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

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Updates

ESG Re Ltd. plans IPO to raise about $160 million

NEW YORK—ESG Re Ltd., a new specialty reinsurer, is launching an initial public offering that could increase its capital to $210 million.

ESG Re, sponsored by Head & Co. L.L.C. in New York, will write accident, health, life, credit life and disability, and non-appearance sports and entertainment risks (*BI*, Sept. 22).

In the IPO, 8 million shares will be offered at $20 each. ESG Re already has raised $50 million through the placement of 2.7 million

See **Updates** *on next page*

Courting confidence

Revamped IIE seeks to expand product offerings, build trust

By MEG FLETCHER

CHICAGO—The Illinois Insurance Exchange's biggest challenge is convincing buyers and brokers that major changes, including tripling capitalization requirements, will revitalize the dwindling surplus lines market.

The initial goal of the exchange—recently renamed INEX to signal a new direction—is to expand its product offerings and to assure the stability that will rebuild customer confidence.

Mr Smith

As a first step, Kemper National Insurance Cos. plans to write its first surplus lines coverages by year end through three new syndicates that will take advantage of the exchange's authority to write primarily surplus lines coverages in about 36 states (*BI*, Nov. 17).

Restoring public confidence is crucial to achieving INEX's goal of delivering "a full range of global risk solutions," including risk securitization, specialty programs and agency captives, said William D. Smith, 53, president and chief operating officer of Long Grove, Ill.-based Kemper. As the newly elected chairman of INEX's 13-member board, he is spearheading implementation of the changes, which build on a vision that exchange President James E. Tait has been urging for months (*BI*, Sept. 15).

However, before realizing those ambitious goals, INEX must address several issues, including assuring buyers of the independence of the board's new, three-member executive committee.

Elected to that committee were: Michael D. O'Halleran, Aon Group Inc. president and chief operating officer; Daniel R. Toll, an outside director on Kemper's board; and Robert B.D. Batlivala, Amoco Corp.'s director of regulatory economics.

A state law tightening governance procedures, which goes into effect Jan. 1, requires that at least five "public trustees" be elected to the exchange board and that three serve as members of the executive committee. The executive committee will oversee the exchange's daily operations and its decisions are subject only to a supermajority, or nine-member recorded vote, of the board.

The concept of public trustees generally is to provide "non-management viewpoints and non-insider viewpoints" as "a check and balance," said Arnold Dutcher, chief deputy director of the Illinois

See **Exchange** *on page 43*

Generali still pursuing AGF

Board weighs strategy in light of Allianz offer for French insurer

By SARAH GODDARD and MARIA KIELMAS

PARIS—Assicurazioni Generali S.p.A. has vowed to fight a counteroffer from Allianz A.G. Holding for French insurer Assurances Generales de France.

The Generali board was scheduled to meet over the weekend to develop a strategy to stymie the friendly takeover offer Allianz made for AGF last week.

Saturday's meeting was scheduled to work out "what kind of initiatives we shall use to defend our position and proceed," Benito Pagnanelli said on Friday.

Mr. Pagnanelli, deputy general manager of the Trieste, Italy-based insurer, is convinced the company will succeed in its bid.

But, he said, "If we lose one battle, we will continue battling" to make more acquisitions.

Allianz could become one of the world's largest insurers if its $10 billion offer to acquire AGF succeeds.

The offer was welcomed by the AGF Conseil d'Ad-

See **AGF** *on page 42*

A glimpse at AGF's future

Assurances Generales de France
1996 Gross premiums written
$13.95 billion
1996 Net income
$301.1 million

Comparing the proposed acquisitions

AGF and Assicurazioni Generali S.p.A.
1996 Gross premiums written
$36.59 billion
1996 Net income
$1.4 billion

AGF and Allianz Group
1996 Gross premiums written
$62.35 billion
1996 Net income
$1.75 billion

Note: Conversion to dollars was done at the following year-end 1996 exchange rates: French franc $0.196, deutsche mark $0.6494, lira $0.0006588

GRAPHIC BY ADAM DOI

Smith Barney deal may cut use of mandatory arbitration

By MARK A. HOFMANN

WASHINGTON—Securities firms may rethink requiring mandatory arbitration in employment discrimination claims in the wake of a giant stockbroker's agreement last week to abandon that practice, according to an attorney who hammered out the deal.

As part of the proposed settlement for sexual harassment and discrimination claims, New York-based Smith Barney Inc. agreed to handle employee discrimination claims differently and accept liability for past sexual discrimination and harassment.

Rather than go through a one-time mandatory arbitration process, claimants would have three chances to prove their claims of discrimination, with Smith Barney paying for "reasonable" attorneys fees. Smith Barney would also be liable for any punitive damages awarded in addition to actual damages by mediators and arbitrators.

Liability for supervisors at issue in high court case. . . . . page 39
Harassment suit may deter action by employers. . . . . page 39

The proposal places no cap on the amount of punitive damages that can be awarded to any individual claimant. The final cost to the Travelers Group unit could be considerable, given that approximately 20,000 present and former employees are eligible to file claims.

"One of the things we are concerned about is the spread of mandatory arbitration beyond the securities industry," said Mary Stowell, a partner in the Chicago law firm Leng Stowell Friedman & Vernon.

Ms. Stowell represented a group of 25 current and former employees of Smith Barney Inc. in their suit charging widespread sexual harassment and discrimination. The suit, filed last year, alleged

See **Settlement** *on page 39*

EBC 25th ANNUAL 1997

Employee Benefits Communication Awards

Coverage begins on page 3

Employers criticize report calling for PPD task force

By ROBERTO CENICEROS

SACRAMENTO, Calif.—Employers and insurers fear that policy recommendations in an analysis of California's permanent partial disability system may lead to benefit increases, and they suspect the study may have based certain conclusions on flawed data.

Employers also were expecting that the $450,000 Rand Corp. study would produce definitive recommendations for improving the state's PPD rating system, which determines disability benefits. Instead, the Santa Monica, Calif.-based organization recommends creating a task force to "improve the validity, reliability and efficiency of the PPD ratings process and the disability schedule used in that process."

That smacks of past recommendations, employers say.

"I've been in this business for years and I've seen about four major task forces and study groups formed, and each one has taken the position that PPD benefits are too complex to deal with at this time and they should be studied at a later date by a different group," said Joseph Markey, president of the California Self-Insurers Assn. in Sacramento. "Now Rand buys into the same thing by saying, 'We ought to have a task force.' "

Rand was hired by California's Commission on Health and Safety and Workers Compensation to evaluate the PPD component of workers compensation. The commission was created as part of the state's 1993 workers comp reforms to evaluate the PPD system

See **Rand** *on page 40*

NEWSPAPER

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Updates

Reinsurer to launch IPO

Continued from previous page
shares with private and institutional investors.

After the IPO, expected in December, ESG Re will be listed on the National Assn. of Securities Dealers exchange.

ESG Re is being formed out of European Specialty Group, a Hamburg, Germany-based reinsurance underwriting manager. It will have other offices in London; Miami; Moscow; Hong Kong; Dublin, Ireland; and Toronto.

Head & Co. was formed by John C. Head and has specialized in taking over troubled insurers, such as Sphere Drake P.L.C. Mr. Head also helped launch Bermuda catastrophe reinsurer Partner Re Ltd. in 1993.

Mr. Head will be non-executive chairman of ESG Re, and the chief executive officer will be Steven Debrovner, the former chief marketing officer for non-life business at CIGNA International.

Lloyd's plans Asian hub

LONDON—Lloyd's of London will increase its Asia/Pacific region presence in 1998, opening a contact office in Australia at the beginning of the year and a full underwriting operation in Singapore in November 1998.

Lloyd's has been in talks with the Singapore authorities for about 18 months and has helped create a legal and regulatory framework that can accommodate Lloyd's capital structure, said Frank Speight, head of development and operations for Africa/Australasia/Asia in Lloyd's business development unit.

The Singapore office, preliminarily named Lloyd's Asia, will be the regional hub and will be "a microcosm" of the Lloyd's market, said Mr. Speight. Lloyd's underwriters will be able to write risks and issue policies from the office, he added.

In total, 32 agencies representing 107 syndicates have indicated they may help financially support Lloyd's establishing a physical presence in Singapore, though not all are planning to underwrite in the country. So far, about 10 managing agencies have indicated they would like to have underwriters in the Singapore office, said Mr. Speight, and they will be have the option of joining or leaving the operation.

Although Lloyd's already has a representative office in Hong Kong, Singapore was chosen for the underwriting operation because of its "competitive advantage" in costs, broker market, political stability and excellent infrastructure, said Mr. Speight. In addition, it is closer than Hong Kong to target countries such as Malaysia, Thailand and Vietnam.

Lloyd's new Sydney, Australia, office will be headed by Steve Boucher. Lloyd's already has a general counsel in Sydney, but setting up an office will enable it to get closer to the Australian market, said Mr. Speight. There are no current plans to make this a full underwriting operation.

Lloyd's also has a satellite operation in the region, Tokyo-based Lloyd's Japan Inc., set up by a group of agencies last year. Lloyd's Japan focuses solely on Japanese business and at present is not open to syndicates other than the ones that set it up.

Blues plan to pay rehab claims

ALBANY, N.Y.—Blue Cross & Blue Shield of Central New York has agreed to establish a $700,000 fund to pay for certain claims involving drug and alcohol rehabilitation that the insurer previously rejected.

In the agreement reached with New York Attorney General Dennis Vacco, the Syracuse, N.Y.-based Blues will pay more than $100,000 for all outstanding outpatient substance abuse treatment claims it rejected between Aug. 15, 1996, and June 24 of this year. In addition, BC/BS has agreed to a review by Troy, N.Y.-based Value Behavioral Health of inpatient claims rejected during the same time frame. BC/BS will pay those claims approved by Value Behavioral Health from the fund.

"This agreement is a home run for Blue Cross & Blue Shield subscribers who I believe were illegally denied benefits that should have been paid for by their health care plan," Mr. Vacco said in a written statement.

The rejected claims came to the attorney general's attention after complaints were raised by providers and plan participants in a June public forum. On Oct. 2, Mr. Vacco's office threatened to sue the insurer.

Faced with the threatened suit, "we felt it was better to settle with the attorney general, and that's what we did," said a BC/BS spokesman. The spokesman said the company has established a task force to address its medical necessity criteria. The task force is expected to be submit a report to the New York attorney general next February.

Explosion, fire damage train

ELSTERWERDA, Germany—Total damage is estimated at several million deutsche marks from an explosion and fire last week on a freight train hauling gasoline and heating oil.

Deutsche Bahn A.G., a privatized national train company, is insured for liability losses and self-insured for its own property damage. A consortium led by Cologne, Germany-based Colonia A.G. said it would take at least a week to determine the exact amount of losses. Deutsche Bahn's liability policy has a 1 million deutsche mark ($575,000) deductible, though information on limits was unavailable.

Insured losses will include damage to train cars and 20 destroyed automobiles parked at the station, which will remain closed pending repairs. About 120 people living near the station were evacuated.

Gasoline that spilled into water drains caused no environmental

See **Updates** *on page 42*

PARCA bill could boost employer costs: Report

By JERRY GEISEL

Enactment of legislation intended to improve patient access to quality health care could jack up employers' health insurance premiums, according to a new analysis of the proposal.

An analysis of the Patient Access to Responsible Care Act, H.R. 1415, found that premiums could increase 7% to 39%, according to actuarial consultants Milliman & Robertson Inc.

The wide range is due in part to differing assumed interpretations of some loosely worded provisions in the bill.

"The legislation is extremely ambiguous. Sometimes, we would have three people read a provision and we would have three different interpretations," said Mark Litow, a consulting actuary in Milliman & Robertson's Milwaukee office.

In addition, the impact of some of the provisions would vary by plan design, according to the analysis, which the firm conducted for a major national retailer that opposes the PARCA legislation. Almost half of the members of the House of Representatives back the bill. PARCA, or H.R. 1415, which was introduced earlier this year by Rep. Charlie Norwood, R-Ga., has been the subject

See **PARCA** *on page 37*

Report slams regulators on EMLICO

Commissioner criticizes investigators' 'adversarial style'

By DOUGLAS McLEOD

BOSTON—Massachusetts Insurance Commissioner Linda Ruthardt is trading more blows with state legislative investigators over her handling of Electric Mutual Liability Insurance Co.'s controversial 1995 move to Bermuda.

In an interim report released last week, the Massachusetts House Post Audit and Oversight Bureau attacked the Insurance Division's work on the case as "shoddy and unprofessional" and charged that it failed to deal with several complex issues, including EMLICO's solvency and whether regulators had the authority to allow EMLICO to move to a foreign country.

Ms. Ruthardt, for her part, criticized the report's "adversarial style" and said in a written response that "there was nothing imprudent or inappropriate about the division's review and approval" of the move.

The 71-page interim report expands on a preliminary draft that the oversight bureau released in June (*BI*, June 9).

House investigators won't issue a final report until more information and documents are analyzed, including a widely anticipated ruling by the state

See **EMLICO** *on page 42*

End to strong earnings predicted

By JUDY GREENWALD

Unusually low catastrophe losses are bolstering commercial property/casualty insurers' financial results for now, but soft pricing could catch up with the industry next year.

Despite strong nine-month earnings, the industry simply cannot continue to post the strong results it has in light of the continuing competition in the market, which shows no signs of abating, many observers say.

INSURER RESULTS 9 months

The 23 major property/casualty insurers surveyed by *Business Insurance* posted a 55.9% increase in net income for the nine months ended Sept. 30, to $9.95 billion from the comparable period a year ago.

But, "I think it's going to be a very difficult year next year," said Michael Smith, an analyst with Salomon Bros. in New York. "There are fewer and fewer places to hide, and the well of reserve redundancies looks like it's being tapped out, if a well actually existed."

Jay Cohen, an analyst with Merrill Lynch & Co. Inc. in New York, said: "It appears the clouds are thickening on the property/casualty industry. The third-quarter results themselves were actually quite good earnings with a couple of exceptions. . .That's the good news.

See **Results** *on page 41*

Managing care but not risk

Health plans not addressing liability exposures, insurers say

By RODD ZOLKOS

CHICAGO—Even as their liability exposures grow, managed care organizations have been slow to develop necessary risk management procedures, executives of companies that insure them say.

But one managed care executive said that in the present litigious environment, risk management is a subject managed care companies might want to avoid.

"I think when we talk about the wonderful risk management process, beware that all of that information can be used against you," said Alan Bloom, senior vp and general counsel of Maxicare Health Plans Inc. in Manhattan Beach, Calif.

Documents detailing problems uncovered in the course of risk management activities also can be discoverable if the organization is sued, noted Mr. Bloom, who said managed care organizations need to be careful about what they put in writing.

"We have a legal system that requires defense, defense, defense," he said. "If you're not out there protecting your organization, you're going to have a $100 million judgment against you."

Mr. Bloom participated in a panel discussion of managed care liability issues during the Professional Liability Underwriting Society's annual conference, held in Chicago earlier this month.

Sandra Berkowitz, senior vp at

See **Liability** *on page 2*

Inside

- Employers must take the lead in educating lawmakers on the potential dangers of the Patient Access to Responsible Care Act, this week's editorial says. **PAGE 8**
- The tragic fatal shooting of scores of tourists in Egypt last week is not expected to produce substantial insurance claims. **PAGE 33**
- Alternative risk transfer products can help organizations manage previously uninsurable exposures, a broker executive says at a forum in Switzerland. **PAGE 33**

Departments

Advertiser Index **29**
Classifieds **34**
Directory of Benefit Communication Systems **25**
Global Briefs **33**
Insurance Services Guide **36**
International **33**
Letters **8**
Opinions **8**
Ticker **43**

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eBC 25th Annual 1997

Employee Benefits Communication Awards

The *Business Insurance* Employee Benefits Communication Awards recognize employers' achievements in benefits communication programs. This year marks the 25th anniversary of the awards, and the recipients during that time have demonstrated cutting-edge creativity in simplifying complex information and packaging it to grab employees' attention. Since the first awards in 1972, new communications media have emerged and the mission has become ever more focused: to empower employees through education.

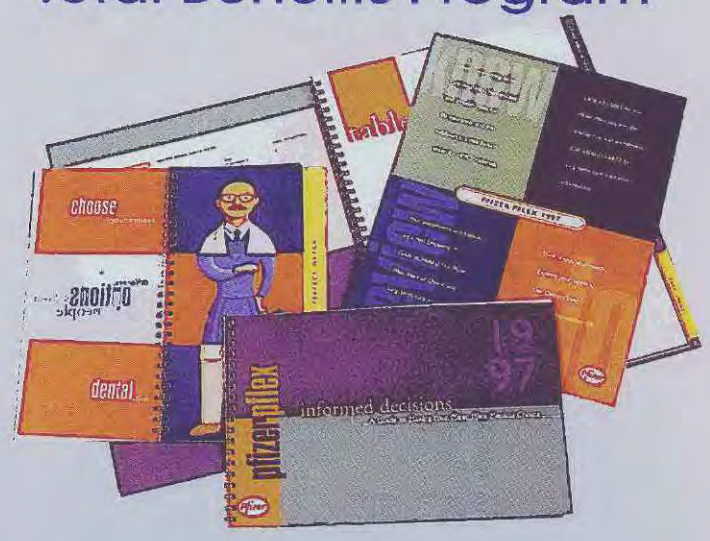
This year, 82 U.S. and Canadian companies submitted 94 entries in eight categories. Thirteen companies won awards.

Benefit managers' communication challenges continue to increase as benefit offerings are enhanced, new programs are developed and laws change. A discussion of what benefit managers and consultants see as their most pressing communication issues and some approaches they've found for handling them begins on page 4.

Profiles of the award-winning entries begin on page 10.

To learn how the 14 experts who judged the contest define success in benefits communication, see page 25.

Total Benefits Program



Best of Show: Pfizer Inc.
Award of Excellence: Doubletree Hotels Corp.

Multi-Media

Best of Show: Payless ShoeSource Inc.

Newsletter

Best of Show: Bank of Montreal

Multi-Subject Booklet

Best of Show: Lockheed Martin
Award of Excellence: Bell Atlantic Corp.

Single-Subject Booklet

Best of Show: The Hard Rock Cafe International Inc.
Award of Excellence: The Walt Disney Co.

Personalized Correspondence

Best of Show:
Chicago Mercantile Exchange
Award of Excellence:
The Budd Co.

Special Project

Best of Show:
Kraft Foods Inc.
Award of Excellence:
H.E. Butt Grocery Co.

Audio-Visual

Best of Show: Southland Corp.

EBC 25th ANNUAL 1997

Communicating benefits remains a challenge

Increasingly complex programs stirring need for creative ways to inform employees

By JOANNE WOJCIK

Communicating increasingly complex benefits messages to employees in today's downsized corporate world is an ever-more-demanding creative challenge to benefit managers.

Not only do employees need to select from a myriad of health plans, but they also must make retirement investment decisions and understand how much the cost of their benefits affects their companies' bottom lines.

The trend toward "total compensation," in which employee remuneration incorporates salaries and what employers pay for benefits, also is posing a significant communication challenge for benefit managers, many of whom must do more with less.

Fortunately, new interactive media, such as internal corporate intranets, the Internet and the World Wide Web, have given benefit managers some exciting new tools to meet these communication challenges.

But even with the proliferation of technology, print and face-to-face meetings still are important, most benefit communication experts believe.

The increasing complexity of benefit plans—from flex to 401(k)—at a time when companies are paring their non-profit-center staffs is making benefit communications a lot more challenging, according to Rita Grazda, former director of human resource communication for Bell Atlantic Corp. in Arlington, Va. She recently assumed a similar post at American Express in New York.

"You are constantly having to juggle between getting (employees) information in an appropriate way and not overburdening them with information that is going to bog them down and prevent them from focusing on customer service, which is where virtually every industry is going right now," said Ms. Grazda.

For example, the proliferation of health care carve-outs is making benefit plan selection more complicated and confusing for employees of The Walt Disney Co., according to Alison McQuay, manager of employee benefit communications for the Burbank, Calif.-based entertainment company.

Disney has different provider networks for health care, dental and prescription benefits, she explained.

While the additional choice is good for employees, "it's very confusing for people," she said.

Today there is a "pressing need to communicate complex issues in a comprehensive, succinct manner," observed Elizabeth Borzomati, benefits manager for Pfizer Inc. in New York.

"Employees need to be educated buyers of managed care" and other benefits, she said.

In some cases, benefit managers need to learn more, too, especially in investment education, suggests Trey Wood, principal and communications consultant for Buck Consultants Inc. in Atlanta.

"Employees are better informed on investment issues, and benefit managers are asked more questions about the financial benefits," he said.

Also posing a communication challenge to many benefit managers is the growing use of the term "total compensation," many benefit experts point out.

Transforming employees' perception of benefits from an entitlement to an integral part of their total compensation package is difficult, according to Tony Amato, director of compensation and benefits for The Hard Rock Cafe International Inc. in Orlando, Fla.

Employees need to understand not only what their benefits are but how much they are worth, agreed Arlene Westbrook, benefits manager for the Chicago Mercantile Exchange.

Lenny Sanicola, benefits manager for the Phoenix-based Doubletree Hotels Corp., said: "We need to get employees to look at the total compensation and understand the total picture of benefits as an entire picture. They truly don't understand how much the company is committing."

In many cases, the total compensation message is closely aligned with the company's business strategy, explained Leslie Dutton, communications consultant for Hewitt Associates L.L.C. in Toronto.

For example, if the business strategy is to encourage employees to be creative and to think on their feet, their benefit programs may reflect that by empowering employees to make benefit choices, she said.

Indeed, it's a challenge for employers to "get people on the same page, trying to connect employees to the business strategy," said Kevin McDermott, a principal at Towers Perrin in Dallas.

The biggest benefit communication challenge for Margaret Fuller, manager of the profit-sharing plan and trust at the Southland Corp. in Dallas, is "finding a way to make it something people want to listen to" and ways to get people to break into their busy schedules to watch, listen to or read the information you're trying to communicate.

"Everybody's so incredibly busy as people slim back," Ms. Fuller said.

To meet these and other communication challenges, employers "must present information in a way that is efficient and easy to use," suggests Ms. Grazda.

For example, some large multinationals already are looking to electronic media to help them get the word out.

"Trying to communicate is tough because we are much more global," said Triny Jauco Lee, manager of employee benefits for Lockheed Martin Missiles & Space in Sunnyvale, Calif. "We have more employees nationwide as well as overseas."

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See **Communicate** *on page 6*

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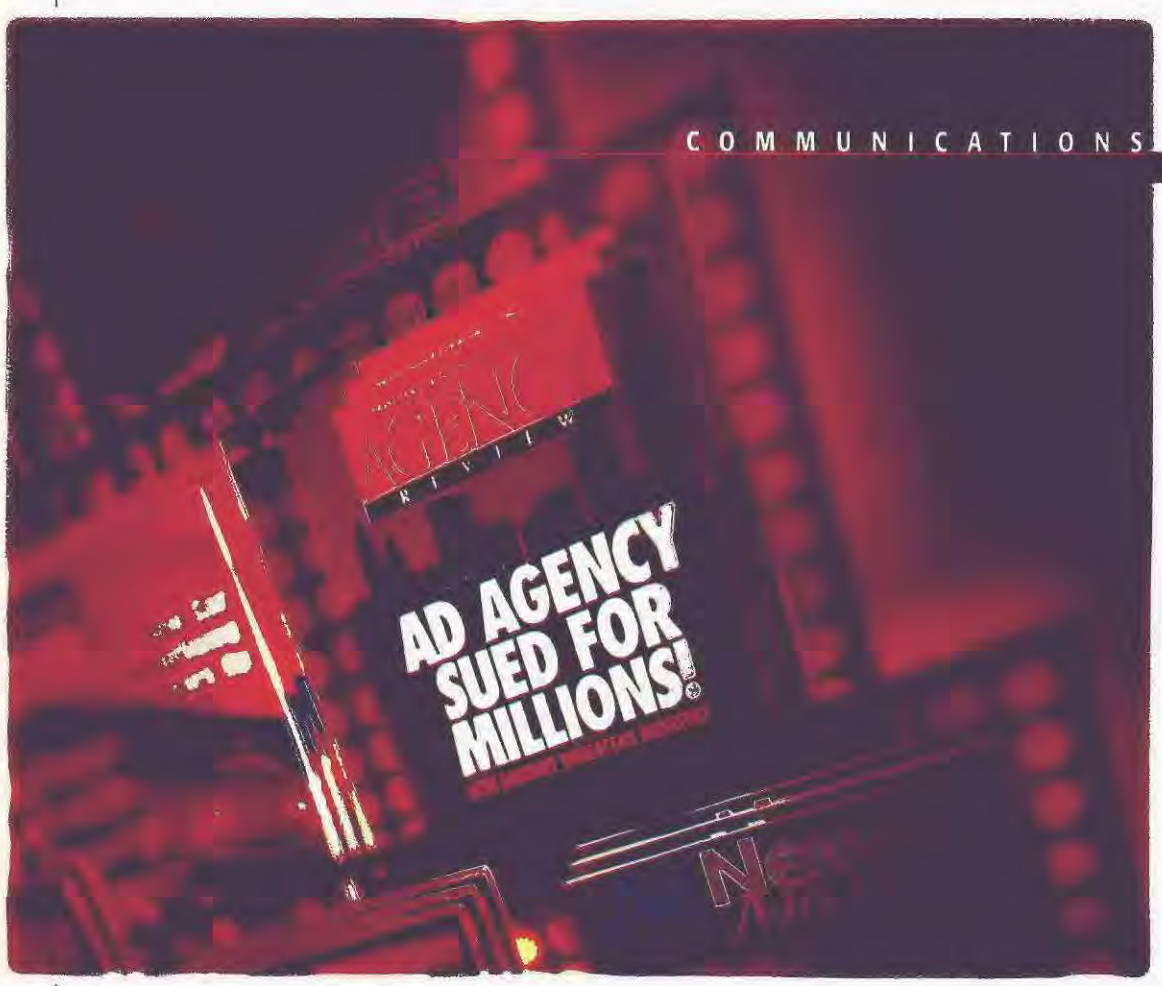

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Communicate

Continued from page 4

"our company has added employee television shown in lobbies and hallways," she said.

Lockheed Martin also has an intranet Web site.

"But we have a long way to go. For instance, many of our employees travel, so trying to get info to them quickly and timely can be impossible. They can be gone during the whole time of open enrollment. We are looking for an electronic solution," she said.

"As employees become more familiar and comfortable (with interactive media), I think it's going to become a way of life," predicts Judy Hoffman, manager of benefits planning and communications for Ralston Purina Co. in St. Louis.

Marty DuRall, director of human resources for service lines and clinical support at St. Vincent Hospital and Health Services in Indianapolis, said: "The Internet is the telephone of the future. If you don't use that, you'll be behind the 8-ball."

In the future, the Internet and corporate intranet systems will affect employee benefits communications significantly, noted Fred Burns, vp of human resources for Capital One Services Inc. in Glen Allen, Va.

He said these media offer three distinct advantages: First, they make it easier for employees to access information. They also are more interactive but without adding bureaucracy. Finally, they allow for more information to be conveyed in a user-friendly way.

But as efficient as technology may be, Mr. Burns said he thinks "print will never be supplanted. Technology doesn't solve everything."

Indeed, while the electronic media will save paperwork, "people are comfortable with print," pointed out Chris Finn, senior vp and account director for Citigate Albert Frank, a New York-based advertising and public relations agency specializing in business-to-business communications and financial services.

Technology 'will play a more prominent role in the future but can never replace a face-to-face meeting as the best means of communication,' says Bill Zabit.

While the Internet can make it much easier for employees to get up-to-date information, it's not for everyone, according to Mark Schumann, principal at Towers Perrin in Dallas.

For example, at the Doubletree hotel chain—one of his clients—"the maids and the cooks really don't have access to it," he said.

"You need to use a variety of media to get your point across. To select one is very narrow-sighted," said Cheryl Flynn, corporate vp of compensation and benefits for LSG/Lufthansa Service-SKY Chefs Inc. of Arlington, Texas.

Bill Zabit, president of Zabit & Associates Inc., a benefit communications company based in Sausalito, Calif., agrees.

To ensure that everyone gets the message, "the communication cannot be isolated to one program," he said.

New technology "is just one tool," for benefit communications, he said.

"It will play a more prominent role in the future but can never replace a face-to-face meeting as the best means of communication," he said.

The Chicago Mercantile Exchange started an annual benefits fair last year to make its benefit message more enticing to employees, according to Laura Freston, director of compensation and benefits.

During the fair, conducted during annual open enrollment, employees are invited to talk with benefit department staff members and benefit plan vendors.

To attract employees to the fair, the exchange holds a raffle.

"It's really kind of a festive atmosphere" that "creates a lot of excitement," described Ms. Freston. "We decorate the room a bit and try to have some fun."

•

Also contributing to this report were Associate Editors Robert Kazel, Rodd Zolkos and Deborah Shalowitz Cowans in Chicago, Roberto Ceniceros in Los Angeles, Michael Prince in New York and Editorial Assistant Amanda Milligan in Chicago.

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EBC 25th ANNUAL 1997

Heavy dosages of questions, answers help Pfizer stay on top

By ROBERT KAZEL

NEW YORK—Pharmaceutical giant Pfizer Inc. did it again.

Winning Best of Show in the total benefits program category of the 25th Annual *Business Insurance* Employee Benefits Communication Awards, Pfizer proved as it did in 1996 that a program can be clear and concise—and still be comprehensive.

Total Benefits Program

New York-based Pfizer with approximately 16,000 employees scattered across 31 work sites, continued to follow the strategy that made it stand out a year ago to employees and contest judges alike: use of a color-coded enrollment workbook that treats each type of benefit separately, step-by-step, with liberal use of questions and answers. In addition to the workbook, the program includes two booklets distributed in advance of the workbook. One highlights Pfizer program changes, and the other offers answers to employees' benefit questions.

This year, the benefits staff's challenges included explaining new plan options. The company wanted to help employees understand their new medical plan options, including the difference between indemnity plans and health maintenance organizations. Pfizer added 60 new HMOs beginning in 1997, and wanted workers to know how those plans worked and the distinguishing features among them.

Pfizer also was planning to offer long-term care insurance as an optional benefit and to unveil an automated telephone service that would send written information about any HMO to employees who called in a request.

In short, Pfizer knew its communication method was top-notch but had to make sure the latest twists in its program were transmitted effectively.

According to Elizabeth Borzomati, Pfizer's benefits manager, a series of Pfizer focus groups in April 1996 showed that workers wanted more help in reaching their choices of HMOs. In response, this year Pfizer published "Informed Decision: A Guide to Making Your Pfizer Pflex Medical Choice." The booklet, which was mailed to employees on Oct. 11, 1996, explains the ins and outs of managed care.

"Informed Decisions" is filled with hypothetical questions about benefits, anticipating employees' confusion. Just a few: What are my prescription needs? Can I use my regular pharmacy? What types of specialists do I need? How much will I have to pay? What if I need to dispute coverage or make an appeal?

'Our employees loved the materials we sent out. The workbook is one. They use it. It's something that they keep,' says Pfizer's Elizabeth Borzomati, benefits manager.

The booklet focuses on key answers to the most important questions facing employees and serves as a convenient shortcut around the longer and denser enrollment workbook.

Another new booklet, released at worksites Sept. 23, 1996, explains what is new for 1997 and emphasizes that there are different benefit options for different people. A colorful drawing of a human figure is split into three segments so that many combinations of people can be mixed and matched—a symbol of human difference.

The booklet describes the company's new long-term care coverage option and succinctly reviews other changes in the benefits process for 1997. The booklet issues one blunt warning: Medical costs are rising and employees should expect to pay more.

The workbook, mailed to employees' homes Oct. 18, 1996, is the backbone of the open enrollment process. On the inside pocket is the enrollment worksheet, which provides a simple process for choosing coverages. The worksheet also shows the worker's 1996 benefit selections for ready comparison.

"Our employees loved the materials we sent out," Ms. Borzomati said. "The workbook is one. They use it. It's something that they keep."

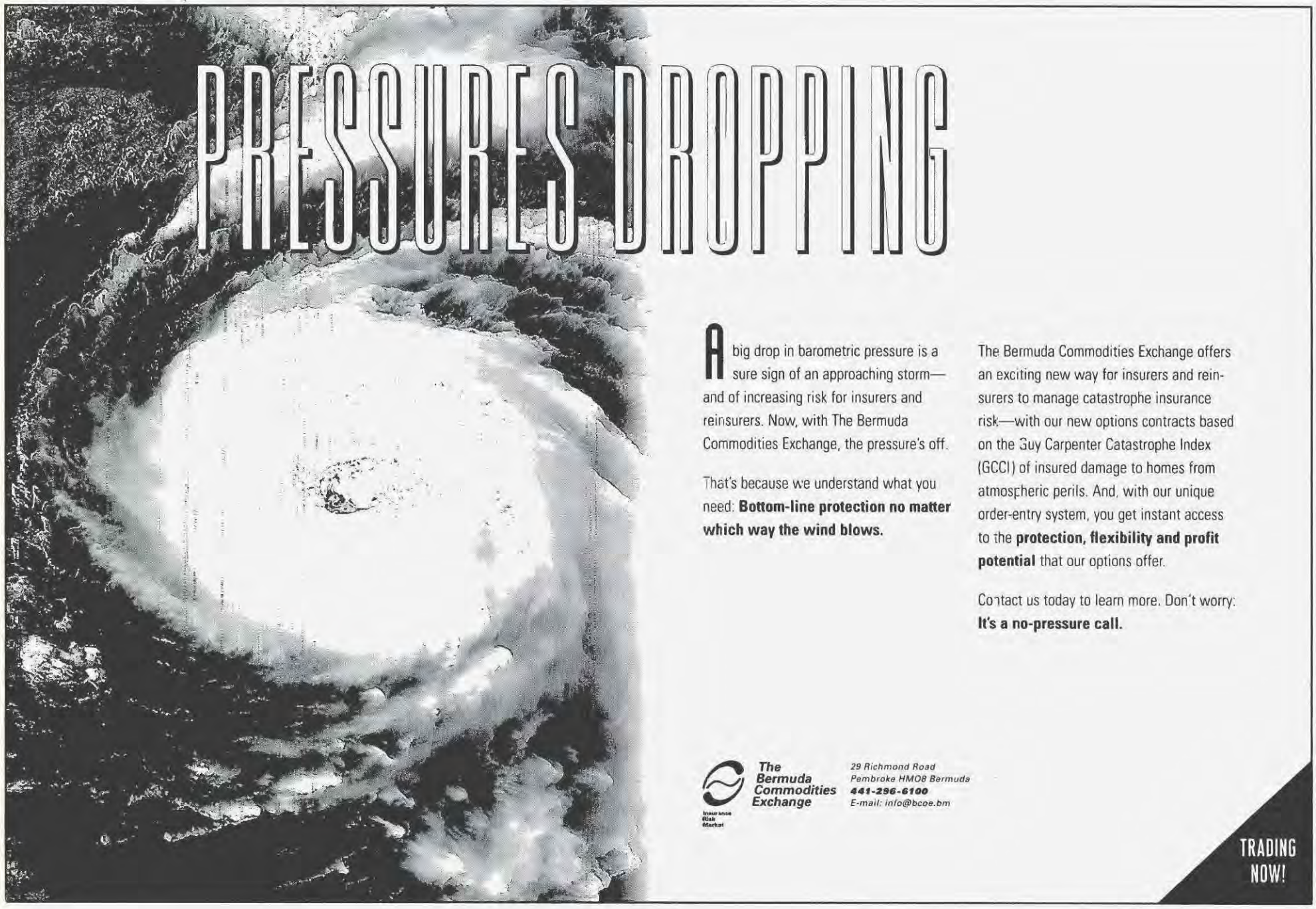
The 66-page workbook has some tricks up its sleeve. Stored in a pocket in the rear of the book is a computer disk called "OptionFinder" that allows workers to see the financial consequences of various levels of benefits. It is a refinement of a similar disk used last year. The book also contains a fact-filled 1997 HMO guide that compares several HMOs to each other and compares all of them with a benchmark that Pfizer deems minimally acceptable.

Because the Pfizer campaign was similar to those of recent years, "the challenge is to keep it interesting," said Monica Jerussi, a principal with The Kwasha Lipton Group in Fort Lee, N.J. Meeting that challenge was achieved through the use of illustration in some of the pieces and certain new features to the open enrollment process.

For example, Pfizer introduced a "rolling," or interim, confirmation statement of benefits, showing employees a tentative listing of their choices, to be followed by a "final" confirmation statement that cannot be changed.

Among other achievements, Pfizer had an "incredibly high" sign-up rate for its new LTC elective program—about 15%—by communicating its advantages to employees, Ms. Jerussi said.

According to a survey of Pfizer employees taken after the open-enrollment period last year, seven out of 10 employees found Pfizer's booklets helpful in making benefits choices, and 90% found the workbook easy to use and informative. BI



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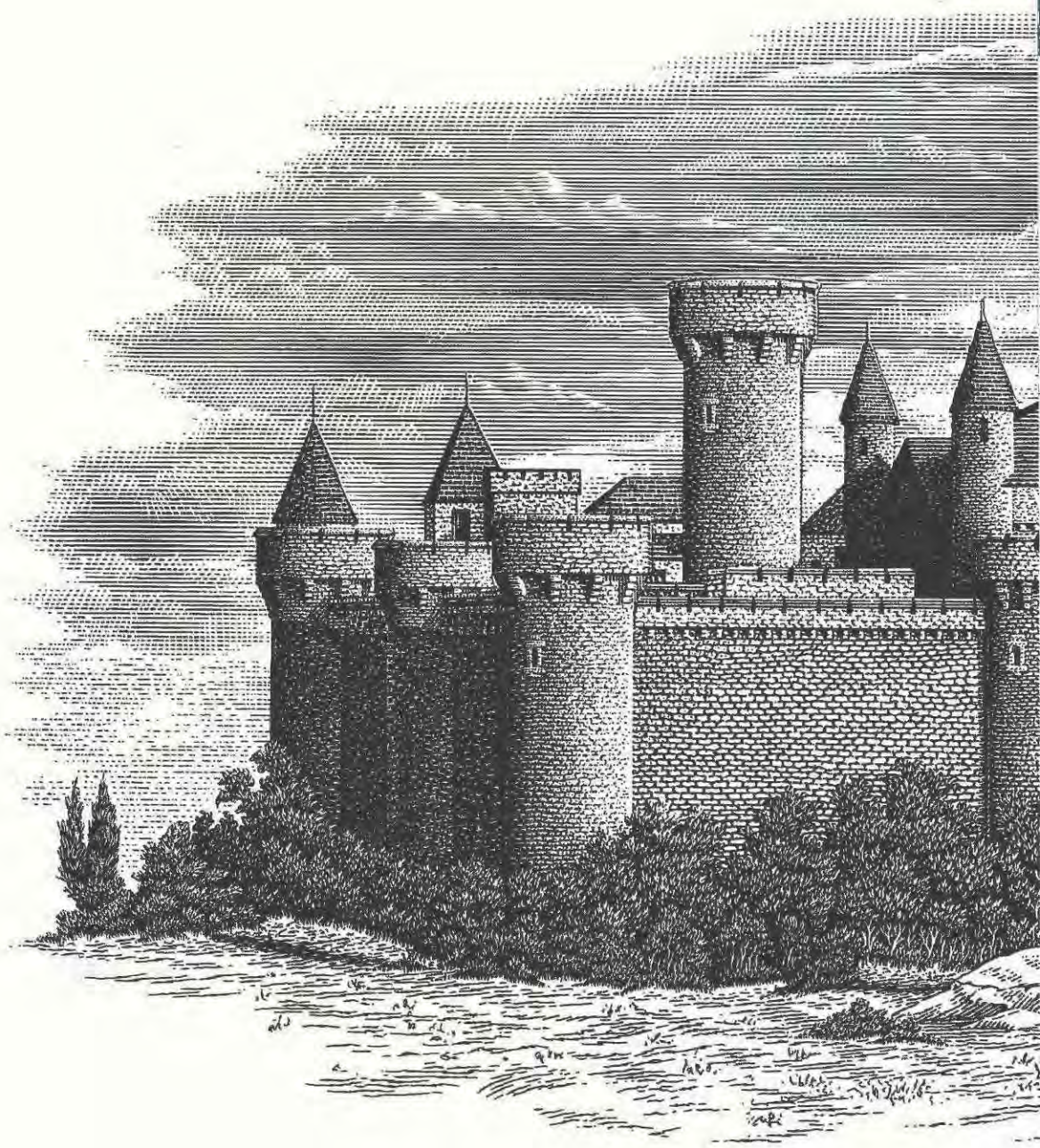

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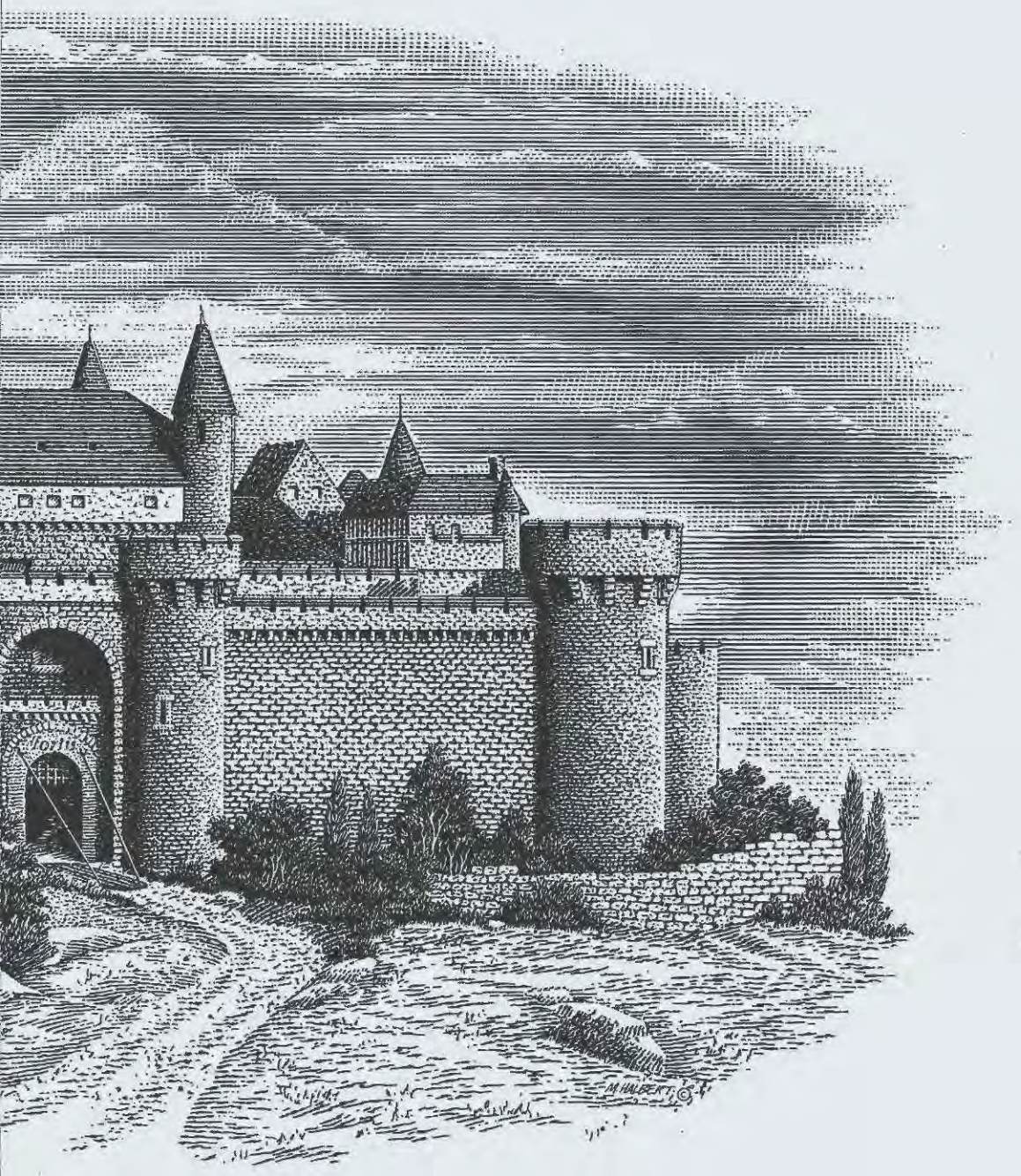

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Hotel speaks employees' languages

By ROBERT KAZEL

PHOENIX—When Doubletree Hotels Corp. sought to revamp its employee benefits communication program this year, its high expectations were countered by a serious obstacle: Its workforce of about 30,000 speaks about 20 languages.

Instead of being daunted by the prospect of explaining benefits in multiple languages and to many employees with limited educations, Doubletree launched an outreach program that spoke to virtually all employees in their own tongues, on their own terms. The main tools were audio cassette tapes, shipped to each work site and made available for employees to use with loaned tape players. The tapes explained changes in the benefits program, such as a greater selection of health maintenance organizations and the debut of flexible benefits.

The tapes were recorded in 14 languages, including Spanish, Somali, Tongan, Creole, Mandarin and Russian, and became very popular with employees, some of whom are illiterate and would not have understood written materials, said Lenny Sanicola, benefits manager of Phoenix-based Doubletree. The company decided to communicate in native languages with any group of at least 25 employees.

"It was more cost-effective," said Mr. Sanicola, who worked on the project with Director of Benefits and Compensation Linde Harned. "People are always more pressed for time, and the audio cassettes seemed to make the process more simplified."

For its efforts, Doubletree won an Award of Excellence in the total benefits program category of the annual *Business Insurance* Employee Benefits Communication Awards competition.

Doubletree's enrollment campaign consisted of reminder posters, banners, lobby displays, brochures and tent cards, with distribution beginning April 1. Starting in May, the company distributed "peel and stick" enrollment booklets that allowed employees to choose their benefits with the simplicity of playing bingo.

The aim of the booklets was "simplicity of expression and boiling down the benefits to the fewest possible words," said Mark Schumann, a principal with Towers Perrin in Dallas who worked on the campaign.

The underlying goal of Doubletree's program was to give employees, regardless of language, a sense of the importance of benefits; to give the set of benefits a brand name, in this case "CareChoice," in the same way that hotel services to guests are assigned brand names. Employees could then more easily appreciate the benefits they get.

The artistic theme of the campaign is "No matter how the cookie crumbles," a link to the chocolate chip cookies the chain gives to every arriving guest. The photos of broken cookies on the benefits materials symbolize that the company will stand by the employee no matter what life brings, Mr. Sanicola said.

Hard Rock highlights what it leaves on the table

By MICHAEL PRINCE

ORLANDO, Fla.—Employees at the Hard Rock Cafe like big tippers. The biggest tipper could be the company itself.

The restaurant chain tips its employees twice. Hard Rock gives them tips on retirement planning and contributes money toward it.

Getting big tips is the theme for the Hard Rock's booklet explaining the company's 401(k) plan, called FutureCare.

Titled "Think of It as a 150% Tip," the package unfolds, like a portfolio, to reveal three sections. The left side lists five "tips" on how to enroll. The right side contains an enrollment form, while the center has a pocket containing an explanatory booklet and prospectuses.

Single Subject Booklet

The tip theme is designed to strike a chord with the restaurant company's employees.

"Tips stood out as the thing these people talked about every day," said Trey Wood, a principal and communications consultant with Buck Consultants Inc. in Atlanta who helped design the booklet.

Written in non-technical language and geared toward younger employees, the booklet lays out the meat and potatoes of the plan. For example, describing how employees can borrow from their accounts, it says: "Another really cool thing is, when you pay back the loan, you're really paying yourself back. So *you* get to keep the interest, not Joe Bank Loan Officer."

Also, in explaining the matching contributions, the booklet calls the employee's money "Your Dough" and the company's two types of contributions: "The Basic" and "The Match."

"We needed to push the envelope to finish the campaign and make this successful," said Dea McKenzie, art director at Buck's Atlanta office. She worked extensively on the booklet.

The design of the portfolio also was carefully considered, Ms. McKenzie said. Employees could read the tips on the left side of the portfolio and enroll, while others could read the booklet in the center to get more information.

The concept of a 150% tip derives from the plan itself. When an employee contributes at least 2% of his or her income to the plan, the company will contribute 2%, The Basic. In addition, the company will pay in 50% of each employee's contribution, The Match.

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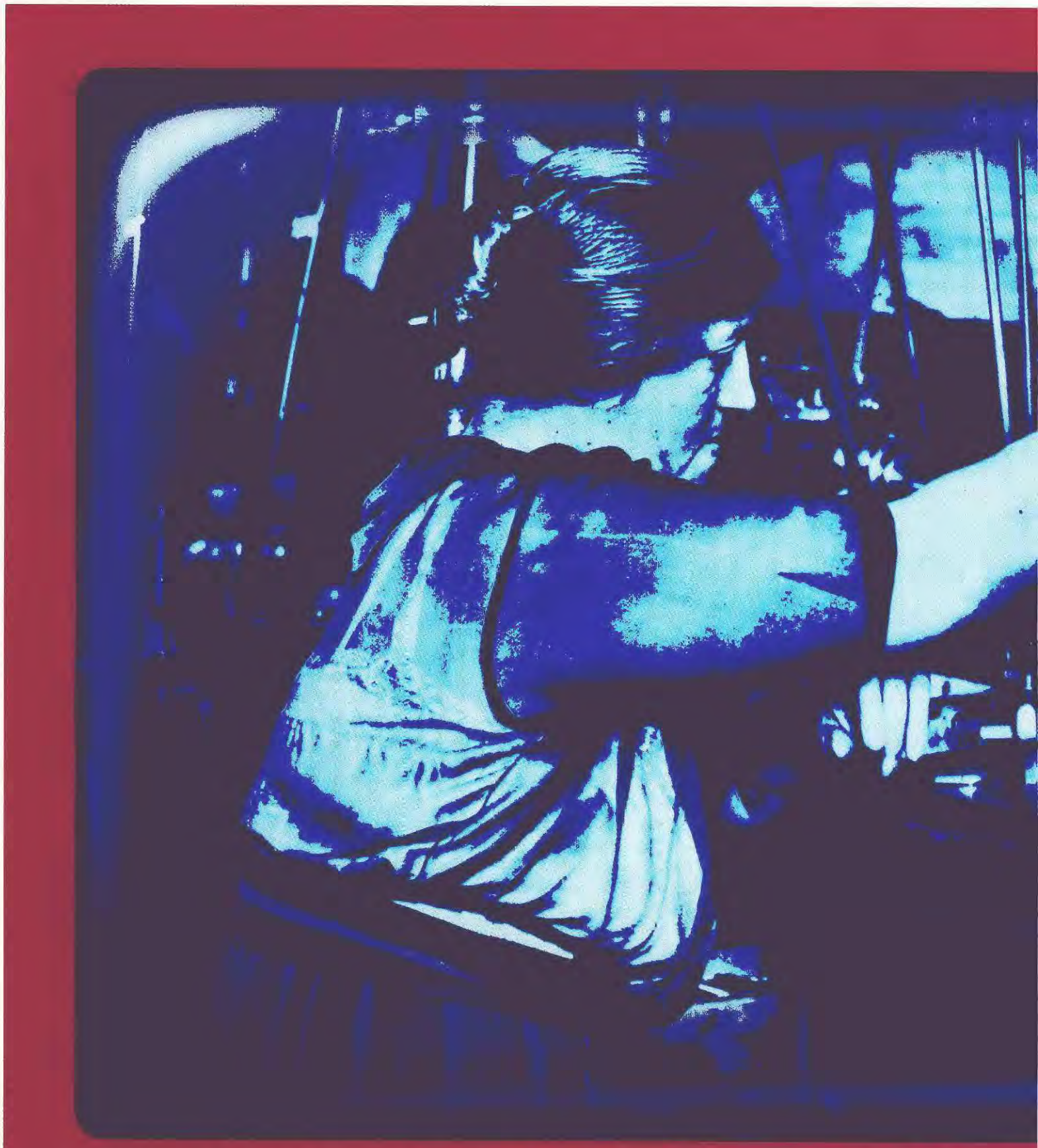

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1897 1997 *A* **Century** *of Commitment*

Continued from previous page

So, if an employee contributes 2% of his or her pay, the company will contribute 3%, for a 150% matching tip.

"This is how you can get yourself a tip from the company," said Tony Amato, director of compensation and benefits for The Hard Rock Cafe International Inc. in Orlando, Fla.

The unique approach and easy-to-read text earned Best of Show honors in the single-subject booklet category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

Most of the Hard Rock's employees are young and are not planning long-term careers with the company or retirement, so the company had to tailor the text to match the audience.

"We had to make it appealing to a younger reader—don't target the 35- to 40-year-old reader—and use words they can relate to," he said.

Hard Rock also offered employees a special pin as an incentive to enroll. Mr. Amato said pins are popular with Hard Rock employees, many of whom collect and trade them.

The booklet also plays on the restaurant business. For example, to introduce the investment options, the booklet says, "Just as your customers have to choose between the ribs or the burger, you have to make decisions on how to invest your FutureCare money."

Despite the informal approach, the booklet covers all the important points, including eligibility, matching contributions, loans, investment strategy and fund options.

One problem Hard Rock faced was getting employee contributions. Many Hard Rock employees' income comes from tips in cash. But, employees can declare their tips as income, allowing for 401(k) withholdings.

Because "cash in the hand" is a concept employees understand, Mr. Amato said, the cover features a hand grasping $100 bills with the Hard Rock tablecloth in the background.

One goal the company had with the booklet was to increase participation of its tipped employees. Although about 85% of corporate employees were enrolled in the 401(k) plan, only around one-third of hourly employees were. The new booklet was designed with these employees in mind.

From September to December of 1996, Mr. Amato presented the portfolio to the company's 6,000 employees. At all 29 U.S. locations he handed the package, along with other benefit materials, to the employees and described the plan. At times he would use real money to demonstrate how the matching contributions enhance the employee's own. Employees left the meeting talking about "free money," he said. "By not doing this, they let go of free money."

The employees' response was "tremendous," Mr. Amato said, with enrollment by the hourly, tipped employees climbing to 45% from 34% as a result of this piece.

"To make our numbers move that much, you had to do something right," he said.

"It's the most effective written piece of communication I've ever seen and the most enjoyable to read," he added. The project cost the company $99,000.

Buck's Mr. Wood said the booklet was successful "because the human resources management allowed us to do what we wanted to do."

The success of the booklet has led Mr. Amato to conclude that off-beat materials work best. Employee communications have to "fit the culture" of the company, he said.

"Don't be afraid to explore different means to communicate," he advised. "Make it fun and fit your audience." BI

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Disney's 'Toy Story' animates booklet

By MICHAEL PRINCE

BURBANK, Calif.—"Buzz Lightyear to Star Command. I've landed in a strange world where benefit booklets resemble cartoons. I'll investigate and provide a further report."

Well, Buzz is partly right. A benefits brochure does look like a cartoon, but it exists in this not-so-strange world.

Titled "401(k) Story," the booklet uses characters from The Walt Disney Co.'s movie "Toy Story" to highlight the company's 401(k) plan.

The animated movie's two stars appear beneath a bright yellow and red cover shaped like the phrase "401(k)," which splits in the middle with flaps lifting up and down. Cosmic hero Buzz Lightyear and Woody the gunslinger welcome Disney employees to the wonderful world of retirement savings. The cover also contains the booklet's slogan, "Your future just got real."

Although Woody and Buzz aren't real, the Award of Excellence presented to Disney in the single-subject booklet category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition is.

The movie theme, however, doesn't end at the cover. Throughout the booklet, pictures of the movie's toy characters highlight plan features. For example, a plastic soldier emphasizes a note on calculating retirement income, and a dinosaur and Little Bo Peep adorn the descriptions of the different mutual funds available in the plan.

Lines from the movie also come out of the characters' mouths. These relate to the page's topic "in a sub-thematic way," said Bill Zabit, president of Zabit & Associates Inc., the Sausalito, Calif.-based consulting firm that came up with the idea.

Mr. Zabit's firm presented Disney with five options, all based on Disney characters, and "this one seemed to catch everybody's eye,' said Alison McQuay, manager-employee benefit communications with The Walt Disney Co. in Burbank, Calif. The booklet project cost $73,000.

"It was eye-catching and creative, and we thought people would read it and open it," she said.

Non-moving toys also play supporting roles. Balls become pie charts showing different investment strategies, and stacks of colored rings transform themselves into a graph of money accumulating over the years.

Disney conceived the booklet as a tool to enroll more employees in the plan. Starting in March this year, the company sent it to employees not enrolled and new employees soon to become eligible to participate. Ms. McQuay said the company's strategy was to send it to employees' homes because enrollment is a family decision.

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Lockheed alerts workers to post-merger benefits

By ROBERTO CENICEROS

SUNNYVALE, Calif.—Separating myth from reality became a lot easier when two Lockheed Martin units introduced "Options '97," a glossy booklet designed to grab attention and explain post-merger benefits.

The benefits enrollment booklet won the Best of Show award for multisubject booklets in the 1997 *Business Insurance* Employee Benefits Communication Awards Competition.

Helping employees of Lockheed Martin Missiles & Space and Lockheed Martin Technical Operations comprehend their new benefits and how those benefits interact with existing coverage was crucial, explained Angela Sinickas, a San Francisco-based principal and senior communications consultant for William M. Mercer Inc. She helped the Lockheed Martin units create "Options '97."

Multi-subject Booklet

Employees had just gone through the merger of Lockheed and Martin Marietta. Under those circumstances, open enrollment time meant they could miss significant benefit changes if they were not properly alerted, Ms. Sinickas said. New, non-optional benefits were being introduced that would impact the optional benefits decisions employees needed to make, she said.

So much new information had to be introduced that Lockheed Martin and its consultants were concerned employees would be intimidated by a large book, let alone notice information explaining that if they defaulted on certain decisions, they could end up with less coverage than they currently enjoyed.

"So what we did is we came up with a lot of tricks and techniques to make sure employees noticed what they absolutely had to notice," Ms. Sinickas said.

Among the "tricks" within the 64-page booklet are several presentations explaining "What's Myth and What's Reality." The presentations help dispel common employee misconceptions about company benefit plans. Those misconceptions are in a myth column alongside a reality column. As an example, under a section explaining medical benefits, the myth is, "I can switch to another medical plan in the middle of the year if I'm unhappy with my doctor."

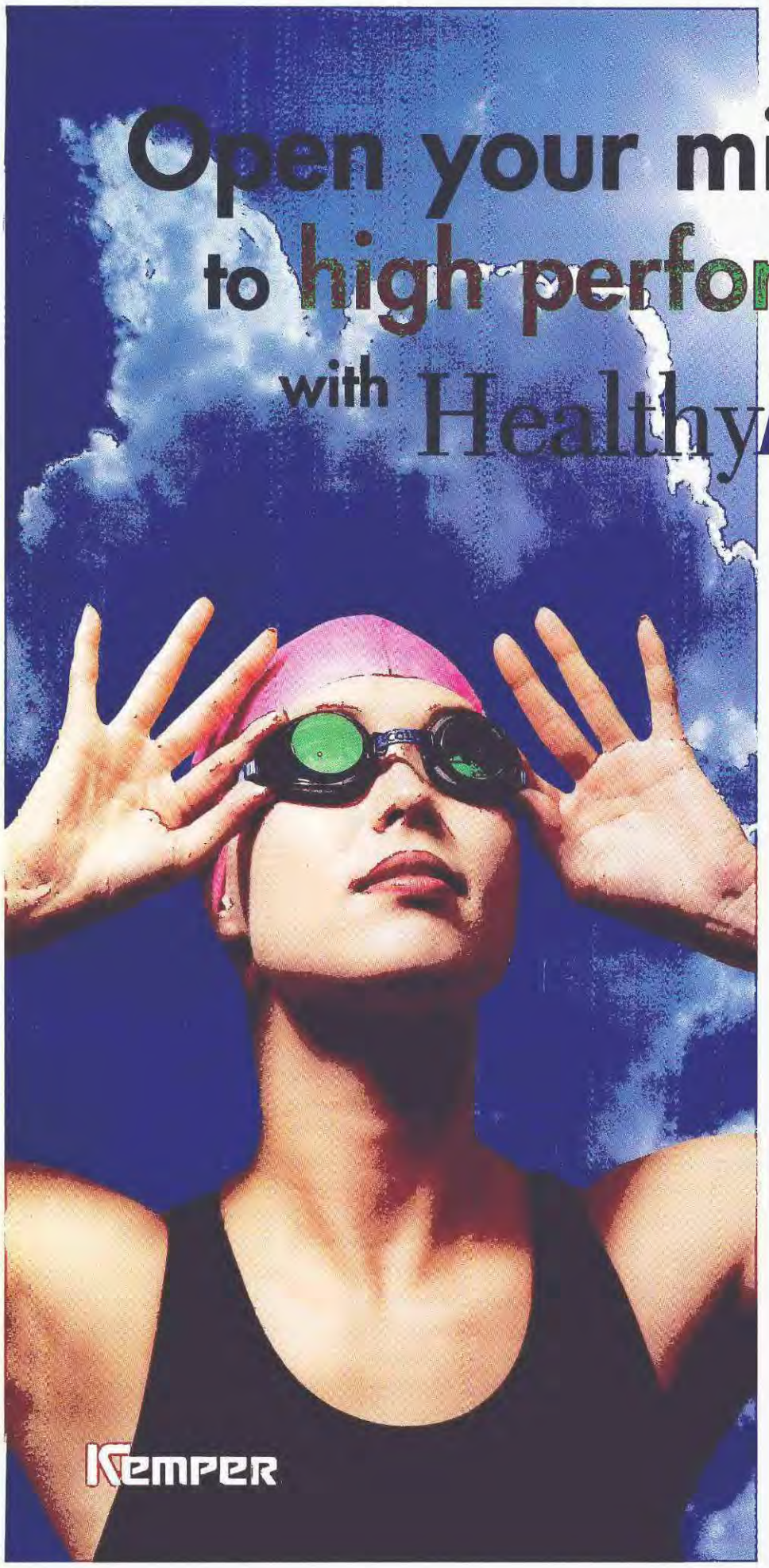
But the reality response explains that while employees cannot change plans except at open enrollment, they can change doctors within the plan.

A three-dimensional icon flags the reader to the booklet's myths and reality presentations, contained within several topic sections. Other icons alert readers to presentations on new benefits and benefit changes.

Each booklet page is marked with a tab-like side callout identifying the section it relates to. Orange callouts mark sections on vacations, health care account contributions, a family care account, life insurance, medical benefits and other topics.

Also aimed at making the booklet easy to comprehend are several pages in the front that summarize the changes more thoroughly explained in later pages. The beginning pages also contain general information and explain which forms need to be submitted and

See **Lockheed** *on next page*



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Lockheed

Continued from previous page
how they have to be completed. Enrollment forms were made available separately.

Also contained in the booklet was information explaining what will happen if the employee defaults by not making a decision on the issues. For example, not enrolling in new programs could result in a reduction of benefits held the previous year.

"We wanted people to know at a glance that if you decide to skip the whole thing, this is where you will end up," Ms. Sinickas said. "If that is OK, read no more."

Several pages also contain reminders with enlarged text highlighted in gray and pulled apart from the rest of the pages' information. As an example, under survivor benefits is a reminder to update the beneficiary designation when circumstances change as a result of a marriage, birth, divorce or death.

The gray-shaded areas also sometimes provide additional tips, such as how an employee's premium or copayment is calculated for specific medical plans.

"I really love the format," said Triny Jauco Lee, manager of employee benefits for Lockheed Martin Missiles and Space in Sunnyvale, Calif. "The book was a great communication tool because it took a host of very complex documents and plans and was able to communicate it in layman's language."

The booklet, which was distributed in late October this year, was aimed at nearly 12,000 salaried employees, Ms. Jauco Lee said. The booklet cost $80,000 to produce, including consulting fees. Employee feedback has been positive, and the booklet is being used to recruit new workers.

In general, employees now must take more responsibility for arranging their employer-provided benefits, and they must absorb more information about those benefits, she said. The booklet has not only helped them understand their benefits, it has helped the human resources staff explain them, she added. Human resource workers can rest easier knowing that if they refer employees with questions to specific pages in the booklet, the employee will understand the material.

Yet the booklet is sophisticated and doesn't shy away from explaining the tough issues, Ms. Jauco Lee said.

It even tackles such things as disability. The booklet explains how a variety of long- and short-term disability programs interact with other company time-off benefits and state-provided coverage where that applies. A three-dimensional graphic chart—with pieces that fit together like parts of a puzzle—helps explain how employees can use optional coverage and their ability to purchase additional vacation time to round out their disability protection program.

"The whole topic of disability is very complicated," Ms. Sinickas said. "The presentation is trying to help them see visually that different pieces start and stop at different times. Even if they don't understand exactly how much, or exactly at what time benefits begin or stop, it shows (disability benefits) are not all the same thing and start and stop at different times." BI

Bell Atlantic handbook plots benefit offerings

By ROBERTO CENICEROS

NEW YORK—Even though it's in the telecommunications business, Bell Atlantic Corp. wanted to cut down on phone calls—to its human resources department.

That's one reason the New York-based company redesigned its total compensation handbook.

Bell Atlantic developed a 306-page benefits handbook with Hewitt Associates L.L.C. to replace an older-model binder that required employees to insert new information as the company made it available.

The new booklet is well-organized and has enough white space so that employees are able to find information easily on their own, said Thomas Burns, Bell Atlantic's vp of employee benefits and compensation in New York. It's more accessible and complete than past offerings, and it doesn't require employees to keep track of inserts, which they can lose.

Bell Atlantic's booklet won an Award of Excellence for multi-subject booklets in the 1997 *Business Insurance* Employee Benefits Communication Awards competition. The company distributed the booklets to 65,000 employees at 450 locations in several states.

Along with the booklet, titled "The Big Picture," Bell Atlantic distributed a survey card with seven questions and room for comment. About 10% of employees responded and about 90% of those respondents loved the book, said Rita Grazda, formerly a Bell Atlantic director of human resource communication who orchestrated the booklet's development. Ms. Grazda recently left Bell Atlantic to assume a similar post for American Express in New York.

"We had one person write in and say they had been at Bell Atlantic for 25 years and this was the best thing we had ever done," Ms. Grazda said. "There were so many comments like that."

One secret to the booklets' success is the conversational style of the text, said Julie Horner, a communication consultant at Hewitt Associates in Atlanta. In that conversational method, it explains benefits much as a friend would over a cup of coffee.

In the front of the handbook are icons referring to each section. The book also contains a life events section, briefly explaining actions to take when changes occur, such as marriage or the addition of dependents. "Facts You Should Know About" are in the front section with elaboration in the back.

Bell Atlantic's survey showed the project met many of its goals, such as being useful to employees and reducing their dependence on the human resources department to explain benefit details.

About 90% of survey respondents agreed that because the handbook is easy to use, they are less likely to call human resources with questions. More than 80% agreed that they have a better understanding of their pay and benefits and services the company provides.

Kraft project gives employees food for thought

By DEBORAH SHALOWITZ COWANS

NORTHFIELD, Ill.—Like its famous macaroni and cheese, Kraft Foods Inc.'s benefits planner is a satisfying serving that's easy to digest.

The 77-page spiral-bound book, printed on thick, white glossy paper with many colorful accents, explains Kraft's numerous employee benefits.

The benefits planner begins by explaining how different benefits might be appropriate for employees in different life phases. These phases, as outlined in the book, include: starting out, looking ahead, establishing yourself, approaching retirement and enjoying retirement.

Special project

For example, the book suggests that an employee just starting out may want to think about basic medical, dental and life insurance, purchasing dependent coverage for the first time and pursuing formal education to further his or her career. An employee looking ahead may want to think about preventive care, home expenses, child care expenses, balancing work and family and saving for a child's education. An employee approaching retirement may want to think about comprehensive medical and dental care, a second career, financial security and retirement planning.

A timeline that stretches across two pages illustrates which benefits may be helpful—and when—for employees traveling through the different phases.

The benefits planner was developed so that when employees "had a major life event, this would help them work through how their benefits would help them," commented Jill Youman, director of employee benefits for Northfield, Ill.-based Kraft. Ms. Youman was unavailable to comment directly; her comments were related by a spokeswoman.

The book is "structured to focus on employees' needs," said Derek Koch, a communications consultant in Watson Wyatt Worldwide's Chicago office who worked with Kraft on the project. The benefits planner is "really a great example of an employer bridging the gap between individual benefits and how employees should be thinking about their benefits. It gets to the use that the employer had intended for the benefits."

The benefits planner won Best of Show in the special project category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

Kraft's specific benefit offerings are explained in three tabbed sections titled personal, career and future.

Each benefit is explained in a column titled "Kraft Choice Plans." Another column, "Considerations," details issues an employee should think about relating to that specific benefit.

Sections called "What's Next," highlighted with colored backgrounds, give employees a checklist of whom to call to find out more about the benefits or change elections. "Other Resources" lists other benefits communication materials that may be helpful.

Although the book is chock-full of useful information, the material is broken up by lots of white space; liberal use of headlines, columns, dividers and different type faces; and short, simple, jargon-free sentences. Accent colors include purple, teal, raspberry, cranberry, tan and blue.

Kraft "invests quite a bit in total compensation, and they wanted to, as much as possible, increase awareness with employees of what they offer," Mr. Koch said. Kraft wanted to get "employees to connect with the opportunities that are available."

Kraft chose to use a book, instead of another form of communication, because it is a piece "that would be around for a long time," Mr. Koch said.

The benefits planner is "the bible on benefits."

Ms. Youman said having a permanent benefits planner enables employees to get answers when they need them, even if they are at home after business hours. "We wanted employees to have easy access to answers to many general questions," she said.

Previously, the company used several publications to convey the material covered in the benefits planner.

The benefits planner resulted from a brainstorming session that Kraft's benefits staff held, Ms. Youman related. The benefits professionals discussed the questions they frequently were asked and decided that having one permanent publication that answered them all would be helpful.

The benefits planner "has been very successful," Ms. Youman said. The planner is available on Kraft's corporate Intranet and is the second most frequently used reference there, she added. The most frequently requested offering on the Intranet is company forms, she said.

The benefits planner, which cost $412,205, was distributed in September 1996 primarily through interoffice mail to Kraft's 37,000 employees at 68 locations.

The project took about five months from start to finish, according to Mr. Koch. BI

Grocer's plan message in the bag

By DEBORAH SHALOWITZ COWANS

The black-and-white photographs accompanying each month of H.E. Butt Grocery Co.'s benefits calendar show familiar, old-fashioned scenes: a family picnic by a lake, kids riding in a little wagon, an older couple on a cruise.

Colorful headlines, concise text and small splashes of bright colors on the photos—such as a lime green shirt, a cranberry jacket and a sunny yellow halter top—liven up the simple scenes, though. These touches, along with pictures of current employees and informative sidebars, earned the calendar an Award of Excellence in the special project category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

H.E. Butt, a San Antonio-based retail grocery chain with 350 locations, wanted to communicate benefits information in an "eye-catching" way, commented Tammy Schoenert, manager of benefits administration. The company wanted a communication vehicle that employees would keep and refer to frequently, Ms. Schoenert added.

Each of the 12 monthly pages describes one of H.E. Butt's employee benefits. For example, a picture above the month of January shows three young adults walking with books in their arms. A red headline at the top of the picture reads: "Learn more. Be smart. Get ahead."

The sidebar on the page below, next to the actual calendar, describes the company's scholarship and tuition reimbursement program. A black-and-white photo of a current employee doing school work covers six daily squares in the calendar, and several days carry little benefit-related reminders, such as making a dental appointment or applying for the tuition reimbursement.

Other months describe time-off benefits, the company's credit union, a retirement plan, group medical coverage and dental benefits.

H.E. Butt's approximately 40,000 employees are diverse in age and ethnicity. They range from 16 to 60 and include many Hispanics.

The company mailed the 9-by-12-inch calendar to the workers' homes. It cost approximately $135,000 to produce.

PartnerSource Inc., an Arlington, Texas-based consulting firm, worked with H.E. Butt on the project.

Merc statements spark interest in benefits

By DEBORAH SHALOWITZ COWANS

CHICAGO—To people used to the rough-and-tumble world of trading hogs, cattle, S&P Index options and other futures, a plain employee benefits statement can be a real bore.

The staff of the Chicago Mercantile Exchange, however, is trading up to a new personalized benefits statement.

Peppered with charts, graphs, boxes and lots of white space, the new statement has been a big success with the Merc's employees, according to Laura Freston, director of

Personalized Correspondence

compensation and benefits. The eight-page statement, bound in a glossy white cover, has helped employees understand and appreciate the value of their benefits, she said.

The Chicago Mercantile Exchange is a futures exchange owned by its approximately 2,700 member traders. The Merc employs about 940 people, mostly at professional and managerial levels.

Previously, the Merc distributed personalized 5-by-7-inch benefits booklets filled with black and white type, Ms. Freston related. However, the benefits department received questions from workers throughout the year, indicating workers didn't really understand their benefits.

"I personally felt that we could improve" the statement, Ms. Freston said.

The new personalized benefits statement is 9-by-12 inches and uses not only black text but also includes colorful graphics inside.

A colored border on the left edge of each page indicates what information is in that section. The sections include total compensation, health care benefits, income protection and survivor benefits, and retirement benefits.

The cover has four stacked symbols: a teal-colored open hand, a red shield, a green dollar sign and a mustard-colored scroll. The symbols are "a little bit abstract by design," Ms. Freston commented. Each of the symbols serves as a background to the text in one section of the booklet in either teal or mustard.

"The cover design and having a larger format invited (employees) to open" the booklet, Ms. Freston said.

The four symbols are "open to interpretation," she said. For example, the hand could symbolize the hand signals that traders on the floor of the exchange use. The hand is used in the income protection/survivor benefits section of the booklet. The shield is used in the health benefits section. Although the exchange is self-insured, the shield could refer to the company's third-party administrator, Blue Cross & Blue Shield, she said. The dollar sign is used in the retirement benefits section, and the scroll is used on a page describing additional benefits, including educational assistance.

The Merc's statement won Best of Show in the personalized correspondence category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

"I'm finding more and more that employees don't read what's passed on to them" because they receive so much information, said Victor L. Villanueva, an associate with William M. Mercer Inc. in Chicago, who worked with the Merc on the statement. However, this statement is "easier to read, has less jargon, more white space, more charts and more graphs."

Mr. Villanueva added that he does not think that personalized, printed benefit communications will be replaced by new technologies in the future, because printed materials are relatively permanent. Also, everyone does not have access to new technologies such as the Internet, he said.

'I'm finding more and more that employees don't read what's passed on to them' because they receive so much information, says Victor L. Villanueva.

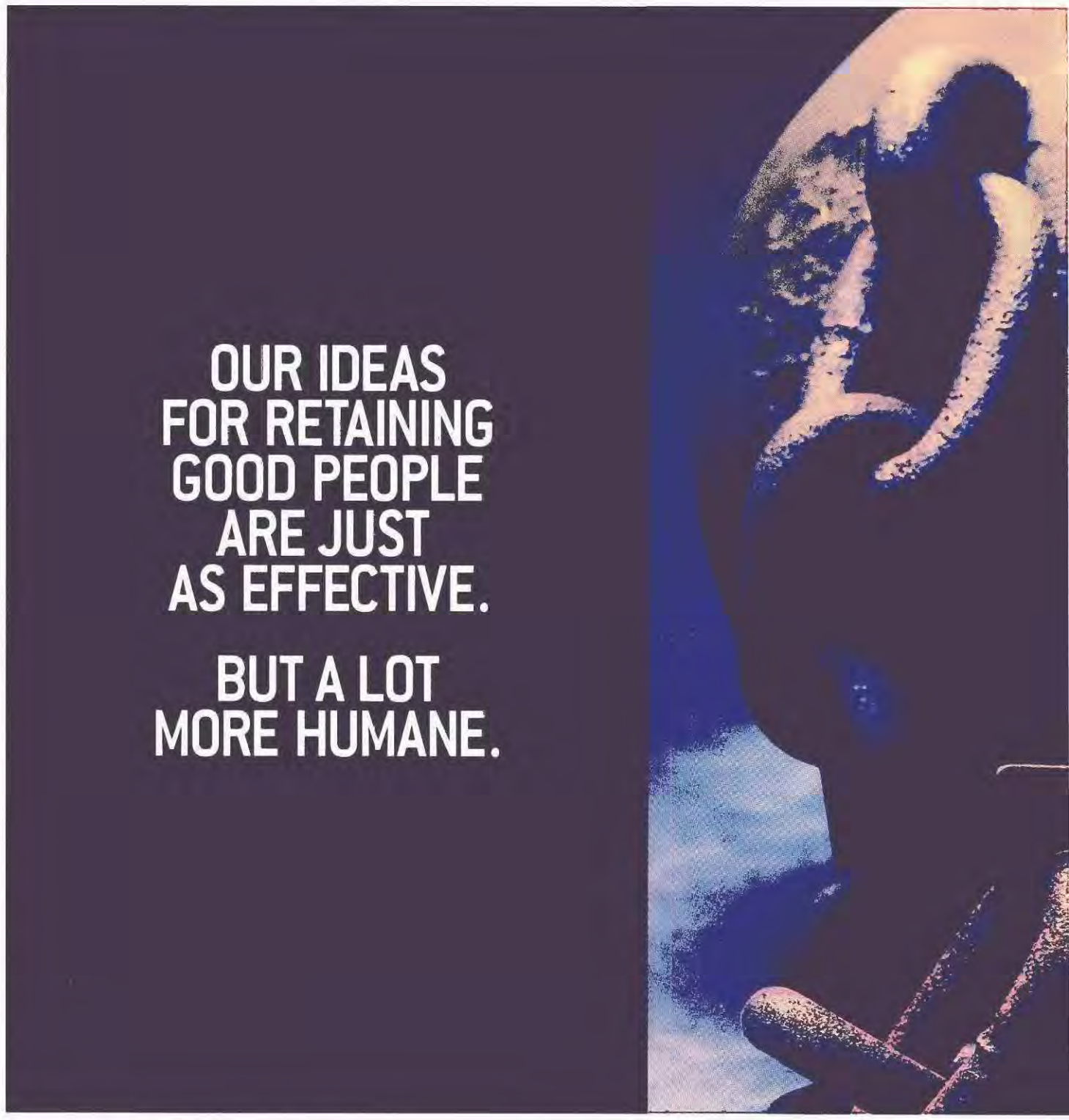
From start to finish, the project took about three months, according to Ms. Freston. Some of the design work, such as creating the four symbols, was done by Merc staff to contain costs, she said. The Merc declined to comment on the cost of the project.

After the statements were printed, they were sorted alphabetically and by department and shipped to the Merc. An address window in the envelope displayed the employee's name and department. The statements then were distributed to employees.

In an effort to quantify how employees felt about the new benefits statement, the Merc included in each booklet a separate, free-standing survey card that employees could complete and return to the human resources department.

"We received excellent feedback from the employees on the statement," Ms. Freston noted.

According to survey results, the new benefits statement was well received by employees: out of 105 respondents, 84% said the document was "very helpful" in understanding the total value of their compensation and benefits program. Ninety-six percent said the statement provided sufficient information about their benefits, and the same percentage said the statement was easy to understand. BI



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Character, color add to Budd booklet

By DEBORAH SHALOWITZ COWANS

TROY, Mich.—Indiana Jones, beware: You have a clone-like cousin roaming your home turf.

With a mauve fedora brim slanted down toward his eyes, a colorfully drawn Indiana Budd stars in The Budd Co.'s personalized benefits statement showing employees how their benefits help them navigate life's adventures.

The 10-page, 7-by-8½-inch booklet features Indiana Budd in several illustrations accompanying descriptions of the company's employee benefit programs, as well as personalized benefit information for employees.

For example, one page shows Indiana Budd walking proudly out of the company's Kendallville, Ind., manufacturing plant; the picture is adjacent to information about the company's base-pay policies. In another drawing, Indiana Budd is holding a big tooth; next to him is a description of dental benefits. Retirement and savings plan information abuts a picture of Indiana Budd watching boaters on a calm blue lake with a bright sun in the background.

Charts, graphs and headlines carry through the bright color scheme of yellow, blue, green, purple and orange.

"The color is something that attracts readership," commented Bill Kroger, corporate manager of labor relations at Budd's Troy, Mich., headquarters. The Budd Co. is an automotive parts supplier with approximately 20 plants. The Kendallville, Ind., facility employs about 300 hourly workers who make plastic body panels for cars.

The booklet, titled "Indiana Budd's Adventure," won an Award of Excellence in the personalized correspondence category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

With the help of focus group meetings, The Budd Co. determined it needed to beef up its benefit communications for workers in the Kendallville plant, Mr. Kroger said. The company wanted a communication piece that would appeal to both men and women with an average age under 30, he added. Also, management wanted workers' family members to read the information. The booklet was mailed to employees' homes.

Anecdotal feedback about the project has been positive, Mr. Kroger said.

The Indiana facility offers workers an insured health maintenance organization and a self-insured indemnity plan.

The booklet cost a total of $39,000 to produce. The Southfield, Mich., office of Watson Wyatt Worldwide assisted in developing the communication project.

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Making Strategy Work®

Shoe chain steps up on savings

By SALLY ROBERTS

TOPEKA, Kan.—When Payless ShoeSource Inc. was spun off from The May Department Stores Co. in May 1996, it faced a difficult employee benefit challenge.

Payless' profit-sharing plan changed from a company match plan offered by its former parent to pure profit-sharing offered by Payless.

The Topeka, Kan.-based discount shoe retailer was concerned, however, that by automatically contributing money to each eligible employee's account, it was not offering incentive for employees to save on their own.

Contributing to that problem, the majority of Payless' younger workforce are not big savers—only 40% of the eligible employees were participating in the the May company's plan.

Not surprisingly, of the 11,000 eligible employees, the average age is 21.5. Most are high-school educated and earn between $9,000 and $12,000 a year. Turnover among store employees runs as high as 150%.

Multimedia

"These are not people you think of as motivated to save and to think of their futures," said Ross A. Miller, a principal with Buck Consultants Inc. in Chicago. "Taking this all into account, we needed to create a high-impact communications piece" to get Payless' younger employees interested in saving in the company's new profit-sharing plan, he said.

To do this, Payless, with the help of Buck's Mr. Miller, developed a "PSP Enrollment Kit" that included a summary plan description booklet, a colorful newsletter explaining the plan and a five-minute video intended to motivate employees to read the accompanying print materials. All the materials were mailed to eligible employees' homes due to the widely dispersed workforce.

Payless' program, titled "What Are You Waiting For?" won the Best of Show award in the multimedia program category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

"We tried to bring the plan out in terms people would understand," noted David H. Brown, Payless' supervisor of profit sharing. "We needed to appeal to a younger crowd and get them excited about the plan."

The video, for example, shows only one paid actor and several Payless employees dancing and lip-synching to "What are you waiting for," sung with a hip-hop beat. Employees gave testimonials in the video on why they are saving money in the plan.

The video was not meant to be "an information tool," Mr. Miller said. It was used to "generate excitement for the plan."

Specific information about the plan was detailed in an 11-by-17-inch, four-page, brightly colored newsletter called "PSP Highlights" and also via

See **Payless** *on next page*

Payless

Continued from previous page

a summary plan description booklet.

Through colorful graphics and varied typefaces, the newsletter explains how the profit-sharing plan can help employees save for a vacation, a new car, a new house or retirement, no matter how much money they earn. Specifically, the graphics illustrate the difference between pretax and aftertax contributions; compounding interest; and the various investment funds offered in the plan.

In some instances, the graphics take a more lighthearted approach. For example, one graphic lists a few items people can buy each week with $10, such as nine cans of premium cat food or three diet sodas a day. The message goes on to say "Or you could save it in the PSP and watch it grow into a nice nest egg that you could use to buy something *really* important."

"We used lots of color, lots of visuals; we kept the content light and used short sentences and simple messages," Mr. Miller said. The oversized newsletter was used so employees would not be "overwhelmed by too much information," he explained.

Other "PSP Highlights" newsletters subsequently were sent to Payless employees' homes that contained articles on specific plan features and participation-related issues.

The entire communications program, including consulting fees, production and mailing costs, cost $200,000.

Payless says the program helped achieve its goal of generating enthusiasm for the profit-sharing plan.

"There was a lot of excitement in the stores," said Bob Ihrie, director of compensation and HRIS at Payless.

Recognizing the combination of Payless' employee demographics and the fact that the plan does not require employee contribution, the company was not expecting a large increase in participation rates, he said.

"We didn't get a huge uptick in enrollment," but "we were afraid of a huge downtick due to the loss of the match," Mr. Ihrie said. Overall, there was a "small percent" growth in enrollment. "That to us was huge."

To help further boost enrollment figures, Payless switched back to a matching contribution plan last August. Beginning Jan. 1, 1998, Payless will begin an automatic enrollment program, Mr. Ihrie said.

Under this plan, eligible Payless employees will have 3% of their paychecks deducted automatically each month and put into the company's profit-sharing plan unless the individual employee declines, he said.

In 1996, Payless contributed 2.5% of its pretax profits, or $3.56 million, to the profit-sharing plan. BI

Southland presentation uses historical angle

By RODD ZOLKOS

DALLAS—For the Southland Corp., a video presentation provided not just details of the company profit-sharing plan's 1996 performance but also a chance to reconnect plan participants to the company's roots.

"We're trying to sort of get back to the warm and friendly, what the company is about," Margaret Fuller, manager of the profit-sharing plan and trust for Dallas-based Southland, said of the video. "Trying to get people feeling part of the team again."

That was particularly important given that the company had gone through a variety of changes—including a buyout, a bankruptcy and a merger—in recent years that ultimately led it back to a focus on its core business: 7-Eleven convenience stores.

While providing necessary profit-sharing plan information, the

Audio-Visual

approximately 10-minute video makes use of various 7-Eleven artifacts, such as smocks, pins, posters and Slurpee cups as well as historic and contemporary photographs in its transitional shots to communicate the consistent presence of the convenience stores in the company's operations and the community, even as Southland went through its organizational changes.

Meanwhile, employees talk about their own experiences with the company and the profit-sharing plan, driving home the message of how important the profit-sharing benefit is and how the company maintained its commitment to the plan even in the most financially difficult years.

"That was one of the things that we wanted to be sure to do," Ms. Fuller said. The company wanted employees to recognize that even while going through a leveraged buyout, bankruptcy and a merger, "the company continued to contribute to the plan even though there were no profits," she said.

'The company continued to contribute to the plan even though there were no profits,' says Margaret Fuller.

The video won Best of Show in the audio-visual category of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

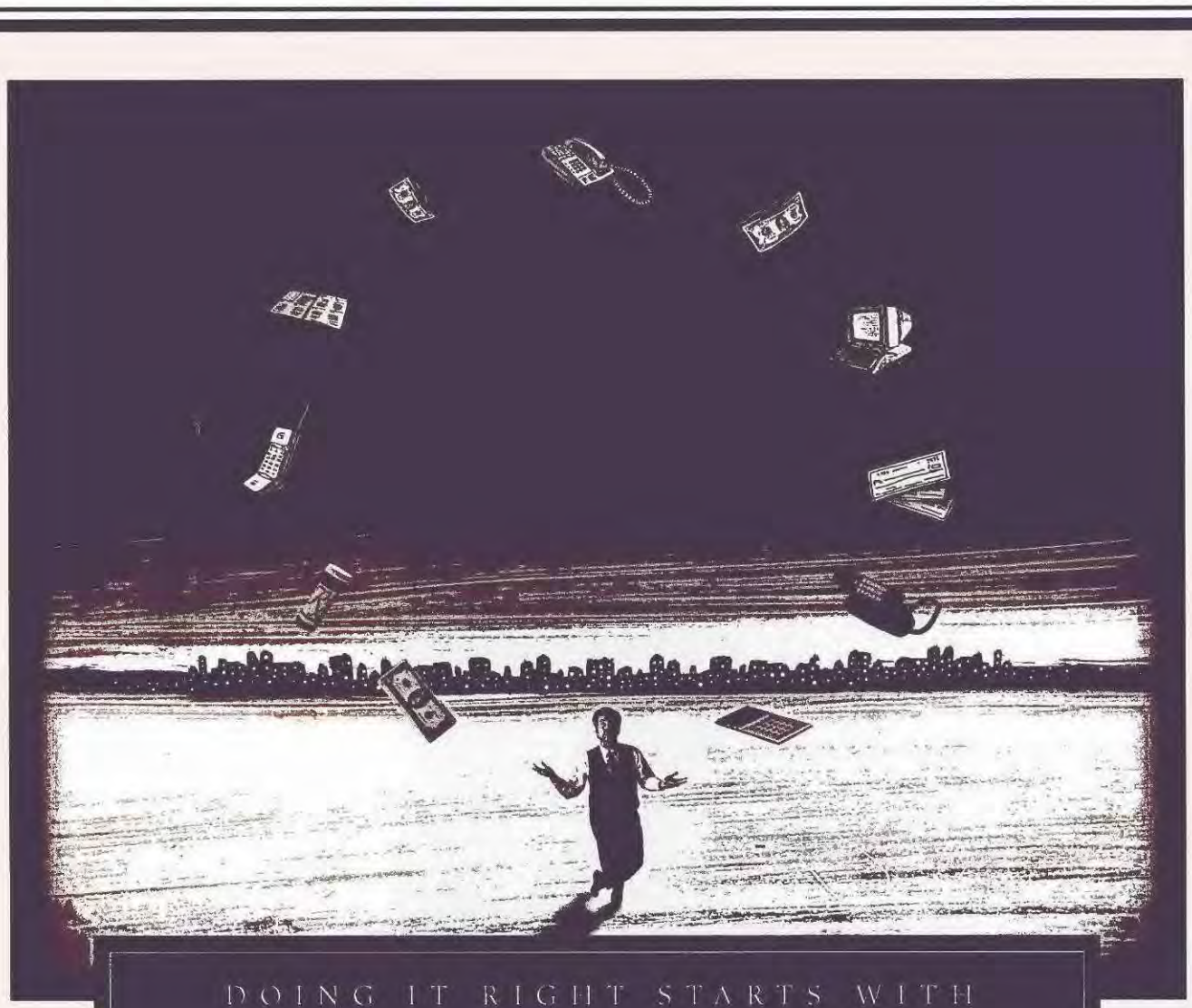
At the centerpiece of the video is the testimony of the company's now-former manager of compensation and benefits, Matt Sauer, who relates his experience: After starting with the company as a 15-year-old clerk, his manager encouraged Mr. Sauer to join the plan, a step that will make his retirement possible.

Kevin McDermott, a principal at Towers Perrin in Dallas who worked with Southland on the video, recalled that it "started off and historically was the facts-and-figures piece."

"I just wanted to do something more than that," he said. "You can do that in a print piece on a half a page."

"They started talking about the organization and what they were doing and how they wanted to get back to the focus on the 7-Eleven stores," he recalled.

See **Southland** *on page 24*



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Dec 1	Risk Management Systems & Online Resources [RS, SS] *Directory: Risk Management Information Systems*	ABT Niche Marketing	Nov 17
Dec 8	Benefits: Market Report [RS] *Directory: Benefit Consultants, Distribution: NAIC*		Nov 26
Dec 15		IT Mergers & Acquisitions	Dec 3
Dec 22	Year-in-Review		Dec 10
Dec 29	1997/98 Directory of Managed Care Providers		Dec 15
Jan 5	Information Resource: Employee Benefits	ABT Consumer/Customer Relations	Dec 19
Jan 12	Property/Casualty Market Report [RS, SS] *Distribution: Insurance Joint Industry Forum*		Dec 29
Jan 19	Information Resource: Risk Management	IT Consumer/Customer Relations	Jan 7
Jan 26			Jan 14
Feb 2	Benefits: Health Care Innovations [RS] *Directory: Utilization Review Providers & Case Managers*	ABT Agency Networks	Jan 21
Feb 9			Jan 28
Feb 16	Self-Insurance: Property/Casualty & Employee Benefits [RS] *Directory: Third-Party Administrators*	IT Reinsurance Strategies	Feb 4
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RS: Reader Service, SS: Starch Study

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Southland

Continued from page 20

Then Mr. Sauer offered his "incredibly compelling, interesting story, and I said: 'This is it. This is what we want to focus on,' " Mr. McDermott said. "It was pretty easy after that."

All the employee comments have a spontaneous, heartfelt feel, rather than sounding like scripted lines.

"A lot of that stuff was off the cuff," Ms. Fuller noted. While Southland officials had drafted a list of questions "to make sure that all of the things that we wanted in there were in there," someone sitting alongside the camera would ask the questions at random to prompt more spontaneous responses, she said.

"We've used our employees in videos in the past, and it's really worked out, because some of the things they'd say you couldn't script them to say," the plan manager said. "Our lawyers said they wanted to see a copy of the script, and we said, 'There isn't a script.' "

Along the way, the video also explains the reasons for the plan's success in 1996, how it works, tax advantages for participants, the plan's investment strategy and changes in the plan's design.

The choice of video as a medium proved a good way to help reach a far-flung workforce. Southland has 24,000 employees, 90% of whom work in the company's 2,085 stores. The rest work in the corporate headquarters in Dallas.

Tapes were sent through in-house mail to local market managers to show at employee meetings.

Southland employees must have a year on the job to qualify for participation in the profit-sharing plan, and of those employees who are eligible, 7,700 participate in the plan and 7,200 do not. One of the video's goals was to increase plan participation by between 2% and 5%, a goal it met with a 4% increase in participation.

"It's worked," Mr. McDermott said. "Participation is up."

The video project costs about $27,000, with Mr. McDermott essentially serving as director and producer and hiring an out-of-house cameraman and video editing firm.

"Every year we've done videos of different sorts, and on this one we received by far the best comments of all the ones we've done," Ms. Fuller said.

In fact, the video was so well-received that Southland now uses it as a basic part of its new-hire orientation, communicating profit-sharing plan details and a sense of the company's history. BI

Bank of Montreal gets the message across

By JOANNE WOJCIK

TORONTO—Employees who understand their company benefits are more likely to appreciate them, the Bank of Montreal says.

After the Toronto-based bank delivered a series of three colorful and informative newsletters to its 25,000 employees throughout Canada, the percentage who perceived the company's new flexible benefits plan as "driven by sensitivity to employee needs" rose to 81% from 64%.

Coincidentally, at the same time, the percentage of Bank of Montreal employees who said that they understand their benefits well increased to 84% from 71%.

Indeed, better understanding usually leads to better appreciation, explained Leslie Dutton, a communications consultant in Toronto with Hewitt Associates L.L.C. who helped the bank develop the newsletter campaign.

Newsletter

The newsletters, which won Best of Show in the newsletter category of the *Business Insurance* Employee Benefits Communication Awards, were the latest innovation in a series of communication tools that the bank has employed to help its employees better understand their benefits.

The newsletters also were part of a total communication program that included a boxed flex-plan enrollment kit.

Over the past four years, the Bank of Montreal has been conducting employee opinion surveys and focus groups, asking whether the information describing the plans was sufficient and whether the bank-provided benefits that met workers' needs, according to David Minifie, senior manager of benefits.

For example, before the newsletter campaign, one employee had written to the benefits department, complaining that the plan charged too high a premium for supplemental medical insurance.

"Isn't that interesting, considering we don't charge a premium?" Mr. Minifie remarked. "As they come to better understand their benefits, they come to see how they meet their needs. We've been closing the gaps over the past four years."

The Bank of Montreal introduced the newsletter concept a year before it implemented its new flexible benefits program in 1996 so that the employees would become familiar with the medium, Mr. Minifie explained.

While the first series of newsletters were published in blue and white, "when we went to flex, we brought it up a notch and made it more colorful," he said.

In addition, "we wanted it to stand out" among all the other marketing materials bank employees regularly receive, he added.

The employees' response? "We've only received positive comments," he said.

In fact, the employees were so impressed by the newsletter campaign that most said it should serve as a model for introducing other bank programs.

Eighty-eight percent viewed the newsletters as "effective" in supporting their flex information needs.

In surveys and focus groups conducted before, during distribution and after flex plan enrollment, Bank of Montreal employees said the newsletters were easy to read and that the personalized distribution system significantly improved the likelihood that they would receive the information.

Previously, the bank distributed

See **Newsletter** *on next page*

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Newsletter

Continued from previous page
benefits information only to department heads, who were responsible for ensuring employees received copies.

But this did not guarantee that all employees received the information, Hewitt's Ms. Dutton explained. So the newsletters were individually addressed to ensure each employee would receive the information.

In fact, the bank was able to trim some of the expenses associated with the project by using its internal mail system, which goes to all 1,100 locations coast-to-coast, said Mr. Minifie.

The newsletter project cost $100,000 Canadian ($70,560) to produce, including consulting fees.

Published triannually—in April, June and September—the newsletters were printed in French and English so that employees could choose the language they understood. "About a fourth of our employees are French-speaking," Mr. Minifie explained.

Translating was challenging, given that many English words do not have direct French equivalents, Ms. Dutton pointed out. For example, "benefits" is "les avantages" in French, she said. And the authors chose "Zoom" in French to mean "Focus" in English.

To ensure proper idiomatic translation, the Hewitt communications consultants assigned to the project worked closely with company translators, according to Ms. Dutton.

In some cases, more French words were needed to ensure appropriate translation. For example, the English phrase "Focus on Flex" was translated into "Zoom sur les avantages flexibles" in French.

"The work was done in English and then translated into French to ensure the tone and flavor of the terminology and to capture the essence of what we were trying to convey," she said. BI

Judges' verdict: Simplicity works

By AMANDA MILLIGAN

Successful benefits communication programs are built on simple, personalized information that keeps the audience in mind.

That's the consensus of the 14 judges of the 1997 *Business Insurance* Employee Benefits Communication Awards competition.

But the judges said making the connection with the employee is only part of the communication process. It's important to evaluate programs based on how actively they participate in making benefit decisions.

"It's a really difficult job to communicate something that is complicated for most people," said judge Christopher Finn, senior vp and account director for New York-based Citigate Albert Frank, an advertising and public relations agency specializing in business-to-business communications and financial services. "There's a certain anxiety" that they're not making the right decisions. Part of the employer's task, he said, is to convey benefits as "not a burden, but what it is. . .a blessing."

Nancy McAdams, customer communications manager for Warren, N.J.-based Chubb & Son Inc., said it is one thing to boast about the benefits and another to help the employee maximize them. "The benefits package plays such a significant role, maybe as much as 30% of an employee's total compensation," said Ms. McAdams, another judge. "Companies are extremely proud of what they think the benefits components are."

Employers want to fill the need for thorough information, but workers don't want to be overwhelmed with large volumes of dry material.

"In our zeal to communicate with employees, we sometimes overload them with information that is very technical," said Shelley Karins, vp and creative director for Creative Insurance Marketing of Red Bank, N.J.

The judges applauded communications that included less jargon without taking on a demeaning approach.

Sheila Flood, benefits administrator for insurer GEICO in Washington, said finding "the appropriate balance of verbiage and graphics was important."

Fred Burns, vp-human resources for Capital One Services Inc. in Glen Allen, Va, said, "I want people to be less confused and more empowered." Assessing the entries, he saw many creative programs "responding to the needs" of diverse workplaces.

Other judges for *BI*'s 25th annual EBC Awards competition were:

- Lyn Siep, manager of employee benefits communication for The Boeing Co. in Seattle.
- Richard Chesnik, vp of benefits and employment law for White Consolidated Industries Inc. in Cleveland.
- Marty DuRall, director of human resources for service lines and clinical support of St. Vincent Hospital and Health Services in Indianapolis.
- Jeff Reisman, executive producer for Crain Communications Inc. in New York.
- Cheryl Flynn, corporate vp of compensation and benefits for LSG/Lufthansa Service-SKY Chefs Inc. in Arlington, Texas.
- Bernard Knobbe, director of employee benefits for Morton International in Chicago.
- Aldy Duffield, manager of benefits programs for Oracle Systems Corp. in Redwood Shores, Calif.
- Judy Hoffman, manager of benefits planning and communications for Ralston Purina Co. in St. Louis.
- Belinda Bewkes, manager of benefit plan development for Texaco Inc. in White Plains, N.Y.

In the 25 years *BI* has conducted the competition, the entries have served as a barometer of communications developments. Entries have ranged "from 16-millimeter filmstrips" in the '70s to "running communications programs off of the Internet" in the '90s, said Ronnie Drachman, director of communications for *BI*.

Developments in content and technology changed the entry categories, responding to the growth of company newsletters, booklets, enrollment packages, Intranet and Internet programs and other special projects. Ms. Drachman said despite today's high-technology communications capabilities, print communication probably still is the most dominant form.

Entries were judged on objectives, strategy, content, presentation and effectiveness.

A luncheon honoring EBC Awards winners will be held today at the Grand Hyatt in New York. BI

Employee Benefits Communications judges

Not pictured:
Mr. DuRall
Ms. Flood
Ms. McAdams

Ms. Bewkes

Mr. Burns

Mr. Chesnik

Ms. Duffield

Mr. Finn

Ms. Flynn

Ms. Hoffman

Ms. Karins

Mr. Knobbe

Mr. Reisman

Ms. Siep

Annual directory of benefit communication systems

A

Administrative Solutions Group: An ADP/Mercer Alliance

1417 Lake Cook Road,
Deerfield, Ill. 60048;
847-267-3500; fax: 847-948-7346

Interactive benefit systems since: 1985.
Parent: Automatic Data Processing, National Accounts Division.
Software products:

■ Employee Self-Service Systems on Interactive Voice Response and Web.

System type/cost: Operated on a service bureau basis.
System requirements: PC system, network; operates in Netscape/MS Explorer 3.0 or higher and/or Touch-Tone phone for IVR. Online system.
Customized system.
First installation: 1985.
Total installations: 250.
Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and flexible spending accounts, comp/HR applications.
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 computer diskette, electronic mail, printer, fax and mail.
Accessed through: Telephone, kiosk, employee's PC, benefit department kiosk, Internet, intranet.
User support: User groups/meetings, onsite training, telephone assistance 24 hours per day, consulting.
Staff: 94 total, 60 professionals.
Branch offices: Louisville, Ky.; Silver Spring, Md.; Princeton, N.J.; Salt Lake City.
Officers: Tim Lamb, president-national accounts division; Brenda Jennings, senior vp; Jacqueline Dienstag, senior vp; Debbie Higgins, senior vp; Chris Matthews, senior vp.

Aon Consulting

123 N. Wacker Drive,
Chicago, Ill. 60606; 312-456-4514;
fax: 312-456-4500

Interactive benefit systems since: 1995.
Parent: Aon Corp.
Software products:

■ Smart Enrollment—Smart Response.

System type/cost: Purchased: $50,000 to $200,000.
System requirements: PC system, network/Internet; operates in Windows or Web Server. Online system.
Customized system.
First installation: 1995.
Total installations: 30.
Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts, vacation, holidays, total compensation.
Features: Options available for benefit 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 computer diskette, printer, fax and mail.
Accessed through: Kiosk, employee's PC, benefit department kiosk, Internet.
User support: User groups/meetings, onsite training*, telephone assistance eight hours per day, data exports to all vendors.
Branch offices: 62 locations nationwide.
Officers: Daniel J. Cox, chairman-Aon Consulting Worldwide; Donald C. Ingram, chairman-Aon Consulting.
Contact: Chicago: Maria Bradley, 312-456-4514; San Jose, Calif.: Dave Bertheau, 408-301-2529.
** Included in system price.*

B

BeneSoft Inc.

P.O. Box 3530,
Bethany, Conn. 60524;
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; operates in DOS, Windows.
Customized system.
First installation: 1987.
Benefits communicated: Flexible benefits, flexible spending accounts.
Features: Standard system provides plan descriptions, personal information, direct enrollment, option selection/adjustment, reports via computer diskette and printer.
Accessed through: Telephone, employees' PC.
User support: User groups/meetings, onsite training*, telephone assistance 12 hours per day*, emergency pager number.
Staff: 25 total, 20 professionals.
Branch offices: Santa Rosa, Calif.; Ann Arbor, Mich.; Beaverton, Ore.
Officers: Faisal A. Saleh, president; Steve Froebel, vp.
Contact: Faisal A. Saleh.
** Included in system price.*

Buck Consultants Inc.

2 Pennsylvania Plaza,
New York, N.Y. 10121-0047;
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: Price varies. Operated on a service bureau basis.
System requirements: 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 all 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 computer diskette, printer, 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, employee's PC, benefit department kiosk, Internet.
User support: User groups/meetings, onsite training.

■ Survey Magic.

Continued on next page

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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' PC, Internet.
User support: User groups/meetings, onsite training, telephone assistance.

■ Community Solutions.
System type/cost: Purchased: $175,000. 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 PC.
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 1996.
Branch offices: 64 locations worldwide.
1996 gross revenues: $238.6 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. 08837-2220;
732-906-2020; fax: 732-906-2018

Interactive benefit systems since: 1989.
Software products:

■ Connection Server.
System type/cost: Purchased.
System requirements: PC system, operates in Windows NT.
Customization optional.
First installation: 1997.
Total installations: 11.
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 computer diskette, electronic mail, printer, fax and mail. Options available to add complete call center system.
Accessed through: Telephone.

■ CAS Voice.
System type/cost: Purchased.
System requirements: PC system; operates in OS/2.
Customization optional.
First installation: 1989.
Total installations: 100.
Benefits communicated: Savings plans, health plans, pension plans, workers comp benefits, flexible benefits, flexible spending accounts. Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and 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 computer diskette, electronic mail, printer, fax and mail. Options available to add complete call center system.
Accessed through: Telephone.
User support: Onsite training*, telephone assistance nine hours per day*, bulletin board service*.
Officers: Vigdis Austad, president; Frank Joicy, Michael George, vps; Neil McAdorey, director-new business development.
Contact: Jackie Laguna, marketing associate.
** Included in system price.*

E

Employee Communications Services

16 Tech Circle, Natick, Mass. 01760;
508-655-6261; fax: 508-653-1279

Interactive benefit systems since: 1980.
Software products:

■ Reward Management System.
System type/cost: Purchased: $150,000. Operated on a service bureau basis for $15,000 to $20,000 per month.
System requirements: PC system, network; operates in Windows NT. Online system.
Customized system.
First installation: 1991.
Total installations: 15.
Benefits communicated: Savings plans, health plans, pension plans, flexible benefits, flexible spending accounts, short- and long-term disability, life.
Features: Standard system provides plan descriptions; personal information; direct enrollment; option selection/adjustment; reports via computer diskette, electronic mail, printer, fax and mail. Options available to add modeling/projections; employee specific recommendations; health claims status; details on investment alternatives.
Accessed through: Telephone, kiosk, employee's PC, benefit department kiosk, e-mail.
User support: Onsite training*, telephone assistance eight hours per day*.
Staff: 40 total, 10 professionals.
Clients: 45 total, including eight new clients and 10 who added additional features to their interactive benefit communication system in 1996.
Branch offices: Atlanta.
1996 gross revenues: $6.5 million total. $6 million from interactive employee benefit communication systems sales and services, including 65% software sales, 15% software services, 10% hardware services, 10% user support.
Officers: Kenneth F. Phillips, president; Salvatore C. Percia, CEO; Michael J. Downey, Daryl R. Ashley, vps.
Contact: Michael J. Downey.
** Included in system price.*

Ernst & Young L.L.P.

787 Seventh Ave.,
New York, N.Y. 10019;
212-773-3000

Interactive benefit systems since: 1992.
Software products:

■ E&Y Voice.
System type/cost: Operated on a service bureau basis.
System requirements: PC system, single user or network; operates in OS/2. Online system.
Customization optional.
First installation: 1992.
Total installations: 20.
Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and 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 computer diskette, electronic mail, printer and fax.
Accessed through: Telephone.
User support: Onsite training*, telephone assistance eight hours per day*.

■ Prosper.
System type/cost: Purchased.
System requirements: PC system, single user; operates in Windows.
Customization optional.
Benefits communicated: Savings plans, pension plans.
Features: Standard system provides modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; reports via printer.
Accessed through: Employee's PC.
User support: Telephone assistance 12 hours per day*.
Staff: 15 total, eight professionals.
Clients:** 18 total, including six new clients and 12 who added additional features to their interactive benefit communication system in 1996.
Branch offices: 89 locations nationwide.
Officers: Robert Garner, national director-personal financial counseling; Glenn Pape, national director-large employee group services; William Arnone, director-employee education/counseling services; Gary Von Glinow, Jim Bosserman, Tom Kouri, partners; Owen West, principal.
Contact: Owen West, 312-879-2339.
** Included in system price. ** Specific to E&Y voice.*

H

HR Consulting Group Inc.

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

Interactive benefit systems since: 1981.
Software products:

■ HR Voice Response.
System type/cost: Purchased: $7,000. $500 per month lease.
System requirements: PC system, single user or network; operates in Windows or OS/2. Online system.
Customization optional.
First installation: 1989.
Total installations: 21.
Benefits communicated: Health plans, flexible benefits, flexible spending accounts. Options available for savings plans, job postings, COBRA, applicant tracking, eligibility, materials requests.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; health claims status; reports via computer diskette, electronic mail, printer, fax and mail. Options available to add details on investment alternatives; transfers among investment funds.
Accessed through: Telephone.

■ Web Taxdemo Software.
System type/cost: Purchased: $15,000. $1,500 per month lease.
System requirements: PC system. Online system.
Customization optional.
First installation: 1996.
Total installations: Three.
Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts. Options available for pension plans, workers comp benefits.
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 computer diskette, electronic mail, printer and mail.
Accessed through: Kiosk, employee's PC, benefit department kiosk, intranet, Internet.

■ Interactive Video Taxdemo.
System type/cost: Purchased: $15,000. $2,000 per month lease.
System requirements: PC system, single user or network; operates in DOS or Windows. Online system.
Customization optional.
First installation: 1990.
Total installations: Six.
Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts. Options available for pension plans, workers comp benefits.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; option selection/adjustment; transfers among investment funds; reports via computer diskette, electronic mail, printer and mail. Options available to add employee specific recommendations; health claims status; details on investment alternatives.
Accessed through: Kiosk, employee's PC, benefit department kiosk, intranet, Internet, interactive video.

■ Touchscreen Taxdemo Software.
System type/cost: Purchased: $10,000. $1,000 per month lease.
System requirements: PC system, network; operates in DOS or Windows. Online system.
Customization optional.
First installation: 1990.
Total installations: Six.
Benefits communicated: Savings plans, health plans, workers comp benefits, flexible benefits, flexible spending accounts. Options available for pension plans.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, electronic mail, printer, fax and mail. Options available to add health claims status.
Accessed through: Kiosk, employee's PC, benefit department kiosk.

■ Taxdemo Enrollment Software.
System type/cost: Purchased: $3,500. $200 per month lease.
System requirements: PC system, single user or network; operates in Windows.
Customization optional.
First installation: 1981.
Total installations: 5,623.
Benefits communicated: Savings plans, health plans, flexible benefits, flexible spending accounts. Options available for pension plans, workers comp benefits.
Features: Standard system provides plan descriptions; personal information; direct enrollment; modeling/projections; employee specific recommendations; option selection/adjustment; details on investment alternatives; transfers among investment funds; reports via computer diskette, printer and mail. Options available to add health claims status.
Accessed through: Telephone, kiosk, employee's PC, benefit department kiosk, diskette, intranet, Internet.

■ Flex Enroll.
System type/cost: Purchased: $1,200. $100 per month lease.
System requirements: PC system, single user or network; operates in Windows. Online system.
Customization optional.
First installation: 1981.
Total installations: 450.
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 computer diskette, printer and mail. Options available to add plan descriptions; employee specific recommendations.
Accessed through: Kiosk, employee's PC, benefit department kiosk, diskette.
User support: User groups/meetings*, onsite training*, telephone assistance 10 hours per day*, online modem hook-up*, user/written documentation*.
Staff: 25 total, 20 professionals.
Clients: 250 total, including 21 new clients and 7 who added additional features to their interactive benefit communication system in 1996.
Branch offices: Birmingham, Ala.; Los Angeles; Palm Coast, Fla.; Salt Lake City.
1996 gross revenues: 80% software sales, 5% hardware sales, 10% software services, 5% user support.
Officers: Richard Pelton, president; Rob J. Thurston, vp-marketing; E. Richard Packham, vp-sales; Ken Hostetter, marketing support; R. Dudley, MIS/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

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: 1988.
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 alternatives, reports via printer. Options available to add plan descriptions, personal information.
Accessed through: Kiosk, employee's PC, benefit department kiosk, home PC, intranet, Internet.
User support: Onsite training.
Staff: 12 total, 10 professionals.
Clients: 49 total, including 13 new clients and 15 who added additional features to their interactive benefit communication system in 1996.
Branch offices: 29 locations nationwide.
1996 gross revenues: $568 million total.
Officers: Dale L. Gifford, CEO; Gerald I. Wilson, chairman; James R. Rushin, director-business development; Christine A. Seltz, director-public relations; Michael L. Trahan, director-PC automated participant services.
Contact: Mike Trahan or 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.
Software products:

■ Financial Strategies.
System type/cost: Purchased.
System requirements: PC system, single user; operates in Windows 95.
Customization optional.
First installation: 1995.
Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and flexible spending accounts.
Features: Standard system provides modeling/projections. Options available to add details on investment alternatives; reports via computer diskette and printer.
Accessed through: employee's PC.
User support: User groups/meetings, onsite training, telephone assistance.
Contact: Kenneth L. Decker, vp.

Continued on page 28

Directory terminology explained

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

Listings begin with the company address, year the company began offering interactive benefit systems and parent company, if applicable.

Information on **software products** follows. **System type/cost** is for a purchased system, unless noted that it is leased or operated on a service bureau basis. Also noted is whether system hardware or employee access hardware is included in the price. **System requirements** include the type of computer and operating system required, and whether the communication system must be used in conjunction with a specific employee benefit information software product. Year of **first installation** and the **total installations** are also given. The next section details the **benefits communicated** and system **features**, both standard and optional.

The next section lists whether the system is accessed through telephone, kiosks, PCs/terminals or some other method. The types of **user support** available with the benefit communication system follow.

Staff figures, given in full-time equivalents for year-end 1996, 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 1996 and the number of clients who expanded existing systems in 1996.

Locations of **branch offices** and 1996 **gross revenues** are detailed next. Names and titles of **principal officers** and a **contact person** complete the listings.

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

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

"General Re's actions went far beyond the contract."

Robert Caldwell, left, with John Seibert, General Re

"Everyone from General Re worked very hard to help us survive the worst catastrophe loss in our history. Their willingness to help was instant and sincere...real people who care...with enthusiasm, professionalism and a wealth of knowledge. General Re proved it is a lot more than just very secure financial support."

Robert Caldwell, President,
N.C. Grange Mutual Insurance Company

General Re

The difference is...the quality of the promise

General Reinsurance Corporation
General Re Financial Products Corporation
General Re-New England Asset Management, Inc.

General & Cologne RE

www.genre.com

Continued from page 26

P

Parsons, McKee, Sommers & Co.

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

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: 50.

Benefits communicated: Savings plans, health plans, pension plans, flexible benefits, flexible spending accounts, summary plan description, managed care provider directory, health risk appraisal.

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 computer diskette, electronic mail, printer, fax and mail.

Accessed through: Telephone, kiosk, employee's PC, benefit department kiosk.

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

Staff: 12 total, 10 professionals.

Clients: 60 total, including 20 new clients and 10 who added additional features to their interactive benefit communication system in 1996.

Branch offices: Charlotte, N.C.

1996 gross revenues: $2.7 million total. $200,000 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. Dalessandro, 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

Interactive benefit systems since: 1991.
Software products:

■ SegalVoice.

System type/cost: Purchased: $80,000 to $100,000. Operated on a service bureau basis: Price varies.

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

Customization optional.

First installation: 1992.

Total installations: 25.

Benefits communicated: Options available for savings plans, health plans pension plans, workers comp benefits, flexible benefits and flexible spending accounts, surveys, eligibility, claims inquiry, job postings, enrollment.

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 computer diskette, electronic mail, printer, fax and mail.

Accessed through: Telephone.

User support: Onsite training, telephone assistance.

Staff: 10 total, 10 professionals.

Clients: 19 total, including six new clients and three who added additional features to their interactive benefit communication system in 1996.

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

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

Contact: Lynn Shanley, 212-251-5259.

Sequoia Retirement Services

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

Interactive benefit systems since: 1989.
Software products:

■ Estate Registry.

System type/cost: Purchased: $15.

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

Customization optional.

First installation: 1989.

Total installations: 200.

Benefits communicated: Retirement plans.

Features: Standard system provides personal information; modeling/projections; reports via printer.

Accessed through: employee's PC.

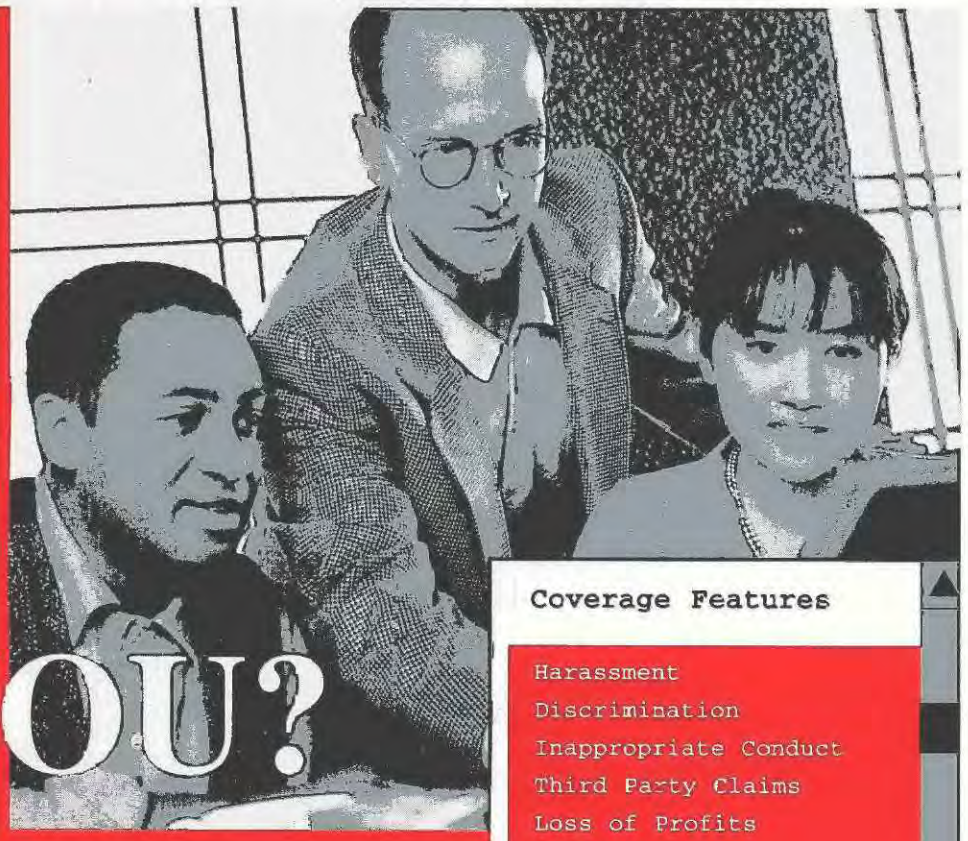
User support: Onsite training, telephone assistance eight hours per day*.

Staff: One professional.

Clients: 20 total, including 20 new clients.

** Included in system price.*

WE ARE THE CUTTING EDGE. ARE YOU?



Coverage Features

- Harassment
- Discrimination
- Inappropriate Conduct
- Third Party Claims
- Loss of Profits
- Downsizing
- Failure to Promote
- Wrongful Termination
- Punitives and Fines
- Bi-lateral Discovery
- FMLA and ADA

EMPLOYMENT PRACTICES LIABILITY INSURANCE

We are dynamic, growing, committed and since 1992 have been building a discreet but substantial reputation in Employment Practices Liability Insurance. Our EPL program was the first to offer a coverage extension for Harassment and Discrimination claims made against our Insureds by customers and clients and now, with the chances of an allegation of Harassment or Discrimination attracting the attention of the media ever increasing, we are the first to offer our Insureds the option of purchasing Loss of Profits and Extra Expense coverage following a loss under our policy. We expect this new coverage will strongly appeal to companies who wish to protect themselves from the potentially damaging economic effects of a highly publicized Discrimination or Harassment claim. We offer a single limit policy and can accept all sizes of company with limits starting as low as $300,000 increasing up to $20,000,000. Policies can be underwritten on a 12, 24 or 36 month basis.

Refer to Policy wording for actual terms and conditions, coverage may not be available in all States.

FOR MORE INFORMATION YOU CAN CONTACT US AT

LSR
London Special Risks Ltd
110 Fenchurch Street
London, EC3M 5JJ, U.K.
Contact: Susan Monnickendam
Jonathan Coombes
Tel: 011 44 171 488 1306
Fax: 011 44 171 488 0330/0770
email@l-s-r.co.uk / http:\\www.l-s-r.co.uk

IFIS
International Facilities Insurance Services Inc
Exclusive program manager for California
600 Wilshire Boulevard, Suite 1500
Los Angeles, California 90017
Contact: Viviane Krief
Tel: 213 833 0288
Fax: 213 833 0277
E-mail: VKrief@ECom.Net

T

TALX Corp.

1850 Borman Court,
St. Louis, Mo. 63141;
314-434-0046; fax: 314-434-9205

Interactive benefit systems since: 1980.
Software products:

■ TALXWare.

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

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

Customization optional.

First installation: 1985.

Total installations: 123.

Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and 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 electronic mail, printer and fax.

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

User support: User groups/meetings, on-site training*, telephone assistance 24 hours per day.

Staff: 115 total, 65 professionals.

Clients: 400 total, including 60 new clients and 50 who added additional features to their interactive benefit communication system in 1996.

Branch offices: Phoenix; San Francisco; Atlanta; Chicago; Bethesda, Md.; Springfield, Mass.; Clark, N.J.; London.

1996 gross revenues: $18 million total. $12 million from employee interactive benefit communication systems sales and services, including 50% software sales, 25% hardware sales, 10% software services, 10% hardware services, 5% user support.

Officers: William Canfield, president/CEO; John Tubbesing, executive vp; Mike Smith, vp-market development.

Contact: Jackie Engel, manager-marketing.

** Included in system price.*

Towers Perrin

245 Park Ave.,
New York, N.Y. 10167;
212-309-3400

Interactive benefit systems since: 1983.
Software products:

■ Outlook.

System type/cost: Purchased.

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

Customized system.

First installation: 1991.

Total installations: 38.

Benefits communicated: Savings plans, pension plans, personal savings, spouse's resources.

Features: Standard system provides plan descriptions; modeling/projections; details on investment alternatives; reports via printer.

Accessed through: Employee's PC.

■ Savings Planner.

System type/cost: Purchased.

Continued on next page

Continued from previous page

System requirements: PC system; operates through intranet server.
Customized system.
First installation: 1993.
Total installations: 4.
Benefits communicated: Savings plans.
Features: Standard system provides plan descriptions; modeling/projections; details on investment alternatives; reports via printer. Options available to add personal information.
Accessed through: Kiosk, employee's PC.
User support: User groups/meetings, onsite training

■ Flex Planner.
System type/cost: Operated on a service bureau basis.
System requirements: PC system; operates in Windows. Online system.
Customized system.
First installation: 1983.
Total installations: 14.
Benefits communicated: Flexible benefits.
Features: Standard system provides direct enrollment; option selection/adjustment; reports via printer. Options available to add modeling/projections.
Accessed through: Telephone, kiosk, employee's PC.
Staff: 180 professionals.
Branch offices: Los Angeles; Philadelphia; Sydney, Australia; Toronto; Newbury, England.
1996 gross revenues: $1 billion total.
Officers: John Lynch, CEO.
Contact: Bob Lopes.

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301-581-4600; fax: 301-581-4688

Software products:

■ Virtual HR.
System type/cost: Purchased, leased and operated on a service bureau basis.
System requirements: PC system, network (Internet/intranet); operates in Windows.
Customized system.
First installation: 1985.
Total installations: 100.
Benefits communicated: Options available for savings plans, health plans, pension plans, workers comp benefits, flexible benefits and flexible spending accounts, leave tracking, job postings, salary planning and management, training.
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 computer diskette, electronic mail, printer, fax and mail.
Accessed through: Telephone, kiosk, employee's PC, benefit department kiosk, Internet, intranet.
User support: User groups/meetings*, onsite training*, telephone assistance 24 hours per day*.
Officers: Pete Smith, president/CEO; Paul Daoust, executive vp/COO.
Contact: Steve McCormick, 202-626-9731.

** Included in system price.* BI

Liability

Continued from page 2

J&H Marsh & McLennan Inc. in Philadelphia, insisted that now, more than ever, managed care organizations must develop risk management programs—a call echoed by others on the panel.

"It's hard convincing managed care organizations that risk management is important," she said. "The managed care industry can learn a lot from where the hospital industry was 20 years ago."

Only a relatively small percentage of managed care companies have risk management committees, Ms. Berkowitz said, while even fewer have full-time risk managers.

"It's quite clear" that if managed care companies don't have some way to examine their processes, they will have problems, according to Bruce W. Dmytrow, a vp at CNA HealthPro in Chicago, a unit of CNA Insurance Cos. The underwriters covering these organizations have a responsibility to monitor their efforts to manage their liability exposures, he said.

Paul Romano, vp and health care unit manager at Executive Risk Inc. in Simsbury, Conn., noted that when managed care organizations first were formed, their primary goal was to drive down costs.

As a result, they often are not allocating the resources needed to implement risk management programs, he said.

But the capability is there, he added. Underwriters looking at managed care organizations today typically see that they have the necessary intellectual wherewithal in their administrations for risk management, and they understand what they should be doing, Mr. Romano said.

On the insurance side of the equation, the panelists noted that in the current soft market, rates for managed care liability coverages are moving down and limits are rising. At the same time, however, the managed care liability landscape is becoming more complicated, and the frequency and severity of claims are increasing.

"Let's be honest: Nobody really knows how to underwrite and price this stuff," said Kimber J. Lantry, senior vp for health care at TIG Insurance Co. in Napa, Calif.

Yet despite such uncertainty, the market is very consistent about the pricing that has developed for liability coverage of managed care organizations, Mr. Lantry said. "Is that price right? I don't know."

With underwriters continuing to cut the price of coverage against a rising frequency and severity of claims, "We may see a significant train wreck at the end of the next pricing cycle," Mr. Lantry said, going on to predict a "steep pricing correction" by 2000.

"I think this is still a market share game," said Ms. Berkowitz of J&H Marsh & McLennan. "From an underwriter's perspective, hospital premium is shrinking."

Because underwriters expect those premiums to migrate from hospitals to managed care organizations, "my observation is that underwriters are taking a chance right now to build market share," Ms. Berkowitz said. "I don't see many underwriters turning down managed care risks right now."

"I think, going along with the decision for market share, coverage has broadened," she added.

"The marketplace as it exists today is pushing us into limits and areas of coverage that we're really not comfortable with," said Mr. Romano of Executive Risk. He said he's seen more expansion into new coverage areas in the past 15 months than in the previous 15 years.

Exacerbating the problem is the fact that managed care organizations are facing an ever-expanding array of lawsuits, while their protections are eroding.

The defense that managed care companies are part of employee benefit plans, and therefore im-

'We don't know where liability comes from because it's coming from all directions,' says Alan Bloom.

mune from state court actions under the pre-emption provisions of Employee Retirement Income Security Act of 1974, is seemingly being reduced, the panelists said.

"It's our view that ERISA is going, going, mostly gone," said TIG's Mr. Lantry, who added that plaintiffs attorneys also are more skillful at filing suits that circumvent the pre-emption issue.

For example, a ruling issued earlier this year in Minnesota, *Shea vs. Esensten*, was the first case of a managed care organization being found guilty of breach of fiduciary duty to plan participants under ERISA resulting from the denial of care, a course plaintiffs attorneys are increasingly pursuing, according to Mr. Lantry.

"There have been about six cases in the past few years saying, 'No, no fiduciary duty exists,' " he said. "The first one has come down saying, 'Yes, it does.' "

"The garden-variety lawsuit against a managed care organization is wrongful denial of benefits," Mr. Lantry said. "We see that day after day after day."

But underwriters also must look at various other liability exposures that managed care organizations now face, such as marketing material and antitrust claims, he said. With the erosion of the ERISA pre-emption, there is growing concern about the potential for punitive damages, as well he added.

"Antitrust is a big issue to us because those can generate large-scale damages," said Joseph I Meli, vp at General Reinsurance Corp. in Stamford, Conn. Business disputes between rival managed care companies are another potential exposure, he said.

"The fact is, we don't know where liability comes from because it's coming from all directions," said Maxicare's Mr Bloom. "Everybody said 20 years ago we're going to see the same kinds of lawsuits as the hospitals."

In fact, he said, managed care organizations aren't facing vicarious liability claims for the actions of their network physicians as frequently as they are being hit with suits such as those alleging bad-faith negligence for denial of coverage for experimental treatments.

"We don't have any conventional malpractice cases pending against us anywhere in the country right now," Mr. Bloom said, adding that he expects the lawsuits filed against managed care companies to become increasingly

See **Liability** *on next page*

READER REPLY SERVICE

PRODUCTS & SERVICES LISTING

Issue of November 24

Reader Service #	Advertiser	Page #
—	American Physical Therapy	32
1	American Re-Insurance Co.	22-23
2	Bene Com Associates	36
—	Bermuda Commodities Exchange	10
3	Burnham Systems	36
—	Business Insurance	17,21
4	Carvill America, Inc.	37
5	Chubb Group of Insurance Cos.	31
6	CNA Corp.	14-15
7	CNA/Disability Mgmt.	24
8	Coda, Inc.	20
9	Employers Reinsurance Corp.	4
10	Facts Services Inc.	36
11	Fortis Inc.	12-13
12	C. L. Frates	16
—	GAB Robins	11
13	General Reinsurance	27
—	Henderson & Phillips Ins.	21R
—	HIP/HMO of Greater NY	21R
24	Illinois Insurance Exchange	40
14	Int'l Facilities Insurance	28
15	Int'l Found. of Empl. Ben.	35
16	Kemper Insurance Companies	16
17	Liberty Mutual	9
18	Nat'l Council Comp. Insurance	6
—	Qualcare	21R
19	Reliance National	7
20	Royal Insurance	44
21	SBPA Systems, inc.	36
—	Smith Barney	30
—	Statutory Benefits Mgmt. Corp.	34
22	Technical Insurance Services	36
—	Travis Software	37
—	Watson Wyatt Worldwide	18-19
—	Wausau Insurance Company	5
23	WLT Software of FL, Inc.	36

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16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
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Liability

Continued from previous page

complex.

"More and more we're seeing mixed-bag claims that have all kinds of allegations of wrongdoing all along the line and all kinds of parties," agreed Ciara R. Ryan, a partner with the Sedgwick, Detert, Moran & Arnold law firm in Chicago.

"It obviously complicates the coverage issues, because you might definitely have obligations for one portion of the claim but not for other areas," she said.

Mr. Bloom said that from a managed care company's perspective, it is difficult to find liability coverage that truly covers the company's needs.

"What we found is there's no policy out there today that meets our needs. There are too many loopholes," he said. "I have not seen anyone really come up with the kind of policy that covers the cases out there."

Executive Risk's Mr. Romano agreed that one of the challenges facing insurers is shaping managed care liability policies to meet the specific needs of the individual organization.

"The balance we're continually striking is, 'Can we manipulate the features of our product to meet the unique features of these organizations,' " Mr. Romano said. "So our focus really is trying to underwrite to the risk based on its own features."

"Especially in managed care today, if you've seen one organization, you've seen one," Mr. Romano said.

Christopher Kerns, managing partner at the Sedgwick, Detert firm in Chicago, moderated the session. BI

Medical devices increasing doctors' liability exposures

By RODD ZOLKOS

CHICAGO—With the explosion in litigation related to implantable medical devices, medical professionals now face not only the risk of traditional malpractice claims but also being named "come along" parties to product liability suits.

It's essential, therefore, that doctors and device manufacturers work together in fighting those claims rather than trying to improve their own positions at the other's expense, according to a group of panelists at the annual Professional Liability Underwriting Society conference earlier this month in Chicago.

"Obviously, many of these cases, like breast implant cases, are filed totally against the manufacturer, and the doctor is left out," said Heather S. Heidelbaugh, a lawyer with the Pietragallo, Bosick & Gordon firm in Pittsburgh.

But "there is no question that the doctor and the product manufacturer must stand together in defense of these claims," she said.

In some situations, the product manufacturer gets left out of the suit altogether and the doctor is left standing alone, Ms. Heidelbaugh noted.

Under the federal Medical Device Amendments, negligence or strict liability claims against medical device manufacturers are preempted in some cases.

But in 1996, ruling in *Medtronic Inc. vs. Lohr*, the U.S. Supreme Court held that some cases involving medical device manufacturers may proceed based on the devices' routes through Food and Drug Administration approval, she explained.

Under the ruling, manufacturers of devices approved by the FDA under a provision of the law allowing devices "substantially equivalent" to those already on the market—to avoid more rigorous FDA premarket approval—do not enjoy pre-emption from state law claims.

For doctors, the implication is that if they are implanting devices that required full FDA premarket approval and hence enjoy preemption, the physician will stand alone in court in any subsequent malpractice action, said Ms. Heidelbaugh.

But in practice, she added, most implantable devices fall into the category of those not pre-empted by federal law, so manufacturers often are co-defendants with the doctors.

Doctors and device manufacturers 'must stand together in defense of these claims,' says Heather S. Heidelbaugh.

"It's rare when we don't see a combination of medical malpractice and product liability allegations," said Kevin M. Quinley, senior vp-risk services at MEDMARC Mutual Insurance Co. in Fairfax, Va.

But he noted there are many "friction points" between manufacturers and doctors.

Among them are caps on recoveries. "I think doctors and hospitals have been fairly successful at the state level in getting caps on recoveries," Mr. Quinley said. As a result of those caps on awards they can win from doctors and hospitals, plaintiffs may look to the deep pockets of the manufacturers, he said.

"Another factor is low liability coverage limits sometimes for medical providers," Mr. Quinley said. That situation, he said, often prompts the provider to try to deflect the suit toward the device manufacturer.

On the other side of the coin, certain manufacturer theories of defense, such as user error or poor patient selection, "get under the skin" of medical practitioners, Mr. Quinley said.

Despite sometimes using those strategies, however, the medical device manufacturers "agonize deeply" over defense strategies that can damage the relationship with the doctors, who are their customers, he said.

"What we see sometimes is it's

See **Litigation** *on next page*

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Litigation

Continued from previous page
the doctor or the hospital dragging the manufacturer into the lawsuit," Mr. Quinley said, though ultimately in any of these cases, "this friction only benefits the plaintiff."

He suggested that "the single most important thing is early communication among all the defendants," adding that they need to avoid "knee-jerk cross complaints."

The defendants also should agree to share information with each other, according to Mr. Quinley.

From a physician's perspective, Dr. Barry J. Greenberg, president and orthopedic spine surgeon with Orthopaedic Surgeons Inc. in Akron, Ohio, who himself has faced a lawsuit in connection with an implantable medical device, pointed out that the Food and Drug Administration "does not regulate the practice of medicine nor should it."

"There are objective criteria as to when surgery should be considered, and when doctors don't adhere to those, problems can result," he said.

Still, a physician adhering to those criteria and using devices viewed as the standard of care may later be named a party to a lawsuit if those implantable devices fail, Dr. Greenberg explained.

Summing up, Dr. Greenberg said, "You can't make a silk purse out of a pig's ear unless you start with a silk pig." BI

PLUS attracts 2,100

CHICAGO—The annual conference of the Professional Liability Underwriting Society attracted about 2,100 attendees to Chicago's Sheraton Hotel & Towers Nov. 12-14.

A recurring conference theme was the need for professional liability insurers to price and underwrite responsibly, a notion PLUS President William R. Mullin forwarded in his opening remarks.

Mr. Mullin, senior vp at American Professional Agency Inc. in Amityville, N.Y., asked PLUS members to "stop the insanity" and "take back our profession."

In his keynote address, Maurice R. Greenberg, chairman and chief executive officer of American International Group Inc., voiced a similar concern. "How can individuals in our business be so professional yet behave so imprudently?" Mr. Greenberg asked.

"There's a short-term view being taken by too many professionals in this business," he added.

Mr. Greenberg suggested that in any similar insurance market situation, "there's a group of companies always that say, 'We're not going to follow prices down to absurdity.' Those companies are the survivors."

At the same time, the AIG chairman suggested that current low rates should ease insurers' fears that the capital markets will compete with them for risk transfer business.

"As long as the insurance industry is willing to underwrite risks at rates that are so low, the capital markets are not a threat," Mr. Greenberg said. "So don't fear that. . .I'm sorry to say."

Responding to a question from the floor regarding his plans for a successor at AIG, Mr. Greenberg noted that the company has a president and that it's traditional for the president to become chairman when the chairman retires. Mr. Greenberg's son, Evan G. Greenberg, was named president and chief operating officer of AIG earlier this year.

Mr. Greenberg also quoted Berkshire Hathaway Inc. Chairman and CEO Warren Buffett as saying he'd retire 10 years after he died. Mr. Greenberg said he's "working on that sort of thing."

The 1998 PLUS conference is scheduled for Nov. 11-13 in Palm Springs, Calif. For more information, call PLUS at 800-845-0778 or 612-928-4644.

—By Rodd Zolkos

Lawyers not on firm footing

Changes in standards raising professional liability risks

By RODD ZOLKOS

CHICAGO—Changes in standards applied to lawyers are increasing their exposure to a variety of professional liability claims.

"There's been a very large proliferation of standards applied to our profession as we become less of a profession and more of a regulated business," noted Thomas P. McGarry, a partner with the Hinshaw & Culbertson law firm in Chicago.

Mr. McGarry moderated a panel on lawyers professional liability this month at the Professional Liability Underwriting Society's annual conference in Chicago.

As the profession is increasingly regulated, "Lawyers are routinely sued under consumer fraud and deceptive practices cases," said George W. Spellmire, also a partner at Hinshaw & Culbertson.

But more than the regulation and court rulings related to them, the future of lawyers professional liability is going to be shaped "by an increasing trend toward professional liability suits against attorneys of a very sophisticated nature," Mr. Spellmire said.

Those suits are being brought by aggressive, competent and creative lawyers backed by powerful technology and sophisticated expert witnesses, he said. That trend "is going to result in large exposures for many lawyers."

Lawyers professional liability suits aren't just being filed by individuals who claim their attorneys mishandled their work, Mr. Spellmire said, but by large corporations as well. "Major players are involved in these lawsuits," he said.

Jeffrey H. Bossard, a senior vp at CNA Insurance Cos. in New York, said he thinks the days are

See **Lawyers** *on next page*

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Lawyers

Continued from previous page

long gone when insurers' only concern in a claim was whether there was a negligent omission.

Now there are questions of fiduciary duty and the like, Mr. Bossard said, forcing insurers and their law firm clients to go beyond typical risk management techniques to look at "what's driving a firm—economics, I guess—to take 50% of the cases that they accept."

On the subject of breach of fiduciary duty claims against lawyers, Ronald E. Maller, a partner at Long & Levit L.L.P. in San Francisco, said: "This is not a negligent lawyer. This is a dishonest lawyer."

Essentially, the fiduciary responsibilities facing a lawyer are to maintain confidentiality of information about the client and to provide undivided loyalty or independent judgment.

Breaches of that responsibility can include intentional conduct, "which is just outright fraud,"

Despite the increased exposures facing lawyers, CNA's Jeffrey H. Bossard says insurers and the lawyers they insure can work together to reduce the risk of suits.

Mr. Maller said, a negligent breach of the responsibility or failure to obtain the client's informed consent whether through the failure to disclose information, inadequate disclosure or a failure to seek consent

In the case of adverse representation, Mr. Maller said, "the traditional rule is that there must be proof of misuse of confidential information."

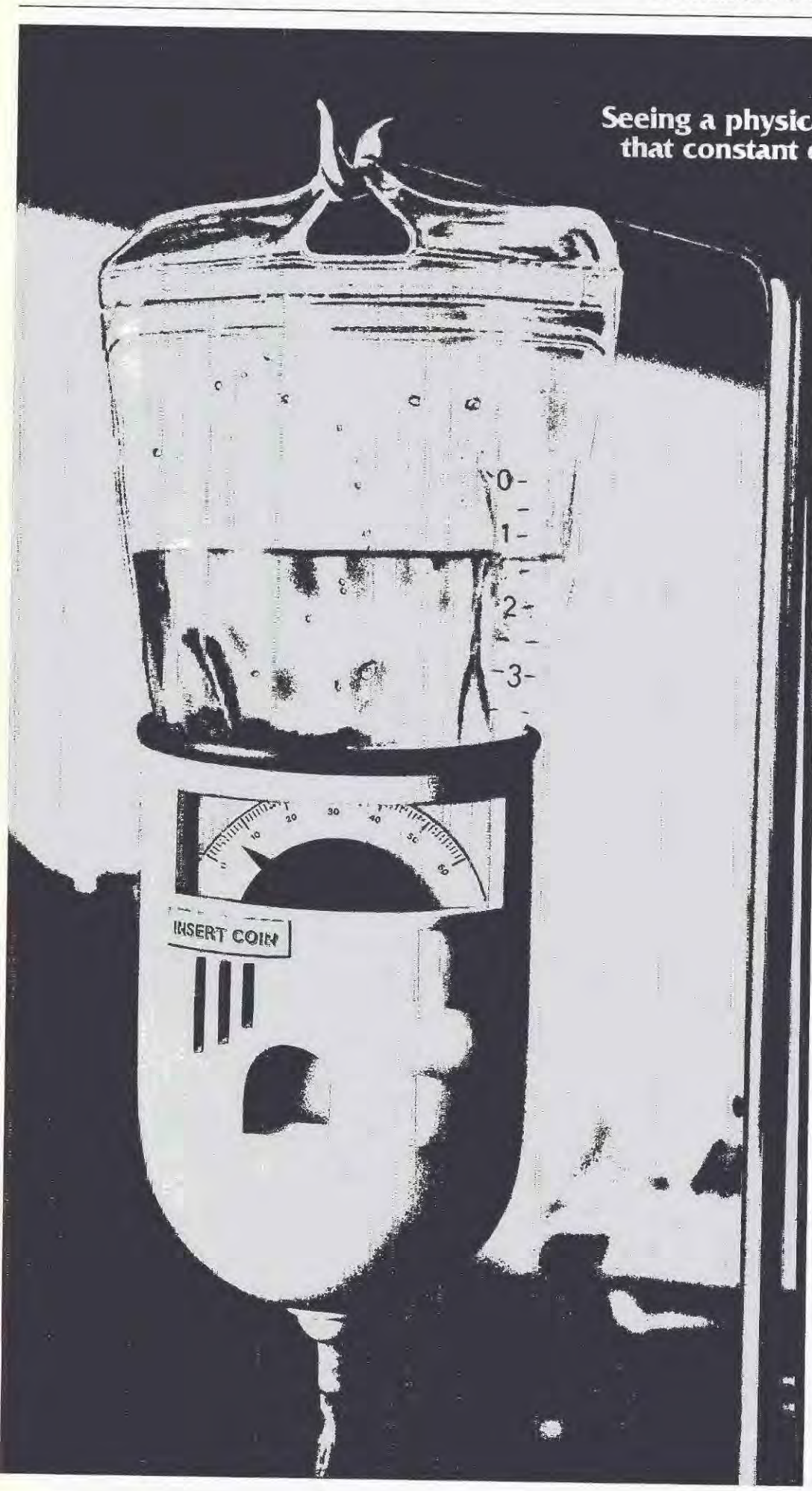
Despite the increased exposures facing lawyers, Mr. Bossard said that he isn't pessimistic. He said he thinks insurance companies and the lawyers they insure can work together to reduce the risk of suits.

"You could look at the market conditions and say, 'This looks pretty dismal,' " he said, referring to low rates being inadequate for exposures. "But it's important to remind yourself that the last line of defense here is the cost of claims."

Against this backdrop of talk of increasing exposures, Robert E. O'Malley, vice chairman and loss prevention counsel for the Attorney's Liability Assurance Society in Chicago, discussed the American Law Institute's drafting of a restatement of the law governing lawyers.

The group of lawyers, judges and academics has been working on the restatement for about 10 years, and it's about two years from completion, Mr. O'Malley said.

"Its effect will probably be very significant and maybe even enormous" in clarifying exposures, he said. BI



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NCQA report card angers HMO group

By ARSENIO OLOROSO JR.
Crain News Service

A brouhaha has broken out between the National Committee for Quality Assurance, the nation's main managed care accrediting body, and the Illinois Assn. of HMOs over the release of a preliminary "report card" on specific Illinois health maintenance organizations.

Labeling the controversy a "tempest in a teapot," the Washington-based NCQA maintains that its release of the information earlier this month to *Business Insurance* sister publications Crain's Chicago Business and Modern Healthcare was intended to serve only as a sample of its data-collection methods.

However, the Illinois Assn. of HMOs is blasting NCQA for disseminating an incomplete picture of HMO performance and ignoring a request to withhold the information from the press.

IAHMO issued a "member alert" Nov. 11, warning the HMOs named in the survey of NCQA officials' intention to announce the preliminary data. "Seeking press with regard to this material would not be appropriate," the memo to members said.

Robert K. Burger, executive director of Chicago-based IAHMO, said, "To represent this (data) as the final story is misleading."

The NCQA report card, which was clearly described as a prototype, rates eight HMO plans in Illinois, two in Wisconsin and one based in St. Louis that does business in Illinois. The Illinois-based plans are Aetna Health Plan, American HealthCare Providers, Blue Choice, CIGNA HealthCare of Illinois, Humana HealthCare Plans, HMO Illinois, PersonalCare Insurance of Illinois and Rush Prudential Health Plans.

Although NCQA normally rates health plans on 71 criteria, the committee based its report card comparisons on five: the percentage of adult members who had a preventive care or other visit to a provider in the past three years, the percentage of children who received all recommended doses of vaccines by age 2, the percentage of women who received first-trimester prenatal care, and the percentages of women who had breast cancer and cervical cancer screening.

For each criterion, percentages are listed for each HMO, where available, and a regional average is provided. The report card also provides summary results for each criterion that indicate whether the HMO's score is below the regional average, at the regional average or higher than the regional average.

The Illinois plans slightly underperformed national and regional averages in four of the categories.

In the fifth, prenatal care, the Illinois plans overall outperformed national norms.

NCQA President Margaret E. O'Kane described the report card as a "prototype."

"It is routine for us to share this kind of information with the press," she said. BI

INTERNATIONAL

Global Briefs

London broker **Lambert Fenchurch Group P.L.C.** is acquiring New York-based employee benefits broker and consulting firm Michael Kooper Enterprises Inc. for an initial payment of $3 million, with the possibility that up to $32 million more could be paid, depending on the consultant's profitability. Michael Kooper will continue as president of the company, which will fall under the newly formed Lowndes Lambert U.S. Holdings Inc. . . .French reinsurance broker **Gras Savoye Reassurance** and **Willis Faber & Dumas Reassurance France**, the Paris-based reinsurance offshoot of London broker Willis Corroon P.L.C., are merging their operations from the beginning of next year. This is the first step to follow the agreement last July between Gras Savoye S.A. and Willis Corroon for Willis to acquire a controlling interest in Gras Savoye within 12 years. . . .**The U.K. Export Credits Guarantee Department** is backing a $555 million loan for U.K. companies wanting to become involved in a liquefied natural gas plant in the Sultanate of Oman. . . .U.K. ratings agency Standard & Poor's has assigned a BBB+ rating to **Gan Insurance Co. Ltd**, part of Gan (U.K.) P.L.C. . . .Australian insurer **QBE Insurance Group Ltd.** has become the first foreign insurer to enter the Ukrainian insurance market by setting up a joint venture with Ukrainian bank Ukgazprombank. . . .Japanese insurer **Tokio Marine & Fire Insurance Co.** is setting up a joint venture with First Chicago NBD Corp. to provide management services for risks associated with non-warrantied financial products, such as futures. The new venture, First Chicago Tokio Marine Financial Products Ltd., is based in the Cayman Islands and will service clients in Asia. It will open a Tokyo office at the beginning of next year. . . .Light merchant ship losses are not necessarily being converted into lower claims, according to figures released last week by the **Institute of London Underwriters**. In the first nine months of this year, 63 vessels of 500 gross tons or more were lost, compared with 75 in the same period last year. But major casualties increased over the nine months and continue to do so, with some major casualties in October, such as the Cypress-registered cruise liner Romantica. . . .AXA-UAP and Spanish bank Banco Bilbao Vizcaya have reorganized and **merged their Spanish insurance interests** to form the third-largest insurer in Spain. The combined group, yet to be named, will have a market share of 4.5% based on 1996 figures. . . .Germany's cartel authorities have given Jauch & Huebener KGaA the go-ahead to **merge German, Swiss and Austrian operations** with Aon Deutschland GmbH. Aon Jauch & Huebener will operate as a holding company with three operative centers: primary insurance, reinsurance brokering and benefits. A new company, Aon Re Continental Europe, has been established in Hamburg, Germany, for continental European reinsurance business.

Tragedy won't prompt major claims

Terrorist attacks on tourists excluded under standard liability policies

PHOTO: AFP

U.S. tourists visit the temple in Egypt where 57 foreign tourists were killed recently in an attack by Muslim militants.

By EDWIN UNSWORTH

LONDON—The terrorist shooting last week in Egypt that killed 57 tourists is unlikely to result in any significant insurance claims.

Most tour companies will have to absorb the costs of canceled vacations and bringing tourists back from Egypt. A few companies had purchased special liability insurance.

It also is unlikely that political risk coverage for foreign businesses trading with or having units in Egypt will come into play, unless terrorism escalated to a point where countries advised businesspeople to leave.

The Assn. of British Insurers says that in Britain, a tour operator's standard liability policy would not cover costs associated with incidents such as that of Nov. 17, when Islamic fundamentalists attacked tourists at the Temple of Queen Hatshepsut near Luxor.

Although additional coverage is available that would give such protection, an ABI spokesman was unable to say how many tour operators buy such additional coverage.

Most insurance policies also specifically exclude liability for losses from war and acts of terrorism.

A spokesman for the Assn. of British Travel Agents said personal travel insurance people com-

See **Egypt** *on next page*

Zurich expanding presence in Asia

By EDWIN UNSWORTH

NEW YORK—Zurich Group plans to significantly expand its position in the Asian markets with the acquisition of a 24% stake in Peregrine Investments Holdings Ltd., Hong Kong's largest financial services company.

The investment is being made through Zurich Centre Investments, the New York-based private equity unit of the Swiss-based insurance group. Steven M. Gluckstern, ZCI's chief executive officer, said the investment will give Zurich "access to an important platform from which it has the opportunity to further expand its insurance, reinsurance and asset management businesses throughout Asia."

ZCI is paying $200 million for the shareholding. A spokesperson said the aim is to complete the deal "as soon as is practicable" but that it is impossible to give a time frame because of the need to meet Hong Kong stock exchange regulations.

This proposed deal is Zurich's second global expansion move in about a month. In October, Zurich Group agreed to merge its insurance and reinsurance companies and asset management units with the British American Financial Services unit of London-based B.A.T Industries P.L.C. (*BI*, Oct. 20). They are being merged into a new company to be called Zurich Financial Services Group, which will be 55% owned by Zurich and 45% by B.A.T. Known as ZF Group, it will be one of the largest insurance and asset management companies in the world, though analysts say the motivation behind the merger is to help Zurich achieve greater U.S. market penetration for its financial services business.

Zurich has total assets of $97.5 billion and $262 billion in assets under management, and it would have total assets of approximately $165 billion and $341.8 billion in assets under management after merging with BAFS.

Trevor Petch, European insurance analyst at Robert Fleming Securities in London, said that

See **Zurich** *on next page*

Alternative products broaden coverage

ART market offers new risk tools

By SARAH GODDARD

MONTREUX, Switzerland—Alternative risk transfer products can be used to cover risks that organizations previously never thought they could manage, a senior broker says.

Martin Scherzer, senior vp-global risk finance and consulting group of J&H Marsh & McLennan Inc. in New York, said that previously uninsurable risks, such as regulation causing a loss of value of high-value assets or weather-related revenue losses, can be hedged using alternative risk financing techniques. Mr. Scherzer spoke to more than 100 Swiss risk managers, brokers and insurers earlier this month at the Swiss Assn. of Insurance & Risk Managers convention forum.

Although insurance buyers in Europe and the United States are showing high interest in alternative risk financing techniques, generally more U.S. than European risk managers are using them, said Mr. Scherzer. Developments from insurers and reinsurers are coming mainly from the United States, Switzerland, Germany, France and the United Kingdom, but the Swiss accounting system makes the use of alternative strategies more complicated for Swiss risk managers than for their U.S. counterparts.

"The basis for doing transactions is different (in each country); there is not one market more advanced than the other one," said Albert Peter, chief executive officer of Centre Re Solutions in Zurich.

Nevertheless, as risk managers embrace the concept of alternative risk transfer, the breadth of risks and exposures being addressed is expanding, said Mr. Scherzer.

See **Alternative** *on page 35*

'Baby-Benz' an uninsured problem child

Mercedes-Benz to pay for production suspension out of own reserves

By DON LEWIS KIRK

STUTTGART, Germany—German car manufacturer Mercedes-Benz is uninsured for any losses it suffers as a result of voluntarily halting production of its A-class model and redesigning it to quell safety doubts raised by a failed swerve test.

Production and deliveries of the "Baby-Benz" were suspended Nov. 11 for 12 weeks to allow implementation of the design change, which will include modification of chassis, suspension and brake mechanisms. The company recalled 3,000 cars already delivered in Europe to refit them.

Mercedes spent 2.6 billion deutsche marks ($1.5 billion) and five years developing the A-class. Despite more than 3 million miles of testing on five continents, the car failed the so-called moose-avoidance test, a well-known evaluation conducted in Sweden. The test requires rapid swerving without using the brakes.

Mercedes executives say that the company must absorb financial losses of 300 million deutsche marks ($173.6 million) stemming from the recall, costs of refitting and slimming down production by 20,000 cars next year.

None of Mercedes-Benz's losses is insured; the company will tap its own operating reserves, officials said.

For Mercedes, the moose test was a baptism by fire in crisis management. In the redesign, the company sought to fix the problem—and to limit damage

See **Mercedes** *on page 36*

PHOTO: AUTOWEEK/TOM WREN

Mercedes-Benz is uninsured for losses stemming from the suspended production of its A-class model to implement a design change.

Egypt

Continued from previous page
monly take out to cover such matters as a vacation the traveler was forced to cancel, medical costs or lost items, would not normally pay out in cases such as this. He said the costs would fall on the tour operators, and it is up to them whether they choose to buy additional cover that could help meet these costs.

Sarah Joannides, marketing manager at London-based Home & Overseas Travel Insurance, agreed that most personal travel policies would not be obliged to pay compensation in such a terrorist incident, though Home & Overseas is paying medical costs for its policyholders affected by the Luxor attack.

In 1990, the European Community passed a Directive on Package Travel, Package Holidays and Package Tours. It made tour operators more strictly liable for clients' welfare. However, the directive also states that they will not be held liable in cases of force majeure, which it defines as "unusual or unforeseeable circumstances beyond the control of the party by whom it is pleaded, the consequences of which could not have been avoided even if all due care had been exercised."

'However tragic it was, we don't see this incident as having any immediate impact on our risks,' says Anthony Palmer.

It is also unlikely that the recent attack will result in payment under commercial political risk policies.

Anthony Palmer, marketing director at Lloyd's of London brokers Berry Palmer & Lyle Ltd., said, "However tragic it was, we don't see this incident as having any immediate impact on the risks we're involved with."

He said this would be different if the U.K. or the U.S. governments had advised nationals to leave Egypt, whereas so far they are advising only that tourists not visit the Luxor area. Mr. Palmer said he does not foresee governments having to take the more dramatic action.

However, as Mr. Palmer acknowledged, more such acts of terrorism could have devastating effects on Egypt's important tourist industry and thus on its economy.

Most operators of tours to Egypt were quick to get tourists out of Egypt after the attack. Most also canceled their scheduled tours of Egypt for at least the next few weeks until the security situation becomes clearer.

Until now, 34 foreigners had been killed since 1992, during the terror campaign, designed to force President Mubarak to accept the Islamic code of Sharia. The worst previous attack was in April 1996, when 18 Greek tourists, who had been mistaken for Israelis, were killed near the Pyramids of Giza.

The Nov. 17 attack coincided with the opening of the trial in Egypt of 66 men charged with plotting to kill state officials and with belonging to the militant Gamaa al-Islamiya group. BI

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Zurich

Continued from previous page
Zurich's acquisition of a Peregrine stake, while small in terms of Zurich's overall operations, nevertheless "absolutely fits Zurich's acquisition criteria."

He said he sees it as a "long-term positioning" for Zurich in Asian markets where Peregrine's "sharp focus and synergies between the two groups should benefit Zurich's insurance and financial services operations in the longer term."

Peregrine has been a fast-growing company over the past few years and is now one of the largest independent investment banking groups in the Far East outside Japan. Its core businesses are equity products, fixed-income products, direct investments, asset management, and property investment and development. In 1996, Peregrine made a pretax profit of $1.0 billion Hong Kong ($129.3 million), and at the end of last year its shareholders' funds totaled $867 million Hong Kong ($112.1 million). Peregrine has 33 offices in 15 Asian countries, as well as in London, New York, San Francisco, Munich and Zurich. In 1996 and the first nine months of 1997, it had the largest book of Asian equity issues.

However, Peregrine has been hit by the recent turmoil in Asian markets and last month warned that profits would be lower than in the previous year. At the same time, it denied rumors it was having financial difficulties.

"Despite the obvious recent turmoil in the capital and currency markets in the region, we have confidence in the long-term growth prospects and ultimate economic strength of Asia," Mr. Gluckstern said. Peregrine is "a company with a strong market presence, a broad array of investment and capital markets services, and excellent regional knowledge and relationships."

Philip L. Tose, Peregrine's chairman, said he was "extremely pleased" with ZCI's involvement, adding that it "not only strengthens our substantial capital base but also deepens our relationship with a well-respected, multinational company that brings to Peregrine extensive financial services knowledge and technical expertise."

Separately, ZCI and Peregrine are each investing $50 million and jointly sponsoring an Asian-focused private equity fund. They expect to raise $350 million to $500 million from investors over the next six months.

Known as the Peregrine Direct Investment Fund, it will invest in a diversified portfolio of commercial and industrial businesses throughout Asia.

ZCI's investment in Peregrine, which is subject to approval by Peregrine's shareholders, comes at a time when a number of insurers and reinsurers are positioning themselves with better footholds in burgeoning Far East markets.

Mr. Tose will continue as Peregrine's chairman and Francis Leung as its group managing director, while its board will be enlarged to nine, to include three ZCI representatives.

Also last week, Gerling Globale Rueck, the reinsurance unit of Germany's Gerling Group, unveiled plans to develop its Far East operations.

It will open a Shanghai branch in 1998 and an office in Taipei, Taiwan, in cooperation with Cathay Life. It expects the offices to write mainly property/casualty business. BI

Alternative

Continued from page 33

SIRM President Paul Luternauer explained that risk managers are looking to alternative forms of risk financing because of three factors: lack of insurance capacity, price volatility in the insurance markets, and an increased need to cover business risks insurers and reinsurers have not traditionally accepted.

Mr. Luternauer, who is also director of corporate insurance at Zurich-based airline SAirGroup, said SAirGroup has a number of risks that cannot be covered or are too expensive for traditional insurance. These include credit risks, fuel hedging and investment risks.

For example, SAirGroup's annual fuel purchase budget is about $450 million; profitability is closely linked to the fuel price. This risk could be hedged by a mechanism that would hedge fuel against fleet financing interest costs, so that interests costs would go down as fuel costs rise, and vice versa, he proposed.

Alternative risk financing techniques have prompted insurance and capital markets to take a more comprehensive view of companies' bottom-line exposures, said Hans-Kaspar Zulauf, chief underwriter for Swiss Re New Markets at Swiss Reinsurance Co. in Zurich. "They have come up with more innovative methods and instruments

Insurers that do not embrace alternative risk financing will be 'excluded from opportunities,' says Martin Scherzer.

managing and financing an organization's exposures to a variety of events that could adversely affect its cash flow, earnings and balance sheet strength, which goes beyond the boundaries of traditional insurance-buying," he explained.

In the future, as risk transfer products made up of insurance and reinsurance risk transfer solutions blended with capital market products help diversify risk portfolios, there will be an "overall global view of total risk" rather than the current isolated, fragmented view of insurance and reinsurance risk solutions, said Mr. Zulauf.

Centre Re's Mr. Peter identified four areas in which non-traditional risk transfer solutions can help organizations:

- Earnings and balance sheet protection.
- Project finance activities.
- Multiyear commitments to providing capital.
- Optimizing tax planning.

Alternative risk financing techniques are being developed in response to customers' needs, said Mr. Peter, and are "a powerful toolbox for serving our customers." But risk managers need to adapt to the changing products, he said, and "become more knowledgeable on the financial practices and risks of their firms," as well as becoming more conversant with the new products being offered by the insurance and capital markets.

These developments represent "a great opportunity for the risk management profession" to enter new territories within the organization, said J&H's Mr. Scherzer. "The truly sophisticated risk manager knows how to translate insurance into the language of the company and of finance."

Defining alternative risk financing as "everything that isn't traditional insurance"—traditional meaning single-year, single-line policies—Mr. Scherzer said he thinks traditional insurance will expand its offerings as risks once thought unusual are increasingly becoming accepted as normal.

Conversely, insurance companies that do not embrace the concept of alternative risk financing "will find more and more they are being excluded from opportunities," he said. "Clients will want to talk to a company. . .which can supply all those (traditional insurance and alternative risk financing) services." BI

Papua New Guinea gets first reinsurer

By KATE TILLEY and YVETTE HIGGINS

PORT MORESBY, Papua New Guinea—Pacific Reinsurance Corp. Pty. Ltd., Papua New Guinea's first locally based reinsurer, plans to attract business from Australian and southeast Asian cedents.

Over the next five years, the Port Moresby-based reinsurer plans to retain 30 million to 40 million kina ($45.8 million to $61.1 million) of its anticipated 45 million to 50 million kina ($68.8 million to $76.4 million) gross written premiums in Papua New Guinea.

Pacific Re, initially capitalized at 41.6 million kina ($63.6 million), has been writing business since June but wasn't launched officially until last month.

Ownership is shared among the PNG government's third-party motor insurer, Motor Vehicles Insurance Trust, with a 51% stake, and the country's 11 licensed commercial insurers, which hold stakes making up the remaining 49%. Two of the insurers are locally owned; the others are subsidiaries of overseas companies.

John Arkosi, MVIT's chief executive officer, said the government share eventually would be sold to Papua New Guinea citizens and Papua New Guinea-owned companies, but "not in the short term."

Although Papua New Guinea is in the grip of a severe drought, Mr. Arkosi said the nation's strong business climate provides a strong base for a reinsurer, and the political climate is more stable than many southeast Asian countries.

"The business community in PNG is quite robust and extremely confident," Mr. Arkosi said.

The insurance, mining and petroleum sectors all expect strong results for the 1996-97 financial year despite the drought, he noted.

Pacific Re plans to build a "regional presence" but will remain medium-sized compared with other reinsurers, Mr. Arkosi said. It will write a wide variety of cov-

See **Pacific Re** *on next page*

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Financial:	
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Secretaries, Treasurers, controllers and other Financial Personnel	3,028
Risk/Employee Benefits:	
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/ labor relations	15,387
Sub-total	**28,694**
Associations	305
Government, Unions and Educational Institutions	1,046
Commercial Consumers Sub-total	**30,045**
Insurance Agents and Brokers	8,462
Insurance Companies	7,336
Accountants, Actuaries, Attorneys & Consultants	2,823
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,648
Others Allied to the Field	915
Total Qualified	**51,229**
Non-qualified/Paid Subscriptions	31
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INTERNATIONAL

Mercedes

Continued from page 33
to its image—by fitting cars with sophisticated electronic sensors that brake or kill the engine speed to prevent dramatic swerving. It also added stabilizers on the front and rear axles, lowered the body and fitted the car with wider tires as part of the redesign.

Juergen Schrempp, chairman of Daimler-Benz, said in a statement that "engineers have devoted all their energy to the search for the optimal solution, and we have found it." Full-page newspaper advertisements in 180 local papers explain the situation and assure customers the car is safe.

Of 100,000 original inquiries for the 42,000-deutsche mark ($24,300) car, Mercedes reports a 2% loss in orders. However, a company spokesman said new orders far outweigh those lost. The A-class is due for sale in most European countries in June.

The A-class is a new design, sharing only three minor components with other Mercedes models. With a short length but tall body style, it represents a departure from previous designs. BI

Alternative route to cover risks open

Mercedes-Benz did not take the insurance road to seek coverage for losses related to a redesign of soon-to-be released model, but experts say policies are available for such risks.

Even less concrete losses, such as possible damage to Mercedes' reputation, theoretically could be insured. "A non-traditional insurance could cover loss of reputation, but I know of no company to offer such insurance," said Kai-Uwe Schanz, a senior economist at Swiss Re Economic Research in Zurich, Switzerland.

Alternative risk transfer mechanisms make it possible to insure previously uninsurable risks, says Uwe Schanz.

Alternative risk transfer mechanisms are making it possible to insure previously uninsurable risks, Mr. Schanz said. "A finite product, for example, could permit transfer and containment of retrospective image loss as well as the management of prospective losses."

But the gap between theory and reality is often wide, admits Allianz A.G. Holding, which recently introduced product recall insurance. Allianz, American International Group Europe and Haftpflichtverband der Deutschen Industrie all offer recall coverage. However, no German insurers currently offer coverage for damage to a company's image.

German buyers of alternative forms of insurance face other obstacles. Frankfurt-based American International Group Europe General Manager Ulrich Reinholdt says tax law indirectly hinders ART solutions in Germany. "Germany has a tax problem, especially insurance premium tax, which makes it more attractive to write off losses," he said.

German tax authorities imposed a 15% tax on insurance premiums in 1995, which Mr. Reinholdt said impedes insurance solutions. As a result, it often costs a company more to use alternative risk transfer mechanisms than simply to absorb losses.

But, there are risk financing possibilities. "Companies face a high price in lost credibility. Companies like ours have introduced new products to help companies move quickly and efficiently to contain a crisis in the first 30 days," Mr. Reinholdt said. AIG Europe's product offers a typical limit of 1 million deutsche marks ($578,500), though higher limits and longer coverage terms are negotiable. AIG's product covers risks such as chemical leaks or product tampering and costs related to expert services needed to contain the crisis.

AIG introduced the crisis containment insurance to Germany in September, a product that helps companies put together a staff of experts, including specialized lawyers, communication experts, corporate and personal advisers, detectives, computer experts and psychologists, who would be available to walk a company through its response to a potential crisis.

Similarly, a U.S.-based AIG unit last year unveiled an directors and officers liability policy endorsement that provides up to $50,000 for crisis management counsel and public relations services (*BI*, Sept. 23, 1996).

—By Don Lewis Kirk

Pacific Re

Continued from previous page
erages rather than specialize.

"We only ever envisage Pacific Re will be a follow reinsurer and not a lead," Mr. Arkosi said.

A significant amount of Papua New Guinea reinsurance is placed offshore, he noted.

Mr. Arkosi admits it is difficult to establish a new reinsurer in a soft market but said the market had been stronger when the company first was launched.

Many companies in Southeast Asia have strong business ties with Papua New Guinea that Pacific Re will use, he said.

Pacific Re also has formed a "strategic alliance" with Sydney-based QBE Insurance Group Ltd. to secure business from Australia.

QBE's PNG company, Queensland Insurance Pty. Ltd., is Pacific Re's second-largest shareholder, with a 23% share.

The alliance means QBE offers Pacific Re management, operational support and assistance through its wholly owned unit, Sydney Reinsurance Co. Ltd.

Sydney Re will provide technical support when required and give Pacific Re staff the opportunity to train in Australia and vice versa, he said. Pacific Re will have four employees.

QBE also will help Pacific Re place reinsurance and "participate in some programs," he said. BI

PARCA

Continued from page 2

of several congressional panel hearings this year.

Business groups have begun to strongly lobby against the bill, which they worry could in some version be enacted next year as a congressional response to what members see as a growing public backlash to managed care practices.

However, a vote on the bill, which several congressional panels would have jurisdiction over, has not been set yet. No formal action has been taken on a similar bill introduced in the Senate by Sen. Alfonse D'Amato, R-N.Y.

Because of time and budget constraints, the analysis did not examine all provisions that could affect employers' health care-related expenses, including one that would allow patients to sue employers for malpractice if network providers injured them.

Still, even though the analysis did not analyze all provisions, the costs of provisions it did identify are "devastating," says Michael Cannon, a health care policy analyst at Citizens for a Sound Economy, a Washington-based group that describes itself as a free market consumer organization.

"We are glad to see that someone has put a cost that PARCA will impose on consumers," Mr. Cannon added.

One of the most potentially costly provisions in the legislation—depending upon its interpretation—involves reimbursement rates for services in and outside a managed care network.

The legislation says reimbursement rates for services of providers not in a network cannot be less than the rates paid for services from network providers.

If the provision means health care plans cannot pay out-of-network providers less than network providers for the same services, there would be little, if any, impact on health plan costs of such a requirement, according to M&R.

On the other hand, the impact on plan costs would be significant if the provision is interpreted to mean health care plans must set the same deductibles and copayment levels on enrollees for services received in or out of a network. Under that interpretation, employers' costs would increase by an average of 11%, according to Milliman & Robertson.

Another PARCA provision whose costs vary widely depending on interpretation says: "No specific payment is made directly or indirectly under the plan to a professional or provider or group of professionals or providers as an inducement to reduce or limit medically necessary services."

This provision, according to the Milliman & Robertson analysis, could be interpreted to disallow risk-sharing arrangements with providers or capitated reimbursement for medical services. Under that interpretation, Milliman & Robertson estimates costs would rise an average of 2% if the bill became law.

However, that provision—if read in conjunction with other PARCA provisions that interfere with the ability of health plans to limit the number of providers in their networks—also could be interpreted as "resulting in the elimination of provider discounts in the marketplace, as well as not allowing capitation or risk-sharing agreements," the consultant's analysis says.

Under the latter interpretation, Milliman & Robertson estimates employer premiums could rise an average of 17%.

The cost impact of a PARCA non-discrimination provision also would vary considerably based on plan design. That provision says: "A health insurance issuer shall not discriminate in participation, reimbursement or indemnification against a health professional" acting within the scope of his or her "license or certification under applicable state law" based on state licensing or certification.

The provision, according to the analysis, could be interpreted to mean health plans would have to cover services of many health care professionals, such as chiropractors and acupuncturists, that some plans now exclude. In addition, the provision also might mean benefit levels for employees cannot differ, regardless of whether an employee receives a service from a dentist or a physician.

For plans with rich benefit levels, the average cost increase resulting from the non-discrimination provision would be only about 1%, but the cost increase could be at least 10% for plans that limit benefits based on type of provider, according to the analysis.

Other provisions in the PARCA measure, though, only would have a slight—less than 1% increase—on costs. Those provisions include those mandating a point-of-service option and barring prior authorization for emergency room treatment if a patient had symptoms that would "reasonably suggest" to a prudent lay person an emergency room condition.

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For additional information about "Actuarial Analysis of the Patient Access to Responsible Care Act," contact Marjorie Taylor at Milliman & Robertson, 8000 Towers Crescent Drive, Suite 1000, Vienna, Va. 22182, 703-917-0143.

Panel argues pros, cons of laws on suing HMOs

NEW YORK—More states will likely enact laws allowing patients to sue health maintenance organizations for malpractice, even though opponents of the laws say those measures are detrimental to managed care.

Missouri and Texas have passed laws permitting plan participants to sue their plans for medical malpractice, said Patricia Butler, a health care policy analyst and author of a study on the two laws. Bills are pending in other states, including New York, that would allow such suits.

Ms. Butler participated in a panel last week in New York at a briefing sponsored by the Henry J. Kaiser Family Foundation and the National Press Foundation.

The laws are meant to make plans accountable to enrollees for their actions, she said. Litigation is seen as a way to resolve grievances and deter plan conduct that will result in awards against them.

Despite similar proposals in other states failing to become law in 1997, "it's pretty likely we will see this kind of activity next year," she said.

Three barriers exist to individual suits against health care plans, and any law has to address them before suits can commence, Ms. Butler said.

First is the prohibition in most states against the corporate practice of medicine. Courts in Texas and Missouri previously had ruled that individuals cannot sue HMOs for malpractice because as corporations, the organizations cannot be practicing medicine. The laws in both states have repealed that doctrine.

The second barrier is the lack of legal grounds for suing a health plan for malpractice. The Texas Legislature swept away this barrier in the statute by explicitly permitting such suits. The Texas law does not apply, however, to self-insured employers.

The third barrier is the pre-emption provision of the federal Employee Retirement Income Security Act. This works to a plan's advantage, as ERISA does not permit awards for pain and suffering or punitive damages.

The Texas law, which took effect Sept. 1, is being challenged, however. Aetna Health Plans of Texas Inc. filed a suit to block its implementation, asserting ERISA pre-empts it (*BI*, June 30). Despite the suit, the law is still alive, though no suits against health plans have yet been filed, she said.

The court's ruling "will certainly signal what other states will do" in upcoming years with their attempts to pass their own laws, Ms. Butler said.

In the end, the impact of the Texas law and any other states' laws remains unclear "as long as ERISA is in the picture," she said.

John Bracken, a partner with the Islandia, N.Y., law firm of Bracken & Margolin, supports the laws, including the bill pending in New York.

The law is needed because consumers think they lack a remedy when HMOs make unfavorable decisions on medical coverage. The law will change HMO behavior by putting the patients' interests first, he added.

Lisa McGiffert, senior policy analyst for Consumers Union in Austin, Texas, said the laws are needed to keep health plans accountable.

But an opponent of the laws warned they could end managed care. Maxine Fass, senior vp and general counsel for Health Insurance Plan of Greater New York, said the essence of managed care is the ability to control medical treatment. If the plan's decision to limit care can be successfully challenged, managed care would be destroyed, she explained.

Another opponent said the laws would not improve care. Because of the laws, plans will focus on limiting liability instead of care quality, said G. Lawrence Atkins, president of Health Policy Analysts in Washington, a group that worked with employers in opposing the Texas bill.

Mr. Atkins said the laws have two main problems. Because a suit can take years to resolve, it can't help the patients receive the care they need. And at a trial, a jury would eventually decide what treatments the plan should cover, not what treatments the plan agreed to cover or those medically necessary, he said.

—By Michael Prince

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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF ANTHONY JAMES MCMAHON AND PHILIP WEDGWOOD WALLACE, AS JOINT PROVISIONAL LIQUIDATORS OF SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED Case No. 97-B-44652 (CB)

NOTICE IS HEREBY GIVEN that on November 14, 1997 an order was entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in connection with the case filed with respect to Sovereign Marine & General Insurance Company Limited (the "Company")* pursuant to section 304 of the Bankruptcy Code (the "Order"):

1. Enjoining all persons and entities from (a) transferring, relinquishing or disposing of any property of the Company in the United States,** or the proceeds of such property, to third parties; (b) commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) involving the Company, or any property in the United States that is involved in the foreign proceeding, or any proceeds thereof, and seeking discovery of any nature against the Company; (c) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or arbitration award against the Company, and commencing or continuing any act or action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial,administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, setoff or other claim against the Company, or any of its property in the United States, or any proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts; and (d) drawing down any letter of credit established by, on behalf or at the request of, the Company, or withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest, in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement has been established; except, however, no drawing against any letter of credit shall be made in connection with any commutation unless the amount has been agreed in writing with the Petitioners or permitted by further Order of the Court;

2. Requiring all persons and entities in possession, custody or control of property of the Company in the United States, or the proceeds thereof, to turn over and account for such property or its proceeds to the Petitioners;

3. Requiring all persons and entities that are beneficiaries of letters of credit established by, on behalf or at the request of, the Company or parties to any trust, escrow or similar arrangement in which the Company has an interest, to (a) provide notice to the Petitioners' United States counsel of any drawdown on any letter of credit established by, on behalf or at the request of, the Company, or any withdrawal from, setoff against, or other application of property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Petitioners to assess the propriety of such drawdown, withdrawal, setoff or other application, including, without limitation, the date and amount of such drawdown, withdrawal, setoff or other application and a copy of any agreement pursuant to which such drawdown, withdrawal, setoff, or other application was made and provide such notice and other information contemporaneously therewith; and (b) turn over and account to the Petitioners for all funds resulting from such drawdown, withdrawal, setoff, or other application in excess of amounts expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, trust, escrow or similar arrangement has been established;

4. Requiring every person and entity that has a claim of any nature or source against the Company and that is a party to any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which the Company is or was named as a party, or as a result of which a liability of the Company may be established, to place the Petitioners' United States counsel on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (a) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, arbitrator, administrator, regulator or similar official having jurisdiction over such action or legal proceeding, and (b) any and all correspondence, or other documents circulated to parties listed on the master service list; and

5. Providing, with respect to any claim, action, arbitration or other proceeding that may be commenced or become known to the Petitioners in the future, or the entitlement or alleged entitlement of any beneficiary of any letter of credit established by, on behalf or at the request of, the Company, or of a party to any trust or escrow agreement or similar arrangement in which the Company has an interest that is identified by the Petitioners in the future (each a "Subsequent Claim"), that:

(a) when informed of a Subsequent Claim, counsel for the Petitioners shall serve upon the holder of such claim a copy of the Summons and Petition, and the most recent injunction order entered by the Court;

(b) the holder of a Subsequent Claim will have twenty (20) days from service of the Summons in which to file an answer or motion with respect to the Petition; and

(c) on not less than two (2) days notice to counsel for the Petitioners, the holder of a Subsequent Claim may file a motion seeking an order of the Court vacating or modifying the injunction entered in this proceeding with respect to such Subsequent Claim. Such request shall be the subject matter of a hearing as scheduled by the Court. Otherwise, the holder of a Subsequent Claim may file objections and be heard by the Court in accordance with the terms of any order of the Court providing for a hearing in the future on the relief sought by the Petitioners in this proceeding.

The Order shall remain in effect pending a hearing scheduled to be held on March 23, 1998 at 10:00 a.m. (the "Return Date") before the Honorable Cornelius Blackshear, United States Bankruptcy Judge, in Room 601 of the Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004. All papers submitted for the purpose of opposing continuation of the Order shall be filed with the Court with a copy to the Chambers of the Honorable Cornelius Blackshear, and served on Cadwalader, Wickersham & Taft so as to be received at least fourteen (14) days prior to the Return Date. Any party-in-interest that has not received a copy of the Petition and Supporting Papers and/or the Order should contact counsel for the Joint Provisional Liquidators in writing at the address below:

CADWALADER, WICKERSHAM & TAFT
100 Maiden Lane
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Tel: (212) 504 - 6000 • Fax: (212) 504 - 6666
Attention: Kenneth P. Coleman, Esq.
Lisa C. Dorr, Esq.

* The insurance business of BIMEH IRAN INSURANCE COMPANY (U.K.) LIMITED ("Bimeh") underwritten by Willis Faber (Underwriting Management) Limited during the years 1976 through 1978 and by Lennox Underwriting Agencies Limited during the years 1977 through 1979 (the "Transferred Liabilities") was transferred to Sovereign Marine & General Insurance Company Limited in 1984 pursuant to section 51 of the Insurance Companies Act 1982. As used herein the term "Company" includes Bimeh only to the extent of the Transferred Liabilities. All other business written by or on behalf of Bimeh is not affected by this Order.

** As used herein, "United States" is defined to include the United States and its territories and possessions.

Settlement

Continued from page 1

that women were denied promotions and were the victims of unwanted sexual advances. The suit contended that Smith Barney management either ignored their claims or handled them in a prejudicial manner.

Mandatory arbitration led to the situation that brought about the Smith Barney suit, she contends.

"The small number of women and minorities in top management, as well as the occasional locker room atmosphere, is a logical upshot of employees not being able to take their claims to court," she said. In many cases, employees must agree to accept mandatory arbitration as the sole way to settle employment disputes as a condition of employment.

"The problem with the use of arbitration in securities industry cases is it has been alleged that the use of arbitration in the securities industry is not truly impartial," said Karen Ludington, president of the Ludington Co. Inc., a Holden, Mass.-based employment consultant.

"I think Smith Barney shows us that risk managers, CEOs and general counsels are certainly sensitive to what Texaco went through with its $176 million settlement of an employment discrimination class action. So this recent proposed settlement once again demonstrates the huge transactional costs of trying to litigate a large employment discrimination class action," said Gerald L. Maatman Jr., a partner with Baker & McKenzie in Chicago in charge of the firm's employment law practice.

"It shows a company now has to take into account the concerns of consumers, shareholders and the media in being branded as a company that discriminates against its workforce," he said.

Under the proposed settlement, which still must be approved by U.S. District Court Judge Constance Motley, claims would be resolved through a three-step process. First the claim would go to Smith Barney, which could respond and settle if both parties agree.

If the parties don't agree, the matter would go to non-binding mediation before a neutral mediator chosen from a pre-approved pool. Smith Barney would pay up to $5,000 of the claimants' attorneys fees whether the matter is settled or not, unless the mediator finds the claim to be frivolous.

If mediation fails, the dispute would go to a three-person alternative dispute resolution panel. At least one panel member must be a woman, at least one must be knowledgeable and experienced in dispute resolution, and at least two shall be knowledgeable and experienced in employment-related claims. Smith Barney will pay the cost of the arbitration and up to $5,000 of the claimants' attorneys fees. The ADR panel's finding would be final and binding and could only be appealed under grounds allowed by the Federal Arbitration Act, such as an award being fraudulently procured.

The ADR panel can award claimants the same relief they would have been entitled to in court, plus other fees. Claimants also can receive unlimited punitive damages if they prove by "clear and convincing evidence" that any one in a variety of specified management positions "acted, or failed to act with willfulness or reckless indifference."

"At both levels, if she accepts the settlement at the mediation or wins at the arbitration, she gets all reasonable fees," said Ms. Stowell.

Ms. Ludington said she hopes the review panels that would be created under the Smith Barney settlement would be "fair and independent bodies. It would be wrong to go from an allegedly pro-employer system to an allegedly pro-employee system, because then you would once again have unfairness."

"Certainly the idea of ADR is not new to discrimination and harassment cases. I'm a big believer in ADR. I think this is, in my experience, at least, a very unusual agreement," said Ms. Ludington.

Despite the price tag, the company's head announced that Smith Barney is "pleased to have entered into settlement" to resolve the sexual harassment and discrimination claims.

"The settlement is entirely consistent with our commitment to provide all of you—regardless of race, gender, religion or sexual orientation—with the means and opportunity to advance to your full potential. We are particularly pleased that the settlement is designed to effect real change and progress in an industry in which women and minorities have historically been unrepresented, rather than simply to deliver monetary rewards to plaintiffs," wrote Chairman and Chief Executive Officer James Dimon in a Nov. 18 letter to Smith Barney employees announcing the proposal.

A Smith Barney spokesman said there is no way to estimate how much the settlement will cost. He was not certain what insurance would cover any portions of the settlement. Ms. Stowell also said she was unsure whether insurance would respond to the claims.

The proposal sets out a variety of safeguards for claimants, including that the claimant doesn't have the burden of proof for gender-based claims, that no claimant can be required to undergo a physical or psychological exam, and that no evidence of the sexual history of either party can be introduced other than sexual contact between the claimant and the accused.

In addition, Smith Barney would establish a database to track complaints of harassment and discrimination, spend $15 million over four years on diversity programs, meet specific percentage goals for the recruitment and advancement of women in management positions and training programs, and award an aggregate $2.05 million in bonuses to the class representatives who brought the initial action. Finally, Travelers Group will guarantee Smith Barney's financial condition.

Not surprisingly, the settlement won praise from the leader of one of the nation's most influential women's rights groups.

"Smith Barney executives have agreed to a landmark departure from the onerous practice of employment discrimination complaints. For the next two years, an estimated 20,000 women will have access to an alternative dispute resolution process with an unlimited fund to compensate them for losses, with damages, including punitive damages, available against the firm for complaints going back to May 1993. Although the process falls short of a jury trial in federal court, it is better than industry arbitration and a first step in reforming employment practices on Wall Street," Patricia Ireland, the president of the Washington-based National Organization for Women, said in a prepared statement.

The case, however, has not drawn much attention from employer groups such as the National Assn. of Manufacturers or the U.S. Chamber of Commerce because making prospective employees agree to mandatory arbitration of disputes as a prerequisite of employment is not a common practice in many industries outside securities. A call to the National Assn. of Securities Dealers seeking comment was not returned. BI

Brewer sued despite action

Case could discourage response to harassment: Experts

By MARK A. HOFMANN

DENVER—A suit filed against an employer that took multiple measures to assure the safety of the alleged victim of sexual harassment could have the perverse effect of discouraging other employers from taking strong actions to stop sexual harassment if the plaintiff prevails, according to some employment law experts.

The suit was filed against Golden, Colo.-based Adolph Coors Co. by Yvonne Mannon in U.S. District Court in Denver earlier this month. Ms. Mannon alleges that the brewer did not meet its responsibility to prevent a hostile work environment and was negligent in its supervision by allowing sexual harassment to occur at its brewery in Golden. She charged that the company violated its own sexual harassment policies by not moving quickly enough to stem the problem.

Coors holds that it moved quickly and decisively to deal with the problem, ultimately firing eight workers for alleged misconduct. Some were later reinstated on appeal to an internal Coors review board, said a Coors spokesman.

Coors' efforts did not stop there, according to the company. After Ms. Mannon received death threats and in an unexplained accident nearly drowned while cleaning a brewing tank, the company installed security doors and an alarm system at her home, provided her around-the-clock security guards and paid for other safety measures, steps that cost the company more than $300,000. When Ms. Mannon said she remained too scared to work, the company provided medical leave with full pay and other benefits.

Despite those efforts, Coors still failed to meet its responsibility, contends Ms. Mannon's attorney.

"The suit alleges that the company was put on notice by Ms. Mannon over a protected period of time and that the supervisors knew about it. And according to Coors' sexual harassment policy, those supervisors were responsible for taking action," said David C. Feola, partner in the Denver law firm King Minnig Clexton & Feola L.L.C. Mr. Feola added that "the law here is very clear that a company is liable for its supervisors' actions and omissions to act."

Some employment law experts fear that if Ms. Mannon prevails, employers won't be as willing to take the type of extraordinary steps Coors did to protect an employee.

"I think there are two potential effects that the publicity about this case may have. I hope that the publicity doesn't cause either of these two results," said Karen Ludington, president of Ludington Co. Inc., a Holden, Mass.-based employment consultant.

"One is that employers may be

See **Coors** *on next page*

Case may define employer liability for supervisors in harassment

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court has the chance to more clearly define an employer's liability for supervisors who sexually harass other employees without the employer's knowledge.

That opportunity came last week when the high court accepted a Florida sexual harassment case for review. The suit was brought by Beth Ann Faragher, who worked part-time as a lifeguard for the city of Boca Raton, Fla., between September 1985 and June 1990, when she resigned to enter law school.

Ms. Faragher held that two supervisors—Bill Terry and David Silverman—subjected her to unwanted sexual advances, comments and gestures. Although she did complain to another supervisor about the conduct, she never formally complained to the city.

In 1992, Ms. Faragher and another female lifeguard sued the two supervisors and the city in U.S. District Court for the Southern District of Florida under the Civil Rights Act of 1964. Both supervisors were ordered to pay significant damages, but the city was hit with nominal damages of $1 because the court found it only indirectly responsible for the supervisors' conduct. Ms. Faragher and the city appealed to the 11th U.S. Circuit Court of Appeals, seeking an opinion on whether the city was directly or indirectly liable for the supervisors' actions.

The entire—and divided—appeals court issued its ruling in *Beth Ann Faragher vs. the City of Boca Raton* in April of this year. The majority held that Boca Raton should not be held directly or indirectly liable for the actions of the supervisors.

"The harassment here consisted of offensive comments, gestures and touching. However, the nature of Terry's and Silverman's acts and comments towards Faragher does not support a finding that they were acting within the scope of their employment in subjecting Faragher to offensive language, gestures and touching," wrote Judge Emmitt R. Cox for the majority.

"Indeed there is no evidence that Terry and Silverman harassed Faragher in order to perform any service for the city, or that they were either explicitly or implicitly authorized by the city to engage in such harassment. This case provides the archetypical example of employees stepping outside of the scope of their employment and seeking to further personal ends. Consequently, under this theory of vicarious liability, the city cannot be held liable for Terry's and Silverman's harassing conduct," he wrote.

Judge Cox also noted that Ms. Faragher never was threatened with dismissal or demotion for refusing the supervisors' advances.

In a partial dissent, Judge Rosemary Barkett—joined by two others—wrote that "For an employer to be charged with knowledge, it is clearly not necessary for the head of the company, its president or chairman of the board to have known of the harassment. Indeed, generally the ultimate head of governing board does not have actual knowledge of the action. The very point of ascribing knowledge on a constructive basis is to recognize that liability can be imputed even when the employer has not been 'told,' i.e., even when there is no actual knowledge. The relevant inquiry for constructive knowledge is what the employer should have known in the exercise of reasonable care. Thus, an employer cannot insulate itself from liability by abandoning its employees in a remote location to be supervised by someone who makes their work lives miserable by offensive touching and an atmosphere of sexually offensive comments, suggestions and innuendo."

Two other judges wrote their own partial concurrences and dissents as well.

Such confusion needs to be cleared up by the Supreme Court, said Gerald L. Maatman Jr., a partner with Baker & McKenzie in Chicago in charge of the firm's employment law practice.

"*Faragher* is a huge case, because right now, employers operating multistate facilities are potentially subject to inconsistent standards of liability for the No. 1 employment practices liability risk in the workplace, which is when a supervisor sexually harasses a worker. So this has been to my mind the most vexing issue in the courthouse," he said.

"A good example is the *Jansen* case in the 7th U.S. Circuit Court of Appeals, where the 7th Circuit tried to explain what the Supreme Court will hopefully rule upon, which is what the standard of liability ought to be," Mr. Maatman said in reference to *Alice Jansen vs. Packaging Corp. of America.*

"Jansen is an en banc opinion of the full 7th Circuit that examined the issue of when a company is liable under Title VII of the Civil Rights Act for hostile environment sexual harassment, perpetrated by a supervisor. The 202-page opinion is the longest ruling in the history of the 7th Circuit and contains 11 different opinions setting forth the views of the individual judges as to this complex question. The ruling is hopelessly fractured in that none of the judges could agree upon a uniform standard of liability," said Mr. Maatman.

"All of the circuits have been struggling since 1986. It's different in every courtroom," he said.

Robin Conrad, vp of the U.S. Chamber of Commerce's National Chamber Litigation Center Inc. in Washington, agreed that *Faragher* is an extremely important case for business.

"The standard for supervisory liability is split all over the board. The Supreme Court needs to provide business with the kind of guidance that they need in order to do the right thing," she said. The center will file a brief in the case arguing that employers should not be vicariously liable for the acts of supervisors, she added. BI

Coors

Continued from previous page
more reluctant in the future to take strong and sometimes costly actions to stop sexual harassment, because they may think that it isn't going to do them any good. That would be unfortunate, because when sexual harassment actually does occur, it can be very damaging not only to the direct victim but to co-workers and managers and the company's reputation," she said.

"The second possible effect that I see and fear is that employees may read about this and decide to follow Ms. Mannon's lead and push for financial relief even when their companies have done everything humanly possible to help them, and I think that would also be unfortunate," Ms. Ludington said.

The Coors case means an employer is "sued if you do and sued if you don't," said Robin Conrad, vp of the National Chamber Litigation Center in Washington, an arm of the U.S. Chamber of Commerce.

The suit "shows we've reached a place where it's almost a full-time job for a human resource manager to make sure that the alleged victim of harassment is protected from any of the potential retaliation she might suffer for voicing her complaint," said Gerald L. Maatman Jr., partner with Baker & McKenzie in Chicago who is in charge of the firm's employment law practice.

No date has been set for a trial.

The Coors spokesman noted that one of the eight workers fired has sued Coors as well, claiming the company unfairly terminated him and that he was the victim of racial discrimination. Coors denies the allegations. BI

Rand

Continued from page 1
and oversee workers comp changes.

Rand has acknowledged some weakness in its study and is recommending further research of some points. But the methodology did take into account certain issues being raised by employers, and Rand stands behind its work as the best possible study that could have been done at this time, said Robert Reville, co-author of the study. Mr. Reville led a wage-loss evaluation of the PPD system. The wage-loss study constitutes a significant portion of Rand's work and is central to its policy recommendations.

Mr. Reville was scheduled to present Rand's findings in San Francisco Nov. 21 at a commission-sponsored summit on permanent disability. Insurers and employers also were scheduled to present their views at last Friday's meeting.

The commission can recommend legislative changes, but so far has been tight-lipped on its assessment of Rand's recommendations.

Commission officials have said they will base their recommendations on Rand's study and public input.

Employers did not push for changes to the PPD system, though they acknowledge it is a cumbersome and slow system that could be improved. Because the issue has been hanging over their heads and proposed changes are often highly contentious, they were counting on Rand's work to resolve the matter (*BI*, May 5).

"What I was looking for was a definitive strategy that could be immediately implemented," said Jill Dulich, regional director for Marriott International Inc.'s claims services for the Western region in Santa Ana, Calif.

Ms. Dulich is also board chairwoman for the Sacramento-based Californians for Compensation Reform, and she was scheduled to voice her concerns at the summit.

Rand recommends making the state's schedule for rating disabilities more equitable by correlating it to wage loss. It found that the current schedule is, for the vast majority of claims, not related to wage loss even though the purpose of the system is to compensate for lost wages.

But PPD claimants compared with workers who have not been injured receive "substantially lower wages" and face more unemployment, Rand found. It also found that workers comp benefits compensate for only a "small fraction of wage loss for the vast majority of workers with minor permanent partial disabilities."

In the first five years after reporting an injury, workers lose 40% of their wages, yet get less than half that amount back in benefits. They suffer economic losses indefinitely.

An overhaul based on those findings could be a "horrendous cost driver," Ms. Dulich said. She fears that to reach its conclusion that many workers do not return to similar jobs after an injury, Rand overlooked the transient nature of lower-paid workers in fields like the hotel industry.

"It is not uncommon for one of our associates who has a minor disability to not come back to work for us, because they are working for several other employers (during the same period) and they really don't have a need to come back to work for us," she said.

Mark Webb, vp for the American Insurance Assn. regional office in Sacramento, points out that Rand relied on data taken during several years when California was in the midst of a severe recession. Recession-year data is questionable because laid-off workers tend to file more claims and behave differently regarding workers compensation to make up for job losses, he said.

The AIA is also critical of Rand's assumption that the purpose of PPD benefits is to replace lost wages. Legislators have never endorsed that notion, Mr. Webb said.

Additionally, the Rand study did not include data from self-insured companies, which typically are more successful at returning injured employees to work, Mr. Webb said.

Rand acknowledges its reliance on recession-year data is an issue of concern and is therefore recommending further study, Mr. Reville said. The organization needed five years of post-injury data and California has only recently moved out of its recession.

As for concerns that Rand did not weigh the transitory nature of low-wage workers, Mr. Reville said Rand compared the activity of injured workers to a control group of comparable employees working at the same companies at the same time as the injured workers.

It found that before an injury, workers were making the same wages and had similar work attachment as the control group. "And then at the time of the injury everything changes," he said.

He also said that by compiling data showing the inadequacy of the current rating system, Rand laid the groundwork for creating an improved system. Rand also made other recommendations such as implementing a fast-track system for compensating minor claims (*BI*, Nov. 3). But the AIA contends that recommendation could increase costs and resolution time by adding another layer to the system.

Meanwhile, the Sacramento-based Assn. of California Insurance Cos. filed a lawsuit Nov. 18 in Sacramento Superior Court against the Division of Workers Compensation. The suit seeks to stop the DWC from implementing its recent revision of the Permanent Disability Rating Schedule and alleges that the DWC acted illegally in implementing those changes (*BI*, Oct. 27). BI

THE
ILLINOIS INSURANCE EXCHANGE

is pleased to announce
the election of

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President and COO, Kemper Insurance Companies

as
CHAIRMAN OF THE BOARD

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and to welcome
our new board members

MICHAEL D. O'HALLERAN
President and COO, Aon Group

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Director, Kemper Insurance Companies

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STEVEN H. LESNIK
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Results

Continued from page 2

"Premium growth, however, continues to be under pressure for many commercial lines companies, and we don't expect much change in the pricing environment," said Mr. Cohen.

"Maybe we're seeing the first chinks in the armor, so to speak," he said. "We do expect earnings pressure to rise over the next four quarters, and maybe we're starting to see this in the third quarter here."

"Most companies that we follow are sounding cautious in terms of earnings growth next year," said Ken Zuckerberg, vp at rating agency Moody's Investors Service in New York.

With no near-term prospect for a market cycle turn and continued pressure on commercial rates overall, operating earnings are expected to grow by a modest 5% to 10% next year, said Mr. Zuckerberg, who added insurers are wary about their growth depending upon "excessive reserve releases."

"I think in the fourth quarter of '97 and into '98 it's going to get worse, particularly for companies with a lot of commercial line exposures," said Peter Wade, an analyst with Lehman Bros. in New York, who noted the commercial lines premium growth among companies he follows was down 0.4% in the third quarter.

Most observers are reluctant to forecast when prices may harden. "I suspect that the catastrophe that turns the market will be just the manifestation of lousy pricing and underwriting decisions, but I'm not sure it'll necessarily occur next year," said Salomon Bros.' Mr. Smith.

"The problem with cycle turns is that in order for pricing to improve, there has to be a unanimous decision among all players that prices have to go up. When you have 1,000 players competing, it's pretty tough to get that unanimous decision.

"On the other hand, it only takes one player to turn the cycle down. Right now, there are too many companies that think, correctly or otherwise, that they have more capital than they need and they're trying to put that capital to work.

"It'd be a lot cheaper and simpler if they simply raked it into a pile and burned it," he said.

"I wouldn't expect a dramatic change in the market conditions in the next year," said Merrill Lynch's Mr. Cohen. "I think what has to happen for prices to harden is capital has to start leaving the business.

"Now, if underwriting results deteriorate dramatically, and the combined ratio zooms up to 115%, that indeed would start taking capital out of the business, but I wouldn't expect a dramatic rise in the combined ratio for next year."

Gloria Vogel, senior vp with New York-based Advest Inc., said, "I don't see any catalyst out there that's going to change the current environment short of, I guess, a real change in the interest rate outlook or change in the economic outlook that somehow depletes all the capital in the industry."

"I don't see anything that would suggest there's any turn in sight," said George Yonker, vp-finance for Seattle-based SAFECO Corp.

"I think there's two theories as to what could cause a market hardening," said Patrick A. Thiele, president and chief executive officer of the worldwide insurance operation of St. Paul Fire & Marine Insurance Co., who also said he sees no sign of an imminent change.

"One theory is it can't occur until a great deal of excess surplus is taken out" of the market, said Mr. Thiele.

The second theory, to which Mr. Thiele said he subscribes, is "cash flow will get so bad for the industry that to survive, some participants will have to raise prices."

"I believe that cash flow will get very bad over the next 18 months for the industry," he said. However, "Whether or not that's enough to turn the pricing cycle or not, I'm not sure," he added.

While the year 2000 will not bring a 'monster turn,' Robert Steinberg says, 'I do think you will see some price increases in the lines of business where the returns are negligible.'

"I think the wild card is consolidation of insurance companies. The more consolidation that occurs between large companies, the more likely the soft part of the cycle will be extended," said Mr. Thiele, who noted he expects more consolidation.

However, Robert M. Steinberg, chairman and CEO of the Reliance Insurance Group in New York, said "I actually do see a change."

"I see the year 2000 as being the beginning of a stronger market," he said. While it will not be a "monster turn" along the lines of the hard market of 1984 and 1985, "I do think you will see some price increases in the lines of business where the returns are negligible."

This will continue until the market perceives rates are adequate and there is an adequate return "and then we'll come back down again. This is going to continue until capital and premium writings are more in line where they should be," said Mr. Steinberg, adding, "That's a long-term prospect."

Not included in *BI*'s nine-month survey are results from American States Financial Corp., whose acquisition by SAFECO Corp. was completed Oct. 1 (*BI*, June 16).

Among other survey results:

- The pace of premium volume growth continued to slow, with insurers reporting a 6% increase for the nine-month period, to $72.09 billion. For the first half, the 24 insurers participating in the survey reported a 7.4% increase, while a 9.6% increase was reported for the first quarter (*BI*, Aug. 25; May 26).
- Investment income increased 16.5%, to $12.82 billion for the period. This is a slower growth rate from the 26.1% increase posted in the first half.
- Underwriting losses for the companies surveyed improved by 66.8%, to $1.85 billion. For the first half, insurers reported a 61.6% improvement.
- Insurers reported a 102% combined ratio, the same as reported for the first half. This compares with the 106.9% combined ratio posted for the first nine months of 1996.
- Policyholder surplus increased 21.5% among the 21 insurers reporting this data, to $63.21 billion for the same period a year ago.

Low catastrophe losses and continued intense competition were the major factors affecting nine-month results, say observers.

"The comparisons were quite good because of the lack of any major storms, but apparently there's still a lot of price competition going on," said Advest's Ms. Vogel.

"The most significant positive development was the unexpected and unusually low level of catastrophe losses, which it appears were well below the same periods of '96 and one of the lowest quarters in the past several years from a catastrophe point of view," said John Ward of the Cincinnati-based Ward Financial Group. "That by far was the reason why results were strong in the quarter."

Mr. Ward also pointed to the stock market. "The equities market continued to be volatile but strong, and so that added a positive dimension to performance for the quarter," he said.

However, he added, "Tough competitive pressures remain probably the single biggest factor impacting the fundamentals of the industry."

"Basically, the earnings were stronger than I had expected to see, but the underlying quality and the drivers behind those earnings are showing some serious erosion," said Mr. Smith.

"Momentum is very clearly slowing on the revenue line," he said.

"Premium growth and investment income growth was generally much slower in the third quarter than it had been at the six months, when we look at earnings this year vs. last year. Most of the improvement, of course, is in the underwriting account, and that improvement is resulting mostly from very benevolent weather.

"The gods have treated us very well this year, and when you consider that premiums are not growing fast enough to even cover the increase in economic value of insured exposures, and add to that the likelihood that we will have a normal year for catastrophes, whatever a normal year is, you have to quickly reach the conclusion that underwriting results won't improve from where they are and more likely they will deteriorate next year."

"The fundamentals are starting to show through," said Mr. Wade. For the four prior quarters, insurer results were 2% higher than Wall Street expectations. For the latest quarter, though, many earnings reports "were barely in line," despite reserve releases and low cat losses, he said.

The third quarter "is really the first quarter where investors began to see accelerating deterioration in the operating fundamentals of the insurance group," he said. BI

Summary of property/casualty insurers' nine-month 1997 results

Ranked by change in net income. All amounts in thousands of dollars.

		Corporate							Property/casualty operations					
Rank 1997		Net income 1997	Percent increase (decline) 1996-1997	Consolidated revenues 1997	Combined[1] ratio 1997	Combined[1] ratio 1996	Net premiums written 1997	Percent increase (decrease) 1996-1997	Pretax underwriting income (loss) 1997	Percent increase (decline) 1996-1997	Pretax investment income 1997	Percent increase (decrease) 1996-1997	Policyholders surplus 1997	Percent increase (decrease) 1996-1997
1	Reliance Ins. Co. and subs.	125,264	905.2	2,502,752	100.9	111.7	1,536,833	10.9	(21,594)	86.6	195,258	2.5	1,346,960	15.9
2	Travelers P/C Corp.	875,900	580.0	7,368,900	102.3[2]	121.2[2]	5,950,100[2]	31.3	(284,400)[2]	71.1	1,532,600	32.2	6,004,800	11.6
3	Hartford Fin'l Services Group	1,077,000	454.3	9,566,000	103.0	105.9	5,488,000	4.4	(161,000)	83.7	673,000	12.9	5,298,000	38.7
4	TIG Holdings	115,000	187.5	1,316,800	101.8[2]	105.7[2]	1,179,000	(0.4)	(14,000)	75.0	229,900	1.5	1,023,000	3.5
5	Argonaut Insurance Co.	47,972	133.2	152,825	107.9	369.1	93,192	(13.5)	(10,685)	95.7	31,284	(49.8)	576,433	24.3
6	Ohio Casualty Corp.	92,059	96.8	1,087,399	106.1[2]	113.2[2]	922,292[2]	0.5	(55,365)	54.5	130,576	(1.0)	1,108,814	17.2
7	Royal & Sun Alliance USA[2]	225,900	57.1	1,413,800	103.5	112.2	1,074,300	(11.8)	(28,100)	80.0	258,700	1.0	2,604,100	19.8
8	The St. Paul Cos. Inc.	586,227	48.6	4,674,962	105.6[2]	105.8[2]	3,398,342	4.3	(139,845)	16.9	655,190	12.1	3,331,158	21.1
9	Berkshire Hathaway Group	619,800	36.4	3,936,600	93.0[2]	96.3[2]	3,819,800[2]	19.3	232,800[2]	116.2	631,700	23.8	N/A	N/A
10	Old Republic Int'l	222,710	32.7	1,447,740	98.5	100.7	668,656[2]	3.2	(3,740)[2]	81.7	148,862[2]	2.6	1,448,985	4.1
11	Fremont General Corp.	73,055	22.6	491,938	92.0	95.8	415,852	15.3	32,360	106.5	88,998	11.5	545,990	47.5
12	Chubb Corp.	574,800	17.1	4,655,300	96.4	98.3	4,133,000	15.1	103,700	346.9	527,700	10.6	2,700,600	9.4
13	American International Group	2,447,748	15.1	22,651,700	96.2	96.3	10,286,766	5.8	371,574	9.1	1,366,275	9.8	N/A	N/A
14	Sentry Insurance Cos.[2]	72,485	13.3	1,141,312	106.6	106.1	856,470	(10.1)	(59,237)	13.4	152,111	0.6	1,453,844	17.3
15	Hartford Steam Boiler	47,400	12.9	533,800	91.3	95.5	362,000	(1.3)	30,900	128.9	25,800	9.8	300,800	9.8
16	CIGNA Corp.	846,000	12.8	14,546,000	99.9	101.9	2,499,000	(4.2)	2,000	103.9	277,000	(4.8)	1,949,000	(2.6)
17	General Re/Cologne Re Group	721,100	11.7	6,215,400	100.6	100.5	4,107,200	(1.7)	(24,200)	(15.8)	876,400	7.8	6,103,500	18.5
18	SAFECO Corp.	350,500	5.4	3,227,400	98.9	98.1	1,855,700	6.1	19,200	(39.8)	210,300	(1.0)	1,892,200	(7.3)
19	CNA Financial Corp.	687,000	(10.8)	12,680,000	109.4	108.3	8,060,000	1.8	(874,000)	(21.4)	1,290,000	(3.7)	6,780,000	15.5
20	USF&G Corp.	139,809	(11.9)	2,540,548	102.7[2]	106.1[2]	1,928,021[2]	(4.6)	(49,330)	67.5	512,733	(4.6)	1,499,645	14.5
—Nationwide Mutual Ins. Co.[2]		N/A	N/A	N/A	103.6	114.0	6,221,805	1.1	(259,599)	70.8	1,885,280	182.1	8,792,104	65.1
—Kemper Insurance Cos.		N/A	N/A	3,176,227	105.1[2]	129.7[2]	2,784,288[2]	1.8	(187,068)	76.8	334,705	2.5	2,072,174	16.6
—Liberty Mutual Ins. Co.[2]		N/A	N/A	N/A	109.7	112.5	4,445,962	12.7	(471,493)	6.8	784,769	1.2	6,380,181	24.1
	Cumulative	9,947,729	55.9	105,327,403	102.0	106.9	72,086,579	6.0	(1,851,122)	66.8	12,819,141	16.5	63,212,288	21.5

[1]After dividends [2]Statutory N/A-Company did not provide data

AGF

Continued from page 1

ministration, the board of management, on the same day. The AGF board of directors also approved the offer, with one abstention. However, the offer must also win the approval of France's Finance Minister and AGF shareholders, who are considering the existing hostile takeover offer from Generali.

Some stock market analysts say the Allianz bid is just one more step in a French bidding and counterbidding saga—which includes companies positioning for a possible takeover of state-owned Groupe des Assurances Nationales—that will continue until year-end. However, some analysts speculate that the French government may not want to sell both insurers to overseas companies.

Allianz Versicherungs A.G., Allianz's main non-life unit, on Nov. 17 offered 18 billion deutsche marks ($10.4 billion) in cash, or 320 French francs ($55.20) per share, for AGF. It also offered a guaranteed 360 French francs ($62.10) for each share held until 2000.

This compares with the 300 franc ($51) per share offer by Italy's Generali made in mid-October (*BI*, Oct. 20).

The Allianz offer is conditional upon its ability to acquire at least 51% of AGF, said a statement from the Munich, Germany-based insurer.

Allianz's offer does anticipate continued support, however, for a bid by AGF and Italy's Agnelli family to acquire French conglomerate Worms & Cie., which owns French insurer Athena Assurances (*BI*, Oct. 13). The Worms & Cie. bid is expected to be finalized by the middle of next month. Allianz specifically noted that its goal of attaining at least 51% of AGF would take into account any added shares the French insurer sells to finance its offer to acquire Worms & Cie. and Athena.

Allianz and AGF have held negotiations about a friendly takeover bid for the past month, a spokesman for Allianz in Munich confirmed. Allianz filed its cash offer for AGF on Nov. 17 with French stock exchange authorities. AGF stock was trading at 295.5 francs ($51.06) per share on Nov. 14, and rose to 297.7 francs ($51.35) after the offer was announced.

An AGF statement noted that the Allianz offer includes guarantees and commitments with respect to AGF's domestic and overseas business. In addition, the Allianz bid would mean "the long-term retention of a significant proportion of AGF's shares by the public, and the continuing autonomy and independence of AGF's management and executive structures," the statement said.

The AGF board also said the financial terms of the Allianz offer are significantly better than the offer from Generali, which it views as hostile and unacceptable.

If Generali returns to the AGF board with a more attractive offer, Allianz would not necessarily become embroiled in a bidding war, said an Allianz spokesman. Any future deal is "beyond the issue of pricing" because it involves French government approvals among other things, he said. What's more, Allianz does not want "expansion at any price."

Allianz wrote 74.6 billion deutsche marks ($48.4 billion) in gross premiums in 1996. Premium volume in 1997 is expected to rise to 83 billion deutsche marks, said Henning Schulte-Noelle, chairman of the German insurer.

AGF wrote gross premiums of 69 billion French francs ($13.59 billion) in 1996, of which about 40% were life premiums. Combined, the two companies would have premium volume in 1997 of 110 billion deutsche marks ($63.2 billion) as well as 480 billion deutsche marks ($275.76 billion) of combined assets under management, Allianz estimated.

At the press conference last week in Paris, Mr. Schulte-Noelle said the proposed AGF acquisition is in line with main goals of the German insurer, which include:

- A position among the top five insurers in each market in which Allianz operates.
- A leading position in the world's major emerging insurance markets, especially Asia, central and eastern Europe and Latin America.
- The expansion of life and health insurance business in each market with growth potential in these areas.
- The building up of asset management for third parties as a core business of the group.

The enlarged group reinforced by the acquisition of Athena Assurances, would rank as one of the world's largest insurers and return it to its former position as the largest insurer in Europe—lost when French insurers AXA and UAP merged. It would reach top-five status in Spain, Ireland and Belgium and boost its position in the French market to become the second-largest property and casualty insurer and fourth-largest life insurer. The AGF acquisition would provide Allianz with a major breakthrough into the French industrial insurance sector.

"AGF's market share in the French commercial lines business as well as their know-how and market penetration in marine, aviation and credit insurance will enable the enlarged group to better serve our multinational clientele," Mr. Schulte-Noelle said.

Although there is a certain amount of geographic overlap in the operations of the two companies, an Allianz spokesman said it is not substantial. If there had been substantial overlap, it would have made an offer from Allianz less likely, he said. Allianz currently operates in 58 countries, with top-five market positions in Germany, Austria, Switzerland, Italy, Hungary, the Czech Republic and Slovakia. Entering into a deal with AGF will help Allianz strengthen its position in Latin America, one of its target growth markets, and Allianz remains on the lookout for acquisitions to help boost its presence in certain markets.

Meanwhile, there has been speculation in the press and financial markets that the French government may not approve the sale of all of AGF to a foreign bidder.

Prior to the Allianz bid, the French government was expected to seek a French buyer for AGF's controlling stakes in credit and political risk insurers Coface and Societe Francaise des Assurances Credit.

An Allianz spokesman said the bid was not made on an "all or nothing" basis, and the French cartel authorities may decide that certain parts of AGF's business remain outside the deal, should it go ahead.

The future of Allianz's and AGF's joint holdings in German insurer Aachener & Munchener Beteiligungs A.G. also is up in the air, prompting speculation that those shares would be sold off if the Allianz-AGF deal goes through. The two companies hold a combined 38.5% stake in AMB.

The Allianz statement said, "the stakes in AMB held by Allianz and AGF are not regarded as strategic investments." BI

EMLICO

Continued from page 2

Supreme Judicial Court on a proposed settlement between the Insurance Division, the now-insolvent EMLICO and sole EMLICO policyholder General Electric Co., according to Thomas W. Hammond Jr., the oversight bureau's director.

The settlement—opposed by EMLICO reinsurers, who charge the Bermuda move was part of a fraudulent conspiracy between EMLICO and GE—would make the Massachusetts division ancillary receiver to EMLICO's Bermuda liquidators.

The court is expected to decide on the settlement by early next year.

Two documents attached to the oversight bureau report, meanwhile, are provoking more controversy. They are anonymous letters mailed to Ms. Ruthardt in January 1996—a few months after EMLICO's collapse—urging her to investigate alleged wrongdoing by EMLICO and GE.

One of the letters, dated Jan. 18, 1996, charges that top EMLICO officials conspired to withhold information about the company during the redomestication process and later told others that "the decision and direction came from GE."

While regulators often get anonymous letters, not all of them credible, "it seemed very clear to me that somebody inside one of the companies had shipped those (letters) off based on inside information," Mr. Hammond said.

The Insurance Division should have followed up immediately, using subpoena power to compel testimony and production of documents, he said.

The division did issue subpoenas several months later to a number of companies and individuals, including former EMLICO officers, as part of an exam of Electric Insurance Co., a former EMLICO unit.

Former EMLICO President David F. St. Laurent and another EMLICO official refused to answer questions under oath, though, saying they were "possible subjects" of a federal grand jury investigation of EMLICO (*BI*, March 24).

GE representatives expressed surprise at the report's use of anonymous letters and dismissed the letters' charge of a conspiracy.

Mr. St. Laurent could not be reached.

EMLICO, a longtime GE general liability insurer, moved to Bermuda in mid-1995 and a few months later declared itself massively underreserved for GE pollution and asbestos claims and insolvent by more than $500 million. The collapse triggered massive litigation, including claims by EMLICO reinsurers that the insurer and GE planned the collapse to take advantage of favorable Bermuda liquidation laws.

Massachusetts House investigators reviewed the Insurance Division's handling of the redomestication and leveled several criticisms in last week's report, including that the division:

- Relied on EMLICO's own lawyers for an opinion that state law allows redomestication to a foreign country, a conclusion reinsurers hotly dispute. The Supreme Judicial Court is considering the issue as part of its review of the proposed EMLICO settlement.
- Obtained an agreement from GE waiving claims against state guaranty funds, but never told guaranty fund representatives. Fund managers, dissatisfied with the insurance division's agreement, negotiated their own waiver with GE after the collapse.

In her response, Ms. Ruthardt rejected the criticisms, noting among other things that the division's outside counsel reviewed the question of its authority to allow the EMLICO move.

She also argued that non-GE policyholders would have suffered without the redomestication, because EIC—which has 80,000 personal lines policyholders and formerly was reinsured by its affiliate EMLICO—would have collapsed itself if EMLICO had remained in Massachusetts. BI

Updates

Explosion, fire damage train

Continued from page 2

damage, State Interior Minister Alwin Ziel said. Firefighters were able to avert danger of a sewer explosion.

The 22-car train was en route from Schwedt to Nossen when it derailed outside a small train station in Elsterwerda, about 70 miles south of Berlin.

The blaze, which killed one firefighter and injured nine other people, occurred when flying sparks ignited one of the 15 derailed gasoline tank cars. Flames spread to the roof and over the tracks, igniting a second car. A wall at the burning station collapsed from the explosion. The early-morning fire occurred 20 minutes before commuters normally catch a scheduled passenger train, but the platform was empty when the explosion occurred.

Firefighters cooled other cars to avoid another explosion, and seven cars were pulled out of danger.

Clinton endorses quality effort

WASHINGTON—While championing the need for consumers to have greater assurance of receiving quality health care, the Clinton administration has not yet decided to seek federal legislation to implement a set of quality standards proposed by a presidential panel.

The 34-member panel last week endorsed a modest "Consumer Bill of Rights and Responsibilities." The recommendations include requiring health plans to provide more information to enrollees about covered benefits, experience of professional staff and procedures for resolving complaints.

Other recommendations include giving enrollees access to emergency services 24 hours a day, providing direct access to specialists for patients with complex or serious conditions and allowing physicians to provide information on all treatment options to patients. In addition, the panel recommended that identifiable health care information be kept confidential. However, such information could be used without written consent for payment of health care claims, health promotion and peer review.

President Clinton said he would direct every federal agency that administers or manages health plans to adopt the commission's recommendations.

The panel's bill of rights will be used as a framework to examine legislative proposals, Health and Human Services Secretary Donna Shalala said.

Subway losses self-insured

NEW YORK—The Metropolitan Transit Authority is self-insured for physical damage and any potential liabilities from a crash of two subway trains last week.

The crash shortly before 9 a.m. Thursday involved two crowded subway trains. One subway train bound for the borough of Queens rear-ended a stopped Queens-bound train after pulling out of the Steinway Street station in Astoria, Queens.

A spokeswoman for New York Transit, the MTA subsidiary that runs the subway system, estimated the two trains held more than 1,000 passengers.

A fire department spokesman said 95 people were hurt; 87 required treatment at hospitals. None of the injuries was life-threatening or considered serious, the spokesman said.

Passengers were evacuated from the trains either through the station or through emergency exits in the tunnels.

The two trains sustained little damage, the spokeswoman said, but no damage estimates have been made.

An MTA spokesman said any losses would be self-insured.

The MTA and the National Transportation Safety Board are investigating the cause of the crash.

Switch to arbitration disallowed

LOS ANGELES—Employers can pursue litigation or arbitration but not both, concludes a state appellate court decision that found Continental Airlines Inc. waived the right to compel arbitration by first conducting extensive discovery in a sexual harassment case.

The decision in *Alsenia Davis vs. Continental Airlines Inc.* involved a skycap who had sued the airline, charging sexual harassment by her supervisor. The decision by the second appellate district court said that before petitioning to compel arbitration, Continental through discovery had obtained more than 1,600 pages of documentation plus a two-day videotaped deposition from her.

"The vice involved here. . .is that defendants used the discovery processes of the court to gain information about plaintiff's case which defendants could not have gained in arbitration," said the appellate court decision in ruling against Continental and upholding a trial court ruling.

"After obtaining discovery from plaintiff by court processes, defendants then belatedly sought to change the game to arbitration, where plaintiff would not have equivalent discovery rights."

Continental is seeking a rehearing of the case.

Briefly noted

Newsletter publisher David Schiff has offered to buy Sarasota, Fla.-based workers compensation insurer **FCCI Mutual Insurance Co.** for stock in a newly formed holding company, Schiff FCCI Acquisition Co. The stock would be distributed to FCCI's policyholders. In a statement Friday, FCCI said it will review the offer but "sees no reason to delay" current plans to reorganize as a mutual insurance holding company. . . Jack Byrne said last week he is retiring as chairman of **Financial Security Assurance Holdings Ltd.**, holding company for financial guarantee insurer Financial Security Assurance Inc. in New York, though he will remain with the company as vice chairman. Robert P. Cochran, who has been president and chief executive officer, was named chairman and CEO of FSA Holdings and FSA.

Exchange

Continued from page 1

Insurance Department.

While the law does not specifically define the role of public trustees, it does define who may serve: They must be "individual persons who are not insurers, subscribers, exchange brokers, or employees of insurers, subscribers, exchange brokers, syndicates or affiliates thereof." According to the law, subscribers are essentially stockholders.

In that context, the law limits Aon's role to that of a sideline adviser and raises questions about the appropriateness of allowing an outside director on Kemper's board to serve as a public trustee. While the an appointment of Mr. Toll doesn't violate the letter of the law, it challenges its spirit.

An independent governing structure is important because some of the exchange's previous problems stemmed from board members changing the rules to suit individual syndicates' needs, said former IIE President James M. Skelton.

Mr. O'Halleran

Public perception of the exchange's viability was deeply shaken by three syndicate insolvencies in eight months (*BI*, March 10).

Until INEX emerged earlier this month, exchange officials were pinning their hopes for revival on the new state law that increased regulatory oversight of syndicate and exchange financial reports.

Mr. O'Halleran's participation on the executive committee apparently disqualifies Aon from actively participating in the exchange as a broker or insurer, Messrs. Dutcher and Tait confirmed.

Mr. O'Halleran, who was reached while traveling in Tokyo, initially said he was excited about the prospects INEX offered "our clients." When questioned about the legal restrictions, he declined to comment on Aon's ineligibility to be an active exchange participant, until he returned to Chicago and could consult an attorney.

After returning to Chicago, he said Friday: "I will continue as an executive committee member but will be evaluating any areas of conflict in the months ahead in regards to Aon's ability to get more involved with the exchange. If I feel there are conflicts, I will, of course, come off the executive committee."

Mr. Toll, 69, meets the letter of the law because he is not an employee of Kemper. However, he is closely affiliated with the insurer after having served as an outside director since 1986. Mr. Toll was president of Chicago-based Heller International Corp., when he left the banking and finance company in 1985 after 15 years. He also has served on several corporate and civic boards for the past several years.

Despite his close ties to Kemper, having Mr. Toll as a public trustee on the executive committee doesn't bother INEX board member Rick J. Lindsey, president of the recently renamed Prime Insurance Syndicate Inc. in Salt Lake City. "If the exchange had a weakness before, it was a lack of people with the necessary insurance background," he said.

The other public trustees on the board include: State Sen. Stephen R. Windom, a partner in Sirote & Permutt; Thomas E. Payne, vp at The Harris Bank; and Eugene Lerner, president of Disciplined Investment Advisors.

The exchange is expected to submit the names of all public trustees to state Insurance Director Mark Boozell for approval, as required by law. Mr. Boozell, former head of Gov. Jim Edgar's legislative office, was appointed insurance director in 1995.

The Insurance Department "will take a look at the qualifications of public trustees" before the names are submitted to Mr. Boozell for approval, Mr. Dutcher said.

The other Kemper-affiliated trustees include Vp William A. Hickey, 38, and Steven H. Lesnik, 57, a major contributor to Gov. Edgar's 1994 campaign. He is chairman and CEO of Lesnik & Co., which operates KemperLesnikCommunications in Chicago. That public relations firm, which is disseminating information locally about the formation of INEX, is affiliated with the son of Kemper founder James S. Kemper Sr.

Kemper National's involvement is increasing the capital base of the exchange because its three new syndicates will have a total capitalization of $60 million.

In addition, the INEX board decisively demonstrated its new direction last week when it voted to increase to $15 million from $5 million the minimum capitalization requirements for any new "exchange participants." The board recently removed the requirement that participants' names include the word "syndicate," which sets the stage for broader participation by other types of entities, Mr. Smith said.

The four surviving IIE syndicates are not required to comply with the new minimum capitalization requirement.

"The board's fast action is a solid step toward realizing the full potential of this dynamic facility," said Mr. Tait.

It also should improve the exchange's dwindling financial results. The IIE's syndicates wrote $85.4 million in gross premiums in 1996, down 6.5% from a restated $91.4 million in 1995. The premiums were restated to reflect the prior writings of active syndicates. Last year's results were 71% below the record $294.7 million the IIE reported in 1994.

In 1997, gross written premiums were $17.9 million for the first half and $24.5 million for the third quarter alone, according to exchange figures.

The exchange's revitalization is receiving favorable comment from some observers.

"These developments certainly enhance the prospects of the exchange," said Richard Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices in Kansas City, Mo. "The problem with the exchange board since the beginning had been that it was both promoter and regulator," he said. "The change in the law appears to redress the balance and puts objective regulatory authority in the hands of state insurance officials. That is a positive thing."

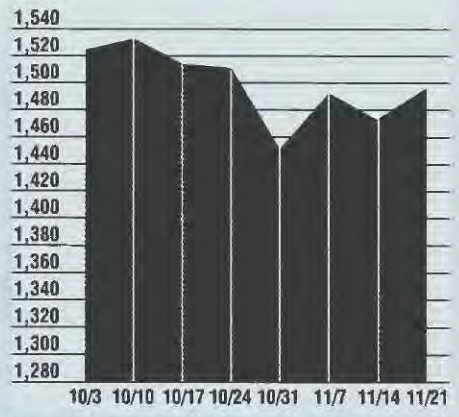
Kemper, which is rated A by A.M. Best Co., expects buyers to seek out its excess casualty and excess environmental coverages because there is "considerable demand" for the claims-made version of the coverages, which are best written through surplus lines markets like that available through the exchange, Mr. Smith said. That allows buyers to avoid regulations in many states that require admitted insurers to offer unlimited discovery, which increases the buyer's exposure, he said.

Kemper's involvement with the exchange is good for the company, especially for Lumbermen's Mutual Casualty Co., its largest unit, said Vandana Sharma, associate director of Standard & Poor's Insurance Rating Services in New York. "It expands their ability to write lines of business that they would not have had access to previously," she said. S&P gives the pooled Kemper companies an A+ claims-paying ability rating.

Revitalization of the existing insurance exchange is expected to interest the Chicago Board of Trade, which is studying the feasibility of a second insurance exchange that would essentially allow it to write risks and offset them through insurance futures contracts, though a CBOT spokesman was unable to comment last week. "We would love to have them here," Mr. Smith said.

However, he said he considers the Bermuda Commodities Exchange to be INEX's main competitor (*BI*, Oct. 20). BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of Nov. 21

Call spread	Price bid/ask
National Annual 1997	
60/80	—/1.5
National Annual 1998	
40/60	11.5/13.0
60/80	7.0/8.3
80/100	6.0/7.0
National December 1997	
5/15	1.5/6.0
5/25	1.7/6.0
Southeast September 1998	
40/60	2.0/4.0
60/80	1.5/2.5
California Annual 1998	
40/60	1.7/2.3
Western Annual 1998	
40/60	2.0/2.5
70/90	—/2.3
Eastern September 1998	
40/60	3.2/4.2

Total volume: 0 Total open interest: 16,533

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
Comml Union	778	11.8	35.8	4.6	910—630
Genl Accident	1018	6.6	35.4	4.5	1158—686
Gdn Royal Exch	323	4.5	12.2	3.9	350—252
Legal & Gen	538	13.5	11.6	2.8	538—339
Royal & Sun	533	18.2	19.7	4.6	651—421
Brokers					
Lmbrt Fenchurch	115	7.9	8.4	9.4	138—101
Lloyd Thmpson	156	13.0	10.8	8.6	206—156
Sedgwick Grp	124	10.0	7.4	6.0	144—115
Willis Corroon	124	13.9	6.6	6.8	165—116

Note: Prices are Nov. 21 closings; other numbers from Nov. 20.

Source: Nordby International Inc.

BI Industry Stock Report NOV. 17, 1997, THROUGH NOV. 21, 1997

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Aon Corp.	NYS	52.50	0.84	26.76	58.44	37.88	1133
E.W. Blanch Holdings Inc.	NYS	34.63	4.33	72.05	34.63	18.00	199
Gallagher Arthur J. & Co.	NYS	35.31	1.07	13.91	38.25	29.38	68
Hilb, Rogal & Hamilton	NYS	18.56	1.71	40.09	19.63	12.50	85
Kaye Group Inc.	NDQ	7.00	0.00	33.33	9.00	4.38	35
Marsh & McLennan	NYS	74.56	4.93	43.39	80.00	50.88	1177
Poe & Brown	NDQ	41.00	0.61	54.72	42.75	25.50	98
Sedgwick Group PLC	NYS	10.56	-0.59	1.81	10.88	9.38	18
Willis Corroon Corp.	NYS	11.00	4.76	-4.35	13.50	9.75	426
BROKERS	AVERAGE		2.10	31.87			
INSURERS/REINSURERS							
ACE Ltd.	NYS	98.31	6.86	63.51	101.06	55.75	638
Acceptance Insurance Cos.	NYS	23.81	5.25	20.57	28.63	17.75	72
AEGON N.V.	NYS	84.75	1.04	33.99	87.13	54.13	946
Aetna Life & Casualty	NYS	77.75	0.32	-2.81	118.13	68.00	2302
AFLAC Inc.	NYS	45.75	-2.01	7.02	57.88	37.50	1993
Allied Group Inc.	NYS	42.00	-7.57	28.74	53.63	27.38	378
Allstate Corp.	NYS	85.94	4.80	48.49	86.00	54.88	4042
AMBAC Indemnity Corp.	NYS	42.00	0.60	26.55	47.56	31.00	888
American Bankers Ins.	NDQ	40.75	10.14	59.41	40.75	23.75	565
American Financial Group	NYS	37.38	3.82	-0.99	49.25	32.38	293
American General	NYS	53.94	5.63	31.96	56.06	36.50	1998
American Heritage Life Ins.	NYS	37.50	7.72	42.86	40.50	21.75	76
American Indemnity/Fin'l	NDQ	12.75	6.25	24.39	15.50	9.50	81
American International	NYS	105.81	6.95	46.62	112.56	70.63	5588
Argonaut Group	NDQ	33.88	9.72	10.16	38.13	26.75	62
AXA-UAP Group	NYS	36.00	4.35	14.29	36.13	28.25	260
Baldwin & Lyons Inc.	NDQ	21.31	-2.01	15.99	22.63	17.38	0
Berkley W.R. Corp.	NDQ	42.38	2.73	25.25	46.38	28.88	485
Berkshire Hathaway Inc.	NYS	44500.00	0.23	30.50	48600.00	30000.00	1
Capital RE Corporation	NYS	56.50	1.01	21.18	62.63	38.25	170
Capitol Transamerica Corp.	NAS	24.00	-4.95	17.07	28.13	17.25	20
CapMac Holdings Ltd.	NYS	33.94	2.26	2.45	36.00	22.50	1647
Capsure Holdings Corp.	NYS	15.00	0.00	30.43	15.38	8.50	0
Centris Group Inc.	NYS	21.38	0.29	8.92	23.56	17.88	112
Chartwell Re	NYS	33.50	2.29	25.23	36.25	24.50	118
Chubb Corp.	NYS	70.19	3.89	30.58	76.31	51.13	1704
CIGNA Corp.	NYS	168.50	4.98	23.33	200.75	130.75	802
CNA Financial Corp.	NYS	123.44	2.81	15.36	132.25	96.38	74
CNA Surety	NYS	14.75	1.72	-1.67	16.50	12.88	104
EMC Insurance Group Inc.	NDQ	12.88	-4.63	7.29	15.00	10.75	35
Enhance Financial Services	NYS	56.88	2.82	55.82	59.25	33.56	128
Everest Reinsurance	NYS	39.44	0.00	37.17	43.00	25.38	426
Executive Risk Inc.	NYS	65.50	-1.87	77.03	72.75	33.88	139
EXEL Ltd.	NYS	62.63	-1.57	65.35	64.19	36.50	615
Fremont General Corp.	NYS	45.31	2.26	46.17	49.50	26.38	260
Frontier Insurance Group	NYS	23.50	-6.23	22.88	39.25	18.13	3600
Gainsco Inc.	NYS	8.13	-2.99	-15.58	10.19	8.13	542
General RE Corp.	NYS	201.50	2.68	27.73	208.88	151.00	659
Gryphon Holdings	NDQ	16.25	0.00	15.04	17.75	12.50	210
Guaranty National Corp.	NYS	35.94	0.17	114.55	36.13	15.38	29
Harleysville Group	NDQ	23.63	-1.56	54.92	27.50	14.00	230
Hartford Steam Boiler	NYS	51.75	1.35	11.59	56.69	43.50	218
HCC Insurance Holdings	NYS	19.63	-16.27	-18.23	32.69	19.00	3115
ING Groep N.V.	NYS	41.81	0.90	18.62	53.00	38.88	997
IPC Holdings Ltd.	NDQ	31.25	1.63	39.66	31.88	21.50	107
Hartford Financial Services	NYS	85.44	5.72	26.57	90.31	63.38	1153
LaSalle Re Ltd.	NDQ	33.25	2.31	13.68	36.13	24.50	68
Life Re Corp.	NYS	58.06	-0.96	50.32	59.38	35.88	77
Lincoln National	NYS	71.44	3.72	36.07	73.63	48.63	824
MAIC Holdings Inc.	NYS	28.50	2.24	68.27	30.50	15.13	25
Markel Corp.	NYS	155.63	1.72	72.92	161.13	83.00	6
MBIA Insurance Group	NYS	63.81	8.16	26.05	67.25	45.50	2038
Meadowbrook Insur. Group	NYS	23.38	0.81	11.31	26.63	20.00	19
Mid Ocean Ltd.	NYS	62.31	-0.50	18.69	66.75	44.13	221
MMI Cos. Inc.	NYS	24.38	-0.76	-24.42	32.75	20.75	36
Mutual Risk Mgmt. Ltd.	NYS	28.31	-3.00	53.04	29.75	15.00	216
NAC Re Corp.	NYS	45.13	1.69	33.21	52.88	32.63	405
Navigators Group	NDQ	19.19	3.72	5.14	22.50	15.75	32
Nobel Insurance Ltd.	NDQ	12.88	-8.04	2.49	15.38	11.38	35
NYMagic Inc.	NYS	26.38	-0.94	48.53	29.81	17.63	11
Ohio Casualty Corp.	NDQ	46.50	2.20	30.99	51.00	32.00	171
Old Republic Int'l	NYS	36.50	1.92	36.45	40.19	24.63	311
Orion Capital Corp.	NYS	46.00	2.36	50.51	51.00	29.50	191
Partner Re Ltd.	NYS	43.06	4.24	26.65	44.94	30.75	211
Penn-America Group Inc.	NDQ	18.25	-0.68	69.77	21.75	10.38	108
Philadelphia Cons. Holding	NDQ	17.88	-4.03	53.76	23.25	11.13	79
PXRE Corp.	NYS	31.06	2.47	25.51	33.63	23.25	160
Reliance Group Holdings	NYS	12.81	4.06	40.41	15.13	8.50	578
Reliastar Financial Corp.	NYS	35.94	3.05	24.46	40.75	27.00	821
RenaissanceRe Holdings Ltd.	NYS	41.75	-1.18	26.52	50.00	31.50	1788
Risk Capital Holdings	NDQ	23.00	3.37	18.71	23.38	15.88	20
RLI Corp.	NYS	42.88	3.00	28.46	46.25	29.00	514
St. Paul Companies	NYS	81.50	2.52	39.02	85.50	55.38	846
SCOR	NYS	43.88	2.63	27.64	47.25	34.00	3
SAFECO Corp.	NDQ	48.38	5.02	22.66	55.38	36.50	2119
Seibels Bruce Group	NDQ	7.63	0.00	-7.58	9.75	5.88	149
Selective Ins. Group	NDQ	51.88	-5.25	36.51	55.75	33.50	202
Sphere Drake Holdings	NYS	8.19	0.00	-7.75	10.50	8.13	625
Terra Nova Insurance Co. Ltd.	NYS	26.25	-1.87	22.09	30.00	18.00	35
TIG Holdings	NYS	32.94	0.57	-2.77	38.00	26.38	1072
Titan Holdings, Inc.	NYS	21.13	0.90	28.03	25.00	14.00	250
Tokio Marine & Fire	NDQ	45.38	4.31	-2.68	66.00	41.25	358
Torchmark Corp.	NYS	41.00	2.50	62.38	41.75	24.63	1981
Transatlantic Holdings	NYS	70.31	0.99	31.02	76.56	49.63	171
Travelers Property	NYS	40.00	9.59	13.07	43.56	31.38	2983
Travelers Corp.	NYS	50.44	7.12	66.74	51.50	27.38	11769
Trenwick Group Inc.	NDQ	34.88	0.72	13.11	39.63	30.75	63
Unico American Corp.	NDQ	13.13	0.00	20.69	14.13	8.88	40
Unionamerica Holdings	NYS	20.00	-0.62	12.68	22.75	14.75	33
United Fire & Casualty	NDQ	42.00	7.69	19.15	43.50	29.75	5
Unitrin	NDQ	61.75	-0.50	10.76	68.50	48.50	123
UNUM Corp.	NYS	49.44	0.00	36.85	51.31	33.63	1058
USF&G Corp.	NYS	20.69	3.12	-0.90	25.50	15.63	4390
Vesta Insurance Co.	NYS	57.06	-6.07	81.87	64.50	29.88	466
Washington National	NYS	33.00	0.38	20.00	33.13	27.13	141
Zenith National Ins.	NYS	27.38	-0.23	0.00	28.75	24.63	29
INSURERS/REINSURERS	AVERAGE		1.21	26.93			
HEALTH MAINTENANCE ORGANIZATIONS							
Humana Inc.	NYS	22.19	2.31	16.78	25.31	17.38	1336
Oxford Health Plans	NDQ	22.94	-7.79	-60.83	89.00	22.50	11350
Pacificare Health Sys.	NDQ	66.25	-1.85	-18.46	86.25	55.50	209
Saleguard Health Enter.	NDQ	12.88	2.49	-26.43	20.75	9.63	12
Sierra Health Services	NYS	37.38	2.75	51.78	41.63	23.75	186
United Healthcare Corp.	NYS	53.19	-0.12	18.19	60.13	41.88	2784
Wellpoint Health Networks	NYS	45.75	-4.56	33.09	61.13	28.25	1318
HMOs	AVERAGE		-0.97	2.02			
ALL COMPANIES	AVERAGE		0.78	20.27			

Top advancing issues: American Bankers Ins., Argonaut Group, Travelers Property. Leading decliners: HCC Insurance Holdings, Nobel Insurance Ltd., Oxford Health Plans. Most active issue: Travelers Corp. The *BI* Index rose 1.6%; the Dow Jones 30 Industrials gained 4.1%; the S&P 500 increased 3.7% and the NYSE Composite gained 3.5%. Average P/E: Brokers, 26.4; Insurers/reinsurers, 35.8; HMOs, 21.7.

System design: Nordby International Inc.