

- 1) Case load → adjuster
- 2) early intervention → investigator
- 3) specialization → professional

Provident Internal Memorandum

To: *Harold Chandler*
 From: *Ralph Mahney*
 Date: *May 22, 1995*
 Re: *Revised 1995 Budget - Individual Disability Claims*

HC - Begin implementation
- Move w/ sense of urgency
w/o risk of being out of control -
- 3rd party opinion for Bro

To support our vision of becoming the "best in industry" individual disability claim operation, a number of claim improvement initiatives have been identified and are currently being implemented.

Broadly, these initiatives (summarized in Attachment 1) are designed to move Provident from a claim payment to a claim management approach. The keys to this transition are (1) more intensive claim investigation and (2) skill development to maximize effectiveness. While developed internally, these initiatives have been validated and are supported by the LeBoeuf review.

Due to the significant financial leverage associated with individual disability claims, the return on these claim improvement initiatives is expected to be substantial. A 1% decrease in benefit costs due to more effective claim management translates to approximately \$6 million in annual savings. We believe that aggregate improvements in the 5% - 10% (\$30 million - \$60 million annually) range are possible - once the initiatives have been fully implemented. This range of potential savings is consistent with the recently completed Tillinghast study.

However, to achieve these results, significant investment will be required. Attachment 2 summarizes expense and manpower requirements associated with our recently revised 1995 budget. As shown in the attachment, 1995 expense is projected to grow 13% (\$1.3 million) over the original 1995 budget and 57% (\$3.3 million) over actual 1994 expense - on a comparable basis.

The substantial increase in expense is driven predominately by higher staffing levels. Compared to the original 1995 budget, staffing is up 41 positions. Attachment 3 provides a breakdown of the staffing changes.

This memorandum represents a request for formal approval of the manpower and expense additions necessary to fully implement our claim improvement initiatives. We believe that these additions are necessary and in the best interests of the company.

Achievement of our "best in industry" vision is inherently a long term proposition. However, it begins with continued support for our claim initiatives. We are convinced that these initiatives will far exceed the costs - even during 1995.

Please let me know what additional information is needed.

RWN:ajr
 cc: Tom Heys
 Al Morales

PROV 01101

EXHIBIT

000125

3