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## The RLI (Replacement Lens, Inc.) Story

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**T**he idea of putting "lenses" on the corneas of human eyes to improve vision dates back to the days of Leonardo de Vinci. Over the next many decades, several efforts were made to develop and produce lenses to fill the mission. It was not until the late 1940s that contact lenses, made from polymethyl methacrylate (PMMA), were produced to provide both safe and comfortable wear. Both eye professionals and consumers were ready and eager to try this product.

Like we, most optometrists began adding contact lens fittings to our practices. World War II had ended and many of the optometrists who had graduated in the early 1940s were returning to civilian life and, for the most part, opening private practices. They were excited to encompass a new product for their patients and for their bottom lines. Contact lenses were considered then a "big ticket" item, much like dentures were to dentistry.

Many of our colleagues had gone through the difficult experiences in fitting scleral lenses. They welcomed the Tuohy corneal lenses and other micro lenses. Not only were these smaller contact lenses easier to fit but also they provided greater patient satisfaction. But the lenses were small and they occasional fell off the cornea and were lost.

The dilemma that faced the eye care professionals was a business one. Contact lenses themselves, as they came from the manufacturing laboratories, were not really expensive. Some lenses needed a little in-office modification to provide better comfort. All the lenses seemed to require a long and drawn out fitting procedure. What does one charge the patient for the fitting and for the materials?

It was no problem to set a bundled fee that included the eye examination, the contact lens fitting fee, and a pair of contact lenses. The predicament was what to charge for a lost lens that did not require another examination or another contact lens fitting. Some doctors just charged half the original fee for a lost lens; others made the charge smaller but not significantly so

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## Enter Jerry Stephens

Jerry Stephens was a near-sighted 18 year old living in Peoria, Illinois. His hopes for becoming an Air Force pilot were nixed because of his poor vision. He reluctantly made the decision to follow his family in the insurance business. His father and two uncles were insurance agents.

Jerry tells what happened: "I did some research and found the University of Wisconsin was among the top undergraduate insurance and risk management schools in the country (and still is). As the Korean War was raging, I became an ROTC 2nd Lt. in the infantry upon graduation. After spending close to two years in Korea I joined my father in the insurance agency business. I also became a private pilot.

"Still upset about wearing glasses, I visited my optometrist, Dr. Jerry Conlogue, in 1958 and he fit me with contact lenses. Thinking that I would like to insure my valuable lenses, I looked but could not find an insurance company to insure them. I decided to propose an "insurance plan" to Dr. Conlogue for his patients. He turned me down, saying it just would not work. I kept going back to him with idea after idea and he kept rejecting them. In the process, I made sure that Dr. Conlogue became knowledgeable about the insurance business and at the same time, I was learning a little about the contact lens industry as it existed then. Three years later we jointly decided to test the waters and we borrowed \$1,000 for the adventure."

## Replacement Lens, Inc. Created

Stephens continues, recalling: "In 1961, Dr. Conlogue and I formed an insurance agency named "Replacement Lens, Inc." We first offered Dr. Conlogue's patients a proposal to buy insurance coverage for their contacts. Over time we provided similar opportunities to the doctors who used Conlogue's small (ProCon) contact lens laboratory for the lenses they dispensed to their patients. Conlogue's lab serviced about 30 optometrists and they became important supporters of the new venture. By 1965 we had the insurance product perfected and felt the need for our own insurance company. We had been agents of West Bend Mutual up until this time.

"We incorporated a Holding company and named it 'Replacement Lens Investment Company.' It later became known as RLI Corp. Jerry Conlogue and I sold stock to 32 people, most of whom were optometrists and friends. On that list were many of the 'Who's Who' in the Illinois Optometric Association leadership, the president and vice president of the Illinois College of Optometry, and others in private practice. We formed a talented Board of Directors: Gene Strawn, O.D., Don Frantz, O.D., Steve Gard, O.D., Jerry Conlogue, O.D., Warren Kreft, M.D., Evelyn Corell, Optician, and Jerry Stephens.

"We raised about \$300,000, acquired a dormant small insurance company for \$100,000 and spent the other \$200,000 on a nationwide marketing effort. We placed full page ads in national consumer magazines, like *Life*, *McCalls*, and *Seventeen*. However, we did not include our phone number or address; instead we referred patients to their contact lens professionals. We also mailed an application dispenser and tear sheet to every contact lens fitter in the nation.

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"Having done this, we had little funds left at year end. Fortunately the ad campaign worked. We produced only \$100,000 in premiums in 1965; that number grew to \$600,000 the next year and doubled year after year for many years."

## **The Company Grew and Grew**

In 1969, RLI went public to raise money to convert its mutual insurance company to a stock company and increase its surplus to gain admittance to other states. The laws had changed allowing states to require direct mail insurance companies such as RLI to be admitted. However, RLI did not have enough capital for admittance.

In 1972 soft contact lenses were approved by the FDA and our stock price went from \$8 a share to \$38 a share overnight! And the company soared. As noted by Chairman Stephens, "the original \$1000 of borrowed capital had by 2006 blossomed into a market cap in excess of \$1.2 billion and now exceeds \$3 billion."

## **Running the Company**

It took a lot of effort to start and run an insurance company. Internally RLI had a dedicated, hardworking team of employees. To pique their interest and enthusiasm and dedication, CEO Stephens began a program in April 1990 called "Message of the Week." These messages had a unique beginning. Stephens was addicted to running and, in order to make his morning exercise more interesting, he always listened to tapes of motivational talks. This led to a collection of a substantial library of books and tapes. When he returned from a run, he would jot down a few notes and store them.

As Stephens remembers "On Saturday, I composed a short "Message of the Week" essay about current issues at RLI, borrowing from my notes for help. Monday morning each employee of RLI found the essay at his or her work station. I did miss a few weeks each year and when I was traveling, my executive assistant was known to repeat past messages. Of course, some themes were repeated several times in different ways. The theory was to tell it, tell it again, tell it a different way, and then repeat it."

No doubt about it, the Messages had a good impact. It led to a distinct RLI culture. A book of the essays was published in 2007 and in his introduction, Mr. Stephens noted: "Key values were repeated many times over the years for the benefit of new employees and to drive home our unwavering concern about ethical behavior and the value of serving our customer in an outstanding manner."

On its way to a \$3 Billion property and casualty company, RLI had many ups and downs. Replacement Lens, Inc. became RLI Vision Corp. providing practice management software and other products to the profession. It had a great sales force but contact lens prices had declined to the point where insurance was not necessary.

Over time the demand for contact lens insurance shrank with the emergence of more affordable disposable soft contact lenses. In order to remain in business, in the early 1980's Stephens expanded RLI's offerings to include specialty lines of commercial property and liability insurance. In 1994, the company retired its founding contact lens insurance product and in 1996, RLI merged its RLI Vision subsidiary with Maui Jim, a manufacturer of luxury sunglasses.

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Maui Jim (now 44% owned by RLI) has been successful expanding worldwide providing plano and prescription quality sun glasses.

Beginning in 1972, the company started an employee stock ownership program which continues today. Every single RLI employee is a stockholder. Due to the success of the company, RLI has a wealthy staff.

In summary, RLI was made possible by its outstanding original professional founders and Board. They were willing to risk not only money, but reputation. People in the insurance industry said it could not be done. Too small of a premium and too many government regulations. But as Stephens aptly put it: “Our founders were brave enough to invest in a little company with a big idea.” The reward was substantial. Their stock has a \$.02 basis and at this writing is trading on the NYSE at \$68.