	1.22	10	30.85
Chandler Insurance	OTC	3.75	0.00	-21.06	7.63	3.50	1	0.00	0.00	13	8.63
Chubb Corp.	NYS	87.25	0.58	-1.83	96.38	65.88	1002	1.72	1.97	13	40.67
CIGNA Corp.	NYS	59.00	0.43	0.64	68.00	47.13	919	3.04	5.15	11	81.73
CNA Financial Corp.	NYS	91.25	1.11	-6.89	102.88	82.00	124	0.00	0.00	-12	80.24
Continental Corp.	NYS	29.38	0.43	9.30	34.75	20.00	609	1.00	3.40	22	38.32
EXEL Ltd.	NYS	46.88	1.63	-0.79	52.25	32.38	1446	1.00	2.13	9	N/A
Fund American Corp.	NYS	85.38	0.15	18.58	86.75	67.50	67	0.00	0.00	15	81.85
Fremont General Corp.	NYS	35.00	3.70	1.45	41.75	19.88	387	1.08	3.09	8	25.62
Frontier Insurance Group	NYS	45.75	10.91	5.17	49.00	30.25	46	0.60	1.31	15	13.97
Gainsco Inc.	ASE	13.75	-11.29	-2.65	18.56	9.41	147	0.04	0.29	17	2.65
General RE Corp.	NYS	113.63	1.79	-1.84	130.50	79.25	560	1.88	1.65	16	46.07
Guaranty National Corp.	NYS	20.13	-1.83	1.90	24.00	14.38	74	0.00	0.00	11	9.12
Harleysville Group	OTC	28.25	-0.88	0.00	32.75	18.00	43	0.64	2.27	16	16.77
Hartford Steam Boiler	NYS	56.63	0.44	-1.95	59.88	51.38	103	2.12	3.74	21	19.74
HCC Insurance Holdings	OTC	21.00	0.00	3.70	23.50	12.25	16	0.00	0.00	21	10.12
Kemper Corp.	NYS	36.38	3.93	22.78	43.00	20.75	562	0.92	2.53	-9	37.66
Lawrence Insurance Group	ASE	6.38	0.00	-26.09	10.25	5.50	2	0.12	1.88	-159	4.66
Liberty Corp.	NYS	30.25	0.83	7.08	32.88	21.50	218	0.56	1.85	12	18.43
Lincoln National	NYS	77.75	-1.89	6.32	83.63	57.00	348	3.04	3.91	10	58.92

System design: Nordby International Inc.

		Price	Weekly % change	Year to Date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Market Corp	OTC	34.75	-1.42	11.20	36.50	23.00	34	0.00	0.00	10	20.24	1.72
Mutual Risk Mgmt. Ltd	NYS	35.88	-5.59	-11.42	46.00	25.75	806	0.28	0.78	20	7.51	4.78
NAC Re Corp	OTC	36.25	-3.33	-10.49	44.75	21.75	214	0.16	0.44	51	13.60	2.67
National Re Corp.	NYS	35.63	-2.06	20.25	39.63	17.63	22	0.12	0.34	13	N/A	N/A
Navigator Group	OTC	33.00	0.00	1.54	36.00	28.50	7	0.00	0.00	24	15.69	2.10
Nobel Insurance LTD	OTC	6.50	0.00	10.64	8.25	4.25	88	0.00	0.00	2	3.91	1.66
NWNL Companies	NYS	28.13	1.35	-44.72	32.44	17.25	389	0.80	2.84	14	46.21	0.61
Ohio Casualty Corp.	OTC	64.00	3.23	1.39	68.75	50.25	141	2.84	4.44	12	43.08	1.49
Old Republic Int'l	NYS	23.50	8.67	-5.53	27.38	19.50	462	0.44	1.87	8	18.63	1.26
Orion Capital Corp	NYS	40.50	5.54	14.49	46.38	24.59	46	0.80	1.98	9	28.62	1.42
Phoenix RE Corp	OTC	29.25	0.00	85.71	34.00	9.00	1262	0.20	0.68	-64	13.32	2.20
Provident Life	NYS	27.13	-5.24	-4.82	31.50	20.75	141	1.04	3.83	10	30.38	0.89
Re Capital Corp.	ASE	14.88	0.85	-9.85	16.63	12.25	10	0.28	1.88	30	16.88	0.88
Relevance Group Holdings	NYS	6.63	-3.64	8.16	8.50	4.25	388	0.32	4.83	3	2.94	2.25
RLI Corp.	NYS	26.00	1.96	5.05	28.63	18.75	7	0.52	2.00	12	17.92	1.45
St. Paul Companies	NYS	81.13	1.56	5.36	83.25	67.88	450	2.80	3.45	-13	59.79	1.36
SAFECO Corp.	OTC	56.63	1.12	-0.22	66.75	48.38	1643	1.80	3.18	13	35.37	1.60
SCOR U.S. Corp	NYS	17.63	-1.40	0.71	20.75	13.13	14	0.32	1.82	220	14.39	1.22
Sheldahl Bruce Group	OTC	0.94	0.00	-49.97	6.13	0.38	36	0.00	0.00	0	6.22	0.15
Selective Ins. Group	OTC	23.00	0.00	4.55	25.75	19.00	217	1.12	4.87	13	20.22	1.14
Shelton Group Inc	OTC	11.63	8.14	-3.13	16.50	5.00	600	0.20	1.72	6	6.71	1.73
Shook Marine & Fire	OTC	63.75	7.14	32.81	63.75	36.75	31	0.00	0.00	-	70.93	0.90
Spartan Corp	NYS	53.00	2.66	-6.61	64.75	37.75	894	1.04	1.96	14	14.87	3.56
Stansamania	NYS	49.38	0.77	2.86	56.13	40.00	543	2.00	4.05	11	35.86	1.38
Stansatlantic Holdings	NYS	49.63	-5.25	-11.58	56.75	29.38	91	0.28	0.56	16	21.85	2.27
Staveler's Corp	NYS	28.88	5.96	5.96	30.75	17.13	996	1.60	5.54	-4	43.85	0.66
Stemwick Group Inc.	OTC	42.25	-2.31	3.68	47.75	25.00	167	0.80	1.89	17	23.87	1.77
Stent Fire & Casualty	OTC	35.00	-5.41	-15.66	43.00	35.00	0	1.00	2.86	81	28.47	1.23
Stentm	OTC	43.25	0.00	1.17	43.88	32.75	204	1.20	2.77	14	36.51	1.18
STNUM Corp	NYS	53.63	2.63	1.18	58.38	37.75	746	0.80	1.49	14	21.83	2.46
St Facilities Corp.	OTC	10.13	6.58	1.25	18.00	7.00	214	0.00	0.00	10	9.64	1.05
STF&G Corp	NYS	16.75	1.52	35.35	19.63	9.88	851	0.20	1.19	335	10.29	1.63
SLICO Corp	NYS	18.25	0.00	1.39	20.00	15.00	25	0.24	1.32	-6	29.80	0.61
SLIFE Corp	NYS	39.38	3.28	8.62	42.63	29.34	229	1.20	3.05	12	64.90	0.61
Washington National	NYS	25.38	1.00	10.33	28.00	18.50	41	1.08	4.26	14	30.27	0.84
Worth National Ins	NYS	25.50	3.03	29.11	25.50	14.50	59	1.00	3.92	18	14.81	1.72
Worth Reinsurance Centr	NYS	32.38	-2.26	N.A	35.13	32.38	531	0.00	0.00	-	14.81	2.19
INSURERS/INSURERS	AVERAGE		1.1	5.1					2.5	22.3		

Reliance National Covers the Bases

Coast to coast and around the world, Reliance National covers the bases with a winning strategy. Our global team of underwriters works with each and every client, offering the most comprehensive array of coverages available.

With a field network of offices from Los Angeles to London we provide the outstanding service our clients have come to expect. From our underwriters to our claims management and loss control engineers, our winning team of professionals scores high points in the Property/Casualty and Accident & Health arena.

For outstanding worldwide insurance protection, come to THE CHOICE...Reliance National.

U.S. Field Offices include:

- Atlanta
- Boston
- Chicago
- Dallas
- Los Angeles
- Minneapolis
- New York City
- Philadelphia
- San Francisco

International Field Offices include:

- Toronto
- London
- Mexico City
- Vancouver

Reliance National underwrites through Reliance National Insurance Company, Reliance Insurance Company, Planet Insurance Company, United Pacific Insurance Company, Reliance Insurance Company of Illinois, and Reliance Insurance Company of New York.

© 1993 Reliance National Insurance Company



THE CHOICE

Reliance National

A Reliance Group Holdings Company

77 Water Street, New York, N.Y. 10005

For further information
write us or call (212) 858-6308