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Business Insurance®

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

Updates

Pro-policyholder pollution ruling might have broad reach: Lawyers

AUSTIN, Texas—A Texas Supreme Court ruling shatters general liability insurers' argument that the absolute pollution exclusion is an ironclad bar against pollution coverage, including coverage for cleanup costs, policyholder attorneys say.

In a victory for contractors, the court on Nov. 12 limited the applicability of Section f of the 1985 absolute pollution exclusion. Section f(1)(a) bars coverage for contractors that polluted third-party property that the contractors "occupied" while performing con-

See **Updates** on next page

PCS purchase to end ownership controversy

By ROBERTO CENICEROS

CAMP HILL, Pa.—Rite Aid Corp. says its pending purchase of PCS Health Systems Inc., one of the nation's largest prescription benefit managers, will not disrupt service to PCS's customers or give the pharmacy chain an unfair advantage over competitors.

The deal, announced last week, is likely to relieve PCS from the scrutiny that has dogged its ownership by drug manufacturer Eli Lilly & Co. Both companies have sought to dispel fears raised by managed care companies, regulators, drug company competitors and employers that PCS could show a bias for its parent's products in its formularies.

Ownership of PCS by Rite Aid will raise far fewer conflict-of-interest claims for the PBM, even though some employers and drug benefit experts still may raise new questions about ownership by a major drugstore chain. Those include whether there's a risk of Rite Aid providing incentives for PCS to steer employees to its stores, rather than to competing drugstore chains that contract with PCS.

Rite Aid and benefit experts say that scenario is extremely unlikely, however, and would ultimately hurt PCS more than it would help its parent.

See **PCS** on page 47

PBGC's health improves

But risks remain: GAO

By JERRY GEISEL

WASHINGTON—Despite racking up a nearly $3.5 billion surplus, the Pension Benefit Guaranty Corp. still faces threats to its long-term financial viability, the General Accounting Office warns.

PHOTO: DAVE HITTLE

Mr. Strauss

Risks to the agency include continued underfunding in large pension plans and a downturn in the economy, the GAO said in a report released last week.

While the agency's single-employer insurance program enjoys a record $3.48 billion surplus, "An economic downturn and the termination of a few plans with large unfunded liabilities could quickly reduce or eliminate the PBGC's surplus," the GAO says.

PBGC Executive Director David Strauss welcomed the report as "independent validation" of points the PBGC has made recently.

The GAO report, requested by Rep. Harris Fawell, R-

See **PBGC** on page 45

Arbitration rejected

Clause in labor pact unclear, broad: Supreme Court

By MARK A. HOFMANN

WASHINGTON—A Supreme Court decision voiding an arbitration clause in a labor agreement means employers will have to be very clear in wording such clauses if they are to withstand legal challenges.

The justices' unanimous decision last week in *Ceasar Wright vs. Universal Maritime Service Corp. et al.* held that arbitration provisions in a longshoreman's labor agreement didn't ban the worker from suing his former employers for alleged violations of the Americans with Disabilities

Act. The labor agreement's arbitration language was "very general," instead of the "clear and unmistakable" language required for an employer to require that arbitration provisions apply to claims alleging violations of federal law, said the high court.

Employment law experts say the court left unresolved whether employers with clearly worded arbitration clauses will be able to enforce them for discrimination claims.

This decision underscores that arbitration provisions must be "clear as day, loaded up with due process and user-friendly. The courts are not going to enforce one-sided arbitration agreements," said Gerald L. Maatman Jr., partner in the Chicago law firm Baker & McKenzie and chairman of the firm's global and U.S. labor, employment and employee benefits practice groups.

See **Arbitration** on page 35

Loss control changes blow through parade

By SALLY ROBERTS

NEW YORK—When Macy's Thanksgiving Day Parade takes place Thursday morning, such veterans as the Pink Panther, Woody Woodpecker, Bugs Bunny and the Cat in the Hat will not be part of this year's famed 2½-mile walk through the streets of Manhattan.

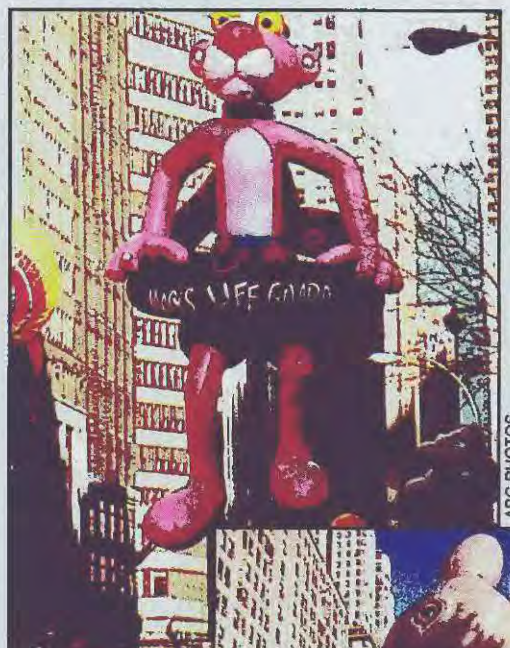
That is because those balloons, among others, do not meet new city safety guidelines that restrict the size and configuration of this year's large parade balloons. The guidelines also stipulate that if winds exceed 23 mph or wind gusts exceed 34 mph, as they did last Thanksgiving Day in New York, all of the 31 large parade balloons scheduled to take part in the 72nd annual parade may be sidelined.

These are just two of the new loss control measures being implemented as part of guidelines handed down earlier this year from a mayoral task force that conducted a five-month study of parade operations.

New York Mayor Rudolph W. Giuliani directed top aides and police officials to investigate whether tighter regulations should be applied to the Macy's Thanksgiving Day Parade following the accident last year in which a six-story-high Cat in the Hat balloon severed part of a metal lamppost, injuring four people, one seriously.

Winds averaging more than 26 mph, with gusts up to 43 mph, wreaked havoc on many of the parade's signature balloons last year.

See **Parade** on page 42



ABC PHOTOS

High winds during Macy's 1997 parade have forced changes in New York's parade rules.

AFP PHOTOS

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Updates

Insurer loses pollution ruling

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tracted services. Relying on a definition established by the 5th U.S. Circuit Court of Appeals in 1991, the Texas Supreme Court said in a 5-4 ruling that "occupy" means to "hold or keep for use." Without establishing a time period, the court ruled that a contractor's "mere presence" or "transient" presence on a third party's site does not establish occupancy.

Any other interpretation would render meaningless another provision of Section f, the court ruled, overturning a 1997 appeals court decision. The insurer's argument would make f(1)(a) a total exclusion that does not require further elaboration, the court explained. However, another provision, Section f(1)(d)(i), bars coverage when contractors brought contaminants to third-party sites.

In addition, the court pointed out in a footnote that contractor Kelley-Coppedge Inc.'s policy included a total pollution exclusion that was applicable in other states but not in Texas. Therefore, the court reasoned, Highlands Insurance Co., which covered the contractor, "cannot claim that exclusion f is an absolute pollution exclusion."

Kelley-Coppedge attorney Patrick Wielinski of Ford Yungblut White & Salazar P.C. of Dallas called that "significant footnote" the most important aspect of the case.

Policyholder attorney John A. MacDonald, who filed an amicus brief in the case, said the ruling has national implications. Mr. MacDonald said the ruling undercuts the ability of insurers to cite a 1995 Texas Supreme Court decision as support for the industry's argument that the 1985 standard-form exclusion unambiguously excludes coverage for all pollutant-related damages or injuries, regardless of the circumstances. The 1995 case involved "non-standard" total pollution exclusions, not the exclusion involved in the most recent decision, said Mr. MacDonald, a partner with Anderson Kill & Olick P.C. in Philadelphia.

But, the court did not back away from its 1995 decision, said John Yang, an attorney for the Insurance Environmental Litigation Assn. Mr. Yang is with Wiley Rein & Fielding in Washington.

Highlands attorney Michael Sean Quinn predicted that a similar case likely will not appear again. A former Highlands attorney failed to raise another provision of the exclusion that bars coverage for all cleanup costs, said Mr. Quinn, a partner with Sheinfeld, Haley & Kay P.C. in Austin, Texas.

But Messrs. Wielinski and MacDonald said that provision bars coverage only for government-ordered cleanups, which was not an issue in this case.

Mr. Quinn disagreed. He said the provision also applies to cleanup requests made by property owners.

More workers sue Microsoft

SEATTLE—A new group of temporary workers at Microsoft Corp. has filed a lawsuit seeking to obtain benefits enjoyed by regular workers of the Redmond, Wash.-based software giant.

The 9th U.S. Circuit Court of Appeals ruled last year that Microsoft improperly excluded workers wrongly classified as independent contractors from its 401(k) and stock purchasing plans (*BI*, July 28, 1997). In July, a U.S. District Court judge in Seattle limited the scope of the class-action lawsuit, ruling it applied only to those 200 to 300 people who were temporary workers from 1987 through 1990.

In the lawsuit filed last week in the U.S. District Court in Western Washington, 10 temporary workers hired by Microsoft after 1990 are seeking to participate in the savings plans as well as company-sponsored health plans and other benefits. The workers are seeking compensation for all the benefits they say they were denied. The suit alleges that Microsoft breached its fiduciary duty under ERISA by failing to properly classify the workers as employees.

Some of the 10 workers still are working at the company.

Plaintiffs' attorney David Stobaugh of Bendich, Stobaugh & Strong in Seattle said he is seeking class-action status for the lawsuit. The class would cover thousands of workers, he said.

A Microsoft spokeswoman said the company was reviewing the lawsuit and had no comment.

Maine gets first captive

GARDINER, Maine—Bank One N.A. of Columbus, Ohio, has formed Maine's first captive insurance company.

Banc One Private Mortgage Insurance Co. of Falmouth, Maine, will reinsure private mortgage insurance on mortgage loans originated by Bank One N.A. or its affiliates.

Maine enacted its captive law last year. The law requires a minimum capitalization of $250,000 for single-owner captives and permits captives to write insurance for "controlled unaffiliated business," or operations that have a contractual relationship and close association with the captive's owner (*BI*, June 23, 1997).

Bank One N.A. is a national bank that is part of Bank One Corp., the bank holding company formed in the merger of Banc One Corp. and First Chicago NBD Corp. earlier this year. Banc One Insurance Group, which provides products such as credit insurance and annuities to customers of Bank One Corp. and its affiliates, will manage Banc One Private Mortgage Insurance.

Humana, Prudential silent

LOUISVILLE, Ky.—Neither Humana Inc. nor Prudential Insurance Co. of America would comment on rumors that a deal is in the works for Humana to acquire Prudential's health care business.

"We continue to examine all of our strategic options for our health care business, which includes a possible sale, a management buyout or retaining the business," a spokesman for Newark, N.J.-based Prudential said of Prudential HealthCare, which is based in Roseland, N.J. "No decision has been made, and we are not setting an artificial timetable."

See **Updates** *on page 46*

One-year delay fails

Massachusetts Medicare HMOs to cap Rx benefit

By JERRY GEISEL

BOSTON—Medicare HMOs in Massachusetts will stop offering unlimited prescription drug coverage to individual enrollees next year.

Those plans, all of which offered unlimited prescription drug benefit packages this year, last week told the Health Care Financing Administration they will offer packages next year with annual prescription drug benefit caps ranging from $500 to $800.

Three of those HMOs—Blue Cross & Blue Shield Assn., Tufts Health Plan and Fallon Community Health Plan—said they were willing to offer unlimited prescription drug benefits for next year only. But their decision was conditioned on Harvard Pilgrim also agreeing to provide unlimited prescription coverage next year.

Harvard Pilgrim said it no longer could afford to provide unlimited drug coverage, noting that a much higher percentage of it enrollees opt for unlimited coverage, compared with other HMOs.

With Harvard Pilgrim declinin to go along, a last-ditch effort t get the HMOs to agree on a one year delay in capping benefits fel apart.

Last week's decisions by th HMOs not to offer unlimited pre scription drug coverage is yet an other twist in a controversy wit potential national implications.

See **Caps** *on page 4*

Risk mapping a new path to risk financing options

By AMANDA MILLIGAN

CHICAGO—Navigators used maps to link together far-away regions of the world, and when planning a car trip, travelers look to maps to find out what highways connect them to their destination.

Today's risk managers also can use the art of mapping to their advantage, said Nathan I. Shpritz, regional marketing director of risk sciences for Boston-based Liberty Mutual Insurance Co.

REBEX 1998

Risk mapping involves considerin many facets of corporate risk, such a workers compensation, earthquake ex posure and employment practices an correlating risks that are unlikely to oc cur simultaneously. Risk mapping help a company diversify its risk financin options, he said. Because not every one o the correlated risks will be experiencin high losses at the same time, this metho spreads the risk across the entire compa ny, rather than allowing one "fiefdom"

See **Mapping** *on page 4*

Managing risk of tainted goods

By JOANNE WOJCIK

PALM SPRINGS, Calif.—Even if a company does buy coverage for product contamination, it still should have a crisis management program to mitigate losses.

Coverage for product contaminations is easier to find today than it was back in the early 1980s when Johnson & Johnson was forced to recall millions of bottles of Extra-Strength Tylenol after several bottles of the painkiller were found to be tainted with cyanide.

"Following the Tylenol incident, only a limited form of this coverage was available," recalled Kelvin D. Mercer, senior underwriter and managing director for ASU Enterprises L.L.C. in London. "At the time, we struggled to put together $5 million in limits."

Since then, however, the availability of malicious and accidental contamination recall and business interruption insurance has grown in response to demand by companies that manufacture or distribute products for consumption.

"Recall costs and lost revenues can put a

See **Products** *on page 40*

Risk Manager in Residence aids students

By AMANDA MILLIGAN

Stephen Finley went to Xavier University as guest speaker and went home smarter.

Mr. Finley, director of risk management for th Denver Public School system, was one of 10 risl managers selected by the Spencer Educationa Foundation Inc. to participate in the Risk Manage in Residence Program for colleges and universitie for the 1998-99 school year.

During his three-day stay at the Cincinnati uni versity, Mr. Finley spoke extensively of his experi ences in public risk management to undergraduat and graduate students and faculty, and he ofte found himself surprising his audience with th breadth of his job description as a risk manage ment professional.

As a risk manager, the greatest benefit was th research involved in preparing for his visit, Mr Finley said.

Because he was speaking on topics he doesn' deal with every day, the work made him smarte he said.

"The idea is to bring people from the outside t the university to get an idea of how risk manage

See **Residence** *on page 4*

Inside

Departments

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BI's 26th annual EBC Awards

Thirteen companies this year will take home honors from *Business Insurance*'s 26th annual Employee Benefits Communication Awards competition.

Those winners were selected from 90 entries submitted by 69 organizations in the United States and Canada.

Seventeen of the submissions were prepared in-house, while 73 were done with the assistance of a consultant. Fifteen consulting firms were represented in the entries, with nine of these firms represented in the 13 awards.

Profiles describing the winning entries begin on page 12.

A list of the 15 judges who evaluated the entries is on page 28.

Also in this issue, on page 4, Senior Editor Joanne Wojcik reports how benefit professionals are praising the Internet as a fast and cost-effective way to get messages across and to handle enrollment in plans.

TOTAL BENEFITS PROGRAM

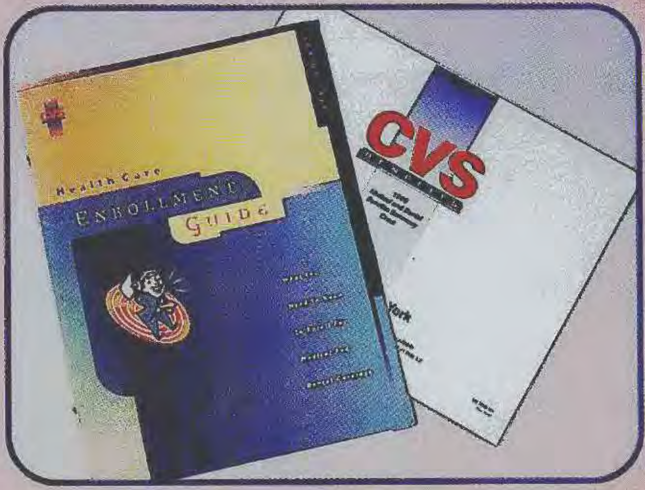
Best of Show: Target Stores
Award of Excellence: Campbell Soup Co.

SPECIAL PROJECT

Best of Show for Print Communication: Pitney Bowes
Award of Excellence for Print Communication: BellSouth Telecommunications Inc.

SPECIAL PROJECT

Best of Show for Intranet Communication: Applied Materials Inc.
Award of Excellence for Intranet Communication: Pharmacia & Upjohn

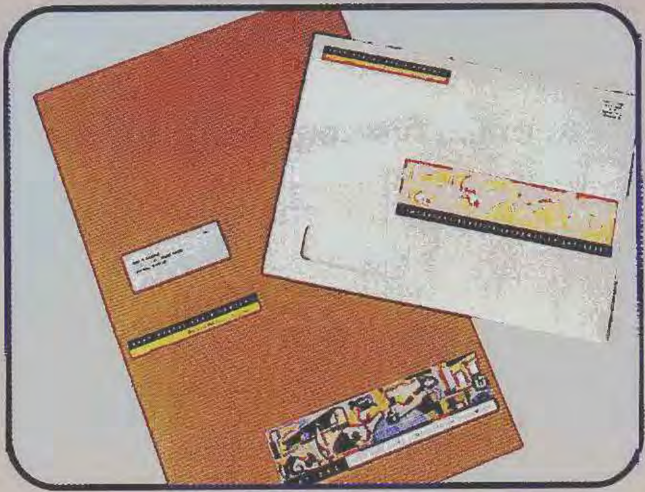


SINGLE-SUBJECT BOOKLET

Best of Show: CVS Corp.
Award of Excellence: Thomas & Betts Corp.

MULTISUBJECT BOOKLET

Best of Show: Roadway Express Inc.



MULTIMEDIA

Best of Show: Avon Products Inc.

NEWSLETTER

Best of Show: Lucent Technologies Inc.

PERSONALIZED CORRESPONDENCE

Best of Show: Continental Grain Co.
Award of Excellence: United Airlines Inc.

Employee Benefits Communication Awards

Internet use continues to click for benefits

By JOANNE WOJCIK

The Internet is becoming the medium of choice for employee benefit communications.

It gets the word out fast, is relatively easy to use and costs far less than traditional paper-based communications.

What's more, employees seem to like it.

In fact, participation in Dell Computer Corp.'s 401(k) plan grew to 83% of eligible employees from 52% last year when the company began offering online enrollment. And new employees are enrolling at the rate of 95%, according to Dell.

Going online has "increased participation because employees can visually monitor their accounts. We've had a fantastic response from employees," said Lisa Cummings, director of benefits at Dell, a Round Rock, Texas-based computer manufacturer with 13,500 U.S. employees.

Instead of waiting six weeks until they get a personal identification number, or PIN, employees can immediately enroll after "an hour's worth of orientation on the benefit program, including coverage on the importance of saving for retirement, the rates of return and the company match," she said.

Dell Computer's new hires can enroll for benefits the first day they come to work—even before they have been added to the payroll or Human Resource Information System databases, according to Reggie Hall, a consultant with William M. Mercer Inc. in Dallas who has been working on the Dell project.

Some employers are so taken with online benefit communications that they are choosing vendors based on their Internet technology capabilities.

"They walk into a lab, sit at a desktop and input their Social Security number," and the system walks them through all the benefits choices, said Mr. Hall. "Elections are made directly on the Web," he said.

Some employers are so taken with this new medium that they are choosing vendors based on their Internet technology capabilities.

Darryl Weiss, vp of human resources for high-tech manufacturer Ismeca U.S.A. in Vista, Calif., decided to change health insurers in order to use the Internet for administration and communications.

"I'm a systems-oriented person," Mr. Weiss explained, adding that Ismeca U.S.A "had a lot of work without a lot of people to do it."

Mr. Weiss said he chose Blue Cross of California when he saw "the potential to eliminate paper and the time the benefit assistants had spent filling out forms, etc., vs. storing the information on disk and immediately transferring it."

Woodland Hills, Calif.-based Blue Cross uses an Internet-based administration and communications system developed by Xybernet Inc. of San Diego.

While Ismeca's benefit department personnel still are inputting information to be sent via modem to Ismeca's health insurer, "the plan is to have the employees do it themselves from various PCs designated for benefits," Mr. Weiss said.

Patrick Flynn, vp of Tri Star Insurance Services Inc., a San Diego-based benefits broker and consultant, said Ismeca is just one of many employers seeking Internet-based benefits enrollment and administration.

"Essentially, they're challenging the vendors to 'Show me what makes you different from the rest of the plans and how it's going to be easier to do business with you,' " Mr. Flynn said.

"This is how carriers are competing these days because the plans are so similar. If you want to differentiate yourself, you have to do something to make it easier for the employer and the employee," according to Mr. Flynn.

For example, New York-based Guardian Life Insurance Co. of America earlier this month announced a new Internet site that provides 401(k) plan participants password-secured access to their accounts. Participants in the Guardian Life plan can use the site to transfer assets among investment options, change the allocation of future contributions and view balances.

Evaluating, implementing and/or expanding the use of Internet applications in retirement planning is the top priority of benefit managers for 1999, according to a recent survey by the International Society of Certified Employee Benefit Specialists and Deloitte & Touche L.L.P.

But so far, only 13% of plan sponsors say they currently offer access to plan information via the Internet, according to a survey by the Spectrem Group, a San Francisco management consultant and research firm. Internet usage is more common in larger plans and is higher in 401(k) plans than in health plans.

One reason benefit managers are clamoring for Internet technology is that information updates can be made almost literally with the press of a button.

"We're killing the rainforest

See **Internet** *on page 6*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At Wausau, when we look at architecture, we see more than buildings. We see effective solutions for protecting against the risk of fire. Things like plan reviews and human element programs to minimize your company's risk; a fire lab where we teach the latest fire protection and prevention techniques; and impairment programs to help companies handle unplanned shutdowns of fire protection systems. Wausau is a National Fire Protection (NFPA) underwriting company, following nationally recognized standards of fire protection. We also do Property Special Risk underwriting, and have global capabilities and an A+ A.M. Best rating. So, if fire prevention is an issue for your business, you've met your match with Wausau.
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Employee Benefits Communication Awards

Internet

Continued from page 4

with all these directories (of providers)," said Tri Star's Mr. Flynn. "And they're all out of date as soon as you produce them."

But with the Internet, providers can be instantly added or removed from the directories. And selecting a provider through the Internet also is a lot easier for employees.

"Say you need to find a pediatrician who speaks Spanish and is located within five miles of your home. In order to do that without the Internet, you need a directory, most of which are outdated," Mr. Flynn said.

But with the Internet's sophisticated searching capabilities, an employee can find exactly what he or she is seeking by selecting from a list of preferences.

Internet technology also can be used to take on more daunting challenges, such as portfolio modeling for retirement planning.

'Each Internet hit costs half as much as the average (interactive voice response) call,' says PSE&G's Dick Quinn.

Public Service Electric & Gas Co.'s Internet site, designed by consulting firm Hewitt Associates L.L.C. and launched last September (*BI*, Nov. 17, 1997), allows employees to view account information, complete most transactions and track and graph the performance of the plan's six funds.

PSE&G's site also includes a primer on financial risk and reward and fund descriptions. And when users click on the financial modeling tool, it automatically delves into the account and displays the participant's updated investment status.

The tool takes into consideration the traditional defined benefit pension plan, the cash balance plan and any private investments "so they get a complete picture of investment and savings for retirement or any other purpose," described Dick Quinn, director of performance and rewards at the Newark, N.J.-based utility.

And all this sophistication comes with a relatively small price tag.

"Each Internet hit costs half as much as the average IVR call," said Mr. Quinn, referring to PSE&G's telephone-based interactive voice response benefits administration and communications system.

"When someone calls the IVR, we pay for every minute they're on the phone," he said. By contrast, "the Internet costs just $1 (per transaction) no matter how long the participant stays on. So we're trying to encourage our employees to use it."

Start-up costs are fairly reasonable, as they usually are one-time expenses.

PSE&G paid less than $200,000 for an overall employee benefits site, while Dell Computer paid about $35,000 to employee benefit consultant William M. Mercer Inc. for a customized 401(k) application. And Ismeca didn't pay a dime because Xybernet bills the insurers, not the employers.

Internet costs vary depending on level of functionality, sophistication of transactions and amount of graphics used, according to Mercer's Mr. Hall.

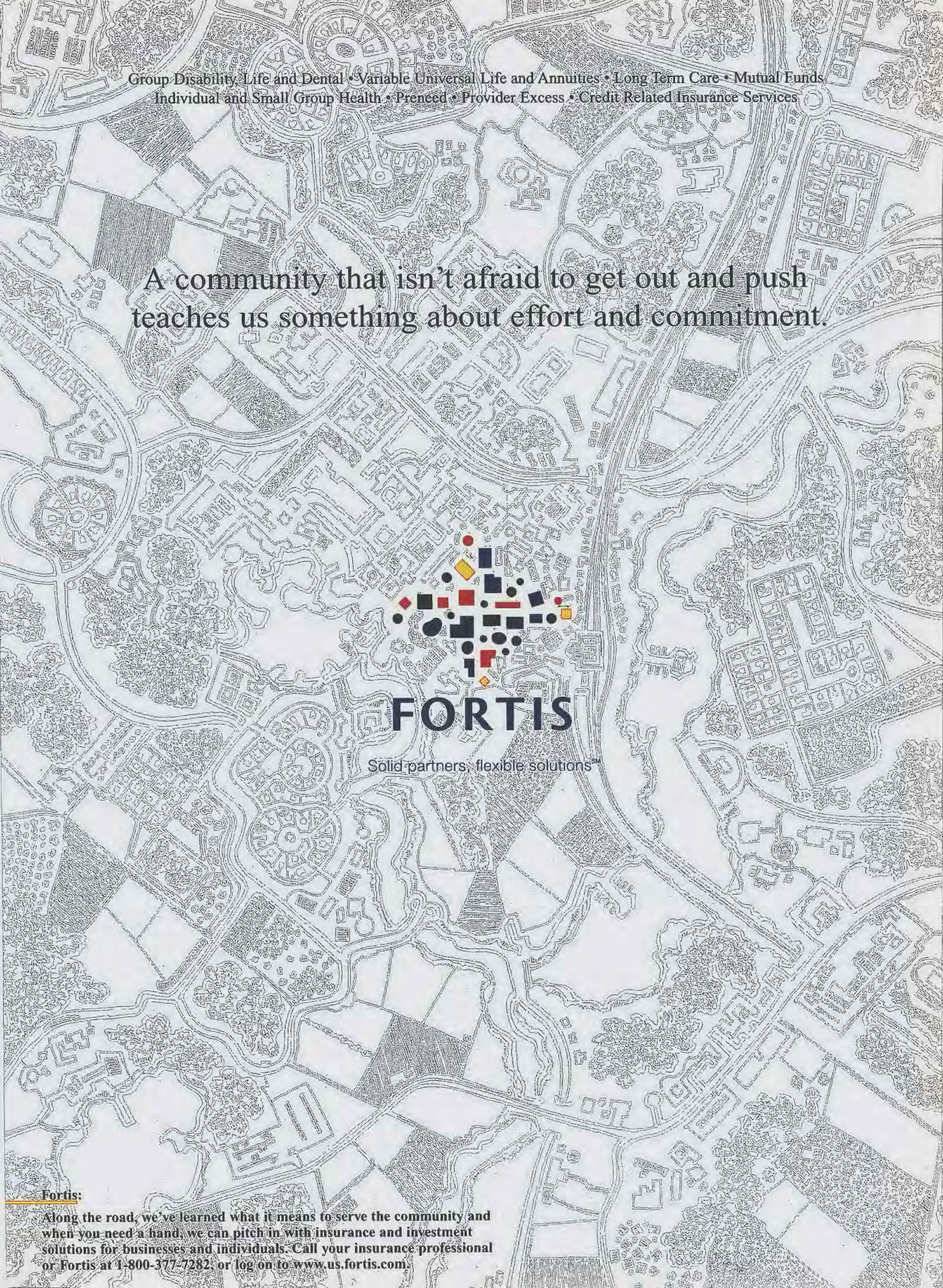
"You can get some pretty elaborate design that will cost an appropriate amount of money for what you're getting," he explained. "At the same time, there are less sophisticated—and therefore less expensive—programs on the market."

Most of the time, employers already using consultants will get custom-built systems, but as more systems are built, they will become less expensive, Mr. Hall predicts. BI

Janet Knott

Bath, Maine:

Schoolkids take initiative and push their stalled school bus (and a few of their schoolmates) towards a gas station.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Employee Benefits Communication Awards

TOTAL BENEFITS PROGRAM

Best of Show: Target Stores

Target scores a bull's-eye with communications

By ROSEANNE WHITE

MINNEAPOLIS—Target Stores has turned its marketing savvy inward to communicate the range of benefits it offers employees.

Using the slogan "Totally Target," the Minneapolis-based retailer rolled out a dynamic pre-enrollment campaign and enrollment package earlier this year designed to sell its employees on more than just medical and dental benefits.

The program was launched in January with a poster about the February telephone enrollment that carried the message "It's totally fast." A second poster followed about 10 days later with the message "It's time to enroll," listing a toll-free telephone number and other sources of information for those with questions. Next in the lineup was the enrollment packet, which included a personalized benefits worksheet; an enrollment instruction booklet; a medical options brochure; and another booklet entitled "A Global Look," which goes beyond medical, dental and retirement savings offerings to discuss paid vacations, store and travel discounts, and education benefits, among others.

Target's bull's-eye logo appears throughout the materials.

The remaining elements in the pre-enrollment campaign added fun to the process. Signs placed on employee bathroom mirrors, refrigerators and other metal surfaces posed the question "Mirror mirror on the wall, who has the most comprehensive benefits of all?" Singing telegrams that put benefit lyrics to such familiar tunes as "Hello Mudduh, Hello Faddah" entertained diners in the headquarters cafeteria. Red pails of Tootsie Rolls placed in employee locations offered "A sweet reminder to En-Roll." The last piece in the pre-enrollment campaign was an energetic video of more than four minutes that offered an overview of the enrollment process. The video also touted the "Rock-Enroll" coupon in the packet, which offered employees

The objective is to 'communicate the information they need when they need it,' says Sonja Harriday.

$1 off—in addition to their discounts—on any compact disc or cassette during the enrollment period.

The multifaceted project won Best of Show in the total benefits program category in the *Business Insurance* 1998 Employee Benefits Communication Awards competition.

"Totally Target" is about the total compensation approach, said Sonja Harriday, internal communications supervisor for the Minneapolis-based company. The message to employees, whom Target calls team members, is "We want to be able to support you with everything you need," Ms. Harriday said.

The pre-enrollment program "allowed us to have a forum" to communicate the entire menu of benefits, she said.

The pre-enrollment program kicked off a life events communication program, in which materials are distributed to employees explaining company benefits that apply to them at different stages of life, such as marriage or retirement.

The objective of this approach is to "communicate the information they need when they need it," Ms. Harriday said.

Target decided that the internal communications should reflect the company's external style.

Brad Ray, vp and creative director at Rapp Collins Communications in Minneapolis, said Target research showed that while employees thought the retailer's external advertising was "hip and cool," internal communication didn't measure up.

"We were hired to make them more synergistic," said Mr. Ray.

See **Target** on page 14

■ APRIL ■ MAY ■ JUNE ■ JULY ■ AUGUST ■ SEPTEMBER ■

■ JANUARY ■ FEBRUARY ■ MARCH

OCTOBER ■ NOVEMBER ■ DECEMBER ■

YEAR–IN–REVIEW

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Employee Benefits Communication Awards

Soup is good food—for thought

By MICHAEL PRINCE

CAMDEN, N.J.—To do something new, the Campbell Soup Co. looked to something old.

Camden-based Campbell Soup last year introduced telephone enrollment as an upgrade for its flexible benefits program. Called FlexLine, the company used its long-familiar red and white soup cans as the logo for a pamphlet that introduced the program to the 4,500 employees eligible to participate.

FlexLine allows employees to enroll in the company's health plan during the annual 10-day open enrollment period. Open 24 hours a day, seven days a week—except for a few hours on Sunday morning—the phone number even has a soup theme, 888-SOUP-4-US.

Campbell's materials tout the advantages of telephone enrollment as less time-consuming and more convenient to employees while still allowing them to conduct the full array of enrollment procedures.

Using the soup motif helped win the Award of Excellence for Campbell in the total benefits program category of the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

The use of the can logo helped underscore to employees the company's return to its core business as a soup maker after it sold off many of its other businesses.

One challenge Campbell's faced was tailoring the booklets to employees working in various sites. So, the company, along with Hewitt Associates L.L.C.'s office in Bridgewater, N.J., created five booklets. Each builds around a core of standard information, with additional information included for the employees at the various locations.

The booklets were mailed to employees' homes. A week later, employees were sent enrollment kits. Continuing on the soup theme, the kit featured booklets in the shape of soup cans. The larger booklet contained the benefit plan details, and the topics covered include the medical plan options, the flexible spending account, the employee assistance program and other company-sponsored benefits.

The smaller booklet is the enrollment guide. Its "ingredients" include enrollment directions, benefit choices and a FlexLine guide and template employees can use during telephone enrollment. The directions include a flow chart that guides employees through the telephone enrollment procedure.

In addition to FlexLine, the newsletter introduced employees to other changes in the enrollment process. These include a longer enrollment period, a better organized and streamlined enrollment kit and a worksheet for help in calculating the costs of the benefits.

As a result of the campaign, more than 1,800 employees made benefit changes through the new voice response system. Also, the company reports a strong positive employee response to the look and content of the campaign. BI

Target

Continued from page 12

Rapp Collins served as the design and strategic consultant on the project.

"One of the big things from the company's objective is that we feel strongly about our brand," Ms. Harriday said. That sense of a strong brand identity is just as important to employees as it is to customers, she said.

The red Target logo is used in a number of ways throughout the benefits materials—as the face of an alarm clock and telephone dial on pre-enrollment posters, and as a globe, a baby rattle and a beach ball in the total benefits brochure, for example.

"We wanted (the benefits materials) to be bold and contemporary," said Mr. Ray. "We needed to mirror the advertising, but it also needed to be different—have its own identity."

One way that was accomplished was through using a black border on all benefits materials, he said.

In addition, the tone of the booklets "is somewhat more playful," Mr. Ray said, even humorous or tongue-in-cheek at times. The instruction booklet warns: "Selecting medical coverage can be a pain. The symptoms include dizziness, insomnia and sometimes excessive worry that can lead to hair loss. But there is a cure."

The booklets also contain language used in the retail environment, he said. "This offer expires on February 14," according to a graphic in the instruction booklet.

All of the materials are vibrant and employ graphic enhancements, including color photographs of a variety of people; the use of red and shades of green, yellow and orange on pages filled with black type over a white background or white type on a black background; and jumbo numbers and graphics.

Other steps were taken to make the materials more user-friendly. A sheet in the enrollment package headlined "Huh?" tells employees the order in which they should use each piece of the packet. The instruction booklet was kept to 5-by-6 inches so that it would seem less intimidating and could easily be held while conducting telephone enrollment, Mr. Ray said.

Next year the enrollment packet materials will be converted to one booklet, Ms. Harriday said.

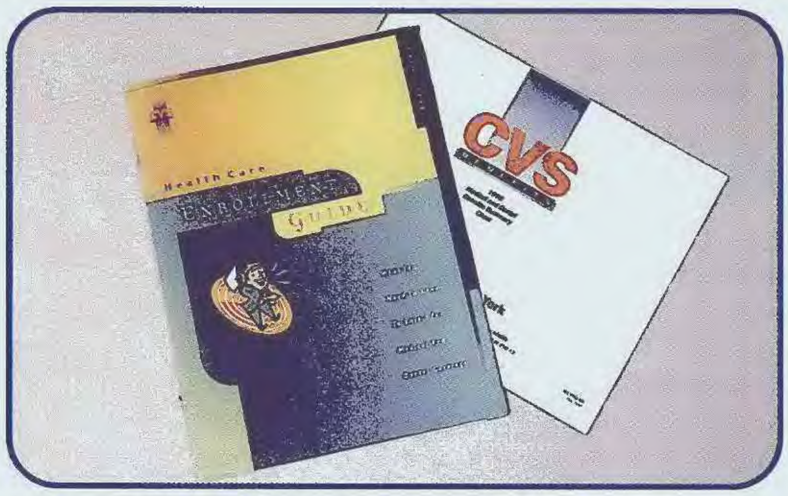
The different elements of the pre-enrollment program were important to reaching out to all team members. "We recognize we have a very diverse population and people communicate in different ways," Ms. Harriday said.

Approximately 90,000 employees enrolled between Feb. 2 and Feb. 14.

The benefits communication effort continues. "Topic skimmers" related to life events such as marriage and loss of a loved one, or helpful subjects such as stress relief, are distributed at regular intervals to benefit bulletin boards in all employee locations.

The materials have been well received by the employees, Ms. Harriday said. "This is a new era for how we communicate to our team," she said. BI

Employee Benefits Communication Awards



SINGLE-SUBJECT BOOKLET

Best of Show: CVS Corp.

CVS writes prescription for better communication

By ROSEANNE WHITE

WOONSOCKET, R.I.—National drug store chain CVS Corp. had just the right prescription for communicating health benefits after the company's largest-ever acquisition last year.

With the need to convey complex information to meet several corporate objectives, CVS and Buck Consultants Inc. decided the best medicine was a simple approach punched up with color, graphics and different type styles to make the information easy to digest yet attention-grabbing.

The result, the 12-page "Health Care Enrollment Guide: What You Need to Know to Enroll for Medical and Dental Coverage," won Best of Show in the single-subject booklet category in *Business Insurance*'s 1998 Employee Benefits Communication Awards.

The booklet needed a powerful impact to carry out the company's education and enrollment mission. The company's objectives for its Spring 1998 enrollment guide included these concerns: unifying former Revco D.S. Inc. employees and CVS employees under one health plan; helping Revco employees understand and feel comfortable with managed care; and explaining interactive voice response enrollment to both Revco and CVS employees.

Achieving those objectives required assessing the information needs and concerns of the two audiences. While CVS and Revco had roughly the same number of employees, Revco had more full-time, benefit-eligible employees, said Kevin Goslin, manager of corporate health plans for Woonsocket, R.I.-based CVS. Those employees, however, were not accustomed to managed care and needed an explanation of how it works.

"Part of the goal of moving them into the new benefit program was to be more proactive and get them into managed care," Mr. Goslin said. "We wanted to mitigate as much as possible any anxiety they had."

The Revco employees needed to know about other differences between their former plan and the CVS plan, such as the provisions on coordination of benefits.

The booklet had to achieve a "balance of educating Revco folks and not overwhelming CVS folks with information they already knew," Mr. Goslin said.

To meet the needs of both audiences, the booklet is divided into several sections that include a variety of graphics to help readers quickly zero in on what they want.

"We tried to organize the information so we could be very proactive in anticipating questions that would come up," said Jill Spielberger, a communications consultant with Buck in Atlanta. Because employees had 12 pages to read, the booklet's creators used graphics to call attention to certain pieces of information.

The inside cover reminds employees of the enrollment deadline and then outlines in three steps what they must do.

The first section of the booklet sets the stage for the health plan details with a message to employees under the headline, "One company, one health care program."

The next section offers highlights of the medical, dental and prescription plans and discusses the advantages of managed care, the key features of managed care and how to select a primary care provider. Question-and-answer graphics respond to questions that may arise in readers' minds, and two other types of graphics, a starburst and an FYI graphic with an open file folder labeled "facts," offer other helpful information throughout the section.

The section headlined "Things to consider before you enroll," discusses paying for coverage, who is eligible, changing coverage and coordination of benefits. A starburst draws the eye to a box that lists examples of eligible family status changes. The final explanatory section outlines six steps to enrolling and explains how to use the CVS benefits line. Another starburst calls attention to a tip on the best time to call the benefits line.

The employees then find a worksheet to complete that will prepare them to easily input information when they call the benefits line.

On the inside back cover is a pocket that contains a personalized statement that indicates the health plan in

See CVS on page 16

CVS

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which the employee had been enrolled, a summary of the medical and dental plan options available in the individual's geographical area and other necessary forms and information.

Color—ranging from mustard yellow and burnt orange to various shades of blue, green and purple—and illustrations appropriate to each section help animate the booklet. "Benefits can be stuffy and formal," Mr. Goslin said. "We were trying to take a little bit of the edge off."

Ms. Spielberger said because employees were faced with significant change, the booklet had to create excitement as well as be informative.

The enrollment guide carries forward the graphic identity that has been familiar to CVS benefits communication. The cover carries the simple logo used for CVS benefits other than the retirement savings program, which has its own identity. The rest of the booklet reflects the design concept used in the company's benefits newsletter.

One of the factors that made the CVS/Buck project successful, Ms. Spielberger said, is that specific, strategic objectives were carried out "in a way that seems simple and light" because of the whimsical design.

The booklet followed a series of communications preparing Revco and CVS employees for the transition and explaining the company's direction and philosophy. "We really have tried to bring everybody into one unified workforce with one unified message," Ms. Spielberger said.

The consulting fees for the project totaled $112,000. The print production and mailing to the benefit-eligible employees cost $275,000.

CVS conducted a survey to determine the booklet's effectiveness. Ninety-four percent of employees reported that the guide effectively explained what they needed to know about open enrollment, and 97% of those who used the worksheet said "it was easy to understand," according to CVS. Eighty-two percent of enrolling employees used the IVR system during the 24-day enrollment period.

More than 32,000 of the 46,000 benefit-eligible employees enrolled in the health benefit plan. BI

Booklet guides 401(k) journeys

Thomas & Betts drives home its message

By SALLY ROBERTS

MEMPHIS, Tenn.—"You are about to begin the longest trip you'll ever take—the journey to financial security when you retire. Of course, anytime you start a long trip, you look for a map to guide you."

So begins the message from Thomas & Betts Corp. to the 1,900 acquired employees of Augat Inc. in an effort to inform and persuade them to enroll in Thomas & Betts' 401(k) savings plan—known by its nickname as the Money Accumulation Plan or MAP.

The Memphis, Tenn.-based electrical transmission components manufacturer uses the "road map" theme throughout its 401(k) booklet, which won an Award of Excellence in the single-subject booklet category of the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

Thomas & Betts is always in acquisition mode and is growing "by leaps and bounds," noted Jerre Harris, director of benefits. Augat, however, which Thomas & Betts acquired in December 1996, was "a very large acquisition for us, with multiple locations."

As such, the manufacturer needed to condense all of its 401(k) plan material into an easy-to-read booklet that explained to all of Augat's employees the company's plan, the investment options available, the need to diversify investments and the reasons that employees should be investing, Ms. Harris explained.

"We wanted to be able to provide the employees with information about our plan. . .and drive home the message that this is 'the road map to your retirement future,' " Ms. Harris said.

'Because we did get such good feedback, we're going to continue to use it with new hires,' says Jerre Harris.

In keeping to the road map theme, the booklet, presented in a pocket-folder format, uses brightly colored art depicting checkered flags, orange cones and road signs.

All of the messages also keep to the theme. For example, information explaining how employees can take out loans and withdrawals from their accounts comes under the "Possible detours" heading; and information about the options available upon leaving the company comes under the heading "When you arrive at your destination."

The center pocket holds information about the eight investment funds offered, allowing Thomas & Betts to insert current fund information without changing the entire booklet.

The booklet, which cost the company $3,080 to produce, was "very successful," Ms. Harris said. Of the 1,800 eligible Augat employees, 1,500 enrolled.

"Because we did get such good feedback, we are going to continue to use it with new hires in all locations," Ms. Harris said. "It's known as a Thomas & Betts piece going forward."

The Vanguard Group of Valley Forge, Pa., consulted on the communications project. BI

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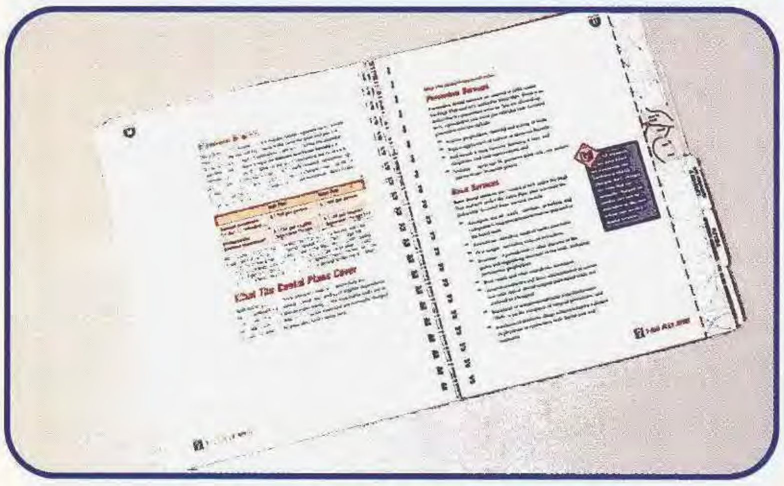
Employee Benefits Communication Awards



MULTISUBJECT BOOKLET

Best of Show: Roadway Express Inc.

Roadway's flex booklet paves way for workers

By RODD ZOLKOS

AKRON, Ohio—Given the nature of its business, it's probably not surprising that when Roadway Express Inc. set out to update the summary plan descriptions of its flexible benefits program, what the company came up with was a road map.

But in its 204 pages, Roadway's "Flex Express Roadmap" provides a single source of information on the various plans included in the Flex Express program, detailing them in an attractive, easy-to-read package.

The booklet, mailed to the homes of the 6,000 non-union management and clerical employees eligible for the Flex Express program, uses the road map format to guide plan participants through general information about Flex Express and more detailed information about the medical, dental, vision, life insurance/accidental death and dismemberment, short-term and long-term disability and flexible spending account plans included in Flex Express.

"The response was very good," said Robert E. Chess, director of human resources at Akron, Ohio-based Roadway. "Our employees had never seen anything quite that comprehensive."

One of the nation's leading trucking companies, Roadway separated from its holding company, Roadway Services Inc., in 1996, prompting both the need to update plan documents and the opportunity to develop more effective ways to communicate benefits information to employees.

"Roadway has a very generous benefits program, so they really wanted to get out there and tell their employees what benefits were offered and how to take advantage of them," said Marcie Shapiro, organizational communication consultant with Aon Consulting in Baltimore who worked on the project with Roadway.

"Beyond compliance, they wanted to continue to provide excellent customer service to their internal customers, their employees," the consultant said.

The result was a booklet that earned Best of Show honors in the multisubject booklet category in this year's *Business Insurance* Employee Benefits Communication Awards competition.

Mr. Chess said, "It's particularly significant to me, because one of the goals that I established for me personally and for our company was to better communicate benefit programs to our employees."

What's more, in providing answers to frequently asked questions, the booklet also helps address the benefits communications challenges faced by a company that has 26,000 employees scattered over 400 locations in all 50 states and a single HR department in Akron.

"One of our greatest challenges being dispersed like that is effective communications. . .because I don't have benefits experts at every location," Mr. Chess said. "I have one group insurance expert on my staff, one employee. And if you think about it for a second, I can't have 6,000 people calling her. There just isn't enough time."

Using the company's blue and orange corporate colors throughout, the book is visually appealing, with road sign icons directing plan participants to important information.

"User-friendly is a big thing that they wanted to achieve, putting all the technical information into very easy-to-understand language and putting it all into an attractive package so employees would want to open it and understand what benefits they did have," Aon's Ms. Shapiro said.

As for the road map theme, "We really intended it to be a guide, a journey through the benefit program to make it more easy to read," the consultant said.

"I have to admit we went through a few ideas before we arrived at that one," Mr. Chess said. "Give the Aon folks credit for their creativity. It's one of those things that you know it's right when you see it. When that one came across my desk I said: 'That's it. That's the one I like.' "

In addition to detailing plan components separately, the Flex

See **Roadway** *on page 20*

Roadway

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Express Roadmap booklet also includes a "life events" section in which employees can look up a particular event such as marriage or the birth of a child and see exactly how their benefits apply or are affected and where to look for additional information.

Such a section is particularly useful, Ms. Shapiro said, "because typically employees don't look up information on benefits until they need it, until they have a life event."

"I wish I could take credit for being the originator of that concept," Mr. Chess said. "I've seen it other places and it makes a lot of sense."

The Flex Express Roadmap booklet cost approximately $160,000 to develop, produce and distribute, with the project taking about six months from the earliest discussions until the books were actually mailed to plan participants in March.

The booklet's design is now serving as a model for a companion piece, a booklet detailing Roadway's retirement benefits, which is in development.

And in the longer term, Mr. Chess expects the Flex Benefits Roadmap booklet and its upcoming companion piece to help him achieve another benefits communication goal.

"The other thing that I hoped to accomplish was getting people's attention and getting them to think about what's next," he said. "I don't think we're to that point yet, but we're gaining on it." BI

Newsletters help Lucent keep benefits on line

By ROBERTO CENICEROS

MORRISTOWN, N.J.—Benefits communication at Lucent Technologies Inc. is about more than just health plans, retirement savings or tuition reimbursement.

It's about transforming a company, with more than 105,000 employees, from a staid establishment where change came slowly, to one of the nation's hottest competitors in the high-performance, high-technology arena.

The company's benefits newsletters are about shifting employee mind-sets and behaviors, said Barbara Hockfield, director of compensation and benefits communications for Lucent in Morristown, N.J.

"It seems like a simple little newsletter," she said. "But in fact, it was one of the key, pivotal ways that we had to bring everyone along. This is a very important event. It's not just a newsletter, it's a change-management tool."

Fully understanding Lucent's benefits communications accomplishment requires understanding its history.

NEWSLETTER

Best of Show:
Lucent Technologies Inc.

Lucent was formerly AT&T's research and development unit named Bell Laboratories. Employees were accustomed to a paternalistic environment steeped in traditional cultural behaviors and principles, Ms. Hockfield said. They viewed benefits as an entitlement they took for granted.

But a decades-old legacy had to change nearly overnight when AT&T in 1996 divested Bell Labs and the resulting Lucent became a nimble, market-focused company known for its telecommunication systems.

"It's a brand-new old company which presented a huge opportunity to do some change-management through communications," Ms. Hockfield said.

For its efforts, Lucent was named Best of Show in the benefits newsletter category of the annual *Business Insurance* Employee Benefits Communication Awards competition.

Lucent created its newsletters with the help of New York-based ASA Communications Inc. ASA excels at designing benefits communications that connect an employee's stake in the company to the company's business objective, Ms. Hockfield said.

"ASA played an instrumental role in delivering a unique, market-based communication solution, which really separates them from the pack," she said. "They have this ability to act as a partner, understand where we are going and then deliver a functional, market-focused communication."

The market that Lucent operates in requires the company to compete for and retain highly skilled workers who are in short supply.

It also requires the company to stay ahead of market trends and keep its workers attuned to those trends.

To attain those goals, Lucent Technology developed its twin-format newsletter. One format is called a "Compensation & Benefits News Special Report." It can be published and mailed to

See **Lucent** *on next page*

Lucent

Continued from previous page

employee homes on short notice whenever employees need to have new benefit information quickly.

It is sent by first-class mail to the home because the time-sensitive benefit information typically requires family input.

For example, one issue contained information about new 401(k) investment choices that were being offered and others that were being closed to new contributions.

The issue also relayed information on investing wisely, investment objectives and transferring account balances.

The second type of newsletter, called "Compensation & Benefits News," is designed to deliver ongoing benefits information. A current edition of it arrives every other month at newsletter stands located in company buildings. The information is also on Lucent's human resources Web site. The newsletter format and placement of different categories remain unchanged regardless of the issue. The consistency helps employees quickly access the information they need, Ms. Hockfield said.

At the top of the cover page for the second format is a section titled "Outlook." The section presents a broad summary of industry trends, or Lucent's national market focus linked to employee benefits.

Below that is "Minding Our Business." The section presents a more tangible link between Lucent's benefits, its market focus and its business objectives.

For example, one recent issue explained to employees how to watch the company's stock. It includes an explanation of the symbols and terminology typically found in newspaper financial pages. That helps employees understand company stock options and that as stockholders they are also company owners with an interest in Lucent's growth, Ms. Hockfield said.

> **The newsletters' simplicity is tailor-made for busy employees, says Lucent Technologies' Barbara Hockfield.**

It helps employees understand the total value of their employment, she explained.

A "Family Care Snapshot," another feature of this format, provides a brief look at information available through Lucent's Family Resource Program. Recent topics include child safety and education.

Finally, a message board on the back page of the newsletter contains brief "nuggets of information" on various offerings such as tuition assistance, pension services and the recent mailing of management compensation booklets.

The newsletters' simplicity is tailor-made for busy employees and it is a noticeable change from an older newsletter that was very dense and difficult to read, Ms. Hockfield said.

"We really need people to take notice at a glance, understand what the hot information is, read it, assimilate it, act on it," she said. "This has been designed to be very focused, very clear, concise information."

Reports of the newsletters' success continue to come in the form of employee feedback, Ms. Hockfield said.

"Now employees are informed," Ms. Hockfield said. "They come back saying, 'Hey, we read that.' That goes from the highest levels on down. It drives change and helps them feel like partners and owners, which is what we are trying to instill." **BI**

PERSONALIZED CORRESPONDENCE

Best of Show: Continental Grain Co.

Booklet aims to sow understanding of plan

By GAVIN SOUTER

NEW YORK—Continental Grain Co. wants to plant some seeds in its employees' minds about benefits and compensation.

It wants to ensure that employees realize they get more than just paychecks from their employer. Employees also need to realize that the benefits package is a set of tools they can use to meet some of their personal goals and that they might not be aware of some benefits options.

Once employees understand how their compensation system really works, they can cultivate a personal financial and health care package that will see them through working life and retirement.

And the company will benefit, as the employees will have many of their personal concerns taken care of and be able to devote more attention to their work.

To get these basic messages across simply and effectively, the New York-based farming company produced an eight-page personalized total compensation statement, which it sent to all of its 15,000 employees.

These efforts were recognized when Continental Grain captured the Best of Show award in the personalized correspondence category of the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

Concise and direct, the booklet explains each component of the compensation plan and uses clear, easy-to-read charts and graphs to illustrate key points.

Each section is titled with a simple statement that expresses the purpose of a particular element of the compensation and benefits package.

The first section, "Your total compensation," details the salary, bonus and benefits components. One sample employee is shown that although her base salary is $45,000, the actual value of all the contributions the employer makes to her total compensation is $59,496.

"Before, we had never really told people what was the real value of their compensation," said Jessie Barsin, director of employee benefits planning at Continental Grain.

Previously, the company provided the employees with a basic benefits statement that did not include details about salary and bonuses, she said.

"They knew how much they put in because they could see the deductions on their paychecks, but we never really told them how much the company put in," Ms. Barsin said.

The next section, "When you need health care," sets out the details of the health plan that the employee has chosen and stresses that the plan is a tool for employees to manage their own health care: "By carefully choosing your coverage, using your plan as an educated health care consumer and taking a proactive role in managing your health, you are in control of your care and its costs," the text reads.

The booklet also details the health care spending account option—which the sample employee does not use— and highlights what the company sees as its advantages. In addition, it states when the employee would be able to enroll in the plan.

"Like a lot of employers, we introduced HSAs a few years ago, and this gives us another opportunity to advertise it," Ms. Barsin said.

The section titled "If you are disabled" details the short- and long-term disability coverages that Continental Grain provides.

The text is accompanied by a readily understandable bar chart that shows the sample employee exactly how many dollars she will get—and for how long—under each element of the coverage, including the supplemental coverage she opted to buy.

"If you die" sets out the life and accident coverage that the company provides.

Again, the booklet stresses that such coverage is just one tool that employees can use to build their own complete financial package.

"Planning for the financial security of those who depend on you is an important responsibility. As you consider the best way to meet their needs, you can count on resources from several Continental Grain programs," the text reads.

See **Seeds** *on page 24*

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$250,000,000
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Senior Credit Facility
Arranger & Administrative Agent
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$150,000,000
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Employee Benefits Communication Awards

Seeds

Continued from page 22

"Growing your resources" illustrates the employees' retirement savings plans. It provides details of how much the employees contribute and how much the company contributes, and it shows how the money is invested.

This section also gives details of the company pension plan and both graphically illustrates how the sample employee's benefits stand currently and projects her monthly benefit when she retires.

"When you retire" shows the sample employee's likely retirement income by combining the various pension and savings plans with the contribution from Social Security.

"It is becoming more and more important for employees to learn about—and for employers to tell them about—what they will have when they retire," Ms. Barsin said.

The greater longevity of people, combined with the widely held view that Social Security benefits will likely diminish, means that employees must realize that they need to plan carefully for their own retirement, she said.

"The first step is to know what you have today and what that could become tomorrow," Ms. Barsin said. And the retirement section of the booklet sets out to provide that knowledge, she said.

One of the key messages of the overall package is that the employer and employees are in a partnership that is mutually beneficial, said Tom Hauser, a communications consultant at Hewitt Associates L.L.C. in Rowayton, Conn., who worked on the project.

"The company is saying that we are doing all this not just because we are nice people, but because if we can help you meet your personal goals and they are taken care of, you will be able to make a greater contribution to the organization," he said.

The booklet stresses to the employees that they should not expect the company to take care of them but that the company will give them the tools to take care of themselves, he said.

Continental Grain's booklet also incorporates a new corporate logo, which again stresses the company's contribution and commitment to employees, Mr. Hauser said.

"Part of using that is to say that this is not separate—there is a direct correlation between benefits and what we do every day," according to Mr. Hauser. BI

Coming through with flying colors

Airline's enrollment kit lands compliments

By ROBERTO CENICEROS

ELK GROVE TOWNSHIP, Ill.—When United Airlines Inc. wanted HMO enrollment to take off, the company turned to vibrantly colored new brochures to attract employee interest.

The communication effort has proved effective: During the 1997 enrollment period for the 1998 plan year, the airline saw HMO use shoot up 16% in Chicago and 11% in Denver.

Those two cities are where the colorful communication materials have replaced black-and-white information sheets that United traditionally used to explain its health benefits, explained Jennifer Herren, manager-people communication and owner services for UAL in Elk Grove Township, Ill.

Benefits enrollment kits containing the bright green and blue booklets were sent out on a pilot basis to about 25,000 employees.

The booklets also had another effect. Employee participation "jumped dramatically" in United's flexible spending accounts for health care and dependent daycare benefits, Ms. Herren said.

Employees in the past were not aware of the spending accounts or they were intimidated by the required paperwork. Therefore, they were not benefiting from the tax advantages the accounts offer, Ms. Herren said.

But in "Your Benefits Outlook," participation requirements in the accounts are explained step-by-step in simple language.

Meanwhile, "A New Outlook On Managed Care" explains how HMOs work, how to choose a primary care doctor and offers tips on why choosing an HMO plan might be beneficial.

"A New Outlook On Managed Care" also profiles the HMOs available to employees. The profiles contain information on the number of primary care doctors, specialists and hospitals in each HMO. There is also information on access and customer satisfaction.

With so many negative media reports about HMOs, United wanted to present employees with objective information, based on what their peers say about their HMO experiences, Ms. Herren said.

For its communications efforts, United won an Award of Excellence in the personalized correspondence category of the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

"This communication is obviously very effective, and it helped to change peoples' impression of HMOs," said Brian Irion, a communication consultant for Hewitt Associates L.L.C. in Lincolnshire, Ill., who was on the team that developed the materials for United. "It helped them make decisions for themselves, but it gave them more information than they had in the past."

The booklet design is simple, straightforward and conservative, Mr. Irion said. But the bright colors are not conservative.

The migration of employees from United's indemnity plan with a preferred provider network to the HMOs generated $2.6 million in savings for 1998 benefits costs. It has also produced some happier employees.

"Not only did employees give us a lot positive feedback just on our enrollment visits, but personally I got e-mail and comments from people, which is unprecedented," Ms. Herren said.

The cost of the project was about $150,000. Because of the success of the booklets, United employees in other locations could soon receive the materials. BI

ASK A RISK MANAGER

Q **Quite a bit has been written about the Year 2000—Y2K—computer bug, but what role should risk managers play in addressing this issue? Isn't Y2K a problem for the chief information officer?**

Risk managers have important role to play in exterminating Millennium Bug problem

A A lot has been written about this ubiquitous issue. It's not surprising that a lot of risk managers may be confused about what to do about the millennium problem and specifically what part they should play in fulfilling their roles as protectors of corporate assets and reputation.

For most medium-sized to large entities, a chief information officer or information systems function head would have primary accountability for resolving the issue. In smaller organizations, various senior officers might fulfill such a role. Both types of entities likely will engage third-party consultants to assist in remediating the problem.

Regardless of who addresses it, the response would be similar with the ultimate goal of ensuring that computers are able to complete key tasks without failure or significant error as a result of how they process information tied to dates beginning at Jan. 1, 2000. That approach would typically include what we all know as the application of the full risk management process: risk identification, risk assessment, risk treatment and risk measurement.

Clearly, like many areas of risk, the Y2K exposure fix is a complex and resource-intense problem that should, and for the most part will, be addressed by the information systems function. Risk managers must ensure that they do and that the whole risk management process is applied. This will typically mean a coordinating or facilitating role with perhaps some coverage placement to mitigate what small portion of the risk may be transferable, depending on the cost benefit to the entity.

Be aware, however, that the coverage available for the Year 2000 problem is extremely limited and may not offer any benefit to many organizations. Regardless, risk mangers should ensure that they have explored the coverage issue in-depth and prepare recommendations to management.

To determine whether your organization is addressing the issue as shareholders, taxpayers and boards would expect, here is a brief template to follow that will address the key issues relevant to this risk:

• Risk identification: The presence of computers in your business is only the tip of this iceberg.

In many respects, the systems used by your suppliers can be an even more significant concern because you have much less control over their compliance efforts. In both cases however, a comprehensive exposure survey is a good starting point for identifying the sources.

There are many examples of these surveys available on the Internet, through your broker and consultants. A thorough, well-crafted survey will help ensure that the remediation plan developed, will be sufficient to minimize the risk to ongoing operations both from internal computer use and use by suppliers and even customers. There are, of course, a myriad of other Y2K risk sources such as the Internal Revenue Service and other governmental entities, but your focus should be against those areas over which you can effect control.

• Risk assessment: Once the survey step is completed, you will have the base data to assess those sources of risk that are most significant.

This will allow you to prioritize those areas that need the most urgent attention and those that may have to wait, especially now that we are within 14 months of that fateful hour. You will then be able to assess whether you have sufficient internal resources to fix the problem in time or whether or not external resources will be needed. The assessment process will also allow you to clarify which exposure sources, if any, many lend themselves to risk financing or alternate treatments.

Addressing key issues relating to Y2K problem

- **Identify the sources of Millennium Bug risk**
- **Assess which risks are most significant**
- **Treat risk with insurance or other means**
- **Measure progress**

• Risk treatment: Buying insurance will not likely be a completely sufficient answer for any entity.

You'll need to look into the way in which this risk is covered or excluded within the context of each policy type, before you can make an informed risk treatment recommendation or decision. For example, directors and officers liability insurance policies will, in general, respond to the exposure created by the responsibly of directors and officers to ensure that their companies are in compliance by Jan. 1, 2000.

The most common loss types that can be anticipated, such as breach of contract or warranty, are areas to which the commercial general liability policy will not respond. Other coverages that could be triggered by a Year 2000-related loss are errors and omissions/professional liability, aviation, fiduciary liability and employment liability, among others.

You shouldn't assume anything about coverage depth or breadth except that—at best—it will be extremely limited as each insurer may elect to exclude coverage as much as possible, while others may be willing to enhance coverage to a client's desire, if perceived to be a well-controlled, low-risk policyholder. Remember that there has been little if any opportunity to test coverage in courts nor present claims to insurance companies.

As a result, don't expect heroics from your underwriters, who generally clearly see this risk as potentially unquantifiable and thus uninsurable. Needless to say, insurance should not be considered a sufficient treatment of the exposure.

A key consideration should be in using contracts with suppliers that include hold-harmless and indemnification clauses that will protect your organization when a third party fails to appropriately address this risk for their organization.

While limited in their effectiveness as suggested above, these contracts should nevertheless include mandates for insurance that covers Y2K risks to the extent available under standard policies. You should ask your suppliers for evidence of their remediation plan and for major suppliers, progress reports up to completion of the remediation objective.

Treatment also should include contingency plans that would properly prepare your organization to be able to respond in the event either your plan or that of your supplier falls short of the intended fix.

• Risk measurement: Make sure you develop and use an audit process to ensure that the remediation plan, developed both internally and by others, is moving along on schedule and to ensure that roadblocks that are encountered can be cleared in a timely manner by the appropriate member of management or even governance.

While this space permits only a cursory overview of this issue, there are numerous sources of guidance and assistance that can help risk managers play their role well. Your role will be a function of how well functional experts, such as those in information systems, do their job. If they do, you can apply the risk management process to this like any other exposure and know that when done well, that you will have played your role in this important risk management effort.

Here are some suggested resources: "The Risk Report," International Risk Management Institute, Volume XX, July 1988; "The Risk Report," Volume XXI, No. 2, October 1998; www.Mstnet.com/year2000/yr2000.html; www.itaa.org/year2000.htm; williscorroon.com/y2k; www.sftware.ibm.com/year2000/paper.html; "Y2K and Your Insurance: The Issues", J&H Marsh & McLennan Inc. BI

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

Ask A Risk Manager, Ask A Benefits Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.

This month's column on risk management issues is written by Christopher E. Mandel, director-risk management at Tricon Global Restaurants Inc. in Louisville, Ky. Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co., L.L.C. in Chicago, answers questions on employee benefit plans. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

Mr. Mandel

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

BellSouth answers call for benefit kit

By MICHAEL BRADFORD

ATLANTA—It's not easy to plan for retirement if the information you need is out of order or littered in a heap at your feet.

As a way to help employees at BellSouth Telecommunications Inc. avoid such frustrations when planning their retirement, the company designed a kit with everything workers need in a single bound volume.

"That was one of our marching orders from BellSouth, to create a cohesive feeling and logical placeholder for the relevant forms that impending retirees could look for," said Christopher K. Williams, vp at Sheppard Associates, the Stamford, Conn., consulting firm that helped design the kit.

The kit replaces a "packet of info that was mailed out from BellSouth," Mr. Williams said. Because the packet was a loose collection of "pieces and forms," it "did not have a cohesive feel to it," he added. "If it got out of order or fell out of the envelope, it was up to you to try to make sense of it."

More likely, the employee would ask the company to share some of the burden of piecing the packet back together, said Ann DeBellis, manager-benefits communications at BellSouth in Birmingham, Ala. "They would call the benefits department and ask us what to do next."

"So," she recalled, "we put together this easy-to-use kit."

Mr. Williams said the idea was to create something "that wouldn't weigh 15 pounds and be as complex as what was already out."

The kit, an eight-section binder that covers all aspects of the retirement process, won an Award of Excellence in the special project category for print communication of the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

A fold-out inside cover introduces employees to what the kit contains and provides a checklist of steps to take as they head toward their retirement date. A form the employee must return to acknowledge receipt of the kit is in a pocket on the inside cover.

Each section is tabbed, and the tabbed divider page has a pocket that holds any necessary forms for that section. For example, the section on health care information includes forms for dental and vision claims and a Medicare reimbursement form.

Apart from "Health Care Information," the sections are tabbed: "Making Your Retirement Decisions," "Monthly Annuity," "Telephone Concession" (information on discount service for retirees), "Survivor Protection," "SSP, PAYSOP & ESPP," "Other Retiree Information" and "Tax Information."

BellSouth spent about $156,000 producing the kit and made the first version available to non-management employees in October 1997. Management employees had a version available early this year.

Feedback has been positive from employees who have used the kit, Ms. DeBellis said. And a focus group of retirees who went through the retirement process without it, "wished they had had it," she added.

Applied Materials uses intranet to display its Benefits Portrait

By AMANDA MILLIGAN

SANTA CLARA, Calif.—Employees at Applied Materials Inc. certainly knew what they earned in salary, but when it came to understanding benefits as part of a total compensation package, some had trouble seeing the big picture.

That's when the company, along with Aon Consulting, unveiled the Benefits Portrait, which offers employees a snapshot of their total compensation at the time of open enrollment. Using the concept of a paint box or palette, the Benefits Portrait illustrates both the employee's and the employer's contributions and offers personalized information on issues such as income protection, survivor benefits and health care.

"I just didn't feel like employees understood the value of their benefits," said Diana Finucane, U.S. benefits manager for the Santa Clara, Calif.-based semiconductor parts manufacturer. "We really felt like we had a challenge on our hands in educating employees."

Some companies are inclined to emphasize the employer's monetary contributions to each benefit. But Applied Materials decided to take a different approach.

Lori Block, assistant vp at Aon Consulting in San Francisco, said that by downplaying the cost of the benefits to the employer, workers are able to derive the actual value of the program. This is accomplished by first detailing the specifics of a program in which employees can participate. The actual cost of the benefit to the company and to the employee is outlined after this description.

"It kind of turned conventional wisdom upside down," she said. "I love the paint box. It's very inviting."

SPECIAL PROJECT

Best of Show for Intranet Communication: Applied Materials Inc.

At the October 1997 launch, 10,000 U.S. employees had access to the Benefits Portrait, either from their personal desktop computers or from shared kiosks, Ms. Finucane said. For its accessibility and crisp design, the Benefits Portrait was awarded Best of Show in the special project category for intranet communication in the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

Applied Materials' employees were already familiar with the company's interest in providing online information. Throughout the year, benefits information is available over the company intranet. In addition, Applied Materials also conducts online salary reviews.

The Benefits Portrait "fits with our philosophy because actual enrollment is online," said Ms. Finucane.

Enabling employees to seek out benefits information on their own also eased the transition into open enrollment online, Ms. Block said. "I think the Portrait really supported that effort because it's a little scary to tell employees that you're going to enroll online," she said.

Traditional phone enrollment isn't as interactive as its online counterpart, and online enrollment also cuts down on the amount of manual data entry required during a time that can be frenetic for benefits personnel. Additionally, because the Benefits Portrait is password protected, it builds employee confidence in the intranet system by illustrating the security of personal information, said Ms. Block.

In 1997, Ms. Block said approximately 6,000 employees went through the open enrollment process. Of that number, fewer than 150 enrollments were conducted on paper.

Because the Benefits Portrait data is only updated prior to open enrollment each year, Applied Materials does not make it accessible year-round. When the system was removed at the end of the 1997 enrollment period, Ms. Finucane said she was bombarded with phone calls, which she said gave her an idea of the value of the Portrait to employees. The company plans eventually to provide more employee benefits information online. BI

Employees respond to RSVP Web

By AMANDA MILLIGAN

KALAMAZOO, Mich.—RSVP—it's the French acronym for "please reply."

When Kalamazoo, Mich.-based Pharmacia & Upjohn introduced RSVP Web, that's exactly what the pharmaceutical company was doing—responding to employee requests for online benefits information.

"Doing a benefits Web site was on nobody's agenda," said Monica Jerussi, a principal in the Fort Lee, N.J., office of benefit consultants PwC Kwasha, which designed the site with Pharmacia & Upjohn. "This came from employee focus groups and employee surveys."

Pharmacia & Upjohn's RSVP Web also stands for Resources for Security, Value and Prosperity, and it highlights benefits that exemplify each of these areas, such as the cafeteria benefits plan, work/life benefits and retirement benefits, respectively. These components make up part of employees' total compensation package, and thus it is important that employees understand them. However, discussions of benefits can become lengthy and technical—adjectives that do not bode well in the fast-paced, "point and click" electronic medium.

"Overall, we tried to create awareness by taking a different approach to benefits," said Ms. Jerussi, adding that the online resource's approach is lighter than the approach used with the print materials. "We wanted to have a little fun, but we didn't want people to think we were frivolous."

RSVP Web, with its vivid colors and lighthearted tone, earned an Award of Excellence in the special project category for intranet communication in the 1998 *Business Insurance* Employee Benefits Communication Awards competition.

Some of the site's features include articles explaining changes in benefits, a list of contacts and phone numbers to call for answers to benefits questions and a look ahead at features planned for subsequent updates.

"We took a boring, conservative thing like benefits and made it kind of cool," said Diane Kostecki, who was director of human resource projects for Pharmacia & Upjohn at the time of the site's inception. Ms. Kostecki now is director of staffing in the Kalamazoo office.

Because it is an intranet feature, employees can only access RSVP Web from a personal computer at work. The service is available to approximately 4,000 employees, and Ms. Kostecki said the response to RSVP Web has been positive.

But due to budget cuts and the costs of operating and updating the site, RSVP Web is used only during the open enrollment period. Ms. Kostecki said its effectiveness also will come under continual scrutiny as Pharmacia & Upjohn continues to adjust to the merger of the two corporations, which took place in 1994.

"I think it helped employees see there were huge changes in benefits. . .This is part of our cultural change."

Ms. Jerussi said the online effort fostered a direct link between employees and the benefits offered to them and presented the corporation in a positive light. "It gave benefits a prominence that this area hadn't had before. It really set benefits apart." BI

Judges for 1999 EBC competition

Fifteen judges reviewed entries in the 1998 *Business Insurance* Employee Benefits Communication Awards competition and selected the recipients of Best of Show honors and Awards of Excellence. The judges for the 26th annual competition were:

- Anthony Amato, director of compensation and benefits at the Hard Rock Cafe International Inc. in Orlando, Fla.
- David Brown, supervisor-profit sharing for Payless ShoeSource Inc. in Topeka, Kan.
- Stephanie Calamanou, benefits and human resources information system manager for Trader Publishing Co. in Norfolk, Va.
- Greg David, editor of Crain's New York Business, a sister publication of *Business Insurance*.
- Laura Freston, senior director of employee relations at the Chicago Mercantile Exchange in Chicago.
- Margaret Fuller, manager-profit sharing for The Southland Corp. in Dallas.
- Christine Goldthwaite, graphic designer at her own firm, William Street Design in Boonton, N.J.
- Barbara Hurley, director of university marketing communications at the University of Medicine & Dentistry of New Jersey in Newark.
- Bernard Knobbe, director-employee benefits and corporate staff human resources for Morton International in Chicago.
- Bill Kroger, corporate manager of labor relations for The Budd Co. in Troy, Mich.
- Carla Pasquali, human resources advisor-benefits for Texaco Inc. in White Plains, N.Y.
- Tammy Schoenert, manager-benefits administration for the H.E. Butt Grocery Co. in San Antonio, Texas.
- Doretta Schuyler, employee benefits manager at Lockheed Martin Missiles & Space in Sunnyvale, Calif.
- R. Scott Speidel, manager-communication and implementation at Kraft Foods Inc. in Northfield, Ill.
- Barbara Wierzbicki, director of communications at HSB Industrial Risk Insurers in Hartford, Conn.

Annual directory of benefit communications systems

A

Aon Consulting

123 N. Wacker Drive,
Chicago, Ill. 60606-1770;
312-701-3000; fax: 312-701-4855

Interactive benefit systems since: 1993.
Parent: Aon Corp.
System type/cost*: Purchased: $50,000. Operated on a service bureau basis for $10,000 per month.
System requirements: PC system, single user or network; operates in Windows or Server-Sun & NT OP systems. Online system if operated on service bureau basis.
Customized system.
First installation: 1989.
Total installations: 100.
Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts. Options available for pension plans, workers comp benefits, stock plan.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available for employee-specific recommendations; health claims status.
Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk.
User support: User groups/meetings**, onsite training**, telephone assistance 10 hours per day**.
Staff: 160 total, 100 professionals.
Clients: 50 total, including 20 new clients and 30 who added additional features to their interactive benefit communication system in 1997.
Branch offices: San Francisco and San Jose, Calif.; Chicago; Atlanta; Baltimore and Owings Mills, Md.; Detroit; Winston-Salem, N.C.; Philadelphia; Montreal Toronto.
Officers: Daniel T. Cox chairman-Aon Consulting Worldwide; Donald C. Ingram, chairman-Aon Consulting-Americas; Ron Amy, chairman-Aon Consulting Ltd.-UK; Jean-Pierre Provencher, chairman-Aon Consulting Inc., Canada; David Jones, president-Aon Consulting's Human Resources Consulting Group.
Contact: San Jose and San Francisco Calif: Deb Lewis, 415-228-3158; Baltimore: Janet Raubach, 410-547-5970.

** Aon Consulting customizes interactive online communications compatible with each client's existing systems. ** Included in system price.*

B

BeneSoft Inc.

P.O. Box 3530,
Bethany, Conn. 06525;
203-393-0320; fax: 203-393-0325

Interactive benefit systems since: 1987.
Software products:
■ Flexible Software.
System type/cost: Purchased: price varies.
System requirements: PC system, single user or network; operates in DOS, Windows.
Customized system.
First installation: 1987.
Total installations: 100.
Benefits communicated: Health plans, flexible benefits. Options available for savings plans, flexible spending accounts, COBRA.
Features: Standard system provides plan descriptions; personal information; direct enrollment; option selection/adjustment; health claims status; reports via printer, computer diskette, electronic mail, fax and mail.
Accessed through: Telephone, employees' PCs.
User support: User groups/meetings, onsite training*, telephone assistance 12 hours per day*.
Staff: 32 total, 20 professionals.
Branch offices: Bethany, Conn.; Ann Arbor, Mich.; Beaverton, Ore.
Officers: Faisal A. Saleh, president; Steve Froebel, vp.
Contact: Faisal A. Saleh.

** Included in system price.*

Buck Consultants Inc.

1 Pennsylvania Plaza,
New York, N.Y. 10119-4789;
212-330-1000; fax: 212-695-4184

Interactive benefit systems since: 1985.
Parent: Mellon Bank Corp.
Software products:
■ Buck Voice Response.
System type/cost: Purchased or operated on a service bureau basis. Price varies.
System requirements: Operates in Voice Response unit (not applicable if service bureau) Online system.
Customized system.
First installation: 1989.
Total installations: 61.
Benefits communicated: Options available for savings plans, health plans, pension plans, flexible benefits, flexible spending accounts and health and welfare benefits.
Features: Options available to add plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; details on investment alternatives; transfers among investment funds; reports via printer, computer diskette, fax and mail; confirmation statements generated for all transactions.
Accessed through: Telephone.
User support: User groups/meetings*, onsite training*, telephone assistance 12 hours per day*.
■ The Buck Retirement Planner.
System type/cost: Purchased: $18,000.
System requirements: PC system, single user; operates in Windows.
Customization optional.
First installation: 1993.
Total installations: Three.
Benefits communicated: Savings plans, pension plans, profit sharing, social security.
Features: Standard system provides modeling/projections; reports via printer; individualized retirement planning. Options available to add plan descriptions; details on investment alternatives.
Accessed through: Kiosk, employees' PCs, benefit department kiosk, Internet.
User support: User groups/meetings, onsite training.
■ Survey Magic.
System type/cost: Purchased: $15,000; also can be leased or operated on a service bureau basis.
System requirements: PC system, single user or network; operates in Windows or voice response unit. Online system.
Customization optional.
First installation: 1995.
Benefits communicated: Surveys any benefit or other topic desired, including performance feedback.
Accessed through: Telephone, employees' PCs, Internet.
User support: User groups/meetings, onsite training, telephone assistance.
■ Community Solutions.
System type/cost: Purchased: $175,000, or operated on a service bureau basis.
System requirements: PC system, network; operates in Windows.
Customized system.
First installation: 1996.
Total installations: Two.
Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts, life events, personal financial planning.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; health claims status; details on investment alternatives; reports via electronic mail and printer. Options available to add employee-specific recommendations; option selection/adjustment; transfers among investment funds.
Accessed through: Telephone, kiosk, employee's PCs.
User support: Onsite training, telephone assistance.
Staff: 23 total, 18 professionals.
Clients: 67 total, including 12 new clients and 16 who added additional features to their interactive benefit communication system in 1997.
Branch offices: 58 worldwide.
1997 gross revenues: $302.2 million total.
Officers: Joseph LoCicero, president/CEO.
Contact: Ed Gadowski, marketing department, 201-902-2565.

** Included in system price.*

C

Cascade Technologies Inc.

333 Thornall St.,
Edison, N.J. 08837;
732-906-2020; fax: 732-906-2018
www.cascadetechnologies.com

Interactive benefit systems since: 1989.
Software products:
■ Connection Server.
System type/cost: Purchased.
System requirements: PC system, operates Windows NT.
Customization optional.
First installation: 1997.
Total installations: 20.
Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; employee-specific recommendations; option selection/adjustment; health claims status; details on investment alternatives; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Optional call center system with output to Internet.
Accessed through: Telephone.
User support: Onsite training*, telephone assistance nine hours per day*, bulletin board service*.
Officers: Vigdis Austad, president; Frank Joicy, vp.
Contact: Janice Franke, marketing associate.

** Included in system price.*

F

Foundation Technologies Inc.

78 Fourth Ave.,
Waltham, Mass. 02451;
781-530-2000; fax: 781-530-2001
www.foundationtech.com

Software products:
■ Beneflex.
System type/cost: Purchased: $300,000.
System requirements: PC system, network; operates in Windows.
Customized system.
First installation: 1996.
Total installations: 12.
Benefits communicated: Savings plans, health plans, pension plans, flexible benefits, flexible spending accounts. Options available for workers comp benefits.
Features: Standard system provides plan descriptions; personal information; option selection/adjustment; details on investment alternatives. Options available for direct enrollment; modeling/projections; employee-specific recommendations; health claims status; transfers among investment funds.
Accessed through: Employees' PCs.
User support: User groups/meetings, onsite training, telephone assistance 10 hours per day*.
Staff: 75 total, 30 professionals.
Clients: 12 total, including eight new clients.
Branch offices: California, Connecticut, Maryland, Pennsylvania, Texas, Wisconsin.
1997 gross revenues: From software sales, 80%; software services, 20%.
Officers: Tod Loofbourrow, president/CEO; Ganne DeSomery, COO; Larry Kurzner, vp-marketing and business development; Mike Huseman, vp-sales.
Contact: Tara Bourgeois, sales and marketing associate, 781-530-2050.

** Included in system price.*

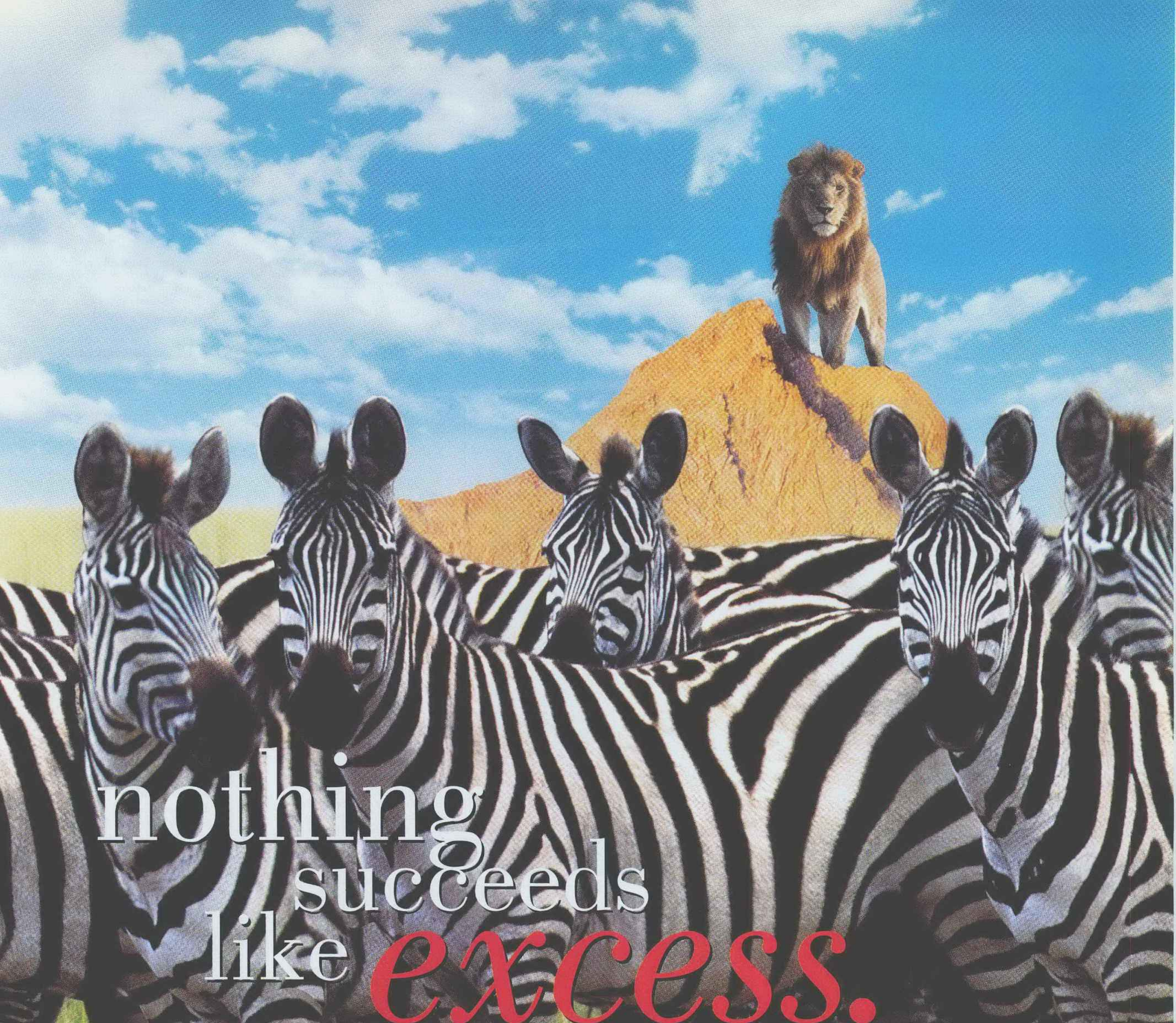
H

Human Resources Consulting Group Inc.

1202 E. Dover,
Provo, Utah 84604; 801-765-4417;
fax: 801-765-4418

Software products:
■ Taxdemo.
System type/cost: Purchased: $3,500. $300 per month lease. Operated on a service bureau basis for $1 per employee per

Continued on page 32



Excess Casualty Protection of a Different Stripe

To survive in the wild, zebras rely on excess, using their camouflage to herd together in excessively large groups that make it virtually impossible for a predator to identify a single victim. Like this lesson in excess protection in nature, you also need to ensure your excess casualty survival with a call to Zurich-American.

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And, our decentralized, field-driven operations assure efficient, dependable personal attention underscored by swift, thorough claims service of a different stripe.

For more information, call one of our experts at 1-800-382-2150. Discover why you don't need to run in herds to reap the benefits of excess. You just have to run with the Zurich-American Excess Casualty Group. You won't just breathe easier. You'll be breathing in the Sweet Smell of Excess.

ZURICH

www.zurichamerican.com

Continued from page 30

month.

System requirements: PC system, single user or network; operates in DOS or Windows.

Customization optional.

First installation: 1983.

Total installations: 5,750.

Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk, Internet, intranet.

■ IVR-Response Plus.

System type/cost: Purchased: $5,500. $500 per month lease. Operated on a service bureau basis for $3 per phone call.

System requirements: PC system, single user or network; operates in DOS, Windows or OS/2. Online system.

Customization optional.

First installation: 1989.

Total installations: 27.

Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives.

Accessed through: Telephone.

■ EBS-Benefits Statements.

System type/cost: Purchased: $1,800. $150 per month lease. Operated on a service bureau basis for $3 per statement.

System requirements: PC system, single user or network; operates in DOS or Windows. Online system.

Customization optional.

First installation: 1993.

Total installations: 15.

Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PC, benefit department kiosk, Internet, intranet.

■ Enroll-Employee Self Service.

System type/cost: Purchased: $500. Operated on a service bureau basis for $1 per employee per month.

System requirements: PC system, single user or network; operates in DOS or Windows. Online system.

Customization optional.

First installation: 1982.

Total installations: 150.

Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk, Internet, intranet.

■ TouchScreen Employee Self Service.

System type/cost: Purchased: $15,000. Operated on a service bureau basis for $1 per employee per month.

System requirements: PC system, single user or network; operates in DOS or Windows. Online system.

Customization optional.

First installation: 1982.

Total installations: Five.

Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; health claims status; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk.

■ Interactive Video Employee Self Service.

System type/cost: Purchased: $25,000. Operated on a service bureau basis for $2 per employee per month.

System requirements: PC system, single user or network; operates in DOS or Windows. Online system.

Customization optional.

First installation: 1982.

Total installations: Two.

Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; health claims status; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PC, benefit department kiosk, Internet, intranet.

■ Web/Internet/Intranet Employee Self Service.

System type/cost: Purchased: $15,500. Leased. Operated on a service bureau basis for $1 per employee per month.

System requirements: PC system, single user or network; operates in Windows. Online system.

Customization optional.

First installation: 1998.

Total installations: Two.

Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts.

Features: Standard system provides personal information; direct enrollment; modeling/projections; option selection/adjustment; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; health claims status; details on investment alternatives.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk, Internet, intranet.

User support: User groups/meetings*, onsite training*, telephone assistance 9.5 hours per day*, remote telephone training*.

Staff: 25 total, 22 professionals.

Clients: 600 total, including 15 new clients and 25 that added features to their interactive benefit communication system in 1997.

Branch offices: Birmingham, Ala.; Los Angeles; Palm Coast, Fla.; Salt Lake City and Provo, Utah.

1997 gross revenues: $5,800,000 total, including: software, 70%; software services, 10%; user support, 15%; hardware, 5%.

Officers: Richard D. Pelton, CEO; E. Richard Packham, senior vp; Bill Wunderlich, vp; Rob J. Thurston, vp-marketing; R. Brent Dudley, management information systems.

Contact: Rob J. Thurston.

** Included in system price.*

Hewitt Associates L.L.C.

100 Half Day Road,
Lincolnshire, Ill. 60069;
847-295-5000; fax: 847-883-9019
www.hewitt.com

Interactive benefit systems since: 1988.

Software products:

■ FutureSaver.

System type/cost: Purchased: $25,000 (licensed).

System requirements: PC system, single user or network; operates in Windows.

Customized system.

First installation: 1989.

Total installations: 49.

Benefits communicated: Savings plans. Options available for pension plans, stock options, non-qualified plans.

Features: Standard system provides modeling/projections, details on investment

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Explanation of terms in the directory

The directory of employee benefit communications systems lists companies that produce and supply proprietary, interactive benefit communications systems to organizations for use by employees. Companies that only deal in general utility software, hardware, or software designed to be used by personnel departments, insurance companies or consultants are not included. Companies must offer the software on an unbundled basis to be listed.

Each listing begins with the company address, year the company began offering interactive benefit systems and parent company.

Information on **software products** follows. **System type/cost** indicates whether a system is purchased, leased or operated on a service bureau basis. The purchase price or average lease of the system is noted, if given by the company. **System requirements** include the type of computer and operating system required, whether it is employed for a single user or on a network, and whether it is operated as an online system. **Customization** options are noted when applicable.

Year of **first installation** and the number of **total installations** are also given. The next section details the **benefits communicated** and system **features**, both standard and optional.

The next section indicates whether the system is accessed through telephone, kiosks, PCs/terminals or some other method. The types of **user support** available with the system are also listed.

Staff figures, given in full-time equivalents for year-end 1997, include the total staff assigned to interactive employee benefit communication systems and the number of professional/technical staff members. The **clients** section lists the total number of interactive employee benefit communication systems installed, the number of new clients in 1997 and the number of clients who expanded existing systems in 1997.

Locations of **branch offices** and **1997 gross revenues** are detailed next. Names and titles of **principal officers** and a **contact person** complete each listing.

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

Although every effort is made to publish complete and accurate information, *BI* is unable to verify all information received.

BENEFITS MARKET REPORT

A Spotlight Report on
EMPLOYEE BENEFITS
including BI's Directory of
BENEFIT CONSULTANTS

Publishing —— December 14, 1998
Ad Closing —— December 2, 1998

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Chicago: 312-649-5276 ▪ Fax: 312-649-7937
Los Angeles: 323-651-3710 ▪ Fax: 323-655-8157

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alternatives, reports via printer. Options available to add plan descriptions, personal information.

Accessed through: Kiosk, employees' PC, benefit department kiosk, home PC, Internet, intranet.

User support: Onsite training.

Staff: 12 total, 10 professionals.

Clients: 49 total, including 13 new clients and 15 that added features to their interactive benefit communication system in 1997.

Branch offices: 28 locations nationwide.

1997 gross revenues: $709 million.

Officers: Dale L. Gifford, CEO; Gerald I. Wilson, chairman; James R. Rushin, director-business development; Michael L. Trahan, director-PC automated services.

Contact: George Wilmes.

M

Merit Software Concepts Inc.

P.O. Box 771966,
Houston, Texas 77215-1966;
713-782-9974; fax: 713-782-3731

Interactive benefit systems since: 1989.

Parent: Decker & Associates Inc.

Software products:

- Financial Strategies.

System type/cost: Purchased: $30 per user.

System requirements: PC system, single user; operates in Windows 95 or 98.

Customization optional.

First installation: 1990.

Benefits communicated: Options available for savings plans, health plans, pension plans, flexible benefits and flexible spending accounts.

Features: Standard system provides modeling/projections; reports via printer, and computer diskette. Options available to add plan descriptions; employee-specific recommendations; option selection/adjustment.

Accessed through: Employees' PC.

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

Staff: Eight total, all professionals.

Contact: Kenneth L. Decker, president.

N

Network Management Services

5500 Wayzata Blvd., Suite 500,
Minneapolis, Minn. 55416;
612-525-2700; fax: 612-525-2701

Interactive benefit systems since: 1995.

Software products:

- Ben-Net.

System type/cost: Operated on a service bureau basis for $3 per employee per month.

System requirements: PC system, network; operates in Windows. Online system.

Customization optional.

First installation: 1995.

Total installations: 15.

Benefits communicated: Health plans. Options available for savings plans.

Features: Standard system provides plan descriptions; personal information; direct enrollment. Options available to add modeling/projections; employee-specific recommendations; reports via printer, computer diskette, electronic mail, fax and mail.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk.

User support: User groups/meetings, onsite training, telephone assistance eight hours per day, eligibility updating, eligibility distribution to vendors and payroll, financial reconciling, COBRA.

Staff: 150 total, 100 professionals.

Clients: 15 total, including three new clients and three that added features to their interactive benefit communication system in 1997.

Officers: Mark Tierney, CEO; Mike Bingham, president; Barb Seykora, COO; Scott Holstend, CFO; Don Lightfoot, chief marketing officer.

Contact: Mike Bingham.

P

Parsons, McKee, Sommers & Co.

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

Interactive benefit systems since: 1990.

Software products:

- InQuiry.

System type/cost: Purchased: price varies. Leased: price varies.

System requirements: PC system, single user or network; operates in Windows. Online system.

Customization optional.

First installation: 1990.

Total installations: 100.

Benefits communicated: Savings plans, health plans, pension plans, flexible benefits, flexible spending accounts.

Features: Options available to add plan descriptions; personal information; direct enrollment; modeling/projections; employee-specific recommendations; option selection/adjustment; health claims status; details on investment alternatives; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail.

Accessed through: Telephone, kiosk, employees' PCs, benefit department kiosk.

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

Staff: 12 total, 10 professionals.

Clients: 100 total, including 20 new clients and 10 that added features to their interactive benefit communication system in 1997.

Branch offices: Charlotte, N.C.

1997 gross revenues: $3.3 million total. $250,000 from employee interactive benefit communication systems sales and services, including 80% software sales, 10% software services, 10% user support.

Officers: John R. Parsons, chairman; Mark S. Sommers, president; Richard S. Wargo, senior vp/managing actuary; Donald N. Delassandro, vp-defined contribution services; Jeffrey T. Graves, vp-information systems.

Contact: John R. Parsons or Mark S. Sommers.

* *Included in system price.*

S

The Segal Co.

1 Park Ave.,
New York, N.Y. 10016-5895;
212-251-5000; fax: 212-251-5490
www.segalco.com

Interactive benefit systems since: 1991.

Software products:

- SegalVoice.

System type/cost: Purchased: $100,000. Operated on a service bureau basis for $30,000 per year.

System requirements: PC system, operates in Windows.

Customization optional.

First installation: 1991.

Total installations: Six.

Benefits communicated: Savings plans, health plans, pension plans, flexible benefits, flexible spending accounts. Options available for workers comp benefits, surveys, contract ratification.

Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; transfers among investment funds; reports via printer, computer diskette, electronic mail, fax and mail. Options available to add employee-specific recommendations; details on investment alternatives; reports via printer, computer diskette, electronic mail, fax and mail.

Accessed through: Telephone.

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

Staff: 12 total, 10 professionals.

Clients: 25 total, including six new clients and five that added features to their interactive benefit communication system in 1997.

Branch offices: Phoenix; Los Angeles; San Francisco; Denver; Hartford, Conn; Washington; Atlanta; Chicago; New Orleans; Boston; Minneapolis; St. Louis; New York; Cleveland; Houston; Seattle; Edmonton, Alberta; Toronto.

Officers: Robert D. Krinsky, chairman; Howard Fluhr, president/CEO; Robert J. Dellovo, Richard M. Frenzel, executive vps.

Contact: Lynn Shanley, 212-251-5259.

* *Included in system price.*

Sequoia Retirement Services

1911 San Ysidro Drive,
Beverly Hills, Calif. 90210-1520;
310-859-1961; fax: 310-859-7077

Interactive benefit systems since: 1990.

Software products:

- Estate Registry.

System type/cost: Purchased: $10.

System requirements: PC system, single user; operates in DOS, Windows.

Customization optional.

First installation: 1990.

Total installations: 500.

Benefits communicated: Retirement plans.

Features: Standard system provides modeling/projections; individual employee's net worth; income; expense; survey projections.

Accessed through: Employees' PCs.

User support: Telephone assistance*.

Staff: One total, one professional.

Clients: 500 total, including 100 new clients.

Contact: Chuck Tellalian, principal.

* *Included in system price.*

T

Towers Perrin

335 Madison Ave.,
New York, N.Y. 10017;
212-309-3400; fax: 215-246-4189
www.towers.com

Interactive benefit systems since: 1992.

Software products:

- PLAN.it.

System type/cost: Operated on a service bureau basis.

System requirements: PC system; operates in Windows on Internet. Online system.

Customized system.

First installation: 1992.

Total installations: 35.

Benefits communicated: Savings plans, pension plans, retirement plans.

Features: Standard system provides plan descriptions; modeling/projections; employee-specific recommendations; details on investment alternatives; reports via printer. Options available to add personal information; direct enrollment; option selection/adjustment; transfers among investment funds.

Accessed through: Employees' PCs, benefit department kiosk, Internet.

User support: User groups/meetings, onsite training, telephone assistance, workbooks, personalized statements.

Staff: Four professionals.

Clients: Five total, including one new client and four that added features to their interactive benefit communication system in 1997.

1997 gross revenues: $1.1 billion total.

Officers: John Lynch, CEO.

Contact: Maureen Welsh, 1500 Market St., Philadelphia, Pa. 19102; 215-246-4411.

* *Included in system price.*

BI

If your company produces interactive benefit communications software products and was not included in this directory, call 312-649-5279 to receive a questionnaire for next year.

Arbitration

Continued from page 1

"So if a risk manager or a human resource executive is interested in trying to avoid employee lawsuits through arbitration agreements, the agreements have to be drawn fairly and adequately to provide some measure of fairness and protection for workers," said Mr. Maatman.

Clifford M. Sloan, a partner in the Washington law firm Wiley, Rein & Fielding, said, "The biggest significance is that in the collective bargaining agreement context, it makes clear that if an arbitration provision applying to statutory claims is going to be given effect, it must be especially clear in the collective bargaining agreement that that's the intent."

"The court doesn't resolve the question whether it will be enforceable in a collectively bargained agreement even if there is such clarity, but it makes absolutely clear that 'unmistakable' clarity is a threshold requirement," Mr. Sloan said.

The case began when Mr. Wright, a longshoreman since 1970, was injured on the job in February 1992 while working for Stevens Shipping & Terminal Co. in Charleston, S.C. He sought compensation for permanent disability under the federal Longshore and Harbor Workers Compensation Act and ultimately received $250,000 as well as legal fees and Social Security benefits.

Mr. Wright was a member of Local 1422 of the International Longshoreman's Assn., AFL-CIO. The union had a collective bargaining agreement with the South Carolina Stevedores Assn., which represented several stevedore companies. The agreement spelled out a procedure requiring that "matters under dispute" be settled through arbitration if they could be settled through a grievance process.

The agreement, however, contained a provision saying that "no provision or part of this Agreement shall be violative of any Federal or State Law." Mr. Wright also was covered by a seniority plan that required that disputes go to arbitration rather than litigation.

In 1995, Mr. Wright went to the union hiring hall and sought work. He worked for four companies in nine days, "none of which complained about his performance," according to court papers. "When, however, the stevedoring companies realized that Wright had previously settled a claim for permanent disability, they informed the Union that they would not accept Wright for employment, because a person certified as permanently disabled (which they regarded Wright to be) is not qualified to perform longshore work under the CBA," the court said.

The union argued that the employers had misconstrued the labor agreement and said that under the ADA, Mr. Wright was entitled to return to work if he could perform his duties.

Following his union's advice, Mr. Wright filed a complaint with the federal Equal Employment Opportunity Commission and the South Carolina State Human Affairs Commission, in which he alleged discrimination under the ADA.

Mr. Wright's suit, which named the South Carolina Stevedores Assn. and six companies, was filed in the U.S. District Court for South Carolina in January 1996. The District Court dismissed Mr. Wright's case because he had failed to follow the grievance procedure in the collective bargaining agreement. The 4th U.S. Circuit Court of Appeals upheld the district's court's decision in July 1997.

The high court was not impressed with the lower courts' reasoning and in a unanimous decision written by Justice Antonin Scalia sent the case back to the appeals court for reconsideration.

"Not only is (Mr. Wright's) statutory claim not subject to a presumption of arbitrability; we think any CBA requirement to arbitrate it must be particularly clear," wrote Justice Scalia.

The justice noted that the high court's 1983 decision in *Metropolitan Edison Co. vs. NLRB* held that the justices " 'will not infer from a general contractual provi-sion that the parties intended to waive a statutorily protected right unless the undertaking is 'explicitly stated.' More succinctly, the waiver must be clear and understandable.' "

"We think the same standard (is) applicable to a union-negotiated waiver of employees' statutory right to a judicial forum for claims of employment discrimination," wrote Justice Scalia.

Employment law experts say the decision is a relatively narrow one, though it leaves some questions unanswered.

"It was a temporary setback to arbitration of statutory rights. It will tend to encourage companies to make it clear in collective bargaining agreements that statutory rights should be subject to arbitration. The court has yet to decide officially whether that kind of express agreement will be enforced," said Quentin Riegel, deputy general counsel for the National Assn. of Manufacturers in Washington.

"There are some collective bargaining agreements where there is fairly explicit language requiring arbitration of statutory rights. I think the court will take this issue again in the near future," he said.

"The court's decision didn't change the law really because the court decided this case very narrowly and on the facts of this particular case. . . .The court only ruled that since the CBA in this case did not contain a clear and unmistakable waiver, Mr. Wright did not waive his right to a judicial forum," said Sussan Mahallati Kysela, labor and management counsel for the National Chamber Litigation Center Inc. in Washington.

The high court's decision left at least one risk manager less than impressed.

"I think that when an employer bargains in good faith with a union and the union and the employer come to a mutual agreement inclusive of the language in that contract, it should be legal and binding. If the courts want it differently, let them decide what the language should be," said Lance Ewing, director-insurance and loss prevention for GES Exposition Services in Las Vegas, Nev.

Baker & McKenzie's Mr. Maatman said: "The Supreme Court signals that it would enforce a more specific CBA arbitration clause. The question now is whether or not a union would ever agree to one because it would impact upon the number and length of their processing of grievances."

"The central issue that remains to be decided is the public policy issue as to whether or not arbitration agreements involving unionized workers or non-unionized workers will be enforced with respect to employment discrimination claims, and I view that as the next battle for the remainder of the century and something that in which the EEOC would take a keen interest," Mr. Maatman said.

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Ceasar Wright vs. Universal Maritime Service Corp. et al., U.S. Supreme Court, No. 97-889. Decided Nov. 16, 1998.

INTERNATIONAL

Global Briefs

AXA Group and **Guardian Royal Exchange P.L.C.** refused to comment last week on a U.K. press report that the French insurer was considering a bid for London-based GRE. GRE meanwhile has announced the sale of its New Zealand life unit, Guardian Assurance Ltd., to Royal & Sun Alliance Insurance Group P.L.C. for £58 million ($97.2 million). GRE said the sale is another step in its strategy of concentrating on those core markets where it can achieve critical mass and where it sees long-term profitable growth. . . .French broker **Gras Savoye S.A.** has increased its stake in Menage & Jowa, Belgium's fifth-largest insurance broker, to 100% from 40%. Gras Savoye said the increased shareholding, which was bought from Niobs S.A., will allow Menage & Jowa to be integrated into the international network it shares with Willis Corroon Group P.L.C. . . .Gunnar Stokholm, president and chief executive officer of Zurich Denmark, has been appointed head of corporate development for **Zurich Financial Services**. Mr. Stokholm will assume the position at the company's head office in Zurich, Switzerland, in January. He replaces Daniel Villiger, who is leaving ZFS to pursue other business interests. Mr. Stokholm also will join the executive board of ZFS. . . .The **U.K. Center for Dispute Resolution** has named the London & Edinburgh Insurance Group and mutual insurer the Solicitors Indemnity Fund as joint winners of its annual award for excellence in alternative dispute resolution. The center said the U.K. insurance industry is one of the country's most "enlightened" business sectors in terms of cost-effective dispute resolution. . . .London-based Zurich International (UK) Ltd., in association with the Confederation of British Industry, has launched a new **CD-ROM risk management tool** for U.K. directors and officers. The CD-ROM highlights directors and officers liability issues such as corporate governance, employment practices, insolvency, pension trustee liability, Year 2000, environmental issues, and U.S. and European exposures. . . .London-based Aon Risk Services has acquired British travel insurance broker **Suretravel Ltd.** for an undisclosed amount. The purchase includes Suretravel subsidiary International Medical Rescue, which provides rescue and repatriation services to U.K. travelers. . . . Former Lloyd's of London managing agency **Cuthbert Heath Underwriting Ltd.** has been banned from conducting business at Lloyd's, fined £125,000 ($208,688) and ordered to pay costs of £90,000 ($150,255). The agency, which folded at the end of 1993, was found guilty at a Lloyd's disciplinary tribunal of 12 breaches of the Lloyd's Syndicate Accounting Bylaw, relating to failures to disclose information in syndicate 404's annual accounts for 1987 to 1990 and destroying certain accounting records.

Policy covers intangibles

By EDWIN UNSWORTH

LONDON—A U.K. insurer has come up with a new product to help risk managers deal with what is proving to be one of their major concerns: protecting intellectual property rights.

Lloyd's of London managing agent R. J. Kiln & Co. Ltd., part of Kiln P.L.C., has worked with accountants Ernst & Young and London law firm Hammond Suddards to find suitable methods of assessing the value of intellectual property. The companies have devised what they claim is the first insurance coverage based on an accurate assessment of the cost to a business of the intellectual property that is impaired or devalued.

Known as "Kiln 4Thought," the policy covers patents, trademarks and copyrights; topography rights on the design of semi-conductor chip layouts and patterns and rights in protected databases; regulatory approvals and authorizations; and trade secrets and know-how.

The new product is a response to growing concern among risk managers about the threat of lost or impaired intellectual property rights for their companies.

Robert Chase, underwriter for Kiln Business Continuity, said each policy will be tailored to suit a client's needs and priced according to the exposures Kiln believes the client faces. Ernst & Young and Hammond Suddards will analyze prospective clients to identify their key intellectual property. The limit of coverage would be £25 million ($41.9 million) per loss, covering a specific product or range of products depending on the number intellectual property elements that support them.

While 4Thought is targeted initially at small to medium-sized companies, which Kiln says it believes to be most vulnerable to intellectual property right infringements, Mr. Chase said Kiln also expects demand from large companies to insure the intellectual property supporting individual divisions or subsidiaries.

The new insurance product is being issued in response to growing concern among risk managers about the threat of lost or impaired intellectual property rights for their companies.

David Gamble, executive director of the Assn. of Insurance & Risk Managers, said of 4Thought in a quote AIRMIC provided: "We

See **Kiln** *on next page*

U.K. museum suffers art loss

Two sketches discovered missing

By MATTHEW MacDERMOTT

LONDON—The spate of art losses in Europe this year has spread to the United Kingdom with the disappearance of two oil sketches worth a total of £800,000 ($1.3 million).

The two oil sketches by British artist John Constable—"Dedham Lock and Mills," c. 1810-1815, and "Sketch for Valley Farm," c. 1835—were reported missing this month by staff from London's Victoria & Albert Museum.

The sketches, both 8 inches by 6 inches, were being stored in the V&A's prints, drawings and paintings storeroom in South Kensington in London. The storeroom is not open to the public, with only V&A staff and accredited visitors such as researchers allowed access.

James Emson, managing director of the London-based Art Loss Register, said the sketches were "almost certainly stolen." Police investigations are continuing.

Mr. Emson said it would be difficult to sell the sketches in the United Kingdom, where they are very well known. However, they could be sold in Europe, he said.

The U.K. government self-insures the V&A's art collection, which totals more than 4 million paintings, sculptures, carvings and other objects. The collection does not have an estimated total value.

Mr. Emson said U.K. museums have a very good loss record in comparison with European museums.

He said there have been only three major art loss incidents, including the loss of the Constable

See **Sketches** *on next page*

Kidnap, credit risks require managing

Failure can be costly, broker says

By KATE TILLEY

MANILA, Philippines—With corporate kidnappings on the rise in the Philippines, Nick Robson had a timely message for risk managers: Buy kidnap and ransom policies for key executives.

Mr. Robson, regional manager-credit and political risks for Jardine Lloyd Thompson Insurance Brokers Pte. Ltd. in Singapore, said there have been 83 kidnappings in the Philippines this year, and the country now has the fourth-highest number of kidnappings for any country.

He spoke on the opening day of the Federation of Asia Pacific & African Risk Management Organisations' second biennial conference. That day, a hotel owner in Zamboanga City, Philippines, was killed, three days after he had been kidnapped.

Mr. Robson said another recent kidnapping occurred in an inner-city area of Manila and, when the family of the victim was unable to raise the required 50 million pesos ($1.2 million) ransom, the victim was shot and his body dumped outside the family-owned textile factory.

Mr. Robson said K&R is just one risk against which corporations can insure. Credit risk is another, though capacity for Asian corporations is drying up because of an increase in claims due to the Asian economic crisis.

He told the conference that managing credit risk involves getting as much information as possible on companies to which credit is extended. Information that should be sought includes the company's track record with creditors, the structure of the contract and the payment terms.

He advised risk managers to

See **K&R** *on next page*

REUTERS PHOTOS

Insured losses from a fire and oil spill off the coast of Germany are not expected to exceed 3.4 million deutsche marks ($2 million), said a spokesman for the ship's owner, Bogazzi Servici Navali SRl of Viareggio, Italy. The timber cargo ship "Pallas" lost 50 tons of oil and caught fire after grounding late last month.

An integrated approach to risk sensible: Broker

By SARAH GODDARD

ROME—Why should financial, strategic and operational risks be managed separately?

Perhaps they shouldn't, suggested a consultant who spoke at last month's 28th International Insurance & Risk Management Conference, organized by Management Centre Europe.

All three types of risk have the same consequences, so an integrated risk management approach makes sense, according to Ken Hall, managing director of the global risk management consulting division of J&H Marsh & McLennan Ltd. in London.

Many different people within a company deal with risk, but rarely is there a common, comprehensive and consistent treatment of risk across the company, he said.

"An integrated risk management strategy must start from the top and be derived from the company's own objectives," he added.

Ultimately, such a strategy will lead to enhanced shareholder value. "Implementing a whole process is a huge effort, but you can start to see benefits," he said.

Mr. Hall said the art of business is "to capture the profit portion of risk while managing and minimizing the undesirable." A company's financial performance is built around creating value and maximizing

See **Integrate** *on next page*

Kiln

Continued from previous page

are very pleased to see the insurance market taking note of risk managers' concerns and reacting in a positive manner to help resolve them. We've not seen the details of this project, but it does look promising, and we welcome innovative thinking of this kind from the insurance sector."

A survey of risk managers and suppliers of insurance conducted by AIRMIC earlier this year found that, of a list of 10 risks provided, 50% of those questioned put reputation and intellectual property as their No. 1 risk concern, against 45% who put Year 2000 implications as their main concern. Breaking down the survey responses, 42% of risk managers put reputation and intellectual property as their No. 1 risk concern, while 68% of insurance and risk service suppliers said it was their chief concern for their company.

Kiln, in a statement, said the significance of intellectual property rights in business today also can be seen in the dramatic shift that has been taking place over the last 20 years from a production-based economy, founded on physical assets and labor, to a one that is knowledge-based. Whereas in 1975, more than half the value of all the Fortune 500 companies was attributable to tangible assets, by 1995 this had dropped to near 25%, the statement said.

Mr. Chase said Kiln has been working for some time with its business partners to address the intellectual property issue. He said not only is intellectual property now recognized by the financial world as the major revenue-generating asset of many companies, but it will appear on more company balance sheets as new accounting standards come into use. BI

K&R

Continued from previous page

keep accurate records and follow up when payments are not received by the due date. "We spend a lot of time marketing the business but less time collecting the income. If we don't collect the income, the marketing is wasted," he said.

In addition, companies should not allow relationships to influence decisions in matters of credit. "Your favorite customer is often your worst debtor; you must really know them, not just as a friend," he cautioned.

Organizations with good credit risk management can go into new markets and new countries with confidence.

Transferring credit risk,through insurance or letters of credit from your own bank or a customer's bank, is a good option, as it removes debts from the balance sheet.

Captives and alternative risk transfer options have "great application" for credit and political risks, he noted. With "no defined parameters," alternative risk transfer methods can insure risks "no other markets will take." Credit and political risks are "very volatile," and ART methods smooth risks over time.

Bad debt reserves are not tax effective and don't "look good" on balance sheets, he said. In companies with low profit margins, the impact of a bad debt can be bigger than the face value of the loss itself, Mr. Robson said.

The FAPARMO conference was held at Manila's Peninsula Hotel, Oct. 14-16. BI

Sketches

Continued from previous page

sketches, from U.K. museums in the past 10 years.

This compares with three high-profile European art thefts from museums in Paris, Rome, and Nice, France, this year alone (*BI*, Sept. 28).

The ALR is an international database of stolen artworks backed by Aon Corp. and several fine arts underwriters and auction houses. The register recovered £12 million ($20.1 million) worth of art in 1997.

Mr. Emson said the disappearance of the two Constable sketches from the V&A highlights the security problems faced by museums and galleries with such large collections.

"It is quite impossible to check everything regularly," he said.

With a collection of 4 million items, 'it is quite impossible to check everything regularly,' says James Emson.

The Constable sketches were last recorded as present in the collection by V&A staff in August.

Mr. Emson said it is important for museums to use effectively both human and technological security arrangements for their works of art.

The V&A recently suggested the possibility of replacing weekend security guard patrols of its storerooms with more advanced electronic monitors and alarms. However, a V&A spokesman said no decision has yet been made.

Mr. Emson said that wherever humans are responsible for security, there is the possibility of error and lapses, especially if there are "rotten apples" within the staff.

However, he said human intuition can often pick up potential problems faster and more effectively than electronic systems. BI

Integrate

Continued from previous page

shareholder return.

But "companies tend to center around growth and profit. . .with little attempt to measure risk," he said. Even with traditional property risks, companies fail to measure risk management performance.

The key to an integrated risk management framework is risk identification, or setting a common approach to risk. Everyone, from top management on down, must accept the approach, he said.

Methods of risk identification include workshops, checklists and questionnaires, the involvement of risk assessment specialists and benchmarking.

The next stage involves risk measurement—comparing the risks with corporate objectives. Companies not only must determine how to allocate capital efficiently, but they also must communicate their strategies to stakeholders, who include investors and employees. "Companies are quite a long way off achieving this," said Mr. Hall.

Risks can be measured qualitatively, through risk ranking and mapping, and quantitatively, through various analyses. For example, the tools used to assess a company's investment risk can be applied to all risks of an organization, he said.

To make the notion of risk meaningful to the entire organization, risk managers need to "translate risk into the language of the company, such as earnings per share," he said.

Once the risks have been identified and measured, the next stage is to implement risk management solutions, which may include transferring the risks. This can be done through conventional insurance products, capital market mechanisms such as hedging, or other alternative risk financing.

"There is a variance coming about because of the convergence between the finance and insurance markets, mirroring what companies are doing in their holistic approach to risk," said Mr. Hall.

At the same time, certain types of businesses such as oil companies and the banking industry are beginning to integrate the concept of a chief risk officer. This, essentially, is the future role of the risk manager, who in addition to implementing risk transfer plans will be responsible for delivering the board's risk objective, creating a comprehensive risk management system, evaluating the overall risk profile and recommending appropriate action.

But, "if this is to become the future, the skill sets needed are very different from the skill sets of today's risk manager," he said. BI

Planning assures U.K. utility it won't get hung up on Y2K

By SARAH GODDARD

ROME—As the clock ticks over from Dec. 31, 1999, to Jan. 1, 2000, some risk managers may find they have a substantially reduced role in the next millennium.

The Millennium Bug could mean the downfall of some organizations, and Y2K continuity is a major project within British Telecommunications P.L.C., the United Kingdom's largest telecommunications group.

Speaking at Management Centre Europe's 29th International Insurance & Risk Management Conference held in Rome last month, Siobhan Hayes, senior manager of the BT millennium project group, said BT has about 650 applications, more than 1,000 network components, about 400 small systems and 100,000 PCs.

The total amount spent to address Y2K problems is expected to reach about £300 million ($502.7 million).

At the same time, the organization is in an increasing number of joint ventures around the world, which prompts the question of due diligence with the joint venture partners, she said.

Y2K compliance is a major concern for BT, which relies on computers to run its telephone service.

As the largest telecommunications supplier in the United Kingdom, BT traditionally is very busy over the new year period, explained Ms. Hayes. Although daytime calls typically are low and there is a dip in fault reports from private lines, call volumes rise substantially after midnight, including a peak in emergency service calls. At the same time, bad weather can increase the number of problems in placing or receiving calls.

Things may be different at the end of next year. Call volumes could be increased by the huge celebrations being planned to herald the year 2000. Some businesses will be open, meaning that failed circuits will be noticed immediately.

"People are going to be very jittery," remarked Ms. Hayes. The scale of complex computer system upgrades means there is a higher risk of failure, said Ms. Hayes, and companies may not be able to cope with moving from electronic billing to a manual system, should that be needed.

In addition, the use of technology is changing, such as the increased use of mobile phones and the Internet. For example, many people are expected to log onto the Internet to watch the millennium dawn over the Pacific Ocean. BT "needs to plan for the technology which will exist at year-end 1999," she pointed out.

It also needs to plan for what Ms. Hayes described as "dysfunctional behavior," such as people withdrawing large amounts of cash from ATM machines, which could place a strain on telecommunications systems. "We need to manage and understand where it's going to happen," she said.

BT will have a small dry run next year in the shape of a total eclipse of the sun, which will be visible from southwest England. Hundreds of thousands of visitors are expected to flood the area, causing similar crowd control and mobile communications problems expected for the millennium. Although BT has never had a complete network outage, it does have a recovery plan in place.

No utility is an island, commented Ms. Hayes, and there is an "interdependency matrix" among the U.K. utilities, she explained. For example, if a power station loses telephone communications to the police, it must be shut down. Thus the utilities need to understand each others' plans for Y2K continuity, understanding their positions within the national infrastructure and identifying the likely scenarios.

"We are expecting the utilities to be up and running over the millennium," she said.

See **Y2K** *on next page*

INTERNATIONAL

Web commerce brings risks, rewards

By SARAH GODDARD

ROME—Increased business opportunities offered by electronic commerce also means increased risks, though many of those risks can be dealt with easily.

Although there is uncertainty surrounding the risks of electronic commerce on the World Wide Web, these exposures can be managed, "and the more significant risk is the commercial downside of being left behind in the race," said Nick Lockett, counsel with Sidley & Austin in London, who spoke at the 28th International Insurance & Risk Management Conference organized by Management Centre Europe, held last month in Rome.

Analysts estimate that more than $4 billion of sales will take place using electronic commerce systems on the Internet by 2005.

On the plus side for companies, electronic commerce offers organizations opportunities to spread into new markets and new jurisdictions, and may help them nudge into areas that traditionally have been dominated by larger market players with a broader physical presence, Mr. Lockett said.

But on the downside, he added, electronic commerce increases the risk of fraud.

Most people's greatest concern about buying products and services through the World Wide Web is security. A chief worry is that personal information, such as credit card numbers, could be snatched during the transaction.

"There is no evidence of interception of credit cards," Mr. Lockett stated categorically. It is far too complicated to trap all the different pieces of information that are channeled in different directions when a credit card number is sent over the Internet, he said.

However, there is a risk of "malicious price adjustment," both on an organization's Web site and in its computer databases. For example, hackers could access a site and change information on it, or access the organization's systems and alter information held in its databases.

Mr. Lockett said Web sites also are vulnerable to what he described as "defamatory alterations"—changes to Web site information designed to damage the organization. These alterations can happen if electronic security barriers protecting the site from unwanted intruders have not been set up properly.

In the past, the threat from such intrusions came from hackers, generally people under the age of 20, trying to find holes in the security of an organization's computer, rather than aiming to damage the organization. Now the situation is changing, said Mr. Lockett, and organized crime elements are beginning to get involved in computer fraud.

'Nobody is checking the credentials of the people dealing with (European Economic and Monetary Union) and Y2K,' says Nick Lockett, counsel with Sidley & Austin in London.

Additionally, competitors may not only be able to change information on the Web site, but also gain access to an organization's database, changing or copying information, he warned.

Passwords for computer systems are a key source of vulnerability. Employees may not keep them secure or fail to change the basic passwords supplied with the programs.

One of the most popular passwords among computer users is "password," Mr. Lockett pointed out. By obtaining users' passwords, competitors can easily get deep into companies' systems and databases.

But the greatest threat comes from within an organization. About 60% of electronic commerce fraud is internal, perpetrated by someone within the organization, according to Mr. Lockett. Businesses must be aware of who holds the master passwords to their systems, and be confident about their credentials, he said.

Encryption—encoding certain data—also can prove problematic, he said. For example, disgruntled employees may encrypt data without anybody else in the organization knowing what the "data key," or decryption code, is. And data keys can simply be lost or forgotten, said Mr. Lockett.

Many risks can be minimized if an organization is comfortable with the integrity of the people who have access to its systems. There is a big potential problem looming in this area, he warned.

"Nobody is checking the credentials of the people dealing with (European Economic and Monetary Union) and Y2K," he said. The newest currency on the block, the Euro, is being launched at the beginning of next year as part of EMU, and is requiring an enormous amount of computer reprogramming throughout Europe.

"A lot of banks and insurers are grabbing anybody who can handle a Y2K rewrite," said Mr. Lockett. Some of those programmers, though, may be putting in some kind of electronic key unknown to anyone else, to allow them access to the system in the future, he warned.

Fortunately, there are solutions at hand for many of these risks.

On the technical side, Web sites can be checked against recent stored versions to see whether they have been tampered with. And access by electronic signatures can be checked and authorized by third-party specialists, he said.

As far as security is concerned, Mr. Lockett suggested random checks and audit logs for unusual activity from system users. Staff should be trained about the risk of unauthorized access or activity and what they should look for, particularly areas such as "exception monitoring," recognizing if a user is doing something different.

Probably the most recent development in identifying employees who are abusing systems is profiling. Employing methods similar to those used by the Federal Bureau of Investigation, analysts can look at a pattern of activity and from that draw up a profile of the individual. For example, by scrutinizing alterations made to programs, analysts may be able to identify where the perpetrator learned the programming language, narrowing the field of suspicion dramatically.

Also in development at the moment are second alert passwords. If an employee—or an individual at an automatic teller machine, for example—is being threatened, they can enter an alert password that appears to give access to the system. In reality, though, after such an alert the user is routed to a limited area to prevent large amounts of funds being withdrawn or broader access to a system. At the same time, an alert is sent to a security center.

"Dead" data also poses a risk in information technology and electronic commerce, whether from disks, old tapes that have been thrown out, or secondhand hardware. "A lot of companies sell old machines to staff," said Mr. Lockett. "Unformatting (those machines) shows past information." These recycled systems can contain data that would be useful in the hands of a competitor.

E-mails are another source of risk to organizations, leading to problems of defamation, cyber harassment, imputed liability to the employer, and inadvertent contracts, said Mr. Lockett.

These e-mail risks can be handled by implementing both internal and external e-mail policies, he said, as well as gaining permission from the staff to monitor their activity. "There are privacy rights in certain countries, even when using business systems," he explained.

Information technology is now critical to businesses, said Mr. Lockett. As a result, organizations should have a disaster plan for protecting electronic information and intellectual property, he advised. But he warned that sometimes even that is not enough. When the IRA Bishopsgate bomb devastated a large part of London's financial district, "two or three" organizations had both their offices and data backup facilities within the blast area, said Mr. Lockett. In addition, he said, a recent analysis suggested that 35% of London businesses that have a backup facility would lose both that and their offices if the Thames Barrier failed to stop the river from flooding. BI

Y2K

Continued from previous page

From the buyer's point of view, nobody knows the current market position over Y2K, said Glenn Ellis, manager of risk financing and broking at BT.

"There have been a lot of inconsistencies so far from the insurance market," Mr. Ellis pointed out.

In addition, the coverages are expensive, costing about 10% of the insured value, he pointed out. Policy wordings are a key area of concern, according to Mr. Ellis. Buyers have found policy wording suggesting limited exclusions, he said, and it is a "complete minefield for interpretation."

At the same time, the availability of markets is decreasing all the time, and Mr. Ellis questioned what will happen after the beginning of next year.

Buyers could cancel and replace their programs, though as a strategy this is not easy, he said. Alternatively, they could ensure early notifications on claims-made wordings. "I understand that this is a practice that has become quite common in North America," said Mr. Ellis.

Finally, multiyear programs may cover Y2K exposures, but currently, "how they shape up is not sure," he said. BI

MCE conference draws more than 100

ROME—More than 100 people attended the 28th International Insurance & Risk Management Conference in Rome.

Based around the theme "Risk Management in the Year 2000 and Beyond," the conference attracted delegates to the Rome Cavalieri Hilton, who managed to get to the venue despite a two-day taxi strike across Rome.

Attendees representing Belgium, Croatia, Denmark, Finland, France, Germany, Italy, Ireland, Netherlands, Portugal, Sweden, Switzerland and the United Kingdom were joined by speakers from across Europe and from the United States for the two-day conference held Oct. 29-30. A number also attended one of two pre-conference workshops the day before the main conference started.

Although several regular MCE conference-goers chose to pass on this year's meeting, at least one organization decided to use the conference as a team-building exercise.

Members of the risk management department at Royal & Sun Alliance Insurance Group P.L.C. were unanimous in their enthusiasm for the double use of this conference, often acknowledged as one of the best in Europe.

Management Centre Europe is considering the future of its international insurance and risk management conference and is undecided whether it will be held next year. For more information, contact MCE's Customer Services Department at 32-2-543-2100.

Products

Continued from page 2

company out of business" if it doesn't have insurance, Mr. Mercer said during a session at the 1998 Professional Liability Underwriting Society International Conference, held Nov. 11-13 in Palm Springs, Calif.

Indeed, since the 1983 Tylenol scare, numerous other incidents of product contamination have made headlines:

- Ice cream contaminated with methyl alcohol was recalled in the United Kingdom in 1997.
- Mustard found to be laced with cyanide was recalled in Germany in 1997.
- Last year, 25 million pounds of ground beef were recalled in the United States because of the E. coli bacteria.
- 19 elderly people died in Scotland in 1996 after eating E. coli-contaminated meat from a local butcher who had previously won awards for excellence.

"All but one of the listed incidents were insured, and that company went out of business," Mr. Mercer said without identifying the company.

Product contamination coverage is a special form of first-party business interruption and extra-expense coverage that pays to protect the policyholder's brand name, reputation, lost revenues and even to help rebuild market share. The coverage does not pay any third-party liability or product liability claims.

The covered perils are defined as:

- Malicious product tampering, or "any actual or threatened, intentional, malicious and illegal alteration or contamination of the insured's products so as to render such products unfit or dangerous for the use intended by the insured or create such an impression with the public."
- Accidental product contamination, or "any accidental or unintentional contamination, impairment or mislabeling, etc."

The basic policy form pays for recall expenses; loss of gross profits, including payroll, debt service, rental space for recalled products and net profit; rehabilitation expenses to restore the products or re-establish the reputation of the business or product line; as well as crisis response and consulting fees and expenses, according to Mr. Mercer.

Limits from $250,000 to $250 million are available with deductibles or self-insured retentions ranging from $10,000 to $25 million.

The policy provides first-dollar coverage of crisis response fees and expenses because "good, prompt handling is vitally important to businesses and insurers alike," Mr. Mercer explained.

Coverage periods are usually for one year, but coverage for up to 36 months is available, he said.

Annual premiums currently range from $2,500 to $1 million, depending on the policyholder's financials and profile, product range, limits, deductible and coverage period.

But even though coverage is plentiful, companies still need to exercise good risk management in the event of a product contamination, according to panel moderator Albert M. Van Wagenen, senior vp of Professional Indemnity Agency Inc. of New York in Pleasantville.

"If not handled property, these incidents can have major repercussions," agreed Sean M. McWeeney, president of Corporate Risk International in Fairfax, Va., a worldwide security crisis response and crisis management consulting firm.

"All consumer product companies have to develop a workable crisis management plan" that includes the "policies and procedures that must be followed when actual tampering occurs," he said. "The company should move immediately to protect the public from harm."

Although actual tampering is rare, fake tampering is a more common threat and almost always is accompanied by an extortion demand, said Mr. McWeeney, a former Federal Bureau of Investigation agent. Motives for fake tampering often include insurance fraud or a lawsuit.

For example, the so-called "victim" adds something to a product and allegedly suffers ill effects, then sues the manufacturer, Mr. McWeeney explained.

The crisis management team responding to suspected incidents of product contamination should include the chief executive officer or the chief operating officer, the chief financial officer, in-house legal counsel, a securities specialist, the risk manager, a quality assurance expert, a communications specialist and the human resources manager.

"HR is important because, statistically, the chief suspect in most cases will be a disgruntled current or former employee," Mr. McWeeney explained.

Other "ad hoc" members of the crisis management team should include individuals expert in certain areas, such as laboratory or disease specialists, psychologists, and voice and handwriting experts.

"The crisis management team also has to be proactive," Mr. McWeeney added. "Everyone is a good crisis manager after an event occurs. The trick is to prepare for a crisis ahead of time."

For example, Mr. McWeeney suggested companies periodically conduct vulnerability studies of their products.

"When a product tampering incident occurs, the crisis management team has to immediately verify and assess the threat," he said. "After a risk analysis is completed, they then must decide whom to notify in law enforcement, if appropriate."

For example, if a death occurs, the FBI should be contacted. FBI agents will contact the local police, if necessary, he said.

In addition, the company should notify the Food and Drug Administration, the Centers for Disease Control & Prevention and state health authorities.

The crisis management team also should consider public relations needs and the possibility of conducting a recall, he said.

In the meantime, the crime scene must be preserved until law enforcement officers arrive, stressed Mr. McWeeney.

"Immediately initiate a damage-control assessment. Determine where other similar products have been shipped by lot number, date of shipment, whatever. Follow the 'chain of custody,'" he said.

"The decisions made in the first 24 hours are critical and can make or break the handling of the incident."

While most product tampering threats turn out to be false, they must be taken seriously, he said. BI

Stock brokers E&O growing

Some insurers fear coverage will spur suits

By JOANNE WOJCIK

PALM SPRINGS, Calif.—Less than one-third of the 4,000 U.S. securities brokers trading on Wall Street today have errors and omissions liability insurance, experts say.

But the coverage is becoming increasingly available as more and more underwriters take on this high-frequency, low-severity risk, they say.

Still, some underwriters fear that once plaintiffs lawyers find out that brokers have such coverage, the number and size of claims are likely to rise.

"If done properly, it is a line of business that can be quite profitable. But just like the trading floor, it is not for the faint of heart," said Dennis Kelly, an attorney with Zelle & Larson L.L.P. in San Francisco. He moderated a panel discussion at the 1998 Professional Liability Underwriting Society International Conference, held Nov. 11-13 in Palm Springs, Calif.

"Many of the plaintiffs bar are not aware of securities broker E&O, and the National Assn. of Securities Dealers does not require brokers to turn over insurance information. But as more cases go to court, they'll find out there's insurance," Mr. Kelly predicts.

The typical securities broker E&O policy has limits of $1 million per claim and $3 million aggregate, but as broker-dealers grow, they are seeking larger aggregate limits, said John Iannotti, assistant vp of the financial institutions group of Jersey City, N.J.-based American International Specialty Lines Insurance Co., a surplus lines unit of American International Group Inc.

For example, a securities broker with 500 representatives would have relatively little coverage under a policy offering $3 million in limits. "So we're getting requests for $1 million per claim, $25 million aggregate," he said.

Fortunately, most claims against securities brokers are submitted to arbitration by the NASD, which acts as the regulator of the National Assn. of Securities Dealers Automated Quotations, or NASDAQ. As a result, few claims ever make it into the tort system, where damage awards and litigation costs are higher, according to Mr. Kelly.

"This makes it easier to underwrite," he said.

The activity most likely to trigger claims is a practice called "selling away," in which a broker's representative makes trades on his or her own without involving the broker-dealer entity, Mr. Iannotti explained.

"When the security broker-dealer policies came out in the late '70s and early '80s, the named insured in most cases simply said 'registered representatives' of 'blank' broker-dealer. So the broker-dealer itself wasn't a named insured," he recounted.

"But we got more and more selling away cases, and then when the limited partnership market went bust in the late '80s, claims for failing to supervise" started to escalate, he recalled.

Indeed, Luigi Spadafora, a partner in the New York-based law firm Winget & Spadafora, said he is defending a case involving selling away.

"The broker didn't know the rep was selling a particular product, but because he used the broker's fax machine, it looks like (the broker) sanctioned the sale," he said.

In the past, underwriters were primarily concerned with the extent and quality of sales involving investments in limited partnerships, Mr. Kelly explained.

Mr. Iannotti agreed, pointing out that 90% of losses in the 1980s and early '90s stemmed from limited partnership claims. BI

Securities brokers remain a volatile E&O risk

By JOANNE WOJCIK

PALM SPRINGS, Calif.—Professional liability underwriters are becoming more cautious about insuring securities brokers.

Premiums for securities dealer errors and omissions liability coverage have begun to stabilize after a brief period of competition last year, said John Iannotti, assistant vp of the financial institutions group of American International Specialty Lines Insurance Co. in Jersey City, N.J.

"I wasn't sure we'd be able to continue to write the book the way things were going," Mr. Iannotti said, speaking during a panel discussion at the 1998 Professional Liability Underwriting Society International Conference in Palm Springs, Calif. "But the market is stable now."

Still, "this is a very volatile book," he said. "For example, if one product goes bad and a lot of dealers were selling it, you'll get a lot of claims at once."

Fortunately, the recent stock market fluctuation hasn't triggered that many claims, he said.

"If the whole market goes bad, you're not going to see claims. But if the whole market goes up, and one guy loses money, he's likely to sue," Mr. Iannotti explained.

Most of the claims against brokers today stem from the sale of basic equity securities, said Luigi Spadafora, a partner in the law firm of Winget & Spadafora in New York. "Customers are alleging brokers were negligent in recommending the wrong types of stocks to them," he said.

He said he also is seeing an increase in claims frequency related to initial public offerings, and he predicts that Internet trading will likely trigger claims.

"There's been a growth in online broker-dealers," he said. "In response, there's also been growth in large, established broker-dealers setting up online access."

As a result, today "a lot of people feel they can make their own stock picks without a broker's advice. What does this mean to the E&O underwriter?" Mr. Spadafora asked. "You've got a host of new exposures" that will come to light.

Furthermore, "a lot of broker-dealers are doing IPOs over the Internet," Mr. Iannotti said. "Now that's risky."

Claims related to investments in limited partnerships have dropped off in the past 12 months, but underwriters, before binding coverage, still are likely to ask securities brokers what they used to sell and what their client mix is, said Dennis Kelly, an attorney with Zelle & Larson L.L.P. in San Francisco.

For example, if 90% of a broker's commissions are generated by the sale of mutual funds, and the rest from the sale of stock on the New York Stock Exchange, "we would consider that a plain-vanilla risk," Mr. Iannotti said.

However, "then you have to look at what they used to sell." It takes perhaps at least a couple of years to realize that a broker-dealer's investment was bad. That's when lawsuits are filed, Mr. Iannotti said. BI

Signs may foreshadow workplace violence

By JOANNE WOJCIK

PALM SPRINGS, Calif.—As courts increasingly hold employers responsible for workplace violence, employers can no longer afford to look the other way when an employee brings his or her personal problems into the workplace, experts say.

But employers can prevent some violent acts by being aware of telltale behavioral changes, a psychiatrist says.

"Violence in the workplace is in epidemic proportions now. Every time you open a newspaper, you see a headline and the headline is very frequently about violence," said James S. Barber, an attorney at Clausen Miller in Chicago.

Pointing to a newspaper headline announcing: "3 die in N.C. plant shooting; fired employee is charged," Mr. Barber said those who read further into the story learned: "He was a dangerous man. We knew it. Totally paranoid. The most perfect stereotypical loner. He had a firing range in his basement. Other employees knew this, ignored it, and it resulted in the deaths of three people at the plant."

An estimated 2 million workers are physically attacked each year in the workplace, resulting in a total of 1.8 million lost workdays, he said, citing U.S. Justice Department statistics. This translates into $16 million in lost wages to victims, as much as $36 billion in lost revenues to business and untold increased security costs and insurance expenses, he said.

And employers are bearing more of the costs of workplace violence as courts adopt such legal theories as negligent hiring, Mr. Barber added.

"Judges read these headlines, juries do, and they're affected. So what is happening with the court system these days? The courts are starting to expand into other theories: negligent hiring, for example, expanding liability for employers."

He cited as an example an Illinois case, *Bryant vs. Livigni*.

"Mark Livigni was a model student and model employee. He started working for a national food chain at the age of 16. Eventually, he worked his way up to regional manager. Part of his responsibilities as regional manager were to check the store after hours. During one of these late-night checks, he saw a young boy urinating outside and he yelled at him. He then chased the boy to a nearby car, reaching inside to extract him."

But instead of pulling out the boy he caught urinating, Mr. Livigni pulled out the boy's 3-year-old brother, dislocating his shoulder and causing other injuries," Mr. Barber recounted.

During trial, it was revealed that "co-workers knew Mr. Livigni had been in a fight with a co-worker seven years earlier." But "management never knew about the incident. It also came out at trial that Mr. Livigni pushed his son, causing him to fall and break his collarbone."

"What did the court say? It said there is no 'friendship privilege' that protects a company if co-workers don't tell the employer what's going on," he said. Unlike the doctor/patient relationship, an employee must release any information about another employee that suggests this person may engage in workplace violence. "It's the employees' *duty* to tell the company. You as an employer must expect workplace violence," Mr. Barber asserted.

The court ordered the employer to pay $115,000 in punitive damages and $20,000 in compensatory damages to the injured boy.

This means "employers have to be watchdogs," Mr. Barber said.

'Almost every incident of workplace violence has broadcast red warning flags,' says Dr. Mark S. Lipian.

The damages in the *Livigni* case were less than those typically awarded in cases where employers are found liable for an employee's violent acts, he said.

"What's a typical award? I've seen as much as $900,000 for one punch by a supervisor with no major injuries. The average jury award where there's a homicide in the workplace is $2.2 million," he said.

But employers can reduce their exposure to workplace violence through early detection and early intervention, according to Dr. Mark S. Lipian, professor of clinical and forensic psychiatry at the University of California at Los Angeles.

"Almost every incident of workplace violence. . .has broadcast red warning flags months and months before the action occurred," he said.

"It's all right if people notice something has gone wrong with someone and report it. People should start feeling comfortable in the workplace reporting classic warning signs."

Dr. Lipian described four major types of impaired employees:

• Overtly psychotic.

Among the warning signs: a new vigilance, seclusiveness, excessive rigidity, suspiciousness, secretiveness and/or isolation.

"You may see, for example, new office door locking, new shade drawing, new self-isolating, new sunglasses wearing, new self-defensiveness, suspicious questioning," he said.

• Troubled but not psychotic.

Depression is the most likely cause when people seem anxious, agitated, sad, confused and less productive than usual, according to Dr. Lipian.

"Clinical depression can manifest itself in many, many ways: drinking, drug use, anxiety, agitation, poor hygiene, deterioration in physical health, new loss of confidence or new dependency, or new indifference by someone who was formerly very careful, or poor concentration, focus or memory," he said.

"For example, a woman who used to wear makeup is no longer wearing any or the guy who wore Armani is coming in with old suits and 5 o'clock shadow."

• Personality disordered.

"These are people who are always a pain to be around," he described. "They're difficult to start with."

For example, people with Narcissistic Personality Disorder never developed a sense of empathy and think they deserve special treatment. "If they don't get it, they get enraged," Dr. Lipian explained.

And people suffering from Antisocial Personality Disorder never developed a conscience. As a result, they disregard the feelings and rights of others.

"If you threaten them, demean them or criticize them, they may retaliate and they may enjoy it," Dr. Lipian described.

• Someone who is OK but is reacting to the disordered behavior of someone else.

These people may become short-tempered, indifferent or confused, according to Dr. Lipian.

The best way to treat them is to help them understand what's going on with their loved one or just lend them an ear, he suggested.

"The problem occurs when the source of their problems comes into the workplace, such as a stalker or an abusive spouse," he said.

The best internal intervention that an employer can use in any of these situations is to refer the employee to the employee assistance program, Dr. Lipian advised.

"Depressed people will be very grateful that anyone noticed and will likely readily accept treatment," Dr. Lipian said. "Paranoid people may accept it if they are approached delicately."

However, "personality disorder-affected people will rarely accept help."

For those who refuse EAP referral, Dr. Lipian suggests seeking a "fitness for duty" evaluation by an outside firm.

"This could lead to mandatory conditions for continued work," he said, such as enrollment in a substance abuse treatment program or medical intervention.

Such prevention tactics should be part of an overall policy against violence in the workplace, Mr. Barber said. "It's a very simple thing. It's a contract that says you as an employee have an obligation to report these incidents to us. We're a family."

Such a policy also should include the types of behavior that should be reported. Unfortunately, "over 60% of companies in this country do not have one," Mr. Barber said. BI

PLUS conference draws 2,100 attendees

PALM SPRINGS, Calif.—A total of 2,100 insurance industry professionals attended the 1998 Professional Liability Underwriting Society International Conference Nov. 11-13 in Palm Springs, Calif.

Attendees included insurance underwriters, agents, brokers, attorneys and others concerned with professional liability issues.

Next year's conference will be held Nov. 10-12 in New York.

For more information, contact PLUS at 4248 Park Glen Road, Minneapolis, Minn. 55416-4758; 800-845-0778; fax: 612-928-4644.; or visit the organization's Internet site at www.plusweb.org.

Residence

Continued from page 2

ment is practiced in different industries," said Angela Sabatino, administrator for the foundation, which provides scholarships to students in insurance and risk management.

The foundation has $20,000 to commit to the Risk Manager in Residence program for 1999. Each school selected receives a grant to cover transportation and housing costs. Grants average $3,500.

Schools and risk managers both must apply to be considered for the program. The deadline for the 1999-2000 school year is Feb. 5, 1999.

To be considered for the program, risk managers must:

• Be currently employed in risk management and be a member or deputy member of the Risk & Insurance Management Society Inc.

• Have at least 10 years' work experience.

• Display good communication skills or classroom experience.

• Be a senior specialist at his or her organization and be able to spend two or three days on a college campus.

For schools, the following criteria apply:

• The attending risk manager must be visiting from outside the institution's state.

• The risk manager cannot be an alumnus of the school.

• Faculty must prepare and coordinate the risk manager's itinerary.

• At least three presentations to students must be scheduled.

• Institutions must be willing to involve finance faculty and students.

• A report of the visit must be sent to the Foundation.

For more information, contact Angela Sabatino at 212-286-9292, ext. 221. To be considered for the program, submit a resume to Spencer Educational Foundation Inc., Risk Manager in Residence Program, 655 Third Ave., Second Floor, New York, N.Y. 10017.

Parade

Continued from page 1

Kathleen Caronna, a Manhattan woman who suffered brain damage as a result of last year's incident, has sued Macy's. Other defendants in the suit include the city of New York, the city's transportation and police departments and the lamppost manufacturer.

In the negligence complaint, filed in May in state court, Ms. Caronna seeks $95 million in compensatory damages from all the defendants and an additional $300 million in punitive damages from Macy's. The suit alleges that Macy's was aware of and received warnings on the danger of using large inflatable balloons, acted with "heedless and reckless disregard for the safety and well-being" of Ms. Caronna and "consciously failed to exercise due care and diligence to prevent (her) injuries after discovery of the danger."

Ms. Caronna's injury was "a very unfortunate situation that could have easily been avoided if Macy's had exercised a reasonable duty of care," said her attorney, John Quinlan Kelly of Kelly & Campo L.L.P. in New York.

Due to the pending litigation, Macy's declined to talk about the accident, the lawsuit or any of its new loss control efforts.

In a statement, Dennison Young Jr., the New York task force's co-chair, said: "Macy's cooperated fully in the task force's effort to ensure that accidents like those that occurred last year are avoided and that all parade activities are conducted in as safe a manner as possible."

The task force's new guidelines address the construction and operation of the large balloons, which are defined as those that contain more than 1,000 cubic feet of helium and exceed 15 feet in height, width or length.

According to the report, unless the New York City Department of Transportation agrees otherwise, all large balloons permitted to fly in a parade will be limited to 70 feet in height, 40 feet in width or 78 feet in length.

When inflated, the largest balloons used last year in the Macy's parade exceeded seven stories in height and about 40 feet in width, the report says. And some of the giant balloons exceeded 18,000 total cubic feet in volume.

Last year's Tyrannosaurus Rex balloon, for example, was 85 feet long, and the Woody Woodpecker balloon topped out at 45 feet wide and 75 feet tall.

Macy's will assign people with higher levels of competence to each large balloon in the parade.

As of this year, no large balloon will be permitted in any city parade unless the Department of Transportation has approved its construction design and the intended method of operation and handling as being safe.

The city's Department of Transportation also must approve the suitability and training of all those who are to handle and operate the large parade balloons.

According to the report, the Department of Transportation has accepted a new comprehensive balloon handler training program adopted by Macy's that establishes five levels of competence. Certification at each level depends upon prior experience, physical stamina testing and, in some cases, classroom study and participation in balloon test flights.

Macy's will assign people with higher levels of competence to each large balloon in the parade. Each large balloon also will be accompanied by a person who will help manage the procession of the balloon at intersections, where the effect of cross winds on the balloon's operation is greatest.

Among the other guidelines issued by the task force:

All large balloons, unless otherwise permitted by the Department of Transportation, will be tethered to no fewer than two support vehicles during operation.

All large balloons must be equipped with devices acceptable to the Department of Transportation that can be used to safely deflate the balloons.

The Department of Transportation may take any action it deems necessary to ensure the suitability along the parade route of street furniture, including lampposts and traffic signal lights. All costs associated with the adjustments will be borne by the parade sponsor.

The task force has recommended that the arms of most lampposts along the Macy's parade route be temporarily removed for the duration of the parade.

To replace the retiring balloons in this year's parade, Macy's is adding three modest-sized balloons. Babe, the talking pig from the movie of the same name; Wild Thing, a character from the popular children's book "Where the Wild Things Are" by Maurice Sendak; and Dexter, a cartoon character from the cable television show Dexter's Laboratory; will float along the parade route this year. All three balloons are fewer than 50 feet tall. BI

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REQUEST FOR PROPOSALS

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The California Self Insurer's Security Fund (SISF) is a non-profit mutual benefit corporation formed in 1984 pursuant to Labor Code 3740 et seq. SISF's primary purpose is to ensure that employees of self insured employers continue to receive workers' compensation benefits whenever employers fail to meet their statutory obligation due to bankruptcy or other financial default. SISF seeks to contract out for comprehensive administrative services, including functions such as day-to-day management of the Fund, corporate record keeping, financial and investment management and the full range of support services — all as detailed in a Request for Proposal available upon request addressed to Wynne Carvill, Suite 2100, 2 Embarcadero Center, San Francisco, CA 94111 (or e-mail "wcarvill@thelenreid.com"). Bids are requested no later than December 18, 1998.

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LEGAL NOTICE

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

No. 004026 of 1998

IN THE MATTER OF
OSIRIS INSURANCE LIMITED (FORMERLY ORION INSURANCE (GENERAL) LIMITED and
ORION INSURANCE (GENERAL) PLC
and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that further to an Order dated 31 July 1998 made in the High Court of Justice in the above matter a meeting of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) was convened on 27 October 1998. The Scheme Creditors voting in person or by proxy at the said meeting voted unanimously to approve the Scheme of Arrangement dated 26 August 1998.

On 9 November 1998 the High Court of Justice sanctioned the Scheme of Arrangement as approved by the Scheme Creditors and the Scheme of Arrangement became duly effective on that date.

The Scheme Supervisors are Anthony James McMahon and Philip Wedgwood Wallace, partners of KPMG.

Dated 13th November 1998

Anthony James McMahon and Philip Wedgwood Wallace
KPMG 20 Farringdon Street
London EC4A 4PP

Cadwalader, Wickersham & Taft
55 Gracechurch Street
London EC3V 0EE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF ANTHONY JAMES MCMAHON AND PHILIP WEDGWOOD WALLACE, AS THE FOREIGN REPRESENTATIVES OF
OSIRIS INSURANCE LIMITED, f/k/a ORION INSURANCE (GENERAL) LIMITED AND ORION INSURANCE (GENERAL) PLC

Case No. 98-B-45518 (SMB)

NOTICE IS HEREBY GIVEN that on November 16, 1998, the Bankruptcy Court entered an order pursuant to 11 U.S.C. § 304 (the "Order") giving full force and effect in the United States to the scheme of arrangement dated August 26, 1998 between Osiris Insurance Limited and its creditors in respect of its insurance, reinsurance and retrocession business pursuant to section 425 of the Companies Act 1985 of Great Britain. Any person wishing to obtain a copy of the Order should contact Stephen Doody at (212) 504-6272.

CADWALADER, WICKERSHAM & TAFT
100 Maiden Lane
New York, New York 10038
Tel: (212) 504-6000
Fax: (212) 504-6666
Attention: Kenneth P. Coleman, Esq.
Stephen Doody, Esq.

Datebook

DECEMBER

DEC. 1-2. Managing Change in the Property-Casualty Industry in New York, sponsored by The Conference Group Ltd.; $1195. The Conference Group, 3409 Meadow Bluff, Charlotte, N.C. 28226; 704-541-2800.

DEC. 1-2. Property and Casualty Loss Reserves workshop in Orlando, Fla., sponsored by Deloitte & Touche; $700. Joy-Ann Payne, Deloitte & Touche, 555 12th St. N.W., Washington, D.C. 20004-1207; 202-879-5683.

DEC. 2. Directors' & Officers' Liability Insurance—The Current D&O Marketplace seminar in Chicago, sponsored by the Insurance School of Chicago; $110. Insurance School of Chicago, Suite 2200, 175 W. Jackson Blvd., Chicago, Ill. 60604; 312-427-2520.

DEC. 2. Finding Solutions in a Time of Corporate Unrest conference in Chicago, sponsored by Alper Services Inc.; $150. Alper Services Inc., 60 W. Superior St., Chicago, Ill. 60610; 312-642-1000.

DEC. 2. Tips for Communicating Bad News to Employees teleconference, sponsored by the International Foundation of Employee Benefit Plans; $150. IFEBP, 18700 Bluemound Road, Brookfield, Wis. 53008-0069; 414-786-6700.

DEC. 2-4. Third Annual National Managed Workers' Compensation conference in Washington, D.C., sponsored by Global Business Research; $1395. Global Business Research, 775 Sunrise Ave., Suite 260, Roseville, Calif. 95661; 800-868-7188.

DEC. 2-4. Strategies for Becoming an Employer of Choice conference in Toronto, sponsored by the International Quality and Productivity Center; $1,706.65 Canadian ($1,101.64). International Quality and Productivity Center, 141 Adelaide St. West, Suite 901, Toronto, Ontario, Canada, M5H 3L5; 800-882-8684 or 973-256-0211.

DEC. 3-4. 401(k)s From A to Z workshop in Baltimore, sponsored by Corbel; $540. Corbel, 1660 Prudential Drive, Suite 400, Jacksonville, Fla. 32207; 800-326-7235, ext. 1237.

DEC. 6-9. National Forum on Quality Improvement in Health Care in Orlando, Fla., sponsored by the Institute for Healthcare Improvement; $895. IHI, 135 Francis St., Boston, Mass. 02215; 617-754-4800.

DEC. 7. Solving the Additional Insured Issues workshop in Grand Rapids, Mich., sponsored by the Philadelphia chapter of the Chartered Property Casualty Underwriters Society; $85 for members and $95 for non-members. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 800-932-2728.

DEC. 8-10. Business Continuity Plan conference in Scottsdale, Ariz., sponsored by IBC Group; $1,399. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

DEC. 9-12. Summit on International Managed Care Trends in Miami Beach, Fla., sponsored by the American Assn. of Health Plans; $1,295. AAHP, AAHP Conference Office, 1129 20th St., N.W., Suite 600, Washington, D.C. 20036-3421; 202-778-3269.

DEC. 10-11. Insurance Coverage and Practice Symposium in New York, sponsored by the Defense Research Institute; $540 for members and $590 for non-members. Defense Research Institute, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

DEC. 10-11. Retirement Needs Framework conference in Orlando, Fla., sponsored by The Society of Actuaries; $745. The Society of Actuaries, 475 N. Martingale Road, Suite 800, Schaumburg, Ill. 60173; 847-706-3566.

DEC. 10-11. International Conference on Occupational Disorders of the Upper Extremities in Burlingame, Calif., sponsored by the University of Michigan Center for Occupational Health and Safety Engineering and the University of California Center for Occupational and Environmental Health; $525. COEH Continuing Education, Richmond Field Station, 1301 S. 46th St., Building 102, Richmond, Calif. 94804; 510-231-5645.

DEC. 10-13. Care Management at the Crossroads: Which Way to Quality seminar, sponsored by the American Society on Aging; $320 for members and $370 for non-members. ASA, 833 Market St., Suite 511, San Francisco, Calif. 94103-1824; 800-537-9728.

DEC. 11. Workers' Compensation in Illinois in Springfield, Ill., sponsored by Lorman Education Services; $169. Lorman Educational Services, P.O. Box 509, Eau Claire, Wis. 54702-0509; 715-833-3940.

DEC. 14. What Claims Professionals and Attorneys Should Know About Concurrent Causation, Ensuing Loss and Collapse seminar in New York, sponsored by the property insurance law committee of the tort and insurance practice section of the American Bar Assn.; $80. Christopher Troy/ABA, c/o Hecker, Brown, Scerry & Johnson, 1700 Two Logan Square, Eighth and Arch St., Philadelphia, Pa. 19103; 215-446-6250.

DEC. 16. Leveraging Intellectual Capital: Positioning for the Future conference in Boston, sponsored by the New England Employee Benefits Council; $195 for members and $250 for non-members. NEEBC, 440 Totten Pond Road, Waltham, Mass. 02451; 781-684-8700.

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The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed. Datebook listings also are available on the World Wide Web at www.businessinsurance.com.

FTR FOR THE RECORD

Kaiser offers mail-order catalog

OAKLAND, Calif.—Kaiser Permanente said it is introducing a mail-order catalog offering self-care health products to its members in Northern California as a pilot program.

The Partners in Health Catalog offers an array of products, including dehumidifiers; mite-free bedding; sinus irrigation kits; rehabilitation devices, such as finger strengtheners and exercise balls; and home allergy-relief supplies, according to the Oakland, Calif.-based HMO.

The catalog, a non-profit venture operated by Kaiser Foundation Health Plan, is expected eventually to be available nationally.

Aon forms new team

CHICAGO—Aon Risk Services Inc. has formed a new practice to coordinate the services it delivers to large U.S. clients and prospects.

The U.S. Risk Management Client Practice will be headed by Bob Williams, an executive vp of Aon Group Inc. in New York, and currently head of Aon's Global Strategic Account Management. In his new role, Mr. Williams will be a vice chairman of the executive board of Aon Risk Services, the brokerage arm of Aon Group Inc.

The U.S. Risk Management Client Practice will be established in several Aon offices, where specialists in account management, property/casualty brokerage and technical services, such as consulting, will coordinate Aon resources for risk management clients with large and/or complex risks.

Florida approves cat model

TALLAHASSEE, Fla.—Tillinghast-Towers Perrin's hurricane modeling software is the first to win the seal of approval from Florida regulators, the consultant says.

Proprietary cat modeling software used by insurers and reinsurers came under scrutiny from insurance regulators in Florida and elsewhere in the wake of rising property insurance rates that followed Hurricane Andrew and other catastrophes.

Tillinghast's "TopCat" hurricane model, used to measure catastrophe exposure of residential and commercial property, was approved by state officials last week after two days of hearings by the Florida Hurricane Commission on Hurricane Loss Projection Methodology.

The commission was set up in 1995 by the Florida Legislature "to review the propriety of models in residential ratemaking," said a statement from Doug Collins, a consulting actuary with Tillinghast-Towers Perrin.

Florida Treasurer and Insurance Commissioner Bill Nelson has challenged several property insurance rate filings based on proprietary cat modeling software. In 1997, he filed suit to block the commission from approving a cat modeling program offered by Applied Insurance Research of Boston, arguing that the company had not disclosed the assumptions on which its model was based.

Gallagher buys California broker

ITASCA, Ill.—Arthur J. Gallagher & Co. has acquired Tustin, Calif.-based excess and surplus lines broker Nelson, Gordon & James. Terms of the transaction were not disclosed.

Nelson, Gordon & James was established in 1988 and currently serves 300 retail insurance brokers, most of them on the West Coast.

The firm's president, Kathy Nelson, and her staff will continue to operate out of their Tustin office as a division of Itasca, Ill.-based Gallagher's Risk Placement Services Inc. subsidiary. The operations will report to David McGurn, vp-specialty and international marketing at Gallagher.

U.S. Re forms wholesale unit

NEW YORK—U.S. Re Cos. Inc. has formed a wholesale brokerage and underwriting management subsidiary called U.S. Re Agencies Inc.

Two other recently formed subsidiaries will operate as subsidiaries of the new unit. U.S. Re Risk Services Corp. will be responsible for wholesale brokerage and Uni-Ter Underwriting Management Corp. will be responsible for underwriting.

Three new INEX members OK'd

CHICAGO—The three newest members of the INEX insurance exchange have been granted underwriting authority in California. Kemper Environmental Ltd., Kemper Underwriting Brokers Inc. and Kemper Secure Ltd. now have the ability to underwrite through INEX on a non-admitted basis in 43 states.

Through INEX, formerly the Illinois Insurance Exchange, the members can also accept admitted risks in Illinois.

Kemper Environmental offers environmental insurance programs with limits up to $50 million. Kemper Underwriting Brokers issues umbrella and excess liability programs with limits of up to $50 million. Kemper Secure was formed by Kemper Insurance Cos. to facilitate non-traditional risk financing programs such as risk securitization and joint ventures.

Chubb program will advise on EPL

WARREN, N.J.—The Chubb Group of Insurance Cos. has developed a program to provide employment practices loss prevention services to its customers.

The new program offers unlimited legal and consulting services to help companies avoid costly and highly publicized employee allegations.

The program includes a North American network of employment law firms, labor economists and statisticians, and human resources consultants selected for their expertise in employment issues and their familiarity with local case law and statutes. Customers are reimbursed for 50% of the cost of the services, up to a total of 10% of the customer's annual Chubb employment practices liability insurance premium.

The legal services available through Chubb's employment practices loss prevention program offer telephone consultations on many issues with attorneys specializing in local, state or federal employment. Such issues include how to dismiss an employee, how to respond to a harassment complaint or what can be legally asked during an interview.

The human resources consultative services can help evaluate a company's employment policies and practices and make sure they reflect the latest legal trends, precedents and Supreme Court rulings. The human resource and employment law experts in Chubb's network can help customers design and implement programs to educate employees about diversity, what constitutes sexual harassment or other topics related to ensuring a healthy work environment.

For information, contact Donna Lovre, 908-903-2107, or www.dlovre@chubb.com.

Comings & goings

Robert Fishman has been named president of Zurich-American Insurance Group's Diviersified Products unit in New York, effective Jan. 1. He succeeds **Frank Patalano**, who left Zurich-American to become president and chief executive officer of Zurich Commercial in Baltimore, which is Zurich Insurance Group's middle-market commercial insurer in the United States. Mr. Fishman currently is executive vp of Zurich-American Specialities in Summit, N.J.

Also at Zurich-American, **Timothy Picken** was named vp of marketing for international accounts-Eastern zone in New York.

Michael J. Bleisnick has been promoted to president-brokerage operations for PXRE Reinsurance Co. in Edison, N.J. He previously wasexecutive vp-domestic operations.

USI Insurance Services Corp. has appointed **Thomas V. Ealy** as president and CEO of USI subsidiary Julius Moll & Son Inc. in Chicago. Mr. Ealy succeeds Richard M. Moll, who recently retired. Julius Moll & Son, an insurance brokerage founded in 1901, serves middle-market and large corporations as a part of USI's Midwest operations. Before joining USI, Mr. Ealy worked at Zurich-American Insurance Group as well as some large insurance brokerages.

Travelers Property Casualty Corp. appointed **Stephen B. Wood** as director of the Museum and Fine Arts department in the insurer's Commercial Accounts Group. Mr. Wood previously was head of the fine art department at Nordstern Insurance Co. of America.

Information in brief

The St. Paul Cos. Inc. will let go about $250 million in premium on general commercial middle-market business, President, Chairman and CEO Douglas W. Weatherdale told analysts last week. He said the St. Paul, Minn.-based company also will eliminate 400 to 600 positions by the end of 1999 in addition to the 2,000 positions it said it would cut after merging with USF&G Corp. . . . **AIG Slovakia Insurance Co.** has received a license to operate a general insurer in Slovakia. AIG Slovakia, a wholly owned subsidiary of American International Group Inc., initially will offer commercial property/casualty coverages, AIG said in a release, which noted that an AIG company has offered life and accident insurance since 1995 in Slovakia. . . . **David Walker,** a partner in the Atlanta office of Arthur Andersen L.L.P. and a former executive director of the Pension Benefit Guaranty Corp., was confirmed by the Senate last month to head the General Accounting Office, which is the investigative arm of Congress. . . . California's **State Compensation Insurance Fund** announced a projected $109 million dividend to thousands of California employers for the 1997 policy year. The dividend is up significantly from the prior year's dividend of $6.3 million. SCIF attributes the higher dividend to better workplace safety. . . . The merger of financial services company SunAmerica Inc. into **American International Group Inc.** has been approved by shareholders of both companies. The companies expect the deal to close late this year or early next year. . . . **Saxon Riley** and **Rob White-Cooper,** chairman and CEO, respectively, of Sedgwick Group P.L.C., were elected to the board of Marsh & McLennan Cos. Inc. last week. Sedgwick is expected to be combined completely with M&M by January 1999. . . . **Patrick G. Ryan,** chairman and CEO of Chicago-based Aon Corp., was named one of the 10 top directors in America by Director's Alert, a newsletter for Fortune 1000 CEOs and directors.

Mapping

Continued from page 2

to bear a large risk of loss.

Mr. Shpritz conducted a seminar on Balance Sheet Risk Management last week at the Risk Management and Employee Benefits Conference and Exhibition, an annual event sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc. The conference was held Nov. 17-18 in Chicago.

The idea, he said, is to look at the company balance sheet in total, examining what has affected it in the past and what could happen in the future. Sometimes this means mentally casting aside the company's existing insurance plan and outlining risks as though there were no coverage in place.

'I think there are insurance companies out there that are selling things they don't understand,' says Nathan I. Shpritz.

"From scratch, look at what your risks really are and then look at ways to finance them or not finance them—or how to mitigate them."

It is also critical to understand what the current insurance in place will do if there is a major loss, and how the company will react internally, Mr. Shpritz said.

"I think there are insurance companies out there that are selling things they don't understand, and there are customers out there that want to buy something they don't understand," said Mr. Shpritz.

Risk mapping is useful because it examines dynamics such as frequency and severity as they relate to risk. For example, an earthquake would fall in a low frequency/high severity quadrant, whereas workers comp could be mapped as a high frequency/low severity risk.

Other risk maps can cover predictability vs. the ability to insure, severity vs. timing of payment, or cost to settle vs. cost to defend.

Mr. Shpritz advocates taking a "top-down" approach to more than just traditional insurance risk. Other risks, such as interest rate fluctuations, human resources issues and bad debt may also be mapped. "It's the variation around your expectations that I'm worried about financing."

He also advocates the use of non-insurance mechanisms like derivatives, stocks, and just-in-time inventory management to help mitigate corporate risks.

"It's a better idea to think of everything you can do, rather than just what you can purchase."

The session was moderated by Gene W. Patterson, assistant risk manager for the General Council on Finance & Administration for the United Methodist Church in Evanston, Ill. BI

Risk manager key to better claims handling

By MEG FLETCHER

CHICAGO—Risk managers can use several strategies to reduce or eliminate problems with insurers over the handling of liability claims.

The structure of a company's risk management program can make "a tremendous difference" in insurers' response to claims, because consistent communication can reduce confrontation, said Richard Schmidt, risk manager with Illinois Tool Works Inc. in Glenview, Ill.

He moderated a panel during the REBEX '98 conference, sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc. The conference was held Nov. 17-18 in Chicago.

Mr. Schmidt suggested that a company's risk manager may be able to improve basic coordination of the claims-handling process—and avoid problems with insurers—if its program includes a national claims coordinator, a dedicated claims unit, and a claims service agreement that establishes servicing parameters acceptable to both the risk manager and insurers.

In addition, "we suggest that you get to know the top officers of the carriers, who may be of some value to you if you get into a situation that involves some sticky negotiations," he said.

Policyholders' general expectations of an insurer's responsibilities include broad defense protection, policy limits, clear demarcation of any differences of interest between the policyholder and the insurer, and clear communication, said Karl J. Zimmel, risk and insurance manager for Ace Hardware Corp. in Oak Brook, Ill.

However, companies' needs may differ.

For example, his company prefers to be actively involved in its defense, especially if employment practices liability claims are involved. After discussions with its insurer, Ace Hardware was able to modify the policy so the company could recommend its own attorneys or use the insurer's attorneys, he said.

'Treat claims as a hot potato; report them immediately,' is the slogan Ben C. Schull recommends.

In addition, Mr. Zimmel warned risk managers to be wary of "the 'hammer clause' in many policies, which says the insurer has the right to tell the insured to settle a claim if it can be settled within the insured's deductible." That can be "quite a controversial clause" and needs to be discussed up front with an insurer, he added.

When a claim does occur, it is important that risk managers appropriately report an incident or claim to trigger defense and coverage, said David Shadle, vp and senior claims consultant at Near North Insurance Brokerage Inc. in Chicago.

One advantage of prompt reporting is that it helps protect risk managers from allegations that they prejudiced the rights of the insurer with late notice, panelists said. "Treat claims as a hot potato; report them immediately," is the slogan Ben C. Schull, senior vp-national accounts for the Near North agency, recommends. He coordinated the session.

Mr. Shadle said insurers typically use one of several reasons to deny a claim. For example, they say the person or company involved was not an insured, committed an intentional act or one that was against the law or public policy. Or, they state that the event was not an occurrence, did not follow policy conditions or was specifically excluded in the policy. In addition, they may allege that the claim should not be covered because the risk manager had prior knowledge of it because it was a known loss or one in progress.

When an insurer denies a claim or issues a "reservations of rights" letter, a risk manager should examine it for: specific reasons and specific wording; consistency with policy wording and the circumstances of the claim; and consistency with the risk manager's intent when the policy was drafted, panelists said.

It is particularly helpful if a risk manager can go back to copies of submissions, proposals and notes of meetings where operations or exposures are discussed with the underwriter or the broker, Mr Shadle said.

When faced with an insurer's denial or reservation of rights, a risk manager must respond. The response usually consists of a letter disputing the insurer's action and a request for a meeting with the insurer's adjuster and the adjuster's superior, who has the authority to overrule the adjuster's action.

A risk manager also may ask a broker to intervene or seek a meeting with both underwriting and claims officers, he said.

Mediation or alternative dispute resolution techniques may help. However, it may still be necessary to negotiate with the insurer for a separate defense to protect the company's interests and even sue the insurer, if necessary, Mr. Shadle said. BI

Johnson picks up the phone

Telephonic claims reporting improves quality, efficiency

By AMANDA MILLIGAN

CHICAGO—Mick McGavin learned the hard way that there's more than one correct way to file a claim.

As manager of safety planning and claims for Johnson Controls Inc., Mr. McGavin regularly noticed discrepancies in claims classifications and other pertinent data fields on claims filed from Johnson's 600 worksites. The way certain data was reported varied depending on who input the claim.

This lack of standardization riddled the data-searching process with complications and made meaningful analysis difficult, he said. With 4,000 workers compensation claims every year, the problem was only getting worse.

"The most common loss descriptor was 'n/a' or 'not applicable,'" Mr. McGavin said during a session last week at the REBEX '98 conference, an annual event sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc. The conference was held Nov. 17-18 in Chicago.

In April 1997, Milwaukee-based Johnson Controls discovered that telephonic claims reporting could standardize its data and give the automotive battery and seating manufacturer and business service company the ability to manipulate its claims data.

"I was kind of skeptical out of the gate about telephonic claims reporting," said Mr. McGavin.

However, the advantages of the new system soon became apparent.

Most of the workers comp claims were from the same sorts of injuries, he said, such as back and wrist strains. As a result, many of the previously free-form data fields could be made restricted so that the claims filer simply had to choose from a pull-down menu, rather than typing in the condition.

This improved the quality of the data and kept it free from spelling errors and inconsistencies. "It gives us good data on the front end," said Mr. McGavin, adding that "not applicable" is no longer an option.

In addition, telephonic claims reporting streamlined the calls and reduced the time needed to file a claim. The average call only takes about 10 minutes to complete, Mr. McGavin said. Depending on the type of work done at each of the 600 job sites, certain "red flag" questions are asked to detect potentially fraudulent claims. Even when these questions are asked, the necessary information can be gathered in a little over 12 minutes.

Reports are generated from the claims calls and sent to Johnson Controls' third-party administrator, the location reporting the claim, and, if required, the state in which the claim occurred.

For claims managers interested in telephonic claims reporting, Mr. McGavin recommended getting a phone number that is assigned to the claims manager's company rather than the reporting service. This ensures that if the reporting service goes out of business or if the service is moved to a different provider, then the claims manager's company doesn't have an erroneous number circulating in the public. It also is important to find a company that is able to customize its system to accommodate the client. Johnson Controls uses Atlanta-based Actec, a division of the Sertec Corp. The cost to Johnson Controls is $18 per claim plus a minor administration fee, said Mr. McGavin.

"Through telephonic reporting, we've created a way to gather pretty much any information we want."

Lisa Stoffer of Snap-On Inc. of Kenosha, Wis., moderated the session.

'InfoWar' impels tighter security

By MEG FLETCHER

CHICAGO—Protecting confidential company information is a growing challenge for risk managers, due to increasing assaults from computer criminals.

In a 1998 survey, "the FBI and the Computer Security Institute found that computer crime is a serious problem facing all organizations today," said Daniel Harris, an information security specialist with Aon Group Inc. in Owings Mills, Md. He discussed the topic last week during REBEX '98, the Midwest conference sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc. The conference took place Nov. 17-18 in Chicago.

According to a survey of 520 public and private entities, 64% experienced some kind of intrusion or other unauthorized computer use within the past 12 months. That is a 16% increase from the previous year.

Of those experiencing some form of intrusion, 72% reported financial losses, which totaled at least $136 million. Their Internet connection was a frequent point of attack, 54% of the respondents said.

The U.S. government itself faces "widespread and serious weaknesses" in its ability to protect federal assets, sensitive information and critical operations such as those affecting public safety, according to a 1998 report by the U.S. General Accounting Office.

"The same kind of crimes that occur in the real world are also committed on computer systems, but highly interconnected computer systems provide new opportunities for the bad guys," he said. Crimes include bank fraud; theft of intellectual property, such as trade secrets; hate mail; hacking; viruses; and data theft or manipulation.

The "bad guys" include insiders and former employees; hackers; criminals; commercial organizations; foreign governments; and so-called trusted business partners, he said.

"Espionage, money, power, control, revenge and joy riding are typical motives for InfoWar assaults," Mr. Harris said.

For most companies, the types of

See **Security** *on next page*

Commentary

Party's win may be coup for Bermuda

The newly elected Progressive Labor Party in Bermuda has its work cut out for it after booting the United Bermuda Party out of power after 30 years of UBP rule. It must answer to its constituents without destroying one of the healthiest economies in the world or disrupting one of the world's leading insurance centers.

It won't be easy, but the early betting is that the PLP will successfully balance these interests.

While the official platforms of the two parties did not vary greatly, everyone knows where the two parties stand, as one Bermudian told me. The PLP represents Bermuda's black population, workers and the island's have-nots. The UBP, despite its name and its black members, is the party of choice for white Bermudians, management and the well-heeled.

The PLP's stunning 26 to 14 majority in Parliament clearly signals that most Bermudians want change. Those changes include a redistribution of wealth and more opportunities for black citizens, who represent 61% of the island's population.

The international insurance community in Bermuda publicly is greeting the change to the PLP with guarded optimism. Privately, there may be a little more concern about tax and policy changes to come. Even so, no one is predicting doom and gloom for international businesses in Bermuda under the PLP.

Kathryn J. McIntyre

The PLP is being taken at its word that it supports international business in Bermuda. It is unlikely that the PLP will adopt onerous policies that would encourage any international businesses to move elsewhere or discourage other international businesses from moving to the island. It's clear that any policy changes detrimental to international business in Bermuda would indeed amount to killing the proverbial goose that laid the golden egg. International business in Bermuda, dominated by the insurance and reinsurance business, fuels half the island's economy.

The number of Bermudians employed by the international insurance businesses in Bermuda is growing. There is a strong commitment among the expatriate business leaders to hire, train and promote Bermudians. It is a commitment I have seen increase in the nearly 20 years I have visited the island.

However, the business community is bracing for some changes that would redistribute the wealth in Bermuda, which currently has a regressive tax system. Payroll taxes, for example, are more likely to go up than down. And import taxes may be altered to tax higher-valued goods at a higher rate.

In an effort to encourage greater job opportunities for Bermudians, work permits for expatriates also may become more scarce, especially for support staff.

That won't be all bad. In fact, rather than spelling doom or gloom, the election of the PLP could do much to improve the image, and reality, of doing business in Bermuda.

In terms of image, most agree that the orderly transition to leadership of what has been the 30-year opposition party will prove that Bermuda is a stable political and economic environment, regardless of which party is in power. Indeed, one can argue it is unhealthy for one party to be in power for so long.

In terms of reality, as a longtime and frequent visitor to Bermuda, I hope the PLP can reverse the increasing racial tension I have recently detected. That the PLP had never won an election in Bermuda clearly was beginning to wear on those who believed the UBP did not represent the interests of blacks.

It was earlier this year that I was confronted with racial anger in Bermuda for the first time, something that unfortunately I have often encountered in the United States. On the way to the airport, after engaging my cab driver in a discussion on current issues in Bermuda, I got more than I bargained for. The driver, who was black, lectured me that black and white people can do business together but they should not socialize or intermarry. He called any black people belonging to the UBP "Oreos," a racial slur that made me cringe. I was saddened by that conversation as I left Bermuda.

Now that the PLP is in power, perhaps his anger will subside and newly elected Premier Jennifer Smith will be able to accomplish what she has promised: a government that represents all Bermudians. I hope so.

Publisher and Editorial Director Kathryn J. McIntyre and Editor Paul D. Winston write columns on alternate weeks.

Security

Continued from previous page

sensitive data at risk include medical information; client data; trade secrets; policy values and limits; credit card information; and customer lists.

Risk managers need to be concerned about adopting appropriate security measures for the data, according to Mr. Harris. Security "is a balance of acceptable risk, value/cost and practicality," he added.

Mr. Harris said a company's security system should require that:

- Information and systems are accessible and available only for authorized users when needed.
- No information is added, modified or deleted by a non-authorized person or means.
- An audit trail records activity and provides accountability.

Security is 'a balance of acceptable risk, value/cost and practicality,' says Daniel Harris.

Requiring a would-be user to provide adequate identification is one of several key security concepts.

While reusable passwords are the most common form of identification, they are "weak," Mr. Harris said. They can be given away and easily guessed by anyone using programs that run common words.

Mr. Harris prefers the use of "strong" authentication systems, such as a "token," which provides a one-time password. He also likes the newer "smart card," which contains an individualized cryptographic key that encrypts, digitally signs and authenticates the user.

In addition, "biometrics" provides a "very strong" method of authentication because it uses "the body as a password," Mr. Harris said. That approach includes retinal scanning, iris recognition, fingerprints, voice or signature verification. BI

PBGC

Continued from page 1

Ill., chairman of the House Employer-Employee Relations subcommittee, comes at a time when business groups, most notably the ERISA Industry Committee, have been pressing for a reduction in the premiums employers pay the Pension Benefit Guaranty Corp. to support the agency's pension insurance programs. Congress would have to approve such a change.

If several large underfunded plans terminated, the PBGC's financial position could be drastically reduced, according to a General Accounting Office report.

The ERISA Industry Committee says that PBGC premiums should be cut because, among other things, the agency's exposure to losses has been reduced by a 1994 law—which is being phased in—that stiffens pension funding requirements.

But the General Accounting Office report, with its warning that the PBGC's surplus could quickly evaporate, could defuse congressional interest in cutting the premiums employers with defined benefit plans pay the PBGC. Those premiums now are $19 per year per plan participant for fully funded plans, while underfunded plans pay a surcharge of $9 per participant per $1,000 of underfunding.

Mr. Strauss, who has warned that premium cuts are premature, describes the GAO report as an "independent validation" of the points that he and other agency officials have made in recent months.

"Even though we have vastly improved our financial condition, there still is reason for concern and vigilance. It is important to have gotten that independent validation from the GAO," Mr. Strauss said.

While Mr. Strauss said he does not believe in building a cushion just for the sake of having one, "It would not be wise to do anything precipitous right now with respect to our funding."

The PBGC's current relative good health followed years of financial distress once so dire that some thought only a taxpayer-funded bailout could save it from insolvency.

By 1993, the deficit in the PBGC's single-employer insurance program hit nearly $3 billion as the agency in the early 1990s absorbed several losses that each totaled multiple hundreds of millions of dollars as it took over hugely underfunded plans sponsored by such failed companies as Pan American World Airways and Eastern Airlines Inc.

Since that time, aided by a strong economy that has reduced business failures and a robust stock market that has boosted the agency's investment returns, the PBGC's deficit was steadily reduced.

In 1996, the PBGC recorded an $869 million surplus, its first ever since Congress established the agency in 1974 to guarantee workers' and retirees' pension benefits. In 1997, the surplus, amid hefty investment returns on assets it holds and the lack of terminations of big underfunded pension plans, leaped to $3.48 billion.

While the PBGC's financial condition has significantly improved, it still faces risks that could threaten the long-term viability of its insurance program, the GAO says.

The biggest risk is an economic downturn. A significant downturn could lead to more business failures and the terminations of pension plans with large unfunded liabilities.

If several large underfunded plans terminated, "PBGC could be obligated to take on additional benefit obligations, which could drastically reduce its net financial position," according to the report.

Just a handful of terminations of big underfunded plans can lead to huge losses for the agency, the GAO says. For example, the terminations of Pan Am and Eastern Airlines plans alone cost the agency $1.3 billion, while the termination of plans sponsored by LTV Republic Steel Corp., Sharon Steel Corp. and Wheeling-Pittsburgh Steel Corp. led to another $1.4 billion in claims.

An economic downturn could have other negative effects on the PBGC's health. As financially troubled companies jettisoned their pension plans, the PBGC's premium income base would be eroded. In addition, a recession could trigger a decline in the stock market, affecting the value of assets held by the PBGC as well as the investment income generated by those assets, the GAO said.

"The value of PBGC's assets and income from them could decline at the same time that claims from the increased number of plans taken over by PBGC raised benefit payments," the report says.

Because the PBGC has only limited ability to protect itself from risk, it is important that the agency be able to forecast accurately its future financial condition to give legislators time to enact legislative changes to improve the health of its insurance programs, the GAO said.

Until now, the PBGC's methodology, which relied on extrapolations of past claims experience and economic conditions to forecast the financial status of its insurance program, has been relatively "unsophisticated," the report said.

But now the PBGC is developing a new approach, known as the Pension Insurance Modeling System, to forecast exposure to future claims under a broad range of possible future economic conditions, the GAO said.

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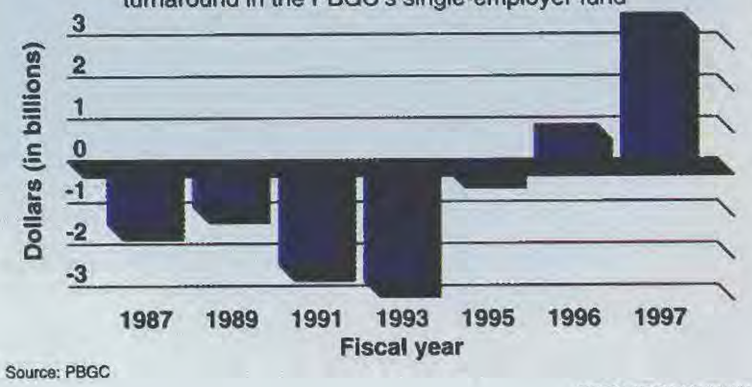
Free single copies of "Pension Benefit Guaranty Corp: Financial Condition Improving, but Long-Term Risks Remain," are available from the General Accounting Office, P.O. Box 37050, Washington, D.C. 20013. Specify report GAO/HEHS-99-5.

How the PBGC has bounced back

Hefty investment returns and few big losses have keyed a turnaround in the PBGC's single-employer fund



Source: PBGC

GRAPHIC BY JOHN HALL

Caps

Continued from page 2

That controversy began this summer when Medicare HMOs in Massachusetts, battered by soaring drug costs, revealed they were going to significantly cut back prescription drug coverage.

That action was challenged by Massachusetts regulators, who said the cutbacks violated a state law requiring Medicare HMOs to offer either unlimited or no prescription drug coverage. The HMOs argued, however, that a 1997 federal law pre-empted the state requirement—the only one of its kind. Last month, a federal judge sided with the HMOs (*BI*, Oct. 26).

In the wake of the court decision, state policymakers urged HMOs to offer unlimited prescription drug coverage for one more year while policymakers tried to develop proposals to give financial assistance to lower-income beneficiaries facing much greater exposure to prescription drug costs.

The Health Care Financing Administration, which regulates Medicare HMOs, gave implicit approval to a one-year moratorium by waiving—only for Massachusetts Medicare HMOs and only for prescription drug coverage—a federal requirement that HMOs' final benefit packages and rates be based on submissions made in May. Sen. Edward Kennedy, D-Mass., and Massachusetts Gov. Paul Celluci had urged HCFA to provide such a waiver.

Several Massachusetts Medicare HMOs, which earlier filed benefit submissions with HCFA that included a scaled-back prescription drug benefit, said they were willing to take advantage of the waiver and file new submissions with unlimited drug benefits for 1999 only.

That one-year moratorium on cutting prescription drug benefits would have defused the bad publicity HMOs have received since news of their plans to cut benefits became public.

But the HMOs supporting the moratorium, like Tufts and Blue Cross & Blue Shield, conditioned that support on another major Medicare HMO, Harvard Pilgrim, also agreeing to offer unlimited coverage for next year.

If just one major Medicare HMO did not offer unlimited drug coverage, the other HMOs believed they would incur significant financial losses as beneficiaries with the greatest prescription drug costs would enroll in their programs.

"We are willing to do our fair share, but we could not absorb a $50 million loss. We can't run at a deficit," said a spokeswoman for Tufts, the largest Medicare HMO in the state with about 83,000 enrollees. Tufts next year will offer a prescription drug plan with a $600 prescription drug cap, based on wholesale prices.

While group plans the HMOs sell will not be directly affected, the drug controversy has been of vital interest to employers.

But Harvard Pilgrim declined to go along with the moratorium, saying it could not afford to continue to offer unlimited prescription drug coverage.

The Brookline, Mass.-based HMO has a much higher percentage of beneficiaries in its unlimited drug plan than other HMOs, and the medical costs for full-drug members are about double those of enrollees opting for a benefit plan that does not cover prescription drugs, the HMO said.

"Federal reimbursement does not adequately cover their medical costs, and the premium we can charge for unlimited drug coverage under federal regulations does not allow us to make up the difference," Harvard Pilgrim said in a statement. Harvard Pilgrim will offer a zero-premium plan next year with an $800 prescription drug benefit cap, based on retail prices.

For many enrollees, Tufts says perhaps 90% in its plan, the scaling back of prescription drug benefits will leave them either better off or at least as well off as they have been.

For example, Tufts currently charges a $74 monthly premium, or $888 a year, for its unlimited prescription drug plan, and also offers a zero-premium plan with no prescription drug benefits. Beneficiaries in the zero-premium plan next year will get a $600 prescription drug benefit.

Depending on their prescription drug use, those in the unlimited prescription drug benefit plan this year also could save money because, as enrollees next year in the zero-premium $600 benefit plan, they won't be paying monthly premiums.

Still, those retirees with significant prescription drug costs will face much higher out-of-pocket costs next year.

But HMOs in Massachusetts say they will continue to offer unlimited prescription drug plans to employers that offer the plans to their retired workers.

While group plans sold by the HMOs won't be directly affected, the Massachusetts prescription drug controversy still has been of vital interest to employers.

Had a federal court upheld the Massachusetts prescription drug mandate on Medicare HMOs, it could have set the stage for other states adopting such mandates, raising the cost of coverage for Medicare HMOs. That could have made it more expensive for employers that contract with Medicare HMOs and offer those HMOs—along with their own plans—to their retirees.

In addition, employers without group retiree health plans in Massachusetts also had an interest in the outcome of the controversy. Some of them may pay a portion or all of retirees' HMO premiums and were eager to know the shape and cost of benefit packages offered by the HMOs. BI

Tobacco companies, 46 states reach $206 billion settlement

By MARK A. HOFMANN

WASHINGTON—Cigarette makers will pay states $206 billion to settle a series of lawsuits aimed at recouping money spent to treat tobacco-related illnesses.

The settlement, announced last week in Washington, is less comprehensive than the 1997 $368.5 billion proposed settlement between cigarette manufacturers and the states seeking to recover public money spent to treat tobacco-related illnesses (*BI*, June 23, 1997).

Although the new settlement would cost cigarette makers far less than the earlier proposal, it would not shield them from private class-action lawsuits. In fact, the current settlement says little about liability, other than settling existing state and local government legal actions against tobacco companies. Instead, it focuses on limiting youth access to cigarettes and on regulating cigarette marketing.

Under the settlement, cigarette manufacturers will pay out the $206 billion over a period ending in 2025.

Tobacco companies also will pay the states' legal fees—for both internal and outside counsel—associated with the settlement.

Unlike the 1997 proposal, the current settlement would not require congressional action to take effect. The earlier proposal died this year when members of Congress could not agree on its scope, particularly whether cigarette manufacturers should enjoy some immunity from punitive damage awards.

All 46 states eligible to participate in the deal had officially endorsed it by mid-afternoon Friday, and the four tobacco companies covered by the agreement announced that they would accept it.

Four other states have already settled their own suits against the tobacco industry.

Even before the settlement won acceptance, President Clinton endorsed it as a "step in the right direction" and called on Congress to move quickly in establishing a national tobacco policy, including passing legislation that would give the federal Food and Drug Administration the power to regulate tobacco.

Meanwhile, a federal judge earlier this month gave final approval to a $115.5 million settlement initially reached between Philip Morris Cos. and a class of its shareholders in June. The settlement involved two class-action suits.

One alleged that the tobacco company failed to disclose earlier in the decade that its inventory of certain cigarette brands had grown because the company had priced them too high. After the company cut its prices in 1993, share prices fell as well.

The payment also will settle a companion suit alleging that Philip Morris had attempted to inflate its stock price and avoid federal regulation by downplaying the addictive properties of nicotine. The judge initially threw out that case but reinstated it after internal corporate documents showed that employees had discussed the addictive properties of nicotine.

A spokesman for the company said that in settling, Philip Morris did not admit any wrongdoing but wanted to "put the matter behind us and avoid the expense of continuing litigation." Citing company policy, the spokesman would not comment on what insurance, if any, would cover any portion of the settlement. BI

Updates

Humana, Prudential silent

Continued from page 2

A Humana spokesman said the managed care company does not comment on specific acquisition strategies, but he said "acquisitions have always been a part of our strategic business plan. To make any acquisition, it would have to be extraordinarily compelling, both financially and operationally, in order to consider it at this time."

Earlier this year, Humana was seen as a leading candidate to buy Prudential's struggling health care operation. It instead opted for a merger with United HealthCare Corp. in an all-stock transaction valued at about $5.5 billion (*BI*, June 1). Humana walked away from the deal a few months later after United HealthCare reported a $900 million charge against its second-quarter earnings (*BI*, Aug. 10; Aug. 17).

Texas approves Blues merger

AUSTIN, Texas—The Texas Department of Insurance has cleared the way for the merger of Blue Cross & Blue Shield of Texas with Blue Cross & Blue Shield of Illinois.

Both Blues plans have sought the merger since July 1996, but insurance regulators had withheld approval until last week. Regulators had been awaiting resolution of a challenge to the merger's legality by the Texas attorney general.

The attorney general has declined to appeal a state court ruling earlier this fall that the merger should not be prohibited by the Texas Non-Profit Corporation Act. Still pending is the attorney general's lawsuit that seeks to declare the Texas Blues plan a charity and to force the plan to turn over more than $560 million—$350 million plus 5% interest each year—to the state over 20 years as a consequence of the merger, which would make the Texas plan part of a non-profit.

BC/BS of Illinois, already licensed in Texas, has administered portions of the Texas plan for two years under a management contract. The merged entity in Texas will operate as a non-profit mutual insurer and will continue current Blues operations in Texas at the existing headquarters in Richardson.

Briefly noted

Markel Corp. has increased its offer for **Gryphon Holdings Inc.** to $19 a share from the $18-a-share offer Gryphon's board previously had rejected. The Gryphon board said it will recommend acceptance of the new offer after a due diligence review by Markel. . . .**Hartford Life Insurance Co.** has formed an alliance with the **Swiss Life Benefit Network** to provide employee benefits to companies with overseas subsidiaries. Through the alliance, the partners will offer group short- and long-term disability products, as well as group life insurance products and services, through a multinational pooling arrangement.

Arick takes post at Emerson Electric

David Arick has been named manager-corporate insurance at Emerson Electric Co. a St. Louis-based manufacturer of electrical components and other products.

Mr. Arick, 30, is responsible for administration of Emerson's global insurance programs and risk management for operations in the Far East and Latin America. He replaces **Patricia Hernandez**, who was promoted to director, organizational development, and reports to Paul E. Morrison, director-risk management.

Comings & Goings: Buyers

Mr. Arick, previously a risk analyst at Abbott Laboratories in Chicago, has a bachelor of arts with a concentration in finance from Otterbein College in Columbus, Ohio. He is a member of the St. Louis chapter of the Risk & Insurance Management Society Inc. and is pursuing the Associate in Risk Management designation.

* * *

John T. Roche has been named risk manager for JT Walker Industries Inc., a Clearwater, Fla.-based manufacturer of storm windows, screens and other products.

Mr. Roche is responsible for the company's insurance and self-insurance programs, claims management, safety and loss control and employee benefits. He reports to Jay Poppleton, president of the company. Mr. Roche replaces **John Hager**, who remains with the company but left the risk management post because of illness.

Mr. Roche comes to his new position after serving as a risk consultant for Staff Leasing Corp. in Bradenton, Fla. He has worked as risk manager for Signature Flight Support in Orlando, Fla., and as corporate risk manager for Harcourt Brace Jovanovich Inc. in Orlando.

* * *

Mark Haskin has been named risk manager for the city of Kansas City, Mo.

Mr. Haskin, 47, is in charge of all the city's risk management functions in the newly created position. He reports to Janice Reed, director of finance and chief financial officer.

He comes to the position from Employers Reinsurance Corp. in Overland Park, Kan., where he was risk manager for the health care division.

Mr. Haskin holds a bachelor of arts in political science from Baker University in Baldwin City, Kan., and a master of business administration from Baker. He is a member of the Kansas City Chapter of the Risk & Insurance Management Society Inc. and the Missouri Chapter of the Public Risk Management Assn.

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We'd like to report on staff changes in your company's risk management, safety and benefit departments. Contact Michael Bradford, Associate Editor, Business Insurance, 2726 Prytania, #6, New Orleans, La. 70130; 504-269-9988; fax: 504-269-0858; e-mail: mbradfor@crain.com. Please send a photograph, too.

PCS

Continued from page 1

Camp Hill, Pa.-based Rite Aid announced it would buy PCS for $1.5 billion, which is substantially less than the $4 billion that Lilly paid for PCS in 1994. Lilly in 1997 took a $2.4 billion non-cash charge to write down the value of its PCS unit to $1.6 billion (BI, June 30, 1997). The sale to Rite Aid is expected to close in the first quarter of 1999.

With the purchase of PCS, Rite Aid, which operates some 3,900 pharmacies in 30 states and the District of Columbia, will own a PBM that serves more than 1,200 plan sponsors and more than 50 million plan members. PCS manages $10 billion worth of prescriptions annually.

Rite Aid's existing PBM, Eagle Managed Care, will be folded into PCS, which will remain based in Scottsdale, Ariz., with the same management team.

The combination of Rite Aid and PCS will help managed care payers and consumers control prescription drug costs and improve quality, said Martin Grass, Rite Aid's chairman and chief executive officer.

"We really look at this as making the corner drugstore the cornerstone of health care improvement," he said.

Rite Aid has sought to assure employer clients of PCS that it will not restrict PCS's network of available pharmacies to only Rite Aid stores.

Such a disruption of service to PCS customers will not be tolerated, Mr. Grass said.

A Rite Aid spokeswoman also noted that about 40% of the prescriptions that PCS manages are in states in which Rite Aid does not have stores.

PCS clients currently can have prescriptions filled by 54,000 pharmacies within the company's network. Its network includes pharmacies owned by Rite Aid competitors, such as Walgreen Co. and Eckerd Corp., both of which declined to comment directly on the PCS deal.

There will be a perception among competitors and payers that Rite Aid purchased PCS to force more business into its stores, said Mike Deskin, president of the Pharmacy Benefit Management Institute in Tempe, Ariz. PBMI provides benefit managers with information about PBMs.

However, it would be "foolhardy" for Rite Aid to lock out other major chains from participating in PCS networks, Mr. Deskin said. The other chains have plenty of branch locations, and employees of PCS clients will complain if they do not have access to them, he explained.

"If you are a benefit manager and you are getting 50 calls because your pharmacy got dropped out of the network, you are going to say, 'Put the pharmacy back in,'" he said.

Mr. Deskin said drugstore chains already commonly participate in each others' PBM networks and that Rite Aid's rivals are not likely to boycott PCS after the acquisition because filling prescriptions—even at a discounted rate negotiated by a PBM—is so profitable for them. As a result, he said he does not foresee any disruption to PCS customers after the acquisition.

"It's simply an ownership change," Mr. Deskin said. "It's not really something that will affect employers or employees unless it distracts management from something they should be doing."

Another factor that would combat any favoritism on the part of PCS toward its new parent, at least in the short run, is Rite Aid's lack of market penetration in several states, said Bridget Eber, a pharmacist and leader of the prescription drug consulting practice for Hewitt Associates L.L.C. in Lincolnshire, Ill. Employer

'It's simply an ownership change,' says Mike Deskin, who says he does not foresee any disruption to PCS customers after the acquisition.

and regulatory scrutiny also could act as a check against such nepotism, especially because both Rite Aid and PCS have high visibility, she added.

The question of favoritism has frequently been raised about PCS and other drug benefit managers that are owned by pharmaceutical manufacturers. Indeed, Rite Aid was among a group of pharmacies that in 1996 urged the Federal Trade Commission to re-open its scrutiny of the PCS/Lilly combination because of allegedly higher prices for drugstore chains (*BI*, Aug. 12, 1996).

Corporate benefit managers have expressed concern over whether adequate "firewalls" separated drug manufacturers from their PBM subsidiaries, preventing the manufacturers from using their PBMs to push their products over others.

With the Rite Aid acquisition of PCS comes an entirely different question, said Andrea O'Boyle, a benefit consultant and PBM expert for Buck Consultants Inc. in New York: Will Rite Aid stores get preferential treatment over other retail drugstores?

"I'm sure they are going to try initially to make sure that doesn't happen, but I think it will behoove a client to make sure they are double-checking that there are not any preferential dispensing fees given for Rite Aid," Ms. O'Boyle said.

Diana Murray, senior manager of group insurance plans for Sara Lee Corp. in Chicago, said: "We've never had this situation. But certainly I would raise the question of who is subsidizing who, and is there going to be a tradeoff?"

Sara Lee does not contract with PCS. But Ms. Murray said she would be inclined in future negotiations with the PBM to ask, "If we went with you, PCS, over (our current PBM), what kind of benefits can we get?"

For example, she said, should employers receive a better deal on PCS fees if their employees were steered to a Rite Aid store to fill their PCS prescriptions? After all, she noted, the store would profit because once in the store employees will likely be buying more than just prescription drugs.

In spite of such questions, one benefit manager said he is more comfortable with a pharmacy chain owning a PBM than drug manufacturer ownership.

"Having a prescription drug chain such as Rite Aid purchase a PBM makes a whole lot more sense to me and raises less questions than having the prescription drug companies purchase them," said Raymond Brusca, vp of benefits for The Black & Decker Corp. in Towson, Md. "From a benefit manager standpoint, I am much more comfortable with a Rite Aid purchasing them than with a pharmaceutical manufacturer purchasing them."

For the PBM to be successful, Rite Aid cannot dictate that plan members use Rite Aid stores exclusively, Mr. Brusca said. "The PBM would lose all their customers. Who is going to buy a Rite Aid-only network?"

Some restriction of network outlets is acceptable, Mr. Brusca said. But the employee relations problems that would confront an employer offering an extremely restrictive network would outweigh any discounts the employer obtains from a PBM, he said.

Rite Aid competitors did not say much about the deal last week.

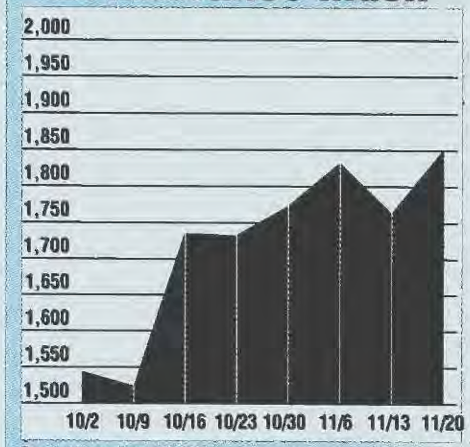
A spokeswoman for Deerfield, Ill.-based Walgreen said the company is concerned but is still evaluating the situation and therefore could not comment definitively on whether the company expects any disruptions.

"There is a range of issues here, but essentially right now we are (evaluating) protecting our own business and being cautious in working with PCS," the spokeswoman said.

A spokeswoman for Clearwater, Fla.-based Eckerd said her company is evaluating its plans.

"There is no reason for customers to be concerned," she said. "We will do everything to protect our valued customers. Otherwise, it is too premature to comment at this point." BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Nov. 20

Call spread	Price bid/ask
National Annual 1998	
60/80	7.0/13.5
80/100C	0.2/1.2
National December 1998	
10/20	—
20/40	—
Eastern September 1999	
40/60	1.5/—
Southeastern September 1999	
40/60	1.2/—

Call spread	Price bid/ask
National Annual 1999	
40/60	9.2/15.0
60/80	5.0/12.0
100/120	2.0/—
150C	—/6.0
Western Annual 1999	
40/60	—
80/100	0.5/2.0
Midwest June 1999	
10/20	1.0/1.4

Total volume: 0 Total open interest: 16,215

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	308	4.8	13.4	4.4	495-227
Legal & Gen	725	20.2	13.3	2.4	796-460
Royal & Sun	495	14.1	23.6	4.9	825-437
Brokers					
Lmbrt Fenchurch	83	10.4	4.2	6.2	121-83
JLT	198	12.0	10.5	6.6	236-151
Sedgwick Grp	225	—	7.0	3.1	226-123

Note: Prices are Nov. 20 closings; other numbers from Nov. 19.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

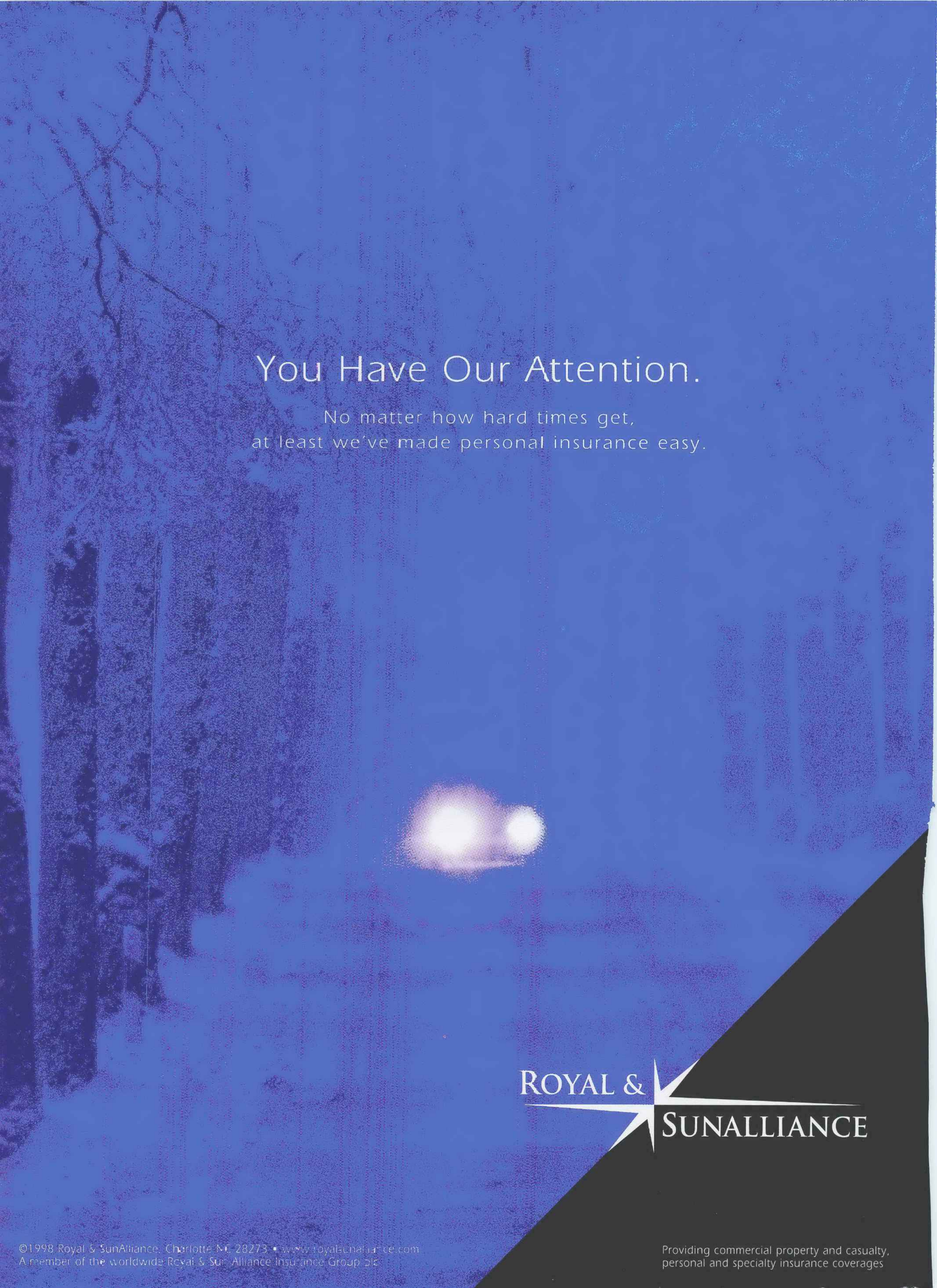
BI Industry Stock Report NOV. 16, 1998, THROUGH NOV. 20, 1998

		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
BROKERS							
Aon Corp.	NYS	59.81	4.02	2.03	75.56	48.25	1442
E.W. Blanch Holdings Inc.	NYS	40.13	0.63	16.52	41.13	33.00	365
Gallagher Arthur J. & Co.	NYS	45.81	0.14	33.03	46.56	33.56	168
Hilb, Rogal & Hamilton	NYS	18.94	0.33	-1.94	19.63	15.38	42
Kaye Group Inc.	NDQ	6.00	-5.88	-9.43	7.81	5.13	6
Marsh & McLennan	NYS	59.50	2.59	19.70	64.31	43.38	1608
Poe & Brown	NYS	33.94	-0.55	14.08	42.50	27.00	67
Sedgwick Group PLC	NYS	19.38	2.65	57.36	19.38	10.31	7
BROKERS	AVERAGE		-0.01	18.47			
INSURERS/REINSURERS							
ACE Ltd.	NYS	32.81	8.02	2.01	43.00	24.38	2142
Accel International Corp.	NDQ	2.88	-4.17	-20.69	4.00	2.13	29
Acceptance Insurance Cos.	NYS	18.50	0.34	-23.51	25.75	17.19	159
AEGON N.V.	NYS	103.50	8.38	130.96	111.31	41.63	366
Aetna Life & Casualty	NYS	80.63	6.09	14.26	89.38	60.19	2387
AFLAC Inc.	NYS	37.06	-2.63	44.99	39.88	22.13	1937
Allmerica Financial Corp.	NYS	52.50	2.82	5.13	75.25	38.38	1184
Allstate Corp.	NYS	43.75	9.38	-3.31	52.38	36.06	9167
AMBAC Indemnity Corp.	NYS	60.25	4.67	30.98	65.94	40.13	905
American Bankers Ins.	NDQ	44.94	-1.51	-2.18	66.06	30.13	1173
American Financial Group	NYS	38.94	-0.32	-3.41	45.75	30.50	148
American General	NYS	70.63	1.53	30.64	75.69	51.25	2781
American Heritage Life Ins.	NYS	23.88	5.52	32.64	26.06	17.06	96
American Indemnity/Fin'l	NDQ	12.50	8.70	-9.91	15.38	9.50	4
American International	NYS	92.63	6.47	27.76	102.38	64.88	8452
American Safety Insurance	NDQ	9.38	-3.85	-23.86	15.06	6.75	11
Argonaut Group	NDQ	23.13	-3.65	-31.73	37.50	21.25	154
AXA-UAP Group	NYS	62.25	13.83	59.62	71.25	34.97	416
Baldwin & Lyons Inc.	NDQ	21.50	-5.49	-10.88	28.75	18.50	0
Berkley W.R. Corp.	NDQ	32.88	-2.95	-25.07	49.88	25.25	271
Berkshire Hathaway Inc.	NYS	67400.00	1.51	46.52	84000.00	44000.00	1
Capital RE Corporation	NYS	17.63	-5.05	-43.20	38.69	14.75	1351
Capitol Transamerica Corp.	NAS	18.25	-2.67	-14.37	24.50	15.00	14
Centris Group Inc.	NYS	10.25	3.80	-8.12	14.81	7.94	159
Chartwell Re	NYS	26.88	-1.83	-20.37	34.63	21.94	54
Chubb Corp.	NYS	69.56	10.42	-8.02	88.81	55.38	5223
CIGNA Corp.	NYS	79.00	6.31	37.49	80.56	51.94	1788
Cincinnati Financial Corp.	NAS	36.63	-0.34	-21.94	47.13	30.50	1232
Citigroup	NYS	45.06	3.74	-16.36	73.50	28.50	67169
CNA Financial Corp.	NYS	44.25	1.29	3.91	53.25	34.50	279
CNA Surety	NYS	14.56	3.10	-5.67	16.75	12.56	154
EMC Insurance Group Inc.	NDQ	12.06	2.66	-8.96	15.88	9.00	65
ESG Re Limited	NDQ	19.25	6.21	-18.09	28.88	12.75	53
Enhance Financial Services	NYS	28.81	-1.07	-3.15	37.56	17.31	315
Everest Reinsurance	NYS	37.88	12.64	-8.18	45.25	28.75	1535
Executive Risk Inc.	NYS	53.63	5.15	-23.19	75.75	35.50	112
EXEL Ltd.	NYS	73.25	1.03	15.58	83.25	61.56	456
Fremont General Corp.	NYS	50.19	7.35	-8.33	62.13	36.00	360
Frontier Insurance Group	NYS	14.38	-4.56	-37.16	25.69	12.19	882
Gainsco Inc.	NYS	6.50	6.12	-23.53	10.00	5.75	123
General RE Corp.	NYS	230.69	0.74	8.81	275.00	193.50	1723
Gryphon Holdings	NDQ	17.63	2.17	5.22	19.38	11.38	801
Harleysville Group	NDQ	21.38	2.09	-10.94	28.50	17.25	408
Hartford Steam Boiler	NYS	40.50	-1.97	10.08	59.56	33.25	490
HCC Insurance Holdings	NYS	18.94	0.33	-10.88	23.94	15.63	610
ING Groep N.V.	NYS	58.31	13.92	37.81	76.75	36.06	427
IPC Holdings Ltd.	NDQ	25.38	0.00	-21.17	33.25	19.00	82
Hartford Financial Services	NYS	54.06	2.85	15.56	60.00	37.63	2765
LaSalle Re Holdings Ltd.	NYS	25.00	6.38	-29.33	42.94	19.50	260
Life Re Corp.	NYS	94.00	0.00	44.20	94.00	55.69	485
Lincoln National	NYS	81.50	4.49	4.32	98.88	67.00	1386
MAIC Holdings Inc.	NYS	30.00	-1.23	12.00	31.25	23.94	106
Markel Corp.	NYS	166.00	7.27	6.33	187.00	132.00	28
MBIA Insurance Group	NYS	66.19	2.22	-0.94	80.94	46.06	1082
Meadowbrook Insur. Group	NYS	15.63	-6.72	-40.05	35.00	15.50	133
MMI Cos. Inc.	NYS	15.38	-3.15	-38.81	26.50	15.25	139
Mutual Risk Mgmt. Ltd.	NYS	38.56	6.75	28.81	39.94	25.38	364
NAC Re Corp.	NYS	47.19	-0.40	-3.33	55.88	43.50	249
Navigators Group	NDQ	15.25	-1.61	-18.80	20.75	13.25	51
NYMagic Inc.	NYS	20.81	0.00	-24.49	34.25	20.31	23
Ohio Casualty Corp.	NDQ	40.25	1.74	-9.80	51.75	33.75	309
Old Republic Int'l	NYS	22.06	7.29	-11.01	32.25	17.94	1499
Orion Capital Corp.	NYS	34.81	4.50	-25.03	59.25	28.00	309
Partner Re Ltd.	NYS	42.19	0.60	-9.03	52.50	33.63	305
Penn-America Group Inc.	NYS	11.00	7.32	-46.34	23.00	8.13	29
Pennsylvania Manufacturer's Co	NDQ	19.06	0.00	13.81	23.75	16.25	22
Philadelphia Cons. Holding	NDQ	20.97	-4.01	18.13	24.50	15.50	116
PXRE Corp.	NYS	23.25	-7.46	-29.94	35.25	22.25	101
Reliance Group Holdings	NYS	13.94	-3.04	-1.33	19.81	10.75	548
Reliastar Financial Corp.	NYS	46.19	5.87	12.14	52.44	29.00	928
RenaissanceRe Holdings Ltd.	NYS	40.63	1.56	-7.93	50.75	36.88	100
Risk Capital Holdings	NDQ	21.00	-8.70	-5.62	25.50	18.81	43
RLI Corp.	NYS	35.38	-0.18	-11.23	45.63	31.56	37
St. Paul Companies	NYS	36.13	2.85	-11.96	47.19	28.06	2672
SCOR	NYS	56.88	-1.94	19.11	72.75	43.13	15
SAFECO Corp.	NDQ	42.63	-2.85	-12.56	56.00	38.25	3293
SCPIE Holdings Inc.	NYS	31.50	-1.75	8.86	38.38	26.63	NA
Seibels Bruce Group	NDQ	4.31	4.55	-42.50	8.38	3.72	369
Selective Ins. Group	NDQ	19.88	-4.22	-26.39	29.25	16.69	290
Terra Nova Insurance Co. Ltd.	NYS	29.63	1.28	12.86	35.00	23.50	27
TIG Holdings	NYS	13.63	5.31	-58.95	34.38	11.63	4102
Tokio Marine & Fire	NDQ	58.00	8.28	0.43	61.38	39.00	125
Torchmark Corp.	NYS	39.00	7.59	-7.56	49.81	31.81	1475
Transatlantic Holdings	NYS	76.56	2.08	7.08	94.50	68.75	282
Travelers Property Casualty	NYS	30.75	-4.84	-30.11	46.06	24.13	2133
Trenwick Group Inc.	NDQ	30.75	-6.46	-18.27	41.75	26.75	78
Unico American Corp.	NDQ	10.38	-7.78	-15.31	18.13	8.88	34
United Fire & Casualty	NDQ	35.50	-3.73	-19.77	47.00	32.13	3
Unitrin	NDQ	71.00	-0.18	9.86	74.13	55.56	110
UNUM Corp.	NYS	48.13	1.45	-11.49	59.63	41.75	2206
Vesta Insurance Co.	NYS	5.88	-4.08	-90.11	64.75	5.13	1985
Zenith National Ins.	NYS	23.88	3.24	-7.28	30.50	23.00	87
INSURERS/REINSURERS	AVERAGE		1.59	-3.65			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	14.13	-4.64	-36.52	32.63	5.88	3786
Humana Inc.	NYS	19.00	-10.06	-8.43	32.13	12.25	4127
Oxford Health Plans	NDQ	11.56	8.82	-25.70	24.75	5.81	6763
Pacificare Health Sys.	NDQ	75.75	5.21	50.75	88.88	46.75	50
Safeguard Health Enter.	NDQ	5.00	0.00	-62.96	13.88	3.63	8
Sierra Health Services	NYS	22.44	1.99	0.09	27.63	15.88	260
United Healthcare Corp.	NYS	48.00	5.93	-3.40	73.94	29.56	5854
Wellpoint Health Networks	NYS	79.94	4.24	89.20	79.94	38.63	1200
HMOs	AVERAGE		1.44	0.38			
ALL COMPANIES	AVERAGE		1.00	5.07			

Note: Nobel Insurance moved trading to the Bulletin Board.
Note: Allied Group Inc. was acquired by Nationwide Mutual.

Top advancing issues: ING Groep N.V., AXA-UAP Group, Everest Reinsurance. Leading decliners: Humana Inc., Risk Capital Holdings, Unico American Corp. Most active issue: Citigroup. The *BI* Index rose 4.9%; the Dow Jones 30 Industrials increased 2.7%; the S&P 500 gained 3.4% and the NYSE Composite rose 2.9%. Average P/E: Brokers, 18.0; Insurers/reinsurers, 15.4; HMOs, 88.6.

Source: *Nordby International Inc.* (nordby.com), Boulder, Colo.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