APRIL 10, 1989

Business Insurance

Reporting weekly for corporate risk, employee benefit and financial executives / $1.75 a copy; $70 a year

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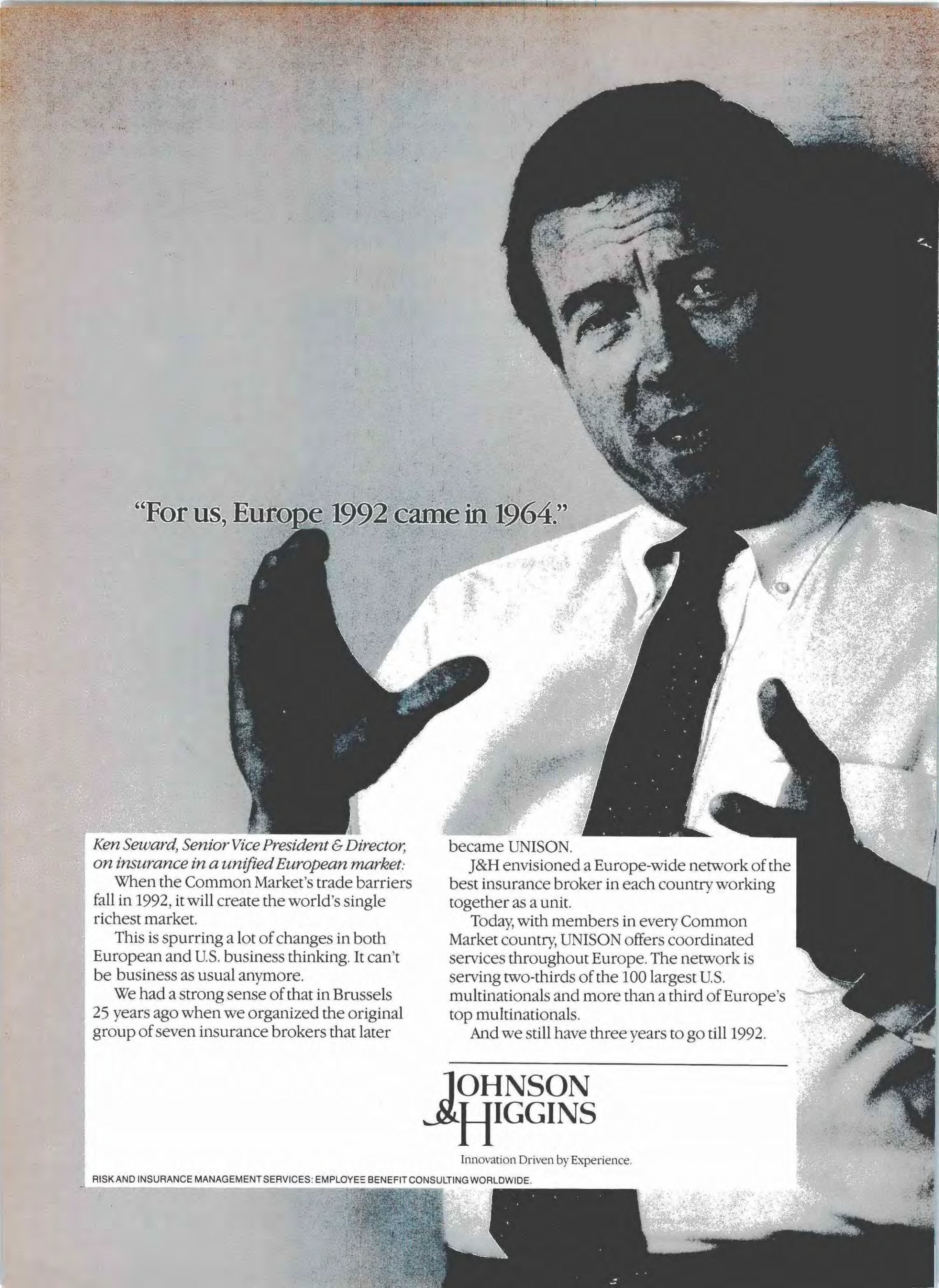
Risk Management Honor Roll

John A. Lindquist
Browning-Ferris Industries Inc.
Large Corporation

J. Douglas Higley
State of Louisiana
Government Entity

Risk Manager of the Year

Jeffrey W. Pettegrew
Contra Costa County Municipal Risk Management Insurance Authority



Ken Seward, Senior Vice President & Director, on insurance in a unified European market:

When the Common Market's trade barriers fall in 1992, it will create the world's single richest market.

This is spurring a lot of changes in both European and U.S. business thinking. It can't be business as usual anymore.

We had a strong sense of that in Brussels 25 years ago when we organized the original group of seven insurance brokers that later became UNISON.

J&H envisioned a Europe-wide network of the best insurance broker in each country working together as a unit.

Today, with members in every Common Market country, UNISON offers coordinated services throughout Europe. The network is serving two-thirds of the 100 largest U.S. multinationals and more than a third of Europe's top multinationals.

And we still have three years to go till 1992.

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RISK AND INSURANCE MANAGEMENT SERVICES: EMPLOYEE BENEFIT CONSULTING WORLDWIDE.

APRIL 10, 1989

Business Insurance ®

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Update

Fishermen, gas consumers sue Exxon, others over Alaska oil spill

ANCHORAGE, Alaska—Exxon Corp. and other defendants face several lawsuits filed by, among others, fishermen in Alaska and gasoline consumers in California in connection with the 10.1 million-gallon oil spill in Prince William Sound.

Alaska fishermen are seeking unspecified damages in a suit filed in the 3rd District Superior Court in Anchorage. Fishermen Martin Goreson and James R. Goreson, who seek class-action status of

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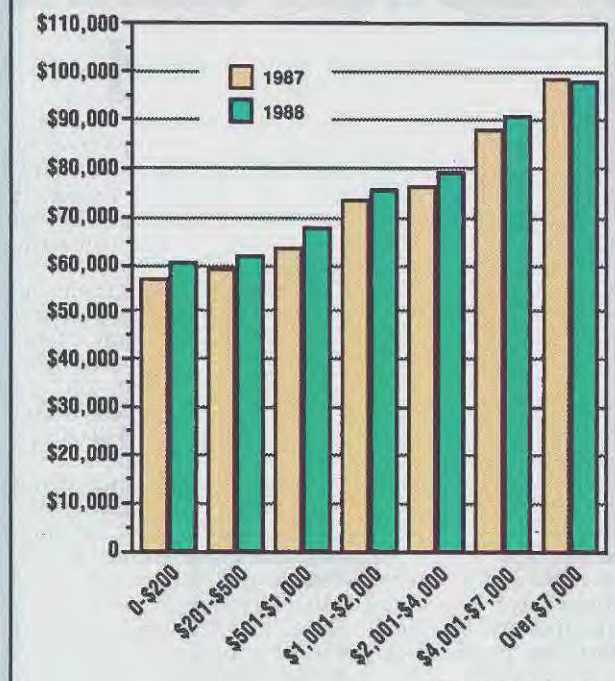
Risk managers

Compensation rises, but bonuses drop

Risk managers' average compensation
(by company sales in millions of dollars)



Source: Logic Associates

By JERRY GEISEL

NEW YORK—Risk managers' average compensation continues to climb, in spite of plunging bonuses, a recent survey finds.

After sharply increasing in 1987, bonuses dropped by double-digit amounts for the nation's risk managers last year, according to the survey.

But the slump in bonuses generally was more than offset by higher salaries, says Logic Associates Inc. in its newly released 1988 salary and compensation survey.

Boosted by average salary increases that ranged from 3% to 8%, most risk managers saw their total compensation—salary and bonus—last year rise by 3% to 6%, the survey says.

Only at the nation's largest employers—those with more than $7 billion in annual sales—did risk managers' 1988 compensation tail off. Compensation for risk managers employed at the largest companies last year fell 2%, based on salary increases of 3% and a 35% decline in bonuses.

In spite of this slight dip in compensation, risk managers employed at the largest companies continue to enjoy the largest compensation packages among the nation's risk managers. For example, the $97,950 in average compensation earned last year by risk managers at companies with more than $7 billion in sales is 63% greater than the $60,180 earned in 1988 by risk managers at the smallest companies—those with less than $201 million in sales.

"In general, if you work for a larger company, you are going to have more responsibilities. Those who have the most responsibilities tend to have the highest compensation," said Bill Perry, president of Logic Associates, a New York-based recruiting firm specializing in risk management.

The results of the Logic Associates annual survey are

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Tort reform, comp are top concerns

By STACY ADLER

WASHINGTON—For the second consecutive year, risk managers consider tort reforms and state-mandated expansion of the workers compensation system the most important public policy issues facing corporate America, according to a survey to be released today.

The number and severity of insurer insolvencies is another issue of increasing concern to risk managers, according to a nationwide poll by broker Alexander & Alexander Services Inc.

However, risk managers' concern for AIDS-related issues is declining, the survey shows.

And, conspicuously absent from risk managers' list of top concerns are state referenda mandating rollbacks in insurance prices and repeal of the McCarran-Ferguson Act, which gives insurers limited immunity from antitrust statutes.

The "National Risk Management Survey," conducted by A&A between Feb. 6 and March 17 of this year, asked 1,900 risk managers to rank the importance to their companies of 58 different public policy issues. About 17%, or 317 risk managers, responded to the second annual A&A poll (*BI*, April 18, 1988).

Last year's survey also queried insurers, but the response rate from insurers—6%—did not justify the cost of including them in the 1989 survey, according to Robert H. Moore, senior vp of A&A Services Inc. in Washington, D.C.

More than half of the questions in the 1989 survey are new or represent significant modifications from the 1988 survey, explained Mr. Moore, making comparisons between the two surveys difficult.

A report on the 1989 A&A survey will be officially released today in Atlanta where the 27th annual conference of the Risk & Insurance Management Society Inc. is under way.

"The survey shows that risk managers are increasingly aware that public policy issues can affect their company's financial liability," said Mr. Moore.

"The survey shows risk managers are very interested in bottom-line issues," agreed Howard Greene, associate legislative director for RIMS in New York. "They are not interested in theoretical topics but rather, the nitty-gritty."

Richard Heydinger, outgoing RIMS president and risk management director for Hallmark Cards Inc. in Kansas City, Mo., said: "The nature of risk management is to deal with the hands-on, here-and-now issues

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ISO to stop providing final rates

By DEBORAH SHALOWITZ, JUDY GREENWALD and MEG FLETCHER

WASHINGTON—The Insurance Services Office Inc.'s decision to stop providing insurers with fully developed advisory rates beginning next year could hamper insurer solvency regulation and lead to reduced competition and higher insurance rates, risk managers and insurers say.

However, state regulators welcome the decision, saying that it reflects the spirit of a resolution issued early last month by the National Assn. of Insurance Commissioners' Advisory Organization Activities Working Group (*BI*, March 13).

And, risk managers as well as regulators enthusiastically applaud ISO's decision to open up its board to three members chosen from the public and guarantee representation to smaller insurers.

ISO admitted its actions are designed, at least in part, to quell congressional efforts to repeal the McCarran-Ferguson Act, which continued last week (see story, page 152).

ISO Chairman Gerald L. Maatman says that ISO's actions are not, however, in response to the massive antitrust litigation brought by attorneys general from 19 states.

New York-based ISO unveiled its decisions last week in Washington, D.C., the day before a third and final public hearing was held by the NAIC subgroup on the appropriate role of ratemaking organizations.

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Transit failure under scrutiny

By DOUGLAS McLEOD

WASHINGTON—After hastening the $2 billion collapse of Transit Casualty Co., a Transit managing general agent was able to form a new Louisiana insurer and bleed it into insolvency, the insurers' receivers told a House panel last week.

In an ongoing inquiry into the adequacy of state insurance regulation, the House Oversight and Investigations Subcommittee focused Wednesday on the role of Carlos I. Miro in the 1985 Transit insolvency and the subsequent collapse of Anglo-American Insurance Co.

Mr. Miro, a former Transit MGA, was the founder and majority shareholder of Anglo-American, which was declared insolvent by $19 million and ordered into liquidation last month.

Several MGAs, including Mr. Miro, generated horrendous losses for Transit between 1980 and 1985, a period during which the insurer's business was "out of control," said J. Burleigh Arnold, Missouri special deputy receiver for Transit.

Mr. Miro's company had produced $102 million in gross premiums by 1985, binding Transit as a fronting insurer and ceding most of the premiums to offshore reinsurers he controlled, Mr. Arnold testified.

He cited several disastrous problems with the Miro business, including inability to collect from reinsurers, disap-

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Spotlight on captives . . . Page 3

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Update

Oil spill suits filed

Continued from previous page
the suit, filed it on behalf of other commercial fishermen that fish in the sound.

The suit names Exxon Corp.; Exxon Shipping Co., a subsidiary that owns the tanker that grounded; the Alaska Department of Environmental Conservation; Alyeska Pipeline Service Co., a consortium of eight companies that operates the Valdez oil terminal; and Joseph Hazelwood, captain of the Exxon Valdez when it grounded.

The suit charges them with gross negligence for their role in the spill or initial cleanup efforts.

The Alaska Department of Fish and Game last week canceled the sound's herring season. The season accounts for about $12 million of the fishing industry's $100 million to $250 million in annual revenues.

The March 24 oil spill, which had spread over more than 2,000 square miles last week, also threatens long-term damage to commercial fishing in Prince William Sound (*BI*, April 3).

And, a suit filed in U.S. District Court in Santa Ana, Calif., last week charges Exxon Corp. and Alyeska with negligence for their role in the spill and seeks damages to compensate gasoline consumers in California.

Gasoline prices in California are going up 10 cents to 20 cents a gallon, and some 40% of the state's gasoline supply produced from Alaska crude oil.

Damages could total $50 million or more, based on a conservative estimate of $5 of damages per registered vehicle in the state, said Newport Beach plaintiffs' attorney Peter A. Seidenberg of Steering & Seidenberg.

Exxon had not responded to the lawsuits last week.

Mr. Hazelwood, charged by Alaska authorities with three misdemeanors related to operating the Valdez while intoxicated, surrendered Wednesday to authorities in Suffolk County, New York. He was arraigned in New York and is free on $25,000 bond.

DES ruling expands liability

ALBANY, N.Y.—Litigation is expected among pharmaceutical manufacturers and their insurers after a New York state Court of Appeals ruled that the makers of DES can be held liable for damages based on their percentage of market share at the time the drug was prescribed.

In a companion ruling, New York Chief Judge Sol Wachtler upheld the constitutionality of a 1986 state law that extended the statute of limitations for filing suits related to DES and four other substances widely considered to cause health problems.

Both rulings stem from a lawsuit filed by four New York women against eight manufacturers of DES, or diethylstilbestrol, a drug designed to prevent miscarriages and alleviate morning sickness in pregnant women that later was linked to cancer in their adult daughters.

The defendants included: Eli Lilly & Co., Merck & Co. Inc., E.R. Squibb & Sons Inc., Upjohn Co., Abbott Laboratories, Boyle Co., Rexall Drug Co. and the Rorer Group Inc.

Damages in the case have not been awarded yet.

"You're going to see a situation similar to asbestos," where manufacturers are battling with their insurers to establish coverage, said Kirk Metcalf, senior vp with Corroon & Black Corp. of New York.

However, he says he doubts there would be a substantial amount of insurance coverage available to pay DES-related claims. "I'd be very surprised if any company carried even $10 million in limits."

While none of the DES manufacturers involved in the litigation would comment on its insurance coverage, Bob McDonough, manager-public policy planning for Upjohn said: "We are in the process of going to court with our insurers to determine coverage for this type of latent liability."

The New York ruling is an extension of a similar California case, *Judith Sindell vs. Abbott Laboratories, et. al.* (*BI*, Nov. 28, 1983). But in that case, DES makers were able to escape liability by proving that they did not make the drug that a specific plaintiff took.

Approximately 300 different companies manufactured DES between 1941, when the Food and Drug Administration approved DES, and 1971, when the FDA banned use of the drug.

Maxicare reports 1988 loss

LOS ANGELES—Maxicare Health Plans Inc., the national health maintenance organization company that filed for Chapter 11 protection last month, reported an unaudited loss of of $267.8 million on revenues of $1.67 billion for the year ended Dec. 31, 1988.

For 1988's fourth quarter, Maxicare reported an unaudited loss of $17.2 million on revenues of $318.5 million.

Maxicare has reported more than $500 million in losses since the beginning of 1987.

Meanwhile, the Illinois Department of Insurance on April 3 filed a motion to dismiss the Chapter 11 proceedings against Maxicare Health Plans of the Midwest Inc. The HMO serves 315,000 members in Illinois, Indiana, Ohio and Wisconsin.

The suit says Illinois officials would have taken control of the HMO but that Maxicare gave assurances it would not seek Chapter 11 bankruptcy protection. The suit also alleges that the bankruptcy filing was intended to delay action by the depart-

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Errors & omissions

• Due to an editing error, a story about Mentor Insurance Ltd. in the April 3 issue incorrectly reported that arbitrators in a reinsurance dispute involving Mentor and Kemper Reinsurance Co. ruled that Mentor's liquidators had "attempted to hide the truth" regarding business ceded to the reinsurer. The statement instead was made by Kemper Re attorneys in a filing with the arbitrators.

Asbestos ruling taps government for money

By STACY ADLER

BOSTON—Asbestos producers are claiming a "breakthrough" in their seven-year battle to make the federal government share responsibility for asbestos injuries.

For the first time, a court is forcing the U.S. government to contribute to an asbestos bodily injury settlement.

However, the victory is limited because it involves a settlement with a family member exposed to asbestos brought home by an asbestos worker, not the worker himself.

These "third-party" asbestos lawsuits are only a fraction of the asbestos bodily injury claims pending.

Nonetheless, the decision by the 1st U.S. Circuit Court of Appeals in Boston could spark some increased litigation by other asbestos producers—as well as other types of manufacturers—to force the government to contribute to asbestos injury settlements, attorneys representing asbestos producers say.

The federal appellate decision stemmed from a suit filed by four asbestos producers seeking to force the government to contribute to a $512,000 settlement they made to the daughter of a Navy shipyard worker who contracted mesothelioma from her father's work clothes.

The four asbestos producers that brought the lawsuit against the government—Raymark Industries Inc., Owens-Illinois Inc., Celotex Corp. and Eagle-Picher Industries Inc.—paid $139,746 of the $512,000 settlement. Other asbestos producers paid the remainder.

Originally, the U.S. District Court for the District of Maine had ruled that even though the U.S. government was negligent in failing to warn domestic bystanders of the dangers of asbestos from 1964 onward, it was immune from liability under the Federal Tort Claims Act.

Under the Federal Tort Claims Act, which permits individuals to sue the government in some instances, the government is not liable when its alleged negligence arises out of a "discretionary function," in other words, a policy decision.

While the Navy had no policy relating to warning domestic bystanders of the hazards of asbestos, the trial court said that because the government could have considered making such a policy, it had immunity from liability under the "discretionary function" exception of the FTCA.

But on March 27, the 1st Circuit overturned the lower court's decision, ruling that the U.S. government is liable for one-third of the $139,746 paid by the four asbestos producers, or $46,582.

Continued on page 151

Business interruption claims from blast may top record

By CAROLYN ALDRED and STACY SHAPIRO

ANTWERP, Belgium—A recent explosion at an ethylene oxide production plant in Antwerp, Belgium, could produce a $270 million business interruption insurance claim, perhaps the largest non-marine business interruption loss in history, underwriters say.

The March 7 explosion in the distillation room of the Antwerp plant owned by Ludwigshafen, West Germany-based chemical producer BASF A.G. caused as much as $347.1 million in property damage and business interruption losses. However, the blast only slightly injured five workers.

This disaster and several other large losses this year could boost rates for chemical manufacturers' business interruption insurance, at least one underwriter suggests.

The largest non-marine property loss in history is believed to be the 1987 vapor cloud explosion at a Hoechst Celanese Corp. chemical plant in Pampa, Texas, which produced an estimated $358.9 million gross loss for Hopewell International Insurance Ltd., which was paid by reinsurers worldwide. However, only about 40% of that loss—or $143.6 million—represented business interruption losses.

BASF initially estimated that its combined property and business interruption loss from the explosion would total only 150 million deutsche marks ($80.1 million), said a BASF spokesman in Ludwigshafen last week.

However, the price of ethylene oxide has skyrocketed since the explosion, significantly boosting the size of business interruption estimates.

Thus, underwriters now project the total insured property damage/business interruption loss could be as high as $347.1 million.

The plant is expected to be closed for the next two years "or longer," said BASF's spokesman. The plant's reopening will hinge on the investigation of "what caused the damage," he said.

Although the plant is one of two owned by BASF that produce the chemical, there are only a few ethylene oxide plants in the world, the spokesman explained. The chemical is used to make antifreeze, rocket propellant and plastic products.

Current estimates indicate insurers will pay out the full 500 million deutsche marks ($267.1 million) in business interruption limits purchased by BASF as well as about 130 million to 140 million deutsche marks ($69.4 million to $74.8 million) for property damage, said Dietmar Nowak, a member of the board of Gerling-Konzern Insurance A.G. of Cologne, West Germany.

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Inside

✓ ON THE COVER: Jeffrey W. Pettegrew, risk manager and chief administrative officer of the Contra Costa County Municipal Risk Management Authority, is the 1989 *Business Insurance* Risk Manager of the Year. (Photo: Mary Herlehy) **PAGE 120**

✓ John A. Lindquist, divisional vp-risk management and loss control of Browning-Ferris Industries Inc., is a member of the 1989 Risk Management Honor Roll, representing large corporations. **PAGE 133**

✓ J. Douglas Higley, risk director for the state of Louisiana. is named to the 1989 Risk Management Honor Roll, representing government entities. **PAGE 139**

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Photo: Kathryn J. McIntyre

Front Street in Hamilton, Bermuda, home to captive insurance company managers and commercial reinsurers, bustles with business people and tourists.

Bermuda: Still in front

Soft market taking its toll on new captive formations

By DOUGLAS McLEOD

HAMILTON, Bermuda—Having survived several recent threats to its growth, the Bermuda captive insurance industry is now weathering the effects of a force beyond its control: the soft commercial property/casualty insurance market.

Like other onshore and offshore domiciles, Bermuda last year saw the rate of new captive incorporations slow.

Captive managers are unanimous in fixing the blame for the slowdown on the soft market, which not only is retarding new formations but also is holding back expansion of many existing single-parent and group captives.

Noting that the commercial market may remain competitive at least through the end of this year and probably into 1990, several managers say they aren't expecting a reprise this year of the growth spurt the last hard market brought to Bermuda in 1986.

Many captive owners and managers "are waiting to see what the next hard market brings," observed Stuart H. Grayston, president and chief executive officer of Frank B. Hall (Bermuda) Ltd.

"Most people are just regrouping at this point," he said. "There's not a lot of new activity. Most people are taking a look at their programs, taking a breather."

"We don't expect the market to turn this year. There's a general belief that the market will turn at the end of this year or middle of next year," noted Brian R. Hall, president of Johnson & Higgins (Bermuda) Ltd., the island's largest captive manager. "So we see a continuing soft year for captives."

However, the soft market hardly means the Bermuda captive industry has ground to a halt: J&H (Bermuda) and several other managers report gains, however slight, both in captives under manage-

Continued on next page

Coffers filled with cash, market exudes confidence

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Money—serious money—has a way of creating self-confidence.

That's clearly what has happened to the psyche of the commercial property/casualty insurance and reinsurance market operating in Bermuda.

There is a new aura of self-esteem that pervades Front Street, Bermuda's bustling waterfront thoroughfare, and the almost as crowded side streets of Hamilton where new office buildings are in various stages of completion to house the growing insurance and reinsurance business.

In the last two years, newly invested money and profits earned in the commercial property/casualty insurance and reinsurance business in Bermuda have topped $1.2 billion.

Included in that figure is $491 million in net income at A.C.E. Insurance Co. Ltd. in the last two years. The liability specialist, writing limits excess of $100 million in Bermuda, boasts $1.1 billion in policyholder surplus as of Feb. 28 (see story, page 28).

(X.L. Insurance Co. Ltd., which earned income of $282.5 million in the last two years writing $75 million in liability limits excess of $25 million, and other lines, cannot be counted because it is incorporated in Barbados. In spirit, however, Bermuda has adopted X.L. by virtue of its contact office in Bermuda.)

Also included in the $1.2 billion are new investments in financial reinsurers and their earnings, the largest of which is Centre Reinsurance Holdings Ltd., with $244 million in policyholder surplus at year-end 1988 (see story, page 44).

Total policyholder surplus invested in seven financial reinsurance underwriters in Bermuda tops $406 million and income for three that have released financial statements totals $14.8 million.

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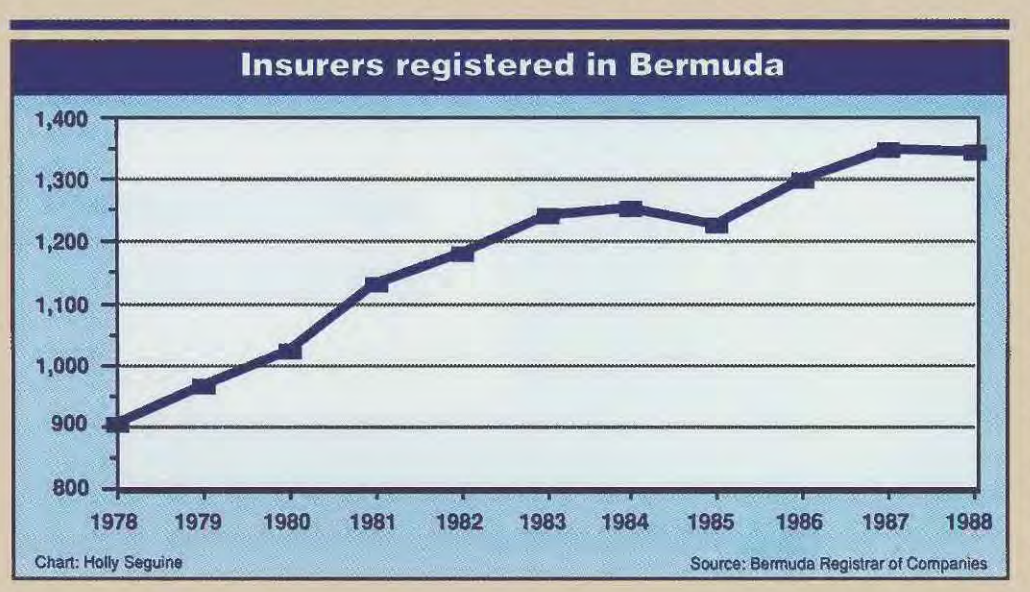

Bermuda captives

Continued from previous page
ment and in premium volume last year.

Overall, Bermuda saw 58 new incorporations last year, a nearly 30% drop from 82 incorporations in 1987. The 1987 number also represented a 34% decline from the peak year of 1986, when 125 new insurance companies were formed.

In 1987, the last year for which statistics are available, Bermuda-based captives and commercial underwriters wrote $10.3 billion in gross premiums, down 20.4% from $12.4 billion in 1986. Net premium volume fell 23.1% to $8 billion in 1987 from $10.4 billion in 1986.

The majority of business continues to come from the United States, though U.S. parent companies accounted for a smaller percentage of new incorporations last year.

U.S. owners formed 56% of new Bermuda insurers last year, down from 66% in 1987. Proportionally larger numbers of new incorporations last year came from parent companies in the United Kingdom, Canada, Europe, the Far East, Scandinavia and other jurisdictions, according to Bermuda government statistics.

Last year, 27% of the newly incorporated insurers were formed to write casualty lines, while 23% were formed to write property; 15% professional liability; 11% automobile coverages; 7% workers compensation; 7% marine and aviation; 4% product liability; 3% life and accident; and 3% special risks.

Half the newly formed captives were set up to write two or more classes of risks.

While Bermuda added 58 insurers to its register of companies last year, it removed 65 as a result of mergers of U.S. parent companies, voluntary windings up, amalgamations and—in a couple of cases—transfers to other domiciles.

This resulted in a net decline of seven insurers, bringing the domicile's total to 1,337 at the end of last year compared with 1,344 at year-end 1987.

Asked about the continuing slowdown in Bermuda's growth, some managers pointed out that Bermuda's main rivals—Barbados, Vermont and the Cayman Islands—also reported declines in the number of new incorporations last year.

The managers also noted that Bermuda still took the lion's share of new captive business last year, beating out its competitors.

"Bermuda in my opinion will be the major player for the foreseeable future," said Philip Stamp, managing director of Alexander Insurance Managers Ltd., a unit of Alexander & Alexander Services Inc.

"It's taken Bermuda 20 or 30 years to get where it is," he added, suggesting that most U.S., offshore and European domiciles have significant catching up to do.

Meanwhile, several other developments last year have left Bermuda captive managers breathing easier about what they had seen as potential threats to the island's future growth.

The U.S. Senate last fall ratified the Bermuda tax treaty, which among other things granted an exemption from federal excise tax on captive premiums, effectively putting Bermuda on a level playing field with Barbados, which has enjoyed a similar exemption since 1986.

The Bermuda tax exemption is retroactive for some captives to Jan. 1, 1986. However, the exemptions in both the Bermuda and Barbados treaties are due to expire at the end of this year.

Managers are now wrestling with the technical problems of applying for refunds of excise taxes paid in 1986, and while hundreds of Bermuda insurers and reinsurers are expected to apply, others may not (see story, page 46).

"Some people are going to take a look at it and say it's not worth the trouble of collecting it," observed David Ezekiel, president and managing director of International Advisory Services Ltd.

While regarding the excise tax exemption as a "nice bonus" for some captives, several managers concur that it will have little impact on ongoing business. These managers take a larger view of the treaty's importance.

"It has been seen as a kind of stamp of approval that Bermuda must do things quite well or (the United States) would not have entertained this idea," explained Andrew D. Carr, president of Marsh & McLennan (Bermuda) Ltd.

Another worry of captive managers until last fall was the 1986 Tax Reform Act, which appeared to confront Bermuda captives with the threat of three separate tax liabilities: corporate income tax, branch profits tax and a tax on dividends received by shareholders.

However, a technical corrections bill passed by Congress last year alleviated these worries, allowing controlled foreign corporations in the insurance business to choose to be treated as U.S. taxpayers.

The "permanent establishment" provision of the Bermuda tax treaty also defined when a Bermuda captive will be found to be engaged in U.S. trade or business and subject to U.S. income and branch tax (*BI*, Nov. 7, 1988).

Competition among domiciles still is a factor, though, and may actually be heating up: A few Bermuda managers report that the parent companies of some of their captive clients have recently received letters from the Vermont Agency of Development and Community Affairs urging them to look at the state if they are considering repatriating their captives or setting up separate domestic captives.

"Vermont is a domicile that is accepted by other regulators. Here you can help our balance of payments by keeping your dollars on-shore," the letter reads in part.

"That's really a hard sell, isn't it?" one Bermuda manager commented.

Both Bermuda and Vermont will have booths at this week's Risk & Insurance Management Society conference in Atlanta, as will several other domiciles.

While some tax worries are behind them, Bermuda managers are now expressing concerns about another potential problem: the possibility that after the tax treaty's excise tax exemption expires at year-end, the U.S. may increase the federal excise tax on reinsurance premiums to 4% from 1% to match the current 4% tax on direct insurance premiums.

"The 1% figure was marginal. . .but a 4% figure could be substantial enough to influence domicile selection," noted Warren D. Sproule, president and managing director of Sedgwick James (Bermuda) Ltd., the newly merged management operations of Fred S. James & Co. Inc. and its parent, Sedgwick Group P.L.C.

"Technically, it's a serious problem," M&M's Mr. Carr agreed, describing the Bermuda management community's concern about the issue as "considerable."

But, he added that for many captives formed purely for risk management reasons, an increase in FET may not make a big difference.

Other developments in Bermuda in the last year include:

- Continuing difficulties for two captive reinsurance pools hit by soft market pressures.

Corporate Insurance & Reinsurance Co. Ltd. has discontinued underwriting and will shut itself down, while the Risk Exchange Assn. has lost members and premium volume (see story, page 18).

- Mixed results for several rent-a-captive facilities (see story, page 16).
- Reshuffling of top executives at several management companies.

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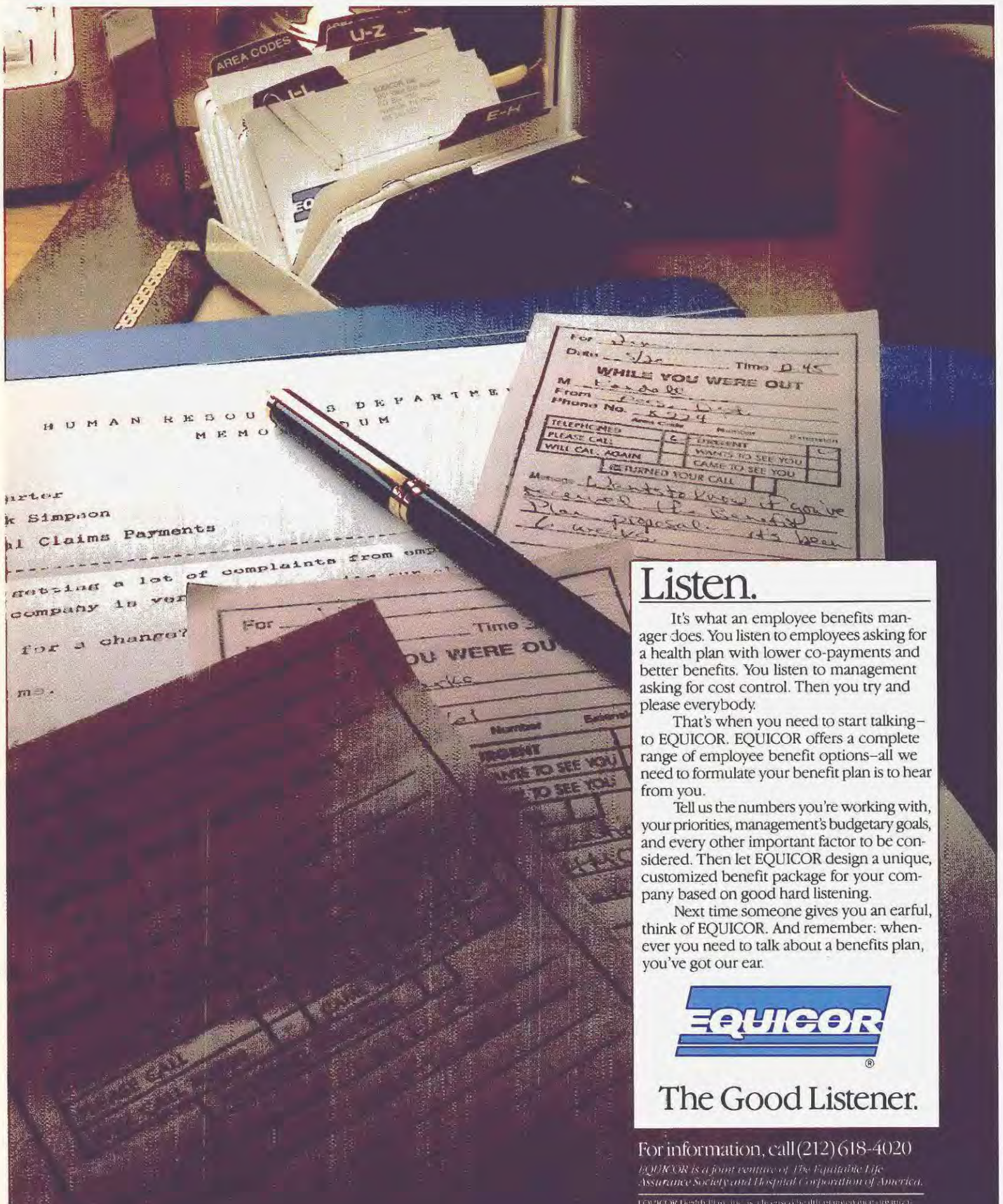

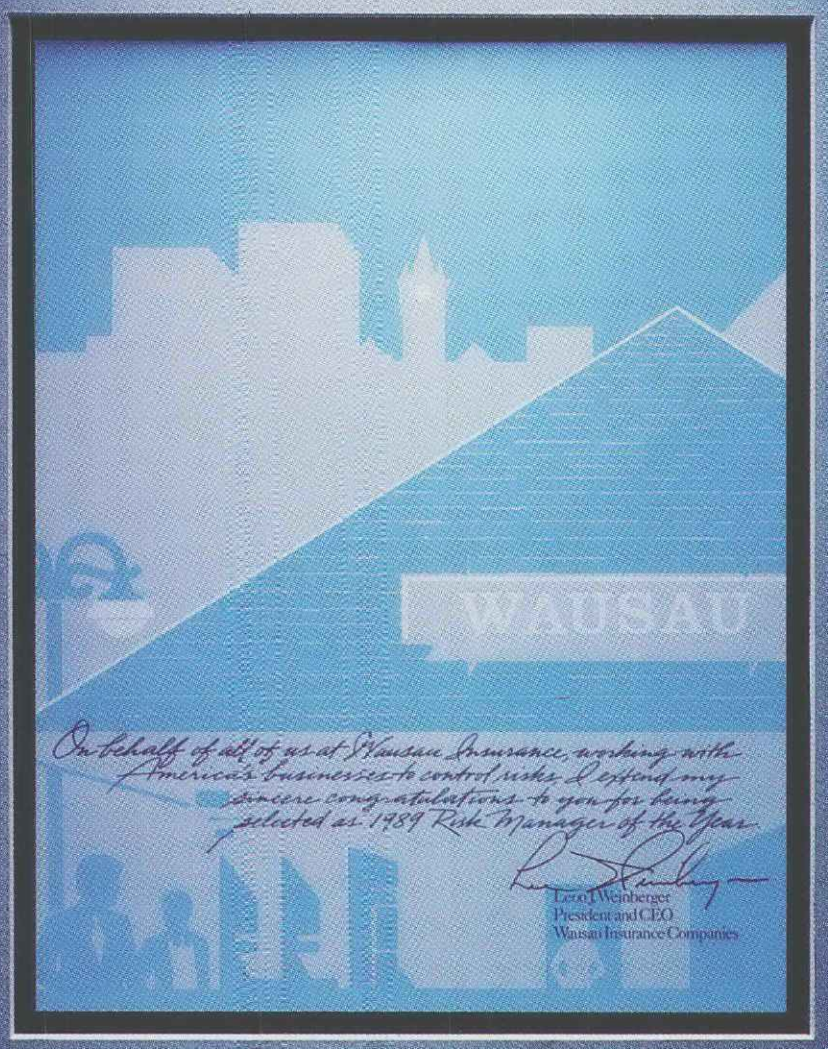

From one group of business insurance experts to another.

Congratulations to the 1989 Risk Manager honorees.

At Wausau, we stress the importance of managing risks and reducing losses. That's why we're saluting this year's Risk Manager of the Year and those named to the Risk Manager Honor Roll. Their performances exemplify the risk management profession at its finest, and demonstrate the importance the position holds in business today.

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Bermuda captives

Continued from page 4

Robin Spencer-Arscott resigned last year as president of Hall (Bermuda) to become chairman and chief executive of Rollins Burdick Hunter (Bermuda) Ltd. (*BI*, May 2, 1988). Three large Hall (Bermuda) underwriting clients followed Mr. Spencer-Arscott, along with several Hall employees.

Hall (Bermuda) then hired away Mr. Grayston from Skandia International Risk Management Ltd., the management arm of Skandia America Group (*BI*, July 4, 1988).

Following are profiles of the 1988 performance of the top 10 Bermuda captive managers:

Johnson & Higgins (Bermuda) Ltd.

J&H has reorganized its captive management operations, putting its Bermuda office in charge of worldwide captive development.

Mr. Hall, J&H (Bermuda)'s president, has additionally been named a director of the parent company.

"Bermuda has always been the pre-eminent domicile. We initiate change as it relates to systems capability and management approach," Mr. Hall said, noting that J&H is using Bermuda as a training ground for managers to be sent to other domiciles.

"The network of domiciles is very important to us because as these (captive) programs mature, as clients look at the opportunities of the spectrum of domiciles, we have to support that kind of development," he explained.

Despite the general slowdown in captive growth, J&H (Bermuda) added a net total of 12 companies to its client roster by the end of 1988, said Vp Roger C. Gillett.

Premium volume jumped 12.7% to $858 million from $761 million in 1987.

The new captives were set up to write a variety of coverages, including international property, workers compensation and general liability coverages, Mr. Hall said. New formations included both group captives and single-parent entities for Fortune 500 companies, he added.

"It's really quite a cross-section of conventional captive business," he said.

Noting the rising interest in other domiciles—including Hawaii for West Coast corporations and Luxembourg for European parents—Mr. Hall predicted that 1989 will produce "very positive results" for J&H.

Meanwhile, J&H continues to offer property and marine treaty reinsurance facilities to captive and rent-a-captive clients. Under a series of recently renegotiated treaties, client captives have access to reinsurance limits of:

- $180 million per risk on international property risks.
- $12.5 million on U.S. domestic risks, with the ability to obtain all-risk coverage including boiler and machinery, earthquake and flood.
- $5 million per shipment on marine cargo risks.
- $1.5 million of aggregate stop-loss coverage, with attachment points to be negotiated.

In all, about 49 J&H client captives in Bermuda, Cayman and Vermont now use the reinsurance facilities, about a 10% increase in participation over last year, said Charles Brandyberry, vp and manager of J&H's captive reinsurance and treaty division in New York.

International Risk Management (Bermuda) Ltd.

Just one year after being acquired by Swiss Reinsurance Co., International Risk Management Group—the umbrella organization that includes IRM (Bermuda) and several affiliated management companies—is seeing benefits from the buyout.

Swiss Re is supporting two new Bermuda-based insurance and reinsurance facilities, according to officials of the group, formerly known as The Reiss Organization.

The group has recently formed Property Insurance Facility Ltd., which Swiss Re has capitalized with $2 million in "seed money," said William T. Torpey, vp with American Risk Management Corp., a Fort Lee, N.J.-based IRM Group unit.

Property Insurance Facility is planned as a joint venture captive providing direct property coverage for medium-sized clients—those with annual premiums of $250,000 to $1 million—that are too small to form their own captives.

Shares in the facility will be offered in a private placement now being prepared, and Swiss Re will withdraw its initial investment in amounts equal to those paid in by policyholder/shareholders, Mr. Torpey said.

"Eventually, (Swiss Re's) object is to sell it all off," he explained.

The facility will be reinsured by Hopewell International Insurance Ltd., the giant IRM (Bermuda)-managed property reinsurance pool. This arrangement—in addition to providing Property Insurance Facility policyholders with virtually unlimited capacity—will provide Hopewell with a new source of smaller-sized risks, broadening its base, Mr. Torpey observed (see story, page 21).

Meanwhile, Swiss Re also has contributed $15 million in initial capital to Englewood Reinsurance Co. Ltd., which will provide financial reinsurance products to captives managed by IRM (Bermuda), according to Arthur H. Deters, president and chief executive officer of IRM Group.

Englewood will provide products in two general areas, he said:

- High-frequency, low-severity liability risks, like workers compensation risks. Here, for example, Englewood might reinsure a parent company's captive to support the parent's claim for tax deductions of premium payments.
- Prospective aggregate and other financial reinsurance products for catastrophe exposures, such as occupational disease, California earthquake, and chemical and pharmaceutical product liability risks. Englewood might also write reinsurance covering retiree medical care or pension-related liabilities, Mr. Deters said.

"It's very, very flexible," he said.

Separately, IRM Group is working on a Guernsey-based policyholder-owned company that would provide financial reinsurance products for liability risks written by the captives of non-U.S. multinationals.

On the captive management front, IRM (Bermuda)'s 93 clients generated gross premiums of roughly $600 million, largely unchanged from the previous year, Mr. Torpey estimated.

Overall, IRM Group expects its new business to come mainly from European parent companies, Mr. Deters noted.

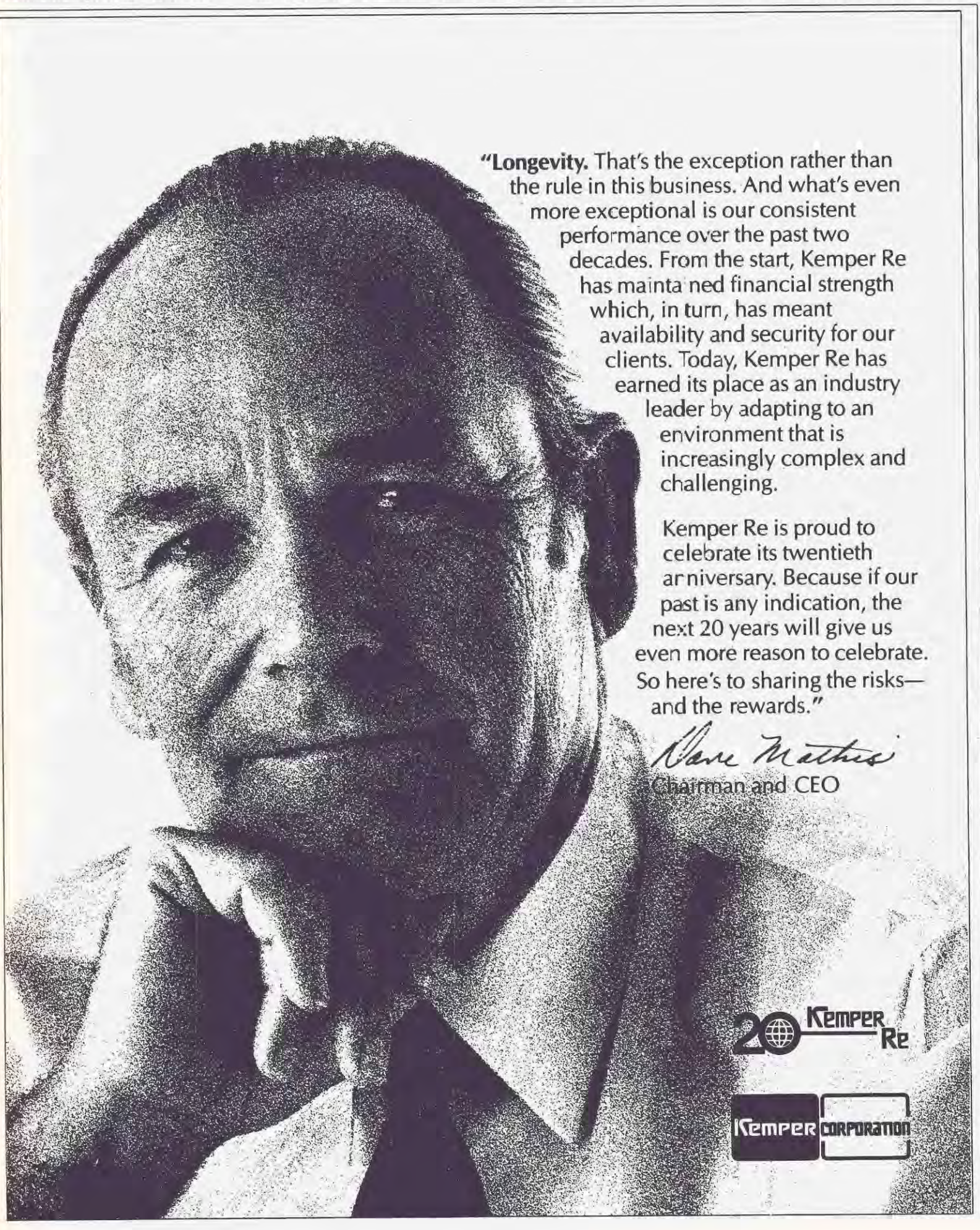
"Our big captive development has been outside the U.S.A.," he said, citing Finland—which has produced four new IRM clients—as fertile ground in Europe.

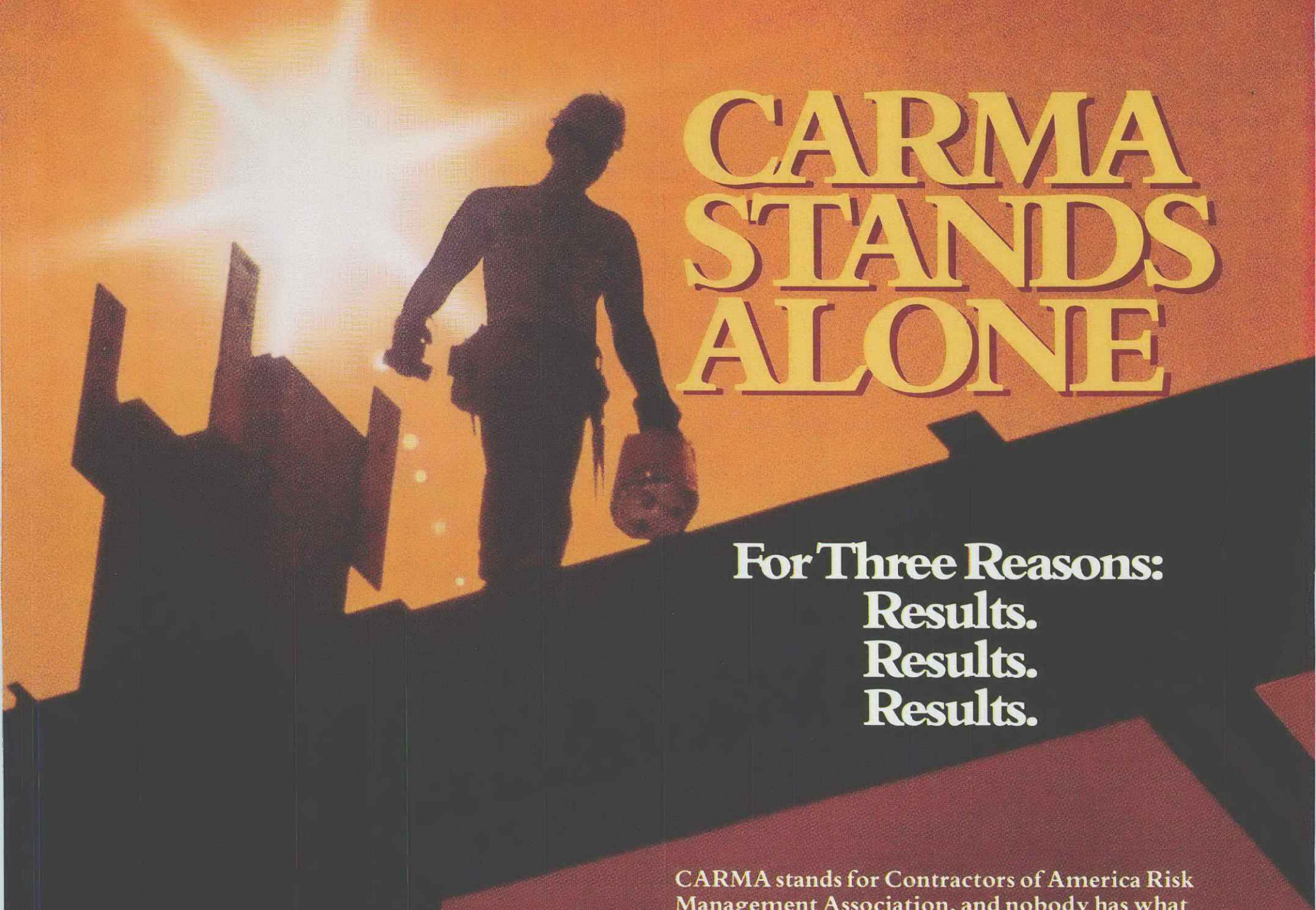
Captive development in Europe now is "very similar to the U.S. experience 20 years ago, except that the European experience is condensed over a shorter time frame," he observed. "Europe is not reinventing the wheel."

Parker & Co. Interocean Ltd.

Frank B. Hall's Bermuda operation was at the center of a personnel shuffle last year, with Mr. Grayston leaving Skandia Interna-

Continued on page 13





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Opinions

Bridging the gap

WHEN WE PRESENTED the Risk Manager of the Year award for the first time in 1978, it never occurred to us that someday the winner of the award would make one segment of the risk management community particularly proud.

But, that's the result this year with the presentation of the 1989 *Business Insurance* Risk Manager of the Year award to Jeffrey W. Pettegrew, risk manager and chief administrative officer of the Contra Costa County Municipal Risk Management Insurance Authority in California.

Thomas Vance, president of the Public Risk Management Assn. and risk manager for the city of Anaheim, Calif., for example, says: "The perception of public entity risk management has not been as positive as I think it should be. Maybe this will be a step in getting us toward that."

We hope it's a giant leap forward, because there is no good reason for separating public entity risk management from corporate risk management.

As Mr. Vance puts it: "The issues in the public sector are very complex—equally and in some cases more so than in the private sector because of the lack of commercial insurance options. Public entity risk managers have had to become more innovative and creative in protecting their agencies."

The challenges Mr. Pettegrew has faced at the Risk Management Insurance Authority and his accomplishments prove Mr. Vance right.

The risks involved in running a city are no smaller than those in running a corporation.

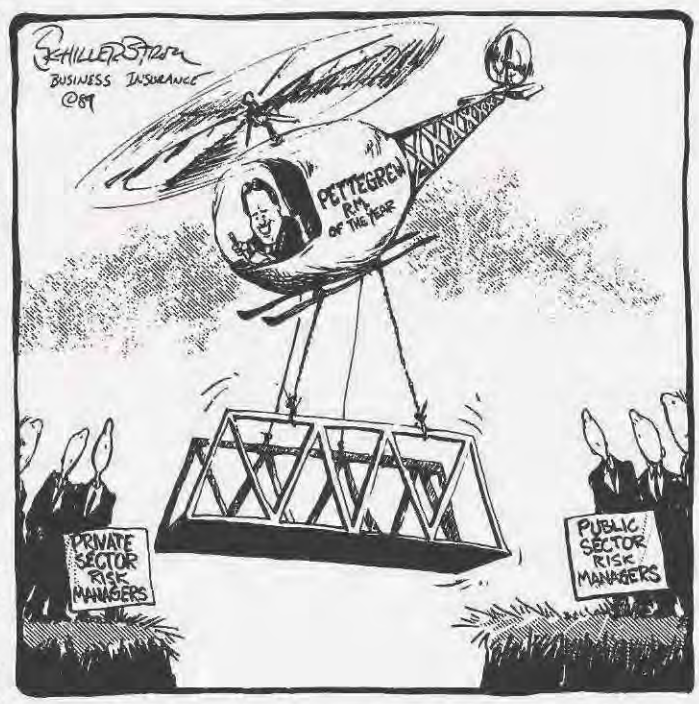
Cities employ people who are in danger of getting hurt. Cities own property that is in danger of being destroyed. Cities own motor vehicles that are in danger of getting into accidents. And while cities don't make products, they have liability for the quality of their services, from their police departments to the conditions of their roads.

Effectively managing a public entity risk sharing pool entails a lot more than collecting premiums from member cities and buying their insurance or, in the case of liability risks, collecting funds and paying claims because no insurer will accept the liability risk.

Effectively managing a public entity risk sharing pool means implementing a comprehensive risk management program for each member of the pool just as a risk manager with more than one operating unit to serve has to do.

And, the goals of a public entity risk manager, whether for one entity or many in a pool, are the same goals a risk manager in a corporation has: identifying risk, developing and implementing programs to eliminate or control the risk, minimizing the impact of losses that do occur and funding for claims that have to be paid.

Providing an effective risk management program for 17 diverse cities, as Mr. Pettegrew does, also is no easier than providing a risk management program for 17 diverse operating subsidiaries of a corporation. And, in fact, it can be a lot more difficult.



A corporation, for example, simply can to stop manufacturing a product if it decides the product liability risk is too big. Remember how many companies got out of the business of making football helmets?

As Mr. Pettegrew says, a city can't lock up the playgrounds, close the library and tell its police to go home.

Like many of the corporate risk managers who have won this award before him, Mr. Pettegrew also has contributed to the development of the risk management profession. His work with numerous associations deserves credit, but perhaps his greatest accomplishment to date is the development of an accreditation program for public entity pools in California.

The financial destiny of probably two-thirds to three-fourths of all public entities in California is in the hands of risk sharing pools, and the accreditation is designed to strongly encourage the highest professional management of those pools. Now, these pools have operating standards and their adherence to those standards can be evaluated.

The California accreditation program, we hope, will serve as a model for accreditation programs for public entity pools in other states.

For his accomplishments in risk management for 17 cities and for his contributions to risk management, including the accreditation program, we're pleased to present this award to Mr. Pettegrew for his risk management work in the public sector.

As Natalie Wasserman, executive director of PRIMA, says: "This is really an indication of how far public risk management has come in the last 10 years."

Letters

RIMS' position on Prop. 103 attracts new member

To the editor: I am a devoted reader of *Business Insurance* and believe it has helped me increase my knowledge of the insurance industry dramatically. Thanks for your consistent attention to, and detailed coverage of, current industry issues.

Recently, I read an article relating to the Risk & Insurance Management Society Inc.'s position on California's Proposition 103 (*BI*, March 6). I thoroughly enjoyed the article. It also spurred my interest in becoming a member of RIMS. I would greatly appreciate any information you can provide to me regarding the society and the way in which one obtains membership.

Julie R. Brown
Risk Management Analyst
Blue Cross/Blue Shield of Iowa
Des Moines, Iowa

■ *Membership in the Risk & Insurance Management Society Inc. is limited to those who handle the risk management function for their companies. RIMS also has a subscriber service that provides information to those ineligible for membership. For more information contact Tricia Philipp, Marketing Manager-Membership, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.*

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FOR THE RECORD:

Commentary on the issues affecting CIGNA's strategic direction in the property/casualty, employee benefit and pension industries.

In our 1988 annual report, CIGNA senior executives answer some tough questions on the issues facing the industry and our strategy for dealing with those issues.

Although originally directed to our shareholders and the financial community, their responses tell much about CIGNA's intent and are worth sharing with our primary customers—the community of professional benefit managers and risk managers and their advisors.

Here, Caleb Fowler, president of CIGNA's Property and Casualty Group, Bob O'Brien, president of CIGNA's Employee Benefits Group and George Trumbull, president of CIGNA's Investment Group, are interviewed about the direction of their respective businesses:

Q How are you changing your strategies to respond to the downturn in the domestic property-casualty underwriting cycle?

Fowler: I think the strategies we've been pursuing for the past five years remain valid.

If you go back to 1984, our losses were higher than those of the industry overall and, as a result of merging two big companies our domestic expense ratio was five points higher than the average of our peer group of companies. So our top priorities were to dramatically improve underwriting and to get our operating costs down.

Today, we're performing more in line with other commercial insurers. Our loss ratios are competitive. We have better pricing and underwriting controls. And we've rid ourselves of that five point expense ratio disadvantage.

Q Is matching industry performance in Property and Casualty sufficient to meet CIGNA's corporate return goal?

Fowler: No. We haven't gone through all our really difficult work since 1984 just to become average.

Over the course of an underwriting cycle we intend to meet the corporate return on equity target. That means we have to have results consistently better than the industry. That covers everything we do: underwriting, policy administration, claims, marketing plans, the return on what we spend for technology and how well we train and use our people.

Q How do you feel about CIGNA's large commercial account business?

Fowler: This business is handled by our Special Risk operations, which is positioned very well in its markets. In this area, we also have expense and product advantages and we can balance insuring risks with fee-based services. That adds up to stable results and good returns. It's a business we like, and we intend to improve our current position.

Q Can you cope with the severe political and regulatory challenges facing the industry?

Fowler: It's clear that the insurance industry isn't popular. But when the industry critics present solutions that promise price cuts, but ignore the economics of the insurance business, it only diminishes the prospects for a more stable, predictable property-casualty market.

The post-Proposition 103 environment is potentially threatening and may lead insurers to be more cautious in using shareholders' capital. But I think the experience also may focus attention beyond the symptoms and toward the need to address the underlying problems. We look forward to working with legislators, regulators and the public in this effort.

Q When will CIGNA's International PC operations begin paying off?

Fowler: We have a valuable franchise in CIGNA Worldwide. Many of our licenses would be very difficult, if not impossible, to obtain today. We can compete in markets that are growing faster than those in the United States. And we have the ability to better serve global customers, such as multinational corporations.

Our loss ratios are relatively stable at an acceptable level, and pricing is rational. Our key issue is critical mass. So our priority now is setting intelligent growth targets and meeting them. We can respond well to the needs of foreign multinationals. We also are well positioned to address the opportunities created by the further integration of the European Economic Community in 1992 and to participate in the ongoing growth in the Far East.

Q Will CIGNA maintain a reinsurance presence?

Fowler: Yes. Our reinsurance operations continue to perform well. Fixed operating costs are low and our book of business is attractive because it is widely dispersed—nearly 60 percent of our business is generated outside the United States. We'll grow only when conditions are favorable.

◆ ◆

Q What is the most important priority in the employee benefits market today?

O'Brien: We need to continue to find better ways to help our customers control escalating costs for health care—without affecting the quality of that care.

Right now, we're seeing costs continue to rise dramatically. The current level of inflation is unacceptable to commercial sponsors of employee health benefits programs. This is an extraordinary economic problem for employers, employees and the United States.

Q To date, medical care costs seem to have risen unchecked. What makes you think you can control these costs?

O'Brien: No one has been completely effective in stemming the rise in medical care costs. But we have been able to slow the rate of increase for customers through our managed care program. By precertifying hospital admissions, requiring second opinions and managing the cost of catastrophic health events, we've saved customers millions of dollars over the past few years, while providing quality care. But hospital bills cover less than 40 percent of the health dollars spent by our customers. And getting at the other 60 percent will take even more work. What we need now is a closer working relationship among physicians, employers and employees—a relationship that manages the cost and quality of care before treatment begins, rather than simply paying the bills afterward.

Q How do you plan to accomplish this?

O'Brien: We want to be leaders in managing the whole medical services equation. We're working hard to involve doctors, employers and employees. We're getting them to change some of their traditional practices.

We have to be able to enlist qualified primary care doctors to provide service on a fixed-fee basis. To do that, we need to reward them for delivering efficient care that meets patient needs. And we have to design benefit plans that encourage the maximum number of people to use managed care. Finally, as employers increasingly demand managed care programs, we have to help them focus their employees on controlling their own health care expenses, while getting the care they need.

Mental health and substance abuse expenses, for example, are of particular concern to employers. Our recent acquisition of M.C.C. Companies, Inc., a provider of managed mental health and substance abuse services, coupled with Intracorp's new outpatient psychiatric utilization review product and CIGNA's new outpatient precertification program, will enhance our ability to address this area of rapidly growing needs and costs.

We now have many of the pieces in place to attack the problem. We still have a way to go, but I feel good about where CIGNA is relative to our competitors.

Q Are these activities paying off now?

O'Brien: Absolutely. Our model managed care program for Allied-Signal Inc. is an important step. The customer savings can be quite large and the quality of care is good.

Q Why is CIGNA emphasizing "managed care product packages?" What future do you see for separate traditional indemnity health insurance and HMO products?

A message to risk and benefit managers and their advisors attending the 1989 RIMS Conference.

Caleb Fowler,
President, CIGNA Property and Casualty Group

Bob O'Brien,
President, CIGNA Employee Benefits Group

George Trumbull,
President, CIGNA Investment Group

O'Brien: We believe integrated managed care products will lower benefit costs for our customers, while still providing quality health care for their employees. Not everyone is going to want to move to a fully managed care program. It can be a tough transition that involves developing relationships with new doctors and changing to other new providers. So we expect many employees to remain in some sort of traditional indemnity insurance plan for a period of time, with the option to choose an HMO.

But we see rising costs changing the market. There is a greater willingness to limit choice somewhat in return for savings. Employers are much more willing to innovate if innovation results in substantial savings without affecting the quality of care.

Once employers agree with the concept, they want to get as many of their people as possible into the managed care stream. Substantial savings per employee won't do much good if only a handful of people use the most efficient alternatives. The solution is an integrated program that offers HMO-typed managed care coverage to all employees with the option to pay an additional amount to obtain care sought outside the HMO.

An integrated product does more to control costs, while providing unified administrative and claims service. It also preserves cash flow management flexibility, consolidates program financing to minimize anti-selection costs and allows for complete information on medical trends for the benefit program as a whole.

Q What part do the specialty lines play?

O'Brien: Our Special Benefits Division is a critical part of our service package and produces strong returns. We lead the market in supplemental coverages, such as accidental death and travel accident insurance, and we rank second in long-term disability. I feel particularly good about our prospects in long-term disability, and we're investing to grow faster there.

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Q Why did CIGNA combine management of investments and the pension business?

Trumbull: This isn't complete merging of organizations—we're maintaining separate divisions. But there are significant areas of commonality.

Pension business accounts for $25 billion, or about half of the invested assets managed by CIGNA, and investment performance is absolutely critical to pension customers of all sizes. It just made good sense to bring the separate organizations closer, particularly because they already had a history of cooperating on sales to sponsors of very large pension plans.

I was pleased by what we accomplished in 1988. For example, the two groups created a better plan for approaching large customers. They also developed and started selling a new investment contract for that market. It brought in $160 million in sales in the last two months of the year.

Q Is CIGNA's full-service strategy for pensions still appropriate?

Trumbull: We do stand out from the competition. Many insurers have withdrawn from the service-intensive parts of the business. But in our core market, for pension plans with 100 to 2,000 participants, service has become increasingly important. Complying with changing tax regulations, keeping account records straight, sorting out pre-tax and after-tax employer and employee balances—it's overwhelming for most sponsors. So, if we continue to participate and do a good job in providing a broad range of investment capabilities and direct service, we gain a real edge in attracting and keeping customers with CIGNA.

Q But doesn't that make CIGNA a high-cost provider?

Trumbull: No. We believe it's cost effective to buy services from one provider; we deliver extra value. I also would note that we're pushing hard to maintain margins and improve performance in two ways.

One, we're working to lower our costs. We're using technology to transfer account service out of our home office and into field locations, and ultimately to customer premises. Through this technology, we're going to process business much more efficiently.

Two, we're focusing more on a variety of growth initiatives. With greater operating efficiencies, we gain the capacity to handle more volume. Growth plans in 1989 involve expanding our field sales force for our core business by 20 percent or so.

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CIGNA Corporation itself is not an insurance company. Insurance products and services are sold only by the Corporation's insurance subsidiaries.

If you would like to learn more about CIGNA and our extensive resources, a good place to begin would be our 1988 Annual Report. To receive your copy, visit our exhibit (#244) at the 1989 RIMS Conference.

CIGNA

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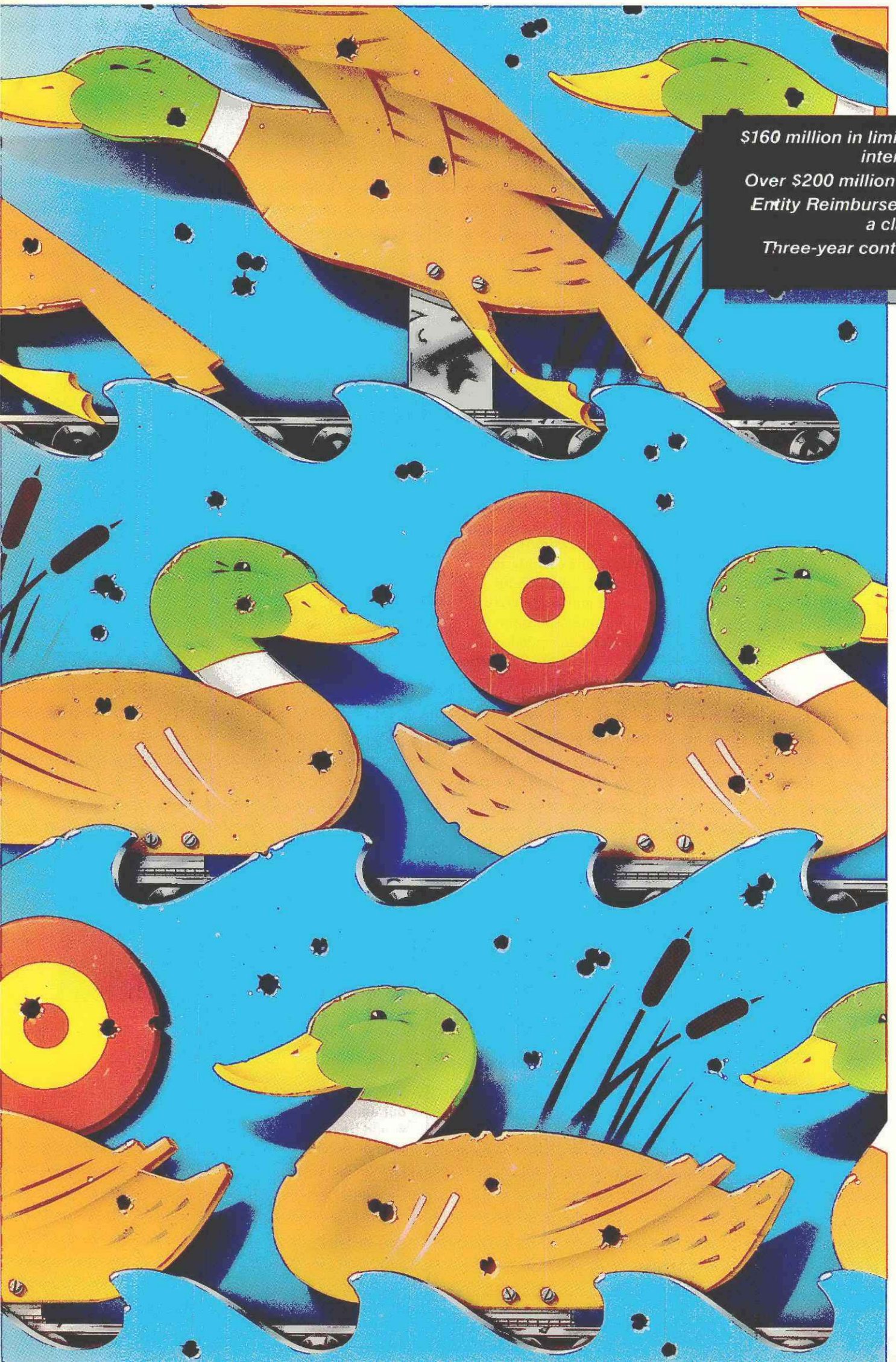

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Bermuda captives

Continued from page 6

tional Risk Management to take the spot Mr. Spencer-Arscott vacated in moving to RBH (Bermuda).

When Mr. Spencer-Arscott left, several Frank B. Hall (Bermuda) underwriting clients followed, principally Paumanock Insurance Co. Ltd., a reinsurance unit of Grumman Corp., and two of Paumanock's own reinsurers (see story, page 3).

The loss of Paumanock and the other reinsurers was largely responsible for the roughly 14% decline in premium volume at Parker & Co., according to Mr. Grayston. Premiums of managed captives dropped to $389 million last year from an estimated $450 million in 1987.

Despite the drop, Parker & Co. moved up to the No. 3 spot in the ranking of the 10 largest Bermuda captive managers, primarily because of a large drop in volume for the previous No. 3 manager, Marsh & McLennan (Bermuda).

Parker & Co. lost several clients last year but also picked up a few new clients, finishing the year with a net loss of about three captives, Mr. Grayston said, describing the manager's client base as "stable."

The new clients have included longtime clients of Mr. Grayston's that followed him to Parker & Co. from Skandia.

Mr. Grayston, like other managers, pointed to the soft commercial insurance market as the reason for the slowdown in the captive business.

"People are not utilizing their captives the way they were when the markets were harder," he said. "They're getting ready for the next hard market, whenever that may be."

Like J&H and IRM Group, Hall has centralized control of its worldwide captive management operations in Bermuda, with Mr. Grayston overseeing management units in Barbados, Cayman, Guernsey, Singapore and Colorado.

Marsh & McLennan (Bermuda) Ltd.

Mr. Carr and other M&M officials declined to provide details of the broker's captive management operations for 1988.

However, *Business Insurance* estimates that premium volume of captives managed by M&M (Bermuda) dropped roughly 30% last year to $340 million from $490 million in 1987, largely because two large group captives switched to self-management.

Attorneys Liability Assurance Society (Bermuda) Ltd.—which formed an Illinois-domiciled affiliate, Attorneys Liability Assurance Society Inc., in 1987—is now self-managed. ALAS generated gross premiums of $144 million from about 350 member law firms in its 1987 fiscal year.

Meanwhile, Schools, Colleges & Universities Underwriters Ltd. also became self-managed. SCUUL wrote $7.6 million in premiums for the 1987 fiscal year.

Mr. Carr conceded that M&M's Bermuda operations have been quiet.

"We have not had tremendously exciting things going on here this year," he said, citing the soft market as the primary reason.

Nevertheless, M&M (Bermuda) is now forming a new single-parent captive for a large U.S. corporation.

"It's a client you would have thought considered captives before but is only now deciding to form one," he noted.

Inquiries about new group and association captives, however, have halted.

"We have no expressed interest in that area, and that again is because of the soft market, though some might say now is the very time groups should be organizing themselves" to prepare for the next hard market, Mr. Carr observed.

Sedgwick James (Bermuda) Ltd.

Four years after Sedgwick Group P.L.C. acquired Fred S. James & Co. Inc., the Bermuda captive management operations of the two brokers are being merged.

Mr. Sproule, formerly managing director of James (Bermuda) Ltd., will head Sedgwick James (Bermuda). Barrie C. Eady, former president of Sedgwick Group Overseas Management Services Ltd., has been named managing director of Sedgwick Bahrain WLL, a new consulting and reinsurance brokerage unit.

Noting that the Sedgwick and James Bermuda operations complement one another, Mr. Sproule said the merger will strengthen client services and "increase our capacity to explore new opportunities."

Sedgwick's unit, handling mainly direct writing property captives, has had a technical underwriting orientation, while James (Bermuda), handling mainly fronted casualty programs, has been stronger in marketing, he observed.

The merger will result in the technical underwriting and brokerage sides of the operations reinforcing one another, he predicted, pointing to financial reinsurance as an area where technical and marketing expertise can be profitably combined.

For the present, Sedgwick James will maintain two offices, with insurance services personnel at one location, and brokerage and administrative personnel at the other, Mr. Sproule said. However, the company plans a physical merger of the two offices "as soon as possible," he added.

The combined Sedgwick James operations jumped to the No. 5 spot among the top captive managers based on 1988 premium volume of $325 million. James (Bermuda), ranked by itself, was in the No. 9 spot last year.

Premium volume for the combined operations was up about 8% from a combined $300 million in 1987.

The number of captives under management held steady at 80, with the James operation bringing 45 to the total and Sedgwick bringing 35. James suffered a net loss of two captives last year while Sedgwick recorded a net gain of two, Mr. Sproule reported.

"It was not a great growth year. It was not a growth year at all," he observed.

Still, Mr. Sproule said the soft market has not triggered a wholesale abandonment of association captives, which have historically been a large part of the James operation's business.

"There has been some loss of members, but we are getting new members for our association programs," he said. "We have not seen a mass exodus from association programs because commercial insurance is cheap."

International Advisory Services Ltd.

IAS has jumped to the No. 6 spot in the rankings of top captive managers from the No. 8 spot after reporting a 27.6% increase in premium volume to $245 million for 1988 from $192 million the previous year.

Continued on next page

Bermuda captive managers

Manager / Parent	Premium volume 1988	Premium volume 1987	Captives 1988	Captives 1987	Staff 1988	Staff 1987
J&H (Bermuda) Ltd. Johnson & Higgins	$858 million	$761 million	172	160	141	160
International Risk Management (Bermuda) Ltd. IRM Group	600 million	600 million	93	90	68	66
Parker & Co. Interocean Ltd. Frank B. Hall & Co. Inc.	389 million	450 million[1]	48	51[2]	21	46
Marsh & McLennan (Bermuda) Ltd. Marsh & McLennan Cos. Inc.	340 million[1]	490 million	85[1]	85	52	52
Sedgwick James (Bermuda) Ltd[3] Fred S. James & Co. Inc.	325 million	300 million	80	80	41	46
International Advisory Services Ltd. Independent	245 million	192 million	52	46	20	18
Alexander Insurance Managers Ltd. Alexander & Alexander Services Inc.	236 million	220[2] million	93	92	70	76
Skandia International Risk Management Ltd. Skandia America Group	225 million	250 million	90	100	47	25
Pinehurst Management Co. Ltd. Jardine Matheson Holdings Ltd.	200 million	200 million	56	61	19	21
Rollins Burdick Hunter (Bermuda) Ltd. Aon Corp.	200 million	205 million	31	33	15	15

[1]*BI* estimate [2]Restated [3]Combined operations of James (Bermuda) and Sedgwick Group Overseas Management Services Ltd.

2 captive managers launch own firms

By DOUGLAS McLEOD

HAMILTON, Bermuda—Two longtime Bermuda captive management executives have formed their own independent management companies.

David A. Brown, former president of Alexander Insurance Managers Ltd., has formed Caledonian Management Ltd. to provide captive management and insurance consulting services.

Caledonian provides what Mr. Brown describes as a "standard package" of services, including corporate, investment and claims administration and financial accounting services for captives, along with such consulting services as captive feasibility studies, insurance program analysis and domicile reviews.

The firm currently has two captive clients, one a captive of a U.S. parent company writing workers compensation coverage and the other a United Kingdom-based financial institution captive writing credit life insurance, he said.

Each captive produces annual gross written premiums of about $2.5 million, he said.

The firm also is working on captive feasibility studies with two or three prospective clients, he added.

Caledonian—which has a sister company in the Isle of Man—is looking to market its services in the United States, Canada and the United Kingdom through a network of risk management consultants and independent brokers without affiliated captive management operations.

Discussing the Bermuda captive management scene, Mr. Brown noted that management companies have evolved into three groups: those owned by "megabrokers," those owned by insurance companies and those owned by independents.

He observed that the independents have their own niche, providing services to companies that for various reasons do not want to deal with a broker-owned or insurer-owned management company.

Separately, another new management company has been formed by William R. Storie, former managing director of Meadowbrook Risk Management Ltd., the Bermuda captive arm of Meadowbrook Insurance Group of Southfield, Mich.

William R. Storie & Co. Ltd. will provide captive management services, including financial statement preparation, investment accounting, underwriting report preparation and assistance with reinsurance placements.

The firm currently is negotiating with several reinsurance intermediaries to provide reinsurance brokerage support services, Mr. Storie said.

Storie & Co. also can arrange captive management services in Vermont, where it has established a relationship with Northern States Management Inc., another recently formed independent manager, according to Mr. Storie.

In addition, Storie & Co. will perform consulting and project work, including Bermuda and Vermont incorporations, domicile studies, and tax, investment and money management studies.

On the captive management side, the firm probably will specialize in group and association entities. Mr. Storie managed several such entities while at Meadowbrook and described them as "different animals. . .that require specialized knowledge."

Storie & Co. has no captive management clients yet, but it is discussing possible deals with five prospective clients, Mr. Storie said. ■

Bermuda captives

Continued from previous page

Three new clients acquired from other managers accounted for essentially all of the volume growth, Mr. Ezekiel said, noting that one client brought in $40 million in premiums, a second brought in $8 million and a third $5 million.

IAS also incorporated three new captives, bringing its client list to 52 captives compared with 46 at year-end 1987.

The three newly acquired clients are association programs, while the three new start-ups include two single-parent captives and one dual-parent entity, Mr. Ezekiel said.

Among IAS' clients are two privately held financial reinsurers, one of which produced premiums of $70 million last year, up from $45 million the previous year. The other has seen a large drop in volume and probably will not produce big premiums in the future, he said.

Separately, IAS is providing services to Accord Re Ltd., a financial reinsurer formed earlier this year with $20 million in capital contributed by Continental Corp. and two financial reinsurance specialists. No Accord Re premiums are included in IAS' 1988 volume figures, though.

In addition, IAS manages five alternative risk financing facilities that offer liability coverages to structural engineers, other engineers, firearms manufacturers, independent testing laboratories and pest control firms.

CPS Insurance Co. Ltd., the facility for the pest control firms that produced $8 million in 1988 premiums, was one of the three clients IAS took over from other managers.

While agreeing that the soft market has held back growth in new formations and expansion of association programs, Mr. Ezekiel reported an increase in inquiries in the last three months, partly because of fears over the next turn in the commercial insurance market.

While the large broker- and insurer-owned managers may be looking at Europe as the most likely source of future growth, independently owned IAS—with offices in Barbados, Vermont and California—will be looking to smaller U.S. companies, Mr. Ezekiel said.

"The whole captive message seems to be reaching a much wider audience," he observed, explaining that future IAS clients will probably be second-tier companies that may not even have full-time risk managers.

"Most of these companies do not have a broker who does nothing but look after their insurance business," he added. "That definitely, for a firm like ours, is where the growth is going to come from."

Alexander Insurance Managers Ltd.

AIM, the management arm of Alexander & Alexander Services Inc., is also going after second-tier companies after completing a reorganization of its Bermuda office, according to Mr. Stamp.

Following a consultant's recommendations, AIM has placed two officers in charge of client services and new business development.

Geoffrey Hunt—a former officer of Hall (Bermuda) and former partner of HJF (International) Management Ltd.—has been named deputy managing director for client services.

Meanwhile, Senior Vp Donald Wiseman has been put in charge of new business development, a position that has been vacant in recent years.

"Our main focus in 1988 was the consolidation and getting our act together," Mr. Stamp said, adding that AIM has invested in new computer hardware to improve financial reporting, and other underwriting and statistical information.

AIM also is stepping up its marketing efforts, officials report.

To date, the focus of single-parent captive development has been on Fortune 500 companies, "and there are a lot of medium to medium-large accounts that have been ignored," Mr. Wiseman said of property risks generating between $750,000 and $2.5 million in annual premiums. "The backbone of A&A's (brokerage) business has been in that area."

"And that's why we are pretty bullish about this year," Mr. Stamp added.

AIM hopes its AIM Reinsurance Facility will attract new property business. The facility—which offers captives property reinsurance limits of up to $100 million, including its own $20 million retention—has 20 participants, unchanged from 1987, and wrote about $40 million in premiums last year.

"We feel we have a unique advantage on the property side," Mr. Stamp said.

AIM attracted 12 new clients last year, including nine captives acquired from other managers and three new formations, two of which were group medical malpractice insurers and one that was a single-parent captive, Mr. Stamp said.

Meanwhile, the manager lost 11 accounts, finishing the year with a net gain of one client, which brings the total number of captives managed to 93.

"We are very pleased we managed to keep ahead of the game there," he noted.

Premium volume increased roughly 7% to $236 million last year from a restated $220 million in 1987.

Skandia International Risk Management Ltd.

Skandia International saw a 10% drop in both the number of captives under its management and premium volume last year.

The firm's client list dropped to 90 companies in 1988 from 100 the year before, while volume slid to $225 million from $250 million in 1987.

Skandia dropped to the No. 8 spot among the largest Bermuda managers from the No. 5 spot based on 1987 volume.

Skandia International lost a couple of clients that followed Mr. Grayston to Parker & Co., confirmed Nicholas S. Dove, who replaced Mr. Grayston as Skandia's president.

However, the manager also added some clients, including KFC Mutual Insurance Ltd., a captive for Kentucky Fried Chicken Corp. franchisees.

"We have been pleasantly surprised over the 18 months since the acquisition," Mr. Dove said, referring to Skandia America Group's 1987 acquisition of Hanna Insurance Management Ltd., Skandia International's predecessor.

Mr. Dove suggested, though, that Skandia International may be in for leaner times this year.

Captive formations normally lag 18 months behind changes in the commercial insurance market, he explained, noting that the firm was still seeing formations in 1987 and 1988 that were triggered by the hard market of 1985 and 1986.

"I would not be surprised to see that tail off in 1989 and 1990," he said. "I expect things to be a little quieter this year."

Overall, the Skandia captive management organization—which includes a Luxembourg unit now in formation—expects significant growth in European captives in the next few years, Mr. Dove said.

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Bermuda captives

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"It never fails to amaze me that some of the large European corporations are so unsophisticated when it comes to risk management and insurance," he observed, noting that the Skandia group can provide a broad range of services to these companies.

"We see the self-insurance movement as something that's here to stay and that is going to grow, and we want to be a part of it," he said.

Pinehurst Management Co. Ltd.

Pinehurst's stable of clients dropped slightly last year to 56 captives from 61 at year-end 1987.

Premium volume, however, held steady at $200 million, in part because of growth in the membership and premium volume of association captives under Pinehurst management, according to Managing Director Robert C. Whiting.

Pinehurst dropped to No. 9 in the ranking of Bermuda managers from No. 7 last year, largely due to growth at IAS and the merger of the Sedgwick and James operations.

Mr. Whiting reported that Pinehurst is getting inquiries about Bermuda-based captives from parents in countries that had not previously dealt with Bermuda, including Australia, Hong Kong and Saudi Arabia.

The firm also sees some interest continuing in the United States, mainly among smaller companies outside the major cities.

However, the competitive commercial insurance market continues to be a roadblock to new captive formation.

"As long as you are in the soft market, it's the same old story," Mr. Whiting observed. "As long as you can get insurance for less and less, why put in a captive?"

Activity has not come to a complete stop, though: Pinehurst's Los Angeles-based affiliate, Risk Management Inc., is now working on a Hawaii-domiciled workers comp captive for the entertainment industry, he said.

Brokerage—derived mainly from placements with A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd.—accounted for a larger share of Pinehurst's revenues last year, up to 30% from 20% in 1987.

Meanwhile, Pinehurst lost its only runoff management client, Ingram Corp.'s Universal Marine Insurance Co. Ltd., which entered liquidation in April 1988.

Pinehurst had been hired in January 1988 to manage the Universal Marine runoff, but concluded after a couple months of reviewing the insurer's condition that liquidation was the only alternative, Mr. Whiting said.

"You don't have to do a 100% physical to know when someone is very, very ill," he observed. "It became apparent rather quickly."

Rollins Burdick Hunter (Bermuda) Ltd.

RBH (Bermuda) tied with Pinehurst Management for ninth position among Bermuda captive managers based on 1988 premium volume of $200 million, a slight decline from $205 million the previous year.

Nonetheless, the captive manager has gone from being "a very small group 18 months ago to a very large operation with three groups coming together," said J. Walker Rainey, executive vp and chief operating officer.

The three groups are:

- RBH (Bermuda)'s long-established captive management business, which includes several group captives for auto dealers.
- The business of Adams & Porter International Ltd., which RBH acquired in 1987 and which specializes in large oil and gas captives.
- The business of Anchor Underwriting Managers Ltd., an RBH affiliate that assumed the management of Paumanock after Mr. Spencer-Arscott was named chairman and chief executive of RBH (Bermuda) last year.

Total staff at RBH (Bermuda), including the underwriting operations, now stands at 35. The firm will be moving in June to larger offices in a newly constructed building in Hamilton, Mr. Rainey said.

Captive management operations have also shown some growth in recent months, he said. Along with the addition of Paumanock and two of its reinsurers, RBH has formed three auto dealership group captives.

Although those were RBH (Bermuda)'s only new captives, the firm is talking to hospital groups about forming medical malpractice captive insurers in light of Bermuda's broadening of rules regarding allowable malpractice coverages, Mr. Rainey said.

"I don't think we will see the rush of people coming to knock on our door (as we did) a few years ago," he predicted.

Last year, RBH (Bermuda) saw a slight decline in captives under management to 31 from 33 in 1987. The firm lost two companies to liquidations, including one auto dealer captive and one captive whose parent was merged into another company that already had a captive, Mr. Rainey said. ■

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Rent-a-captives see gains in programs, not premiums

By DOUGLAS McLEOD

Bermuda

HAMILTON, Bermuda—Rent-a-captive managers say their programs are faring surprisingly well despite continuing pressures from a soft commercial insurance market and a lack of fronting and reinsurance capacity.

The gains for Bermuda rent-a-captive facilities, however, have largely been the number of programs underwritten: Premium volume for most facilities has dropped or remained flat for a variety of reasons, including the soft market, managers say.

Mutual Indemnity Ltd. and an affiliate, Mutual Indemnity (Barbados) Ltd., saw the number of participants in their Insurance Profit Center program grow to 170 last year from 159 at year-end 1987.

As in previous years, most of IPC's growth last year came from fully funded programs, which operate without reinsurance and require policyholders to fund their aggregate limits with cash and letters of credit.

Of 26 new programs, 16 were fully funded. Overall, 60 of IPC's 170 programs at year-end 1988 were fully funded.

"We have been surprised at the persistence of a lot of these fully funded programs," said Robert A. Mulderig, Mutual Indemnity's president. "We expected that the soft market would cause a lot of these programs to go away."

However, Mr. Mulderig noted that some policyholders may have opted for the stability of a rent-a-captive program over the cheaper prices now offered by commercial insurers.

Mutual Indemnity and Mutual Indemnity (Barbados) also lost 15 programs for various reasons during the year.

While registering a net gain in programs, IPC had a continuing slowdown in premium volume.

Mutual Indemnity and Mutual Indemnity (Barbados)—whose results were consolidated for the first time last year—reported gross written premiums from general insurance operations of $63.4 million, down 8.1% from a combined $69 million in 1987.

Workers compensation programs accounted for 56% of the companies' business last year, down from 71% of premiums in 1987.

Meanwhile, general and auto liability programs grew to account for 26% of premiums last year from only 3% in 1987.

The remainder of the IPC programs cover U.S. life and health, professional liability, group hospital, credit life, product liability, and directors and officers liability exposures.

Net premium volume for the two insurers dropped 13% to $53.6 million from $61.6 million in 1987, while net income fell 48.6% to $8.8 million from $17.1 million in 1987.

The decline in volume was caused in part by the soft market, according to Mr. Mulderig, who explained that while direct insurers in the United States have cut prices, the facultative reinsurance markets that lead the pricing on traditional IPC programs have held relatively firm.

The result has been that Mutual Indemnity has been "blown away" on some programs where U.S. insurers have issued dramatically lower quotes, he said.

Another reason for the decline is the continued popularity of the fully funded programs, he added.

Under a fully funded program, a policyholder with a $1 million limit may put up only $200,000 in cash, funding the $800,000 balance with a letter of credit. Only the cash portion of the program is included in Mutual Indemnity's premium volume figures, though.

The growth of fully funded programs may fall off this year, with interest in traditional reinsured programs reviving, especially for workers comp coverages, said John Kessock Jr., president of Mutual Group Ltd., the insurers' parent.

Of roughly nine new accounts written so far this year, three are fully funded while the rest are traditional reinsured programs, Mr. Kessock said.

The IPC facility has been less affected than other rent-a-captives by the general lack of fronting capacity because of Mutual Group's ownership of Legion Insurance Co., a Pittsburgh-based insurer that provides underwriting services to several Mutual Indemnity clients.

Legion reported gross written premiums of $46.8 million last year, of which about $20 million was related to Mutual Indemnity clients, Mr. Mulderig said.

"We continue to use a lot of other fronting companies, (but) Legion is a resource where we need it," Mr. Mulderig said. "Because of Legion's existence, we have not had the problems in that area that we otherwise would have had."

Backed by Mutual Indemnity, Legion is currently marketing a new program, dubbed the Guaranteed Savings Plan, which is designed to pay accelerated dividends to workers comp accounts with good loss experience that might otherwise opt for a paid-loss retrospectively rated plan.

Meanwhile, the group has formed a new Bermuda affiliate, Mutual Indemnity (U.S.) Ltd., to take advantage of the new domestic election provision of the 1988 tax law. Mutual Indemnity clients choosing the domestic election may renew their programs in the new affiliate, which will pay tax on their behalf as if they were U.S. corporations, Mr. Mulderig explained.

Universal Re-Insurance Co. Ltd., a privately held rent-a-captive facility managed by Atlantic Security Ltd., also added programs but lost premium volume last year, according to President Hal Forkush.

"Rent-a-captive programs were

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Rent-a-captives

Continued from page 16

relatively active for the year, surprisingly," Mr. Forkush said.

Universal Re added about 12 new programs last year for a variety of coverages, including product liability for a chemical company and other manufacturers, medical malpractice, automobile extended warranty, liability coverage for asbestos abatement contractors and funding programs for clients' self-insured retentions, he reported.

Most of the facility's new programs last year continued to be fully funded with cash or LOCs, reflecting the ongoing scarcity of reinsurance capacity, Mr. Forkush said, adding that the fronting and reinsurance problem is not getting any better.

"I see very little improvement, frankly," Mr. Forkush said.

Universal Re also lost a couple of clients but finished the year with a total of about 30 active programs, up from about 20 the previous year. The facility has an additional seven or eight association programs that are in runoff after losing their fronting insurers or reinsurance support, Mr. Forkush said.

While Universal Re registered gains in the number of its programs, premium volume dropped 18.8% to roughly $6.5 million last year from about $8 million in 1987.

In addition to the effects of the soft market, a major reason for the drop is a shift in Universal Re's business to programs for single policyholders from the larger association programs it had written in the past, he explained.

"We have seen very few association programs, and that is what develops the big premiums," he said.

Mr. Forkush added that Universal Re should post a roughly 100% gain in premium volume this year as the facility assumes surplus relief treaty reinsurance from U.S. life insurance companies.

Atlantic Security has targeted life surplus relief business as a key growth area for both its rent-a-captive facility and for its brokerage operation, he reported.

Other Bermuda rent-a-captive operations include:

- Uniservice Insurance Co. Ltd., a property facility managed by Johnson & Higgins (Bermuda) Ltd., which wrote gross premiums of $20 million last year for 14 clients, down marginally from $21 million in premiums for 15 clients in 1987.

J&H (Bermuda) also manages Vista Life Insurance Co. Ltd., which writes employee benefit-related programs.

- Hurst Holme Insurance Co. Ltd., managed by International Advisory Services Ltd., the only rent-a-captive to report growth in both its number of clients and its premium volume. Hurst Holme wrote gross premiums of $6.5 million for about 16 clients last year, up 44.4% from $4.5 million in premiums from 11 clients in 1987.

Most of the new business has been in professional liability lines, where the commercial market still is tight, noted IAS Managing Director David Ezekiel.

- Fortress Insurance Co. Ltd., a unit of Bermuda Fire & Marine Insurance Co. Ltd., whose gross premium volume last year was basically unchanged from the $34.9 million reported in 1987, according to Irmgard Viera, general manager of BF&M Management Ltd.

- Hemisphere Marine & General Assurance (Bermuda) Ltd., a rent-a-captive facility managed by Alexander Insurance Managers Ltd. ■

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Bermuda

Reinsurance pools suffer in soft market

By DOUGLAS McLEOD

HAMILTON, Bermuda—The soft commercial insurance market has hit two Bermuda captive reinsurance pools hard, knocking one out and leaving the other staggering.

Corporate Insurance & Reinsurance Co. Ltd., a pool managed by Skandia International Risk Management Ltd., has discontinued underwriting and its members are reassuming their business in preparation for shutting the facility down.

Separately, premium volume and membership at the Risk Exchange Assn., another pool managed by Skandia affiliate Hudson Underwriting Ltd., have fallen off sharply under soft market pressure.

The Risk Exchange, however, is maintaining a core group of members and is developing new programs in hopes of attracting business when commercial markets harden, according to Hudson Vp Robert J. Rosser.

CIRCL never managed to build the casualty capacity originally envisioned for it.

CIRCL, formed in 1977 to provide casualty reinsurance, never managed to attract the 25 captive members or build the casualty capacity originally envisioned for it, and business in recent years has gradually declined.

Gross written premium volume for 1987 dropped to $10.8 million, down 8.5% from $11.8 million in 1986. Volume in 1986 represented a 37.6% decline from $18.9 million in 1985.

CIRCL programs included a guaranteed-cost primary casualty program, which accounted for roughly half of the facility's gross written premiums; a first-layer excess casualty treaty program offering limits of $2.5 million excess of a minimum underlying layer of $250,000; and a surplus casualty facultative program, the capacity of which depended on the amount participating members were willing to commit voluntarily.

Under the CIRCL programs, a member captive would cede casualty risks to the facility, which would retain 10%, and retrocede the balance to other CIRCL members.

In July 1987, however, CIRCL discontinued the guaranteed-cost primary casualty program in the face of growing commercial market competition.

CIRCL's 15 members subsequently began a study of options for restructuring the pool (*BI*, April 18, 1988). These included:

- Closing the facility, with each member reassuming its own obligations.
- Discontinuing new and renewal underwriting but leaving the facility in place to run off its obligations.
- Continuing to do business without any changes in CIRCL's structure.
- Setting up a new Vermont facility to take over new and renewal underwriting for CIRCL members wishing to continue the pooling ar-

Continued on page 20

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Captive pools

Continued from page 18
rangement, while leaving CIRCL itself to run off its existing business.

The CIRCL board of directors decided last June on the first option, with some modifications, according to Duane E. Allen, a CIRCL board member and consultant with Applied Risk Services Inc. in Laguna Hills, Calif.

Mr. Allen is a former assistant treasurer of Hanna Mining Co., whose captive, Erieview Insurance Co., was a founding member of CIRCL and whose captive management unit operated the pool until the management company was acquired by Skandia America Group in 1987.

Under the plan, CIRCL performed a "reverse portfolio transfer" at the end of last year, reassuming all of its retrocessions from 14 of the member captives. The 14 captives then reassumed their own business from CIRCL, Mr. Allen said.

One member, New Providence Assurance Co. Ltd., a captive of Charter Oil Co., did not participate in the reassumption agreement, Mr. Allen said.

As part of the reassumption, each captive received the reserves that had been set up to cover its business.

In all, the 14 captives reassumed a total of about $65 million in case reserves and incurred-but-not-reported loss reserves, according to Mr. Allen.

The 14 members participating in the plan are captives of Archer-Daniels-Midland Co., A.O. Smith Corp., Alco Standard Corp., Hanna Mining, Gencorp Inc., Fleetwood Enterprises, Minnesota Mining & Manufacturing Co., Wheelabrator-Frye Inc., Owens-Illinois Inc., National Steel Corp., Allegheny International Inc., Aluminum Co. of America, Revco D.S. Inc. and Valhi Inc.

While the reassumptions dispose of most of CIRCL's business, they do not take care of it all: The facility still must deal with several claims, most of them relating to Charter Oil's captive.

The most significant of these will involve Charter's liability for dioxin pollution at Times Beach, Mo., Mr. Allen said. CIRCL established a gross reserve of $4 million for the dioxin claims when they were reported in 1983, according to the pool's 1987 financial statement.

All CIRCL members except Revco's captive—which joined the facility after the dioxin claims came to light—will remain liable for the Charter losses, Mr. Allen explained, adding that he expects the Charter claims to be open for at least five years.

After this business is run off, CIRCL will be dissolved.

Mr. Allen last year had described the reassumption plan as the least likely alternative for CIRCL, noting among other things that the plan might prompt the Internal Revenue Service to review tax deductions claimed by members on the basis of their CIRCL participation.

However, the members decided that reassumption was the least expensive option "because we avoid a lot of ongoing administrative costs at CIRCL," Mr. Allen said.

The members also considered the tax ramifications of the plan, but "everybody just finally said, 'Aw, the hell with it,' " he added.

Mr. Allen himself had favored establishing the new Vermont facility to take over where CIRCL left off, but the soft market led the CIRCL board away from this alternative, he said.

"The will to continue underwriting and the need for it was not broad enough to make it a workable pool," he explained.

'Members aren't even using their own captives, let alone the Risk Exchange,' Mr. Rosser says, explaining the soft market's effect on the facility. The Risk Exchange also has been hit by the withdrawal of several members, he says.

Meanwhile, the Risk Exchange suffered a decline in volume and membership as it weathered another year of the soft market.

The Risk Exchange, founded in 1984, reinsures excess property, casualty and marine risks of its member captives and offers a working-layer property reinsurance program.

Gross written premiums plummeted 71.8% to $862,406 last year from $3.1 million in 1987. Last year's gross volume included roughly $424,000 in property premiums, $290,000 in casualty premiums and $149,000 in marine premiums.

The exchange recorded a 48.7% loss ratio last year, while the expense ratio hit a higher-than-normal 46.3% because of the decline in volume.

"Members aren't even using their own captives, let alone the Risk Exchange," Mr. Rosser said, explaining the soft market's effect on the facility.

The Risk Exchange also has been hit by the withdrawal of several members, though Mr. Rosser declined to name those captives.

The facility had 23 members at the beginning of 1989, down from 29 a year earlier.

Members wishing to withdraw must notify the exchange 12 months in advance and must handle their ongoing obligations either by running the business off or by commuting their contracts at 125% of case reserves and IBNR reserves, he said.

Nevertheless, the Risk Exchange has maintained a core group of members that are increasing their commitments to the facility, and Hudson Reinsurance Co. Ltd.—which has assumed 10% of certain risks though not technically a member—is increasing its line on some business, Mr. Rosser said.

"When the market hardens, the exchange will be there for members who stuck with it," he observed.

Exchange capacity for property risks has fallen to $3.1 million from $4 million a year ago, while marine capacity has dropped to

Continued on next page

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Continued from previous page
$2.8 million per risk from $3 million a year ago.

Capacity for casualty risks, meanwhile, has increased slightly to $2.02 million from $2 million a year ago.

Risk Exchange managers also are working on ways to expand the market's capabilities, Mr. Rosser said, pointing out that Skandia America Reinsurance Co. is now offering up to $5 million in property or casualty capacity in addition to exchange limits.

The exchange also has been negotiating with outside professional reinsurers to line up additional capacity for exchange members, Mr. Rosser said.

"What we are doing is keeping underwriting standards high but laying the groundwork for when the market hardens again," he explained.

'I think this is going to be another tough year for the group,' Mr. Rosser says of the Risk Exchange.

Mr. Rosser added, however, that he isn't expecting a turn in the market during 1989.

"I think this is going to be another tough year for the group," he said. ■

Loss produces changes at Hopewell

Bermuda

By DOUGLAS McLEOD

HAMILTON, Bermuda—Hopewell International Insurance Ltd. has made several adjustments in its property reinsurance operations after being hammered by one of the largest onshore property losses in insurance history.

A 1987 vapor cloud explosion at a Hoechst Celanese Corp. chemical plant in Pampa, Texas, produced an estimated $358.9 million gross loss for Hopewell, the giant captive reinsurance pool managed by International Risk Management (Bermuda) Ltd. (*BI*, April 18, 1988).

Hopewell last year recorded a net operating loss for the first time in its 15-year history because of the Pampa explosion (*BI*, Oct. 24, 1988).

Under a complex series of reinsurance treaties and facultative placements, the Hopewell pool has provided unlimited property reinsurance to participating IRM-managed captives.

However, the Pampa explosion has prompted Hopewell to make some changes, according to Arthur H. Deters, president and chief executive officer of International Risk Management Group Ltd., parent company of IRM (Bermuda). These include:

- Price increases, in the form of increased rates charged by captives to parent companies with adverse loss experience; increased reinsurance rates on business ceded to Hopewell; and reduced ceding commissions payable to captives participating in the pool.

In the worst case, these rate hikes have not exceeded 20% to 25%, Mr. Deters said, adding that some captives saw no increases at all and some saw decreases.

- Introduction of an "underwriting maximum foreseeable loss" concept, which effectively caps the total insured value at any one location covered through Hopewell at $1 billion.

"There are very few locations that are that sizable," Mr. Deters noted, estimating the total at four or five out of the roughly 14,000 locations insured by the pool.

- Introduction of a $250,000 minimum self-insured retention for participating captives. Several Hopewell members that previously maintained smaller retentions have raised them, Mr. Deters said.

For those that could not, Hopewell has introduced a separate retained excess treaty, which provides excess-of-loss reinsurance of up to $150,000 excess of a minimum $100,000 retention. Only eight captives are participating on this treaty, and that number will soon shrink to six as two more captives increase their retentions, Mr. Deters said.

"The question was how to make the basic treaty more stable and more consistent," Mr. Deters observed. "It was basically a matter of fine-tuning the machine to make it better for the future."

For the fiscal year ended June 30, 1988, Hopewell reported earned premiums of $128.2 million, down marginally from $130 million in the 1987 fiscal year. After ceding premiums to the pool's hundreds of captive and professional reinsurers and collecting commissions and other income, Hopewell reported underwriting income of $28.9 million, up from $27.5 million in 1987.

Losses—led by the Pampa blast—ballooned to $386.9 million last year, up 816.8% from $42.2 million in 1987. However, Hopewell reported reinsurance recoveries of $380.4 million on those losses. After including other losses and expenses, the pool finished the year with total underwriting expenses of $35.1 million, up 34.5% from $26.1 million in 1987.

All this translated to a net underwriting loss of $6.2 million last year compared with a gain of $1.4 million in 1987.

After including other gains and losses, Hopewell reported a net operating loss of $4.4 million—its first operating loss ever—compared with a $3.2 million gain in 1987.

Renewals of Hopewell's reinsurance treaties went "amazingly well" last year despite the loss, with all of the treaties fully subscribed by the afternoon of June 30, the first time that had happened since 1983, Mr. Deters said.

And, although IRM doesn't expect a delayed reaction among reinsurers to cause trouble with this year's renewals, it is taking a cautious approach.

"We are taking the attitude that this July 1 could be a more difficult renewal year than last year even though all indications out there now lead one to the opposite conclusion," Mr. Deters said. "We are operating this renewal on the basis of non-complacency." ■

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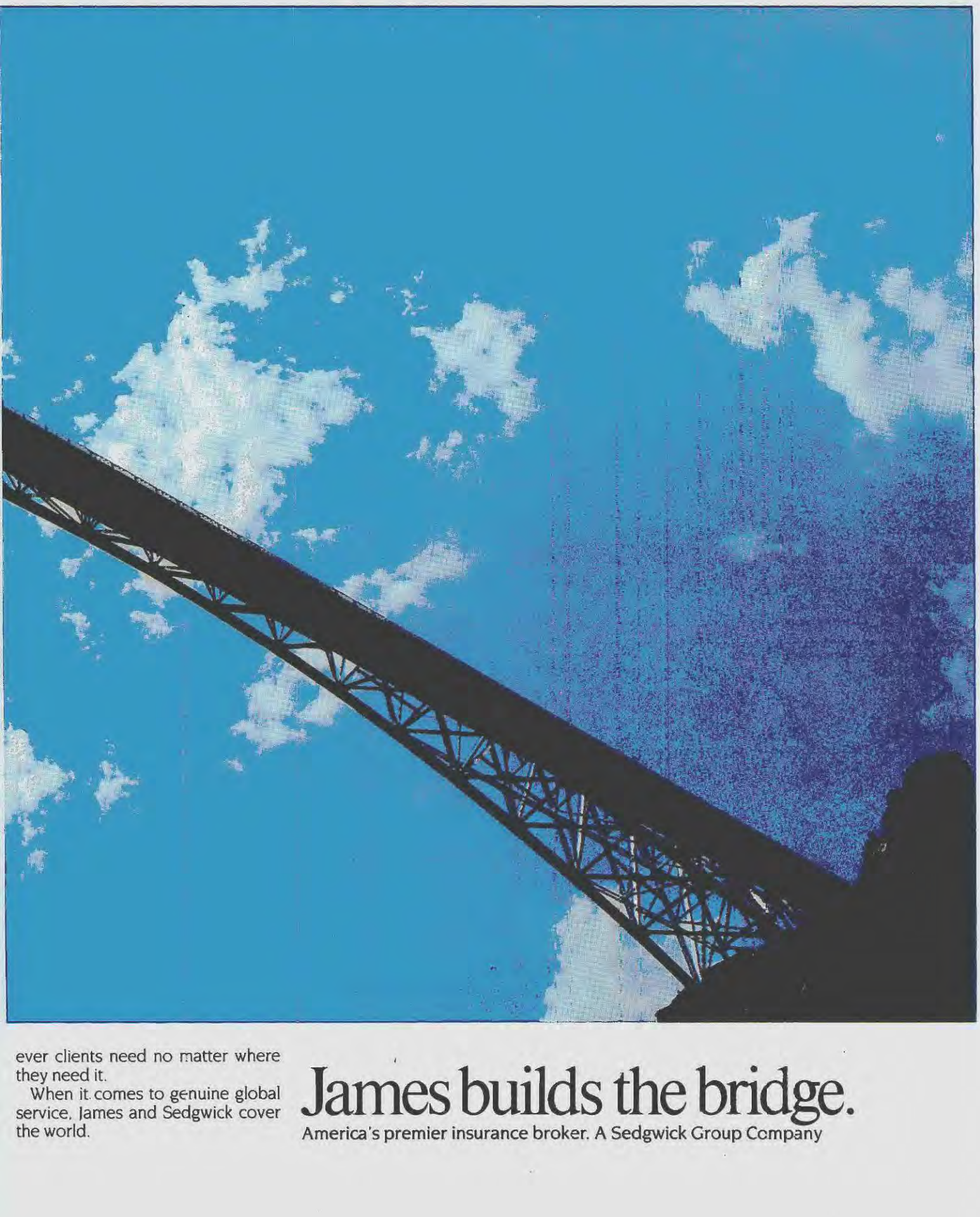

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Spotlight report

Reinsurers

Continued from page 22

recently joined Hudson Reinsurance Co. Ltd. as a vp from its affiliate, Skandia America Group in New York, says being dropped from a treaty as a reinsurer "is particularly annoying when you've been on a treaty for six years and you are paying losses and then they say Jan. 1, 1989, 'You are no longer acceptable on the property treaty.' "

"No longer acceptable" implies that Hudson Re's ability to pay, or its security, is in question.

"Our security is as good as Skandia's," Mr. Coppinger declares, pointing out that Hudson Re reports to Skandia America Group, which has policyholder surplus of $310 million, and both are part of Skandia Group in Stockholm, which has surplus exceeding $1 billion.

Hudson Re President Nicholas Dove commented that one ceding company security member told him that it's "easy to just remove all Bermuda companies."

"I intend to rectify this," says Mr. Coppinger, referring to relationships with ceding companies "where we are paying losses every day, but we're told we're not acceptable security."

Overall, Hudson Re kept 75% of the treaties it authorized for renewal in 1989.

The one full-time treaty broker in Bermuda, Intere (Bermuda) Ltd., continues to place participations on about 200 treaties in Bermuda.

Intere could place $5 million in limits in Bermuda for an excess-of-loss property catastrophe treaty, tapping not only conventional treaty underwriters but also a select group of captive insurers interested in writing some third-party business, says Vp Robert J. Hedges.

Usually, Intere places no more than $2 million in limits in Bermuda for these contracts.

There's still very little interest in casualty risks—U.S. or European, he notes.

Brittany, the largest Bermuda-based treaty reinsurer based on capital and surplus, increased its gross premiums 26% in 1988, mostly due to quota share retrocessions from other insurance companies in the Petrofina network of commercial insurers.

In the past, reinsurance of group members had been written on a facultative basis.

While supporting the expansion of Petrofina's insurance business worldwide, Brittany is not under any obligation to write quota-share contracts for sister companies.

"Brittany can decline their reinsurance if we thought it was not properly rated and that has been known to happen," Mr. Gregory said.

Brittany also increased its participation on some of the 80 contracts it underwrites from Bermuda. In addition, premium volume was increased by a couple of loss portfolio transfers written in the six-person office.

Brittany accepted portfolios of incurred losses from two reinsurers, one U.S.-based and one European.

While both contracts are subject to liability caps, they do not include fixed payout patterns or fixed payments.

Brittany is not interested in writing financial reinsurance contracts for companies that need surplus relief to write more business. Instead, for example, Brittany is interested in writing contracts that will protect the results of a discontinued line of business so that it doesn't continue to wreak havoc with a ceding company balance sheet.

Brittany, with 1988 net income of $68.8 million, paid a $40 million dividend in 1988, as it did in 1987.

GTE RE was the second-largest treaty underwriter in Bermuda, based on 1988 premiums of $117.6 million, $57.5 million of which involved risks unrelated to GTE.

GTE RE's decision not to renew most U.S. treaty reinsurance will not significantly affect GTE RE's results in 1989 because already this year GTE RE has written $27 million in premiums on U.S. business.

GTE RE made its decision based on the long-term potential profit on U.S. business, not its current book, which it had very carefully selected, Mr. Finley said.

And, GTE RE had the success it sought in the last two years securing U.S. business, he said.

GTE RE will continue to underwrite GTE-related risks, a strategy that was recently reviewed and confirmed, Mr. Finley said.

Now, GTE RE will increase its marketing efforts in Europe, which already generates about $13 million in premiums for the company.

"We will concentrate on our non-North American business to work toward a balance with our related U.S. book," Mr. Finley said. It will be slow, he acknowledges, "because of the nature of the markets. It takes a long time to become accepted."

In addition, GTE RE will continue to underwrite about five reinsurance contracts that don't involve GTE risks for insurers because the companies insure GTE.

GTE RE President W.L. Hyland noted that GTE RE had a "good year" in 1988 and "financially we have never been in better shape." Net income totaled $12.4 million.

While others in Bermuda are writing financial reinsurance, GTE RE will not re-enter that market, Mr. Hyland said. GTE RE wrote some loss portfolio transfers in the 1980s.

While claims are developing faster than expected on some of those contracts, when all the contracts run off they will have produced a "modest profit," Mr. Hyland said.

Paumanock Insurance Co. Ltd., a subsidiary of Grumman Corp., writes only about $6 million in business related to its parent company.

Anchor Underwriting Managers Ltd., a subsidiary of Virginia Surety Co. Inc., underwrites a property and marine excess-of-loss book with a substantial amount of London-generated business for Paumanock.

Anchor wrote $28.9 million in 1988 gross premiums for Paumanock, which reported record profits of $7.9 million.

Reducing Paumanock's share of marine business last year because rates were too depressed saved Paumanock from taking no more than a "small loss" on the Piper Alpha oil platform loss last summer, said Mr. Williams of Anchor.

But with significant recent losses driving marine reinsurance rates up substantially—from 100% to 500% on energy-related business—Anchor will increase Paumanock's marine business this year, Mr. Williams said.

Paumanock also writes about 20% of its business from the United States, either property or life reinsurance. Anchor does not write casualty reinsurance or financial reinsurance for Paumanock.

Sixteen people on the Anchor staff previously worked at Frank B. Hall (Underwriting Managers) Ltd. when it managed Paumanock's business.

Virginia Surety, a subsidiary of Aon Corp. in Chicago, formed Anchor June 3. Paumanock appointed Anchor underwriting manager effective July 1, which includes not only writing new business but also handling business from prior years.

Continued on next page

NO SURPRISES

Continued from previous page

Paumanock was licensed as a reinsurer in France last year and became licensed in Bermuda to underwrite life reinsurance.

Paumanock paid a $2.7 million dividend last year, an increase from $2 million in 1987.

Tate & Lyle Reinsurance Ltd., a captive insurer of Tate & Lyle P.L.C., is writing proportional reinsurance for non-proportional books of property business and some individual U.S. catastrophe excess-of-loss covers.

However, the company is not interested in significantly expanding this business, which generated $6.5 million in premiums in 1988, says VP James A. Kemp.

Instead, Tate & Lyle Re is trying to expand the amount of reinsurance it writes to support insurance for Tate & Lyle operations, Mr. Kemp said. Tate & Lyle Re would like to write more marine and property business for Tate & Lyle operations, especially those in the United States.

Belvedere attempts 'to write what is less fashionable because we can have an effect on terms and conditions that we could not in trying to compete for a wider spread of traditional business,' Mr. O'Connor says.

The captive also is looking at developing a global property insurance program and is considering assuming U.S. liability risks of its affiliates.

Tate & Lyle reported 1988 net income of $3.5 million and paid a $1.75 million dividend.

Among the Bermuda-based subsidiaries of insurance companies, Hudson Re is making a renewed effort to underwrite more reinsurance for captive insurance companies, according to Mr. Coppinger, who will underwrite the business.

Hudson Re is one of the three companies that has formed an alliance with Belvedere Insurance Co. Ltd. to underwrite up to $1.5 million in limits for captive insurers' liability business.

Mr. Coppinger also will be involved in the Risk Exchange Assn., a captive pooling program that Hudson Re reinsures on a 10% quota share basis. Hudson Re affiliate Skandia International Risk Management Ltd. also manages the Risk Exchange.

Skandia International added $7 million in capital to Hudson Re last year, bringing its capital and surplus to $16.9 million.

Hudson Re "is not actively looking to write new non-captive business," Mr. Coppinger said, but it will preserve its current business "to the extent it makes sense."

Current conventional treaty business emanates from North America, Europe and a little from Japan.

Hudson Re, with its foreign ownership, also is interested in writing financial reinsurance products, although it did not market itself as such in 1988 and did not write any last year.

Hudson Re generally writes a $250,000 line for non-captive treaties, Mr. Coppinger said, although more can be authorized by Skandia America in New York.

Belvedere, a subsidiary of publicly traded Belvedere Corp., writes a combination of conventional treaty reinsurance, financial reinsurance and captive reinsurance, which together in 1988 generated $26 million in gross premiums.

Belvedere, the coordinator of the new alliance of four reinsurers to underwrite captive reinsurance, expects this business to grow. Currently, no more than 10% of Belvedere's premiums are related to captive reinsurance.

Treaty reinsurance generated the bulk of premiums last year, with professional liability dominant, followed by accident and health reinsurance, general liability reinsurance and property/fire/catastrophe reinsurance.

Belvedere caps its liability on "virtually all" professional liability treaties, says President Colin D. O'Connor.

With marine reinsurance rates going up, Belvedere has just taken a proportional participation in a leading Lloyd's of London syndicate.

Excluding capped-liability business, which Mr. O'Connor does not classify as financial reinsurance, Belvedere wrote about $4 million in financial reinsurance contracts in 1988, all involving the transfer of timing risk.

"Time-and-distance rates are ludicrously low," says Mr. O'Connor.

Ten-year-old Belvedere, which employs 18 people, "takes a contrarian view" of the market, Mr. O'Connor says, choosing to do business in areas of "relative scarcity."

"We attempt to write what is less fashionable because we can have an effect on terms and conditions that we could not in trying to compete for a wider spread of traditional business, which is under attack and where rates are reduced."

Mr. O'Connor projects that Belvedere will write $25 million to $30 million in gross premiums this year, with some growth in captive and financial reinsurance business.

Belvedere reported $3.4 million in 1988 profits and paid a $2.5 million dividend.

Two investor-owned treaty reinsurers in Bermuda are under the same underwriting management: National Underwriters (Reinsurance) Ltd. and recently incorporated Bristol Reinsurance Ltd.

National Underwriters, with a 35-person staff, underwrites property and marine reinsurance for its own account and for Bristol, through its National Underwriters Agency.

National Underwriters, which uses the Lloyd's of London three-year accounting system, reported another year of record profits, closing its 1986 accounts with a $5.6 million profit.

After payment of a $2 million dividend, policyholder surplus increased to $15.8 million from $12.3 million.

National Underwriters had paid a $1 million dividend the year before.

National Underwriters is owned by three insurers: National Employers' Mutual General Insurance Assn. Ltd., 55%; Lansforsakringsbolagens A.B., 39.12%; and Colonial Insurance Co. Ltd., 5.88%.

National Underwriters Agency began underwriting Jan. 1 for Bristol, which was capitalized last year at $20 million by The Niarchos Group.

National Underwriters Agency, which is the exclusive agency for Bristol, expects to write about $6 million in marine reinsurance premiums and $4 million in property reinsurance premiums for Bristol, said James G. Parkinson, president of National Underwriters.

When there is an opportunity to do so, both Bristol and National Underwriters will be signed to a treaty.

Bristol does not write any insur-

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Bermuda reinsurers

Continued from previous page

ance or reinsurance related to its owners, Mr. Parkinson emphasized.

Nor does National Underwriters write any casualty business, and less than 5% of its marine account involves aviation risks. Half the business emanates from London and half from the United States.

National Underwriters Agency also writes a parallel account for Lansforsakringsbolagens and National Employers Mutual. In 1989, the agency will write about $15 million total in annual premiums.

Assessing the development of business, Mr. Parkinson expects 1987 "to be reasonably good," but he is not so sure about 1988.

"It's going to be a difficult year for everybody in marine and property," he said, referring to the 1988 losses of the Piper Alpha and Enchova oil platforms, among others.

And, there was severe rate cutting in the marine market, he noted.

Now, in 1989, there have been "reasonable increases in the retrocession market," Mr. Parkinson said, adding: "But otherwise, the property market remains fairly competitive; the aviation market can only be described as ludicrous; and in the marine market overcapacity is causing severe competition."

Mr. Parkinson noted that at the last renewal, National Underwriters held its participation and its line on most of its treaties, noting that the treaties have been longstanding with National Underwriters.

National Underwriters' captive reinsurance account for property and marine risks continues to increase, Mr. Parkinson said.

National Underwriters expects to again write about $32 million in premiums in 1989, maintaining the relatively stable volume that it has had for the last five years.

Victory Reinsurance International Ltd., a subsidiary of Victory Group in London, writes a "significant amount of life reinsurance," reports Vp Nick Wheeler.

Victory International also writes reinsurance for captives' property accounts.

Aneco Reinsurance Underwriting Ltd., a subsidiary of publicly traded Forum Re Group (Bermuda) Ltd., specializes in underwriting reinsurance for captives, both liability and property (see story, page 34).

Aneco also underwrites property catastrophe reinsurance on a proportional basis for selected excess-of-loss underwriters at Lloyd's and London companies.

Premiums on this business fell to about $5 million in 1988 from $6 million in 1987 due to the reduction of underlying rates, said Jonathan J. Crawley, president of Aneco.

This year, Aneco also has written two proportional treaties for marine excess-of-loss business in London, which will generate about $1.5 million in premium.

Aneco's captive premiums fell to $8.9 million in 1988 from $14.3 million in 1987, due to the timing of renewing some substantial accounts that had 15-month policy periods.

Aneco's underwriting income from continuing lines was $2.6 million. However, a $940,000 loss from discontinued lines reduced underwriting income to $1.6 million.

Net income for 1988 of $2.1 million was only slightly less than the $2.5 million reported for 1987.

Aneco's capital was increased by $10 million earlier this year by issuing 10 million shares of non-voting preferred stock to a wholly owned subsidiary of Forum Reinsurance Co. Ltd. (*BI*, March 6).

Aneco's capital and surplus now stands at $23.4 million.

Meanwhile, Forum Re Group (Bermuda), which owns Aneco, reported a net loss of $435,384 for the year, caused in large part by a $1.4 million charge incurred in 1988 in response to the successful tender offer by Forum Investments Ltd. in March 1988.

Forum Re Group (Bermuda) is now owned 18% by the public, 46% by Forum Reinsurance Co. Ltd. and 36% by an employee stock ownership plan.

Forum Re Group (Bermuda) and Forum Re Group Inc. in the United States have announced they intend to merge this year.

Forum Re Group Inc.'s holdings include Millers National Insurance Co., Amberco Brokers Ltd. and The Oil & Gas Insurance Co.

After the merger, the majority of the stock in the combined company will be owned by the public and by an ESOP. Other shares will be held by Forum Chairman Mark Hardy and Forum Reinsurance Co. Ltd.

The merger is subject to shareholder and regulatory approval. ■

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Underwriters share ideas within BIUA

HAMILTON, Bermuda—After several years of maintaining a low profile, the Bermuda Independent Underwriters Assn. is springing back into action.

The 21 BIUA members have assets of $5 billion, capital and surplus of about $1.5 billion and wrote about $1.5 billion in gross premiums in 1988, according to the group.

The BIUA provides a forum for its members to exchange ideas on underwriting, market conditions, government regulations and changes in policy, says William J. Loschert, BIUA vice chairman and executive vp of underwriting for A.C.E. Insurance Co. Ltd.

To be a member, an insurer or reinsurer must employ an active underwriter in Bermuda. As a result, X.L. Insurance Co. Ltd., a Barbados company maintaining only a contact office in Bermuda, is not a member.

In addition to the leading commercial treaty and captive reinsurance underwriters, all three Bermuda domestic insurers are members of the association as well as a protection and indemnity club and several captives taking small participations in treaties.

The BIUA also intends to take positions on issues of importance to members. "You can expect us to be more vocal —to express our opinions on matters that affect the insurance community," says John C. Williams, BIUA chairman and executive vp of Anchor Underwriting Managers Ltd., which underwrites for Paumanock Insurance Co. Ltd.

And, the BIUA wants to assist insurers and reinsurers in Bermuda in matters of common interest.

For example, the BIUA hopes to develop a list of arbitrators to submit to the government for possible distribution to companies seeking to arbitrate disputes under the Bermuda Arbitration Act, which prohibits court interference if a contract contains an arbitration clause or if both parties agree to arbitration.

"The association is much more interested in moving forward our market as a full-service underwriting community," Mr. Loschert says.

—By Kathryn J. McIntyre

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Spotlight report

A.C.E. may hike excess liability limits

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—A.C.E. Insurance Co. Ltd. is considering expanding the $150 million in excess liability insurance limits it offers, effective June 1.

John R. Cox, chairman and chief executive officer of holding company ACE Ltd., will recommend to the ACE Ltd. executive committee May 15 that A.C.E. expand its limits, now that it has catastrophe reinsurance of $150 million excess of $200 million.

And, A.C.E. has been approached by a professional reinsurer seeking to write quota-share reinsurance for A.C.E., which also would permit A.C.E. to issue higher limits.

However, obtaining the clash reinsurance was most important to recommending expanded liability limits, Mr. Cox said.

When A.C.E. started underwriting in 1985, no one would write clash reinsurance for its business, Mr. Cox recalls.

Now, "virtually everybody in the worldwide market" supplies some capacity for the reinsurance, which was effective Jan. 1.

Willcox Inc. Reinsurance Intermediaries, a unit of Johnson & Higgins, brokers A.C.E.'s reinsurance, tapping Johnson & Higgins Ltd. in London, another J&H unit, as a correspondent broker.

The quota-share reinsurance could be in place by June 1. If A.C.E. accepts the quota-share reinsurance, the reinsurer would share from the first dollar any losses paid by A.C.E.

How much A.C.E. may increase its excess liability insurance limits will depend on "whether we have a partner," Mr. Cox said. "We would consider two professional reinsurers" as partners, he added.

However, each reinsurer would have to be willing to assume a quota share that would correspond to offering "sizeable limits," Mr. Cox said, suggesting at least $25 million.

"I have a singular concern: my policyholders," he noted.

About 100 policyholders need limits in excess of the current $150 million, according to Mr. Cox.

A.C.E.'s new catastrophe reinsurance "may be enough" to allow A.C.E. to increase its limits to $200 million, while two professional reinsurance partners would allow A.C.E. to issue $250 million in limits.

While considering increasing limits offered, A.C.E. also needs to resolve the question: "How much capital do we need?"

Opinions on the ACE Ltd. board range from $800 million to $2 billion, Mr. Cox said.

As of Feb. 28, ACE Ltd., the holding company, had $1.1 billion in policyholder surplus—after a $65 million dividend paid in December.

(A.C.E. based the dividend on its 199 shareholders' U.S. tax liability in 1988).

Bermuda

A.C.E. now has 375 excess liability insurance policyholders buying limits excess of at least $100 million, the minimum A.C.E. attachment point, compared with 328 last year at this time.

Last year, Mr. Cox had predicted that A.C.E. would attract no more than 350 policyholders. Now he believes that A.C.E. could have as many as 500 policyholders with its current product.

A.C.E. policyholders include manufacturing, transport, construction, service, mining, finance, chemical, pharmaceutical and wholesale and retail trade concerns.

A.C.E. insures nine of the 10 largest U.S. industrial corporations. The exception is Exxon Corp., which last month was responsible for the largest oil spill in North American history (*BI*, April 3).

While A.C.E. attaches as low as excess of $100 million, its coverage also attaches as high as excess of $1 billion for industrial aviation concerns.

The average attachment point of an A.C.E. policy now is about $140 million, which is higher than in the past and one reason liability premiums written last year declined and will decline again this year, Mr. Cox said.

Excess liability premiums written in the fiscal year ending Sept. 30, 1988, fell 4.8% to $171.4 million from $180.2 million in 1987.

Also contributing to the decline in written premiums was the continuing return of reserve premiums in the form of premium credits.

Non-stockholders purchasing one-year coverage from A.C.E. are required to pay a reserve premium equal to the initial annual premium, returnable on anniversaries as premium credits at a rate of 10%, 20%, 30% and 40%.

Mr. Cox

Or, a policyholder can pay the full premium for a three-year policy at inception and not pay a reserve premium. About 100 policyholders have opted to purchase the three-year, non-refundable policy.

The three-year prepaid premium option also skews year-to-year comparisons, Mr. Cox noted.

A.C.E. requires that at least $10 million of the limits it writes be the top layer of coverage, but it permits policyholders to use any portion of the other $140 million to fill in gaps in other coverage excess of $100 million.

The minimum liability limit A.C.E. offers is $10 million, but no one buys so little. A few accounts, however, do buy less than $50 million.

Among the 27 new excess liability insurance policyholders since fiscal year-end are seven based outside the United States.

A.C.E. will issue its policies in any currency that is freely exchangeable, including European Currency Units.

A half dozen accounts already have taken advantage of this option, made available about eight months ago.

At Sept. 30, A.C.E. had 31 non-U.S. policyholders, including 13 from the United Kingdom, seven from Canada, five from West Germany, three from Switzerland, two from Australia and one from France.

A.C.E. has yet to establish a loss reserve.

"We can't," Mr. Cox said, almost with a twinge of frustration.

A.C.E. had 560 notices of events as of last week, but fewer than 10 present any potential liability to the company, Mr. Cox explained.

A.C.E. had increased its loss reserve for loss expenses to $5 million as of Sept. 30, 1988.

However, there have been enough catastrophes to prove the need for A.C.E.'s limits, he noted, citing, among others, the explosion of the Piper Alpha oil platform in the North Sea (*BI*, July 11, 1988); the New Year's Eve 1986 fire at the Dupont Plaza hotel in San Juan, Puerto Rico (*BI*, Jan. 12, 1987); and the pollution of the Rhine River following a November 1986 fire at a Sandoz A.G. warehouse in Basel, Switzerland (*BI*, Nov. 24, 1986).

Loss-free, A.C.E. reported net income of $249.4 million for the year, up about 3% from 1987.

Unfazed by conventional commercial insurance market competition, A.C.E. continues to charge the same rates is did when it issued its first policy in November 1985.

"I tell directors: 'If you can buy it cheaper elsewhere, do it. We'll come in above it and we'll pick you up later," Mr. Cox said.

He noted that A.C.E.'s average policy premium is already down $30,000 to $40,000 because policyholders have moved up A.C.E.'s attachment point about $25 million.

A.C.E.'s minimum premium remains $40,000 for a minimum limit of $10 million in excess liability insurance.

A.C.E. has had only two excess liability insurance policyholders fail to renew since 1985, both in the last year. Because they were both stockholders, they did not pay any penalty for failing to renew.

While A.C.E. has lost other policyholders through mergers and acquisitions, that activity has created a net gain in policyholders because there have been more breakups than mergers.

Of the current 375 policyholders, 160 also purchase excess directors and officers liability insurance from A.C.E. on a following form. To buy D&O coverage from A.C.E., a company must buy an equal amount of excess liability limits.

A.C.E. offers up to $50 million in D&O limits excess of $25 million.

D&O premiums written were down 11.2% to $83.9 million in 1988 from $93.3 million the previous year as policyholders moved A.C.E.'s limits to higher layers or reduced the limits purchased.

Only two policyholders dropped A.C.E.'s D&O coverage, forfeiting about $100,000 in deposit premiums.

A.C.E.'s D&O premiums written will be down again this year to the tune of 15% for the same reasons, according to Mr. Cox.

For the first third of the current fiscal year, A.C.E.'s earned premium is off by $1 million, due entirely to a decrease in D&O insurance activity. Excess liability premiums are up.

Mr. Cox projects that A.C.E. will lose $3.5 million in earned D&O premiums in fiscal 1989 and by 1990 will be down $10 million from the peak of $70 million to $80 million.

The minimum rate for D&O coverage is $2,500 per $1 million of coverage.

The A.C.E. excess liability form has been under review for the last 16 months to determine how the policy drafted in 1985 could be improved.

A board committee has been reviewing it for 10 months and A.C.E. has held 10 seminars with policyholders on the subject, attracting 200 people in all.

Mr. Cox is targeting Oct. 1 to introduce a new "state of the art" policy. "The new policy is optional, not mandatory. And, there will be no retrenchment of coverage. There will be clarification of the language to make coverage more visible," he said.

Responding to suggestions that there are coverage differences between the A.C.E. and underlying X.L. Insurance Co. Ltd. policies, Mr. Cox commented: "You can't have absolute interpretation of the same language by two different managements."

Mr. Cox has met with X.L. Chairman Michael Kevany recently on the subject.

"We have opened a discussion to come up with a basic form to flow all the way through," Mr. Kevany said.

A.C.E.'s staff now numbers 20, an increase from 16 last year, as expected. Liability insurance is underwritten by Executive Vp William J. Loschert and underwriter Larry P. Lombardo.

Charles D. Smith and Wendy Dunne underwrite D&O insurance for A.C.E. and Corporate Officers & Directors Assurance Ltd. (see story, page 30).

Mr. Cox, 57, and Executive Vp Administration Basil M. Pimm, 67, both are preparing to retire this year, but when exactly that will be depends on when a new chief executive is hired, Mr. Cox said.

ACE Ltd. took moves last year to save its shareholders about $10 million to $15 million for part of 1988 and all of 1989.

Continued on next page

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A.C.E.

Continued from page 28

To allow its shareholders to avail themselves of the excise tax exemption in the tax treaty between the United States and Bermuda, which was ratified last October by the Senate, A.C.E. Insurance Co. (Bermuda) Ltd. was capitalized with adequate funds to allow it to issue policies to shareholders who desire coverage from a Bermuda insurer.

The excise tax exemption, which is effective for 1988 and due to expire on Dec. 31, 1989, applies to policyholders that are stockholders of a Bermuda company.

At the request of an individual shareholder, A.C.E. Insurance Co. Ltd.—the Cayman-incorporated company—canceled the shareholder's policy and refunded the premium.

The shareholder then purchased a new policy from the Bermuda company.

John Cox of ACE assesses the company with the understatement: 'It's going on well.'

In doing this, the shareholder saved the 4% federal excise tax on the premium payment.

After four years of working at the helm of ACE, Mr. Cox assesses the company with the understatement: "It's going on well."

The next "significant problem," according to Mr. Cox, is helping ACE find someone to take over his position.

He and his family have rented a home on the Jersey shore this summer, and Mr. Cox said he would like to use it. ■

CODA offers policyholders market-change 'insurance'

By KATHRYN J. McINTYRE

Bermuda

HAMILTON, Bermuda—Corporate Officers & Directors Assurance Ltd. now offers as little as $5 million in limits on an excess following form basis to protect individual officers and directors from liability lawsuits.

"Any idiot who doesn't buy the policy is an idiot—and I mean an idiot," declares John R. Cox, chairman and chief executive officer of ACE Ltd., which manages CODA through subsidiary ACE Insurance Management Ltd.

"The market is headed for a problem again, clearly," Mr. Cox says. "Some of the crazy things being done in terms of pricing means there will be a problem in the future," warns the veteran property/casualty insurance industry executive.

"If you wait until the market collapses, you will have to bring in a fresh application and stand in line to avail yourself of the CODA market. However, if you are already a pure excess policyholder—and CODA is competitive with the market on pure excess only—then you merely convert your policy to either a primary or excess and DIC policy," Mr. Cox explains.

All it will take to convert the $5 million policy to a $25 million policy on a primary or excess and difference in conditions basis is a request for conversion and a premium payment.

CODA, which offers D&O limits of $25 million in $5 million increments on a primary (excess of $1 million) or excess basis for directors and officers—no corporate reimbursement coverage—was authorized to start writing following form excess policies in December.

"CODA is superior to others because if you lose your underlying coverage, or the price becomes prohibitive, it becomes a wedge to keep the market sane and sound. You can always move away from the commercial market," Mr. Cox says, pointing out that $100 million in D&O limits are available by purchasing coverage from CODA, X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd.

Risk managers buying D&O coverage from the commercial market and A.C.E. could restructure their programs to better protect their officers and directors in a troubled commercial market because A.C.E. permits policyholders to buy different limits for corporate reimbursement coverage and D&O coverage, Mr. Cox explains.

Assume, for example, the company now buys $25 million of D&O and corporate reimbursement coverage from the commercial market and $25 million of excess limits from A.C.E.

The risk manager can keep the $25 million of commercial coverage, purchase $5 million excess of $25 million in D&O limits from CODA, $20 million excess of $30 million in D&O limits from A.C.E. and $25 million excess of $25 million in corporate reimbursement from A.C.E.

"With that little window you've carved out, if the commercial market is in trouble, CODA can become a primary policy," he says.

This option was not as attractive when CODA only offered excess and DIC coverages because the policy was more expensive and not competitive with commercial rates.

A few more risk managers are beginning to agree with Mr. Cox that they can't afford not to buy CODA's coverage.

CODA's policyholders total 115, up from 90 last year. CODA had written premiums of $34 million in 1988, including reserve premiums.

CODA offers a one-year policy with a five-year payback of reserve premium. Or, a policyholder can pay a three-year premium at inception of a three-year policy and owe no reserve premium.

Mr. Cox believes that CODA will need, over time, to increase its capital and surplus of $180 million by another $100 million. "CODA needs a lot more capital for the long pull because the D&O business is more volatile," he said.

Today, 75% of CODA's premiums are in a loss reserve account, to create a proper reserve for incurred-but-not-reported losses. However, since CODA's expense ratio is less than 18%, "even at this level it is earning a reasonable underwriting profit," Mr. Cox says.

CODA's earned premiums last year were near $20 million and are estimated to be $26 million this year.

About half of CODA's 53 shareholders are ACE Ltd. shareholders.

CODA was incorporated in Bermuda in September 1986 and issued its first policy the next month. ■

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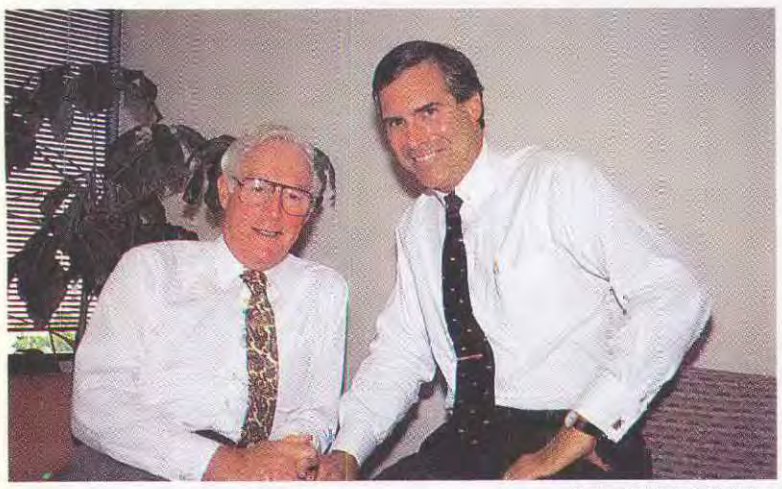

Photo: Kathryn J. McIntyre

X.L. Chairman and CEO Michael Kevany and President Brian O'Hara.

By KATHRYN J. McINTYRE

Bermuda

HAMILTON, Bermuda—After two years of granting modest rate decreases, X.L. Insurance Co. is committed this year to holding prices on accounts with unchanged exposures.

X.L. is the leading market for liability insurance excess of $25 million for large commercial risks. It also writes directors and officers liability insurance and, for selected organizations, errors and omissions insurance.

In the last two years, accounts that had signed with X.L. in its first year of operation—1986—have been granted a cumulative average rate reduction of 25%, says X.L. President Brian M. O'Hara.

Admitting that "it is difficult to say on this book what the price should be," Mr. O'Hara contends that "it's prudent to stabilize rates now."

To continue to cut rates would certainly require raising rates in the coming years, he says, which is the typical cyclical pattern of the commercial insurance business.

X.L.'s approach to underwriting is different. "Our mission is stabilization," says Mr. O'Hara.

X.L. was organized in 1986 at the height of the liability insurance crisis by 68 sponsor companies that contributed $410 million in surplus to obtain the coverage they needed and to create a stable liability insurance market for the future.

Today, X.L. has 100 shareholders and has 552 policies in force: 412 excess liability, 101 D&O and 39 E&O. All of the D&O policyholders are excess liability policyholders, which is a requirement to obtain D&O limits, while only one E&O policyholder also buys excess liability insurance.

X.L.'s assets at fiscal year-end on Nov. 30, 1988, totaled $1.4 billion, while shareholders' equity totaled $757.4 million.

While committed to renewing at current rates, X.L. will lower or raise rates if the risk has changed.

"If we see the development of enhanced risk management, we might be convinced to reduce the rate," Mr. O'Hara says. "And they may go up with larger exposures," he adds.

X.L. provides up to $75 million in liability limits in $25 million increments excess of $25 million, and $50 million or $75 million excess of $50 million or $75 million. The coverage is written on an occurrence-reported form.

X.L. also offers up to $25 million in limits for directors and officers liability excess of $25 million, or excess of $20 million for limits of $20 million. The D&O limits are offered in $5 million increments.

And, X.L. offers errors and omissions insurance for attorneys, insurance brokers and insurance companies, with a minimum limit of $25 million excess $25 million to a maximum of $50 million excess of $50 million.

D&O and E&O policies are written on claims-made forms.

Mr. O'Hara expects X.L. to write about $330 million in premiums in 1989: $280 for excess liability, $30 million for D&O and $20 million for E&O.

That's not much growth compared with the $317.3 million in premiums written in the fiscal year ended Nov. 30, 1988.

The 1988 premium volume represented a 7.5% gain from fiscal 1987, with the insurer writing 70 new accounts.

X.L. added 15 new policyholders in the first three months of its current fiscal year, compared with 24 new policyholders in the first three months of its 1988 fiscal year.

But it could be worse. X.L. could be losing business to what Mr. O'Hara calls the "highly competitive" commercial insurance market in the United States and London.

Not only are those markets cutting rates, but the U.S. market is making occurrence policies generally more available, he says.

One or two years ago, insurers would write occurrence policies for only those large accounts with the relatively safe OL&T (owners, landlords and tenants) risks. "We see that expanding into tougher product classes," says Mr. O'Hara.

X.L.'s occurrence-reported policy form covers occurrences reported during the policy period.

X.L.'s occurrence-reported policy can be converted into a full occurrence form by annually purchasing an unlimited discovery endorsement. The charge for the endorsement is based on a sliding scale in the first four years and then costs 9% of annual premium for as long as it is purchased.

The policy also provides for the aggregation of claims from a common cause under the policy in force when the policyholder first puts X.L. on notice. The policy provides continuous coverage for those claims, regardless of policy continuation, to the policy limits.

In addition, X.L.'s liability policy is still one of the broader on the market, providing sudden and accidental pollution coverage.

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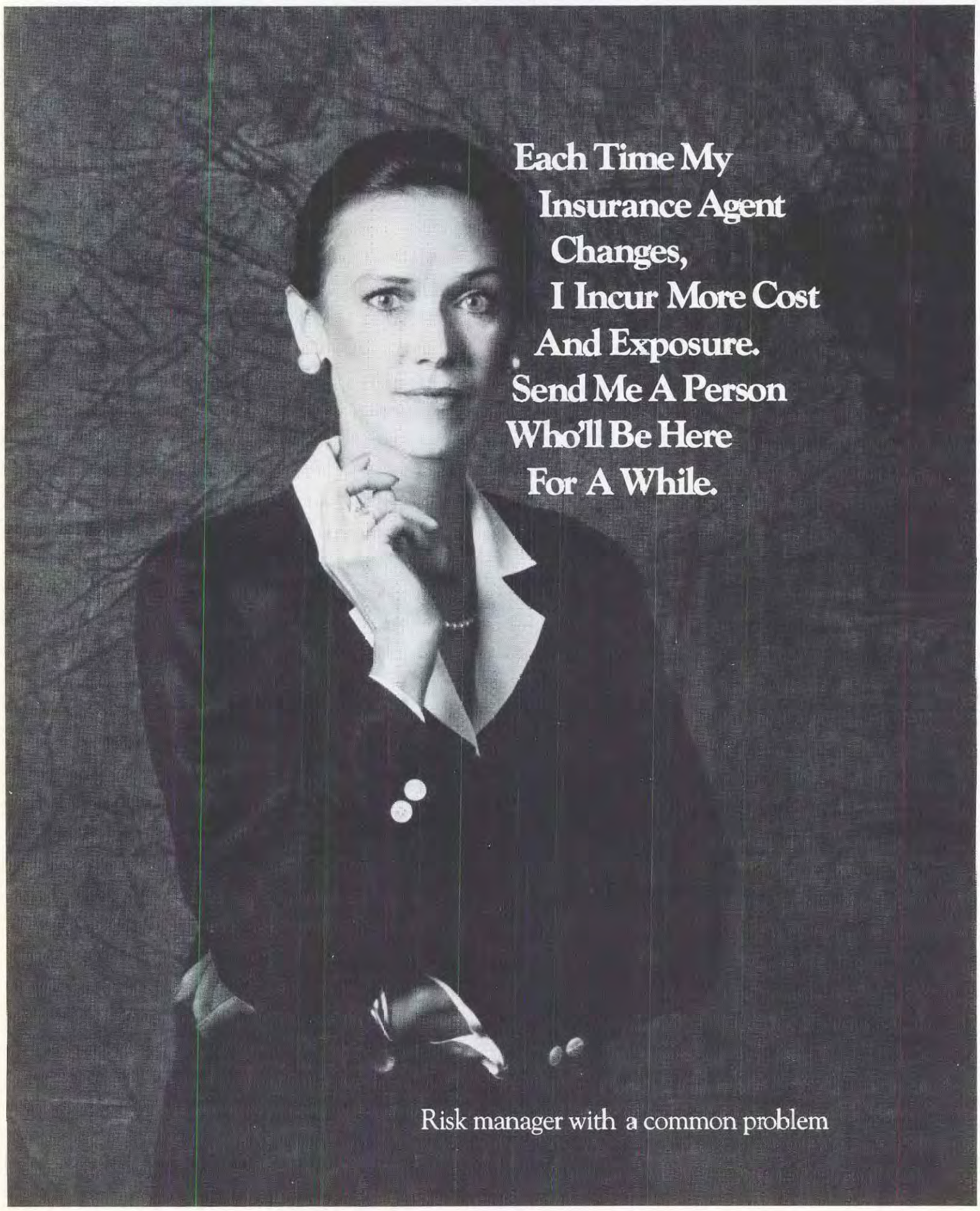

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X.L. is maintaining its premium volume because its policyholders continue to be loyal.

X.L. lost only 15 accounts in the 1987-88 fiscal year: three E&O policyholders, three D&O and nine umbrella. Of the umbrella accounts lost, five were involved in mergers or acquisitions.

Since X.L.'s creation in May 1986, it has lost only 26 accounts.

Michael J. Kevany, chairman and chief executive officer of X.L. since Oct. 1, says that policyholder loyalty "is driven by the fact that they are part-owners. They have a real interest in this company being successful."

Mr. Kevany succeeded Ian R. Heap, X.L.'s chairman for its first two years, who retired from daily management of X.L. Mr. Heap continues as chairman of the board and executive committee of EXEL Ltd., X.L.'s holding company.

Mr. O'Hara points to insurance buyers' desire for price stability as another reason for client loyalty.

X.L. also is a convenient market. No other insurer offers $75 million in liability limits excess of $25 million.

X.L. policyholders also have a monetary reason for loyalty: They forfeit their 25% reserve premium if they leave the facility before the fifth policy year, when the deposit is returned as a premium credit.

While not expecting much growth this year, Mr. O'Hara said, "If we have growth this year, it will be from the recognition by buyers that if the commercial market deteriorates at its current rate, there will be a day of reckoning," with commercial insurers suddenly raising rates and slashing limits.

When that happens, X.L. will be ready to write new business. But, to be fair to current X.L. policyholders, X.L. will charge new policyholders higher rates than it does existing policyholders.

X.L.'s current policyholders include industrial manufacturers, chemical and pharmaceutical companies, utilities, auto manufacturers, transportation concerns, hotel/office concerns and others.

While specializing in large accounts, X.L. is starting to write smaller accounts, such as grocery store chains, universities and hospitals.

X.L. Ltd. employs 37 people now: 20 in Barbados and 17 in the contact office in Bermuda.

That's up from 25, with new employees hired in claims, administration and underwriting.

X.L. brought D&O and E&O underwriting in-house by hiring Jim Ansaldi in August from Chicago Underwriting Group Inc., an Old Republic International Corp. unit that had been underwriting D&O coverage for X.L.Because it is a Barbados-based insurance company, premiums paid by U.S. policyholders to X.L. are exempt from the 4% federal excise tax.

While that provision of the tax treaty between Barbados and the United States is due to expire at the end of the year, the company has no plans to move to Bermuda.

The Bermuda contact office is on-line via computer with its Barbados home office, making it easy for Barbados to quote, bind and issue polices for risks presented in Bermuda.

As an offshore company, X.L. only accepts submissions from non-U.S. brokers.

The largest producing brokers are Bowring (Bermuda) Ltd., a unit of Marsh & McLennan Cos. Inc., and J&H Ltd., the Bermuda-based unit of Johnson & Higgins.

M&M spearheaded the formation of X.L.

In all, X.L. deals regularly with about 35 brokers, including the offshore subsidiaries of other U.S. and London brokers.

X.L. continues to work at attracting non-U.S. policyholders. To that end, X.L. now is willing to issue policies in five foreign currencies: the British pound, the Canadian dollar, the Australian dollar, the German deutsche mark and the French franc.

"Being a dollar piece in a foreign currency program is a bit of a problem," Mr. O'Hara says. "It doesn't dovetail neatly" with underlying insurance.

Currently, X.L. insures the worldwide liability risks of 10 to 15 non-U.S. policyholders and the U.S. risks of 25 to 30 companies based outside the United States.

"We don't know if those buying coverage for only their U.S. risks wouldn't buy more coverage if it were available in their currency," Mr. O'Hara said.

When issuing policies in foreign currencies, X.L. will convert its limits at the exchange rate the day the policy is written, which will hold for the 12-month policy period regardless of fluctuations in exchange rates.

Already, X.L. has four quotes in foreign currency outstanding.

X.L. also will rewrite current policies in one of the five currencies if a policyholder desires.

Increasing the number of non-U.S. policyholders will reduce the tax liability of X.L.'s shareholders, who are taxed on X.L.'s profits related to U.S. risks.

With its third anniversary coming up May 1, X.L. has yet to set up a case reserve, though Mr. O'Hara says, "It's just a matter of time."

X.L. has received 486 notices of incidents and has established a $278 million reserve for incurred-but-not-reported losses.

X.L. is looking more closely at who handles claims for its policyholders, Mr. Kevany noted. Generally, it is finding that larger companies are getting more involved in handling big claims, whether they are self-insured or insured.

About 50 X.L. policyholders are self-insured or use a captive insurer to fund the first $25 million of losses. The others have some form of commercial insurance, with underlying self-insured retentions.

X.L. expanded its reinsurance protection at Dec. 1, 1988: It now has protection of 76% of $100 million, excess of $150 million, with X.L. retaining 24% of the layer on a quota share basis.

Under the previous reinsurance program, first purchased Nov. 1, 1987, X.L. had $50 million in limits excess of $150 million, with X.L. retaining 18.5% of the risk.

The additional capacity was provided primarily by U.S. markets that had been on the prior program. X.L. paid $4.2 million for the 1987-88 reinsurance, its financial statements show.

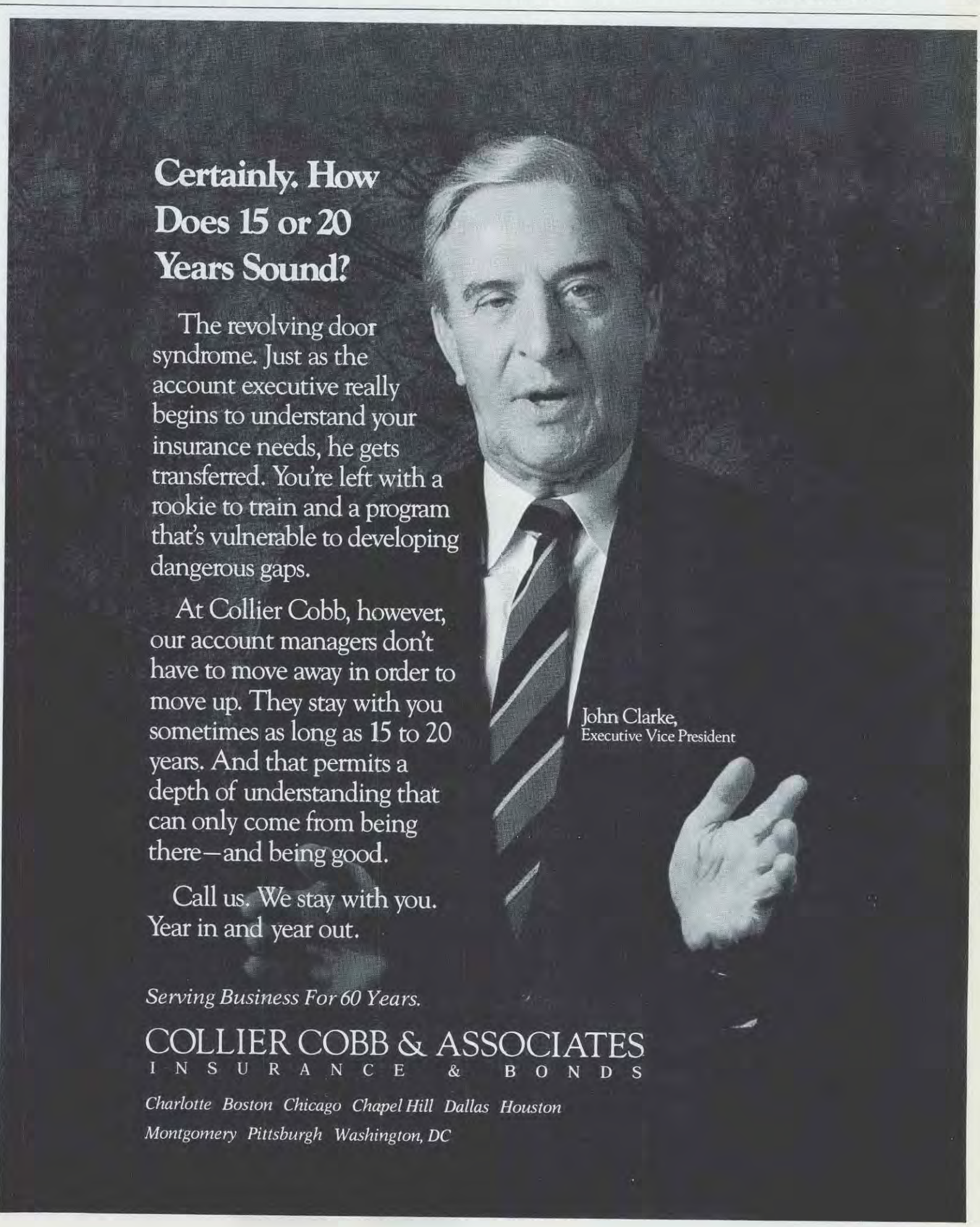
Guy Carpenter & Co. Inc., a unit of M&M, was the U.S. broker, and Ballantyne McKean & Sullivan placed the coverage in London.

X.L. would like to purchase the full $100 million excess of $150 million, but the capacity is not available.

Contrary to some reports, X.L. is not planning to increase the limits of insurance it offers this year, said Mr. O'Hara.

Currently, X.L. is surveying its 100 shareholders to determine if they are interested in liquidity because there is no easy way for shareholders to sell their stock now. Options include taking X.L. public or making a private placement.

For the fiscal year ended Nov. 30, 1988, X.L. reported income of $138.6 million, down from $143.9 million the prior year, primarily due to a $59.5 million increase in IBNR reserves. A $30.3 million increase in earned premiums and a $22.8 million gain in investment income helped offset the impact of larger IBNR reserves. ■



Spotlight report

Reinsurance capacity for captives builds

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Captive insurance companies looking for reinsurance on their liability business can find up to $2.5 million in traditional reinsurance capacity in Bermuda with just two stops.

Aneco Reinsurance Underwriting Ltd., which specializes in reinsuring captives, now writes up to $1 million in liability limits for captive accounts.

And, an underwriting alliance recently formed by four reinsurers offers $1.5 million in capacity.

Three Bermuda-based reinsurers —Belvedere Insurance Co. Ltd., Brittany Insurance Co. Ltd. and Hudson Reinsurance Co. Ltd.— have teamed up with Hannover Reinsurance Co. of Hannover, West Germany, to underwrite reinsurance for captives' liability accounts. Each reinsurer will take a $375,000 line, if it likes the account.

Captives looking for less risk transfer in their liability reinsurance contracts have an even larger market with greater capacity to tap in Bermuda: the specialist financial reinsurance underwriters (see story, page 40).

Meanwhile, a captive looking for traditional reinsurance of its property risks could attract interest from almost all of the commercial treaty underwriters in Bermuda, allowing it to build reinsurance limits of perhaps $3 million (see chart, page 22).

While welcoming the increased capacity in Bermuda to write captive reinsurance, some Bermuda-based brokers would like more.

"If we're going to have any impact, we need $5 million; it would be nice to have $10 million," says Stuart Grayston, president of Frank B. Hall (Bermuda) Ltd., in reference to the reinsurance market for captive insurers in Bermuda.

These larger limits are placed in the United States and London.

Several U.S.-based professional reinsurers are interested in reinsuring captive insurance companies, and two have set up special units to attract and service this business: General Re Corp. last year established Genesis Underwriting Management Co., and American Re-Insurance Co. last year created Am-Re Managers.

And, just last week, Skandia-America Group created an alternative risk transfer department to specialize in both providing services and reinsurance to captives and alternative risk financing vehicles. Albert Beer, formerly vp-principal with consultant Tillinghast, joined Skandia last week to manage the new department.

Among other U.S.-based reinsurers receptive to captive accounts are: North American/Swiss Reinsurance Co.; Prudential Reinsurance Co.; Transamerica Reinsurance Co.; and Trenwick America Reinsurance Corp.

London underwriters also are interested in writing reinsurance for captives and recently have taken some accounts away from Bermuda with lower rates, Bermuda-based brokers report.

While leading U.S. and London-based reinsurers can issue very large limits, many captives don't need such large limits and are too small to attract the attention of such large reinsurers, say Bermuda-based underwriters and some brokers.

"We can comfortably place $2 million, and that's enough to comfortably protect a captive," says Simon J.S. Templeman, director of independent broker Freisenbruch-Meyer International Services Ltd. in Bermuda.

Also, many captives want reinsurance excess of $250,000 to $1 million, a layer U.S. reinsurers generally consider too low to write, says Roy Bray, president of Alydon International Ltd., a Bermuda-based broker specializing in captive accounts.

Bermuda-based underwriters also assert that they are willing to be more flexible and creative in structuring a reinsurance program for a captive than traditional reinsurance underwriters.

Major U.S. reinsurers can be "less flexible. The captive is dictated to by the reinsurer," says John F. Coppinger Jr., vp of Hudson Re, a unit of Skandia America Group.

And, the Bermuda-based reinsurers point out that they are committed to writing captive reinsurance and at consistent prices. They vow not to pull out of the market or subject loyal captive clients to huge rate increases in tighter market conditions, which is a possibility in the larger, conventional reinsurance marketplace.

Bermuda

"An offer of coverage by a domestic reinsurer at knock-down rates in a couple years time will lead to 300% to 400% rate increases," says Jonathan J. Crawley, president of Aneco Reinsurance Underwriting Ltd.

Of course, U.S. and British-based reinsurers offering to write reinsurance for captives dispute these assessments of their interest, flexibility and commitment.

Reinsurance for captives generally is written on either a specific basis, which caps the captive's loss per occurrence or per claim, or on an aggregate basis, which caps a captive's annual losses. It also can be written on a quota-share basis.

Aneco, the largest Bermuda-based underwriter of reinsurance for captives, expects to increase its underwriting for captives since it received a $10 million capital infusion from Forum Re Group (Bermuda) Ltd., which owns about 72% of Aneco (*BI*, March 6).

Aneco's current $23.4 million in policyholder surplus will "raise the acceptability threshold of Aneco," says Mr. Crawley.

Aneco also increased its maximum line to $500,000 from $375,000, concurrent with the capital infusion.

On an annualized basis, Aneco wrote about the same volume of reinsurance for captives last year as in 1987: $11.4 million in 1988 and $11.35 in 1987.

Aneco also writes a parallel line for its affiliate, Forum Reinsurance Co. Ltd., a financial reinsurance specialist, bringing the amount of captive reinsurance written for the two companies on an annualized basis in 1988 to $22.8 million.

Aneco also started underwriting for another affiliate, Oil & Gas Insurance Co., in October 1988. OGICO is used when the ceding company prefers a U.S.-licensed

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DIFFICULT

REINSURANCE

PROBLEM?

Continued from previous page
reinsurer. Aneco can write $1 million in limits on behalf of OGICO.

So far, Aneco has written about a dozen accounts for OGICO, generating about $1 million since the end of 1988.

OGICO reinsures 80% of this business: 40% to Aneco and 40% to Forum Re.

Aneco reinsured 83 captives in 1988, down from 86 in 1987. About 70%, or 60, of the 1987 accounts renewed in 1988, compared with 76% in 1987.

"That's not a significant drop," says Mr. Crawley, describing Aneco's captive clients as having "a much greater sensitivity for continuity and price stability than they are given credit for by the domestic markets."

Mr. Crawley sees "sporadic competition" for accounts in the first $1 million layer, where Aneco writes half of its accounts.

Twenty-seven Aneco-reinsured captives attach excess of $250,000 to $500,000 and 16 attach excess of $500,000 to $1 million.

Another 21 captives buy reinsurance from Aneco excess of $1 million while 11 buy coverage excess of $3 million.

Mr. Crawley

For the 83 captives, Aneco provides 75 specific excess-of-loss contracts, six excess aggregates and two quota-share contracts.

Fifty-one captives buy their reinsurance on a claims-made basis: 28 professional liability captives; 22 insuring general liability and auto; and one multiperil.

Thirty-one captives buy occurrence-based reinsurance: 22 writing general liability and auto risks; three professional liability; two fidelity and surety; two multiperil; one workers compensation; and one property.

One captive buys property catastrophe reinsurance on a "losses occurring during" basis, which means during the reinsurance policy period.

Aneco applies an "otherwise recoverable" deductible to 25 of the contacts.

In addition, Aneco's liability is capped under 23 of the contracts, up from 16 in 1987.

Most—42—of Aneco's captive clients are association captives, followed by 10 risk retention groups, 10 single-owner captives, 10 agency captives, six charitable trusts and five group self-insurance programs.

While Aneco will reinsure medical malpractice risks, it will not reinsure aviation, or group or individual accident and health policies.

About 18 brokers produce Aneco's captive reinsurance book, with affiliate Amberco Brokers Ltd. producing about 30% of the premiums.

Aneco sees about 600 submissions a year. While Aneco offers a quote on every one of them, Mr. Crawley suspects that many of the accounts that Aneco does not write do not buy reinsurance at the level requested because the premium is too expensive.

Mr. Crawley, who has long advocated that Bermuda-based reinsurers should specialize in captive reinsurance since Bermuda is the largest captive insurance company domicile, welcomes the newly formed captive reinsurance underwriting alliance.

"There is plenty of room for Aneco and Belvedere and the other companies participating in the facility," Mr. Crawley says, "particularly excess of $1 million or more."

Generally, the four reinsurers that formed the alliance last October are interested in underwriting reinsurance for liability lines, excluding some professional liability lines like errors and omissions insurance for the Big Eight accounting firms or the toughest medical malpractice risks.

And, they generally are interested in writing excess of $1 million, and perhaps excess of $500,000, said Colin D. O'Connor, president of Belvedere, a unit of publicly traded Belvedere Corp.

However, he stressed that this generalization is not intended to preclude brokers from submitting programs outside these parameters.

Under the alliance formed by the four reinsurers, Belvedere accepts submissions from brokers and from its partners, which pass along submissions of captive accounts they receive.

Belvedere does the detailed underwriting and then faxes a summary of the account to the other three reinsurers, which can accept or decline the offer.

Mr. O'Connor points out that this arrangement is preferable to creating an agency because under an agency stamp if one participant doesn't want to write a certain class of business, the entire agency must pass it up.

For example, Hudson Re has a total ban on underwriting medical malpractice risks, while other members do not.

So far, however, very few accounts have been written from the approximately 30 submissions since January.

Belvedere and its partners have declined 90%-95% of the submissions for various reasons, such as price, risk involved or structure of the program.

And, at least one quote offered was undercut by the U.K. market, points out Hudson Re President Nicholas Dove.

However, the facility members are optimistic.

"Our intention is to take the long view and be in place for the next hard market," says Mr. O'Connor.

"We didn't expect to be writing a whole lot of business in this market," said Mr. Coppinger of Hudson Re. "The intent was to get the procedures in place to be sure they are working smoothly when the market turns."

"If the market tightens in 12-18 months, we'll have people knocking at our door," predicts Paul D. Gregory, director of Brittany, a unit of Petrofina S.A.

Each member of the alliance also is free to write reinsurance for captives independently if the risk doesn't fit the alliance's guidelines.

Each reinsurer also is entitled to renew captive accounts on its books prior to the alliance's formation, although they may discuss renewals for sharing of risk.

Hudson Re, which has yet to issue any coverage to captives through the facility, participates in reinsurance for about 21 captives now, written before the underwriting alliance was formed.

Hudson Re also makes reinsurance capacity available to captives managed by its affiliate, Skandia International Risk Management Ltd., and would show prospects to facility members for their consideration.

Brittany, which just last week wrote a captive contract through the facility, also writes reinsurance for about 10 captives as well as portions of treaties for large captive pools, including Hopewell International Insurance Ltd.

Belvedere currently writes reinsurance for about 15 captives, which generate no more than 10% of Belvedere's $26 million in 1988 gross premiums. ■

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Bermuda brokers plan marketing efforts

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—With fewer new accounts looking for excess liability and directors and officers liability insurance from the large offshore facilities, Bermuda-based brokers are planning more marketing efforts.

Brokers are concerned that knowledge of the capacity and stability these facilities offer is not as widespread among risk managers as it should be.

"These facilities have not been *marketed,*" says Madeline Joel, vp of RBH Intermediaries Ltd., referring to A.C.E. Insurance Co. Ltd., X.L. Insurance Co. Ltd. and Corporate Officers & Directors Assurance Ltd.

Ms. Joel intends to market the offshore facilities more to RBH's retail brokerage network, she says.

Independent broker Freisenbruch-Meyer International Services Ltd. is developing its A.C.E. and X.L. business by getting "directly to risk managers" through referrals that lead to invitations to discuss the markets, says Director Simon J.S. Templeman. "And that's bearing fruit."

As offshore insurers concerned with their tax and regulatory status, A.C.E., X.L. and CODA do not advertise in U.S. publications and do not travel to the United States to market themselves. As a result, they will be missing from the exhibit hall and hospitality suites at this week's Risk & Insurance Management Society Inc. conference, the largest annual gathering of risk managers in the world.

Bermuda

(A.C.E. and X.L. will jointly host a reception during the AEAI/RIMS meeting in October in Monte Carlo, which is permitted by its locale and attractive to the companies because both insurers are seeking non-U.S. policyholders.)

In addition to developing new business for these offshore facilities, Bermuda brokers also are hoping to place more contracts with Bermuda's rapidly growing financial reinsurance market. One broker has set itself up exclusively to handle financial reinsurance (see story, page 44).

And, brokers continue to pursue opportunities to place reinsurance for captive insurers, though very often reinsurance is arranged before the captive arrives in Bermuda.

Of the 26 members of the Insurance Brokers Assn. of Bermuda, only Intere (Bermuda) Ltd. specializes in placing treaty reinsurance in Bermuda.

The three major excess facilities—A.C.E., X.L. and CODA—are most of the brokers' mainstay.

Currently, units of two major U.S. brokers control more than half of the accounts in A.C.E. and X.L.

Bowring (Bermuda) Ltd., a subsidiary of Marsh & McLennan Cos. Inc., and J&H Ltd., a unit of Johnson & Higgins, together place about 60% of the $171.4 million in premiums written by A.C.E. and $317.3 million in premiums written by X.L.

Bowring's share is estimated to be about double J&H's. Bowring employs about 30 people in Bermuda, including about 15 brokers. J&H employs 22, including five brokers.

Bowring's domination of the two markets was natural: M&M spearheaded the formation of A.C.E. and X.L.

Meanwhile, J&H has the lion's share of business placed with CODA, which it helped organize.

These two brokers' control of a large share of the business written by these markets also reflects their strong hold on U.S. jumbo-risk accounts.

But, there's more than enough business between the two facilities to keep other Bermuda-based brokers busy. While the Bermuda subsidiaries of other leading U.S. retail brokers also place a large number of A.C.E. and X.L. accounts, independent brokers in Bermuda are developing A.C.E. and X.L. business, too.

Placing business with these giant excess liability facilities can generate substantial dollars: A.C.E. and X.L. each factor a 12% commission in their premium and CODA pays 10%.

The commission is allocated to the U.S. retail producing broker and the offshore broker, which the facilities require be used because they are offshore markets. Generally, the offshore broker receives from 25% to 50% of the commission.

However, many U.S.-based jumbo accounts pay their brokers a fee, so this 12% doesn't always land in the brokers' coffers. And, many brokers negotiate their commission with the clients.

In fact, X.L.'s average commission is down to 11.3%.

But, M&M, for its efforts leading to the development of A.C.E. and X.L., is collecting more than brokerage income for its efforts.

In return for insurance advice, X.L. agreed to pay M&M 1.5% of all gross premiums written in its first five years, beginning May 1, 1986.

M&M was paid $4.8 million for the year-ended Nov. 30, 1988, and $4.4 million for the year-ended Nov. 30, 1987.

Similarly, ACE Ltd., parent company of A.C.E., agreed to pay M&M 3% of all gross premiums written through subsidiaries from Nov. 1, 1985, when it began business, through Oct. 31, 1990.

ACE subsidiaries had written $726.9 million in premiums through Sept. 30, 1988, resulting in payments to M&M totaling $21.8 million.

Furthermore, M&M has stock options from ACE with an estimated value exceeding $30 million.

J&H also negotiated overriding commissions on business placed with CODA, which is estimated to generate about $500,000, and has stock options.

Bermuda-based brokers believe there is plenty of new business to develop for these facilities.

The newest independent broker in Bermuda, established this year by the merger of two independent brokers, already has developed new business for the facilities.

Triangle Brokerage Ltd. was formed by the merger of ND Insurance Services Ltd. and KVM Bermuda Ltd.

ND Insurance Services had been founded last year by Giles North and Peter Dunne, both formerly with NBA Excess & Surplus Lines (Bermuda) Ltd., now known as Bowring (Bermuda).

KVM (Bermuda) was founded by Norman Amondsen, who had headed the brokerage operations of Fred S. James (Bermuda) Ltd. KVM was formed in association with Canadian broker Knox Vicars McLean.

"Shortly after each was formed, we discovered each other and found a natural fit, so we decided to get together," said Mr. North, managing director.

Continued on page 38

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BI-

Bermuda brokers

Continued from page 36

Triangle, which is equally owned by ND and KVM, has three brokers and two support staff, ranking it as one of the largest brokers in Bermuda after Bowring and J&H.

And it already has attracted 10 accounts, placing their business with one or more of the three facilities.

"We set up to provide something that we felt was lacking in the market here: individuals with experience who are dedicated to remaining in Bermuda for the long term as a stable intermediary. We want to provide a high level of service and expertise to each client," Mr. North said.

"There are a lot of independent companies out there that want access to A.C.E. or X.L. for a few big accounts and many are not represented here in Bermuda," he observes. "There is still a lot of business out there for these markets, not just in the United States but also Europe."

Ms. Joel of RBH Intermediaries believes there are many risk managers who should be interested in buying at least minimum limits from the three facilities now.

"It's not going to be long before the market turns around again," she predicts. "How will risk managers justify not being in these facilities?"

Ms. Joel joined RBH in January, having resigned from Frank B. Hall (Intermediaries) Ltd.

At RBH, she and an assistant handle about 22 accounts, which generally are clients of both A.C.E. and X.L. Ten clients also are CODA policyholders.

The newly created Sedgwick James (Bermuda) Ltd. places more than 40 policies with A.C.E., X.L. and CODA.

James (Bermuda) Ltd. and Sedgwick Group Overseas Management Services Ltd. are now merging their operations—almost four years after the merger of their two parent companies, Fred S. James & Co. and Sedgwick Group P.L.C.

Trevor Metcalf, formerly with a Sedgwick unit in Toronto handling primarily U.S. business, moved to Bermuda in January to head up the James Bermuda brokering activity, which includes an assistant broker and support services.

In addition to accounts placed with the offshore facilities, Sedgwick James places some reinsurance for captive insurance companies and is beginning to place financial reinsurance contracts.

"The technical orientation in underwriting from Sedgwick will give us additional opportunities in financial reinsurance and marketing," says Warren D. Sproule, president of Sedgwick James (Bermuda).

Sedgwick's extensive worldwide presence will help market the facilities to corporations in other parts of the world.

Hall (Intermediaries) in Bermuda places about 35 accounts with the three leading facilities and considers this its primary business focus, says Stuart Grayston, president of Frank B. Hall (Bermuda) Ltd.

"We are going to proactively promote the business," he says. "We see lots of opportunity for growth."

Andrew Moulder, an experienced broker most recently with G.L. Hodson & Son. Inc. in New York, has joined Hall as the broker on its five-person brokerage unit in Bermuda and to work with Hall's Madison Intermediaries Inc. in New York.

Hall also brokers a few reinsurance programs for captives and some financial reinsurance. It intends to develop more of both types of business.

Hall has decided to stop sub-brokering London market treaty reinsurance in Bermuda. "The economies of scale are not there," says Mr. Grayston.

Among the four independent brokers in Bermuda, HJF International Ltd. places 16 policies with A.C.E. and X.L. for U.S. retail brokers.

HJF Director Michael G. Foulger welcomes the possibility that A.C.E. will expand its limits. "At least one of our clients wants an extra $100 million this renewal, which brings it back to what it had in 1984-85."

HJF also is concentrating on financial reinsurance, while the three-person office still places a little treaty reinsurance. "The majority of London brokers come direct," observes HJF Director Michael Jenkins.

At Freisenbruch-Meyer, Mr. Templeman has prepared a 20-page memorandum on the coverage provided by the three facilities, which he makes available to risk managers.

Freisenbruch-Meyer has placed two clients with X.L. and one with both facilities.

"We have to convince the risk manager that cheapness is not the answer," he says. Together, the two facilities offer "billion-dollar security, breadth of coverage and commitment to pricing."

Freisenbruch-Meyer charges clients a consulting fee, not a commission, to place business with the facilities.

All the brokers placing business with A.C.E. and X.L. praise the facilities for good communication with their brokers, keeping them informed of policy changes and giving them the information they need to market the facilities.

And, the brokers praise the markets for wanting to meet risk managers face-to-face, not only for initial underwriting but also at renewal.

Among brokers not placing accounts with the three excess facilities is the only Bermuda-based broker specializing in treaty business, Intere (Bermuda).

Vp Robert J. Hedges says he expects to continue business as usual after the sale of Intere Intermediaries Inc. to Minet Holdings P.L.C.

Intere's four-person Bermuda office brokers small lines for about 200 treaties to as many as 30 reinsurers in Bermuda, including 18 captives that occasionally write lines, such as those managed by J&H Ltd. and Continental Risk Services.

Intere also places reinsurance for about 10 captives now and also has brokered "one or two" financial reinsurance contracts, Mr. Hedges says.

Amberco Brokers Ltd., which has specialized in developing group funding arrangements, now is concentrating on developing programs for other affiliates of Forum Re Group (Bermuda) Ltd. and Forum Re Group Inc., which intend to merge this year.

Amberco was purchased by Forum Reinsurance Co. Ltd. in September 1987.

The strategy is to use Forum affiliates "to the maximum to provide effective service and make a reasonable profit," says Julian Griffiths, president of Amberco.

For example, licensed affiliates in the United States—Millers National Insurance Co. or Oil & Gas Insurance Co.—can issue policies to members of a group and reinsure the risk with the group's Bermuda-based captive, which can be managed by Forum in Bermuda. In addition, Amberco can place reinsurance for the captive with Bermuda-based affiliate Aneco Reinsurance Underwriting Ltd.

Currently, Amberco brokers about 10 significant group funding plans, Mr. Griffiths says, and several smaller ones.

Amberco, which also brokers financial reinsurance to Forum Re and others, employs two brokers and is recruiting another now. Support services are provided by Forum Management Services.

Independent broker Alydon International Ltd. specializes in placing U.S. casualty business, primarily in Bermuda, for reinsurance of captives, risk retention groups and self-insurance plans.

Alydon's two-person professional staff also handles some general excess treaty business and some financial reinsurance contracts, says President Roy V. Bray. ■

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Financial reinsurers feel competition

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Competition is heating up in the increasingly crowded financial reinsurance marketplace in Bermuda, squeezing financial reinsurers' profit potential.

Once a niche market for a few reinsurers that ventured to wed actuarial and banking skills to produce a product that carried little risk for them but helped ceding companies recognize future investment income, the market now is bursting with players that offer a variety of products that can be called financial reinsurance (see box).

In addition to enabling ceding companies to recognize future investment income, the goal of financial reinsurance includes providing ceding companies with products that stabilize profits, improve leverage and protect balance sheets.

While these goals are the same as conventional reinsurance, the underwriting methods and products differ, principally in that financial reinsurers measure the time value of money very precisely and cap their ultimate liabilities under their contracts.

Just how much risk they assume under the contract—substantial underwriting risk or only a timing risk on claims payments—sometimes is used to differentiate what is called "finite risk" reinsurance from financial reinsurance.

Financial reinsurers, whether they assume underwriting risk or not, generally do not provide other benefits of conventional reinsurance, such as substantial risk capacity to insure large per-occurrence limits and assistance with claims handling and underwriting.

Instead, financial reinsurers seek to help ceding companies solve specific problems such as deteriorating loss development on old policies, unavailability or unaffordability of conventional reinsurance, uncollectible reinsurance and the squeeze on profits created by U.S. tax law changes.

The use of financial reinsurance is limited only by the imagination of the ceding company and underwriter—and certain tax and regulatory restrictions in some jurisdictions, particularly the United States.

Bermuda is home to no fewer than seven reinsurance companies with $406.6 million in capital and surplus that claim financial reinsurance as their specialty.

At least 12 to 15 more insurers and reinsurers say they write financial reinsurance products, too, if only time-and-distance policies. And among them is Bermudan insurer The Argus Group of Cos.

Bermuda is an ideal financial reinsurance center, permitting reinsurers to discount loss reserves for

Bermuda

regulatory and accounting purposes. And, except for U.S.-controlled corporations, business is conducted tax-free.

Among the newest entrants to the financial reinsurance market are Scandinavian Reinsurance Co. Ltd., a unit of Sirius Insurance Co. Ltd. of Stockholm, and Accord Re Ltd., in which Continental Corp. has announced it will invest.

With all these markets vying for business, underwriters and brokers agree that competition is stiff.

"The difference between a high quote and a low quote isn't that much," reports John B. Houldsworth, principal representative in Bermuda for Cologne Reinsurance Co. (Bermuda) Ltd., a leading financial reinsurance underwriter.

And financial reinsurers' profit margins are being squeezed.

"The margins for financial reinsurance may be less than one-half of what they were two to three years ago," says Graham Pewter, managing director of LFC Edmond de Rothschild Insurance Services Ltd. in Bermuda, formed last year to broker financial reinsurance. He had been vp of Cologne Re (Bermuda).

Today, for example, an underwriter of a time-and-distance policy can expect to make a profit of 1% to 3% of the cost of the investments purchased to support the policy, he said.

While financial reinsurance underwriters must sharpen their pencils today, they also spend a lot of time wearing down the lead to no avail. The so-called hit ratio—how many proposals are reviewed before a contract is written—is awful, underwriters say, considering the amount of time and effort that has to be devoted to reviewing a financial reinsurance contract.

Colin D. O'Connor, president of Belvedere Insurance Co. Ltd., which writes some financial reinsurance, estimates that one contract is written out of every two dozen submitted.

The implications of that take on new meaning when one considers that Centre Reinsurance Holdings Ltd., the largest financial reinsurance underwriter, completed about 15 transactions out of an estimated 340 it saw in 1988.

The reason financial reinsurers get so few orders?

"Very often the transactions aren't done by anyone," says Mr. O'Connor. "Many brokers propose a transaction before they have convinced the buyer, or the buyer has not considered the tax, or legal, or regulatory factors involved."

But, one broker who has placed financial reinsurance has another explanation: "There are tax implications, and there are large amounts of money involved," says Michael G. Foulger, director of HJF International Ltd. "It has to go through the board level for approval, and in some cases the benefit of the deal has passed because the year-end has passed."

Furthermore, he says, "The price is governed by the quality of the information available. On a retrospective deal, sometimes the information is not that good and that forces the underwriter to reduce the risk he's prepared to take or increase the price."

A rule of thumb, he says: "The bigger the deal, the worse the hit ratio."

There's no doubt these transactions are complex. A major issue is: When is a financial reinsurance contract "real reinsurance" entitling the ceding company to a tax deduction and credit on its statutory balance sheet?

There is a lot of debate, and little agreement.

Some underwriters contend that if the reinsurer assumes only the risk that claims will develop more quickly than anticipated, the contract will pass muster. Others contend that more substantial underwriting risk must be transferred.

Faced with the growing competition, financial reinsurance underwriters in Bermuda are uncertain if there is enough business in their market today to support the capital invested.

"I don't believe all this capital can be fed," says Bruce W. Swann, chairman of Pinnacle Reinsurance Co. Ltd., a pioneer in financial reinsurance.

Nonetheless, Pinnacle so far is having a good year and the competition doesn't seem to be soaking up its business, he says.

"We've seen the impact of a large number of companies entering the market," says David A. Thirkill, president of Forum Reinsurance Co. Ltd., where business volume fell to

Continued on page 41

Translating the jargon of financial reinsurers

The developing financial reinsurance market is still coming to grips with its jargon, which is not terribly precise yet.

Some people restrict the term financial reinsurance to contracts that involve a single premium payment that is based primarily on the net present value of future known or expected losses.

Other people use the term financial reinsurance much more broadly to encompass almost any reinsurance transaction in which anticipated investment income is an acknowledged component of underwriting the contract, and there is a cap on the reinsurer's ultimate liability.

There is a lot of room for variation between these two extremes.

Most commonly, however, financial reinsurance encompasses any product that allows a ceding company to reinsure liabilities for an amount less than the amount of liabilities transferred. The resulting recognition of future investment income can be used to strengthen loss reserves, increase earnings or reduce operating losses.

The size and length of financial reinsurance contracts vary greatly. The premiums ceded can range from $1 million to more than $100 million. The term of the contract can be as little as one year to as long as 30 years.

Among the common types of financial reinsurance transactions written are:

- Loss portfolio transfers, under which an insurer cedes loss reserves for known losses on a discounted basis to a reinsurer and realizes a profit.
- Retrospective aggregates, under which an insurer cedes reserves for known and incurred-but-not-reported losses and realizes a profit.
- Prospective aggregate covers, under which a ceding company pays a premium and is guaranteed certain future payments to fund future losses. If the losses are less than expected, a profit commission is guaranteed.
- Financing quota-share contracts, or surplus relief, under which the reinsurer assumes a fixed percentage of an entire book of business. These contracts include retrospective ceding commissions to return the bulk of the profit to the ceding company.

Generally, a common feature of these contracts is that the reinsurer assumes the risk that claims will be paid more quickly than projected—the minimum risk transfer most experts agree is needed to qualify financial reinsurance as "real reinsurance" for regulatory and tax purposes.

Some reinsurers also will cap their liability above the expected losses, creating more risk transfer in the transaction.

The larger the gap between the limit provided by the reinsurer and the amount of expected losses, the closer the product comes to what Centre Reinsurance Holdings Ltd. claims as its specialty: finite risk reinsurance.

At the other end of the spectrum is a financial reinsurance product popular in the Lloyd's of London market that does not require the reinsurer to assume the timing risk: a time-and-distance policy.

Time-and-distance policies permit an underwriter to discount loss reserves because the policy guarantees specific payments at specific times in the future.

—By Kathryn J. McIntyre

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about $60 million in 1988 from $100 million in 1987.

However, premium volume also was depressed by the mix of business written, which included "a goodly portion" of prospective contracts "with relatively low deposit premiums subject to additional premium dependent on losses," he noted.

Forum Re wrote more contracts—38—in 1988, compared with 30 in 1987.

"I'm not sure how much business is out there," Mr. Thirkill says. "With all the regulatory and tax impact, I really have no way to measure if this is a growth area or a stagnant area."

Two potential growth areas for financial reinsurers are helping U.S. insurers deal with the higher taxes they owe now that they have to discount their loss reserves for tax purposes and providing protection against the impact of uncollectible reinsurance, Mr. Thirkill says.

Forum Re also is looking for opportunities to buy captive insurers with reserves for unrelated business in excess of $10 million. Forum Re will run off the business for the parent companies that want out of the insurance business.

Forum Re, which purchased Trenwick Reinsurance Co. Ltd. at the end of 1987 and is running off its business, believes there is a profit in doing this through commutations.

In the case of Trenwick, now named Focus Insurance Co., Forum first commuted with reinsurers last year and now is beginning to commute with ceding companies.

Mr. Thirkill estimates that anywhere from 50 to 200 captives fit its criteria.

Assessing the competitive market, Mr. Pewter of LFC Edmond de Rothschild says: "Perhaps capital is arriving at a faster rate than the clients are being educated about the commercial benefits of financial reinsurance. It's not excess capacity as long as it is patient."

Steven M. Gluckstern, president of Centre Re, is optimistic about financial reinsurance: "There're plenty of interesting topics for its use."

He added: "Competition doesn't bother me, as long as people are responsible," which he says has been the case so far.

"It's up to each company to create its own market," observes Jens Juul, managing director of Scandinavian Re. "You must create the business; it doesn't come to you."

Mr. Juul is traveling the world to explain the concept of financial reinsurance, as are other financial reinsurance underwriters.

One thing financial reinsurers know for certain: The worse business is in the conventional market, the better it will be for them.

"The worse the cycle, the harder hit the insurers are by the Tax Reform Act of 1986, the more there will be a need for financial reinsurance and balance sheet repair," says Mr. Juul.

And, most financial reinsurance underwriters expect that in the future a great deal of reinsurance will be written more as financial reinsurance than as traditional reinsurance.

Large ceding companies that don't need the capacity or risk-sharing provided by conventional reinsurance will not pay the higher costs associated with that product, they say. Instead, large ceding companies will seek the balance sheet protection provided by financial reinsurance, at its lower transaction costs.

"Financial reinsurance is more efficient," says Mr. Juul. "The margins are smaller" for the reinsurer, because it is accepting less risk.

"Any mature company should look at lower cat layers as funded deals," says Mr. Juul, referring to contracts under which a ceding company pays a premium in anticipation of recovering the premium plus investment income to cover losses—or is promised a large profit commission if there are not losses.

However, there also always will be a need for traditional reinsurance, underwriters agree.

Small, growing companies will always need the traditional risk-sharing reinsurance mechanism, Mr. Juul points out. And, traditional reinsurance always will be needed to support underwriting of very large industrial risks and large property catastrophe protections.

The "risk appetite" of the financial reinsurers in Bermuda varies greatly, from Centre Re's hearty interest in risk (see story page 43) to several reinsurers' preference to assume nothing more than the timing risk to those that prefer not even to assume the timing risk—only the credit risk that their investments won't produce the needed investment income.

Six-month-old Scandinavian Re, with $25 million in capital, is specializing in surplus relief for life insurers, time-and-distance policies and loss portfolio transfers.

The first two entail little risk, and Scandinavian Re will only accept the timing risk in loss portfolio transfers, says Mr. Juul, who resigned as managing director of GTE REinsurance Co. Ltd. last October to start the company for Sirius Insurance Group.

Mr. Juul is marketing products to ceding companies in the United States and the United Kingdom and hopes to generate interest in Asia through Sirius Insurance Co. Ltd., which has a branch in Hong Kong.

Scandinavian Re has closed five contracts since it began business, including a recent $20 million loss portfolio transfer, for a total of $37 million to $38 million in volume.

Its three-person staff includes David Brining as vp and chief financial officer, who had been GTE RE's controller.

"Any growing life insurance company needs help to relieve a statutory reserve burden or first-year acquisition costs problem," Mr. Juul says.

A life insurer can cede reserves or acquisition costs and pay a fee to the reinsurer. The reinsurer's only risk is that the life insurer will become insolvent, leaving the reinsurer to run off the reserves and fund any deficiency.

At Accord Re, which expects to begin underwriting financial reinsurance in the next couple of weeks, any timing risk assumed will be retroceded, says part-owner Roger Beach.

Continued on next page

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Financial reinsurance

Continued from previous page

To be capitalized at $20 million, Accord Re will be owned 49% by Continental Corp. and 51% by Mr. Beach and Stephen "Mac" Edwards, two financial reinsurance specialists.

Mr. Beach, who arranged time-and-distance policies for London underwriters as early as 1972, has been writing financial reinsurance with Mr. Edwards through Coram Insurance Co. Ltd. Coram wrote $80 million in premiums last year.

A substantial part of that business, upon renewal, will be underwritten by Accord Re, which Mr. Beach projects will write in excess of $100 million in premiums this year.

Management services will be provided by International Advisory Services Ltd., which also manages Coram, and Continental will provide technical support.

Accord Re products will include policies designed to fund the middle-layer of specialty casualty insurance programs, Mr. Beach said.

Accord Re also is targeting the London market for a range of products, including time-and-distance policies.

"Accord Re is an open-market financial reinsurer," Mr. Beach emphasized, and "will not be writing primarily Continental business." Three people will be employed in Bermuda, while Mr. Edwards will remain in New York, Mr. Beach noted.

At Pinnacle, which at 9 years old is among the oldest financial reinsurance markets in Bermuda, about three-quarters of its business involves no timing risk.

Pinnacle wrote 38 contracts in 1988, with about a 25% gain in premiums to approximately $120 million.

Pinnacle, which specializes in loss portfolio transfers and time-and-distance policies for the U.K. and European market, wrote only five transactions in 1988 involving U.S. ceding companies.

"Our familiarity is with London and Europe," says Mr. Swan.

Pinnacle, capitalized at $40 million, is a subsidiary of London-based C.E. Heath P.L.C. Its year-end 1987 capital and surplus totaled $50.7 million.

"We do consider deals offered from the United States," says Director Stephen Lawrence, adding that Pinnacle can offer products to meet U.S. regulatory and tax requirements.

Pinnacle intends to thrive amid competition by finding new sources of business and new applications for financial reinsurance.

"The concept of discounting is easy,' says Mr. Lawrence. "But putting together the contracts—the applications—is sophisticated."

To enhance its marketing efforts, Pinnacle is opening a representative office in London in May to cover London, Europe and the Scandinavian markets. Two marketing people will be hired.

"The more we educate brokers, the better, ' Mr. Lawrence said.

Pinnacle receives "quite a lot" of business from Heath, said Mr. Swan, which is partly due to Heath's November 1986 acquisition of Fielding Insurance Holdings Ltd., which was a major producing broker for Pinnacle.

And, to deal with increased business, Pinnacle has hired a second actuary in Bermuda, bringing the staff of C.E. Heath Risk Services, which manages Pinnacle's business, to 10 people.

Heath Risk Services also manages Prospect Insurance Ltd., a joint venture between Heath and London-based Midland Bank P.L.C.

Prospect, a direct insurer, primarily serves the needs of Midland clients. Since it began writing in June, it has completed "lots of transactions," says Mr. Swan, declining to be more specific until Prospect issues its first financial statement for year-end 1989.

Cologne Reinsurance Co. (Bermuda) Ltd., which has been writing financial reinsurance products for six years, is now under the direction of John B. Houldsworth as principal representative.

Mr. Houldsworth had joined Cologne Re a year ago from KPMG Peat Marwick.

Cologne Re (Bermuda) continues to concentrate on writing time-and-distance polices for Lloyd's syndicates, although it will write contracts in which it assumes the timing risk.

While 1988 was "very quiet," Mr. Houldsworth says, with only eight time-and-distance policies written generating $13 million in premium, 1989 is picking up. Cologne Re (Bermuda) already has written four time-and-distance policies this year.

Noting that overall "margins have dropped" for reinsurers writing financial reinsurance, Mr. Houldsworth said Cologne Re (Bermuda) has not suffered that much because "we have the name, and we keep our overhead to a minimum."

Cologne Re (Bermuda) has yet to close any contracts with U.S. ceding companies though it has "seen quite a lot" of submissions, Mr. Houldsworth says.

Cologne Re (Bermuda) reported $11.2 million in surplus at year-end 1987.

Four-year-old Forum Re, a privately held financial reinsurer associated with Forum Re Group (Bermuda) Ltd. and U.S.-based Forum Re Group Inc., assumes underwriting and timing risk in its contracts.

When writing prospective aggregate contracts, Forum generally establishes its limit of liability at 150% to 200% of the premium, Mr. Thirkill said.

Forum Re is writing many more prospective aggregates than retrospective aggregates, he says. That is partly because "Forum Re prefers not to tie down its own resources in providing admitted assets to cover statutory limits where this is greater than the premium received," Mr. Thirkill said.

Forum Re reported capital and surplus of $34.2 million as of Jan. 15, 1988.

Forum Re hired Michael J. Welch in December 1988 as vp to underwrite financial reinsurance, assisting Mr. Thirkill, who has new corporate responsibilities as chief operating officer of the two publicly traded Forum companies.

Mr. Welch, who was with Cameron & Colby Inc. in Boston for seven years, is experienced in both financial reinsurance products and more traditional treaty reinsurance.

Forum has written a couple of policies for companies that "recognize their problems in relation to known insolvencies and rehabilitations," Mr. Thirkill says, referring to reinsurance collection problems.

The premium is paid based on the discounted value of the expected losses that will be claimed against the insolvent reinsurers.

Forum Re also is developing a product "to respond to the penalties for late payers," Mr. Thirkill said, referring to new accounting rules adopted by the National Assn. of Insurance Commissioners regarding reinsurance payments (*BI*, Dec. 19, 1988).

Forum-affiliated companies employ 36 people in Bermuda and 150 people throughout the United States and Bermuda.

While the two publicly traded Forum companies are planning to merge this year, Forum Reinsurance Co. Ltd. will remain privately owned.

Continued on next page

Protection . . .

Continued from previous page

Its owners are Forum Chairman Mark Hardy, consultant Peter Wilson and an irrevocable family trust, the beneficiaries of which are Mr. Hardy's family. The trustee is the Bank of Bermuda.

Two-year-old Independence Insurance Co., with $21.5 million in capital and surplus, is willing to assume the timing risk, depending upon the contract.

Independence closed 15 transactions in 1988, generating $50 million in premiums.

Most of the contracts were prospective aggregates for U.S. ceding companies, involving both working layers and high excess layers, said James D. Thomas, chief financial officer.

Independence, owned by TSB Group P.L.C. in London, is increasing its staff to six with the addition of underwriter Ian Hawker, formerly with The Excess Insurance Co. in London.

Among the conventional treaty underwriters in Bermuda writing financial reinsurance, Belvedere accepts timing risk and underwriting risk.

However, Mr. O'Connor does not classify casualty reinsurance contracts that are subject to aggregate caps as financial reinsurance. He defines financial reinsurance as loss portfolio transfers and surplus aid products.

Belvedere also has the authority to commit Hannover Reinsurance Co. of Hannover, West Germany, to financial reinsurance contracts in conjunction with Belvedere, but none has been written for Hannover yet.

Brittany Insurance Co. Ltd., a subsidiary of Petrofina S.A., also writes financial reinsurance, accepting the timing risk.

Hudson Reinsurance Co. Ltd., a subsidiary of Skandia International Insurance Co., also is interested in writing financial reinsurance. Although it has some contracts on its books, it did not write any in 1988.

Hudson Re is primarily interested in contracts that involve risk transfer but is not ruling out writing time-and-distance contracts

Among Bermuda's domestic insurers, publicly traded Argus writes time-and-distance policies, which it started to do about 2½ years ago, said E. John Sainsbury, managing director.

"We do it quietly, through friends, when we know the underwriters and the brokers, rather than in the broker market per se," Mr. Sainsbury says.

Argus, with capital and surplus at year-end 1988 of $27.5 million to support $20.5 million of domestic personal lines and small commercial insurance premiums, has about six time-and-distance policies on the books now, which generated about $15 million in premium.

That excludes the time-and-distance business Argus acquired when it purchased St. Martin's Reinsurance Co. Ltd. ■

Centre Re premium volume proving many skeptics wrong

By KATHRYN J. McINTYRE

Bermuda

HAMILTON, Bermuda—The skeptics so far are being proved wrong by performance at Centre Reinsurance Holdings Ltd.

Naysayers questioned where Centre Re would find enough business to justify its $250 million of capital to write "finite risk reinsurance," but Centre Re closed about 15 transactions generating a volume of nearly $290 million in 1988, its first year. Net income totaled $12.5 million.

Centre Re's 1988 business was "very close to projections," said Steven M. Gluckstern, president and chief executive officer.

Centre Re's contracts, called finite risk reinsurance, involve limiting the ultimate risk, and ultimate profit, for Centre Re (*BI,* April 18, 1988).

Mr. Gluckstern differentiates Centre Re's finite risk reinsurance product from financial reinsurance, which traditionally has involved contracts with little or no risk transfer. Centre Re always takes an underwriting risk.

Generally charging a premium of at least 50% of the limits issued, Centre Re assumes not only the risk that claims will develop more quickly than projected, but also that ultimate claims will exceed the premium charged.

Centre Re probably has the largest appetite for accepting real insurance risk of the financially oriented reinsurers in Bermuda, Mr. Gluckstern says. "We have more capital to write risk business."

Centre Re wrote a mixture of retrospective aggregate and prospective aggregate contracts in 1988 for clients that included U.S. stock insurers and captive insurers.

Most of the contracts involved U.S.-related companies, "although we are looking for opportunities in the United Kingdom and Europe," Mr. Gluckstern said.

The size of the transactions ranged from the very small—$1 million—to very large—$100 million.

All involved casualty risks, with a "good number with long-tail, late developing lines," he noted.

"It's been a very successful first year doing exactly what we said we would do," he smiles.

While Mr. Gluckstern says it's difficult to project 1989 business, he added, "I would be surprised if it weren't similar to last year."

A promising venture is Centre Re's support for a new stop-loss product for Lloyd's of London members underwritten by Zurich International Ltd. in Bermuda (*EI,* Feb. 20).

"A Lloyd's name is a small insurance company. If an insurance company's needs can be provided for with financial reinsurance, so can a name," Mr. Gluckstern says.

Traditional stop-loss policies for Lloyd's names offer catastrophic cover at "very expensive rates," he points out.

Zurich International's product is a five-year policy that covers a name for an amount equal to 10% of his first year's allocated premium income, excess of 5% of the allocated premium.

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Continued from previous page

the premiums paid, depending on his loss experience and the experience of the overall program. The name can take the recovery in cash and pay taxes on it or use the funds as a credit to purchase another five-year policy.

The premium for the first five-year policy is tax-deductible. The second five-year premium will be deductible to the extent the premium exceeds the credit applied.

The policy is "hardly risk-free," Mr. Gluckstern stresses, noting the potential for a catastrophic loss to trigger many names' coverage early during the five-year period.

"We're prepared that a disaster of that magnitude could happen," he adds, noting that Centre Re will assume a "substantial portion" of the risk under the policies.

London-based Robert Fraser Insurance Brokers Ltd. predicts that 5% to 10% of Lloyd's 30,000 names will buy the policy in the first 12 months. Quotes for coverage were first issued in the last week of March.

Also this year, Centre Re is seeing "tremendous interest in retrospective deals," Mr. Gluckstern said. The cedants want to move a block of business off their books, either because they want to stem adverse development, or they want to release capital used to support those reserves, or they are no longer writing that line of insurance.

Centre Re will even take over administration of claims if the ceding company requests.

Mr. Gluckstern notes the competitive commercial reinsurance market is "affecting the kind of business we see. When people can buy very inexpensive reinsurance, as they can today, it limits their desire to seek reinsurance solutions."

Despite the softening commercial reinsurance market, "there are certain classes of business reinsurers are shying away from," he noted. These include directors and officers liability, errors and omissions and medical malpractice.

He emphasizes that Centre Re is hoping to develop more long-term business written on a prospective basis.

Centre Re employs the equivalent of 19 full-time employees, almost double the 11 employed a year ago. Roughly two-thirds are in Bermuda and one-third are in Barbados.

Centre Reinsurance (Bermuda) Ltd. writes for non-U.S. ceding companies while Centre Reinsurance (Barbados) writes for U.S. companies.

Reinsurance premiums paid to the Barbados company by U.S.-based insurers are not subject to the 1% federal excise tax under a treaty between the United States and Barbados. That exemption, however, expires Dec. 31, 1989.

Centre Re's New York office is inactive, though Centre Reinsurance Co. remains a New York-licensed company.

"Much to our surprise, people are very happy to deal with Bermuda and Barbados," Mr. Gluckstern said.

The offshore companies can charge lower premiums than the New York company because they can discount their loss reserves for regulatory purposes and they are not subject to income tax.

Paula Butler, president of the New York reinsurer, has moved to Bermuda as vp with special emphasis on marketing.

"We're making a concerted effort to work with brokers worldwide," Mr. Gluckstern said, pointing to a series of two-day workshops Centre Re will sponsor during the next 24 months for brokers.

"Our senior staff will talk about the uses of financial reinsurance and how to identify companies that may need it," he said.

An important part of Centre Re's success, says Mr. Gluckstern, is its substantial capital and surplus, which at year-end totaled $244 million, and the source of that capital.

Its two largest investors are Zurich Insurance Co. in Switzerland for $100 million and J.P. Morgan & Co. in New York for $52 million.

Kemper Group units reduced their investment to $35 million, as planned, which allowed Northwestern Mutual Life Insurance Co. in Milwaukee and Fluor Corp. in Irvine, Calif., to each invest $10 million to $20 million.

Other investors include The B.P. Bishop Estate and Bicardi Capital Ltd. for $20 million each.

Centre Re paid an $8 million dividend from 1988 profits "because we don't feel a need to increase our capital base at this time," Mr. Gluckstern said. ■

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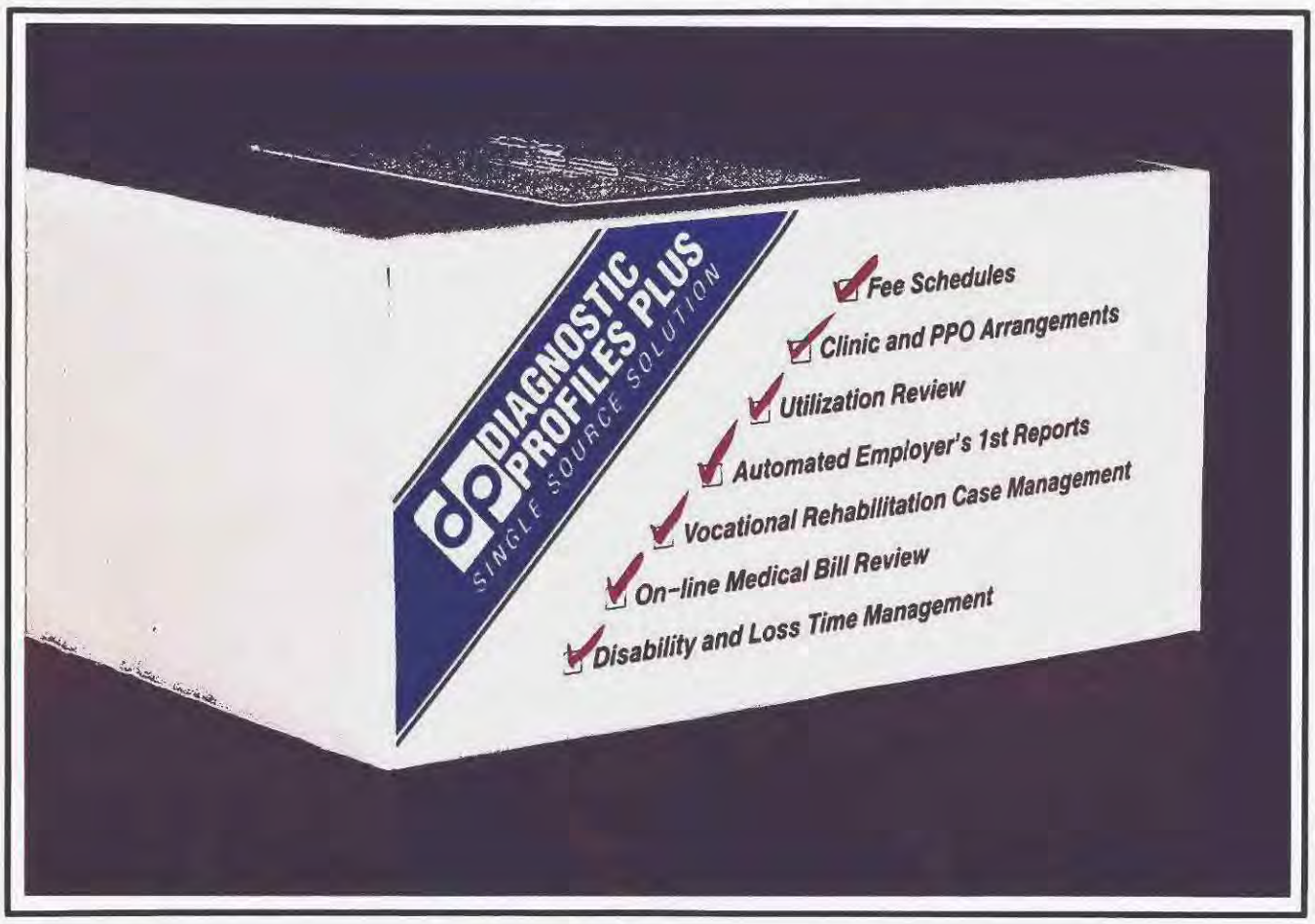

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HAMILTON, Bermuda—The only broker in Bermuda devoted exclusively to financial reinsurance products does not want to be seen as strictly a Bermuda-market broker.

Graham C. Pewter, managing director of LCF Edmond de Rothschild Insurance Services Ltd., says he intends to place financial reinsurance contracts equally between Bermuda and markets elsewhere in the world.

A vp and underwriter of financial reinsurance products for Cologne Reinsurance (Bermuda) Ltd. since 1983, Mr. Pewter became managing director of the brokerage firm last October. It is part of the Edmond de Rothschild Group, a Europe-based organization with large banking interests.

Mr. Pewter already has closed several transactions in 1989 involving several million dollars.

Mr. Pewter intends to use markets outside of Bermuda as well as financial reinsurers in Bermuda because "there are deals suited for the U.S. and Europe."

For example, Mr. Pewter expects to place loss portfolio transfers and prospective aggregates more often with U.S. markets. U.S. insurers enjoy the advantages of securing a rating from A.M. Best Co., and they do not have to supply letters of credit to support their contracts, he explains.

With his background in underwriting financial reinsurance, Mr. Graham hopes to successfully place one out of six contracts he offers.

That would be a substantial increase from the average of one contract written out of 20-24 seen by financial reinsurers.

To develop business, Mr. Pewter is talking to consulting actuaries, management consulting units of accounting firms and investment banks. He also is developing relationships with brokers around the world.

Mr. Pewter notes that the ceding underwriter pays the placing broker's commission, which is usually negotiated up-front.

Rothschild Insurance Services also intends to develop captive management clients from Europe, providing the reinsurance and investment skills, while J&H Ltd., a subsidiary of Johnson & Higgins of New York, will provide management services.

"I would be disappointed if we don't get three captives on board this year," Mr. Pewter said.

—By Kathryn J. McIntyre

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When you select a reinsurer, it's important that you get a clear picture of its financial stability. You might start by considering a company's policyholders' surplus. But don't make it your only focus. Today's large surplus could be compromised by liberal underwriting policies, leading to overexposure and future instability.

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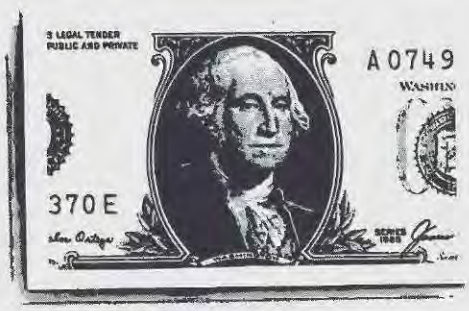

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Spotlight report

U.S.-owned captives to seek tax refunds

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—At least 400 Bermuda-based captives expect to file for refunds of their U.S. excise taxes paid in 1988, according to activity at the Registrar of Companies' office.

The government has issued that many "certificates of permanent establishment" for Bermuda-based insurers, whose U.S. owners need these documents to obtain a refund of the 4% federal excise tax on direct premiums and the 1% tax on reinsurance premiums they paid in 1988.

The refunds were made possible by the October 1988 Senate ratification of the Bermuda tax treaty.

The excise tax exemption, however, expires Dec. 31, 1989, as does a broader excise tax exemption in the U.S.-Barbados treaty.

Under the Bermuda treaty, the policyholder must have an ownership in the Bermuda company receiving the premiums for the premiums to be exempt from the excise tax. Under the Barbados treaty, all premiums paid by U.S. companies to Barbados-based insurers and reinsurers at least 50% owned by U.S. interests are exempt from the excise tax.

The biggest losers under the Bermuda treaty are non-shareholder policyholders of ACE Ltd.

While some industry leaders in Barbados are talking about trying to preserve that country's excise tax exemption, Bermuda officials are not going to reopen the issue.

"We accepted the treaty as written," explained Idwal Wyn Hughes, financial secretary. "It would not be appropriate to make noises now."

And, he considers it "unlikely Barbados will get an extension" of its excise tax exemption.

"The whole concept rests on equal treatment" of the two offshore captive insurance company domiciles," he said.

Mr. Hughes also noted that Bermuda-based insurers can request U.S. status for tax purposes, and then the excise tax will not be due on premiums they receive.

However, tax experts emphasize that this "domestic" election should be made only after careful analysis of other significant tax consequences.

On the regulatory front, newly appointed Minister of Finance David Saul—whose background includes regulation of international insurance companies—is schooled in captive insurance companies. He was financial secretary from 1976-81 when Bermuda was developing its Insurance Act of 1978, which provides for a great deal of self-regulation.

"As I look back on it," Mr. Saul says, "it has worked better than I ever expected it would. They have behaved better than we could have believed and better than any of them could have believed."

Also on the regulatory front, amendments to Bermuda's insurance law are being drafted to expand the amount of information Bermuda-based insurers are required to report.

Under the amendments, which Registrar of Companies Verbena Daniels expects will be enacted applicable to reports filed in 1991 for the 1990 year, insurers would be required to report more information on: classes of business written; amount of premium by class, where possible; and principal reinsurers.

In addition, insurers discounting their loss reserves will be required to submit an actuarial certification.

Currently, only insurers writing medical malpractice or more than 30% of their premiums for product liability are required to submit such an actuarial certification.

Bermuda also is relaxing some rules governing captives writing medical malpractice insurance.

Now, hospitals and medical facilities with Bermuda-based captives are permitted to insure their doctors' practices outside their hospitals. In addition, Bermuda is accepting for the first time doctor-owned medical malpractice captives.

No captive has taken advantage of the new freedoms yet.

Of the 1,337 insurers on the registry at Dec. 31, 1988, 51 are in liquidation proceedings now, compared with 44 of 1,344 last year.

Of the 44 in liquidation last year, 12 have been removed from the registry after satisfactorily winding up.

Nineteen new companies went into liquidation in 1988, two of which are under court supervision:

- First Dealers Equity Insurance Co. Ltd., owned by a group of New York auto dealers, which had been writing credit life insurance. Under Bermuda law, an insurer writing life insurance cannot voluntarily wind up its own business.
- Universal Marine Insurance Co. Ltd., whose directors requested the court order to preclude its creditors from securing a liquidation order.

Bermuda

Among the four liquidations begun in 1988 that are under the supervision of their creditors is Norad Reinsurance Co. Ltd., a subsidiary of Berwind Corp.

Norad initially was estimated to be insolvent by $50 million.

A meeting of the creditors committee of inspection is scheduled for next month, after which the liquidator, Christopher Whittle of the accounting firm Ernst & Whinney in Bermuda, plans to report to all creditors.

The failure of a planned commutation of $22.7 million in reinsurance payments owed Mutual Fire Marine & Inland Insurance Co., which is in rehabilitation in Pennsylvania, pushed Norad into insolvency (*BI,* Oct. 17, 1988).

Thirteen of the liquidations filed in 1988 are simply insurers running off their business.

Of the 51 insurers in Bermuda in liquidation now, 24 are winding up their own business without court supervision, 14 are winding up their business under court supervision and 13 are winding up their business under creditors' supervision.

The largest of the liquidations is Mentor Insurance Ltd., a subsidiary of Ocean Drilling & Exploration Co., which was ordered into liquidation by the Bermuda Supreme Court in 1985, and is estimated to be insolvent by about $500 million (*BI,* April 3).

Among the 65 companies removed from the register during 1988 was Financial Institutions Reserves Ltd., a captive for U.S.-based regional bank holding companies, which incorporated in Vermont as a risk retention group.

Meanwhile, Exxon Corp., which had operated Ancon Insurance Co. S.A. in Bermuda under a permit, incorporated Ancon Ltd. in Bermuda and dropped the permit for the Panama-based company.

New to the 15-person Registrar of Companies staff that regulates insurers as well as other companies in Bermuda is Ostine Swan, appointed as inspector. ■

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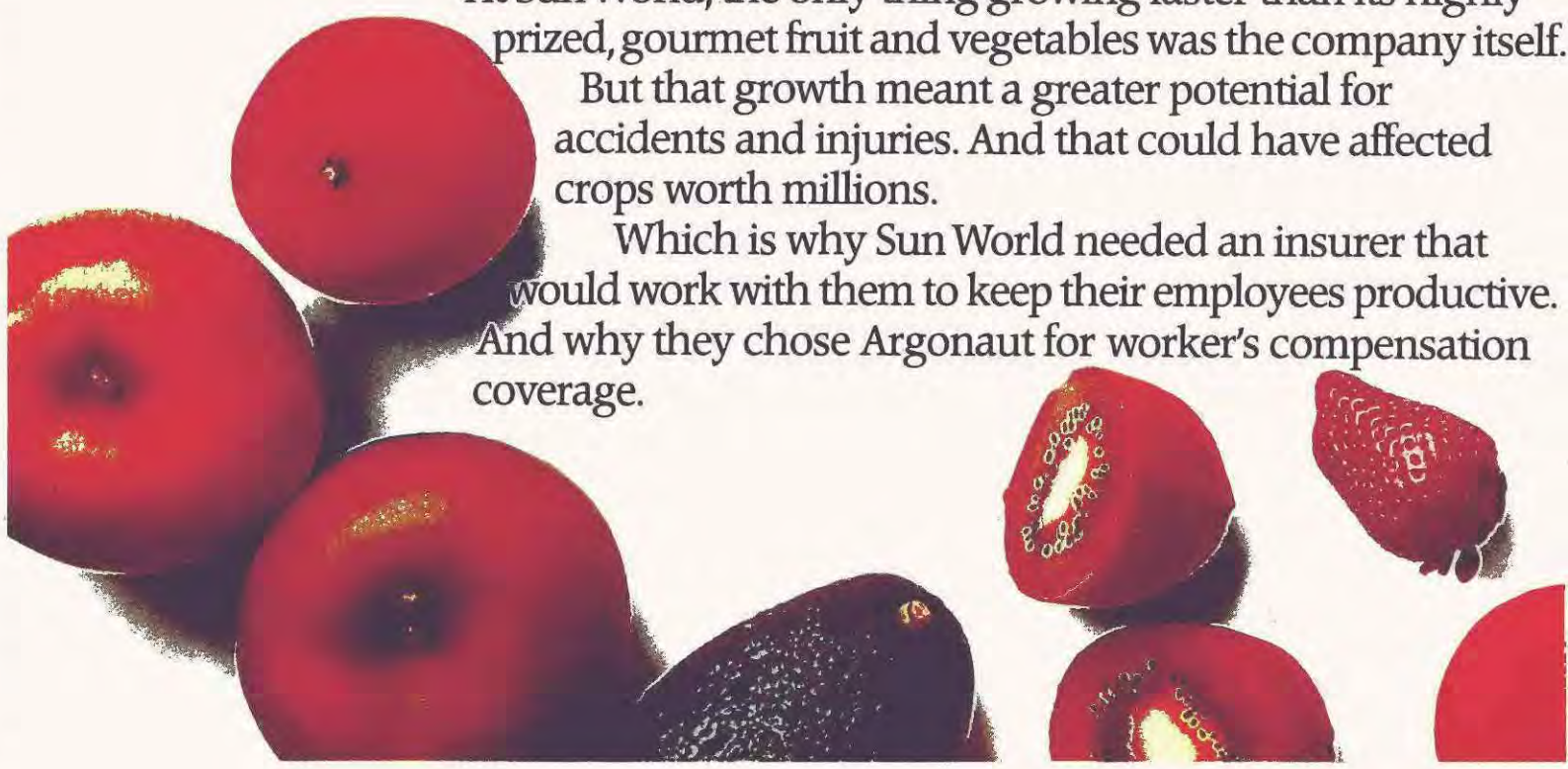

Facilities' role will expand: Lichota

By DOUGLAS McLEOD

HAMILTON, Bermuda—Alternative insurance facilities, formed to give members more control over their risk financing programs, will expand to play more integral roles in members' global business and financial plans, one risk manager says.

"Many of the participants in these facilities would still find it the path of least resistance if they could just call up their friendly broker or go across the street to their favorite underwriter and say: 'Give me a policy that says I'm insured,' " observed Edith F. Lichota, chairman of Bankers Insurance Co. Ltd., a Bermuda-based alternative directors and officers liability insurance and financial institution bond facility for banks.

Ms. Lichota, who was senior vp-risk management of Irving Trust Co. in New York, left the bank this year after its merger with the Bank of New York.

However, risk managers "have been forced to face up to the fact that the insurance market—certainly as it now exists—cannot do everything that they'd like it to do for them," Ms. Lichota told an audience at the 13th International Captive Insurance & Reinsurance Forum.

Multinational corporations "have learned that they can do some creative things with these (alternative) mechanisms once they understand how to use them and once they get them in place," she said.

Ms. Lichota cited several factors that have driven the creation of alternative insurance facilities in recent years. These have included:

- The need for coverages that have become unavailable or unaffordable in traditional markets.

In the case of BICL, the need was triggered by a hardening D&O market that left banks with nothing but "Swiss cheese policies" offered by traditional D&O insurers, she noted.

- Frustration with the unpredictability of commercial markets.

"People got pretty tired of the whipsawing and cyclicality of the market, Ms. Lichota said.

- Growing "fiscal maturity" among corporate insurance buyers.

"There's very little point in just trading dollars with an insurance company," she noted. "Increasingly, the financial structure of corporations has matured sufficiently to say, 'We don't need to buy insurance for something we can largely predict and substantially control.' "

- A desire for more stability and control over insurance programs.

Insurance buyers also have wanted to have a greater impact on insurance markets and on insurance regulators, Ms. Lichota added.

"People don't like to feel that they are being victimized," she observed. "Collectively they can have an effect on the market which individually they can not."

Members of alternative facilities also can have a collective impact on regulators, which they have lacked in the past.

"With all due respect to the NAIC, it's only very recently that the commercial buyers have been perceived to be a category of user that ought to at least have the status to come to NAIC meetings and be heard," she said, referring to the National Assn. of Insurance Commissioners.

To date, participants in alternative facilities have tended to be multinational corporations or at least companies engaged in international business, Ms. Lichota said.

Participants generally also are knowledgeable about world insurance markets—in part through their work in setting up the facility—and about the financial impact of using the alternative mechanism, she said.

As a member of a newly established facility grows more familiar with its operations and its possibilities, "the alternative mechanisms themselves become a part of both the financial planning and the business planning activities of the company," she observed.

Different corporations have progressed at different rates in developing creative uses for alternative mechanisms, with some advancing little beyond filling the simple insurance need that created the facility in the first place.

Others, however, have found that the facilities "can be used to solve a whole raft and variety of different problems. It simply becomes another tool, another thing on the financial planning shelf that can be pulled off and used," she said.

As an example of creative use of the alternative facility concept, Ms. Lichota cited TUF Reinsurance Co. Ltd., a Bermuda-based reinsurer of export credit risks whose development was spearheaded by Irving Trust (*BI*, April 18, 1988).

Large U.S. exporters have been unable to go ahead with many otherwise "bankable" export transactions with Third World countries because bank financing for Third World exports has dried up; existing export credit insurers like the Foreign Credit Insurance Assn. cannot handle the transactions for various reasons; and the exporters themselves already have overstepped their own capacity to self-assume these exposures, Mr. Lichota explained.

To respond to these needs, Irving Trust developed TUF, which was incorporated last year.

Under the original plan for the facility, TUF was to be capitalized with $200 million from exporter policyholders, Irving International Trade Inc. and a European bank.

The original plan also called for the facility to reinsure two subsidiary insurance companies, The Underwriting Facility (U.S.) Inc., to be domiciled in Delaware, and The Underwriting Facility (Bermuda) Ltd.

Although TUF was actually incorporated, development of the facility slowed down last year after Irving Trust was targeted as a takeover candidate by the Bank of New York, Ms. Lichota noted.

Now that the Irving acquisition has been completed, the facility is back on the front burner, and the plans have expanded, she said.

Although she declined to provide specifics, which she said are still confidential, Ms. Lichota said that participants will include exporters from the United States, Canada and Europe, and that the facility will be supported not only by Irving but by other U.S. and European banks.

In addition to its direct insurance arms in the United States and Bermuda, TUF is discussing the possibility of establishing underwriting units in "several other countries," she said.

TUF also now reinsures a portion of an Foreign Credit Insurance Assn. book of export trade business, Ms. Lichota reported. ■

Captives still important in soft market

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Despite renewed competition in the commercial property/casualty insurance marketplace, self-insurance and captives still play an important role in risk financing, experts agree.

Companies forced to self-fund during the tight commercial market have "learned to like it," says James Anderson, a managing principal in the Atlanta office of Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc.

And, the commercial insurance market is certain to again become more expensive and less interested in underwriting large commercial risks, points out Tony Benson, head of group risk management for Guinness P.L.C. in London.

Messrs. Anderson and Benson were speaking at the 13th International Captive Insurance & Reinsurance Forum in Bermuda last month.

Corporations recognize the benefits of self-insurance and captives, Mr. Anderson said.

For example, "through a captive, one can gain control of form—the provisions of insurance—and then access the reinsurance market, whereas it would not be possible to provide equivalent coverage by going directly to the insurance market," Mr. Anderson said.

"Self-insurance will expand and expand permanently," he predicted, noting that this will cost insurers more market share. However, fewer companies today are going totally without commercial insurance as they were forced to do during the 1986 insurance crisis, he said.

"We, ourselves, as an organization went through a period of about two to three years absent any errors and omissions insurance because of price factors and availability factors," he said.

Today, the consulting firm has commercial E&O coverage again, although it continues to fund some of its own risk, Mr. Anderson added.

Commenting that the insurance industry "probably overreacted" in raising rates in 1986, rate increases were overdue, Mr. Anderson said. He recalled the reasons: inadequate rates had been charged; interest rates were declining; and understated loss reserves failed to show how inadequate the rates being charged were.

Properly reserving for future losses is extremely difficult, he said. "We at Tillinghast have a reputation in the industry for being the 'high reserve valuers.' We've looked back at our track record, and in spite of the fact that we are the high reserve valuers, 90% of the time our estimates have proven to be too low."

Assessing current market conditions, Mr. Anderson asked rhetorically: "Are the lemmings headed for the sea again? Have the effects of overcapacity returned again?"

Yes, he concluded to both questions.

Pointing out that insurers reported deteriorating results in 1988 (*BI*, March 20), he predicted that "1989 probably will be worse." In addition, "totally setting aside the issue of which way the stock market is going, the financial implications for the stock prices of insurers are not favorable," he added.

While insurers are promoting tort reform as a way to improve their financial results, Mr. Anderson commented: "I have a contrary opinion. I think the insurance industry is actually mistaken to promote tort reform. It is the industry's permanent growth opportunity and we are overlooking the fact that tort reform will reduce the amount of risk that needs to be insured.

"By promoting tort reform, we are actually shrinking the base of the insurance industry. What we need to do is learn how to manage in terms of the current concepts of tort, particularly in the United States."

But, when another cycle of insurance rate hikes and decreased availability strikes, Mr. Anderson predicted: "The focus of regulatory attention is going to be on personal and small business needs, rather than on large corporations."

Mr. Benson of Guinness, which operates in 140 countries, complained that commercial insurers are not responsive to the needs of multinational industrialists.

"It's a great disappointment to say I see no sign of intelligent innovation on product design for major multinational industrial users by the European insurers," Mr. Benson said. "Insurers don't see the major multinational industrial risk as attractive."

He suggested that may be because insurers have decided they already have "lost the game" to captive insurers "so why fight a losing battle?"

It is true, he said, that "risk retention for major multinational users is now remorseless."

And, he expects to see captive insurance company owners in Europe expand the classes of risk they underwrite, from property risks—which most captives were originally formed to underwrite—to the classes of business commercial insurers refuse to write.

"Insurers, today, if faced with a difficult risk to understand—which they have to think about and which demands the commitment of substantial capital—tend to respond by turning their backs," Mr. Benson said.

"We will see on the European scene medical expenses cover, legal indemnities, professional indemnities and even what you call workers comp business more and more taken into the captive along with the property business," Mr. Benson predicted.

Since the increased casualty exposure will be supported by the profits produced by writing the captive property account, Mr. Benson said he expects to see fewer captives committing their resources to other people's risks.

"I see us drawing in our horns on the reinsurance that we give to members of captive pools and on the writing of unrelated casualty and retrocession business," he said.

Mr. Benson also pointed out that now is the perfect time to form a captive insurer, because competition in the commercial insurance market is about to bottom out and insurance rates will be increased. In addition, interest rates are high in Europe.

"The best time to start a captive is toward the bottom of a soft market cycle because you get in there, you get your protection in place and you are positioned to take corporate advantage of it as rates go against you," he explained.

And, the interest rates currently available make the investment in the captive reasonably effective, he noted. ■

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Put outsider on captive board: Risk manager

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Boards of directors of captive insurance companies should be fairly independent and include at least one competent non-executive director, a risk manager says.

The current composition of most captive boards is a weakness in the captives' management, contends Tony Benson, head of risk management for Guinness P.L.C. in London.

The typical captive board—whether in Bermuda, Vermont or Guernsey—is composed of the parent company's vp of finance, the corporate risk manager, a representative of the local captive management company and directors based in the domicile, Mr. Benson pointed out.

Each of these people has a weakness in making decisions regarding the captive, he said at the 13th International Captive Insurance & Reinsurance Forum. The vp of finance "knows damn little about insurance or reinsurance or retrocession matters, and he is overly committed to the project in a corporate sense."

The risk manager, meanwhile, can lack breadth of knowledge on insurance and reinsurance issues, is truly "overcommitted" to the captive and is subordinate to the vp of finance.

Mr. Benson

The representative of the management company on the board has interests other than the captive's in mind, Mr. Benson said. "They have the job, and they want to keep it. Their loyalty is to different shareholders."

And, the directors from the captive domicile too often are looking after the interests of the domicile, are preoccupied with their own business and are "generalists."

"It's that type of board" that permitted North American-owned captives to write non-related casualty reinsurance and retrocessional business, Mr. Benson pointed out, to the detriment of the captives that lost tens of millions of dollars.

Mr. Benson's solution: "Get competent, possibly retired, risk managers who understand the complexities" of the captive business. This outside director could "say what the risk manager is afraid to say" and won't permit the management company to sell the captive on less than desirable programs, Mr. Benson suggested.

The board of Guinness' captive, AGS Insurance Co. Ltd. in Guernsey, is composed of Mr. Benson, his boss, the managing director of the management company and three local directors, including a retired banker and a lawyer.

He is recommending that a retired risk manager also be appointed to the board of AGS "to counterbalance my prejudices," he said.

Captives try new deals for tax relief

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—Captive insurers seeking tax breaks through financial reinsurance transactions are heading into uncharted waters, advises a tax attorney.

"The problems are that the parameters of what to do from a tax point of view are not that clear," said Benedict J. Sciortino of Baker & McKenzie in New York.

Financial reinsurance transactions are becoming increasingly popular as U.S.-owned offshore captives look for ways to minimize their tax liabilities now that most of them are subject to U.S. taxation, he said at the 13th International Captive Insurance & Reinsurance Forum.

"How do all these offshore companies that are not accustomed to paying taxes, who are now paying taxes—is there some way that they can achieve risk transfer and yet get very substantial tax benefits?" Mr. Sciortino questioned.

The answer some people offer is a financial reinsurance contract under which the captive cedes reserves to a foreign reinsurance company that is not subject to U.S. tax laws and later recaptures those reserves, plus investment income.

"Although the plans that are there are very numerous and everybody seems to have a great deal of enthusiasm that they work, the tax lawyers don't have that much enthusiasm.

"From a tax lawyer's point of view," there has to be risk transferred under the contract, he stressed. But, "how much risk" has to be transferred "is an area where there is no answer. The IRS really hasn't looked at this closely," he said, noting that the closest products to financial reinsurance the IRS has examined are cash-flow insurance plans.

In those cases, the IRS has said it will look at multiyear insurance contracts and that it has the right, for tax purposes, to effectively cancel and rewrite them every year.

This could be important for multiyear financial reinsurance arrangements under which the ceding company enters into a three- to five-year agreement with a large premium paid up-front to be rolled over in successive years. The ceding company's theory is that while it might not get a tax deduction for all of the initial premium, it has at least ceded funds and won't have to pay tax on the investment income those funds would have earned had they stayed on the ceding company's books.

However, the IRS could say of these multiyear financial reinsurance contracts that, for calculating taxes, the ceding company effectively receives back at the end of each year all of the premium it ultimately could get back and then pays it again.

"That would take away the whole tax deferral in it," he pointed out.

While the tax issues are not clear, "We have seen plans that the taxpayer is in a strong enough position that he doesn't have to worry about penalties," Mr. Sciortino said.

The tax code provides for penalties if a taxpayer takes an "overly aggressive position that nobody thinks there is any authority for," he noted. The penalty: 25% of the taxes that would have been owed, in addition to interest charges.

Commenting that financial reinsurance products are proliferating, Mr. Sciortino predicted: "There will be a plan for everybody—the faint-hearted and the bold." ■

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Cost savings still drives captives: Stone

By DOUGLAS McLEOD

HAMILTON, Bermuda—As tax and other motivations fade in importance, cutting the cost of property/casualty insurance will continue to be the key reason for forming captives, an insurance company executive predicts.

And, while the self-insurance movement may not grow as rapidly in the future as it has in the last two decades, it probably will expand faster than the traditional insurance market, said James M. Stone, president of Plymouth Rock Assurance Corp. of Boston and a former Massachusetts insurance commissioner.

"It's a dangerous thing for the insurance industry to lose that basic business," Mr. Stone said of business that has gone into captives and other self-insurance vehicles.

"The traditional insurance industry is in trouble, and the self-insurance movement is too solid in its foundations to retreat. I think it will continue to grow," he told an audience at the 13th International Captive Insurance & Reinsurance Forum.

Mr. Stone cited four basic factors driving the captive movement in its early years:

- Tax benefits, most notably the idea of deducting premiums paid to captives.

"There were lots of other subjects of discussion, but it was really tax that was on people's minds 18 years ago," Mr. Stone observed.

- Basic cost factors, which companies considered in deciding whether it would be cheaper to buy commercial insurance or self-insure through a captive.

- Extraordinary risk factors, which forced corporations to seek alternatives when commercial insurers either refused to provide certain coverages or offered them only at very high prices.
- Flexibility factors, which Mr. Stone described as being unrelated to actual insurance coverage needs. For example, some corporations established offshore captives partly to act as conduits for funds flowing to and from foreign subsidiaries.

"What's happened to each of those" motivations over the last two decades? Mr. Stone asked.

Tax considerations have become steadily less important in U.S. companies' decisions about whether to form captives and probably will not re-emerge as a motivating factor, he predicted.

"Taking money out of the hands of the Internal Revenue Service was never a good idea for forming a captive, even when it was possible for a little while," he observed, adding that "the IRS almost always wins."

Meanwhile, the difference in basic costs between commercial insurance and self-insurance have turned out to be insignificant except in the case of large, single-parent captive programs or multiowner or group programs, where economies of scale have operated to hold down costs and improve returns on invested funds, Mr. Stone said.

"Where there are economies of scale, I think the basic cost reasons operate as they always did. Where there are not economies of scale, they don't," he observed.

This particular aspect of the self-insurance movement is what has most upset commercial insurers, since it has robbed them of a large volume of predictable business that helped them achieve a spread of risk, Mr. Stone noted.

Without this business providing stability to the commercial market, insurers may find it more difficult to take on more hazardous risks in the future, and this may, in turn, hurt commercial policyholders and the public, he warned.

Nevertheless, it would be difficult to talk a company out of self-insurance on these grounds if the basic cost factors point it toward the use of a captive, he added.

"I think the basic cost factors win out in the end, but don't expect insurance companies to be thrilled about it," he said.

Extraordinary risk factors, meanwhile, have played a huge role in captive expansion over the last two decades as insurance companies have been badly burned by various types of liability claims and have withdrawn capacity.

"If covering something by self-insurance or a captive in order to avoid paying a high extra-risk premium or to get coverage that isn't readily available was a motivation 20 years ago, it's got to be five times the motivation today and growing," Mr. Stone said.

Financial flexibility, on the other hand, has grown less important as a factor in captive formations over the last 20 years as banks have become more sophisticated and have stepped in to take over some of the money-handling duties originally envisioned for the captives.

"That flexibility that was a lure for some companies 20 years ago is less so now," said Mr. Stone, adding that this will probably not be much of a factor in future captive formations.

Several other factors have operated to hold back captive formations, Mr. Stone observed. These include:

- Fear among "less sophisticated midsized companies of doing anything offshore."

"I think the domestic captives are going to give the offshore captives a run for their money," Mr. Stone predicted.

- The huge losses that struck captives writing third-party business in the early 1980s to support their argument that parent company premiums should be tax-deductible.

"That's scared people off," he observed.

- Reinsurance fraud and reinsurer insolvencies, which have made companies think twice about the prospect of dealing directly with reinsurance markets in the course of establishing a self-insurance vehicle.
- A lack of emphasis on loss control. Loss control efforts have not been a driving force in captive programs, and they should be, Mr. Stone said.

"We are not just a (risk) spreading device. We have to be a cost control, loss control device to be useful," he said. "If captives were as good at this as they should be, a

Continued on page 54

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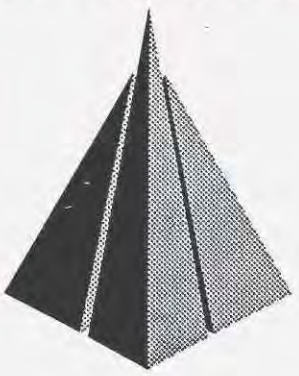

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Cost savings

Continued from page 52

lot more business would have flowed out of the traditional insurance industry."

Captives are facing changes in their basic business and must make strategic decisions about their future direction, according to D. Hugh Rosenbaum, a principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Darien, Conn.

The period of growth for many captives—growth in premium volume and return on equity—is in the past, Mr. Rosenbaum noted.

The soft commercial insurance market is luring members away from group captives and operating units away from the single-parent captives established by their parent companies.

Competition even exists among various types of captive facilities, including captive reinsurance pools and rent-a-captive facilities, he noted.

"There are now alternatives within alternatives," Mr. Rosenbaum said.

Given a decline in their basic business, captives must decide how they will respond. Group captives faced with competitive pressures, for example, may consider expanding into new lines of business and improving services to members, he said.

Mr. Rosenbaum suggested the application of "modern" strategic planning techniques like financial modeling in making decisions about captives' future plans.

He also urged that all captives be viewed as group captives, including single-parent entities that insure a number of the parent's operating units.

The various participants in any captive venture should then share in the process of making strategic decisions about the captive's operations, Mr. Rosenbaum said.

Participants—including the operating units of a single-owner captive's parent company—should have a direct share in the captive's profits either through a bonus system or through dividends, Mr. Rosenbaum suggested.

The focus of even single-parent captives should be on the results of individual participants, Mr. Rosenbaum suggested. Single-parent captives should not only be able to account for the results of the parent's operating subsidiaries, but also should be able to provide the subsidiaries with projections showing what their results in the captive program will be in the future under various conditions.

"It must sound like deja vu," Mr. Rosenbaum said. "Isn't that what captive insurers were originally started for? Isn't that what they were set up for in the first place?"

"Of course they were," he said. "But because the captive insurance company itself, after a number of years, has placed its own identity and longevity and importance before the strategic plans of the members, that has been lost sight of." ■

Bermuda's captive market to continue to thrive: Expert

By DOUGLAS McLEOD

HAMILTON, Bermuda—The Bermuda captive insurance industry has weathered several storms in recent years and should continue to prosper as the self-insurance movement expands, one expert says.

Captives and other self-insurance vehicles now account for an estimated 25% to 30% of the U.S. property/casualty insurance market, and this could expand to a one-third share within the next few years, noted Robert D. Steinhoff, managing partner with KPMG Peat Marwick in Bermuda.

"The self-insurance market is expanding on a worldwide basis, creating a growing demand for self-insurance vehicles," Mr. Steinhoff told an audience at the 13th International Captive Insurance & Reinsurance Forum last month in Bermuda.

While the recent soft market has resulted in declines in new captive formations that may extend through this year, the reduction "does not represent a lack of interest in the self-insurance concept," he noted.

"When the next hard market arrives, new self-insurance vehicles should be in even more demand than they were in 1986, and those jurisdictions that are well-positioned should be kept extremely busy," Mr. Steinhoff predicted.

Bermuda should stand to benefit from the next upturn in captive formations after turning away several threats to its position, Mr. Steinhoff suggested.

These threats included the 1986 Tax Reform Act; the U.S. tax treaty with Barbados, which included a federal excise tax exemption for insurance and reinsurance premiums paid to Barbados insurers; the amended Risk Retention Act, which excludes Bermuda as a domicile for risk retention groups; and the promotion efforts of various onshore domiciles, such as Vermont.

The Tax Reform Act not only removed the few remaining tax advantages for offshore group and association captives, but actually threatened imposing a tax penalty on companies operating in Bermuda, Mr. Steinhoff noted.

Under the tax reform law originally enacted, some Bermuda captives faced the possibility of triple taxation—hit not only with taxes on their income but also with a branch profits tax if they were found to be engaged in trade or business in the United States and with federal excise tax on insurance and reinsurance premiums.

This could have resulted in effective tax rates of up to 69% for some captives, creating an actual tax disadvantage to operating offshore, Mr. Steinhoff observed.

"Bermuda recognized that although it is not necessary to have a tax advantage to compete successfully, it was important not to have a tax disadvantage. It was important to deal with the imbalance created by the Barbados tax treaty and the Tax Reform Act in order to be on a level playing field with other territories," Mr. Steinhoff said.

Bermuda's strategy in countering the threat was to lobby for corrections to the tax law and for passage of Bermuda's own long-delayed tax treaty with the United States.

These lobbying efforts, Mr. Steinhoff noted, were successful.

Technical corrections to the 1986 tax act included a "domestication election" allowing offshore insurers to be taxed as U.S. corporations, eliminating the threat of triple taxation.

In addition, the Bermuda tax treaty was adopted with a federal excise tax exemption retroactive to the same date that the Barbados treaty incepted and expiring, like the Barbados exemption, at the end of this year.

The tax treaty also included a "permanent establishment" provision that effectively eliminated fears that Bermuda captives could be considered engaged in trade or business in the United States, Mr. Steinhoff noted.

Meanwhile, risk retention groups have not developed into the competitive threat originally feared by offshore domiciles, he added.

In the period between late 1986—when the Risk Retention Act amendments became effective—and the end of 1988, approximately 50 risk retention groups were formed in the United States, while about 550 captives were formed during the same period in Bermuda, Barbados and the Cayman Islands, Mr. Steinhoff said.

Annual gross written premium volume for the risk retention groups is estimated at about $270 million, while volume for Bermuda companies alone amounts to about $10 billion, he added.

Risk retention groups have run into several problems, including suspicious state insurance regulators and substantial filing requirements, he said.

"I do not want to take away from the progress of risk retention groups. They are a factor in the self-insurance market and will almost certainly grow in the future. There are changes pending before Congress which, if passed, would remove some of the operating problems facing the groups.

"However, they have not turned out to be an attractive alternative to the offshore captive, and certainly have not become the threat that some had originally thought," Mr. Steinhoff said.

To be on the safe side, though, Mr. Steinhoff suggested that Bermuda consider lobbying Congress to be added as an acceptable jurisdiction for risk retention groups.

Despite the various roadblocks to new Bermuda captive formations, other domiciles, including Vermont and Barbados, still lagged behind in new formations last year, Mr. Steinhoff observed.

Based on the rate of new formations, offshore domiciles are still more popular than onshore domiciles by a factor of about 5-to-1, Mr. Steinhoff said.

"If you read the insurance press, you would have thought these figures should have been reversed. Vermont has had continuous positive press in 1988, while Bermuda has suffered the very opposite," Mr. Steinhoff complained.

"Vermont has done a better job in using the press to create perceptions of progress, while, in fact, offshore jurisdictions have fared better," he asserted.

"The leading (offshore) jurisdictions, Bermuda included, must do a better job of selling their advantages and creating a positive public perception of their progress."

For the future, Bermuda's competition for U.S.-source business will most likely come from onshore domiciles, he predicted. Barbados, with the loss of its tax treaty advantage, probably will concentrate on Canadian business, where it has a favorable tax arrangement, he said. Meanwhile Cayman, without any tax treaties, will find it more difficult to compete for all captive business, he said.

One of Bermuda's main advantages over its onshore competitors is the "hostile and restrictive" regulatory environment in the United States, he added, pointing to California's Proposition 103, the antitrust lawsuits against insurance industry defendants by state attorneys general and the generally more onerous filing requirements for U.S. insurers.

The Bermuda regulatory system, by contrast, is more responsive to the needs of captive insurers and "allows insurers to retain their dignity," Mr. Steinhoff said. ■

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Bank facilities

Continued from previous page
the underwriter to apply qualitative consideration to premiums.

BICL members range in size from almost $3 billion to $93 billion in assets. A bank needs at least $2 billion in assets to participate and must agree to be rated as though it has $3 billion in assets.

BICL writes primary or excess layers, and members can alter the layers of BICL's participation annually, even though BICL policies are written for three-year periods. BICL provides limits of $10 million for D&O coverage and $10 million for bankers blanket bond.

At Dec. 1, 1988, Centre Reinsurance (Bermuda) Ltd. became the new lead reinsurer of BICL, writing a multiyear excess-of-loss and aggregate stop-loss policy. Hannover Reinsurance Co. of Hannover, West Germany, which had been BICL's lead reinsurer, still participates.

BICL has yet to pay a loss, Ms. Lichota pointed out, dispelling rumors that BICL had "blown through" at least one or more $10 million losses. Loss reserves have been established for some claims.

Members of BICL are paying taxes on BICL's income, which they report as Subpart F income, rather than BICL electing to pay U.S. taxes. That's because BICL expects to attract non-U.S. banks, which would have no U.S. tax liability.

"The company will be in a position of being soundly formed when the next hard market comes around," she said, offering advice for keeping an alternative risk financing facility together in the face of competition from commercial insurers.

"Keep the financial members back home sufficiently well-informed so that they do not make the mistake of assuming that they can continue to buy insurance as if it were any kind of commodity, such as paper clips, from the lowest-cost vendor."

Also formed to provide needed D&O insurance for banks was Financial Institutions Reserve Ltd., organized by Johnson & Higgins.

J&H targeted regional banks for membership in FIRL at the time BICL was being organized by a task force of bank risk managers.

"There was a perception among regional banks that they were subsidizing the major money center banks" and the smaller banks that had recovered from insurers for major D&O losses, said Richard M. Grayson, vp of Johnson & Higgins of Georgia Inc.

FIRL was launched with 17 regional bank holding company members in September 1986 with $42.5 in capital. While it has the same number of participants today, assets at year-end 1988 were $58 million.

The company provides $20 million in D&O limits, primary or excess, generating $5.5 million in annual premiums.

FIRL's objectives were similar to those of BICL, Mr. Grayson said: to provide stability in coverage; to allow members to budget over a longer term for their D&O insurance costs; and to give banks a financial incentive for good performance.

Mr. Grayson

While BICL wanted to work with, and not replace, the commercial market, the founding members of FIRL "fully intended to walk away from the conventional marketplace," because they felt it had treated them poorly, Mr. Grayson said.

Primary premiums and excess premiums were established equally for all members, based on an elaborate study of D&O losses for financial institutions by The Wyatt Co. and an actuarial analysis.

Primary premiums are subject to experience rating while members' excess premiums remain equal.

"Group dynamics more than anything else determines whether or not a program like this gets off the ground in the first place and is successful long-term," Mr. Grayson said.

Legal, finance and senior management executives as well as risk managers were involved in forming FIRL, he pointed out. And, top bank executives are on the board.

In July 1988, FIRL incorporated in Vermont as Financial Institutions Reserve Risk Retention Group.

Several factors led to the decision to move onshore: The amended Risk Retention Act made it possible; the Tax Reform Act created new tax liabilities; as an offshore insurer, FIRL was prohibited from soliciting new members onshore; offshore administration was more complicated than it would be onshore; and with $42 million in capital there would be no problems satisfying state Insurance Department requirements.

FIRG also incorporated provisions to maintain long-term membership. Members buy five-year policies and commit their capital for 10 years.

FIRG's members, which range in size from banks with $3.5 billion to $35 billion in assets, were screened based on their financial performance.

Johnson & Higgins lost a client because it was not accepted in FIRG. About 15% of the approximately 40 banks that participated in the feasibility study were declared ineligible.

Since July 1, 1988, FIRG has been covered by reinsurance written by National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit and a leading underwriter of D&O insurance for bank holding companies.

National Union has issued a 3½-year, non-cancelable, follow-form reinsurance contract following FIRG's rates. National Union reinsures 50% of the $15 million excess of $5 million layer to an aggregate of $35 million over the term of the reinsurance contract.

So far, FIRG has not paid a loss, although it has some provisional reserves established based on notices.

Mr. Grayson commented that he doesn't know if FIRG can expand membership in a soft market.

FIRG has a target of 40 members and also is discussing possibly expanding into the underwriting of bankers professional liability. ■

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Captive meeting draws 140 people

The 13th International Captive Insurance & Reinsurance Forum held in Bermuda last month attracted 140 attendees.

The conference, sponsored by Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc., was held March 14-17 at the Hamilton Princess Hotel.

Attendance was somewhat smaller than in prior years, especially by Bermuda-based attendees. The conference organizers attributed the low participation in part to the fact that the promotional brochures sent to Bermuda never arrived.

They have concluded that the brochures must have been on board the Lloyd Nelson, a container ship that sank in a storm shortly after Christmas while en route to Bermuda.

However, as it is said in Bermuda by people who have heard the sunken ship as the excuse for every missing piece of promised furniture and supplies: "With everything that was supposed to have been on that boat, no wonder it sank!"

The 14th International Captive Insurance & Reinsurance Forum will be held March 27-30, 1990, at the Hamilton Princess.

And, in keeping with a tradition begun several years ago, Tillinghast will make a donation to the Bermuda Insurance Institute. ■

Captive owners should try to match the maturities of captive investments to the expected payout

SIA director charts demise of captive

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—The October 1987 stock market crash and declining commercial insurance costs in 1988 killed plans by the Securities Industry Assn. to form a captive insurer to write broker/dealer blanket bonds and related coverages.

The SIA, whose 585 stockbroker and investment banker members handle 90% of the securities trades in the United States and Canada, started working in 1986 on forming a captive for its membership.

But the project was shelved in January.

The SIA had considered establishing a captive because its members' financial institution coverage premiums had increased 500% between 1983 and 1986, deductibles were up tenfold and policy terms "were totally unacceptable," Robert L. Cope, director of insurance for the association, told attendees at the 13th International Captive Insurance & Reinsurance Forum last month in Bermuda.

SIA members were most interested in broker/dealer blanket bonds, followed by directors and officers liability insurance and errors and omissions insurance, Mr. Cope said.

SIA decided to first tackle the feasibility of providing a blanket bond and hired the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. and the law firm of Baker & McKenzie to assist in the project.

A feasibility study, funded by 185 SIA members and including a good cross-section of the industry, indicated the project could be done, Mr. Cope said.

The SIA board sought a second opinion and was also told by The Wyatt Co. that a captive was feasible.

It wasn't easy to structure a program for the diverse needs of the membership, Mr. Cope noted.

The big investment banks needed limits of $100 million or more, while some small firms needed only $1 million in coverage.

And, the deductibles desired by SIA members ranged from $5,000 to $12.5 million.

Mr. Cope

The SIA decided that to be successful, the captive would need broad participation, it should work in conjunction with commercial insurance companies, it should be a stock company and a comprehensive risk management program should be developed.

The SIA hired broker Rollins Burdick Hunter Co. of Chicago to help with the organization. RBH developed three different programs:

- Up to a $25 million primary bond, with the captive taking a 10% quota share.
- Up to a $10 million primary bond, for smaller members, with the captive taking a 10% quota share.
- And, up to a $25 million excess bond for anyone who needed it, underwritten by commercial insurers.

"We had good acceptance in London and the U.S.," Mr. Cope recalled.

But then, in October 1987, came Black Monday, which the SIA prefers to refer to as a "radical correction" in the market rather than a crash, Mr. Cope noted.

"Because of that, the focus of the securities industry turned away from the captive" to cleaning up from the aftermath of Black Monday, he said.

It was early 1988 before the captive issue was again on the SIA's front burner.

By then, however, there had been a shakeout among the members and some shrinking of capital.

Furthermore, commercial insurance underwriters were now a little more concerned about the securities industry, not only in the aftermath of Black Monday but also due to the securities scandals that were surfacing.

The SIA concluded it would not be able to raise the planned $50 million in capital. Therefore, it restructured the captive program to provide just a $10 million primary bond, with the captive taking a 10% quota share.

SIA wanted at least $10 million in capital and asked its membership for a "statement of interest" and one-half of the capital the firm would be asked to contribute.

The capital sought from each firm was based on the firm's size and ranged from $25,000 to $500,000 per firm.

SIA received 115 positive responses, which it considered encouraging.

"The problem was, we felt we needed at least $10 million in capital and we did not hit the $10 million," he said.

The commitment was about $8 million, because some larger firms decided not to participate, perhaps because the commercial market was becoming competitive again, Mr. Cope said.

In 1987, investment bankers and stock brokers had paid premiums totaling $109 million and losses were only $6.5 million, he noted.

Insurance companies "all of a sudden became very competitive," he said. "It was the death knell of the captive."

SIA members realized that giving up the captive was based on short-term costs, but "our industry is very transaction-oriented," Mr. Cope said.

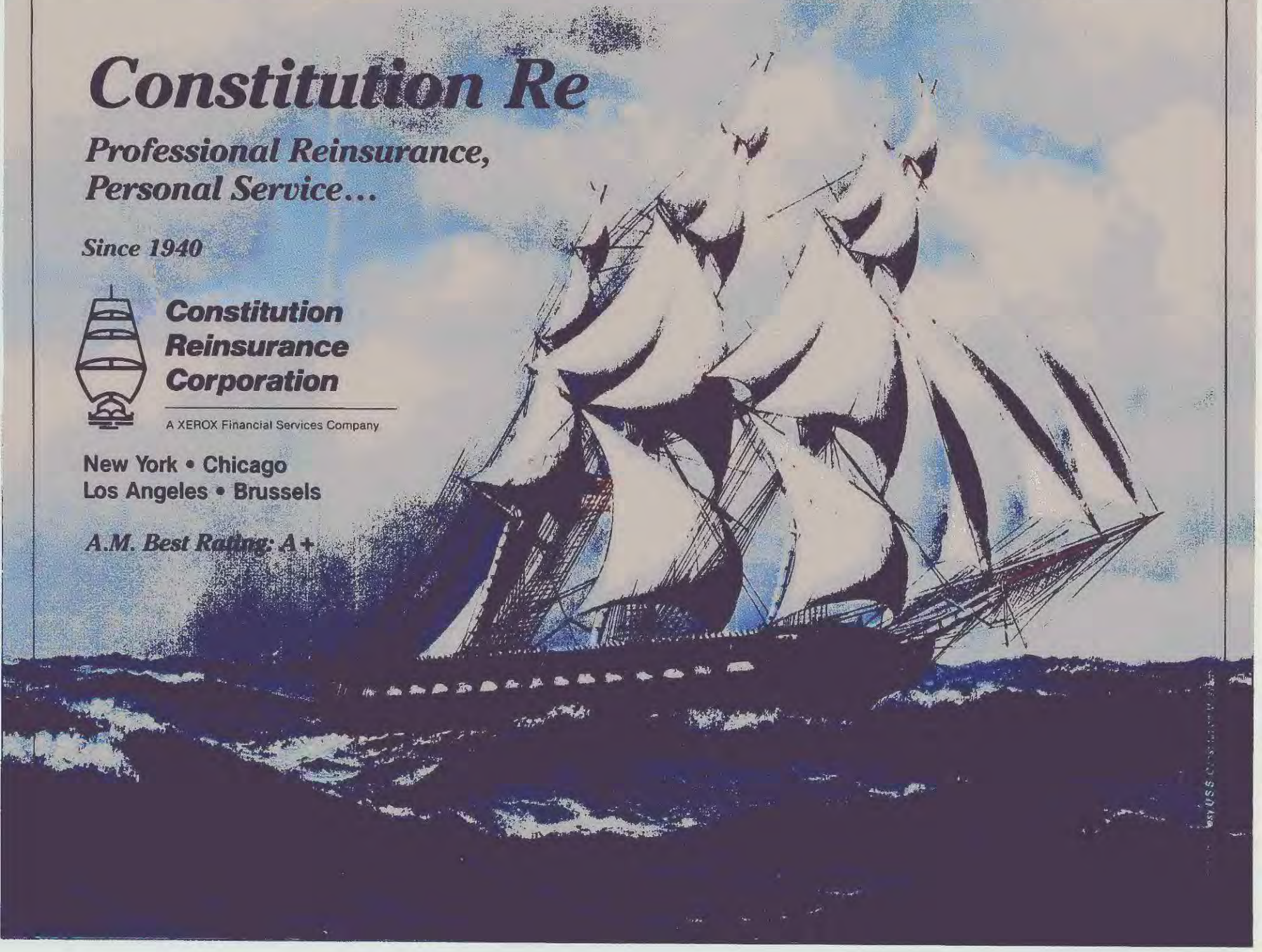
The 115 members' deposits were returned at the end of January.

The SIA, though, is keeping all of its captive information in case members' attitudes change along with the inevitable turn in the market.

"I think there is going to be a drastic market turn in the next 18 months," Mr. Cope predicted.

In the meantime, the SIA is studying how to fund a risk management program for the securities industry and may consider a group purchase program for medium-sized and smaller firms.

"Those firms have not received as much benefit from the softening market," he explained. ■



Reinsurer seeks link with captives

HAMILTON, Bermuda—Confronted with shrinking demand for their product from conventional insurers, reinsurers want to work directly with risk managers and captives, says a reinsurance company executive.

"A number of years ago, if you approached a reinsurer as a buyer or a broker, you would have been politely shown the door," Roger Greiner, president of Genesis Underwriting Management Co., told an audience at the 13th International Captive Insurance & Reinsurance Forum in Bermuda last month.

Genesis is a unit of General Re Corp. that was formed last year to provide insurance and reinsurance services to such alternative risk financing vehicles as captives, risk retention groups, purchasing groups and self-insurers (*BI*, April 25, 1988).

"We have a continued shrinking of the traditional market and growth of the alternative marketplace," Mr. Greiner said. Most companies that start self-funding or using a captive insurer generally don't go back to the conventional market, although they may adjust the amount of risk they self-insure, he said.

Reinsurers found that they were "at the mercy of ceding companies" that decided whether or not to submit alternative programs to reinsurers for a quote.

As a result, General Re and others have formed units to "deal directly" with risk managers and their brokers so that they can "select the risks we want to quote" and "get directly involved."

Reinsurers prefer to cut out the other links in the chain, such as the primary insurer, the wholesale program and the managing general agent, because "the fewer people involved in the chain, the less opportunity there is for the dialogue to be misconstrued."

General Re offers $5 million in limits for casualty risks, $10 million for workers compensation and has capacity to write up to $65 million for property risks.

When writing reinsurance for alternative risk financing vehicles funding liability and workers comp risks, General Re will attach at a minimum of $250,000 and generally would not want to write a layer higher than excess of $5 million, Mr. Greiner noted.

—By Kathryn J. McIntyre

Better methods needed for liquidations: Lawyer

HAMILTON, Bermuda—More creative methods are needed for handling insurer insolvencies so that claims payments keep flowing throughout international markets, asserts a reinsurance law consultant.

Without more creative approaches to handling insolvent insurers and reinsurers, the insurance and reinsurance business risks creating economic, legal and regulatory chaos, warns John Milligan-Whyte of Milligan-Whyte & Smith, Bermuda-based barristers and attorneys.

Speaking at the 13th International Captive Insurance & Reinsurance Forum in Bermuda, Mr. Milligan-Whyte asserted: "We must find ways to deal with insolvencies that preserve the flow of cash in international insurance and reinsurance markets.

"One insolvency improperly and ineffectively handled could cause others," he warned.

As of June 1988, 217 insurers and reinsurers were involved in some form of insolvency proceedings in the United States, he reported.

And more insolvencies are likely, he said, because the "the recent boom in profitability may not have lasted long enough to strengthen again a great number of companies that were weakened by the economic turmoil" of the mid-1980s, when U.S. reinsurers suffered combined ratios of 116% in 1983, 128% in 1984 and 121% in 1985.

Mr. Milligan-Whyte

In 1986, the combined ratio improved to 104% and declined again in 1987 to 102%. But the 1988 combined ratio of 102.7% is expected to deteriorate in 1989 (*BI*, April 3).

"The traditional liquidation procedure when applied to a reinsurance company is very unsatisfactory. It normally takes a long time for claims development to mature so you know what you owe your creditors. You have trouble collecting from your retrocessionaires until you know what you owe your creditors. Some retrocessionaires are also creditors and they claim they are entitled—and they are in many instances—to set off their debts by what they are owed by the company. You have, therefore, freezing up of cash flow in the markets and the potential for a domino effect," Mr. Milligan-Whyte said.

He noted that creative solutions are being used in some insurer and reinsurer liquidation proceedings.

He complimented the liquidators of Cambridge Reinsurance Ltd. in Bermuda for using a seldom-used provision of Bermuda's Bankruptcy Act of 1876 that allows a liquidator to estimate an insolvent company's contingent liabilities rather than wait years for claims to be filed (*BI*, March 16, 1987).

The novel approach could speed the liquidation by as much as 15 years. The liquidators last month declared Cambridge's first cash dividend to creditors (*BI*, April 3).

Mr. Milligan-Whyte also commended Illinois liquidators' handling of the estimated $74 million reserve deficiency at American Mutual Reinsurance Co. in February 1988 (*BI*, Sept. 19, 1988).

Illinois regulators put AMRECO into rehabilitation in February 1988 and since Feb. 15 this year have been permitting AMRECO to pay 37.5% of claims accepted and to issue a surplus draft for the remainder.

(To date, AMRECO has issued $11 million in checks and almost $20 million in surplus notes, an Insurance Department spokesman said March 31. The department also is re-estimating AMRECO's deficiency, and it could be substantially less than $74 million, AMRECO's president says.)

Mr. Milligan-White also praised New York regulators for using a novel plan to commute all of Constellation Reinsurance Co.'s reinsurance contracts to speed the payment of funds to ceding companies (*BI*, Feb. 6).

—By Kathryn J. McIntyre

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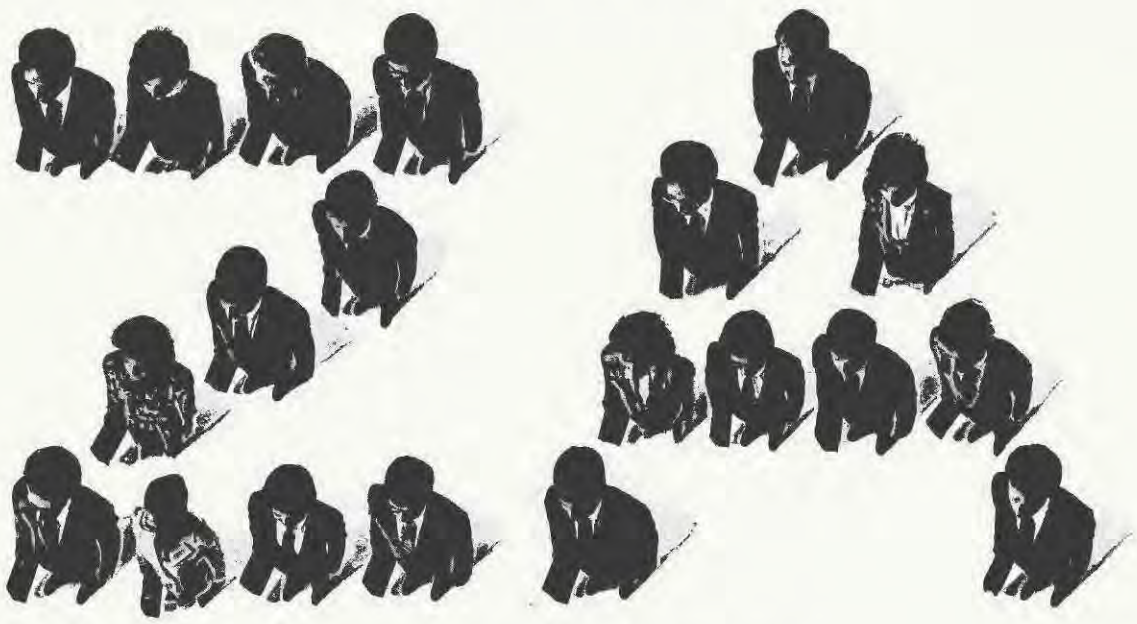

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New formations in Cayman cut in half

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—Hurricane Gilbert aside, the captive insurance company community in the Cayman Islands is in the midst of a quiet time.

The hurricane that swept over the Caribbean domicile last year wasn't enough to blow away the downturn in Cayman's captive growth created by the soft commercial property/casualty insurance market.

The Cayman Insurance Department issued only 29 new licenses to offshore insurers last year, down from 56 in 1987 and 63 in 1986.

By the end of February of this year, five more licenses had been granted, bringing the number of Cayman captives to 367, just six more than the 361 that were registered at the same time in 1988.

Among the 25 captives lost by Cayman over the past year were about six captives that moved to the United States to re-form as risk retention groups and a couple of companies that headed south to Barbados. The remainder either wound up their books of business or had their licenses revoked.

Cayman Insurance Superintendent Gilbert Connolly said last year's results were to be expected because of the soft insurance market in the United States and the fact that more domiciles now are actively wooing captive insurers.

"We had a reasonable year, given the environment with which we were faced—that is to say the competitive environment we found ourselves operating in," he remarked. "There are more domiciles both offshore and onshore getting into the captive business."

In addition, tax treaties that Barbados and Bermuda have negotiated with the United States—which exempt U.S. captives in those domiciles from paying the 4% excise tax on direct insurance premiums and 1% excise tax on reinsurance premiums paid to foreign insurers and reinsurers—have been instrumental in luring captives to those domiciles and away from Cayman, Mr. Connolly noted.

Barbados' treaty has been in effect since 1986, while the Bermuda treaty was ratified in October (*BI,* Nov. 7, 1988).

However, Barbados and Bermuda won't be able to dangle a tax carrot to captives much longer, Mr. Connolly added, pointing out that both treaties are scheduled to expire at the end of 1989.

"So, we're looking forward to the fact that we will be on par with Bermuda and Barbados again," he said, adding that some captives that may have formed in Bermuda or Barbados because of the tax treaties now may relocate to Cayman.

"I'm expecting '89 to be an improvement over '88," he remarked.

While the number of captive licenses issued in Cayman in 1988 dropped, Mr. Connolly said 1988 wasn't a total washout. "I think the fact that 29 quality captives came in '88 was evidence that people are still looking at Cayman and they still consider us to be a choice domicile."

Captives will continue to set up shop in Cayman because the reasons for forming a Cayman captive remain strong, he pointed out, referring to the stable political and social environment and the quality of the infrastructure of bankers, accountants, actuaries and legal professionals on the island.

And others agree that the elimination of the U.S. tax treaties with Bermuda and Barbados will level the captive playing field for Cayman and will persuade some insurers to stay in the domicile.

Timothy Ridley, an attorney with the law firm of Maples & Calder in Cayman, said the elimination of the premium tax break for captives in Bermuda and Barbados is significant.

If the exemption had continued, "I think some of the big direct carriers (Cayman captives) would have taken more active steps to move" to Bermuda or Barbados.

"We're pleased to see that the (tax) break will only have a very limited life," Mr. Ridley remarked.

The elimination of the tax treaties could help boost the number of captives on Cayman, agreed Bryan D. Murphy, president of International Risk Management (Cayman) Ltd.

"Cayman has had a difficult year on the captive side, and now it is

Cayman

emerging from that," he said, adding that a lot of the domicile's difficulties were created by the tax treaties.

Ian Kilpatrick, director of Johnson & Higgins (Cayman) Ltd., said: "I guess we're all sitting here rather smugly, happy that we didn't panic and seek a treaty because I think we're now all going to be on a level playing field. So we feel that we did the right thing in the end."

Although about a dozen captives have left Cayman in the past two years to re-form in the United States, Mr. Connolly and Cayman captive managers are relieved that there hasn't been a mad rush by Cayman captives to the mainland.

"It's much better than we had anticipated," Mr. Connolly said. "Many thought with the Risk Retention Act and the Tax Reform Act that we would have lost more."

The 1986 amendments to the Risk Retention Act broadened the types of groups that could set up risk retention groups in the United States, while the Tax Reform Act of 1986 took away some tax advantages of forming a group captive offshore.

Steven R. Butler, financial director for Insurance Management Services Ltd., said he believes fewer captives than expected left Cayman for the United States "because of the great number of regulations and rules that have to be followed by U.S. captives or risk retention groups in comparison to Cayman. We have a relatively simple insurance and corporate structure.

"It's so much easier to operate in an environment like Cayman, which is effectively regulated even though it is so much less onerous than all the domiciles in the states," Mr. Butler said.

David M.L. Roberts, managing director at International Underwriting Managers (Cayman) Ltd., pointed out that once captives are established in Cayman, "there have to be very, very strong motives to take them back onshore."

Cayman is an established domicile with an attractive insurance law that Mr. Roberts said will be in

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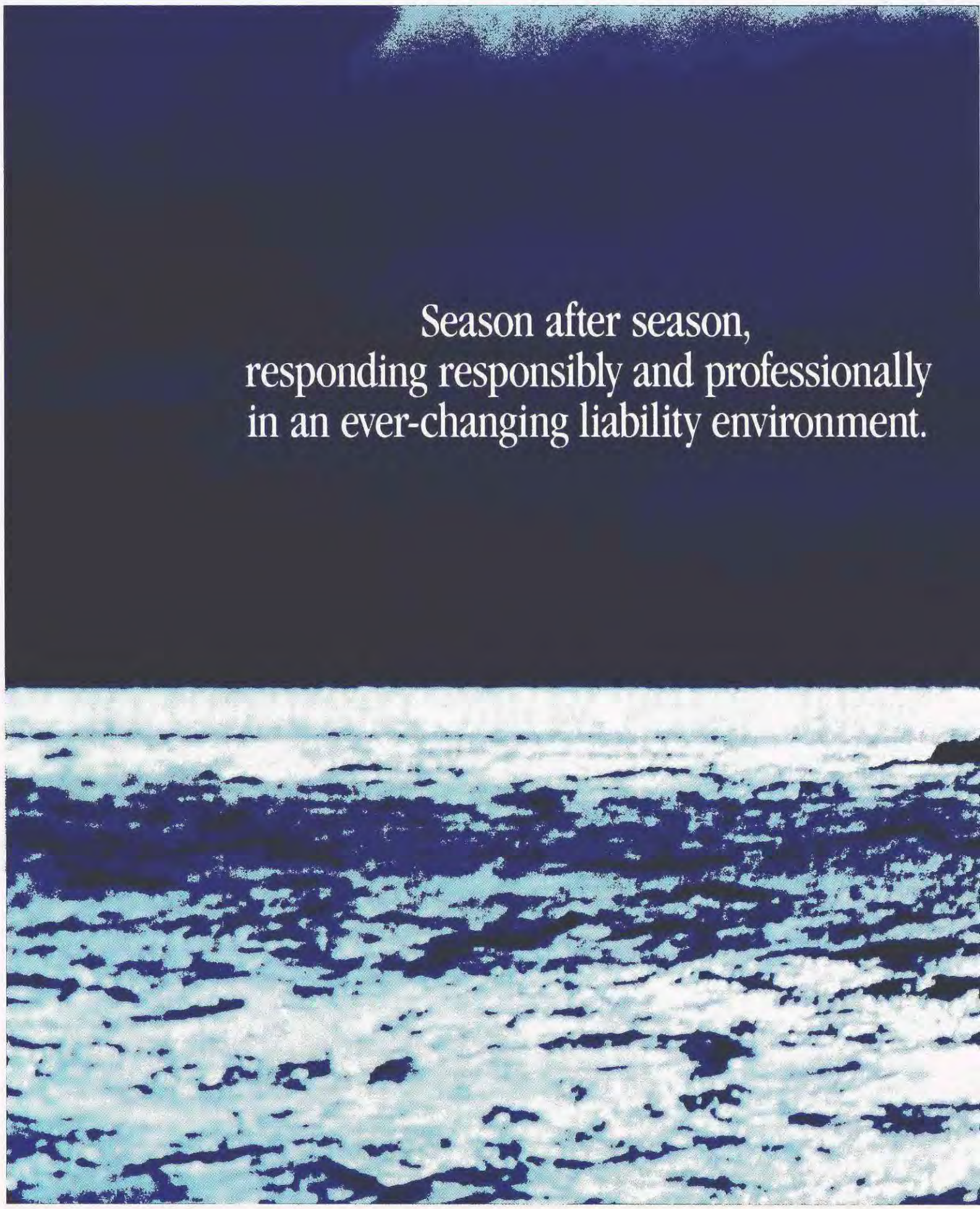

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place for many years. But the fickle nature of U.S. regulators makes it more of a gamble to establish a captive onshore.

"You aren't sure in the state. . .that (captive laws) won't be countermanded the next week by a change of policy in government and, suddenly, it seems not the right decision to have made," said Mr. Roberts.

He added that bureaucracy in Cayman is kept to a minimum, unlike in many U.S. domiciles.

And, "if the need is dire" to form a captive, "government can get into top gear" and supply the necessary approval quickly, Mr. Roberts noted.

Still, the number of captive domiciles in the U.S. continues to grow, and some professionals in Cayman point out that it is not easy competing with those locations.

Mr. Ridley said it is hard to compete with the cost savings that can be presented by a domicile on the mainland. However, he also pointed out that the regulatory scene is much different in the United States than in Cayman.

"It seems to me," he said, "that the state commissioners tend to see domestic captives even more like Trojan horses than offshore ones. And I get the impression. . .that the National Assn. of Insurance Commissioners is not particularly happy with risk retention groups and these enclaves within the U.S. where you can establish captives of one sort or another. Whether it means they've gotten comfortable with the offshore ones because they've been around for a lot longer, I don't know."

Mr. Murphy said U.S. domiciles, particularly Vermont, have hurt captive activity in Cayman.

"Although there hasn't been a tremendous flight of captives from Cayman, or indeed from any other location that I know of to Vermont, nevertheless more and more companies are looking at forming there, according to Mr. Murphy.

"I suppose that if enough investigate it, there's bound to be a percentage of them that are going to go back onshore," he said

Mr. Murphy said one of Cayman's advantages as a captive domicile is its sophisticated financial infrastructure. Often called "the Switzerland of the Caribbean," Cayman is home to more than 500 banks.

In fact, Mr. Murphy pointed out, "there may be a perception that, whereas Bermuda is fundamentally interested in captives, Cayman is fundamentally interested in banking. Now I think that's a black-and-white scenario and I don't think that it is true in either location. But, maybe from time to time, it may hurt Cayman."

Mr. Murphy said Cayman's banking industry is an advantage to companies that establish Cayman captives.

"I think the fact that companies have access to most of the major banking groups in the world here. . .is something that is in Cayman's favor," he said. Such an arrangement, he pointed out, allows the captive's owner to "mirror the banking arrangements" it has in the country in which it is based.

Mr. Murphy and other managers point out that the Cayman government has a keen interest in developing the island's captive insurance company industry.

They are quick to note that government's interest is apparent by the fact that Cayman Financial Secretary Thomas C. Jefferson will make a trip to this year's Risk & Insurance Management Society conference in Atlanta. It will be Mr. Jefferson's first trip to an annual RIMS gathering.

Mr. Connolly, who also is attending the RIMS meeting, said Mr. Jefferson will be present at the Cayman booth in the RIMS exhibition hall and will schedule meetings with potential captive clients.

In addition, Mr. Jefferson will host a cocktail party Tuesday.

Mr. Jefferson's trip to Atlanta "can be interpreted as part of government's commitment to the development of the insurance business," said Mr. Connolly.

The financial secretary and Mr. Connolly will be joined at RIMS by 10 Cayman captive managers.

In another promotional effort and a move to educate owners and managers of existing captives in the domicile, the Cayman Insurance Manager's Assn. is sponsoring the Cayman Island's Captive Insurance Conference, to be held May 24-26 at the Grand Pavilion Conference Centre on Grand Cayman.

The conference will feature Mr. Jefferson, Mr. Connolly and Mr. Ridley as speakers, along with a number of officials from the United States and Europe who work in the areas of risk management, insurance, insurance brokerage, accounting and consulting.

One of the conference speakers will be Lars-Goran Nilsson, managing director of Hansa Commercial & Industrial Insurance Co. Ltd. in Stockholm, Sweden. Mr. Connolly explained that Mr. Nilsson's presence on the agenda reflects Cayman's efforts to lure more captives from Scandinavia.

"For some time we've been talking about trying to attract more business from Scandinavia," said Mr. Connolly. "I'm planning to attend a seminar in Sweden specifically to generate more interest in our part of the world."

The superintendent said he will make the trip in early May.

Mr. Connolly noted that Scandinavian-based captives already operating in Cayman "continue to reconfirm their commitments to the Cayman Islands. They feel that other companies in that part of the world will be looking to Cayman."

He said Scandinavian business is particularly attractive because once a company from Scandinavia establishes a captive in Cayman, it is likely to keep the offshore insurer in place for the long term.

"They do not respond to as many influences to change domiciles," Mr. Connolly explained, unlike captives with U.S.-based owners that are tempted to close an offshore insurer when commercial insurance market conditions at home become attractive.

"Once they are established," he said of Scandinavian captives, "they have a longer life span."

Members of the Cayman captive community are bullish about the domicile's future, despite 1988's lackluster growth.

"I'm putting my neck on the line," said Mr. Connolly. "I'm projecting this year we should see about 35 new captives."

He based his projection on "a general feel of the market, the response and indications I've gotten from the local insurance managers regarding the number of inquiries that they've had and the possibilities in the pipeline."

Mr. Ridley said he believes the future of Cayman's captive industry will be "steady as she goes."

"It will be interesting when the next (tight) cycle arrives in the insurance industry," Mr. Ridley added. A hard market could be "an impetus to new captives being formed or extra business being put into captives down here."

"I'm, like everybody else, quite pleased to see that the thing is relatively stable here. We haven't had a mass exodus of insurance managers and that's good. And we haven't seen a mass exodus of clients, and indeed, a small net gain."

Mr. Kilpatrick of J&H said his outlook about the domicile's future is "very, very positive."

Cayman, he added, "is a domicile that is here now to stay." ■

Spotlight report

Cayman managers see premiums surge

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—Captives aren't flocking to the Cayman Islands as they have in years past, but that doesn't mean that the island's captive management companies have a lighter workload.

Despite the decline in the number of new captives incorporating in Cayman, some managers are staying busy because of big increases in the amount of premiums under management as existing captives write more business.

The number of captives in Cayman has jumped by just six in the past year to 367 from 361, but at the same time the island's 27 management companies have seen parent companies pump increasing amounts of premium into their captives.

The increase in existing business is partly responsible for a reshuffling of the ranks among Cayman captive managers.

The captives under the management of Johnson & Higgins (Cayman) Ltd. generated $250 million in 1988 premiums, $50 million more than in 1987. That increase was sufficient to propel J&H to the top spot among Cayman's management companies.

While J&H was adding premiums to its ledger, International Risk Management (Cayman) Ltd., formerly Transnational Ltd., was subtracting some numbers.

In the 10 years that followed the passage of the Cayman insurance law that allows the formation of

Cayman

captives in the domicile, Transnational—an affiliate of The Reiss Organization—held first place among Cayman managers in terms of premium volume under management.

Last year, Swiss Reinsurance Co. purchased 70% of The Reiss Organization, and most of the operating companies adopted the International Risk Management name.

After the ownership change, International Risk Management (Cayman) continued with a plan put in place by Transnational to decrease the amount of business written by Universal Insurance Co. of Ireland, which had been a Shannon-based subsidiary of United Insurance Co. United is owned by 26 shareholders, including International Risk Management.

United then sold Universal in June 1988 to QBE Insurance Group of Sydney, Australia.

Universal for several years had written treaty reinsurance and then retroceded that business to United. The arrangement provided United's captive insurance company shareholders with a controlled source of unrelated-risk business.

However, Transnational's management began decreasing the amount of business written by Universal because prices were expected to deteriorate as competition heated up (*BI*, April 18, 1988).

Without Universal, United generated only $110 million in premium last year, down from $275 million in 1987.

Bryan R. Murphy, president of International Risk Management (Cayman), said United now is writing only "purely captive-related stuff." Most of the business is casualty reinsurance written for captives owned by United's shareholders and for other captives managed by International Risk Management.

"United is no longer in any shape or form in the third-party reinsurance business," he said. "It's quite a significant change, although it's one that has been evolving over a period of time."

The decline in premium volume generated by United left International Risk Management with $230 million in premiums paid to 32 captives under its management in 1988. That is a 54% decrease from the $500 million in premiums Transnational managed in 1987 for 36 captives, including United.

When International Risk Management took over management of Transnational's captives, it also assumed management of Tortuga Casualty Co., a policyholder-owned excess liability insurance facility.

"Tortuga continues to do very well," Mr. Murphy said. The facility wrote $11.6 million in 1988 premiums, down from $13.5 million in 1987 and $20 million in 1986.

Tortuga writes general liability insurance limits of $25 million excess of a minimum layer of $25 million. It also offers a $25 million layer excess of $50 million.

A program under which Tortuga wrote $10 million in directors and officers liability insurance limits above at least $10 million in underlying coverage has been discontinued because D&O coverage has become increasingly available in the commercial insurance market.

Tortuga's premium volume has declined during the past two years because "people are beginning to retain more risk," Mr. Murphy explained. "If you look at the attachment-point profile of Tortuga, it is significantly above those minimums of $25 million and $50 million.

"We find that is one of the things that is very current in risk management thinking right now—that is, the major industrial companies are prepared to retain more risk," he said.

Mr. Murphy said, "One of the major reasons for keeping Tortuga in existence is to position it for the next turnaround in the U.S. liability market. It was formed during the last liability crisis and worked very effectively. While I wouldn't like to in any way diminish it's current usefulness, I think its shareholders have reasonably long memories and they can see why it would play an even more important role when the next turnaround takes place, whenever that is."

He noted that International Risk Management is trying to make Tortuga more attractive to potential shareholders by restructuring its reinsurance coverage in order to minimize the possibility that shareholders could face an assessment to pay losses.

While he would not elaborate on the restructuring, Mr. Murphy did say: "Over the years, we have tended to increase the external reinsurance support" from commercial reinsurers.

Mr. Murphy said he doesn't expect the number of insurers under International Risk Management's wing to rise dramatically this year. "In Cayman, I would think that our captive count would be much the same as it has been. There may be a few additions, but I wouldn't say

Continued on next page

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Continued from previous page
that there is going to be a major inflow," he said.

"We would be more optimistic on an ongoing basis," he added.

In its move to the top spot from the second position, J&H ended 1988 with 59 captives under its management, six more than the 53 it managed at the end of 1987.

The increase in number of clients and premium volume under management reverses a two-year skid at the J&H Cayman subsidiary.

Ian Kilpatrick, director of the J&H office in Cayman, explained that the $50 million increase in premium volume came primarily from captives already in place.

"That was the really good thing," he said. "Existing business increased; a lot more premiums went into the companies."

The premium jump from captives managed by J&H comes despite the soft market in the United States that can pull parent companies back to commercial insurers and away from their captives.

"We manage a considerable number of malpractice captives and because malpractice captives' premiums are always actuarially determined based on anticipated losses, the soft market really doesn't have the play that it would have with somebody starting up a captive," Mr. Kilpatrick explained.

"If you go back to the basics—a captive is to take out the peaks and valleys of premium payments—if the owners of captives realize that, then when the market gets soft they're not going to jump out of a captive, go back to the market and then come back," said Mr. Kilpatrick. Instead, he added, parent companies will accept slightly higher premiums paid to the captive in return for a more predictable insurance program.

J&H continues to manage an insurer formed during the hard market of 1985 to write reinsurance for insurance companies that write too much premium in proportion to their surplus. However, the surplus relief captive wrote only $50 million in premiums during last year's soft market, down 28.5% from $70 million the previous year.

The insurer, which its managers will not identify, saw its boom years in 1985, when it wrote $200 million in premium volume, and in 1986, when it generated $125 million.

Mr. Kilpatrick said the insurer remains active and now is writing other types of reinsurance and developing a "more rounded book of business."

The six new captives J&H helped form last year include three that write malpractice coverage for hospitals in Boston, Philadelphia and Grand Rapids, Mich.; two that write workers compensation, general liability and other casualty lines for firms based in Florida and Wisconsin; and an agency-owned insurer that writes contractors' bonds and asbestos abatement coverages.

Mr. Kilpatrick pointed out that Cayman has garnered a reputation as home for a number of malpractice captives and J&H is concentrating on luring more of those kinds of captives into its fold.

J&H's New York-based parent has formed a joint marketing committee with the aim of directing captive clients to the domicile best-suited for their operations, Mr. Kilpatrick explained.

For example, he noted, a client forming a captive to write construction risks might be directed to Vermont, where J&H personnel are well-versed in that specialty.

"We've been designated the malpractice area," Mr. Kilpatrick said of the Cayman office.

The 27 malpractice captives already under management means the J&H Cayman office is "extremely familiar" with such captives, he added. In addition, the infrastructure of government and professional services in the domicile is well-suited for malpractice insurers, Mr. Kilpatrick noted.

Because J&H manages so many malpractice captives, it is studying the possibility of creating an excess medical malpractice insurer that would be owned by the captives, according to Mr. Kilpatrick.

"We're in our very early stages of thinking on this," he said, "but I've just produced a schematic of all of the retentions malpractice captives are taking, and the problem is. . .everybody is taking different retentions so that it would be a question of where could you slot in an excess carrier that might benefit everybody.

"We haven't made any decision yet and that would be looked at over the next few months."

The island's third-largest manager, Midland Bank Trust Corp. (Cayman) Ltd., retains its ranking after helping form five new captives in 1988. Premium volume under management rose by about $5 million last year to an estimated $155 million.

Midland has recorded steady growth in recent years, and last year the bustling subsidiary of Midland Bank of London moved across town to the top two floors of a new building. The move gives the management company 10,000 square feet of office space, compared with the 4,000 square feet it occupied at its former site.

Midland Director Anthony B. Stelling pointed out that three captives "wound up or moved on" last year, leaving a net gain of two for the manager. Midland ended the year with 67 captives under management.

"Given the market, that was not too bad," Mr. Stelling said of Midland's 1988 performance.

In this year's first quarter, Midland has licensed three more captives, according to Mr. Stelling. "Three in the first quarter, I think, is very good going indeed."

Midland has helped form two captives in the past year that have South American owners, an encouraging development, Mr. Stelling said.

"We're gradually getting a slightly better spread" of business, he remarked, instead of relying solely on U.S.-source business.

The South American-owned captives do not write liability insurance, like most of the other captives managed by Midland, said Mr. Stelling.

Like J&H, the management company occupying the fourth spot among the island's largest managers moved up because of a big increase in existing captives' business.

While the number of captives managed by Insurance Management Services Ltd. remains at 15 from 1987, those insurers wrote $71 million in premiums in 1988, up 153.6% from $28 million the year before.

"That's substantially higher than we anticipated," said IMS Financial Director Steven R. Butler.

The increased volume moved IMS into the fourth spot among the island's largest managers from the sixth position a year ago.

Mr. Butler explained that the premium increase comes from Chandler Insurance Co. Ltd., a captive set up originally as an agency-owned insurer that primarily reinsured a book of trucking liability business ceded by National American Insurance Co. of Omaha, Neb.

Chandler went public in 1987, and its shares can be purchased in the United States on the over-the-counter market.

Chandler wrote $18.5 million in 1987 premiums, but that figure

Continued on next page

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Cayman managers

Continued from previous page
zoomed to $64 million last year after the insurer purchased National American.

Mr. Butler explained that the purchase of National American gives Chandler its own fronting company that is licensed in 48 states.

"With that ability to write and not have to rely on outside fronts, we've been able to process business more quickly," he said.

In addition, the amount of surety bond business and short-haul trucking liability business written by Chandler has "increased substantially," said Mr. Butler.

"And we're continuing to diversify into different areas, although at the same time ensuring that the underwriting controls and standards are kept very high," he added.

IMS is seeing increasing interest in the formation of new captives, according to Mr. Butler.

A new captive writing automobile excess liability coverage for taxi companies in Colorado and Virginia was licensed this year and is expected to generate about $600,000 in annual premiums.

Largest Cayman captive managers

Manager / Parent	Premium volume 1988	Premium volume 1987	Captives 1988	Captives 1987	Staff 1988	Staff 1987
Johnson & Higgins (Cayman) Ltd. Johnson & Higgins	$250 million	$200 million	59	53	21	21
International Risk Management (Cayman) Ltd.[1] Swiss Reinsurance Co.	230 million	500 million	32	36	27	26
Midland Bank & Trust Corp. (Cayman) Ltd. Midland Bank of London	155 million[2]	150 million[2]	67	65	31	30
Insurance Management Services Ltd.	71 million	28 million	15	15	6	6
Mutual Risk Management (Cayman) Ltd. Mutual Risk Management Ltd.	57 million	32 million	25	16	3	3
Marsh & McLennan (Cayman Islands) Ltd. Marsh & McLennan Inc.	40 million	40 million	30	30	5	5
Cayside Insurance Management Ltd.[3]	26.6 million	20 million	16	14	3	3
British-American Management (Cayman) Ltd. British-American Insurance Co. Ltd.	26.3 million	21 million	1	1	3	3
Aberdeen Insurance Managers	26 million	23 million	12	12	6	6
Insurance Services International Ltd. INTEX Management Co. Ltd.	20 million	5 million	7	6	3	3

[1]Formerly Transnational Ltd. [2]Estimate [3]Formerly BPC Underwriting Managers Ltd. Chart: Christine Woolsey

In addition, IMS is putting together another auto liability captive and a captive that will write directors and officers liability coverage for geotechnical engineering firms in California, said Mr. Butler.

Adding two captives each year is a "rate of growth that's quite comfortable for us," said Mr. Butler. "We wouldn't want to go and get 10 new captives at one time because it would affect the service we offer our other captives."

Mutual Risk Management (Cayman) Ltd. watched its premium volume under management jump 78% to $57 million last year from $32 million in 1987 after adding to its fold nine captives that were being managed under a subcontracting arrangement.

Mutual Risk Management had managed the captives for Homeland Insurance Management (Cayman) Ltd. But Homeland abandoned its management operations after experiencing problems securing fronting services from U.S. insurers and last year turned its captives over to Mutual Risk Management.

Mutual Risk Management maintains its ranking as the fifth-largest Cayman manager.

Peter MacKay, Mutual Risk Management director and general manager, said the soft property/casualty insurance market in the United States put a damper on the formation of new captives last year.

"A lot of potential business came to nothing," he remarked, including plans to structure a captive that would write excess liability insurance. Rates for the coverage in the United States "just went down and down and down," Mr. MacKay noted, until there was no need to form the insurer.

But things are looking up for the formation of new companies during 1989, he added.

Mutual Risk Management expects soon to complete the formation of two medical malpractice captives, and Mr. KcKay notes that "there are certainly more inquiries coming in than there have been in a while."

The management company is owned by Mutual Risk Management Ltd. in Bermuda.

Marsh & McLennan (Cayman Islands) Ltd. fell from the fourth position to No. 6 among the largest Cayman managers.

The subsidiary of broker Marsh & McLennan Inc. continues to manage 30 captives that produce $40 million in premiums, the same as in 1987.

Chris Jackson, who heads the M&M office in Cayman, said two new companies were licensed last year, but two M&M clients switched to other managers on the island.

The new captives write excess medical malpractice insurance for hospitals, according to Mr. Jackson, who added that medical malpractice has become a specialty for the Cayman M&M office.

While 1988 was quiet, business appears to be picking up for M&M, said Mr. Jackson. "We've had a little flurry of inquiries."

"I think there's a degree of optimism that we're all going to get back on a level playing," he said, referring to the expiration of U.S. tax treaties with Bermuda and Barbados at the end of this year (see story, page 62).

"We've just got to promote the fact that we've been here 10 years and the infrastructure has gotten better," said Mr. Jackson. "We've got to put out the message that this is a good place to do business."

A $6.6 million boost in premium volume under management catapulted Cayside Insurance Management Ltd., formerly BPC Underwriting Managers Ltd., into the seventh spot among Cayman managers.

At the end of 1988, Cayside was managing 16 captives that produced $26.6 million in premiums, compared with 14 captives with $20 million in premium volume in 1987.

The management company was owned by Beaver Pacific Corp. in

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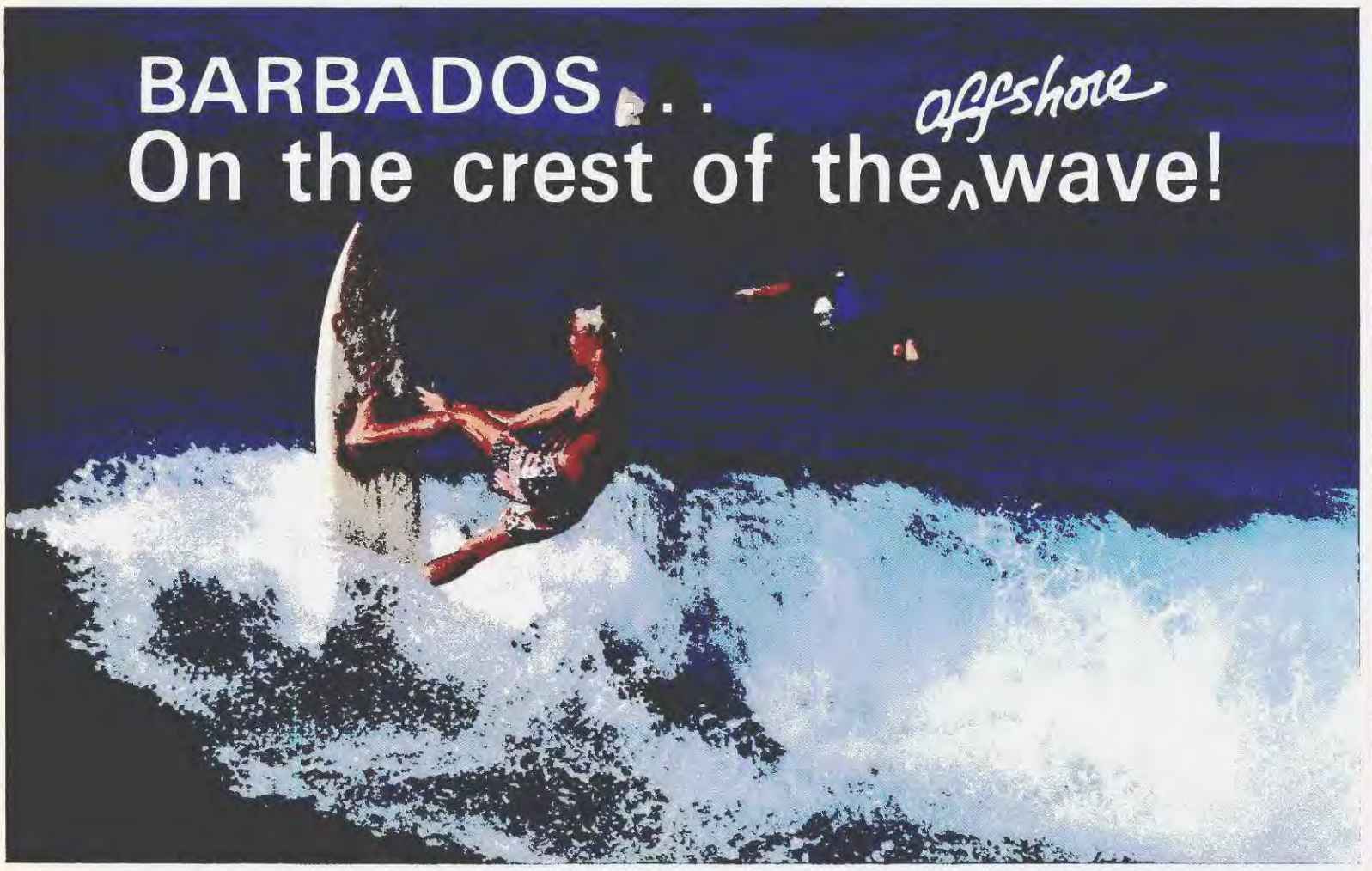

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Continued from previous page

San Francisco until Managing Director John Smith and Partner Bill Rewalt completed a buyout of the company last year.

Mr. Smith said that Beaver still serves as a marketing arm for the management company.

"If they're going to do any more captives that require Cayman as a domicile, they will probably consider us first," he said.

Cayside took on four captives that transferred from other Cayman management companies and formed one new insurer last year. Three of the captives it managed surrendered licenses.

The new captive has a Swedish parent and writes coverage that guarantees automobile buyers a certain resale value for their cars. The insurer will begin writing this year and is expected to generate between $2 million and $3 million in annual premiums, Mr. Smith said.

British-American Management (Cayman) Ltd. saw premiums written by the one captive it manages increase to $26.3 million in 1988, up from $21 million in 1987.

The increase pushes British-American to the eighth spot among Cayman management companies, up from the ninth position the year before.

British-American Vp Michael Anderson said the captive, which writes D&O and errors and omissions insurance for health maintenance organizations, increased its premium volume by raising rates for the second consecutive year.

But, he pointed out, this may be the last year the captive will operate. "Maybe around the end of the year, they will terminate," he said.

"It doesn't seem to matter how much you increase premiums, losses seem to exceed them," Mr. Anderson said of the captive's business. He also mentioned that regulators in Michigan, where the insurer's parent is based, do not view the captive's operations favorably.

If the captive is shut down, British-American will continue to operate its brokerage operation in Cayman. But British-American doesn't plan to actively seek new captive clients in the domicile, according to Mr. Anderson.

Premium volume managed by Aberdeen Insurance Managers grew by $3 million to $26 million in 1988. The company managed 12 captives last year, the same as in 1987, but has two new captives under its wing already this year.

Rossiter Blumentritt, Aberdeen's director, explained that one of the new insurers writes municipal liability coverage and is owned by an insurance company in the southern United States. That insurer expects to write annual premiums of $500,000 to $1 million.

The other captive is gearing up to write workers compensation, general liability and malpractice coverage for nursing homes in Mississippi, Tennessee, Texas and Colorado.

Mr. Blumentritt said he expects to see the number of captives under Aberdeen's management increase. "I see continued growth," he remarked, especially among companies set up for "entrepreneurial" reasons.

"I find that captives being formed now seem to be a bit more entrepreneurial in nature," said Mr. Blumentritt. For example, he pointed out, he has reviewed a prospectus by a group of Philadelphia lawyers who intend to set up a reinsurer on Cayman.

"Those folks don't have any existing business to put in," Mr. Blumentritt explained, but are viewing the formation of the company as a sound business opportunity with long-term growth potential.

Insurance Services International Ltd. has cracked the ranks of the 10 largest Cayman management companies after premiums under management reached $20 million in 1988, up from $5 million the prior year.

Now the 10th-largest manager in Cayman, Insurance Services International managed seven captives at the end of 1988 and currently handles eight insurers.

Absit Insurance Management Ltd. continues to manage 11 captives that write an estimated $15 million in annual premiums, unchanged since the end of 1987.

"We haven't been very active in the captive field," said Roger Corbin, Absit's president. "We've had our hands full in the domestic market." ■

CSI hands Cayman work to new firm

By MICHAEL BRADFORD

Cayman

GRAND CAYMAN, B.W.I.—One veteran captive management company in Cayman no longer has a separate presence on the island and has drastically scaled back its operations.

In April 1988, CSI International Underwriting (Cayman) Ltd. closed its Cayman office and turned over management of its captives to International Underwriting Managers Ltd., one of the newer entities among the domicile's captive management community.

CSI, formed in 1982, specialized in managing captives that write workers compensation coverage for California-based risks.

CSI managed 19 captives that generated premiums of $21 million in 1987, which ranked CSI eighth among Cayman captive managers that year.

But the management company's parent, Pacific Compensation Capital Corp. of San Bruno, Calif., has since liquidated nine of the captives. During 1988, CSI-managed captives produced only $8 million in premiums.

David Roberts, managing director at International Underwriting, noted that "Pacific Compensation has

Continued on next page

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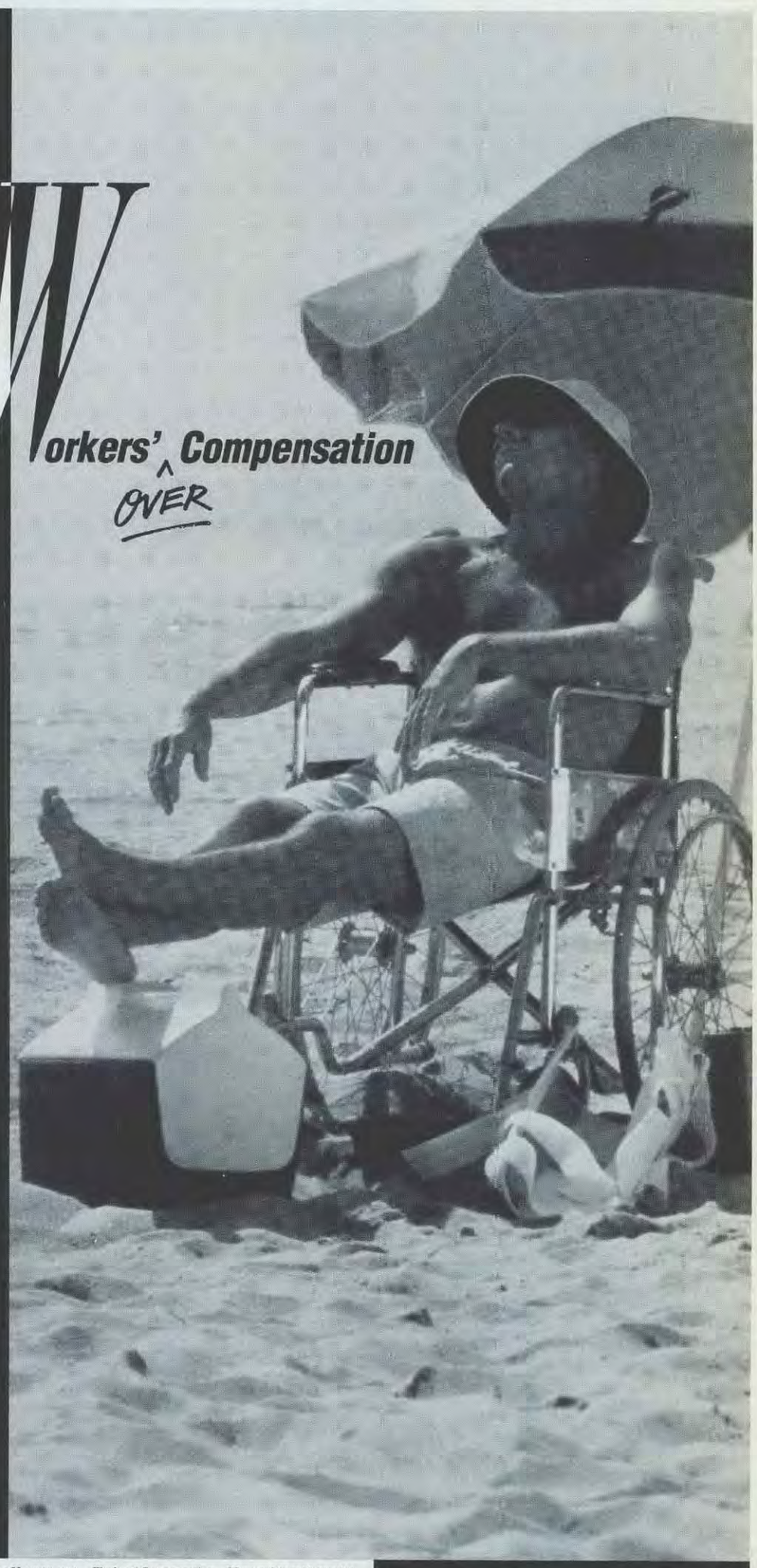

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CSI International

Continued from previous page
basically done this in support of their client base. They in the past have developed very quickly as a workers comp company on the fact that they gave very personal and specialized service to the marketplace in California."

Five of the captives still in operation are "reviewing their positions" with regard to whether they will continue as Cayman-based captives, according to Mr. Roberts. Some of the ongoing captives "are extremely successful. There are others that are not so successful, and obviously they would look to see whether they would be better served" by dismantling and purchasing coverage from commercial insurers in California, he said. The remaining five are inactive.

While CSI is downsizing, International Underwriting is growing.

Mr. Roberts noted that apart from the CSI captives it handles on a subcontracting basis, International Underwriting now has five captives under management, two more than a year ago.

All the captives managed by International Underwriting write less than $500,000 in annual premium volume, but Mr. Roberts expects one captive licensed last year that writes "asbestos abatement-related covers," including performance bonds, to grow substantially.

Mr. Roberts said he also expects a captive licensed this year to write extended warranty coverages for household appliances to grow.

Delta Management Corp., another of the island's smaller managers, added one captive to its management roster in 1988, but saw premium volume under management drop by $500,000.

The company finished 1988 with five captives under management that wrote $3 million in premiums, compared with four insurers that wrote $3.5 million in 1987.

Managing Director Costas Takkas said his firm's largest client, Toy Alliance Insurance Ltd., did not perform as expected last year. The captive offers $1 million in primary product liability insurance to members of the Toy Manufacturers of America Inc.

"To be honest, we did expect it to do a lot better than it has been doing," Mr. Takkas said of the captive. "Primarily, that has been caused by the soft market in the United States. Also, there are a number of manufacturers probably sitting on the sidelines" watching how the captive matures.

Toy Alliance wrote about $500,000 in premiums in the past year, said Mr. Takkas.

A captive Delta took over in 1987 from Johnson & Higgins (Cayman) Ltd. is now up and running.

"Before we took it over, it really wasn't writing any business at all," Mr. Takkas explained. "However, now we're helping the owner put together a project we call border truck liability."

The captive, he said, will write "various insurances needed for trucks to cross the American-Mexican border." The insurer is expected to write premiums of around $2 million for Texas-based risks and could write another $4 million for Arizona-based businesses, according to Mr. Takkas.

Delta has also put together ReCo Ltd., a rent-a-captive program it has capitalized at $3 million. The insurer has accepted business from taxi cab and day-care provider associations and "we obviously expect to have a number of other projects going throughout the year," said Mr. Takkas. ■

Cayman fees for captives unchanged

GRAND CAYMAN, B.W.I.—Capitalization requirements and licensing fees for captives forming in the Cayman Islands are unchanged from last year.

Cayman captives holding a Class B license and writing general property/casualty insurance business are required to capitalize at a minimum of $120,000 under the Insurance Law of 1979. A Class B license is the type generally issued to captives in the domicile.

Companies writing long-term business such as life insurance must start with at least $240,000 in capital, and captives that write both types of business are required to capitalize with $360,000.

An annual fee of $5,487 is also required of captives.

There are no restrictions on how a captive must invest its capital, but the island's Insurance Department does monitor investments and is free to register disapproval with the captive if investments appear unsound.

The insurance law requires captives domiciled in Cayman to initially maintain a net premium-to-surplus ratio of no higher than 3-to-1. After a company is established, the ratio can be no more than 5-to-1.

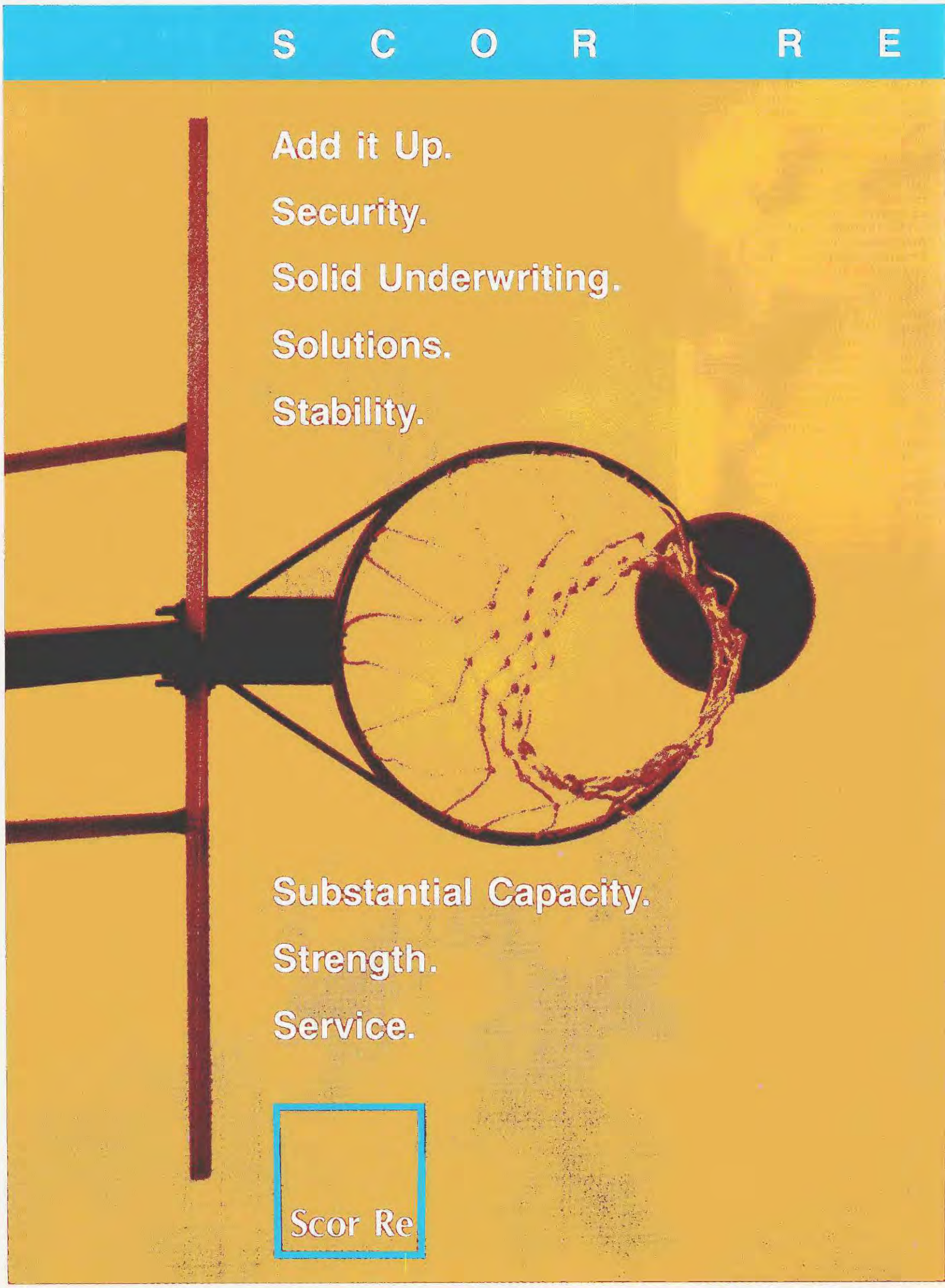
An audited financial statement must be submitted six months after the close of the insurer's fiscal year. The captive manager or an auditor must provide a certificate of compliance that indicates the insurer has adhered to its business plan.

Cayman captives pay no local taxes.

By law, each captive must have a manager on the island. Captive managers pay an annual licensing fee of $9,000.

More information on Cayman as a captive domicile is available from Insurance Superintendent Gilbert Connolly, Department of Finance and Development, Administration Building, Grand Cayman, British West Indies; 809-949-7900.

—By Michael Bradford



Cayman's new regulator embraces post

Cayman

GRAND CAYMAN, B.W.I.—Gilbert Connolly is living up to his promise of "business as usual" after taking the reins as Cayman Islands superintendent of insurance.

Mr. Connolly took over as Cayman's insurance regulator after the departure of former Superintendent Peter Bates last August. Mr. Bates had served in the post since 1984. Since leaving Cayman, he has taken a position with Arab Reinsurance Group in Bahrain.

Unlike Mr. Bates, Mr. Connolly is working without a contract. He describes himself as a "pensionable, full-time, career civil servant. I see it as a continuation of my career in government. Hopefully, I will be at this post for a number of years."

Mr. Connolly, a Cayman native, trained under Mr. Bates for 1½ years before moving into the superintendent's chair.

When Mr. Connolly took over last year, he praised the regulatory foundation built by Mr. Bates, and said he did not plan to change the regulation of Cayman captives or their managers.

He pointed out that the months since he moved into the superintendent's office have passed swiftly.

"I've been in office since the first of August and it seems like only yesterday," said Mr. Connolly. "It's been very hectic.

"The volume of work certainly surprised me," he said. "Even when I was sitting here with Peter, I didn't realize there was so much work."

Another Gilbert—Hurricane Gilbert, which swept over the island in September—had a big hand in increasing Mr. Connolly's workload. The high winds caused heavy personal property damage and the superintendent's office stepped in to help insurers process claims.

"We had an unusually large number of claims being processed," he noted. "My office became involved and assisted policyholders with claims settlements . . . .If someone had a problem with an insurer, if there was a dispute of some kind, we tried to assist them to be sure it was amiably settled."

Mr. Connolly said captive managers on the island have received him warmly as their new regulator. "Everyone has been very helpful."

Cayman's captive managers, in turn, have good things to say about Mr. Connolly.

"Gilbert has settled in very well," said Chris Jackson, who heads Marsh & McLennan (Cayman Islands) Ltd. "He's made it quite clear that things are not going to change."

Steven R. Butler, financial director at Insurance Management Services Ltd., praised the superintendent, noting "he's showing himself to be quite capable."

And David Roberts, managing director of International Underwriting Managers (Cayman) Ltd., said that "the coming of Gilbert Connolly as superintendent is something everybody will look on as very positive. It's good to have some Cayman blood heading up the insurance department."

—By Michael Bradford

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Bahamas

Continued from previous page
for International Insurance—a group of approximately 30 accountants, attorneys, bankers, insurers and government officials—is planning a September conference in Miami to encourage captive managers and insurance buyers to consider the island as a domicile, Mr. Cross noted.

Until the late 1960s, the Bahamas was the pre-eminent domicile for offshore insurers, boasting about 200 captive insurance companies.

However, captives abandoned the domicile for Bermuda in the 1970s, following passage of legislation in 1969 that regulated Bahamian insurers but failed to exempt captive insurers writing only foreign risks.

Captives misinterpreted portions of the Insurance Act of 1969 and feared that the legislation would wipe out the confidentiality rules in the old Bahamas law, observers noted.

The 1969 law called for certain financial statements to be published, but the act failed at first to specify that captive insurers were exempt from that portion of the legislation, which was intended to apply only to local insurance companies.

Others in the domicile note that the law's requirement that local insurers pay a premium tax was interpreted by some observers to apply to captive insurers, although it was never collected from those insurers.

By the time language in the Bahamas insurance statute was straightened out, most captives had abandoned the islands for other domiciles, primarily Bermuda.

'The infrastructure is being strengthened,' says Judy A. Higgs, president and chief executive officer of British-American Management Co. Ltd. 'If we (captive managers) don't have competitors here, the captive business won't grow.'

Today, captives can be established in the Bahamas under two laws: The Insurance Act of 1969 or the External Insurance Act of 1983 (see related story).

While observers in the Bahamas acknowledge that they probably never will win back the number of captive insurers they lost, captive managers are showing some interest in doing business in the Bahamas.

"The infrastructure is being strengthened," British-American's Ms. Higgs said. "If we (captive managers) don't have competitors here, the captive business won't grow."

Three new captive management companies have set up shop in the Bahamas, while one captive manager is no longer registered, bringing the number of managers in the islands to five.

British-American, Embassy Insurance Management Ltd. and Paramount Insurance Brokers & Agents Ltd. operated in the Bahamas in 1987.

However, Paramount is no longer registered as a captive manager, according to Ms. Johnson. Captive Managers' Mr. Donaldson, who previously served as president of Paramount, said that two of the captives that Paramount had managed now are being managed by Captive Managers.

The other two new captive managers in the Bahamas are First Managers Ltd. and Premier Captive Management. Neither manager could be reached for comment.

British-American manages 11 captives, unchanged from 1987. Three of British-American's captives are owned by European parents and the remainder are owned by U.S. companies.

The captives managed by British-American generated gross premium volume of $27 million in 1988.

Captive Managers manages four captives, which produced total gross premiums of about $17.5 million in 1988, Mr. Donaldson said, adding that premiums should be higher in 1989. One of the captives is owned by a European parent while the other three are owned by U.S. companies.

Embassy officials were unavailable for comment.

Mr. Clayson noted that another captive manager is considering coming to the island.

Also, a local insurance brokerage —J.S. Johnson & Co. Ltd.—has been licensed as a management company for several years but is not actively seeking captive clients.

"We're hungry for the business (so captives are) going to get priority attention," summed up Ms. Higgs.

The captive insurance business in the Bahamas "isn't a fly-by-night operation—it's a regulated operation," pointed out Mr. Donaldson. "That, too, is a plus." ■

Two laws applicable in Bahamas

NASSAU, Bahamas—Captives incorporating in the Bahamas are subject one of two laws: the Insurance Act of 1969 and the External Insurance Act of 1983.

And, although there still is talk of combining the two laws into one, they will not be changed this year, said Richard Clayson, insurance adviser to the Bahamian government.

The 1969 law applies to both captives and local insurers, whereas the 1983 legislation specifically deals with captives and management companies.

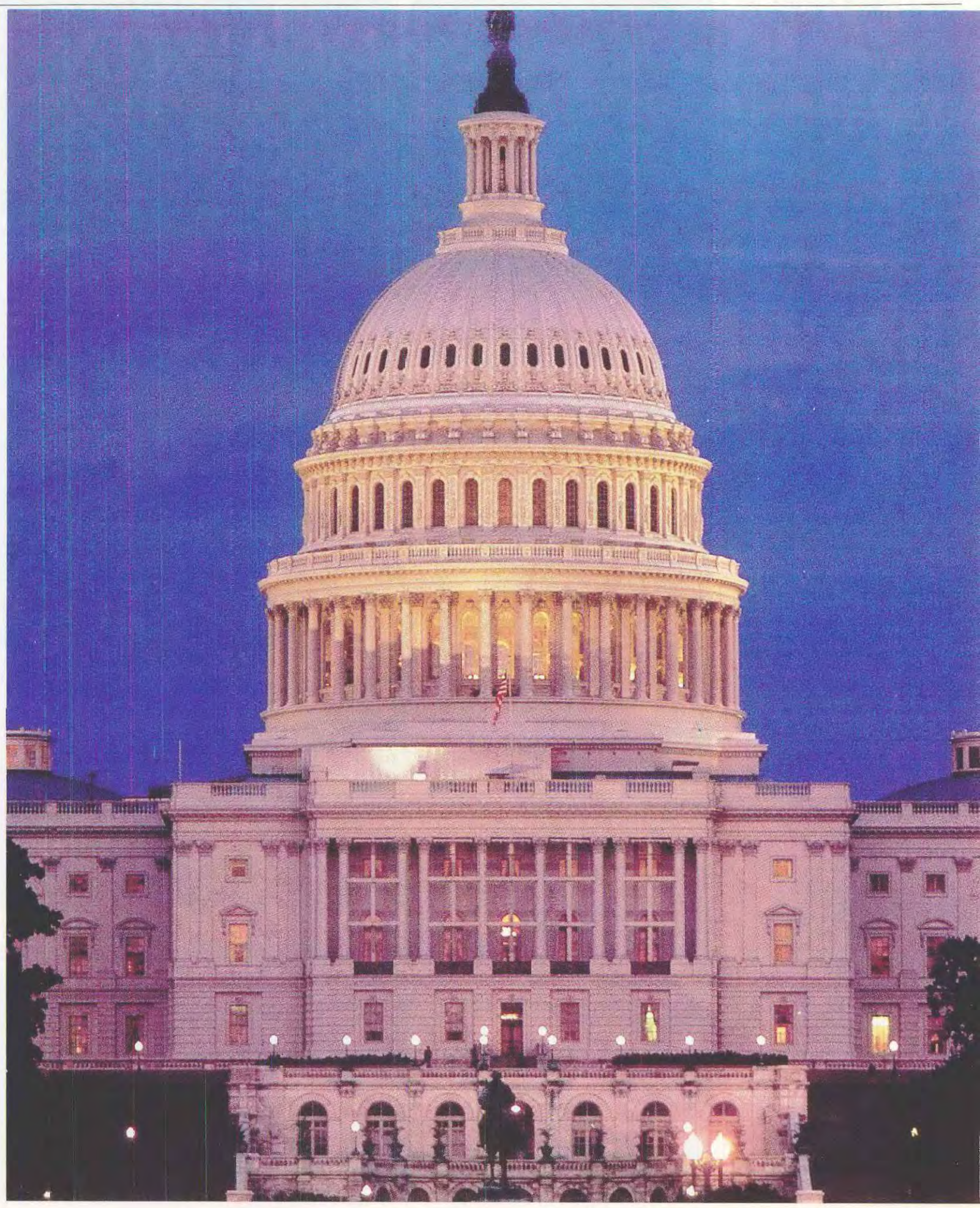
Under the 1969 law, applicants pay a $1,000 registration fee, while the fee under the 1983 law is only $25.

The 1983 act, however, requires an annual $2,500 fee for insurers and $650 for underwriting managers.

Minimum capitalization requirements under the 1969 law are $140,000 for non-life companies and $300,000 for life companies. Minimum capitalization requirements under the 1983 law are $100,000 for non-life companies and $200,000 for life companies.

Captives forming in the Bahamas pay no premium taxes. They are required to submit financial reports annually.

More information on forming a captive in the Bahamas is available from Mr. Clayson or Octavia Johnson, Registrar of Insurance, at the Insurance Department, Ministry of Finance, Rawson Square, Nassau, N.P., The Bahamas; 809-328-1068.



Turks & Caicos expects to pass new law

By DEBORAH SHALOWITZ

Turks & Caicos

TURKS & CAICOS, B.W.I.—Although the Turks & Caicos captive insurance industry still is stymied because the islands do not have a permanent insurance supervisor or a law regulating captives, experts are optimistic that the captive environment will improve after a new insurance law is enacted this year.

The new law for regulating insurers is expected to be passed later this month, said Ian Lamb, attorney general for Turks & Caicos.

Although the new insurance statute will not specifically address captive insurers, additional legislation or regulations pertaining to captives probably will follow, he said.

And, after enactment of the law, a permanent insurance supervisor is expected to be hired.

The Caribbean domicile has not had an insurance regulator since Chief Minister Norman Saunders was indicted in 1985 on drug trafficking charges (*BI*, April 15, 1985).

The previous ordinance governing incorporation of offshore companies, which expired in 1984, treated captives as standard tax-exempt companies and imposed few restrictions. As a result, the government does not have a record of how many captives are licensed in Turks & Caicos.

However, the new law will require all current and future insurance companies, managers, brokers and agents to be licensed.

The purpose of the new insurance law is to supply the Turks & Caicos government with "enough information to enable us to prevent anybody anywhere from being defrauded," Mr. Lamb said. "This legislation is a first step."

Future regulations specifically geared to captives probably will not impose strict controls on captives but may require captives to submit annual audited financial statements, Mr. Lamb speculated.

And, if minimum capital requirements for captives are established, they probably would be lower than those of other offshore domiciles, he predicted.

"It's very difficult to say" whether the new law will attract new captives, Mr. Lamb said. "Some people will be frightened off—but they're probably the people we want to frighten off."

"We'll probably retain the business (we have) and build on it," Mr. Lamb concluded.

"The immediate effect (of the legislation) will be. . .a decline in the number of insurance companies," because some companies currently operating in Turks & Caicos "might not stand up to the kind of scrutiny that the law and the regulations will entail," predicted Ariel Misick, a

Continued on next page

Virgin Islands captive law to be revised

By MICHAEL BRADFORD

Virgin Islands

ST. THOMAS, U.S. Virgin Islands —A final draft of revisions designed to simplify the U.S. Virgin Islands' captive law is expected to be considered by the territory's legislators this summer.

Deverita Sturdivant, director of the Virgin Islands Department of Banking and Insurance, said her office has received a first draft of the amendments to the territory's captive law, which has been blamed for stunting captive growth in the domicile. John Sarchio, a New York attorney with Hughes, Hubbard & Reed, was retained to write the revisions.

"We're assuming by June we'll have something finalized," said Ms. Sturdivant.

The Virgin Islands Exempt Insurance Act was passed in 1984 to take advantage of a 1983 U.S. Labor Department ruling that defines the territory as a "state" under the Employee Retirement Income Security Act. Because ERISA does not allow employee benefits for U.S. workers to be funded through captives in non-U.S. domiciles, the ruling set the stage for U.S. companies to locate insurers in the islands to write group insurance.

But only eight captives have formed under the law and just four management companies are licensed in the domicile. Those figures are unchanged from last year.

The islands' complex insurance law has been blamed for this lack of growth. The revisions are intended to make the statute "somewhat more simplistic," said Ms. Sturdivant.

She said that although the first draft of the revised law does not clarify the differences in Class A and Class B licenses issued to captives, the final form of the legislation is expected to change that language.

Under the current statute, the advantages of either license are unclear, although a Class A license costs $6,000 and a Class B license $3,000.

Exempt insurers writing general business such as property/casualty coverages must maintain at least $120,000 in capital. Those writing long-term business such as life, accident and health insurance must maintain a minimum of $200,000 in capital. An insurer writing both kinds of coverage is required to have capital of at least $320,000.

There have been no changes in fees or licensing requirements in the domicile in the past year.

Captives must maintain loss reserves equal to the amount required in the jurisdiction where the risk is located. If that cannot be determined, New York requirements apply.

The law also calls for captives writing general business to maintain surplus equal to at least 8.5% of earned premiums. Companies writing long-term business are required to keep assets that exceed liabilities by at least $200,000 and an insurer writing both kinds of business must meet both solvency requirements.

A 2% tax on gross premiums written on direct U.S. risks and 0.25% on reinsurance of U.S. risks not subject to federal excise tax are levied on exempt insurers. There are no local premium taxes on direct or reinsurance business if a federal excise tax applies.

An exempt insurer must file within six months after the end of its fiscal year a balance sheet, an income statement and information showing that the reserve requirements and solvency margins are being met.

Continued on next page

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New tax laws solidify Guernsey's ranking

By CAROLYN ALDRED

Guernsey

ST. PETER PORT, Guernsey—Recent tax law changes will secure Guernsey's position as Europe's leading captive domicile, captive insurance company managers on Guernsey agree.

In addition, the elimination of trading barriers in 1992 among European Community nations will increase interest in Guernsey among continental European parent companies, many managers say.

The new tax law, passed by Guernsey's States of Assembly in September, will limit a captive insurance company's annual tax bill to between 50,000 and 60,000 pounds ($84,350 and $101,220), said Ken Forman, an administrator at Guernsey's Income Tax Office.

Under the previous tax law, Guernsey imposed a 20% tax on insurers' profits, although the tax only applied to single-parent captives' investment income.

That tax structure was discouraging captives from expanding or writing much long-tail business, and several captive managers even considered moving large captives to other domiciles, said Steve Butterworth, Guernsey's superintendent of insurance business.

The island's insurance authority "felt that Guernsey was losing out to other territories because of its taxation arrangements and it wanted to attract the larger captives here," said Mr. Forman.

The new tax law for offshore insurers, which took effect retroactive to January 1988, introduces a sliding tax scale.

Insurers will continue to be taxed at a 20% rate on their first 250,000 pounds ($421,750) of investment income. However, the tax rate will drop to 1% on the next 250,000 pounds of investment income; 0.5% on the next 500,000 pounds ($843,500); 0.3% on the next 2 million pounds ($3.4 million); and 0.1% on all subsequent investment income.

Single-parent captives' underwriting profits will continue to be exempt from taxation, said Mr. Forman.

In addition, under tax changes enacted in 1987 and effective after January 1988, all offshore insurance companies in Guernsey have been able to defer their tax liabilities stemming from a policy until all claims related to that business have been settled or the risk has effectively expired (*BI,* Sept. 28, 1987).

"The new tax laws will continue the expansion of the captive industry on the island and will allow Guernsey to attract larger captives and write more long-tail business," said Mr. Forman.

Captive managers are applauding Guernsey's tax reform measures.

"We are delighted with the new tax arrangements. Although no captives are formed purely for tax reasons, any additional tax benefits are welcomed," said Graham M. Powell, assistant director of HRGM Insurance Management Ltd., which manages 11 captives.

The tax changes will make Guernsey more attractive to larger insurers of liability risks, "like the A.C.E.'s of this world," said Michael Savage, managing director of Channel Islands Insurance Consultants Ltd., referring to A.C.E. Insurance Co. Ltd. in Bermuda, the huge policyholder-owned insurer formed by U.S. corporations.

However, most of the captives attracted to Guernsey will

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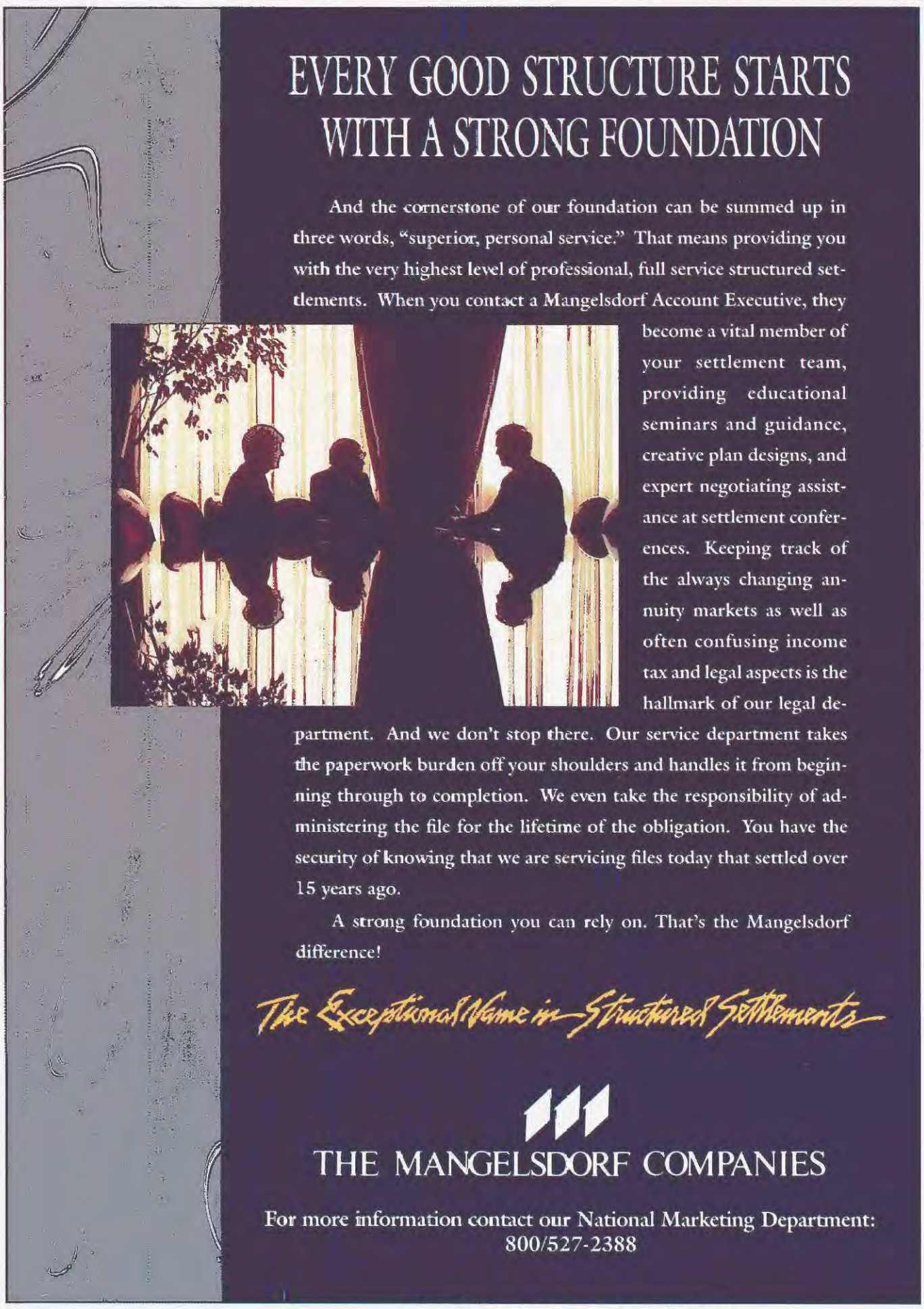

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Turks & Caicos

Continued from previous page

partner with the law firm Misick & Stanbrook, which advises captives and has offices on the islands of Grand Turk and Providenciales.

However, some of the captive insurance business that goes to the Cayman Islands could be drawn to Turks & Caicos because of the flexibility allowed under the proposed law, Mr. Misick said.

C.E. Gresham, managing director of Coastal Brokerage & Management Corp. Ltd., said the legislation is a "serious attempt to attract new captives to Turks & Caicos."

Coastal manages four captive insurers on Turks & Caicos, which were attracted to the domicile because a captive insurer can be set up quickly and the cost of incorporation is less than in most other offshore domiciles, he said.

For example, it can take as little as 10 days to set up a captive on Turks & Caicos, compared with about 60 days in Bermuda, Mr. Gresham noted.

Also, Bermuda and the Cayman Islands charge captive insurers an annual fee of $2,500, while Turks & Caicos charges captives an annual fee of $300, he added.

"Captive insurance is a very, very price-elastic market," Mr. Gresham said.

Mr. Lamb said that if a new captive insurance law changed Turks & Caicos' annual fee, it still would not likely exceed that of other offshore domiciles.

Although there is a "pretty good infrastructure right now" for captive insurance companies on Turks & Caicos, Mr. Gresham predicted that many of the larger accounting firms and brokerage houses will establish operations in Turks & Caicos after the new insurance legislation is enacted.

Mr. Gresham also said he expects air service to the islands to be expanded and at least two new hotels to open this year.

For more information on setting up a captive on Turks & Caicos, contact Ian Lamb, Attorney General, Grand Turk, Turks & Caicos Islands, British West Indies; 809-946-2096. ■

Virgin Islands

Continued from previous page

The current law gives authorities the power to require exempt insurers to invest up to 10% of their capital in securities issued by the U.S. Virgin Islands government. The securities must hold an "investment-grade rating," as determined by a U.S. rating organization.

More information on the domicile is available from Ms. Sturdivant at the Department of Banking and Insurance, P.O. Box 450, St. Thomas, U.S. Virgin Islands, 00801; 809-774-2991. ■

Continued from previous page
continue to have European parents rather than North American parents, said Mr. Savage.

CIIC manages 21 single-parent captives, including one that writes third-party risks and three that are currently running off their business.

Most Guernsey captives are owned by British parents, but Mr. Savage believes many more companies based in continental Europe likely will set up captives in Guernsey during the next few years.

There is increasing interest from Denmark, the Netherlands, Luxembourg, Spain and France, he said.

Until now, statutory and commercial restrictions have prevented many French and West German companies from establishing captives overseas, said Mr. Savage.

However, the removal of trade barriers within the European Community by the end of 1992 likely will increase the formation of captives by European companies, he said.

Mr. Butterworth agrees that the number of Guernsey captives owned by continental European companies likely will increase.

The Channel Islands, while protected by the British crown, are not officially part of the United Kingdom. And, like the Isle of Man, the Channel Islands have a special relationship with the European Community, Mr. Butterworth said.

Although legislation likely to affect insurance arrangements within the EC has yet to be finalized by the European Commission, Guernsey will continue to be an attractive captive domicile that allows European companies "more flexibility than EC jurisdictions," he said.

'The new tax laws will continue the expansion of the captive industry on the island and will allow Guernsey to attract larger captives and write more long-tail business,' says Ken Forman of Guernsey's Income Tax Office.

For instance, Guernsey will not have to seek EC approval for changes in its insurance law.

Currently, Guernsey is the home of 115 captives—including eight group captives—that write only parent-company risks and seven captives that also write third-party business, said Mr. Butterworth. This is up from 104 pure captives and five captives writing third-party risks registered in Guernsey in March 1988.

Mr. Butterworth estimates that each captive writes an average of 3.7 million pounds ($6.24 million) of premium, with Guernsey captives writing a total of more than 450 million pounds ($759.2 million) in gross premiums.

Among Guernsey's most rapidly growing captive management operations is Alexander Stenhouse International Services (Guernsey) Ltd., a unit of U.S. broker Alexander & Alexander Services Inc.

Stenhouse has boosted its captives under management to 20, up from 13 in January 1988. Of the 20 captives Stenhouse manages, 19 are owned by a single parent, while the other is a group captive.

Among the new captives formed by Stenhouse are Coalite Insurance Co. Ltd., which insures a layer of the property/casualty insurance program of British fuel and chemical company Coalite Group P.L.C. of Chesterfield; Oak Insurance Ltd., which writes building protection coverage offered to new home buyers by British home builder Barratt Developments P.L.C.; and Vita Insurance Services Ltd., which insures general liability and property risks for Manchester-based foam and fiber manufacturer British Vita P.L.C.

Part of the reason for Stenhouse's growth has been British companies' increased awareness of the benefits of captives and an increased acceptance by British brokers of captives as a viable risk financing option, said Manager Clive R. James.

Meanwhile, Stenhouse still is "looking at the U.K. as being the prime area of development," said Richard J. Gale, a Stenhouse account executive.

Mr. Gale, who joined Stenhouse's Guernsey captive management operation last summer from London-based broker Alexander Stenhouse U.K. Ltd., does not believe there will be a massive surge of European captives formed as 1992 approaches.

However, Eric Ball, managing director of Willis Wrightson (Guernsey) Ltd., believes Europe is "an untapped market ready for the concept of captives."

Mr. Ball predicts that Willis Wrightson will boost its European-based business by the end of the summer through parent company Willis Faber P.L.C.'s involvement in the UNISON international insurance brokerage network.

Willis Wrightson currently manages 18 captives, of which 12 are

Continued on page 78

Guernsey plays host to forum

Guernsey will host a major captive forum later this month to "provide a meeting place to bring together" risk managers, captive managers, risk management consultants, insurers, reinsurers and brokers, said Steve Butterworth, Guernsey's superintendent of insurance business.

Among the speakers at the forum, to be held April 20-21 at the St. Pierre Park Hotel in Guernsey, will be Sir Peter Miller, former chairman of Lloyd's of London, and Bruce W. Foudree, Iowa insurance commissioner from 1980 to 1986 and former president of the National Assn. of Insurance Commissioners.

About 350 people are expected to attend the conference.

Most of the island's leading captive management companies will be among about 30 exhibitors at the forum.

The registration fee for the conference is 50 pounds ($86). However, a special conference package including registration, round-trip airfare from London and three nights' lodging at the St. Pierre Park Hotel also is available for 357 pounds ($614).

Contact Steve Butterworth, Superintendent of Insurance Business, Financial Services Commission, Second Floor, Weybridge House, Lower Pollet, St. Peter Port, Guernsey, Channel Islands; 04-81-712801.

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Guernsey

Continued from page 75

single-parent captives, including Redland Insurance Ltd., formed last year by British building products manufacturer Redland P.L.C.

Meanwhile, John Parkinson, managing director of International Risk Management (Guernsey) Ltd., points out that companies from Sweden and Finland, which are not member countries of the EC, are actively forming captives.

IRM, a unit of Bermuda-based International Risk Management Group, currently manages 14 Guernsey captives with a premium volume of about 30 million pounds ($50.6 million), said Mr. Parkinson.

Since January 1988, the company has formed four captives owned by Scandinavian parents—two each from Sweden and Norway.

Michael Ward, managing director of Risk Management Ltd., one of the longest-established captive managers on Guernsey, also believes that Scandinavian companies are more aware of the benefits of captive insurers than other European companies, though he added that "we will see more interest from France and Germany."

Guernsey is "attractive to most European companies" because of its easy access, professional and long-established infrastructure and "historical cosmopolitan attitude," said Mr. Ward.

However, several Guernsey captive management operations also are looking at opening up branches in the Isle of Man as the demand for captives in Europe increases.

IRM opened a captive management office in the Isle of Man just over a year ago to "give clients more choice" in where to establish a captive insurer, said Mr. Parkinson (see story, page 81).

Transglobe Underwriting Management (Guernsey) Ltd., one of Guernsey's largest captive management operations, opened an Isle of Man office this month, though the company does not yet manage any Isle of Man-based captives, said Michael E.J. Perret, a director of Transglobe in Guernsey.

Guernsey likely will remain the 'foremost captive location this side of the Atlantic,' says Mr. McCathy.

Transglobe in Guernsey manages 11 single-parent captives and four insurers that write third-party business.

These insurers include aviation insurer Polygon Insurance Co. Ltd., which is owned by a consortium of eight airlines led by KLM Royal Dutch Airlines, Scandinavian Airline System and Swiss Air Transport Co. Ltd. (*BI*, March 30, 1987).

Despite growth in the Isle of Man, Guernsey likely will remain the "foremost captive location this side of the Atlantic," said Ian McCathy, a director of Prescot Management Ltd., a subsidiary of London broker Minet Holdings P.L.C.

Although other European domiciles are developing expertise, there "is still a lot of new interest in Guernsey, and the recent tax concessions have made the job of attracting captives to Guernsey that mush easier," said Mr. McCathy.

Prescot currently manages six captives, including two that are running off their business, Mr. McCathy said.

Like many other Guernsey managers, Mr. McCathy agrees that Continental Europe likely will be a source of growth for Guernsey.

"To date we've been concentrating on U.K. business, but we are not going to ignore the European market. Minet has announced its intention to move into Europe and the response (to risk management and risk financing) is becoming more sophisticated in Europe," he said.

Mr. Powell of HRGM expects to see increasing interest in captives from European countries "mainly because of the gradual reduction in (internal trading) barriers" within the EC.

This, in turn, will lead to increased use of European reinsurance markets by Guernsey-based captive managers, Mr. Powell predicted.

Until now, most of the Guernsey-based captives have placed their reinsurance almost exclusively in the London market. But, as Guernsey attracts more captives from parent companies on the continent, captive managers likely will have to "look for reinsurance more in Paris, Munich and Switzerland and use European reinsurance brokers suggested by their clients," said Mr. Powell.

In addition, as a single European market develops, many British companies with captives currently domiciled nearer the United States in places like Bermuda will consider relocating their captives to domiciles closer to Europe, predicted Granville de Cruz, a director of Sedgwick Group Management Services (Guernsey) Ltd.

Already, "several companies are considering their position as to whether to remain" in domiciles so far from home, said Mr. de Cruz.

Sedgwick currently manages eight captives in Guernsey, he said. ■

Guernsey captive statutes

Under Guernsey's Insurance Business Law of 1986, captives and other Guernsey-domiciled insurers not registered with the British Department of Trade or in another European Community nation must:

- Submit to the island's Financial Services Commission a business plan; information about the directors and owners of the company; classes of business; expected premium volumes; primary insurers; reinsurance arrangements; and brokers involved.

However, the parent company will not be listed unless the parent specifically agrees to be identified on the application form.

- Prove that the company's manager is suitably experienced.
- Satisfy a solvency margin of 18% of the first 5 million pounds of net written premium ($8.6 million) and 16% for net written premium exceeding 5 million pounds.
- Have a minimum paid-up capital of 100,000 pounds ($172,000).
- File financial statements annually with the government.

For more information contact: Steve W. Butterworth, Superintendent of Insurance Business, Financial Services Commission, Insurance Division, Second Floor, Weighbridge House, Lower Pollet, St. Peter Port, Guernsey, Channel Islands; 04-81-712801.

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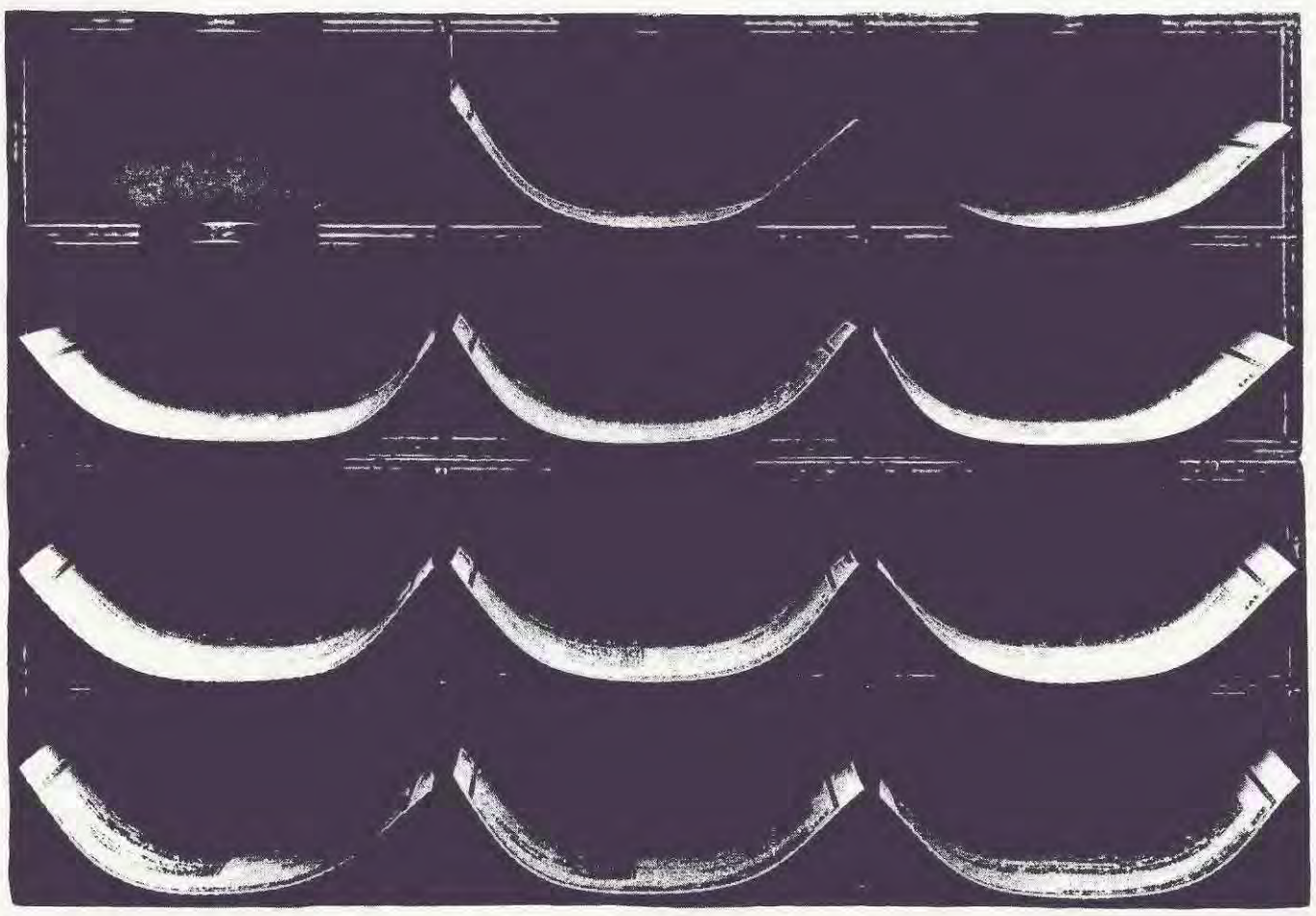

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Luxembourg wary of EC changes in 1992

By STACY SHAPIRO

LUXEMBOURG—The grand duchy of Luxembourg continues to grow as a major European captive domicile despite some concern about how the removal of European Community trade barriers in 1992 will affect captives in Luxembourg.

The small EC nation has 93 captives, up from 61 captives in March 1988 and 43 a year earlier, reports Insurance Commissioner Victor Rod, who predicts the number of captives will reach 100 soon.

The captives, which legally must be established as reinsurance companies, wrote approximately 30 billion Luxembourg francs in gross premiums last year ($894 million at current exchange rate), compared with between 15 billion and 18 billion Luxembourg francs in 1987 ($369 million to $442.8 million at the appropriate exchange rate), Mr. Rod estimated.

In addition, the country now has 14 captive managers registered by the insurance authority, up from nine last year and four in 1987.

But, captive managers are wondering what will happen to the growth of Luxembourg as a captive reinsurance center after 1992, which is when the EC estimates all of its directives for unifying the market will be in place. For example, by 1992, cross-border insurance placements in all EC nations will be permitted under the Freedom of Services directive (*BI*, May 16, 1988).

EC authorities have said that they also plan to unify some tax-practices throughout the Common Market, which could affect the tax advantages that Luxembourg captives enjoy.

On the other hand, if Luxembourg is allowed to keep its tax rules, the country could see a boom in captives, observers say.

To attract more captives to the country, the government amended its tax law in 1985 to allow each captive to set up a tax-free catastrophe reserve known as "la provision pour la fluctuation de la sinistralite." The catastrophe reserve can total up to 12.5 to 20 times the captive's average net premium volume over the last five years.

The effect of this provision is to reduce the captive's current taxable income to zero, offering a long-term deferral on funds placed in the reserve.

Dividends paid to a parent company are fully taxed in Luxembourg, which imposes a 36% corporate tax plus a 10% municipal tax on profits.

The same 46% rate must be paid on the reserve if the captive shuts down.

However, Luxembourg has double-taxation treaties with many countries, under which the applicable tax rate is the lower of either the home country's or Luxembourg's. So, parent companies in countries with a higher corporate tax rate than Luxembourg's still would find Luxembourg attractive.

"The predominant question here is what will happen (to Luxembourg) following 1992," said Ralph Tellov, director general of Luxembourg's oldest captive manager, Sinser S.A.R.L., which was established in 1982.

Luxembourg's captive growth "will depend on the European market and whether Luxembourg keeps its favorable tax position in the future," said Frank Tombs, manager of Mondilux Reinsurance S.A., which manages a Dutch electronics group's captive. "After 1992, it depends on how long they can keep their unique position."

However, "people have yet to decide what 1992 means for insurance and captives," added Andrew Carr, a managing director of Marsh & McLennan Inc. and president of Marsh & McLennan Bermuda Ltd., who oversees M&M's Luxembourg office, Marsh & McLennan Insurance Services S.A.

"I don't know whether 1992 will make Luxembourg more attractive (as a captive domicile) or shy people away," he said.

The Assn. of Reinsurance Managers, formed last June with 11 member companies and 13 associate members, has set up a committee to look at the 1992 changes and their impact on Luxembourg's captive industry, said Claude Weber, manager of M&M in Luxembourg and one of two vps of the association. Other members of

Luxembourg

the association include auditors, lawyers and others providing support services for captives.

However, Mr. Weber thinks that because Luxembourg requires captives to be reinsurers rather than direct insurers "and there is already freedom of reinsurance services in Europe, I don't think much will happen" to change the situation in Luxembourg. "But that is not guaranteed," he said.

Insurance Commissioner Rod also believes that 1992 will have no effect on the captive reinsurance market in the country. However, "We are firmly opposed to the introduction of withholding tax," which the EC could introduce to tax the interest income earned on bank deposits, said Mr. Rod.

"That could severely affect our banking system. But the (proposed EC) regulations on taxation do not target captives," he said.

Besides, EC regulations on freedom of reinsurance services have been in force since 1964, says Mr. Rod. "So 1992 is absolutely out of date for reinsurance companies."

Meanwhile, Luxembourg continues to attract new captive reinsurance companies whose parents are primarily based in Sweden, France, the Netherlands, Belgium and Switzerland.

In addition, parent companies in Spain and Italy are showing an interest in the duchy, according to several captive managers.

Luxembourg captive managers agree that Luxembourg is the ideal domicile for companies in continental European countries because of its location and culture.

The grand duchy, which was founded in 1354 but did not become an independent country until 1890, occupies 999 square miles in the heart of Europe.

The country's main city, also called Luxembourg, is a major financial center with 128 banks, 6,500 holding companies, more than 400 investment funds and all of the Big Eight accounting firms are represented.

Although the country's official language is Letzeburgesch, a Germanic dialect, French, German and English are widely spoken.

Continued on next page

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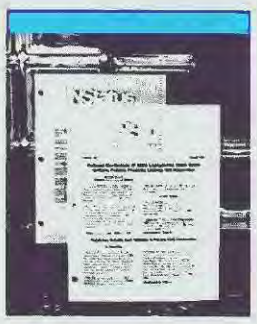

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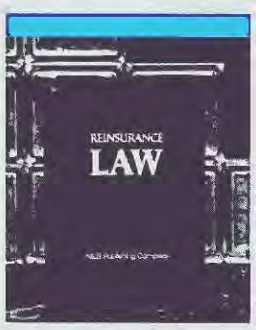

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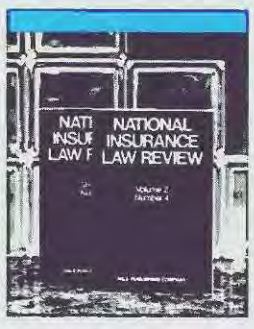

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Luxembourg

Continued from previous page

Unlike other captive domiciles, Luxembourg "is more continental," pointed out Frederick Gabriel, director of captive manager Gecalux S.A.

"The legal system here they understand; the culture they understand; their banking and finance is here; logistically, it is not far. They are dealing with people in their own language and that is important to continental Europeans. They feel more at home with people of their own culture," Mr. Gabriel explained.

"There are few captives coming here that are English-speaking," added Gerard Nepper, managing director of Commercial Union Management Services (Luxembourg) S.A.R.L.

However, so far Luxembourg has failed to attract any West German captives despite fierce marketing. Although the duchy boasts of a West German reinsurance company that is a subsidiary of Gerling-Konzern Group, the two newest West German companies to form captives have chosen Ireland—another EC nation—as a captive domicile (see story, page 83).

"We hope to be starting some companies from Germany," said Mr. Rod.

Currently, one West German company that took over a Dutch company with a Luxembourg captive is deciding whether to maintain the captive in the duchy, Mr. Rod said. He declined to identify the company.

"We disregard Ireland as a major competitor to Luxembourg," Mr. Rod said.

Meanwhile, Japanese parents are showing an interest in setting up captives in Luxembourg, said Mr. Gabriel, who pointed out that there are seven Japanese banks already in the country.

But captive managers agree that the duchy probably will not attract too many U.S. parents unless they are seeking to form a captive for their European subsidiaries.

For U.S. companies, Luxembourg isn't a "real benefit," said Mr. Gabriel.

"The choice of where you want your captive domicile is based on numerous reasons," said Mr. Carr of M&M. "Some choose the Caribbean for the sake of convenience. There are certain similarities between Luxembourg, the Isle of Man and Guernsey. But we sense that (continental) European companies are more comfortable having captives in Luxembourg."

Recently, Mr. Rod visited Bermuda and talked to executives of U.S. parent companies about setting up captives for their European subsidiaries to complement their Bermudian captives. These executives showed "serious interest" in Luxembourg captives, he said.

Luxembourg formalized the mechanism for setting up captives in 1984 when it amended its insurance law to allow the formation of captive reinsurers. Captives are supervised by the Commissariat aux Assurances, part of the Ministere des Finances, which Mr. Rod heads.

As a member of the European Community, Luxembourg must abide by EC requirements for insurance companies. However, reinsurance companies are not regulated by the EC, so Luxembourg is allowed to establish its own reinsurance regulations.

Each captive must be fronted by a ceding company that is licensed and regulated in the country of origin. The ceding company must be regulated by the country in which its parent is located. Last year, UNAT S.A., a Paris-based unit of American International Group Inc. in New York, opened a Luxembourg office to provide captive services such as fronting.

However, Mr. Gabriel, who had opened the UNAT office, subsequently left to join Gecalux. As a result, UNAT is deciding whether it needs an office in Luxembourg or whether it can provide the services from its Paris headquarters, said a UNAT spokesman.

"We are looking for somebody to run it for us," the UNAT spokesman said. "But it is not easy to find a multilingual person. French is a must, and German, too, because West Germany is up and coming" for captive growth. "I expect to have somebody in continental Europe not later than the fall."

Since three Swedish captives were set up in 1982 by Sinser, Sinser and Swedish parents have led the captive market in Luxembourg.

Sinser, a subsidiary of Scandinavian Insurance Services Ltd. in Stockholm, is 55% owned by The Skandia Insurance Co. Ltd. and 45% owned by other Swedish interests.

The management firm, which employs 17 people, manages 33 captives with gross premiums of between $300 million and $325 million. This compares with 26 captives last year writing gross premiums of $250 million to $300 million, said Mr. Tellov.

Of the 33 captives managed by Sinser, 29 have Swedish parents, three have French parents and one is a Norwegian captive.

A list prepared March 13 by the Commissariat aux Assurances says the companies managing the largest number of captives, besides Sinser, are:

- Gecalux, the second-oldest captive manager in the country, which manages 23 captives, compared with 18 captives last year.
- Uniservice Management S.A.—jointly owned by Johnson & Higgins, French correspondent broker Gras Savoye, A.B. Max Matthiessen in Sweden and Boels & Gegault in Belgium—which manages seven captives.
- Marsh & McLennan Insurance Services, set up in June 1987, which manages six captives. ■

Luxembourg law passed in 1984

Under a law passed in February 1984, licensed captive reinsurers in Luxembourg can write unrelated business and any class of business, although the majority of the captives mainly reinsure property and business interruption risks for their parent companies.

Each Luxembourg captive must:

- Have a minimum paid-up capital of 6 million Luxembourg francs ($178,800 at current exchange rate) if it reinsures only its parent's risks and does not want to take advantage of the special tax treatment on reserves.

Most captives, however, have minimum paid-up capital of 50 million Luxembourg francs ($1.5 million), which allows them to reinsure third-party risks and enjoy special tax treatment.

- Be managed by a resident manager that fulfills three conditions: that he or she be a Luxembourg resident, have "good morality" and be a professional reinsurance underwriter.
- Invest its capital in Luxembourg.
- Submit an annual audit by an auditor approved by the Commissariat aux Assurances. Captives do not have to submit their results until 18 months after being incorporated.

Reinsurance companies that write non-life business must maintain a minimum solvency margin of 10% of premium, which is reduced to 7% if they don't write general liability business and to 5% if they write no third-party business or general liability business. Reinsurance companies writing life insurance must maintain a minimum solvency margin of 2% of their mathematical reserves.

For additional information on Luxembourg captives, contact Insurance Commissioner Victor Rod, Commissariat aux Assurances, Ministere des Finances, 3 Rue de la Congregatione, Luxembourg; phone: 352-478285; fax: 352-475241. ■

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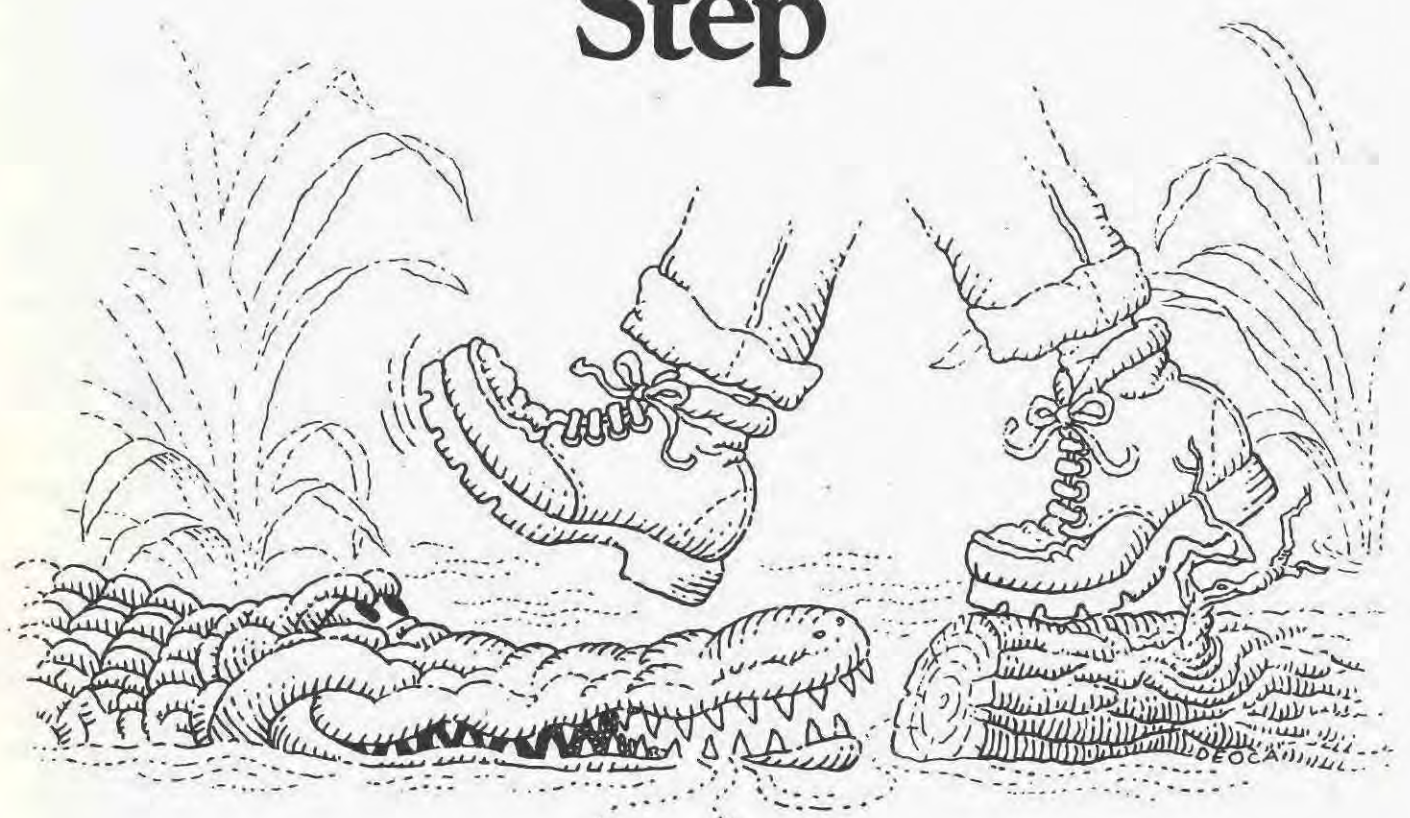

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Isle of Man eyes 1992, Irish competition

By STACY SHAPIRO

DOUGLAS, Isle of Man—Prosperity generated by the growing captive insurance and financial services industry sector is rapidly transforming Douglas, the capital of the Isle of Man, into a bustling financial services center.

Yet despite the rapid growth, two changes in the European insurance industry environment concern the island's 21 captive managers: The elimination of European Community trade barriers in 1992 and a new law in Ireland that could attract captives.

The Isle of Man now has 63 captives generating total premium volume of about 400 million pounds ($674.8 million), up from 51 captives last year with total premium volume of 250 million pounds ($421.8 million), according to Bill Hastings, the Isle of Man's insurance supervisor.

"The island has taken an upturn in financial services," said Tim Byrne, manager of Willis Wrightson (Isle of Man) Ltd. "There is a greater awareness now, the infrastructure is in place. . . .The island is starting to come of age."

"There has been a profound change" on the Isle of Man, agreed Robin Bigland, manager of Isle of Man Insurance Management Ltd., which also manages captives on behalf of Jardine Risk Services (I.O.M.) Ltd.

"The whole concept of insurance in the Isle of Man has changed quite radically. The developed infrastructure has changed quite radically. Communications have improved. And the advent of the facsimile machine has made the island minutes away," pointed out Mr. Bigland, who serves as chairman of the Manx Insurance Assn.

The financial services boom also has enhanced the breadth of support services available to serve Manx captives. There are at least 26 auditors on the island; 16 law firms; four securities firms; and 40 banks. In 1988, three new investment managers opened their doors. And, the island also gained several new banks, including a branch of the Bank of Bermuda, "which is very familiar with captives," noted Mr. Hastings.

On almost every street corner new office buildings are under construction to accommodate the numerous brokers, lawyers, accountants, insurance executives and captive managers flocking to the 227-square-mile island in the Irish Sea.

Altogether, 6,000 new residents have arrived in the last two years, many of whom are employed in the financial services industry.

Insurance, banking, finance and business services—the fastest growing sector of the Manx economy in 1988—now account for one-quarter, or 65 million pounds ($109.7 million), of the total income produced on the island, according to the economic adviser to the Treasury.

Financial services expansion on the island has created a building boom. In fact, Mr. Hastings next month is moving to new quarters to make way for the demolition of the block of offices where he now works.

Mr. Hastings also is increasing his staff by appointing David Vick, manager of Sedgwick Group Management Services (Isle of Man) Ltd., as assistant insurance supervisor and also by hiring a personal and administrative assistant.

But despite the island's impressive recent growth, the island's captive managers are concerned about what changes 1992 will bring and how the domicile will compete with its Irish neighbor.

The Single European Act of 1985 provided enabling legislation that established a timetable for EC member nations to enact laws that will remove trade barriers by Dec. 31, 1992 (*BI*, May 16, 1988).

The Isle of Man, which is a possession of the United Kingdom but has its own legislature and laws, is an associate member of the EC under Protocol 3 of the Treaty of Rome.

"One of the biggest issues facing the island is the impact of 1992," summed up Larry Sherin, manager of International Risk Management (Isle of Man) Ltd.

"But no one knows what will happen. Anything affecting the Isle of Man will have to be approved by all member states. . . .But personally I can't see the Isle of Man being a big issue. Europeans don't know what or where the Isle of Man is. The island is doing well under Protocol 3, so why change it?" Mr. Sherin said.

Isle of Man

"What happens to the Isle of Man depends on 1992," said John Evans, manager of Alexander Stenhouse International Services (Isle of Man) Ltd. "When 1992 comes along, unless there are arrangements by the EC to allow us to transact insurance in the EC, then the Isle of Man could be a non-preferred domicile. There is much talk on the island on what should be done," he said.

The Isle of Man government has commissioned the London accounting firm of Peat Marwick McLintock to prepare a report on the economic implications of the EC measure for the domicile. The report is due to the Manx government this month, confirmed Susan Fargher, senior consultant for Peat Marwick McLintick, an affiliate of KPMG Peat Marwick.

A second concern for the Isle of Man is Irish legislation enacted in 1987 that allows foreign financial companies—including captive insurers—to set up in Dublin and pay only a 10% tax rate until at least the year 2000. Ireland, which is an EC member, also has double-taxation treaties with 21 countries, making the 10% tax rate particularly attractive.

So far, the Irish capital has attracted two West German captives, one Swedish captive and one Belgian captive (see story, page 83).

"Arguably, Dublin is a threat to the Isle of Man because it is in the European Community," said Mr. Hastings. But, Mr. Hastings added that the EC is considering harmonizing all taxation practices in all member countries, so "Dublin's taxes could eventually increase."

All the evidence points to the Isle of Man "maintaining its pace of growth" as a captive domicile, Mr. Hastings said.

"We see no advantage for U.K. companies to go to Dublin, although maybe for (Continental) European companies," said Mr. Byrne of Willis Wrightson (Isle of Man), because "no one knows

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Isle of Man

Continued from previous page
what will happen come 1992" concerning either Ireland or the Isle of Man.

Dublin is "potentially" a threat to the Isle of Man, but in Ireland "the cost of putting people on the ground is high," said Mr. Bigland of Isle of Man Insurance.

Non-insurance taxes, housing, office rental and salaries are more costly in Ireland than on the Isle of Man, he noted.

One of the Isle of Man's main attractions is that any company authorized to write insurance business in or from the island does not have to pay any income tax on underwriting profits, investment income and dividends paid to non-residents, provided the risks written are not on the island. A company must apply to the Manx government for this exemption, which is part of the island's Income Tax (Exempt Insurance Companies) Act.

The advantages of the Isle of Man are being recognized by captive managers on Guernsey, which vie for much of the same market as the Manx captive managers (see story, page 74).

Guernsey's largest captive manager, Transglobe Underwriting Management (Guernsey) Ltd., is opening an Isle of Man office this month, though the company does not yet manage any Manx captives, said Michael E.J. Perrett, a director of Transglobe in Guernsey.

Meanwhile, the Isle of Man's 21 captive managers—up from only 10 three years ago—continue to report growth.

Willis Wrightson (Isle of Man) Ltd., probably the largest captive manager on the island, currently has 13 captives on its roster with an estimated premium volume of 75 million pounds ($126.5 million).

In 1988, the firm managed nine captives with a total premium volume of $87 million.

The parent companies of captives managed by Willis Wrightson include Calor Gas, Hunting Group, Hepworth P.L.C., Dixons P.L.C., Jaguar P.L.C. and S.G. Warburg & Co. Ltd.

Willis Wrightson also expects to license two more captives this month. "And we'll probably manage 20 by the end of the year," said Paul Flitcroft, underwriting manager.

Willis Wrightson also is expected this month to take over the management of Capacity Resources Isle of Man Ltd. Capacity Resources was a unit of Stewart Wrightson Holdings P.L.C that was managed by Mr. Bigland of Isle of Man Insurance Management before Stewart Wrightson merged with Willis Faber P.L.C. in 1987.

Of the three captives managed by Capacity Resources, Mr. Bigland says Associated British Ports will now be managed by Willis Wrightson, while the remaining two will remain under his management. Willis Wrightson, however, says the management of one of those two captives is "under review."

Captive management activity for Mr. Bigland's Isle of Man Insurance Management, which has 38 employees, was static last year. Captive management, though, accounts for only 20% of the group's profits. Mr. Bigland also owns and operates life and non-life insurance companies.

Isle of Man Insurance Management manages 13 captives—losing one last year to Willis Wrightson and gaining one "with Middle Eastern connections"—that have an unspecified total premium volume.

International Risk Management (Isle of Man) Ltd.—which changed its name from Transnational Risk Management (Isle of Man) Ltd. when Swiss Reinsurance Co. bought a 70% stake in former parent The Reiss Organization last year (*BI,* March 14, 1988)—manages four captives with total gross premiums of 24 million pounds ($40.5 million), up from three captives last year with total premium volume of $17 million.

IRM's biggest client—a Finnish manufacturer of cement products—produced first-year gross premiums of $6 million in 1988. "We see Finland as a major source of new clients," said Mr. Sherin of IRM.

Alexander Stenhouse International Services (Isle of Man) Ltd. has gained four new captives this year, increasing the number managed to eight. The eight captives generate total gross premiums of 40 million pounds ($67.5 million), up from four captives with total gross premiums of 26 million pounds ($43.9 million) in 1987, according to John Evans, the company's manager.

Parents of the captives managed by Stenhouse include British companies The Murphy Group, Ladbroke Group, F.K.I. Babcock P.L.C., Littlewoods Organization P.L.C., British Gas P.L.C., Granada P.L.C. and The Wimpey Group.

Continued on next page

Manx captives are governed by 1986 law

Requirements for incorporating a captive insurance company under the Isle of Man Insurance Act of 1986 include:

- Minimum paid-up capital of 50,000 pounds ($84,350) for pure captives and up to 500,000 ($843,500) for certain classes of business.

The amount of capital depends on the business the captive writes and the solvency margin it must meet.

The minimum capital requirement plus 10% of any amount above 50,000 pounds must be paid in cash and deposited in an Isle of Man bank.

- Solvency for pure captives must be maintained by the minimum capital plus an amount equal to 10% of the net written premiums up to 2 million pounds ($3.4 million) and 5% of net written premiums after that.

Captives writing third-party business for general classes must maintain 15% of net premiums written but not less than 150,000 pounds ($253,050).

- A three-year business plan must be presented to the insurance supervisor that includes the maximum net retention per risk or occurrence and the aggregate after all reinsurance is ceded; policy limits; the reinsurance program, with types of reinsurance and names of reinsurers; projected claims, gross and net of reinsurance; projected cash flow; and projected profit and loss.
- Suitable management on the island must manage the captive.

There are 21 captive managers registered under the Isle of Man Insurance Act.

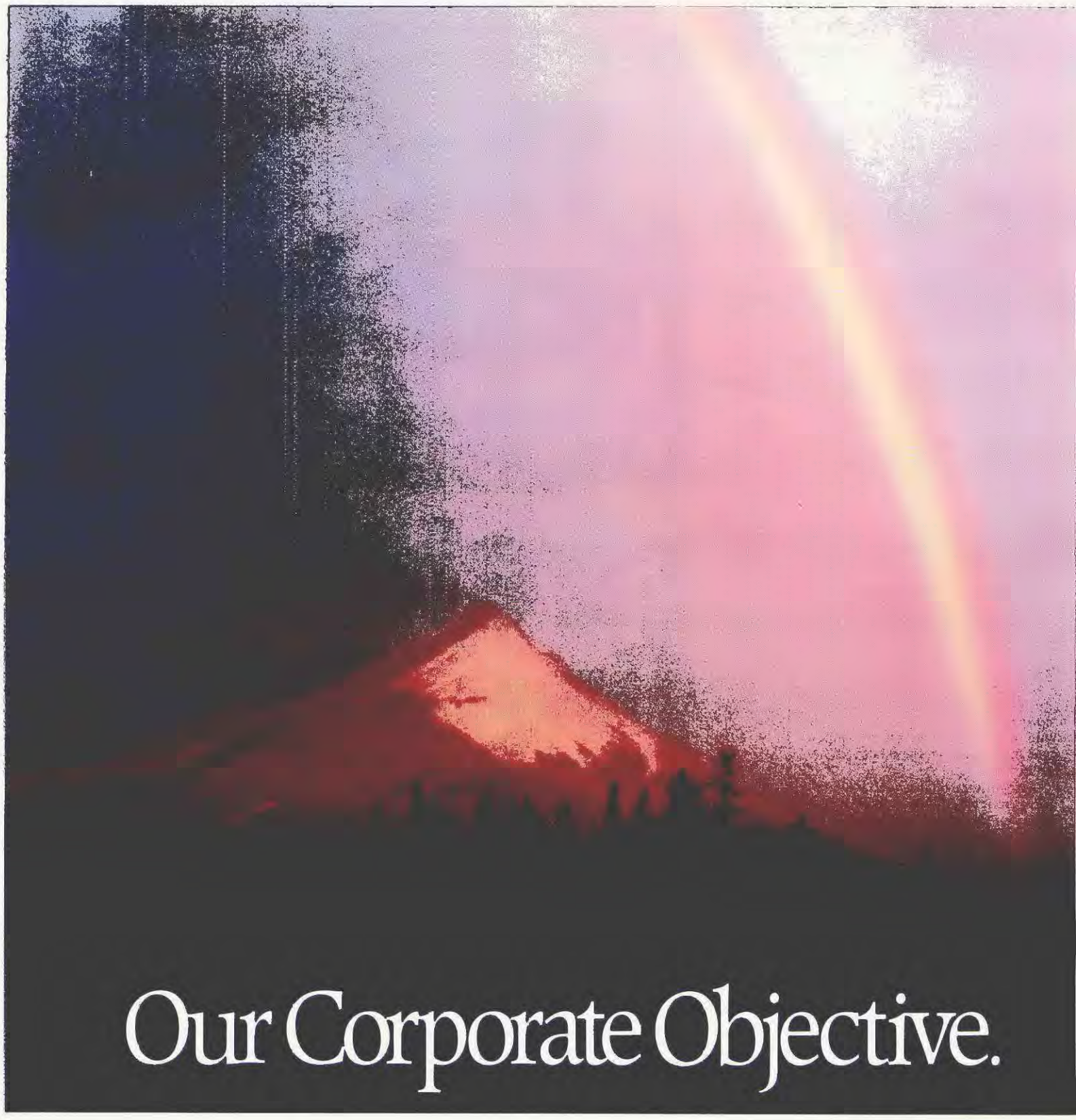
There is a 1,000 pound ($1,687) registration fee for Isle of Man captives.

The annual business fee is 2,500 pounds ($4,217.50), but this is reduced to 500 pounds ($843.50) for any year in which the company pays income tax instead of seeking an exemption.

There also is a one-time-only payment to the Registrar of Companies when a captive is incorporated on the island.

The cost is based on a sliding scale up to 250 pounds ($421.75) plus a duty of 1.1% of the authorized share capital up to a maximum of 50,000 pounds.

For information on the Isle of Man, contact Bill Hastings, Insurance Supervisor, 30 Bucks Road, Douglas, Isle of Man, until mid-May and then at 12-14 Ridgeway St., S.F. House, Douglas, Isle of Man; 44-062-426262. ■



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Sedgwick Group Management Services currently manages 12 captives with gross premiums of 50 million pounds ($84.4 million), the same as last year, according to Chief Executive Brian Cooper, who replaced Michael Linck, who retired.

However, new captives are just about ready to be established, he added.

Parents of the captives managed by Sedgwick include Standard Chartered P.L.C., the Central Electricity Generating Board, London & Scottish Marine Oil and British developer Thomas McAlpine.

Also, British Telecom P.L.C. launched a captive March 17, which is managed by Sedgwick, said British Telecom Risk Manager Ian Drewer.

Mr. Cooper terminated two captive management contracts since he arrived on the island last July from Sedgwick's Barbados unit last July. But he anticipates increasing the number of captives under management by Sedgwick to between 20 and 25 by year-end.

"I see a slow measured growth in the Isle of Man," said Mr. Cooper, who spent two years in Barbados and 16 years in Bermuda managing captives.

"I don't see a boom. People say captives are in the pipeline, but we only know of two or three that are for sure. So we see a slow, steady growth, and I hope that is the case. I don't want to bring them in without the structure they need," he explained.

"I find the people on the Isle of Man very friendly and willing to do things," said Mr. Cooper.

"It is refreshing from what I have found in the past. I miss the sunshine (of Barbados), but I like the longer days here in the summer. If you look for advantages, you find them," Mr. Cooper commented. ■

Ireland, Malta and Denmark vie for European captives

By CAROLYN ALDRED

Ireland, Malta and Denmark are among the new contenders bidding to become major European domiciles as the captive insurance concept takes hold in Europe.

"Captive growth in Europe is significant. Countries where captives have not been part of risk financing techniques, like Spain, France, Italy and Germany, are succumbing to the experience and influence of their European neighbors," said Paul Bawcutt, managing director of Risk & Insurance Research Group Ltd., a consulting firm in London.

The newest domicile risk and captive managers are eyeing is Ireland, an EC member nation.

However, European risk managers must "consider carefully captive establishment in light of taxation authorities' attitudes, new locations and European Community insurance harmonization and not rush to the first choice" of captive domicile, he warned.

Mr. Bawcutt predicted this change in attitude toward captive domiciles during a London conference on "The European Approach to Captives," sponsored by the Risk & Insurance Research Group.

"As we look at the introduction of anti-captive tax legislation all over the world, there is little doubt that many of the benefits of locating captives offshore—in the low-tax areas or tax havens—will diminish. For some captive owners, it will be debatable whether offshore establishment is really necessary given the extra travel costs and management," he said.

The newest domicile most European captive insurance managers and risk managers are keeping an eye on is Ireland, which is an EC member nation.

In an effort to attract international banks, finance houses and insurers to Ireland, the Irish government, supported by the European Commission, in 1987 introduced a special 10% tax rate for foreign financial companies setting up operations in Dublin.

The 10% corporate tax rate, which is guaranteed until Dec. 31, 2000, is levied on all companies licensed by the Department of Industry and Commerce to operate in the new Custom House Docks Development, currently under construction in Dublin.

And, "companies operating under the 10% rate have full access to Ireland's network of double-taxation agreements," Patrick J. Tolan, insurance manager of the International Financial Services Program for the Industrial Development Authority of Ireland, told those attending the RIRG conference.

Under the double-tax treaties, the captive insurer subsidiary domiciled in Ireland is taxed only at the 10% rate, even if its parent company is based in another country with a higher tax rate.

The double-tax agreements Ireland has with 21 other countries ensure "that the benefit of the low rate in Ireland can be passed back to the parent company without further tax on dividends," Mr. Tolan said.

Already, the Ireland Department of Industry and Commerce has licensed four single-parent captives in the last six months, with about 20 more captives currently under review, he noted.

All four captives were formed to reinsure the risks of their parent companies, though all plan to write direct business in the future, he noted.

Two of the captives are owned by West German parents. One was formed to reinsure the worldwide risks of West German automobile manufacturer Bavarian Motor Works A.G. of Munich.

The BMW captive is managed by Sedgwick Dineen International Ltd., a subsidiary of London-based broker Sedgwick Group P.L.C. and one of three captive managers currently licensed in Dublin.

Of the other two licensed captives, one reinsures the risks of a Swedish communications and electronics group, Ericsson Telefon AB LM, and the other is owned by a Belgian manufacturer, said Mr. Tolan.

"A captive insurance company writing direct insurance must be licensed in the same way as a non-captive insurance company. (However), the special circumstances of captives may be reflected in the conditions attaching to any particular licence granted by the DIC," said Mr. Tolan.

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panies writing direct business, including captives, must be licensed, he noted. However, "reinsurance is not subject to regulatory control, other than the requirements to notify the DIC," he added.

"The regulatory environment offers the distinct advantages of being able to operate both direct and reinsurance captives in Dublin with full access to the emerging single (European) market," said Mr. Tolan.

"Dublin certainly will be one of the major European captive locations," predicted John Elliott, a director of Sedgwick European Risk Management Services Ltd.

To establish a direct captive in Ireland, a captive insurer must:

- Obtain a license from the DIC.
- Be incorporated in Ireland.
- Employ qualified staff.
- Have minimum paid-up share capital of 500,000 Irish punts ($716,000).
- Maintain a guaranty fund and a solvency margin that meet the EC guidelines of 1976.

In addition to Ireland, another EC member nation vying for a slice of the captive pie is Denmark.

Although Denmark's insurance company regulations are among the strictest in Europe—for example, only agreed-upon classes of business can be written by an insurer and a substantial amount of Danish business must be written—the legal stance "is more subtle" for reinsurance captives, according to Christen Boye Jacobsen, deputy permanent secretary of the Danish Ministry of Trade and Industry.

Last year, the Norwegian industrial group Aker Nordeem Group was permitted to set up a reinsurance captive in Denmark, Mr. Jacobsen told delegates at the RIRG conference.

"The Norwegian authority was consulted and we required that a Norwegian fronting company issue policies in direct insurance in Norway and retained 20% of the risk," he explained.

The new captive is managed by Forenede Assurandorer A.S., a Danish insurance company that was established by the FLS Group in 1919.

According to Mr. Jacobsen, the benefits that Denmark can offer to reinsurance captives include:

- Denmark's role as the "biggest financial marketplace in the Nordic area" and its membership in the EC.
- Numerous Danish insurers capable of managing foreign captives.
- A wide range of reinsurance companies.
- Future relaxation of insurance regulation throughout the EC beginning in 1992.

In addition, although Denmark currently has a 50% corporate tax rate, captive insurance companies may "deduct amounts set aside to cover obligations towards the insured (premium reserves and damage reserves). . . .Furthermore, they may deduct amounts which the company sets aside for a security fund provided that the statutes of the company lay down that the means set aside in the security fund can only be used for strengthening the premium reserve or otherwise to the advantage of the insured," according to the Danish Direct Taxation of Companies Act.

Meanwhile, in the middle of the Mediterranean Sea, the island nation of Malta also is striving to attract the attention of Europe's risk managers.

Last November, the Maltese government passed the Malta International Business Activities Act to regulate offshore business on the island, including insurance and banking.

The regulation of offshore business has been based, as far as possible, on existing local legislation, said Anthony Curmi, chief executive of the Malta International Business Authority, an autonomous governing and supervisory body established by the act.

However, "appropriate exceptions, exemptions and amendments have been introduced to make Malta attractive and competitive as an offshore business location," Mr. Curmi said during the RIRG conference.

Offshore companies will be taxed at a corporate tax rate of 5% and will have the right of self-assessment of their own tax. The authorities must accept returns as correct and complete unless they can prove otherwise, said Mr. Curmi.

No capital gains, withholding or other taxes exist in Malta, he added.

"These tax benefits are enhanced by the availability of double-taxation treaties with a number of countries including the U.K., U.S.A., West Germany, France, Italy, Belgium, the Netherlands, Denmark, Norway, Sweden and Austria," said Mr. Curmi.

To qualify as an offshore company, captive insurers and captive insurance management companies must:

- Be private companies registered in Malta.
- Not own any property in Malta other than immovable property leased for the purpose of their operations.
- Ensure that no part of the company's capital, voting or other controlling rights can be owned by, or vested in, any resident of Malta.
- Have a locally controlled company serve as the insurer's secretary, sole director or one of its directors, unless it is deemed to be a "company of international repute."

In addition, captive insurance companies are required to have a minimum paid-up capital of $250,000, and applications for registration must be submitted to the authority together with any other documentation required by the authority.

Captive insurance companies must pay an annual registration fee of 1,000 Maltese liras ($2,924).

Meanwhile, on the other side of the globe, Singapore still is attracting captives formed mainly by Australian-based companies, despite proposals announced by the Australian government last year to impose the Australian corporate tax on controlled foreign corporations based in tax havens.

The taxation scheme is unlikely to be enacted, though, until 1990 or 1991, the Australian Treasury said last December. Draft legislation, however, is expected to be introduced next month.

The inclusion of Singapore in a list of countries regarded as tax havens for Australian companies, "will be a blow to the majority of Australian captives located in the country," said a newsletter published by the RIRG.

Nevertheless, Singapore attracted 10 new captives in the past year, boosting the total number of captives in Singapore to 34, according to the Insurance Commissioner's Department.

Most of the captives are single-parent captives, though there is one "rent-a-captive" in operation in the Southeast Asian city-state.

Situated at the southern tip of the Malaysian peninsula, Singapore also is attracting Japanese captives, said a spokesman for the department.

There are 16 insurance captive management companies located in Singapore.

Singapore captives last year wrote $174.7 million Singapore ($89.3 million) in gross premiums, according to the department's figures. ■

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Soft market brakes Vermont's boom

By JERRY GEISEL

MONTPELIER, Vt.—After years of record-setting growth, captive formation in Vermont is slowing down.

The Vermont Department of Banking and Insurance licensed 33 captives in 1988, down from a record 50 captives licensed during 1987. The number of new captives formed last year was the lowest since 1985, when 32 captives were established.

Given the soft commercial property/casualty insurance market, the slowdown in captive formation—which began in the middle of last year—is not surprising, captive managers say.

"The state of the commercial market has an influence on captive formation. When the market softens, there is less demand" to form a captive, said Phil Petronis, a managing director with Marsh & McLennan Inc. in New York.

"We are in a soft market. There is not the impetus to form a captive," agreed Roger Teese, president of Hanna Insurance (Vermont) Ltd. in Burlington.

However, "It is important to put a slowdown in formation in the proper perspective," observed Scott Frazier, a vp in the Burlington office of Anistics Inc., a unit of Alexander & Alexander Services Inc.

Indeed, the 33 captives licensed in Vermont last year dwarfs captive formation in any other domestic domicile.

For example, Colorado, once Vermont's strongest challenger for domestic domicile supremacy, licensed just two captives last year. Elsewhere, Illinois and Delaware licensed four captives, while Hawaii added three companies to its captive rosters.

And, despite efforts by other states to encourage captive formation, Vermont far and away is the leading U.S. captive domicile.

At year-end 1988, 136 captives were licensed in Vermont, up from 115 at the end of 1987. By contrast, Colorado, the second-largest domestic domicile, has only 25, a number that hasn't changed since the late 1970s.

While Vermont captive formation may have eased, if only from the record-setting levels of 1986 and 1987, there was no slowdown in the amount of business written by captives domiciled in Vermont.

Vermont

According to preliminary estimates prepared by the Department of Banking and Insurance, Vermont captives wrote $651.4 million in premiums last year, a 46.3% increase from the $445.2 million in premiums written in 1987.

In fact, Vermont's seven largest captives generated more premiums last year than the combined premium volume of all 67 captives that were based in Vermont in 1986.

But Vermont is far more than just a home of giant captives. In fact, last year about 30% of the 124 captives actively in business wrote between $1 million and $3 million in premiums.

Traditionally, though, Vermont has attracted captives sponsored by some of the nation's best-known corporations and professional organizations.

Companies forming Vermont captives in 1988 includes American Telephone & Telegraph Co., the New York-based communications giant; Hewlett-Packard Co., the Palo Alto, Calif.-based computer and electronics manufacturer; and White Consolidated Industries Inc., a major appliance manufacturer based in Cleveland.

"Vermont has the most flexible regulatory environment and a very cost-efficient structure in which to operate a captive," said Gene Heskett, director of risk management at White Consolidated Industries, which established its captive late last year initially to write product liability and general liability insurance.

"Vermont offers the best regulatory environment and infrastructure," said Dick Gray, division manager in AT&T's Basking Ridge, N.J., office.

While some domiciles, most notably Colorado, have watched as captives defected to other states, parents of Vermont captives have proven loyal to the Green Mountain State.

For example, Vermont's first 10 captives—licensed between 1981, when the Vermont Legislature unanimously passed the state's landmark captive statute, and mid-1983—all remain in Vermont.

"We have nothing but good things to say about Vermont. The captive statute is an excellent one, while the regulators are available and accessible," said Lea Sirota, risk manager of Elixir Industries of Gardena, Calif. In July 1982, Elixir became the second company to set up a Vermont captive and the first company to relocate a captive to Vermont from another domicile.

While nearly all single-parent captives initially licensed in Vermont remain operational, risk retention groups have not proved so hardy.

Eight risk retention groups were licensed in Vermont in 1988. These groups were organized by asbestos abatement contractors, engineers, licensed beverage retailers, food processors, ski resort operators, commercial banks and commercial airports.

However, one of the two risk retention groups organized by asbestos abatement contractors withdrew near the end of the year.

An additional four Vermont-based risk retention groups formed in previous years either were dissolved or withdrew in 1988. Those groups had been organized by hospitals, agri-

Continued on next page

20 leading Vermont-based captives

(Ranked by 1988 gross premiums)

Captive Parent (Manager)	Gross written premiums	Net premiums	Net income
CF Financial Services Corp. Consolidated Freightways Inc. (M&M Insurance Management Services Inc.)	$28,189,470	$27,229,470	$2,812,707
MEDMARC Insurance Co. Risk Retention Group Inc. Owned by individual policyholders (M&M Insurance Management Services Inc.)	25,503,915	25,503,915	5,276,833
Minnetonka Insurance Co. Cargill Inc. (American Risk Management Corp.)	23,835,371	15,272,948	2,042,610
Toyota Motor Insurance Corp. Toyota Motor Credit Corp. (Becher & Carlson)	22,544,835	21,761,379	1,476,248
ICI Mutual Insurance Co. Members of Investment Co. Institute (Hanna Insurance Vermont Ltd.)	20,270,212	20,270,212	5,308,101
Agrinational Insurance Co. Archer-Daniels-Midland Co. (American Risk Management Corp.)	18,621,290	12,621,705	481,875
Citicorp Insurance USA Inc. Citicorp (Johnson & Higgins Services Inc.)	16,107,863	15,568,717	9,112,652
Miami Valley Insurance Co. Dayton Power & Light Co. (Vermont Insurance Management Inc.)	13,350,341	13,350,341	358,120
Westel Insurance Co. Aoki Corp. (Johnson & Higgins Services Inc.)	12,423,577	12,423,577	2,603,035
Elm Insurance Co. Electric Insurance Co. (Vermont Insurance Management Inc.)	11,751,287	7,587,238	3,430,961
Three Rivers Insurance Co. Aluminum Co. of America (American Risk Management Corp.)	11,724,073	5,490,224	2,041,188
Housing Authority Risk Retention Group Owned by individual policyholders (Yankee Captive Management Inc.)	10,308,398	10,308,398	1,527,965
Vermont Insurance Maritime Indemnity & Suretyship Co. New York Shipping Assn. et. al. (Johnson & Higgins Services Inc.)	10,196,555	2,549,139	230,939
Universal Professional Insurance Co. International Technology Corp. (Johnson & Higgins Services Inc.)	8,932,417	8,932,417	5,205,576
Covent Vermont Insurance Co. Continental Can Co. (American Risk Management Corp.)	8,612,612	8,115,152	2,407,754
United Educators Insurance Risk Retention Group Inc. Owned by individual policyholders (M&M Insurance Management Services Inc.)	8,600,506	1,578,688	-60,490
Gencon Insurance Co. of Vermont General Conference Corp. of Seventh-day Adventists (Hanna Insurance Vermont Ltd.)	8,234,476	0	80,687
Veritas Insurance Co. University of Michigan (Hanna Insurance Vermont Ltd.)	7,602,120	7,602,120	991,672
The Ordinary Mutual, A Risk Retention Group Corp. Owned by individual policyholders (American Risk Management Corp.)	7,395,676	5,440,676	685,478
Vermont Reserve Insurance Co. Reliance Acquisition Corp. (Johnson & Higgins Services Inc.)	6,793,764	6,793,764	171,268

Source: Vermont Department of Banking and Insurance

Chart: Christine Woolsey

Vermont captive managers

Manager Parent	Premium volume 1988	Premium volume 1987	Captives 1988	Captives 1987	Staff 1988	Staff 1987
M&M Insurance Management Services Ltd. Marsh & McLennan Inc.	$260.3 million	$146.0 million	21	13	11*	7
American Risk Management Corp. Swiss Reinsurance Co.	89.2 million	37.5 million	18	14	9	8
Johnson & Higgins Services Inc. Johnson & Higgins	88.9 million	63.0 million	30	23	11	6
Vermont Insurance Management Inc.	63.0 million	65.5 million	19	19	8	7
Hanna Insurance Vermont Ltd. M.A. Hanna Co. and Smith Bell & Thompson Inc.	59.1 million	50.0 million	14	12	7	6
Becher & Carlson Management (Vermont) Becher & Carlson Risk Management Inc.	34.8 million	22.5 million	3	4	2	2
Anistics Inc. Alexander & Alexander Services Inc.	26.5 million	31.0 million	18	14	6	6
Yankee Captive Management Inc.	11.6 million	9.5 million	3	3	3	3
Green Mountain Captive Management Co.	8.5 million	10.2 million	2	3	5	5
Skandia International Risk Management (Vermont) Inc. Skandia America Corp. and Champlain Risk Services Inc.	5.3 million	3.8 million	2	2	3	3

* *BI* estimate

Chart: Christine Woolsey

Vermont

Continued from previous page
cultural co-ops, swimming pool manufacturers, and surplus lines agents and brokers.

In addition, the eight risk retention groups licensed in 1988 represent a sizeable drop from 1987 when the Department of Banking and Insurance approved 16 risk retention groups.

"We are seeing a gradual decrease in interest in forming risk retention groups. The interest has not stopped, but it certainly has slowed down," said Edward Meehan, director of financial examinations at the Department of Banking and Insurance in Montpelier.

Mr. Meehan and other captive observers point out that increased availability and affordability of most types of liability coverage in the commercial market have—at least for the moment—dampened enthusiasm for forming and participating in risk retention groups.

"It's the market. Things have changed. Availability no longer is a problem," Mr. Meehan said.

At the same time, Department of Banking and Insurance officials have put out the word that they are taking a hard look at potential risk retention groups.

For example, while Vermont's captive statute allows risk retention groups to be licensed with as little as $500,000 in capital and surplus, state regulators say it is unlikely they would license a risk retention group that only met the minimum capital and surplus requirement.

Indeed, Mr. Meehan says that for every risk retention group licensed by the Department of Banking and Insurance, at least five other groups never get past the discussion stage.

Even with that tough approach, Vermont remains far and away the preferred domicile for risk retention groups.

At the end of last year, 20 risk retention groups—about 40% of the 50 or so risk retention groups that have been licensed since the federal Risk Retention Act was expanded in 1986—had been established in Vermont. And, that number has since swelled to 22 with the licensing earlier this year of new risk retention groups for savings banks and for financial planners.

"Vermont is the biggest and most experienced domicile," said Alan Page a senior vp with New York-based Johnson & Higgins, in explaining Vermont's popularity as a risk retention group domicile.

Soundly conceived and well-organized risk retention groups have thrived in Vermont.

For example, MEDMARC Insurance Co. Risk Retention Group Inc. has more than doubled its capital and surplus to about $20 million since it began operations in Vermont at the end of 1986. MEDMARC, which provides product liability coverage to medical equipment manufacturers, originally was domiciled in Bermuda.

"It has been a very good two years in Vermont. The services and infrastructure are all there," said Jaxon White, president of MEDMARC, which is one of Vermont's largest captives with 1988 premium volume of $25.5 million.

Other Vermont-based risk retention groups are expecting substantial growth even during the soft market.

For example, United Educators Insurance Risk Retention Group Inc., which writes educators legal liability and excess liability insurance for educational institutions, expects to add about 10 policyholders per month this year. At the end of 1988, United Educators had 400 policies in force.

"Educational institutions know we are (set up for) the long haul and that we will offer consistently priced, broad coverage," said Arthur Broadhurst, a vp in United Educators' Washington, D.C., office.

Others note that some Vermont-based risk retention groups, because of the soft property/casualty insurance market, haven't grown as fast as initially expected.

When the market hardens, though, risk retention group growth could again take off.

"We feel that there will be a lot of growth in risk retention groups when the market hardens because the groups have the potential of offering long-term market stability," said Michael Rogers, chief operating officer of Vermont Insurance Management Inc. of Montpelier, which manages six risk retention groups.

"Risk retention groups already established will be ready and waiting to write more business," agreed Douglas Dolan, senior vp with Victor O. Schinnerer & Co. Inc. in Chevy Chase, Md., which serves as underwriting manager for several Vermont risk retention groups.

During the relative lull in captive formation, state regulators have been busy further enhancing Vermont's reputation as the premier domestic captive domicile.

For example, with the recent purchase of high-powered IBM and Compaq personal computers, the Department of Banking and Insurance's captive division now is completely computerized.

At the same time, a new spreadsheet program—developed by Peter Raymond, a captive insurance examiner at the department—has allowed managers to prepare captive annual financial reports on the computers. This system facilitates the filing of reports, notes Soteros Maniatty, insurance examinations assistant chief-captives at the Department of Banking and Insurance.

At the same time, the Vermont Legislature has been working to enhance Vermont's appeal as a captive domicile.

The Legislature could approve a measure, H. 422, this month that would substantially reduce the premium taxes paid by captives, especially large captives.

Under Vermont's current two-tiered tax structure, there is a 0.8% tax on the first $15 million of direct premiums written by a captive, while the tax on direct premiums exceeding $15 million is 0.6%.

For reinsurance, the tax is 0.3% on the first $15 million of reinsurance assumed and 0.2% on reinsurance premiums exceeding $15 million.

Under the new structure, which would go into effect next year:

- On the first $20 million of direct premiums, the tax would be

Continued on next page

LEGAL NOTICE

NOTICE OF SALE OF SHARES OF MIDLAND PROPERTY AND CASUALTY COMPANY AND INVITATION TO BID

James P. Corcoran, the Superintendent of Insurance of the State of New York, as Liquidator of Midland Insurance Company (the "Liquidator") proposes to sell, to a qualified third party purchaser making the highest and best offer therefore, all of the issued and outstanding shares (the "Shares") of Midland Property and Casualty Insurance Company ("Midpac"). The terms of the sale are described in the form of agreement (the "Stock Purchase Agreement"), a copy of which may be obtained from counsel to the Liquidator (for a nominal fee to cover the cost of photocopying) at the following address: William F. Jerome, Esq., 123 William Street, New York, New York, 10038. The Purchaser will be required to sign an agreement substantially in the form of the Stock Purchase Agreement obtained from the Liquidator. The Liquidator reserves the right to reject any bid or bids, which, in his sole exclusive discretion are deemed inadequate or insufficient or which may be contrary to the best interest of the liquidation estate.

All interested parties are invited to submit to the Liquidator firm and detailed written offers to purchase the aforementioned Shares on or before the 12th day of June, 1989, (the "Final Date for Submission of Offers"). At a minimum, each such interested party shall submit to the Liquidator, in writing by ordinary mail addressed to: P.O. Box 295, Riverdale Station, Bronx, New York 10471, the dollar amount of its bid and the following information: the bidder's name, office and mailing addresses; telephone number; date and place of formation or incorporation (if a partnership or corporation, the names of the principals charged with control of the corporate entity) or date and place of birth (if an individual or group of individuals); name, address and telephone number of bidder's legal counsel; name, address and telephone number of bidder's accountants; name(s), address(es), telephone number(s) and account number(s) of bidder's principal bank(s) and investment bank(s) (if applicable); and such other and further information as may be required by the Liquidator in his sole and exclusive discretion. No bid under $1,750,000.00 over and above policyholder surplus will be considered by the Liquidator.

At the conclusion of the bidding process, the bidder who has submitted the highest and best offer to the Liquidator (the "Highest Bidder") will be so notified by the Liquidator and will be required to furnish to the Liquidator a deposit payable in the form of a cashier's check in an amount equal to 10% of such bidder's offer. In addition, the Highest Bidder will be required to furnish to the Liquidator and to James P. Corcoran in his capacity as Regulator of insurers for the Department of Insurance of the State of New York (the "Regulator") certain additional information. A schedule of such additional information may be obtained from the Liquidator at the address set forth below. The bidder required to submit the additional information to the Liquidator and the Regulator will remain under the continuing obligation to update such information so that the information remains accurate at all times during the bidding process and through the date of closing.

Upon receipt of such additional information from the Highest Bidder, the Regulator in his sole and exclusive discretion and pursuant to applicable provisions of the Insurance Law of the State of New York, will review and assess the additional information and determine whether or not such Highest Bidder qualifies to acquire a 100% ownership interest in Midpac. (A Highest Bidder who is found to be qualified is hereinafter referred to as a "Highest Qualified Bidder".) If the Highest Bidder fails to qualify, the Liquidator will (i) return such Highest Bidder's deposit together with any and all accrued interest thereon, and (ii) direct the next Highest Bidder to submit to the Liquidator and the Regulator additional information. Such process will continue until a Highest Qualified Bidder is obtained. Once a Highest Bidder has qualified as a Highest Qualified Bidder, the Liquidator will (i) inform all other bidders, and (ii) issue a press release announcing the results of the controlled auction.

At the time of submission of bids, all bidders must acknowledge in writing that they have reviewed the Stock Purchase Agreement and understand the terms and conditions of the proposed transaction.

All sales, transfers and related taxes, fees and other charges, if any, shall be the sole responsibility of the purchaser.

The Liquidator shall not be responsible for any brokerage fees or commissions in connection with the sale.

For further information contact: William F. Jerome, Esq., Counsel for the Liquidator, 123 William Street, New York, New York, 10038 (212) 341-6720.

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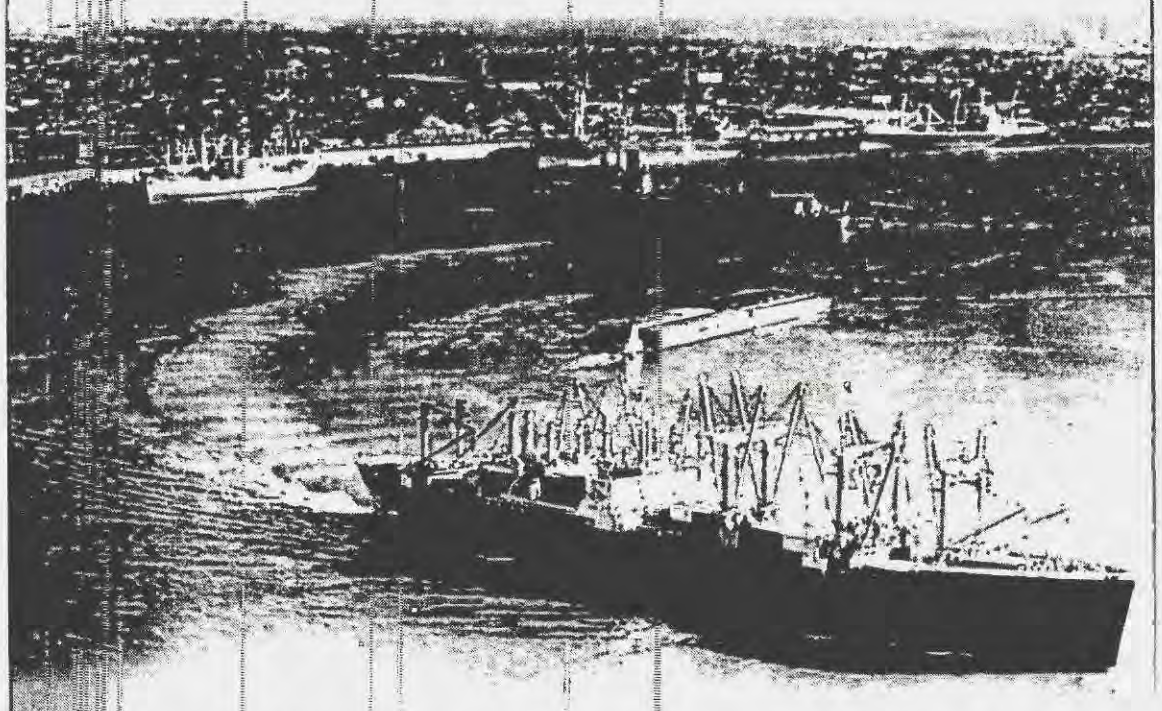

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Vermont limits access to data at parent companies' request

MONTPELIER, Vt.—Some financial results for single-parent Vermont captives no longer are publicly available.

The Department of Banking and Insurance has agreed to consider requests from single-parent captives that most information in their annual reports be kept confidential.

Captive sponsors complained that the availability of the reports, which contain information like net income and reinsurance arrangements, could give competitors an unfair advantage.

Vermont

Annual reports filed by group captives, such as risk retention groups, will continue to be available. In addition, the department will continue to release statistics on premium volume produced by each captive.

So far, the department has approved confidentiality requests of 16 captives, including several that rank among the state's largest.

For instance, only premium volume was released for Mobil Corp.'s two huge captives. Bluefield International Insurance Inc., Vermont's largest captive, wrote $84.3 million in gross premiums last year, while Bluefield USA Insurance Inc. reported gross premiums of $37.2 million.

Full data also was withheld for Sooner Insurance Co., a unit of Phillips Petroleum Co. Sooner wrote $52.8 million in gross premiums in 1988. ■

Vermont captives

Continued from previous page

0.7%, while a 0.5% tax would be imposed on direct premiums between $20 million and $40 million.

The tax on direct direct premiums between $40 million and $60 million would be 0.3%, while the tax on direct premiums exceeding $60 million would be 0.1%.

• For reinsurance, the tax would be 0.25% on the first $20 million of reinsurance assumed, 0.2% on reinsurance premiums between $20 million and $40 million, 0.15% on reinsurance premiums between $40 million and $60 and 0.1% for reinsurance premiums exceeding $60 million.

State regulators and captive managers strongly support the new tax structure.

"We are looking for ways to attract larger captives. With a new, lower tax structure, you give companies a greater incentive to put more premiums into their captives," explained Gretchen Babcock, commissioner of the Department of Banking and Insurance.

"The premium tax should attract mega-captives," said George Chaffee, president of Skandia International Risk Management (Vermont) in Burlington.

In addition, the legislation will help Vermont increase its ability to promote itself as a captive domicile.

Currently, the Department of Banking and Insurance receives 7.5% of the premium taxes paid by captives. However, that money can be used only for captive-related regulation.

Under the new legislation, the department would receive 10% of the premium taxes, while the department could transfer an amount —up to 2% of premium taxes—to a state developmental agency for the exclusive purpose of captive promotion.

"The legislation will provide premium tax relief, while giving the department the funds it needs to regulate, as well as revenue needed to promote Vermont as a captive domicile," said Art Koritzinsky, a vp with J&H in New York.

Despite increased competition from other states with captive statutes, Vermont is well-primed to retain its position as the domestic domicile champion, observers point out.

"Vermont is light years ahead of the other domiciles," said Hanna's Mr. Teese. "There is no incentive to go to an untried domicile when a solid track record has been established in Vermont."

"Vermont has become an important force in the alternative risk financing movement," said Kathryn Westover, resident vp in the Burlington office of captive manager American Risk Management Corp. ■

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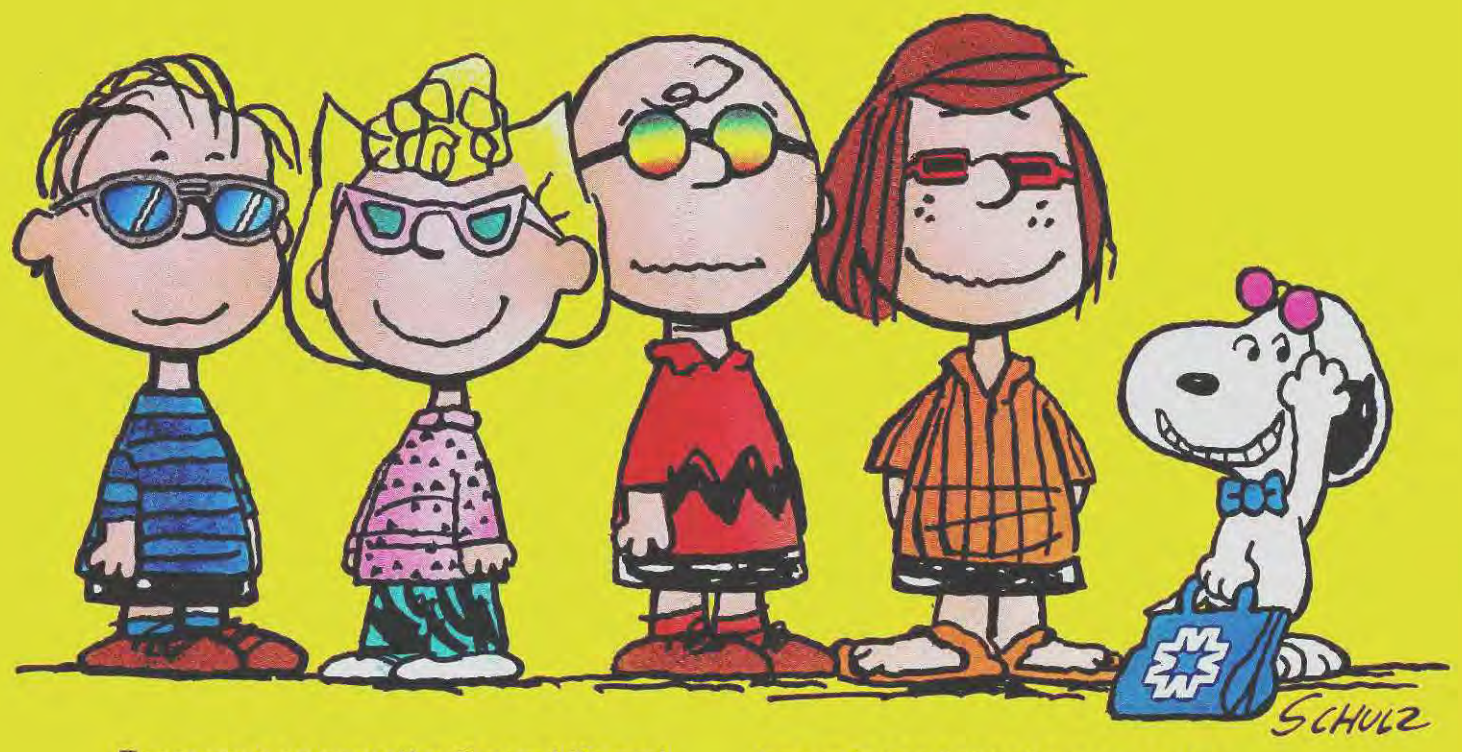

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Six managers dominate Vermont market

By JERRY GEISEL

MONTPELIER, Vt.—Just as the accounting profession has its Big Eight, the Vermont captive management industry has its "Big Six."

Six firms—M&M Insurance Management Services Inc., American Risk Management Corp., Johnson & Higgins Services Inc., Vermont Insurance Management Inc., Hanna Insurance (Vermont) Ltd. and Anistics Inc.—manage the lion's share of Vermont-based captives.

Of the 136 captives that held Vermont licenses at the end of 1988, 120, or 88%, were managed by one of these six management companies.

Similarly, captives managed by the six management companies in 1988 produced gross premiums of $587 million, or more than 90% of the estimated $651.4 million in premiums generated by all Vermont captives.

And, the domination of the Vermont captive market by a handful of captive management companies, which began several years ago, is

Vermont

accelerating.

For example, of the 32 captives that were licensed in 1988 by the Vermont Department of Banking and Insurance—excluding one captive that was licensed in 1988, but folded before the end of the year—all but one are managed by the Big Six.

All but one member of the Big Six—Vermont Insurance Management—increased the number of clients on their captive management rosters during 1988. By contrast, none of the remaining four members of Vermont's 10 largest captive managers added to their captive rosters during 1988.

In addition, managed premium volume increased much faster among the Big Six compared with the other Vermont captive management companies.

For example, the Big Six's 1988 managed premium volume of $587 million represents a 49.4% increase from their 1987 premium volume of $393 million. Managed premium volume of the remaining 10 largest Vermont captive managers only increased 30.9% between 1988 and 1987, rising to $60.2 million from $46 million.

Of Vermont's 10 largest captive managers, Burlington-based M&M Insurance Management Services Inc., a unit of Marsh & McLennan Cos. Inc., drawfs the other Vermont management companies as measured by managed premium volume.

With 1988 managed premium volume of $260.3 million, up 78.3% from $146 million in 1987, M&M is almost triple the size of its nearest rival.

M&M's huge premium volume is a direct reflection of the enormous size of several of the captives it manages.

For example, M&M manages five of Vermont's largest captives. These five captives—which include the insurance subsidiaries of Mobil Corp. of New York, Phillips Petroleum Co. of Bartlesville, Okla., Consolidated Freightways Inc. of Menlo Park, Calif., and a risk retention group owned by medical equipment manufacturers—generated about $228 million in premiums in 1988, or about 35% of the premiums produced by all Vermont captives.

The two Mobil captives, Bluefield International Insurance Inc. and Bluefield USA Insurance Inc., by themselves produced $121.5 million in premiums last year—close to 20% of the state's total captive premium volume.

Aside from retaining its lead as Vermont's largest captive manager, M&M's captive roster swelled by eight, rising to 21 last year, up from 13 in 1987.

"We were satisfied with the quality of services we provided" in Vermont, said Phil Petronis, a managing director with Marsh & McLennan Inc. in New York.

A big spurt in managed premium volume catapulted American Risk Management Corp. up three notches, making ARM Vermont's second-largest captive manager in 1988.

ARM's managed premium volume leaped to $89.2 million last year, up from $37.5 million in 1987. ARM's 137.9% increase in managed premium volume easily was the highest of Vermont's Top 10 captive managers.

"It was a very good year," said Kathryn Westover, resident vp in ARM's Burlington office.

Several of ARM's newest clients in Vermont have quickly become some of the state's largest captives. For example, ARM-managed captives sponsored by Cargill Inc. of Minneapolis and Archer-Daniels-Midland Co. of Decatur, Ill., became, in their first full year of operations, Vermont's sixth- and ninth-biggest captives, respectively.

During 1988, ARM increased to 18 from 14 the number of captives it manages in Vermont.

Among ARM's new parent company clients is Hewlett-Packard Co., the Palo Alto, Calif., computer and electronics manufacturer. ARM also manages captives by such well-known firms as Aluminum Co. of America in Pittsburgh; BF Goodrich Co. of Akron, Ohio; Colt Industries Inc. of New York; and Weyerhaeuser Co. of Seattle.

During 1989, ARM expects to add four more captives to its client list, the same number as in 1988.

"We are projecting similar or better growth compared with 1988," Ms. Westover said.

Johnson & Higgins Services Inc. in Burlington retained its position as the third-largest manager with $88.9 million in managed premium volume, up 29.1% from $63 million in 1987.

At the same time, J&H's captive roster rose to 30 from 23, allowing J&H to retain its distinction as managing more Vermont captives than any other manager in the state.

"We had been expecting a slowdown in captive formations. But, in fact, we had our best year ever," said Art Koritzinsky, a J&H vp in New York.

And, Mr. Koritzinsky believes major captive growth also is likely in 1989.

"We expect to have about 40 captives within a year, and we should easily cross the $100 million managed premium volume threshold," Mr. Koritzinsky predicted.

To support that growth, J&H intends to add three more staff members to its Burlington office.

During the year, J&H became manager of three risk retention groups that were organized in Vermont. And, in February 1989, J&H picked up another risk retention group, bringing the total number of groups under its management to five.

With premium volume holding near steady, Montpelier-based Vermont Insurance Management Inc. slipped two positions and now is Vermont's fourth-largest manager.

Managed premium volume in 1988 was $63 million compared with $65.5 million in 1987.

Vermont Insurance Management continues to manage 19 captives, the same number it managed in 1987. It manages more Vermont captives than any other company except J&H and M&M.

None of the Vermont captive managers has been more aggressive than Vermont Insurance Management in promoting the use of risk retention groups. And, that aggressiveness has paid off: Vermont Insurance Management now manages six Vermont-chartered risk retention groups, more than any other captive manager.

"People come to us because of our experience in managing risk retention groups as well as dealing with state regulators," said Michael Rogers, Vermont Insurance Management's chief operating officer.

The risk retention groups managed by Vermont Insurance Management are diverse, representing such groups as accountants, engineers, chemical speciality manufacturers and ski resort operators.

Fifth-ranked Hanna Insurance Vermont Ltd. saw managed premium volume move ahead to $59.1 million last year, up 18.2% from $50 million in 1987.

Hanna, a joint venture between Smith, Bell & Thompson Inc., a Burlington-based insurance broker, and Cleveland-based M.A. Hanna Co., picked up three new captives in 1988, while one previously established captive withdrew. That brought the number of Hanna-managed captives to 14, up from 12 in 1987.

Hanna President Roger Teese describes 1988 as a year of consolidation, after an explosive

Continued on next page

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Vermont managers

Continued from previous page

1987 in which managed premium volume leaped to $50 million from $8 million.

This year, Hanna expects to add at least two more captives to its roster.

Parents of the new Hanna-managed captives include White Consolidated Industries Inc., the Cleveland-based manufacturer of major appliances, as well as an asbestos removal company and a group of universities.

Hanna also manages captives whose parents include the University of Michigan, the General Conference of Seventh-day Adventists of Takoma Park, Md., and Kroger Co. of Cincinnati.

Becher & Carlson Management (Vermont) lost one captive to another manager bringing its captive roster down to three in 1988.

But because the amount of business written by one of its captives—Toyota Motor Insurance Corp.—nearly doubled, Becher & Carlson moved up one position in 1988 to become Vermont's sixth largest manager.

Altogether, Becher & Carlson-managed captives produced $34.8 million in premium volume in 1988, up 54.7% from $22.5 million in 1987.

The parents of the two other captives Becher & Carlson manages in Vermont are Hilton Hotels Corp. of Beverly Hills, Calif., and Elixir Industries of Gardena, Calif.

While Anistics Inc. is the seventh-largest manager in terms of premium volume, it is included in Vermont's Big Six because of the large number of captives it manages: 18.

The premium volume under management by Anistics, a unit of New York-based Alexander & Alexander Services Inc., dipped to $26.5 million in 1988 from $31 million in 1987.

This year, though, Anistics expects to increase the number of Vermont captives it manages to between 25 and 30, said Scott Frazier, a vp with Anistics in Burlington.

Eighth-ranked Yankee Captive Management Inc. in South Burlington kept its captive roster at three, while managed premium volume moved 22.1% to $11.6 million in 1988 from $9.5 million in 1987.

The vast majority of Yankee's business comes from managing a risk retention group that provides coverage to public housing authorities. That risk retention group wrote more than $10 million in premiums last year.

Ninth-ranked Green Mountain Captive Management Co. of Barre, Vt., saw its premium volume decline 16.7% in 1988 to $8.5 million from $10.2 million

One Green Mountain-managed captive, which had been inactive for several years, formally closed last year, reducing the number of captives managed by Green Mountain to two from three.

Tenth-ranked Skandia International Risk Management (Vermont) Inc., a unit of Skandia America Group, is the successor company to Champlain Risk Services Inc.

The two captives Skandia managed in 1988 were risk retention groups. One risk retention group writes coverage for hospitals, while the other serves mental health facilities.

These two risk retention groups produced $5.3 million in premium volume last year, up 39.5% from $3.8 million in 1987.

In addition Skandia last month was named manager of a new Vermont-based risk retention group providing coverage to financial planners.

"I would like to double what we now have," said George Chaffee, president of Skandia International Risk Management (Vermont) in Burlington.

Other companies managing Vermont captives that wrote business last year include: Fred S. James & Co. of Vermont Inc., Frank B. Hall Management Co., and Arthur J. Gallagher & Co.

Also, Risk Retention Groups Management Co. of Burlington manages one captive, but the captive did not write any business last year.

In addition, two new managers have opened their doors to Vermont captives.

Late last month, American International Group Inc.'s risk management subsidiary formed a new unit. AIG Captive Management Co. Inc. in South Burlington, to manage captives and risk retention groups. The unit's president is John Giesen

"We can provide a full array of services to captives," said Mr. Giesen, adding that the AIG unit could be managing as many as a dozen Vermont captives within a year.

And, earlier this year, another captive management company, Northern States Management Inc. in Waterbury Center, Vt., began operations.

Its president, John Middleton, was the previous chief operating officer of Vermont Insurance Management. ■

Regulations for captives in Vermont

Requirements for captive insurance companies under Vermont's Special Insurer Act of 1981 include:

- Minimum capitalization requirements of $250,000 for single-parent captives, $500,000 for industrial insureds and $750,000 for association captives.

Approved letters of credit can be used to meet capitalization requirements.

- A two-tiered tax structure for direct and reinsurance premiums.

There is a 0.8% tax on the first $15 million of direct premiums written by a captive, while the tax on direct premiums exceeding $15 million is 0.6%.

For reinsurance, the tax is 0.3% on the first $15 million of reinsurance assumed and 0.2% on reinsurance premiums assumed exceeding $15 million.

However, the Vermont Legislature this month is expected to approve a measure that would substantially reduce the tax rate (see story, page 85).

In addition, captives are subject to a minimum annual premium tax of $5,000. This minimum tax only affects very small captives.

- Single-parent and industrial insured captives file simplified annual financial reports; trade association captives use the National Assn. of Insurance Commissioners' convention blank. Financial reports are due Feb. 28.
- Captives can directly write all types of property/casualty insurance except primary workers compensation coverage. However, primary workers compensation coverages can be reinsured by a captive, while excess workers compensation can be written directly or reinsured.
- A captive's financial records must be kept in the state and a captive's board of directors must hold an annual meeting in Vermont.
- A $200 initial application fee and a $300 annual license fee.

In addition, a prospective captive must have its actuarial assumptions reviewed by one of five actuarial/risk management consulting firms selected by the department. The fee for this review is $1,200.

Vermont does not impose any minimum premium volume requirements or a specific premium-to-surplus ratio.

Rate and policy form approval is not required, and captive sponsors do not have to prove that insurance is unavailable or unaffordable.

For more information about Vermont captives, contact Edward Meehan, Director of Financial Examinations, Vermont Department of Banking and Insurance, 120 State St., Montpelier, Vt. 05602; 802-828-3301. ■

Amendments in Colorado to ease rules

By DONNA DiBLASE

DENVER—Amendments to Colorado's captive insurance company law awaiting final signature would simplify the administration and regulation of captives and enable the state to better compete with other onshore domiciles, captive managers and the state's insurance commissioner say.

The changes, which include permitting captives to make loans to their parent companies and eliminating policy form and rate filing requirements for single-parent captives, were passed by the Colorado Legislature late last month. The amendments are expected to be signed by Gov. Roy Romer and would be effective upon his approval.

These changes follow 1987 amendments to the Colorado Captive Insurance Company Act of 1972, which also were intended to simplify the formation and administration of captives in the state (*BI*, April 18, 1988).

Observers expected the 1987 changes to spur an increase in the number of new captives licensed in Colorado. However, the number of Colorado-domiciled captives grew by only two in 1987, for a total of 25.

Colorado

And, just two more captives were licensed in 1988. However, two captives were dissolved, leaving Colorado's current captive roster at 25, the same as last year. Of those 25, one is in conservatorship and one recently was placed into receivership.

Some observers of the domicile note that the current soft property/casualty insurance market may be contributing to the slow growth of captive formations in the state.

And, the soft market also has affected already licensed captives, as eight reported no written premium in 1988.

But, some captive experts note there is some interest among risk managers in investigating the formation of captives in preparation for the next hard market.

Last June, business and government leaders in Colorado formed an Advisory Committee on Insurance and Economic Development to explore methods by which the state could attract and retain insurance business, including captive insurance companies. The committee was chaired by Insurance Commissioner John Kezer.

One subcommittee of the group was formed to "identify structural constraints and regulatory problems to see what we needed to do," Mr. Kezer said.

The group studied legislative changes, changes in Insurance Department department policy, procedure or philosophy, Mr. Kezer explained.

The panel of captive managers, insurance brokers and public officials was a catalyst behind the latest captive law amendments.

Another advisory subcommittee was formed to "formalize strategies on how we could do a better job of marketing the state" as a captive domicile, he said.

"Historically, we were the leader in onshore captive formation, and we still are. We lost the battle numerically, mainly to Vermont, because we didn't market the state," Mr. Kezer noted.

However, Colorado will be marketing itself as a captive domicile during this week's annual conference of the Risk & Insurance Management Society in Atlanta.

The state will have a booth in the exhibition area and also will host a hospitality suite during one evening of the conference, he said. Mr. Kezer, as well as other representatives from the Division of Insurance, will spend time at the booth, he said.

And, Colorado will promote its new captive law amendments at the booth, he said.

The amendments, contained in S.B. 107, clarify technical points in the state's captive law, as well as add new provisions to the law. Specifically, under the new amendments:

- Single-parent captives may make loans to their parent companies. Captives may make the loans from their funds in excess of the state's minimum requirements of $300,000 in capital and $200,000 in surplus.

However, parent companies must submit a Standard & Poor's debt rating of "AA," a Moody's long-term debt rating of "AA" or other equivalent ratings.

And, the total amount of all loans to the parent must not exceed 10% of the parent's total assets. Also, the parent or its subsidiaries must provide a clean and irrevocable letter of credit equal to the amount of the loan.

- Single-parent captives are exempt from filing policy forms or rates with the Division of Insurance. However, association captives still must file forms and rates with the department.
- Unrestricted investments may be made by either single-parent captives or industrial insured captives. Industrial insured captives are defined as a collection of entities in which each member has a full-time risk manager, has a minimum of 25 full-time employees and has a minimum aggregate annual insurance premium for all risks of $25,000.

This provision clarifies a similar provision on investments by captives that was included in the 1987 amendments.

However, captives must meet specified financial ratios in a certificate of solvency to be filed with the Division of Insurance and the commissioner may prohibit or limit any investment that threatens the solvency of the captive.

- Captives may be formed by entities other than stock corporations. This provision mainly clarifies that the captive law permits formation of captives by associations of individual professional practitioners or groups of corporations or partnerships.
- Captives may request and the commissioner approve an extension on the required filing date for annual reports. Captives must file an annual report with the Division of Insurance by March 1, but they now can receive an extension up to July 1.
- The commissioner may request that a captive retain independent, outside insurance examiners to supplement the Insurance Division's evaluation procedures for either organizing a captive or for annual financial examinations of existing captives. All expenses related to the outside examiner must be paid by the captive.

This measure is intended to provide the department with flexibility to handle the increased workload that would be generated by an influx of new captive business, Mr. Kezer explained.

Some captive managers in Colorado note that the new amendments make captive regulation in the domicile more flexible and could increase captive company activity.

"It's encouraging to see that the department recognizes the need to be a more flexible domicile in order to compete. Letting parent companies borrow money from their captives will alleviate a major hurdle in keeping Colorado attractive as a captive domicile," said Ray A. Oberg, a vp in the Burlington, Vt., office of M&M Insurance Management Services Inc., a subsidiary of New York-based Marsh & McLennan Cos. Inc.

"These changes are steps in the right direction," he said.

M&M's Colorado captive management services in Denver now are coordinated by Lorraine Kehm, head of the Denver office. Ms. Kehm assumed these duties as a result of the recent resignation of Richard A. Johnson, a vp with M&M.

"The real news here is that the Insurance Division is backing the changes in the captive law. This is important because if the regulators are not supportive, any changes you make don't make that much

Continued on next page

Colorado-based captives

Management Captive/Parent	Gross written premiums	Net income	Management fee
Frank B. Hall Management Inc.			
Arroyo Insurance Co. Lear Siegler Inc.; Santa Monica, Calif.	-$1,144,487	$42,709	$27,000
Chesapeake Casualty Insurance Co. Chesapeake Physicians P.A.; Baltimore	955,789	12,983	31,500
Clifton Casualty Insurance Co. Emory University; Atlanta	2,843,001	-143,745	99,996
Greenway Insurance Co. American Medical International; Bevery Hills, Calif.	0	3,863,309	24,700
Havican Insurance Co. Holy Cross Shared Services Inc.; Notre Dame, Ind.	11,146,807	5,869,507	48,000
Interstate Indemnity Co. CLC of America Inc.; Houston	831,402	305,032	30,000
Lombardy Insurance Co. Clougherty Packing Co.; Los Angeles	0	930,557	30,000
United Insurance Co. Empire Gas Corp.; Lebanon, Mo.	0	274,721	18,000
Wescap Insurance Co. National Welding Supply Assn.; Philadelphia	0	597,673	180,760
M&M Insurance Management Services Inc.			
Aurora Indemnity Insurance Co. Bay Alarm Co.; San Francisco	40,000	9,290	7,127
Colbourne Insurance Co. Coastal Corp.; Houston	10,003,124	877,645	12,377
Columbine Casualty Co. Tenneco Inc.; Houston	Did not file report with state		
Insurance Co. of Colorado Inc. Darling-Delaware Co. Inc.; Chicago	0	-201,736	44,841
Manufacturers Indemnity & Insurance Co. of America Inc. R.D. Werner Co. Inc.; Greenville, Pa.	24,944,928	725,454	46,666
Mountain View Insurance Co. W.R. Grace Co./Hanna Mining Co.; Greenville, Pa.	854,090	428,447	48,394
MSJ Insurance Co. Sisters of Charity; Cincinnati	9,284,755	7,773,211	80,000
PanOl Insurance Co. U.S. Pan American & Olympic Committee; Denver	0	-1,424,613	42,802
Anistics Inc.			
Coachman Insurance Co. IV International Corp.; Philadelphia	949,545	-227,759	148,465
Sunset Insurance Co. Santa Fe Southern Pacific Corp.; Chicago	1,568	66,147	21,034
Johnson & Higgins of Colorado Inc.			
Neumann Insurance Co. **Franciscan Health Systems; Philadelphia**	Did not file report with state		
Lockton Risk Services of Colorado			
Midwestern Liability Insurance Risk Retention Group Inc. Deffenbaugh Industries, Industrial Service Corp. and Mid-Continent Fuel Co. Inc.; Kansas City, Mo.	250,000	-9,333	NA
Risk Consultants			
Constance Insurance Co. Crawford Fitting Co.; Cleveland	993,297	578,380	22,243
Managed by parent			
Weld Insurance Co. Monfort of Colorado Inc.; Denver	Did not file report with state		

Source: 1988 annual statements filed with Colorado Insurance Department

Chart: Christine Woolsey

Colorado captive managers

Manager Parent	Premium volume 1988	Premium volume 1987	Captives 1988	Captives 1987	Staff 1988	Staff 1987
M&M Insurance Management Services Inc. Marsh & McLennan Inc.	$45.1 million	$19.0 million	9	8	7'	7
Frank B. Hall Management Co. Frank B. Hall & Co. Inc.	16.9 million	17.6 million	11	11	9	9
Johnson & Higgins of Colorado Inc. Johnson & Higgins	N/A	13.3 million	1	1	3	3
Risk Consultants	993,297	1.2 million	1	1	8	7
Anistics Inc. Alexander & Alexander Inc.	951,113	3.2 million	2	3	1	1
Lockton Risk Services of Colorado	250,000	0	1	0	9	0

' *BI* estimate N/A-Not available

Chart: Christine Woolsey

Colorado

Continued from previous page
difference," pointed out Alverd C. Stutson, executive vp with Frank B. Hall Management Co. in Englewood, Colo., a subsidiary of broker Frank B. Hall & Co. Inc. of Briarcliff Manor, N.Y.

Mr. Stutson last month announced his resignation from Hall Management. Hall's captive management responsibilities in Colorado now are coordinated by Gwyn R. Shuel, vp/treasurer of Hall Management.

"I'm excited about these changes in the law," Mr. Stutson added.

"I would hope that the changes should prompt risk managers to form captives in Colorado. Now, there are really not any large differences between the domiciles," he said.

But, "the proof of the pudding is in the tasting. We've got the recipe. Now, we'll see if it works," Mr. Stutson noted.

However, "I am convinced and excited that things are going to happen" in the area of new captive formation in the Rocky Mountain State, maintains Insurance Commissioner Kezer.

Colorado licensed two new captives in 1988.

Manufacturers Indemnity & Insurance Co. of America Inc. was formed by R.D. Werner Co. Inc. of Greenville, Pa., to write product liability, environmental impairment liability and workers compensation coverages.

'The soft market does slow down the development or formation of captives. But, generally, when a company sets up a captive, it's for the long term,' says Ray A. Oberg of M&M Insurance Management Services.

The parent company manufactures plastic, metal, aluminum and wood extrusion products, such as ladders, stages and scaffolds.

Manufacturers Indemnity is managed by M&M.

In addition, Midwestern Liability Insurance Risk Retention Group Inc. was licensed as an industrial insured captive in Colorado.

This new captive is owned by Deffenbaugh Industries, Industrial Service Corp. and Mid-Continent Fuel Co. Inc., all based in Kansas City, Mo. These companies are in the business of garbage-hauling, landfill operations, and the transport, storage, reprocessing and sale of new and recycled oil.

The captive writes general liability and commercial automobile liability insurance for its parents. It is managed by Lockton Risk Services of Colorado, which is located in Aurora.

Along with these new captives, two captives were dissolved in 1988: Holborn Reinsurance Co., owned by Los Angeles-based Whittaker Corp. and managed by Anistics Inc.; and Denver Insurance Co., owned by Beverly Hills, Calif.-based American Medical International and managed by Hall Management.

In addition, Regal Insurance Co., owned by Chatham Supermarkets Inc. of Detroit, is in receivership. The parent is in bankruptcy proceedings and refuses to make premium deposits for premiums already written by Regal, according to Mr. Kezer. The captive is managed by Hall Management.

Also, Lone Star Indemnity Co., owned by Michigan General Co. of Saddle Brook, N.J., is in conservatorship. It is managed by M&M.

"The soft market is having a lulling effect right now" on captive activity in Colorado, observed Mr. Kezer.

But, both the commissioner and captive managers predict that this lull will not last.

"Some risk managers are going through the rudiments of looking at captives because it is expected of them. But, some risk managers are very serious and are saying that they want to do their posturing now before the market changes," Mr. Stutson of Hall Management noted.

And, "the soft market does slow down the development or formation of captives. But, generally, when a company sets up a captive, it's for the long term," noted Mr. Oberg of M&M.

So far, the Division of Insurance has received an application from the University of Colorado to establish a captive to write property and casualty coverages for all of the university's affiliates, Mr. Kezer said.

However, the Division of Insurance and the university are working out a technical problem with the application, he said. The university wants to form the captive as a nonprofit corporation and this may create some conflicts with Colorado's laws governing incorporation. ■

1972 law outlines mandates

Colorado's Captive Insurance Company Act of 1972 includes the following requirements for incorporating a captive insurance company:

- The home office of every captive must be in Colorado. And, all books, records and claims handling documents must be maintained in the state.
- Captives must pay an initial application fee of $200 and an annual $300 fee.
- Captives may only insure the risks of their parents or affiliates.
- Single-parent captives must have a minimum capital of $300,000 and minimum surplus of $200,000. Association captives must have minimum capital of $400,000 and minimum surplus of $350,000.
- All captives must file financial information with the Insurance Division on the National Assn. of Insurance Commissioners' convention statement.
- Captives must pay a 1% annual premium tax to the Division of Insurance.
- Captives may be formed as risk retention groups only if they meet the definition of an industrial insured group. Each entity in the group must have a full-time risk manager; a minimum of 25 full-time employees; and a minimum annual aggregate insurance premium for all risks of $25,000.

For more information on the domicile, contact: John Kezer, Commissioner of Insurance, or Daniel J. Colaiannia, Deputy Commissioner, Division of Insurance, 303 W. Colfax Ave., Suite 500, Denver, Colo. 80204; 303-620-4300.

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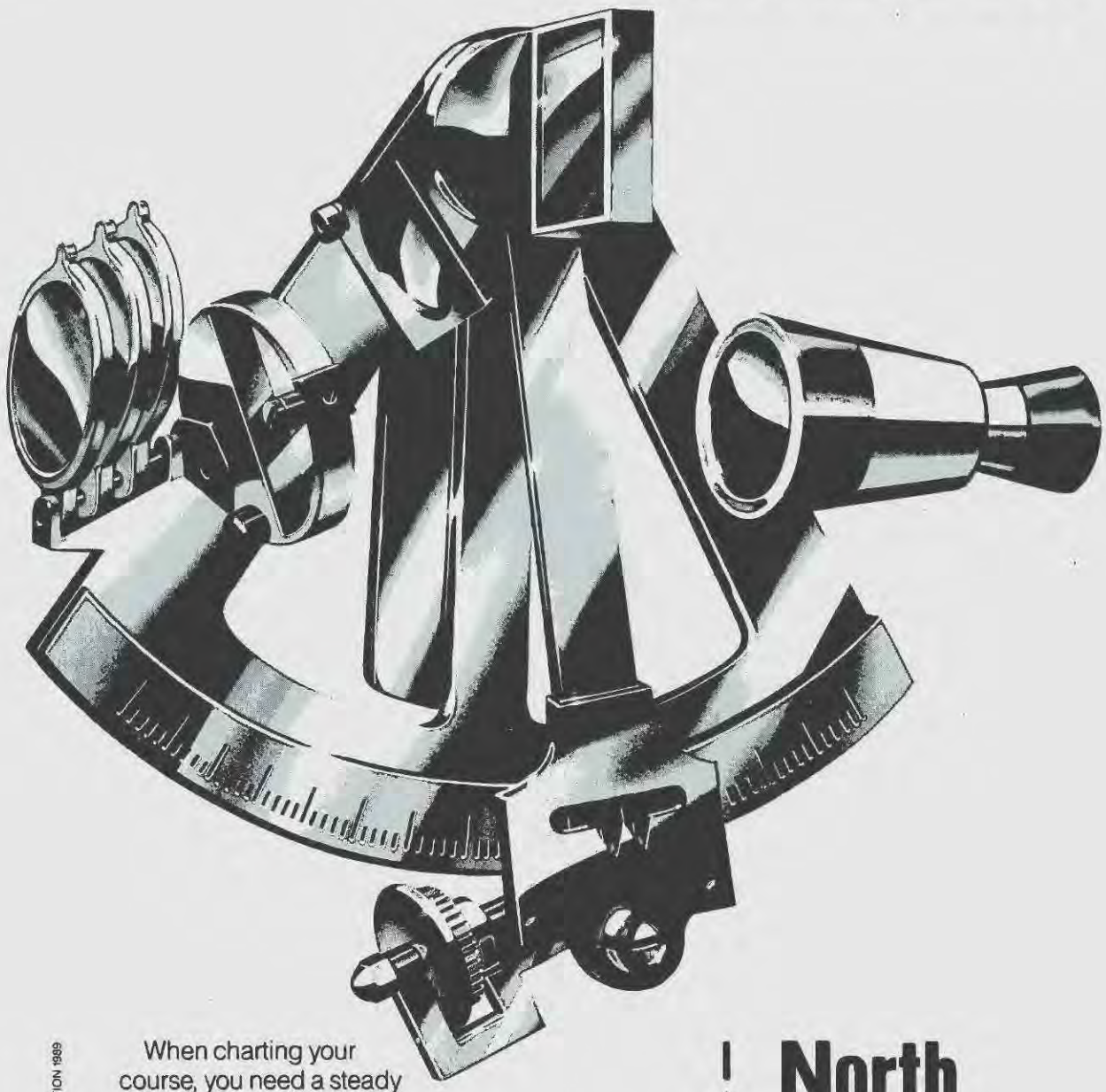

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Hawaii growing slowly but 'catching on'

By GLENN HUNTLEY

Hawaii

HONOLULU—The pace of captive formations in Hawaii has not met earlier predictions, but more parent companies are seriously considering the 2-year-old captive domicile, captive experts say.

The state, which licensed its first captive in 1987, licensed four more in 1988. And, two new captives were licensed in January, bringing the total to seven.

However, last summer the Hawaii Division of Insurance expected it would approve up to 12 captives by year-end 1988 (*BI,* July 25, 1988).

"We're just now catching on," said Insurance Commissioner Robin Campaniano. "People are realizing we have something to offer other than sand and sun."

The Insurance Division is reviewing several applications from potential captive owners and has had "a nice steady stream of inquiries and applications," he said.

And, the state has attracted quality captive owners and has seen continuing interest despite a soft insurance market, Mr. Campaniano noted. "I can't say we're off track. We're doing well given the market conditions."

Captive managers also are optimistic that Hawaii has taken the right course.

For example, Fred S. James & Co. of Hawaii Inc., manager of six of the seven Hawaiian captives, has another two or three "in the works," said Jerome Aperton, senior vp at Fred S. James & Co. in San Francisco.

"We would like to do another half-dozen this year. I'm sure other consultants will jump into the fray," Mr. Aperton said.

Johnson & Higgins Services Inc. in Honolulu, which has only recently landed its first captive client in Hawaii, also believes the state has "great potential" as a domicile, said Richard Blackman, senior vp at Johnson & Higgins of California in San Francisco.

The state's captive law makes it competitive with more established domiciles, Mr. Blackman said. Among Hawaii's advantages are proximity to the West Coast, flexible capital requirements and the ability to write many insurance lines for single-owner and group captives, he said.

Johnson & Higgins Services entered the Hawaii market as manager of PacTel Reinsurance Co., which is owned by Pacific Telesis Group of San Francisco.

The captive, which was licensed in December, writes auto and general liability policies with limits of up to $1 million per occurrence for several PacTel subsidiaries, a company spokeswoman said. PacTel and the Insurance Division declined to disclose the captive's initial capitalization.

PacTel, a communications company that owns Pacific Bell and other subsidiaries, apparently is "testing the waters" with the new captive and will write coverage for only some of its subsidiaries at present, Mr. Campaniano said.

Claims are administered by Associated Claims Management Inc. of Walnut Creek, Calif.

In addition to PacTel Re, Hawaii in 1988 licensed Royal Hawaiian Insurance Co., owned by Duty Free Shoppers Limited Partnership of Honolulu and San Francisco (*BI,* April 18, 1988); K-M Insurance Co. for Kelly Moore Paint Co. of San Francisco; and the College Liability Insurance Co., an association captive formed by seven West Coast liberal arts colleges (*BI,* July 25, 1988).

The state's first captive, Surety Pacific Insurance Co., was licensed in December 1987. It is owned by San Francisco-based paint manufacturer O'Brien Corp. (*BI,* Dec. 14, 1987).

The Insurance Division is scheduled to complete annual examinations of Surety Pacific, Royal Hawaiian, K-M Insurance and College Liability Insurance this month, he said.

Based on informal discussions with their manager, James, the initial captives are operating successfully, he said.

The Insurance Division licensed two captives in January, both managed by James:

- An association captive that will write claims-made general liability insurance for member dealers of the San Francisco-based Western Auto Dealers Assn. The captive, with $4 million in capital, generally will offer limits of $1 million per claim, though up to $4 million in limits will be available through "substantial reinsurance," Mr. Aperton said.

Large auto dealers in seven Western states are eligible to purchase coverage through the captive, which began issuing policies in March, he said.

- A risk retention group that will write claims-made medical malpractice insurance with limits of $1 million for members of the California Hospital Assn.

The group was capitalized at more than $2 million, but eventually capital and surplus will grow to in excess of $10 million under the association's plan, Mr. Aperton said. With reinsurance, member hospitals eventually will be able to obtain medical malpractice liability coverage limits up to $10 million, he said. ■

Hawaii captives governed by 1987 regulations

The Hawaii captive law, which became effective in July 1987, permits formation of single-parent and association captives and risk retention groups.

Captives can write property/casualty coverages including workers compensation insurance, surety and title insurance, and marine and transportation coverages for parent companies only.

Other specific requirements for captives include:

- A minimum of one board of directors meeting held in Hawaii annually.
- Maintaining the captive's principal place of business in the state.
- Appointment of a resident registered broker or agent to represent the captive locally.
- A non-refundable fee of $1,000 for the captive license application. An annual registration fee of $300.

Capital requirements are determined by the Insurance Division on an individual basis and are based on actuarial studies required by the law.

The law as first approved by the state Legislature did not set premium taxes for captives. But in April 1988, lawmakers amended the document to include tax rates competitive with other captive domiciles (*BI,* July 25, 1988). The premium tax was set at 0.25% for single-parent captives and 1% for association captives and risk retention groups.

The amendments also clarified several other issues:

- The insurance commissioner may approve investments by single-parent captives exceeding parameters allowed in the insurance code. Investments by association captives and risk retention groups, however, are bound by statutory limits.
- The assumption and cession of reinsurance are subject to the commissioner's approval.
- Captives may write credit life and credit disability insurance related to loans or other credit transactions between parent companies and affiliates.
- For regulatory purposes, risk retention groups will be treated the same as association captives.
- All captives must file financial statements that conform to generally accepted accounting principles. Also, association captives and risk retention groups must submit annual statements in accordance with statutory accounting practices.

For more information on Hawaii as a captive domicile, contact Robin Campaniano, Insurance Commissioner, Division of Insurance, Kamamalu Building, 1010 Richards St., P.O. Box 3614, Honolulu, Hawaii 96811; 808-548-5450. ■

Tennessee considers revisions to law

By STACY ADLER

Tennessee

NASHVILLE, Tenn.—Proposed legislation that would allow large, unaffiliated companies in different industries to form group captive insurers could stimulate captive growth in Tennessee, captive experts say.

Tennessee is home to 13 captives. One new captive was licensed in January, and another was licensed last year. However, one captive folded last year. The two newest captives—as well as a third formed in December 1987—all are risk retention groups writing medical malpractice insurance.

Bill Hosea, director of financial affairs for the Department of Commerce and Insurance, said he expects the state will license five or six new captives by year-end 1989.

But if S.B. 708—which would permit the formation of industrial insured captives in Tennessee—becomes law, captive growth could be greater, experts say. Currently, Tennessee allows only the formation of both single-parent and association captives.

However, S.B. 708 would permit groups of companies that meet certain requirements to form a captive even if they are not related by association or industry. Under the bill, a member of an industrial insured captive would have to pay at least $25,000 in insurance premiums annually, have at least 25 full-time employees and have a full-time risk manager on staff.

S.B. 708 would require industrial insured captives to maintain $1 million in capital and surplus, the same as group captives. Single-parent captives must have $750,000 in capital and surplus.

The bill is awaiting a vote by the full Senate, after which the House will consider it.

"The bill. . .is on its way to becoming law," said R. Jane Hill, a vp with Fred S. James & Co. Inc. "I think the legislation will enhance Tennessee's position as a domicile."

Ms. Hill says Tennessee already offers several advantages to companies looking for a captive domicile: It does not impose a reinsurance premium tax, it is centrally located in the United States and it is home to major health care companies—particularly attractive for medical malpractice captives.

James, through captive management subsidiary Syndicate & Corporate Management Services Inc., manages three captives.

The other captive manager in Tennessee is Corroon & Black, which manages three captives through its National Accounts Services Division.

The three new risk retention groups are:

- National Guardian Risk Retention Group Inc., which was formed Jan. 24.

The group writes professional liability and comprehensive general liability coverage on a claims-made basis for emergency room physicians. However, the risk retention group has only one member: Emergency Consultants Inc. of Traverse City, Mich.

National Guardian, which was capitalized at $1 million, offers policy limits of $1 million per claim and $6 million aggregate above a $250,000 self-insured retention.

National Guardian, which is managed by Corroon & Black, purchases reinsurance from Lloyd's of London underwriters.

- American Psychiatric Assn. Risk Retention Group, which was formed May 1, 1988.

The APA captive writes occurrence-based professional liability and comprehensive general liability coverage for licensed psychiatrists who are members of the American Psychiatric Assn. The captive, which writes coverage for more than 10,000 psychiatrists from nearly every state, is managed by Professional Risk Management Services Inc. in Washington, D.C.

The captive, capitalized at $5 million, offers limits of $1 million per occurrence and $3 million aggregate above a $25,000 primary layer written by Legion Insurance Co. of Philadelphia. No deductible is required.

The captive cedes 90% of its business to H.S. Weavers (Underwriting) Agencies Ltd., other foreign reinsurers and MONY Reinsurance Corp. of New York, said Leon Jacobson, an attorney with Jacobson & Mermelstein in New York who helped launch the APA risk retention group. The APA program has generated about $40 million in premium since it was established last year.

- Clinic Mutual Insurance Co. Risk Retention Group, which was formed Dec. 21, 1987.

The captive writes professional liability, property/casualty and comprehensive general liability coverage on a claims-made basis for tax-exempt community clinics in California. In fact, 110 of the 120 community clinics in California are insured by Clinic Mutual.

The captive, which was capitalized at $1.9 million, offers limits of $1 million per claim and $3 million aggregate above a $250,000 self-insured retention.

Clinic Mutual wrote a little less than $2 million in premiums in its first year.

Corroon & Black is the captive's accounting manager, and Applied Risk Associates of Irvine, Calif., is its general manager.

The captive purchases reinsurance from Lloyd's syndicates.

One captive, Hypercept Insurance Co., closed in 1988, the year after it was formed. The captive—which was a joint venture of The Rhulen Agency of Monticello, N.Y., and Aralie Inc., a Pequannock, N.J.-based environmental risk management consultant—was established to write environmental impairment liability insurance for manufacturers, distributors and generators of hazardous wastes.

Sufficient capital was never raised to allow the captive to write business.

In addition, Pinkerton's Insurance Co. Inc., which wrote workers compensation and general liability insurance with limits of between $250,000 and $500,000 for New York-based Pinkerton's Inc., is in the process of being run off.

The other captives in the state are:

- Anesthesiologists Professional Assurance Co., owned by a group of anesthesiologists in 10 states.
- Century American Insurance Co., owned by Durham, N.C.-based Coastal Group Inc..
- Distributors Insurance Co., owned by members of the Chattanooga-based Tennessee Valley Public Power Assn.
- Financial Services Insurance Co. of Tennessee, owned by Deutz-Allis Corp. of Milwaukee.
- Hospital Underwriting Group Inc., owned by a group of hospitals.
- NLC Mutual Insurance Co., owned by public entities.
- North American Indemnity Co., owned by Marietta, Ga.-based highway contractor C.W. Matthews Co. Inc.
- Parthenon Insurance Co., owned by Nashville-based Hospital Corp. of America.
- UHC Risk Retention Group Mutual Insurance Co., owned by a group of university hospitals. However, the captive is not active.

Tennessee requires that single-parent captives write a minimum of $500,000 in gross premiums annually, while group captives must write at least $1 million in gross premiums each year.

Tennessee charges a regulatory fee of $5,000 for single-parent captives and $10,000 for group captives.

In addition, risk retention groups domiciled in Tennessee with members outside the state must pay a $10,000 regulatory fee, under a 1987 Tennessee law.

Prior to the 1987 law, Tennessee would not license risk retention groups that wrote coverage for members outside of the state, because Tennessee's captive law did not provide a mechanism for taxing captive policyholders' premiums that were also subject to taxation in another state.

Captives can offset the fee by the amount of premium tax paid to the state.

For more information about Tennessee captives contact: Bill Hosea, Director of Financial Affairs, Tennessee Department of Commerce and Insurance, 1808 West End Building, Nashville, Tenn. 37219; 615-741-1692. ■

Taxes stymie British Columbia captives

By KARI BERMAN

VANCOUVER, British Columbia—The young British Columbia captive industry is growing at a much slower pace than expected last year because of some tough Canadian tax laws and initial low acceptance from Canada's nine other provinces, captive experts say.

The domicile licensed only four new captives in 1988 and has licensed only a total of nine captives since the the Insurance (Captive Company) Act of 1987 was enacted.

But, captive observers say that British Columbia—Canada's only captive domicile—offers other advantages to parent companies, and they expect captive growth will pick up this year.

"Interest in captives is much slower than I thought it would be," said consultant Clive Himsworth of The Wyatt Co. in Vancouver, reflecting on his prediction last year that 25 to 30 new captives would be formed in 1988.

Captive growth has been hindered partially because British Columbia does not offer parent companies tempting tax incentives.

"A British Columbia captive doesn't save you much in taxes and could cost you more," said Denis Brown, national director of property/casualty insurance at Arthur, Young, Clarkson & Gordon, a captive consulting firm in Toronto.

For example, British Columbia captives' net income is subject to a 23% provincial income tax and an additional 23% federal income tax.

In addition, captives are subject to fronting insurer fees or premium taxes from other provinces.

If an insurer fronts for a captive owned by a company or group based outside of British Columbia, that insurer is subject to a 3% premium tax. Insurers then charge fronting fees that range from 7% to 12% of total premiums, consultants say.

However, companies based in provinces other than British Columbia that establish captives without using a fronting insurer are subject to a greater levy—called an "in lieu of premium tax"—which can vary by province.

For example, Alberta imposes a 50% "in lieu of premium tax," the highest among all provinces.

"British Columbia captives with Alberta risks will go through a licensed insurer to avoid the 50% penalty," said Sherallyn C. Miller, manager of insurance and international financial business at British Columbia's Office of the Superintendent of Financial Institutions in Vancouver.

Consultants agree that the "in lieu of premium tax" is one way that provinces discourage captive use.

However, there are some tax advantages for British Columbia captives and their parent companies.

For example, British Columbia captives are exempt from Canada's excise tax. Canadian companies that own captives outside of British Columbia pay a 10% excise tax on all income earned abroad.

And, a Canadian company can deduct from its income taxes the premiums it pays to its captive insurer, according to a 1986 Canadian court decision (*BI*, Feb. 9, 1987).

Experts also contend that establishing a captive in British Columbia produces savings in other areas.

British Columbia

"It is expensive for Canadians to have captives in Caribbean domiciles. By staying in British Columbia, owners may pay more in taxes, but they will save in the costly travel expenses incurred when several members of the captive's management travel to Caribbean domiciles several times a year," said Robert Ensor, vp in the national marketing department at consultant Johnson & Higgins Willis Faber Ltd. in Toronto.

Ms. Miller agrees. "All of the captives have showed a savings, and one reduced its insurance-related expenses by $20 million last year."

Wyatt's Mr. Himsworth remains optimistic about British Columbia's future as a captive domicile and believes 1989 will be a major growth year.

"I think activity will improve, and we should see 20 to 25 captives by the end of the year," he said.

Ms Miller, however, is more conservative, predicting the domicile will have 15 captives by year-end.

New captives formed in 1988, all based in Vancouver, are:

- Northwood Properties Ltd., a single-parent captive that writes property/casualty insurance for Northwood Pulp & Paper Ltd. of Prince George, British Columbia. The captive is self-managed.
- ICG Property & Casualty Corp., a single-parent captive owned by Inter-City Gas Corp. of Vancouver. The captive is managed by Alexander Insurance Management Inc. in Vancouver, a subsidiary of Alexander & Alexander Services Inc.
- B.C. Transit Captive Insurance Co. Inc., a single-parent captive that writes property/casualty insurance for B.C. Transit of Vancouver. Alexander Insurance Management also manages B.C. Transit.
- R.N.A.B.C. Captive Insurance Corp., an association captive that writes excess professional liability insurance for members of the Registered Nurses Assn. of British Columbia in Vancouver.

The captive is managed by LWR Risk Management Services Inc. in Vancouver. LWR also manages Feed Mill Captive Corp., a British Columbia captive established by the Canadian Feed Industry Assn. in 1987. ■

1987 law governs captives in B.C.

Three types of captives are permitted to write commercial property and liability coverage under the British Columbia Insurance (Captive Company) Act of 1987.

Besides single-parent and association captives, the law allows "sophisticated insureds," which are captives owned by an unrelated group of companies with insurance expertise and a sufficient joint premium base.

Recent amendments to the 1987 captive law allow captives to reinsure surety insurance issued through a fronting company.

Minimum capitalization for British Columbia captives is $200,000 Canadian ($167,400 at current exchange rate). In addition, captives are charged a non-refundable application fee of $500 Canadian ($418.50) and an annual registration fee of $2,500 Canadian ($2,092.50).

The superintendent of financial institutions can require a captive to contribute additional capital.

For more information, contact Sherallyn Miller, Manager of Insurance, Office of the Superintendent of Financial Institutions, 1000, 865 Hornby St., Vancouver, B.C. V6Z 2H4; 604-660-2947.

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Domestic domiciles attempt to woo captives

Public agencies and private interests are joining forces in Illinois' drive to become a major captive insurer domicile.

The state Insurance Department, the state Department of Commerce and Community Development, the author of the Illinois captive statute and industry volunteers will showcase the domicile's advantages at a booth at this week's Risk & Insurance Management Society Inc. conference in Atlanta.

In addition, a new captive association has been incorporated to promote the state as "the domicile of choice," according to one of the association's directors.

Five captives are licensed in Illinois. The state licensed four captives in 1988 after licensing its first captive in 1987 (*BI*, Nov. 21, 1988).

The Illinois law requires capitalization of $2 million and a $3,500 application fee. Captives cannot write life, personal auto, homeowners or workers compensation coverages.

The Illinois regulator in charge of captives and the author of the Illinois captive law both are optimistic that the first Illinois display at the RIMS conference will spark increased interest in the state, which is currently the only Midwestern captive domicile.

Illinois Chief Deputy Insurance Director James Schacht said the state can offer those interested in creating captives many reasons to establish their facilities in Illinois:

- The Illinois captive law is more straightforward than captive laws in some other states.
- The Insurance Department's favorable reputation nationwide.
- The department's support of captive formation.
- The lack of premium taxes on captives that maintain their offices in Illinois.
- Chicago's reputation as a major insurance industry center.
- The presence of the Chicago-based Illinois Insurance Exchange.

Illinois' captive law will prove to be a potent lure for captive organizers, and it even could compel some captives currently domiciled offshore to relocate in Illinois, predict both Mr. Schacht and Tomas M. Russell, an attorney with the Chicago law firm of Hopkins & Sutter and author of Illinois' 1987 captive statute.

Mr. Russell is optimistic about the chances for the formation of new Illinois captives during 1989. He said he had received about 30 inquiries by the first week in March, many of which are from offshore facilities considering moving to Illinois.

"The interest I see being expressed from the market is predominantly non-Illinois," he said.

However, Mr. Russell noted that the provision in the Illinois captive statute barring captives from writing workers compensation coverage may deter some companies looking for a captive domicile.

But he expects the Legislature this spring will consider amending the captive law to allow captives to write workers comp insurance.

Meanwhile, Mr. Russell is serving as an interim director of the Illinois Captive Insurance Assn., which was incorporated recently to "promote the development, establishment and expansion of the captive insurance industry in Illinois."

The association will draw its membership from consultants, attorneys, brokers and other professionals interested in the development of the captive industry in Illinois, Mr. Russell said.

The five captives currently licensed and issuing policies in Illinois are:

- Assn. of Trial Lawyers Assurance (A Mutual Risk Retention Group), capitalized at $2 million, which writes lawyers' professional liability insurance (*BI*, Oct. 10, 1988).
- AAOMS Mutual Insurance Co. Risk Retention Group, capitalized at $2 million, which writes malpractice coverage for maxillofacial surgeons (*BI*, Aug. 8, 1988).
- The Environmental Protection Insurance Co. Risk Retention Group, capitalized at $10 million, which writes environmental impairment liability coverage.
- The Illinois State Bar Assn. Insurance Risk Retention Group Inc., capitalized at $3.5 million, which writes lawyers' professional liability insurance (*BI*, July 11, 1988).
- Attorneys' Liability Assurance Society Inc., capitalized at $5 million, which writes lawyers' professional liability coverage (*BI*, April 18, 1988).

For information on forming a captive in Illinois, contact James Schacht, Chief Deputy Director; Ken Smith, Deputy Director; or Etta Mae Credi, Assistant Deputy Director, at the Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515.

Georgia

Only one application to form a captive insurer has been submitted in Georgia since the state's new captive law took effect Jan. 1.

But a lack of activity does not bother Deputy Insurance Commissioner Martin M. Wilson.

"We're trying to provide a viable insurance mechanism," rather than compete with other captive domiciles, Mr. Wilson said.

Although the Insurance Department in the Peach State has not been swamped with applications, Mr. Wilson believes there will be more interest this year, particularly if the property/casualty insurance market begins to harden.

Georgia's first captive application was submitted by a group of lodging operators. No action has been taken on the application.

The state's captive statute was passed by the Legislature last year as an amendment to Chapter 40 of the Insurance Code. It allows insurance regulators to evaluate prospective applicants and to set standards—such as minimum requirements for premium-to-surplus ratios, investment restrictions and capitalization requirements—on a case-by-case basis, depending on the kind of company being formed (*BI*, April 18, 1988).

In addition, the law requires:

- A minimum capitalization of $500,000, with regulators reserving the right to require additional capital.
- Payment of premium taxes at the same rate levied against conventional insurers in the state, which ranges up to 5% of premium.
- That the captive's principal business office be maintained in Georgia.
- The maintenance of loss reserves adequate to pay all reported and incurred-but-not-reported losses and claims adjustment or settlement expenses. The commissioner may require a captive to increase its loss reserves if the regulator thinks they are inadequate.
- Each policy form carry a notice that alerts the policyholder that the captive is not subject to all insurance regulations in the state.
- Applicants to provide a detailed business plan as part of its application.

The law permits formation of single-parent, association and industrial risk captives.

An association captive can insure the risks of the individuals, trade groups or businesses that are its owners.

Under the law, captives are permitted to write all commercial property/casualty, marine, transportation and surety risks as defined in the state's insurance code. However, captives may not write personal lines, life, health or accident insurance.

Captives in Georgia that write workers compensation or commercial automobile insurance must provide minimum limits of coverage required by the state.

In addition, captives are allowed to cede any amount of their risk to reinsurers and can write reinsurance for other captives.

Although Georgia's captive statute may appear stricter than those of some other domiciles, Mr. Wilson describes Georgia's regulatory approach as a "common-sense, no-nonsense style" that treats captives like insurers rather than like alternative insurance mechanisms.

"We're talking about something that will be entitled to use the words 'insurance company' in its name," he asserted.

"Believe it or not, many people who want to form captives are looking for the quality product strong regulation provides," Mr. Wilson explained.

Further information about Georgia as a captive domicile can be obtained by writing and requesting a copy of the state's captive act and regulations from the Georgia Insurance Department, 704 West Tower No. 2, Martin Luther King Jr. Drive, Atlanta, Ga. 30334.

Delaware

Two of the four captives Delaware licensed last year are huge.

Last May, two Bermuda-based captive insurers that write property insurance for nuclear utilities were licensed as Delaware captives (*BI*, May 16, 1988).

Those two captives—Nuclear Mutual Ltd. and Nuclear Electric Insurance Ltd., which remain incorporated in Bermuda—produced a combined premium volume last year of about $250 million.

Non-U.S. business will still be written through the Bermuda entities.

The captives moved onshore partly because the tax advantages of operating offshore had been abolished.

Also,"We wanted to be in a place where we could more easily hire professional staff, such as engineers," said Quentin Jackson, president of the two insurers.

"We looked at other domiciles, and after assessing the relative merits of the other jurisdictions, Delaware came out way ahead," Mr. Jackson explained.

Another captive added to Delaware's roster in 1988 was Harbour Insurance Inc., the insurance subsidiary of Prison Health Services Inc. of Wilmington, Del. Harbour, licensed late last year, writes medical malpractice insurance with a $1 million limit.

And, Architects & Engineers Insurance Co., a Risk Retention Group, which was licensed at the start of 1988, provides up to $5 million of professional liability coverage to architects and engineers.

The program has 28 shareholders and a premium flow of about $5 million, said C. Roy Vince, a vp with AEIC.

Meanwhile, HOW Insurance Co., the first major risk retention group organized under the original 1981 federal law, left and moved to Virginia (*BI*, Oct. 31, 1988).

HOW decided to move after Delaware state officials told the group that it had to be administered by professionals in Delaware (*BI*, April 18, 1988). HOW provides product liability coverage to about 11,000 home builders.

Requirements to form a Delaware captive include:

- Minimum capitalization of $250,000 for single-parent, $500,000 for industrial insureds or risk retention groups and $750,000 for trade association captives.
- A $200 initial application fee and a $300 annual license fee.
- A 1% tax on direct premiums. Reinsurance premiums are not taxed.
- The bulk of the captive's administrative and management staff must be based in Delaware.

For more information on Delaware's captive statute, contact Daniel Koch, Company Admissions Officer, Delaware Insurance Department, 841 Silver Lake Blvd., Dover, Del. 19901; 302-736-4251.

Virginia

No captives have been licensed under Virginia's 1980 captive statute, known as Chapter 11 of the Virginia State Code, Captive Insurers.

Licensing requirements for a captive are virtually the same as those that apply for commercial insurance companies.

However, a captive in the state does not have to put up all cash to satisfy capital and surplus requirements; approved letters of credit can be used.

The minimum capitalization and surplus requirement for both single-parent and association captives is $2 million. Captives that are organized as mutuals must comply with an $800,000 capital and surplus requirement.

The application fee is $500; there is no license fee. The premium tax is 2.75%.

Among the coverages that captives cannot write are: life, surety, credit life, title, aircraft and legal services coverage.

Captives are required to file the National Assn. of Insurance Commissioners information blank.

For more information about Virginia's captive statute, contact Greg Reynolds, Assistant Insurance Commissioner, Company Licensing and Analysis, State Corporation Commission, Bureau of Insurance, Box 1157, Richmond, Va. 23209; 804-786-3741.

New Jersey

A 1988 New Jersey bill that would facilitate captive development in the state is still awaiting a sponsor in the Legislature.

"It has gone nowhere," said a spokesman for the New Jersey Insurance Department in Trenton, which prepared the bill.

The bill, which is loosely modeled after Vermont's captive law, is part of a larger insurance package of 20 bills, the spokesman pointed out (*BI*, Oct. 24, 1988; April 18, 1988).

The main reason for the inactivity is that New Jersey's automobile insurance situation is claiming much of the Legislature's attention to insurance matters, he explained.

More than half of New Jersey's 4.1 million drivers belong to the state's joint underwriting association, which is now $2.8 billion in debt, the spokesman said.

That issue "takes up everybody's energy and interest," he said.

Two previous versions of the captive proposal have been introduced. One was approved only by the state Senate, and the other died in an Assembly committee.

The earlier versions were introduced in the process of fine-tuning the Insurance Department's legislative package.

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Contributing to this report were Associate Editor Mark A. Hofmann in Chicago; Senior Editor Jerry Geisel in Washington, D.C.; and Associate Editor Judy Greenwald in New York.

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Guide to policyholder-owned facilities

Are you concerned that the conventional property/casualty insurance market is careening toward another crunch that will result in astronomical rate increases and shrinkage of capacity?

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The third annual *Business Insurance* survey of these facilities available to a broad range of commercial insurance buyers covers 41 alternative markets, which is a representative sampling of both U.S.-based and offshore facilities.

These policyholder-owned facilities boast that they provide more comprehensive coverage at more stable rates than the commercial insurance market.

Some facilities previously listed are no longer available. Corporate Insurance & Reinsurance Co. Ltd. (CIRCL), one of the first casualty risk-sharing pools owned by captive insurers, is not accepting new business. CIRCL wrote its first policy in 1978 and insured first-layer excess casualty risks.

Other facilities not accepting new business include Fulcrum Insurance Co. Risk Retention Group (covering asbestos abatement liability) and Lone Eagle Risk Retention Group Inc. (covering Federal Aviation Agency 145 repair stations).

The business of Directors & Officers Liability Insurance (DOLI) was combined with Associated Electric & Gas Insurance Service Ltd. (AEGIS) in December 1988.

In addition, School, College & University Underwriters Ltd. (SCUUL) has ceased writing direct business and primarily reinsures United Educators Insurance Risk Retention Group Inc.

Each facility's listing provides information on: the risks it underwrites; limits provided; policy forms used; how to access the facility; 1988 premium volume; 1988 assets and policyholder surplus; number of 1988 participants and estimates for 1989; a description of membership; the date its first policy was written; the name of the facility's manager; and the name, address and telephone number of the person to contact for more information.

The information on each facility was provided by the individual facility in response to a *Business Insurance* survey; readers should contact the source given for other details of coverage.

Officers or managers of policyholder-owned risk financing facilities who wish to receive next year's survey should send their requests to Marilou Jones, Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590.

Facility	Risks	Limits	Policy form	Access	Premium volume	1988 Assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
AAOMS Mutual Insurance Co., Risk Retention Group	Professional liability	$150,000/ $450,000	Claims-made	Specific brokers	1988: $4.3 million; 1989: $11 million	$6.6 million/ $2.5 million	1988: 600; 1989: 1,500	Oral and maxillofacial surgeons	June 1988	Victor O. Schinnerer & Co. Inc.	James Willging, 2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-961-9800
A.C.E. Insurance Management Ltd.	Excess liability, directors & officers liability including corporate reimbursement	Liability: $150 million excess of $100 million; D&O: $50 million excess of $25 million	Claims-made	Non-U.S. brokers	1988: $255.3 million; 1989: $230 million	Year ending Sept. 30: $1.3 billion/$951.4 million	1988: 533; 1989: 590	Diverse	November 1985	Self-managed	William J. Loschert, P.O. Box HM 1015, Hamilton HM DX, Bermuda; 809-295-5200
Alexander Insurance Managers Ltd. Captive Reinsurance Facility	Property all risk	$100 million excess of each captive retention	Property all risk	Through captives managed by Alexander Insurance Managers Ltd.	1988: $40 million; 1989: $40 million	Member captives	1988: 20; 1989: 22	Industrial companies	June 1973	Alexander Insurance Managers Ltd.	Philip Stamp, Dorchester House, Church St., P.O. Box HM 2020, Hamilton HM HX Bermuda; 809-295-0265
American Safety Risk Retention Group Inc.	Asbestos abatement liability	$5 million	Claims-made and occurrence	All brokers	1988: $3 million; 1989: $5 million	$9 million/ $8 million	1988: 15; 1989: 30	Asbestos abatement industry	April 1986	Johnson & Higgins	Tina Crouse 1700 Trust Co. of Georgia Building, Atlanta, Ga. 30371; 404-586-8256
Associated Electric & Gas Insurance Services Ltd.	Excess liability and workers compensation; D&O liability	EL & WC: $25 million primary; D&O: $25 million primary or excess	Claims-made; occurrence for workers compensation	All brokers or direct	1988: $294.7 million; 1989: $270 million	$1.2 billion/ $285 million	1988: 300; 1989: 300	Electric and gas utilities, telephone companies, gas and oil pipelines	1975	AEGIS Insurance Services Inc.	Edward R. Inderbitzin; Harborside Financial Center, 700 Plaza Two, Jersey City, N.J. 07311; 201-915-7207
Bankers Insurance Co. Ltd. (BICL)	D&O liability, financial institution bond	$10 million primary or excess	Claims-made	All brokers	1988: $10 million; 1989: $12.5 million	$60 million/ $32 million	1988: 28; 1989: 30	Commercial banks	May 1986	International Risk Management Ltd.	Tony Coley or Marion Searson, Belvedere Building, Hamilton 5, Bermuda; 809-295-0713
Beverage Retailers Insurance Co., A Risk Retention Group	Liquor liability	$1 million	Occurrence	All brokers	1988: $1 million; 1989: $5 million	$3.1 million/ $2.2 million	1988: 100; 1989: 500	Retailers of alchoholic beverages; sponsored by six national associations	August 1988	Victor O. Schinnerer & Co. Inc.	Richard Walk, 2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-961-9800
C.P.S. Insurance Co. Ltd.	Workers compensation, auto & general liability	$1 million-$3 million	Occurrence	Through Dallas office of Fred S. James & Co. Inc.	1988: $8 million; 1989: $8.5 million	$12 million/ $1.5 million	1988: 40; 1989: 40	Pest control and sanitation industry	July 1980	International Advisory Services Ltd.	David Ezekiel, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688

Source: *BI* survey

Facility	Risks	Limits	Policy form	Access	Premium volume	1988 Assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Consolidated Catholic Casualty Risk Retention Group Inc.	General and hospital professional liability	$10 million primary or excess	Claims-made and occurrence	Direct	1988: $6.1 million; 1989: $6.2 million	$21.8 million/ $10.7 million	1988: 11; 1989: 11	Catholic health care systems	July 1987	Johnson & Higgins Services Inc.	Michael F. Doody, 1 Westbrook Corporate Center, Westchester, Ill. 60153; 312-531-8201
Corporate Officers & Directors Assurance Ltd. (CODA)	Directors and officers liability; no corporate reimbursement	$25 million primary or excess of $1 million	Claims-made	Non-U.S. brokers	1988: $34.8 million; 1989: $30 million	Year ending Oct. 31: $262.8 million/ $183.4 million	1988: 107; 1989: 125	Diverse	October 1986	A.C.E. Insurance Management Ltd.	Charles D. Smith, P.O. Box HM 1015, Hamilton HM DX, Bermuda; 809-295-5200
Drayton Insurance Risk Retention Group Ltd.	Directors, trustees and officers liability	$1 million-$5 million primary	Claims-made	All brokers or direct	1989: $3.5 million	First policy to be written April 1989	1989: 40	U.S. savings banks	April 1989	Johnson & Higgins Services Inc.	Lawrence Cook, 70 Blanchard Road, Burlington, Mass. 01803; 617-272-4660; 800-462-8788
Energy Insurance Mutual Ltd.	Excess general liability, excess directors & officers liability	$50 million excess of $25 million	Claims-made	All brokers or direct	1988: $41.3 million; 1989: $50 million	$182.7 million/ $120.3 million	1988: 50; 1989: 100	Electric and gas utilities	July 1986	Self-managed	Gene L. Weaver, Suite 270, 6200 Courtney Campbell Causeway, Tampa, Fla. 33607; 813-287-2117
Engineers Liability Insurance Co. Ltd. (ELIC)	Professional liability	$100,000, $250,000, $500,000 or $1 million	Claims-made	Offshore brokers or direct	1988: $290,000; 1989: $500,000	$831,000/ $650,000	1988: 17; 1989: 35	Engineers and architects	December 1987	IAS (Barbados) Ltd.	William Tomlin, CGM Building, Collymore Rock, Barbados; 809-436-8296
Environmental Protection Insurance Co. Risk Retention Group (EPIC)	Environmental impairment liability	$1 million/ $2 million primary	Claims-made	All brokers	1988: $80,000; 1989: $7 million	$10.2 million/ $10.1 million	1989: 200	Diverse	July 1988	Berkley Risk Retention Group Managers Inc.	George E. Hillier, 111 N. Canal, Suite 405, Chicago, Ill. 60606; 312-715-0800
Evergreen Indemnity (Barbados) Ltd.	Liability, property and inland marine	Up to $1 million	Occurrence	Through Twenty First Century Management Corp.	1988: $2.8 million; 1989: $3 million	$5.2 million/ $2.5 million	1988: 650; 1989: 750	For-profit U.S. campgrounds	June 1986	International Management Co.	Richard Hartford, P.O. 61, Lewiston, Maine 04240; 800-343-7900
Financial Institutions Reserve Risk Retention Group Inc. (FIRG)	Directors & officers liability	$20 million primary or excess	Claims-made	All brokers	1988: $5.5 million; 1989: $6.3 million	$58 million/ $51 million	1988: 17; 1989: 20	Regional bank holding companies	September 1986	Johnson & Higgins	Richard Grayson, 1700 Trust Co. of Georgia Building, Atlanta, Ga. 30371; 404-586-8365
Financial Planners Professional Liability Mutual Insurance Co. Risk Retention Group	Professional liability	$250,000/ $500,000	Claims-made	All brokers or direct	1988: $800,000; 1989: $2 million	$1 million policyholder surplus	1988: 700; 1989: 2,000	Financial planners	April 1988	Skandia International Risk Management (Vermont) Inc.	Donna Pioppi, 101 University Ave., Palo Alto, Calif. 94301; 415-324-8880
Food Processors Risk Retention Group Inc.	Product liability	$10 million	Occurrence	Direct	1988: $1.2 million; 1989: $2 million	$986,723/ ($58,380)	1988: 121; 1989: 150	National Food Processors Assn.	April 1988	Johnson & Higgins Services Inc. (Vermont)	Paul Nelson, Suite 400, 1401 New York Ave. N.W., Washington, D.C., 20005; 202-628-4435
Forest Insurance Ltd.	Liability	$10 million excess of primary ($1 million minimum)	Claims-made and occurrence	Direct	1988: $6 million; 1989: $6.5 million	$6 million/ $4.2 million	1988: 16; 1989: 18	Forest products, pulp and paper industries	1980	International Risk Management (Bermuda) Ltd.	Anna Summers or Margaret Turner, P.O. Box 660, Hamilton, Bermuda; 809-295-0713

Spotlight report

Facility	Risks	Limits	Policy form	Access	Premium volume	1988 Assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Hopewell International Insurance Ltd.	Property and marine	Unlimited excess of captive retention	Property	Direct	Years ending June 30: 1988: $128 million; 1989: $125 million	$42 million/ $14 million	1988: 60; 1989: 65	Diverse	1972	International Risk Management (Bermuda) Ltd.	Anna Summers or Peter V. LeResche, P.O. Box 660, Hamilton, Bermuda; 809-295-0713
Housing Authority Risk Retention Group Inc. (HARRG)	Liability	$5 million	Occurrence	Direct	1988: $10.3 million; 1989: $11 million	$21.5 million/ $7.4 million	1988: 70; 1989: 80	Public housing authorities	June 1987	Yankee Captive Management Co.	Jim McNally, 140 Kennedy Drive, P.O. Box 2127, South Burlington, Vt. 05403; 802-658-1100
Independent Laboratories Assurance Co. Ltd. (ILAC)	Professional liability	$1 million	Claims-made	Direct	1988: $600,000; 1989: $600,000	$2 million/ $1.5 million	1988: 20; 1989: 25	Independent testing laboratories	1976	International Advisory Services Ltd.	David Pickering, P.O. Box HM 2274, Hamilton, HM JX Bermuda; 809-295-3688
MPC Insurance Ltd.	Lawyers errors & omissions	$5 million	Claims-made	Through Johnson & Higgins	1988: $4.6 million; 1989: $9.4 million	$23.3 million/ $12.7 million	1988: 13; 1989: 14	Large law firms	October 1987	Johnson & Higgins Services Inc. (Vermont)	Robert Hamilton, 345 California St., San Francisco, Calif. 94104; 415-981-6700
MEDMARC Insurance Co. Risk Retention Group	Product liability, comprehensive general liability	$5 million	Claims-made	All brokers	1988: $25.5 million; 1989: $30 million	$57.5 million/ $19.6 million	1988: 459; 1989: 500	Manufacturers and distributors of medical devices	January 1979	Hamilton Resources Corp.	Thomas Konopka, 3975 University Drive, Suite 410, Fairfax, Va. 22030; 703-273-1995
Nuclear Electric Insurance Ltd.	Extra expense and excess property all-risk	$3.5 million/week (maximum of $273 million); $82.5 million excess of $500 million	Property all-risk	Direct	1988: $170 million; 1989: $175 million	$1.4 billion/ $1.2 billion	1988: 68; 1989: 69	Electric utilities	September 1980	Self-managed	Quentin Jackson, Suite 1200, 1201 Market St., Wilmington, Del., 19801; 302-888-3000
Nuclear Mutual Ltd.	All-risk coverage for nuclear power stations	$500 million	Property all-risk	Direct	1988: $80 million; 1989: $80 million	$600 million/ $542 million	1988: 21; 1989: 23	Electric utilities	January 1973	Self-managed	Quentin Jackson, Suite 1200, 1201 Market St., Wilmington, Del. 19801; 302-888-3000
Oil Casualty Insurance Ltd.	Excess general liability; excess D&O liability	$50 million/ $100 million excess of $20 million	Claims-made	Direct	1988: $20 million; 1989: $15 million	$165 million/ $139 million	1988: 30; 1989: 30	Petroleum companies	June 1986	Oil Management Services Ltd.	K. Doyle Stephens, P.O. Box HM 1751, Hamilton HM GX, Bermuda; 809-295-0905
Oil Insurance Ltd.	Excess property and pollution liability	$150 million/ $150 million excess of $5 million minimum	Occurrence	Direct	1988: $95 million; 1989: $180 million	$1.1 billion/ $515 million	1988: 48; 1989: 47	Petroleum companies	January 1972	Oil Management Services Ltd.	K. Doyle Stephens, P.O. Box HM 1751, Hamilton HM GX, Bermuda; 809-295-0905
Ophthalmic Mutual Insurance Co. Risk Retention Group	Ophthamologists professional liability	$2 million/ $4 million	Claims-made	Direct	1988: $5 million; 1989: $7 million	$10.1 million/ $2.2 million	1988: 90; 1989: 1,500	Ophthamologists	October 1987	Potomac Insurance Managers Inc.	James Willging, 2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-951-5470
Primex Ltd.	Auto liability, general liability, pollution coverage	Auto: $5 million excess of $2 million; general liability: $5 million excess of $1 million	Claims-made	Offshore brokers	1988: $3.6 million; 1989: $5 million	$35 million/ $24 million	1988: 21 1989: 25	Chemical companies	July 1986	Johnson & Higgins (Barbados) Ltd.	John Perham, Alleyne House, White Park Road, Bridgetown, Barbados; 809-436-9929

Spotlight report

Facility	Risks	Limits	Policy form	Access	Premium volume	1988 Assets/ surplus	Number of participants	Membership	First policy	Manager	Contact
Quail Street Casualty Ltd.	Workers compensation, ocean marine cargo	Primary limits vary	Claims-made and occurrence	All brokers or direct	1988: $6.5 million; 1989: $6.5 million	For year-end Nov. 30: $19.4 million/ $5.8 million	1988: 200; 1989: 200	Members of Western Growers Assn.	1979	Quail Street Management Ltd.	Deborah L. Burville, P.O. Box HM 1154, Hamilton HM EX, Bermuda; 809-292-2582
Railroad Assn. Insurance Ltd. (RAIL)	Excess liability	$50 million excess of $50 million	Occurrence	Direct	1988: $16 million*	$75 million*	1988: 16; 1989: 16	Railroads	May 1986	International Risk Management (Bermuda) Ltd.	Margaret Turner, P.O. Box HM 660, Hamilton HM CX, Bermuda; 809-295-0713
Risk Exchange Assn.	Property, casualty and marine	Property and marine: $3 million primary or excess; casualty: $2 million excess of $500,000	Claims-made and occurrence	All brokers	1988: $1 million; 1989: $1.5 million	Member captives	1988: 23; 1989: 25	Diverse	February 1984	Skandia International Risk Management Ltd.	Robert Rosser or Richard Johnson, P.O. Box HM 2062, Hamilton HM HX, Bermuda, 809-295-2185; 803-785-4377
Sargasso Mutual Insurance Co. Ltd.	Directors & officers liability	$15 million primary or excess	Claims-made	Direct	1988: $825,831; 1989: $8,500	$15.6 million/ $14.4 million	1988: 16; 1989: 16	Life insurance companies	June 1986	Johnson & Higgins (Bermuda) Ltd.	Elaine Stansfield, P.O. Box HM 2274, Hamilton HM HX, Bermuda; 809-292-4402
Sporting Arms Insurance Co. Ltd. (SAIL)	Product liability	$1 million primary or excess of $1 million	Claims-made	Direct	1988: $2.5 million; 1989: $3 million	$4 million/ $2.5 million	1988: 40; 1989: 50	Manufacturers and importers of firearms	June 1986	International Advisory Services Ltd.	David Pickering, P.O. Box HM 1826, Hamilton HM JX, 809-295-3688
Structural Engineers Insurance Ltd. (SEIL)	Professional liability	$1 million primary or excess of $1 million	Claims-made	Direct	1988: $2.4 million; 1989: $3.2 million	$5.6 million/ $3 million	1988: 15; 1989: 18	Structural engineers	June 1986	International Advisory Services Ltd.	David Ezekiel, P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688
Title Industry Assurance Corp. Risk Retention Group	Errors & omissions	$1 million/ $2 million	Claims-made	Direct	1988: $250,000; 1989: $750,000	First policy written June 1988	1988: 100; 1989: 300	Land title agents and abstractors	June 1988	Potomac Insurance Managers Inc.	Rich Curd, 2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-951-5470
Tortuga Casualty Co.	Excess liability	$50 million excess of $25 million minimum	Claims-made	Direct	1988: $12 million; 1989: $15 million	$40 million/ $7 million	1988: 25; 1989: 30	Diverse	January 1986	International Risk Management (Cayman) Ltd.	Brian Murphy, British American Tower, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155
United Educators Insurance Risk Retention Group	Educators legal liability, excess liability	Educators legal: $5 million; excess liability: $10 million excess of $1 million	Educators legal: claims-made; excess liability: occurrence	All brokers	1988: $10.8 million; 1989: $12 million- $15 million	$5.5 million/ $2.5 million	1988: 400; 1989: 500	Educational institutions and associations	May 1987	Victor O. Schinnerer & Co. Inc.	Douglas Dolan, 2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-961-9800
United Insurance Co.	Liability	$1 million primary; $5 million excess of $1 million	Claims-made and occurrence	Direct	1988: $110 million; 1989: $120 million	$100 million/ $15 million	1988: 50; 1989: 55	Diverse	1976	International Risk Management (Cayman) Ltd.	Brian Murphy, British American Tower, P.O. Box Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-949-0155
X.L. Insurance Co. Ltd.	Umbrella, directors & officers liability, errors & omissions	$25 million or $75 million excess of $25 million	Occurrence reported	Non-U.S. brokers	1988: $317 million; 1989: $330 million	$1.4 billion/ $757 million	1988: 445; 1989: 480	Diverse	May 1986	Self-managed	Brian O'Hara, Victoria Hall, Victoria Street, Hamilton, Bermuda; 809-292-8515

*BI estimate

Annual directory of captive managers

A

Aberdeen Insurance Managers

P.O. Box 1571, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 809-949-8065

Year founded: 1979.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, association captive management services, specialized accounting services for associations; occasional manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, onshore services for associations.
Staff: Six total staff members, two professional staff members. Professional designations held by staff include one CPCU, one ARM, one attorney, one CLU, one AIM, one FCA.
Clients: 14 active captives managed; 56% with less than $1 million in premiums, 22% with $1 million-$3 million, 22% with $3 million-$10 million. No inactive captives managed. Total premium volume of captives managed, $27 million. Minimum size client: $300,000 premium volume.
Current business: 14 active captives, no inactive captives.
Compensation: Annual fee, $12,000 minimum; commissions for reinsurance brokered; time and expense.
1988 gross revenues: Not reported; 90% from fees charged for captive management, 2% from commissions charged for brokering insurance and/or reinsurance, 8% from other services.
Principal officers: Ross Blumentritt, director/secretary; Lynne B. Humphries, director/general counsel; Christoph Blumentritt, director; Brian Wight, assistant secretary.

Alexander Insurance Managers (Barbados) Ltd.

P.O. Box 1304, Collymore Rock, St. Michael, Barbados; 809-436-4895

Year founded: 1984.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing; occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting, managing underwriting pools/facilities/association captives, investment management, association captive management services.
Staff: Seven total staff members, two professional staff members. Professional designations held by staff include one CPA.
Clients: 16 captives managed; 24% with less than $1 million in premiums, 12% with $1 million-$3 million, 56% with $3 million-$10 million, 8% with $10 million-$20 million. Total premium volume of captives managed, $58 million. Minimum size client: $500,000 premium volume.
Current business: 16 active captives.
Compensation: Time and expense, professional: $70-$125 per hour.
1988 gross revenues: Not reported, 100% from fees charged for captive management.
Principal officers: Ronald W. Jones, vp.

Alexander Insurance Managers (Canada) Ltd.

P.O. Box 3228, 900 Howe St., Vancouver, British Columbia V6B 3X8; 604-688-4442

Year founded: 1988.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing; occasional manual claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services.
Staff: One total staff member.
Clients: One captive managed.
Current business: One captive.
Compensation: Annual fee; time and expense, professional: $175 per hour.
1988 gross revenues: Not reported.
Principal officers: William J. Morgan, vp.

Alexander Insurance Managers (Cayman) Ltd.

Anderson Square, Shedden Road, P.O. Box 1970, George Town, Grand Cayman, B.W.I.; 809-436-4895

Year founded: 1981.
Parent company: Alexander & Alexander Services Inc.
Services provided: Subcontracts for captive management services with Midland Bank Trust Corp. (Cayman) Ltd.
Clients: Two captives managed; total premium volume of captives managed, $5 million.
Current business: Two captives.
Compensation: Annual fee.
1988 gross revenues: Not reported.

Alexander Insurance Managers (Guernsey) Ltd.

P.O. Box 283, Suite 6, Tower Hill House, Bordage, St. Peter Port, Guernsey, Channel Islands; 4-44-812-8180

Year founded: 1977.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives; occasional captive feasibility studies.
Staff: Nine total staff members, two professional staff members. Professional designations held by staff include two FCASs.
Clients: 15 captives managed; 45% with less than $1 million in premiums, 20% with $1 million-$3 million, 35% with $3 million-$10 million. Total premium volume of captives managed, $67 million.
Current business: 15 active captives.
Compensation: Annual fee, $50,000 minimum; time and expense.
1988 gross revenues: Not reported.
Principal officers: Barry J. Seymour, managing director; Clive R. James, manager-operations.

Alexander Insurance Managers Ltd.

Dorchester House, Church Street, P.O. Box 2020, Hamilton, Bermuda HM HX; 809-295-0265

Year founded: 1969.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (AIM Captive Reinsurance Facility, six association captives), investment management, association captive management services, specialized accounting services for associations.
Staff: 70 total staff members, 23 professional staff members. Professional designations held by staff include 18 CPAs, one ARM, two IBACs, one AIB, one ACII.
Clients: 93 captives managed; 45% with less than $1 million in premiums, 40% with $1 million-$3 million, 10% with $3 million-$10 million, 5% with $10 million-$20 million. Total premium volume of captives managed, $236 million. No minimum size client.
Current business: 93 active captives.
Compensation: Annual fee, time and expense.
1988 gross revenues: Not reported, 100% from fees charged for captive management.
Principal officers: Philip Stamp, managing director; Geoffrey Hunt, deputy managing director; Robert E. Barclay and Donald Wiseman, senior vps; Alan Cossar, executive vp; Gail Fox and Peter Spurway, vps.

Alexander Insurance Managers (Luxembourg) S.A.R.L.

B.P. 2243, L-1022 Luxembourg; 35-249-0073
Year founded: 1987.

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US International Re

Reinsurance Worldwide

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US International Reinsurance Co.
59 Maiden Lane, New York, New York 10038

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Continued from previous page

Parent company Alexander & Alexander Services Inc.

Services provided: Subcontracts for captive management services with Sinser (Luxembourg) S.A.R.L.

Clients: Two captives managed; 50% with less than $1 million in premiums, 50% with $1 million-$3 million. Total premium volume of captives managed, $2 million. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee

1988 gross revenues: Not reported.

Principal officers: Mats Lindkvist, Ralph Tellov and Charles M. Patrick Jr.

Alexander Insurance Managers (Singapore) Ltd.

250 N. Bridge Road, Suite 28-03-04, Raffles City Tower, Singapore 0617; 65-339-9233

Year founded: 1987.

Parent company: Alexander & Alexander Services Inc.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, underwriting and ratemaking for captives occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting.

Staff: Four total staff members. Professional designations held by staff include one CPA.

Clients: Three active captives managed; 33% with less than $1 million in premiums, 34% with $1 million-$3 million, 33% with $3 million-$10 million. No inactive captives managed. Total premium volume of captives managed, $5 million. Minimum size client: $500,000 premium volume.

Current business: Three active captives.

Compensation: Annual fee.

1988 gross revenues: Not reported.

Principal officers: Alan C. Cossar, chairman; William C. Thomas, managing director; Andrew McComb, general manager; Richard Chua, assistant general manager; Mary Tan, director.

Alexander Stenhouse International Services (Isle of Man) Ltd.

Post Office Chambers, Regent Street, Douglas, Isle of Man; 4-46-247-3833

Year founded: 1977.

Parent company: Alexander & Alexander Services Inc.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing; occasional claims reserves analysis, loss forecasting, underwriting and ratemaking for captives.

Staff: Six total staff members, two professional staff members. Professional designations held by staff include one CPA.

Clients: Nine captives managed; 40% with less than $1 million in premiums, 20% with $1 million-$3 million, 20% with $3 million-$10 million, 20% with more than $20 million. Total premium volume of captives managed, $99 million. Minimum size client, $250,000 premium volume.

Current business: Nine active captives.

Compensation: Annual fee, $50,000 minimum.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: John D. Evans, director; Duncan M. Donald, finance operations manager.

Allendale Management Co. Ltd.

Beneficial Building, Church Street, P.O. Box 2062, Hamilton, Bermuda; 809-295-2185

Year founded: 1980.

Parent company: Allendale Associates Inc.

Services provided: Subcontracts for captive management services with Skandia International Risk Management Ltd.

Clients: Two captives managed; 50% with less than $1 million in premiums, 50% with $3 million-$10 million Total premium volume of captives managed, $5 million. No minimum size client.

Current business: Two active captives.

Compensation: Annual fee, $5,000 minimum; time and expense.

1988 gross revenues: $75,000, 100% from fees charged for captive management.

Principal officers: J.J. Carey, president; M.C. McIntyre, vp; S.S. Subramaniam, treasurer; W.D. Thomson, assistant treasurer; S.D. Crosbie, secretary; R.D. Oakes, coordinator.

Amberco Management Ltd./ The Captive Management Co. Ltd.

Continental Building, Church Street, P.O. Box 1230, Hamilton HM FX, Bermuda; 809-295-9191

Year founded: 1983.

Parent company: Amberco Holding Inc./Forum Re Group Inc.

Services provided: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered, underwriting and ratemaking, specialized accounting services for associations, onshore services for associations, access to issuing companies.

Staff: Provided through Forum Management Services.

Clients: Four captives.

Current business: Four captives.

Subsidiaries: Amberco Management (Barbados) Ltd.

Compensation: Annual fee, commissions for reinsurance brokered.

1988 gross revenues: Not reported.

Principal officers: Julian Griffiths, Martin Willis-Jackson and Rick Thompson.

American International Co. Ltd.

American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda; 809-295-2121

Year founded: 1947.

Parent company: American International Group Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, investment management, specialized accounting services for associations, onshore services for associations, captive funding and fronting, guaranteed cash flow programs, risk management programs; occasional captive feasibility studies, captive formation, manual claims processing, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels, Belgium), association captive management services.

Staff: 40 total staff members, 12 professional staff members. Professional designations held by staff include one ACA, two ACMAs, one CGA, one CMA, one FCII, six ACIIs.

Clients: 22 active captives managed; 32% with less than $1 million in premiums, 36% with $1 million-$3 million, 18% with $3 million-$10 million, 10% with $10 million-$20 million, 4% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $98 million. No minimum size client.

Current business: 22 active captives.

Compensation: Annual fee, $25,000 minimum; time and expense, professional: $90 per hour; clerical: $45 per hour.

1988 gross revenues: $13.8 million; 20% from fees charged for captive management, 80% from other services.

Principal officers: J.C.H. Johnson, president/chief executive officer; D.J. Higginbottom, vp/director-captive operations; J.R. Weale, assistant vp-captive management services; M.J. Whitwell, assistant vp-insurance services; K. Bond, assistant vp-financial services.

American International Management Co. (Barbados) Ltd.

ALICO Building, Cheapside, Bridgetown, Barbados; 809-436-7102

Year founded: 1985.

Parent company: American International Group Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management, captive funding, risk management programs; occasional captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services (New York and Brussels, Belgium).

Staff: Three total staff members, one professional staff member. Professional designations held by staff include one ACCA.

Clients: One captive managed, with more than $20 million in premiums. Total premium volume of captives managed, $46 million. No minimum size client.

Current business: One active captive.

Compensation: Annual fee, $25,000 minimum; time and expense, professional: $90 per hour; clerical, $45 per hour.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Helen Roper, president/general manager; John R.

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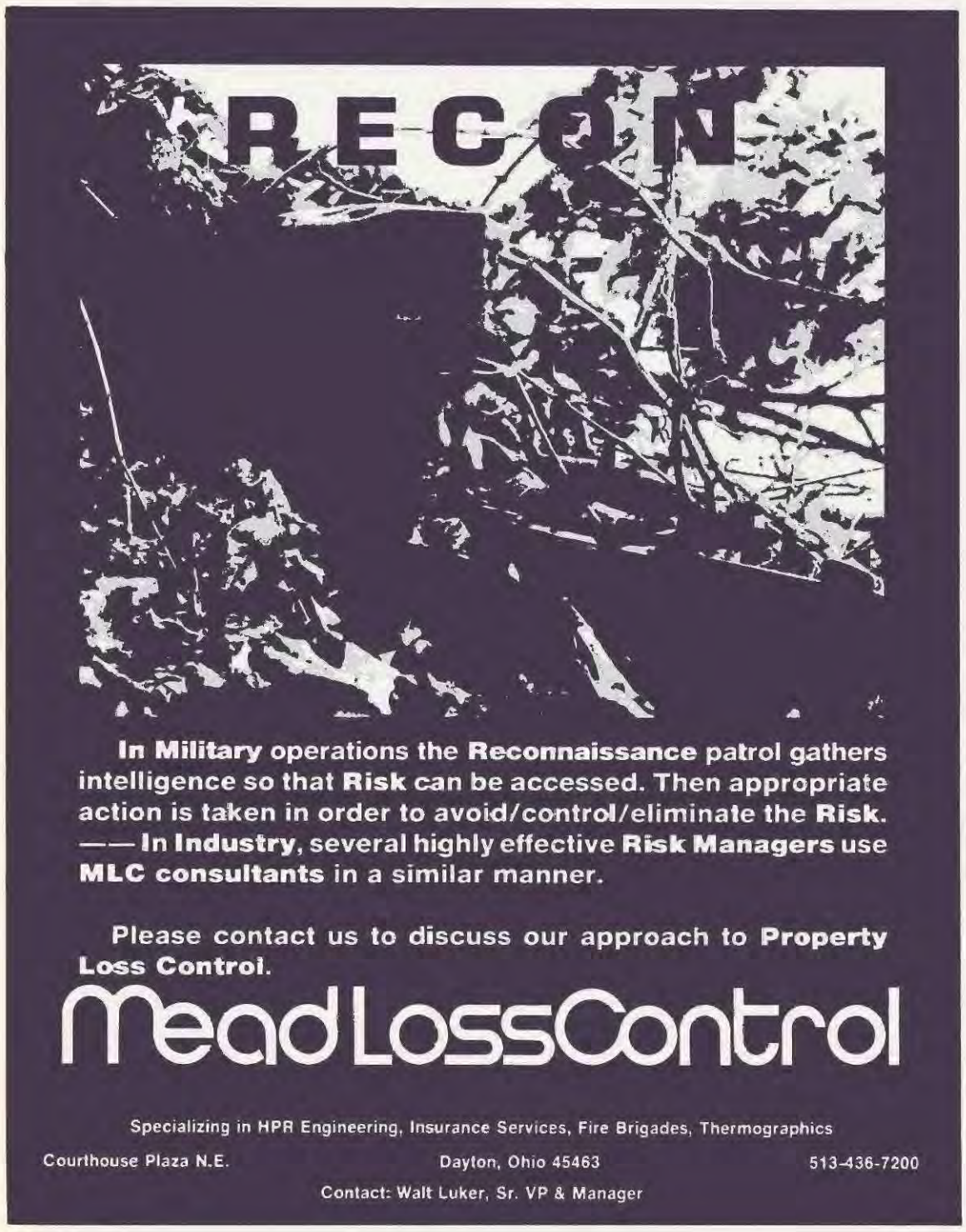

Guide to directory

The annual *Business Insurance* directory of captive managers lists companies in the United States and abroad that provide management and other services to captive insurance companies.

The directory is published as an editorial service and there is no charge to be listed; however, companies must complete a questionnaire provided by *Business Insurance* in order to be included in the directory.

Listings begin with the company name, address and telephone number, followed by **year founded** and **parent company** (if any). Next, **services provided** by the company are detailed. Information on **staff** and **clients** at year-end 1988 is included. The number of captives managed when the company submitted its questionnaire is given under the **current business** heading.

Subsidiaries and **affiliated companies** include those involved in captive management in a different domicile, for which a separate listing usually is given. If there are no separate listings, information on staff, clients and revenues have been combined for all offices.

The **compensation** heading details how the company bills for its services, and **1988 gross revenues** are included when reported by the company. Companies were also asked to identify the percentage of their 1988 gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokerage and other services the company may provide.

Names and titles of the company's **principal officers** complete the listings.

Although *Business Insurance* makes every effort to report complete and accurate information, no public documents are available to allow verification of information provided by the companies.

Following are the full professional designations for those abbreviated under the staff heading:

ACA is Associate, Institute of Chartered Accountants; **ACCA** is Chartered Associate of Certified Accountants; **ACIArb** is Associate, Chartered Institute of Arbitrators; **ACII** is Associate, Chartered Insurance Institute; **ACIS** is Associate, Chartered Institute of Secretaries; **ACMA** is Associates, Cost & Management; **AIAB** is Associate, International Assn. of Bookkeepers; **AIB** is Associate, Institute of Bankers; **AIM** is Associate in Management; **ARM** is Associate in Risk Management; **CA** is Chartered Accounted; **CFE** is Chartered Financial Examiner; **CGA** is Certified General Accountant; **CIC** is Certified Insurance Consultant; **CLU** is Chartered Life Underwriter; **CMA** is Certified Management Accountant; **CPA** is Certified Public Accountant; **CPCU** is Chartered Property/Casualty Underwriter; **FCA** is Fellow, Institute of Chartered Accountants; **FCAS** is Fellow, Casualty Actuarial Society; **FCII** is Fellow, Chartered Insurance Institute; **FCIS** is Fellow, Chartered Institute of Secretaries; **FIRM** is Fellow, Institute of Risk Management; **GIC** is General Insurance Certificate; **HND** is Higher National Diploma; **IBAC** is member, Insurance Brokers Assn. (Canada); **ICAC** is member, Institute of Chartered Accountants of Canada; **MBA** is Master of Business Administration; **MBIM** is member, British Institute of Management; **PhD** is Doctor of Philosophy; **RHU** is Registered Health Underwriter.

Continued from previous page
Weale, vp; Richard Topin, assistant vp.

American Risk Management Corp.
1 Executive Drive, P.O. Box 1383, Fort Lee, N.J. 07024; 201-592-7100

See International Risk Management Group.

Anistics Inc. (Captive Management Division)
84 Pine St., 600 Financial Plaza, P.O. Box 5010, Burlington, Vt. 05402; 802-860-0444

Year founded: 1970.
Parent company: Alexander & Alexander Services Inc.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives; occasional investment management, loss control services.
Staff: Six total staff members, four professional staff members. Professional designations held by staff include four CPAs.
Clients: 24 captives managed; 76% with less than $1 million in premiums, 12% with $1 million-$3 million, 12% with $3 million-$10 million. Total premium volume of captives managed, $31 million. No minimum size client.
Current business: 19 active captives.
Subsidiaries: Anistics Inc., Denver.
Compensation: Annual fee, $20,000 minimum; time and expense, professional: $150 per hour; clerical, $25 per hour.
1988 gross revenues: Not reported, 100% from fees charged for captive management.
Principal officers: Luther T. Griffith, chairman/president; W. Scott Frazier, vp.

Argus International Management Ltd.
Argus Insurance Building, P.O. Box HM 1064, Hamilton HM EX, Bermuda; 809-295-2021

Year founded: 1970.
Parent company: Argus Insurance Co. Ltd.
Services provided: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, managing captive facilities, association captive management services, specialized accounting services for associations, development of computer systems.
Staff: 12 total staff members, five professional staff members. Professional designations held by staff include five CPAs.
Clients: 21 clients.
Current business: 21 captives managed.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional: $75-$130 per hour; clerical, $40-$70 per hour.
1988 gross revenues: Not reported.
Principal officers: E. John Sainsbury, managing director; Michael Hardy, manager.

Atlantic Security Ltd.
Kitson Building, Reid Street, Hamilton, Bermuda; 809-295-5425

Year founded: 1978.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, claims reserve analysis, reinsurance brokered for captives; occasional loss forecasting, reinsurance brokered to captives, investment management, association captive management services, specialized accounting services for associations.
Staff: 10 total staff members, six professional staff members. Professional designations held by staff include two CPAs.
Clients: 25 active captives managed; 40% with less than $1 million in premiums, 35% with $1 million-$3 million, 20% with $3 million-$10 million, 5% with more than $20 million. Three inactive captives managed. Total premium volume of captives managed, $80 million. No minimum size client.
Compensation: Annual fee, $20,000 minimum; time and expense, professional: $80-$120 per hour; clerical: $40 per hour.
1988 gross revenues: $1.4 million; 40% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance, 25% from other services.
Principal officers: Hal Forkush, president; Colin C. James, vp; Richard W. Witkowski, assistant vp.

B

B.F. & M. Management Ltd.
Outerbridge Building, P.O. Box HM 1007, Hamilton HM DX, Bermuda; 809-292-6396

Year founded: 1969.
Parent company: The Bermuda Fire & Marine Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives, investment management, association captive management services, captive rental facilities; occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Nine total staff members, six professional staff members. Professional designations held by staff include one FCAS.
Clients: 38 active captives managed; 76% with less than $1 million in premiums, 11% with $1 million-$3 million, 5% with $3 million-$10 million, 8% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $76 million.
Current business: 38 active captives, two inactive captives.
Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered; time and expense, professional: $75-$140 per hour; clerical: $40-$50 per hour.
1988 gross revenues: Not reported; 88.44% from fees charged for captive management, 7.95% from commissions charged for brokering insurance and/or reinsurance, 3.61% from other services.
Principal officers: Cyril Rance, managing director; Irmgard Viera, general manager; Elizabeth A.C. Durrant, manager-captive insurance operations; John A. Wilkins, treasurer.

BRI International Agency Inc.
156 William St., New York, N.Y. 10038; 212-233-7171

Year founded: 1981.
Parent company: BRI Holding Corp.
Services provided: Frequent captive feasibility studies, captive formation, accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss control services; occasional computerized accounting, managing underwriting pools/facilities/association captives.
Staff: Eight total staff members, five professional staff members. Professional designations held by staff include one CPA, two CPCUs, one ARM, two MBAs.
Clients: Four captives managed.
Compensation: Annual fee, commissions for reinsurance brokered, time and expense.
1988 gross revenues: Not reported; 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: Bruno Rumignani, president; Joseph Zweig, senior vp; Burton Matfus, secretary/treasurer.

Continued on next page

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Name and title_____

Company name_____

Address_____

City/State/Zip_____

Telephone ( )_____

BI

Continued from previous page

Becher & Carlson Management Ltd.

Williams House, Reid Street, P.O. Box HM 2461, Hamilton HM JX, Bermuda; 809-295-0519

Year founded: 1981.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management; occasional reinsurance brokered to captives, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: Six total staff members, two professional staff members. Professional designations held by staff include one FCA, one ICAC.
Clients: Seven active captives managed; 29% with $1 million-$3 million in premiums, 29% with $3 million-$10 million, 29% with $10 million-$20 million, 13% with more than $20 million. Five inactive captives managed. Total premium volume of captives managed, $66 million.
Current business: Eight active captives, five inactive captives.
Subsidiaries: Becher & Carlson Brokerage Ltd., Hamilton, Bermuda.
Affiliates: Becher & Carlson Risk Management Inc., Los Angeles; Becher & Carlson Insurance Services Inc., Los Angeles; Becher & Carlson Risk Management Inc. (Atlanta), Atlanta; Becher & Carlson Management (Vermont), Burlington, Vermont.
Principal officers: David L. Carlson, president; William E. Becher Jr., chairman; Martin J. Rayfield, senior vp.

Becher & Carlson Management (Vermont)

7 Burlington Square, Suite 600, Burlington, Vt. 05401; 802-658-7831

Year founded: 1982.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, investment management, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: Two total staff members, including one FCA.
Clients: Three active captives managed; 67% with $3 million-$10 million, 33% with more than $20 million. Total premium volume of captives managed, $29.5 million.
Current business: Three active captives.
Compensation: Annual fee.
1988 gross revenues: Not reported.
Principal officers: William E. Becher Jr., chairman; David L. Carlson, president; Ann C. DesLauriers, resident manager.

Bott & Associates Ltd.

Sterling House, Wesley Street, P.O. Box HM 1087, Hamilton HM EX, Bermuda; 809-292-6564; 809-295-4083

Year founded: 1979.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services.
Staff: 10 total staff members, five professional staff members. Professional designations held by staff include two CAs, one ACIS.
Clients: 28 active captives managed, no inactive captives managed. Minimum size client, $500,000 premium volume.
Current business: 28 active captives, no inactive captives.
Subsidiaries: Bott & Associates (Turks & Caicos) Ltd.; Bott & Associates (Barbados) Ltd.
Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered; time and expense, professional: $85-$215; clerical: $25 and up.
1988 gross revenues: Not reported; 45% from fees charged for captive management, 20% from commissions charged for brokering insurance and/or reinsurance, 35% from other services.
Principal officers: Michael F. Bott, president; Lawrence Dixon, executive vp; Edmund O'Brien, vp-finance; Nan Pollock Griffiths, vp.

British-American Management (Bermuda) Ltd.

c/o British-American Management Ltd., P.O. Box N 3005, Nassau, Bahamas; 809-322-2694

Year founded: 1984.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, association captive management services; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Eight total staff members, one professional staff member. Professional designations held by staff include one CPA and one GIC.
Clients: Two captives managed; both with less than $1 million in premiums. Total premium volume of captives managed, $100,000. Minimum size for new clients, $500,000 premium volume.
Current business: Two active captives.
Affiliates: British-American Management Ltd., Bahamas; British-American Management (Cayman) Ltd.
Compensation: Annual fee, $20,000 minimum; commissions for reinsurance brokered.
1988 gross revenues: $32,000; 100% from fees charged for captive management.
Principal officers: William B. Allen, chairman; Judy A. Higgs, president/chief executive officer; Lawrence C. Roberts, vp.

British-American Management (Cayman) Ltd.

P.O. Box 2186, British-American Center, George Town, Grand Cayman, B.W.I. 809-949-5627

Year founded: 1982.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services.
Staff: Seven total staff members, two professional staff members. Professional designations held by staff include one CPA, one CA.
Clients: One active captive managed with more than $20 million in premiums. Minimum size client: $500,000 premium volume.
Current business: One active captive, no inactive captives.
Subsidiaries: British-American Management Ltd., Bahamas; British-American Management (Bermuda) Ltd.
Compensation: Annual fee, $20,000 minimum; commissions for reinsurance brokered.
1988 gross revenues: $260,000; 30% from fees charged for captive management, 70% from other services.
Principal officers: Michael Anderson, vp.

British-American Management Ltd.

51 Frederick St., P.O. Box N 3005, Nassau, Bahamas; 809-322-2694

Year founded: 1979.
Parent company: British-American Insurance Co. Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, association captive management services; occasional claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Eight total staff members, one professional staff member. Professional designations held by staff include one CPA and one GIC.
Clients: 11 captives managed; 55% with less than $1 million in premiums, 27% with $1 million-$3 million, 9% with $3 million-$10 million, 9% with $10 million-$20 million. Total premium volume of captives managed, $27 million. Minimum size client, $500,000 premium volume.
Current business: 11 active captives.
Affiliates: British-American Management (Cayman) Ltd., British-American Management (Bermuda) Ltd.
Compensation: Annual fee, $20,000 minimum; commissions for reinsurance brokered.
1988 gross revenues: $375,000; 74% from fees charged for captive management, 4% from commissions charged for brokering insurance and/or reinsurance, 22% from other services.
Principal officers: William B. Allen, chairman; Judy A. Higgs, president/chief executive officer; Lawrence C. Roberts, vp.

C

CFM Insurance Managers Ltd.

Sea Venture Building, Parliament Street, P.O. Box HM 2006, Hamilton HM HX, Bermuda; 809-292-1330

Year founded: 1988.
Parent company: Commodity & Financial Management Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, managing underwriting pools/facilities/association captives, investment management, association captive management services, specialized accounting services for associations; occasional captive feasibility studies, claims reserves analysis.
Staff: Three total staff members, two professional staff members. Professional designations held by staff include one ARM, two CAs.
Clients: Nine captives managed.
Compensation: Annual fee, time and expense.
1988 gross revenues: Not reported.
Principal officers: Peter Leighton, president; Terry Holdom, vp; Duane Allen, director.

CSI International Underwriting (Cayman) Ltd.

P.O. Box 1392, Grand Cayman, B.W.I.; 809-949-7322

Year founded: 1982.
Parent company: Pacific Compensation Capital Corp.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives, association captive management services, onshore services for associations; occasional claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, specialized accounting services for associations.
Staff: Staff provided by International Underwriting Managers (Cayman) Ltd.
Clients: Five active captives managed; 20% with less than $1 million in premiums, 80% with $1 million-$3 million. Seven inactive captives managed. Total premium volume of captives managed, $8 million. No minimum size client for single parent captives; $1 million minimum premium volume for multiple parent captives.
Current business: Five active captives, seven inactive captives.
Compensation: Annual fee; time and expense, professional: $100-$150 per hour.
1988 gross revenues: Not reported.
Principal officers: R. Paul Goldsworthy, managing director; James E. Little and Ronald A. Groden, directors.

Caledonian Management Ltd.

73 Front St., P.O. Box HM 2455, Hamilton HM JX, Bermuda; 809-295-1683

Year founded: 1988.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, investment management; occasional claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations.
Staff: Two total staff members. Professional designations held by staff include two CAs.
Current business: Two active captives.
Affiliate: Caledonian Management Ltd. (Isle of Man).
Compensation: Annual fee.
1988 gross revenues: 90% from fees charged for captive management, 10% from other services.
Principal officers: David A. Brown, president; Rhonda M. Caza, vp.

Caledonian Management Ltd. (Isle of Man)

St. James' Chambers, P.O. Box 17A, Athol Street, Douglas, Isle of Man; 0-62-466-1020

Year founded: 1988.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, investment management; occasional claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations.
Staff: One staff member who holds a CA designation.
Compensation: Annual fee.
Principal officers: David A. Brown, managing director.

Caperton Special Risk

1810 Water Place, Suite 290, Atlanta, Ga. 30339; 404-956-0125

Year founded: 1986.
Parent company: McDonough Caperton Insurance Group.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, formation and management of self-insured trusts; occasional manual claims processing, claims reserves analysis, loss forecasting, managing underwriting pools/facilities/association captives, association captive management services.
Staff: 10 total staff members, eight professional staff members. Professional designations held by staff include two CPCUs.
Clients: Seven captives and trusts managed.
Current business: Three active captives.
Compensation: Annual fee; time and expense, professional: $75-$200 per hour; clerical: $25-$60 per hour.
1988 gross revenues: Not reported; 75% from fees charged for captive management, 25% from other services.
Principal officers: W. Marston Becker, president; Paul McCarthy and Sterling Shuttleworth, senior vps; Phyllis Lindsey, assistant vp.

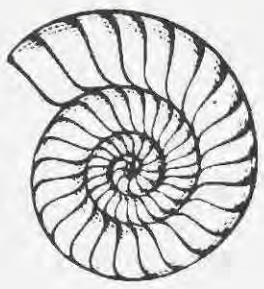
The Captive Management Co. Ltd.

Continental Building, Church Street, P.O. Box HM 1230, Hamilton HM FX, Bermuda; 809-292-2779

Year founded: 1983.

Continued on next page

INDEPENDENCE

FINANCIAL  REINSURANCE

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A member of the T.S.B. Hill Samuel Group

Continued from previous page

Parent company: Forum Re Group Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, association captive management services; occasional claims reserves analysis, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations.

Staff: Staff provided through affiliated companies.

Clients: Four active captives managed with $1 million-$3 million in premiums. One inactive captive managed. No minimum size client.

Subsidiaries: Amberco Management (Barbados) Ltd.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

Principal officers: Julian Griffiths, Martin Willis-Jackson, David Thirkill and Richard Thompson.

Captive Syndicate Management Ltd.

26 Broadway, Suite 400, New York, N.Y. 10004; 212-837-7743

Year founded: 1988.

Parent company: London Holdings (Cayman) Ltd.

Services provided: Management of captive facilities (The Captive Syndicate, four participants, $10 million premium volume).

Staff: Three total staff members, one professional staff member.

Current business: Three active captives.

1988 gross revenues: Not reported.

Principal officers: Ronald H. Samuels, chairman/president; Leonard R. Smith, vp.

Caribbean Captive Insurance Managers Inc.

35 Roebuck St., Bridgetown, Barbados; 809-436-8826

Year founded: 1986.

Parent company: Intel Corp.

Services provided: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, investment management.

Staff: Two total staff members, one professional staff member.

Clients: Nine active captives managed, all with $1 million-$3 million in premiums; no inactive captives managed. No minimum size client.

Current business: Nine active captives, no inactive captives.

Compensation: Annual fee, $12,000 minimum; time and expense, professional: $110 per hour; clerical: $50 per hour.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Arvind Sodhani, president; Mark St. John, vp; Tom Lavelle, assistant secretary; Luther Jones, assistant treasurer.

Cayman General Insurance Co. Ltd.

P.O. Box 2171, Grand Cayman, B.W.I.; 809-949-7028

Year founded: 1984.

Parent company: Cayman National Corp., Guardian Royal Exchange, USLICO Corp.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management; occasional captive feasibility studies, captive formation.

Staff: 14 total staff members, seven professional staff members. Professional designations held by staff include one CA, others hold British and Swedish designations.

Clients: Six active captives managed; 33% with $1 million-$3 million in premiums, 50% with $3 million-$10 million, 17% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $55 million.

Current business: Six active captives, one inactive captive.

Compensation: Annual fee, commissions for reinsurance brokered.

1988 gross revenues: Not reported; 85% from fees charged for captive management, 15% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Danny A. Scott, president; Gordon B. Philip, vp.

Cayside Insurance Management Ltd.

P.O. Box 878, West Wind Building, Grand Cayman, B.W.I.; 809-949-8184

Year founded: 1984; formerly BPC Underwriting Managers Ltd.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one FCA.

Clients: 16 active captives managed; 47% with less than $1 million in premiums, 33% with $1 million-$3 million, 20% with $3 million-$10 million. No inactive captives managed. Total premium volume of captives managed, $26.6 million. No minimum size client.

Current business: 15 active captives, one inactive captive.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: John E. Smith, managing director; J. William Rewalt, chairman.

Channel Islands Insurance Consultants Ltd.

Insurance House, 22 Cornet St., St. Peter Port, Guernsey, Channel Islands; 44-481-710336

Year founded: 1982.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives; occasional captive feasibility studies, captive formation, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management, tax advice.

Staff: 14 total staff members, four professional staff members. Professional designations held by staff include three CPAs, one ACIArb.

Clients: 20 active captives managed; 20% with less than $1 million in premiums, 45% with $1 million-$3 million, 25% with $3 million-$10 million, 10% with more than $20 million. Three inactive captives managed. No minimum size client.

Current business: 20 active captives, three inactive captives.

Subsidiaries: Guernsey Insurance Management Service Ltd., Guernsey.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Michael J. Savage, managing director; Wendy J. Goodson, director/company secretary.

Cityside Associates Inc.

180 S. Gannon Ave., Staten Island, N.Y. 10314; 718-494-5786

Year founded: 1981.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims re-

Continued on next page

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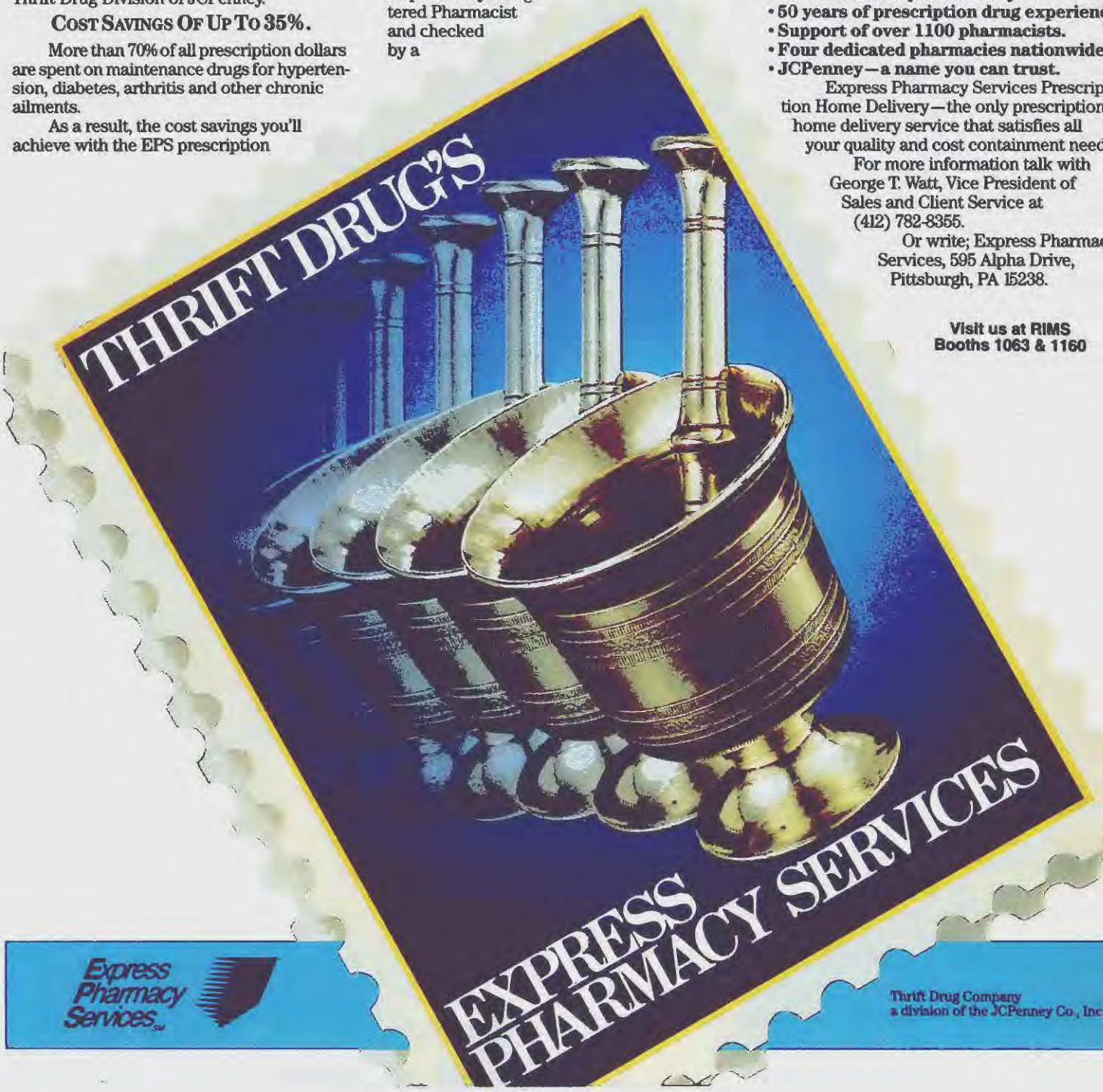

Express Pharmacy Services℠

Thrift Drug Company
a division of the JCPenney Co., Inc.

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serves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (northeast United States), association captive management services, onshore services for associations, claims audits.

Staff: Six total staff members, three professional staff members. Professional designations held by staff include one MBA, two FCASs.

Clients: Two captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. Total premium volume of captives managed, $8 million. Minimum size client, $1 million premium volume.

Current business: Two active captives.

Compensation: Time and expense, professional: $80-$125 per hour; clerical: $50 per hour.

1988 gross revenues: Not reported; 15% from fees charged for captive management, 85% from other services.

Principal officers: Ralph Carnesecchi, president; Kenneth Richman, vp.

Coastal Brokerage & Management Corp.

Providenciales, Turks & Caicos, B.W.I.; 809-946-4109

Year founded: 1988.

Services provided: Frequent government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives; occasional captive feasibility studies, reinsurance brokered to captives, underwriting and ratemaking for captives.

Clients: Four captives managed; 100% with less than $1 million in premiums. Minimum size client: $100,000 premium volume.

Current business: Four active captives, three inactive captives.

Compensation: Annual fee, commissions for reinsurance brokered.

Principal officers: C.E. Gresham III, managing director.

Continental Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck Street, Bridgetown, Barbados; 809-427-3362

Year founded: 1986.

Parent company: Continental Risk Services Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives; occasional reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Three total staff members, one professional staff member. Professional designations held by staff include one ACA.

Clients: Four active captives managed; 25% with less than $1 million in premiums, 25% with $1 million-$3 million, 50% with $10 million-$20 million. Two inactive captives.

Current business: Five active captives, one inactive captive.

1988 gross revenues: Not reported.

Principal officers: Raymond E. Gil, chairman; David B. Vaughan, president; Bruce A. Fenton, vp; Marilyn P. Brown, assistant vp/manager; Trevor A. Carmichael, secretary.

Continental Risk Services Ltd.

Continental Insurance Building, Church Street and Cedar Avenue, P.O. Box HM 824, Hamilton HM CX, Bermuda; 809-295-6015

Year founded: 1981.

Parent company: Continental Corp.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations; occasional reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Seven total staff members, five professional staff members. Professional designations held by staff include one CPA, one ACCA, one ACA.

Clients: 17 active captives managed; 47% with less than $1 million in premiums, 6% with $1 million-$3 million, 29% with $3 million-$10 million, 18% with more than $20 million. No inactive captives managed.

Current business: 16 active captives, one inactive captive.

Subsidiaries: Continental Risk Services (Barbados) Ltd., Bridgetown, Barbados.

1988 gross revenues: Not reported.

Principal officers: Raymond A. Gil, chairman; David B. Vaughan, president; Bruce A. Fenton, assistant vp.

Corporate Risk Consultants

24370 Northwestern Highway, Southfield, Mich. 48075; 313-358-1100

Year founded: 1976.

Parent company: Meadowbrook Insurance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations.

Staff: 65 total staff members, 19 professional staff members. Professional designations held by staff include five CPAs, six CPCUs, two ARMs, one MBA, two attorneys, two CAs, one CLU.

Clients: 30 captives managed. Minimum size client, $750,000 premium volume.

Current business: 30 active captives.

Subsidiaries: Corporate Risk Consultants, Boca Raton, Fla.; Meadowbrook Risk Management Ltd., Hamilton, Bermuda.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported; 50% from fees charged for captive management, 50% from other services.

Principal officers: Merton J. Segal, president; Robert A. Engle and Lawrence B. Kraus, vps; Lee F. Kelly, vp/treasurer.

D

Delta Management Ltd.

P.O. Box 1436, George Town, Grand Cayman, B.W.I.; 809-949-8228

Year founded: 1985.

Parent company: The Delta Group (Cayman) Ltd. and Euro Bank Corp.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management, loss control services (Cayman Islands), association captive management services, specialized accounting services for associations; occasional claims reserves analysis, actuarial studies, loss forecasting.

Staff: Three total staff members, one professional staff member. Professional designations held by staff include one CPA.

Clients: Five active captives managed; 60% with less than $1 million in premiums, 40% with $1 million-$3 million. No inactive captives managed. Total premium volume of captives managed, $5 million. No minimum size client.

Current business: Five active captives, no inactive captives.

Compensation: Annual fee, $12,000 minimum; time and expense, professional: $150 per hour; clerical: $25 per hour.

1988 gross revenues: Not reported, 100% from fees charged for captive management/

Principal officers: Costas M. Takkas, managing director.

Dreward Management Ltd.

1 Parliament St., P.O. Box 1125, Hamilton, Bermuda; 809-295-7578

Year founded: 1982.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations, onshore services for associations; occasional government reporting, actuarial studies, loss forecasting.

Staff: Seven total staff members, three professional staff members. Professional designations held by staff include two CPCUs.

Clients: 12 active captives managed; 70% with less than $1 million in premiums, 15% with $1 million-$3 million, 10% with $3 million-$10 million, 5% with more than $20 million. Two inactive captives managed. Minimum size client: $100,000 premium volume.

Current business: 12 active captives, two inactive captives.

Subsidiaries: Andrew Edwards & Co., Ambel Consultation Services Inc., Insurance Agency Programs Inc.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Andrew Barile and Ed Mallozzi.

E

European Risk Management Ltd.

31/33 Monument Hill, Weybridge, Surrey KT13 8RS, England; 011-44-9-3285-4711

See International Risk Management Group.

F

Financial Technology Consultants Inc.

5455 Wilshire Blvd., Suite 1610, Los Angeles, Calif. 90036; 213-937-3091

Year founded: 1976.

Services provided: Captive feasibility studies, captive formation, computerized accounting, loss forecasting, association captive management services, specialized accounting services for associations, onshore services for associations.

Staff: Four total staff members, one professional staff member.

Clients: Four captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. No minimum size client.

Current business: Four active captives.

Compensation: Time and expense, professional: $150 per hour; clerical: $45 per hour.

1988 gross revenues: Not reported; 20% from fees charged for captive management, 80% from other services.

Principal officers: Warwick Feldman, president.

Finsbury Management Services Ltd.

3 Library Ramp, Gibraltar, 03-507-3437

Year founded: 1983.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, tax advice; occasional computerized accounting, reinsurance brokered to captives.

Staff: 36 total staff members, five professional staff members. Professional designations held by staff include one MBA, two FCASs, two MBIMs.

Clients: Five active captives managed; 60% with less than $1 million in premiums, 40% with $1 million-$3 million. Two inactive captives managed.

Current business: Five active captives, two inactive captives.

1988 gross revenues: Not reported.

Principal officers: Kevin Brown and James D. Hassan.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton HM HX, Bermuda; 809-292-4654

Year founded: 1972.

Parent company: Arthur J. Gallagher & Co. Inc.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, investment management, loss control services (Rolling Meadows, Ill.), association captive management services, specialized accounting services for associations, onshore services for associations, alternative risk financing programs; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Five total staff members, two professional staff members. Professional designations held by staff

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include two ACIIs, one FCA.

Clients: Four active captives managed; 100% with less than $1 million in premiums. One inactive captive managed. No minimum size client.

Current business: Four active captives, one inactive captive.

Subsidiaries: Arthur J. Gallagher Co. (Cayman) Ltd.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered.

1988 gross revenues: $1.5 million; 55% from fees charged for captive management, 45% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: John P. Gallagher, president; Robert E. Gallagher, vp; J. DeChristofaro, vp/director; David J. McManus, managing director; Ronald L. Hubbard, finance director.

Green Mountain Captive Management Co.

P.O. Box 628, Barre, Vt. 05641; 802-479-1046

Year founded: 1981.

Staff: Five total staff members, four professional staff members. Professional designations held by staff include one CPCU, two attorneys.

Clients: Two captives managed.

Current business: Two active captives.

Compensation: Annual fee.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Thomas Salmon, James L. Mulligan, George Nostrand and Richard W. Huskes Jr.

H

HJF Management Ltd.

P.O. Box HM 1616, Hamilton HM GX, Bermuda; 809-292-8411

Year founded: 1987.

Parent company: Blackwall Green Group Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management services, specialized accounting services for associations; occasional captive feasibility studies, tax advice.

Staff: Three total staff members, two professional staff members.

Clients: Not reported.

Affiliate: HJF International Ltd.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Principal officers: John J.R. Green, chairman/president; Michael T.W. Jenkins and Michael G. Foulger, executive vps/directors; J.W.L. Adams, director.

HRGM Insurance Management Ltd.

Provident House, Havilland Street, St. Peter Port, Guernsey, Channel Islands; 481-26049

Year founded: 1978.

Parent company: Hogg Robinson & Gardner Mountain P.L.C.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and rate-making for captives, investment management.

Staff: Six total staff members, two professional staff members. Professional designations held by staff include two FCIIs.

Clients: 13 captives managed; 54% with less than $1 million in premiums, 38% with $1 million-$3 million, 8% with $3 million-$10 million.

Current business: 12 active captives, one inactive captive.

Subsidiaries: Hogg Robinson Insurance Management (Barbados) Ltd.

Compensation: Time and expense, professional: $40-$150 per hour; clerical: $40-$70 per hour.

1988 gross revenues: Not reported.

Principal officers: Roger A. Hall, managing director; Graham M. Powell, assistant director.

Frank B. Hall (Barbados) Ltd.

Collymore Rock, St. Michael, Barbados; 809-295-5454

Year founded: 1986.

Parent company: Frank B. Hall (Bermuda) Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and rate-making for captives, managing association captives, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 21 total staff members, four professional staff members. Professional designations held by staff include four CPAs.

Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $30.5 million. No minimum size client.

Current business: Three active captives, two inactive captives.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

1988 gross revenues: Not reported.

Principal officers: Stuart H. Grayston, president/chief executive officer; Brian S. Webb, senior vp.

Frank B. Hall (Bermuda) Ltd./Parker & Co. Interocean Ltd.

P.O. Box HM 1581, Hamilton HM GX, Bermuda; 809-295-5454

Year founded: 1967.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and rate-making for captives, managing association captives, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 21 total staff members, four professional staff members. Professional designations held by staff include four CPAs.

Clients: 32 active captives managed; 33.33% with less than $1 million in premiums, 23.33% with $1 million-$3 million, 33.34% with $3 million-$10 million, 10% with more than $20 million. 16 inactive captives managed. Total premium volume of captives managed, $389 million. No minimum size client.

Current business: 35 active captives, 13 inactive captives.

Subsidiaries: Frank B. Hall (Barbados) Ltd., Frank B. Hall (Cayman) Ltd., Frank B. Hall (Intermediaries) Ltd.; offices also in Singapore and Guernsey.

Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.

1988 gross revenues: Not reported.

Principal officers: Stuart H. Grayston, president/chief executive officer; Brian S. Webb, senior vp.

Frank B. Hall Management Co.

7409 S. Alton Court, Suite 103, Englewood, Colo. 80112; 303-773-3433

Year founded: 1972.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims re-

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serves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services for associations; occasional reinsurance brokered to captives.

Staff: Nine total staff members, one professional staff member.

Clients: Seven active captives managed; 14% with less than $1 million in premiums, 43% with $1 million-$3 million, 43% with $3 million-$10 million. Six inactive captives managed. Total premium volume of captives managed, $30.2 million. No minimum size client.

Current business: Seven active captives, six inactive captives.

Subsidiaries: Frank B. Hall Management Co., Vermont.

Compensation: Annual fee, $25,000 minimum; time and expense, professional: $75 per hour; clerical, $25 per hour.

1988 gross revenues: Not reported.

Principal officers: Stuart H. Grayston, president; Gwyn R. Shuel, vp/treasurer; Nancy O. Reeves, accounting manager.

Hanna Insurance (Vermont) Ltd.

102 S. Winooski Ave., P.O. Box 730, Burlington, Vt. 05402-0730; 802-863-5774

Year founded: 1982.

Parent company: Smith, Bell & Thompson Inc. and M.A. Hanna Co.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, association captive management services, specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Staff: Seven total staff members, two professional staff members.

Clients: 13 active captives managed; 23% with less than $1 million in premiums, 31% with $1 million-$3 million, 38% with $3 million-$10 million, 8% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $58.8 million.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported.

Principal officers: Roger D. Teese, president; Warren L. Thompson, chairman; Bradley D. Matulonis, treasurer; Timothy H. Hoffman, vp.

Hansa Cayman Insurance Co. Ltd.

P.O. Box 2171, Grand Cayman, B.W.I.; 809-949-7028

Year founded: 1984.

Parent company: Trygg-Hansa Group.

Services provided: Subcontracts for captive management services with Cayman General Insurance Co. Ltd.

Clients: Not reported.

1988 gross revenues: Not reported.

Principal officers: Danny A. Scott, general manager; Gordon B. Philip, financial manager.

Hewitt, Coleman & Associates Inc.

P.O. Box 3665, Greenville, S.C. 29608; 803-242-4350

Year founded: 1923.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (Greenville, S.C.; New York; Denver), association captive management services, specialized accounting services for associations, onshore services for associations; occasional manual claims processing.

Staff: 125 total staff members, 33 professional staff members. Professional designations held by staff include two CPAs, one CPCU, one ARM, one MBA, one RHU.

Clients: 12 captives managed; 33% with less than $1 million in premiums, 17% with $1 million-$3 million, 50% with $3 million-$10 million. Total premium volume of captives managed, $35.9 million. Minimum size client: $2 million premium volume.

Current business: Two active captives, one inactive captives.

Subsidiaries: Hewitt, Coleman Risk Management Inc.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional: $65-$150 per hour; clerical: $25-$50 per hour.

1988 gross revenues: $5 million; 50% from fees charged for captive management, 12% from commissions charged for brokering insurance and/or reinsurance, 38% from other services.

Principal officers: Charles R. Warne, president; E.J. Kaminski and Willard L. Quinn Jr., senior vps; Bennie H. Attaway, James A. Connor and Fred Misenheimer Jr., vps.

I

IAS (Barbados) Ltd.

CGM Building, Collymore Rock, Barbados; 809-436-8296

Year founded: 1987.

Parent company: International Advisory Services Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, managing underwriting pools/facilities/association captives (Engineers Liability Insurance Co. Ltd.), investment management, association captive management services, specialized accounting services for associations; occasional claims reserves analysis, loss forecasting, tax advice, onshore services for associations.

Staff: Two total staff members, one professional staff member who holds a CA designation.

Clients: Seven captives managed; 57% with less than $1 million in premiums, 14% with $1 million-$3 million, 29% with more than $20 million. No inactive captives managed. Total premium volume of captives managed, $60 million. No minimum size client.

Current business: Seven active captives.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, David Pickering and Simon Everett, directors.

IRM (Cayman) Ltd.

British American Tower, P.O. Box 69, Grand Cayman, B.W.I.; 809-949-0155

Year founded: 1988; formerly called Transnational Risk Management Ltd., founded in 1979.

Parent company: Swiss Reinsurance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (United Insurance Co., Tortuga Casualty Co.), loss control services (Cleveland), association captive management services, specialized accounting services for associations, onshore services for associations.

Staff: 27 total staff members, nine professional staff members. Professional designations held by staff include three FCIIs, two FCAs, three ACAs, one HND.

Clients: 30 active captives managed; 37% with less than $1 million in premiums, 26% with $1 million-$3 million, 19% with $3 million-$10 million, 11% with $10 million-$20 million, 7% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $230 million. Minimum size client: $250,000 premium volume.

Current business: 30 active captives, two inactive captives.

Compensation: Annual fee, $20,000 minimum; time and expense.

1988 gross revenues: Not reported; 91% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 4% from other services.

Principal officers: Bryan D. Murphy, president; Frank How, senior vp/director; Graham R. King, Roger Phelps and Peter A. Joy, vps/directors.

Independent Management Group Ltd.

Third Floor, Williams House, 20 Reid St., Hamilton HM 11, Bermuda; P.O. Box HM 2070, Hamilton HM HX, Bermuda; 809-295-1646

Year founded: 1984.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, managing underwriting pools/facilities/association captives, tax advice, association captive management services, specialized accounting services for associations; occasional manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice.

Staff: Eight total staff members, two professional staff members. Professional designations held by staff include one CPA, one MBA.

Clients: 24 active captives managed; 19% with less than $1 million in premiums, 38% with $1 million-$3 million, 25% with $3 million-$10 million, 6% with $10 million-$20 million, 12% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $103 million. No minimum size client.

Current business: 24 active captives, one inactive captive.

Subsidiaries: Independent Brokers Ltd.

Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered; time and expense, professional: $110; clerical: $60.

1988 gross revenues: Not reported.

Principal officers: Peter J.N. Strong, president; John G. Neal, vp.

Insurance Brokerage & Management Co. Ltd.

P.O. Box HM 604, Hamilton HM CX, Bermuda; American International Building, 29 Richmond Road, Pembroke, Bermuda; 809-295-2470

Year founded: 1974.

Services provided: Frequent government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management; occasional captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include one ACII, one ACIArb, one ACA.

Clients: Nine active captives managed; 55% with less than $1 million in premiums, 36% with $1 million-$3 million, 9% with $3 million-$10 million. One inactive captive managed. Total premium volume of captives managed, $18 million. Minimum size client: $500,000 premium volume.

Current business: Nine active captives, one inactive captive.

Compensation: Annual fee, $15,000 minimum; commissions for reinsurance brokered.

1988 gross revenues: Not reported; 60% from fees charged for captive management, 40% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Eric J.M. Arcay, managing director; John E. Thorne, controller.

Insurance Equities Corp.

101 University Ave., Palo Alto, Calif. 94301; 415-324-8880

Year founded: 1985.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations; occasional government reporting, loss forecasting, investment management, tax advice, legal advice; also subcontracts for captive management services with Caribbean Captive Insurance Managers and Skandia International Risk Management (Vermont) Inc.

Staff: 15 total staff members, eight professional staff members. Professional designations held by staff include one CPCU, two MBAs, two FCASs, two attorneys, one Ph.D.

Clients: Three active captives managed; 67% with $1 million-$3 million in premiums, 33% with $3 million-$10 million. Two inactive captives managed. Minimum size client, $1 million premium volume.

Current business: Three active captives, two inactive captives.

1988 gross revenues: Not reported.

Principal officers: Steven Blu-

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menkranz, president/chief executive officer; John V. Wagner, executive vp; Donald W. Satterlee, general counsel.

Insurance Management Services Ltd.

Elizabethan Square, P.O. Box 1289, Grand Cayman, B.W.I.; 809-949-7823; 305-665-3053

Year founded: 1979.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, legal advice, association captive management services, specialized accounting services for associations; occasional loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Staff: Six total staff members, two professional staff members. Professional designations held by staff include one attorney and one CA.
Clients: 15 captives managed; 65% with less than $1 million in premiums, 21% with $1 million-$3 million, 7% with $3 million-$10 million, 7% with more than $20 million. Total premium volume of captives managed, $70 million. Minimum size client: $500,000 premium volume.
Current business: 12 active captives, three inactive captives.
Subsidiaries: Insurance Risk Management Services Ltd., Barbados.
1988 gross revenues: Not reported.
Principal officers: David I. Moed, managing director; Steven R. Butler, financial director.

Insurance Services International Ltd.

Elizabethan Square, P.O. Box 1345, Grand Cayman, B.W.I.; 809-949-5499

Year founded: 1978.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: Three total staff members, two professional staff members. Professional designations held by staff include one ARM.
Clients: Five active captives managed, two inactive captives managed. Total premium volume of captives managed, $20 million. No minimum size client.
Current business: Six active captives, two inactive captives.
Compensation: Annual fee, commissions for reinsurance brokered.
1988 gross revenues: Not reported; 100% from fees charged for captive management.
Principal officers: Klaus J. Gebhardt, managing director/president; Mark D. Gebhardt, director; Brenda Chin, office manager.

Intercontinental Risk Managers Ltd.

Third Floor, The First Home Tower, P.O. Box 1062, George Town, Grand Cayman, B.W.I.; 809-949-5586

Year founded: 1984.
Parent company: The Intercontinental Financial Group.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (Chicago), association captive management services, specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives, investment management.
Staff: Six total staff members, four professional staff members. Professional designations held by staff include one CPA, one MBA, two attorneys.
Clients: One captive managed, no minimum size client.
Current business: One active captive.
Compensation: Annual fee, time and expense.
1988 gross revenues: Not reported.
Principal officers: Robert F. Coleman, director/chairman/chief executive officer; Robert B.D. Batlivala, director/president; Barry J. Freeman, secretary/general counsel; Desmond Campbell, manager.

International Advisory Services Ltd.

P.O. Box HM 1760, Hamilton HM HX, Bermuda; 809-295-3688

Year founded: 1981.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, managing underwriting pools/facilities/association captives (Independent Laboratories Assurance Co. Ltd., Sporting Arms Insurance Ltd., Structural Engineers Insurance Ltd., C.P.S. Insurance Co. Ltd.), investment management, association captive management services, specialized accounting services for associations; occasional underwriting and ratemaking for captives, tax advice.
Staff: 20 total staff members, 11 professional staff members. Professional designations held by staff include one CPCU, nine CAs, one FCIS.
Clients: 52 captives managed; 58.5% with less than $1 million in premiums, 12% with $1 million-$3 million, 20% with $3 million-$10 million, 2% with $10 million-$20 million, 7.5% with more than $20 million. Total premium volume of captives managed, $245 million. No minimum size client.
Current business: 52 active captives.
Subsidiaries: H&H Management Services Ltd., Bermuda; IAS (Barbados) Ltd., Barbados; IAS Insurance Management Inc., Anaheim, Calif.; International Advisory Services Inc., Montpelier, Vt.
Compensation: Annual fee, $10,000 minimum; commissions for reinsurance brokered; time and expense.
1988 gross revenues: Not reported; 95% from fees charged for captive management, 5% from other services.
Principal officers: David Ezekiel, president/managing director; Terence Power, David Pickering, Simon Everett, directors.

International Risk Management (Australia) Pty. Ltd.

c/o Deloitte Haskins & Sells, 12th Floor, 255 George St., Sydney, New South Wales 2000, Australia; 011-61-250-0500

See International Risk Management Group.

International Risk Management (Barbados) Ltd.

Box 1264, St. George St., Bridgetown, Barbados; 809-436-7541

See International Risk Management Group.

International Risk Management (Bermuda) Ltd.

Box 660, Belvedere Building, Hamilton 5, Bermuda; 809-295-0713

See International Risk Management Group.

International Risk Management (Canada) Ltd.

Corporation Square, Suite 1004, 30 Kuke St. W., Kitchener, Ontario N2H 3W5; 519-742-2390

See International Risk Management Group.

Continued on next page

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International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69, George Town, Grand Cayman, B.W.I.; 809-949-0155

See International Risk Management Group.

International Risk Management Group

P.O. Box 660, Belvedere Building, Hamilton 5, Bermuda; 809-295-0713

Year founded: 1988.
Parent company: Swiss Reinsurance Co.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Forest Insurance Ltd., Hopewell International Insurance Ltd., Tortuga Casualty Co., United Insurance Co.), loss control services (Cleveland; Weybridge, England), association captive management services, specialized accounting services for associations, onshore services for associations, risk management consulting, property loss control consulting, infrared thermographic surveys; occasional manual claims processing.
Staff: 350 total staff members, 280 professional staff members. Professional designations held by staff include 35 CPAs, 30 CPCUs, 30 ARMs, 10 MBAs, five attorneys.
Clients: 194 active captives managed; 35% with $1 million-$3 million in premiums, 55% with $3 million-$10 million, 10% with more than $20 million. Six inactive captives managed.
Current business: Approximately 200 captives.
Member companies: American Risk Management Corp., Fort Lee, N.J.; International Risk Management (Bermuda) Ltd., Hamilton, Bermuda; European Risk Management Ltd., Weybridge, England; International Risk Management (Cayman) Ltd., George Town, Grand Cayman; International Risk Management (Guernsey) Ltd., St. Peter Port, Guernsey, Channel Islands; International Risk Management (Isle of Man) Ltd., Douglas, Isle of Man; International Risk Management (Barbados) Ltd., Bridgetown, Barbados; International Risk Management (Canada) Ltd., Kitchener, Ontario; International Risk Management (Singapore) Pte. Ltd., Singapore; International Risk Management (Australia) Pty. Ltd., Sydney, Australia.
Compensation: Annual fee; time and expense, professional: $125-$250 per hour, clerical services included.
1988 gross revenues: Not reported.
Principal officers: Arthur H. Deters, president/chief executive officer; Bryan D. Murphy, executive vp; Thomas G. Grilli, executive vp/chief financial officer; John J. Ryan, president-American Risk Management Corp.; William F. Nehls, William T. Harris, Donald W. Mosier and William T. Torpey, vps-American Risk Management Corp.; William F. Sennett, managing director-European Risk Management Ltd.; Donald J. Westmoreland, president-International Risk Management (Bermuda) Ltd.; John R. Parkinson, managing director-International Risk Management (Guernsey) Ltd.; Peter Joy, vp-International Risk Management (Cayman) Ltd.

International Risk Management (Guernsey) Ltd.

31-33 Le Pollet, St. Peter Port, Guernsey, Channel Islands; 011-44-4-812-7220

See International Risk Management Group.

International Risk Management (Isle of Man) Ltd.

Well Road House, Douglas, Isle of Man; 011-44-624-29198

See International Risk Management Group.

International Risk Management (Singapore) Pte. Ltd.

4 Robinson Road, 10-01 Commercial Union Building, Singapore 0104; 65-222-3582; 65-222-3583

See International Risk Management Group.

International Underwriting Managers (Cayman) Ltd.

P.O. Box 1569, Second Floor, Cayman International Trust Building, Grand Cayman, B.W.I.; 809-949-7906

Year founded: 1987.
Parent company: International Management Group Ltd.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, actuarial studies, loss forecasting, investment management, tax advice, legal advice; occasional manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (Chicago).
Staff: Six total staff members, two professional staff members. Professional designations held by staff include one CA, one FCIS.
Clients: Three captives managed, 100% with less than $1 million in premiums. No minimum size client.
Current business: Four active captives.
Compensation: Annual fee; time and expense, professional: $100-$150; clerical: $40-$65.
1988 gross revenues: Not reported.
Principal officers: David M.L. Roberts, Athel C.E. Long, John M. Golds and J. Nairn Marshall.

Isle of Man Insurance Management Ltd.

Derby House, Athol Street, Douglas, Isle of Man; 44-624-24141

Year founded: 1979.
Parent company: Isle of Man Assurance Ltd.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, underwriting and ratemaking for captives; occasional captive feasibility studies, loss forecasting.
Staff: Seven total staff members, six professional staff members. Professional designations held by staff include one FCII.
Clients: 12 active captives managed; 33% with less than $1 million in premiums, 42% with $1 million-$3 million, 17% with $3 million-$10 million, 8% with more than $20 million. No inactive captives managed. Total premium volume of captives managed, $60 million. Minimum size client: $200,000 premium volume.
Current business: 12 active captives.
Compensation: Annual fee, $35,000 minimum.
1988 gross revenues: $300,000, 100% from fees charged for captive management.
Principal officers: C. Crowther, managing director; R.N.S. Bigland and T.E. Osborne, directors; P.M. Vick, manager.

J

James (Bermuda) Ltd.

Global House, Church Street, P.O. Box HM 2280, Hamilton HM JX, Bermuda; 809-292-6667

Year founded: 1977.
Parent company: Sedgwick Group P.L.C.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, association captive management services, specialized accounting services for associations; occasional manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for

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captives, onshore services for associations.

Staff: 21 total staff members, eight professional staff members. Professional designations held by staff include five CPAs, one CPCU, two MBAs.

Clients: 30 active captives managed, 13 inactive captives managed.

Current business: 31 active captives, 13 inactive captives.

Subsidiaries: James (Cayman) Ltd.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional: $100-$175 per hour; clerical: $40-$90 per hour.

1988 gross revenues: Not reported.

Principal officers: Warren D. Sproule, president/managing director; Pamela Lambarth, senior vp; A. Trevor Metcalf, vp; Philip A.G. Cracknell and M. Grace Soares, assistant vps.

Fred S. James & Co. of Florida Inc.

P.O. Box 5155, Maitland, Fla. 32751; 407-875-5900

Year founded: 1973.

Parent company: Fred S. James & Co. Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (Florida Hospital Trust Fund, 28 participants, $8.5 million premium volume), loss control services, association captive management services, specialized accounting services, onshore services for associations; occasional captive feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: 60 total staff members, 27 professional staff members. Professional designations held by staff include three CPCUs, two ARMs, one ALMC, two CRMs, one RN.

Clients: Four active captives managed; 75% with $3 million-$10 million premium volume, 25% with $10 million-$20 million. No inactive captives managed. Total premium volume of captives managed, $35 million. Minimum size client: $3 million.

Current business: Four active captives, no inactive captives.

Compensation: Annual fee.

1988 gross revenues: Not reported.

Principal officers: John W. Lahey, executive vp; Peter J. Brennan and Ralph B. Roberts, senior vps; Evelyn Thompson, vp; Richard Y. Fong, assistant vp.

Fred S. James & Co. of Hawaii

841 Bishop St., Honolulu, Hawaii 96813; 808-545-2420

Year founded: Captive management operations began in 1987.

Parent company: Fred S. James & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations; occasional underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives.

Staff: Five total staff members, three professional staff members. Professional designations held by staff include one CPA, one CPCU, one MBA.

Clients: Five active captives managed, no inactive captives managed. No minimum size client.

Current business: Five active captives, no inactive captives.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Fred S. James & Co. (Public Entities Division) Inc.

800 Dutch Square Blvd., Dutch Plaza, P.O. Box 21304; Columbia, S.C. 29221; 803-798-6190

Year founded: Division founded in 1986.

Parent company: Fred S. James & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations.

Staff: Not reported.

Clients: Not reported.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Principal officers: William Calamus, executive vp; Michael Nashaleanus, vp.

Fred S. James & Co. of Tennessee Inc.

3401 West End Ave., Suite 600, P.O. Box 90148, Nashville, Tenn. 37203; 615-385-2860

Year founded: Captive management operations began in 1985.

Parent company: Fred S. James & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, loss control services (throughout the United States), specialized accounting services for associations, onshore services for associations; occasional underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services.

Staff: Four total staff members, three professional staff members. Professional designations held by staff include one CPA, one attorney.

Clients: Three active captives managed; 33% with $1 million-$3 million in premiums, 67% with $3 million-$10 million. No inactive captives managed. Total premium volume of captives managed, $10 million. No minimum size client.

Current business: Three active captives, no inactive captives.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Principal officers: R. Jane Hill, president-risk management services; Dan Hite, assistant vp.

Fred S. James & Co. of Vermont Inc.

The Willows, 595 Dorset St., South Burlington, Vt. 05401; 802-658-0188

Year founded: 1986.

Parent company: Fred S. James & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, loss control services (throughout the United States), specialized accounting services for associations, onshore services for associations; occasional underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services.

Staff: Five total staff members, four professional staff members. Professional designations held by staff include one CPA, one MBA.

Clients: Two active captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. No inactive captives managed. Total premium volume of captives managed, $6 million. No minimum size client.

Current business: Two active captives, no inactive captives.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Principal officers: R. Jane Hill, president-risk management services; William Moll, vp; Ray Cooper and Martin Nadel, assistant vps; Ramona Ferguson, assistant secretary.

Jardine Risk Services (I.O.M.) Ltd.

Derby House, Athol St., Douglas, Isle of Man; 44-624-24141

Year founded: 1988.

Parent company: Jardine Insurance Brokers Group.

Services provided: Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

Clients: Four active captives managed; 25% with less than $1 million in premiums, 75% with $1 million-$3 million. Total premium volume of captives managed, $7.5 million. Minimum size client: $200,000 premium volume.

Current business: Four active captives.

Compensation: Annual fee, $35,000 minimum.

1988 gross revenues: $135,000, 100% from fees charged for captive management.

Principal officers: R.N.S. Bigland, C.G. Bowen, W.J.H. Corlett and G.F.B. MacQuillan, directors; C. Crowther, executive officer.

Johnson & Higgins (Barbados) Ltd.

Alleyne House, White Park Road, Bridgetown, Barbados; 809-436-9929

Year founded: 1986.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives (Primex Ltd., Preferred Amusement Risk Ltd.), association captive management services; occasional captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax and legal advice pertaining to Barbados, specialized accounting services for associations.

Staff: Seven total staff members, three professional staff members. Professional designations held by staff include three CPAs.

Clients: 14 active captives managed; 14% with less than $1 million in premiums, 14% with $1 million-$3 million, 51% with $3 million-$10 million, 21% with more than $20 million. Two inactive captives managed. Total premium volume of captives managed, $307 million. No minimum size client.

Current business: 14 active captives, two inactive captives.

Subsidiaries: J&H Intermediaries (Barbados) Ltd.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported.

Principal officers: Brian Hall, president; John Perham, vp/office manager.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, P.O. Box HM 1826, Victoria St., Hamilton HM HX, Bermuda; 809-292-4402

Year founded: 1969.

Parent company: Johnson & Higgins.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, tax and legal advice pertaining to Bermuda, association captive management services, specialized accounting services for associations, onshore services for associations, services for companies in runoff; actuarial studies and loss control services provided through parent company.

Staff: 141 total staff members (including J&H Intermediaries Inc.), 51 professional staff members. Professional designations held by staff include 21 CPAs, two CPCUs, one ARM, one FCII, nine ACIIs.

Clients: 165 active captives managed, six inactive captives managed. Total premium volume of captives managed, $858 million.

Current business: 274 active captives.

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Subsidiaries: J&H Intermediaries Ltd.; Johnson & Higgins (Barbados) Ltd.; Johnson & Higgins (Cayman Islands) Ltd.; Johnson & Higgins (U.S V.I.) Ltd. Johnson & Higgins (Luxembourg) S.A.

Compensation: Annual fee, commissions for reinsurance brokered.

1988 gross revenues: Not reported.

Principal officers: Brian R. Hall, president; Wayne Morgan, senior vp; Roger C. Gillett, Paul Rowlerson and Philip N. Simpson, vps; Ian Kilpatrick, managing director-Johnson & Higgins (Cayman Islands) Ltd.; Graeme Harper, vp/manager-Johnson & Higgins (U.S.V.I.) Ltd.; John Perham, vp/manager-Johnson & Higgins (Barbados) Ltd.; Peter McKenzie, vp-J&H Intermediaries Ltd.; David Hall, managing director-Johnson & Higgins (Luxembourg) S.A.

Johnson & Higgins (Cayman Islands) Ltd.

P.O. Box 1051, Grand Cayman, B.W.I.; 809-949-7988

Year founded: 1979.
Parent company: Johnson & Higgins.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: 21 total staff members, five professional staff members. Professional designations held by staff include four CAs, one ACII.
Clients: 52 active captives managed; 5% with less than $1 million in premiums, 65% with $1 million-$3 million, 26% with $3 million-$10 million, 4% with more than $20 million. Seven inactive captives managed. Total premium volume of captives managed, $264 million. Minimum size client: $1 million premium volume.
Current business: 52 active captives, seven inactive captives.
Compensation: Annual fee, $20,000 minimum; commissions for reinsurance brokered.
1988 gross revenues: Not reported.
Principal officers: Ian Kilpatrick, president; Wayne Alexander McKim Cowan, senior account manager; Graham Manchester, Michael Brady and Merise Wheatley, account managers; Mary Rankin, assistant account manager.

Johnson & Higgins Services Inc.

1105 N. Market St., Wilmington, Del. 19801; 302-571-5750

Year founded: 1987.
Parent company: Johnson & Higgins.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives; occasional captive feasibility studies, computerized claims processing, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: One staff member.
Clients: One captive managed, with $400,000 in premiums. No minimum size client.
Current business: No active captive.
Compensation: Annual fee, time and expense.
1988 gross revenues: Not reported.
Principal officers: Richard J. Rice, president; Alan G. Page, Arthur G. Koritzinsky, vps; Scott Konrad, resident manager.

Johnson & Higgins Services Inc.

1700 Trust Company Tower, 25 Park Place N.W., Atlanta, Ga. 30303; 404-586-0000

Year founded: 1988.
Parent company: Johnson & Higgins.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives; occasional captive feasibility studies, computerized claims processing, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: One staff member.
Compensation: Annual fee, time and expense.
Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; Graeme Harper, vp.

Johnson & Higgins Services Inc.

745 Fort St., Honolulu, Hawaii 96813; 203-522-3141

Year founded: 1987.
Parent company: Johnson & Higgins.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives; occasional captive feasibility studies, computerized claims processing, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: One staff member.
Clients: One captive managed with $2.4 million in premiums. No minimum size client.
Current business: No active captives.
Compensation: Annual fee, time and expense.
1988 gross revenues: Not reported.
Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; William Prenger, resident manager.

Johnson & Higgins Services Inc.

Court House Plaza, 199 Main St., Burlington, Vt. 05401; 802-864-5599

Year founded: 1983.
Parent company: Johnson & Higgins.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (see chart preceding directory); occasional computerized claims processing, claims reserves analysis, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: 11 total staff members, eight professional staff members. Professional designations held by staff include one CPA, one ARM.
Clients: 28 active captives managed; 46% with less than $1 million in premiums, 27% with $1 million-$3 million, 17% with $3 million-$10 million, 10% with $10 million-$20 million. Two inactive captives managed. Total premium volume of captives managed, $83 million. No minimum size client.
Current business: 28 active captives, two inactive captives.
Compensation: Annual fee, commissions for reinsurance brokered, time and expense.
1988 gross revenues: Not reported, 100% from fees charge for captive management.
Principal officers: Richard J. Rice, president; Alan G. Page and Arthur G. Koritzinsky, vps; Malcolm Cutts-Watson, vp.

K

Kemper Management Co. Ltd.

P.O. Box HM 1234, Hamilton HM FX, Bermuda; 809-292-5105

Year founded: 1978.
Parent company: Kemper International Corp.
Services provided: Frequent accounting, computerized accounting; occasional captive feasibility studies, captive formation, government reporting, manual claims processing, computerized claims processing, claims reserves analysis, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management, association captive management services.
Staff: Nine total staff members, three professional staff members. Professional designations held by staff include one CPCU, one ARM, two CAs.
Clients: Six active captives managed; 17% with less than $1 million in premiums, 33% with $1 million-$3 million, 33% with $3 million-$10 million, 17% with more than $20 million. No inactive captives managed. Total premium volume of captives managed, $59.4 million. Minimum size client: $500,000 premium volume.
Current business: Six active captives.
Compensation: Time and expense.
1988 gross revenues: Not reported.
Principal officers: James S. Kemper III, chairman/president/chief executive officer; Theodore J. Hoeh, executive vp/general manager; Walter L. White, vp; John W. Burns, treasurer; P. Frank McManamon, assistant treasurer.

L

LWR Risk Management Services Inc.

Box 11102, Royal Centre, 1055 W. Georgia St., Vancouver, British Columbia V6E 4G2; 604-682-9528

Year founded: Captive management operations began in 1987.
Parent company: Leslie Wright & Rolfe Ltd.
Services provided: Frequent computerized accounting, manual claims processing, computerized claims processing; occasional captive feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, underwriting and ratemaking for captives, association captive management services.
Staff: 85 total staff members, 45 professional staff members. Professional designations held by staff include one ARM, three attorneys, nine AIICs, five FIICs.
Current business: Two captives managed.
Compensation: Annual fee, $5,000 minimum; time and expense, professional: $100 per hour; clerical: $40 per hour.
Principal officers: Horace W.R. Harrison, president; B. John L. Rolfe, chairman; Peter T. Kelly, general manager; Lawrence J. McDonald, secretary.

M

M&M Insurance Management Services Inc.

1700 Lincoln St., Suite 4900, Denver, Colo. 80203; 303-837-8410

Year founded: 1976.
Parent company: Marsh & McLennan Inc.
Principal officers: Lorraine Kehm, office head.

M&M Insurance Management Services Inc.

P.O. Box 5129, 7 Burlington Square, Burlington, Vt. 05402; 802-658-0776

Year founded: 1980.
Parent company: Marsh & McLennan Inc.
Staff: 11 total staff members*.
Clients: 21 captives managed. Total premium volume of captives managed, $260.3 million.
Principal officers: Raymond C. Oberg, vp.
* *BI* estimate.

Marsh & McLennan (Bermuda) Ltd.

Second Floor, Craig Appin House, Wesley St., Hamilton HM FX, Bermuda; 809-295-3278

Year founded: 1968.
Parent company: Marsh & McLennan Inc.
Principal officers: Andrew D. Carr, president.

Marsh & McLennan (Cayman Islands) Ltd.

P.O. Box 2196, Grand Cayman, B.W.I.; 809-949-7466

Year founded: 1978.
Parent company: Marsh & McLennan (Bermuda) Ltd.
Staff: Five total staff members.
Clients: 30 captives managed; Total premium volume of captives managed: $40 million.
Principal officers: C.N. Jackson, office head.

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340, Hamilton HM JX, Bermuda; 809-292-7569

Year founded: 1979.
Parent company: Meadowbrook Insurance Group.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, ac-

Continued on next page

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CLAIMS MANAGEMENT

Continued from previous page
counting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, investment management, loss control services (Southfield, Mich.), association captive management services, specialized accounting services for associations; occasional tax advice, legal advice, onshore services for associations.

Staff: Six total staff members, three professional staff members. Professional designations held by staff include one CA, one ACII.

Clients: 16 captives managed; 25% with less than $1 million in premiums, 75% with $1 million-$3 million. Total premium volume of captives managed, $35 million. No minimum size client.

Current business: 16 active captives.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Merton J. Segal, president; Robert A. Engle and Brian Stephenson, vps.

Midland Bank Trust Corp. (Cayman) Ltd.

P.O. Box 1109, Grand Cayman, B.W.I.; 809-949-7755

Year founded: 1984.

Parent company: Midland Bank P.L.C.

Services provided: Captive formation, government reporting, computerized accounting, computerized claims processing, managing association captives, investment management, association captive management services, specialized accounting services for associations.

Staff: 31 total staff members, 11 professional staff members. Professional designations held by staff include seven CPAs, two ACIIs, two AIBs.

Clients: 66 captives managed.

Current business: 66 captives managed.

Compensation: Time and expense.

1988 gross revenues: Not reported.

Principal officers: David A. Whitefield, managing director; Anthony B. Stelling, director; Thomas Clark, manager-client services.

Mutual Risk Management (Barbados) Ltd.

First Floor, Beckwith Mall, Lower Broad St., Bridgetown, Barbados; 809-436-5887

Year founded: 1986.

Parent company: Mutual Risk Management Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services, specialized accounting services for associations; occasional captive feasibility studies, manual claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives, tax advice, onshore services for associations.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include two CPAs.

Clients: Three active captives managed; 67% with less than $1 million in premiums, 33% with more than $20 million. No inactive captives managed. Total premium volume of captives managed, $24 million. No minimum size client.

Current business: Three active captives.

Affiliate: Mutual Risk Management (Cayman) Ltd.

Compensation: Annual fee, $7,500 minimum; time and expense, professional: $125 per hour; clerical: $30 per hour.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Peter Mackay, Robert A. Mulderig, John Kessock Jr. and Spottswood P. Dudley, directors.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363, Grand Cayman, B.W.I.; 809-949-7966

Year founded: 1982.

Parent company: Mutual Risk Management Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, association captive management services, specialized accounting services for associations; occasional captive feasibility studies, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities/association captives, tax advice, loss control services, onshore services for associations.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include two CPAs.

Clients: 19 active captives managed; 42% with less than $1 million in premiums, 21% with $1 million-$3 million, 21% with $3 million-$10 million, 16% with more than $10 million. Six inactive captives managed. Total premium volume of captives managed, $57 million. No minimum size client.

Current business: 19 active captives, six inactive captives.

Affiliate: Mutual Risk Management (Barbados) Ltd.

Compensation: Annual fee, $5,000 minimum; time and expense, professional: $125 per hour; clerical: $30 per hour.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Peter Mackay, general manager/director; Robert A. Mulderig, John Kessock Jr. and Spottswood P. Dudley, directors; John Pitcairn, vp.

Mutual Risk Management Ltd.

P.O. Box 2064, The Emporium Building, 69 Front St., Hamilton HM FX, Bermuda; 809-295-5688

Year founded: 1977.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, managing underwriting pools/facilities/association captives (Mutual Indemnity Ltd. and Mutual Indemnity (Barbados) Ltd., 170 participants, $65 million premium volume, members must have $1 million in premiums), investment management, association captive management services, specialized accounting services for associations; occasional manual claims processing, loss forecasting, underwriting and ratemaking for captives.

Staff: 18 total staff members, eight professional staff members. Professional designations held by staff include seven CPAs, one attorney.

Clients: 15 active captives managed; 73% with less than $1 million in premiums, 13% with $1 million-$3 million, 14% with $3 million-$10 million. Two inactive captives managed. Total premium volume of captives managed, $18 million. Minimum size client: $500,000 premium volume.

Current business: 17 active captives, one inactive captive.

Subsidiaries: Mutual Indemnity Ltd., Hamilton, Bermuda; I.P.C. Group of America Ltd., Commonwealth Risk Services Inc. and Legion Financial, Philadelphia; Anexco Insurance Agency Inc., Boston; Mutual Risk Management (Barbados) Ltd. and Mutual Indemnity (Barbados) Ltd., Barbados; Mutual Risk Management (Cayman) Ltd., Cayman Islands; Hamilton Management Ltd., Milwaukee.

Compensation: Annual fee.

1988 gross revenues: $26.6 million; 2.9% from fees charged for captive management, 13.8% from commissions charged for brokering insurance and/or reinsurance, 83.3% from other services.

Principal officers: Robert A. Mulderig, president; James C. Kelly, vp/controller; Neville Cave, vp; Paul Watson, controller-Mutual Indemnity Ltd.

P

Pinehurst Management Co. Ltd.

Penthouse, Masters Building, Reid Street, Hamilton, Bermuda; 809-295-4864

Year founded: 1967.

Parent company: Jardine Matheson Holdings Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, loss control services (through Jardine Emett & Chandler Self Insurance Services), association captive management services, specialized accounting services for associations, onshore services for associations, captive rental facilities.

Staff: 19 total staff members, six professional staff members. Professional designations held by staff include one CPA, two CAs, two CGAs, one FIIC.

Clients: 50 active captives managed; 3% with less than $1 million in premiums, 50% with $1 million-$3 million, 38% with $3 million-$10 million, 3% with $10 million-$20 million. Six inactive captives managed. Total premium volume of captives managed, $200 million. Minimum size client: $50,000 premium volume.

Subsidiaries: Pinehurst Management Co. (Barbados) Ltd., Pinehurst Management Co. (Cayman) Ltd.

Compensation: Annual fee; time and expense, professional: $65-$250 per hour; clerical: $35-$80 per hour.

1988 gross revenues: Not reported.

Principal officers: Robert C. Whiting, managing director; Timothy B. Carr, senior vp; Roger B. Anderson, Cyril H. Whitter and E. Reid Kempe, vps

The Powerscourt Group Ltd.

P.O. Box 2267, Hamilton HM JX, Bermuda; Fourth Floor, Sofia House, 48 Church St., Hamilton, Bermuda; 809-295-8495

Year founded: 1984.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management; occasional actuarial studies, tax advice.

Staff: Four total staff members, one professional staff member. Professional designations held by staff include one CPA.

Clients: 13 captives managed; 75% with $1 million-$3 million in premiums, 25% with $3 million-$10 million. Total premium volume of captives managed, $25 million. Minimum size client: $2 million premium volume.

Current business: 12 active captives.

Compensation: Annual fee, $10,000 minimum.

1988 gross revenues: Not reported.

Principal officers: John R. Kane, president; Laura Schoenlein, vp.

Prescot Management (Bermuda) Ltd.

P.O. Box HM 1260, Rosebank Building, 12 Bermudiana Road, Hamilton HM FX, Bermuda; 809-295-0073

Year founded: 1983.

Parent company: Minet Holdings P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing; occasional captive feasibility studies, captive formation.

Staff: Seven total staff members, four professional staff members. Professional designations held by staff include one CA, one CMA, one CGA.

Clients: 10 active captives managed; 20% with less than $1 million in premiums, 10% with $1 million-$3 million, 70% with more than $10 million. No inactive captives managed. Total premium volume of captives managed, $94 million. No minimum size client.

Current business: 11 active captives, no inactive captives.

Group companies: Prescot Management Ltd., Guernsey; Prescot Management (Barbados) Ltd., Prescot Management (Isle of Man) Ltd., Prescot Management (Singapore) Pte. Ltd.

Compensation: Annual fee, $25,000 minimum.

1988 gross revenues: $604,000, 100% from fees charged for captive management.

Principal officers: David C. Walker, president; Kenneth L. Hammond, managing director.

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Continued from previous page

Prescot Management Ltd.

P.O. Box 91, Provident House, Havilland Street, St. Peter Port, Guernsey, Channel Islands; 04-812-8581

Year founded: 1984.
Parent company: Minet Holdings P.L.C.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, association captive management services, specialized accounting services for associations; occasional manual claims processing, claims reserves analysis, loss forecasting, investment management.
Staff: Five total staff members, two professional staff members. Professional designations held by staff include one CA.
Clients: Not reported.
Group companies: Prescot Management (Bermuda) Ltd., Prescot Management (Barbados) Ltd., Prescot Management (Isle of Man) Ltd., Prescot Management (Singapore) Pte. Ltd.
Compensation: Annual fee, $25,000 minimum; time and expense.
1988 gross revenues: Not reported.
Principal officers: Roger W.F. Taylor, managing director; C. Ian McCathie, director; Diana D. Knott, company secretary.

Q

Quail Street Management Ltd.

Harold Hayes Frith Building, Par-la-ville Road, P.O. Box HM 1154, Hamilton HM EX, Bermuda; 809-292-2582

Year founded: 1988.
Parent company: Western Growers Assn.
Services provided: Frequent government reporting, accounting, computerized accounting, managing underwriting pools/facilities/association captives (Quail Street Casualty Ltd., 200 participants, $6.5 million premium volume), loss control services (California and Arizona), association captive management services, specialized accounting services for associations; occasional captive feasibility studies, captive formation, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.
Staff: Five total staff members. Professional designations held by staff include one CPA, one CPCU, one ARM, one MBA, one attorney.
Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with $3 million-$10 million. No inactive captives managed. No minimum size client.
Current business: Two active captives.
Subsidiaries: Western Growers Insurance Co.
Compensation: Annual fee, $7,500 minimum.
Principal officers: Deborah L. Burville, president; Don Dressler, vp; V. Lynn Boys, treasurer; Stephen D. Crosbie, secretary.

R

Regatta Management Ltd.

18 Reid St., P.O. Box HM 2092, Hamilton HM HX, Bermuda; 809-295-2169

Year founded: 1986.
Parent company: National Underwriters (Reinsurance) Ltd.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, association captive management services.
Staff: 32 total staff members, eight professional staff members.
Clients: Not reported.
Subsidiaries: Viking Management Ltd., Guernsey, Channel Islands.
Compensation: Annual fee, commissions for reinsurance brokered.
1988 gross revenues: Not reported.
Principal officers: James G. Parkinson, president; S.E. Hallowell, chairman; John S. Orridge, managing director; B. Gustafsson, deputy chairman; John R. Siggins, treasurer.

Risk Consultants Inc.

1571 Race St., Denver, Colo. 80206; 303-388-5688

Year founded: 1976.
Services provided: Frequent captive feasibility studies, accounting, computerized accounting, managing underwriting pools/facilities/association captives (Joint School District Workers Compensation Self-Insurance Pool); occasional captive formation, government reporting, claims reserves analysis, loss forecasting, loss control services, association captive management services, specialized accounting services for associations, onshore services for associations.
Staff: Nine total staff members. Professional designations held by staff include one CPCU, three ARMs, three CICs.
Clients: Two active captives managed, 100% with $1 million-$3 million in premiums. No inactive captives managed. No minimum size client.
Current business: Two active captives.
Compensation: Time and expense, professional: $100-$120; clerical: $30.
1988 gross revenues: Not reported; 30% from fees charged for captive management, 70% from other services.
Principal officers: Michael Murphy, principal consultant; Brent A. Winans, senior consultant; James M. Graham and Dale W. Gray, consultants; Nancy McAninch, risk analyst.

Risk Management Ltd.

Invicta House, Candie Road, St. Peter Port, Guernsey, Channel Islands; 481-710731

Year founded: 1978.
Parent company: National Farmers Union Mutual Insurance Society Ltd.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice; occasional captive feasibility studies, captive formation, claims reserves analysis, actuarial studies, loss forecasting.
Staff: 20 total staff members, 10 professional staff members. Professional designations held by staff include five FCIIs, one ACII, two FIRMs, one FCA, one FCIS, one AIB.
Clients: Not reported.
Branch office: Douglas, Isle of Man.
Compensation: Time and expense.
1988 gross revenues: Not reported.
Principal officers: Michael A. Ward, managing director; M. John Palin, company secretary; Diane J. Ward, director; Dorothy A. Winrow, manager-Isle of Man office; Rosemary I. Tombs, technical manager.

Risk Retention Groups Management Co.

135 College St., P.O. Box 528, Burlington, Vt. 05402; 802-865-2200

Year founded: 1987.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, association captive management services, preparation of insurance company convention statements; additional services provided through independent contractors.
Staff: Two total staff members. Professional designations held by staff include one CFE.
Clients: One active captive managed, with less than $1 million in premiums. One inactive captive managed.

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ISSUE	CLOSE*	MEETING/CONFERENCE	LOCATION
Mar 13	Feb 28	International Captive & Reinsurance Forum	Bermuda
Apr 10	Mar 28	Risk & Insurance Management Society	Atlanta, GA
May 22	May 9	Public Risk & Insurance Management Assn.	Nashville, TN
May 29	May 17	National Assn. of Insurance Brokers	Sea Island, GA
Jun 5	May 23	National Assn. of Insurance Commissioners	Cincinnati, OH
Jun 12	May 31	Group Health Assn. of America/GHI	Atlanta, GA
Jun 19	Jun 7	National Assn. of Insurance Women	Honolulu, HI
Aug 28	Aug 15	Monte-Carlo Rendez-Vous de Septembre	Monte-Carlo
Sep 11	Aug 29	Independent Insurance Agents of America	Los Angeles, CA
Oct 2	Sep 20	National Assn. of Casualty & Surety Agents & Executives	Greenbrier, WV
Oct 9	Sep 26	RIMS/AEAI	Monte-Carlo
Oct 9	Sep 26	Self-Insurance Institute of America	San Diego, CA
Oct 16	Oct 4	Chartered Property & Casualty Underwriters	Anaheim, CA
Oct 23	Oct 11	National Assn. of Professional Insurance Agents	Las Vegas, NV
Oct 23	Oct 11	Baden Baden Conference	Baden Baden, W. Germany
Nov 6	Oct 24	National Assn. of Independent Insurers	Seattle, WA
Dec 4	Nov 21	National Assn. of Insurance Commissioners	Las Vegas, NV

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Current business: One active captive, one inactive captive.

Compensation: Annual fee.

1988 gross revenues: Approximately $100,000; 25% from fees charged for captive management, 75% from other services.

Principal officers: Vincent J. Bell, president; Richard J. Clarke, senior vp.

Rollins Burdick Hunter (Bermuda) Ltd.

9 Church St., P.O. Box HM 2450, Hamilton HM JX, Bermuda; 809-295-2220

Year founded: 1970.

Parent company: Aon Corp.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, managing underwriting pools/facilities/association captives (Lariat Insurance Co. Ltd., 46 participants, $5.2 million premium volume; Glendale Insurance Co. Ltd., 53 participants, $8.2 million premium volume; Kenwood Insurance Co. Ltd., 43 participants, $14.8 million premium volume; Lake States Insurance Co. Ltd., 28 participants, $5.1 million premium volume; Transoceanic Casualty Insurance Co. Ltd., 23 participants, $540,782 premium volume; Metro Property & Casualty Insurance Co. Ltd., 19 participants, $1.7 million premium volume; Dealers National Insurance Co. Ltd., 54 participants, $9 million premium volume; Pikes Peak Insurance Co. Ltd., 18 participants, $478,502 premium volume; Concord National Insurance Co. Ltd., 21 participants, $1.1 million premium volume), investment management, association captive management services, specialized accounting services for associations, onshore services for associations; occasional computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, loss control services.

Staff: 15 total staff members, 12 professional staff members. Professional designations held by staff include five CPAs, one CPCU.

Clients: 30 active captives managed; 23% with less than $1 million in premiums, 30% with $1 million-$3 million, 30% with $3 million-$10 million, 7% with $10 million-$20 million, 10% with more than $20 million. One inactive captive managed. Total premium volume of captives managed, $200 million. No minimum size client.

Current business: 34 active captives, two inactive captives.

Compensation: Annual fee, $25,000 minimum.

1988 gross revenues: $1.5 million; 65% from fees charged for captive management, 35% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Robin Spencer-Arscott, chairman/chief executive officer; J. Walker Rainey, executive vp/chief operating officer; Pauline Richards, group financial controller; Carol Eastham and Gina Belboda, assistant vps.

Rollins Burdick Hunter Management Inc.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-701-4000

Year founded: 1970.

Parent company: Aon Corp.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, association captive management services; occasional captive feasibility studies, loss forecasting, reinsurance brokered for captives.

Staff: 11 total staff members, seven professional staff members.

Clients: Not reported.

Affiliate: Rollins Burdick Hunter (Bermuda) Ltd.

Compensation: Time and expense.

1988 gross revenues: Not reported.

Principal officers: Michael D. Rice, chairman; Stephen J. McElroy, John E. Toi and Charles F. Small, senior vps.

S

Victor O. Schinnerer & Co. Inc.

2 Wisconsin Circle, Chevy Chase, Md. 20815; 301-961-9800

Year founded: 1938.

Parent company: Marsh & McLennan Cos. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (Chevy Chase, Md.; Chicago), specialized accounting services for associations, onshore services for associations, underwriting management for national association programs through commercial markets.

Staff: 350 total staff members. Professional designations held by staff include two CPAs, nine CPCUs, six ARMs, three MBAs, three FCASs, seven attorneys.

Clients: Eight active captives managed; 12.5% with less than $1 million in premiums, 12.5% with $1 million-$3 million, 25% with $3 million-$10 million, 25% with $10 million-$20 million, 25% with more than $20 million. No inactive captives managed. Total premium volume of captives managed, $91 million. Minimum size client: $500,000 premium volume.

Current business: Eight active captives, no inactive captives.

Subsidiaries: The ENCON Group, Toronto and Ottawa, Ontario, and Dallas; Victor O. Schinnerer & Co. Ltd., London; Victor O. Schinnerer & Co. (Bermuda) Ltd.

Compensation: Percent of gross premiums for underwriting management; feasibility and actuarial studies on a fee basis.

1988 gross revenues: Not reported.

Principal officers: J. Sprigg Duvall, chairman; James R. Stevens, president; Merrill B. Walker, Thomas F. Tucker and Paul L. Genecki, senior vps.

Sedgwick Group Management Services (Barbados) Ltd.

P.O. Box 1262, Musson Building, Hincks Street, Bridgetown, Barbados; 809-436-7635

Year founded: 1983.

Parent company: Sedgwick Group P.L.C., Lynch Insurance Brokers Ltd., Insurance Corp. of Barbados.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, underwriting and ratemaking for captives, loss control services (through Sedgwick Risk Control Services Ltd., London); occasional captive feasibility studies, manual claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, association captive management services, specialized accounting services for associations.

Staff: Six total staff members.

Clients: 16 captives managed.

Current business: 16 active captives.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported.

Principal officers: R. Bovill, chief executive; E. Choo, director-financial services; C. Graham, director-underwriting/administration; A. Choy, director-legal/claims.

Sedgwick Group Management Services (Guernsey) Ltd.

P.O. Box 309, 7 Berthelot St., St. Peter Port, Guernsey, Channel Islands; 481-710555

Year founded: 1978.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (through Sedgwick Risk Control Services Ltd., London); occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, investment management.

Staff: Three total staff members, two professional staff members.

Clients: Nine captives managed.

Current business: Nine active captives.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported.

Principal officers: G.M. DeCruz, manager.

Sedgwick Group Management Services (Isle of Man) Ltd.

S&F House, Ridgeway Street, Douglas, Isle of Man; 624-25313

Year founded: 1982.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control services (through Sedgwick Risk Control Services Ltd., London); occasional captive feasibility studies, claims reserves analysis, loss forecasting, investment management, association captive management services.

Staff: Four total staff members, two professional staff members.

Clients: 13 captives managed.

Current business: 13 active captives.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported.

Principal officers: B.R. Cooper, director/chief executive; D.A. Vick, manager; J.C. Nivison, chairman.

Sedgwick Group Overseas Management Services Ltd.

P.O. Box HM 1669, Hamilton HM GX, Bermuda; 809-295-4863

Year founded: 1977.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, loss forecasting, underwriting and ratemaking for captives; occasional captive feasibility studies, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, investment management, association captive management services, specialized accounting services for associations.

Staff: 20 total staff members, seven professional staff members. Professional designations held by staff include two CPAs, one FCII.

Clients: 35 captives managed.

Current business: 35 active captives.

Compensation: Annual fee $15,000 minimum; time and expense.

1988 gross revenues: Not reported.

Principal officers: Barrie Eady, president; Simon Moore, group underwriter; Andrew Sargeant, controller.

Sedgwick Group Management Services Pte. Ltd. (Singapore)

6 Battery Road, 26-04, Singapore 01044; 010-65-222-8646

Year founded: 1984.

Parent company: Sedgwick Group P.L.C.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, underwriting and ratemaking for captives, loss control services; occasional computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives.

Staff: 11 total staff members.

Current business: 10 active captives.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported.

Principal officers: D.A. Deane, director; E. Richey, chief accountant; R. Rose, director.

Skandia International Risk Management Ltd.

P.O. Box HM 2062, Hamilton HM HX, Bermuda; 809-295-2185

Year founded: 1979.

Parent company: Skandia America Group.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims re-

Continued on next page

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Spotlight report

Continued from previous page

serves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives (The Risk Exchange Assn.), investment management, captive rental facilities.

Staff: 50 total staff members. Professional designations held by staff include nine CPAs, two CPCUs, one MBA.

Clients: 90 captives managed.

Current business: 90 active captives.

Subsidiaries: Skandia International Risk Management (Vermont) Inc.

Compensation: Annual fee, $15,000 minimum; time and expense.

1988 gross revenues: Not reported.

Principal officers: Nicholas S. Dove, president; Robert J. Rosser, Adrian Lee-Emery and Robert W. Eastham, vps.

Skandia International Risk Management (Vermont) Inc.

346 Shelburne St., P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474; 802-658-3500

Year founded: 1989; company was formerly called Champlain Risk Services.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, association captive management services, specialized accounting services for associations; occasional captive feasibility studies, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, onshore services for associations.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one CPCU.

Clients: Two active captives managed; 100% with $3 million-$10 million in premiums. Total premium volume of captives managed, $5.3 million.

Current business: Two active captives.

Compensation: Annual fee, $30,000 minimum; time and expense, professional: $80-$100 per hour; clerical: $30-$35 per hour.

Principal officers: George A. Chaffee, president; John Engestrom, senior vp; Steven Bensinger, senior vp/treasurer; Thomas Tobin, secretary.

Stone & Webster Management Services Ltd.

Airlie House, 33 Church St., P.O. Box HM 1617, Hamilton HM 6X Bermuda; 809-292-0124

Year founded: 1970.

Parent company: Stone & Webster Management Consultants Inc.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, loss control services, specialized accounting services for associations, onshore services for associations.

Staff: Four total staff members who are professionals. Professional designations held by staff include one CPCU, one MBA, one FCAS, one AIAB.

Clients: Four active captives managed; 25% with less than $1 million in premiums, 25% with $1 million-$3 million, 50% with $10 million-$20 million. No inactive captives managed. Total premium volume of captives managed, $20 million. Minimum size client: $1 million premium volume.

Current business: Four active captives, no inactive captives.

Compensation: Annual fee, time and expense.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Bruce H. Suter, president; Paul M. Pereech, vp; Norris Dowling, senior accountant.

William R. Storie & Co. Ltd.

P.O. Box HM 2386, Hamilton HM JX, Bermuda; 809-295-3987

Year founded: 1989.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, tax advice, association captive management services, specialized accounting services for associations; occasional claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, legal advice.

Staff: One staff member who holds a CA designation.

Compensation: Annual fee, $15,000 minimum; time and expense, professional: $125 per hour; clerical: $55-$75 per hour.

Principal officers: Bill Storie, president/managing director; Lynda Milligan-Whyte, vp/secretary.

T

W.A. Taft & Co. Ltd.

73 Front St., Hamilton, Bermuda; 809-295-8128

Year founded: 1982.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, specialized accounting services for associations, onshore services for associations, financial reinsurance products, run-offs, loss portfolio transfers.

Staff: Three total staff members, one professional who holds an FCAS designation.

Clients: Two active captives managed; 50% with less than $1 million in premiums, 50% with $1 million-$3 million. Total premium volume of captives managed, $3.5 million. No minimum size client.

Current business: Two captives.

Compensation: Annual fee, commissions for reinsurance brokered.

1988 gross revenues: Not reported.

Principal officers: W.A. Taft, president; Brenda Smith-Casey, vp.

Tate & Lyle Management & Finance Ltd.

129 Front St., P.O. Box HM 337, Hamilton 5, Bermuda; 809-295-9911

Year founded: 1976.

Parent company: Tate & Lyle P.L.C.

Services provided: Frequent government reporting, accounting, computerized accounting; occasional captive formation, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management.

Staff: Four total staff members, one professional staff member who holds an FCII designation.

Clients: Three captives managed; 33% with less than $1 million in premiums, 33% with $1 million-$3 million, 34% with $3 million-$10 million. Total premium volume of captives managed, $6 million. Minimum size client, $500,000 premium volume.

Current business: Five captives.

Compensation: Annual fee, $20,000 minimum.

1988 gross revenues: Not reported.

Principal officers: James A. Kemp, vp; Vivian Tierney, treasurer.

Transatlantic Management Co. Ltd.

P.O. Box HM 2088, Hamilton HM HX, Bermuda; 809-295-9319

Year founded: 1982.

Parent company: First Security Financial Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, association captive management services, specialized accounting services for associations; occasional manual claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, legal advice, onshore services for associations.

Staff: Not reported. Professional designations held by staff include one CA.

Clients: 12 active captives managed; 69% with less than $1 million in premiums, 18% with $3 million-$10 million, 13% with more than $20 million. One inactive captive managed. Total premium volume of captives managed: $50 million.

Compensation: Annual fee, $25,000 minimum.

1988 gross revenues: Not reported, 100% from fees charged for captive management.

Principal officers: Frank Bento, president.

Transglobe Underwriting Management (Guernsey) Ltd.

P.O. Box 34, Le Riche House, 50 High St., St. Peter Port, Guernsey, Channel Islands; 481-28136

Year founded: 1975.

Parent company: English & American Group P.L.C.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management; occasional computerized claims processing, actuarial studies.

Staff: 55 total staff members, six professional staff members. Professional designations held by staff include one CA, two FCAs, two ACAs one ACII.

Clients: 13 active captives managed; 6.68% with less than $1 million in premiums, 7.55% with $1 million-$3 million, 39.47% with $3 million-$10 million, 46.3% with more than $20 million. Three inactive captives managed. Total premium volume of captives managed, $98.6 million. Minimum size client: $450,000 premium volume.

Current business: 13 active captives, three inactive captives.

Compensation: Annual fee, $35,000 minimum; time and expense.

1988 gross revenues: Not reported.

Principal officers: I.G. Daish, chief executive; D. Johnstone, general manager; M. Belcher, chief underwriter; M. Perrett and C. Allen, assistant general managers.

Twenty-First Century Management Co. Ltd.

P.O. Box 724, I.C.B. Building, Roebuck St., Bridgetown, Barbados; 809-426-4684

Year founded: 1986.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, tax advice; occasional captive feasibility studies, claims reserves analysis.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one CPCU, one FCCA.

Clients: 14 active captives managed, two inactive captives managed.

Current business: 14 active captives, no inactive captives.

Compensation: Annual fee.

1988 gross revenues: Not reported.

Principal officers: Omar Cordial, president; Diana Gooding, manager/controller.

V

Vermont Insurance Management Inc.

P.O. Box 306, Montpelier, Vt. 05602; 802-229-5042

Year founded: 1981.

Continued on next page

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Continued from previous page

Services provided: Captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, investment management, tax advice, legal advice, association captive management services, specialized accounting services for associations, onshore services for associations.

Staff: Eight total staff members, five professional staff members. Professional designations held by staff include two CPAs, one CPCU, one MBA.

Clients: 18 active captives managed; 15% with less than $1 million in premiums, 53% with $1 million-$3 million, 32% with $3 million-$10 million. Premium volume of captives managed, $63 million. One inactive captive managed. No minimum size client.

Current business: 18 active captives, one inactive captive.

Compensation: Annual fee, commissions for reinsurance brokered.

1988 gross revenues: $544,174, 100% from fees charged for captive management.

Principal officers: H. Lincoln Miller, president; Michael T. Rogers, chief operating officer.

Vista Insurance Services Inc.

500 Bloomfield Ave., P.O. Box 336, Verona, N.J. 07044; 201-239-7500

Year founded: 1985.
Staff: Not reported.
Clients: Four active captives managed; 75% with $1 million-$3 million, 25% with $3 million-$10 million. Total premium volume of captives managed, $8 million. Minimum size client: $1 million premium volume.
Current business: Four active captives.
Compensation: Annual fee, $25,000 minimum; commissions for reinsurance brokered.
1988 gross revenues: $300,000; 75% from fees charged for captive management, 25% from commissions charged for brokering insurance and/or reinsurance.
Principal officers: E. Arnold Powell, president.

W

Weems Munro Inc.

501 Silverside Road, Wilmington, Del. 19809; 302-798-7292

Year founded: 1987.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, managing captive facilities, specialized accounting services for associations, onshore services for associations, financial reinsurance products, run-offs, loss portfolio transfers.
Staff: Three total staff members, one professional who holds an FCAS designation.
Clients: Not reported.
Compensation: Annual fee, commissions for reinsurance brokered.
1988 gross revenues: Not reported.
Principal officers: W.A. Taft, president.

Willis Wrightson (Gibraltar) Ltd.

3 Library Ramp, Gibraltar; 010-350-73437

Year founded: 1983; formerly called Capacity Resources (Gibraltar) Ltd.
Parent company: Willis Faber P.L.C.
Services provided: Subcontracts for captive management services with Finsbury Management Services Ltd.
Clients: One captive managed.
1988 gross revenues: Not reported.
Principal officers: D.R. Reoch.

Willis Wrightson (Guernsey) Ltd.

Fourth Floor, The Albany, South Esplanade, St. Peter Port, Guernsey, Channel Islands; 481-20049

Year founded: 1980.
Parent company: Willis Faber P.L.C.
Services provided: Captive feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, managing underwriting pools/facilities/association captives, loss control services (through parent company), association captive management services, specialized accounting services for associations, onshore services for associations (through parent company).
Staff: Nine total staff members, four professional staff members. Professional designations held by staff include two ACIIs, one CA, one certified accountant.
Clients: 16 active captives managed.
Current business: 16 active captives.
1988 gross revenues: Not reported.
Principal officers: P.E. Ball, managing director; R.W. McIntosh and J. Copeland, directors.

Y

Yankee Captive Management Co.

P.O. Box 2127, 140 Kennedy Drive, South Burlington, Vt. 05403; 802-658-1100

Year founded: 1983.
Parent company: Yankee Insurance Corp.
Services provided: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, investment management.
Staff: Three total staff members, two professional staff members. Professional designations held by staff include one MBA.
Clients: Two active captives managed; 50% with $1 million-$3 million in premiums, 50% with $3 million-$10 million. One inactive captive managed.
Current business: Two active captives, one inactive captive.
Compensation: Annual fee, $2,500 minimum.
1988 gross revenues: Not reported.
Principal officers: L.F. Hackett, president; J.F. McNally, vp. ■

Info

• **"AIDS: An Employer's Guidebook"** examines the legal challenges, insurance questions and personnel practices affecting the treatment of employees with acquired immune deficiency syndrome. The U.S. Chamber of Commerce published the guide to recommend ways companies, local chambers of commerce and associations can develop educational programs for employees and design benefit plans to provide necessary coverage. The guide, publication No. 0088, is $20 for Chamber members and $33 for non-members from the U.S. Chamber of Commerce, Publications Fulfillment, 1615 H St. N.W., Washington, D.C. 20062; 202-463-5682.

• Leaders in business, government, labor and academia contributed to **"Business, Work and Benefits: Adjusting to Change,"** published by the non-profit Employee Benefit Research Institute. The book examines ways companies can respond to changes in the workforce, international competitiveness, financial pressures on the nation's retirement and health care systems as the population ages and the tensions of work/family responsibilities. Dallas Salisbury, EBRI president, wrote the forward to the 319-page book. Copies are $23.90, prepaid, from EBRI, P.O. Box 4866, Hampden Station, Baltimore, Md. 21211.

• **"Attitudes of Employers and Rehabilitation Professionals Toward Employees Who Become Disabled"** is a monograph researched by the Menninger Return to Work Center in conjunction with the National Safety Council. The report shows that the perceived barriers to returning disabled employees to work stem from employers' mistaken beliefs that such employees can no longer be productive. Copies of the report, TMF-P012-35, are $25 each from the Menninger Return to Work Center, 700 Jackson, Ninth Floor, Topeka, Kan. 66603; 913-233-3051.

• **"Handbook of Hazardous Materials"** outlines the potential fire, safety and health hazards of more than 450 widely used chemicals. The 233-page handbook, recently updated by the Alliance of American Insurers, includes a discussion of preliminary hazard assessment and new information on the handling and storage of hazardous chemicals. Copies are available for $16 from the Alliance of American Insurers, Order Department, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60173; 312-330-8587.

• A **"1989 Catalog for Employers"** from Krames Communications offers publications available for distribution to employees on health, wellness and safety. New titles for 1989 include "A Healthy Heart," "When a Heart Attack Strikes" and "A Guide to Choosing and Using Child Care." The catalog includes information on pricing for all of its booklets and brochures and its quantity discount structure. To obtain a free catalog, send a request on letterhead or with a business card to Krames Communications, Department CEM, 312 90th St., Daly City, Calif. 94015-1898; 415-994-8800.

• **"Your Guide To. . .Underground Tanks,"** published by the Engineering & Safety Service unit of American Insurance Services Group Inc., outlines proper underground storage tank management. It includes basic considerations for leak detection, precision testing, secondary containment, spill control, choice of materials for new tanks, installation of new tanks, inspections, maintenance and abandoned tanks. It also includes a list of state government officials involved with underground tank regulation. The pamphlet is $1 for subscribers to Engineering & Safety Services and $2 for nonsubscribers. It is available from the Publications Department, AISG Inc., 85 John St., New York, N.Y. .10038; 212-669-0419.

• The Greater Los Angeles Chapter of the National Safety Council offers nearly **1,800 training and safety films and videos** for rent. Titles include new releases on hazardous materials handling, substance abuse, AIDS education and plant security. Free copies of the 1989 rental catalog are available by writing The Film Library, 3450 Wilshire Blvd., Suite 700, Los Angeles, Calif. 90010; 213-385-6461.

• A color poster describing **how to use and understand material safety data sheets** is available to assist employers in meeting the Occupational Safety and Health Administration's Hazard Communication Standard. The poster can be used as a training guide for supervisors or be displayed as a reminder to employees of the importance and use of MSDS in the workplace. Prices for one to five copies are $14.95 each; for six through 49 copies, $13.95 each; and for more than 50, $11.95 each. They are available from Laura A. Lopetz, Marketing Representative, Hazard Communication Specialists, P.O. Box 320971, Cocoa Beach, Fla. 32932-0971; 407-783-6641.

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Captive goals more crucial than location: Cox

By MICHAEL BRADFORD

TUCSON, Ariz.—The decision of whether to incorporate a captive offshore or in the United States is not as critical as making sure the captive can meet its objectives, says the chairman of A.C.E. Insurance Co. Ltd.

John Cox, chairman and chief executive officer of A.C.E., said he has found "no reason for the domicile to be either place. I think it makes sense to be where you can do the best job."

For example, "When we were creating A.C.E., we chose Bermuda for location and we chose Cayman for incorporation," he said.

At the time, Cayman law prohibited a Cayman captive from repurchasing its own shares, he said, a feature that A.C.E.'s founders saw as attractive. However, that law was changed in 1988 so that such a repurchase is now possible (*BI*, April 18, 1988).

Speaking to a group at the annual Captive Insurance Companies Assn. Inc. conference in Tucson, Ariz., last month, Mr. Cox said that Bermuda was chosen as the location for A.C.E.'s offices because of its easy access from the United States. "We felt the necessity of talking to our customers one-on-one," he said.

Onerous regulations also are part of the reason A.C.E. was not established in the United States, even though he noted A.C.E.'s similarity to the American Excess Insurance Assn. That consortium of U.S. insurers, which also writes high-level excess liability coverage, is based in East Hartford, Conn.

"We chose offshore because we wanted to avoid the nonsense of 51 regulators," he remarked. Mr. Cox called regulation of insurance companies in the United States "an uneven levy upon our way of life, which adds an enormous burden of expense and inequity when we cross various geographic boundaries."

He pointed out that "regulation really comes home to roost" when it affects an insurer the way it has the AEIA.

The AEIA is "backed by enormous amounts of capital and know-how" but has been unable to have a common policy form approved in all jurisdictions, Mr. Cox explained.

He questioned whether regulators in the United States are qualified to place such demands on an insurance facility like the AEIA.

CICA

In addition to such burdensome requirements, U.S. regulations impose a hidden tax on insurance buyers, according to Mr. Cox.

Policyholders pay more than $4 billion each year as part of their premiums to reimburse insurers for premium taxes imposed on insurance companies, he explained.

"Yet the cost of running all the regulatory environments is less than $500 million. These revenues have become general tax revenues to take care of everything but insurance at the state level," said Mr. Cox.

Taxation is one of the factors to consider when choosing a captive domicile, Mr. Cox stressed, adding that certain offshore tax advantages are about to disappear.

The exemptions that allow U.S.-owned captives in Barbados and Bermuda to avoid U.S. federal excise taxes on premiums are scheduled to expire this year "and it is my understanding that they will not be extended," Mr. Cox noted.

"Bermuda will be just as happy that it stops as long as it stops for Barbados at the same time," he remarked.

In addition, a domicile must have sufficient support services to offer a captive, said Mr. Cox. "In the onshore (domiciles). . . .I don't know whether there is the adequate amount of local accounting, actuarial and other talents needed. Offshore perhaps has more of that than they need."

No domicile has an edge in communications, said Mr. Cox. "The ability to send a fax or make a phone call or send a telex today is universal. There's no advantage or disadvantage any place in the world."

If a captive owner is looking for good legal talent, it is more likely to be found onshore, Mr. Cox advised. "The offshore legal talent deals purely and simply with how you can operate and stay out of trouble in these non-U.S. environments."

Finding talented professionals that can help with investments also is a consideration in choosing a domicile, said Mr. Cox.

"You do not have the investment talent in Barbados. There is very little of it in Bermuda, although we do have one major mutual fund which operates out of there. But, frankly, I don't think you're going to have investment talent in Vermont or (other domiciles) as well."

However, Mr. Cox pointed out that investment expertise is easier to find in the United States than in offshore domiciles.

There are advantages in offshore domiciles regarding the accumulation of capital, Mr. Cox noted, because income that is not immediately taxable can pile up.

"And, capital is the most important ingredient in the insurance transfer mechanism."

In his remarks, Mr. Cox also warned captive parents about the right and wrong ways to use reinsurance markets.

Mr. Cox said he doesn't believe captives "should use reinsurance to do something they cannot do on their own. I believe they should use reinsurance to provide protection for the catastrophe that could hang in the balance, not the day-to-day operations.

"If you use reinsurance as a daily device and the reinsurer changes its mind, you're at ground zero. And, you've got exposure to your capital, you've got exposure to yourselves, but with no support."

In contrast to remarks made at an earlier session by Felix Kloman, a principal and vp with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc., Mr. Cox said he believes a captive should be treated as more than a "cost center" (see related story).

"I think it's a fundamental mistake not to think of your captive as an insurance company," Mr. Cox stated. "The fundamentals of insurance underwriting and capital accumulation in order to pay the long-term obligations are essential to making a captive work (or) making any kind of risk-transfer mechanism work."

While he agreed with Mr. Kloman that a captive should never be considered a profit center, Mr. Cox added, "I take exception to it solely being a cost center. I've been in senior positions in large American corporations for most of my life, and I know that every time you treat something purely and simply as a cost center, you get enormous pressures from people who don't know what the hell it's all about to reduce the cost, without any regard to reality."

Within an insurance company, such pressures lead to "the inevitable cycle," said Mr. Cox. ■

Road to captive success filled with temptations, Kloman says

By MICHAEL BRADFORD

TUCSON, Ariz.—The road to a successful captive insurance company operation is littered with temptations that can lead to a captive's failure, a risk management consultant says.

However, captive parents' can follow 10 commandments to increase the chances of a captive's success, said Felix Kloman, principal and vp of the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

Mr. Kloman reminded his congregation at the 1989 annual Captive Insurance Companies Assn. Inc. conference last month in Tucson that "there are a variety of temptations that have faced you and will continue to face you in the future. The siren call continues to pull the faithful from the faith."

There is a danger, Mr. Kloman added, that the success of the captive movement in recent years is obscuring the real purposes of forming captives.

"I'm going to suggest to you that a captive is not an insurance company but rather a risk-financing mechanism to support the overall risk management objectives of its parent or parents," he said. "I believe that too many captives, their parents and their managers appear to have lost sight of this fact."

One of the temptations that can lead to a captive's ruin is the notion that the captive should be regarded as a money-maker, Mr. Kloman preached.

Despite the fact that the financial officers of a captive's parent company measure success by factors such as return on investment, "we must not be gulled by the appearance that the captive is a profit center," he added.

"It is a cost center for your organization or organizations," Mr. Kloman told the group.

Parent companies also face another temptation that Mr. Kloman labeled as "playing the great game." In captive terms, that means "playing the insurance and reinsurance market cycles," he explained.

Mr. Kloman referred to an article by an insurance broker that suggested now was the time to buy cheap reinsurance or insurance while placing less emphasis on a captive insurer.

"Playing the great game means you start playing the cycles. You are run by the cycles rather than overcoming them," Mr. Kloman remarked.

"The third temptation is writing unrelated business," he continued, adding that "initially this was done because of a perceived tax advantage." However, Internal Revenue Service rulings and tax court decisions have closed any doors that may have led to the deductibility of premiums paid to captives that write third-party business.

There also is a temptation to let egos get in the way of the captive operation, Mr. Kloman warned.

"We all like to be known as officers, we like to be directors and many of us of course like to have another card in our wallet that indicates our position as the head or director of a captive insurance company."

Fortunately, he noted, there are not too many examples of "allowing the ego boost to overcome the realization of the role the captive can and must play within our organizations."

All of these temptations can be overcome if the captive's owners and organizers follow certain rules, said Mr. Kloman. He listed his 10 commandments as:

- The risk management approach. "The goal of a captive as a risk-financing mechanism is to allow you to contribute your superior risk assessment, to improve risk control, to set forth risk control standards and to provide positive incentive for adoption of those standards," Mr. Kloman noted.
- Long-term commitment. Owners and policyholders must be committed to using a captive to stabilize insurance costs over many years.
- Prudent funding. A captive requires sufficient capital, premiums and reinsurance support. Investment income should be plowed back into the captive.
- Careful underwriting. This involves "making sure the initial selection of risk is sound," said Mr. Kloman, and ensuring that rating formulas are simple and equitable for all participants.
- Reduced expenses. "Captives must be significantly less expensive than the conventional market," Mr. Kloman remarked. "The captive movement has proved that it can provide higher-quality services in claims management and loss prevention at significantly lower prices."
- Risk sharing. Those whose risks are being shared in the captive must understand the captive insurance process. "Collegiality in both single parents and group captives is a critical ingredient," Mr. Kloman stressed.
- A homogeneity of interest by policyholders and owners regarding what risks are insured by the captive and how the insurer operates.
- Sense of urgency. Captives may need to be reinvigorated, said Mr. Kloman. "New group captives probably needed a sense of market urgency in order to be created initially. We now believe that any captive needs to recreate its sense of urgency to avoid the complacency that could otherwise creep in."
- Profit allocation. Whether a group captive or single-parent company, profits must flow back to those who contribute the premiums.
- Political support. A captive cannot sustain its ability to provide its services unless it has senior management's support.

Mr. Kloman admitted that "it's one thing to read the tablets that have been delivered from the mountain top; it's another to apply them intelligently."

He advised risk managers and captive owners to "remember the real role of the captive insurance company. It is to provide a service to the corporate or parent risk management program. It is important to avoid the temptations.

"We have to abide by the 10 commandments that we have suggested and keep the faith," Mr. Kloman said. ■

CICA seeks involvement in legislation

TUCSON, Ariz.—The Captive Insurance Companies Assn. Inc. is considering becoming more involved in legislative efforts after years of inconsistency in lobbying and related activities.

"We are hampered by the absence of a legislative position" on issues that affect CICA's members, said CICA President Allin Karls at the group's annual conference in Tucson, Ariz., last month.

"A few years ago, we decided to become more active; a couple of years before then, we had decided just the opposite, because we had encountered some difficulty in knowing how to take positions that would make all of our members comfortable," said Mr. Karls, who also is president of Wingate Capital Ltd. of Eden Prairie, Minn.

During a board meeting at the conference, CICA formed a task force that was given the directive of "developing a structure to accomplish policy formation," said Mr. Karls.

"So, we're going to attempt to formulate policy on issues we think are of interest and concern to our members and then develop an action plan to carry out those policies," he said

Formation of the task force was just one activity at this year's CICA conference, which was held March 19-22 at the Loew's Ventana Canyon Resort, located at the foot of the rugged Arizona hills.

Among the conference's featured speakers were Felix Kloman, vp and principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. Mr. Kloman delivered a sermon titled "Captive, O Captive," in which he extolled the temptations involved in operating a captive and the commandments for overcoming them (see related story).

And, John R. Cox, chairman of A.C.E. Insurance Co. Ltd., was on hand to expound on the advantages of locating captives onshore and offshore.

Panel discussions explored the workings of profit center captives and the removal of trade barriers in Europe.

Next year's conference is scheduled for March 25-28 at Marriott's Desert Springs in Palm Desert, Calif.

More information regarding CICA is available by calling 212-687-4501.

1992 may see increase in EC captives: Kloman

By MICHAEL BRADFORD

TUCSON, Ariz.—Removal of trade barriers within the European Economic Community could spawn an increase in the number of European captives, a risk management consultant says.

Felix Kloman, principal and vp with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn., says he is aware of 10 captive feasibility studies being conducted by West German companies and others that are being prepared for companies in France.

"But that's probably the tip of the iceberg," he said.

Insurers and brokers are positioning themselves for the 1992 removal of European trade barriers, which will bring sweeping changes to the way Europe-based industries do business. When the changes are complete, risk managers will be able to buy a single policy to cover all of their companies' operations in different European countries (*BI*, May 16, 1988).

"The competition among and between financial institutions is going to be intense," Mr. Kloman said. "It has already started."

'Competition among and between financial institutions is going to be intense,' foresees Mr. Kloman.

Speaking to a group last month at the annual conference of the Captive Insurance Companies Assn. Inc. in Tucson, Ariz., Mr. Kloman and Erik Jens Ladelund of Forendede Assurandorer A/S in Copenhagen, Denmark, pointed out that insurance companies and brokers already are choosing staffs to prepare for the changes.

Mr. Kloman noted that such competition could drive the European insurance market into cycles very similar to those that appear regularly in the U.S. market.

One result eventually could be extremely tight markets, "which will present opportunities for captives," he remarked.

The competitive European insurance environment will be a "mixed bag" for risk managers there, said Mr. Kloman.

"On the one hand, you like doing business with a very strong, stable, conservatively run insurance company," he said. "On the other hand, you don't mind getting lower premiums. Where does the balance fall?"

Mr. Kloman also pointed out that other changes could lead more European companies to form captives.

The European Community's product liability directive, which imposes strict liability on manufacturers, retailers and importers, could lead to "increasing liability litigation in Europe that might lead to a European tort liability crisis," said Mr. Kloman.

If such a crisis occurs, captives may become a preferred alternative to the commercial insurers in Europe much the same way that captives have evolved to fill that role for U.S. parents, he said.

As an example, he pointed to the boom in the formation of medical malpractice captives that occurred as a result of large court awards that sent malpractice premiums zooming in the 1970s.

Mr. Ladelund, a member of the CICA board of directors, suggested that as captives increasingly become a part of the European insurance landscape, CICA might have a role in that part of the world.

"There's a growing opportunity for a worldwide association of captive owners and managers," he said. Such an association could operate as a counterpart to CICA in the United States or as part of an international group that includes CICA's current membership.

"Isn't it time for CICA to expand to Europe?" he asked the association's members. "It might be difficult for Europeans to come to Arizona for a meeting."

Jay Waters, assistant insurance manager with Eaton Corp. in Cleveland, moderated the panel. ■

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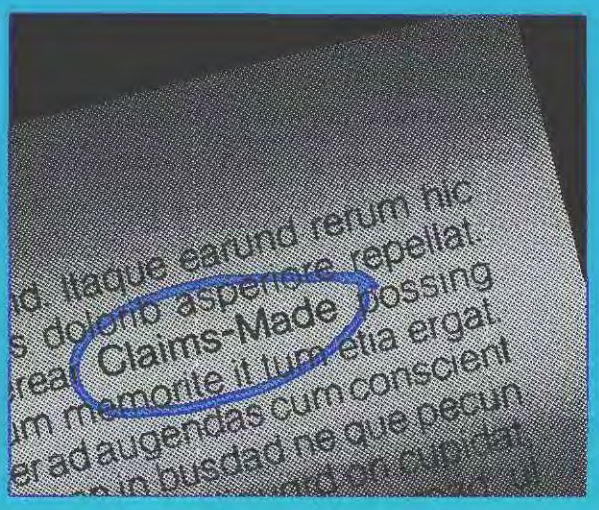

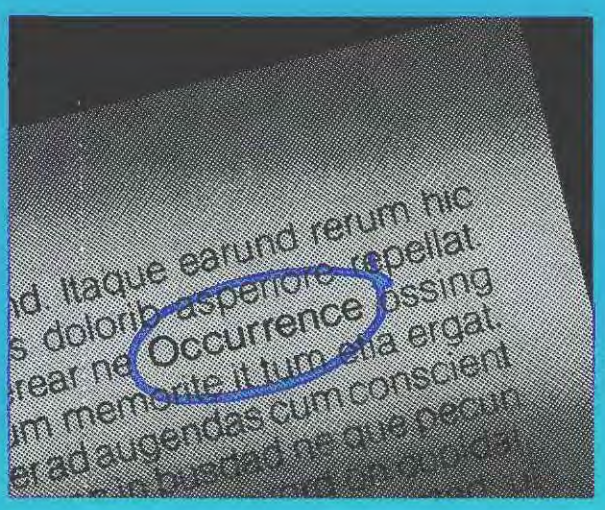

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Spotlight report

Avoid totally unrelated business: Manager

By MICHAEL BRADFORD

TUCSON, Ariz.—Captives writing unrelated business with an eye toward generating profits for the parent company—known as "profit-center captives"—should avoid writing totally unrelated third-party business, advises a captive manager.

William E. Becher Jr., a principal with Becher & Carlson Risk Management Inc. in Los Angeles, offered tips for operating profit-center insurers during a panel discussion at the annual Captive Insurance Companies Assn. Inc. conference in Tucson, Ariz., last month.

The owners of profit-center captives should embrace the concept of "RUBBIES," said Mr. Becher. He uses the word to describe "related unrelated business."

He explained that such business is insurance or reinsurance written for the captive owner's customers, dealers, suppliers, franchisees and others connected to the parent's operation.

"Where there have been successes, they have tended to be in the area of writing related unrelated business," he said.

Mr. Becher warned against listening to brokers who suggest writing unrelated third-party business as a way to expand. "Just say no to totally unrelated third-party business," he advised.

Captives that instead decide to write "related unrelated business" should keep in mind that several key ingredients will help keep their names off the "boneyard" list of failed captives. Those ingredients include:

- Underwriting control. "Don't give that pen away, don't hire somebody outside your company, particularly on a commission basis" to handle underwriting, said Mr. Becher.
- Homogeneous risks. Similar risks make it easier to track the reasons for losses and apply remedies.
- Insuring a business with an established loss record. "One way to write RUBBIES is to be patient" by letting a large insurance company write the business initally and let the captive insure the business after a track record is established, Mr. Becher said.
- Developing a marketing method.

"Insurance has to be sold, it doesn't walk in off the street," he said.

- Analytical capability. Writing third-party business is more complex for a captive than writing its parent's coverage and additional analytical help may be needed, he advised.

Panel member Joe Cline, managing director of General International Ltd. in Bermuda, a captive of Detroit-based General Motors Corp., said that providing coverage to "related unrelated" third parties helps GM improve the development of its products.

General International writes property, marine and extended warranty insurance for retail outlets, suppliers, other vendors and car buyers, a GM spokesman said.

The benefit of writing coverage for suppliers is that the parent company can take advantage of the special relationship that the captive creates with suppliers.

When problems occur with GM products, "we're often the first to hear about it" via claims from the suppliers insured by General International, Mr. Cline said.

"We begin to communicate back to the parent that they have a problem and start to talk to the development team so that they can develop a product to get around the problem," he said. In addition, GM engineering and marketing staffs also are often interested in hearing of claims so they can contribute to solutions.

General International can also serve to "influence damage control and escalate repairs. God knows, if we (at the captive) don't know where 10,000 fenders are, who is going to know where 10,000 fenders are if that's what we need," Mr. Cline said.

And, providing coverage to "related unrelated" third parties via its captive helps Oak Brook, Ill.-based McDonald's Corp. increase sales, according to panelist Jerry R. Lane, assistant vp.

McDonald's Owner/Operator Insurance Co. Ltd., a Bermuda-based group captive owned by the restaurant chain's operators and managed by the corporation, is in place "simply to serve the system. We're not out to make a dollar" on the captive operation, according to Mr. Lane.

He explained that the insurer writes "product buy-back" coverage for companies that supply McDonald's franchises with "premium items" that are distributed in the restaurants during promotions.

If at the end of a promotion, a McDonald's franchisee still has several cases of an item on hand, he will be reluctant to participate in the next promotion, Mr. Lane said. "If you come up short on that promotion, you lose sales. If you lose sales, we lose sales," he added.

Under the buy-back program, a franchise can sell its surplus items back to a supplier, which then makes a claim with the captive. The program also will cover suppliers' losses arising from a government recall of a premium item.

"So the concept behind this (coverage) is to get the franchisee to order the premium items. And what premium items he does not sell," the supplier is covered to buy back, Mr. Lane said.

McDonald's is seeking only to increase food sales, not to turn a profit based on its "product buy-back" program, Mr. Lane noted.

An example of premium items are the "plush Muppet babies," which were stuffed toy figures that were sold throughout the McDonald's chain during last Christmas season, he explained.

However, the Muppet babies were one of the promotions that didn't work, Mr. Lane said. "It turns out we were a little over-aggressive I think in ordering. We had 40 million made," but about 1 million of the toys did not sell and are being repurchased by suppliers, he explained.

Mr. Lane urged those considering forming a captive or already operating one to "have a reason" for doing so. "I have a feeling many companies have no real reason. If it's monetary, fine, if it's the fact that you can't get insurance or reinsurance, that's fine. But have a reason.

"Our reason is to promote sales," by using the premium items to draw food-buying customers into the stores, he said. ■

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Prop. 103 imperils risk managers: Greene

By MICHAEL BRADFORD

TUCSON, Ariz.—The spread of Proposition 103-type legislation to other states may hurt commercial property/casualty insurance buyers, a Risk & Insurance Management Society Inc. official warns.

"You don't need me to stand up here and tell you that this thing is going to spread," Howard Greene, RIMS' associate director of governmental affairs, told the annual Captive Insurance Companies Assn. Inc. conference last month in Tucson, Ariz.

Proposition 103, narrowly approved by California voters last November, among other things calls for insurers to roll back for one year almost all property/casualty insurance "charges" to 20% below November 1987 levels (*BI*, Nov. 14, 1988).

The California Supreme Court is expected to rule by the first week in June on the insurance industry's argument that the measure is unconstitutional (*BI*, March 13).

Mr. Greene noted that 14 states have been targeted for Proposition 103-type legislation by Citizen Action, a Washington, D.C.-based coalition of state consumer groups (*BI*, Jan. 16).

CICA

Those states, he said, are Connecticut, Florida, Illinois, Indiana, Maine, Maryland, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, West Virginia and Wisconsin.

Insurance reform efforts by the state consumer groups range from a push for more disclosure of data by insurers in Maine, to restricting territorial rating in New York, to the establishment of an insurance consumer advocate in Virginia to a comprehensive Illinois package modeled after Proposition 103.

"Many are looking at rate rollbacks and state antitrust exemption repeals," Mr. Greene said of the various reform efforts.

And, while reform efforts have been directed primarily at personal lines, Mr. Greene said he expects commercial insurers to eventually come under fire from consumers.

RIMS was slow to take a stand on Proposition 103 because the association did not "fully grasp how widespread this might become, how big a thing this might become outside of California," he said.

And when it became obvious before the November vote in California on how big of an issue Proposition 103 was, "I think that we felt there was no influence that we could have. So we waited on it. It was a $60 million ad campaign, and we didn't think that our voice was going to do anything," Mr. Greene said.

But when the proposition passed, "we saw an opportunity to influence what may happen in some other states early on," he said.

RIMS voiced its opposition to Proposition 103 and similar measures in March (*BI*, March 6). RIMS President Richard C. Heydinger said then that Proposition 103 "has the makings of having a tremendous impact on the industry. You can't separate personal lines from commercial lines when you talk about financial impact."

RIMS decided to take a position with regard to Proposition 103, Mr. Greene said, because: "One, commercial lines are involved; and two, even if they're not involved, what happens in personal lines is going to have an impact on commercial lines."

Among other provisions, RIMS opposes the controversial rollback in insurance "charges" called for in Proposition 103.

RIMS decided to take a position with regard to Proposition 103, Mr. Greene says, because: 'One, commercial lines are involved; and two, even if they're not involved, what happens in personal lines is going to have an impact on commercial lines.'

"First of all, pricing has got to be the product of sound underwriting and under Prop. 103 it clearly is not," said Mr. Greene. "It's just an arbitrary figure, at least for the first year."

The call for a premium rollback "does not get at the root of the problem, especially if you're talking about auto rates," Mr. Greene said. Those rates reflect such diverse, escalating costs as those associated with health care, the civil justice system and damage repairs, he said.

He said RIMS also is concerned that Proposition 103 could hurt the profitability of insurers.

"You may be asking why would RIMS care about that," he remarked. "We care because companies cannot allow themselves to become less profitable, especially if they're a stock company. How are you going to get investors?"

There are three ways an insurer can overcome the loss of profits that could come as a result of Proposition 103, "and none of them are acceptable to us," Mr. Greene said:

- Insurers in California can withdraw or limit the business they write in that state.

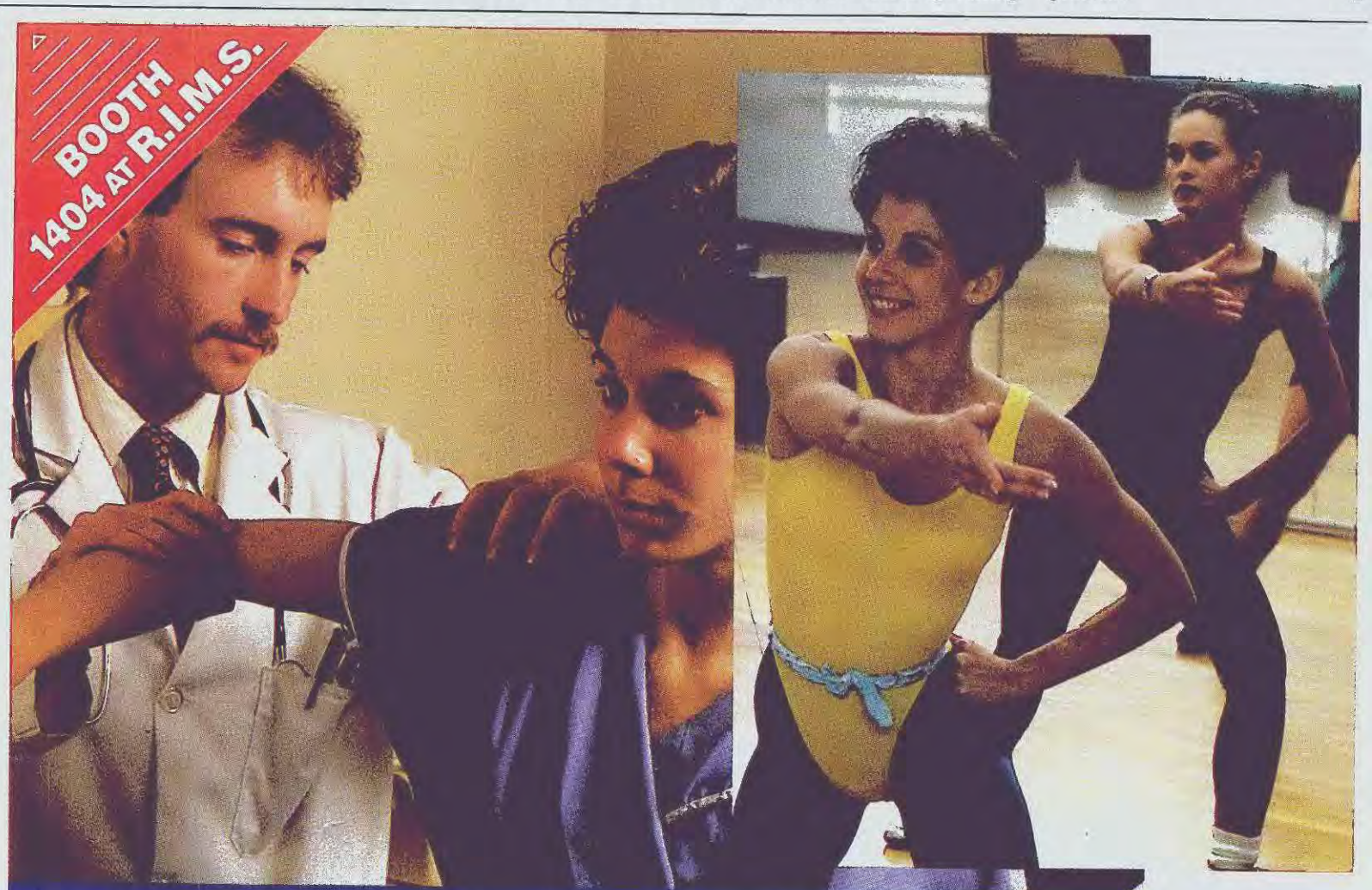
"That's going to hurt capacity in California. We don't like that all."

- Insurers could subsidize losses in California with price increases for lines of business excluded from Proposition 103.
- Multistate insurers could subsidize California losses by raising rates in other states.

There are lessons to be learned from the passage of Proposition 103, said Mr. Greene.

"The first lesson, hopefully, is for the public," he said. "It is: Get all the facts before you make a big commitment. You never know what you'll find. Obviously the public out in California never got that, and we hope the public in other states will."

A lesson for Proposition 103 advocates is "that it makes sense to work both sides of a problem," said Mr. Greene. "And that means you don't just attack the indicators of a problem, meaning the rates themselves. You've got to attack the root, you've got to attack the very reason that you've got this problem." ■



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Risk manager of the year
Jeffrey W. Pettegrew

Pool manager strives to serve and protect

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Seventeen cities in Contra Costa County never blame their insurance—or lack of it—as a reason not to provide a city service or endorse a civic function, even though the cities have lacked commercial liability insurance for more than three years.

The 17 small to midsized cities near San Francisco have loss prevention and control services and $5 million of per-occurrence coverage for liability losses through the Contra Costa County Municipal Risk Management Insurance Authority.

And, the risk manager and chief administrative officer of the authority is a can-do, enthusiastic risk manager for each of the member cities who thrives on solving problems to keep city services and civic group activities functioning.

"I won't say, 'We don't have insurance, so you can't do it,' " says Jeffrey W. Pettegrew. "I say, 'Tell me what you want to do, and I'll find a way to do it.' I'm more concerned with controlling risk than transferring risk.

"In the public sector, we provide service, not excuses," Mr. Pettegrew says. "The public demands roads, parks, recreation programs, police protection, fire services and much more. Our job is to remove the hazards, not the programs."

In the midst of the liability insurance crisis of 1985-1986, when the authority lost its commercial excess liability coverage, not one of the 17 cities suspended a service or closed a recreational facility as many others around the country did after losing their insurance.

Despite losing all commercial liability insurance coverage in February 1986, the then-8-year-old authority was confident that its totally self-insured liability program would cover any losses not only because it had adequate funds and the ability to assess members if those funds ran short, but also because it had faith in its ability to control liability losses.

"The availability of insurance is in itself a risk," Mr. Pettegrew observes. "We learned to take charge of risks instead of transferring them."

The authority has taken charge of risks by implementing a "claims diagnosis" process that integrates claims adjusting and loss prevention, by encouraging member cities to adopt an extensive program to record and act on citizens' complaints, by taking a tough stance when defending liability claims against member cities, and by providing member cities with a bevy of loss prevention and control programs.

And the cities have cooperated, Mr. Pettegrew says. Knowing that the authority has no commercial liability insurance has increased their commitment to controlling risk and litigation costs, he says.

They authority also provides its member cities with six other pooled insurance programs: workers compensation, long-term disability and dental, which are self-funded programs; and property, life and group health, which are insured programs.

The authority's revenue from these programs for the fiscal year ended June 10, 1988, totaled $8.2 million.

The nearly 11-year-old authority has saved its member cities tens of millions of dollars in insurance costs and, more importantly, improved loss prevention programs to reduce property losses and injuries to their 2,350 employees and half-million residents who inhabit a 732-square-mile area.

The authority's success is attributed to Mr. Pettegrew, the risk manager/chief administrative officer of the authority for the last nine of its 11 years, and a member of the authority's founding board of directors in 1977.

Since joining the authority in 1980, Mr Pettegrew has led its growth from a one-man shop managing only two programs—liability and workers compensation, both administered by third-party administrators—to a nine-person staff that manages seven programs. The authority's staff provides member cities with the full spectrum of risk management services, including in-house administration of workers compensation and liability claims.

"He has built the pool's risk management programs from their simple insurance coordination to include a variety of other sophisticated, cost-effective programs that are not typically provided by a pool," said Kenneth C. Scheidig, immediate past president of the authority who has worked with Mr. Pettegrew for eight years.

"Claims administration, benefits coordination, accounting and loss prevention have all been established as efficient staff programs under Jeff's direction," he said.

The number of cities belonging to the pool has grown to 17 from 14, with the incorporation of three new cities, while the population of cities belonging to the authority has almost doubled to more than a half-million from just 316,000 in 1978 when the pool began.

In fact, Contra Costa County, which is home to people who generally work in Oakland or San Francisco, is the second-fastest-growing county in the state.

Only one city in Contra Costa County, Richmond, never joined the authority. In 1978, Richmond was the largest city in the county with its own self-insured program, so it declined to join what was one of the first public agency risk bearing pools in the country.

Mr. Pettegrew, 42, also is an innovator in public risk management outside the confines of Contra Costa County. For example, he chaired the committee of the California Assn. of Joint Powers Authorities that developed the first accreditation program in the country for municipal pools (see story, page 123).

For his accomplishments, Mr. Pettegrew has been named the 1989 *Business Insurance* Risk Manager of the Year.

Selected by a panel of 10 independent judges, Mr. Pettegrew is the 12th Risk Manager of the Year and the first risk manager from the public sector to receive the honor. Previous winners of the award included nine risk managers for large corporations, the risk manager of a not-for-profit organization and the risk manager of a financial institution.

Business Insurance created the Risk Manager of the Year award in 1977 on the 10th anniversary of its publication to recognize outstanding achievement in the field of risk management. While risk managers for individual public entities have been eligible for the award from the beginning, this was the first year that a public entity pool manager was eligible to win the award.

Mr. Pettegrew's approach to his work is summed up on a plaque in his office: "A man's reach should exceed his grasp."

To operate a municipal risk financing authority with $14.4 million in assets and manage the risks of 17 diverse cities—from the wealthy communities of Orinda, Lafayette and Danville to the lower-income cities of Pittsburg and San Pablo—while confronted with a commercial insurance marketplace that disdains municipal risks, especially in litigious California, Mr. Pettegrew needs a long reach indeed.

His goals when he joined the authority in 1980 were to reduce costs, create financial stability and implement loss control for all lines of municipal insurance.

To do so, he expanded members' liability, workers compensation and property coverage as well as added medical, dental, life and long-term disability coverage for pool members.

In 1984, he brought all liability claims ad-

Continued on next page

Risk Manager of the Year Jeffrey Pettegrew is flanked by City of Walnut Creek police officers Scott Hansen, left, and Charles Ray. (Photo: Mary Herlehy)

Continued from previous page

ministration in-house, and in 1986 he also brought workers compensation claims administration in-house, saving the authority money in the cost of administering claims, and, more importantly, creating a better framework for loss prevention and control services that would become even more essential to the authority's success in the years to come.

Mr. Pettegrew has developed dozens of loss control programs for member cities and keeps information flowing among the members to improve each city's risk management program. While each member city assigns risk management responsibilities to someone in its organization, Mr. Pettegrew functions as the top risk manager for each city as well as chief administrative officer of the authority.

"As CAO of the authority, my duties are to manage the authority, from buying paper clips to settling claims. As risk manager, I'm an extension of the city staff of 17 cities. Whether it's a maintenance supervisor or the city manager calling me, I'm there."

Mr. Pettegrew's reach was most tested in 1986, when the authority for the first time could not purchase any excess liability insurance. From the initial $5 million in excess coverage purchased in 1978, Mr. Pettegrew and broker Johnson & Higgins had assembled $24.5 million in limits excess of $500,000 in 1983.

But, in December 1985, the authority was given the required 60 days' notice that it would lose its excess liability insurance.

The insurance had been written by five insurers: Transcontinental Insurance Co. ($500,000 excess of $500,000); Associated International Insurance Co. ($4 million excess of $1 million); First State Insurance Co. ($5 million excess of $5 million); Mission National Insurance Co. ($10 million excess of $10 million); and Insurance Co. of North America, ($5 million excess of $20 million).

The authority was the first municipal pool in the country to lose its excess liability coverage, Mr. Pettegrew recalls.

While a major liability claim against an authority member was heading for trial at the time, Mr. Pettegrew believes the authority would have been canceled even without that loss (see box, page 126).

In late 1985 and early 1986, Mr. Pettegrew worked with broker Marsh & McLennan Inc. to set up what would have been the first "certificate of participation" program to raise funds for a municipal risk financing pool.

Certificates of participation are like revenue bonds and are issued to allow cities to prefund risk.

But when the members of the authority were on the brink of signing the documents to issue $30 million in COPs, they decided against doing so.

"We realized we were creating a long-term solution for a short-term problem," Mr. Pettegrew said, referring to the issuance of 20- to 30-year bonds because there was no insurance available in 1986. The possibility that insurance or other funding alternatives would be available made the COP program less attractive, he said.

The authority members and Mr. Pettegrew also were concerned that the COPs would restrict the authority's flexibility to accept new members. Existing members would be obliged to share the debt, but new members would not. With the possibility that new cities would be formed in then-unincorporated areas of the booming county, the authority did not want to limit its flexibility to accept new members, Mr. Pettegrew said.

Furthermore, the authority was deterred from the COPs when it learned that the trustee for the bonds could decide what coverage would be afforded members because the trustee had to protect the bondholders.

"We said, 'We're here to share risk.' We didn't want a trustee to be able to say we couldn't change the coverage agreement," Mr. Pettegrew explained.

At the same time, the pool had another coverage option: It was one of the original feasibility study members of the California Joint Powers Insurance Authority, which was to become a pooling mechanism for municipal pools, or a so-called "super pool."

Although the super pool started Feb. 1, 1986, which coincided with the loss of commercial excess insurance for the Contra Costa County pool, the authority decided against joining the risk sharing arrangements with the other entities and tying up its funds for seven years as required.

"We would have been the largest pool member and didn't want to be," Mr. Pettegrew recalls.

Instead, the authority nearly doubled the liability insurance premiums it assessed members to a total of $3.8 million annually from $2 million to build a significant reserve of funds to cover claims against member cities up to $5 million.

The authority has not paid any claim exceeding $500,000—its retention when it lost its insurance in February 1986—since going bare.

The authority also has accumulated the $1.2 million in annual premiums, plus interest, that it had been paying annually for $24.5 million of liability insurance excess of $500,000. That's a savings of more than $3.6 million.

At fiscal year-end 1988, the authority had $7.7 million in its liability fund, with $5.6 million reserved for open and reported claims and $2.2 million reserved for incurred-but-not-reported losses.

And, as of February, the liability fund had grown to $10.6 million, with $4.7 million reserved for open and reported claims and $1.8 million in IBNR loss reserves. The rest of the funds are "unallocated reserves," available to protect the pool from catastrophic losses.

As a result of this increase in funds, the authority is considering reducing liability premiums for fiscal 1989-90. An actuary has been hired to advise on how large a reserve the authority needs.

In addition, the authority's broker, Johnson & Higgins in San Francisco, last month obtained a quote from The Insurance Co. of the State of Pennsylvania, an American International Group Inc. unit, to write $3 million in liability insurance excess of $2 million for the authority for a premium of $340,000.

Mr. Pettegrew hopes to bind the coverage effective May 1 for a 14-month policy period to bring the policy term in line with the authority's July 1 fiscal year.

This coverage still will leave the pool with the first $2 million of liability risk per occurrence—not a small sum.

The joint powers authority enabling legislation in California provides that unless otherwise stated in the JPA agreement, pool members are assessable if funds run short.

Members of the Contra Costa County Municipal Risk Management Insurance Authority have been assessed once in the pool's 11-year history.

That was after the authority took over management of its liability claims from a third-party administrator in 1984 and determined that its loss reserves were inadequate.

But the assessment was not to boost loss reserves. The authority had the needed $500,000 to add to reserves.

The assessment was specifically to pay the $350,000 in additional premium charged by its then-first-layer excess liability insurer, Transcontinental, upon learning of the higher estimates of losses in 1984.

In the last three years, the lack of commercial liability insurance has not slowed down municipal or civic activities in the bustling cities of Concord or Walnut Creek or the tiny cites of Clayton and Brentwood in Contra Costa County.

While cities that can't buy liability insurance nonetheless have to continue to maintain police departments, fire departments and roads, they can limit other services, such as parks and recreation, senior citizen programs and programs for the handicapped, all of which "have pretty big liability risks," Mr. Pettegrew points out.

"But we've been able to maintain and expand these types of programs with aggressive risk management techniques and good control of claims," he says.

For example, the Concord Pavilion, an open-air summer entertainment facility operated by the city of Concord (population 108,009), kept the music playing and the 8,500-seat pavilion filled with record-setting crowds (see story, page 127).

On a smaller scale, people in the city of Pinole (population 15,096) will have a place to swim this summer thanks to the authority.

Pinole is taking over the YMCA swimming pool—the only pool in town—because the YMCA was going to close it for lack of liability insurance.

Mr. Pettegrew's response to the city when told they wanted to do this: "We'll be over there with a team to inspect the pool, all the chlorine handling, the risk transfer agreement with the chlorine company, and we'll reopen in April for all the community residents."

Swimming pools are important community recreational facilities in the warm climate of Contra Costa County. The Aquanuts, who won the silver medal in synchronized swimming in the 1988 Summer Olympics, trained in the Walnut Creek swimming pool. In all, the authority insures 21 swimming pools, some of which host world diving competitions.

And teen-agers in Lafayette (population 22,479) can attend monthly dances because Mr. Pettegrew helped a volunteer group that wanted to host dances for 1,200 teens obtain liability coverage through the authority to satisfy the theater owner who demanded a hold-harmless agreement.

Mr. Pettegrew's solution: Parents and security personnel would supervise the dance, teen-agers would pass through metal detectors to prevent any dangerous weapons from being carried into the theater, attendance would be controlled and the facility would be inspected before every dance to be sure it was safe for the teen-agers. In addition, the city council would have to back the dances to trigger the pool's coverage.

The dances have been held about monthly since early 1988 without any incidents.

While Mr. Pettegrew is proud that the authority's members have controlled their losses during the period without liability insurance, he is looking forward to the comfort that commercial excess liability insurance will again provide.

"I am looking forward to having catastrophic coverage, just so that we can remove some of the fear that we have that there is always that possibility of a catastrophic event occurring that could be devastating. While we don't think it will happen, it will be a little more comfortable knowing we have some protection on our program," he says.

And, Mr. Pettegrew does not entirely regret that the authority had to go without commercial liability insurance for three years.

"We certainly got the attention of all the elected officials as well as the staff of our individual cities when we told them there was no one to transfer the risk to and that the financial destiny of the cities rested in our hands," he says.

"From that, we really created our innovative and aggressive loss prevention and risk management program. We recognized we had to devote a lot more attention to risk management. We couldn't close the libraries and the parks and tell the police to go home. The mission we had was to reduce as much risk as possible." ■

Jeffrey W. Pettegrew

Born: Columbus, Ohio
Age: 42
Education: Bachelor of Arts, Denison University, 1968, Outstanding Graduate in the Communications Department; Masters of Public Administration, California State University, Hayward, Calif., 1976, cum laude.
Current position: Risk manager/chief administrative officer, Contra Costa County Municipal Risk Management Insurance Authority. Appointed 1980.
Previous experience: Risk manager, city of Sunnyvale, Calif., 1979-1980; risk manager/assistant city manager, city of Walnut Creek, Calif., 1972-1979; captain, administrative and safety officer, U.S. Air Force, 1968-1972.
Professional memberships: Local Agency Self-Insurance Authority, Board of Directors, 1987-present, Executive Committee and Membership chairman, 1988-present; Public Agency Risk Managers Assn., Board of Directors, 1983-present, president, 1986-1988; California Assn. of Joint Powers Authorities, Board of Directors, 1983-85 and 1987-present, chairman, Accreditation Committee, 1988-present, member-Legislative Committee, 1987-present, president, 1984; Public Risk Management Assn., 1978-present; Public Risk Management Assn.-Pooling Section, 1984-present; Municipal Management Assistants of Northern California, president, 1978; League of California Cities, City Managers Department Board of Directors, 1978.
Teaching activities: Lecturer, Doctorate Program in Public Administration, Golden Gate University, San Francisco, 1981-1987; lecturer, UCLA Extension Program, Sacramento, risk management seminars, 1984; frequent lecturer for professional associations.
Civic service: Boy Scouts, 1985-present; Little League, 1985-present; Contra Costa County Health Care Coalition Committee (1982-1983).
Family: Married to Mary Jo, an elementary school teacher, 16 years. Two children, Joya, 8, and Jonathan, 10.
Hobbies: Music, including singing and playing the guitar and banjo; photography; skiing; tennis; sailing.

Premium structure pleases pool members

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—The biggest challenge to operating a risk financing pool for a group of municipalities is keeping everyone satisfied that the premium assessments are fair, says Jeffrey Pettegrew.

The 17 members of the Contra Costa County Municipal Risk Management Insurance Authority are satisfied with their premium assessments, he says, because each city pays workers compensation and liability premiums based on a combination of exposure base, expected losses and actual losses.

"We really try in our formulas to come up with premium contributions that reflect a city's actual exposure," says Mr. Pettegrew, the authority's chief administrative officer and risk manager.

And, in both the liability and workers compensation programs, a city's success in loss prevention will improve loss experience and, thus, result in lower premiums.

Liability coverage premiums are rated on a retrospective basis, at a minimum of 75% of expected losses to a maximum of 150%.

To develop the premium, Mr. Pettegrew assesses each city's liability exposures based on answers to a detailed questionnaire developed by the authority. He knows the number of vehicles, sworn officers and swimming pools in each city, to name a few important issues.

Based on the authority's loss experience, Mr. Pettegrew has developed values for these exposures. For example, a black-and-white police car is worth $1,600 a year in general liability premiums.

Based on its current exposures, a premium is developed for each city and charged for the coming year. Four years later, the authority compares actual loss experience with the premium charged.

If a city's liability losses are up to 25% below the anticipated expense on an incurred basis, the city is credited up to 25% of the premium. If losses exceed what was expected, the city is charged an additional amount up to 50% of the premium.

Cities also can reduce their liability insurance premium by assuming a deductible larger than the $5,000 minimum. Of the 17 members, 14 assume a $5,000 deductible. Pinole assumes $10,000, Concord assumes $50,000 and Walnut Creek assumes $100,000.

Next year, the members probably will see their liability premiums reduced because

Continued on next page

Pool premiums

Continued from previous page
the authority has built up substantial reserves and expects to purchase commercial excess liability insurance for the first time in three years (see story, page 120).

As one would expect, the self-funded liability coverage is the single largest program managed by the authority. Premiums and interest earned on the self-funded liability insurance program generated half of the authority's fiscal 1987-88 income: $4.1 million of the $8.2 million for the fiscal year ending June 30, 1988.

Total assets in the liability program as of June 30, 1988, were $7.7 million, with $5.6 million reserved for open and reported claims and $2.2 million reserved for incurred-but-not-reported claims.

Also included under the liability program is auto physical damage coverage excess of a $2,000 deductible. On average, the authority pays only about 10 losses a year, the largest of which was $18,000 for a special handicap transport van.

Mr. Pettegrew notes that "I inherited this." When he was appointed in 1980, he discussed the possibility of rating the coverage separately, but the pool's board suggested that he leave the program as it was.

Now, however, with five years of loss experience on hand under the authority's in-house claims administration system, Mr. Pettegrew intends to suggest to the board that a formula be developed for rating the auto physical damage coverage and that the premium be separately earmarked.

The cities' workers comp premiums are developed based on two factors: the current composition of each city's workforce and the city's last three years of loss experience, each equally factored into the premium.

"We do it differently for comp because we have greater control over our claims, from a catastrophic standpoint," Mr. Pettegrew says, citing the cost control effectiveness of aggressive wellness programs and safety training. By using a three-year period to rate workers compensation, cities have a long-term incentive to prevent injuries, he says.

With three years of loss experience factored into their premiums, the cities "are continually striving to reduce those losses to get their premiums lower than their neighboring community," Mr. Pettegrew says.

But liability claims are much more difficult for cities to control, he says. "Some cities in one year look like they can't do anything wrong and the next year two or three third-party accidents can occur. Even the best cities have years of bad losses, so we cap the loss."

The authority's self-funded workers comp program, which covers 1,300 employees and 1,600 volunteers of 14 member cities, generated $1.1 million in income to the authority in fiscal 1987-88, $150,000 short of what was needed to fund the program.

However, the board had planned for that deficit, intending to use free reserves—or what the authority refers to as reserves for future occurrences but equates to retained earnings—to absorb the difference. The work comp fund had $448,300 in free reserves in 1987-88.

The work comp program had assets totaling $3.7 million, with $2.5 million reserved for open and reported claims and $886,515 reserved for IBNR claims.

Despite cost-saving programs and a strong cash position, a premium hike to generate another $500,000 will be necessary in fiscal 1989-90 to build IBNR reserves, Mr. Pettegrew says.

"We need a heavy IBNR due to stress claims," he explains. Stress claims are particularly prevalent from police and firefighters.

The reserve increase was decided upon after an actuarial analysis of the workers compensation program by Capital Actuarial Consultants of Sacramento, Calif., which also advises on liability loss reserves.

Even with the premium hike, the workers compensation rates charged by the authority will be one-third of the State Compensation Fund's manual rates.

The self-funded workers compensation program, which provides first-dollar coverage, is protected by insurance excess of $300,000 to $5 million underwritten by General Reinsurance Co.

Although only covering 590 employees in fiscal 1987-88, the authority's self-funded group medical plan collected $1.2 million in premiums for the year, but that was about $240,000 less than needed to cover expenses.

The authority's self-funded plan was victimized by adverse selection in Contra Costa County where the Kaiser-Permanente Medical Care Program dominates health care. Healthy employees joined Kaiser, and the self-funded plan was left with the employees who pole up large medical bills.

To reduce the cost of group health insurance for member cities, Mr. Pettegrew switched in August 1988 from self-funding the plan to purchasing coverage from the Prudent Buyer PPO, which is sponsored by the California Assn. of Employers. The preferred provider network is operated by Blue Cross of California.

The PPO will save the authority $300,000 in the first year compared with the cost of self-funding, because the PPO's rates are much lower than the authority had to charge to fund its program.

Some cities' rates dropped as much as 30% with the PPO because of the demographics of the statewide PPO. Its subscribers include non-profit institutions and small manufacturers that operate in parts of California where the Kaiser plans do not dominate, which reduces adverse selection.

The PPO charges four different rates, which are developed based on the population of the city.

Alexander & Alexander Inc. of San Francisco, which is the exclusive broker for the California Assn. of Employers program, recommended it to the authority.

The deficit in the health insurance program will be covered by free reserves in the authority's life and long-term disability programs.

The authority's pooled property insurance program, which is insured excess of a $10,000 deductible, generated $318,195 in income in fiscal 1987-88, of which $228,474 was paid for property, and boiler and machinery insurance.

Liability claims are difficult for cities to control, according to Mr. Pettegrew. 'Some cities in one year look like they can't do anything wrong and the next year two or three third-party accidents can occur. Even the best cities have years of bad losses, so we cap the loss,' he says.

The difference in premiums collected and insurance premiums paid covers loss prevention and property management services.

The property insurance, brokered by Johnson & Higgins of San Francisco, is written in two layers: The Home Insurance Co. writes a $10 million primary policy, with a $10,000 deductible, and Continental Insurance Co. and Great American Insurance Co. write the $10 million excess of $10 million layer on a quota-share basis.

Buildings and contents are insured on an all-risk replacement value basis and the policy includes business interruption and extra-expense coverage.

The annualized premium for the coverage is $202,615, which is less than the $215,678 the authority paid for $15 million of coverage the year before written by The Home and American National Fire Insurance Co., which wrote $5 million excess of The Home's $10 million. In addition, the deductible had been $25,000.

While the total value of the 17 cities' property is about $180 million, Mr. Pettegrew selected a $20 million limit for the policy because the property is dispersed throughout the county and no one location has a maximum probable loss of $20 million.

The property insurance also is endorsed to provide $20 million in earthquake and flood coverage to protect 15 properties, many of which are subject to bond financing arrangements that require earthquake insurance be purchased.

The replacement value coverage has a 5%/$100,000 deductible per occurrence.

Each city is offered the opportunity to buy earthquake insurance on its properties that meet underwriting standards. Each city council makes its own decision and pays the appropriate premium for earthquake coverage purchased.

Thirteen of the cities assume $1,000 property deductibles, while Pinole has a $2,500 deductible and Brentwood, Concord and Walnut Creek each have a $5,000 deductible.

Boiler and machinery insurance is written to a $250,000 limit by Pacific Indemnity Co.

Of the authority's other municipal insurance programs:

- The self-funded long-term disability program generated $638,097 in income in fiscal 1987-88.

Self-funded since 1982, the LTD program has accumulated $2.5 million in free reserves while charging rates below the commercial market. The program is administered by Adserv Corp. of Walnut Creek, Calif., with the authority's workers comp claims administrator working with the TPA to get disabled people back to work.

About 2,000 people are insured under the program.

- The life insurance program generated $234,133 in income in fiscal 1987-88.

Life insurance covering 2,000 lives is underwritten under a split premium program with Standard Insurance Co. of Walnut Creek.

Standard charges a retention fee plus actual losses up to a negotiated annual premium equivalent. Each year the authority's savings are placed in an unallocated investment reserve, which has grown to more than $500,000.

- The self-funded dental program generated $514,420 in income in fiscal 1987-88, covering about 1,600 employees.

Administered by Delta Dental Plan of California in San Francisco, the program has not required a rate increase for four years.

Free reserves in the dental plan totaled $156,087 at fiscal year-end.

In total, for the fiscal year ending June 30, 1988, the authority had collected premiums of $7.1 million and interest income of $1.1 million. Expenses totaled $5.8 million: $4.7 million in loss expenses, $459,471 in loss administration, $385,623 in insurance premiums paid and $298,001 in general and administrative expenses.

That produced $2.3 million in income, bringing retained earnings within the authority's $14.4 million in assets to nearly $3 million. ■

Pettegrew keeps in touch with cities' projects

WALNUT CREEK, Calif.—Serving as a public entity risk manager for 17 cities simultaneously is around-the-clock work.

Every time Jeffrey Pettegrew picks up one of the three local newspapers in Contra Costa County, he's likely to learn that a new risk is lurking just around the corner. For example, last year he opened a newspaper to come face-to-face with the photograph of an unhappy teen-ager holding a skateboard and parked in the office of Concord's mayor. The teen-ager was protesting that the city did not provide a skateboard park.

Currently, skateboard parks are excluded under the liability coverage agreement issued by the Contra Costa County Municipal Risk Management Insurance Authority.

That exclusion was put in at Mr. Pettegrew's request in 1987 because he suspected that a member city would one day want to open the first skateboard park in the county. His strategy: It would be easier to let the board later decide how to negotiate removing an exclusion than to add an exclusion after a city opened a park.

"The exclusion puts the control on our ground," Mr. Pettegrew explains. "If a city puts a skateboard park in, then the city would have to conform to the risk control suggestions of the JPA before the exclusion would be removed or modified."

When a member city began considering the need for a skateboard park, Mr. Pettegrew convened a research project on municipal skateboard parks to determine the risks and how they could be managed. A report is now before the pool's coverage committee, which is considering the alternatives.

The pool could cover a skateboard park if the sponsoring city agrees to accept reduced limits of coverage, a higher retention and certain conditions, such as proper design, posting of signs and perhaps even supervision of the skateboarders.

Photo: Mary Herlehy

The license plate on Mr. Pettegrew's car succinctly describes his job.

Mr. Pettegrew also is investigating the possibility that a city sponsoring a skateboard park could claim immunity from liability for injuries suffered there under two different legal theories:

- Municipalities are immune from liability for injuries suffered by people engaged in hazardous recreational activities.

"Is skateboarding a hazardous recreational activity?" Mr. Pettegrew asks.

- Municipalities are granted discretionary immunity if they go through a public review process with open hearings to discuss a project and the plans are approved by a public body.

Mr. Pettegrew believes that a low-key skateboard park could be opened on a trial basis, after a public review process and after telling the public that if there are claims and the courts rule that the city is not immune, the park may have to be closed.

While local newspapers often provide him with information, Mr. Pettegrew has a more systematic approach to keeping up with the pool's 17 member cities. Each city's budget, program brochures, newsletters and city council agendas are forwarded to him for his review to determine if the city is making decisions or offering programs that may have some bearing on their risk management program or insurance coverage.

When risk management issues are identified, Mr. Pettegrew or a member of the authority's staff attends city council meetings to discuss the issues.

Mr. Pettegrew also has his risk management eyes peeled at all times, especially when driving through member cities. If he sees road work in progress, he checks if the crew has properly placed cones directing traffic and if they are wearing their orange vests.

"Once, I spotted a school crossing guard whose van was parked so close to the guard that it blocked the traffic's view of the crosswalk." His response: Requesting that vans always be parked further away.

"I keep a loaded camera in my trunk at all times to take photos of situations that all of our cities need to deal with, such as improper traffic barricades, improperly maintained equipment or other potentially hazardous situations.

"One picture is worth a thousand words in our loss prevention training," he says.

—By Kathryn J. McIntyre

Group to accredit municipal risk pools

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—The only program in the nation to accredit municipal risk financing pools, operated by the California Assn. of Joint Powers Authorities, is off the ground.

The CAJPA Accreditation Program was developed over the last 18 months by the CAJPA Accreditation Committee, whose chairman is Jeffrey Pettegrew, the 1989 *Business Insurance* Risk Manager of the Year.

The accreditation program defines JPA operating standards and provides a system to evaluate a pool's adherence to those standards.

Accreditation Manager Brian O'Toole began the first four accreditation audits late last month and expects they will be completed by June 1.

The first pools requesting accreditation are: Schools Excess Liability Fund; Assn. of California Water Agencies; Vector Control Joint Powers Agency; and the Central San Joaquin Valley Risk Management Authority.

The accreditation program is needed in California, Mr. Pettegrew says, "because we have put the financial destiny of probably two-thirds to three-fourths of all the public entities into pools. The management of these pools is critical to the pools and their member entities.

"The accreditation program is the only way to strongly encourage that the highest professional standards are met," he says. Mr. Pettegrew also is risk manager and chief administrative officer of the Contra Costa County Municipal Risk Management Insurance Authority.

Insurance JPAs in California are not subject to state regulation of their risk financing activities.

The accreditation program's 10 detailed criteria were developed by "the best in the business," Mr. Pettegrew says, including pool administrators and leading professional risk management consultants who serve as associate members of the CAJPA.

Mr. O'Toole is the former risk manager of the Assn. of Bay Area Government Pooled Liability Assurance Network, which he started forming in 1985 and managed until late 1988.

Mr. O'Toole's audit findings will be reviewed by the CAJPA Accreditation Committee, which will make the final determination on each accreditation.

In addition to Mr. Pettegrew as chairman, the accreditation committee JPA risk managers include: Vincent Pisani, County Supervisors Assn. of California; Jeffrey Davis, Yolo County Joint Powers Insurance Authority; Joe Meyers, Redwood Empire Schools Insurance Group; and Jerry Stockett, Assn. of California Water Agencies Joint Powers Insurance Authority.

"We think we will ultimately get every pool accredited," Mr. Pettegrew says. "By that, we expect to maintain the highest standards in the country for pool management and we hope to avoid any failures due to lack of professionalism," he says.

This accreditation program also is designed to preclude less effective regulation of pools, Mr. Pettegrew says. "If we don't do this, someone may try to regulate us. It's better to devise a system from our perspective than the Legislature's."

Mr. O'Toole agrees: "Self-insurance pools have to have standards of quality. We think we can do it better than state regulation, because we are more familiar with what JPAs actually do."

California has more than 100 municipal risk financing pools, or probably a third of the pools in the country, Mr. Pettegrew estimates.

An accreditation will cost a pool anywhere from $3,000 to $5,000, depending on the size and complexity of the pool.

The 10 detailed accreditation criteria cover:

- Governing documents and administrative service contracts, including their content, pool compliance with them and their distribution.
- Claims audits, including frequency, who performs them, results and follow-up.
- Accounting, including the maintenance and distribution of audited financial statements, investment practices and accounting procedures.
- Actuarial studies for liability and workers compensation coverage, including frequency, who performs the audits and adequate funding of reserves.
- Government rules, including compliance with regulations governing self-funding of workers compensation, disclosure and open meetings.
- Insurance, including maintenance of records.
- Risk management services, including claims management, litigation management, loss control, management information systems and property appraisals.
- Loss control, including surveys, training programs and inspection programs.
- Communications, including contact with member entities, maintenance of minutes and educational programs.
- Professional development, including staff participation in professional organizations and attendance at conferences or seminars.

'We think we will ultimately get every pool accredited,' says Jeffrey Pettegrew.

Insurance JPAs became popular in California in the early 1980s because insurance companies continued to shun municipal liability risks and cities realized they could better control their workers compensation costs through the pools.

Insurers had started pulling out of the public liability insurance market in the mid-1970s.

The Contra Costa County Municipal Risk Management Authority was the first JPA in California to finance its members' liability risks.

JPAs formed to provide insurance are exempted under the California Tort Claims Act from the California Insurance Code.

CAJPA began in 1981 as an association of government entity self-insurance pools. Its activities include legislative action, educational programs and discussion of issues common to government entity self-insurance pools. ■

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Pool's board gives Pettegrew wide authority

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Jeffrey Pettegrew has 17 bosses, but they give him a lot of latitude to run the Contra Costa County Municipal Risk Management Insurance Authority.

As chief administrative officer, Mr. Pettegrew is responsible for all operational aspects of the authority: managing an eight-person staff; funding and administration of seven pooled insurance programs; determining appropriate coverage and premiums to be charged under self-funded programs; deciding what insurance or reinsurance to purchase; and managing claims.

In addition, as risk manager, Mr. Pettegrew is ultimately responsible for the quality of the risk management programs in the pool's 17 member cities.

When it comes to major changes in operations, the board supports Mr. Pettegrew's judgment.

In nine years, none of his recommendations has been rejected by the board.

Composed of one representative from each of the 17 member cities —city managers, assistant city managers or city attorneys—the board meets every two months for about a three-hour lunch meeting. They consider recommendations from Mr. Pettegrew and various committees and discuss broad risk management issues.

Typically, Mr. Pettegrew, Claims Manager Jake O'Malley and Workers Compensation Administrator Josette Barbanel attend board meetings, while members of the board often are accompanied by members of their staffs.

Mr. Pettegrew made his first important recommendation to the board soon after joining the authority: The then-14 member cities should give up their diverse property insurance policies and pool their property risks to purchase insurance, allocating the premium to the members based on their property values.

The board agreed. A manuscript policy was developed and marketed in 1980 with the help of Johnson & Higgins, the broker selected by the board in 1977.

Mr. Pettegrew's ideas have not always been popular. For example, when he recommended that the pool self-fund the cities' long-term disability plans, "local brokers tried to run me out of town," he recalls. But the board accepted the recommendation and the authority began self-funding its LTD program in 1984.

The recommendation he took to the board with the most trepidation was in 1983, when he sought approval to bring the administration of liability claims in-house. But his concern was ill-founded. The board approved of that and, later, it also approved of bringing workers compensation claims administration in-house.

Most recently, Mr. Pettegrew decided that the authority should bring its accounting in-house.

"We were spending $60,000 with the city of Concord to roll over CDs, collect premiums and give us financial reports," Mr. Pettegrew said. And the financial reports were prepared on a cash basis.

Mr. Pettegrew wanted someone on staff to handle the authority's financials to provide "increased efficiency, cost-effectiveness and management control."

The board agreed. Christine Kroll, previously a staff auditor with Price Waterhouse in San Jose, Calif., was hired as the accountant in December 1987.

Now, the authority's financials are quickly available, maintained on the authority's Apple Macintosh personal computers.

And, the authority's accounting was converted to an accrual basis.

Photo: Mary Herlehy

Ken Scheidig, left, past president of the Contra Costa Country Municipal Risk Management Authority, and Marilyn Leuck, the authority's current president, flank Risk Manager of the Year Jeffrey Pettegrew.

Ms. Kroll produces a monthly report on all expenses and income, with all expenses allocated to each of the seven insurance programs. The format for the report was approved by the authority's auditor, Deloitte, Haskins & Sells.

Veronica Debiase, benefits coordinator, is cross-trained in accounting to provide a backup for Ms. Kroll.

In addition, Mr. Pettegrew set up a system of controls for handling the thousands of checks the authority sends out each year, which total about $6 million.

The system, which Mr. Pettegrew calls "accounting overkill," provides that: A clerk cuts the check, sends it to the claims manager for signature, who, in turn, sends it to a different clerk, who checks it for proper payment and then mails it, with proper copies prepared for the files. As a result, at least three people handle a check, while the person who made it out doesn't distribute it.

Any check for an amount exceeding $1,000 also requires Mr. Pettegrew's signature.

No other pool has such controls over issuing checks, Mr. Pettegrew says.

Nonetheless, the authority, of course, purchases a blanket employee fidelity bond from Fireman's Fund Insurance Cos. through Nourse Insurance Brokers in Walnut Creek.

Also, with the move to in-house accounting, Mr. Pettegrew hired Public Financial Management Inc. in San Francisco as the investment manager for about $11 million in funds.

Public Financial Investment has increased the yield on the authority's invested funds by 1.5% to a 9.75% average yield, for a fee of 0.1% of the money managed.

Interest income in the fiscal 1987-88 totaled $1.1 million, more than the cost of operating the authority.

Expenses to operate the authority in 1987-88, including all claims administration and consulting costs, totaled $757,472, or 9.3% of its $8.2 million in income.

Commenting on the support and relative free hand that he has in managing the authority, Mr. Pettegrew says: "You earn it. You have to pay your dues if you get into a position like mine. It takes years to prove to all the people that you serve—elected, staff, management —that you are competent at what you do and that you are providing the highest level of service that is available."

But while managing the authority and the cities' risk management programs with a relative free hand, he keeps the board informed of every phase of the operation.

A variety of special study committees encompassing authority staffers, board members and city departmental staff are established as needed to develop policies for the authority. Special study committees consider such issues as budget development, investment policies, police pursuit policies and coverage issues.

Mr. Pettegrew initiates the committees and suggests to the board who should participate. He attends the first committee meeting to assist in defining goals and to identify any time or fiscal constraints. He then periodically attends meetings to ensure that each group is proceeding consistent with the board's goals.

"All changes in financing and administration are approved by the board," Mr. Pettegrew stresses. "The board sets policy; it's my job to do."

And while he has authority to settle liability claims for $5 million—the maximum liability coverage provided by the authority—Mr. Pettegrew keeps the cities "continually advised of what we are doing so there isn't a surprise if we have to ask for $100,000 to cover the deductible on the settlement of a claim," he says, referring to the largest liability deductible any city assumes.

Mr. Pettegrew also stays in touch with board members, city council members, department heads and city managers through a monthly newsletter he writes dubbed "Risk Management Matters."

And, he is always available to answer questions from any of his 17 member cities, whether it's tiny Clayton (population 4,867) or the pool's biggest member, Concord (population 108,009).

Mr. Pettegrew appreciates the freedom the board has entrusted in him to manage the authority's business.

"The most effective decisions are those made when they have to be made," he says. "If they had to be referred to a review process, you would lose the window of opportunity to be effective." ■

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'OUCH' helps relieve comp claim pains

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—The Contra Costa County Municipal Risk Management Insurance Authority expects to cut 16% off its workers compensation medical costs by contracting with a network dubbed "OUCH."

Occupational-Urgent Care Health Systems Inc. has negotiated rates with almost all the hospitals, clinics and individual physicians in the area.

All workers compensation medical bills are forwarded to OUCH, which reviews all bills for proper utilization of services and applies the appropriate discount.

OUCH has cut some medical claims involving hospitalization by as much as 50%. For example, a hospital bill of $22,206.99 was reduced to $13,106.99 after OUCH applied its negotiated discounts.

OUCH is expected to save the authority's workers compensation program $75,000 for the fiscal year ending June 10, 1989, after deducting its fee of one-third of the savings it creates. That would be 16% off the $467,000 in total doctors and hospital expenses under the work comp program in 1988.

Mr. Pettegrew decided to give OUCH a chance to prove its services after meeting OUCH representatives at a February 1988 Public Agency Risk Managers Assn. conference.

By May 1988, OUCH was under contract to the authority.

About 1,300 employees and 1,600 volunteers are covered by the authority's workers compensation pool. Two of the authority's largest cities—Concord and Walnut Creek—are not in the workers compensation pool because they already were self-insured before the authority was formed. El Cerrito, a smaller city, also is not in the pool for the same reason.

Volunteers are covered under the program by resolution of each city council.

Mr. Pettegrew recommends that volunteers be covered under the workers compensation program because "it's cheaper than getting sued" by a volunteer injured when helping out a city.

Of course, volunteers also are carefully monitored by the cities, Mr. Pettegrew stresses. The cities have to be certain they know when a volunteer is on duty and to carefully control their activities, such as driving vehicles.

Volunteers that drive vehicles in the course of their duties, for example, receive special training and certification.

The authority is trying to control not only its medical claim costs but also is trying to reduce the number of workers compensation claims, especially the expensive claims.

The authority receives about 350 workers compensation claims a year, of which about 144 are indemnity cases. About a dozen stress and back claims from police and fire department employees create half of the $2.5 million in open injurred workers compensation claim costs for the cities in the authority's work comp pool.

To reduce these injuries, the authority is working to identify and solve the problems that lead to these claims.

For example, the authority now is working on introducing an extensive wellness program for its member cities that will even extend to dependents of employees. The program, which is being tested in Walnut Creek, is dubbed "Lifeagain," and is administered by John Muir Medical Center Health Risk Management Services in Walnut Creek.

The program provides for personal risk profiles, which include medical testing and an assessment of personal health habits, and the offering of specific programs based on employee needs. The programs include: back injury screening, back therapy, fitness testing, smoking cessation, osteoporosis screening, and weight and stress management.

Conservative estimates indicate that the wellness program saved the city $154,596 by reducing health care costs and absenteeism, which equates to a $5 savings for every dollar invested in the program, Mr. Pettegrew says.

'We've gotten to a point where virtually all of the police departments and most of the other departments are providing modified duties to injured workers,' says Josette Barbanel.

The wellness program, which will be funded by the authority from workers comp and long-term disability insurance premiums paid by its member cities, also will incorporate the employee assistance programs already in place in the member cities.

The authority also is working with OCCU-MED Corporate Health Services of Pasadena to develop a program for its member cities to prescreen job applicants to determine if they have the physical ability to do the job they are seeking. In addition, the prescreening program will identify any existing condition so that if a disability occurs later, the liability will be limited to the injury that occurred on the job.

Mr. Pettegrew expects in the first phase of the program to develop prescreening programs for 25 job classifications, including police officers, maintenance workers and equipment operators.

The prescreening will be conducted by three medical clinics in the county.

The authority also plans to develop a manual for member cities on drug testing. "We're trying to come up with specific standards on pre-employment and random testing," he said.

When workers are injured, Workers Compensation Administrator Josette Barbanel is committed to providing "a lot of care and treatment up-front" for them.

She encourages supervisors to visit a worker who is off the job for more than three days with an injury and to tell the employee "we miss you."

In addition, Ms. Barbanel personally visits seriously injured employees, evaluating the medical and vocational treatment they receive.

To reduce the number of minor workers compensation claims filed, the authority has helped member cities implement what Ms. Barbanel describes as an "aggressive modified duty policy."

"When I got here, very few of the cities were providing modified duty to injured workers," said Ms. Barbanel, who joined the authority staff in September 1986. "Over the course of two years, we've gotten to a point where virtually all of the police departments and most of the other departments are providing modified duties to injured workers."

And, physicians in the communities are familiar with the modified duty policy. After treating an injured worker a physician will almost automatically send him back to work under modified duty.

Otherwise, Ms. Barbanel or the supervisor contacts the employee's doctor to explain what modified duties are available to determine if the doctor will permit the employee to return to work. "We try to talk to the employee, the supervisor and doctor within days of the claim," she said.

"The cost of temporary disability for new injuries in '86-'87 compared with '85-'86 was half," she says, attributing that to the modified duty policy.

"Modified duty also is good for morale because it emphasizes the ability, not the disability," Ms. Barbanel adds.

The authority paid $968,015 in workers compensation benefits in the fiscal year ended June 30, 1988, with 368 claims open. That is a significant increase from the $452,908 paid in the fiscal year ended June 30, 1986, which reflects not only the accumulation of claims over time that remain open but also growth of the member cities' payroll. Covered payroll increased to $36 million in 1988 from $28.2 million in 1986.

No workers comp claim has ever pierced the pool's excess workers compensation insurance, which now attaches at $300,000 per claim. However, the insurer, General Reinsurance Co., has been notified of some claims because the policy requires notice when a claim is reserved for more than one-half of the authority's self-insured retention.

Ms. Barbanel emphasizes that she has the resources at the authority that she needs to do her best work.

"This is why I came to work here," she says, pointing out that claims personnel employed by an insurance company or a third-party administrator have far more cases to handle. She has about 190 cases open now, compared with the 450 cases she was expected to handle when employed by an insurance company. And, she has an assistant to help her.

"I came to work here because of Jeff's philosophy that I could do a great job on 200 cases," she says.

Ms. Barbanel spends a great deal of time "in the field" conducting claim investigations, taking statements and videotaping how accidents occurred.

She also has reduced the amount of workers compensation claims that are litigated.

Mr. Pettegrew notes that when Ms. Barbanel started, more than 60% of the authority's workers compensation open indemnity claims were in litigation. That percentage is now down to 43%. "That's a significant savings," he says.

Ms. Barbanel says she has reduced litigation primarily "by communicating with the employees and explaining what they can expect from the system and giving them a place to call when they have questions."

In addition, she says, workers covered by the authority's pooling program perceive that work comp claims are handled fairly, which over the long-term also reduces litigation, she says.

"Workers compensation is a highly communicated issue, particularly among unionized employees," she notes.

While pleased to be saving the authority's member cities money, Ms. Barbanel also points out that by reducing the number of claims litigated, the authority is helping its employees. "A lot of applicants' attorneys don't have the client's interests in mind. They have an interest in the person being disabled. I have an interest in that person being healthy. That's our interest—to return a healthy, happy employee to the job site."

Ms. Barbanel, with seven years of claims experience, also handles about 30% of the litigated cases herself, directing discovery, negotiating settlements and attending pretrial conferences.

But, if the case has to go to trial, outside counsel is hired, of course.

Previously, all aspects of litigated cases were referred to outside counsel.

"It saves us a lot of money," she says, noting that an attorney representing the authority would bill $85 to $95 an hour to do the work she handles.

Ms. Barbanel has authority to settle cases for up to $10,000. Settlements in excess of that amount must be approved by Jake O'Malley, claims manager.

The authority has gone to trial over only one workers compensation claim in the last 2½ years. The authority won.

The authority denied the claim of an employee who was hurt in an auto accident while driving a city automobile. The employee contended that he was driving back to work from jury duty and should have been compensated for the injury. The authority proved that the employee was driving home from jury duty. ■

Cities' property recorded in 'Bible'

WALNUT CREEK, Calif.—The 428 insured properties of the 17 cities belonging to the Contra Costa County Municipal Risk Management Insurance Authority are documented down to component materials and loss prevention features in a two-volume "Property Bible."

After pooling the member cities' property risks and purchasing one all-risk property insurance policy in 1980 for better coverage at a better price, authority Risk Manager Jeffrey Pettegrew launched his "property management" program.

It began in 1982 with a comprehensive appraisal program. Mr. Pettegrew engaged American Appraisal Associates Inc. in San Francisco to locate and appraise all property owned by members of the authority.

The result: "We found 37 properties we didn't know we owned," he recalls.

By 1987, Mr. Pettegrew wanted more.

He hired Marshall & Stevens of San Francisco, property appraisers and engineering inspectors, to survey all the properties to determine their component parts and to document the authority's loss prevention and control protections.

Marshall & Stevens also photographed all the properties and compiled the photographs, component descriptions and risk management information into the two-volume "Property Bible" for the authority. Each city also was provided with a book containing photographs and descriptions of its property.

Everything an underwriter would want to know about the $180 million in property covered by the authority's pooled program is contained in the two-volume book. Each building's risk management features are documented, beginning with security and fire alarms, continuing with fire protection and proximity to police and fire departments, and including a description of the environment where the building is located.

The building materials of every structure, from the roof to the foundation, are listed in the 'Property Bible.'

In addition, the building materials of every structure, from the roof to the foundation, are listed in the book.

Furthermore, Marshall & Stevens has compiled the information on each building's components into a computer program so every year the value of the insured buildings can be updated based on increases in the price of various components and not on one flat inflationary figure. For example, the cost of plumbing may go up 12% one year while wood goes up only 8%.

Updating values by this technique, which will be good for three to five years, saves about $80,000 that would have been spent on annual appraisals, Mr. Pettegrew points out.

However, surveys of the buildings are necessary every three to five years to keep the information current.

The information also was essential for deciding how much earthquake and flood insurance to purchase, so that the authority would neither under nor overinsure.

"We know how many buildings are fully combustible vs. concrete; we know which buildings are earthquake-prone or flood-prone," Mr. Pettegrew said.

Also of assistance in determining how much earthquake insurance to buy, and in marketing it, were the results of a study Mr. Pettegrew commissioned several years ago to determine the maximum probable loss if earthquakes of various intensities struck the area.

"Without this type of study, insurers either say they don't write California earthquake coverage or they would have to be more conservative on their rate," Mr. Pettegrew said.

He is now taking the property management program one step further. A microcomputer program is being developed to store information culled from inspections conducted by each city, including recommendations on needed improvements.

When the next inspection is due, the previous inspection report will be printed out and sent to the city to be sure that previous problems were corrected.

—By Kathryn J. McIntyre

Risk manager of the year

Pool proud of record of defending claims

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—The Contra Costa County Municipal Risk Management Insurance Authority has an enviable track record defending lawsuits.

Of about 50 cases that have gone to trial or arbitration in the authority's 11 years, the authority has won all but three.

Jeffrey Pettegrew, the authority's chief administrative officer and risk manager, explains: "We'll settle where we think we have liability and it's a fair settlement."

"We've promoted an image with the legal community that we're firm but fair," says Jake O'Malley, the authority's in-house claims manager.

Personal injury liability claims filed against member cities range from allegations that the city maintained a dangerous condition at an intersection or sidewalk, causing a motorist or pedestrian bodily injury, to allegations of false arrest, use of excessive force or false imprisonment by police officers.

Bodily injury claims against the cities also have alleged negligence in traffic accidents involving motor vehicles operated by city employees, and sometimes have stemmed from high-speed chases by police when the fleeing motorist causes a traffic accident.

Property damage claims range from allegations that storm drain systems or sewage systems failed to charges of unlawful taking of property, such as a decision to deny a developer a permit.

The damages demanded can range from a couple of hundred dollars from someone who slipped and fell on a sidewalk to millions of dollars from a person rendered a quadriplegic in a traffic accident.

"We settle cases for under a hundred dollars all the time," Mr. O'Malley says.

The authority's one catastrophic claim in its history stemmed from a 1982 accident and was settled by its then-commercial liability insurer (see related story).

In the fiscal year ended June 30, 1988, the authority paid liability settlements and defense expenses totaling $2.9 million on behalf of members, about $800,000 of which was legal bills. The net cost to the authority was $2.1 million after collection of deductibles and some subrogation.

About 500 liability claims were paid in 1988.

The authority has successfully defended a wide range of cases in its history.

For example, the rainy winter season of 1982-83 led to 15 lawsuits, some with multiple defendants, claiming millions of dollars in damages from homeowners hit by flooding. However, the authority believed that the flooding was due to natural water courses and nothing over which member cities had control.

The authority spent about $1 million defending against the claims, including attorneys' fees, geotechnical investigations and court costs. It won 12 of the 15 cases.

One of those trial court victories is now being appealed.

That case, which involved 14 plaintiffs in Lafayette, could have been settled for about $1 million, but the authority and the city council decided to defend against the claim.

After a 10-week trial, the city won, proving that development the city permitted upstream did not cause an erosion problem.

The cost of that trial alone has been about $400,000.

But not only did the authority save an estimated $600,000, it also has deterred other similar cases.

"No erosion cases have been brought against our cities lately," Mr. O'Malley says. "Word spreads among the plaintiffs' bar."

Three of the 15 cases related to those storms were settled for what Mr. O'Malley calls "nuisance value." The settlements were $5,000 in two cases and about $30,000 in the third.

"Multiple defendant and multiple plaintiff litigation is so costly, if we can settle it for $25,000, we save the taxpayers $100,000 to $150,000 in legal fees," Mr. O'Malley explained.

However, the authority does not promote settling cases in which the defendant city does not appear to have any liability. "We don't promote that because we think it encourages non-meritorious lawsuits," Mr. O'Malley says.

The only jury trial that the authority has ever lost involved a trip and fall accident over a 1¼-inch bump in a sidewalk. The authority offered to settle for $6,000, but the claimant wanted $20,000.

The authority argued in court that it was an open and obvious condition, but the jury said it was a dangerous condition that had been there long enough and the city had not repaired it. The award: $14,500.

The two arbitrations that the authority lost involved police officers. Although in both cases the authority thought the officers had acted reasonably, the arbitrators disagreed.

All liability claims against civil defendants in California determined by a judge to have a value of less than $50,000 are remanded to arbitration. However, the arbitration is not binding and the losing party can file for a new trial.

The authority has successfully won trials after losing an arbitration.

One such victory involved a 25-year-old male who was injured in an auto accident when his 25-year-old companion driving the car hit a center island on a residential street.

Before the accident, the two admitted, they had been drinking at a bar from 11:30 a.m. until about 8 p.m. They also admitted using cocaine.

Driving at 65 mph in a 30-mph zone, the driver lost control of the car.

Since the driver had only $15,000 in insurance limits, the injured passenger sued the city, alleging that the center island was a dangerous condition that contributed to the accident.

The arbitrator agreed and awarded $65,000 to the passenger, whose arm had been badly injured.

The authority argued that the city was not liable as a matter of law.

California law requires that for a public entity to be held liable for a dangerous condition, it had to create the condition or have actual or constructive notice of the condition. And, the law defines a dangerous condition as: "A condition that creates a substantial risk of injury when such property is used with due care in a manner in which it was reasonably foreseeable it would be used."

The authority contended that driving 65 mph in a 30-mph zone while drunk was not using the roadway with due care.

In finding for the plaintiff, the arbitrator said it was foreseeable that someone would speed on the street.

The authority sought a trial and after the plaintiff rested its case, the judge awarded what is called a non-suit, agreeing with the city that as a matter of law the city could not be held liable because the driver was not using the roadway with due care.

To assist in claims investigation, the authority subscribes to the "Index System" offered by the American Insurance Services Group in New York.

The name of every claimant against a member city is submitted to the system, which reports whether the person has a claim pending against other defendants.

Subscribers to the system, which include most insurance companies and many self-insurers, report their claims to the Index System.

A subscription to the system costs $1,000 annually, plus $2 per submission.

"On occasion we get a report back that the claimant has had four or five claims presented over a three- or four-year period," Mr. O'Malley says. "That triggers some additional investigation," which in turn can reduce the cost of settling a claim.

"Maybe 10% of the time we get a response from the index bureau that the person has other claims on file," Mr. O'Malley says.

After learning about the details of the other claims filed, "maybe 20% of the time we have something to work with" to strengthen the authority's defense position, Mr. O'Malley says.

"All you need is one a year and it easily covers the $1,500 annual cost," he says.

Mr. O'Malley says the authority's "firm but fair" image with the legal community may be one reason that the number of liability claims filed against member cities is dropping from a high of 800 related to 1986 to 690 in 1987 and only 380 in 1988, with three months to go under the state's six-month statue of limitations for filing claims against municipalities.

"We're getting fewer non-meritorious lawsuits," says Mr. O'Malley, who predicts the number of claims filed related to 1988 will be 420 to 440 and no more than 500.

Only 20 of the 380 claims related to 1988 losses involve lawsuits. "I hope it's no more than 40 for the year," Mr. O'Malley says.

The authority uses five law firms to defend lawsuits, each with its own specialty.

The authority has negotiated fees with the law firms: $90 an hour for partners, $80 an hour for senior associates and $70 an hour for associates.

"If the majority of the work is by a junior person, we save money," Mr. Pettegrew points out. "But there's an incentive for the partner to get involved. So we're getting partner-quality when we need it, and when we don't need it, we're not paying for it."

Since negotiating these fees, the authority has reduced its annual legal bills about 10%. ■

Special event sponsors can buy insurance through new program

WALNUT CREEK, Calif.—Special event organizers using city facilities in Contra Costa County have ready access to liability insurance to satisfy the cities' requirements.

Through a program brokered by Diversified Risk Insurance Brokers of Emeryville, Calif., and underwritten by Fireman's Fund Insurance Cos., a special event organizer can buy liability insurance for a premium of $30 to a couple of hundred dollars.

Under the program, which was implemented in January for the 17 cities in the Contra Costa County Municipal Risk Management Insurance Authority, parks and recreation supervisors are authorized to bind coverage for certain low-risk types of special events, like weddings.

Organizations renting facilities from cities in the authority are required to show that they have at least $1 million of liability insurance.

Liability insurance to rent a facility for a wedding of up to 500 guests, with liquor served, costs $65 for a $1 million limit.

Organizers of higher-risk events, like carnivals or races with more than 1,000 participants, fill out detailed applications that are forwarded to the broker and Fireman's Fund for underwriting.

However, before this insurance program was implemented, some event organizers found it difficult to find or afford the required insurance. City councils were inclined to waive the insurance requirement in those cases, thereby assuming the risk of loss for the city—and thus the Contra Costa County Municipal Risk Management Insurance Authority.

The only other choice was to deny permission to the groups seeking to hold events.

And the authority did pay some claims from special events held on city property that were not insured.

"We wanted to make sure the taxpayer wouldn't be given the burden of picking up liability claims from a special event," said Jeffrey Pettegrew, the authority's chief administrative officer and risk manager. He worked with Diversified Risk Insurance Brokers to bring the special events program to the authority's member cities.

The liability insurance not only covers the event organizers for liabilities to third-parties but also the participants if they are hurt.

In addition to transferring risk, the program establishes detailed loss control measures for a wide range of events.

—By Kathryn J. McIntyre

Traffic accident produces pool's largest loss to date

WALNUT CREEK, Calif.—The one big liability loss to hit the Contra Costa County Municipal Risk Management Insurance Authority struck while the pool still had commercial liability insurance.

The claim involved a 16 year-old who was rendered a quadriplegic in an accident in 1982 while riding his moped in Walnut Creek, one of the authority's larger members.

The car that struck the young man was over the road's dividing line and the young man was almost over the center line as well.

The automobile driver had only $25,000 in liability insurance. The injured teen-ager sued Walnut Creek, charging that trees had obscured the line of sight of the moped rider and car driver.

Three weeks into the trial, which began in January 1985, Transcontinental Insurance Co., the authority's insurer from 1982, settled the case for an estimated $3.2 million.

"It was sealed and they never told us how much it was," said Jake O'Malley, the authority's claims manager.

Transcontinental had written $10 million in liability limits for the authority, excess of $250,000.

The insurer had canceled its participation in the authority's excess liability insurance program—which by 1985 was only $500,000 excess of $500,000—the month before the settlement was struck, effective in February. The following excess insurers also canceled.

Jeffrey Pettegrew, the authority's risk manager, speculates that the authority would have lost its excess liability insurance even if the lawsuit had not been pending in December 1985, as did municipalities and pools across the country in 1985 and 1986.

Mr. O'Malley questions the insurer's decision to settle the case for so much. "It is questionable if a Contra Costa jury would have awarded that much against a city for a passive condition that was not the proximate cause of the accident," he says, pointing out that Contra Costa juries tend to be conservative.

Mr. O'Malley cites a recent settlement the authority made on behalf of another city sued by a person left a quadriplegic in an accident.

A 19-year-old driving a motorcycle with a faulty throttle ran off the roadway at a sharp curve in a desolate area of Antioch. It's possible that the throttle stuck, but the young man sued Antioch alleging dangerous conditions on the roadway. He also sued an adjacent property owner who had erected a boundary fence.

The authority settled its portion of the case for $100,000, which will be used to purchase a structured settlement. The property owner settled for $50,000.

"The defense costs would have been $100,000," Mr. O'Malley says.

Generally, municipalities can settle cases brought by quadriplegics when the city's liability is questionable for $100,000 or less "because we are a favorable defendant in the juries' eyes and they recognize we're not the culpable party," according to Mr. O'Malley.

Jurors in California know that commercial liability insurance is not available to municipalities and the amount they award is taxpayers' money, he says.

However, insurance companies representing large corporations have established $250,000 to $500,000 as the range in which to buy a structured settlement in quadriplegic cases, even when there is little or no liability, Mr. O'Malley says.

"We get a better break," he says referring to municipal defendants, "and plaintiffs' attorneys recognize that and they settle."

Even in cases in which the city has liability, Mr. O'Malley believes that juries now are less likely to award verdicts as large as they would against a major corporation.

—By Kathryn J. McIntyre

Staff credited for few claims from pavilion

CONCORD, Calif.—The outdoor, 8,500-seat Concord Pavilion operated by the city of Concord is packed April through October for jazz, rock, classical and popular music and comedy events.

The pavilion and its operations are insured with the Contra Costa County Municipal Risk Management Insurance Authority, with the city of Concord assuming a $50,000 self-insured retention on liability claims.

Despite the fact that more than 1 million people have attended concerts and shows at the pavilion during the last five years, liability claims are very infrequent and none has ever pierced the city's retention.

Of the 39 claims filed against the pavilion, 22 have been closed without monetary payment, eight are being defended and only nine were settled for money.

The largest payment was a $20,000 settlement of a slip-and-fall claim. The claimant, whose leg was broken, said there was debris on a pathway.

Jake O'Malley, the authority's claims manager, recently complimented the pavilion staff on its record during a routine training session for the summer staff.

To help ensure this record continues, Mr. O'Malley reviewed important procedures at the pavilion.

For example, he reminded everyone of the importance of regularly scheduled maintenance, such as sweeping all areas and then inspecting them an hour or two before opening.

The inspections must be documented so if there is a claim, the pavilion can show from its records that the area was inspected and clean an hour before the concert began.

Mr. O'Malley also reviewed the procedures for handling an accident, including the information that has to be reported at the time on a claim form.

Complete information is essential because the summer workers will be long back at school or elsewhere by the time claims are filed, Mr. O'Malley says.

The pavilion, which has its own security staff, employs about 200 people for each concert. Security may be increased depending upon the performer.

Beer and wine is sold at the pavilion. The pavilion has an indemnification agreement from the concessionaire and is a named insured under the concessionaire's host liquor liability insurance. But it hasn't been people drinking alcohol that produced the largest loss for the pavilion.

Photo courtesy of Concord Pavilion

The 8,500-seat Concord Pavilion, a concert venue operated by the city of Concord, is insured by the authority.

The largest loss involving the pavilion occurred when a refreshment stand burned down one night last summer.

A performance was scheduled for the next night. Faced with the prospect of unhappy concert-goers because they were thirsty, the authority's claims staff the next morning was taking pictures and obtained a release from the insurance company to tear down the rubble and erect a temporary structure to serve refreshments.

"We were out there with camera in hand," recalls Jeffrey Pettegrew, the authority's chief administrative officer and risk manager. "We had an adjuster from the insurer out there within an hour-and-a-half, and we got the money released and brought in a temporary trailer."

The burned-down refreshment stand, complete with plumbing and electrical facilities, led to a $120,000 claim.

The pavilion also is insured under the authority's property insurance program for lost revenues. The pavilion, which in 1988 produced revenues of $6.2 million, has never filed a lost revenue claim.

The pavilion also is one of the 15 properties insured against earthquake damage under the authority's property insurance program. But that's because the pavilion was built with bond revenues and, thus, the earthquake insurance is mandatory.

The pavilion was built to survive an earthquake, Mr. Pettegrew says, and probably would be the last thing in the county to go down in a major tremor.

One of the more unusual risk management issues Mr. Pettegrew has handled for the pavilion involved orchestra leader Lawrence Welk, who wanted a hold-harmless agreement before he would perform.

The pavilion never receives such requests from other performers, including rock groups.

"It was as though he thought he would drive women crazy," chuckles Mr. Pettegrew, who didn't think there was much risk in that and authorized the agreement.

—By Kathryn J. McIntyre

Claims handling enhances loss control

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—In-house administration of liability and workers compensation claims is the foundation of loss control at the Contra Costa County Municipal Risk Management Insurance Authority.

With in-house administration of claims, the authority can integrate claims adjusting and loss prevention, explains Jeffrey Pettegrew, the authority's chief administrative officer and risk manager.

And, the authority can better manage the claims filed against its cities, he adds.

Mr. Pettegrew convinced the authority's board that liability claims management should be brought in-house in 1984, followed by workers compensation claims in 1986.

His goals: to get the authority involved in every claim to better identify risk, to develop appropriate loss control programs for member cities to prevent future claims and to better manage claims when they are filed.

"There was no other pool in the state that had all of its claims administration in-house. We were cutting new ground by suggesting that we get rid of a TPA," Mr. Pettegrew recalls.

At the time the authority was spending about $225,000 annually on third-party administration of liability claims. That figure grew to at least $275,000 when previously unbilled charges were levied after the authority started handling its own claims.

Now, five years later, the authority is spending only $225,000 to not only manage its liability claims but also provide loss prevention services to its member cities. That is far less than just claims administration would cost if it were under contract with a TPA, Mr. Pettegrew asserts.

But more important than saving money, Mr. Pettegrew says, is that the integration of claims adjusting and loss prevention is working. The authority has developed dozens of loss prevention programs as a result of claims analysis and it is controlling its liability and workers compensation costs.

In addition, it has an enviable track record of defending claims (see story page 126).

The authority's 4½-person liability claims staff evaluates all claims not only with the goal of settling or defending the claim but also with an eye for recommending how all cities can avoid similar claims in the future.

For example, after a driver had a serious auto accident on an unimproved road in one city because the drop-off from the pavement was too large, all cities were alerted to inspect their unimproved roads for dangerously high drop-offs.

"As opposed to a claims adjuster who simply reports on a claim, our adjusters look at the causal factors—human error, equipment—and then report to all our cities," Mr. Pettegrew emphasizes. "Most claims adjusters are not trained, nor do they care, to get involved in the loss prevention aspects of claims adjusting."

And, the authority's liability claims adjusters don't limit themselves to the conditions of the immediate claim at hand. An adjuster investigating a claim in the field, for example, takes some extra time to scout out the surrounding area for any potentially hazardous conditions to report them to the appropriate city or perhaps the entire membership if the condition could exist in another city.

As a result, the adjuster's work can identify not only a problem that caused a claim but also a problem that may cause an entirely different kind of claim in the future.

"Insurers' claims adjusters don't have the time or the incentive to do that," says Jake O'Malley, who has been the authority's claims manager since liability claims were brought in-house.

In addition, the authority's management information system produces 65 different claims information reports that each city can select from to help identify trends in losses. These reports, and other ad hoc reports that are available, also are reviewed by the authority's staff when they are investigating liability claims in each city.

The software program for liability claims administration was developed by Pacific Technical Services of San Leandro, Calif., based on the requirements outlined by Mr. Pettegrew.

The software is operated on a Wyse 386, a powerful personal computer.

With claims analysis in hand, special areas of concern are identified and the authority's risk management staff develops specialized training or awareness programs to address each problem and propose a solution for all member cities. The result: comprehensive in-house training seminars and manuals produced by the authority's staff addressing such areas as improved signing, revised safety procedures, safety equipment and training.

Another important aspect of in-house claims administration is the speed with which claims are handled. When a city receives a routine claim, all documentation for the claim must be transmitted to the authority within seven days—except for property damage claims of less than $1,000, which member cities are permitted to handle.

As a result, within seven days, "25% of the investigation is done," says Mr. O'Malley.

If the claim involves a significant event, such as a police shooting, Mr. O'Malley must be contacted within 24 hours. He then retains an attorney to accompany him in the investigation of the claim.

Other important claims, such as auto accidents, are reported to the authority within a day or two.

City members have detailed instructions for filing claims and what information must be included.

When a claim needs further investigation, an in-house staff member is better equipped to do the work than a TPA, Mr. Pettegrew and Mr. O'Malley agree.

The authority's claims adjusters "have credibility with the cities because we're insiders," Mr. O'Malley says. "Police chiefs will tell me things they would not tell an outsider. TPAs are not afforded that confidentiality by city administrators, particularly the police."

Mr. O'Malley also believes that in-house claims administration ensures that liability claims receive the attention they need to be handled properly. "With the full staff we have, we can give claims detailed investigations. The investigations are comprehensive," he says.

And, the experienced in-house staff knows who to contact in a department "to get to the bottom line" to determine whether a city is liable for a claim.

Therefore, in-house claims administration is more efficient.

Mr. O'Malley also points to the advantage of continuity in claims adjusters permitted by in-house claims administration. He and another adjuster have been with the authority for five years and a second adjuster has been on staff for two years.

"We know the government tort claims act better than most—we do it every day," he says.

For example, the authority's claims adjusters know from experience that in a trip-and-fall accident involving an uplift in a sidewalk, a city probably will lose if the uplift is 1 inch or more but the city probably will win if the uplift is only half an inch.

And, after years of experience handling nothing but government tort liability, the in-house staff has "really fine-tuned" its estimated values for various types of claims.

As a result, Mr. O'Malley believes that in-house administration also helps control the cost of claims.

Workers Compensation Administrator Josette Barbanel is equally enthusiastic about in-house administration of workers compensation claims.

She, too, cites the importance of "continuity" in claims adjusters that work with the member cities. "It's a process that gets better and better over time, as you know more and there is more communication."

Continued on next page

Claims administration

Continued from previous page

In addition, she says, in-house administration of workers compensation claims is preferable to using a TPA because "a TPA just wants to handle the file," while "I care about the employees."

Furthermore, she says, an in-house claims administrator cares more about the relationship between an employee and his supervisor and is interested in preserving a good relationship.

Finally, Ms. Barbanel says, proper and sensitive handling of workers compensation claims can improve employee morale. "You can derive a lot of mileage out of proper handling of workers compensation claims," she says.

Mr. Pettegrew estimates that in-house administration of workers compensation claims saves the authority $70,000 annually in administration and legal bills.

The workers compensation claims management information system, also developed by Pacific Technical Services, can produce at least 100 different claim reports.

It produces ad hoc reports based on different criteria, such as by date of injury, date the claim was opened or fiscal year, and it produces activity reports, such as cases opened, reserve changes made and number of cases closed compared with cases opened.

The quality of in-house workers compensation claims administration was validated last year by the results of a routine audit conducted for the California Department of Industrial Relations.

The auditor reported that: "The adjusting and the program were excellent, and the funding and other facets of the program were also excellent. There has been a remarkable improvement in the case files and claims since the program was brought in-house."

Ms. Barbanel also points out proudly that the first payments of disability by the authority are made within an average of 12 days of the date of the injury, compared with a statewide average of 28 days.

The authority also adjusts all property claims within the authority's $10,000 deductible, excess of the cities' individual $1,000 deductible.

Mr. O'Malley praises Mr. Pettegrew for bringing claims administration in-house.

"He was really the first one at the JPA level to start thinking about in-house workers comp and liability claims administration," Mr. O'Malley says. "Even though he wasn't an expert on the claims end, he was smart enough to recognize that he couldn't control the TPA, the investigations, the reserving, or the litigators because he didn't have the expertise in-house." ■

Complaints may reveal hidden public hazards

WALNUT CREEK, Calif.—Recognizing that a citizen's complaint to a city can identify a hazard, Jeffrey Pettegrew wants citizens' complaints in Contra Costa County cities recorded and acted upon quickly.

To make sure this happens, cities in the county use Mr. Pettegrew's "municipal service request form."

Anyone who regularly answers telephone calls from the public keeps a pad of these forms handy to respond to any citizen calling with a complaint, regardless of whether or not the complaint involves a responsibility of the department called. As a result, citizens aren't referred to another department if they have called the wrong department.

The form requests information on the nature of the complaint, the person who made the complaint and other important details. The completed form is then sent to the city risk manager, who evaluates which department should receive the notice for appropriate action. The selected department then reports to the risk manager what action was taken. The citizen is always contacted for a follow-up by telephone, letter or personal visit.

Mr. Pettegrew developed the form in the 1970s when he was risk manager for Walnut Creek, Calif.

"I realized people couldn't get through to get results," he says. A citizen calling with a complaint or warning about a hazardous condition that caused a minor accident doesn't want to sue when he calls, but he may be mad enough to sue after being bounced around city departments for a while, Mr. Pettegrew adds.

In addition to using the MSR system to help identify hazardous conditions for repair and prevent injuries and claims, the system helps protect cities when they are sued for allegedly failing to remedy hazardous conditions.

MSR forms remind 'all city employees that they must be safety-conscious,' says Mr. Pettegrew.

If a city has meticulous MSR files showing that it repairs hazardous conditions, a jury is more likely to believe a city's defense that it did not know and could not have known about a hazardous condition that caused an accident.

That is exactly what happened in a trial two years ago in a case involving a teen-ager riding a motorcycle who was killed after hitting a pothole that had just opened up after a storm. The city did not know the pothole existed prior to the accident.

The city brought its stacks of municipal service request forms to court and after a two-week, emotional trial in which the grieving mother sat in front of jurors, the jury found the city was not liable for the death.

"We polled the jury, and they said because of the MSR program, 'We were convinced the city is earnestly trying to follow up on complaints,' " Mr. Pettegrew reported.

Although there was some grumbling when Mr. Pettegrew introduced the form to authority members in 1984, he eventually convinced the cities that the system and the documentation was necessary. The trial victory a few years later proved his point.

Now, the city of Danville, one of the authority's members, has expanded the MSR system. The city has the form on its computer system, which is accessible to all city employees. This makes the system even more efficient and will allow the city to track problems with ease, Mr. Pettegrew says.

Danville also sends a post card immediately to every caller, acknowledging the call and asking the citizen to call the city if the problem has not been resolved.

The municipal service request system has one other benefit, Mr. Pettegrew notes: "It serves as a constant reminder to all city employees that they must be safety-conscious."

—By Kathryn J. McIntyre

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First in his class

Public sector risk manager wins praise

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Jeffrey Pettegrew is the first risk manager from the public sector to be named the *Business Insurance* Risk Manager of the Year in the award's 12-year history.

The 10 independent judges who select the Risk Manager of the Year from nomination submissions selected the chief administrative officer and risk manager of the Contra Costa County Municipal Risk Management Insurance Authority as the most outstanding candidate for the 1989 award.

Mr. Pettegrew's service to the risk financing pool and its 17 member cities in the Northern California county over the last nine years has been outstanding, according to the judges. In the words of one: "The entire program is a model for nationwide recognition. Jeffrey is a 'classic' risk manager."

Mr. Pettegrew was given a crystal memento in recognition of his award as the 1989 *Business Insurance* Risk Manager of the Year during a luncheon March 3 in Walnut Creek.

The award was presented by *Business Insurance* Publisher Alfred Malecki and Associate Publisher/Editor Kathryn J. McIntyre.

"I am truly honored and proud to be recognized in this manner by industry colleagues," Mr. Pettegrew said at the luncheon, which was attended by members of the authority's board, Mr. Pettegrew's family, close friends and colleagues.

Mr. Tonda

Joseph J. Tonda, risk manager for Contra Costa County, who nominated Mr. Pettegrew for the award, saluted him as "the epitome of the ideal public risk manager: very enthusiastic, innovative and articulate."

Risk management consultant David Warren, who conducted the feasibility study that led to the authority's formation in 1978, complimented the earlier board members who selected Mr. Pettegrew as the authority's chief administrative officer and risk manager in 1980.

"It's nice to see the ultimate culmination of the initial efforts," he said, adding: "I had nothing to do with the name" of the authority, referring to the fact that it is long and does not lend itself to a catchy acronym.

Also during the luncheon, Ms. McIntyre read congratulations from those unable to attend, including a telegram from the Board of Directors of the Public Risk Management Assn. "PRIMA joins in honoring you today for your outstanding achievements in government risk management," the telegram said.

Photos: Mary Herlehy

Jeffrey Pettegrew receives the Risk Manager of the Year Award from *BI* Publisher Alfred Malecki and Associate Publisher/Editor Kathryn J. McIntyre (top). California Insurance Commissioner Roxani Gillespie congratulates Mr. Pettegrew (above).

Natalie Wasserman, executive director of PRIMA, said later in a telephone interview: "This is really an indication of how far public risk management has come in the last 10 years." The number of full-time risk managers in government has expanded, she said, estimating that close to 60% of PRIMA's 1,400 members are full-time risk managers. "The profession is taking hold and really growing and is becoming appreciated for what it can do for an organization and public agencies," Ms. Wasserman said.

Thomas Vance, president of PRIMA and risk manager for the city of Anaheim, Calif., also called it "significant" that the 1989 Risk Manager of the Year is from the public sector. "Public sector risk management has really come into its own in the last several years," Mr. Vance said. "The issues in the public sector are very complex—equally and in some cases more so than in the private sector because of the lack of commercial insurance options. Pubic entity risk managers have had to become more innovative and creative in protecting their agencies."

"It's also positive that the individual is associated with a risk sharing pool since there is no question that risk sharing pools are entrenched as an alternative to commercial insurance and will be for a long time to come."

He added: "I'm involved in both RIMS and PRIMA and the issues really don't vary all that much. And yet the perception of public entity risk management has not been as positive as I think it should be. Maybe this will be a step in getting us toward that."

Richard K. Maddalena, president of the Local Agency Self-Insurance Authority and administrator of the Special District Insurance Authority in Weaverville, Calif., also sent his congratulations.

"It is not surprising to me that you are the first public entity risk manager to have been granted this award," he wrote. "Your willingness to share your experience and knowledge with me and with other risk managers and administrators in the public pooling sector certainly rates you as one of the most generous risk managers I've met.

"Your work in all areas of education and risk management has benefited many people, not only in California but throughout the United States."

Mr. Maddalena also congratulated Mr. Pettegrew on behalf of LASIA, saying "your knowledge and participation in both the creation of LASIA and its ongoing activities and efforts to become a viable excess pool have been very beneficial to all of us on the board who are less knowledgeable."

In accepting the award, Mr. Pettegrew said: "This award is not mine alone. I share its tribute with those of you here today. I could not have made these accomplishments without the help of others."

Mr. Pettegrew cited for special recognition: "My dedicated and hard working staff; my supportive and sometimes courageous board of directors; my risk manager colleagues, who are also my closest friends; and, of course, my family, whose support, patience and understanding I'm grateful for always."

Noting that he is at the midpoint of his career, Mr. Pettegrew, 42, said the Risk Manager of the Year Award "serves not only as a constant reminder of my accomplishments, but more importantly, it serves as an inspiration to me to continue to forge even greater risk management achievements in the 20 or more career years ahead."

Mr. Pettegrew added: "Risk management innovations and accomplishments emerge from ideas and concepts that are already there but need to be discovered, polished and shared with the world."

In thanking everyone involved, Mr. Pettegrew said: "I hope the accomplishments that I have made, and those yet to come, will continue to benefit not just me but the many, many people whose lives are touched, whether they know it or not, by risk management. I'm proud to be part of that process."

Among the guests at the luncheon were California Insurance Commissioner Roxani Gillespie and board members or their representatives from the 17 cities belonging to the authority, which are: Antioch, Brentwood, Clayton, Concord, Danville, El Cerrito, Hercules, Lafayette, Martinez, Moraga, Orinda, Pinole, Pittsburg, Pleasant Hill, San Pablo, San Ramon and Walnut Creek.

Also attending the luncheon were representatives of the authority's long-standing broker, Johnson & Higgins. They were Director James Altman, and Vps James Pinckney and William Walker.

Others attending the luncheon were: Jill E. Moore, who had worked for the authority as benefits coordinator and now consults on benefit issues to the authority as an assistant vp of Alexander & Alexander Consulting Group; Julius C. Scoggins, risk manager of the California Joint Powers Insurance Authority; Jake O'Malley, claims manager of the Contra Costa authority; and Mr. Pettegrew's wife, Mary Jo, and their two children, Joya and Jonathan. ■

'Risk management Fellini' ready to shoot

WALNUT CREEK, Calif.—Jeffrey Pettegrew has his sights set on becoming the Federico Fellini of risk management.

Concluding that videotapes are the ideal risk management training medium to reach the largest number of city workers, Mr. Pettegrew is planning to produce over the next two years 20 to 25 videotapes on specific topics ranging from slides in playgrounds to sports fields for the 17 members of the Contra Costa Municipal Risk Management Insurance Authority.

As photographer, editor, producer, director, narrator and musician for the videos, Mr. Pettegrew says, "I'll be the Fellini of risk management."

The subjects of the videos will be selected based on potential hazards identified by the authority's staff through claim reports.

The videos will be shot at facilities owned by the members of the pool and will show the "good and the bad" of managing facilities, describe proper maintenance and outline any required modifications.

For example, a video on sports fields will review proper fencing, posting of signs and creation of "warning tracks," which are 8- to 10-feet-wide swaths of dirt cut in front of fences to alert weekend sports heroes running back to catch a fly ball that if they keep going they are likely to run into the fence. "People don't understand, or even read, reports," Mr. Pettegrew says. But they will watch the 12- to 15-minute videos, he believes.

Mr. Pettegrew has experience in audiovisual productions: In 1982, he produced a 13-minute AV titled "How to Find Money in Your Budget You Didn't Think You Had" to ensure that each city council and city manager is fully aware of the authority's programs and its requirement that all member cities fully cooperate and maintain a risk management policy.

The slide/sound program was written, photographed and narrated by Mr. Pettegrew, covering three major areas of liability losses and two in workers compensation, including preventable auto and slip-and-fall accidents.

Reviewing $1.2 million in losses over a three-year period, the AV presentation discusses how the losses could have been prevented and describes how to set up effective safety committees.

"The program makes it clear to each viewer how losses translate into dollars, particularly since many can be prevented through simple, cost-effective measures," Mr. Pettegrew says.

—By Kathryn J. McIntyre

The staff of the Contra Costa County Municipal Risk Management Insurance Authority, left to right: Charlotte Cole, liability claims secretary; Lisa Poirier, workers compensation secretary; Rick Buys, liability claims adjuster; Jeffrey Pettegrew, chief administrative officer and risk manager; Josette Barbanel, workers compensation administrator; Jake O'Malley, claims manager; Veronica Debiase, benefits coordinator; and Christine Kroll, accountant. Not pictured: Phil Steffen, liability claims adjuster. (Photo: Mary Herlehy)

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Pettegrew breeds loyalty, enthusiasm among staff

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Enthusiasm and loyalty permeate the young staff of the Contra Costa County Risk Management Insurance Authority.

Forty-two-year-old chief administrative officer and risk manager Jeffrey Pettegrew exudes enthusiasm, whether he's describing the benefits of in-house claims administration or the new series of safety training videotapes he is planning.

"He always seems to be in a good mood," says Benefits Coordinator Veronica Debiase, 37. "He's an 'up' person to work for."

And that enthusiasm is obviously contagious because it is reflected on the faces and in the voices of the eight people on his staff, all younger than he is and all obviously committed to their jobs and working at the authority.

They like what they do, they say, because Mr. Pettegrew gives them the resources they need to do a top-flight job and then allows them do their work without undue interference.

"This is a really good place to work," says Josette Barbanel, 29, workers compensation administrator since September 1986. "Jeff creates an atmosphere that allows you to work at your highest level. There isn't a lot of bureaucracy. He hires professional people, and he lets them run their programs. He trusts his people."

'This is a really good place to work,' says Josette Barbanel, workers compensation administrator. 'Jeff creates an atmosphere that allows you to work at your highest level. There isn't a lot of bureaucracy.'

"He's a good leader, but he doesn't have his fingerprints on everything in the office," says Claims Manager Jake O'Malley, 37, who joined the authority in January 1984. "He sets the objectives, the goals, and then has enough confidence in the people to let them implement that. That's why we have very little turnover."

Indeed, in the nine years Mr. Pettegrew has been in charge of administration at the authority, only two people have left the staff.

"We're being professionally fulfilled because of Jeff's leadership," Mr. O'Malley says. "He's very encouraging—never critical, unless constructively."

Mr. O'Malley was attracted to joining the authority after hearing Mr. Pettegrew deliver a speech to his graduating class in the Associate in Risk Management program.

"He was energetic, real progressive, a risk taker. I made a mental note to look him up," said Mr. O'Malley, explaining that he was then working as a public agency account supervisor at Underwriters Adjusting Co. in Walnut Creek.

The two were introduced through a mutual friend when Mr. Pettegrew was looking for a claims manager. Later, Mr. O'Malley joined the authority.

Soon, Phil Steffen, now 41, was hired as a liability claims adjuster. He had been a claims adjuster with California Casualty Insurance Co. in Walnut Creek.

Mr. Pettegrew had to work harder to find Ms. Barbanel. Frustrated that he wasn't interviewing the type of person he wanted as a workers compensation administrator, he finally called a defense attorney he knew and asked for a recommendation on the best claims administrator the attorney had encountered. Ms. Barbanel, then a claims examiner with California Casualty Insurance Co. in San Mateo, was recommended—and hired.

Soon Lisa Poirier, 25, was hired as workers compensation secretary. She had been a claims secretary at Tico Title Insurance Co. in Walnut Creek.

Ms. Poirier will earn a Workers Compensation Claims Certificate from the Insurance Education Assn. in May.

Ms. Debiase joined the authority staff in September 1985 as benefits coordinator, replacing Jill Moore, who is now an assistant vp with Alexander & Alexander Consulting Group in San Francisco. Ms. Debiase had been a pension administrator with Pension Dynamics Co. in Orinda.

Christine Kroll, 24, joined the authority staff in December 1987 to run the in-house accounting function. She had been a staff auditor with Price Waterhouse in San Jose.

The most recent addition to the authority's staff is Rick Buys, 39, hired in September 1988 as a liability claims adjuster. He previously was self-employed as Frontier Adjusters of Walnut Creek.

Also in the liability claims department is Charlotte Cole, 35, who was hired as liability claims secretary in January 1987. She had been a personnel secretary with Associates National Bank in Pleasanton.

Mr. Pettegrew says he looks for creativity and professionalism in the people he hires and is willing to give young, bright people responsible positions.

Mr. Pettegrew constantly monitors his staff members' workloads to be sure they have enough resources to do their jobs properly.

Sometimes he doesn't have to ask, such as a Thursday in January when he and two other staffers were all heading for the one Macintosh computer in the office.

Realizing that they were short of equipment, Mr. Pettegrew bought another Mac that day, and by 4 p.m. it was installed and linked to the first Mac.

"I was not going to let a $2,000 computer slow up this whole process," Mr. Pettegrew said.

Mr. Pettegrew says he considers his role at the authority to be comparable with that of a "conductor of an orchestra."

"My job is to keep the pace from start to finish and to make sure everyone stays in tune," he says.

Everyone includes his staff and the staff and management of every member city, Mr. Pettegrew says.

"Our strongest posture is when when we are all together and all following procedures the way we have agreed," he says. ■

Pettegrew took non-traditional career path

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Singer. Lawyer. City manager.

Jeffrey Pettegrew had the opportunity to pursue any of those careers.

Instead, by circumstance and by choice, today, at age 42, he is risk manager and chief administrative officer of the Contra Costa County Municipal Risk Management Insurance Authority, one of the most progressive and successful municipal pools in the country.

His professionalism and effectiveness at the authority are recognized this year with the 1989 *Business Insurance* Risk Manager of the Year award.

As risk manager for 17 cities in the Northern California county and as the administrator of a risk financing pool with assets exceeding $14 million, Mr. Pettegrew plays parts of all of the other roles that he considered in life, and then some.

He's preparing to write music to score risk management videos. He deals with laws and law enforcement daily. He is involved in city management issues, helping city councils make their communities safer for their workers and their residents.

And, with seven self-insured and insured programs to manage, generating $8.2 million in annual revenues for the authority, Mr. Pettegrew functions like the chief executive officer of a small company.

It's an unusual career for someone who while attending Denison University in Granville, Ohio, sang professionally, wrote songs and toured the country from 1966-68 with "The Countrymen."

When he met John Denver, he was encouraged to audition for a new trio. But his musical career was cut short by his ROTC commitment to immediately enlist in the Air Force or attend law school under a deferment.

His career as a lawyer also was derailed when the Air Force pulled his deferment to attend law school and required his immediate enlistment.

In the Air Force, Mr. Pettegrew was a protocol officer at Hamilton Air Force Base from 1968-71, tending to VIPs, including President Richard Nixon, his family and members of his Cabinet.

Later, in Iceland from 1971-72, he was an escort for the French ambassador's niece as part of his assignment.

Upon leaving the Air Force, Mr. Pettegrew moved to Walnut Creek because he liked the area. He gave up the idea of going to law school and took a position with the city as an information officer, for which his bachelor of arts in communications from Denison University prepared him.

The information officer position evolved into city management and then risk management.

"It's not your traditional risk management path—not insurance, not claims and not the law," Mr. Pettegrew observes.

While assistant city manager for Walnut Creek, Mr. Pettegrew earned a master's of public administration at California State University in Hayward, graduating cum laude.

"I thought I would go into city management, but risk management was more exciting," Mr. Pettegrew says.

After seven years with Walnut Creek, Mr. Pettegrew became risk manager for the city of Sunnyvale, Calif. But he left after only 18 months when he was offered his current position at the Contra Costa Municipal Risk Management Insurance Authority.

While he had been on the original board to form the authority, the job was not his for the asking. He was hired only after a nationwide search for a chief administrative officer proved the best candidate was nearby already.

Although he left Sunnyvale after only a short tenure, Mr. Pettegrew resigned with a clear conscience. He had saved the city $1 million by a combination of pulling out of the state fund for workers compensation, self-funding long-term disability insurance and self-funding liability risks with the purchase of excess liability insurance.

Photo: Mary Herlehy

Risk Manager of the Year Jeffrey Pettegrew poses with his wife, Mary Jo, and their two children, Jonathan and Joya.

After nine years with the authority, he still obviously is very enthusiastic about his work. His eyes light up, his voice booms and his normal quick pattern of speech picks up more speed when he explains why he likes his work: "There's a lot of diversity. Every day is different, every question is different, every problem seems unique. Every day is a challenge and I like that very much.

"I also like playing the role of the 'Yoda' of risk management," he says, referring to the guru character of "Star Wars" fame.

Mr. Pettegrew learned risk management, and continues to learn, by "reading everything." His extensive filing system—two long lateral file drawers—covers more than 100 topics, ranging from informed consent agreements to sample contract indemnity language.

He also is deeply involved as a member and often as an officer or director of professional risk management groups, including the Public Risk Management Assn., the Public Agency Risk Managers Assn. and the California Assn. of Joint Powers Authorities.

Mr. Pettegrew also is on the board of the Local Agency Self-Insurance Authority, which was created by the Legislature to offer all public entities in California excess liability insurance.

Mr. Pettegrew likes to teach, and has given numerous lectures on risk management for professional associations including PRIMA, PARMA, the Risk & Insurance Management Society, the National League of Cities and more.

He also turned his enjoyment of teaching into a business. Mr. Pettegrew and Frank James, general manager of Redwood Empire Municipal Insurance Fund, set up Risk Management Seminars Inc. to conduct seminars around the country on municipal risk management. He holds these seminars on weekends and sometimes during vacation time.

Mr. Pettegrew's employment agreement permits him to provide consulting services to others for up to 10 hours a week. As a result, he consulted in the design and implementation of three other public agency risk management pools: Mid-Wilamette Valley Council of Governments in Salem, Ore., in 1982; Utah Local Governments Insurance Trust in Salt Lake City in 1985; and Bay Cities Joint Powers Insurance Authority in Oakland, Calif., in 1986.

"It was fun work for me, and in that process I brought back to my pool ideas I got," he said.

Enthusiastic and energetic, Mr. Pettegrew juggles these extensive professional activities with his commitments to his wife of 16 years, Mary Jo, and their two children, Joya, 8, and Jonathan, 10. He coaches Little League, works with the Cub Scouts and assists his wife, who is an elementary school teacher, in keeping their Walnut Creek household running.

Mr. Pettegrew also still sings and plays the guitar and banjo, including singing with a folk group at church every weekend and playing with a quartet that performs at weddings playing light jazz—what he calls "Manhattan Transfer-type music."

He also makes time to enjoy the outdoors of Northern California, skiing, playing tennis and sailing.

A time-share condo in Lake Tahoe, Nev., provides a perfect family getaway spot for skiing.

While he doesn't own a sailboat, he has plenty of friends who do "who are always looking for crew," he says with a glint in his eye, revealing that he knows that sailing other people's boats is the most care-free kind of sailing. ■

Pettegrew blames Legislature for Prop. 103

Proposition 103 is a testimony to the inability of the state Legislature to act on problems, Mr. Pettegrew says. 'The Legislature has to take a responsible position to legislate reasonable tort reform' to reduce the cost of underlying auto claims, such as adopting a no-fault law, he adds.

WALNUT CREEK, Calif.—As a risk manager in California, Jeffrey Pettegrew is in the thick of controversial insurance industry issues today.

The mayor of Lafayette, a member of the Contra Costa County Municipal Risk Management Insurance Authority, is the person who first drew the attention of the California attorney general to the municipal liability insurance crisis.

That January 1986 complaint—that commercial liability insurance was unavailable at any price to the authority—and the attorney general's subsequent investigation into the liability insurance crisis ultimately snowballed into the massive antitrust litigation pending against insurance industry defendants in U.S. District Court in San Francisco (*BI*, March 28, 1988).

Mr. Pettegrew, however, is neither endorsing nor criticizing that antitrust litigation.

"It's impossible for us to weigh the merits of the suit," he says. "We're too small a player to have witnessed a conspiracy."

However, he continues: "We were the victims of an insurance crisis. Why that occurred has yet to be determined."

The authority has been unable to purchase excess liability insurance since its coverage was canceled effective February 1986, though it now has a quote for coverage that Mr. Pettegrew hopes to bind effective May 1 (see story, page 120).

"No one would write our coverage or tell us why. They wouldn't even answer the telephone," Mr. Pettegrew says.

While staying neutral on the antitrust litigation pending against insurance industry defendants, Mr. Pettegrew is quick to criticize Proposition 103, the insurance reform initiative narrowly approved by California voters last November (*BI*, Nov. 14, 1988).

"It's a heck of a way to do business," he says, calling the proposition a testimony to the inability of the state Legislature to act on problems.

"The Legislature has to take a responsible position to legislate reasonable tort reform" to reduce the cost of underlying auto claims, such as adopting a no-fault law, Mr. Pettegrew says.

Municipalities in California also need new protection against liability claims, Mr. Pettegrew says, calling tort reforms for municipalities in California only "window dressing."

However, he notes that Proposition 51, the 1986 initiative that eliminated joint and several liability for non-economic damages in California, has aided cities (*BI*, June 9, 1986). Municipalities had been considered the classic deep pocket, especially in auto accidents in which the city was found only partially at fault but was held responsible for the entire pain and suffering award when other defendants could not pay.

But Mr. Pettegrew wants more protection for municipalities. He advocates a financial cap on economic and non-economic damages against governmental entities. "Even if it were $1 million or $2 million, a limit would be preferable to what we have now," he says.

Mr. Pettegrew is, however, pessimistic about obtaining a cap on damages against municipalities in California.

"The only reforms we get are the reforms we get through the initiative process. With the trial lawyers as strong as they are, a reform that dramatic will never come about in this state," he says.

"I predict that it will take the failure of a city to get what I would deem reasonable tort reform," he says, envisioning a city being forced into bankruptcy "because two drunk drivers ran into each other and a court awarded millions of dollars because the lighting on the street was deemed to be too dim."

"Citizens will then say, 'That's crazy.' "

—By Kathryn J. McIntyre

Risk manager of the year

Pool keeps public informed of flood safety

By KATHRYN J. McINTYRE

WALNUT CREEK, Calif.—Property owners in Contra Costa County cities are going to be encouraged to practice risk management this year.

Concerned about the danger of flood damage in their communities, the cities will launch an education campaign for owners of property along creeks and drainage ditches.

Videotapes will be loaned to property owners to explain what kind of vegetation they should grow in such areas, how to keep ditches and creeks clean and how to avoid flood damage when there is a big storm.

The videotapes will be supplemented by a handbook for property owners.

This program is being developed by the Contra Costa County Municipal Risk Management Insurance Authority for use by 11 of its 17 member cities that have an exposure to claims alleging flood damage caused by city actions.

The program is just one example of how the authority keeps risk management information and awareness moving throughout its 17 member cities.

Loss control took on new urgency three years ago when the authority lost all commercial liability insurance. The authority totally self-funds the $5 million per-occurrence liability coverage it provides its member cities, although it may soon purchase $3 million in commercial insurance excess of $2 million (see story, page 126).

The flood damage loss control program is the result of a major study conducted last year.

Recognizing that landslide and flooding liability are major risks in Contra Costa cities, the authority last year launched a major study of what its member cities were doing to prevent flood-related losses.

A graduate student interested in safety management from the University of California at Berkeley was hired to conduct the flood-control study.

With guidance on the issues from Jeffrey Pettegrew, the authority's chief administrative officer and risk manager, the student surveyed each city and reviewed its maps and procedures relating to drainage easements, catch basins and natural creeks. The result: a comprehensive flooding/subsidence liability report.

"The report cited all of the innovative techniques utilized by cities that seemed effective," Mr. Pettegrew says, and included his recommendations on a variety of procedures.

"The extensive report and recommendations are expected to save million of dollars in future liability claims," while the entire analytical project cost less than $1,000 to produce, Mr. Pettegrew says.

An earlier major project designed to keep risk management information and awareness flowing among the members of the authority was conducted in 1987 when Mr. Pettegrew decided he wanted a "management audit" of claims awareness, communication and loss prevention techniques in the member cities.

"I wanted to evaluate the components of the process in the organizations to see where we needed to make improvements," Mr. Pettegrew explains.

After interviewing several consultants, he selected Beaver Insurance Co. in San Francisco because "the two consultants involved seemed to be the most open-minded. They were really receptive to what I was talking about."

Mr. Pettegrew and the loss prevention specialists first interviewed the top management of the member cities to determine what risk management responsibilities they thought they had and how they met them.

Then they worked from top management down in the cities, interviewing various employees, to audit risk management awareness.

"It was a lot more than wearing a hard hat and carrying a clipboard," Mr. Pettegrew says.

As a result of this survey, each city was sent a "confidential prescription" indicating what was and wasn't working in its risk management programs.

Some of the prescriptions ordered to improve risk management in member cities included:

- Discussing claims information more at staff meetings.
- Ensuring audio-visual training programs are properly distributed.
- Sharing the results of inspection programs with other involved departments.
- Obtaining the loss runs off the city clerk's desk and circulating them to those who need the information to identify causes of losses and prevent them in the future.

In addition, the project uncovered that sometimes the supervisors weren't getting all the information that the department heads said they were. As a result, Mr. Pettegrew developed training programs for supervisors only, such as park and recreation supervisors, to help them become more aware of the risk management process and their responsibilities related to it.

Since the project was completed, Mr. Pettegrew says he has seen a "dramatic improvement" in risk management awareness in the cities. For example, people from all levels of city government and services attend training sessions.

"And, it's clear from the feedback from the cities there is much more awareness," he said, noting that more calls are coming into the authority staff seeking advice on risk management issues.

The authority also sponsors special training seminars on various issues to help cities control their losses.

A morning seminar on hazard identification for risk managers and safety officers, for example, discusses organizing effective safety committees, reviews the authority's insurance programs, explains how deductibles work and reviews the cities' risk management responsibilities.

An afternoon seminar details liability and workers compensation claims procedures, designed especially for people who coordinate claims in the cities. Typically, the risk managers stay for the afternoon session as well.

Another seminar sponsored by the authority covers the material safety data sheet rules of the Occupational Safety and Health Administration.

This spring, a new program will be added for police chiefs, captains and lieutenants. The San Francisco law firm of Bertrand, Fox & Elliot, which specializes in police and civil rights claims, will assist in presenting the all-day program that will review police liability exposures.

To improve attendance at safety seminars, the authority springs for a meal, too.

"Most of our training sessions are half-day to a day and we always feed them," Mr. Pettegrew says. "It's amazing what a free lunch will do to get people to drive 20 miles and attend a seminar."

In addition, the authority distributes notebooks, calendars and pens to attendees "in recognition of their time and effort," Mr. Pettegrew says.

The authority's loss prevention and control programs also include extensive audio-visual programs on a variety of topics.

Cities can borrow the audio-visual programs, including the slides, scripts, equipment and handbooks.

The subjects covered in the audio-visual programs range from hearing testing and forklift training to proper trenching techniques and use of mowing equipment.

"These are simple programs that don't justify our time to go out and teach, but we develop them here and give them to our safety officers and risk managers for use in the field," he explains.

An extensive loss control program also is in effect for organizations using city facilities to host special events.

In conjunction with the liability insurance that the event organizers are required to purchase—available through the cities under a new program—the cities lay down strict loss control procedures for special event organizers.

Special conditions have been established for the use of facilities by type of activity planned, from foot races to horse shows to sailboat regattas to aerobics classes.

And the loss control procedures are detailed, even for something as simple as a little aerobics class.

The sponsor using a city facility for aerobics not only is instructed to obtain informed consent agreements from participants but also is told: No trampolines are permitted; the instructor must be certified in CPR, and alcoholic beverages are not permitted.

"We've transferred risk, but we're also controlling it," says Mr. Pettegrew. ■

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Risk Management Honor Roll

John A. Lindquist

Hazards challenge risk manager

By MICHAEL BRADFORD

HOUSTON—Browning-Ferris Industries Inc. specializes in hard-to-insure operations.

Houston-based BFI's specialties include a mix of growing businesses that would make even some of the most battle-scarred risk managers run for cover. For example, BFI subsidiaries and affiliates collect and dispose of commercial, residential and municipal solid waste and industrial hazardous wastes in hundreds of locations throughout the country.

BFI also is involved in medical waste disposal services; residential waste operations; facilities that turn waste products into electricity, which BFI then sells to public utilities; municipal and state street and highway sweeping operations; parking lot sweeping operations for businesses; portable toilet services; asbestos abatement; and public transportation in six states, including city and charter bus services.

To complicate matters, the company employs 18,000 workers in 360 operating districts in the United States and seven other countries. And, BFI has a fleet of some 8,000 vehicles, most of which are waste disposal trucks.

But, despite the breadth and enormity of the company's risks, John A. Lindquist calmly approaches his duties as BFI's divisional vp-risk management and loss control.

Mr. Lindquist does not see BFI as a company with a lust for hard-to-insure businesses. Instead, he sees it as a company that has experienced booming growth and that has presented him with the toughest challenges of his professional life.

Mr. Lindquist's achievements in face of these challenges—including, among many other things, securing excess liability coverage for hazardous operations during the hard property/casualty insurance market—has won him a spot on the 1989 *Business Insurance* Risk Manager of the Year Honor Roll, representing large corporations.

And, as BFI continues to expand—annual sales have risen to $2.2 billion in fiscal 1988 from only about $400 million in 1978—Mr. Lindquist finds himself facing new risk management challenges.

"As we get bigger, it gets to be a little more of a challenge to administer all of this," Mr. Lindquist admitted.

"Asbestos and pollution are areas that are of concern to the insurance industry," Mr. Lindquist said. "So, obviously, insurance is not readily available" for those risks.

"The other issues are primarily transportation issues," he added. "In the transportation business, insurability sort of comes and goes depending on the markets.

"So, if you take those two together, we're in an area that you have to develop special insurance for. You don't have all the markets available that you do in some other businesses," he observed.

"And, as we go into new businesses, we've got to keep broadening" BFI's risk management capabilities, he said. "That's the biggest challenge we have."

Mr. Lindquist proved he was up to the challenge by restructuring BFI's risk financing program and risk management department over the years to keep the company's cost of risk steady at between 2% and 3% of revenues.

This year, BFI's cost of risk should amount to around $60 million, Mr. Lindquist predicted. "Two percent is our goal, but we're projecting costs this year at closer to 2.7%," he said.

That figure includes the cost of projected self-insured losses; the price of commercial excess insurance; outside claims administration; and operating the company's risk management information system, which administers some claims in-house.

The risk-financing program, which includes enough insurance coverage to allow both Mr. Lindquist and BFI's management to sleep soundly at night, has evolved from one in 1979 that featured, for example, a self-insured retention of only $100,000 for general liability risks and $50 million of excess liability coverage, excluding non-sudden pollution risks.

By 1989, Mr. Lindquist had increased the self-insured general liability retention to $2.5 million and purchased excess liability limits up to $250 million. That insurance covers sudden and accidental pollution. In addition, BFI now has $10 million in environmental impairment liability insurance, which covers non-sudden or gradual pollution incidents.

Mr. Lindquist explained that although the company's insurance program has had a long evolution, the hard property/casualty insurance market of the mid-1980s provided the impetus for a final reshaping (see story, page 137).

Hefty retentions and excess insurance from strong underwriters have been combined into a structure that is expected to survive future market swings with few ill effects, he said.

Mr. Lindquist attributes his success in shaping this program to strong relationships with underwriters and brokers and a solid knowledge of the risks he presents to them.

"I think you've got to present your risk properly," he said. "And get with people and build long-term relations. I think it's all getting people to understand what your risks are, and it involves good, professional presentations, which we pride ourselves on."

Mr. Lindquist pointed out that he has meetings with insurers and brokers "on a regular basis."

"John is a unique kind of guy in that he's very much loyal to the individual," said Frank Pezzolla, senior vp with Fred S. James & Co. in Atlanta, one of BFI's brokers.

"If you're a good guy and you do the job for him, he doesn't care if you work for James" or any other brokerage, Mr. Pezzolla said.

"He returns loyalty for loyalty," he added.

Mr. Pezzolla also noted that Mr. Lindquist's professionalism makes brokers' jobs "quite a bit easier, in a business that's difficult to be in. It's a tough class of business."

Because BFI does deal in "tough" classes of business, Mr. Lindquist's risk management skills were put to the ultimate test during the hard market of the mid-1980s.

But his strong relationships and professional presentations paid off at a time when it was commonplace for insurers to refuse to write hazardous classes of business.

He personally marketed the placement of BFI's excess liability coverages with the then-fledgling offshore facilities, X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd., and secured aggregate excess liability limits of $250 million.

"I did most of the marketing during the crisis for obvious reasons, because that's my background," Mr. Lindquist explained. "My original background was in traditional risk management, which includes marketing. Plus, I had seven years as an underwriter.

Continued on next page

BFI's John A. Lindquist concedes that 'as we get bigger, it gets to be a little more of a challenge to administer all of this.' (Photo: Michael A. Marcotte)

John Lindquist

Continued from previous page

"Basically, what we did was tell our story to the X.L. and A.C.E. underwriters," Mr. Lindquist recalled. "And through good presentations and getting them to understand our business," BFI was able to purchase needed coverage in a tight market, he said.

During his tenure at BFI, Mr. Lindquist's philosophy of risk management has centered around incorporating into one program the many facets of buying insurance, managing risk, promoting safety and training workers.

When he arrived at BFI in 1978 as risk manager, he began working on a plan that would make each of the company's regional and district operations more responsible for loss control and safety.

In 1978, BFI "probably had something between 100 and 200 districts, maybe on the low end," Mr. Lindquist said. The company currently has 360 operating districts within 10 regions.

At that time, BFI was "primarily in the solid waste business and, to some extent, chemical disposal," he recalled.

The risk management department consisted of Jerry Van Beek, now the director of safety regulations and compliance, and about a half-dozen staffers.

In 1979, after Mr. Lindquist was named division vp, "Jerry came up with the concept of regional safety managers. With our growth, we needed somebody to be responsible for the safety in every region," Mr. Lindquist explained.

And, during the next two years, a safety manager was appointed for each region.

Now, there are 200 district safety managers who report to the regional managers, whose duties now include risk and safety functions.

Mr. Lindquist described each regional manager's job as a "miniaturized" version of his own.

Photo: Michael A. Marcotte

Risk manager John A. Lindquist, left, reports directly to BFI Chairman and Chief Executive Officer William D. Ruckelshaus.

During that period, Mr. Lindquist and his staff concentrated on training BFI's safety and loss control personnel. Ray King, now manager of loss control safety and training, was hired to direct that effort.

"We had two things going on at that time," Mr. Lindquist noted. "We were trying to develop our capabilities out in the region so that we could get closer to the safety issues of each region. And, at the same time we were trying to build our capabilities in here and we started doing our own training material."

Mr. Lindquist said the "key element of the program" is that all districts and regions are following a universal risk management policy established by the BFI risk management department.

"Secondly, it's that we have a three-tier program: We have (the risk management) function going on at the corporate, the regional and the district levels.

"I think it effectively covers all the bases, and it's sort of all come together now, finally, and all aspects of the program have a pretty good foundation," he said.

The glue that binds the corporate risk management department and the regional and district operations together is the risk management manual Mr. Lindquist and his staff wrote and have recently revised.

"It got badly out of date and I just revised it about six months ago, so it's right up to date," Mr. Lindquist said.

"We had to bring it in line with some of the new operations we're involved with, and we just had to update it through the learning experience," he added. "We've learned a lot since we started this."

The comprehensive manual outlines the entire risk management and loss control program and also references other manuals that address such procedures as dealing with liability and workers compensation claims.

Among other manuals referenced are those that list Department of Transportation regulations and services provided to BFI by third parties like hygienists and clinics.

Mr. Lindquist said he supplies his regional and district personnel with the BFI risk management manual, the DOT regulations and the claims manuals that apply to the type of risks the districts have to deal with.

Mr. Lindquist also has designed a risk management workshop as another tool to ensure corporate and district personnel are all following the same risk management guidelines. The workshops primarily provide new district risk

Continued on next page

Lindquist receives credit for BFI's steady course

HOUSTON—A top Browning-Ferris Industries Inc. executive credits John A. Lindquist, BFI's vp for risk management and loss control, with keeping the company on a steady risk management course during a decade of diversification and expansion.

BFI's growth has presented "unique problems for insurance, loss control and claims," yet the company has been able to successfully expand because of its "ability to purchase insurance with adequate coverages and at an affordable cost," says Harry J. Phillips Sr., chairman of BFI's executive committee and the company's former chairman and chief executive officer.

"We have enjoyed good coverages for these hard-to-insure businesses through the hard markets as well as soft," Mr. Phillips said.

He pointed out that Mr. Lindquist's voice is heard in the highest echelons of the company: Mr. Lindquist reports directly to BFI Chairman and Chief Executive Officer William D. Ruckelshaus.

That direct line from Mr. Lindquist to company management "is a major part" of BFI's operation, Mr. Phillips explained. Risk management and safety are areas that "the CEO should be familiar with all the time," he said.

—By Michael Bradford

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See you at RIMS

Safety rodeo pits men against machines

By MICHAEL BRADFORD

'Just by the number of people that qualify, we're comfortable that we've made some gains,' in safety education by hosting an annual equipment rodeo, says John Lindquist of BFI. 'We're sure it's had a positive impact.'

HOUSTON—The word "rodeo" has more than one meaning for risk manager John A. Lindquist.

In a black-and-white photograph in his office, a man atop a very agitated bull is caught in a classic rodeo pose. He clings tenaciously to the bull with one hand, while his other arm flails about.

The bull is frozen in the midst of a mad, whipsaw scramble.

While Mr. Lindquist is vp of the risk management/loss control division at waste management firm Browning-Ferris Industries Inc. in Houston, the photograph illustrates another risk he manages.

The man in the photo is Mr. Lindquist's son, who competes on the professional rodeo circuit. And Dad serves as his manager.

Mr. Lindquist is proud of his son's accomplishments on the pro rodeo circuit. He talks of the tenacity and dedication it takes to make it in a sport that sometimes jars its participants out of the spotlight in quick fashion.

But there is another "rodeo" Mr. Lindquist is fond of discussing. There are no bulls at this rodeo: The animals are hulking metal monsters, tons heavier than the animals ridden by his son. And these behemoths are driven.

In November, BFI will bring its best drivers and mechanics together and match them with the kinds of machines they use every day—tractor trailers, front-end loaders, bulldozers and other heavy equipment—as they compete in BFI's Third Annual National Truck & Equipment Rodeo at the Farm & Ranch Club in Houston.

Sitting down in his Houston office to watch a videotape of a past national competition, Mr. Lindquist remarks: "You might say this is my finest hour. I still get goose bumps when I watch this thing."

The BFI rodeo is an integral part of the company's safety program, rewarding company drivers and mechanics for keeping a clean slate with regard to lost-time injuries and driving records.

Regional rodeos are held for employees with clean safety records at BFI locations throughout the country. Winners of the regional events travel to Houston to compete in the company's national competition. Last year, 166 BFI employees participated in the national rodeo.

While BFI cannot quantify exactly how much the rodeo has paid back in terms of improved safety, Mr. Lindquist pointed out that participation has increased every year, which means more drivers are meeting the qualifications to compete.

"Just by the number of people that qualify, we're comfortable that we've made some gains," he said. "We're sure it's had a positive impact."

In spite of its current popularity, the rodeo actually got off to a rocky start back in 1980.

"It really didn't go anywhere," Mr. Lindquist noted. "Then in '82, the region in Boston had one. They started having one annually and it expanded within the region. In '84 or '85, some of the other regions started to get involved in it."

In 1986, Mr. Lindquist stepped up efforts to broaden the involvement of BFI's drivers and mechanics in the rodeo "so that we could have a national rodeo," he explained.

"At that time we started asking some of the other regions and we helped them start" rodeos of their own, Mr. Lindquist said.

There are stiff entry requirements for participants in the BFI rodeos. They are open only to full-time employees who spend at least 80% of their time driving or in a maintenance position.

A participant cannot have a moving violation during the fiscal year prior to the rodeo and cannot have a drug- or alcohol-related driving offense within the prior 10 years.

Employees who had a preventable driving accident or a lost-time injury in the fiscal year prior to the rodeo are not eligible.

BFI drivers and mechanics that make it to the national rodeo are in for more than a weekend of competition. The agenda lists a host of events, including a barbecue, cocktail reception and an awards banquet. Last year's banquet was attended by 1,017 BFI employees, relatives and guests.

When the competition begins, drivers and mechanics first face a 50-question, multiple-choice exam that tests their knowledge of safety procedures. A timed vehicle inspection follows, during which mechanics must find 12 equipment defects and drivers have to uncover five.

Drivers must then navigate courses, like the "serpentine" course, which involves a winding route through barrels that must be completed in forward and in reverse without stopping. Among other courses are those that test drivers' ability to back into small, enclosed areas and maneuver through progressively narrower areas.

Some of the rules drivers and mechanics must observe during the competition include:

- No alcoholic beverages can be consumed until the competition is officially declared completed by the head judge. In the event a course must be run a second time to break a tie, any evidence of alcohol consumption disqualifies a competitor.
- Drivers may not open doors or stick their heads out of windows.
- Bypassing any event results in disqualification.

The winner of the national rodeo receives $2,000 and a trophy. The second-place finisher gets $1,500 and a trophy, and third place is worth $1,000 and a trophy.

Putting the national rodeo to-

Continued on next page

John Lindquist

Continued from previous page

management employees with an indoctrination to BFI's risk management program and also provide a review for veteran district personnel.

"We also on occasion run people through from other corporate departments or new people on our own corporate staff," Mr. Lindquist pointed out.

"But it's primarily for the districts, to develop our capabilities to manage at the district level."

The four-day workshops, which are held every two months at BFI's Houston headquarters, usually have between 15 and 20 attendees, he said.

"It's part of an overall function of management development programs that are carried on by the company in various areas," Mr. Lindquist said.

The workshops cover a range of topics that include safety and loss control, employee screening, accident investigation, DOT compliance, industrial hygiene, occupational medicine and claims management.

"We cover all the areas of my responsibility during the workshop in some depth," Mr. Lindquist explained.

The workshops also feature talks by corporate risk management department heads, like Mr. Van Beek and Mr. King, who report directly to Mr. Lindquist.

The workshops have been an important part of improving BFI's risk management capabilities, according to Mr. Lindquist. Developing the risk management skills of personnel, particularly those who have other responsibilities, "is one of the biggest challenges we have," he said.

Mr. Lindquist said he also holds at least one and sometimes two meetings annually with regional safety and risk management personnel. "We discuss the hot topics and try to get into some very specific issues" that will help improve programs on the regional level.

The emphasis on training has led to a "vast improvement in managers' attitudes about safety," said Harry J. Phillips Sr., chairman of BFI's executive committee and the company's former chairman and chief executive officer.

"It's a major factor in our managers' operating disciplines. Ten years ago, it was a minor factor. John has been instrumental in bringing that about," Mr. Phillips said.

The risk management foundation put in place by Mr. Lindquist and his staff has held up well during recent years as the company has diversified.

And, given that the cost of risk as a percentage of revenues has remained steady for years while BFI has expanded, Mr. Lindquist believes that the risk management and insurance program he and his staff have assembled is well-suited to accommodate new exposure areas without a great deal of added cost. ■

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Lindquist and staff

John A. Lindquist and his staff, from left to right: Pamela Harris, director, occupational health; James Terry, assistant manager, risk management/loss control; Gerald Van Beek, director, safety regulations and compliance; Mr. Lindquist; Michael Tawney, risk and insurance manager; Lynn Gonzalez, risk management controller; and Raymond King, manager, safety and training.(Photo: Michael A. Marcotte)

RMIS keeps pace with claims system needs

By MICHAEL BRADFORD

HOUSTON—Although Browning-Ferris Industries Inc.'s insurance program has reached maturity, its risk management information and claims administration system still is experiencing some growing pains.

The waste management company's RMIS, which operates on an IBM System 36 leased in 1986 from Corporate Systems in Amarillo, Texas, may be in for changes that could make processing claims information a little easier while adding some bells and whistles, says John A. Lindquist, vp of the risk management/loss control division.

On the current system that includes the CS PRISM/36-3X software, property, liability and workers compnesation claims information must be reconciled at the end of each day with BFI's computerized general ledger accounting system—a redundant and time-consuming effort, explained BFI Controller Lynn Gonzalez.

Documents have to be manually entered into both systems according to the systems' requirements, she explained.

"The claims management system runs off specialized insurance software," said Ms. Gonzalez. "It's a cost system and needs to know things like date of loss, name of driver, name of claimant" and other claims-related specifics, she said.

"The BFI general ledger system needs to accumulate all costs but does not need to assign them to specific claims," Ms. Gonzalez explained. Therefore, claims information has to be input twice to have it entered into both systems.

But a BFI steering committee is considering consolidating the systems so that the claims information and accounting data can be entered into a single system in the Houston office without the end-of-day general ledger manipulations. The information would automatically be entered into separate files within the same system, said Ms. Gonzalez.

In addition, a new system could take advantage of "customized programming to produce reports by claims and by line of business. That information is critical as BFI enters new lines of business," Ms. Gonzalez stressed.

"Management likes to get an idea of how many claims and what types of claims" each line of business is producing, she added.

BFI is a longtime customer of Corporate Systems, starting out in 1971 with dummy terminals in the Houston office that tied into the RMIS vendor's mainframe in Amarillo.

BFI's RMIS evolved into the current IBM system as a result of changes in the way the company processes claims.

For example, up until 1980, BFI's claims were handled by one insurance company. But that year, "we started to do it on the basis of contracting around the country for independents to do our claims as opposed to using one national concern," Mr. Lindquist explained.

Using independent administrators makes it "easier to involve your operating people and you get better control," he said.

As it has developed its claims administration network, BFI has given its 10 regional managers increased access to claims data.

Regional managers can tap into the Houston-based system and search for particular types of claims data and also use the system's diary feature to call up information for specific dates.

Ms. Gonzalez pointed out that BFI plans to put a computer in nearly all the company's 360 districts throughout the United States and Canada, so that local districts also can access information.

Along with the ability to access some claims data, BFI district managers have the authority to pay up to $1,000 in property damage claims, said Mr. Lindquist.

"Claims other than that are turned over to outside adjusters. We have a list of approved adjusters for each area," except for Illinois, where one adjuster is used, he said.

Using a network of outside administrators "gives us the flexibility of making changes without disrupting the whole system," Mr. Lindquist noted.

"It's done with the idea that if we have a problem in an individual situation, we can make a change" without any effect on the claims administration system in other BFI districts, he explained.

BFI's workers compensation claims are handled by outside administrators in some states and by in-house personnel in others.

"We have in-house administration of our workers compensation claims in most of the areas where we have a large number of claims," he said.

In an effort to tap as much claims-handling expertise as possible, Mr. Lindquist established a corporate claims review committee made up of representatives of the company's legal department, risk management and operations areas. The committee's responsibility is to review all BFI claims greater than $10,000.

"The claims committee meets every two weeks and reviews claims, gives settlement authority and, if there are issues that need to be resolved, gives direction to claims," Mr. Lindquist said.

The concept of the committee is to "involve more people in the judgment process" in complex claims, he explained. ■

Browning-Ferris safety programs

Continued from previous page

gether involves numerous BFI employees, which helps spread the company's safety and risk management philosophy outside the halls of Mr. Lindquist's department.

For example, in 1988, BFI Director of Safety Regulations and Compliance Jerry Van Beek used more than 300 Houston-area employees to overcome the logistical roadblocks in staging the rodeo. There were three committees and 18 subcommittees involved in the planning.

The rodeo competition is the shining star in an employee recognition program at BFI that serves to spread the safety and risk management message nationwide.

In addition to the rodeo, BFI recognizes outstanding safety records with a number of awards.

Eligible employees receive awards each time they complete 12 consecutive months of safe work performance, and additional awards are presented for longer periods without accidents or injuries.

There are two categories of awards:

- The National Safety Council Safe Driver award is a pin and patch presented to drivers and certain other eligible employees for each 12 consecutive months without a preventable accident or damage to property.
- The BFI Safety Achievement Award, also an annual pin and patch award, is presented to service technicians, heavy equipment operators, mechanics, welders, painters, laborers and others who might be certified for eligibility.

To receive the BFI award, an employee must complete 12 consecutive months with no lost-time work-related injuries and without an accident causing property damage or personal injury.

When an employee completes three consecutive years of safe performance, he is presented with a plaque; and at five years, the award is a "BFI Circle of Safety" belt buckle and plaque.

An employee enters the President's Club for 10 years of performing his job safely and receives a watch and shadow-box plaque. At 15 years, a sapphire ring is awarded and a diamond watch is given to the employee who makes it 20 years with a clean safety record.

Employees must go through a three-year proving period in the BFI program. If a worker incurs a preventable accident or lost-time injury within that period, his current standing in the awards program is voided and he must start again until reaching three consecutive years of safe performance.

After the three-year plateau is reached, an accident no longer means the employee has to start over. However, a 12-month penalty is assessed for each preventable accident en route to the 20-year award.

In addition to the employee recognition programs, Mr. Lindquist has developed a number of safety and training videos to help instill the BFI risk management philosophy.

"In 1979, I came to the realization that we didn't have any safety training" material, Mr. Lindquist noted. "We started developing our own material, and now we have 22 videos."

Under Mr. Lindquist's leadership, BFI has received two awards recognizing the company's tradition of safety.

In 1987, the National Safety Council presented BFI with its special achievement award for outstanding leadership in comprehensive health and safety programs, and the National Solid Wastes Management Assn. also recognized the company for its leadership in workplace safety. ■

Risk management honor roll

Minnesota native adapts to Texas styles

By MICHAEL BRADFORD

HOUSTON—John A. Lindquist looked out of place wearing a coat and tie.

Browning-Ferris Industries Inc.'s vp of risk management and loss control decided to dress up this Friday instead of strapping on more casual attire before coming to work. As he moved through the risk management department, Mr. Lindquist looked like a well-dressed spectator at a Houston rodeo.

It was "casual day" at BFI, and staffers roamed the halls in blue jeans and cowboy boots. Reeboks edged out wing tips as the preferred footwear to close out the week and stone-washed denim was the most expensive attire on the floor.

Casual day is kind of a morale booster for BFI employees. It lets them relax a little at the end of a long week. On Fridays they can see that their counterparts and superiors are all pretty much the same kind of people whether they're dressed for a power lunch or a hike in the woods. It fosters a familiarity that makes the working relationship a little smoother all week.

Mr. Lindquist is not a Texan by birth. But this 53-year-old Minnesota native moves about easily and comfortably during this end-of-the-week ritual, an example of how he has adapted to the Lone Star State since leaving the Land of 10,000 Lakes.

As a Texan, he has settled in nicely.

Mr. Lindquist speaks fondly of his place in the country, although he doesn't have such nice things to say about the 50-mile commute each way. The long drive is a necessary evil, though, because his family felt it was important to "find some acreage" away from the city, he says.

And there's a tractor at the country place that doesn't get as much work as it should, he adds.

If moving into the country and buying a tractor doesn't qualify Mr. Lindquist as a true Texan, the fact that he manages his son's professional rodeo career certainly helps. Another son retired from the sport after being sidelined with a knee injury during competition.

The journey from Minnesota to Texas began 32 years ago for Mr. Lindquist, when he received a bachelor's degree in insurance and finance from the University of Minnesota in Minneapolis.

"I was an accounting major in college, and I was looking for a different major," he recalled. "And, I decided to get an insurance major for reasons I'm not totally sure of."

After graduation, Mr. Lindquist attended the U.S. Army Finance School during a hitch in the service. He studied accounting while in the military, and said that by the time he left the service, his background encompassed both accounting and insurance skills.

"I opted to go toward insurance, and I went to Travelers as an underwriter," he said. From 1959 to 1966 he was a casualty underwriter for Travelers Insurance Co.

Mr. Lindquist's foundation in insurance grew more solid in 1963 when he earned the Chartered Property & Casualty Underwriter designation while working for Travelers in Little Rock, Ark.

"And then in '66, I was looking for some opportunities in risk management," he said. That year, he accepted a position as corporate insurance manager for General Acceptance Corp. in Allentown, Pa. "I shifted gears and got out of the (insurance) company ranks and got into risk management."

In 1967, he completed the education program necessary to obtain the Associate in Risk Management designation from the Insurance Institute of America.

The next year, Mr. Lindquist arrived in Texas to work for Anderson, Clayton & Co. in Houston as a risk manager.

At that time, Anderson, Clayton owned Ranger Insurance Co., and "we coordinated between the insurance company and the risk management of the other businesses."

His 10-year tenure with Anderson, Clayton gave him valuable experience that he brought to Browning-Ferris Industries in 1978, Mr. Lindquist said.

From "one-man situations, through to this," he laughed, referring to the 64-employee risk management and loss control division he now heads.

In the early 1970s, when insurance litigation began to increase, Mr. Lindquist decided law school would better equip him to handle this new facet of the risk management profession. He enrolled in evening classes at the South Texas College of Law in Houston and received his doctor of law degree in 1974.

And, his legal education continues, because the State Bar of Texas requires 15 hours of legal education annually for license holders to maintain an admitted status. When possible, Mr. Lindquist chooses courses that satisfy the requirement and at the same time further his risk management education, he said, citing a recent course on "computerized litigation management."

A member of the Texas bar, Mr. Lindquist also holds memberships in the American Bar Assn. and Houston Bar Assn.

He also is a member of the Houston chapter of the Risk & Insurance Management Society and has served as president of both the Arkansas and Texas chapters of the Society of CPCU.

Although commuting, continuing education, managing his son's rodeo career and day-to-day risk management activities take up a lot of space on Mr. Lindquist's calendar, he still makes time to speak on risk management topics.

He has served on a number of panels at risk management-related conferences, traveling as far as Mexico City to discuss the role of the risk manager. That appearance, before the American Chamber of Commerce of Mexico, resulted in requests from chamber members that copies of the speech be translated into Spanish for distribution to risk management professionals in the country. ■

Hard market molded BFI's program

By MICHAEL BRADFORD

HOUSTON—The hard property/casualty insurance market of the mid-1980s was a trying time for all risk managers, but for a risk manager with high-profile risks like hazardous waste disposal and asbestos abatement operations, it was a nightmare.

But today, John A. Lindquist, vp of risk management and loss control at Browning-Ferris Industries Inc., can relax in his Houston office and talk of the silver lining he found in the dark clouds of that turbulent period.

While the crisis caused months of anxiety for BFI, during which the company lost a large portion of its excess liability insurance, the hard market also led to the restructuring of the company's current insurance program.

Today, Mr. Lindquist says that BFI management is happy with that program and that he expects the program will remain in place for many years.

The structure of BFI's risk-financing program has shifted toward increased risk assumption since Mr. Lindquist arrived at the company in 1978, he noted.

For example, BFI's self-insured retention for general liability, auto liability and sudden and accidental pollution liability risks has been increased over the past decade to from 100,000 to $2.5 million per occurrence with no aggregate.

At the same time, BFI has increased the limits of the excess liability insurance it buys from commercial insurers. BFI now purchases $247.5 million of excess claims-made liability insurance, up from $50 million of occurrence-based excess liability coverage 10 years ago.

And, BFI's self-insured retention is now $500,000 per occurrence for both property and workers compensation risks; 10 years ago, BFI retained $25,000 of property losses and $250,000 of workers comp losses.

"We've sort of evolved into what now looks like the way to do it," he observed. "I think we're comfortable with that."

The program's final format was completed during the mid-1980s market crunch, when BFI saw its liability insurance limits shrink.

"Obviously, the insurance crisis was disruptive and reformed the insurance program as you see it now," Mr. Lindquist pointed out, adding that the current program is designed to better weather the future ups and downs of the market.

When Mr. Lindquist was hired 11 years ago, BFI's property/casualty insurance program basically was a "pay-as-you-go program," he explains.

"In the lower level, we were in a program that literally paid the losses," he said, referring to the small retentions assumed by the company.

Above BFI's $100,000 self-insured retention for liability, including auto and sudden and accidental pollution, BFI had $50 million of excess liability coverage written in the domestic and London markets.

Just before the U.S. property/casualty insurance market began to constrict in 1985, BFI's retention for pollution, general liability and automobile liability losses had been increased to $1 million. BFI also had increased its excess liability limits to $100 million in coverage, including sudden and accidental pollution incidents. That coverage was purchased in the London market.

But, at its 1985 renewal, BFI was left with only a full $5 million excess layer above its $1 million retention and only 40% of the $20 million layer excess of $6 million.

Mr. Lindquist explained that "in the event you have a slip in London and it's not completed, you become a co-insurer to the extent of the incomplete portion of the placement. We had a complete placement for the first $5 million over a million, but we did not have a complete placement for the next layer.

"We would have paid 60 cents on every dollar of claim in that layer, and the insurer would have paid 40 cents," he said.

And, BFI completely lost its $75 million layer of liability insurance excess of $25 million in 1985.

"And then we built back from there," Mr. Lindquist recalled.

Mr. Lindquist relied on tenacity, his steady relationship with underwriters and brokers and a strong marketing background, in restructuring BFI's risk financing program, especially the excess liability insurance.

'Obviously, the insurance crisis was disruptive and reformed the insurance program as you see it now,' says John A. Lindquist of Browning-Ferris Industries.

"This is when being a marketer was being a marketer," Mr. Lindquist said of arranging excess liability insurance for BFI during the hard market.

"It took a lot of initiative and imagination, because what happened was you had people calling you up telling you they wanted to stay with you, but they had problems of their own and they had to reduce capacity. So you had to look at alternatives."

He recalled that "there was a lot of maneuvering during that period." Professional presentations of BFI's risk management program were necessary to persuade insurers to write coverage for BFI, Mr. Lindquist pointed out.

"We're more professional than I think we're perceived," he said, referring to BFI's operations.

"So, you've just got to sell the kind of business you're in. We're a heavy trucking business, and I don't think it's always perceived that way," he said, referring to insurers' concern over BFI's pollution risks.

By 1986, Mr. Lindquist persuaded brokers and underwriters of the quality of BFI's risk management program and subsequently lined up a full $22.5 million layer of excess liability insurance—including coverage for sudden and accidental pollution—excess of its retention, which was increased to $2.5 million. The coverage was written by various London market underwriters.

The same underwriters also wrote $20 million of coverage for asbestos risks on a claims-made basis over a $5 million retention.

Mr. Lindquist then looked offshore to the two then-fledgling excess liability facilities—X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd.—for additional excess limits.

BFI was an original X.L. policyholder/owner in 1986, said Mr. Lindquist, who is now a member of X.L.'s board of directors.

BFI "got involved in X.L. as a sponsor and eventually, over a short period of time, that brought $75 million in capacity" excess of $25 million, he said. BFI, thus, had managed to match the limits it purchased before the market hardened.

However, at the same time, BFI was experiencing rapid growth. Realizing that more insurance was needed to cover its growing exposures, the company decided to also participate in A.C.E., though it does not own shares in A.C.E.

Through A.C.E., Mr. Lindquist was able to secure $150 million in liability limits above the layer written by X.L., giving the company $250 million in total liability coverage, including its retention.

The A.C.E. and X.L. insurance includes coverage for sudden and accidental pollution.

"We did a presentation to X.L. and A.C.E. which effectively, I think, pointed out the kind of risk that we were, and, they found it to be more attractive than I think they originally expected."

While "we've seen an appreciable increase" for the cost of the current excess liability insurance from the cost of BFI's excess program before the hard market, Mr. Lindquist said. "But, at the same time, the company doubled its size," he pointed out.

And, the cost of BFI's excess liability insurance is competitive in today's market, Mr. Lindquist noted.

Although the availability of environmental impairment liability insurance shriveled up during the hard market, the Environmental Protection Agency's requirement that waste disposal companies like BFI purchase the coverage remained unchanged.

To meet the EPA regulations, Mr. Lindquist structured a paid-loss retrospectively rated program with National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., to provide $10 million in first-dollar EIL coverage for BFI.

National Union continues to provide BFI with the same amount of EIL coverage. Under the program, BFI pays only a deposit premium to cover the insurer's cost of administering the program and then reimburses the insurer for losses as they are paid. BFI thus is able to earn investment income or otherwise use money that would have been paid up front to the insurer under a non-retrospective program.

Aside from the National Union EIL coverage, "that type of program was impossible for us to find," Mr. Lindquist pointed out. The National Union coverage was "an available solution—and the only solution."

In the 20 years of BFI's existence, the company has faced only two big liability losses, according to Mr. Lindquist.

"We've had two major losses in excess of $10 million—that's the extent of our catastrophes," he said.

In one case, BFI paid $12 million in 1979 to settle a

Continued on next page

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BFI's insurance

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class-action suit brought by residents of several east Texas communities who charged that BFI used substances in road work that contained a toxic chemical.

BFI's general liability insurance excluded EIL pollution coverage at the time, but Mr. Lindquist persuaded the company's insurers that the loss was a product liability claim.

As a result, the case was settled without any coverage litigation. But, the lead underwriter recovered a large percentage of the loss through a hefty premium increase.

"We reached a mutual agreement and worked out of it together," Mr. Lindquist noted, not wishing to comment further.

In 1984, BFI settled for $12.5 million an auto liability claim in which one person was killed and others were injured when a private auto and a BFI truck collided.

"We've had losses in the $1 million to $5 million range," Mr. Lindquist said. He noted that BFI has about 30 losses each year between $100,000 and $750,000. But, most losses are less than $100,000 each, he said.

"We're in a situation where we run 8,000 trucks, and we're going to have a serious accident now and then," he remarked. However, most of the claims as a result of those accidents fall within BFI's self-insured retention, he said.

Unlike many companies, BFI came out of the hard market with greater directors and officers liability insurance than it had before the market constricted.

"We effectively didn't get hit by the D&O crisis," Mr. Lindquist noted. "We kept our primary insurance in place" and used X.L. to "fill in any capacity problems that our primary people were running into."

At the 1984 renewal, BFI had secured $30 million in primary D&O coverage from National Union. A $20 million layer excess of $30 million was written by Federal Insurance Co. of Warren, N.J., a unit of Chubb Corp.

During the turbulent years of the hard market, National Union dropped BFI's D&O limits to $20 million.

Mr. Lindquist set to work to restructure the program and by the 1987 renewal season had ended up with increased D&O limits.

Above the $20 million of primary D&O coverage written by National Union, Mr. Lindquist was able to arrange a $10 million excess layer written by X.L. Federal wrote a $20 million layer excess of $30 million, and X.L. wrote a $5 million layer excess of $50 million to push BFI's total D&O limits to $55 million.

"So we started with $50 million and ended up with $55 million" in 1987, Mr. Lindquist said.

Although he would not elaborate on current coverage limits, Mr. Lindquist did say the D&O program went through further revisions in 1988, and BFI now has even greater D&O policy limits.

The company now purchases additional limits from X.L., and A.C.E. also provides a layer of D&O coverage, he said.

BFI self-insures its property exposures up to a maximum of $500,000. Lloyd's of London syndicates write $25.5 million in excess property coverage above the retention.

In addition, Nutmeg Insurance Co. of Hartford, Conn., a subsidiary of Hartford Group Inc., writes $75 million of excess property coverage over the $25 million layer. However, the $75 million layer only covers the Houston headquarters building.

BFI self-insures its workers compensation exposures in 29 of the states in which it operates. In those states, BFI assumes a $500,000 per-occurrence retention and National Union writes statutory limits excess of that retention through another paid-loss retro plan.

BFI relies on National Union to write first-dollar workers comp coverage under another paid-loss retro program in about 15 states, including Texas, in which it by law cannot self-insure or it does not choose to meet regulators' self-insurance requirements.

The insurer writes the coverage to statutory limits in those states.

Workers comp claims administration has been a problem in some states, Mr. Lindquist acknowledged, because the company likes to rely on outside administrators, but "finding good ones is tough."

"We've more and more headed in-house," Mr. Lindquist said. "Every year we seem to take some of our workers comp administration internally." ■

1989 RIMS

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Risk Management Honor Roll

J. Douglas Higley

Risk manager rehabilitates state program

By DAVE LENCKUS

BATON ROUGE, La.—J. Douglas Higley takes the luxury of pouring a cup of coffee and lighting a cigarette at the start of a typical 10-hour workday as Louisiana's risk director.

But, there was a time when crises stemming from the state's property/casualty risk financing program threatened to stain the state's already dismal finances with even more red ink, demanding Mr. Higley's attention from the moment he stepped into the office early each morning.

In 1985, five years after the Louisiana Legislature created the state Office of Risk Management, the ORM had developed into a microcosm of the state: direly short of funds and unable to meet its liabilities.

"It was a slap-you-in-the-face, wake-you-up kind of deal," Mr. Higley recalls.

When Mr. Higley stepped through the front door of the ORM for the first time in August that year, he inherited a self-insurance program with a $52 million deficit that was ballooning—not a problem easily remedied in a state whose own budget deficit would grow over the next three years to $731.5 million.

The workers compensation portion of the self-insurance fund alone had a $3.5 million cash deficit that year and was borrowing from other funds—in violation of state law—to pay claims.

In addition, much of the state's $6.5 billion in assets and the state's liability exposures were either largely underinsured or completely uninsured because state agencies—which often were left responsible for arranging their insurance—purchased only catastrophic coverage.

And, with the hard commercial property/casualty insurance market at its peak in 1985, many insurers were unwilling to write primary liability coverage for government entities.

The lack of a uniform claims-handling process for state agencies exacerbated the situation. State agencies sometimes failed to arrange for legal counsel to be in court when claims were litigated, resulting in an automatic verdict in favor of the claimants. Other agencies just buried claims in their files for years, which increased interest on settlements and awards.

When agencies did act on claims that were closed either through court awards or settlements, the Legislature had to pass legislation to appropriate funds to pay the claims because the state had no reserves.

In addition, the ORM's accounting system was in a shambles. The accounting department was unable to generate monthly or quarterly results, and the yearly reports it did produce were meaningless. In fact, legislative auditors informed Mr. Higley soon after he was hired that the agency's books were unauditable.

So, in August 1985, then-Gov. Edwin Edwards charged Mr. Higley, a 22-year insurance industry professional, with turning the ORM around—within 18 months.

Mr. Higley surmised that if he had not made enough progress by that deadline, the governor could dismiss the attempt to use an insurance professional to rescue the office as a failure and then bring in a political crony to run the ORM.

But Mr. Higley put out enough fires and made enough progress in 18 months to warrant the governor's continued confidence.

Now, 3½ years after taking charge of the ORM, and under a new governor, the 48-year-old Mr. Higley has rehabilitated the state's risk management program.

Consider that:

- Mr. Higley restructured the state's self-insurance program and developed manuscript policies to provide all agencies with uniform coverage.

Now, rather than each agency arranging its own insurance for a particular risk, all agencies are covered for that risk under one broad policy written by the ORM.

The state self-insures the agencies' predictable losses and purchases excess commercial insurance.

- Agencies are paying less for broader coverage. The ORM figures that state agencies pay millions of dollars less each year for coverage under the self-insurance program than they would for comparable coverage from commercial insurers. In addition, the ORM has reduced state agencies' premium contributions for self-insurance and commercial excess insurance by close to $50 million for the last two fiscal years and the upcoming fiscal year.
- Losses are plummeting, following the implementation of loss prevention and claims handling programs and procedures and the enactment of numerous state laws (see story, page 143).

Indeed, the state's combined ratio had dropped 115 points to 43% at fiscal year-end 1988 from 158% at fiscal year-end 1984, which the ORM determined after recalculating the agency's financial statements for that year. Most of that drop was attributable to the ORM slashing the self-insurance fund's loss ratio to 39% from 143%, according to the agency's 1988 annual report.

Most notable of the self-insured risks for which losses have dropped is workers compensation. Workers comp losses dropped a total of 24.1% in fiscal years 1987 and 1988, and the ORM has cut workers comp costs by $6.5 million over three years.

- The ORM now has fully funded reserves—on a discounted basis—for nearly all its self-insured exposures and expects to have 100%—or $30 million—of the surplus necessary to preserve the integrity of the self-insurance fund by June 30. At fiscal year-end June 30, 1988, the ORM was technically solvent for the first time in six years.
- By December 1988, six months after the Legislature gave ORM the responsibility to handle all claims against the state, the ORM had disposed of 10% of the 4,000 open claims it inherited.

In addition, the ORM has renegotiated with plaintiffs' attorneys seven of eight court judgments against the state for about one-third of the original awards.

- The accounting department is generating monthly statements by the 15th of the following month, an invaluable tool in determining whether the program is on course, Mr. Higley notes.

It was these and other accomplishments that earned Mr. Higley a spot on the 1989 *Business Insurance* Risk Management Honor Roll, representing government entities.

The Legislature created the ORM foremost to develop a self-insurance program to cover the state's workers compensation exposures.

Continued on next page

J. Douglas Higley examines the U.S.S. Kidd, a floating museum in Baton Rouge. The former destroyer is covered by the state's risk financing program. (Photo: Michael A. Marcotte)

J. Douglas Higley

Continued from previous page

But, it also gave the agency authority to develop a self-insurance program to cover other state risks.

The ORM controls the insurance and loss prevention needs of the Louisiana state government, including 20 state departments; approximately 300 agencies; 17 hospitals; 60 vocational-technical schools; 67 outpatient clinics that treat patients with mental health and substance abuse problems; 18 vocational rehabilitation centers; 10 special schools for the mentally handicapped; 10 colleges and universities; and 14 prisons.

From his first day as state risk director, Mr. Higley grappled with several crises that demanded his immediate attention:

- The state was uninsured for its auto liability risks.
- The workers compensation portion of the self-insurance fund had about a $3.5 million deficit and was unable to pay claims.
- The state was vastly underinsured under the patchwork self-insurance and commercial insurance program that was in force.
- The self-insurance fund had a $52.3 million deficit.

"I walked in the door, took off my coat, and they said, 'You got a crisis. What are you going to do about it?' " Mr. Higley recounted.

"Everything was kind of happening at the same time. It was like putting a puzzle together," he said.

Mr. Higley recalls working at least 12-hour days, six and sometimes seven days a week behind his still paper-strewn desk during his first nine months on the job.

"I had to, just to get my arms around" all of the ORM's deficiencies, he said.

The first crisis Mr. Higley dealt with set the tone for how he would eventually restructure the state's risk financing program.

Immediately after he took over at the ORM, the liability insurance policy for the state's fleet of 10,000 vehicles lapsed, and only two insurers submitted bids—both in excess of the state's budgeted funds for that coverage.

And, the state's self-insurance program was not set up to provide auto liability coverage.

Mr. Higley persuaded one of the insurers that submitted a bid, Hartford Fire Insurance Co., to write the coverage for 90 days while he huddled with an actuary and a workers compensation claims staffer who had auto liability experience to study the state's auto liability loss history.

Mr. Higley worked with James B. Haas, now president of DBM Services in Baton Rouge and one of the individuals who nominated Mr. Higley for the Risk Manager of the Year award, to determine the state's total accrued auto liabilities, including incurred-but-not-reported claims and an adequate surplus.

But, their efforts were slowed because the previous commercial insurer "was not responsive" in providing the ORM loss information. In addition, the agency's in-house computer system was not designed to handle a self-insured auto liability program.

"We knew it would be close, but we decided on the 90 days of commercial coverage and took the rest of the funds to start a self-insurance program," Mr. Higley said.

Mr. Higley called on Corporate Systems of Amarillo, Texas, to provide a risk management information system that monitored losses and expenses and generated reports on loss and expense trends over a five-year period.

"I called them up and said, 'Help!' And they got on their white horse. My staff and Corporate Systems did that in record time," Mr. Higley said.

Mr. Higley calls the RMIS, which ORM now uses extensively for all lines of coverage, a bargain. The subscription service costs ORM about $250,000 annually, compared with the more than $3 million cost of developing such a system. And that figure does not include the cost of hardware, software and staffing, he noted.

With the aid of the RMIS and Mr. Haas, the ORM developed a blanket self-insured auto liability policy for all state agencies; a loss-sensitive plan for allocating costs to each agency; and criteria for reporting and adjusting all claims.

The state also purchases $2 million of excess auto liability coverage above the $1 million self-insured retention.

In addition, Mr. Higley developed a driver training program, of which he was the first graduate.

The ORM also set driver authorization guidelines for agencies to prevent individuals without a driver's license or with recent drunken driving convictions from operating state vehicles.

The program won the ORM a National Safety Council award in 1987.

Mr. Higley credits the program for the $104,000 reduction in auto liability losses in fiscal year 1987/1988 from the previous year.

And, agencies' premiums for the total $3 million of auto liability coverage is dropping: Total budgeted written premiums for auto liability in 1989/1990 are $3.2 million, down from $4.9 million this year, $5.5 million in 1987/1988, and $13 million in 1986/1987.

In addition, as of June 30, 1988, the ORM reported $4.3 million of discounted reserves for auto liability losses and $2.5 million of surplus in the auto liability portion of the self-insurance fund.

Mr. Higley next tackled the state's self-insured workers compensation program and achieved similar results. In fact, he boasts that Louisiana is the only state that has cut its workers comp costs over the past three years.

However, the situation was grim in 1985.

The workers compensation portion of the self-insurance fund "was $3 million to $4 million cash-deficient. That's worse than having cash and a large liability," because the fund had to borrow from other funds—against state law—to pay claims, he explained.

Continued on next page

Damage to historic building covered for replacement value

BATON ROUGE, La.—"What would the actual cash value of an old building be?" mused State Risk Director J. Douglas Higley.

Mr. Higley posed the question as he reflected on how the Office of Risk Management had redesigned its property risk financing program to cover state buildings on a replacement-cost basis just months before the historic Cabildo museum in New Orleans sustained $5 million of damage in 1988.

The third floor of the Cabildo—the site of the signing of documents related to the Louisiana Purchase of 1803—was destroyed and other areas of the building sustained smoke and water damage in the May 11, 1988, fire.

Until July 1987, all state buildings—including the Cabildo—had been insured only for their actual cash value.

But one of Mr. Higley's first priorities after he was hired by the state in August 1985 was to cover all of the state's buildings on a replacement-cost basis, through a property risk financing program that combines elements of self-insurance and commercial excess insurance.

To convert the coverage, though, the ORM first had to inspect and assign replacement values to every building.

"It would have been a real tragedy for the state" if the property coverage had not been changed to replacement cost by the time the fire occurred, Mr. Higley said.

Instead, the situation resulted in what Mr. Higley calls his greatest honor: The Louisiana Legislature passed a joint resolution last year praising Mr. Higley for arranging the property program that saved the cash-short state from searching for the millions of dollars necessary to restore the building.

"I was really overwhelmed by that," Mr. Higley said of the resolution. "It was probably the single-greatest honor in my life."

Mr. Higley recalled the "outpouring of public concern among citizens and state officials" over the future of the Cabildo immediately after the fire because of the building's historical significance.

The Cabildo, located at Jackson Square in New Orleans' French Quarter, was the site of the signing of treaties that ceded Louisiana from Spain to France in 1800, and from France to the United States in 1803.

The ORM took measures even while the Cabildo was burning "to get a handle on the loss," Mr. Higley said.

"We had to move very quickly. We had one of our people down there while it was burning to show we recognized the significance" of the potential loss, he said.

One of ORM's immediate concerns was "the national trend for people to want to be involved in that type" of situation—the restoration of the Cabildo—for the publicity or for their own monetary gain, Mr. Higley noted.

For example, vendors, such as adjusting firms and artifact restorers, "want to jump on the bandwagon," he explained.

"We wanted a controlled situation up-front. Anyone who wanted to stick their hand in we told, 'We have it under control, thank you very much,' " Mr. Higley said.

The restoration of the Cabildo is expected to take another two years to complete but is going "very, very well," he said. "More than replacement, you have to preserve the historical nature of the building," he noted.

Aetna Casualty & Surety Co., the state's excess property insurer, made an early $1 million payment toward the cost of restoring the Cabildo before the state paid out $1 million under its self-insured retention (*BI*, Sept. 26, 1988).

—By Dave Lenckus

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Business Insurance

J. Douglas Higley

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Mr. Higley first sought and received state and federal government approval to transfer some of the surplus from other portions of the self-insurance funds to the workers comp portion of the fund to pay claims.

Mr. Higley sought the federal government's seal of approval for the fund transfer as a risk management measure. Although the transfer was permissible under federal law that regulates how federal matching funds to states are used, Mr. Higley wanted to assure the federal government that he was being "up front and that there was no sleight of hand."

Mr. Higley demonstrated to the federal government that the surplus mostly was state money and that the workers comp portion of the fund to which it would be transferred would cover claims stemming from projects in which the federal government had participated.

A total of about $20 million was added to the workers comp portion of the fund through three transfers over as many years to allow the ORM to pay claims.

A loss experience-based workers comp premium structure for the state's agencies also was developed to fully finance the workers comp portion of the fund within three years, two years ahead of schedule.

The state retains $500,000 per occurrence of its work comp risks and purchases excess insurance.

In addition, ORM:

- Developed loss prevention manuals for each agency. For instance, a worker must report an injury in the shift it is sustained and must first be examined at a first-aid station, where it is determined if the worker must leave work and be examined by a state-approved physician.
- Hired professional staff claims adjusters from the ranks of major property/casualty insurers.
- Implemented a utilization review program, performed by CIGNA Corp. unit Intracorp, and Quality Inc. of Metairie, La.
- Assisted in drafting legislation that established a medical fee schedule for physicians and surgeons.

Workers comp losses overall have plummeted since 1985/1986, when the state recorded its second-poorest comp loss ever. Workers comp monetary losses statewide for 1987-88 dropped 14.8%, following a 9.3% decrease the prior year.

Over three years, the state's workers comp costs have been trimmed 24.5% to $20 million in 1987-88 from $26.5 million three years earlier. And, the average cost of a workers comp claim in 1987-88 was $2,388, down 2.3% from $2,443 the year before and down 36% from $3,733 in 1982-83.

As a result, premiums are dropping: Total budgeted workers comp premiums paid to the self-insurance fund for 1989-90 total $21.6 million, $5.3 million less than the total written premium of more than $26.8 million in 1988-89 and $17.3 million less than the $38.8 million in 1987-88.

And, as of June 30, 1988, the ORM reported $58.4 million of discounted reserves for workers comp claims and a $5 million surplus in the workers comp portion of the self-insurance fund, an amount the ORM believes will cover all contingencies. And, as of Jan. 31, the surplus totaled $7.5 million.

After Mr. Higley had steered the state clear of the auto liability and workers compensation risk financing problems, he still faced additional, significant problems.

Among them, state agencies bought commercial insurance to cover only some risks.

And, the state's formal self-insurance program—when it was used—left the state in a vulnerable position by covering catastrophic exposures rather than predictable losses.

Mr. Higley's philosophy is that an organization as large as the state of Louisiana can afford to self-insure a predictable range of losses for nearly all risks and purchase catastrophic coverage from commercial insurers.

Mr. Higley said his point is best illustrated by an October 1976 ferry disaster, in which 76 lives were lost. The state had to pay nearly $13.3 million in claims because it had only $300,000 of commercial liability insurance at the time.

"The Legislature had to shell out $13 million—and fast," Mr. Higley said.

"Why would they want to pass routine business to insurers? That philosophy didn't make any sense," he said, referring to the state's former practice of insuring predictable losses and retaining catastrophic risk.

In addition, the state's self-insurance fund still had a massive deficit.

In the face of increasing budgetary problems among state agencies, Mr. Higley set out to not only arrest the deficit but also to fully fund reserves and establish a surplus by rating state agencies on the basis of their experience.

Mr. Higley's first step was to review the collage of insurance policies that were in force to determine where there was fat in the system and where the state's coverage was lean or non-existent.

"In 1985, we had a lot of individual policies for each agency. There was no consistency in policy forms," he said.

Mr. Higley determined that the state's exposures fell within 12 risk groups and that the risks could be covered under as many broadly manuscripted policies adapted from Insurance Services Office Inc. policy forms.

This restructuring would eliminate coverage gaps as well as overlaps and allow the state to dispense with hundreds of separate policies written for its various agencies.

The number of risk groups has since been expanded to 14: workers comp; maritime workers comp; auto liability; auto physical damage; general liability; road hazards liability; property; boiler and machinery; wet marine hull and liability; bonds; crime; aviation hull and liability; medical malpractice; and miscellaneous excess tort liability, which Mr. Higley describes as an umbrella coverage.

'Why would they want to pass routine business to insurers?' asks Mr. Higley, referring to the state's former practice of insuring predictable losses and retaining catastrophic risk.

The consolidation of risk groups gave the ORM a larger pool of premium dollars to fund the self-insurance program's deficit and establish reserves and surplus, as well as to purchase commercial excess insurance.

Mr. Higley points to two key features of the program that he believes will always keep the state's risks an attractive piece of business for commercial excess insurers.

First, by combining all state agencies' risks, there is a broad spread of risk. And, the manuscript policies issued by the state's self-insurance program are adapted from ISO forms, thus providing excess insurers standardized underlying coverage.

"I think when you get the (commercial) players out of the frequency area, the capacity gets easiest to get," he said.

In addition, when the ORM lets bids for commercial excess property/casualty insurance, it will seek three-year policies. "This will stabilize our market," Mr. Higley asserted.

"A lot of carriers don't like to bid business—they like to negotiate. They argue that they have no control under (a one-year) bidding process because if they suffer a loss one year, the next year someone could underbid them" since the original insurer's bid would have to reflect the loss it suffered the previous year.

But three-year policies give insurers plenty of opportunity to make a profit over the policy term, even if the state suffers a loss, Mr. Higley said.

"That creates a partnership between us and commercial carriers," he observed.

Three-year policies also mean the ORM avoids the cost of letting bids each year.

Mr. Higley would like to let bids for excess coverage with even longer policy periods, but the state's bid law "doesn't allow us to award contracts for more than three years."

The restructured program "also reversed an age-old tradition here that created a partnership between us and commercial carriers," Mr. Higley observed. "They don't get only our best business, and we don't push off only our worst business," he said.

"Nothing is uninsured now," he added.

Nor are the state's risks underinsured, Mr. Higley pointed out. For example, under the program, coverage for buildings and improvements was changed from actual cash value to replacement cost. As a result, covered property values nearly doubled to $6.5 billion from $3.2 billion.

"Legislators would have had to come up with a ton of money to pay for a building that was lost at today's replacement value," Mr. Higley observed.

That change in coverage saved the state from what could have been a major public relations problem when a seven-alarm fire last May severely damaged the Cabildo, a historical landmark in New Orleans where documents related to the Louisiana Purchase of 1803 were signed (see story, page 140).

Now, the state's financially strapped state agencies are seeing premiums reductions for most lines of coverage.

State agencies also pay millions of dollars less for primary property/casualty insurance under the ORM's self-insurance program than they would pay for comparable coverage from the commercial market, the ORM contends.

For example, for the fiscal year-ended June 30, 1988, budgeted premiums for primary workers compensation, general liability and automobile liability coverage under the ORM's self-insurance program were $24.1 million less than state agencies would have paid for equal coverage from commercial insurers, according to the ORM's 1987-88 annual report.

Those three lines generate more than 75% of the premiums paid by state agencies.

Covering Louisiana State University's risks under the ORM's self-insurance program is one of Mr. Higley's favorite examples of how the ORM program is saving the state millions of dollars. The ORM projects it will save Louisiana State University about $1.8 million annually in property/casualty risk financing premiums while providing the institution greater coverage.

The ORM won the right to cover the university's risks by outbidding commercial insurers last year.

Within three years after Mr. Higley began restructuring the self-insurance program, it was solvent. The ORM last June reported a self-insurance fund surplus of $13 million, and the agency expects the fund surplus to total $20 million by this June.

The fund, at its worst, was insolvent by $55 million at fiscal year-end 1986.

At fiscal year-end 1988, the ORM reported it had $87 million of discounted reserves, including reserves for incurred-but-not-reported claims for all lines.

The state is fully reserved for losses in all but three lines, according to the ORM: medical malpractice; road hazards liability; and miscellaneous torts liability, which Mr. Higley describes as an umbrella-type coverage.

At fiscal year-end 1988, the ORM reported $450 million in outstanding reserve liabilities for those three lines, but the agency had settled $53 million of claims for $9 million by December 1988 through some "tough negotiations," according to Mr. Higley.

He noted that these outstanding liabilities are carried on the state's—not the ORM's—financial statements as unfunded liabilities, so those liabilities do not affect the self-insurance fund's surplus.

"We did not assume any responsibility because those claims were prior to our program," he said. "We're just setting aside premiums to pay for those liabilities" since the ORM began arranging coverage for those risks, Mr. Higley said.

While Mr. Higley takes pride in providing the ORM with the leadership it needed to turn the agency around, he also is quick to point out the efforts of his staff, who often went beyond the call of duty.

"The staff put in a lot of uncompensated hours," he noted. "We were able to get some special dispensation for some compensatory time. But there was a lot of time spent where neither overtime nor (comp) time was given," he said.

"The staff was really professional about the whole thing. They rolled up their sleeves and went at it."

He also credits the Division of Administration, which oversees the ORM, for moving "faster than normal" during the ORM's most critical period to provide support, such as approving additional computer terminals and personnel. ■

ORM divides state's risks into 14 groups

By DAVE LENCKUS

BATON ROUGE, La.—The Louisiana Office of Risk Management breaks state risks into 14 property/casualty risk groups.

The ORM self-insures a portion of each of these risks and, in most cases, purchases commercial excess coverage.

There is one exception to this program: The property, general liability and workers compensation risks of the Louisiana Superdome, the giant indoor stadium in New Orleans, are covered under a separate program.

Altogether, state agencies paid $115.4 million in premiums for self-insured and insured property/casualty coverage in fiscal 1988-89. The ORM has budgeted for a total premium volume of $110.3 million for the next fiscal year, which begins July 1.

Following is the breakdown of the state's coverages for each of the 14 risk groups:

- Workers compensation. The ORM self-insures $500,000 of workers compensation risk per accident with no aggregate for all state agencies.

The ORM reported a $7.5 million surplus in the workers comp portion of the self-insurance fund at the end of January.

Discounted reserves totaled $58.4 million at fiscal year-end June 30, 1988.

Excess of the ORM's retention, Midwest Employers Casualty Co. of Cincinnati writes $500,000 of excess coverage per employee and $2.5 million in excess coverage per accident.

State agencies paid the ORM $26.9 million for self-insured and insured work comp coverage during the 1988-89 fiscal year. Next year, the ORM has budgeted $21.6 million for this coverage.

- Maritime workers compensation. The ORM retains $500,000 of per-employee workers compensation risk for maritime workers, who are not covered by state work comp statutes. Midwest Employers writes $500,000 of coverage excess of the $500,000 retention, and Home Insurance Co., a unit of The Home Group Inc., writes a $500,000 layer excess of $1 million.

In addition, agencies have $5 million of maritime work comp coverage per accident with no aggregate. The ORM retain $500,000 of risk, while Midwest Employers writes a $500,000 layer excess of $500,000 and Home writes a $4 million layer excess of $1 million.

The ORM last June reported $5.1 million in discounted reserves for self-insured maritime workers comp claims. The self-insurance fund had a negative surplus of about $2.4 million.

However, state Risk Director J. Douglas Higley projects the deficit will be reduced to $1.5 million by June and eliminated during the next fiscal year.

He also is considering merging this risk group with the workers compensation group for state employees, which also would eliminate the deficit.

State agencies paid $3.5 million for self-insured and insured maritime workers comp coverage in 1988-89, and the ORM has budgeted $3.6 million in premiums for next year.

- General liability. The ORM retains $1 million of general liability risk per occurrence, with no aggregate, on behalf of state agencies.

The ORM at fiscal year-end June 30, 1988, reported it had established $16.7 million of discounted reserves for general liability claims and that the general liability fund had $4.4 million of surplus.

State agencies also have $4 million of excess liability coverage per occurrence over the $1 million self-insured layer. This cov-

Continued on next page

State coverage

Continued from previous page
erage has a $4 million annual aggregate for professional liability risks but not aggregate for other covered risks.

Cherry Hill, N.J.-based Admiral Insurance Co., a subsidiary of W.R. Berkley Corp., writes $2 million in liability coverage excess of the ORM's $1 million retention. Boston-based Lexington Insurance Co., a subsidiary of American International Group Inc., the writes a $2 million layer excess of $3 million.

State agencies paid $14.6 million in general liability premiums to the ORM in 1988-89. The ORM has budgeted $12.2 million in premiums next year.

• Auto liability. State agencies are provided with $1 million of occurrence-based auto liability coverage under the state's self-insured program.

The ORM last June reported it had established $4.3 million in reserves for auto liability claims and that the auto liability fund had $2.5 million of surplus.

Agencies also have $2 million of auto liability insurance excess of the $1 million ORM retention. The coverage is written by Admiral.

Agencies paid $4.9 million in auto liability premiums last year. The ORM has budgeted $3.2 million in premiums for next year.

• Auto physical damage. The ORM offers both collision and comprehensive auto physical damage coverage to state agencies, which operate about 8,000 vehicles.

Under the self-insured collision coverage program, agencies are covered for autos' actual cash value, less a $100 per-vehicle deductible.

There is no deductible under the $500,000 self-insured auto comprehensive program, which also is based on actual cash value.

The ORM also buys $1 million of excess comprehensive coverage written by Chicago-based International Insurance Co., a subsidiary of Crum & Forster Inc.

Mr. Higley explained that he decided to buy comprehensive coverage because the state is subject to floods, hurricanes, tornadoes and earthquakes—any of which could wipe out a significant portion of the state's fleet. "It's very inexpensive, but we're covered for a catastrophe," Mr. Higley said.

The ORM as of June had reserved about $437,000 for auto physical damage claims, and the auto physical damage fund has $1 million in surplus.

Insured and self-insured auto physical damage premiums totaled $577,000 in 1988-89, and the ORM has budgeted $836,000 next year.

• Property. The self-insurance fund covers each agency for up to $1 million in property losses, with a $4 million annual aggregate.

The ORM last June reported about $1.8 million in reserves for property claims and $5 million in the property fund surplus.

Hartford, Conn.-based Aetna Casualty & Surety Co., a subsidiary of Aetna Life & Casualty Co., writes excess property coverage over the state's self-insured retention. Buildings are insured for replacement cost, while contents are covered for their actual cash value.

Agencies paid premiums of $2.9 million in 1988-89, while the ORM has budgeted $3.9 million in premiums next year.

Also under the property program, the state assumes a $1 million retention for property damage to three bridges and purchases excess coverage from Aetna with limits of up to $291.4 million, depending on the bridge.

The bridge program costs state agencies $712,000 in 1988/89, and the ORM has budgeted a premium of $631,000 next year.

• Boiler and machinery. The state self-insures the first $10,000 of coverage for property damage but does not retain any liability for bodily injury to third parties.

The ORM last June reported it had reserved $230,257 on a discounted basis for boiler and machinery losses, and the boiler and machinery fund had $500,000 of surplus.

American Manufacturers Mutual Insurance Co. of Long Grove, Ill., a Kemper Group unit, writes an excess policy that provides the state a total of $15 million of coverage for property damage and bodily injuries.

The state's general liability program responds to boiler and machinery liability losses exceeding the limits of the excess boiler and machinery coverage.

State agencies paid $1.4 million in boiler and machinery premiums in 1988-89, and the ORM has budgeted $1.1 million next year.

• Wet marine. The ORM self-insures the first $50,000 of liability—per occurrence with no aggregate—stemming from incidents involving state boats more than 26 feet long, tug boats and ferry boats. Boats less than 26 feet long are covered under ORM's general liability program.

An excess liability insurance policy written by Home Insurance Co. provides $5 million in occurrence-based liability limits with no aggregate for boats more than 26 feet long. The Home writes a similar $5 million excess police covering tugboats.

For ferry boats, the state has a total of $25 million of liability insurance under layered excess policies written by several insurers. The Home writes the first $5 million excess layer; Charlotte, N.C.-based Royal Insurance Co. of America, a subsidiary of Royal Group, writes a $5 million layer excess of $5 million; Metairie-based Fireman's Fund Insurance Co. of Louisiana, a unit of Fireman's Fund Corp. of Novato, Calif., writes the $5 million layer excess of $10 million; and Arkwright Mutual Insurance Co. writes the $10 million layer excess of $15 million.

The state still will maintain its $50,000 retention July 1 when the ORM increases the total liability limits for all three types of vessels to $25 million.

The state retains the first $50,000 of hull losses for tug boats, ferries and boats more than 26 feet long, but state agencies are subject to a $250 deductible per loss. The Home writes $39.95 million of excess hull and machinery coverage for all three types of boats above the state's $50,000 self-insured retention.

The ORM last June reported $6,818 of discounted reserves for marine losses, and the marine fund had $172,161 of surplus.

Insured and self-insured premiums totaled $2.5 million in 1988-89, and the ORM has budgeted $1.5 million next year.

• Bonds. The state self-insures the first $50,000 of fidelity coverage for all state agencies, with each agency subject to a $250 deductible. All state employees are covered.

The ORM last June reported $436,874 of discounted reserves for bond losses, and the bond fund had $250,000 of surplus.

Fidelity & Deposit Co. of Maryland writes $450,000 of fidelity coverage excess of the state's $50,000 retention. The excess coverage expires July 1.

Postal bonds are commercially insured up to a $30,000 limit, with many companies writing the bonds. Only agencies that operate a post office are covered.

Bond premiums totaled $250,000 in 1988-89, and the ORM has budgeted $102,000 next year.

• Crime. This coverage responds when property other than money and securities is stolen in a robbery and when there is a loss through forgery or alteration of checks drawn by the policyholder. All state agencies are covered for $50,000 per loss under the state's self-insurance program.

The ORM last June reported $2,428 of discounted reserves for crime losses, and the crime fund had $1 million of surplus.

Commercial crime coverage of $1 million excess of the state's $50,000 SIR can be bought by agencies on an optional basis. The excess coverage is written by various companies.

The 1988-89 crime insurance premium totaled $137,000, and the ORM has budgeted $79,000 next year.

• Aviation hull and liability risks. The state assumes 5% of hull risks up to a maximum of $10,000. Agencies are subject to a $250 per-occurrence deductible.

State agency-owned aircraft are insured for a total of $1 million under a hull policy underwritten by New York-based U.S. Fire Insurance Co., a subsidiary of Crum & Forster. The policy expires July 1.

The state does not self-insure aviation and airport liability risks because there is little spread of risks among agencies, Mr. Higley explained.

The state has $10 million of aviation liability insurance per occurrence with no aggregate, and $10 million of airport liability insurance per occurrence with no aggregate. Both policies are underwritten by U.S. Fire.

The ORM last June reported $8,909 of discounted reserves to pay aviation losses, and the aviation fund had $175,695 of surplus.

Aviation hull and liability premiums totaled $513,000 in 1988-89; The ORM has budgeted a $252,000 premium next year.

State agencies paid the ORM $5,200 for airport liability coverage in 1988-89, the same premium the ORM has budgeted for next year.

Besides these risk groups, the ORM formed three new risk groups for 1988-89. They are:

• Road hazards liability. The ORM self-insures $1 million per claim of road hazard risks, with no aggregate. The state does not purchase any excess insurance for this risk.

Outstanding unreserved liabilities last June totaled $240 million.

Premium paid by state agencies totaled $12.5 million in 1988-89, and the ORM has budgeted a $17.7 million premium next year.

• Medical malpractice liability. Agencies are provided with $1 million of claims-made coverage with no annual aggregate under the ORM's self-insurance program. There is no tail coverage.

State law limits pain and suffering awards to $500,000, but places no cap on awards for future medical costs. Awards that exceed agencies' medical malpractice coverage are covered by the ORM's self-insured miscellaneous excess torts liability coverage.

Outstanding unreserved liabilities last June totaled $125.9 million.

The 1988-89 premium was $18.4 million, and the ORM has budgeted a $17.3 million premium next year.

• Miscellaneous excess torts liability, which Mr. Higley describes as an umbrella coverage.

This self-insured coverage provides $4 million in excess coverage for claims that fall within liability risk groups in which the state is self-insured without any commercial excess coverage.

In addition, the ORM provides $5 million in miscellaneous tort liability coverage for liability claims that do not fall within another risk group.

Outstanding unreserved liabilities last June—before the ORM assumed responsibility for this risk—totaled $84.1 million.

The ORM collected $23.6 million in premiums from state agencies in 1988-89 to fund miscellaneous tort liability claims. The ORM has budgeted a $25 million premium for next year.

The state's general liability self-insurance fund also provides the Superdome with $1 million in per-occurrence liability coverage with no aggregate, but the state issues the facility a separate policy because the Superdome's excess liability insurance program is separate and distinct from other agencies' coverage.

Commercial insurers write $100 million of liability coverage excess of the state's $1 million self-insured layer: National Union Fire Insurance Co. of Pittsburgh, Pa., an AIG unit, writes a $15 million layer excess of the state's retention; International Insurance Co. writes a $5 million layer excess of $16 million; Boston-based First State Insurance Co., a unit of Hartford Fire Insurance Co., writes a $5 million layer excess of $21 million; and American Excess Insurance Assn. writes a $75 million layer excess of $26 million. AEIA is a joint underwriting association of 14 major property/casualty insurance companies.

The ORM also self-insures the Superdome against property losses under a separate property fund because of the facility's "significant separate exposure," Mr. Higley explained.

The ORM's self-insured property program provides $1 million in coverage for building and contents damage and loss of earnings, up to a $1 million aggregate for each category of loss.

Aetna Casualty & Surety writes the Superdome's excess property insurance. Aetna writes $149 million of limits excess of $1 million for building damage; $12 million excess of $1 million for loss of earnings; and $5.1 million excess of $1 million for contents damage.

Workers comp insurance for Superdome employees is fully commercially insured through the Louisiana Assigned Risk Pool by Travelers Insurance Co. of Illinois, a Travelers Corp. unit. The facility has $500,000 of limits for each accident and per individual with a $500,000 aggregate. The coverage expires July 1, 1991.

The Superdome paid the ORM $424,000 for work comp coverage in 1988-89, and the ORM has budgeted a $386,000 premium next year.

In addition, the Superdome is covered for other various property and casualty exposures under the ORM's regular risk group programs. ■

Photo: Michael A. Marcotte

Higley and staff

The staff of the Louisiana Office of Risk Management includes, from left: Byron Fontenot, information services manager; George Underwood, auditing and statistics supervisor; Patricia H. Reed, underwriting manager; Kermit Venable, loss prevention manager; Gene Patrick, assistant director; Bob McCardle, claims manager; Evon Wise, accounting manager; and J. Douglas Higley, director of the Office of Risk Management.

Higley's past position tangled in controversy

J. Douglas Higley, State Risk Director for Louisiana, certainly is one of the most controversial individuals who has been named to the *Business Insurance* Risk Management Honor Roll.

Mr. Higley is the former chairman of Mentor Insurance Ltd., a Bermuda-based captive insurer that was ordered into liquidation in Bermuda.

As a result of that liquidation, Mr. Higley is one of many named in a massive lawsuit filed in 1986 by the liquidators of Mentor (*BI*, March 24, 1986).

Mentor liquidators charge that Mr. Higley, along with several others, attempted to cover up a deficiency in Mentor's loss reserves by arranging an excess-of-loss reinsurance contract with Pinnacle Reinsurance Co. Ltd. of Bermuda that "did not constitute an actual transfer of risk. . . .and therefore could not result in a legitimate reduction of Mentor's reserves and the intended balance sheet relief" (*BI*, Oct. 24, 1988).

The suit also names other Mentor officers and the insurer's New Orleans-based parent company, Ocean Drilling & Exploration Co.

The defendants have denied the allegations.

The suit was dismissed by a U.S. District Court judge last April on the grounds of forum non conveniens (*BI*, April 25, 1988). The 5th U.S. Circuit Court of Appeals in New Orleans last week heard arguments in an appeal.

Mentor is estimated to be insolvent by about $500 million (*BI*, July 25, 1988).

Mr. Higley would not comment on the pending litigation.

Mr. Higley was named to the Risk Management Honor Roll by 10 independent judges for his accomplishments as state risk director of Louisiana.

Mr. Higley was nominated by 15 peers and colleagues.

"Mr. Higley has been able to improve and broaden the state's program of self-insurance, even in the face of harsh economic times," John Z. Norris of Roberts & Eastland General Insurance in Baton Rouge, La., wrote in his nominating letter.

"By making better use of the state's risk-bearing capacity, Louisiana's risk management dollar is going further today than ever before," he wrote.

"Under Mr. Higley's direction, the office has developed self-insurance programs which effectively are producing considerable savings for the state of Louisiana," wrote insurance agent John J. Petre of New Orleans.

"In all areas, there have been obvious improvements, including administration, accounting, underwriting, loss control and data processing," he wrote.

"The end result of Mr. Higley's activities has been the creation of an amazingly stable insurance program for the state of Louisiana, which has worked not only to the benefit of the state and its employees but to the insurance carriers which provide the risk transfer as well," wrote Martin J. Calpin, executive vp and secretary of Admiral Insurance Co., which writes excess liability insurance for the state.

"All of his self-insurance accounts are reviewed annually by outside consultants, and with each review the accounts have been found to be actuarially sound, and loss reserves have been found to be adequate and accurate," wrote Andrew P. VanderSloot, manager of property underwriting for Aetna Casualty & Surety Co., which writes the state's excess property insurance.

"An organization which was in a state of collapse has emerged very strong due to his counseling and creativity," wrote De Allen, manager of the boiler and machinery underwriting department for Kemper Group. A Kemper unit writes the state's excess boiler and machinery coverage.

Mr. Higley also was nominated by: Nelson P. Brown III, associate manager of the Fidelity & Deposit Co. of Maryland in New Orleans, which writes excess coverage for the state; Jeffrey E. Carlisle, area director in New Orleans for Intracorp, the state's utilization review firm for workers compensation cases; R.W. Graham, senior vp of Alexander & Alexander Inc. of New Orleans; James H. Haas, president of DMB Services of Baton Rouge, a consultant in the development of the state's self-insured auto liability program; Victor E. Patrick, the Louisiana state assistant risk director; Truett E. Pertuis, risk manager for the city of Slidell, La.; W. Christian Shumate, vp-Southern division manager of Brokers Service Corp. in New Orleans; Dennis Stine, Louisiana's commissioner of administration and Mr. Higley's supervisor; Chandler H. Talley, executive vp of Laurance Eustis Insurance Agency Inc. in New Orleans; and insurance consultant H.P. Walker in Baton Rouge. ■

Laws influenced by ORM reduce risk funding costs

By DAVE LENCKUS

BATON ROUGE, La.—More than a dozen laws that the Louisiana Office of Risk Management helped draft during the last two years are helping the agency cut the state's risk financing and claims costs.

For example, Act 396 corrected the formula for calculating weekly workers compensation wages, under which injured workers were receiving about 7.7% more than they were entitled to from the state.

Under the previous formula, if, say, the yearly benefit was $12,000, the state first would divide that figure by 12 to arrive at a $1,000 monthly benefit, and then it would divide that figure by four to arrive at a $250 weekly benefit. But $250 in weekly benefits paid over 52 weeks amounts to $13,000, not $12,000.

Under the new law, the monthly benefit is now divided by 4⅓ to arrive at the weekly benefit of $230.77.

Act 633 allowed ORM to develop a fee schedule for medical, surgical and hospital services provided to injured state workers. The ORM estimates that the schedule has saved the state $620,000.

The Legislature is now promulgating a medical fee schedule for private industry workers comp claims.

Act 492 restricted injured state workers from consulting more than one physician at state expense.

Under the law, the state workers compensation system will pay for an injured worker to consult with the state's choice of physician and one physician chosen by the worker. The injured worker must assume the cost of any additional opinions.

"That stops doctor shopping," explained State Risk Director J. Douglas Higley. He pointed out that injured workers previously could saddle the workers comp system for the bills they incurred by consulting several physicians until they found one who would recommend a longer period off the job than other physicians.

The Legislature in 1987 also passed Act 732, which excluded ORM claim files from the state's public records law.

"So now, an attorney can't come in and see what we were planning to do or not planning to do," Mr. Higley said, noting that commercial insurers are provided the same protection.

The Legislature currently is considering a bill that would extend this protection to other self-insured public entities in the state.

And, in 1988, the ORM was involved in drafting:

- Act 761, which provides that the ORM need obtain only a state judge's approval of a structured settlement.

Previously, the Legislature had to approve settlements that exceeded $100,000. But, the Legislature often did not act immediately on settlements, and interest would accrue. And, "plaintiffs attorneys knew they could always play the legislators," said Mr. Higley.

- Act 786, a 20-page medical malpractice reform law that limited the state's medical malpractice exposures. The law clarified that the state, which operates medical facilities, is liable up to only $500,000 for economic loss and $500,000 for pain and suffering, as are private hospitals and doctors. In addition, the law caps the state's liability for the actions of doctors in various fields of specialty.
- Act 51, which provides that funds for checks issued by the ORM that were unclaimed by the end of the next fiscal year would revert to the ORM's surplus, rather than the state treasury.

Mr. Higley explained that claimants or their attorneys sometimes hold onto claim settlement checks for years before cashing them. Before Act 51 was passed, the funds for those checks already had reverted to the state treasury and the ORM then had to honor those checks with additional funds from its surplus.

Several laws passed in 1988 allowed the ORM to self-insure risks for which state agencies had been arranging insurance on their own. The Legislature passed these laws because of the ORM's history of saving the state millions of dollars of insurance premiums after taking over various insurance programs from state agencies.

Those laws are:

- Act 50, which gave the ORM authority to self-insure bonds related to public officers and notary publics.
- Act 53, which gave the ORM authority to handle Louisiana State University's insurance program.
- Act 60, which gave the ORM authority to self-insure the state's medical malpractice risks.
- Act 61, which gave the ORM authority to self-insure the state's road hazards liability risks.
- Act 448, which gave the ORM authority to self-insure the state's miscellaneous excess tort risks, which acts as an umbrella coverage for the state's 13 other major risk groups.

This act also made the ORM responsible for handling all claims against the state.

The Legislature last year also passed Act 85, which provides that the ORM may request a warrant be drawn against any agency delinquent in paying its insurance premium.

The law is significant for the ORM because it has to continue providing risk financing to agencies delinquent in paying their premiums, and it cannot sue another state agency to recover the premiums.

"It's tough when we have to front for the claims" of a few agencies that are consistently delinquent, Mr. Higley explained.

Under the law, the state's commissioner of administration, at the ORM's request, can withdraw funds from the delinquent agency's account in the state Treasury and deposit them into the ORM's account.

"Since we've had that, we have not had to exercise it," he said. "Sometimes you just need that stick—you don't necessarily have to hit them with it."

In addition, the Legislature passed Act 52, which provides that the ORM must approve the sale of insured damaged property and that the funds received from those sales be remitted to the ORM.

Higley's experience serves him well

BATON ROUGE, La.—J. Douglas Higley's work ethic as the Louisiana risk director is very much the same approach he took in college and high school sports.

"I'm fiercely competitive," he said, explaining his drive to turn around the insolvent Louisiana Office of Risk Management's self-insurance program.

Since Mr. Higley assumed his responsibilities as state risk director in August 1985, he has turned the ORM self-insurance fund's $52.3 million deficit into a $30 million surplus. In addition, agencies are paying far lower premiums now for greater protection for their property/casualty risks through the ORM's risk financing program, which combines self-insurance and commercial excess insurance.

Because the restructured ORM self-insurance program uses experience rating to set premiums for agencies, it helped being a "hard-headed Hoosier" when confronted with complaints from some agencies, said Mr. Higley, a native of Indiana.

Although agencies generally are now paying less for more coverage, agencies with poor loss experience were socked with higher insurance costs when the self-insurance program was first restructured.

"Our statute says we have the right to experience rate," Mr. Higley noted, referring to the 1980 enabling legislation that created the ORM.

"I just did it; I didn't have a lot of time," he explained, because former Gov. Edwin Edwards had given Mr. Higley only 18 months to prove he could turn the agency around.

Mr. Higley says his drive to succeed was born of admiration for his late father, who built up a publishing business during the Depression years in Butler, Ind.

However, Mr. Higley decided to follow a different career path. He majored in economics at Asbury College in Wilmore, Ky., and earned his bachelor's degree in three years. But, after graduating from Asbury in 1962, he still had not decided how to apply his degree.

A friend eventually informed him that United States Fidelity & Guaranty Co. of Baltimore, a subsidiary of USF&G Corp., was looking for underwriter trainees.

That sparked his 26-year insurance industry career. He was a casualty underwriter with USF&G from June 1963 to April 1966. After leaving USF&G, Mr. Higley was:

- Senior staff underwriter for Crum & Forster Inc. from April 1966 to November 1969.
- A reinsurance broker with Guy Carpenter & Co. Inc., now a Marsh & McLennan Cos. Inc. subsidiary, from November 1969 to March 1971.
- A reinsurance underwriter for Kemper Reinsurance Co. from April 1971 to March 1973.
- Vp of Capitol Indemnity Corp., a subsidiary of Capitol Transamerica Corp., from March 1973 to August 1976.
- Vp-operations for North American Co. for Property & Casualty Insurance, now an NAC Re Corp. unit, from August 1976 to March 1980.
- Various positions, including chairman, of Mentor Insurance Ltd., the now-insolvent captive insurance subsidiary of New Orleans-based Ocean Drilling & Exploration Co., from March 1980 to February 1985.
- An independent insurance and reinsurance consultant from February 1985 to August 1985.

Mr. Higley is a member of the State Risk & Insurance Management Assn., the Public Risk Management Assn. and a deputy member of the Risk & Insurance Management Society.

He is married and has two sons, one 24 and another 17. He is the president of the McKinley High School Booster Club, is active in the Methodist church and is a Shriner.

—By Dave Lenckus

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Risk Management Honor Rolls

Gregory L. Daniels — 1988
Director-Risk Management Division
American National Red Cross
Not-for-Profit Entity

Stephen A. Finley
Risk Manager
City of Lakewood, Colo.
Government Entity

Timothy G. Galarnyk
Corporate Safety Engineer and Risk Manager
Lunda Construction Co./Phoenix Steel Inc.
Small Corporation

Edward G. Weiss
Director of Risk Management and Security
First of America Bank Corp.
Financial Institution

Susan M. Werner — 1987
Director of Risk Management
Hardee's Food Systems Inc.
Large Corporation

Mark F. Wilson
Corporate Risk Manager
First Mississippi Corp.
Small Corporation

Delmer Ison — 1986
Director of Risk Management
Washington Metropolitan Area Transit Authority
Government Entity

William E. Rogers
Director of Community Health Services and Risk Management
Conemaugh Valley Memorial Hospital
Not-for-Profit Entity

Susan N. Weiner — 1985
Executive Director-Division of Risk Management
Dade County Public Schools
Goverment Entity

Eva F. Goodrich
Manager of Insurance and Risk Management
Cincinnati Electronics Corp.
Small Corporation

Sidney D. Blatt — 1984
Risk and Administrative Manager
Holloway Cos.
Small Corporation

Gene Snyder
Adminstrator-Department of General Services
Risk Management Division
State of Oregon
Government Entity

Jerri Nelson MacMillian — 1983
Risk Manager
Aetna Life & Casualty Co.'s Real Estate Investment Department
Large Corporation

Robert L. Sinclair
Risk Manager
Metropolitan Government of Nashville and Davidson County
Government Entity

Spencer J. Traver — 1982
Assistant Treasurer
BF Goodrich Co.
Runner-Up

George N. Pierce
Risk Manager
Orange County, Fla.
Government Entity

Paul B. Harvey
Risk Manager
Ponderosa Homes
Small Corporation

Gene M. Marsh
Executive Vp-Risk Management
General Conference of Seventh-day Adventists
Not-for-Profit Entity

Robert Bieber — 1981
Risk Manager
Westchester County, N.Y.
Government Entity

William Ryan
Insurance and Risk Manager
University of Michigan
Not-for-Profit Entity

10 independent judges selected 1989 honorees

Leaders in risk management and commercial property/casualty insurance selected the 1989 *Business Insurance* Risk Manager of the Year.

The 10 independent judges scored nominations describing risk managers' accomplishments on 10 criteria, with the highest-scoring candidate named Risk Manager of the Year. While as many as five other nominees may be named to the Risk Management Honor Roll at the judges' discretion, only two nominees were named this year.

The judges for the 1989 award, the 12th to be awarded by *Business Insurance*, were:

- Gary L. Countryman, president and chief executive officer of Liberty Mutual Insurance Co. in Boston. This was Mr. Countryman's first year as a judge. He represented the viewpoint of mutual insurance companies.
- Gregory L. Daniels, director of the Risk Management Division at the American National Red Cross in Washington, D.C. Mr. Daniels was a member of the 1988 Risk Management Honor Roll, representing non-profit institutions.
- Stephen A. Finley, risk manager for the city of Lakewood, Colo. Mr. Finley was a member of the 1988 Risk Management Honor Roll, representing government entities.
- Robert E. Gallagher, president of Arthur J. Gallagher & Co. in Rolling Meadows, Ill. Mr. Gallagher served for a second year on the judges panel, representing national insurance brokers.
- Gerald A. Isom, president and chief executive officer of Transamerica Insurance Co. in Los Angeles. Mr. Isom served for a second year on the panel, representing stock insurance companies.
- William L. Mather, administrator of risk management for The Gillette Co. in Boston. Mr. Mather was the 1988 *Business Insurance* Risk Manager of the Year.
- H. Thorp Minister Jr., chairman of The McElroy-Minister Co. in Columbus, Ohio. This was Mr. Minister's second year as a judge, representing a regional insurance broker's perspective.
- William S. Mortimer, president of his own risk management consulting firm in Laguna Beach, Calif. Mr. Mortimer, a past national president of the Risk & Insurance Management Society Inc., served for the first time on the panel, representing the perspective of risk management consultants.
- Ellen Thrower, president of The College of Insurance in New York. Ms. Thrower, who holds a doctorate in insurance and risk management from Georgia State University, previously was professor of insurance and director of The Insurance Center at Drake University in Des Moines, Iowa.

She served on the panel for the first time, representing the academic community.

- Edward G. Weiss, director of risk management and security for First of America Bank Corp. in Clawson, Mich. Mr. Weiss was a member of the 1988 Risk Management Honor Roll, representing financial institutions.

Risk Managers of the Year

William L. Mather — 1988
Administrator of Risk Management
The Gillette Co.

Edith F. Lichota — 1987
Senior Vp
Irving Trust Co.

Donald Nelson — 1986
Director of Risk Management
ARA Services Inc.

Harold C. Lang — 1985
Director of Insurance and Risk Management
Leaseway Transportation Corp.

Richard M. Inserra — 1984
Director of Insurance and Risk Management
American Can Co.

John A. O'Connell — 1983
Executive Director and Risk Manager
Holy Cross Shared Services Inc.

Eckhart Russell — 1982
Risk and Insurance Manager
Alcan Aluminium Ltd.

Duane E. Allen — 1981
Assistant Treasurer
Hanna Mining Co.

Thomas V. Hallett — 1980
Risk Manager
General Motors Corp.

Edward L. Erickson — 1979
Director of Insurance
American Broadcasting Cos. Inc.

Howard T. Weber — 1978
Director of Insurance
Minnesota Mining & Manufacturing Co.

Created by *Business Insurance* in 1977 on the 10th anniversary of its founding, the Risk Manager of the Year award is designed to honor outstanding professionals in the field of risk management.

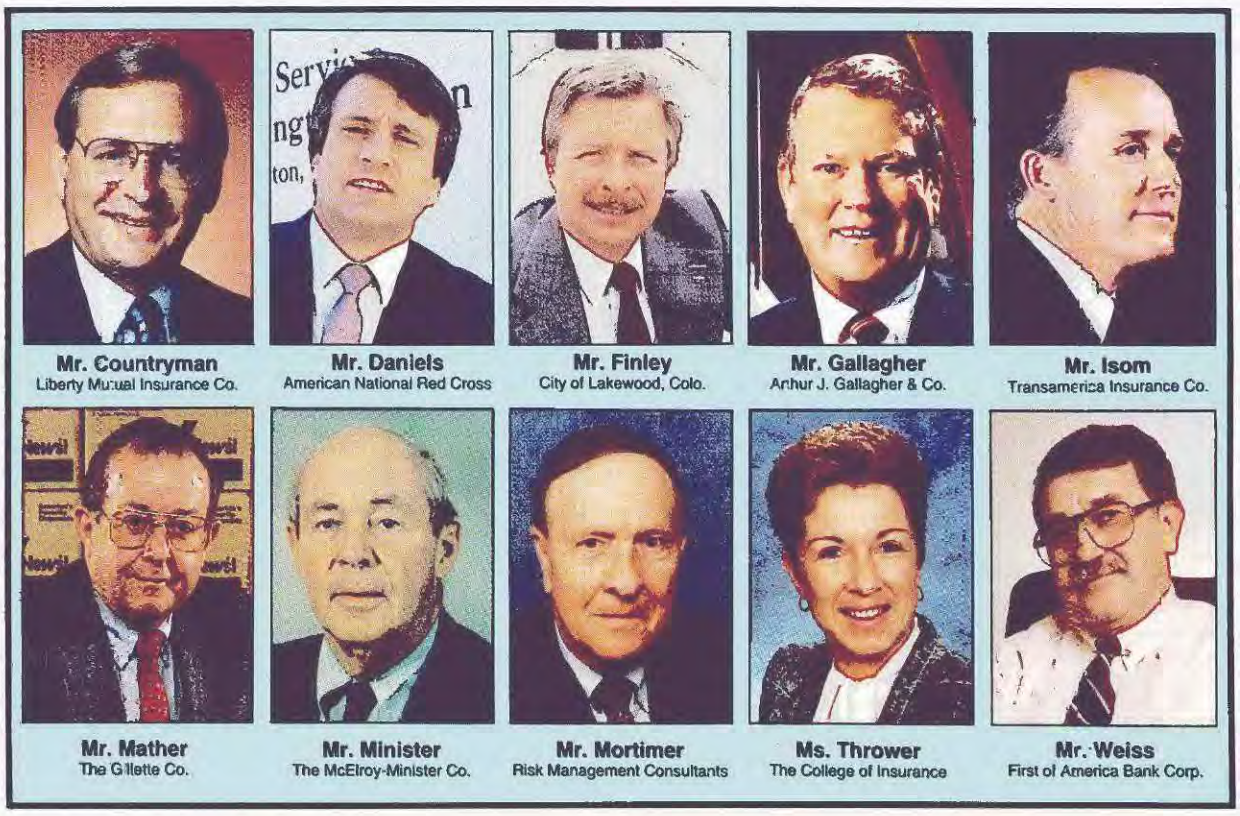
The Risk Management Honor Roll was created in 1981 to recognize excellence in risk management in different types of organizations.

Detailed nominations are submitted to the judges for scoring, and the highest-scoring candidate is selected by the judges as the Risk Manager of the Year. The remaining candidates are then separated by employment categories: corporations with sales exceeding $300 million; corporations with sales less than $300 million; government entities; tax-exempt or non-profit institutions; and financial institutions.

In addition, executive directors and administrators of self-insurance funds and pools were grouped in a new category.

The highest scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll, subject to the

Continued on next page



Mr. Countryman — Liberty Mutual Insurance Co.
Mr. Daniels — American National Red Cross
Mr. Finley — City of Lakewood, Colo.
Mr. Gallagher — Arthur J. Gallagher & Co.
Mr. Isom — Transamerica Insurance Co.
Mr. Mather — The Gillette Co.
Mr. Minister — The McElroy-Minister Co.
Mr. Mortimer — Risk Management Consultants
Ms. Thrower — The College of Insurance
Mr. Weiss — First of America Bank Corp.

Judges use 10 criteria to select 1989 Risk Manager of the Year

Ten criteria were used to score the nominations submitted for the 1989 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges of the annual competition scored each candidate on a scale of one to 10 according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any, developed).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. (How the risk manager secures information on risks from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships). ■

Judges

Continued from previous page

judges' discretion.

A candidate need not spend full time handling risk management functions, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

To nominate a candidate for the 1990 Risk Manager of the Year award, request a nominating form by writing *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590.

A candidate may be nominated by anyone familiar with the candidate's work.

For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or some other service supplier can nominate a client.

And, a risk manager can nominate a colleague.

Nomination statements, which must be endorsed by the candidate's superior, will be kept in strictest confidence. ■

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Circulation Breakdown*

Commercial Consumers

Administrative:
CEO's Presidents and Owners 2,431
Vice-Presidents, General Managers and Other Administrative Personnel ... 3,650

Financial:
Chief Financial Officers and Vice-presidents of Finance 2,745
Secretaries, Treasurers, controllers and other Financial Personnel 4,446

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 10,687
Sub-total 23,959

Associations 548
Government, Unions and Educational Institutions 1,299
Commercial Consumers Sub-total 25,806

Insurance Agents and Brokers 10,745
Insurance Companies 7,557
Actuaries, Consultants, Attorneys, Adjusters, Appraisers and Third Party Administrators 3,580
Others Allied to the Field 2,688
TOTAL 50,376

* Source Business/Occupational breakdown of qualified circulation, November 28, 1988 issue, as submitted to BPA for December 1988 BPA Publisher's Statement.

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Cameron-Webb's 'return' to London a hoax

By STACY SHAPIRO

LONDON—April Fool's Day arrived three days late for a daily British newspaper, Lloyd's of London and the entire London insurance market.

The Daily Telegraph reported in its April 3 edition that former Lloyd's underwriter Peter Cameron-Webb had been flying from Miami to Helsinki, Finland, for a "conference" when his plane was diverted to Prestwick airport near Edinburgh, Scotland. There, the Telegraph reported, police had arrested Mr. Cameron-Webb for offenses allegedly committed while he was a director of PCW Underwriting Agencies Ltd., which managed loss-riddled Lloyd's syndicates.

The Telegraph also reported that the charges filed against Mr. Cameron-Webb would be heard in London's Guildhall Magistrates Court later that day.

The City of London Police and the Serious Fraud Squad last December issued arrest warrants for Mr. Cameron-Webb and former PCW director Peter Dixon on charges that included conspiracy to defraud, conspiracy to steal and thefts of moneys.

The warrants were issued too late for the two directors to be extradited from the United States, where they are believed to be living, although the warrants still stood in the United Kingdom in the event either man returned to the country (*BI*, Jan. 2).

Despite the report in the newspaper, Guildhall Magistrates Court told *Business Insurance* on April 3 there was no one on the docket named Peter Cameron-Webb.

And, a spokesman at the Serious Fraud Squad did not know anything about the arrest.

After consulting with his colleagues, the spokesman told *BI* that according to fraud squad detectives, Mr. Cameron-Webb has not set foot in Britain since the warrants were issued.

The spokesman also said that the Telegraph story originally appeared on April 1 in another newspaper and that the Telegraph "had been fooled."

But later that day, a Lloyd's spokesman told *BI* that the story was indeed true and that Mr. Cameron-Webb had been arrested. The Lloyd's spokesman said that there were about 20 reporters and a representative from Lloyd's gathered at the Guildhall Magistrates Court.

However, a court clerk again insisted that Mr. Cameron-Webb's name was not on that day's list of defendants.

And a second fraud squad spokesman re-checked the story and said that a detective "very interested" in the case knew of no arrest.

Contacted about the story, a Telegraph editor said that although the story was based on information from "a reliable source," the story was being checked.

Back at Lloyd's, after a few more checks, the spokesman conceded that the story had turned out to be a hoax. Lloyd's contacted Prestwick airport and found that a plane had not been diverted to the airport in two weeks, he said.

And the Scottish police did not know of any arrest involving the former Lloyd's underwriter, the Lloyd's spokesman added. ■

401(k) plans flourish in small firms: Study

By ALISON KITTRELL

Despite the impact of the Tax Reform Act of 1986, 401(k) salary reduction plans continue to flourish, especially among smaller companies, according to a recent survey.

Among companies with fewer than 250 employees, the percentage offering 401(k) plans has risen more than fourfold, to 36% in 1988 from only 8% in 1984, the survey shows.

In fact, the number of smaller firms offering 401(k) plans more than doubled between 1988 and 1987 alone, jumping from 16% in 1987, the survey says.

"401(k) Survey Report 1988" was conducted by Massachusetts Mutual Life Insurance Co. of Springfield, Mass. The survey, which polled 1,007 companies in late 1988, is the fourth such survey conducted by the insurer since 1984. Forty-five percent of responding firms had fewer than 250 employees, and another 29% had fewer than 1,000 employees.

Employers, who in some cases estimated their 1988 plan experience, also indicated that salary deferrals to 401(k) plans have increased, the survey reports. However, the number of respondents offering matching contributions has decreased, the survey shows.

Survey participants that offer a 401(k) plan say plan participation has not been adversely affected by the Tax Reform Act of 1986, the survey authors say.

This is good news for America's savings experience, according to John M. Naughton, executive vp and head of Massachusetts Mutual's pension division.

"The federal government has encouraged savings through individual retirement accounts and 401(k) plans," Mr. Naughton says. "Unfortunately, the government severely restricted the popular IRA savings vehicle as part of the Tax Reform Act of 1986. While 401(k) plans were also restricted by tax reform, our survey indicates that the deferral or savings rates by participants has increased significantly since 1984."

The Tax Reform Act limited salary deferrals to 401(k) plans to $7,000 in 1987, down from $30,000. The deferral limit, which is indexed to inflation, is $7,627 for 1989, up from $7,313 in 1988.

The average deferral rate among lower-paid participants in 401(k) plans rose to 5.2% of salary in 1988, from 4% in 1984, the survey says. For highly compensated employees the average deferral rate rose to 6.4% in 1988, from 5.8% in 1984.

"This could be the result of the virtual elimination of the pretax contributions to Individual Retirement Accounts," the survey authors say. And, the survey shows that the restrictions contained in the 1986 Tax Reform Act have not had a negative impact on 401(k) deferral rates, especially among lower-paid participants.

The 5.2% deferral rate for lower-paid participants in 1988 was unchanged from the results of a survey conducted in early 1987, before the full effect of tax reform could be felt on plans. For highly compensated participants, the deferral rate dropped somewhat, to 6.4% in 1988 from 7.5% in early 1987.

The authors note: "This was probably the result of the $7,000 maximum on deferrals" imposed by the act.

Meanwhile, among the companies responding to the Mass Mutual survey, the percentage of employers that match employee contributions to 401(k) plans has declined significantly since 1984. About 57% of the respondents matched employee contributions in 1988, compared with 80.1% in 1984.

Mass Mutual Pension Vp Edmond F. Ryan said the drop in employers offering matching funds may be because employers no longer feel that they need the extra incentive to encourage employees to participate in a 401(k) plan. ●

Single copies of the survey, "401(k) Survey Report 1988," are available from the Group Pension Marketing Department, Massachusetts Mutual Life Insurance Co., Springfield, Mass. 01111.

Corroon & Black Corp. unit names Quinn vice chairman

William A. Quinn has joined Corroon & Black Co. of New York as vice chairman and chief operating officer.

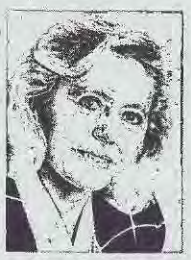
The vice chairman's position is newly created and the COO post was vacant.

Mr. Quinn

Mr. Quinn previously was chairman of Frank B. Hall Co. of New York, a subsidiary of Frank B. Hall & Co. Inc., where he also has held positions as president and chief executive officer at Hall.

In other agent/broker changes:

Durham & Bates Agencies Inc. of Portland, Ore., announced the following appointments: **James D. Hurst**, chairman; **Richard L. Seekins**, president; and **William D. Hurst** and **Tom R. Caspel**, vps.


Ms. Rawlings

Alice Kaye Rawlings joined Frank B. Hall & Co. of Ohio Inc. in Akron as vp. Previously, she was assistant vp-new business development with Alexander & Alexander Inc. in Columbus, Ohio.

A. Trevor Metcalf joined Sedgwick James (Bermuda) Ltd. in Bermuda as vp-brokerage. Most recently, he was vp and director of Lukis Stewart Inc. and vp of Euings Ltd. in Toronto, part of Sedgwick's Canadian operations.

Bartholomew G. Nyhan joined Jardine Emett & Chandler Inc. of San Francisco as executive vp and director of new business development. Mr. Nyhan previously was president and co-founder of broker Glenn, Nyhan & Associates Inc. of San Francisco.

Insurers

Richard A. Dalstrom joined Delta Dental Plan of New Jersey Inc. in Parsippany as vp-claims. Previously, Mr. Dalstrom was director-claims operations for Group Health Inc.

Donald M. Curry joined Blue Cross of California in Woodland Hills as vp-national accounts. Previously, he was vp-corporate marketing for Continental Corp. of New York.

William Bull promoted to senior vp-commercial lines and **David Kohlhammer** promoted to senior vp-claims of General Casualty Co. of Wisconsin in Sun Prairie.

Mr. Smith

Robert Smith appointed vp-underwriting of Commonwealth Insurance Co. (Canada) of Vancouver, British Columbia.

Reinsurance

Thomas J. Murphy joined StellaRe Management Corp. in Tarrytown, N.Y., as vp-treaty. Mr. Murphy previously was a vp with Sellon Associates of White Plains, N.Y.

John Charles named executive vp of Aon Reinsurance Agency Inc. of Chicago. The following also have been named senior vps of Aon Re: **Craig Ott**, **Tom Simone**, **Demarest Newman**, **Jack Boehm**, **Tom Leonhardt**, **Mike Schnur**, **Briane Bovberg**, **Mike Garrity** and **Paul Dreuth**.

HMOs/PPOs

F.G. Merkel named vp-marketing for HealthAmerica of Central Pennsylvania in Camp Hill.

Other suppliers

John B. O'Donnell joined the New York office of Buck Consultants Inc. as a benefit consultant. Previously, he was a managing consultant and attorney with A. Foster Higgins & Co. Inc.

Iris Goldfein named partner-in-charge of Coopers & Lybrand's actuarial, benefits and compensation consulting practice in Chicago. Also, **Jack Forstadt** promoted to national director-health and welfare practice of the ABC practice. ■

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Salary survey

Continued from page 1

eagerly awaited by risk managers. The survey's detailed information on how much risk managers are earning—in both salaries and bonuses—allows risk managers to see how their compensation compares with that of colleagues in similarly sized companies and industries.

In addition, the statistics provide an important guide to employers when they create risk management positions or want to see how their compensation practices compare with those of competitors.

The latest survey is based on questionnaires sent earlier this year to 3,689 risk managers. Some 1,329 risk managers returned the questionnaires for a response rate of 36%, up from a 35% response rate in 1987 when 1,144 responses were received from the 3,240 surveys distributed.

Perhaps the most surprising result of the Logic Associates survey is last year's sharp, across-the-board declines in risk managers' bonuses.

For example, average bonuses last year fell 35% to $9,154 from $14,106 in 1987 for risk managers at companies with sales of more than $7 billion. And, bonuses declined 21% to $5,555 from $7,070 in 1987 for risk managers at companies with between $1 billion and $2 billion in sales.

Average bonuses for risk managers last year fell 20% at companies with between $201 million and $500 million in sales, to $3,897 from $4,847 in 1987. And, bonuses slumped 19% to $6,025 last year from $7,398 in 1987 for risk managers at firms with between $2 billion and $4 billion in sales.

In addition, average bonuses for risk managers at companies with between $4 billion and $7 billion in sales dropped 13% to $9,213 from $10,525, while bonuses declined 12% to $3,704 from $4,227 for risk managers at companies with less than $200 million in sales.

These double-digit declines in risk managers' 1988 bonuses contrast with 1987 survey results when bonuses—in all categories except companies with more than $7 billion in sales—saw double-digit increases (*BI,* Aug. 15, 1988).

Last year's decline in risk managers' bonuses may be the result of several factors, speculated Logic Associates' Mr. Perry.

Some of the decline may be attributable to delayed aftershocks of the October 1987 stock market crash, he noted.

In addition, the wave of mergers and acquisitions, especially among the largest companies, could have put a damper on bonuses.

"Sometimes bonuses go out the window during a merger or acquisition," Mr. Perry explained.

In addition, a fairly substantial decline in the number of respondents who work for companies with more than $7 billion in sales could have affected the results, he said.

In the 1988 survey, 45 risk managers working for the largest companies returned questionnaires, down from 63 risk managers who participated in the 1987 survey.

With a relatively small survey base for large companies, even a slight change in participants can skew the survey results.

While bonuses declined last year, risk managers can take comfort that salaries—regardless of employer size—are rising. Average salary increases ranged from a high of 8%—for risk managers working at companies with between $501 million and $1 billion in sales—to a low of 3% for risk managers working at companies with sales exceeding $7 billion.

"These salary increases illustrate that the importance of risk management is becoming more recognized in the corporate structure," Mr. Perry said.

And, the survey results illustrate the direct correlation between company size and risk managers' salaries, as those employed at the largest firms earn the highest salaries while those at the smallest firms earn the least.

Average risk managers' salaries, based on company size, include:

- Companies with more than $7 billion in sales, $88,796 in 1988, up 3% from $85,840 in 1987.
- Companies with between $4 billion and $7 billion in sales, $81,188, up 6% from $76,857.
- Companies with between $2 billion and $4 billion in sales, $72,761, up 6% from $68,758.
- Companies with between $1 billion and $2 billion in sales, $69,742, up 5% from $66,168.
- Companies with between $501 million and $1 billion in sales, $62,916, up 8% from $58,375.
- Companies with between $201 million and $500 million in sales, $57,578, up 7% from $53,803.
- Companies with less than $201 million in sales, $56,476, up 7% from $52,826.

These salary increases served to offset the declines in bonuses. And, like salaries, compensation (which includes salary plus bonus) is directly related to company size.

Average risk managers' compensation, based on company size, includes:

- Companies with more than $7 billion in sales, $97,950 in 1988, down 2% from $99,946 in 1987.
- Companies with between $4 billion and $7 billion in sales, $90,401, up 4% from $87,382.
- Companies with between $2 billion and $4 billion in sales, $78,786, up 4% from $76,156.
- Companies with between $1 billion and $2 billion in sales, $75,297, up 3% from $73,238.
- Companies with between $501 million and $1 billion in sales, $67,310, up 6% from $63,740.
- Companies with between $201 million and $500 million in sales, $61,475, up 5% from $58,650.
- Companies with less than $201 million in sales, $60,180, up 6% from $57,054.

The highest compensation reported last year was earned by a risk manager at a conglomerate with between $1 billion and $2 billion in sales. That risk manager earned $171,000, which included a $121,000 salary and a $50,000 bonus.

In addition, a risk manager working for a service company with between $1 billion and $2 billion in sales reported $160,000 in compensation—all in salary.

On the other hand, the lowest compensation was reported by a risk manager at a company grouped in the miscellaneous category with sales of $201 million to $500 million. That risk manager reported compensation of $37,000, which included $36,000 in salary and a $1,000 bonus.

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Copies of the survey are available for $60 each from Logic Associates Inc., 170 Broadway, Suite 1208, New York, N.Y. 10038; 212-227-8000.

Skandia sues Westage over legal bills

LONDON—In a new twist in the five years of coverage litigation over a group of banks' credit insurance policies written by Skandia (U.K.) Insurance Co. Ltd. and Westgate Insurance Co. Ltd., Skandia and many other insurers are suing Westgate to recover defense costs.

Skandia so far has paid about 10 million pounds ($16.9 million) in an out-of-court settlement to the banks, led by Banque Keyser Ullmann S.A., now called Banque Financiere De la Cite. Skandia settled three days before the end of a Court of Appeal hearing last year on whether Skandia and Westgate were responsible for paying damages to the banks for failing to give them information that was relevant to the insurance policies.

The British High Court in 1986 held the insurers that wrote the credit insurance liable for as much as 53.8 million Swiss francs ($32.6 million at current exchange rates), but a U.K. Court of Appeal in July overturned the decision (*BI,* Sept. 19, 1988; Oct. 13, 1986).

The banks are appealing the Court of Appeal decision to the House of Lords, Britain's highest court, which is expected to hear the case in the autumn.

In the latest litigation, Skandia and 63 other insurers on the credit policies are suing Westgate for its alleged portion of legal fees paid to the law firm of Herbert Smith to defend the case.

In a March 3 High Court writ served on Westgate, Skandia and the other plaintiffs claim that Herbert Smith was appointed the lawyer for the insurers in 1983 when the banks first filed their litigation. On Aug. 8, 1984, Westgate was brought in as a defendant and agreed that Herbert Smith also would represent Westgate.

But, in 1987, Westgate turned its defense over to Richards Butler.

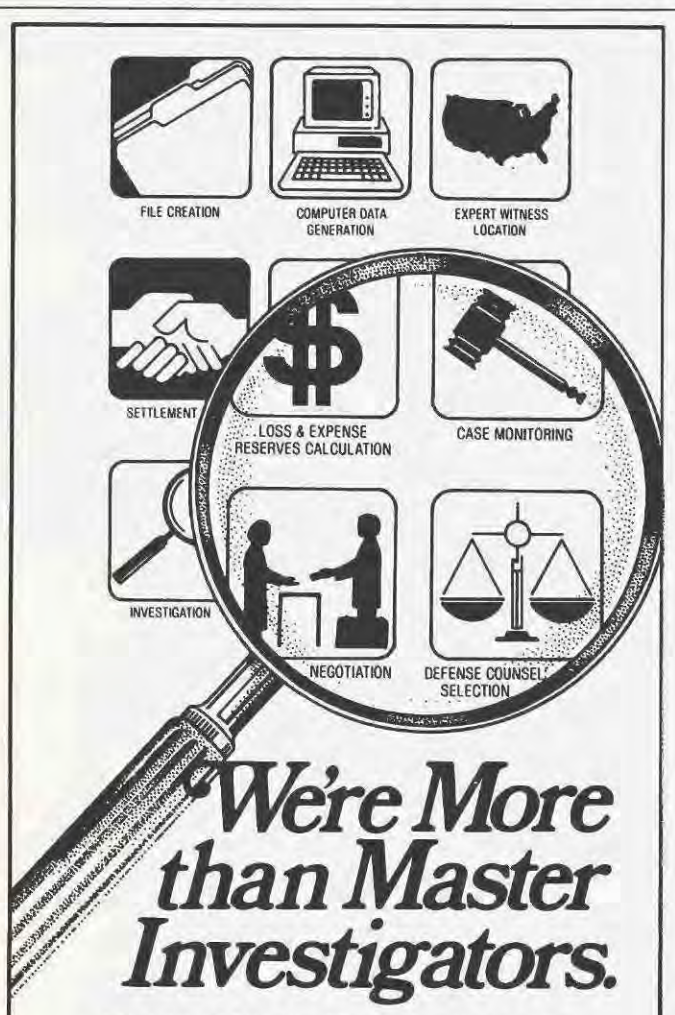
However, Skandia and the other insurers claim that Westgate owes more than 357,000 pounds ($603,330) for its share of Herbert Smith's fees.

"The plaintiffs will allege that. . .the defendants have been enriched by the receipt of a benefit at the expense of the plaintiffs and that it would be unjust to allow the defendants to retain the aforesaid benefit," the writ said.

Philip Grant, general counsel for Skandia U.K., confirmed the writ had been served but would not comment on the case.

"We will be contesting the claim," said Phillip Rees, finance director for Westgate in Cardiff, Wales.

—By Stacy Shapiro



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Risk managers' concerns

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like tort reform and workers compensation."

A&A compiled the mailing lists for the survey from the *Business Insurance* Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services, selecting only those individuals specifically designated as having a risk management function.

Most of the respondents to the A&A survey were risk managers at companies with sales of $250 million or more in the manufacturing, chemical production, utilities, services, construction and oil, gas and natural resources industries.

The 1989 survey showed that risk managers' level of concern about some issues has increased in the last year, according to Mr. Moore.

For example, although tort reforms topped the risk managers' list of concerns in both 1988 and 1989, this year a higher percentage of risk managers—85%—rated caps on non-economic damages and/or punitive damages as an issue of above average or high importance.

In comparison, only 76% of the risk managers rated tort reform, in general, an issue of high or above average significance in the 1988 survey, which did not ask risk managers to rank individual reforms.

Trailing close behind in the 1989 survey were modification of joint and several liability, which was a priority for 83% of the risk managers, and limits on directors and officers liability, which was a priority to 81% of respondents.

"Tort reforms not only stayed on the top of both years' surveys, but the level of concern went up," said Mr. Moore.

Part of the reason for this is that "risk managers are increasingly embroiled in a host of public policy issues that aren't inherent to a particular business," he commented.

Tort reforms such as caps on non-economic damages and/or punitive damages, modification of joint and several liability, and limits on directors and officers liability affect all industries, according to A&A's Mr. Moore.

'Despite its complexity and the fact that we have been talking about tort reform for three years, it still remains a dominant concern to risk managers,' explains Robert H. Moore, a senior vp in A&A's Washington, D.C., office.

"Despite its complexity and the fact that we have been talking about tort reform for three years, it still remains a dominant concern to risk managers," he explained.

RIMS' Mr. Greene agreed: "Tort reform is big in the minds of risk managers, even when nothing is happening, because they trace so many of their problems to the liability system."

"The crying need to correct problems in our tort system is still there," said Ronald W. Stasch, manager of risk management services for Federal-Mogul Corp. of Southfield, Mich., and president-elect of RIMS.

Risk managers rate tort reform as a high concern out of "frustration," he said.

Expansion of the workers compensation system ranked fourth after the three types of tort reforms on the risk managers list of concerns, with some 72% of the respondents expressing concern that state legislators would expand the minimum amounts of work comp benefits employers must provide and/or make it easier for employees to receive work comp benefits.

In 1988, 75% of the risk managers expressed concern about expansion of the workers compensation system.

This is an issue that risk managers believe could have a meaningful and financial impact on their corporations, explained Mr. Moore.

RIMS' Mr. Heydinger agreed, saying expansion of the workers compensation system is a "very real issue" for risk managers.

One surprise in the 1989 A&A survey was that risk managers expressed a growing concern about the increasing number and severity of insurer insolvencies, A&A's Mr. Moore said.

About 69% of the risk manager respondents said insurer insolvencies are important to their companies, placing it fifth on their list of concerns.

"These results suggest that while insurance buyers benefit from lower insurance prices, they are worried about the potential effects on the industry's financial stability," said Mr. Moore.

"They seem to fear that insurance companies' current pricing practices could eventually jeopardize their ability to pay claims."

Mr. Stasch of RIMS said this shows that "the risk management community has continued to increase its level of sophistication."

"This represents a quantum leap in sophistication from what you had in the early 1980s," agreed Mr. Greene.

"A lot of risk mangers who were there in the early 1980s realize that a soft market isn't always a good thing and that it could leave some companies in less-than-desirable financial condition," he said.

Risk managers were not asked to rate insurer insolvencies as a concern in the 1988 survey.

Another surprise in the 1989 A&A survey was that concern about acquired immune deficiency syndrome-related issues declined in the past year.

In the 1989 survey, 47% of the risk managers said workplace safety related to AIDS was of high or above average importance, making it the 32nd priority. And, relatively few risk managers displayed a strong interest in AIDS testing—33%—or employment discrimination—36%, making these concerns the 47th and 43rd priorities, respectively.

In the 1988 survey—which lumped all AIDS-related issues together into one question—52% of the risk managers said such AIDS-related issues as medical testing, health care funding, workplace safety, discrimination and insurance were issues of high or above average importance, making it the ninth-most significant concern that year.

Part of the reason for this shift in focus is corporate America's growing confidence in its ability to manage AIDS risks, said Mr. Moore.

"There was an enormous fear and concern in a vacuum about AIDS as recently as last year," he explained. "With the passage of time, risk managers have come to view AIDS as something they can manage financially."

Mr. Greene agreed: "The initial panic about AIDS has worn off and now there is a belief that it can be handled."

Two other glaring omissions from the risk managers' list of chief concerns are implementation of legislation similar to Proposition 103 in California and efforts to repeal the McCarran-Ferguson Act.

Proposition 103, narrowly passed by California voters last November, among other things mandates a rollback of all insurance "charges" to 20% below November 1987 levels (*BI*, Nov. 14, 1988). Proposals modeled after Proposition 103 have been circulated in more than a dozen other states.

In the 1989 A&A survey, risk managers ranked "state referenda to cut insurance rates and tighten regulation" 19th on their list of concerns.

In fact, only 59% of the risk managers said this was an issue of high or above average concern to their companies.

Not surprisingly two-thirds of the respondents in the West said this was a priority.

Insurers' limited exemption from federal antitrust statutes under the McCarran-Ferguson Act came under increasing attack during 1988. At the same time, 19 state attorneys general filed litigation against numerous insurance companies alleging antitrust violations.

Nonetheless, only 44% of the respondents to the 1989 A&A survey ranked "modification or repeal of specified antitrust exemptions" as an issue of high or above average importance, placing it 37th on their list of concerns.

"You think you know what people are thinking until you ask them," said Mr. Moore.

RIMS Mr. Greene also was surprised "that the biggest issues of 1988" did not figure more prominently on the risk managers' list.

The A&A survey also found that other top issues of concern to risk managers are corporate liability for explosions, fires or chemical releases, ranking sixth with 69%; the taxation of employee benefits, ranking seventh with 68%; the use of alternative dispute resolution, ranking eighth with 68%; and the possibility of a federal workers compensation system, ranking ninth with 66%.

Compliance with Internal Revenue Code Section 89 non-discrimination rules tied with three other issues for 10th place: uniform federal product liability standards; financial requirements for hazardous waste facilities; and new federal drug-free workplace requirements.

The survey responses indicate that risk managers in different industries have different priorities.

For example, the possibility of federal product liability standards was important to risk managers in manufacturing and chemical industries.

Meanwhile, risk managers in the service sector gave a higher priority to employee benefits issues, such as the taxation of employee benefits.

And, risk managers in the utilities business expressed strong concern about liabilities created under the Comprehensive Environmental Response, Compensation and Liability Act, better known as Superfund. In fact, these risk managers gave Superfund liabilities a rating of 96%—the highest of any subject in the survey.

For the most part, responses to the survey were consistent in different regions of the country.

For example, liability for asbestos contamination ranked highest in the Northeast, and risk managers in the Western states exhibited a high concern about the establishment of a federal insurance program for earthquake liability. And, the West stood alone in identifying health care funding for AIDS as a primary concern.

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Copies of the report, titled "National Risk Management Survey," can be obtained by writing Laurie Londoner at Alexander & Alexander Inc., Government & Industry Affairs Office, 555 13th St. N.W., Suite 1180 East, Washington, D.C. 20004-1109; 202-783-2550.

Update

Maxicare reports 1988 loss

Continued from page 2

ment "and was accordingly not filed in good faith."

U.S. Bankruptcy Court in Santa Ana, Calif., will hear the motion April 17, said Joel Haber, an attorney with Fagel, Haber & Maragos in Chicago, which filed the motion on behalf of the department.

Maxicare also said it has terminated negotiations to sell its California operations (*BI*, March 20).

Louisiana closes insurer

BATON ROUGE, La.—New England International Surety of America Inc. has been ordered to halt all underwriting after failing to meet a Louisiana Insurance Department demand that it add $2.5 million to its capital.

A recent Louisiana department examination found New England International insolvent by $1.8 million as of Dec. 31, 1987. Department examiners disallowed $6.7 million of the insurer's $12.4 million in assets, including deposits in New Zealand and Canadian banks and a $5 million certificate of deposit from a bank in Panama, where the insurer's parent company is based.

New England International of America was listed in regulatory filings as the insurer of 17 purchasing groups, most of which were managed by an Atlanta-based affiliate of Alan Teale's International Underwriting Assn. Inc. (*BI*, July 25, 1988).

The insurer's original 1986 certificate of authority forbade it from writing purchasing group business, but this restriction was lifted during former Louisiana Insurance Commissioner Sherman A. Bernard's administration, a department spokeswoman said.

Financial guarantee bill passes

ALBANY, N.Y.—A bill that would prohibit financial guarantee policyholders from filing claims against the New York state guaranty fund passed the state Senate last week and is expected to be signed by Gov. Mario Cuomo.

The bill, previously approved by the state Assembly, also eventually would make monoline insurers the exclusive underwriters of financial guarantee insurance.

However, the bill permits multiline property/casualty insurers to continue writing financial guarantee insurance for a limited time. Insurers that maintain a surplus of at least $75 million could continue to write the line for another five years, while those with a minimum of $150 million surplus could continue for another eight years, according to the bill.

The legislation was based on a model law proposed by the National Assn. of Insurance Commissioners.

Bhopal settlement reviewed

NEW DELHI, India—The Indian Supreme Court said it will rule on the validity of a law that makes the Indian government the sole representative of victims of the 1984 Bhopal gas disaster before disbursing the $470 million settlement that Union Carbide Corp. and the government agreed to in February.

The Indian government assumed representation of the Bhopal gas victims under a 1985 parliamentary act.

A five-member panel of the Indian Supreme Court directed the $470 million settlement between Union Carbide and the Indian government in February (*BI*, Feb. 20). Union Carbide deposited the $470 million with the court last month.

Pilots may receive $2.5 million

BOSTON—The Massachusetts Port Authority and the Federal Aviation Administration could be liable for up to $2.5 million in damages awarded to the pilot and co-pilot of a World Airways Inc. plane that skidded off an icy runway at Boston's Logan Airport in 1982, says the pilots' attorney.

A U.S. District Court jury in Boston awarded the two men a total of $1.5 million, but prejudgment interest could boost the sum to $2.5 million, said Los Angeles-based attorney Walter Walker, who represented the pilots.

However, Michael J. Holland, of New York-based Condon & Forsyth, representing MassPort, said he plans to ask Judge Robert E. Keeton to set aside the verdict.

If the verdict stands, Mr. Walker said Judge Keeton is expected to decide in about two weeks how much of the award will be paid by MassPort, which operates the airport, and how much by the FAA, which supplies it with air traffic controllers.

He also will decide how much prejudgment interest must be paid and how it will be divided between the two defendants.

The jury awarded pilot Peter Langley about $1 million and co-pilot Donald Hertzfeldt about $500,000. They claimed emotional distress and lost earnings capacity as a result of the accident.

Separately, pretrial settlements totaling $1.1 million were reached with six other crew members, the attorneys say.

Judge Keeton is expected to reconcile conflicting jury verdicts and bench rulings involving the hull loss (*BI*, March 27).

Briefly noted

Texas is the third state to approve Alleghany Corp.'s request to acquire up to 20% of **The St. Paul Cos. Inc.**'s stock. Five states are embroiled in litigation related to Alleghany's efforts to acquire 20% of the Minnesota-based insurance holding company (*BI*, March 20). . . .Applications for **Illinois' Comprehensive Health Insurance Program** for 4,000 high risk individuals should be returned by April 21 for priority consideration. A group of up to 10 employees can join, if at least one member meets the program's eligibility requirements (*BI*, Jan. 23, 1989; Feb. 1, 1988). . . .**Harbor Insurance Co.** is appealing a state court ruling that attorneys' fees do not deplete the limits of a primary directors and officers liability insurance policy (*BI*, March 27).

Transit Casualty

Continued from page 1

pearance of ceded premiums and apparent abuses of underwriting authority.

Within a year after Transit's demise, Mr. Miro had set up Anglo-American and was siphoning millions of dollars from it through reinsurance deals, loans to affiliates, large salaries and expense allowances and other forms of self-dealing, testified L.D. Barringer, Louisiana special deputy insurance commissioner.

Mr. Miro could not be reached at C.I. Miro & Co. Inc., a Dallas company he now runs.

House panel members questioned whether inadequate or fragmentary state regulation allowed the two failures to occur.

Citing Transit, subcommittee Chairman John D. Dingell, D-Mich., suggested, for example, that the triennial audit of insurers by state regulators is too infrequent.

Unscrupulous operators have "three years in which to plunder the insurance company, to (bilk) the assureds. . .and they can all blow town with a lot of money and leave a shell for the state insurance (department) to worry about," Rep. Dingell said.

Panel members also questioned the circumstances under which Mr. Miro obtained a license for Anglo-American in Louisiana.

Among other things, subcommittee members questioned "rather curious payments" by Anglo-American Insurance Group employees to the re-election campaign of Sherman A. Bernard, who was Louisiana insurance commissioner when Anglo-American was licensed in 1986.

Mr. Bernard was defeated for re-election in 1987.

The subcommittee's hearings on Transit and Anglo-American are the latest in a series of inquiries by the panel into insurer insolvencies.

Last September, the panel held hearings on the failures of Mission Insurance Co. and Integrity Insurance Co. of Paramus, N.J., later recommending investigations of possible criminal fraud and securities law violations by persons connected with the companies (*BI*, Jan. 16, 1989; Dec. 19, 1988).

Additional hearings on Transit and Anglo-American are scheduled for Tuesday and April 20.

Transit's problems began in 1980 when it decided to expand beyond its traditional transportation business into fronted property/casualty programs produced by MGAs, Missouri's Mr. Arnold testified. Over the next five years, Transit assumed business through 17 MGAs and about 1,000 sub-agents, he said.

Gross written premiums ballooned to a peak of $277.9 million in 1984 from $89.2 million in 1980, while net premiums actually fell to $60.5 million from $64.7 million.

While its fronting business exploded, however, Transit's management exercised little or no control over its MGAs' placement of reinsurance and had no system for keeping track of the massive amounts of business pouring in, Mr. Arnold testified.

Losses on the business have continued to escalate: Since it was ordered liquidated in December 1985, Transit's insolvency has grown from about $500 million to a current estimate of $2 billion, making it the largest insurer insolvency in history.

Transit's liquidator is hoping to collect between $400 million and $800 million in reinsurance, "but that's still a long way from the $2 billion loss," Mr. Arnold observed.

State guaranty funds have so far paid $165.6 million in Transit losses and have reserved for an additional $196.8 million.

Most of Transit's "risk management" business was produced by three MGAs, Mr. Arnold said: National Underwriting Agency Inc. of Chicago; Donald F. Muldoon & Co. of New York; and Miro & Associates Risk Management Inc. of Dallas, a sub-agent appointed by Muldoon.

Most of Mr. Miro's business as a sub-agent was produced by Alexander & Alexander Inc., Mr. Arnold said.

The congressmen were most interested in Mr. Arnold's description of Mr. Miro's business activities.

Soon after Mr. Miro became a Transit MGA, he began ceding Transit business to several offshore reinsurers including three that he "apparently controlled," Mr. Arnold said. The three all were named Lafayette Reinsurance Co. and were domiciled in Bermuda, Isle of Man and the Turks and Caicos.

Although Mr. Miro has denied any ownership interest in Lafayette Re of Bermuda, Mr. Arnold told the subcommittee he believes Mr. Miro was an owner. Mr. Miro has admitted owning the Isle of Man reinsurer, Mr. Arnold testified, adding that he doesn't know exactly how the Turks and Caicos company was used.

The Lafayette companies have paid little or nothing to Transit, Mr. Arnold testified. London market excess and aggregate stop-loss reinsurers also have refused to pay claims on the grounds that Mr. Miro failed to maintain adequate records and that they are owed additional premiums.

Asked by Rep. Dingell where the premiums paid to the offshore companies went, Mr. Arnold was hard-pressed for an answer.

"All I can tell you, Mr. Chairman, is 102 million bucks went into these companies and where it went from there, I know not," he said.

Transit's liquidator last year settled a racketeering lawsuit against Mr. Miro and his firm for $9 million, paid by Mr. Miro's errors and omissions insurer (*BI*, July 11, 1988).

In August 1986, less than a year after Transit's collapse, Mr. Miro formed Anglo-American with $1.5 million in capital. A registration statement filed with the Louisiana Insurance Department showed that the insurer's holding company, Anglo-American Insurance Group Inc., was 66% owned by Mr. Miro with the remaining shares divided between partners Sheldon H. Irion and David M. Vaughn.

Before it was placed in rehabilitation on Jan. 25, Anglo-American had written gross premiums of $56 million, consisting mainly of work comp coverage for such public or quasi-public bodies as the Louisiana Assn. of School Boards, Mr. Barringer testified.

The insurer was ordered liquidated March 20.

Anglo-American served as a "cash cow" for Mr. Miro and his partners, Mr. Barringer alleged, "set up and operated in a manner to rake in as much cash as possible with a view towards siphoning off as much of that cash as the owners could get away with before the books were examined" by state regulators.

Mr. Barringer alleged Mr. Miro and his associates bled money from Anglo-American in several ways, including:

- An administrative services agreement under which the holding company handled all underwriting, claims and administration for the insurer. The holding company's fee for services was 15% of gross premiums, which amounted to $8 million, including a $565,000 overpayment.
- A complex series of transactions in which the insurer's $1.5 million initial capital was wired to Anglo-American Trust Co. P.L.C., an upstream holding company. The insurer's treasurer first accounted for this transaction as reinsurance premiums ceded, then as a purchase of preferred stock and finally as an unsecured advance.

After Mr. Barringer questioned the transaction in an examination last year, another Miro-controlled company, Miro Irion Vaughn Inc., executed a promissory note covering the $1.5 million. MIV has been unable to make payments on the note, he said.

- Unsecured loans to the parent and affiliates. Including the payout of Anglo-American's initial capital, these loans totaled $12 million by the time the insurer was placed in rehabilitation. The loans, using deposit premiums, were disguised in the insurer's financial statements as payments by the insurer on prior loans from the parent.
- Reinsurance agreements, including one agreement with Anglo-American International Reinsurance Co. Ltd. of Ireland. Mr. Barringer said he believes this reinsurer was controlled by Mr. Miro, though he has been unable to establish its ownership.

Records show that Anglo-American Insurance ceded $5 million to the Irish reinsurer, though $1.1 million was wired directly to Anglo-American Trust "for no apparent reason." The remaining $3.9 million was wired to the reinsurer "but we have no idea what happened to the money after" that, Mr. Barringer testified.

Anglo-American International kept a $1.5 million trust deposit in a Louisiana bank, but Anglo-American Insurance wired the money to the reinsurer's account in a London bank in June 1988 despite the fact that the reinsurer owed it $3 million.

Anglo-American International has not paid the insurer any of the $3.7 million in losses it owed at the end of last year.

- High salaries, advances and other forms of self-dealing. In 1988, Mr. Miro was paid $720,000 in salary and expenses by Anglo-American Group, and another $177,435 by MIV, documents submitted at the hearing show.

Mr. Barringer testified that Anglo-American or the holding company also financed the purchase and remodeling of an expensive condominium for Mr. Miro; secured a loan for the purchase of a Cadillac limousine he used; made a $550,000 mortgage loan to J. Albert Kroemer, Mr. Miro's lawyer; and loaned $1 million to Kamel Properties Ltd., with a house in which Mr. Miro lived serving as collateral.

Mr. Barringer said he doesn't know who owns Kamel Properties but that Mr. Kroemer "is the agent of unidentified investors in London."

When the Louisiana department first took action against Anglo-American, Mr. Miro attempted to keep the company afloat by proposing an infusion of "sporadically traded" over-the-counter securities, which the department found to be of "questionable" value, Mr. Barringer testified.

Rep. Gerry Sikorski, D-Minn., questioned Mr. Barringer about the circumstances under which Mr. Miro obtained a license for Anglo-American.

Among other things, Rep. Sikorski pointed out that Anglo-American's registration statement reported no litigation involving the insurer's directors or officers, when in fact Mr. Miro was then a defendant in the lawsuit filed by Transit Casualty.

Mr. Miro also filed a biographical affidavit swearing that he had never been charged with any violation of insurance law, Rep. Sikorski noted.

Responding to these questions, Mr. Barringer said the Louisiana department will conduct an investigation into how Anglo-American obtained its certificate of authority.

Rep. Sikorski also raised questions about several "rather curious payments" to then-Commissioner Bernard's re-election campaign.

According to documents submitted at the subcommittee hearing, Mr. Miro signed a $25,062.50 Anglo-American Underwriters Inc. check made out to cash on Aug. 27, 1987. The check register described the purpose as "Contribution-Political, Sherman A. Bernard."

The same day, 25 employees of Anglo-American purchased $1,000 cashier's checks from First Republic Bank in Dallas payable to "The Friends of Sherman Bernard," documents show.

Louisiana had no limit on campaign contributions at the time, according to a lawyer with the state's Board of Ethics for Elected Officials.

Mr. Bernard could not be reached for comment last week.

Rep. Sikorski also questioned three $18,750 payments made last year by Anglo-American Group to ex-Louisiana Gov. Edwin W. Edwards as a retainer for legal services.

Mr. Edwards withdrew from a re-election race in late 1987 after losing a primary battle to current Gov. Buddy Roemer.

"Are you aware of any services that were performed under this retainer?" Rep. Sikorski asked Mr. Barringer.

"Not for the insurance company," Mr. Barringer replied.

In an interview, Mr. Edwards said the insurer retained him as a lawyer, but he declined to describe the services he provided, citing attorney-client privilege.

Also introduced at the hearing was a $4,500 Anglo-American Group check covering an appraisal on a 1,339-acre Texas ranch owned by Mr. Edwards.

Mr. Edwards said that Anglo-American was considering buying the property last year but that the sale did not go through because "we just weren't able to get together on price."

Mr. Kroemer, Mr. Miro's lawyer, said after the hearing that he "found a number of inaccuracies (in testimony) by people who should have had more accurate information."

For instance, Mr. Arnold failed to mention that Transit drew down on $4 million in letters of credit posted by Lafayette and another offshore reinsurer, Mr. Kroemer said, adding that Lafayette paid claims to Transit for four years. ■

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Asbestos ruling

Continued from page 2

The appellate court ruled: "Because there was no exercise of judgment, the government appears to fail the threshold test of establishing that its conduct was protected from liability under the exception."

"The Navy's decision to use asbestos on its ships cannot shield it from liability based on its failure of care once it learned of the risk to domestic bystanders," the court added.

"When the government is operating in a capacity so highly analogous to private industry, we doubt that (the trial court's) analysis can protect an official's negligent failure to act without an affirmative exercise of policy judgment," the court said.

The court went on to say: "It is difficult to imagine the Navy justifying a decision not to issue a simple warning to domestic bystanders of such potentially devastating danger, based on economic or other policy grounds."

As a result, the court concluded: "The Navy's failure to warn domestic bystanders of the risks associated with exposure to asbestos dust is not of the nature and quality that Congress intended to shield from tort liability."

A Justice Department attorney says the government has not decided whether it will ask the U.S. Supreme court to review the ruling. However, attorneys familiar with asbestos litigation say high court will be asked to review the case, and that the court is likely to accept the case.

Producer attorneys are hailing the ruling.

"The ruling is a breakthrough in litigation filed by asbestos manufacturers against the government," said Eagle-Picher trial attorney Paul G. Gaston of Spriggs & Hollingsworth in Washington, D.C.

"This is the first time an appellate court has imposed liability on the government for contribution to an asbestos settlement," he said.

"The asbestos manufacturers have long felt that the government did not properly handle asbestos in its shipyards," said Linda Monica, one of the lead trial attorneys for Owens-Illinois and Raymark.

"Yet, because of technical legal defenses the government has avoided liability," said Ms. Monica of Bernstein, Shur, Sawyer & Nelson in Portland, Maine.

"This decision puts the U.S. government, when it acts as a private employer, on even footing with asbestos producers," said asbestos producer attorney James J. Restivo of Reed, Smith, Shaw & McClay in Pittsburgh.

Ms. Monica and others predict that this ruling could lead to more similar suits.

"Every company has to revisit the question of filing claims against the government," said attorney Jerold Oshinsky of Anderson Baker Kill & Olick in Washington, D.C.

"There has never been any doubt in my mind that the government knew of the hazards of asbestos in the 1940s," said Mr. Oshinsky, who brought several unsuccessful asbestos-related lawsuits against the government in the 1980s on behalf of Keene Corp.

Earlier lawsuits failed either because they involved workers or the government successfully asserted exemption under the discretionary function exception to the FTCA.

In most instances, the government cannot be sued for injuries to workers because it is protected by the exclusive remedy doctrine of workers compensation.

Attorneys also said that the appellate court decision could be used to bring the government into some types of toxic tort litigation that involve third parties hurt by the government's negligence, such as hazardous waste cases.

"I could see the decision having an impact on other toxic tort injuries that arise from a government facility," said Ms. Monica.

However, Ms. Monica cautioned: "It is important to view the decision in its factual context."

She pointed out that this case involved a third party that was injured where there was a court ruling finding that the government was negligent. ■

Rene A. Dube vs. Pittsburgh-Corning et. al; United States Court of Appeals for the First Circuit; No. 88-1679 and No. 88-1740.

Plant explosion losses

Continued from page 2

However, BASF says property damage could now hit 150 million deutsche marks ($80.1 million).

Gerling, which leads BASF's coverage, writes 37% of the company's property insurance and 24.5% of its business interruption insurance, confirmed Mr. Nowak.

London and West German sources confirm that other insurers on both the company's property/business interruption insurance include: units of Allianz Group of Munich; Haftpflitchtverband der Deutschen Industrie V.Va.G. in Hannover, West Germany; Colonia Insurance A.G. of Cologne, West Germany; Zurich Insurance Co., of Zurich, Switzerland; Winterthur Insurance Group of Winterthur, Switzerland; National Union Fire Insurance Co. of Pittsburgh, Pa., a New York-based unit of the American International Group Inc.; and London-based Royal Insurance P.L.C.

Much of the risk is reinsured in the London market, though Gerling "carries a substantial retention," said Mr. Nowak.

Last week, London reinsurance underwriters were examining notices from ceding companies that BASF's business interruption loss would reach the company's policy limit of 500 million deutsche marks.

"We were advised March 31 that the business interruption loss likely would reach the policy limit because of the dramatic increase in the price of ethylene oxide," said Jonathan Hopkins, property underwriter for Chancellor Insurance Co. Ltd. in London.

The practice of consolidating production of chemicals and the creation of large production plants is increasing chemical companies' exposure to business interruption losses, underwriters say.

As a result, the loss of just one plant "has been critical, leading to a worldwide shortage and pushing the price of ethylene oxide through the roof," said Mr. Hopkins.

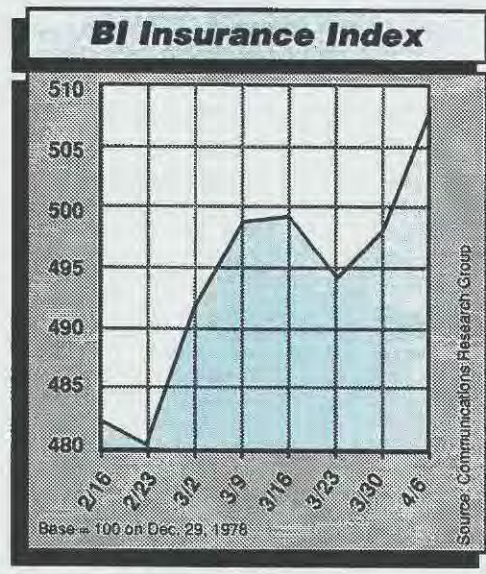
In addition, the loss of the Antwerp plant together with several other large losses already this year could lead to a hike in business interruption rates for chemical companies, predicted Gerling's Mr. Nowak.

A Feb. 14 explosion and fire at a Verdinger, West Germany, plant that produced lead-free paint produced a business interruption claim for Leverkusen-based Bayer A.G. of 140 million deutsche marks ($74.8 million) and a property claim of 100 million deutsche marks ($53.4 million), underwriters say.

Bayer's property and business interruption coverage also was led by Gerling, though most of the risk was placed with Bayer's captive reinsurer, Pallas A.G., and retroceded to the London market by London broker Alexander Howden Reinsurance Brokers Ltd.

Since the accidents, both BASF and Bayer have sought increased business interruption insurance limits, said Mr. Nowak.

"The first reaction of the reinsurance markets to these requests has been to ask for higher rates," he noted, adding that the claims could lead to a tightening in the international business interruption insurance market for the chemical industry. ■



Insurance industry stocks jumped last week, as the *Business Insurance Index* rose 9.5 points to 508.1 on April 6, up from 498.6 on March 30. Advancing issues were led by Sierra Health Services, up 11.1%; Frank B. Hall & Co. Inc., up 10.9%; and American Indemnity Financial Corp., up 10.5%. Declining issues followed Nobel Insurance Ltd., down 18.5%; U.S. Healthcare, down 6.2%; and Statesman Group Inc., down 3.9%. The most active issue was Sears, Roebuck & Co. (Allstate), 4 million shares traded. The *BI Index* gained 1.9% for the period; the Standard & Poor's 500 and the New York Stock Exchange Composite each climbed 1%; and the Dow Jones 30 Industrials were up 0.5%.

British Issues

April 6 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	379	13.1	25.3	6.7	383—377
Genl Accident	988	9.2	58.7	5.9	988—970
Gdn Royal Exch	208	10.7	13.3	6.4	210—208
Royal	410	12.8	30.0	7.3	417—410
Sun Alliance	1150	8.8	54.7	4.8	1169-1148
Brokers					
Bradstock	243	13.7	9.0	3.7	247—242
CE Heath	448	14.2	34.5	7.7	450—448
Hogg Robinson	154	13.6	8.7	5.6	158—154
Lloyd Thompson	211	16.2	8.0	3.8	212—211
PWS Holdings	70	18.9	4.6	6.7	71—70
Sedgwick Grp	239	19.8	16.0	6.7	242—239
Steel Brrl Jones	224	19.1	13.3	6.0	228—224
Willis Faber	228	16.9	15.3	6.7	230—227

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

APRIL 6, 1989 **3/31/89 THRU 4/6/89**

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander Svcs	NYSE	26.00	1.4	10.6	26.50	22.63	296	1.00	3.8	16.6	3.71	7.01
Corroon & Black Corp.	NYSE	32.88	4.8	5.6	34.50	30.75	229	1.24	3.8	4.9	12.40	2.65
Gallagher Arthur J. & Co.	NYSE	17.88	1.4	6.7	18.38	16.13	53	0.52	2.9	12.7	5.46	3.27
Hall Frank B. & Co.	NYSE	3.75	10.9	30.2	4.63	2.50	198	0.00	0.0	-2.2	0.00	N/A
Hilb, Rogal & Hamilton	OTC	14.25	-1.7	-6.6	15.75	13.75	38	0.00	0.0	12.4	4.60	3.10
Marsh & McLennan Cos. Inc.	NYSE	62.50	3.1	11.1	63.00	55.13	368	2.50	4.0	15.3	6.48	9.65
Poe & Assoc Inc.	OTC	8.50	0.0	3.0	8.50	8.25	0	0.40	4.7	9.6	0.27	31.48
BROKERS	AVERAGE		2.8	8.7					2.7	9.9		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	31.00	5.1	5.1	33.25	29.25	142	0.40	1.3	6.6	20.24	1.53
Berkshire Hathaway Inc. DEL	NYSE	5075.00	3.2	45.3	5075.00	4675.00	74	0.00	0.0	18.6	2492.68	2.04
ITT (Hartford Group)	NYSE	54.63	5.3	9.0	55.75	49.75	2231	1.48	2.7	9.6	52.23	1.05
Sears Roebuck & Co. (Allstate)	NYSE	44.25	1.7	8.2	44.25	40.13	3950	2.00	4.5	18.4	34.74	1.27
CONGLOMERATES	AVERAGE		3.8	16.9					2.1	13.3		
INSURERS/REINSURERS												
Aetna Life & Cas Co.	NYSE	51.13	2.0	8.2	51.38	46.75	781	2.76	5.4	8.7	54.73	0.93
American General Corp.	NYSE	35.38	5.2	18.4	35.13	29.50	781	1.50	4.2	10.3	28.04	1.26
Amer Heritage Life Invt	NYSE	27.63	0.5	7.3	27.88	25.00	2	1.08	3.9	11.5	22.47	1.23
Amer Indty Fin'l Corp.	OTC	10.50	10.5	0.0	11.25	9.50	2	0.56	5.3	6.9	17.06	0.62
American Int'l Group	NYSE	79.88	1.4	17.9	79.75	66.25	1267	0.40	0.5	11.2	33.55	2.38
Aon Corp.	NYSE	31.13	4.6	11.2	30.50	27.00	491	1.40	4.5	9.8	15.13	2.06
Argonaut Group	OTC	53.00	2.4	21.1	56.00	43.50	105	0.00	0.0	7.9	34.94	1.52
AVEMCO Corp.	NYSE	24.00	1.1	-7.3	26.13	23.63	10	0.40	1.7	11.8	9.20	2.61
Baldwin & Lyons Inc.	OTC	16.00	1.6	7.5	16.00	14.50	3	0.20	1.3	6.4	17.57	0.91
Belvedere Corp.	AMEX	6.13	6.6	36.2	6.50	4.50	16	0.04	0.7	8.9	8.43	0.73
Chandler Insurance	OTC	9.13	0.0	-1.3	11.25	8.75	6	0.00	0.0	4.4	6.65	1.37
Chubb Corp.	NYSE	67.88	1.1	17.0	69.00	57.63	630	2.32	3.4	7.7	46.13	1.47
CIGNA Corp.	NYSE	54.63	2.3	15.9	55.13	45.88	674	2.96	5.4	9.8	51.37	1.06
CNA Fin'l Corp.	NYSE	62.63	3.3	3.5	62.25	57.63	242	0.00	0.0	9.9	46.40	1.35
Continental Corp.	NYSE	33.25	3.9	2.7	36.00	31.50	850	2.60	7.8	15.9	42.10	0.79
Durham Corp.	OTC	32.50	0.0	-1.5	33.75	30.00	2	0.92	2.8	19.2	26.23	1.24
Fireman's Fund Corp.	NYSE	33.75	1.1	15.4	34.25	29.00	323	0.60	1.8	7.1	30.91	1.09
Forum Re (Bermuda)	OTC	1.38	0.0	-15.3	1.75	1.38	0	0.00	0.0	3.8	2.58	0.53
Fremont Gen Corp.	OTC	16.75	-0.8	25.2	18.25	12.13	324	0.60	3.6	10.7	16.06	1.04
Frontier Insurance Group	OTC	14.25	9.6	14.0	14.25	12.25	51	0.00	0.0	7.1	7.53	1.89
General Re Corp.	NYSE	67.50	3.8	21.6	67.00	54.38	927	1.36	2.0	13.4	27.10	2.49
Home Group Inc.	NYSE	14.38	2.7	30.7	14.50	11.00	505	0.20	1.4	6.0	18.66	0.77
Hanover Ins Co.	OTC	28.00	0.9	4.7	30.25	26.00	56	0.36	1.3	5.2	31.47	0.89
Harleysville Group Inc.	OTC	20.75	-1.2	15.3	21.38	17.75	40	0.48	2.3	7.5	18.24	1.14
Hartford Steam Boiler	OTC	41.50	0.3	12.9	42.50	34.75	184	1.40	3.4	12.0	13.04	3.18
Kans City Life Ins	OTC	33.25	-0.7	-3.6	35.00	32.75	2	0.00	0.0	10.6	39.22	0.85
Kemper Corp.	OTC	33.00	1.5	37.5	33.50	22.75	512	0.84	2.5	9.4	28.91	1.14
Lawrence Ins. Group	AMEX	7.75	-1.6	-1.6	8.50	7.38	3	0.24	3.1	16.8	2.90	2.67
Liberty Corp. S.C.	NYSE	35.13	-1.0	-2.4	38.00	34.75	5	0.80	2.3	13.8	20.76	1.69
Lincoln Nat'l Corp.	NYSE	50.13	2.3	13.9	50.50	42.75	165	2.48	4.9	12.2	37.11	1.35
NAC Re Corp.	OTC	37.00	1.4	16.5	37.50	31.00	90	0.00	0.0	14.7	22.06	1.68
Navigators Group	OTC	22.00	-2.2	10.0	22.75	20.50	69	0.00	0.0	10.9	14.79	1.49
Nobel Ins Ltd.	OTC	1.63	-18.5	-65.7	5.00	1.50	1212	0.42	5.8	-6.3	7.76	0.21
Northwestern Nat'l Life	OTC	32.88	9.1	5.6	33.75	26.88	695	1.12	3.4	8.2	35.05	0.94
Ohio Cas Corp.	OTC	41.25	3.8	15.4	45.25	35.50	269	2.08	5.0	6.3	33.30	1.24
Old Rep Int'l Corp.	OTC	23.75	-2.1	-1.0	26.88	23.75	790	0.74	3.1	11.9	26.50	0.90
Orion Cap Corp.	NYSE	20.25	-1.8	31.7	20.88	15.38	20	0.76	3.8	6.8	12.93	1.57
Phoenix Re Corp.	OTC	10.00	0.0	5.3	11.00	9.25	38	0.00	0.0	5.2	12.49	0.80
Protective Life Corp.	OTC	13.75	2.8	3.8	14.50	12.88	649	0.70	5.1	16.8	17.25	0.80
Re Capital Corp.	AMEX	10.38	3.8	13.7	10.88	9.13	2	0.00	0.0	23.1	11.93	0.87
RLI Corp.	NYSE	8.88	4.5	16.4	9.25	7.50	8	0.36	4.1	7.3	10.71	0.83
Provident Life & Acc Ins Co.	OTC	23.38	6.9	21.5	23.50	19.13	722	0.68	2.9	12.8	21.96	1.06
St. Paul Cos. Inc.	OTC	49.75	3.6	14.4	49.75	43.00	1005	2.20	4.4	6.9	43.47	1.14
SAFECO Corp.	OTC	28.38	0.9	20.1	28.75	23.13	1030	1.08	3.8	7.9	24.87	1.14
SCOR US Corp.	NYSE	9.25	8.8	1.3	9.13	7.50	167	0.20	2.2	6.8	10.35	0.89
Seibels Bruce Group Inc.	OTC	11.75	0.0	3.3	13.00	11.25	48	0.80	6.8	7.5	13.42	0.88
Selective Ins Group Inc.	OTC	23.50	-1.1	2.2	24.50	21.75	53	1.24	5.3	5.2	22.33	1.05
Statesman Group Inc.	OTC	2.94	-3.9	-6.1	4.00	2.81	60	0.05	1.7	29.4	3.48	0.84
Tokio Marine & Fire Ins	OTC	77.38	-2.7	-15.3	95.50	75.75	13	0.22	0.3	46.9	0.00	N/A
Torchmark Corp.	NYSE	33.13	1.9	8.6	33.75	30.00	277	1.20	3.6	10.4	12.24	2.71
Transamerica Corp.	NYSE	34.50	3.4	1.8	35.38	32.75	477	1.88	5.4	8.1	27.36	1.26
Travelers Corp.	NYSE	39.13	0.6	12.6	39.63	34.50	1872	2.40	6.1	42.5	45.28	0.86
Trenwick Group Inc.	OTC	14.50	3.6	0.0	15.25	13.75	20	0.24	1.7	9.0	16.91	0.86
United Fire & Cas Co.	OTC	29.13	0.4	-4.5	30.75	29.00	5	1.08	3.7	5.1	22.56	1.29
United States Fid & Gty	NYSE	32.38	3.2	13.6	32.88	28.50	745	2.80	8.6	9.1	22.15	1.46
UNUM Corp.	NYSE	32.13	4.5	19.0	32.88	26.63	656	0.48	1.5	11.2	30.64	1.05
USLIFE Corp.	NYSE	42.88	6.2	22.9	43.38	34.13	496	1.36	3.2	11.3	46.77	0.92
Washington Nat'l Corp.	NYSE	26.63	-1.4	-1.4	27.63	25.25	31	1.08	4.1	-19.0	32.33	0.82
Zenith Nat'l Ins Corp.	NYSE	18.63	3.5	6.5	19.00	16.75	33	0.80	4.3	8.8	13.61	1.37
INSURERS/REINSURERS	AVERAGE		1.7	8.4					3.3	10.5		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International Corp.	OTC	23.75	8.5	95.8	24.88	11.75	152	0.00	0.0	13.0	3.54	6.71
HMO America Inc.	OTC	2.44	8.4	159.6	1.44	0.44	165	0.00	0.0	-3.9	1.12	2.18
Maxicare Health Plans	OTC	0.28	0.0	-62.7	0.81	0.13	707	0.00	0.0	0.0	0.00	N/A
Pacificare Health Systems	OTC	23.25	3.3	89.8	23.75	12.25	30	0.00	0.0	18.6	6.35	3.66
Safeguard Health Ent.	OTC	5.38	0.0	-2.2	8.25	4.00	5	0.00	0.0	10.8	2.96	1.82
Sierra Health Services	AMEX	2.50	11.1	53.4	2.63	1.50	33	0.00	0.0	19.2	1.59	1.57
United Health Services	OTC	6.88	-1.7	52.9	3.88	2.06	803	0.00	0.0	3.0	2.59	2.66
United Medical Corp.	AMEX	5.88	-2.0	12.0	6.75	5.13	6	0.00	0.0	11.5	4.11	1.43
U.S. Healthcare	OTC	9.38	-6.2	61.4	10.38	5.25	2609	0.20	2.1	78.2	2.87	3.27
Western Health Plans Inc.	AMEX	0.81	0.0	17.4	1.13	0.50	4	0.00	0.0	-0.4	0.82	0.99
HMOs	AVERAGE		2.1	47.7					0.2	15.0		
ALL COMPANIES	AVERAGE		2.0	13.8					2.8	11.2		

System design: Communications Research Group

ISO advisory rates

Continued from page 1

"ISO has seen the handwriting on the wall, much of which the NAIC has written," said New York Insurance Department Deputy Superintendent Richard Hsia, who represented Superintendent James Corcoran at the hearing.

ISO, the nation's largest insurer ratemaking organization with 1,400 member insurers, currently distributes to insurers and files with state regulators fully developed advisory rates for commercial lines in all but four states.

Advisory prospective loss costs are estimates of insurers' average future loss payments, including costs such as claims-handling and legal defense. Advisory rates include prospective loss costs and provisions for insurers' marketing and overhead expenses, as well as underwriting profit and contingencies.

Due to state regulations, ISO only provides advisory prospective loss costs for insurance written in Illinois, California, Kentucky and Louisiana.

But, beginning sometime next year, ISO will provide insurers in all states with only prospective loss costs in lines of insurance for which it has provided advisory rates.

As a result, ISO's member insurers will have to analyze the prospective loss-cost information, determine their own prospective expense provisions and develop their own rates. And, they will have to file their own rates with those states that require rate filings.

ISO has not determined whether prospective loss costs will be filed with regulators and how they will be distributed.

In addition, effective immediately, all decisions on actuarial methodology will be made by ISO staff, instead of being subject to approval by various ISO committees, which consist of insurance company representatives.

ISO also will add up to three public members to its board of directors, which is being cut to 21 from 24. Those members will be elected by ISO's insurer members from an "open ended" list of possibilities. State regulators will be considered as possible board members, noted Michael Fusco, ISO executive vp.

ISO also says it will guarantee greater participation of small and medium-sized insurers on its board by adopting a formula that will limit the number of representatives of insurers of all sizes. While both small and medium-sized insurers have been elected to the board, ISO's new guidelines codify this goal.

And, ISO will increase to two years from one year the mandatory minimum gap between board terms, which should increase turnover among members. Board terms are three years.

Although ISO's decision to stop issuing advisory rates will add to insurers' overhead costs and may make product prices increase, the bigger concern for risk managers is how the plan will affect insurance departments, according to Howard Greene, associate legislative director of the New York-based Risk & Insurance Management Society Inc.

Several risk managers said they fear that by requiring insurers to develop and file their own final rates for each line of insurance they write, regulators may be overwhelmed with paperwork, impairing regulation for solvency.

Currently, many insurers have authorized ISO to make those filings for them, which has kept the number of filings relatively small.

About 30 states require prior approval of rates for at least some commercial lines, and about 30 states require prior approval of rates for at least some personal lines, although they are not the same states.

"Our biggest concern is solvency," said Robert Esenberg, risk management administrator for the city of Virginia Beach, Va., and vp of government affairs for RIMS.

ISO's decision to stop providing advisory rates "will require insurance bureaus to reallocate personnel to inspect rates" instead of focusing on solvency, he said.

ISO's plan could lead to a "poor use of limited resources" within insurance departments, said RIMS President Richard Heydinger, who also is director of risk management for Hallmark Cards Inc. of Kansas City, Mo.

"The focus of the commercial policyholder is not necessarily rates," Mr. Heydinger noted. "None of us are paying advisory rates anyway."

But, risk managers should expect to see higher rates as a result of ISO's plan, according to small and medium-sized insurers.

"On the face of it, it will certainly make our life more difficult, and more costly," said Dennis E. Hoffmann, chairman of John Deere Insurance Co. of Moline, Ill.

"I'm extremely disappointed they decided to go that route," said Dieter H. Nickel, chairman, president and chief executive officer of Church Mutual Insurance Co. of Merrill, Wis.

Church Mutual calculates its rates for the several lines it writes in 33 states by using a simple calculation to deviate anywhere from 10% to 70% from ISO's advisory rates.

Working without the advisory rates not only will be more expensive for individual insurers, but it also will create substantial duplication of effort among insurance companies, Mr. Nickel said. Insurance is "going to cost more, and it seems to me the consumer is going to be the loser."

"I think it will certainly have an adverse impact on small-to-medium-sized carriers" or on those that write small amounts of business within particular geographic areas, said John Deere's Mr. Hoffmann. "It has to up the cost of operating for those carriers," he said.

Smaller insurers will either have to have staff members with actuarial knowledge, or hire outside consulting firms, and that could represent a "real hardship" for some of them, said David Rolwing, president of Montgomery Mutual Insurance Co. of Sandy Spring, Md.

But, even outside consulting firms do not have access to all the data ISO has, Mr. Rolwing observed.

The reduction in ISO services not only will financially burden small and medium-sized insurers, but also could lead to insolvencies and reduced competition because of mergers, Church Mutual's Mr. Nickel predicted.

ISO's Mr. Maatman, who also is president of Kemper's property/casualty companies, responded that ISO was aware that not issuing advisory rates would be costly for smaller insurers. But, ISO had no choice "within the political realities we're facing today," he said, referring to consumer, regulatory and legislative pressures, including efforts to repeal McCarran-Ferguson. That 1945 law provides insurers limited immunity from federal antitrust law and gives states primary regulatory authority.

"ISO continues to believe that our providing advisory rates fosters competition and lowers insurers' prices," ISO President Fred Marcon said at a press conference where he announced ISO's decisions.

However, "individual insurance regulators, state and federal legislators, and some consumer groups have expressed differing perceptions of ISO's ratemaking process," he said.

To assist insurers in the transition, ISO will not stop issuing advisory rates until sometime next year, subject to regulatory approval, ISO's Mr. Maatman explained.

In addition, ISO will do "absolutely everything it can" to assist smaller insurers in the transition, including providing advance training and educational material and aids, such as software that will help insurers to develop rates based on loss costs.

However, Mr. Maatman admitted that no matter how well-planned or designed this change will be, it will result in a loss of economies of scale, even for larger companies.

"It's going to increase somewhat our cost of doing business," he said of Kemper.

Most regulators do not share risk managers' and the insurers' concerns.

The handful of states that have restricted the activities of insurance ratemaking organizations shows that such restrictions do not disrupt the market, the regulators say (*BI*, April 3).

NAIC President and Nevada Insurance Commissioner David Gates characterized ISO's decisions as "a good first step."

ISO's new policy "very quickly narrows the public debate on the role of rating organizations" and will allow regulators to focus on unsettled technical issues, said North Dakota Insurance Commissioner Earl Pomeroy, an NAIC vp.

For example, the subgroup is still studying whether ISO should be allowed to distribute prospective loss costs, which are fully developed and trended for factors such as inflation and expected changes in litigation trends, or only actual loss costs.

The subgroup is expected to circulate its final report on the appropriate role of advisory organizations among all state regulators prior to the NAIC's summer meeting June 4-8 in Cincinnati, according to Mr. Gates. He hopes that state regulators will vote on a formal NAIC position on the issue at the meeting.

National Insurance Consumer Organization President Robert Hunter, who calls ISO's plan "a public relations move," contends that the essence of "insurer price fixing" is not in loading for expenses or profits but in the manipulation of loss development and trend data.

But, ISO's Mr. Fusco told the NAIC working group at its hearing last week: "Prospective loss costs from ISO are the absolute minimum that insurers require to develop their own rates accurately and cost-effectively. Without ISO's actuarial analysis to project future costs on the basis of past losses, fewer insurers could enter new markets or remain in small markets, and prices would be higher.

"That's because many small and medium-sized insurers could not afford to duplicate ISO's actuarial analysis, and even larger, well-established insurers couldn't, as they do now, use ISO's analysis to enter new geographic markets and new lines of insurance with reasonable confidence in the measurement of risk potential," he concluded.

Risk managers welcome ISO's decision to broaden its board from only insurance company representatives.

"Obviously, we're very happy to see that," said Gerald Belfiglio, director of risk management for the Allegheny Ludlum Corp. in Pittsburgh. This change "can go a long way toward breaking the hold that ISO has on rates and forms."

"It's a welcome initiative from an organization that probably would benefit from different perspectives," said the New York Insurance Department's Mr. Hsia.

But, most of the regulators *Business Insurance* interviewed either rejected ISO's idea of an acting insurance commissioner serving on its board or said the idea had to be carefully evaluated to determine whether such a move would create a conflict of interest.

NICO's Mr. Hunter said he is wary of ISO's intention to add public board members, predicting that consumer representatives would not be appointed.

"The chance of me being nominated is so far-fetched," he said.

Mr. Hunter declined to say whether he would serve if nominated.

Mr. Marcon, ISO's president, admitted that the organization's plan was designed, at least in part, to respond to the threat of McCarran-Ferguson repeal legislation.

There is a "distinct benefit in taking off the table the perception that the ISO advisory rate is price-fixing," Mr. Marcon said. "We remove, once and for all, the debate on a rate."

"On balance, this should be enough" to forestall the law's repeal, said Mr. Maatman of ISO's new policies.

The new policies resolve the issue on the appropriateness of filing advisory rates, a CIGNA Corp. spokesman said. "This decision should end that debate on both federal and state levels," said the spokesman.

Others were less optimistic, though.

RIMS' Mr. Greene predicted that "the forces that want repeal of McCarran are going to look at this as a very minor concession and a publicity ploy."

Thomas P. Bonaros, vp and general counsel at Utica Mutual Insurance Co. in New Hartford, N.Y, said the move to repeal McCarran-Ferguson has "taken on a life of its own."

"For consumer groups to have any feeling that the era of price-fixing is over, you have to have penalties and antitrust law enforcement," said NICO's Mr. Hunter.

Two McCarran-Ferguson repeal bills were introduced in Congress after ISO had announced it would stop issuing advisory rates.

Sen. Howard Metzenbaum, D-Ohio, a cosponsor to the McCarran-Ferguson repeal bill introduced last week, called ISO's plan "encouraging." But, he added that "the American consumer should not have to rely on the goodwill of the nation's most powerful industry. Many harmful practices, including blatant price-fixing and misleading advertising, will still be immune from federal prosecution without a change in the law."

ISO's Mr. Maatman said the ratemaking organization's new policies are not a response to the antitrust litigation that was brought last year by attorneys general from 19 states.

"This is not an attempt to do something that would be used as a bargaining tool in these antitrust suits," he said. ISO believes that it already has a strong defense, he said.

But ISO's decision to include public members on its board is "taken directly" from the injunctive relief sought in the litigation, said George Sampson, an attorney with the New York attorney general's office, one of the 19 attorneys general that brought the antitrust litigation. A key difference, he added, is that ISO intends to nominate the public members. "We're asking the court to appoint public members," he said.

Meanwhile, the American Assn. of Insurance Services in Bensonville, Ill., another ratemaking organization, probably will follow ISO's lead and offer only average prospective loss costs instead of advisory rates, according to Paul A. Baiocchi, president and chief executive officer.

"It appears to be the direction that many organizations will be going in." A decision for implementation has not been determined yet, Mr. Baiocchi said.

The AAIS, with 400 member companies, provides rating, statistical and advisory services in all states for all major commercial and personal property/casualty lines except automobile insurance. ■

New McCarran repeal proposals introduced

WASHINGTON—Efforts to virtually strip insurers of their limited exemption from federal antitrust law are gaining momentum on Capitol Hill.

Last week, legislation to repeal or amend the McCarran-Ferguson Act was introduced in both the Senate and the House.

Sen. Howard Metzenbaum, D-Ohio, introduced a bill that would subject the insurers to federal antitrust laws but would allow insurers and advisory organizations to jointly collect and exchange some historical data on paid claims and reserves.

Sen. Metzenbaum and co-sponsors Sens. Paul Simon, D-Ill., Joseph Biden, D-Del., and Edward Kennedy, D-Mass., introduced virtually the same bill during the 100th Congress (*BI*, June 8, 1987). However, that bill was never voted out of committee.

Sen. Metzenbaum's bill, S. 719, also would allow insurers to engage in certain joint activities without violating federal antitrust law, such as banding together to provide coverage through industrywide pools, preparing standardized policy forms and collecting data on fraudulent claims. And, the bill specifically affirms continued state regulation of the industry.

"The case for repealing the insurance industry's antitrust exemption is overwhelming," Sen. Metzenbaum said. "Insurance is vital to the nation. No one can be secure without it. Yet those who provide it do not have to comply with our national policy of free competition."

Meanwhile, House Judiciary Committee Chairman Jack Brooks, D-Texas, and Rep. Don Edwards, D-Calif., Tuesday introduced their own bill to repeal McCarran-Ferguson.

The bill, H.R. 1663, is identical to legislation that passed a House subcommittee last year (*BI*, June 20, 1988).

The Brooks-Edwards legislation is much more specific in its prohibitions than the Metzenbaum legislation. For example, it would, among other things, prohibit:

- Insurance price fixing or the development and publication of recommended rates and the sharing of data regarding expenses and profits.
- Tying the sale of one type of insurance to any other unrelated insurance product.
- Allocating specific markets or customers among competing insurers.
- Activities that would force competitors out of specific markets.

The bill also would:

- Allow companies with more than $20 million in annual premiums to engage in joint loss trending activities for three years after the proposal's enactment. Insurers with less than $20 million in premiums could trend for five years after enactment.
- Give the Federal Trade Commission and the Justice Department authority to investigate possible insurer antitrust violations.

"The legislation avoids a radical, broad-gauged assault on the insurance industry by banning only the most pernicious anticompetitive offenses, such as price-fixing and monopolization," Rep. Brooks noted. Still, "we need to strike a reasonable balance in permitting insurance companies to continue to perform their valuable services while ensuring that their activities are subject to the same brisk winds of competition that invigorate all other major industries in America."

Each bill would become effective one year after enactment.

In addition, Rep. James Florio, D-N.J., introduced an amendment to the Risk Retention Act that would expose insurers to huge federal fines and prohibit them from sharing loss development information. And, Rep. Jim Courter, R-N.J., introduced a bill that would amend McCarran-Ferguson to eliminate the insurance industry's antitrust exemption for only personal automobile insurance (*BI*, March 6).

—By Deborah Shalowitz

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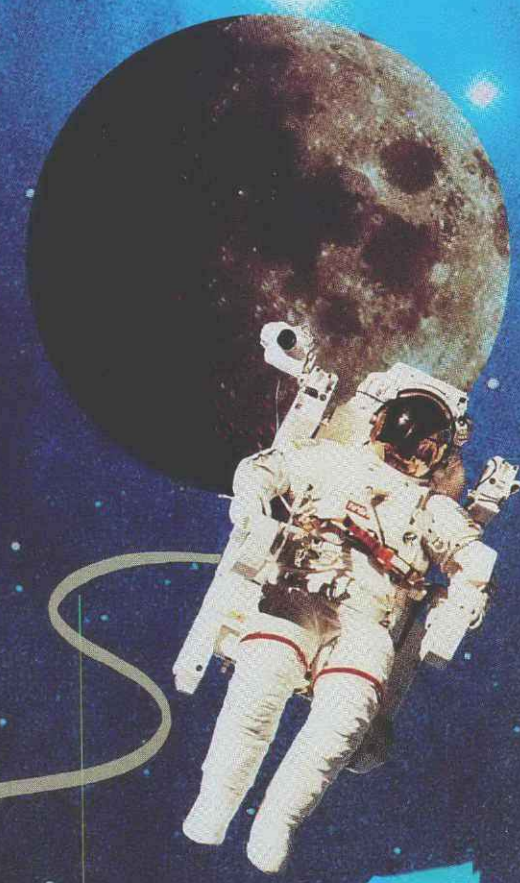

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