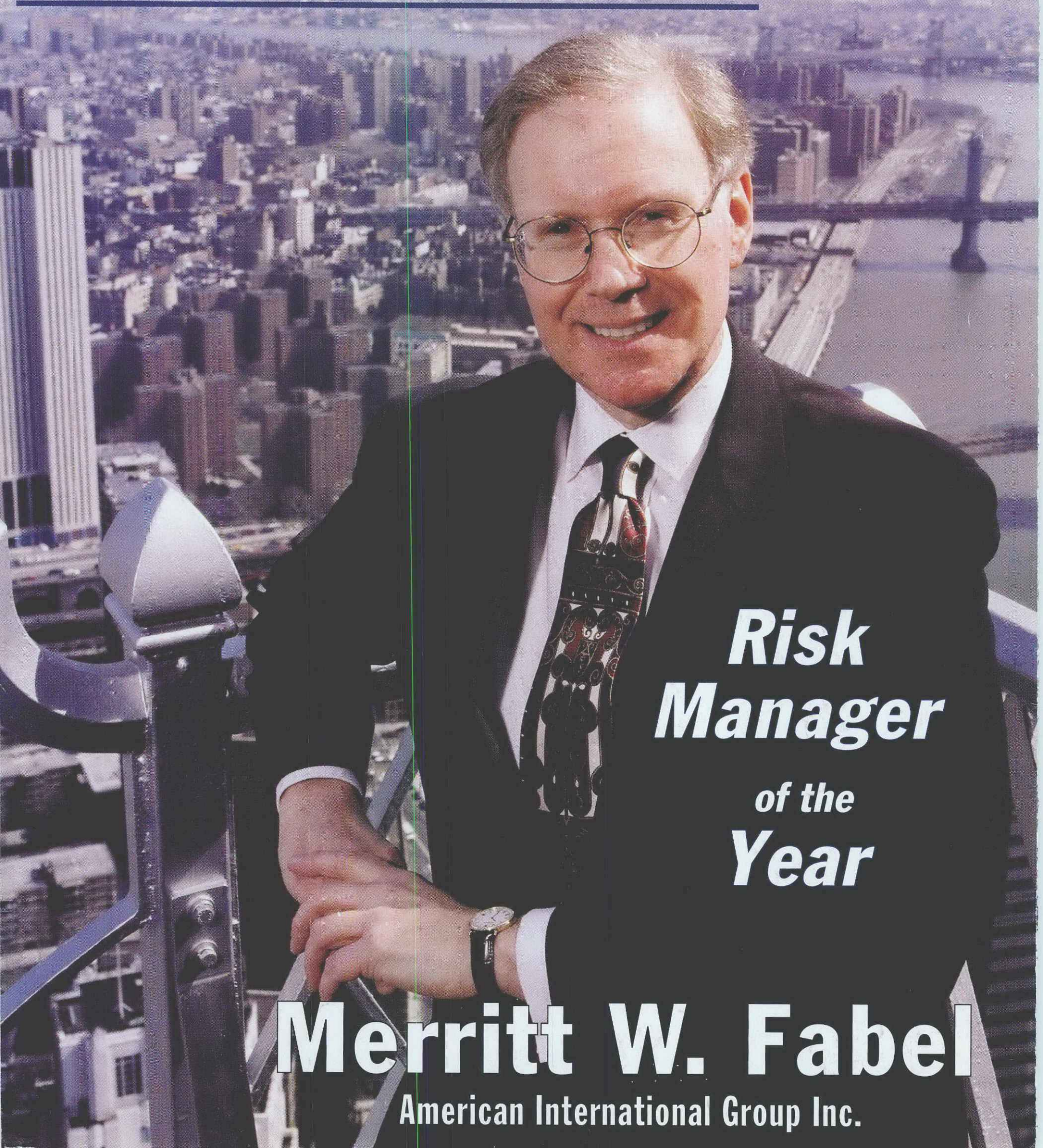
APRIL 12, 1999

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Chicago

Dallas

Hartford

Itasca

Mexico City

Miami

San Francisco

Stamford

Hamilton

Milan

London

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Updates

Judge allows suit against PBGC charging breach of fiduciary role

NEW YORK—Reversing an opinion from late last year, a federal district judge will allow a suit to continue against the Pension Benefit Guaranty Corp. in its role as trustee of pension plans.

According to the plaintiff's attorney, Harvey Katz, this is the first time the federal agency has been "held responsible as a fiduciary of a plan for the manner (in which) it makes" benefit calculations.

The suit was brought by former employees of Pan Am World Airways Inc. against the

See **Updates** *on next page*

Managing risks gains higher internal profile

By ROSEANNE WHITE

A new leadership role is evolving as more companies take a broader, more high-profile view of risk management.

How that role is being shaped, the title it carries, and the teamwork involved vary among different organizations.

The idea behind the position, frequently referred to as chief risk officer, or CRO, is to have an executive who is the focal point for enterprise or integrated risk management in the organization, said Michael Toothman, the Philadelphia-based managing partner of the casualty, actuarial, claims and risk management practices of Arthur Andersen.

The CRO has an "oversight role that would include the establishment, maintenance and continuous improvement of business risk management processes," said Bill Sacks, Los Angeles-based managing director of the business risk management competency development center, North America, for Arthur Andersen.

Today, the CRO's role includes integrating market risk, credit risk, operational risk, insurance products, derivative products and alternative risk transfer products, said James Lam, global head of Enterprise Risk Solutions, a division of Oliver, Wyman & Co., a New York-based enterprise risk consultant and broker.

The CRO position is an outgrowth of what is called enterprise, holistic or integrated risk management. That approach generally involves developing a risk management strategy based on identifying and understanding the spectrum of risks a company faces, whether they be financial, operational, insurable, legal or market risks.

"Every company has a chief risk officer. The problem is that the chief risk officer is not a professional risk officer. It's many times the CEO," observed John Riley, director-corporate risk management for The Dun & Bradstreet Corp. in New York.

Responsibility for all of a company's business risks tends to fall under many positions, Mr. Riley

See **CRO** *on page 118*

Product to track enterprise risks

New risk database

By DAVE LENCKUS

STAMFORD, Conn.—Risk managers attending the Risk & Insurance Management Society Inc.'s annual conference this week might head home with an extended test drive of a new information system designed to help identify and manage enterprise risk.

Stamford, Conn.-based InQuisLogic Inc. plans to offer risk managers access to the company's Internet-based knowledge and solutions tool on enterprise risk for free over a 30- to 60-day period.

The risk management information system, inspired by a system developed for Microsoft Corp. by former risk manager Scott Lange, is designed to allow users to tap a huge database on more than 180 enterprise risks, from fire to legal to interest rate fluctuation risks. The database includes information on the best practices in controlling those risks as well as measures that have failed for risk managers.

The information can be accessed by clicking on a particular risk, such as earthquake; a risk category, such as natural disasters; or a business process, such as hiring.

The information—material from various business, academic and business newspaper sources—was pulled together largely by a group of professors at the Katie Insurance School at

See **System** *on page 118*

Risk manager pay rises with influence

By AMANDA MILLIGAN

An expanded job description and more corporate influence is credited for gains in risk managers' total compensation from 1996 to 1998.

A new survey finds that total compensation among risk managers increased roughly 7% to 14% from 1996, when the survey was last conducted. Increases in compensation varied depending on the risk manager's industry and company size.

Assistant risk managers' pay increased from 13.5% to 19.3% nationwide. The assistant risk manager is defined in the study as the person whose decision-making authority is second only to the top risk management position.

Respondents to the survey, commissioned by New York-based recruiting firm Logic Associates, were 1,315 risk managers and 378 assistant risk managers.

Risk manager compensation varied by size of company, the survey showed:

- At companies with annual sales of less than $200 million, the average salary was $70,958, with an average bonus of $2,225.

These risk managers saw the smallest increase in total compensation—defined in the study as salary plus bonus—during the two-year period, with an increase of 6.6%. They also were the lowest paid.

- At companies with sales of $201 million to $500 million, risk managers saw the biggest raises: an average of 14.2% more in 1998 than in 1996. Most of this growth came from an increase in the average salary to $85,568 in 1998, up from $74,722 in 1996.
- At companies with sales of $501 million to $1 billion, average salary was $93,283, with an average bonus of $4,746.
- At companies with sales of $1 billion to $2 billion, risk man-

See **Salaries** *on page 117*



Employers' role in health care too big: Forbes

By JOANNE WOJCIK

ATLANTA—The best way to stem the nation's rising medical costs is to eliminate the employer-based health insurance system, asserts GOP presidential candidate Steve Forbes.

During a keynote presentation at the recent National Managed Health Care Congress in Atlanta, Mr. Forbes called for a "Health Care Declaration of Independence" that would take "power out of the hands of the government, the gatekeepers and other third-party payers—such as employers—and put it back in the hands of individuals and families, where it belongs."

"No American should be forced into government-run health care programs, or—and I know this isn't going to be popular here, but it needs to be said—forced into top-down and sometimes heavy-handed managed care and HMO programs against their will," said Mr. Forbes, who launched his second presidential campaign last month.



AP/ WIDE WORLD PHOTOS

GOP presidential hopeful Steve Forbes addressed the NMHCC last week.

"The problem is not the system, but how it is financed," he said.

Because employers can use pretax dollars to buy insurance and employees cannot, employers provide health care coverage, "and the patient isn't in charge," he said.

Employees would be more judicious about how they spend their health care dollars if the funds were coming out of their own—rather than their employers'—pockets, suggested Mr. Forbes, who is president and chief executive officer of Forbes Inc. and editor-in-chief of Forbes magazine.

Rather than providing health insurance, employers should deposit the amount they would usually pay for coverage into medical spending accounts, Mr. Forbes suggested. Employees could use the accounts to buy their own insurance and make other routine health care purchases.

Mr. Forbes also made MSAs central to his unsuccessful presidential campaign agenda in 1995-96.

"We don't really have health insurance in this country," he said. "We have a system where employers prepay health care costs."

And because employees—the end users of the health care system—don't have to worry about the cost, there's no incentive for them to spend conservatively, Mr. Forbes suggested.

"Imagine if employers paid for car insurance, gas and other auto repairs. How ex-

See **MSAs** *on page 119*

Updates

Judge OKs suit against PBGC

Continued from previous page

PBGC. It alleges the federal agency hasn't worked fast enough to calculate the value of their pensions and thus is in violation of its fiduciary duties under the Employee Retirement Income Security Act. The agency assumed control of three Pan Am plans in 1991 after Pan Am went bankrupt. The suit involves the largest plan, covering about 90% of employees.

Last year, the PBGC argued to the court that it owed no fiduciary duty to the plaintiffs, because it operates as a government agency and not as a trustee. Agreeing with this view, Judge Loretta Preska dismissed the employees' case.

But the judge has now reversed her course after the plaintiffs submitted a memo from the PBGC in which it described itself as a trustee. The memo "suggested that the PBGC itself views benefit calculation as a trustee function," including such duties as determining eligibility and benefit levels, the opinion states.

Prior to this opinion, the PBGC could operate exempt from the ERISA requirements that private plan trustees must follow, said Mr. Katz, a partner with the New York firm of Berlack, Israels & Liberman.

"The PBGC is now being held to the same standards as a private corporate trustee," he said.

In a written statement, PBGC general counsel James Keightley said, "There is no justification for a claim for breach of fiduciary duty."

He added that the PBGC has already sent 8,200 benefit determinations to plan members and that the agency will send them to the remainder of plan members by the end of this month.

The PBGC has paid more than $100 million annually to more than 16,000 Pan Am beneficiaries. Plan members received benefit payments while the agency's calculations were pending.

Comp ratios to worsen: NCCI

ORLANDO, Fla.—The National Council on Compensation Insurance is predicting bleaker times ahead for workers compensation insurers' financial results.

Preliminary projections are that two key combined ratios will increase five percentage points each in 1998.

The accident-year ratio, which considers losses only from accidents in a given year, is expected to climb to 121% from 116% in 1997. In addition, the calendar-year ratio, which includes claim payments and reserve changes during the year for accidents in that year or earlier, is expected to increase to 106% from 101%.

Experts say accident-year figures generally provide a truer picture of industry performance at a particular time, because they are not distorted by reserve releases.

The projected ratios are "a significant deterioration," NCCI's chief actuary, Nicholas J. Lannutti, said last week during the NCCI's annual issues symposium in Orlando.

The poorer results are reminiscent of the late 1980s, said Thomas Hayes, executive vp and chief operating officer of Ohio Casualty Group in Hamilton, Ohio. However, the problem this time is caused by competition among insurers, rather than regulators refusing to approve needed rate increases, said Mr. Hayes, who previously chaired the NCCI's board.

M&R buys benefits practices

NEW YORK—Seattle-based Milliman & Robertson Inc. last week purchased five U.S. employee benefits practices from Sedgwick Noble Lowndes.

These newly acquired operations represent annual revenues of $13.4 million, said Michael J. Mahoney, principal and national director of Milliman & Robertson's employee benefits practice.

The practices are located in San Francisco; Philadelphia; Warminster, Pa.; Melville, N.Y.; and Roseland, N.J. They build on Milliman & Robertson's current operations in defined benefit pension plans, jointly managed pension and welfare plans, and defined contribution plans, according to a company statement.

Aon buys California TPA

CHICAGO—Aon Corp. is expanding its third-party claims administration business with the acquisition of Rancho Cordova, Calif.-based Presidium Holdings Inc.

Presidium will be incorporated into Cambridge Integrated Services Group Inc., the Jamesburg, N.J.-based TPA subsidiary of Aon Services Group Inc. Aon consolidated its nine TPA units to form Cambridge last October (*BI*, Oct. 26, 1998).

With the addition of Presidium, Cambridge, a property/casualty and employee benefits TPA with $30 million in 1998 claims services revenues, fulfills its goal of expanding its capabilities and geographic reach, said Michael D. Rice, chairman of Aon Services.

"We can serve the needs of just about any client now," he said, adding that Cambridge will now shift its focus to organic growth from its previous strategy of growth by acquisition.

Presidium, which generated $41 million in revenues in 1998 from TPA services, specializes in workers compensation and health insurance claims administration, with particular strength in integrating claims management, Mr. Rice said.

Terms of the Presidium deal were not disclosed.

With Presidium, Cambridge's 1998 pro-forma gross revenues from claims services total $71 million, which propels Cambridge close to

See **Updates** *on page 118*

Errors & omissions

• Due to a production error, information on the British Virgin Islands was omitted from the chart of captive domiciles on page 54. Full information appears on page 115.

• The domicile chart also contains an incorrect number of Luxembourg captives for 1997. The domicile had 220 captives in 1997.

Pension surplus belongs to the employer: Court

By MARK A. HOFMANN

NEW YORK—An employer—not plan participants—is entitled to the surplus accrued by a terminated defined benefit pension plan, according to a federal appeals court panel, overturning a lower court ruling.

Had the three-judge panel of the 2nd U.S. Circuit Court of Appeals ruled differently, the result could have been chaotic for employers and actuaries alike, pension experts say. Instead, the panel reversed a district court decision that granted nearly $14 million in surplus to a class of plan participants.

Harold E. Shepley Jr. et al. vs. New Coleman Holdings Inc. et al., stemmed from the decision of Wichita, Kan.-based Coleman Co. Inc., now controlled by Sunbeam Corp., to terminate a defined benefit pension plan that it operated between 1955 and 1989.

According to the appeals court, after Coleman terminated the plan on June 30, 1989, and satisfied "all plan liabilities to its participants and their beneficiaries, a surplus of $13,895,380 remained."

A group of former plan participants then sued Coleman, claiming that allowing the surplus to revert to the company violated the Employee Retirement Income Security Act of 1974. Coleman disputed that interpretation of ERISA, but the U.S. District Court for the Southern District of New York granted summary judgment in favor of the plaintiffs in 1997. Coleman appealed.

The 2nd Circuit ruled in favor of Coleman on April 1. In a decision

See **Surplus** *on page 118*

Time short for Y2K remedies

D&O, E&O policies might respond to claims: Report

By GAVIN SOUTER

NEW YORK—Risk managers are running out of time to deal with the Year 2000 problem, but there are still steps that can be taken to mitigate potential exposures, even at this late stage, according to a new report from Marsh & McLennan Cos. Inc.



In addition, if Y2K-related losses occur, policyholders still may be able to seek coverage under some insurance policies.

While insurers may be able to successfully deny claims against most commercial general liability insurance policies, claims made by policyholders on directors and officers liability and errors and omissions coverage may be more successful, the broker says.

"Insureds, if they have not already done so, must immediately identify and prioritize key issues for their organizations" in light of risks created by the Year 2000 computer problem, advises M&M's *Management Liability Review*, which will be released this week.

The review contains 19 reports on various management liability topics.

The report on Year 2000 issues was co-authored by Scott Broome, a senior vp at the FINPRO unit of Marsh in Philadelphia, and Laura L. Bouyet, a managing director of FINPRO in New York.

In addition to prioritizing loss prevention measures, policyholders also should review what insurance coverage they have in place that might re-

See **Y2K** *on page 117*

Court blocks OSHA program

By MARK A. HOFMANN

WASHINGTON—The Occupational Safety and Health Administration cannot go forward with a controversial workplace safety program it unveiled more than a year ago because it did not comply with federal rule-making procedures, an appeals court has ruled.

Business groups hailed the decision of the U.S. Court of Appeals for the District of Columbia Circuit last Friday, forcing OSHA to retract its "cooperative compliance program," as a victory.

The U.S. Chamber of Commerce, the National Assn. of Manufacturers, the American Trucking Assns. and the Food Marketing Institute asked the court to block the program last year, charging, among other things, that OSHA had failed to observe proper notice and comment procedures before attempting to enforce the program (*BI*, Jan. 26, 1998).



The appeals court stayed enforcement of the program pending review last winter (*BI*, Feb. 23, 1998).

The program, which was unveiled nearly 18 months ago, would have targeted what OSHA regarded as the nation's least safe workplaces (*BI*, Dec. 1, 1997). Employers that agreed to participate in the CCP could have avoided comprehensive OSHA inspections by making top-down commitments to safety, including implementation of formal health and safety plans.

Critics charged that OSHA was unfairly targeting employers on the basis of frequency rather than severity of injuries. They also charged that OSHA was playing semantic games by calling the CCP an "instruction"—and thus not subject to formal review and comment—rather than a proposed regulation that would have to go through a specified rule-making process.

A three-judge panel of the appeals court agreed with the thrust

See **OSHA** *on page 119*

Inside

• ON THE COVER: Merritt W. Fabel, director of corporate risk and insurance for American International Group Inc. of New York, is the 1999 *Business Insurance* Risk Manager of the Year. **PAGE 80**

COVER PHOTO BY MICHAEL MARCOTTE

• David A. Holcombe, risk manager for International Speedway Corp. and NASCAR of Daytona Beach, Fla., is named to the 1999 Risk Manager Honor Roll. **PAGE 96**

• Lewis Leigh, executive director of Washington Cities Insurance Authorities, based in Renton, Wash., is named to the 1999 Risk Manager Honor Roll. **PAGE 102**

• Sheryl A. Pixler, risk manager of Storage Technology Corp. of Louisville, Colo., is named to the 1999 Risk Manager Honor Roll. **PAGE 106**

• A look at past recipients of the Risk Manager of the Year award and honor roll members. **PAGE 111**

• A look at the judges for the 1999 Risk Manager of the Year contest. **PAGE 112**

• Two recent federal court cases underscore the need for better communication about pension plans on the part of employers and legal experts alike, one of this week's editorials says. **PAGE 8**

Departments

Advertiser Index 110
Classifieds 114
Commentary 117
Directory of Captive Managers 26
For the Record 115
Global Briefs 113
Insurance Services Guide 112
International 113
Reader Reply Service 110
Ticker 119

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Domiciles ranked by number of captives

Domicile	1998	1997
1. Bermuda	1,054*	1,050*
2. Cayman Islands	485	449
3. Guernsey	349	339
4. Vermont	334	305
5. Barbados	221*	210**
6. Luxembourg	220	220**
7. Isle of Man	171	167
8. Dublin	153	142
9. British Virgin Islands	81	72
10. Turks & Caicos	76	68
11. Hawaii	54	52
12. Singapore	51	52
13. Bahamas	29	29
14. Switzerland	17	14
15. Netherlands Antilles	16	17
16. British Columbia	16	16
17. Georgia	15	14
18. Jersey	14	13
19. Colorado	13	16
20. Gibraltar	10	8
21. Tennessee	9	9
22. U.S. Virgin Islands	7	7
23. Delaware	5	6
24. Illinois	4	4
25. Labuan	3	2
26. New York	2	2
27. Panama	2	1
28. Malta	2	0
29. Guam	1	1
30. Lloyd's of London	1	0
31. Maine	1	0
32. Rhode Island	1	0
33. Hong Kong	0	0
34. South Dakota	0	0
35. Virginia	0	0

*BI estimate. **1997 restated

Captive industry posts small global gain for 1998

Captive growth worldwide continued to slow in 1998.

In the domiciles *Business Insurance* surveyed, there were an estimated 3,418 captives at the end of 1998. That's an increase of 4% from the 3,286 in 1997.

That rate of growth lags behind recent years, though. In 1997, for a slightly different pool of domiciles, the captive growth rate was 5.6%, while it was 6.8% for 1996. *BI* in 1998 ceased counting captives in a few domiciles that do not have legislation specifically enabling captives.

Bermuda remains, by far, the world's largest captive domicile, with an estimated 1,054 captives at the end of 1998, up from an estimated 1,050 at the end of 1997.

Those stable numbers belie a year of considerable activity in Bermuda, though: A total of almost 100 international companies were formed in Bermuda in 1998, and *BI* estimates that two-thirds of those were captives. At the same time, Bermuda saw 90 companies cease business in 1998, with *BI* again estimating that two-thirds of those were captives.

The soft market has particularly dampened captive growth in Bermuda, with some companies opting for the low-priced traditional insurance market and others decreasing the premium volume placed with their captives.

The Cayman Islands saw the biggest net gain, growing by 36 to finish 1998 with 485 captives, compared with 449 at the end of 1997.

The Cayman Islands is the world's second-largest captive domicile. William N. McCullough, head of insurance supervision for the domicile, said he hopes to see Cayman reach 500 captives by the end of the first quarter.

In Europe, Guernsey remained the leader, with 349 captives, up from 339 at the end of 1997. Luxembourg again finished second in Europe, with an estimated 220 reinsurance captives, according to Insurance Commissioner Victor Rod. That number was unchanged from 1997. The figure of 254 captives that Luxembourg reported last year reflected all reinsurance entities operating in the domicile.

Other major domiciles worldwide include Barbados, which finished 1998 with an estimated 221 captives, up 11 from a restated estimate of 210 for 1997; the Isle of Man, which saw a net gain of four captives to finish at 171 for year-end 1998; and Dublin, which finished 1998 with 153 captives, a gain of 11 over its 1997 figure.

In the United States, Vermont posted a net gain of 29 captives for a year-end 1998 total of 334, up from 305 in 1997. That puts Vermont behind only Bermuda, Cayman and Guernsey worldwide.

Hawaii remained the second-largest U.S. domicile. It finished 1998 with 54 captives, a slight increase over 1997. To spark more growth, Hawaii's captive industry hopes legislation is passed that will set up four classes of captives, including leased facilities, or rent-a-captives. Hawaii to this point has not permitted rent-a-captive formations.

Hawaii also aspires to become home to captives of Japanese parents that might leave Dublin for tax reasons in the coming years.

Elsewhere in the United States, Georgia reported 15 captives, a net gain of one; Colorado reported 13 captives, down from 16 at year-end 1997; and Delaware reported five captives, down from six for 1997.

The number of captives at year-end 1998 remained the same as the 1997 number for Tennessee, Illinois and New York.

Worldwide, the British Virgin Islands saw a net gain of nine captives to finish 1998 at 81. The Turks & Caicos Islands posted a net gain of eight captives, finishing the year at 76.

Numbers stayed the same for the Bahamas and British Columbia and changed only slightly for Singapore, Jersey, Switzerland, the U.S. Virgin Islands, Gibraltar, Labuan, Panama, the Netherlands Antilles and Guam.

Of the domiciles *BI* surveyed, four got their first captives in 1998: Lloyd's of London, Rhode Island and Maine each had one. Malta saw two formations in 1998.

South Dakota, Virginia and Hong Kong reported no captives as of year-end 1998.

BI in 1998 stopped following Sweden, the Netherlands, Australia, the Aland Islands, Montenegro and Arizona. While they all allow policyholder-owned insurers to form, they do not have legislation in place specific to captives.

Also off the list this year is Cyprus. Because of its proposed membership in the European Union, the Mediterranean island of Cyprus no longer is promoting itself as a captive domicile. The Cyprus Ministry of Finance learned in February that exceptions for captives included in the island's existing insurance legislation will not be allowed when Cyprus is granted E.U. membership.

New Brunswick also is not counted this year. While the province has legislation allowing captive insurers, regulators are waiting for its first captive before promulgating regulations.

For a review of domiciles' regulatory information, please turn to the chart that begins on page 54.

Inside:

Rating game: Captives can turn to Best, S&P for ratings review 4

Cheap cover: Soft pricing still characterizes captive reinsurance 6

Domicile data: Complete data on rules and regulations 54

Leading domiciles:

Bermuda 14

Cayman 22

Guernsey 25

Vermont 32

Barbados 41

Luxembourg 41

Isle of Man 44

Dublin 46

Singapore 49

Hawaii 49

Directory of Captive Managers ..62

Captive Report

Rating services lend captives legitimacy

By MARK A. HOFMANN

Regardless of the field, to compete with the big boys, it helps to have credentials.

And for some captive insurers, the best place to get those credentials is from rating services better known for rating more conventional insurers.

Both Oldwick, N.J.-based A.M. Best Co. and Standard & Poor's Corp. of New York will, for a fee based on a captive's size, subject a captive to the same scrutiny as a conventional insurer. Each rating service rates approximately 100 captives, including risk retention groups and public entity pools.

Analysts look at much the same criteria when rating captives as they do when examining conventional insurers, said Hope Maxwell, an analyst with Best.

This includes such considerations as market profile and financial strength, she said. For captives, analysts also look for investment concentration, because captives may often have a more aggressive investment position than conventional insurers, she said. Analysts also look closely at the entity's retention of risks, which typically may be higher than those of conventional insurers relative to their surplus position.

Michelle Baurkot, another Best analyst, said the rating service pays attention to any concentration of stocks and other equity positions the captive might hold. They may be more heavily invested in their owners' equities, she said.

"Ratings are more than just a score card or report card" on financial strength and can be affected by the relationship the captive has with its clientele, said Alan Levin, senior vp with S&P.

The captives rated by S&P have "pretty much" the same spread of ratings as conventional insurers, said Mr. Levin, though there are currently no AAA-rated captives. The majority fall into the "secure" category—AAA to BBB—with 57% of the captives falling into the BBB category, he said.

The majority of the ratings among the captives rated by Best are at the A- level, between the excellent and superior ratings, very similar to the conventional property/casualty industry, said Best's Ms. Maxwell.

Observers cite numerous reasons for a captive insurer to go through the rating process.

"Single-parent captives that hope to write third-party business say that the rating enables them to compete more effectively," said Ms. Maxwell.

Having a rating makes "people more comfortable" when placing business with a captive, agreed John Lochner, a consultant with Tillinghast-Towers Perrin in Weatogue, Conn. A rating "supports the assertion that this captive really is an insurance company," he said. "This not only looks and smells like an insurance company, it actually operates as an insurance company."

"People perhaps one step removed from the process would see this as a 'Good Housekeeping seal of approval,' " said David Ezekiel, president and managing director of Hamilton, Bermuda-based International Advisory Services Ltd., a captive manager now owned by Mutual Risk Management Ltd. Mr. Ezekiel said there is no substantial difference between A.M. Best and S&P's ratings.

A risk manager can take the rating to the board of directors and say, "Here's something that shows we're doing it right," he said.

Getting a rating "gives us overall creditability in the marketplace," said Jerry Wollam, president of Indianapolis-based NAMIC Insurance Co., a captive sponsored by the National Assn. of Mutual Insurance Cos. The NAMIC captive provides directors and officers liability insurance, insurance company professional liability insurance and insurance agents errors and omissions insurance for association members and the agents who represent them. NAMIC formed the captive as an Indiana-domiciled insurer in 1987. It carries an A- rating from A.M. Best.

"From a quality standpoint, when you get a Best rating, it's a stamp of approval with the company," he said. "Best's really puts us under a strong microscope."

The rating is also important to agents, demonstrates creditworthiness to vendors and gives NAMICO employees "a sense of pride that we are in the same group as some larger companies," Mr. Wollam said.

The rating also gives NAMICO's "reinsurers a little bit of comfort in their underwriting process," he said.

"If I'm the assuming reinsurer, the captive is probably going to have more concerns about my rating from a credit risk standpoint than I will his," said R. Lincoln Trimble, vp-underwriting manager property/casualty at Chubb Atlantic Indemnity Ltd. in Hamilton, Bermuda.

"But it would make a difference to us, particularly as we get into more-complex structures. For example, to the extent that we provide finite risk reinsurance, there may be credit risk issues from our standpoint that a more highly rated captive would be held in higher esteem by us than a lower-rated one."

In addition, "certainly, we're looking for a long-term relationship, and the more highly rated captive would be more attractive," Mr. Trimble said.

See **Ratings** *on page 6*

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Captive Report

Ratings

Continued from page 4

But captive ratings may not be of equal value for everyone, notably public entity pools and captives, pointed out John B. Evans, area president of Arthur J. Gallagher & Co. in Nashville.

"We've obviously seen lots of captives through the years. Largely what we see is the sponsoring organization's credibility with its members." The sponsoring organization's credibility tends to carry more weight than a rating service's seal of approval, Mr. Evans said.

Richard S. Betterley, president of Betterley Risk Consultants Inc. in Sterling, Mass., said the appeal of a rating can vary according to whom the captive serves.

"By the time risk managers are getting serious about using a group captive, they feel they know it so well that they don't need an independent rating service for their own analysis or comfort," Mr. Betterley said. "But they sometimes think that the security of a good rating will give comfort to senior management or board members."

He said that although he's "been kind of ho-hum" toward the idea of rating group captives, the practice seems to be important for group captives that appeal to small to midsize clients.

Mr. Ezekiel of International Advisory Services Ltd. said market conditions also affect a rating's importance.

"I think a bit is dependent on what the market is doing. Where it would be most important is the whole association captive area, where you are trying to convince people of the solidity of the company. In that market, certainly, it would be important. Having said that, that market at the moment is not really out there," he said.

Ratings would have been more important in the market of five years ago, Mr. Ezekiel said.

But regardless of when a captive chooses to make the commitment to being rated, its managers must realize that the act of being rated in itself has to represent a long-term commitment to be of value, stressed Tillinghast-Towers Perrin's Mr. Lochner.

"The entity has to ,basically, be prepared to go through the underwriting process each year. If the entity decides not to do it, it could be potentially very damaging," Mr. Lochner said.

When a captive doesn't have the rating publicized any more, "it's tantamount to publicizing a significant downgrade," he said. BI

Captive reinsurers eying unique risks

By JUDY GREENWALD

Risk managers continue to enjoy plentiful and cheap reinsurance for their captives, with little apparent change from a year ago, though some see signs the market may be bottoming out.

At the same time, although there has been little overall growth in the use of finite risk reinsurance, the industry is looking more closely at relatively new uses for captive reinsurance, including business risk coverages for risks such as foreign exchange and commodity prices.

Captives are also being used for cross-class, or "basket," aggregate coverages, in which property and casualty risks are reinsured within the same reinsurance policy over the captive's retention.

More discussion is also taking place on the possibilities of securitization through captives, although this still remains largely theoretical.

However, some say interest in captives in general—and captive reinsurance in particular—has been diminished by the ready availability of capacity in the traditional market.

Meanwhile, the captive reinsurance market remains competitive.

"Not a great deal has changed" since last year, said Jill Husbands, senior vp and manager, sales and marketing, at J&H Marsh McLennan Management (Bermuda) Ltd. "I would say that the pricing is still aggressive, and that there's no problem with availability."

"It's been extremely competitive still," agreed Colin C. James, president and chief executive officer of reinsurance intermediary Atlantic Security Ltd. in Bermuda. "We see no bottoming out of any classes of business that we broker, and, generally, the rates are spiralling downward. How long this can continue, I have no idea, and I don't think anybody else does, either."

"I think both there's lot's of capacity and the rates are soft," said Alan Cossar, executive director of Aon Insurance Managers for Bermuda and the Caribbean, who is based in Bermuda. "I think, particularly here in Bermuda, there is more capacity because some of the Bermuda insurance/reinsurance companies are targeting captives."

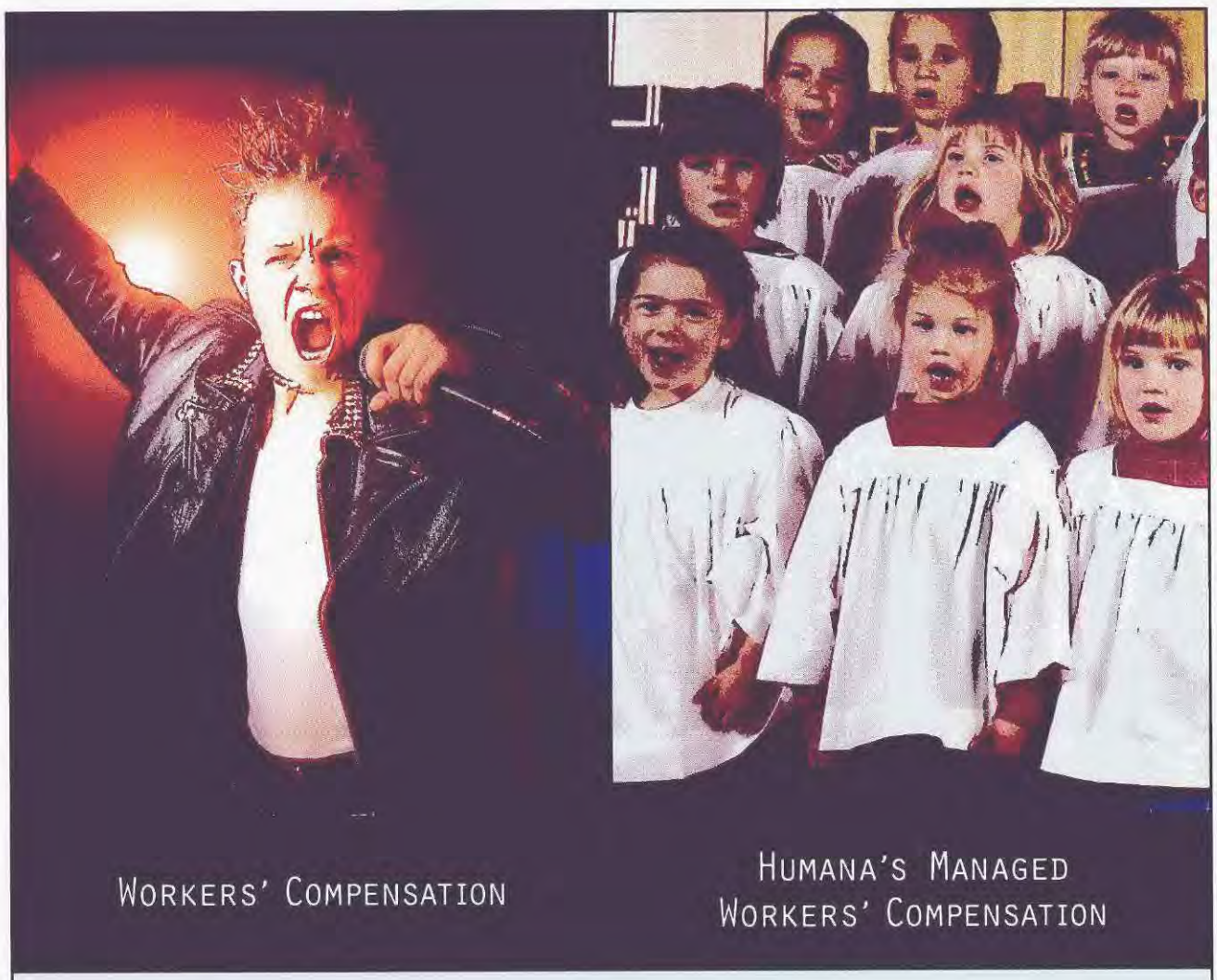
"What I'm seeing more than price deterioration is more coverage being thrown into a captive, and thus the reinsurers have to respond to more and more unique underlying exposures," said R. Lincoln Trimble, vp-underwriting manager property/casualty at Chubb Atlantic Indemnity Ltd. in Bermuda.

"Each year, it's been increased flexibility," said Richard C. Heydinger, director-risk management services, for Kansas City, Mo.-based Hallmark Cards Inc. "I think the reinsurers have stepped up to the captive market real well. . .and most of them have recognized that there's a big percentage of the commercial business that has gone that same route, and if they want to continue to grow market share, they have to be an integral part of that marketplace and work hard."

But declining prices are a problem for reinsurers, said John Gantz, principal at Swiss Re New Markets in New York. "I would say that availability is still very much evident, but pricing is getting to the point where probably at least some reinsurers are less willing to provide significant support, because the prices are getting so low," said Mr. Gantz.

"Now, of course, we could argue that they've been saying this for quite some time and still provide a lot of support, but what we really see, candidly, is that in some cases, at least, the pricing is getting to the walk-away point," he said.

See **Reinsurance** *on page 12*



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Opinions

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These are hallmarks of quality customer service sought by brokers and insurance companies. They also distinguish the group of risk management professionals who are the recipients of this year's Risk Manager of the Year and Risk Management Honor Roll awards.

What distinguishes these risk managers is their drive to provide top-notch service within their organizations, treating their colleagues like customers. They not only take the time to understand the needs of their organizations but also make an effort to communicate the goals and benefits of risk management—as well as the hazards of not following their counsel.

Their skillful communication assures that these risk managers' advice is valued and sought after by senior managers as well as their many "customers."

This builds strong relationships as well as broad respect for the risk management function as a resource that makes a real difference in the bottom line while also solving myriad problems that confront the organization.

The 1999 Risk Manager of the Year—Merritt W. Fabel, director of corporate risk and insurance at American International Group Inc.—has successfully implemented a centralized risk management program at a decentralized global insurance and financial services company run by a demanding management team that puts a premium on risk management.

Mr. Fabel's risk management philosophy boils down to taking nothing for granted and providing a service of guidance and problem-solving advice, not just added risk financing cost, to his AIG "clients."

His approach has led to a strong collaborative relationship with unit management, which is reflected in better control of risk and cost savings.

The three members of the 1999 Risk Management Honor Roll also have emphasized quality service:

• David Holcombe, risk manager for International Speedway Corp./National Assn. of Stock Car Auto Racing Inc., has adapted himself and his risk management program to keeping pace with new risks and rapid growth that have resulted from stock car racing's soaring popularity.

Mr. Holcombe has been an effective communicator both within ISC/NASCAR as well as with the organizations' insurance markets. Sharing information has spread the risk management culture throughout the motor sports companies.



• Lewis Leigh, executive director of the Washington Cities Insurance Authority, is an innovator and risk-taker when it comes to protecting the members of the self-insurance pool. Mr. Leigh is respected and valued for giving pool members the information and resources needed to better manage their risks and lower their costs.

He also has been successful at reining in political egos that could unintentionally increase the liability exposure of a municipality.

• Sheryl A. Pixler, risk manager of Storage Technology Corp., has built a solid risk management program from the ground up for the high-tech manufacturer. Along the way, she has greatly increased her knowledge and skills while raising the visibility of the risk management department within StorageTek.

Ms. Pixler's drive to address potential exposures and lower the company's cost of risk are exemplified in her efforts to raise awareness of the Year 2000 problem and assure the company was protected well before the millennium bug grabbed headlines.

For risk managers seeking ways to increase their contributions and profile, emulating the example of these four risk managers in striving to provide quality customer service is an excellent place to start.

Pension surplus ruling a relief

ONCE AGAIN, a federal court has resisted the temptation to create a pension right where none exists.

The 2nd U.S. Circuit Court of Appeals recently followed the lead of the Supreme Court by spelling out how differences between defined benefit and defined contribution plans negate participants' right to the surplus of terminated defined benefit pension plans.

We're relieved that the judges ruled as they did, because to have ruled otherwise would have opened the door to uncertainty and more litigation for employers. An opposite ruling also would have given employers good reason to question whether offering a defined benefit plan is worth the trouble.

The case before the appeals court— *Harold E. Shepley Jr., et al. vs. New Coleman Holdings Inc. et al.*—arose after Coleman Co. Inc. terminated a defined benefit pension plan and found, after meeting plan obligations, that it had nearly $14 million in surplus. A group of participants sued, saying that the surplus belonged to them because of wording in the Coleman pension plan. An amendment to the plan said that Coleman, which is now controlled by Sunbeam Corp., was entitled to any "overpayment" to the plan. The plaintiffs claimed that the surplus, which resulted from favorable investment performance, didn't constitute an overpayment and therefore belonged to them.

A three-judge appeals court panel disagreed, focusing on the difference between defined benefit and defined contribution plans. In doing so, the panel followed both the logic and approach of the U.S. Supreme Court in its January decision in *Hughes Aircraft Co. et al. vs. Stanley I. Jacobsen et al.* that said that participants in a defined benefit plan have no automatic right to a plan's surplus (*BI*, Feb. 1). Associate Justice Clarence Thomas used that decision—which he wrote—as an occasion to explain how defined benefit and defined contribution plans differ.

That both courts felt compelled to provide tutorials on the differences between types of pension plans underscores the need for better communication about pension plans on the part of employers and legal experts alike. As long as cases like *Shepley* and *Hughes Aircraft* can reach the courtroom, those tutorials need to continue.

Defined benefit plans are designed to provide guaranteed income for retirees, not high-risk returns or potential jackpots for successful litigants. If the courts had ruled participants were entitled to the surplus, employers that offer pension plans could not have been blamed for rethinking that strategy.

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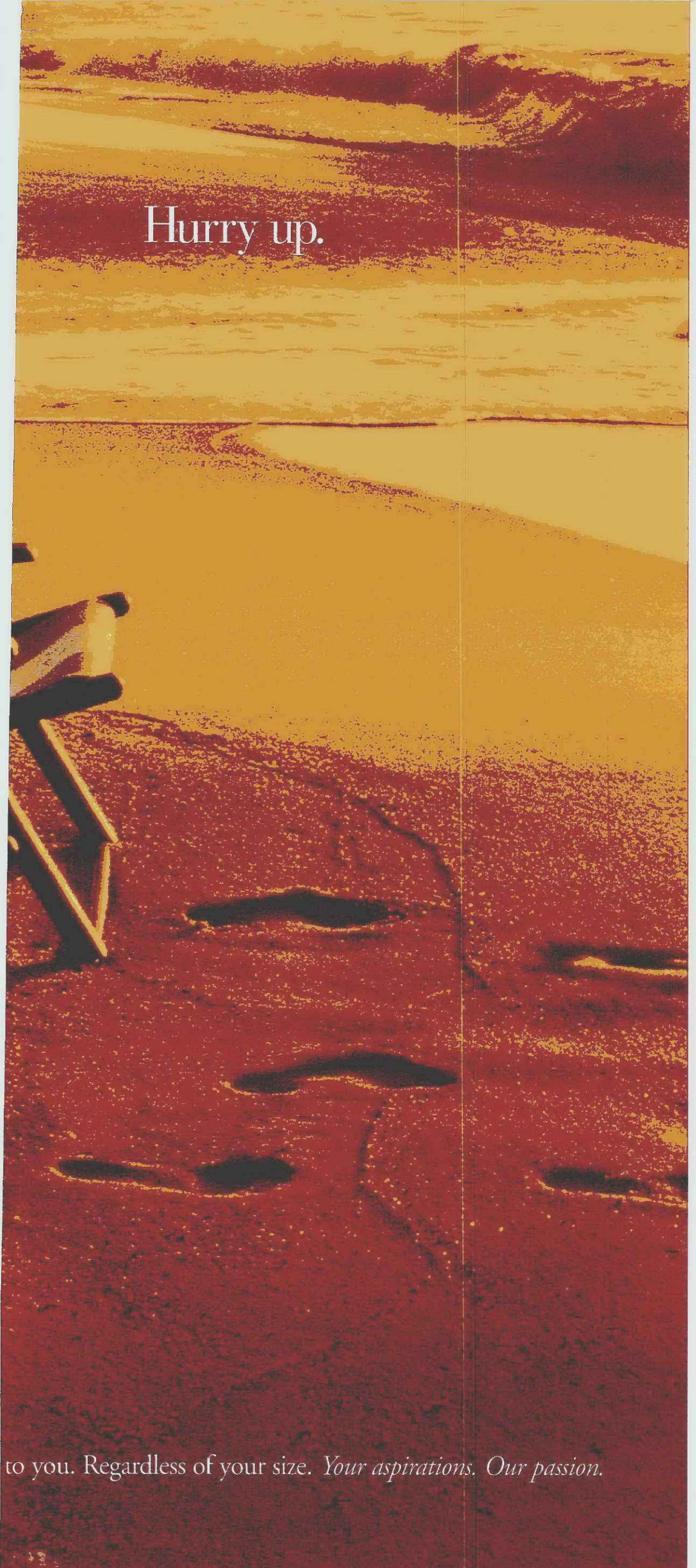
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Captive Report

Reinsurance

Continued from page 6

Charlotte Manca-Wells, vp at Silver Spring, Md.-based Adventist Risk Management Inc., said she also sees signs of change. Her company operates captive Gencon Insurance Co. of Vermont on behalf of the General Conference of Seventh-day Adventists.

"It's very interesting," she said. "The captive reinsurance market continues to be soft, and we're still getting good deals. However, underwriters are asking for more and more information, and this is a sign that underwriting in general is tightening up."

Ms. Manca-Wells said that while she is not concerned about her July 1 casualty renewals, she would not go so far as to say her Jan. 1 property renewals are "going to be a piece of cake. I think maybe it's going to toughen up," she said.

David Ezekiel, president and managing director of Hamilton, Bermuda-based captive manager International Advisory Services Ltd., said: "I don't think it's getting a whole lot cheaper. It's obviously—depending on who you talk to—pretty much stabilized at the bottom."

"While we haven't seen a whole lot of new (reinsurer) entrants of late. . .it's still readily available with companies of really good security," said Mr. Ezekiel.

There are very few reinsurers that won't work with captives, he added. "Pretty much all of them will look at most submissions, and some of them obviously are a lot more active in the captive area than others."

Meanwhile, said Mr. Ezekiel, "captives have taken the last three, four years as an opportunity to upgrade the quality of their reinsurance, so it has been very much a quality game as well."

A captive's reinsurance rates are based on its loss history, said Don Watson, director at rating agency Standard & Poor's Corp. in New York. "If you had a great year, no losses, they'll cut prices." But if the captive had losses, then rates would at least be the same or "a bit more," he said.

"It's still very much relationship-driven, and the reinsurers look to maintain a reinsurance relationship over time," said Mr. Watson.

Meanwhile, cross-class aggregate coverage is garnering considerable attention.

Mr. Cossar said: "I think there is a growing interest, both in captive owners and the reinsurance market, to provide cross-class aggregate products," in which the captive is used as the "mixer" for those classes of business, and the coverage comes in over the captive's aggregate retention.

"It's a way of effectively buying reinsurance protection, which, rather than being triggered by events in one risk, is really only triggered if there are adverse results in more than one line of coverage," said Mr. Cossar. "It's a more effective purchase of reinsurance," he said. "The pricing continues to be favorable. I think it will become more popular."

"We've seen a move toward the basket aggregation of risk because the larger premium volume of combined classes means you can get a lower rate overall for your program," said Mr. James of Atlantic Security. "It's certainly showing every indication that trend will continue," he added.

Ms. Husbands of J&H Marsh & McLennan agreed there is greater use of cross-class aggregate programs in captives, and these programs sometimes include a portion of finite coverage. "Because people are putting traditional risks and non-traditional risks into their captive, more and more of their corporate philosophy, perhaps, is to retain $25 million in losses, but that can come from any one of numerous lines of business. So, obviously, the easiest way to produce that, rather than on an occurrence basis, is to have one of these cross-lines aggregate coverages."

"We're seeing more and more captive transactions" involving cross-class business, said Chubb's Mr. Trimble. "We think that cross-class is a real wave for this year."

These coverages are "increasingly being explored and are, in many cases, being bought," said Mr. Gantz of Swiss Re New Markets.

In addition, business risks are being reinsured more frequently by captives.

"We're seeing more and more interest in what we call 'business risks,' putting those in a captive and then perhaps purchasing reinsurance in a non-traditional reinsurance market," said Ms. Husbands.

"We're certainly seeing the business risk-type of scenario, and largely that's been done on a finite-risk basis, where reinsurers act to smooth out risk," said Mr. Trimble.

Meanwhile, some captives are seeking to pool risk and have it securitized "much as we've seen in the cat bond market," said S&P's Mr. Watson, though no such transactions have been completed yet.

"Securitization is obviously the flavor of the month," but there has not been any to date in the captive market, said Mr. Ezekiel of IAS.

The future of securitization involving captives is promising, however, said Mr. Gantz. "We look at capital markets as, in some cases, being a more cost-effective way of providing reinsurance, and certainly captives form a part of that potential market."

Although securitization involving captives is not a "primary area of focus" at this point, "we've certainly had some dialogue with a few that are at least looking at it and considering it as an opportunity," Mr. Gantz added.

Judith M. Lindenmayer, vp-insurance and risk management for Boston-based Fidelity Investments, said that, while she is not aware of any securitization by a reinsurer involving a captive, "I'd consider (captives) a tool for a risk manager, and I wouldn't say that it couldn't happen."

Meanwhile, there has not been strong growth in finite risk reinsurance, though it is sometimes written in conjunction with business risks or cross-class aggregate coverages.

"Finite risk is not a strong trend, but we've had instances where our captives have used finite risk," said Mr. Ezekiel.

"There is some" finite risk reinsurance, said J&H Marsh & McLennan's Ms. Husbands. But, she added, "I would say there's not as much activity as perhaps we all thought there would be."

There probably is a move away from finite risk "because insurance and reinsurance rates are so competitive," said Mr. James of Atlantic Security.

Some observers point out that the soft market has affected the interest in captives in general and, in particular, any type of captive reinsurance.

For example, John Coppinger, senior vp at Odyssey Reinsurance Corp. in New York, said, "There's a continuation of the trend of smaller insureds getting out of the alternative risk mechanisms and into fully insured programs, using captives less and, in some cases, even disbanding them."

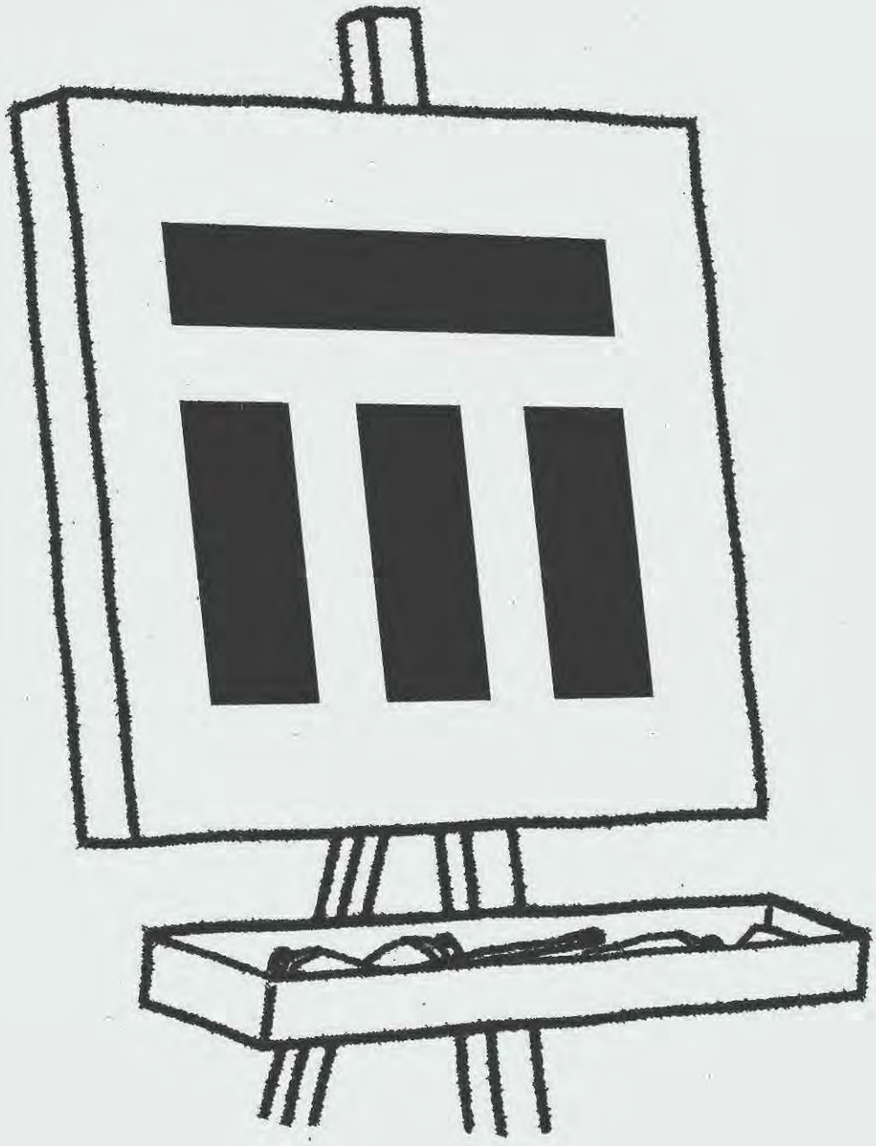
Tom Dickson, chief underwriting officer for Centre Solutions in New York, said, in light of the soft overall market, "If I had a captive. . .I would use my captive less, and I would put more business in the traditional market."

However, he added, those with captives will "always find ways to use it."

S&P's Mr. Watson, though, said he sees continued growth in captives, in part because of reinsurance.

"Captives continue to sprout despite very low primary insurance rates—and reinsurance rates, for that matter—and part of it is because reinsurance is making it more affordable," allowing risk managers to go directly to a reinsurance company and bypass the commissions that are paid to primary insurers, Mr. Watson said. "The result is demand has declined for the primary insurance companies, and reinsurers are taking a piece of that action." BI





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Management of Capital and Risk

Captive Report

Cheap rates stall growth of Bermuda captives

By GAVIN SOUTER

HAMILTON, Bermuda—Captive formations in Bermuda continued at a brisk pace in 1998, though an almost equal number shut down as more and more captive owners succumbed to the allure of cheap coverage in the commercial insurance market.

Depressed commercial insurance rates across most lines of coverage are too tempting for many captive owners.

And even when captives remain intact, the amount of premium they write is often reduced, captive managers say.

However, other risk managers are forming new captives and maintaining existing captives to cover a growing variety of risks.

In particular, agency captives are forming apace as insurance agents seek to participate in the profits of their good books of business, captive managers say.

And several rent-a-captive managers are seeing increased business as smaller policyholders seek a cost-effective way of entering the alternative market (see story, page 20).

Non-traditional coverages are also being placed in captives, managers say.

Integrated risk financing programs often use captives to write primary layers, while many financial-oriented coverages rely on captives to provide the benefits of an offshore facility, they say.



And the trend of health care captives establishing in Bermuda continued in 1998, managers say.

The number of captives in Bermuda edged up to 1,054 in 1998 from 1,050, according to *Business Insurance* estimates. A total of 96 international companies were established on Bermuda in 1998, while 90 were shut down. A detailed breakdown by class and type of captives was not available from the domicile as of last week.

The number of incorporations is impressive considering the soft market, said Kymn Astwood, who is resigning June 1 as the registrar of companies for Bermuda to become president of Arrow Reinsurance Co. Ltd.

"It represents the fifth year in a row that we've seen incorporations in the 90s," he said.

Companies are still seeking to assert more control over their risk management programs, and captives are often an integral part of those efforts, Mr. Astwood said.

More and more of the captives being formed are designed for innovative programs rather than as traditional single-parent captives, he noted.

"I'm just amazed at the large number of innovative insurance vehicles that are continuing to choose Bermuda as their domicile," Mr. Astwood said.

However, the increase in overall premiums in Bermuda is negligible due to the soft market, he said.

Gross premiums written by Bermuda-based international companies increased by 1% in 1997, the latest year for which figures are available, to $25.4 billion from $25.1 billion in 1996.

Sixteen of the 19 new captives added last year by Aon Insurance Managers (Bermuda) Ltd. were new formations, said Alan C. Cossar, executive director.

Included among the newly formed captives are five health care captives, which marks a continuing trend of Bermuda captive managers striving to attract more health care-related business, he said.

Five more of Aon's new captives were set up to write a significant amount of third-party business, such as extended warranty or credit life coverage, Mr. Cossar said.

"It's a cost-effective way of offering new products to their customers, it enhances the relationships between the owners and their customers, and it means that the captive becomes a profit center," he said of third-party underwriting.

Despite the soft insurance market, there are still good reasons for setting up a captive, Mr. Cossar said. "I still think that the focus a captive brings to any risk management program is important," he said.

The two new captives added by Mutual Risk Captive Group Ltd. are both agency captives, said Colin M. Alexander, senior vp.

The captives were set up by insurers to tie in their preferred agents by giving them a stake in the underwriting profits through the captive, he said.

The insurers fear the agencies would otherwise set up their own captives to cover that business.

Several existing captives managed by Mutual Risk saw a reduction in premiums, Mr. Alexander said.

"The soft market has meant that a lot of captives are not writing as much as they have done," he said.

Some captive owners are taking advantage of low rates and increasing the amount of coverage they buy from the commercial market, agreed Colin C. James, president and chief executive officer of Atlantic Security Ltd.

In particular, members of association captives are often finding the bargains available from traditional insurers too attractive to turn down, Mr. James said.

"But that is understandable in today's market. . .association captives are real risk underwriters," he said.

Members of association captives are often turning back to the

See **Bermuda** *on page 16*

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AON

Bermuda

Continued from page 14

commercial market, agreed David Ezekiel, president and managing director of International Advisory Services Ltd. IAS was bought by Mutual Risk Management Ltd. last year but continues to operate independently.

Coverage provided by association captives is comparable to that available in the commercial market and currently commercial insurers are often offering the same coverage at significantly lower rates, Mr. Ezekiel said.

"In some areas the market is so brutally inexpensive that you have to say 'take advantage of it,' " he said.

But the captives are kept in place, Mr. Ezekiel said.

"We haven't had any association captives pack up their bags, but we have had a couple that have not written anything for a year or two," he said.

Some associations are still establishing new captives despite the soft market, said John G. Neal, president of Symphony Management Ltd. Symphony specializes in managing group captives and rent-a-captives, he said.

"The associations often have pretty good books of business and they don't want to give the underwriting profits away. And they like the flexibility of the policies," Mr. Neal said, noting that many of the policy wordings are written for individual clients.

Single parent captive owners are also offered low rates in the commercial market both from primary insurers and reinsurers, Mr. James said.

But, the owners usually choose to maintain their captives, he said.

"They will reduce their retentions and purchase more reinsurance, but they'll still keep their captives. . .so if the market turns they have something in place," Mr. James said.

Domino's Pizza Inc. stopped using its captive for insurance coverage in December 1998, but it will keep it in place to use again when commercial insurance rates increase, said Mario Napolitano, director of risk management at the Ann Arbor, Mich.-based pizza franchise.

North American Assurance & Indemnity Co. Ltd. was established in 1988 to reduce Domino's insurance costs, he said.

The Bermuda captive was also used to access excess automobile liability coverage from excess liability insurers in Bermuda that were more willing to cover the exposure than U.S. insurers, Mr. Napolitano said.

But the soft market has taken away the need for the captive as there is now plentiful excess and primary capacity available in the U.S. market at low rates, he said.

"But the captive is ready and raring to go again when the hard market returns," Mr. Napolitano said.

The captive is managed by J&H Marsh & McLennan Management (Bermuda) Ltd.

The soft market does mean it is increasingly difficult to find new traditional captives, said Rory Gorman, senior vp at J&H Marsh & McLennan.

"If a company didn't have a workers comp captive two or three years ago, its hard to justify setting one up now because the market is even softer," he said.

The number of captives managed by the combined operations of J&H Marsh & McLennan and the former Sedgwick Management Services (Bermuda) Ltd., which were integrated last year, fell to 313 in 1998 from 329 in 1997. The reduction in numbers resulted from clearing out defunct captives from the books, losing some business to other managers and mergers between captive parents, Mr. Gorman said.

Nevertheless, J&H Marsh & McLennan did add some new captives in 1998, he said.

One of those new captives is Airways Assurance Ltd., which is owned by US Airways Group Inc. of Arlington, Va.

The captive provides part of the hull and liability coverage for the airline, said James Harrington, director of risk management for US Airways.

The captive was worth establishing despite the soft insurance market, he said.

"Given the market dynamics of hull and liability insurance, it makes sense," Mr. Harrington said.

Also, US Airways itself is in better financial condition now than it was for several years and more willing and able to capitalize a captive, he said.

US Airways chose Bermuda as a domicile for several reasons, Mr. Harrington said: as a major carrier to Bermuda it is easy for risk management personnel to travel there; the island has a well-established captive insurance infrastructure; and it is a major insurance market so Mr. Harrington can visit commercial insurance carriers there when he travels on captive business.

The captive initially was managed by Sedgwick, which also was US Airways' broker. The airline has since switched brokers and now uses Aon Corp. to place its commercial coverage, but the captive is still managed by the former Sedgwick staff now at J&H Marsh & McLennan, Mr. Harrington said.

'We haven't had any association captives pack up their bags, but we have had a couple that have not written anything for a year or two,' says David Ezekiel.

Other new captives at J&H Marsh & McLennan were set up for tax reasons or because the owners wanted to use the captives to cement business relationships by providing various coverages for suppliers and distributors, Mr. Gorman said.

Also, some one-off deals involving the integration of traditional insurance risks with other risks are also beginning to take place, he said.

"We've gone past the stage of where it's a nice concept to the stage where deals are being done," Mr. Gorman said.

Other captive managers agreed.

In the next few years Bermuda's captive managers are expecting an increase in integrated insurance programs that will likely include risks that are not normally covered by insurance, such as currency risks. As the programs will involve disparate risks, which are regulated by several different bodies on-shore, offshore vehicles will likely figure in financing the integrated programs, they say.

Also, most insurers and reinsurers that cover integrated programs want to attach above working layers, so captives are good vehicles for combining the retained risks before purchasing excess coverage in the commercial market, said Mr. Cossar of Aon.

And by buying integrated programs, captive owners can expand the coverage in their captives to cover risks that might otherwise go uninsured, he said.

For example, a policyholder might decide that employment practices liability insurance is too expensive to buy as a separate coverage. However, if the risk is integrated into a single-aggregate captive program it might be more affordable, Mr. Cossar said.

Some of AIG's new captives were created to enable the parent to obtain "financial-type coverage structures," noted David Conway, vp at AIG Insurance Management Services (Bermuda) Ltd.

"They aren't large in terms of premium volume, but we are seeing more financial-type transactions. They are set up in response to a specific need," he said.

Few captive owners are making radical changes in their existing captives, but many are making adjustments to ensure the captives are used as effectively as possible, said Paul Bailie, president of International Risk Management (Bermuda) Ltd.

For example, captive owners are continuing a trend of several years by increasing the amount of third-party business they cover in their captives to over 30% to ensure that they can take a tax deduction for premiums paid to the captive, he said.

The third-party business is usually controlled by or related to the captive owner, such as credit life coverage or warranty coverage for a parent's customers.

"Before, you could justify a captive on soft issues, but now you have to back it up with numbers," Mr. Bailie said.

Chief financial officers and treasurers at companies that own captives are increasingly seeking to make best use of captives as they strive to meet high return on equity goals for their corporations, said John R. English, director of global captive operations at International Risk Management Group Ltd.

"If you are going to generate returns of 17% it helps to have the captive firing on all cylinders," he said.

Another growth stimulus for some captives has been mergers in the health care industry, said Mr. Ezekiel of IAS.

"It depends on whether you are on the right side of the merger, but we have seen some internal growth at our health care captives," he said.

One potential growth area for captives that has not been taken up by risk managers is coverage for Year 2000 liabilities, said Mr. Gorman of J&H Marsh & McLennan.

"I thought there would be a lot more interest in using captives to fund potential long-term liabilities associated with Y2K problems, but the number of captives that have put Y2K on their books is fairly few," he said.

Risk managers may be wary of putting a potentially huge and unquantifiable liability into a stable captive, Mr. Gorman speculated.

An added benefit for captives setting up in Bermuda is the expanding captive reinsurance market on the island, said Robert J. Rosser, senior vp at Skandia International Risk Management Ltd.

For years, the main specialist captive reinsurer on the island was Sphere Drake (Bermuda) Ltd. which was bought by Odyssey Reinsurance Corp. in 1997. Now Odyssey, Chubb Atlantic Ltd., and ACE Ltd. all have dedicated captive reinsurance departments.

"It becomes very convenient for clients. They can come here for the annual general meeting for their captive and at the same time renegotiate their reinsurance for the next 12 months," Mr. Rosser said.

Previously, captives would likely only use reinsurers in the U.S. market or Lloyd's of London, he said.

Green Island, a reinsurance pool set up in 1997 for captives, continues to grow, said Jill Husbands, senior vp at J&H Marsh & McLennan, which manages the facility.

The number of pool members increased to 15 on Jan. 1, 1999, from 11 at the beginning of 1998, and the premium volume increased to $120 million from $32 million, she said.

The pool reinsures the primary liability risks of members up to $100,000.

This year, new members will be allowed to join Green Island throughout the year. Previously, new members could only join on Jan. 1.

While the vast majority of captives in Bermuda are still owned by U.S. parents, international companies also are coming to the island, said Ms. Husbands.

In the first quarter of 1999, J&H Marsh & McLennan added one captive from Asia and two from Australia, she said.

"We are seeing a lot more interest from Asia," she added.

One of the four new captives established by Skandia in 1998 was from Japan, said Nicholas S. Dove, president of the captive manager.

Skandia now manages six Japanese-owned captives. "Bermuda seems to be becoming well known in Japan," he said.

Skandia's three other new ones all came from the United States. One was an association captive and two were health care captives, Mr. Dove said.

The deregulation of the Japanese insurance market is reducing commercial insurance rates in Japan, said Mr. Conway at AIG.

"With deregulation there are more opportunities for insureds," he said.

Two Japanese captives managed by AIG were liquidated in 1998, Mr. Conway noted.

Prospects for captives in Mexico received a blow earlier this year when the Mexican government imposed heavy taxes on insurers in "fiscal paradises," which the Mexican government defined to include Bermuda, Panama and the Cayman Islands. Under the new law, premiums ceded to reinsurers and captives in those countries will be taxed at 40% (*BI*, March 8).

With the new law in place "there's not much prospect of getting many new Mexican clients," said Mr. Bailie of IRM.

IRM manages a captive for Mexican oil giant Pemex, which established its captive in Bermuda in 1993. But the Pemex captive will likely not be affected by the tax change as the captive pays taxes in Mexico, Mr. Bailie said.

Skandia also manages a Mexican captive, said Mr. Dove. But it, too, will not likely be affected by the changes as it only covers the non-Mexican risks of the parent, he said.

The merger of brokers and captive managers in Bermuda has continued over the past year and is leading to more opportunities for independent managers and managers not affiliated with brokers, those managers say.

Some risk managers prefer to have their captives managed by companies that are not affiliated with the broker that places their traditional insurance, said Richard Witkowski, senior vp at Atlantic Mutual.

"They like the idea of having another set of eyes looking at their program," he said.

Captive owners sometimes like to have another source of advice on insurance issues and they can obtain that by hiring an independent manager, agreed Mr. Bailie of IRM. Of the four new captives that IRM added in 1998, two were previously managed by large brokers, he said.

Independent managers can also attract

See **Bermuda** *on page 20*

Largest managers of Bermuda captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume 1998	Premium volume 1997	Captives 1998	Captives 1997
J&H Marsh & McLennan Management (Bermuda) Ltd.	$2,767	$2,481	313	279
Aon Insurance Managers (Bermuda) Ltd.	1,643	1,373	194	187
Mutual Risk Captive Group Ltd.*	1,403	223	159	53
Skandia International Risk Management Ltd.	309	254	83	85
International Risk Management (Bermuda) Ltd.	290	220	70	71
Pinehurst Management Co. Ltd.	200	50	35	30
Becher & Carlson Management Ltd.	174	155	15	13
Symphony Management Ltd.	150	175	21	19
AIG Insurance Management Services (Bermuda) Ltd.	147	200	20	20
Atlantic Security Ltd.	145	135	44	30

*Includes International Advisory Services Ltd.
Source: *BI* Survey



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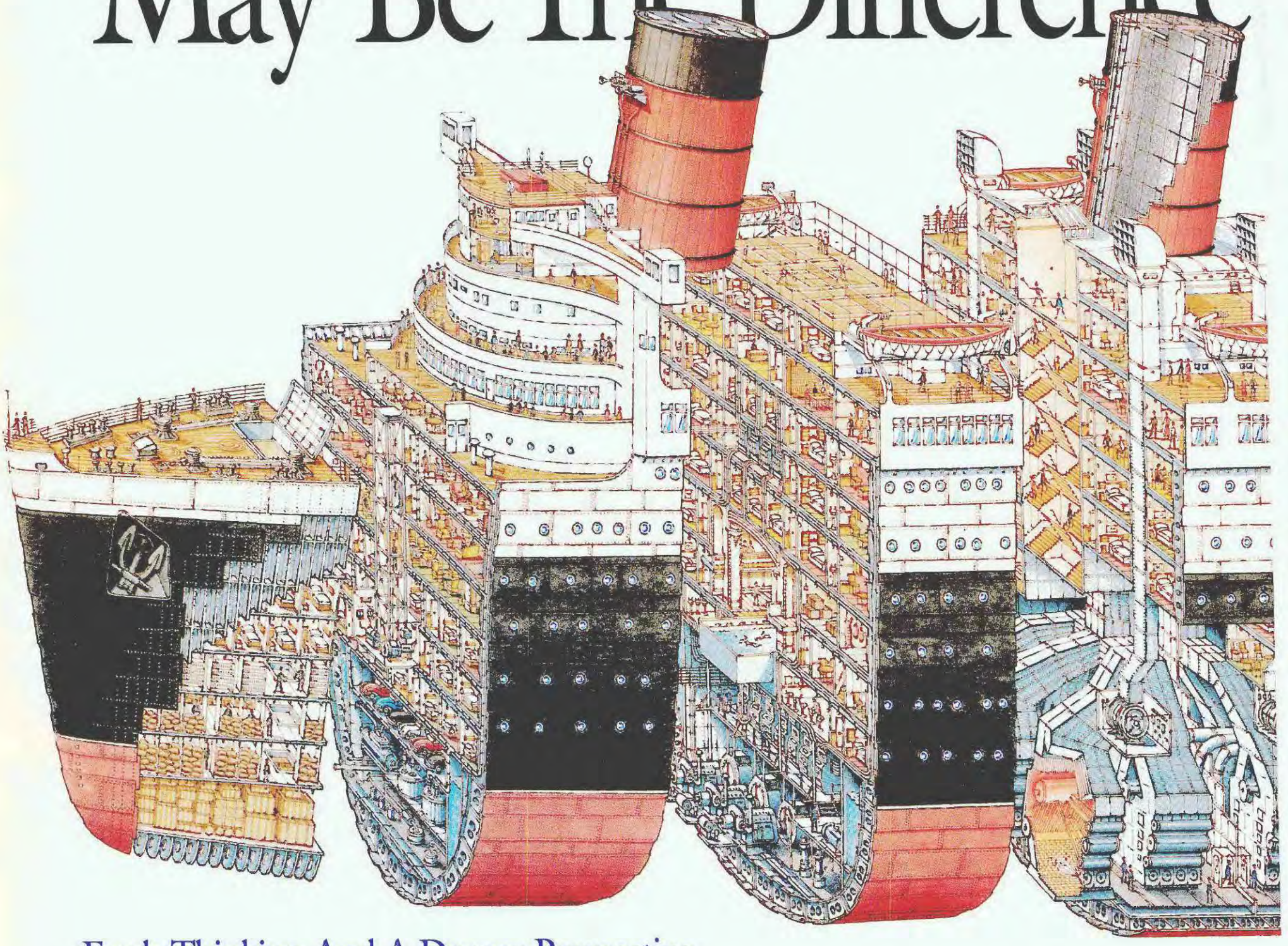
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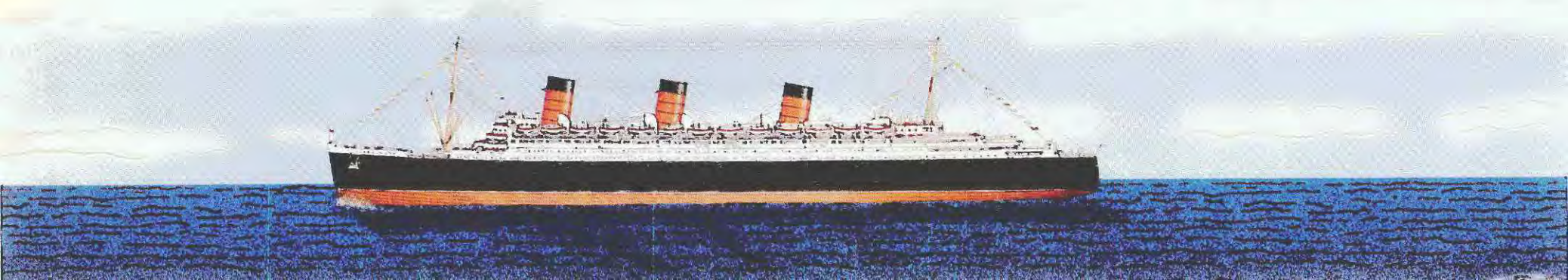
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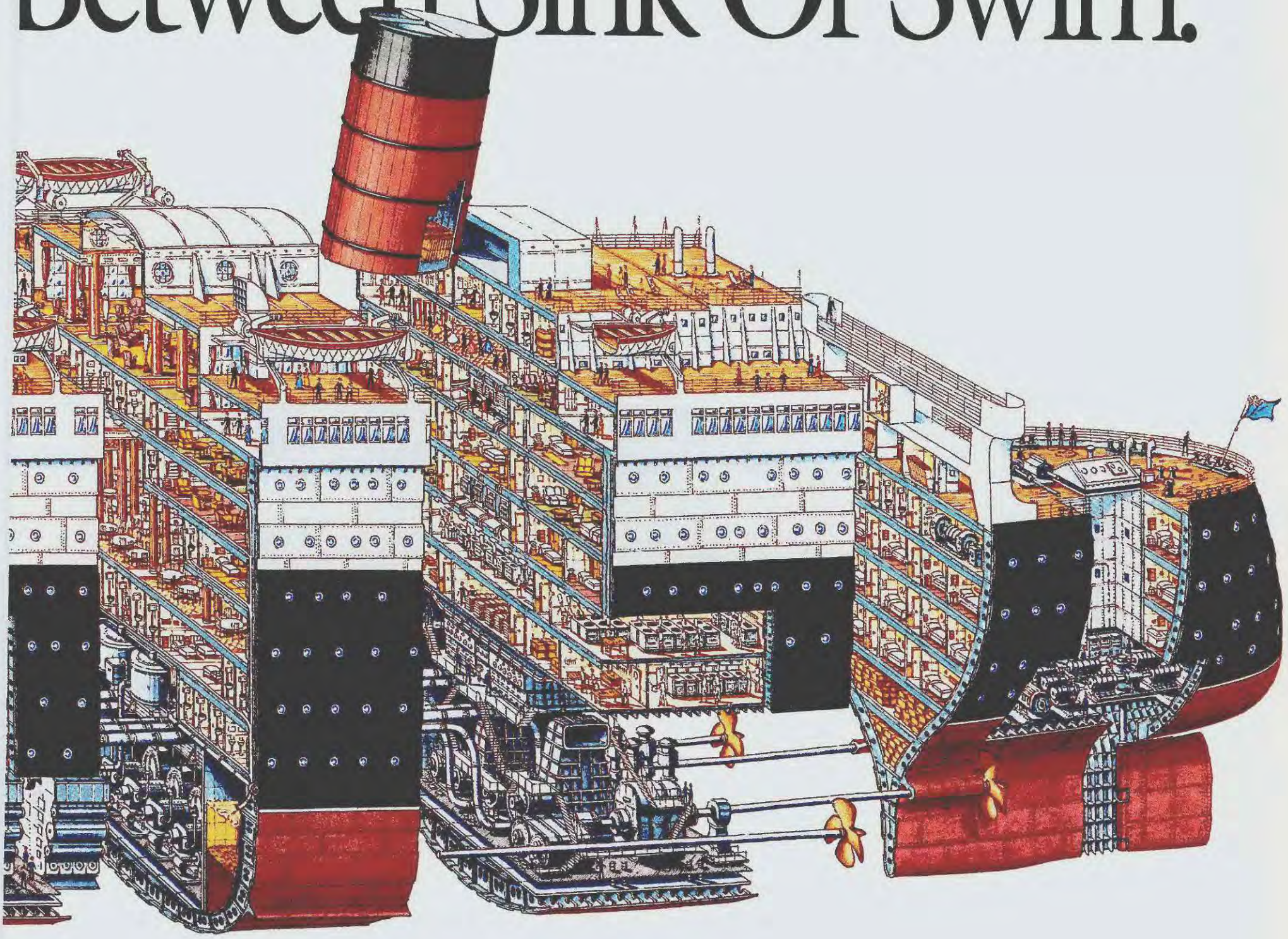
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Captive Report

Bermuda

Continued from page 14

business from independent agents in the United States who are increasingly wary of losing any business to large brokerages, said Mr. Neal of Symphony.

But the major brokers say they are not losing much business as a result of the mergers.

"That's not something that we are seeing at Aon," said Mr. Cossar.

Aon did lose some accounts during 1998 but that was usually due to policyholders changing brokers for their entire insurance programs rather than clients seeking independent captive managers, he said.

"We've been surprised at how little fallout there has been as a result of the mergers," said Mr. Gorman at J&H Marsh & McLennan.

Outside of changes in the business environment, captive owners and managers also saw political changes in Bermuda in 1998.

But the new left-leaning government in Bermuda seems unlikely to make any changes that will be harmful to international businesses on the island, captive managers say.

The Progressive Labour Party took over power last November when, for the first time, it defeated the ruling United Bermuda Party in a general election (*BI*, Nov. 16, 1998).

'They've gone out of their way to say that they are pro-business,' says Paul Watson about the new government.

Traditionally, the UBP had been viewed as the pro-business establishment party while the PLP was seen as a radical, mainly black party that was more concerned with social issues than the success of Bermuda's business.

However, in recent years the PLP has softened its tone and most observers now compare it to the centrist Labour Party that governs the United Kingdom.

Certainly, the new Premier, Jennifer Smith, has asserted that there will be no radical changes made by the new government that will affect international business on the island. In particular, the government will not impose any new taxes on businesses.

"They've gone out of their way to say that they are pro-business," said Paul Watson, chief operating officer of Mutual Risk Management Ltd.

The new government's first budget, which was announced in February, contained nothing harmful to international businesses in Bermuda, he said.

The new government is continuing to maintain the close relationship with the international business community that previous governments had established, said Mr. Cossar at Aon.

"There was a certain amount of uncertainty when we had a change of government, but I think it has gone very well and the consultative process has definitely continued," he said.

Prior to the election, some captive owners asked managers what changes a PLP government might make to the Bermuda business environment, said Mr. Ezekiel of IAS. But any concerns quickly diminished when it became clear after the election that there would be no major changes, he said. BI

Bermuda rent-a-captives still turning heads

By GAVIN SOUTER

HAMILTON, Bermuda—Smaller rent-a-captives on Bermuda continued to grow in 1998 as more and more policyholders choose the lower-cost vehicles to enter the alternative risk transfer market.

Despite the soft liability insurance market, policyholders see good reasons to join rent-a-captives, captive managers say. In particular, policyholders are buying punitive damages wrap-around coverage through rent-a-captives, and insurance agencies are using rent-a-captives to increase revenues on profitable business.

The environment for rent-a-captives in Bermuda should improve further this year as the government is expected to pass segregated cell legislation that should make it easier to establish this form of rent-a-captive, managers say.

Bermuda's largest rent-a-captive, the Insurance Profit Center, actually saw a reduction in members in 1998. While the facility added 45 new accounts in 1998, 65 were not renewed but remain under management. That leaves IPC with 498 programs, of which 185 are active.

The reduction in accounts is due to the continued soft liability insurance market, said Paul D. Watson, chief operating officer of Mutual Risk Management Ltd., which owns IPC.

But IPC's premiums remained the same due to a changing book of business placed into the rent-a-captive. Of the 42 new accounts, 32 were agency accounts and 10 were traditional corporate accounts, Mr. Watson said. "Our business mix has changed quite substantially over the past two or three years, and we are writing a lot more program business," he said.

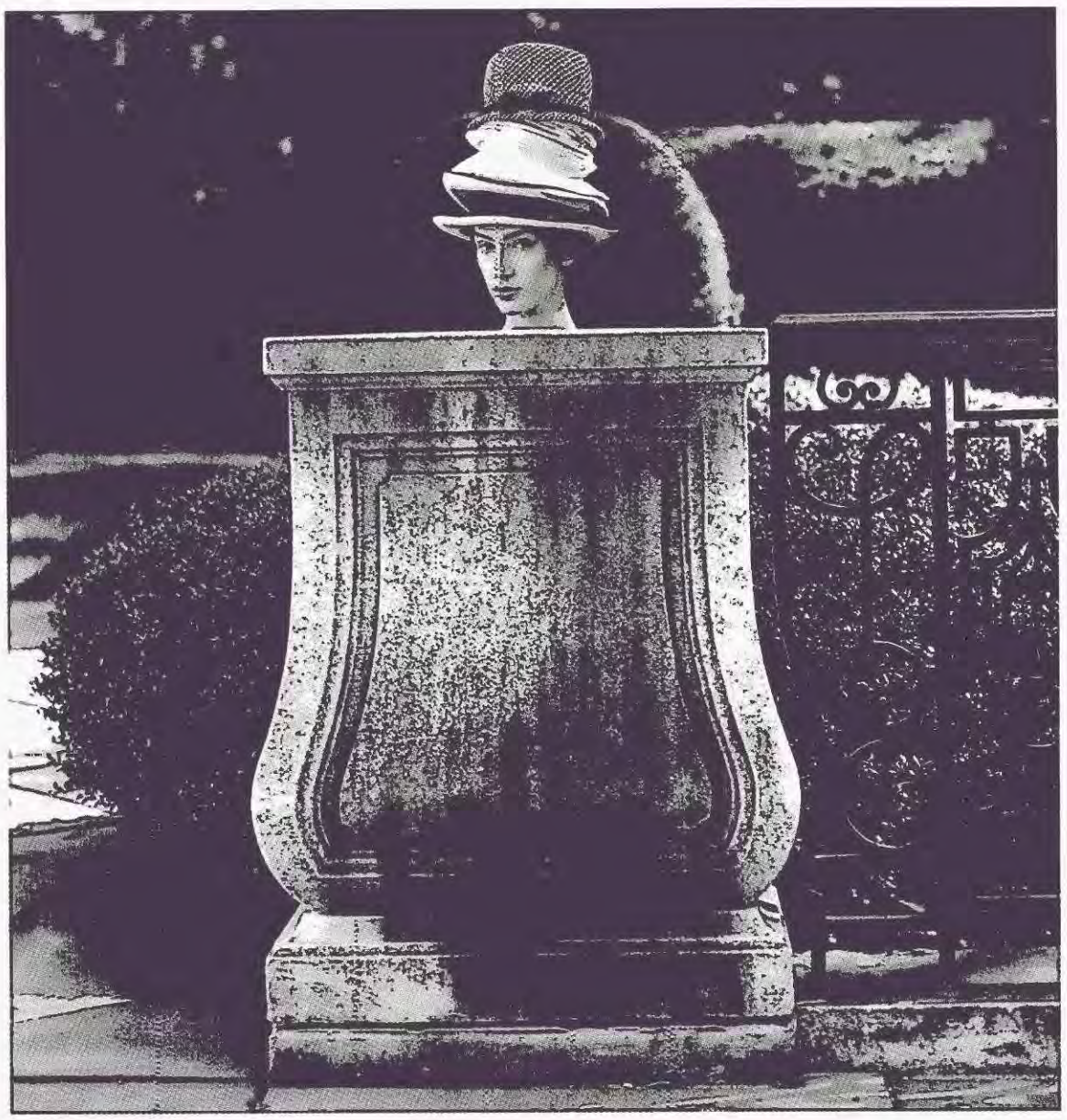
The agency programs usually generate more premium than single corporate accounts. As a result, despite a drop in the number of active programs, IPC had gross premiums of $158 million in 1998, unchanged from 1997.

Insurance agents are increasingly being attracted to rent-a-captives to increase their revenues, Mr. Watson said. "If they have a good book of business, it's a great way to make an underwriting profit and get some investment income," he said.

IPC still covers mainly workers compensation risks. But more and more of the corporate accounts are

Continued on next page

out of our minds



Captive Report

Continued from previous page
writing other lines, including general liability and automobile liability and some one-off deals, said David Alexander, president of Mutual Indemnity (Bermuda) Ltd., the MRM company that manages IPC.

Some of the one-off deals offer coverage similar to financial hedges, where the rent-a-captive is used as a vehicle to offset the risk in the reinsurance market, he said.

The rent-a-captives managed by Atlantic Security Ltd. saw some significant growth in 1998 and expect to grow more in 1999, said Colin C. James, president and chief executive officer.

An increasing number of policyholders are becoming more aware of and more comfortable with rent-a-captives, he said. And brokers in the United States are promoting rent-a-captives to clients more vigorously then they have in the past, Mr. James said.

One of Atlantic's facilities, Magna Carta Insurance Co. Ltd., nearly quadrupled its membership in 1998 to 50 from 14 in 1997. And gross premiums increased to $5 million from $2 million.

One of the main coverages purchased by the new members of Magna Carta is punitive damages coverage, which is sold as a wrap-around coverage to policyholders in states that bar insurance coverage of punitive damages, Mr. James said.

While Bermuda remains the leading rent-a-captive domicile, it is facing more competition from domiciles that have segregated account legislation, says John G. Neal.

"It has been a real success," he said.

Another Atlantic rent-a-captive, First Sterling Reinsurance Co., had three members at year-end 1998 and gross premiums of $1 million. The rent-a-captive covers insurance agency programs. The agency programs are becoming increasingly popular, and the facility is expected to grow substantially in 1999, said Mr. James.

Universal Re-Insurance Co. Ltd. increased its membership to 37 from 33 in 1997, but gross premiums were down slightly in 1998 from $30 million in 1997, said Hal Forkush, president of Universal. "Two of the programs we didn't renew were pretty substantial. . . .They went back to the commercial market," he said.

Several of the new programs added by Universal were also agency captives, Mr. Forkush said. "It's one of the hottest new products going," he said.

Universal International Reinsurance Co. Ltd. increased its membership to 20 from 15 in 1997, but gross premiums fell to $17.5 million from $20 million. The facility is used by captives and rent-a-captive members that want to be taxed as U.S. corporations.

Hanseatic Insurance Co. Ltd. had a stable year, with the number of members remaining at 10 and the gross premiums remaining at $5 million.

The number of members of SINSER Insurance Ltd. increased to 33 in 1998 from 26 in 1997, said Nicholas S. Dove, president of Skandia International Risk Management Ltd., which manages the rent-a-captive.

Most of the new members were trade associations, he said. Trade associations prefer rent-a-captives because it is difficult for them to raise enough capital to form an association captive, Mr. Dove said. "And it's a quick way for them to reap the benefits of their loss control efforts," he said.

Benefits Insurance Co. Ltd., which also is managed by Skandia, signed up its first member in 1998 and expects to sign its second and third members soon, Mr. Dove said. The rent-a-captive covers group life insurance.

International Advisory Services Ltd. is seeing significantly more interest in its rent-a-captive, Hurst Holme Insurance Co. Ltd., said David Ezekiel, president and managing director of IAS, which recently sold to MRM but is operating independently.

The number of members increased slightly, to 14 in 1998 from nine in 1997. Gross premiums declined to $14.8 million from $21.7 million due to less business written by some programs.

But 1999 looks to be a good year for the facility, as interest is picking up, largely due to increased marketing of Hurst Holme, he said.

Rent-a-captives offer members an easy way in and out of the alternative market, enabling them to decide from year to year whether to take advantage of cheap commercial insurance that may become available or to remain in the rent-a-captive, Mr. Ezekiel said. "It's a great way to play the market," he said.

Segregated account rent-a-captives may be easier to set up in Bermuda later this year. Legislation making it easier to establish segregated account rent-a-captives is expected to be passed by the Bermuda Parliament in 1999, said Kymn Astwood, registrar of companies until June 1, when he will join Arrow Reinsurance Co. Ltd. as president.

In segregated account rent-a-captives, individual members are legally separated and protected from the losses of other members. Segregated account rent-a-captives can currently be established in Bermuda, but each one requires a private act of Parliament.

The legislation would be a boost to the rent-a-captive market in Bermuda, said John G. Neal, president of Symphony Management Ltd., which manages four rent-a-captives. "The private-act route is not that hard if Parliament is in session. But when it is not, there are periods when you cannot form (a rent-a-captive) for several weeks," he said.

While Bermuda remains the leading rent-a-captive domicile, it is facing more competition from domiciles that have segregated account legislation, Mr. Neal said. BI

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Captive Report

Still hot, Cayman Islands nears the 500 milestone

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—Captive growth in the Cayman Islands is continuing at a near-record clip, with the domicile certain to soon top the 500 captive mark.

The Caribbean domicile licensed 52 captives in 1998, up from 50 in 1997. In licensing a total of 102 captives in 1997 and 1998, Cayman racked up its best two-year run since the height of the hard market in 1986 and 1987, when it licensed a total of 121 captives.

Taking into account the 16 companies that surrendered their licenses, the world's second-largest captive domicile was home to 485 captive companies at the end of 1998.

The 24 licensed captive managers in Cayman managed $2.3 billion in premium volume in 1998, a 13.8% increase over the previous year.

"In the last three years, the number of captive companies has gone up by 25%, the premium volume has gone up by 50%, and the asset value has gone up by 75%," said William N. McCullough, head of insurance supervision on the island. "Everyone has contributed to what we've had in the last three years," he said of the captive managers on the island. "It's been quite remarkable and nice to see."

Cayman Islands

Mr. McCullough said the biggest challenge for the domicile "is to stay where we've now got ourselves—at the top."

Including a near-miss from Hurricane Mitch in October, things continue to go the domicile's way.

So far in 1999, 12 captives have been licensed. "We only need 15 to break 500," Mr. McCullough said. He hopes to see that mark by the end of the first quarter, but he said that will depend on how many licenses are surrendered. "We've cleaned out a lot of the old ones," Mr. McCullough said. "But there are still a few that need some tidying up."

Leading captive managers and regulators on the island say that there is no specific insurance market trend fueling the high rate of captive formations in the Caymans. Instead, they see the growth as a result of more companies recognizing the benefits of taking control of their risk management programs, despite attractive insurance prices in the traditional market. At the same time, they say that Cayman is building a reputation as the domicile of choice, due to its greater flexibility, knowledge of the industry and financial services strength.

The biggest challenge for the domicile is 'to stay where we've now got ourselves—at the top,' says William N. McCullough.

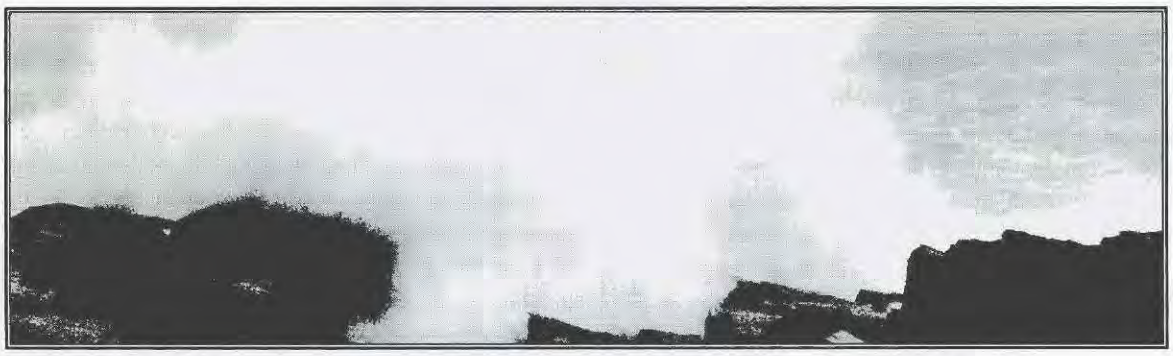
"Obviously, with the soft market, there is no great reason driving the growth. But I think that the more captives that are formed, the greater awareness there is of them," said John M. Pitcairn, president and chief operating officer of Mutual Risk Management (Cayman) Ltd. "When a hospital learns that its competitor has a captive in the Cayman Islands, they ask themselves, 'Is this something we should be setting up?' "

Mutual Risk added eight new captives in 1998. Including the three captives it lost during the year, it had 50 captives under management, with a premium volume of $107 million—a 28.2% increase over 1997.

"Insurance pricing is not the reason for forming a captive right now; it has to be for control of the risk management program," summed up Wayne A.M. Cowan, senior vp and branch manager of J&H Marsh & McLennan Management (Cayman) Ltd., by far the island's largest captive manager, with 145 captives under management and $817 million in premi-

See **Cayman** *on page 24*

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Captive Report

Cayman

Continued from page 22
um volume.

"More and more companies are saying this is the time to do it," he said. "We're putting on our sixth new captive, so business is still flooding in."

J&H Marsh & McLennan added 14 new captives in 1998, but wound up nine others, for a net gain of five.

In 1998, the former Marsh & McLennan Management Services (Cayman) Ltd. and the former Johnson & Higgins (Cayman Islands) Ltd. fully integrated their companies. Parent company Marsh & McLennan Cos. Inc.'s 1998 acquisition of Sedgwick Group P.L.C. will add only one new captive to the manager's roster, Mr. Cowan said. Sedgwick Management Services (Cayman) Ltd., which has been liquidated, subcontracted its one client's business with HSBC Insurance Management/Midland Bank Trust Corp. (Cayman) Ltd. It had no staff on the island.

Known as the medical malpractice captive mecca, 34% of Cayman's 485 captives write health care-related business. Although the number of health care captives continues to grow—10 were formed in 1998—the domicile has managed to successfully diversify its business over the years.

Captive managers say that while the health care expertise on the island is unparalleled, Cayman is far from being solely a health care domicile.

"It's interesting why Cayman is considered health care-driven. When you look at the stats, 65% of the captives are not health care," said Peter K. Jones, managing director of Aon Insurance Managers (Cayman) Ltd. "While everyone associates us with that, we do a lot of other kinds of business."

Indeed, Mr. McCullough said that in 1998, "our growth was fairly well diversified. Nothing really stood out more than anything else this year."

In addition to adding 10 health care captives in 1998, Cayman also became home to 10 more property companies and 10 more workers compensation companies, as well as five more general liability companies and two new marine and aviation companies.

"I think Cayman is looking at captives in different areas. The typical medical malpractice captive is coming through, but other types of captives are coming through that we didn't see before," noted Anthony B. Stelling, who became president of International Risk Management (Cayman) Ltd. in July. He succeeded John R. Lower, who relocated to the firm's Iselin, N.J., headquarters.

Mr. Stelling formerly was director of Midland Bank Trust Corp. (Cayman) Ltd.

For example, "we see an increase in the number of companies writing deferred variable annuities and life products," Mr. Stelling said.

As the types of risk continue to diversify, the greatest growth potential, observers say, is coming from the different types of companies being formed on the island.

One area many view as Cayman's second niche is its special-purpose vehicles—independent reinsurance companies set up by insurers as formal issuers of catastrophe bonds and providers of reinsurance contracts.

Indeed, United Services Automobile Assn.'s $477 million cat bond issue, through Cayman-based Residential Reinsurance Ltd. in June 1997, has set off quite a trend on the island.

Cayman was home to 20 special-purpose vehicles in 1998, up from 10 in 1997, Mr. McCullough said.

Tom Clark, director of Midland Bank Trust Corp., said that the captive manager has structured 11 transactions since 1997, a majority of which are cat bond deals.

Last September, for example, Morristown, N.J.-based F&G Re Inc. sealed a $54 million cat bond deal to finance reinsurance protection against a variety of perils. The transaction uses Cayman-based Mosaic Re to issue the bonds, with the proceeds funding a reinsurance contract for F&G Re (*BI*, Sept. 7, 1998).

Mr. Clark said that Midland has been so successful in the cat bond arena "because, in addition to insurance management, we're a trust company. We've been doing non-cat bond SPVs for the last 15 years, and we've done hundreds of

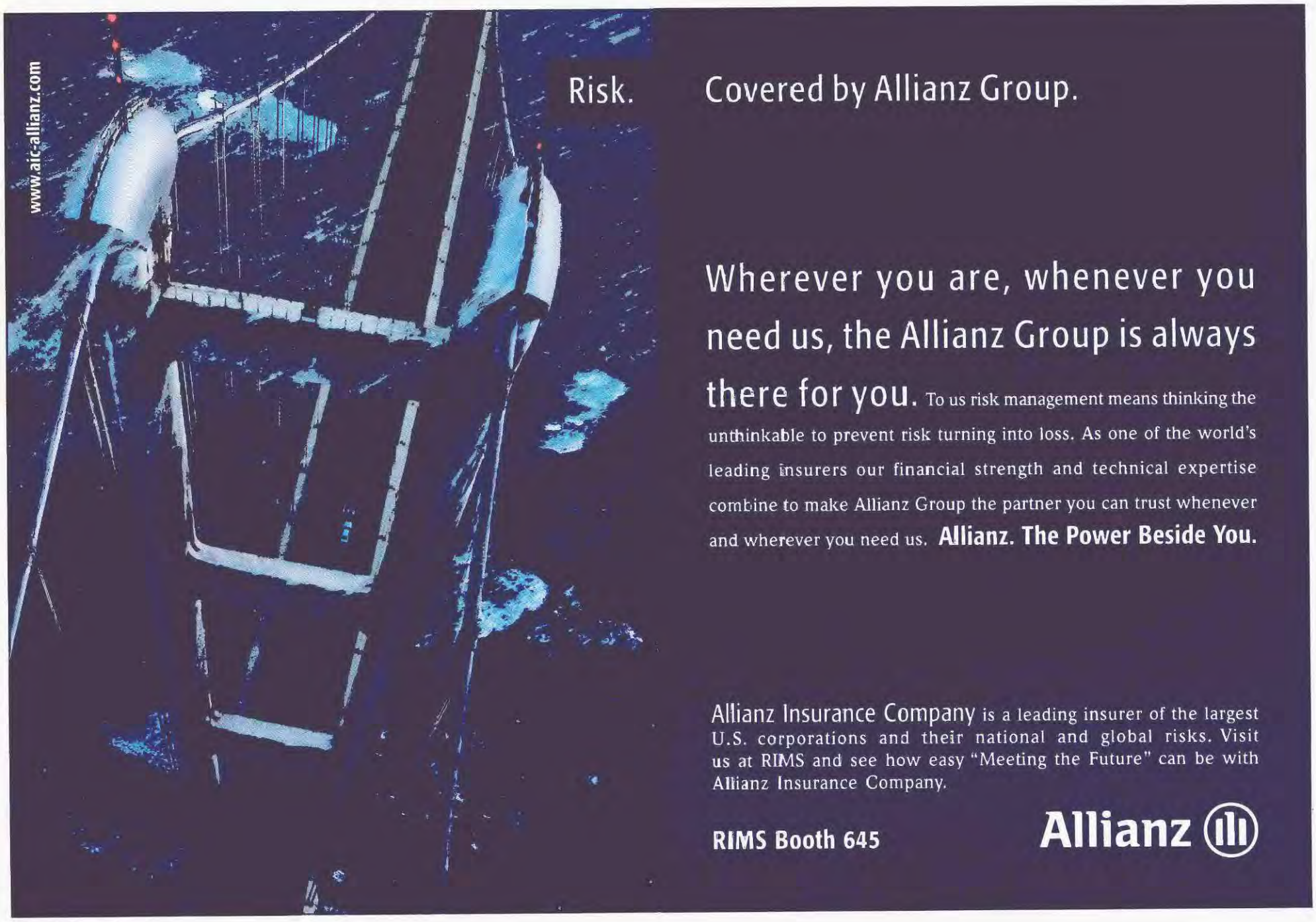
See **Cayman** *on next page*

Largest managers of Cayman captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume 1998	Premium volume 1997	Captives 1998	Captives 1997
J&H Marsh & McLennan Management (Cayman) Ltd.	$817.0	$788.0	145	140
International Risk Management (Cayman) Ltd.	461.3	395.0	28	30
Midland Bank Trust Corp. (Cayman) Ltd./ HSBC Insurance Management	220.0	220.0	88	77
Willis Corroon Management (Cayman) Ltd.	220.0	218.0	32	32
Aon Insurance Managers (Cayman) Ltd.	170.0	73.0	18	12
Mutual Risk Management (Cayman) Ltd.	109.0	85.0	50	45
Cayside Insurance Management Ltd.	57.4	57.4	22	22
Britannia Insurance Management (Cayman) Ltd.	38.0	32.0	3	2
Chandler Insurance Management Ltd.	27.9	24.6	10	9
Crusader International Management (Cayman) Ltd.	21.5	18.0	7	8

Source: *BI* Survey



Cayman

Continued from previous page

those," he said.

Midland not only furnishes trustee services to the charitable trust that holds the SPV's bond proceeds; as a bank, it also can provide all the banking services needed. Therefore, companies "deal with just one service provider. It's one-stop shopping," Mr. Clark said.

In 1998, Midland added nine captives to its roster, bringing its total under management to 88. Premium volume remained flat at $220 million.

Mr. Cowan of J&H Marsh & McLennan said the manager is in the process of putting together another SPV, bringing its total to three SPVs. His company structured the first Cayman-based SPV, Georgetown Re, in 1996.

That growth is going to continue," Mr. Cowan said.

Other managers on the island said they would like to take part in the trend.

We'd be interested to be in that line of business, but it's tricky to break into it," Mr. Stelling said.

Cayman is a perfect place for it because of the banking structure here," said Mr. Jones of Aon. "I'd love to get into it."

In addition to its SPV niche, the island has triggered new growth with last year's passage of an amendment that allows for the formation of segregated portfolio companies.

SPCs are similar to rent-a-captive companies, but they offer more security to policyholders. The shell company is divided into individual portfolios, or cells, whose individual assets and liabilities are isolated and protected from one another. Guernsey calls them protected cell companies.

At the end of 1998, six months after the amendment was signed into law, the island was home to five SPCs.

Mr. McCullough admits that he is somewhat surprised by the growth.

That legislation was really required by the market, and we responded," he said. "Even though I wasn't that enthusiastic, in terms that I didn't think that many people wanted it, we did it anyway because that's what the market wanted. As it turned out, they got it right."

The SPC market in 1998 was "remarkably good," Mr. McCullough said. "We have nine of them now."

"Word got out quite quickly," noted Steven R. Butler, financial director of Chandler Insurance Management Ltd. "We've received quite a few phone calls."

While the manager has yet to form an SPC, he said that he has "some investors in another captive that are keen to set up another vehicle."

In 1998, Chandler added one new captive, bringing its total under management to 10. Premium volume increased 13.4% to $27.9 million.

One of Cayman's biggest advantages is the longevity and experience of its captive managers and other service providers, says William N. McCullough.

Four of Midland Bank's rent-a-captive facilities have converted to SPCs to take advantage of the legislation, Mr. Clark said.

"I expected the growth, because there was quite a bit of inquiries about rent-a-captives," he said.

J&H Marsh & McLennan formed one SPC in 1998 and has "another one in the works," Mr. Cowan said.

He added that he just received the authority to add a sixth cell to the existing SPC. Each cell is owned by several general agencies that are writing property and auto business, he said.

The SPC currently being formed will house "a potpourri of different types of risks," Mr. Cowan said.

In addition, J&H Marsh & McLennan "is considering converting our own rent-a-captive here that is 50% owned by Marsh and 50% owned by a London broker," Mr. Cowan said.

"There has certainly been a lot of inquiries since the legislation passed," noted Mr. Pitcairn of Mutual Risk Management. "We formed one SPC last year, and I believe we will form another two this year."

IRMG formed United SPC in 1998, a subsidiary of its joint venture company United Insurance Co. The SPC, which "has just come out of the starting block," will sell universal life products, Mr. Stelling said.

"We anticipate some good interest," he said. "We are, within the IRMG group, obviously marketing various areas. As a result, we hope to see an increase in the number of captives."

In 1998, IRMG's captive ranks fell by two, to a total of 28. But total premium volume increased 16.8% to $461.3 million.

Overall, Mr. McCullough is looking to the alternative market, as well as the SPC market, for continued growth on the island.

"There's going to be a saturation point on the health care side, because the mergers taking place are reducing the number of new players," he said. "I have no doubt that (health care) will stay 35% of our market. I don't know, however, how long it will continue to grow. So, therefore, it's good for us to have other innovative ways of staying ahead of the game."

Cayman also stays ahead of the game, according to its managers, because of its flexible regulation and accessible regulators.

"People with captives in both Bermuda and Cayman have said to me that it is a lot easier to talk to the head of insurance in Cayman than to deal with all the committees in Bermuda," said J. Terry Burke, managing director of Britannia Insurance Management (Cayman) Ltd.

Britannia makes its debut in the rankings of the 10-largest Cayman captive managers this year with three captives under management and $38 million in premium volume. Mr. Burke was with Crusader International Management (Cayman) Ltd. until 1997, when he left to form his own captive management company. Britannia logged one new captive in 1998, while its premium volume increased 5.6%.

Mr. Burke expects to add two new health care captives shortly.

"It was a very good year for Cayman, and I think there are a number of reasons for it," said Mr. Jones from Aon, which added six new captives in 1998, bringing its total under management to 18. Aon's premium volume more than doubled, to $170 million from $73 million in 1997.

"The continued flexibility in regulations and the access of regulators has got to be an advantage," he said.

Mr. Jones said that clients have told him that they like being able to meet with Mr. McCullough for a half hour and tell him what they are doing. Regulators in Cayman "take a commercial approach," as opposed to simply looking at the rules and regulations, he said.

Indeed, for "any enterprise that is going to start off here, we regard us as a partner in that venture, because we also want to see it be successful," Mr. McCullough said.

"The last thing we want to do is just follow the rules—where you have the law on the left-hand side and the application on the right-hand side, and you just check off one against the other—and after all that you give them a license. We don't do it like that here at all. I don't know what the other guys do. I only know the way we do it, and it seems to work," Mr. McCullough said.

In addition, "we do know something about the insurance business," Mr. McCullough said, referring to the Monetary Authority, the quasi-governmental body that oversees insurance and banking services on the island. "All of our people are insurance people."

"That's one of the things that helps, because when people come down here to talk about their 'new baby,' I think they respond better when they realize that they can talk to someone who knows what the business is about," he said.

Mr. McCullough said he also believes that one of the biggest advantages Cayman brings is longevity among the islands' captive managers and other service providers.

"They have an enormous amount of experience," he said. "I think that the people who come down here are impressed by the depth of knowledge these guys show."

In addition to the depth of knowledge, the sheer size of Cayman's financial infrastructure is a real plus for the domicile, captive managers say.

More than 500 banks, several major law firms, all the major accounting firms and many mutual fund companies have offices in Grand Cayman.

"While there is not too much cross-breeding, it helps Cayman in being perceived as a strong financial center domicile," noted Aon's Mr. Jones.

Captives aside, one of the more exciting events to sweep through the island last year was the near-miss of Hurricane Mitch.

While the storm switched course and ultimately missed Cayman, it was a wake-up call for many of the managers on the island.

"We were very lucky," Mr. McCullough said. "It was heading straight for us. . .and took a left-hand turn. We were 200 miles from the eye. I live in the south end of the island, and we had 20- to 30-foot waves coming in—and that was 200 miles away. I tell you, I wouldn't want it to be much closer."

"We like to think that we've taken a lot of steps in terms of disaster recovery and back-ups, and we have been insisting that all the managers do the same. All we can do is protect as much as we can," he said.

"It's a frightening aspect of the island," Mr. McCullough continued. There is not much to stop high winds, either in terms of hills or rivers. Cayman is basically flat. However, over the past 15 years, building codes for all new buildings have been implemented on the island. "Cayman only started its financial business 20 years ago, so it's not as if there are old buildings that have been renovated. Everything here that is new has been built to withstand 150 mph winds. I think that is a big plus for us here."

Still, "had the storm come much closer, this place would have washed away," said Mr. Jones of Aon. "There's nothing here to stop it."

For the first time in nine years, "we boarded up the windows," he said, acknowledging that it "would have been useless if we'd gotten the full brunt of the storm." He said that he backed up all the computer files as a precaution.

"I've lived here 16 years, and that was truly frightening," said J&H Marsh & McLennan's Mr. Cowan of Hurricane Mitch. He said that he backed up his system to Bermuda.

Hurricane Mitch definitely "put something else higher up on my agenda—a disaster recovery plan," said Mr. Butler from Chandler. He said that he backed up all of his systems to his Barbados counterpart and boarded up the windows at his office. BI

Protected cell companies giving Guernsey a lift

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—Europe's biggest captive domicile is capitalizing on its protected cell company innovation.

Captive managers in Guernsey report the development of new PCCs, as well as several captives converting to the new structure. Guernsey also has added a PCC owned by an insurance company, which will structure subsidiary cells for policyholders that want to retain more risk.

Guernsey in 1997 became the first captive domicile to permit PCCs, though other domiciles are following suit.

The PCC structure, which is similar to a rent-a-captive, allows the creation of an umbrella company, or core cell, around which any number of subsidiary cells operate. Although members of a PCC contribute to the capital of the core cell, the subsidiary cells operate independently of one another, and their assets are protected from debts incurred by any other cell.

Guernsey

PCCs accounted for nearly one-fourth of the new captive formations in Guernsey. Of 31 new captives in 1998, seven were PCCs, with a total of 14 cells. After 21 captives shut down last year, the domicile had 349 captives at year-end, up slightly from 339 in 1997.

The seven new PCCs brings to 13 such facilities in Guernsey, with a total of 30 cells.

The premium volume of Guernsey's captives in 1998 will not be available until later this month, but Steve Butterworth, director of insurance, estimated that captive premiums rose to around £2 billion ($3.37 billion) last year from £1.76 billion ($2.96 billion) in 1997. Total captive assets in 1998 should total around £8.5 billion ($14.31 billion), compared with £7.3 million ($12.26 billion) in 1997. If his 1998 estimates prove correct, both would be record highs for Guernsey.

That growth is expected to continue this year, fueled by interest in PCCs.

Even decisions last year not to allow PCCs by the Isle of Man and Jersey—both of which cited concern that Guernsey's law protecting the assets of one cell from the liabilities of another had not been tested in the courts—has not dampened enthusiasm for the formations.

On the contrary, Mr. Butterworth and captive managers expect that Guernsey's lone ability among the Crown dependencies to license PCCs will make Guernsey more attractive than the other domiciles.

They also note that any innovative legal structure is bound to face uncertainty when first implemented.

"Provided everything's explained up front, then we don't foresee having any problem," said Clive James, managing director of Aon Insurance Managers (Guernsey) Ltd.

"If people go by what I would suggest are very simple housekeeping rules, then they'll have a vehicle that will serve them extremely well with a level of risk that is minuscule," said Callum Beaton, managing director of SINSER (Guernsey) Ltd.

"The PCC concept has generated significant interest for Guernsey. . . .I would say that the Isle of Man has missed out by not going down that road," said Nick Wild, director of captive operations-Europe for International Risk Management (Guernsey) Ltd.

While originally envisioned as a means for extending a less costly captive insurance option to smaller organizations, the PCC is turning out to be of interest to larger companies, as well.

See **Guernsey** *on page 28*

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Guernsey

Continued from page 25

Mr. Butterworth says this includes multinationals wanting to give their subsidiaries more risk financing autonomy by devoting a separate cell to each subsidiary, as well as multinationals involved in joint ventures that want to use cells to isolate their own risks from those of the joint venture.

Malcolm Cutts-Watson, managing director of Willis Corroon Management (Guernsey) Ltd., said that last year it also converted an existing captive insurer into a PCC.

The conglomerate was entertaining possible spin-offs, so it placed the risk financing for individual operating divisions into separate cells "to make it easier to add and take away," he said.

"The PCC was an excellent vehicle for handling that transition, which is still going on. . . .It made it a much easier way of divvying up profits and divvying up liabilities than if everything had just been in one pot," Mr. Cutts-Watson said.

Mr. James at Aon agreed that PCCs also can be useful for companies looking to spin off subsidiaries. He says he has a couple of clients that are selling subsidiaries and are considering converting their captives into PCCs to create individual cells for the units that can be sold off, too.

IRM Guernsey has a client that switched its captive into a three-cell PCC at the Dec. 31, 1998 renewals because the company was splitting up.

"It makes a lot of sense to take the three potentially demerged operating businesses and have their business flow through a PCC into individual cells so they will be segregated," he said.

Paul Wakefield, IRM's manager-business development, noted that PCC usage is spreading beyond the original concept of simply a type of rent-a-captive for smaller organizations.

"The new inquiries tend to be very special purpose. There's interest in a specific facility, set up for a specific reason," he said.

Another good reason for converting a captive into a PCC is to fund different types of business, such as life and non-life insurance, that should be segregated, said Mr. James.

Insurers and brokers are also finding PCCs a useful tool for providing alternative risk funding options to clients via subsidiary cells.

Of the four PCCs managed by Aon Insurance Managers, WhiteRock Insurance Co. PCC Ltd., is Guernsey's largest PCC, with 20 cells—half of them created in 1998. WhiteRock, a subsidiary of Aon Corp., was originally set up as a rent-a-captive but converted into a PCC in 1997 when such structures were licensed. It has authorized share capital of £5 million ($8.4 million) and wrote more than £20 million ($33.7 million) of insurance premiums last year.

Mr. James says WhiteRock has been marketed mainly to European customers, though it also has some Middle East business. It is using the Aon global network to market to prospective clients in the Far East and South America that seek a self-funding option that is less expensive than forming their own captive. Risks placed with WhiteRock include extended warranty, product defect and contamination, financial reinsurance and professional liability.

Of the five captives added by SINSER (Guernsey) last year, one was a PCC, Foundation Reinsurance (PCC) Ltd., formed by Chubb Corp. and capitalized at $20 million. Chubb, whose intention is to devote individual cells to individual client business, envisages setting up an average of 10 cells a year.

Killian McDermott, London-based vp and European Manager-Alternative Risk Consulting Unit for Chubb Insurance Co. of Europe S.A., said Guernsey was chosen both because it offered PCCs, and because: "It is Europe's leading, and longest established, captive location. Guernsey offers extensive local insurance expertise, favorable insurance legislation, and comprehensive banking and investment services."

The recent trend for new Guernsey formations to come from locations other than the United Kingdom accelerated in 1998. Last year only 40% of new captives had U.K. owners, down from 43% in 1997. That brings the total proportion of captives with U.K. parents to 73% at year end, down from 80% in 1997.

The reasons for this shift are threefold. In 1994, Britain introduced an insurance premium tax, which is currently 4% but due to rise to 5% on July 1, payable on certain U.K.-generated insurance. In 1996, it introduced Controlled Foreign Companies legislation, which increased to 90% from 50% the amount of annual taxable profits after capital gains and foreign taxes that foreign companies with U.K. owners have to remit for tax purposes.

The third reason for dwindling U.K. numbers is that Britain is a mature market, with less opportunity for new captive growth, compared with other countries.

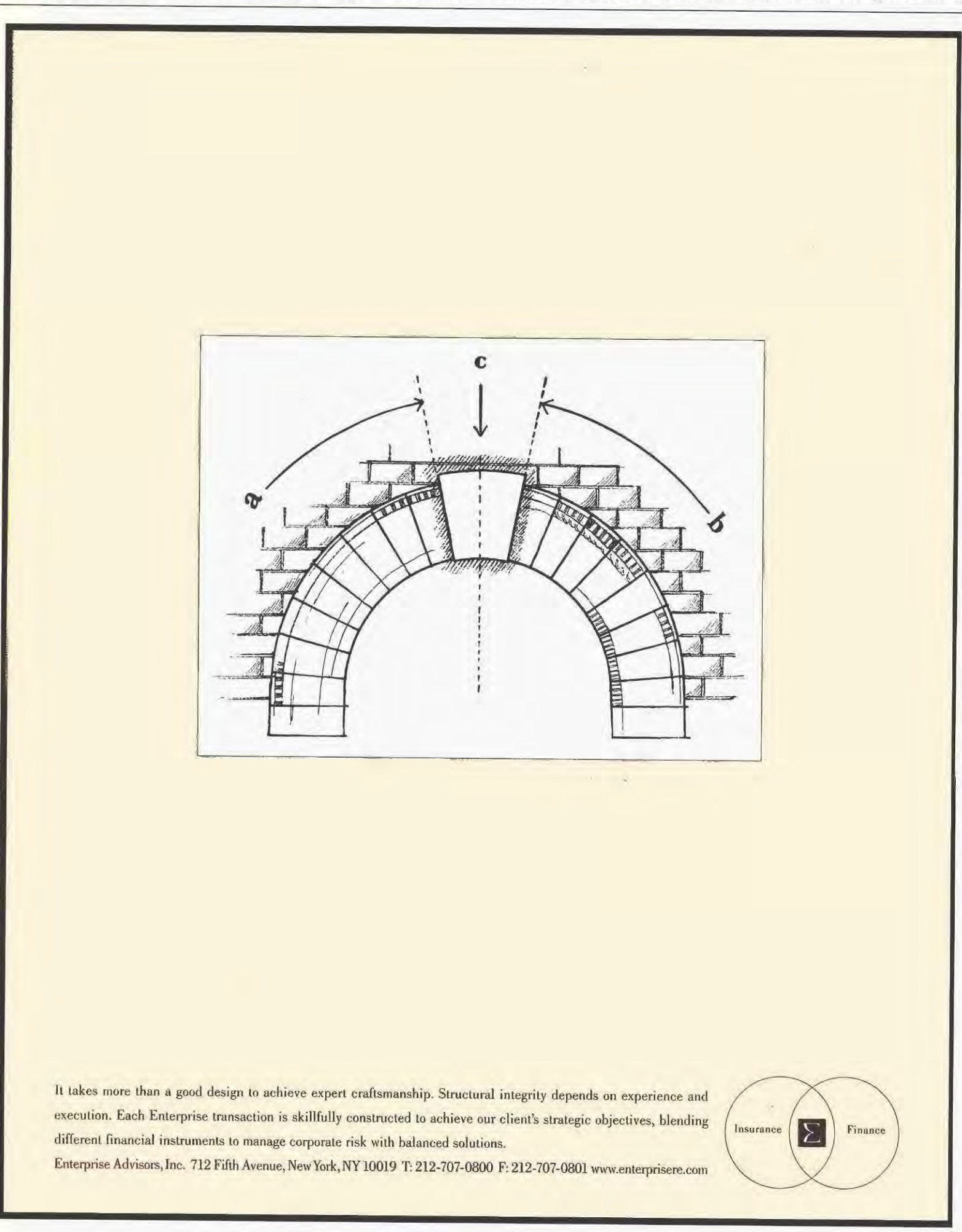
John Copeland, general manager of J&H Marsh & McLennan Management (Guernsey) Ltd., said that while U.K.-owned captives account for some 73% of his company's captives, he's not looking to the United Kingdom to produce a "significant" number of new captives. However, he does see some potential for additional U.K.-owned captives to write coverage for customer risks, such as extended product warranties.

Mr. Beaton at SINSER (Guernsey) said he sees the United Kingdom continuing to provide the bulk of SINSER's business, but that its share could eventually slip to as low as 40% from its current 75%.

However, he attributes this shift not so much to tax issues as to SINSER's marketing efforts since it arrived in Guernsey in 1997, combined with its being part of a global group, Stockholm-based SINSER Holding A.B.

J&H Marsh & McLennan Management started a captive last year for a Canadian mining company. Because the company has

See **Guernsey** *on page 30*

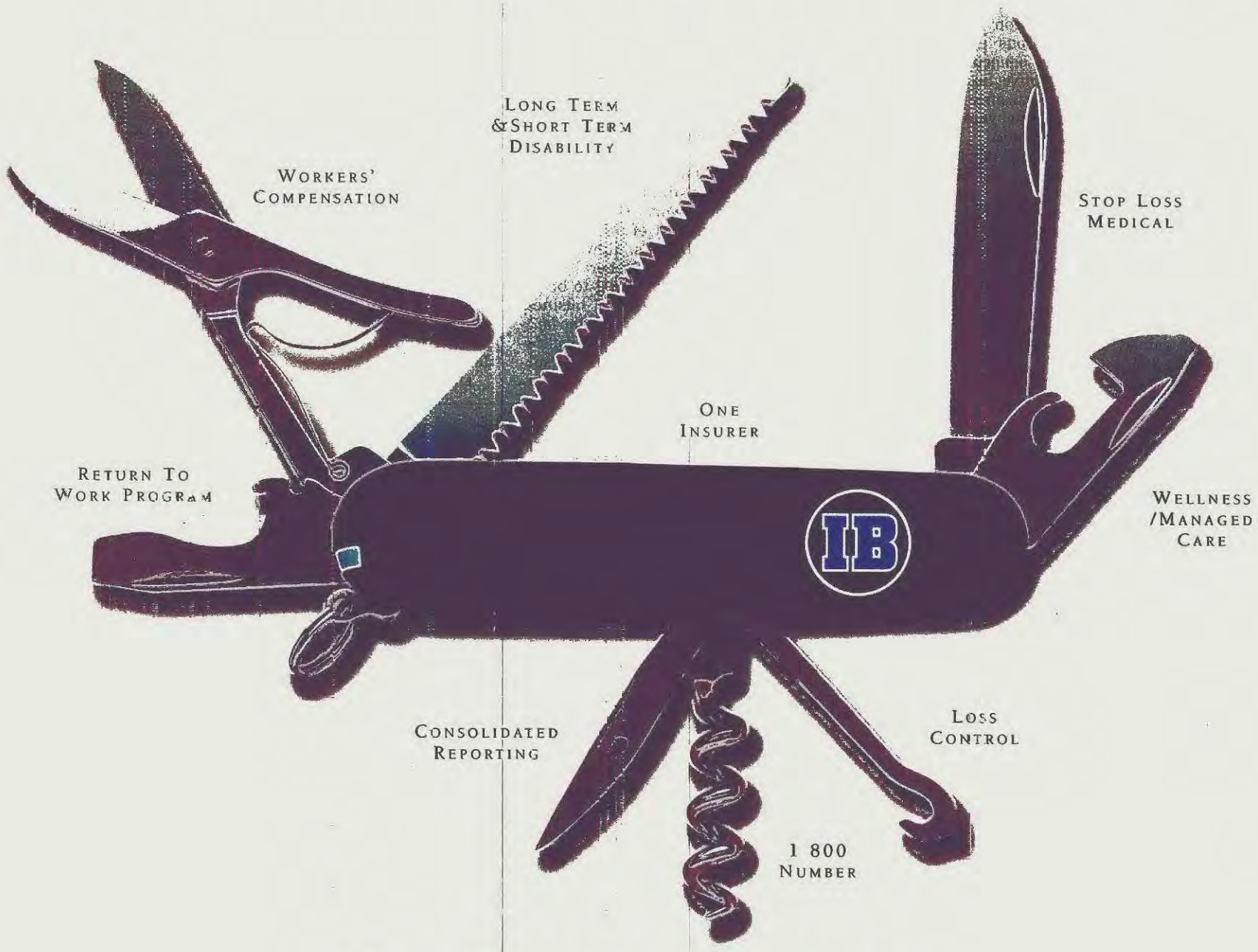


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Captive Report

Guernsey

Continued from page 28

interests in Cuba it cannot buy insurance in the United States and so places much of its insurance and reinsurance coverage in London and Paris. It chose to locate its captive in Guernsey partly for its proximity to these markets.

South Africa continues to be an important source of captive business for Guernsey, in part because of the easing of that country's foreign exchange laws a few years ago. It is Guernsey's third-largest source of captives after the United Kingdom and the Benelux countries.

SINSER (Guernsey) has gained three new captives so far this year, all of them from South Africa. In March it set up a captive for the South African Reserve Bank, which Mr. Beaton says "is the most tremendous endorsement of the captive concept in South Africa." The captive, South African Reserve Bank Insurance Co. Ltd., will write standard coverages for the bank's risks, he said.

The other two captives set up this year by SINSER (Guernsey) are both PCCs for South African clients. One is for the Hollard Insurance Co., which Mr. Beaton said is predicting "significant and rapid growth" in its cell numbers. Of the other PCC Mr. Beaton would only reveal that it is "a niche provider."

In January, Lloyd's of London gained its first captive when U.K. pharmaceutical manufacturer SmithKline Beecham P.L.C. moved its casualty program there from a Guernsey-based captive, SB Insurance Ltd. (*BI*, Jan. 4).

J&H Marsh & McLennan Management, which manages SB Insurance, acknowledges that while the Guernsey captive continues to operate, the long-term result is likely to be a full move to the Lloyd's captive.

Mr. Copeland at J&H Marsh & McLennan admitted that the switch could worry Guernsey if it marked the start of an exodus of captives to Lloyd's. However, he added: "I think the general thinking is that it's not going to be attractive to most of the business here. But certainly some of the larger corporations will at least consider Lloyd's if it turns out to be a successful domicile."

Other Guernsey captive managers say they don't expect Lloyd's to drain Guernsey of captives, primarily because the cost of operating a captive at Lloyd's is high.

Mr. James said that with its current structure, Lloyd's is no threat. "If Lloyd's looks at its pricing, its costs, and reviews that carefully and reduces it quite significantly and reduces the bureaucracy that goes with setting up these things, then it will be a threat. But I think it has a long way to go to get that house in order yet," he said.

"I think SmithKline Beecham will do very well there. I'm sure it's absolutely right for them and I am certain that we will see some other large corporates go there," Mr. James said.

The number of captive managers authorized in Guernsey continued to decrease last year as a result of the consolidation of the local branches of the major international brokers that have merged. Guernsey now has 32 captive managers, down from 35 a year ago. The number will dip one more soon with the pending merger of the local captive management offices of Marsh Inc. and Sedgwick Group P.L.C.

Guernsey's regulations also were reviewed last year as part of a U.K. government investigation of the trio of offshore domiciles that are Crown dependencies: Guernsey, Jersey and the Isle of Man.

The "Edwards Review of Financial Regulation in the Crown Dependencies," published last November, concluded that captive insurers in all three domiciles were generally well-regulated. However, on the issue of PCCs, the review found that while the protection of cell assets would doubtless stand up in a Guernsey court, it was less certain that such barriers would be respected in foreign courts.

Mr. Butterworth said that Guernsey in early 1998 appointed a legal expert to review and tighten its PCC legislation, making it more substantive, so that "it's as strong as it can be" to withstand such challenges.

Guernsey's captive managers maintain that, on the whole, the Edwards Review is a clear vindication of Guernsey's sound standing as a captive domicile.

"I think it was very positive and certainly, from the insurance perspective, was highly complimentary and only had some very minor recommendations," said IRM's Mr. Wild.

"We haven't had any clients so far rate it as an issue," said Mr. Copeland of J&H Marsh & McLennan.

One consequence of the Edwards Review was to kick start a drive to raise the profile of the Guernsey Insurance Company Managers Assn.

The GICMA in March voted to widen its membership beyond captive managers to also include captive owners and other organizations and individuals who deal with captives, including local non-executive directors, accountants, lawyers, bankers and investment managers.

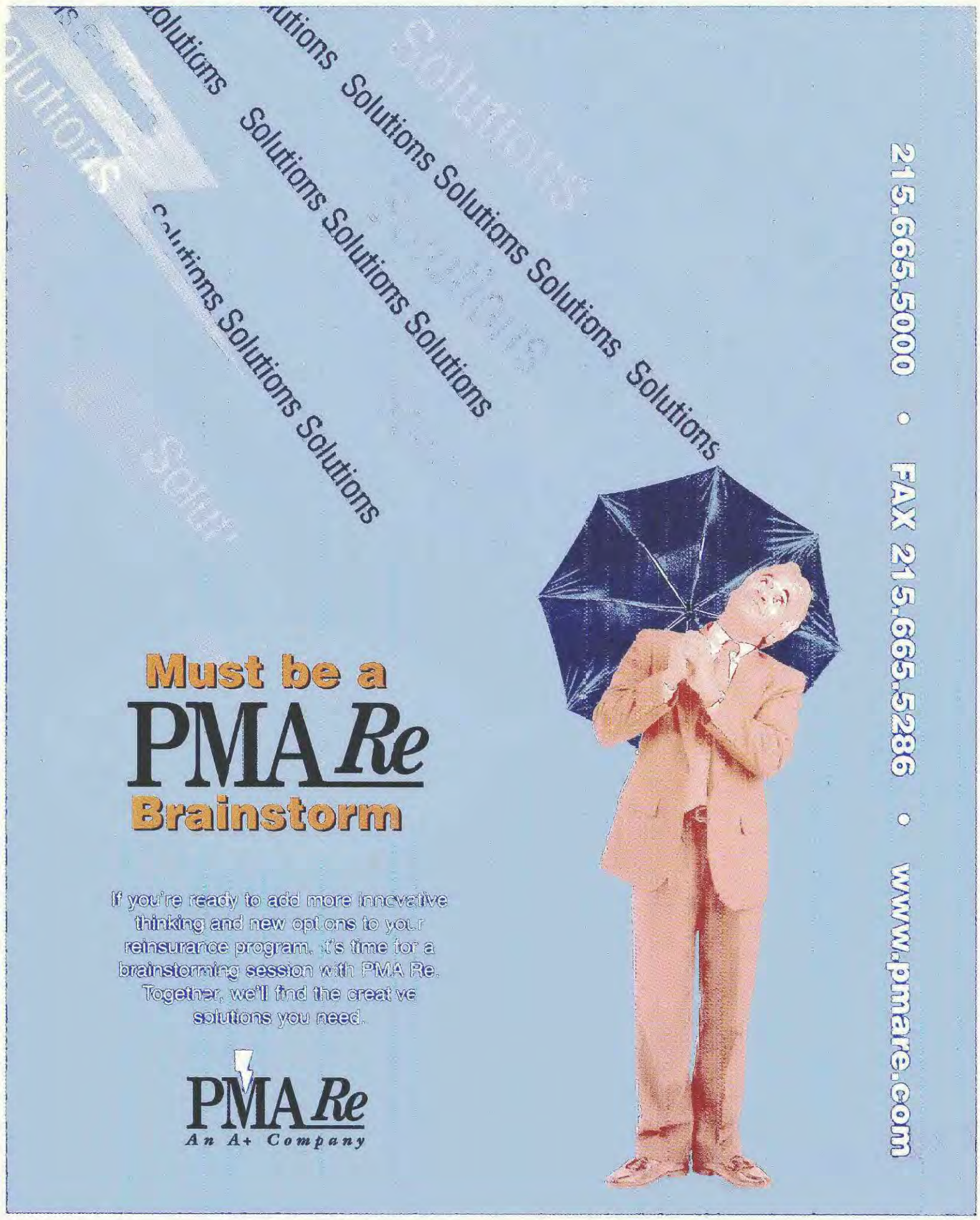
The group's expansion, which will occur by September, is designed to raise the profile of Guernsey and its captive operations, and to form a more effective lobbying voice for captives' interests. The move also addresses a point raised in the Edwards Review about the implications of having the Guernsey Financial Services Commission perform both the regulation and marketing of captives.

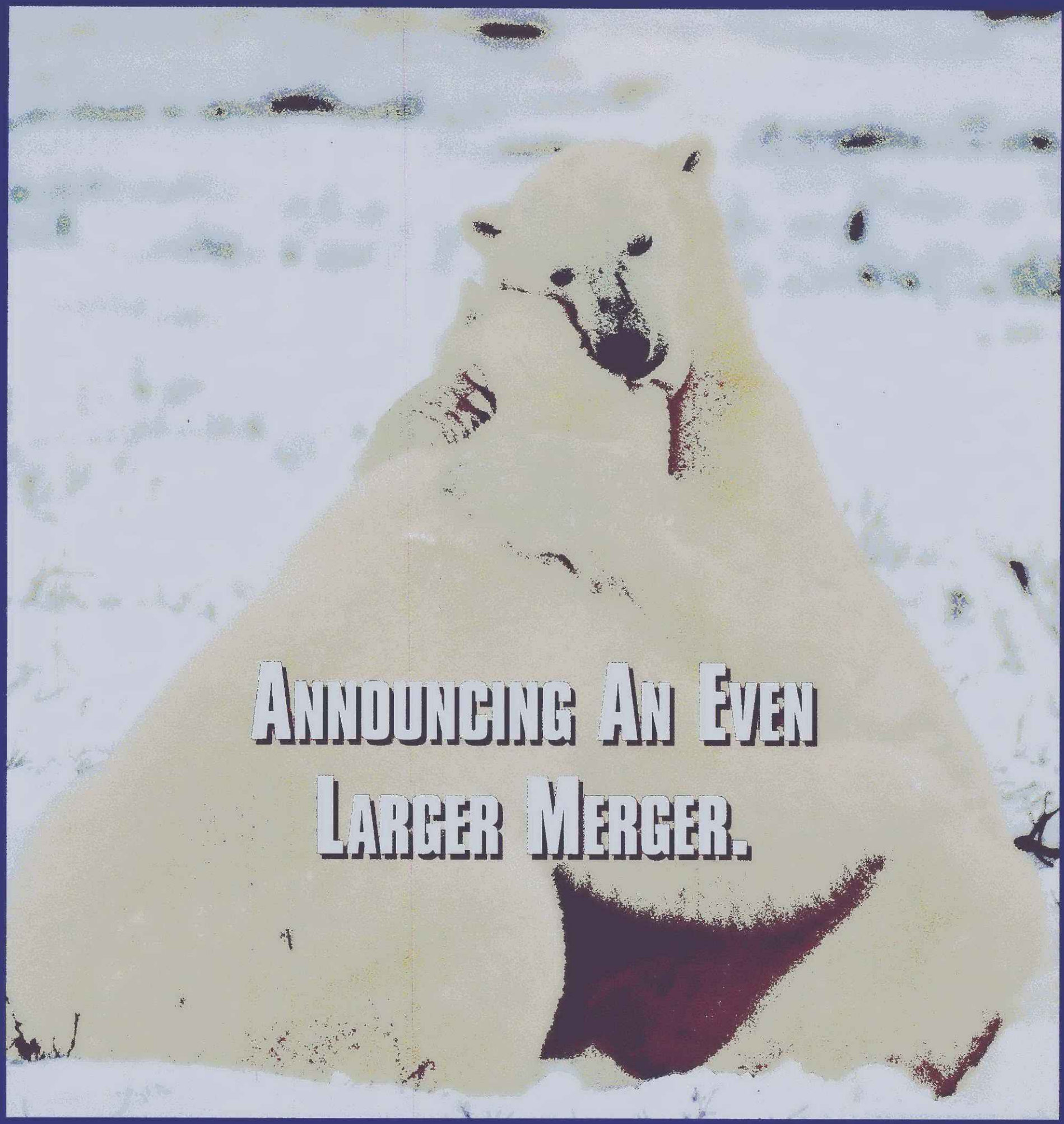
Looking ahead, Mr. James predicted PCCs "can take off a lot." He wants to keep the momentum going, and hopes to set up another two PCCs within the next few months.

Mr. Beaton said he sees the year continuing "very positively."

The Edwards report is "pushing us forward. There remains an uncertainty concerning an Organization for Economic Cooperation and Development examination of tax havens around the world," but "Guernsey is looking into those issues, and I think ultimately tax harmonization could be a real benefit to us," he said.

Mr. James also noted that his one concern is the OECD investigation. "That's an area where we here and the government have to work hard to make sure that we're not on that list as a tax haven," he said. BI





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Captive Report

20 largest Vermont-based group captives

Ranked by 1998 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
Attorneys' Liability Assurance Society Inc., A Risk Retention Group Law firms (Yankee Captive Management Co.)	$251,134,697	$8,325,602	$2,362,613
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (J&H Marsh & McLennan Management Inc.)	39,794,170	7,725,120	1,368,000
United Educators Insurance Risk Retention Group Inc. Educational institutions (J&H Marsh & McLennan Management Inc.)	39,588,206	4,631,569	63,276
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	35,511,547	18,003,925	551,325
MCIC Vermont Inc., A Risk Retention Group Academic medical centers (J&H Marsh & McLennan Management Inc.)	34,104,163	19,865,352	(16,602)
American Excess Insurance Exchange, Risk Retention Group Non-profit U.S. health-care facilities (J&H Marsh & McLennan Management Inc.)	32,884,936	31,534,936	5,577,127
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Co.)	22,435,070	19,614,395	2,143,687
NLC Mutual Insurance Co. Public entities (Yankee Captive Management Co.)	18,756,862	8,759,349	5,370,201
Ophthalmic Mutual Insurance Co. (A Risk Retention Group) American Academy of Ophthalmology (J&H Marsh & McLennan Management Inc.)	14,242,578	14,026,689	3,195,515
Housing Authority Property Insurance Inc. Insurance Inc. Public housing authorities (Yankee Captive Management Co.)	12,004,121	11,991,464	(520,192)
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	10,112,699	2,420,487	15,863,606
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (IRMG/American Risk Management Corp.)	9,563,554	7,875,052	4,637,586
Bar Vermont Risk Retention Group Inc. New York City law firms (IRMG/American Risk Management Corp.)	8,593,266	816,810	1,148,824
American Safety Risk Retention Group Inc. Asbestos abatement contractors (Mutual Risk Management Vermont Ltd.)	7,907,888	4,143,837	288,164
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (IRMG/American Risk Management Corp.)	6,977,499	2,970,505	202,099
VHA Risk Retention Group Voluntary Hospitals of America members (J&H Marsh & McLennan Management Inc.)	6,714,165	103,500	53,555
Mental Health Risk Retention Group Inc. Non-profit mental health centers (Skandia International Risk Management Vermont Inc.)	6,005,699	1,919,728	395,695
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	5,981,653	3,335,797	0
Terra Insurance Co. (A Risk Retention Group) Geo-science engineers (Vermont Insurance Management Inc.)	5,892,748	5,109,729	2,643,958
Eastern Dentists Insurance Co. (A Dental Society Risk Retention Group) Massachusetts Dental Society (Willis Corroon Management Vermont Ltd.)	4,334,346	4,170,682	115,227

Source: Vermont Department of Banking, Insurance, Securities and Health Care Administration

Vermont solidifies position as top U.S. captive domicile

By RODD ZOLKOS

MONTPELIER, Vt.—Despite a soft commercial insurance market, the domestic captive domicile champion continues to rack up impressive growth.

Vermont insurance regulators last year licensed 40 captives, the second-highest number of captives licensed since Vermont's captive statute took effect in 1981.

Even after the dissolution of 11 captives in 1998, Vermont-based captives grew to 334 at year end from 305 in 1997. Gross premium volume jumped 10.2% to more than $3.54 billion in 1998 from 1997's $3.21 billion.



The response of Vermont's captive industry to last year's success speaks volumes about the domicile: It began the year pushing a package of legislation aimed at broadening the state's captive law to solidify Vermont's position as the premier U.S. captive domicile.

"It was a great year. It certainly defies what everybody would have predicted in the middle of a soft market," said Julie S. Boucher, senior vp and branch manager at J&H Marsh & McLennan Management Inc. in Burlington. "And the interest is continuing. It's not slowing down at all," she added.

"Granted, a lot of our new captives are the mortgage insurance captives, which is a new niche," said Leonard D. Crouse, Vermont's director of captive insurance. "But I think there are a lot of risk managers out there who want to have their whole program in front of them.'

"We keep rolling along, adding more features to the captive law, capturing the current fancy of risk financing," said George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington.

Despite last year's growth, it's important to add new features, said Lisa Ventriss, president of the Vermont Captive Insurance Assn., an industry trade group in Burlington. It's important to expand the opportunities the domicile offers captive owners, she said.

The VCIA has made that point to state lawmakers, holding an educational session on the captive industry for new legislators in January and testifying before the Vermont House Commerce Committee in March in support of this year's captive legislation.

"What we're trying to do is help legislators recognize that, because there is so much competition right now, not just among captive domiciles but in the traditional insurance marketplace, we cannot stagnate, we cannot afford a year where we do nothing," Ms. Ventriss said.

In typical Vermont fashion, though, the changes are being sought only after considerable scrutiny of the proposals by the state's regulators.

This year's captive legislation is three-pronged. The first portion consists of legislative housekeeping measures, "just to tidy up the statutes," Ms. Ventriss said.

A second portion would allow the formation of "sponsored captives."

"The concept of the structure is similar to what you see offshore in a rent-a-captive," Ms. Ventriss said. "But it's different in some unique ways."

One key difference is that participants in sponsored captives' protected cells cannot write unrelated third-party business through the cell, the VCIA president said.

"I think, in terms of being perceived a 'full-service domicile,' it's probably necessary to have some kind of (sponsored captive) language on the books," said W. Scott Frazier, executive director-North America/Asia at Aon Insurance Managers Inc. in Burlington.

"Whether it's going to mean a lot of business for Vermont remains to be seen," Mr. Frazier said. "Like everything else, I'm sure that Vermont will get its share of it."

"When we look at the competitiveness of the marketplace right now, this is a really neat way for Vermont to extend its products a little further," Ms. Ventriss said.

Brian Donovan, president of Vermont-domiciled Steel Tank Insurance Co., noted that the sponsored captive legislation's emergence is an example of the responsiveness of Vermont's legislators, administration and regulators to the needs of the captive industry.

The measure developed from an industry strategic-planning session held last spring, he said.

"I think that was helpful in terms of getting some focus of where the captive owners would like to see things go," Mr. Donovan said. "I think the key to Vermont is that they listen."

The sponsored captive bill will offer potential benefits both to small companies seeking to take advantage of the benefits of captive insurance and insurers looking for a way to retain the business of customers who might be considering forming their own captives, its proponents say.

And, according to Roger Teese, president and chief executive officer of SB&T Captive Management Co. in Burlington, the measure might also prove advantageous for firms like his without the marketing resources of the larger captive-management companies.

"Actually, we probably need to affiliate with some national entity to establish a presence," Mr. Teese said. "I think, when the sponsored captive bill passes, we'll probably establish a partnership with a commercial carrier that wants to provide a facility for their programs and their brokers."

See **Vermont** *on page 34*

Largest managers of Vermont captives

Ranked by 1998 premium volume in millions of dollars

Manager	Premium volume 1998	Premium volume 1997	1998	1997
J&H Marsh & McLennan Management Inc.	$1,459.2	$1,484.2	125	117
IRMG/American Risk Management Corp.	652.9	443.5	44	40
Aon Insurance Managers (USA) Inc.	434.8	286.3	47	45
Yankee Captive Management Co.	304.8	286.6	5	4
Sedgwick Management Services (U.S.) Ltd.*	144.6	116.3	4	5
AIG Insurance Management Services Inc.	141.0	176.0	20	12
SB&T Captive Management Co.	109.7	95.6	13	13
Vermont Insurance Management Inc./USA Risk Group	97.3	80.1	25	23
Willis Corroon Management (Vermont) Ltd.	36.9	68.9	16	12
Skandia International Risk Management (Vermont) Inc.	31.1	37.8	19	19

* Acquired by Marsh & McLennan Cos. Inc. Source: BI survey



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Vermont

Continued from page 32

The third piece of this year's captive legislation would allow the formation of "branch" captives in Vermont.

"In essence, what this will allow is for an alien captive which is very happy being an alien captive but for whatever reason has an area of business they want to bring onshore. . .to create a branch captive here in Vermont," Ms. Ventriss said.

Vermont is making the change in anticipation of the U.S. Department of Labor allowing employers to write employee benefits through captives, and the legislation is written to limit branch-captive use to employee benefits business. Currently, the Labor Department severely restricts funding benefits through captives.

"We're waiting for the Department of Labor to give approval to some company to write employee benefits," Mr. Crouse said.

When that happens, for companies with existing offshore captives, "if they're going to do employee benefits for U.S. employees, they'll have to have a branch in a U.S. domicile," the Vermont captive director said.

"I really think this can amount to something major if the Department of Labor does give approval," he said. "Frankly, there are a lot of large companies that are very interested in this."

"We're ready," said Peter A. Joy, president of IRMG/American Risk Management Corp. in Burlington. "We did a lot of research into employee benefits a few years ago. So if the exemption is given, then we probably have a lot of clients who will take advantage of it."

"There will be a niche for that business," Mr. Crouse said. "I think again what Vermont's done here is prove its ability to accommodate the major businesses in the country."

One reason Vermont is thriving as a captive domicile—despite the soft insurance market—is that the Vermont captive industry is successfully tapping new captive niches.

A major success story has been in captives formed by mortgage-lending institutions to reinsure private mortgage insurance.

"The numbers this year, I'm sure, are going to look good," said Gary Osborne, senior vp at Vermont Insurance Management Inc./USA Risk Group in Montpelier. "You're going to have 30 to 40 (new captive formations) again this year because of mortgage insurance."

Mr. Joy said his firm will be looking to bring on more mortgage insurance captives this year and is developing a strategy for tapping a niche within that niche.

"We'll be aiming for the second-tier level of banks that maybe will be a little more cost conscious because they don't have the volume," he said.

IRMG/ARM is teaming up with local accounting, actuarial and law firms to put together a full-service package for such clients at a rate below which they could obtain the services piecemeal, Mr. Joy said. The captive manager hopes to have the program in place this spring.

Mr. Chaffee of Skandia International Risk Management noted that one potential Vermont captive he is working with would cover survivor death benefits for union pension plan members.

"It's not a large number, but, nevertheless, there's significant exposure there," he said. If, for example, there was a large-scale construction-site disaster that killed several members, the fund could face a sudden large death-benefit obligation.

But under the planned captive structure, "the funds would still pay expected levels of losses and the captive would pay a piece, and above that is reinsured," Mr. Chaffee said.

Another "niche" captive was formed at the end of last year: the National Football League's NFL Player Annuity Program Trust established a Vermont captive managed by Vermont Insurance Management to provide an annuity program for players.

The NFL Player Annuity & Insurance Co. allows active NFL players to put aside some of the money they are earning during their playing years to provide them with income between the end of their football careers and traditional retirement age.

"We're pleased that we got the program," Mr. Crouse said. "This is a whole new concept."

"That seems to be the way it's going now—life insurance, private mortgage insurance," Mr. Chaffee said. "Vermont had its second-best year ever, but it's not the typical casualty insurance."

"The deals we're looking at have a lot more to do with the financial risks of the parents," said James R. Girardin, vp at Willis Corroon Management (Vermont) Ltd. in Burlington. "I don't want to say they're tax-driven, but they're looking a lot more at the tax aspects."

Still, Mr. Girardin noted, "first there has to be a business reason for the captive."

And, despite the soft market, some new captives are driven by emerging risk management trends, some managers say, such as using the captive as a vehicle for structuring multiline coverages or as a tool in fashioning global insurance programs for multinational companies.

"The whole thought process of globalizing programs comes into play occasionally, developing more-efficient programs on a worldwide basis," Mr. Frazier said.

"I think there are a lot of people not waiting for the market to turn this time. They're coming on ahead of the market turning," Mr. Osborne said. "They're looking for control and flexibility."

Still, Vermont hasn't been immune to forces that have been taking their toll on the captive industry everywhere. One is mergers and acquisitions among captive owners.

"We've lost a number of captives, maybe four or five captives in the past year, because of merger activity," Mr. Crouse said, adding that he anticipates more such activity.

"We're in the middle of the big merger-and-acquisition trend," Mr. Girardin said. Three owners of Willis-managed captives have been purchased and the captives are in runoff, he said. Several other mid-size clients are acquisition targets.

"I've actually liquidated two (captives) over the past year" because of captive owner mergers, Mr. Frazier said. "And two others merged into other Vermont captives, and I suspect we'll see a little bit of that going forward."

"We had one captive whose par-

See **Vermont** *on page 36*

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Vermont

Continued from page 34

ent company was taken over and they closed the captive down," said Andrew Sargeant, president of Vermont Insurance Management in Montpelier.

And there's no denying that the soft conventional insurance market is holding down new formations in Vermont.

"The soft market evidenced itself to us in some (potential) new formations," Mr. Joy said. "We had three or four in the pipeline that at the 11th hour the existing carrier reduced their rates. So, therefore, the cost justification of the captive no longer applied."

Of course, the flip-side of the soft market is that it is actually providing a boon for some captives in terms of reinsurance availability and pricing.

"When reinsurers are willing to come down and attach at $100,000 or even lower, it's very attractive to risk retention groups or captives," said Mr. Osborne.

"We're finding some of our captives for whom reinsurance is a major factor have been able to make arrangements to get rid of old reserves, making arrangements to stop losses, and setting up multiyear arrangements to stop future losses," Mr. Chaffee said.

"From my standpoint, yeah, it's a soft market, but I go out and get reinsurance for a song right now," said Steel Tank's Mr. Donovan. "The good thing is, it frees you to be a little more creative in how you market your program."

Particularly hard hit in the current environment, though, are some risk retention groups that are losing policyholders to commercial insurers.

Many Vermont RRGs are well reserved, "so even though premiums are flat, they're strong companies," Mr. Sargeant said. "The hard core of companies from the '80s are sort of still around."

"A lot of them still remember the '80s, and they say, 'We're not going to get ourselves in that position again,' " he said, referring to a time when commercial insurance was expensive and difficult to buy. Therefore, the groups' sponsors are finding different ways to keep the risk retention groups attractive to members, he said.

However, there are some risk retention groups that were set up years ago that don't have a function now, he said.

Mr. Chaffee agreed that "risk retention groups are vulnerable in this cut-throat market," noting that one risk retention group he had under management wound up last year and another will wind up in 1999. "They can't produce the revenues to sustain themselves because of the cut-throat market," he observed.

"Our group captive, risk retention group formations are very, very slow, which in this market is fine," Mr. Crouse said. "I think the first question you have to ask anybody who wants to do a risk retention group (in the current market) is 'Why?' "

Earlier this year, the department placed one risk retention group, Nonprofits' Mutual Risk Retention Group Inc., in rehabilitation.

"That's part of regulation," Mr. Crouse said. "And the only way to take action when somebody's impaired is to take legal action."

But, he noted, the department also succeeds in quietly dealing with troubled captives. "The majority of these over the years we've been able to do very smoothly, because we've been able to find people to take them over, novate them, do reinsurance," the captive director said.

And, according to many in Vermont's captive industry, that demonstrates one of the domicile's greatest strengths, the quality of the captive division and the success of its oversight.

"Vermont does a great job. They're on top of it down there. They ask the right questions," Mr. Girardin said. "They really find out stuff. They see stuff in the quarterly surveillance, and that's the difference with some of the other departments that are out there."

"That's why, bar none, there's no other place you want to do business, in my opinion," Mr. Girardin said.

"A big part of the success of Vermont has been Len Crouse and his staff," Mr. Frazier said. "I think Len continues to do a fantastic job."

According to Ms. Ventriss, the captive division is one of the key areas in which Vermont shows that it is eager to meet the needs of captive owners.

"You see that kind of message carried out on the regulatory level," she said. "Those guys work so tremendously hard for captives."

"They're very accessible, but they won't allow that accessibility to mean that they're going to roll over for any request that comes over the transom," the VCIA president said. Instead, the regulators evaluate requests objectively and make the decisions that are best for the domicile.

"They have very strict standards, but they have a very businesslike outlook," said John B. Foley, vice chairman, president and chief executive officer of Vermont-domiciled Attorneys' Liability Assurance Society Inc., A Risk Retention Group.

"They have such a wonderful attitude about us being in this together," Mr. Foley said. "I'm totally sold on the department."

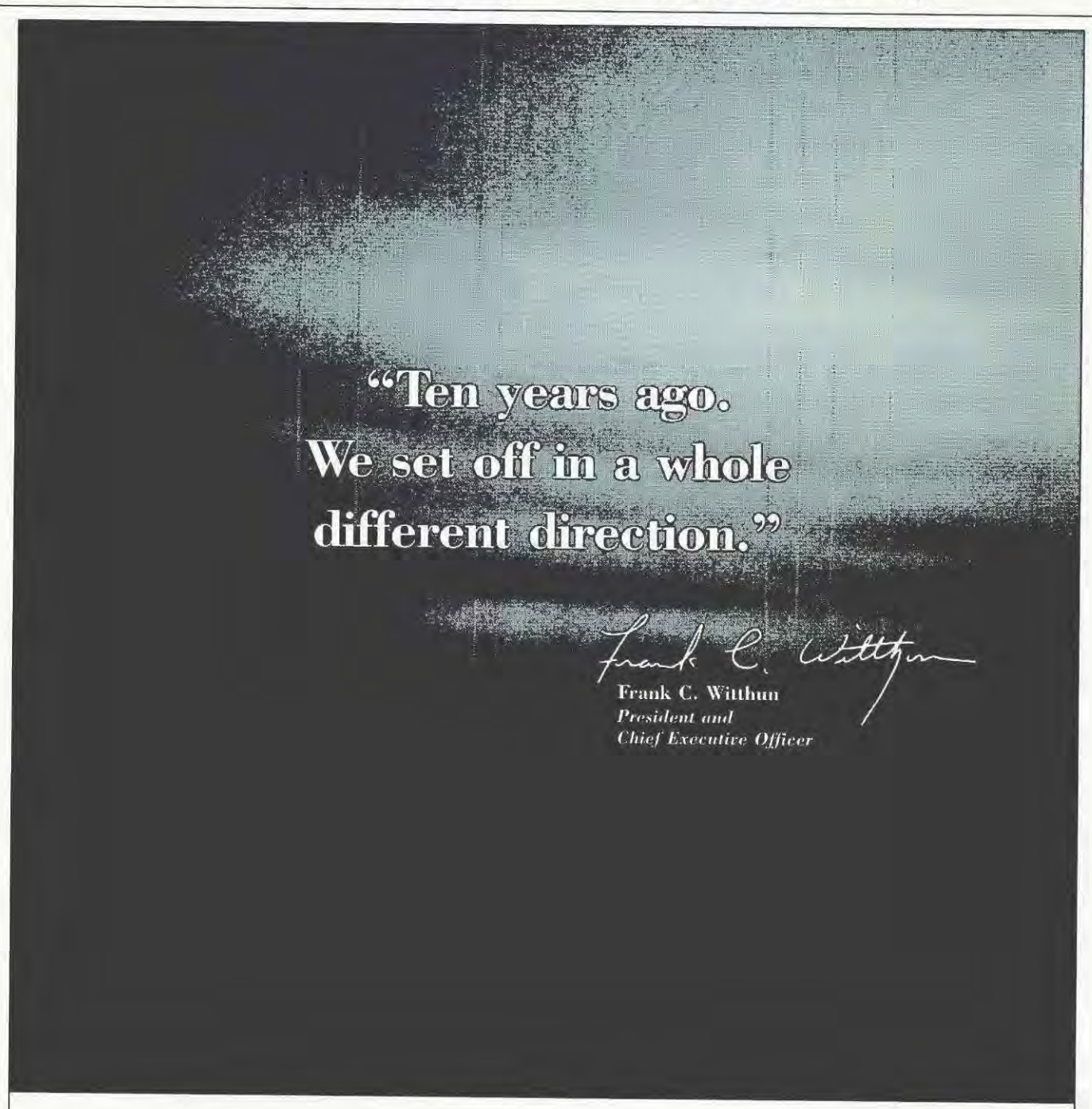
The VCIA has also grown to be a powerful advantage for Vermont as a captive domicile, as evidenced by last year's forum assessing the domicile's future and its ongoing efforts to work with the Legislature to continue updating the state's captive law.

The industry infrastructure that has developed as Vermont has matured as a domicile, along with the support the captive industry receives from the governor and the Legislature, also serve as powerful advantages for Vermont as it competes both with established domiciles and with newcomers such as Maine, New York and Rhode Island.

As Vermont looks for new areas in which to press its competitive advantage, risk securitization might loom in the future.

Vermont regulators are weighing whether the state might want to provide a home to the sort of special-purpose vehicles that have been created in the Cayman Islands for issuing catastrophe bonds.

"We've been studying that," Mr. Crouse said. "It's our intent here in Vermont to follow it closely and see if that's something that we want to do." BI

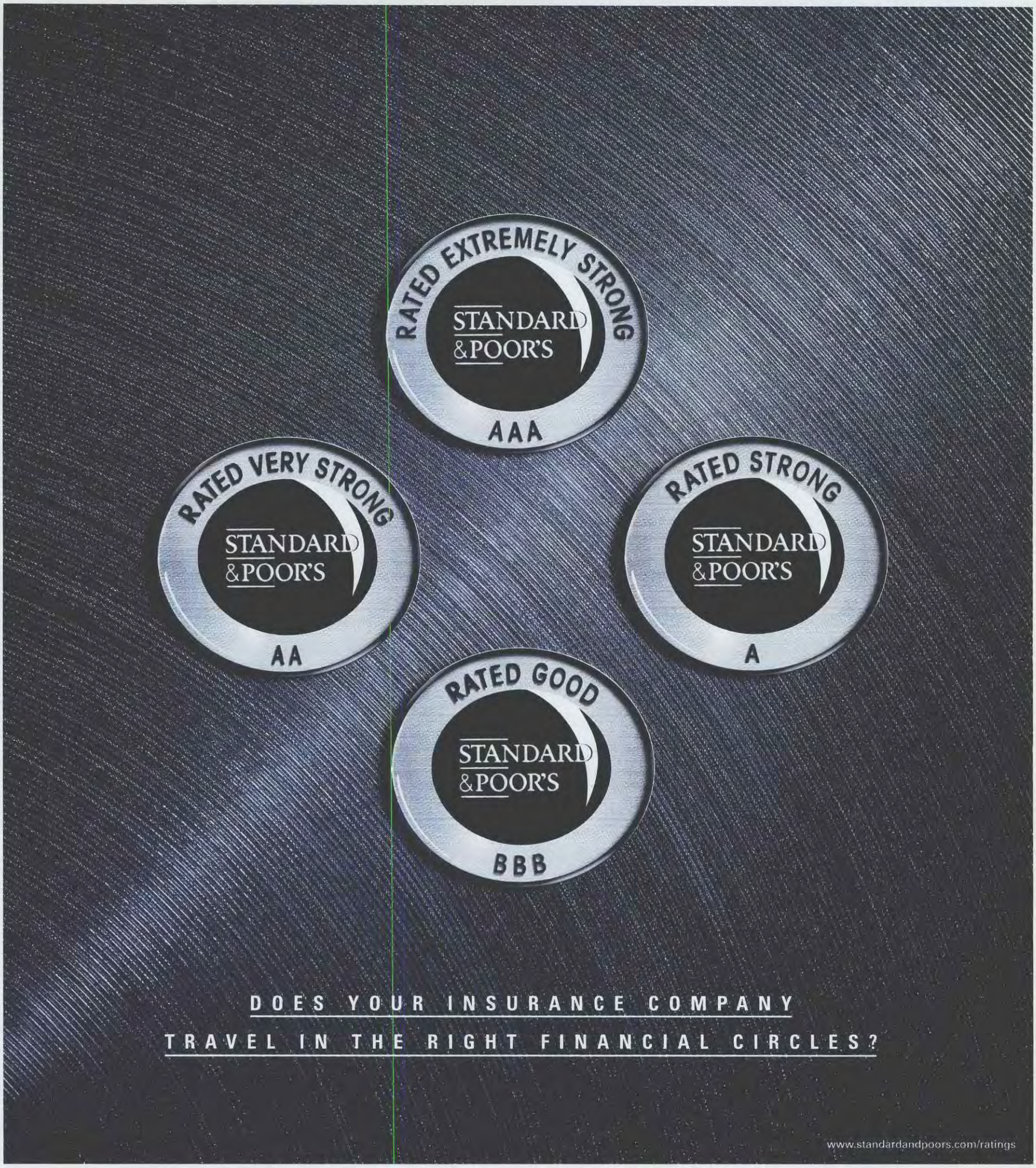


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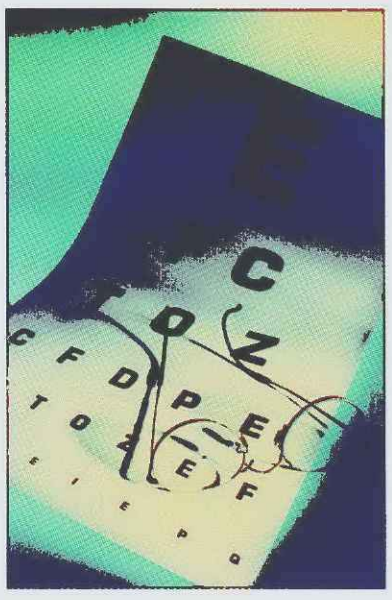
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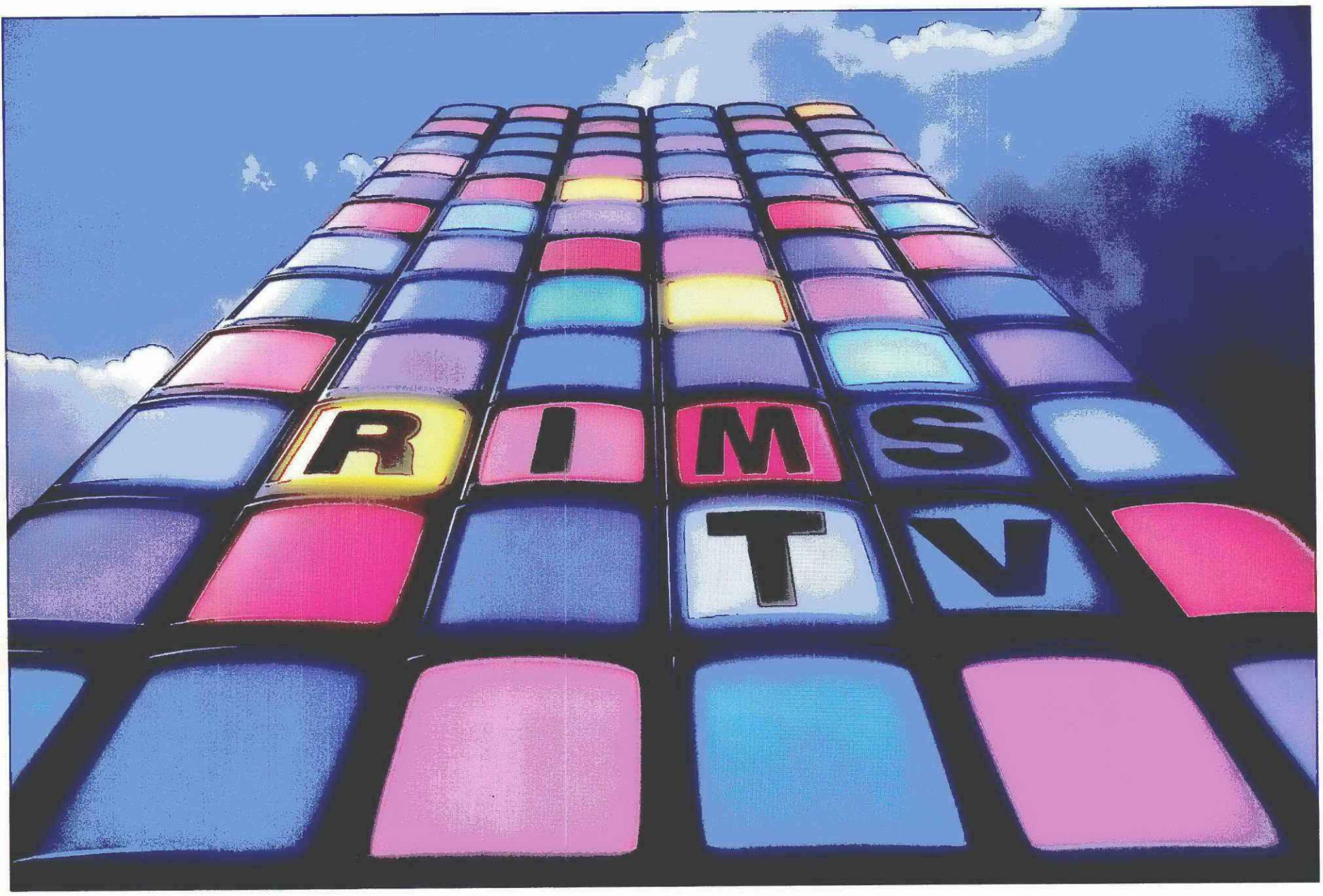
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Captive Report

Duchy's generous tax-free reserves under scrutiny

By SARAH GODDARD

LUXEMBOURG—Captive numbers in Luxembourg remained static in 1998, reflecting little change across the domicile.

Constant captive numbers of 220 licensed in the domicile mask a little bit of underlying activity, said Insurance Commissioner Victor Rod. "We lost three or four and gained three or four," he said. Parent company mergers removed one from the list, he said, and three closed down "mainly because of lack of interest from the promoters."

A total of 254 reinsurance companies operate in the Grand Duchy of Luxembourg, of which he estimates about 220 are reinsurance captives. The Commissariat aux Assurances does not distinguish captives from other types of reinsurers.

Captives operating in Luxembourg are authorized only to write reinsurance. They can establish catastrophe reserves ranging from 12.5 to 20 times the captive's average annual net premium volume over the previous five years, depending on the business written, and avoid paying tax on those reserves, called equalization reserves.

However, as taxes become a hot issue across Europe, certain taxation authorities are taking a dim view of Luxembourg's current position on catastrophe reserves. In particular, the French tax authorities are taking a close interest in companies with captives in Luxembourg, and some French companies are receiving what Mr. Rod calls "fiscal harassment."

The European Commission also has taken a look at Luxembourg's tax regime as part of a wide-ranging investigation into special tax regimes across Europe. "There may be a decision by the end of this year, but personally I don't think so," said Mr. Rod. "I am neither optimistic nor pessimistic."

The French tax authorities' attitude toward Luxembourg could have a



fairly profound effect on Luxembourg: of the 254 licensed reinsurance operations in Luxembourg in 1997, 72 were of French origin. Belgium-owned captives were in second place, with 62 reinsurance companies, and 40 were owned by Scandinavian companies.

Two of the new reinsurance captives formed last year were backed by French concerns; another one has a Belgian parent.

Mr. Rod was particularly enthusiastic about a group captive set up for French architects professional liability exposures. "We have a number of group captives being planned, but none have come to license yet."

Premium income has stagnated in Luxembourg, said Mr. Rod. "If reinsurance buyers can find lower prices in the traditional market, there is no reason to go for captives."

Captive managers in the domicile are looking at alternatives to straightforward captive management to extend their business.

"We are developing (captive business), but we are also getting more into alternative risk transfer," said Frederick Gabriel, general manager of the Societe pour la Gestion de Captives, also known as Gecalux S.A.

Gecalux is 40% owned by Swiss Re, with smaller shareholdings held by Paribas, Credite Bank and Le Foyere. The controlling interest is held by Roland Frere, who set it up in 1984.

Over the past two years, Gecalux has developed a new product called Corporate Risk Adjustment Capital, or CRAC. Launched at the beginning of this year, CRAC already has been taken up by five clients, two of whom are Gecalux-managed captives. "The idea of captive is now coming later in the discussion" about risk financing with clients, said Mr. Gabriel.

Mr. Gabriel said CRAC was developed by a team of actuaries "but is still quite user-friendly." It comprises four stages: a financial model; risk mapping; putting the two together and deciding which risks are to be retained and which to be transferred from the balance sheet; and risk transfer to insurers and/or a captive.

Gecalux, the largest captive manager in Luxembourg with 60 captives under management, has not written off new captive formations, though, and is looking farther afield for new prospects. In particular, Mr. Gabriel sees Japan as fertile ground for new captive clients. Japan "seems to be suddenly opening up with deregulation," he said.

The equalization reserves, with their beneficial tax treatment, continue to attract interest because of their balance sheet-smoothing potential, he added.

Gecalux already manages captives for four Japanese clients, and he sees the ideas of Japanese parent companies changing.

"They are getting more into the concepts of western European-type thinking," said Mr. Gabriel, such as alternative risk financing.

Gecalux also is turning to the unsaturated markets within Europe, such as Spain, Portugal, Greece and Italy, for new business. "Luxembourg has become relatively saturated" from its traditional European captive owners, said Mr. Gabriel. He said he is under no illusion, however, that the recently targeted European market will flood into Luxembourg. "It takes a while to get to maturity," he said.

Other countries, such as Taiwan and South Korea, may prove fertile at some point, though Mr. Gabriel says that for many markets captive expansion is premature, "particularly for the Chinese market."

Insurance Commissioner Mr. Rod also sees prospects emanating from Latin American countries such as Chile, particularly because Iberian captives have been slowly growing in numbers over recent years. However, the current position with tax authorities "is not incentivizing companies to come to Luxembourg," he said, particularly when coupled with the soft insurance market.

Aon Insurance Managers (Luxembourg) S.A. added two new captives during 1998, said general manager Alain Dufraisse, and has already added one in 1999. Aon managed 13 Luxembourg captives at year-end.

Of the two captives Aon gained last year, one had a Scandinavian owner, and the other was a transfer from another Luxembourg captive manager. Mr. Dufraisse is looking to increase the number of captives managed by Aon by more transfers from competing managers and also new clients. "We have got two or three hot prospects in the pipeline" for new captives to the domicile, he said.

Growth in Luxembourg captives has been stymied by the soft insurance market, said Mr. Dufraisse. "Our main competitor is the rates." However, he is optimistic that more captives will enter the domicile if the rating environment hardens.

"At the moment, the rates are quite low, and reinsurers are inclined to write risks that they don't really know," said Mr. Dufraisse. At the same time, some clients still are having difficulties finding insurers for certain risks and are putting them into their captives.

Alternatively, Mr. Dufraisse said, Aon had one client that was "convinced its risk was so good that there was no chance it would be heavily hit by a big claim, so it wanted to get the benefit of the program," putting the risk into its captive.

For many captive clients, the goal is to make their programs independent of the traditional market, he said. "When they see how rates can drop or increase so dramatically, they see the insurance market as unstable" and prefer the cost-smoothing a captive can offer.

Aon also is seeing its captive management clients starting to use their captives within a wider alternative risk financing program. "Captives are just one part of it," said Mr. Dufraisse.

Several Luxembourg captives are beginning to reach their "sell-by date," said Gecalux's Mr. Gabriel, as they reach their maximum reserving position. As a result, "we are being asked to try and get" captives "back on the rails." Solutions include insuring more business through the captive, or broadening the existing covers.

"We have tried to look at it in order to avoid the day when they pay tax," he explained.

Gecalux last year opened an office in Zurich, Switzerland, in response to client interest. BI

Barbados offers captive tax option to appease Canada

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—Barbados is attracting new captive insurers at a steady clip, and its long-running scuffle with tax authorities in Canada, a key source of international business, may be ending.

Late last year, the Barbados Parliament enacted a new law allowing exempt insurers such as captives to become licensed—and taxed—under the law governing Barbados domestic insurance companies. While the island's corporate income tax rate is 40%, captives registering under the new law will be eligible for foreign currency tax credits that will reduce that rate to as little as 2.8%.

The new law is intended in part to address 1994 Canadian tax reforms that eliminated tax breaks for Canadian-owned captives that were not "residents" of Barbados. To qualify as a resident, a captive has to be subject to local taxation.

Canadian authorities haven't offered a public opinion on the new law, the Insurance (Miscellaneous Provisions) Act of 1998.

Captive managers, however, hope the act will resolve the uncertainty that has surrounded the tax status of Canadian-owned captives in recent years, hampering their growth.



"It's a win/win no matter which legislation you maintain your license under," said Kevin Walton, senior vp with J&H Marsh & McLennan (Barbados) Ltd. and president of the Barbados Exempt Insurance Management Assn.

Mr. Walton predicted that the Barbados captive industry's growth will accelerate this year as Canadian companies that have been awaiting the new legislation jump in.

"I'd say we will be up 15% to 20% this year," with more than 30 new captive incorporations, he predicted.

Despite Barbados' skirmishes with Revenue Canada, the domicile has steadily expanded its captive business in recent years, and last year actually saw the rate of new incorporations rise.

Barbados issued 24 new exempt insurance licenses last year, an increase from 18 new licenses in 1997 and 23 in 1996, according to the Ministry of Finance and Economic Affairs.

Along with the new formations, the government revoked six licenses last year, leaving a total of 363 exempt insurers, up from 345 at the end of 1997.

Of these, *Business Insurance* estimates that roughly 40% are commercial insurers or reinsurers set up primarily to write third-party business, leaving 221 licensed captive insurers at the end of 1998, up from an estimated 210 at the end of 1997.

How many of Barbados' exempt insurers are active is a matter of debate. The government reports that of 363 exempt insurers at year-end, 200 were actively underwriting and 163 were inactive.

In the past, though, BEIMA, the captive managers' association, has put the number of active insurers at well over 200. Managers say their figures may include insurers that have not paid their annual license renewal fees—and therefore are not able to underwrite—but that intend to remain in business and may resume underwriting by paying back fees and penalties.

Overall, the United States has accounted for nearly two-thirds of Barbados' exempt insurance licenses, while Canada has accounted for slightly less than one-third.

New business from Canada dropped markedly in the wake of Canada's 1994 tax reforms, falling to only five new Canadian captives in 1997 from 15 three years earlier.

Before the reforms, a Canada/Barbados tax treaty allowed companies to accumulate captive earnings tax-free if the earnings were related to third-party Canadian risks or the risks of the owners' non-Canadian operations.

The reforms, however, eliminated the tax break for third-party Canadian business, making earnings on all Canadian business taxable unless non-Canadian risks account for more than 90% of a captive's volume.

This change was a heavy blow to credit life and warranty captives set up by Canadian banks and auto dealers to insure their customers.

The new rules maintained a tax break for Canadian multinational corporations, though, exempting from taxation all captive earnings from related non-Canadian risks—for example, risks of a corporation's non-Canadian subsidiaries.

To qualify for this benefit, a captive would have to be considered a Barbados "resident" under the terms of the tax treaty, meaning it would have to be subject to Barbados taxation.

The Barbados government's first attempt to deal with this problem misfired: In 1995, it amended its Exempt Insurance Act to create "virtual taxation," imposing a tax of 0% on captive earnings for the first 15 years of its operation and a 2% tax on the first $125,000 of profits for the next 15 years, offset by a waiver of the annual $2,500 license renewal fee.

Canadian tax authorities complained that the move violated the spirit of the tax treaty.

Barbados rethought its position and last fall enacted the Insurance (Miscellaneous Provisions) Act, which effectively amends the Exempt Insurance Act that has historically governed captives; the Insurance Act, governing domestic Barbados insurers; and several other tax and foreign exchange acts.

See **Barbados** *on next page*

Largest managers of Barbados captives

Ranked by gross premium volume in millions of dollars

Manager	Premium volume 1998	Premium volume 1997	Captives 1998	Captives 1997
MIMS International (Barbados) Ltd.	$376.0	$367.0	20	20
Merchant Corporate Management Ltd.	210.0	115.0	10	15
Aon Insurance Managers (Barbados) Ltd.	162.0	112.0	26	21
IAS (Barbados) Ltd.	160.0	153.0	7	8
J&H Marsh & McLennan (Barbados) Ltd.	84.0	55.0	28	31
Mutual Risk Management (Barbados) Ltd.	53.0	60.3	6	6

Source: *BI* survey

Captive Report

Barbados

Continued from previous page

Under the new law, which became effective last Aug. 1, captive owners may choose to become licensed under either the Exempt Insurance Act, which exempts insurers from local taxation, or the Insurance Act.

While the Barbados corporate income tax rate of 40% applies to insurers licensed under the Insurance Act, captives writing international business would qualify for foreign currency tax credits that would reduce that rate to as little as 2.8%. Life insurers subject to a 5% tax on gross investment income would likewise see that rate reduced to as little as 0.35%.

Exempt insurers get a variety of other tax breaks in addition to the income tax exemption, including exemptions or reduced rates for value-added tax, stamp duty, property transfer tax, premium tax, exchange controls and certain employees' income taxes, according to a memo on the law produced by PricewaterhouseCoopers.

The new law also would extend these benefits to captives registering under the Insurance Act if they meet a two-pronged test: At least 90% of their premiums must be derived from outside the Caribbean Community and Common Market's member nations, and 90% of their risks must be situated outside that region, the memo explains. Captives meeting this test will be certified as "qualifying insurance companies."

Existing captives originally licensed under the Exempt Insurance Act can switch to Insurance Act registration and have the new law's provisions apply retroactively from the beginning of their first fiscal year after 1995—roughly when the Canadian reforms took effect. To take advantage of the retroactive feature, though, captives must re-register—and pay their taxes retroactively—by Dec. 31.

Barbados managers expect many Canadian parent companies to re-register their captives before year's end.

"If Revenue Canada gives its blessing. . .there is no reason for any Canadian-owned company not to take the election," said Ronald W. Jones, managing director of Aon Insurance Managers (Barbados) Ltd.

So far, though, there has been no rush: Only one captive, Aurum Insurance Co. Inc., a unit of Vancouver, British Columbia-based mining company Placer Dome Inc., is widely known to have re-registered.

Aurum initially was licensed as an exempt insurer last year and then re-registered under the Insurance Act in December, confirmed James Gardiner, the insurer's managing director.

While Canadian tax law was one factor in the decision, it was not the primary reason, Mr. Gardiner said. Placer Dome wants to use Aurum to write surface management surety bonds required of mine operators by the U.S. Department of Interior, and state insurance laws require that Aurum be authorized in its home jurisdiction to write the type of business it plans to write in the United States, he explained.

Managers offer a couple of reasons for captive owners' reluctance to re-register quickly.

Mr. Jones said many captive owners are waiting for some indication from Revenue Canada that the Barbados legislation will pass muster, particularly the provision for retroactive Insurance Act licensure.

Mr. Walton of J&H Marsh & McLennan, however, said it is more a matter of parent companies wanting to wait as long as possible before Dec. 31 to pay the tax bill that would come with retroactive relicensing.

Mr. Walton and Mr. Jones agreed that the tax bill will be significant for some captives, even at a 2.8% tax rate: One captive Mr. Jones manages would face a bill of roughly $750,000 for retroactive relicensing, he said.

A BEIMA poll of Barbados accounting firms found that the total new taxes owed on 1996 and 1997 income by all Canadian-owned companies likely to re-register will amount to more than $10 million and could hit $15 million, according to Mr. Walton.

The Barbados government did not estimate the tax revenue impact of the new legislation, according to Lynette Eastmond, director of the Ministry of Industry and International Business.

Ms. Eastmond added that the aim of the new act was not only to aid Canadian companies but also to allow existing Barbados domestic insurers to expand internationally.

Whether Canadian tax authorities will contest the new law is unknown.

On its face, the Barbados law meets the Canadian requirement that captives be subject to local taxation, and the use of foreign currency credits to reduce tax rates is already established in other Canadian tax treaties, said John Haag, an international tax partner with Ernst & Young in Toronto.

But no jurisdiction has used foreign currency credits to the extent Barbados is planning to, Mr. Haag said, noting, for example, that credits allowed to companies in Ireland's International Financial Services Centre cut the corporate rate to 10%.

Meanwhile, companies registering or re-registering under the Insurance Act face an expanded set of license requirements, including higher minimum capital levels.

While the minimum capital required of exempt insurers is $125,000 regardless of the type of business to be written, the minimums for Insurance Act licensees are $1.5 million for either property/casualty or life companies; $2.5 million for companies planning to write both; and $500,000 for companies writing either motor vehicle or industrial life coverages, according to PricewaterhouseCoopers.

Insurance Act license applications also require far more information than exempt insurer applications, including a detailed business plan, details of reinsurance coverages, information on directors and shareholders with more than 10% control, details of investments, and bankers and auditor information.

While newly formed companies will have to follow this application process, the Insurance Supervisor has "indicated verbally" that existing exempt insurers seeking to re-license will have to provide only a notice that they wish to register under the Insurance Act, according to PricewaterhouseCoopers.

After showing steady gains last year, Barbados' captive industry should see even stronger growth this year as the dust settles from the new legislation, captive managers predict.

Mr. Walton, projecting more than 30 new incorporations in the domicile this year, said the growth will come not only from Canadian companies that have held back during the tax upheaval, but also from companies transferring from other domiciles in the wake of the legislation and from the United States. BI



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Captive Report

Isle of Man managers disappointed by rejection of PCCs

By EDWIN UNSWORTH

DOUGLAS, Isle of Man—The Isle of Man continues to enjoy steady captive growth, though some captive managers fear the absence of a protected cell company option could hamper the domicile's competitive position.

A 1998 decision by the Insurance and Pensions Authority not to introduce legislation to allow PCCs disappointed many of the island's captive managers, who see the entities as an important vehicle for the domicile to attract new business. The PCC structure allows the creation of an umbrella company, or core cell, around which any number of independent subsidiary cells operate.

Guernsey, the Isle of Man's main rival, gained 31 new captives last year, of which seven were PCCs with a total of 14 subsidiary cells.

Not that the Isle of Man had a bad year in 1998. The number of Manx captives increased for the fifth consecutive year, with 13 new captive formations. Along with nine closures during the year, the Isle of Man had a net gain of four captives, or 171 at year-end.

Net premiums written in 1998 will not be available until the summer, but David Findlay, business development manager for the Insurance and Pensions Authority, says they are expected to be very close to the 1997 figure of £1 billion ($1.6 billion).

As in 1997, captive managers describe the activity in new captive formations last year and so far in 1999 as "steady," but not necessarily buoyant.

Peter Foulger, a director of Willis Corroon Management (Isle of Man) Ltd., which saw a net gain of one captive in 1998 to a total of 43, said last year was "basically stable."



"Steady is the word," is how Michael Skehan, general manager of International Risk Management (Isle of Man) Ltd., characterized last year. Captives under management by IRM in 1998 stood at seven, unchanged from the previous year.

Having previously termed 1997 growth as steady, Geoff Hunt, managing director of Aon Insurance Managers (Isle of Man) Ltd., said: "I think you would have to say the same about 1998."

The manager gained two captives last year to give it a total of 22, of which two are inactive.

A majority of the island's captive managers, however, say that 1998 growth could have been stronger if the option to form PCCs had been available.

The Manx Insurance Managers Assn., which represents the island's 35 captive managers, has told regulators of its disappointment with the ruling.

Mr. Hunt, who also is MIMA's chairman, said he is unhappy with the Insurance and Pensions Authority's action, though he added that he has some sympathy for the IPA, which acts to protect the interests the Isle of Man in its entirety, not just to promote the captive sector.

The IPA said it rejected PCCs primarily because it was unconvinced that the core principal of PCCs—isolating the assets of one cell from the liabilities of another—would work. Regulators noted that the barriers between cells have never been tested in court and that there was no certainty other courts outside the Isle of Man would respect those boundaries (*BI*, June 1, 1998).

He said MIMA wants to keep a dialogue going with the IPA "to see if there's a way that we can find to resolve the government's concern" and to safely introduce PCC legislation.

IRM's Mr. Skehan said the Manx regulators' decision leaves the domicile at a serious competitive disadvantage against its main rival, Guernsey. "The view is, Guernsey has something the Isle of Man does not have, and they are using it to good effect," he said.

Since Guernsey adopted PCC legislation in 1997, the rival domicile has added 13 PCCs, containing a total of 30 cells.

Graham King, head of office at J&H Marsh & McLennan Management (Isle of Man) Ltd., said some companies choosing a domicile will be looking to form a PCC.

"I think, from a captive manager's point of view, if that puts us at a disadvantage to another domicile then it is a loss," he said.

J&H Marsh, which now includes what formerly was the island's largest captive manager, Sedgwick Management Services (IOM) Ltd., gained one captive in 1998 to give it a combined total of 45.

Mr. Foulger of Willis Corroon is clearly among the minority of captive managers in saying that the Isle of Man's decision not to allow PCCs makes little difference.

"We currently run a small rent-a-captive. . .it's still not terribly clear to me exactly what a PCC can do that a rent-a-captive can't do. So I really see no competitive disadvantage to us because we have access to the rent-a-captive facility," he said.

'I think if it's seen that PCCs can withstand scrutiny as being valid entities, then the Insurance Authority may alter their position,' says Graham King.

Mr. Foulger added that he has had no feedback from captive owners or potential clients expressing concern about the domicile's rejection of PCCs.

Other captive managers, though, are hopeful that regulators will review their decision on PCCs and decide at some later date to allow them.

The IPA's Mr. Findlay said the May 1998 rejection of PCC legislation was "a decision very much for the time being," though he added that nothing has since occurred to make it change its decision.

J&H Marsh's Mr. King said that with MIMA continuing to raise the issue, he expects PCCs eventually will be allowed.

The IPA's rejection of PCCs came at a time when Guernsey was re-examining its own PCC legislation in light of concern as to whether the cells were legally protected entities.

"I think that position has quieted down, and I think if it's seen that PCCs can withstand scrutiny as being valid entities, then the Insurance Authority may alter their position," Mr. King said.

"I don't think it would be years away, provided it can be demonstrated that the existing PCCs in other domiciles are robust and stand the scrutiny," he added.

There were no changes in existing captive regulations, and no changes are anticipated in the foreseeable future, said the IPA's Mr. Findlay.

One uncertainty surrounding the Isle of Man for most of 1998 was resolved in its favor last November, when a U.K. government report was published largely endorsing the way it runs its captive operations. The report, the Edwards Review of Financial Regulation in the Crown Dependencies, had also looked at the Channel Islands of Guernsey and Jersey, and similarly found little to fault in their captive operations.

"I think it's fair to say that the insurance regulatory regime on the island as a whole was fairly strongly endorsed" in the report, said Mr. Findlay.

Mr. King acknowledged that there was concern as to what the review might turn up, though "it certainly hasn't reduced the interest in the Isle of Man."

The Isle of Man, like Guernsey, is seeing a slight reduction in the number of captives being formed by U.K. companies, largely because of two changes to U.K. tax legislation in the last five years.

The first is the Insurance Premium Tax introduced in 1994 on some U.K. generated insurance business, which is due to rise on July 1 to 5% from 4%.

The second is Controlled Foreign Corporation legislation introduced in 1996, which increased to 90% from the previous 50% the amount of annual taxable profits after capital gains and foreign taxes that foreign companies with U.K. owners have to remit for tax purposes.

Mr. Findlay said that of the 13 new captives formed in the Isle of Man last year, five, or 40%, were U.K. owned. The proportion of the island's captives with U.K. parents stood at 75% in 1998, unchanged from 1997 but down from 80% in earlier years.

As U.K. captive formations decrease, the slack is being taken up by captives with owners from other countries in Europe, which now account for 14% of the island's captives.

South African captives, helped by a change in political climate and reduced foreign exchange restrictions, now account for 5% of the Isle of Man's captives.

Commenting on current and future prospects, captive managers return to their apparently now habitual view of steady trading conditions.

Although Willis Corroon (Isle of Man) is currently forming a new captive, Mr. Foulger said the outlook generally for 1999 is "probably more of the same."

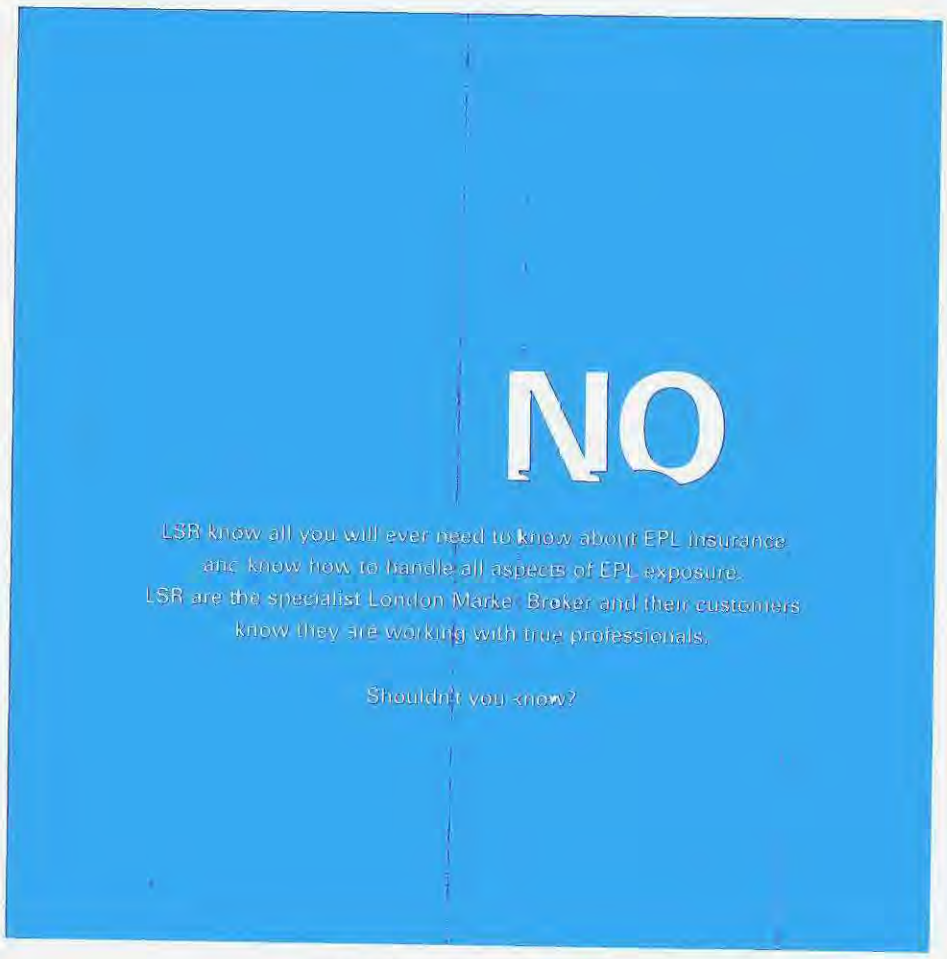
Mr. Foulger sees his company expanding its involvement in "niche areas," such as redomiciliation of existing captives from locations with reciprocal legislation and a drive for more non-U.K.-owned business.

Aon's Mr. Hunt remarked that 1999 has been "relatively slow" for the captive manager in the Isle of Man with no new captives formed so far this year. But, Aon is "looking at a number of opportunities, and I'm hopeful that we'll have something certainly within the next month or two," he added.

However, Mr. Hunt also noted that the current general state of the insurance market, characterized by low rates, "has had an impact on the attractiveness of the (captive) concept."

Mr. Skehan has not seen any captive gains at IRM so far in 1999.

"We just look forward to 1999 as another year of steady performance," he said. Speaking generally of captive formations, he added that there could be a contraction of captive numbers this year as owners merge. BI



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Captive Report

As captive growth slows, Dublin gets more aggressive

By SARAH GODDARD

DUBLIN, Ireland—It's been 10 years since the launch of Dublin's first captive, and the domicile's captive managers remain optimistic about Dublin's future as a captive domicile.

Although growth in captive numbers has slowed lately, largely due to the soft commercial insurance environment, Dublin captive managers are hopeful about their business prospects. In a concerted effort to make Dublin the Bermuda of Europe, many of its managers are looking at ways to introduce alternative risk financing products, such as finite risk and securitization mechanisms, into their menu of services.



Last year, the Dublin International Insurance & Management Assn., which represents captive managers, insurers and reinsurers operating out of the International Financial Services Centre, teamed up with the Industrial Development Agency of Ireland, a government body promoting Ireland as a location for international business, to commission consultant Tillinghast-Towers Perrin to investigate the future of insurance services within the IFSC.

The IFSC, set up in the late 1980s to help kick-start the stagnant Irish economy and boost employment, implemented a series of incentives and tax breaks for overseas companies engaging in international business from Ireland. One of the most significant is the 10% income tax rate for companies operating from the IFSC, compared with Ireland's corporate tax rate of 28%.

The success of the IFSC, which is part of a package of European Commission-approved business inducements, is apparent: Ireland now has one of the most vibrant economies in Europe, and unemployment is down to about 7%. Even so, the captive management and insurance community that developed out of the initiative does not want to rest on its laurels. It already has begun implementing some of the recommendations from the Tillinghast-Towers Perrin report, which was released in early 1998.

"We had lost the battle of selling ourselves aggressively," said Larry Sherin, chairman of the DIMA and general manager of Zurich Insurance Services (Ireland) Ltd. "The report showed we needed to improve the profile, review our products on offer and provide additional products in the future."

As a direct result of the report, David Smith, the international insurance representative of the IDA, was appointed "Mr. Dublin," responsible solely for marketing Dublin's international insurance services industry. He also has become a member of DIMA's marketing subcommittee, a five-person group of captive managers and other insurance representatives. "The marketing (sub)committee allows David to know what Dublin wants; it gives him information he doesn't otherwise have," said Mr. Sherin.

What Dublin wants is expansion of all insurance services. The domicile's captive managers talk enthusiastically about the expansion into other forms of risk transfer—including multiyear, multiline and financial-based instruments—particularly because captive growth is slowing.

In 1998, Dublin added 13 captives to its books, as well as one reinsurance captive owned by Italian insurer La Fondiaria Assicurazioni S.p.A. At the same time, three stopped writing, resulting in a net total of 153 captives in Dublin at the end of 1998.

Willis Corroon Management (Dublin) Ltd. added three captives to its books during 1998 but lost two; one transferred to another manager, and another was merged in a parent company merger.

As for new formations, "We are working on a couple of proposals at the moment," said Tim Byrne, managing director of Willis Corroon.

In addition, current clients are expanding their business lines. In particular, several are moving from writing reinsurance to writing insurance directly for their European operations. This is possible under European Union Third Life and Non-Life Directives in effect since 1992 that permit insurers licensed in one EU country to write insurance in other member states.

In regulatory terms, captive reinsurers do not need authorization from the Department of Enterprise, Trade and Employment, the government department responsible for authorizing insurance operations. However, reinsurance captives are scrutinized by the tax authorities before they are allowed to benefit from the current 10% corporation tax in the IFSC.

The 10% tax environment was one of the concessions allowed by the E.U., but it is set to end in 2005. To help offset that change, the Irish government is lowering corporation taxes across Ireland. The tax rate now is 28%, but by the time the E.U. tax concession ends, all companies operating in Ireland will be subject to a 12.5% corporation tax.

Rumblings from other E.U. member states about tax harmonization across Europe—and calls for countries within the European Union with less-onerous tax regimes to raise their rates—hold little concern for Dublin.

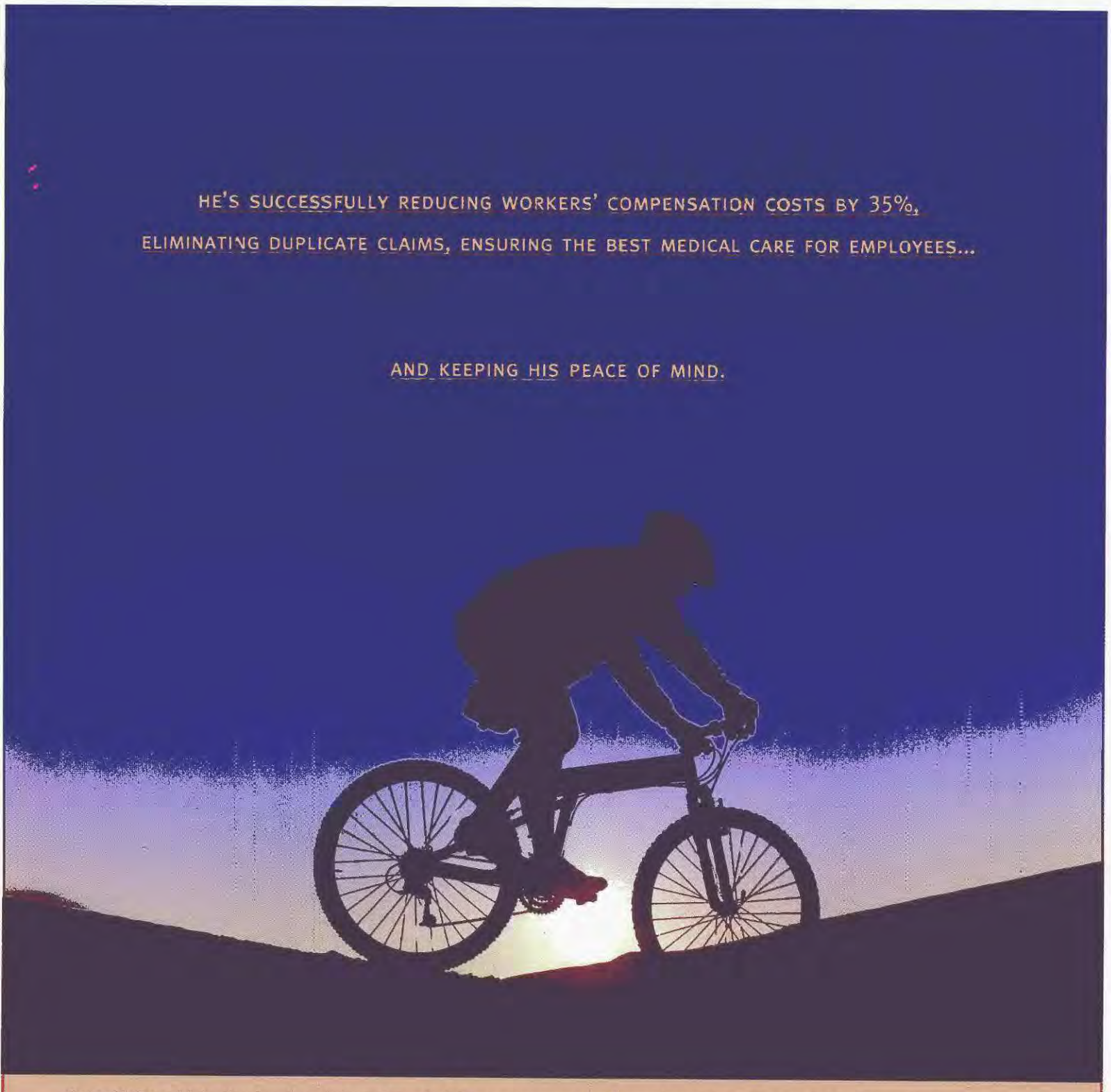
"It is a sovereign issue, setting our own tax rate," pointed out the IDA's Mr. Smith. "The E.U. agreed (to) the phasing out of the IFSC tax rate."

Tax treatment still can play a role in attracting new captives to

See **Dublin** *on page 48*

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Dublin

Continued from page 46

Dublin, said Mr. Byrne of Willis Corroon. "In the early stages, tax is very important—it is an added attraction. But once a captive is established and finds the other benefits to having a captive here, it is less important."

In addition to the ability to write insurance directly for operations in E.U. member states, another benefit is the ready access to a well-educated workforce, even though salary levels in Ireland have risen recently as unemployment has fallen. Along with captive insurers, many professionals are being drawn to Dublin into the host of insurers and reinsurers set up within the IFSC. Zurich's Mr. Sherin believes the Dublin insurance market has reached a critical mass and soon will be self-sufficient, with enough reinsurers to allow captives to reinsure into the local market, rather than automatically reinsuring into London.

Eamon O'Brien, managing director of Aon Insurance Managers (Dublin) Ltd., said he is confident this growth will encourage more captive formations, and that the sector will flourish in the next few years.

Aon, which added three new captives under management last year, is seeing continuing interest from potential captive parents, Mr. O'Brien said.

Among the domicile's advantages is the "business-friendly environment," including accessible regulators, he said.

Emily Sheerin, manager of non-life insurance at DETE, is happy to meet with interested risk managers, talking them through the application process. But at the same time, she takes pains to point out that her role is purely as regulator and not as a marketing person for the domicile.

Financial services regulation is currently under discussion in the Irish government, with the idea of a single financial services regulator one of the issues currently under debate. With the end of the IFSC tax plan, new reinsurers entering the domicile still will not be subject to insurance regulation under the current regime, in common with most European countries. The possibility of future reinsurance regulation is "under review" at the moment, said Ms. Sheerin.

"The department historically had a view that reinsurance was a business-to-business transaction," she said. "But under the changing market conditions, it could be more appropriate to have light regulation, to protect the name of the IFSC."

The Tillinghast-Towers Perrin report proposed that Dublin establish protected cell captive regulation to extend the list of options available to captive parents. Although captive managers generally welcome the idea, Ms. Sheerin still has doubts about the viability of PCCs. "There are perceived difficulties because of the fluid nature of their structure," she said. Nevertheless, the option is being considered by the IFSC Insurance Committee, and Mr. O'Brien, who heads up the committee, sees the introduction of PCCs as another string to Dublin's bow.

Dublin already has launched into the alternative risk financing sector, said Leo Clarke, manager of business development at Interpolis Reinsurance Services Ltd. Interpolis manages five captives—two of them added last year—and has been successful internationally, offering alternative risk financing products to the international reinsurance market. The most recent of these was the securitization of a life portfolio. It finalized six transactions last year for both European and U.S. clients, said Mr. Clarke.

Mergers among major commercial insurance brokers have changed the captive management landscape in Dublin.

J&H Marsh & McLennan Management (Dublin) Ltd. added the former Sedgwick Management Services (Ireland) to its stable last month. The year before, it had assumed the former UNISON operation after Marsh & McLennan bought Johnson & Higgins. The most recent merger has added 13 captives to its client base, bringing its total number under management to 52, said Ian Clancy, branch manager at J&H Marsh & McLennan. During 1998, the combined operations added six captives to the total, one setting up with Sedgwick, though two went into runoff as a result of parent company mergers.

"It is a case of swings and roundabouts," said John Magee, manager of the insurance department at J&H Marsh & McLennan. "Another captive doubled in size because of a (parent company) merger."

Following its own mergers, J&H Marsh & McLennan now manages about one-third of the captives currently writing in Dublin, according to Mr. Clancy. "This gives us a dominant position in the marketplace. We are now a far larger operation, and our depth of experience means we have a lot more to offer." However, he is aware that there are "challenges in being perceived as too large. We are taking a view that we have to ensure no slippage of standards in what we do."

Aon's Mr. O'Brien said his operation is benefiting from Aon Corp.'s acquisitions, including the 1997 acquisition of Alexander & Alexander Services Inc., which had a management company in Dublin. "We are now a larger ship sailing happily along," he said.

At least one independent captive manager welcomes broker consolidation. "Broker mergers have given us more opportunities," because captive owners are showing a greater interest in independent captive managers, said Gary Cullen of International Risk Management (Dublin) Ltd.

Despite captive managers' generally upbeat view on Dublin, they do concede that the soft commercial insurance rating environment probably has dampened captive formation in Dublin. Instead, up-and-running captives are using the conditions to write more lines of business, said Mr. Casey of Willis Corroon. Credit is proving particularly popular, he said. At the same time, even though traditional property/casualty premium volumes may be down, lower reinsurance rates have allowed captives to cede more business out for no greater cost, said Willis Corroon's Mr. Byrne.

"Risk managers now have higher expectations," said Mr. Byrne. "Every company is more focused on its bottom line profits. . . .Captives are becoming more important because of the opportunities they provide, especially as the markets are changing, and there are more opportunities for captives than there were four or five years ago" for covering financial risks and more complicated profit-protection devices, he said. BI

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Captive Report

Hawaii expecting gradual increase in captives

By ROBERTO CENICEROS

HONOLULU—Hawaii's captive industry is trying to boost its sluggish growth by amending its law and courting Japanese companies.

At the end of last year, Hawaii's captive roster totaled 54, an increase of just two captives from 1997.

During 1998, five new captives were licensed, but three dissolved. Premium volume increased to $272.2 million in 1998, up from $246 million in 1997.

More formations are expected this year, but the continuing soft insurance market, along with the dissolution of more captives, likely will mean slow growth in the number of captives in Hawaii, a domicile regulator said.

Legislation currently under consideration in Hawaii would restructure the captive laws, including permitting the formation of rent-a-captives.

So far for 1999, two new risk retention group captives had been licensed as of March 26, and a new single-parent captive is nearing completion of the state's licensing process. During the same three-month period in 1998, no captives were established, said Gordon Nishiki, insurance program specialist for Hawaii's Insurance Division.

But this year's growth already has been somewhat offset. Surety Pacific Insurance Co. Inc., owned by O'Brien Corp., dissolved. The captive was inactive for several years, Mr. Nishiki said.

Despite sluggish growth, supporters say that the long-term outlook is good for Hawaii's captive industry, especially if new legislation is passed.

In an attempt to spur growth, The Hawaii Captive Insurance Council, an industry trade group, is backing legislation that would restructure the domicile's captive laws, including permitting rent-a-captives.

H.B. 1623 and S.B. 1262 passed through both chambers of the legislature and each bill returned to its respective chamber of origin for approval of changes made in the other chamber.

Four classes of insurers are provided for in the bills, including pure or single-parent captives, group-owned captives, risk retention groups and a new class of leased facilities, or rent-a-captives. Previously, Hawaii has not permitted rent-a-captive formations. The new legislation only permits their formation, though; it does not set rules for their regulation.

Administrative rules will have to be formulated after the legislation is signed into law, Mr. Nishiki said. Opposition from Gov. Benjamin Cayetano is not expected.

The legislation originally called for the formation of five classes of captives, including one that would have allowed private investors to create companies specifically to reinsure captives.

The HCIC had hoped to tap into some of the $11 billion in reinsurance premiums now flowing out of North America to Bermuda, said Peter Lowe, HCIC president and senior vp for J&H Marsh & McLennan Management Inc. in Honolulu.

"We modeled this on similar legislation like Bermuda's," according to Mr. Lowe. "That is how they started ACE and XL. That is our goal, to create the ability in Hawaii to form these Bermuda-style companies, to see if we can attract some of that capital to Hawaii."

But the Washington-based Reinsurance Assn. of America staunchly opposed allowing Hawaii to create that class of captives, particularly because the law would have



imposed a 1% premium tax on reinsurers, an RAA lobbyist said. Currently, reinsurers do not pay a premium tax in Hawaii.

"Unfortunately, Hawaii cannot become the Bermuda of the Pacific because of U.S. tax law," an RAA position paper states. "Offshore domiciles like Bermuda are tax free for insurers, and for a U.S. domicile to truly compete, the U.S. federal government would have to exempt insurers from U.S. corporate income tax," it continues.

Hawaii's Insurance Division also opposed that portion of the legislation, but for a different reason, Mr. Nishiki said.

"The way they had described the reinsurance captive, it was really not a captive in the sense that we have been applying the law," Mr. Nishiki said. The legislation would have allowed for the reinsurance of unrelated, third-party business.

"For that reason we felt it should not be in the captive law," he said.

Hawaiian regulators apply the state's captive laws under the principle that owners must be insureds, and all insureds must

See **Hawaii** *on next page*

Managers of Hawaii captives

(Ranked by premium volume in millions of dollars)

	Premium volume 1998	Premium volume 1997	Captives 1998	Captives 1997
J&H Marsh & McLennan Management Inc.	$118.1	$154.3	25	27
Hawaii Captive Insurance Management Inc./USA Risk Group	76.8	3.3	11	5
Becher & Carlson Risk Management Inc.	55.6	59.1	8	8
Aon Insurance Managers (USA) Inc.	10.5	7.9	3	3
Willis Corroon Management Ltd.	5.4	7.4	2	2
IAS Insurance Management[1]	3.6	1.9	1	1
50th State Risk Management Services Inc.	2.2	0.3	3	0

1. IAS was purchased in November 1998 by Mutual Risk Captive Group Ltd.
Source: Hawaii Insurance Division

Economy, soft market slow growth in Singapore

By KATE TILLEY

SINGAPORE—Despite Singapore's 1998 reduction of capital and surplus requirements for captive insurers, several factors led to a drop in the number of captives last year.

Economic problems, Asian companies' lack of knowledge about alternative risk transfer methods and the continuing soft market are all responsible for stalling growth in Singapore captives in 1998, captive managers say.

They say interest in the domicile remains high, however, and should continue following the Singapore government's reduction in required capital and surplus to $400,000 Singapore ($240,000) from $1 million Singapore ($602,200).

While the change has not sparked "a rush of captives," it shows Singapore is a low-cost, professionally regulated domicile, said George McGhie, managing director of J&H Marsh & McLennan Risk Management Services (Singapore) Pte. Ltd.

At year-end 1998, the domicile's number of captives fell to 51 from 52, due to an Australian parent's redomiciliation of a small captive, the Monetary Authority of Singapore confirmed.

Singapore-domiciled captives' gross written premiums for the year ending Dec. 31, 1998, fell nearly 20% to 211.8 million Singapore ($127.5 million).

In addition to the amended capital requirements, the Monetary Authority of Singapore, which regulates captives, clarified its rules on underwriting of third-party business.



Captives in Singapore since May 1998 may write certain third-party risks, including those of companies that are only part-owned by the captive's parent, a spokesman for the Monetary Authority confirmed. Other risks captives are permitted to write include: reinsurance for employee personal lines coverages; travel, transit and warranty insurance; and joint venture programs where the captive's parent has control of the venture's risk management functions.

"The change has clarified what was the practice, in any event," Mr. McGhie noted.

Meanwhile, captive managers are negotiating with the Singapore government to make captives' contingency reserves tax free.

The change in treatment of reserves was recommended by a government committee on competitiveness, Mr. McGhie said. "It would put us on a level playing field with other countries," he said.

Brian Peele, former managing director at Sedgwick Management Services (Singapore) Pte. Ltd., agreed, saying such a move would encourage captives to "save for a rainy day." The concept has not been introduced as legislation, but it is "on the front burner," he said.

Mr. Peele earlier this month became principal-risk management services at J&H Marsh & McLennan Ltd. in Melbourne, Australia.

Despite the lack of captive growth in Singapore, there are "a few hot prospects," said Mr. Peele.

Among those expressing interest are Australian companies looking to reinsure workers compensation risks, he said. Some Australian states permit employers to self-insure their workers comp risks via captive reinsurance.

Some potential captive owners 'have the impression Singapore is strictly regulated. . .but there's a lot flexibility in the captive legislation,' says Clarissa Teo.

The majority of Singapore's captives are Australian-owned, but a pending change in Australian tax law casts uncertainty on further captive formations.

Australia's Parliament is considering a 10% goods and services tax that would begin July 1, 2000, but it is unclear how that tax would be applied to companies with offshore captives. A 1997 Australian law in effect increased the taxes on captives (*BI*, April 27, 1998).

Mr. McGhie said the GST is "a major concern," but "no one yet knows how it will be applied. . .Everyone has a different opinion, even the experts."

Anticipating GST repercussions, Melbourne-based ANZ Bank Ltd. moved its Singapore captive back to Australia, he said. Mr. McGhie said he did not see the move as a trend.

Despite limited growth in Singapore in 1998, Mr. McGhie said the domicile is seeing "a lot of activity."

M&M's acquisition of Sedgwick Management Services (Singapore) Pte. Ltd. makes it the largest captive manager in Singapore, with 29 captives under management. According to Mr. McGhie, the two companies will be merged under a new name.

Also working against growth in Singapore-based captives was the soft market in Australia, Mr. McGhie said. The Australian market as a captive source is mature, with most major organizations already owning captives, he noted.

Mr. McGhie said some associations and mid-sized companies still are potential owners of captive insurers. Other interest in Singapore captive formation has come from companies in Japan, Taiwan, Hong Kong and Korea, he said.

Clarissa Teo, client services director with Aon Insurance Managers (S) Pte. Ltd., which manages three captives, said most of its inquiries from potential new captive owners have come from Japan.

Aon is offering seminars in Singapore and Hong Kong to explain the benefit of captives, she said. Despite Hong Kong laws permitting captive insurers, none has been established there yet, Ms. Teo noted.

Mr. Peele agreed that companies need "a good grasp of risk management before they can consider a captive. Risk management as we know it is not widespread yet, but they are rapidly picking up the principles."

Ms. Teo said many Singapore-based companies do not yet have sufficient size or capacity to warrant forming a captive.

While the Asian economic crisis has tempered growth, many Asian companies still consider Bermuda the traditional domicile for their captive insurers, she noted.

Some potential captive owners "have the impression Singapore is strictly regulated . . .but there's a lot of flexibility in the captive legislation." BI

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Captive Report

Hawaii

Continued from previous page
be owners, Mr. Nishiki explained.

Faced with opposition, the HCIC withdrew that portion of its legislation.

Also on the regulatory front, Hawaii s Insurance Division is near the hiring of a full-time captive administrator, who will spend more time marketing the domicile.

Members of the island's captive community say they are also heartened by the return this spring of Insurance Commissioner Wayne Metcalf. He previously served as Hawaii's commissioner but left the post in 1997 to fill a vacant state senate seat. Mr. Metcalf has now replaced Commissioner Rey Graulty, who was appointed to serve as a Circuit Court judge.

Commissioner Metcalf is a captive industry supporter, said Sherman S. Hee, president of Hawaii Captive Insurance Management Inc. in Honolulu.

Growth of captives in Hawaii also may get a boost from Dublin, which has been a captive domicile of choice for Japanese companies. Dublin has been reducing its corporate tax structure to attract more European corporations. But as Dublin reduces taxes, Japanese corporations are finding that, under Japanese tax laws, their tax liability will increase for owning a Dublin facility (*BI*, March 29).

"There is a lot of opportunity out there right now in the Pacific Asia market," said Craig M. Watanabe, senior vp for 50th State Risk Management Services Inc., a Honolulu unit of AIG Insurance Management Services.

'There is a lot of opportunity out there right now in the Pacific Asia market,' says Craig M. Watanabe.

As a result of Dublin's tax changes, "There have been inquiries from Japan already here in Honolulu, with both the regulators and the industry, about creating Japanese-owned captives in Hawaii," Mr. Watanabe said.

Among Hawaii's newest facilities is the domicile's first reciprocal captive insurance company, Queens Insurance Exchange, which was licensed last June. The facility is owned by The Queens Health Systems, a Honolulu-based hospital and health company.

QHS previously owned a Cayman Islands captive. 1997 changes in Hawaiian law allowed for the formation of reciprocal captives and opened the door for some offshore captives to benefit from moving onshore. A reciprocal is a form of an association captive that allows members, called subscribers of the exchange, to reap certain tax benefits.

Among the three pure captives Hawaii licensed in 1998, one was formed by Transamerica Occidental Life Insurance Co., a unit of Transamerica Corp. The captive, Transamerica Pacific Insurance Co. Ltd., is the third facility formed in Hawaii by Transamerica Corp.

According to the Insurance Division, the new captive instantly became the domicile's largest captive by gross premium volume. However, the division will not release captive insurers' specific premium volumes.

"We are very pleased with the services and the cooperation of the Hawaii Insurance Department," said Judith M. Tornese, vp-risk management for San Francisco-based Transamerica Corp. "We already had two captives there. This way we have all our captives in one domicile with one captive management company."

The Transamerica captives are managed by Hawaii Captive Insurance Management Co. Transamerica Life created the captive to reinsure life insurance underwritten in Hong Kong, Ms. Tornese said.

See **Hawaii** *on page 53*

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Captive Report

Hawaii

Continued from page 50

Hawaii regulators are willing to evaluate the formation of captives that other domestic domiciles will not even consider, said Rod Beery, president of Lincoln, Neb.-based Heritage Warranty Mutual Risk Retention Group. Heritage is among four Hawaii-based risk retention groups now providing contractual liability coverage for automotive service contracts issued by car dealers.

Vermont, for example, has been reluctant to license captives related to automobiles, Mr. Beery and several other captive insurance observers said.

"We became aware of that when we started trying other states and the warmest reception was Hawaii," Mr. Beery said. "We went to some states, and they said: 'Don't even apply. We have no interest in anything that involves anything with wheels on it.' "

Regulators in Vermont agree that they have been reluctant to license automobile-related captives.

Heritage received its Certificate of Authority in January. It is managed by Becher & Carlson Risk Management Inc.

Because of the relatively small size of its captive industry, Hawaii will not categorically deny a license simply because a parent company belongs to a certain industry, Mr. Hee said.

"What you can say about Hawaii, and I'm proud of this, is we look at each captive as an individual case," he said. "We don't have categories. Each captive is viewed as an individual case. If it is actuarially sound and it has all the infrastructure mechanisms in place then it is welcome. If it is deficient, they (the Insurance Division) will try to work it out."

'What you can say about Hawaii...is we look at each captive as an individual case,' says Sherman S. Hee.

Still, the Insurance Division is very careful in licensing automobile-related captives, particularly because the only facility to fail in Hawaii was a risk retention group that insured taxicabs, Mr. Nishiki said. The captive, Transportation American Group, failed in mid-1993 after less than a year because it could not generate sufficient premium and failed to find reinsurance.

As for new inquiries about captive licensing, most potential clients are evaluating the formation of risk retention groups, managers said.

"There seems to be a trend for risk retention groups in Hawaii," said Wanda L. Jong, vp and manager for Becher & Carlson. "It doesn't seem that for a pure (captive) there is really that much driving force. But there is still a lot of interest in risk retention groups, and it's really growing."

Meanwhile, many of the dissolutions of Hawaii captives have been driven by mergers and acquisitions among parent companies, captive managers said. The soft market also caused plenty of frustration.

"It was a quiet year for everyone," Mr. Lowe acknowledged. Managers saw plenty of business activity that didn't turn into formations because insurers' pricing pulled away potential West Coast clients.

"I saw two or three incidents where we were very close to forming captive insurance companies, and the insurance companies came back with quotes 25% under expected losses," Mr. Lowe said. "It's just ludicrous business."

The same thing happened with potential clients from Japan as Japanese insurers also undercut premiums by 25% under expected losses.

The Japanese insurers are taking "exactly the same actions as North American insurance companies," Mr. Lowe said. "They don't want to lose premium volume so they are prepared to write it at a major loss, hoping the client will stay with them."

In other captive news in Hawaii:

• Previously, Sedgwick Management Services Ltd. subcontracted the management of three captives to Hawaii Captive Insurance Management Inc. Following Marsh & McLennan Cos. Inc.'s acquisition of Sedgwick Group P.L.C.—the parent of Sedgwick Management Services—Hawaii Captive Insurance Management Inc. has continued to manage those three captives.

J&H Marsh & McLennan Management managed 25 captives in Hawaii at year-end 1998.

• The HCIC this year will hold its captive insurance forum Oct. 26-29 at the Renaissance Wailea Beach Resort in Maui. Previously, HCIC forums had been held at the beginning of the year. For more information, contact Karen Venner, 808-540-4316 or Fay Okamoto, 808-544-0888. BI

Hawaii's largest captives

(Ranked by 1998 gross premium volume)

Captive	Parent
Transamerica Pacific Insurance Co. Ltd.	Transamerica Corp.
Nissan Motor Insurance Corp.	Nissan North America Inc.
Meridian Pacific Insurance Co. Inc.	Nestle Holdings Inc.
Entertainment Risk Management Insurance Co. Inc.	Draney Information Service Corp.
F.L. Insurance Corp.	Marriott International Inc.
Sutter Insurance Services Corp.	Sutter Health
Medical Professional Liability Insurance Co. Inc.	University of California, San Francisco-Stanford Health Care
National Liberty Insurance Co. Inc.	Equity Group Investment Inc.
California Healthcare Insurance Co., A Risk Retention Group	California acute care hospitals
Attorneys Insurance Mutual Risk Retention Group	California law firms

Source: State of Hawaii Insurance Division; premiums not released



Captive Report

World captive domiciles at a glance

Business Insurance this year introduces a new feature designed to make it easier for risk managers to track developments and regulatory requirements in captive insurance domiciles worldwide.

In past years, this same regulatory information accompanied profiles on each major captive domicile. This year's information is limited to domiciles with specific legislation or regulations pertaining to captives; domiciles that merely allow the formation of captives under existing insurance legislation are not included.

The charts that follow provide complete information on countries in alphabetical order beginning with number of licensed captives at year-end 1998 and 1997. Those figures include inactive captives.

Next are minimum capital and surplus for captives and premium-to-surplus requirements. Those are followed by application fees and annual license fees, and then local taxation of captives.

The name of law that governs captives and the year it was passed is next, with information on the domicile, including complete address, phone number, fax and e-mail for regulatory contacts, completing the information. BI

DOMICILE	CAPTIVES 1998	CAPTIVES 1997	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Bahamas	29	29	$200,000 capital	5-to-1 or at discretion of regulator	$25 application fee; $2,500 annual registration fee; $100 business license	None	The External Insurance Act; 1983 Chapter 318 as amended December 24, 1996. The Subsidiary Legislation/ Chapter 318 External Insurance; 1987	Kendal C. Munnings, Registrar of Insurance/Insurance Section, Ministry of Economic Development/ Ministry of Finance, P.O. Box N-4849, Nassau, N.P., Bahamas; 242-328-1068; fax: 242-328-1070
Barbados	221	210	$125,000 cash	5-to-1 net premium to surplus. For less than $5 million in premiums: net assets of $125,000 or 20% of premium written. More than $5 million: net assets of $1 million plus 10% of premiums written	$250 application fee; $2,500 annual license	None	Exempt Insurance Act of 1983	Ian Carrington, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 246-426-3815; fax: 246-436-2699
Bermuda	1,054 (*BI* est.)	1,050 (*BI* est.)	$120,000 for Class 1 (single-parent insuring only risks of parent and affiliates); $250,000 for Class 2 (group/association deriving no more that 20% of net premiums from unrelated companies); $1 million for Class 3 (more than 20% from unrelated companies)	20% below $6 million and 10% above for Classes 1 and 2; 15% for Class 3	Registration fees: Classes 1 and 2, $1,500; Class 3, $2,500. Annual fee: Classes 1 and 2, $800; Class 3, $2,500	Minimum for Class 1: $3,460; minimum for Classes 2 and 3: $5,340	Amendments to Insurance Act 1975	Registrar of Companies, Government Administration Building, 30 Parliament St., Hamilton HM 12, Bermuda; 441-297-7574; fax: 441-292-6640
British Columbia	16	16	$200,000 Canadian ($133,680)	None	$500 Canadian ($334) application fee; $2,500 Canadian ($1,671) registration fee; $2,500 Canadian annual renewal fee	30% federal income tax; 16% provincial income tax	The British Columbia Insurance (Captive Company) Act of 1987	Larry A.W. Neilsen, Deputy Superintendent, Insurance and International Financial Business, Suite 1000, 1050 West Pender St., Vancouver, B.C. V6E 3S7; 604-660-2947
Cayman Islands	485	449	$120,000 for Class B license (most single-parent, property/ casualty captives); $240,000 if writing long-term coverages; $360,000 if writing both long-term and general business	None	$5,625 annual licensing fee	None	The Insurance Law of 1979	William M. McCullough, Monetary Authority, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 345-949-7089; fax: 345-949-2532
Colorado	13	16	$300,000 capital/ $200,000 surplus for single-parent/group captives	Pure captives: none; group captives: 3-to-1	$200 application fee; $300 annual fee	Direct: greater of (a) $5,000 or (b) 0.5% of first $25 million of direct premiums written, 0.25% of next $50 million, and 0.1% thereafter. Reinsurance: 0.25% of first $20 million in premiums and 0.1% thereafter.	The Colorado Captive Insurance Act of 1972	William J. Kirven, Insurance Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499 ext. 305
Delaware	5	6	Single-parent: $250,000; industrial: $500,000; association: $750,000	None	$100 annual statement fee, and $50 for continuation of certificate	Premiums: 0.7% for first $20 million, 0.5% for next $20 million, 0.3% for next $20 million and 0.1% for each dollar thereafter	Chapter 69 (Captive Insurance Companies) of the Insurance Code; 1984	Donna Lee H. Williams, Insurance Commissioner, 841 Silver Lake Blvd., Dover, Del. 19904; 302-739-4251; fax: 302-739-2709; e-mail: deins.state.de.us

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Captive Report

DOMICILE	CAPTIVES 1998	CAPTIVES 1997	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Dublin	153	142	Reinsurance: subject to review of business plan; direct: minimum share capital of 500,000 Irish punts ($684,550)	None, other than approval of business plan	Reinsurance: none. Direct: 4,000 ($5,476) Irish punts application fee; supervision fee between 500 and 25,000 Irish punts ($685 and $34,228), depending on premium volume	None on premium; corporate tax at 10% until Jan. 1, 2002. 12.5% thereafter	E.U. insurance directives; International Financial Services Centre regulations	Emily Sheerin, Non-Life Insurance Supervisor; or Eamon Henry, Life Insurance Supervisor; Department of Enterprise, Trade and Employment, Frederick Building, Setanta Centre, S. Frederick St., Dublin 2, Ireland; 353-1-661-4444
Georgia	15	14	$500,000	3-to-1	$600 application fee, $700 annual fee	Gross premiums written in Georgia: 2.25% state tax, 2.5% county and municipal tax. Workers comp captives must contribute to Subsequent Injury Trust Fund	O.C.G.A. Title 33, Chapter 41; 1989	Scott Fields, Property and Casualty Supervisor, Suite 604, West Tower, 2 Martin Luther King Jr. Drive, Atlanta, Ga. 30334; 404-657-9206; fax: 404-657-7743
Gibraltar	10	8	£1,000 ($1,604)	18% of annual premiums or 25% of average claims over prior three years	£500 ($802) application fee; £2,000 ($3,207) annual license fee	Tax exempt by paying £225 ($361) per year for 25 years. "Qualifying companies" are taxed at up to 35% and pay £250 ($401) plus £1,000 for qualifying certificate	Insurance Companies Ordinance of 1987	Financial Services Commission, P.O. Box 940,943, Europort, Gibraltar; 350-40-283; fax: 350-40-282; e-mail: fsc@gibnet.gi
Guam	1	1	Capital: $50,000 pure captive; $100,000 group captive; $150,000 industrial insured captive (stock insurer). Surplus: $100,000 pure captive; $150,000 group captive (stock insurer); $200,000 industrial insured or group captive (mutual insurer)	No more than five times paid-in capital/surplus	$2,500 application fee. $2,500 annual license fee. $200 incorporation fee. $750 fee for qualifying certificate. $1,000 qualifying certificate annual surveillance fee	None	Public Law 23-109; 1997. 1998 amendments in 1998 to Public Law 24-266 allow rebate of 30% withholding tax on dividends paid to non-resident shareholders	Joseph T. Duenas, Director, Department of Revenue & Taxation, 13-1 Mariner Drive, P.O. Box 23607 GMF, Tiyan, Guam 96921; 671-475-1817; fax: 671-472-2643
Guernsey	349	339	£100,000 ($160,360)	18% of net premiums for first £5 million and 16% thereafter	£1,950 ($3,127) upon application and annually. Protected cell companies: £2,500 ($4,009) upon application and £1,950 annually plus 0.25% of gross premiums	4 options: no tax but annual fee of £600 ($962); sliding-scale tax on investment income of shareholders' funds; 20% of net profits; fixed rate of up to 30% for 5 years	Insurance Business (Guernsey) Law; 1986.	Steve Butterworth, Director of Insurance, Guernsey Financial Services Commission, La Plaiderie Chambers, La Plaiderie, St. Peter Port GY1 1WG, Guernsey; 44-148-171-2706; 44-148-171-2010; e-mail: info@guernseyci.com
Hawaii	54	52	At discretion of regulator. Guidelines are: $250,000 for pure captive, $750,000 for association captive and $500,000 for risk retention group	Guideline is 3-to-1	Application review fees vary. $300 license renewal fee	Premiums taxed at 0.25% for single-parent and 1% for association captives/RRGs	1986 changes to Hawaii insurance law	Wayne Metcalf, Insurance Commissioner, 250 S. King St., P.O. Box 3614, Honolulu, Hawaii 96811-3614; 800-586-2790
Hong Kong	0	0	$2 million Hong Kong ($258,000)	5% of net premiums written or net claims outstanding	NA	None	The Insurance Companies (Amendment) Ordinance 1997	Office of the Commissioner of Insurance, 21st Floor, Queensway Government Offices, 66 Queensway, Hong Kong, 852-2867-3511; fax: 852-2869-0252; e-mail: mail@oci.gov.hk
Illinois	5	5	$2 million	None	$3,500 application fee	Subject to same taxes as domestic insurers	Article VIIC of the state insurance code; 1987	Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill. 62767; 217-782-4515; fax: 217-782-5020
Isle of Man	171	167	£500,000 ($801,800) for long-term; £150,000 ($240,540) for general; £100,000 ($160,360) for reinsurance; £50,000 ($80,180) for restricted	None	£1,500 ($2,405) application fee; £3,000 ($4,810) annual license fee	Standard tax is 20%. Isle of Man companies operating internationally may elect 1% to 35% taxation under International Business Act. Captives operating under a 1981 act enjoy partial or full exemptions if business is not transacted with Isle of Man residents.	Insurance Act 1986; Insurance (Amendment) Acts 1993 and 1995	W.J. Hastings, Chief Executive/ Insurance Supervisor, Isle of Man Government Insurance & Pensions Authority, HSBC House, Ridgeway St., Douglas, Isle of Man IM1 1ER; 44-0-1624-646000; fax: 44-0-1624-646001; e-mail: ipa@gov.im

Captive Report

DOMICILE	CAPTIVES 1998	CAPTIVES 1997	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Jersey	14	13	£100,000 ($160,360) or at regulator's discretion	17.5% of net premium income	£1,500 ($2,405) property/casualty, £3,000 ($4,810) life	Maximum stamp duty £2,500 ($4,009). 20% standard rate; exempt captives £600 ($962) per year	Insurance Business (Jersey) Law 1996, General Provisions and Solvency Margin orders 1996	Nigel Woodroffe, Director of Insurance, Jersey Financial Services Commission, P.O. Box 267, Nelson House, David Place, St. Helier, Jersey JE4 8TP; 44-1534-822-000; fax: 44-1534-822-001; e-mail: info@jerseyfsc.org
Labuan	3	2	300,000 ringgit ($78,960)	NA	20,000 ringgit ($5,264) for incorporation; 2,000 ringgit ($526) annual license fee	Lesser of 3% of net audited profits or 20,000 ringgit ($5,264)	The Offshore Insurance Act 1990	Mohd Razif, Director General, Labuan Offshore Financial Services Authority, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, 87000 FP Labuan; 60-87-408188; fax: 60-87-413328; e-mail: razif@lofsa.gov.my
Lloyd's of London	1	0	£500,000 ($801,800); £1.5 million ($2.4 million) if captive owner is U.S.-based	Surplus must equal greater of 16% of annual premium income or 23% of average claims	£10,000 ($16,036) for captive syndicates; £25,000 ($40,090) for captive corporate members. Annual fee: 2.45% of overall premium	U.K. corporate tax rates	Captive Corporate Members Bylaw (No. 19), 1998	The Council of Lloyd's, Lloyd's of London, 1 Lime St., London EC3M 7HA; 44-171-427-1000; fax: 44-171-626-2389
Luxembourg	220	254	50 million Luxembourg francs ($1.3 million)	None	50,000 Luxembourg francs ($1,340) for incorporation plus 1% tax on capital. Annual license fee of 100,000 Luxembourg francs ($2,680)	Varies. Basic rates: 30% corporate income tax plus 4% commercial business tax on income over 700,000 Luxembourg francs ($18,760)	1991 Insurance Law and Grand Ducal Regulations; amended 1994.	Victor Rod, Insurance Commissioner, Commissariat aux Assurances, 7 Blvd. Royal, B.P. 669, Luxembourg L-2016; 352-226911; fax: 352-226910
Maine	1	0	Pure captives: $100,000 in capital, $150,000 in surplus; industrial insured stock captives: $200,000 in capital, $300,000 in surplus; industrial insured mutuals: $500,000 in surplus; association stock captives: $400,000 in capital, $350,000 in surplus; association mutuals: $750,000 in surplus	3-to-1	$1,000 initial fee; $100 for license; $100 for financial statement	0.375% of first $20 million in direct gross premiums; 0.3% of next $20 million; 0.2% of next $20 million; 0.75% thereafter; slightly less for captive reinsurers Minimum tax is $4,000 per year; 2% of gross direct premiums if parent is Maine corporation	Title 24-A, Chapter 83, Sections 6701-6720; 1997	Enya Carter, Managing Examiner, Maine Bureau of Insurance, 34 State House Station, Augusta, Maine 04333-0034; 207-624-8496; fax: 207-624-8599; e-mail: enya.h.carter@state.me.us.
Malta	2	0	100,000 lire ($252,330)	Draft under consideration	Draft under consideration	Draft under consideration	Draft under consideration	Director of Insurance, Malta Financial Services Centre, Attard, Malta; 356-441-155; fax: 356-441-188
Netherlands Antilles	16	17	Determined by review of business plan	None	6,000 guilders ($2,936) application fee; 3,000 guilders ($1,468) annual license fee	2,500 guilders ($1,223) fixed	Special Insurance License Decree; 1992	Raynold Nivillac, Superintendent of Insurance, Bank van de Nederlandse Antillen (Central Bank), Breedestraat 1 (P), Curacao, Netherlands Antilles; 599-9-434-5500; fax: 599-9-461-5004.
New York	2	2	$250,000 for single parent captives; $500,000 for group captives. Parent or group must have total net worth of at least $100 million	None	None	Premiums related to N.Y. risks: 0.4% to 0.075% (direct) and 0.225% to 0.025% on (reinsurance). Captives also pay Insurance Dept. assessments of 0.02% to 0.03% of N.Y. direct written premiums	Article 70 of the New York Insurance Law	Mike Moriarty, Supervising Examiner, New York Insurance Department, 25 Beaver St., New York, N.Y. 10004; 212-480-5127
Panama	2	1	$150,000 for non-life; $250,000 for life	5-to-1	$1,000 application fee; $2,000 annual license fee	None	Law 60; 1996	Elisa M. De Carrizo, Superintendent of Insurance and Reinsurance, Ave. Ricardo Arias y Calle 51, P.O. Box 832/1683, World Trade Center, Panama City, Republic of Panama; 507-214-7484; fax: 507-214-7482

Captive Report

DOMICILE	CAPTIVES 1998	CAPTIVES 1997	CAPITAL & SURPLUS	PREMIUM TO SURPLUS	FEES	TAXES	LAWS	REGULATOR
Rhode Island	1	0	Minimum capital: single-parent, $100,000; industrial insured, $200,000; association, $400,000. Minimum surplus: single-parent, $150,000; industrial insured, $300,000 (stock company) or $500,000 (mutual company); association, $750,000	At discretion of regulator	$1,000 application fee; $500 annual license fee	(Effective 3/4/99) Minimum tax of $2,500. Direct premiums: 0.2% on first $20 million; 0.15% on next $20 million; 0.10% on next $20 million of direct premium; 0.0375 on each dollar thereafter. Reinsurance premiums: 1.25% on first $20 million; 0.075% on next $20 million; 0.025% on next $20 million; 0.0125% on each dollar thereafter	Rhode Island Statutes: Title 27 Insurance; Chapter 43 Captive Insurance Companies	Joseph Torti, Chief Examiner, Department of Business Regulation-Insurance Division, 233 Richmond St., Suite 233, Providence, R.I. 02903; 401-222-5446; fax: 401-222-5475; e-mail: jtorti@doa.state.ri.us
Singapore	51	52	$400,000 Singapore ($231,120)	Same as capital and surplus	$5,000 Singapore ($2,889) annual fee	Corporate tax is 26%. Captives taxed at 10% for underwriting profits of offshore business; and non-Singapore dividends, capital gains and interest	Insurance Act (Chapter 142)	Insurance Commissioner's Department, Monetary Authority of Singapore, 19 Shenton Way, MAS Building, Singapore 079117; 65-225-5577; fax: 65-229-9694
South Dakota	0	0	$100,000 capital/$100,000 surplus	None	$500 for certificate of authority	0.25% of premium. Minimum tax $5,000	Chapter 58-46; 1996	Wendell Balsam, Chief Examiner, South Dakota Division of Insurance, 118 W. Capitol Ave., First Floor, Pierre, S.D. 57501-2000; 605-773-3563; fax: 605-773-5369; e-mail: wendellm@crpr1.state.sd.us
Switzerland	17	14	1 million Swiss francs ($675,200); 20% of premium for captive reinsurers. Capital requirement for direct captives or captives writing third-party business is 10 million Swiss francs. Group captives need 1 million Swiss francs capital and surplus of 20% of premium for each shareholder	Same as capital and surplus	Varies annually by market share; minimum of 1,000 Swiss francs ($675)	8.5% federal tax on profit; additional tax rates vary by district. Stamp duty is 1%	1978 Insurance Supervisory Law; captive exemptions introduced in early 1990s.	Peter Pfund, Swiss Insurance Commissioner, BVP, Friedheim Weg 14, CH 3003, Bern, Switzerland; 41-31-322-7906; fax: 41-31-323-7156
Turks & Caicos Islands	76	68	$100,000 for general insurers; $180,000 for life insurers. Subject to review of business plan	5-to-1 for captives writing up to $5 million in net premiums	$500 license application fee; $2,000 annual license fee	None	Turks & Caicos Insurance Ordinance of 1989 and accompanying 1990 regulations	Harold Wong, Superintendent of Insurance, P.O. Building, Front Street, Grand Turk, Turks & Caicos Islands; 649-946-2791; fax: 649-946-2821; e-mail: fsc@tciway.tc
Tennessee	9	9	$750,000 for single-parent, non-profit, municipality and utility district captives; $1 million for group captives	None. Minimum premiums: $500,000 for single-parent; $1 million for group captives	$500 application fee. Annual minimum fee: $5,000 for single-parent; $10,000 for group captives. Any premium tax paid is counted against minimum	1% of gross direct written premiums, includes out-of-state premiums if not taxed by another state	The Tennessee Captive Insurance Company Act, Chapter 13, Title 56; 1978	Bill Hosea, Director of Financial Affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-1692; fax: 615-532-2788; e-mail bhosea@state.tn.us
U.S. Virgin Islands	7	7	Single-parent captives: $50,000 in capital and $70,000 in surplus; industrial insured (stock insurer): $75,000 in capital and $125,000 in surplus	NA	$1,000 application fee; $6,000 annual licensing fee	None	Title 22, Virgin Islands Code, Chapter 55, Sections 1400-1421	Division of Banking and Insurance, 18 Kongens Gade, St. Thomas, U.S.V.I. 00802; 340-774-7166; fax: 340-774-9458
Virginia	0	0	Stock captives: $1 million capital stock, $3 million surplus. Nonstock: $4 million surplus	None. Minimum gross written premiums: $500,000 for single-parent, $1 million for association captives	$500 non-refundable application fee	Premium tax of 2.25% for business written in Virginia and out-of-state business not taxed by another state	Chapter 11, Title 38.2; 1980	Jim Ware, State Corporation Commission, Bureau of Insurance, Company Licensing and Regulatory Compliance, Commonwealth of Virginia, P.O. Box 1157, Richmond, Va. 23218; 804-371-9801; fax: 804-371-9511; e-mail: jware@scc.state.va.us
Vermont	334	305	$250,000 for single-parent; $500,000 for industrial insured; $750,000 for association captives. Those organized as reciprocal insurers must maintain a minimum free surplus of $1 million	None	$200 initial application fee; $300 annual license fee	$5,000 minimum annual premium tax. Direct written premiums: 0.4% on first $20 million; 0.3% on next $20 million; 0.2% on next $20 million; 0.075% on each dollar thereafter. Reinsurance premiums: 0.225% on the first $20 million; 0.15% on next $20 million; 0.05% on next $20 million; 0.025% on each dollar thereafter	Special Insurer Act of 1981	Leonard D. Crouse, Director of Captive Insurance, Vermont Department of Banking, Insurance, Securities and Health Care Administration, 89 Main St., Drawer 20, Montpelier, Vt. 05620-3101; 802-828-3304; fax 802-828-3460

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BI directory of captive insurance company managers

A

AIG Insurance Management Services Inc.

156 College St.,
Burlington, Vt. 05401;
802-658-9405; fax: 802-658-0112
www.aig.com

Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; association captive management.
Subcontracted services: captive feasibility studies; claims processing; claims reserves analysis; actuarial studies; loss forecasting.
Staff: 7 total, 1 professional.
Clients: 21 total captives, 19 active captives, 2 inactive captives. 21 directly managed. Captive premium volume, $158,229,770. Capital and surplus managed, $81,546,000. No minimum size client.
Compensation: annual fee, $15,000 minimum; hourly: professional, $150; clerical, $50.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Paul Obolensky, president.
Contact: Ann W. Wick; David Provist.

AIG Insurance Management Services (Barbados) Ltd.

Alico Building, Chempside,
Bridgetown, Barbados;
246-436-4771; fax: 246-477-5809

Founded: 1985.
Parent: American International Group Inc.
Direct services: government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; investment management; association captive management; rent-a-captive management.
Clients: 3 total captives, 3 active captives. Captive premium volume, $47,500,000.
Compensation: annual fee, $25,000 minimum; hourly: professional, $100 to $130; clerical, $50 to $75.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Helen Roper, president/general manager; L.M. Murphy, P. Obolensky, directors.
Contact: David Conway, director, 441-298-5300.

AIG Insurance Management Services (Bermuda) Ltd.

American International Building,
29 Richmond Road
Pembroke, HM 08, Bermuda;
441-298-5300; fax: 441-292-6735

Founded: 1947.
Parent: American International Group Inc.
Direct services: captive feasibi ity studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management; loss forecasting.
Subcontracted services: captive feasibility studies; actuarial studies.
Staff: 8 total, 3 professionals.
Clients: 20 total captives, 16 active captives, 4 inactive captives. Captive premium volume, $147,000,000. Capital and surplus managed, $125,000,000. No minimum size client.
Compensation: annual fee, $25,000 minimum; hourly: professional, $115 to $150; clerical, $55 to $80.
Officers: J.C.H Johnson, president/CEO; L.M. Murphy, senior vp/general counsel; S.G. Cubbon, senior vp/treasurer.
Contact: David Conway, vp.

AIG Insurance Management Services (Cayman) Ltd.

Ground Floor Harbour Centre,
George Town, Cayman Islands , B.W.I.;
345-949-2445; fax: 345-949-7814

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; investment management.
Subcontracted services: captive formation; government reporting; accounting.
Clients: 1 total captive, 1 active captive.
Compensation: annual fee, $25,000 minimum; hourly: professional, $110 to $150; clerical, $55 to $80.
Officers: Helen Roper, president/general manager; L.M. Murphy, P. Obolensky, directors.
Contact: David Conway, director, 441-298-5300.

AIG Insurance Management Services (Guernsey) Ltd.

P.O. Box 225, Helvetia Court,
Les Eschelons St. Peter Port, Guernsey
GY1 44V, Channel Islands;
44-1481-716000; fax: 44-1481-716565

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Subcontracted services: captive formation; government reporting; computerized accounting; claims processing.
Officers: David Stafford, financial controller; Michael J. Matthews, Charles Allen, directors.
Contact: Paul Obolensky, 212-770-5728; fax: 212-425-7858.
Subcontracts for some captive management services with Prism Insurance Management.

AIG Insurance Management Services (Ireland) Ltd.

AIG House, Merrion Road,
Dublin 4, Ireland;
353-1-2837788; fax: 353-1-2837821

Founded: 1989.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Staff: 9 total, 8 professionals.
Clients: 12 total captives, 10 active captives, 2 inactive captives.
Officers: Michael J. Matthews, managing director; David Stafford, finance director.
Contact: Paul Obolensky, 212-770-5728.

AIG Insurance Management Services (Isle of Man) Ltd.

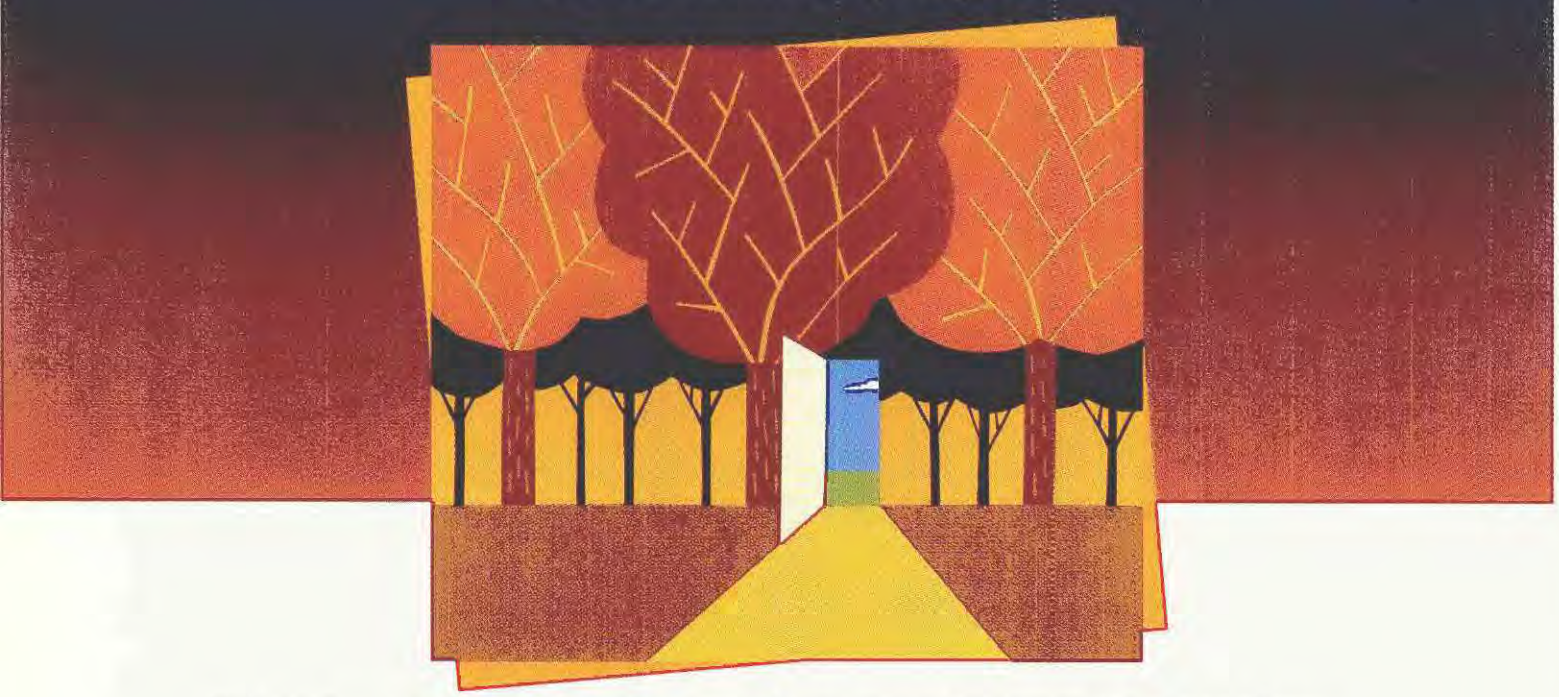
Iona House, Prospect Hill,
Douglas, Isle of Man;
44-1624-681230; fax: 44-1624-681399

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; computerized accounting; claims processing; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Subcontracted services: captive formation; government reporting; computerized accounting; claims processing.

Continued on page 64

An explanation of the terms used in this directory is on page 64.

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Continued from page 62

Clients: 1 total captive, 1 active captive, 1 subcontracted.
Officers: David Stafford, financial director; Michael J. Matthews, Colin Bowen, directors.
Contact: Paul Obolensky, 212-770-5728.
Subcontracts for some captive management services with Isle of Man Insurance Management Ltd..

AIG Insurance Management Services (Luxembourg) SA

11 Ave. Guillaume, P.O. Box 615,
L-2016, Luxembourg;
352-44-3032; fax: 352-44-3017

Founded: 1994.
Parent: American International Group Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Staff: 2 total, 1 professional.
Clients: 2 total captives.
Officers: Jacques Emsix, general manager/director; Michael Matthews, director.

AIM Associated Insurance Management (Ireland) Ltd.

International House,
3 Harbourmaster Place, IFSC
Dublin 1, Ireland;
353-1-6700677; fax: 353-1-6700688

Founded: 1989.
Parent: AXA Colonial Versicherung AG.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 1 total, 1 professional.
Clients: 1 total captive, 1 active captive, 1 directly managed. Captive premium volume, $3,900,000. Capital and surplus managed, $4,700,000. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Michael Doering, managing director.

ARS Management

128 Prim Road, P.O. Box 545,
Colchester, Vt. 05446;
802-860-1958; fax: 802-863-2198

Founded: 1993.
Parent: Alternative Risk Solutions Inc.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; retention analysis; captive performance analysis; risk management techniques; training in alternative risk analysis.
Staff: 11 total, 8 professionals.
Clients: 8 total captives, 8 active captives, 8 directly managed. Captive premium volume, $50,000,000. Capital and surplus managed, $1,200,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: J. Brady Young, president/CEO; Kathryn Westover, COO; Brent Clark, vp/CFO.
Contact: Kathryn Westover.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

P.O Box 169, Aberdeen House,
Barracks Hill, Palm Grove Drive
Grand Turk,Turks & Caicos Islands;
649-946-2670; fax: 649-946-2856

Founded: 1989.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Staff: 3 total, 1 professional.
Clients: 8 total captives, 8 active captives, 8 directly managed. No minimum size client.
Compensation: annual fee, hourly: professional, $100; clerical, $35.
1998 gross revenue: 88% from fees charged for captive management, 12% from other services.
Officers: Ross Blumentritt, resident managing director; Hans Frederich Christoph Blumentritt, director; Patricia Smith, assistant secretary.
Contact: Ross Blumentritt.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205,
Englewood, Colo. 80111;
303-694-9360; fax: 303-694-9363

Founded: 1989.
Parent: Catholic Health Initiatives.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; association captive management; rent-a-captive management; TPA-claims service; self-insurance funds.
Staff: 7 total, 3 professionals.
Clients: 2 total captives, 2 active captives, 2 directly managed. Captive premium volume, $5,000,000. Capital and surplus managed, $10,000,000. No minimum size client.
Compensation: annual fee, $10,000 minimum; hourly: professional, $90 to $200; clerical, $50.
1998 gross revenue: $380,000. 20% from fees charged for captive management, 80% from other services.
Officers: Mitch H. Melfi, chairperson; Richard A. Johnson, president/CEO; John F. Dicola, secretary.

Aon Insurance Managers (Antilles) N.V.

Tamson Building,
Prof. Kerkampweg, M 370-C
Curacao, Netherland Antilles;
599-9736-9294; fax: 599-9736-9350

Founded: 1995.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; tax advice; rent-a-captive management.
Staff: 2 total, 2 professionals.
Clients: 5 total captives, 5 active captives, 5 directly managed. Captive premium volume, $10,000,000. No minimum size client.
Officers: Rudy J. Maasdamme, managing director.

Aon Insurance Managers (Barbados) Ltd.

Financial Services Centre,
Bishop's Court Hill
St. Michael, Barbados;
246-436-4895; fax: 246-436-9016

Founded: 1984.
Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; investment management; association captive management.
Staff: 13 total, 6 professionals.
Clients: 26 total captives, 26 active captives, 26 directly managed. Captive premium volume, $162,000,000. Capital and surplus managed, $281,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: Vinston E. Hampden, vp; Ronald W. Jones, managing director.
Contact: Ronald W. Jones.

Aon Insurance Managers (Bermuda) Ltd.

Craig Appin House, 8 Wesley St.,
Hamilton, HM 11, Bermuda;
441-295-2220; fax: 441-292-4910

Founded: 1965.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Staff: 67 total, 33 professionals.
Clients: 194 total captives, 189 active captives, 5 inactive captives. 194 directly managed. Captive premium volume, $1,643,000,000. Capital and surplus managed, $1,686,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: Alan C. Cossar, executive director; Tracy E. Keill, managing director; Philip A. Barnes, deputy managing director.
Contact: Tracy Keill.

Aon Insurance Managers (Cayman) Ltd.

P.O. Box 1125, 3rd Floor,
Anderson Square
George Town, Cayman Islands , B.W.I.;
345-945-2888; fax: 345-945-2889

Founded: 1986.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; association captive management; rent-a-captive management.
Subcontracted services: claims processing.
Staff: 4 total, 2 professionals.
Clients: 18 total captives, 16 active captives, 2 inactive captives. 18 directly managed. Captive premium volume, $170,000,000. Capital and surplus managed, $108,000,000. No minimum size client.
Compensation: annual fee.
Contact: Peter K. Jones, managing director.

Aon Insurance Managers (Dublin) Ltd.

22 Upper Fitzwilliam St.,
Dublin 2, Ireland;
353-1-6762911; fax: 353-1-6762744

Founded: 1990.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; investment management; association captive management.
Subcontracted services: claims processing; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 16 total, 12 professionals.
Clients: 13 total captives, 13 active captives, 13 directly managed. Captive premium volume, $125,000,000. Capital and surplus managed, $118,000,000. No minimum size client.
Compensation annual fee, hourly.
Officers: Eamon O'Brien, managing director; Joyce MacRedmond, deputy managing director; Ann Finn, director.
Contact: Eamon O'Brien.

Aon Insurance Managers (Guernsey) Ltd.

P.O. Box 33, Maison Trinity Square,
St. Peter Port,
Guernsey GY1 4AT, Channel Islands;
44-1481-707909; fax: 44-1481-710551

Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Subcontracted services: loss control services; actuarial studies; reinsurance brokered to captives; investment management; tax advice; legal advice.
Staff: 44 total, 12 professionals.
Clients: 124 total captives, 114 active captives, 10 inactive captives. 124 directly managed. Captive premium volume, $500,000,000. Capital and surplus managed, $1,000,000,000. No minimum size client.
Officers: Clive James, managing director; Ric Gale, Graham Powell, directors.
Contact: Clive James.

Aon Insurance Managers (Hawaii)

201 Merchant St., 24th Floor,
Honolulu, Hawaii 96813;
808-540-4315; fax: 808-540-4301
www.captive.com/service/aon

Founded: 1994.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management.
Staff: 2 total, 2 professionals.
Clients: 3 total captives, 3 active captives, 3 directly managed. Captive premium volume, $10,500,000. Capital and surplus managed, $5,750,000. No minimum size client.
Compensation: annual fee, hourly.
Contact: Marc J. Lapointe, managing director.

Aon Insurance Managers (Isle of Man) Ltd.

Third Floor, Jubilee Building, Victoria St.,
Douglas, IM1 2LR, Isle of Man;
44-1624-689400; fax: 44-1624-617441

Founded: 1985.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management.
Subcontracted services: actuarial studies; loss forecasting.
Staff: 20 total, 15 professionals.
Clients: 22 total captives, 20 active captives, 2 inactive captives. 22 directly managed. Captive premium volume, $168,000,000. Capital and surplus managed, $244,000,000. No minimum size client.
Compensation: annual fee, commissions; hourly.
Officers: Geoffrey Hunt, managing director; Duncan Donald, director-financial services; David Newman, director-insurance services.
Contact: Geoffrey Hunt.

Aon Insurance Managers (Jersey) Ltd.

Le Gallais Chambers, 54 Bath St.,
St. Helier, Jersey , Channel Islands;
44-1481-707909; fax: 44-1481-720235

Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting.
Clients: 2 total captives, 2 active captives. No minimum size client.
Compensation: annual fee, hourly.
Contact: Clive James, Aon Insurance Managers, Guernsey.

Aon Insurance Managers (Luxembourg) S.A.

283 Route D'ArlonStrassen,
8011, Luxembourg;
352-31-7171; fax: 352-31-7174

Founded: 1994.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives.
Staff: 4 total, 3 professionals.
Clients: 13 total captives, 13 active captives, 13 directly managed.
Compensation: annual fee, hourly.
Officers: Lambert Schroeder, managing director; Alain Dufraisse, general manager.
Contact: Lambert Schroeder.

Aon Insurance Managers (Nederland)

16 Marconistraat,
Rotterdam, 3029 AK, Netherlands;
31-10-44-8-8830; fax: 31-10-477-7059

Parent: Aon Corp.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting.
Staff: 1 total, 1 professional.
Clients: 2 total captives, 2 active captives, 2 inactive captives.
Contact: Paul Kabel.

Aon Insurance Managers (Panama) S.A.

Torre Mirmar, 11th Floor, Balboa Avenue,
39 St., P.O. Box 87-1990
Panama, Zone 4, Panama;
507-227-5677; fax: 507-270-3424

Founded: 1996.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; investment management; tax advice; legal advice; rent-a-captive management.
Subcontracted services: captive feasibility studies; investment management; tax advice; legal advice.
Staff: 2 total, 2 professionals.
Compensation: annual fee, hourly.
Officers: Louis Ducruet, president; Carlos Montero, managing director.
Contact: Louis Ducruet.

Aon Insurance Managers (Singapore) Pte. Ltd.

50 Raffles Place Suite 32-00,
048623, Singapore;
65-221-8222; fax: 65-338-9880

Founded: 1987.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; investment management.
Staff: 3 total, 1 professional.
Clients: 3 total captives, 3 active captives, 3 directly managed. Captive premium volume, $6,500,000. Capital and surplus managed, $10,000,000. No minimum size client.
Compensation: annual fee.
Contact: Clarissa Anne Teo, client services director.

Aon Insurance Managers (USA) Inc.

346 Shelburne Rd.,
Burlington, Vt. 05401;
802-860-0444; fax: 802-860-0440
www.aon.com

Founded: 1965.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Subcontracted services: claims reserves analysis; loss control services; actuarial studies; loss forecasting; investment management; tax advice; legal advice.

Continued on page 66

Explanation of terms used

The annual *Business Insurance* directory of captive managers lists companies that manage captive insurance companies, either directly or through subcontracts.

The directory is published as an editorial service, and there is no charge to be included. However, to be listed companies are required to complete a *BI* questionnaire.

To locate organizations managing captives in a particular domicile, refer to the geographical index following the directory.

Listings begin with the company name, address, telephone and fax number. In addition, the year **founded** and **parent** company are listed.

Next, the **direct** and **subcontracted services** provided are listed.

Staff information is reported on a full-time equivalent basis and includes the total number of staff members and the number of professional staff members involved in captive management services at year-end 1998.

The **clients** section includes the number of active and inactive captives managed at year-end 1998. The total gross premium volume and capital and surplus of captives managed in 1998 also are provided. The minimum size client accepted (by premium volume) also is included.

Compensation details how the company bills for services; commissions refers to commissions generated through reinsurance brokerage. **1998 gross revenues** are included when reported, and a breakout of 1998 gross revenues indicates the percentage of revenue generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered, and other services the company provides.

Names and titles of the company's principal **officers** and a **contact** for readers seeking additional information complete each listing.

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



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BI #5

Continued from page 64

Staff: 13 total, 11 professionals.
Clients: 50 total captives*, 41 active captives, 9 inactive captives. 50 directly managed. Captive premium volume, $471,000,000*. Capital and surplus managed, $379,000,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: W. Scott Frazier, executive director; James Murray, managing director; Beth Albright, accounting supervisor.
Contact: James Murray.
**Includes captives in other domiciles*

Aon Insurance Managers (Vancouver)

900 Howe St., Box 3228,
Vancouver, British Columbia,
V6B 3X8, Canada;
604-683-2561; fax: 604-643-5235
www.captive.com/service/aon

Founded: 1988.
Parent: Aon Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis.
Subcontracted services: loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives.
Staff: 3 total, 2 professionals.
Clients: 11 total captives, 10 active captives, 1 inactive captive. 11 directly managed, Captive premium volume, $32,500,000. Capital and surplus managed, $17,900,000. No minimum size client.
Compensation: annual fee, hourly.
Contact: William J. Morgan, managing director.

Atlantic Security Ltd.

Windsor Place, 18 Queen St.,
Hamilton, HM 11, Bermuda;
441-295-5425; fax: 441-295-5444

Founded: 1974.
Parent: ASL Holdings Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; association captive management; rent-a-captive management.
Staff: 11 total, 5 professionals.
Clients: 44 total captives, 44 active captives, 44 directly managed. Captive premium volume, $145,000,000. Capital and surplus managed, $85,000,000. No minimum size client.
Compensation: annual fee, $15,000 minimum; commissions; hourly: professional, $50 to $300; clerical, $75 to $125.
Officers: Hal Forkush, chairman; Colin James, president; Richard Witkowski, senior vp.
Contact: Colin James.

B

BF&M Management Ltd.

P.O. Box HM 1007,
Hamilton, HM DX, Bermuda;
441-292-6396; fax: 441-292-8682
www.bfm.bm

Founded: 1969.
Parent: BF&M Ltd.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Subcontracted services: captive feasibility studies; online access to claims data; loss control services; actuarial studies; loss forecasting; tax advice; legal advice.
Staff: 9 total, 4 professionals.
Clients: 28 total captives, 26 active captives, 2 inactive captives. 28 directly managed. Captive premium volume, $432,848,849. Capital and surplus managed, $845,308,140. No minimum size client.
Compensation: annual fee, $20,000 minimum; commissions; hourly.
1998 gross revenue: 90% from fees charged for captive management, 1% from commissions charged for brokering insurance and/or reinsurance, 9% from other services.
Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager.

A geographical index begins on page 78.

Becher & Carlson Cos.

84 Pine St., 600 Financial Plaza,
P.O. Box 5599,
Burlington, Vt. 05401;
802-658-7831; fax: 802-658-7843
www.amre.com/args/bandc

Founded: 1982.
Parent: American Re-Insurance Co.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management.
Staff: 3 total, 2 professionals.
Clients: 6 total captives, 6 active captives, 6 directly managed. Captive premium volume, $31,167,355. Capital and surplus managed, $43,270,847. No minimum size client.
Compensation: annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, senior vp.

Becher & Carlson Management Ltd.

25 Church St., P.O. Box HM 2461,
Hamilton, HM JX, Bermuda;
441-295-0519; fax: 441-295-0933
www.amre.com/args/bandc/

Founded: 1981.
Parent: American Re-Insurance Co.
Direct services: 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; rent-a-captive management.
Staff: 7 total, 4 professionals.
Clients: 15 total captives, 12 active captives, 3 inactive captives. 15 directly managed. Captive premium volume, $173,900,000. Capital and surplus managed, $448,400,000. No minimum size client.
Compensation: annual fee, hourly.
Officers: Robin Mehta, senior vp/general manager; William Wood, vp; Krystalle Davis, assistant vp.
Contact: Pam Brooskin, 818-598-4250.

Becher & Carlson Risk Management Inc.

Pacific Tower, 1001 Bishop St.,
Suite 2788, Honolulu, Hawaii 96813;
808-521-1121; fax: 808-521-1288
www.amre.com/args/bandc

Founded: 1991.
Parent: American Re-Insurance Co.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management.
Staff: 2 total, 1 professional.
Clients: 8 total captives, 6 active captives, 2 inactive captives. 8 directly managed. Captive premium volume, $55,600,000. Capital and surplus managed, $51,700,000. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; Wanda L. Jong, vp/manager.
Contact: 21700 Oxnard St., Suite 1800, Woodland Hills, Calif. 91367.

Berkley Risk Administrators Co. L.L.C.

920 Second Ave. S., Suite 700,
Minneapolis, Minn. 55402;
612-376-4200; fax: 612-376-4299

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management.
Subcontracted services: actuarial studies; investment management; tax advice; legal advice; rent-a-captive management.
Clients: 1 total captive, 1 active captive, 1 directly managed.
Compensation: annual fee, $25,000 minimum; commissions; hourly.
Contact: Jeff Kenneson, assistant vp, 802-862-7279.

Continued on page 68

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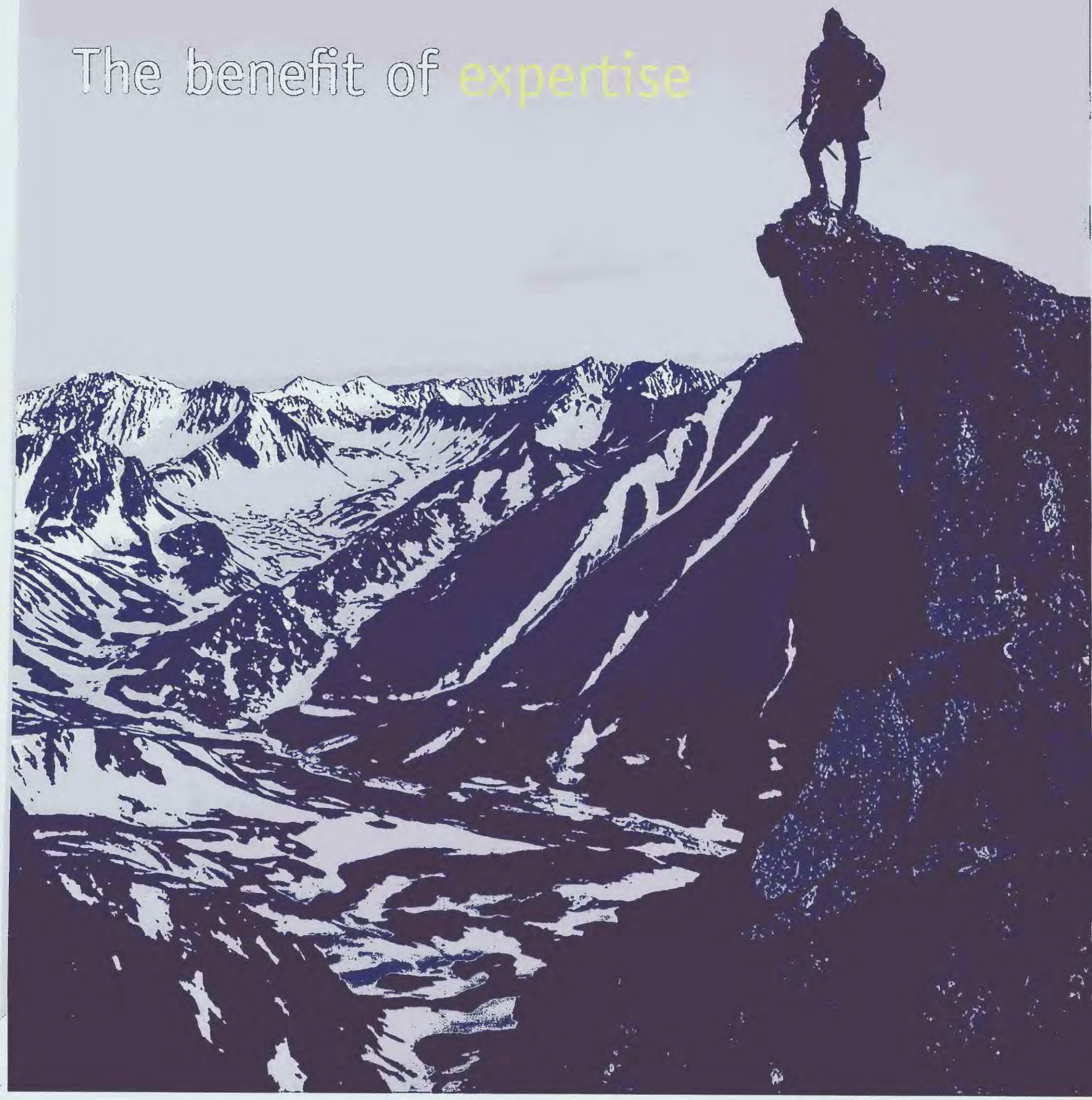
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Continued from page 66

Bott & Associates Ltd.

Reid House, 31 Church St.,
P.O. Box HM 1087,
Hamilton HM EX, Bermuda;
441-292-6564; fax: 441-292-5796

Founded: 1979.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Staff: 6 total, 4 professionals.
Clients: 10 total captives, 10 active captives, 10 directly managed. Captive premium volume, $8,000,000. Capital and surplus managed, $35,100,000. No minimum size client.
Compensation: annual fee, $12,000 minimum; commissions.
1998 gross revenue: 50% from fees charged for captive management, 45% from commissions charged for brokering insurance and/or reinsurance, 5% from other services.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp; Gail E. Andrade, vp-finance.
Contact: Roy V. Bray.

Britannia Insurance Management (Cayman) Ltd.

Picadilly Centre, Elgin Ave.,
Second Floor, P.O. Box 10139 APO,
George Town, Cayman Islands , B.W.I.;
345-945-7700; fax: 345-945-7701
www.britannia.com.ky

Founded: 1997.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management.
Subcontracted services: claims processing; online access to claims data; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 3 total, 1 professional.
Clients: 3 total captives, 3 active captives, 3 directly managed. Captive premium volume, $38,000,000. Capital and surplus managed, $70,000,000. No minimum size client.
Compensation: annual fee, $20,000 minimum; commissions; hourly: professional, $175; clerical, $80.
Contact: Terry Burke, managing director.

C

CNA Risk Services Ltd.

Continental Building., 25 Church St.,
P.O. Box HM 824,
Hamilton HM CX, Bermuda;
441-295-6015; fax: 441-295-1702

Founded: 1980.
Parent: CNA Financial Corp.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; association captive management; rent-a-captive management.
Staff: 5 total, 3 professionals.
Clients: 8 total captives, 7 active captives, 1 inactive captive. 8 directly managed. No minimum size client.
Compensation: annual fee, commissions.
1998 gross revenue: 79% from fees charged for captive management, 21% from other services.
Officers: Peter Conway, chairman; Richard Spurling, president; Thomas R. McMahon, COO.
Contact: Thomas R. McMahon.

CNA Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck St.,
Bridgetown, Barbados;
246-427-3362; fax: 246-426-0426

Founded: 1986.
Parent: CNA Risk Services Ltd.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing.
Staff: 2 total, 2 professionals.
Clients: 6 total captives, 3 active captives, 3 inactive captives. 6 directly managed. No minimum size client.
Compensation: annual fee, hourly.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Peter Conway, chairman; Fiona Williams, president/ general manager; Thomas McMahon, vp.
Contact: Fiona Williams.

Caledonian Management Ltd.

Pembroke Hall, 42 Crow Lane,
Pembroke, Bermuda;
44-162-482-5399; fax: 44-162-482-5309

Founded: 1988.
Parent: Caledonian Management Ltd
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.
Staff: 2 total.
Clients: 1 total captive, 1 active captive, 1 directly managed. Captive premium volume, $1,000,000. Capital and surplus managed, $5,000,000. No minimum size client.
Compensation: annual fee, hourly.
1998 gross revenue: 100% from fees charged for captive management.
Officers: David A. Brown, president; Rhonda M. Caza, vp/secretary.
Contact: David A. Brown.

Caledonian Management Ltd.

Highbury House, 3 Parliament Square,
Castletown IM9 1LA, Isle of Man;
44-162-482-5399; fax: 44-162-482-5309

Founded: 1988.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; consulting services
Subcontracted services: actuarial studies.
Staff: 4 total, 2 professionals.
Clients: 5 total captives, 5 active captives, 5 directly managed. Captive premium volume, $13,000,000. Capital and surplus managed $21,000,000. No minimum size client.
Compensation: annual fee, hourly.
1998 gross revenue: 90% from fees charged for captive management, 10% from other services.
Officers: David A. Brown, managing director; Karl G. Grieves, general manager.
Contact: David A. Brown.

Captive Resources Inc.

201 E. Commerce Drive,
Schaumburg, Ill. 60173-5338;
847-781-1400; fax: 847-781-1455
www.captiveresources.com

Founded: 1981.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Subcontracted services: accounting; computerized accounting; claims processing; online access to claims data; loss control services; actuarial studies; loss forecasting; underwriting and ratemaking for captives; tax advice; legal advice.
Staff: 48 total, 41 professionals.
Clients: 23 total captives, 22 active captives, 1 inactive captive. 23 subcontracted. Captive premium volume, $210,000,000.
Compensation: annual fee.
1998 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.
Officers: Karl von Heimberg, chairman; George V. Rusu, president; Jennifer Beard, senior vp-operations.
Contact: George V. Rusu.
Subcontracts for some captive management services with J&H Marsh & McLennan Management (Cayman) Ltd.

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor,
P.O. Box 1854,
Grand Cayman, Cayman Islands, B.W.I.;
345-948-8177; fax: 345-949-8376

Founded: 1990.
Parent: Chandler Insurance Co. Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management.
Staff: 3 total, 1 professional.
Clients: 10 total captives, 8 active captives, 2 inactive captives. 10 directly managed. Captive premium volume, $27,900,000. Capital and surplus managed, $65,700,000. Minimum size client, $500,000.
Officers: W. Brent Lagere, chairman/director; Steven A. Butler, director.

Channel Islands Insurance Consultants Ltd.

26 Cornet St. St. Peter Port,
Guernsey, Channel Islands;
44-148-171-0336; fax: 44-148-171-0696

Founded: 1982.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; tax advice.
Staff: 6 total, 3 professionals.
Clients: 15 total captives, 13 active captives, 2 inactive captives. 15 directly managed.
Compensation: annual fee, hourly.
Officers: Timothy A. Spafford, chairman; Michael J. Savage, managing director.
Contact: Michael J. Savage.

Commonwealth Risk Management Inc.

P.O. Box 834,
Montpelier, Vt. 05601;
802-229-5000; fax: 802-229-5000

Founded: 1987.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 5 total, 3 professionals.
Compensation: annual fee, commissions; hourly: professional, $75 to $135; clerical, $40.
Officers: Peter D. Sanger, president; Judith A. Sanger, vp/secretary.

Cranham Management Ltd.

P.O. Box HM 397,
Hamilton HM BX, Bermuda;
441-295-8441; fax: 441-292-1210

Founded: 1996.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; run-off management.
Subcontracted services: captive feasibility studies; actuarial studies.
Staff: 3 total, 2 professionals.
Clients: 10 total captives, 9 active captives, 1 inactive captive. 10 directly managed. Captive premium volume, $8,000,000. Capital and surplus managed, $11,000,000. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Stephen W. Pearce, president; Toni E. Tavares, vp.
Contact: Stephen W. Pearce.

Crusader International Management (Cayman) Ltd.

P.O. Box 2185GT, Crusader House,
102 Mary St., George Town,
Cayman Islands , B.W.I.;
345-949-1599; fax: 345-949-0520

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives.
Subcontracted services: claims processing; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting.
Staff: 10 total, 3 professionals.
Clients: 7 total captives, 7 active captives, 7 directly managed. Captive premium volume, $21,500,000. Capital and surplus managed, $15,500,000. No minimum size client.
Compensation: annual fee, $30,000 minimum; hourly: professional, $200; clerical, $125.
Officers: Ian Kilpatrick, president; Gavin Foggon, vp-finance; Fiona Moseley, vp-administration.
Contact: Ian Kilpatrick.

D

Down East Captive Services Inc.

251 U.S. Route 1,
Falmouth, Maine 04105;
207-781-4747; fax: 207-781-8507

Founded: 1997.
Direct services: captive formation; government reporting; legal advice; record keeping.
Staff: 2 total, 1 professional.
Clients: 1 total captive, 1 active captive, 1 directly managed. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Contact: Richard L. Suter, president.
Subcontracts for some captive management services with various captive managers.

E

Eaglehurst Insurance Management Ltd.

P.O. Box 16, Analyst House,
20-26 Peel Road,
Douglas IM99 IAP, Isle of Man;
44-162-467-3811; fax: 44-162-462-9983

Founded: 1986.
Parent: Pannel Kerr Forster.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; investment management; tax advice; legal advice; association captive management; rent-a-captive management.
Staff: 3 total, 3 professionals.
Clients: 3 total captives, 2 active captives, 1 inactive captives. 3 directly managed. Captive premium volume, $640,000. Capital and surplus managed, $4,560,000. No minimum size client.
Compensation: hourly: professional, $88 to $310; clerical, $56.
1998 gross revenue: $80,000. 100% from fees charged for captive management.
Officers: Isobel M. Foster, John Scott, John H. Nugent, directors.
Contact: Isobel Foster.

EURCO A.G.

Freigutstrasse 26
Zurich 8002, Switzerland;
41-1-283-6030; fax: 41-1-283-6035

Founded: 1995.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; online ac-

Continued on next page

Excess Workers' Compensation Underwriters

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WICKLOW

EXCESS INSURANCE SERVICES, INC.

San Francisco, California
415-984-5800
Stamford, Connecticut
203-325-9250
xswc@wicklowxs.com

Continued from previous page

cess to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Subcontracted services: claims processing.

Staff: 4 total, 4 professionals.

Clients: 2 total captives, 2 active captives, 2 directly managed. Captive premium volume, $31,000,000. Capital and surplus managed, $10,000,000. Minimum size client, $500,000.

Compensation: annual fee, $25,000 minimum; commissions; hourly: professional, $150; clerical, $60.

1998 gross revenue: $350,000. 80% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 15% from other services.

Contact: Eddy Van Cutsem, managing director.

European Insurance Management Services Ltd.

P.O. Box 416, Regal House,
Ground Floor,
Suites C & D, Gibraltar;
350-48352; fax: 350-75655

Founded: 1999.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Staff: 2 total, 1 professional.

Clients: 4 total captives, 2 active captives, 2 inactive captives. 4 directly managed. Captive premium volume, $15,000,000. Capital and surplus managed, $50,000,000. No minimum size client.

Compensation: annual fee, $40,000 minimum; hourly: professional, $100; clerical, $70.

1998 gross revenue: $160,000. 100% from fees charged for captive management.

Officers: Paul Savignon, managing director; Chris Johnson, Reg Wallace, directors.

Contact: Chris Johnson, 350-48324.

F

50th State Risk Management Services Inc.

6 Waterfront Plaza,
500 Ala Moana Blvd., Room 405,
Honolulu, Hawaii 96813;
808-543-9786; fax: 808-528-9027
www.50thstate.com

Founded: 1991.

Parent: American International Group Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; association captive management; reinsurance brokered to captives.

Subcontracted services: claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 5 total, 4 professionals.

Clients: 3 total captives, 3 active captives. Captive premium volume, $2,200,000. Capital and surplus managed, $20,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly: professional, $50 to $150; clerical, $20 to $40.

Officers: Robin K. Campaniano, chairman; Linda K. Gilchrist, president; Craig M. Watanabe, senior vp.

Contact: Craig M. Watanabe.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8A,
Fin-00035, Helsinki, Finland;
358-10-514-5315; fax: 350-10-514-5388

Founded: 1988.

Parent: International Risk Management/Industrial Insurance Co.

Direct services: captive feasibility studies; captive formation; government reporting; online access to claims data; claims reserves analysis; loss control services; underwriting and ratemaking for captives.

Subcontracted services: loss control services.

Staff: 2 total, 2 professionals.

Clients: 5 total captives, 4 active captives, 1 inactive captive. No minimum size client.

Compensation: annual fee, hourly.

Officers: J. Toivola, chairman; R. Kamarainen, vice chairman; J. Hutchin, director.

Contact: Lars Von Hertzen, managing director.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

Sofia Hous, 48 Church St.,
Hamilton HM HX, Bermuda;
441-292-4654; fax: 441-292-8231

Parent: Arthur J. Gallagher & Co.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; association captive management; rent-a-captive management.

Subcontracted services: claims processing; online access to claims data; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 5 total, 4 professionals.

Clients: 10 total captives, 10 active captives, 9 directly managed, 1 subcontracted. Captive premium volume, $55,000,000. Capital and surplus managed, $114,000,000.

Compensation: annual fee, commissions;

1998 gross revenue: $555,000. 78% from fees charged for captive management, 22% from other services.

Officers: David J.McManus, president; Peter J. Mullen, Stewart A. McCrae, vps.

Gecalux S.A.

5 Place de la Gare,
L-1012, Luxembourg;
352-403-8801; fax: 352-492-706

Founded: 1984.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; rent-a-captive management.

Staff: 52 total, 35 professionals.

Clients: 60 total captives, 60 active captives, 60 directly managed.

Officers: R. Frere, managing director; F. Gabriel, C. Stiennon, general managers.

Captive management subsidiaries in France, Germany and Iceland

Green Mountain Captive Management Co.

83 Washington St., P.O. Box 628
Barre, Vt. 05641;
802-479-1046; fax: 802-479-2761

Direct services: government reporting; accounting; claims processing.

Subcontracted services: captive feasibility studies; captive formation; computerized accounting; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 3 total, 2 professionals.

Officers: Richard W. Huskes Jr., James C. Milligan.

Contact: Richard W. Huskes Jr.

Guardrisk Insurance Co. Ltd.

P.O. Box 62018, Marshaltown 2107,
Johannesburg, South Africa;
27-11-484-4906; fax: 27-11-484-3010
www.guardrisk.co.za

Founded: 1993.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; tax advice; legal advice; investment management.

Staff: 27 total, 12 professionals.

Clients: 65 total captives, 61 active captives, 4 inactive captives. 65 directly managed. Captive premium volume, $140,000,000. Capital and surplus managed, $41,000,000. Minimum size client, $100,000.

Compensation: annual fee.

1998 gross revenue: $3,400,000. 100% from fees charged for captive management.

Officers: Roger Voysey, managing director; Charles Nortje, business development director; Volker Von Widdern, operation/finance director.

Captive management subsidiary in Mauritius

H

HSBC Gibbs (Guernsey) Ltd.

P.O. Box 156, HSBC House,
Lefebvre St., St. Peter Port,
Guernsey GY1 4EU, Channel Islands;
44-148-171-7857; fax: 44-148-171-7941

Founded: 1997.

Parent: HSBC Holdings P.L.C.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 4 total, 3 professionals.

Clients: 4 total captives, 4 active captives.

Compensation: annual fee, hourly.

Officers: Gabrielle Allen, director/manager; Stewart McLaughlin, financial controller.

Contact: Gabrielle Allen.

HSBC Insurance Management-HSBC Gibbs Harnett & Richardson Ltd.

75 Front St., P.O. Box HM 836,
Hamilton, Bermuda;
441-292-7505; fax: 441 292-1243

Founded: 1982.

Parent: HSBC Holdings P.L.C.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Subcontracted services: investment management.

Staff: 4 total, 3 professionals.

Clients: 20 total captives, 19 active captives, 1 inactive captive. 20 directly managed. No minimum size client.

Compensation: annual fee, commissions.

Officers: Roy Fellowes, managing director; Michael Freisonbruch, director.

Contact: Roy Fellowes.

HSBC Insurance Management

8 Alasias St., P.O. Box 3250,
Limassol 3301, Cyprus;
357-5-373279; fax: 357-5-355869

Parent: HSBC Holdings P.L.C.

Direct services: captive feasibility studies; government reporting; computerized accounting; claims processing; reinsurance brokered for captives; underwriting and ratemaking for captives.

Subcontracted services: captive formation; investment management; tax advice; legal advice.

Staff: 3 total, 2 professionals.

Compensation: annual fee.

Officers: Robin Harman, Costas Th. Joannides, general managers; Mario L. Phidia, assistant manager.

Contact: Robin Harman.

Hartford Management Ltd.

Crawford House, 50 Cedar Ave.,
Hamilton, Bermuda;
441-295-5243; fax: 441-295-4460
www.hartford.bm

Founded: 1996.

Parent: Hartford Financial Services Group Inc.

Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; underwriting and ratemaking for captives; rent-a-captive management.

Subcontracted services: loss control services; actuarial studies; loss forecasting; investment management; tax advice; legal advice.

Staff: 10 total, 4 professionals.

Clients: 6 total captives, 3 active captives, 3 inactive captives. 6 directly managed. No minimum size client.

Compensation: annual fee, $25,000 minimum.

Officers: C. Robert Burns Jr., president; Thomas S. Johnston, vp; Jean Sennett, treasurer/CIO.

Contact: C. Robert Burns Jr.

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1411,
Honolulu, Hawaii 96813;
888-872-5984.
www.usarisk.com

Founded: 1988.

Direct services: captive formation; accounting; computerized accounting; online access to claims data; reinsurance brokered for captives; reinsurance brokered to captives; association captive management; rent-a-captive management; claims reserves analysis.

Subcontracted services: captive feasibility studies; government reporting; claims processing; managing underwriting facilities; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management; tax advice; legal advice.

Staff: 2 total, 2 professionals.

Clients: 11 total captives, 11 active captives, 11 directly managed, Captive premium volume, $76,800,000. Capital and surplus managed, $77,190,000. No minimum size client.

Compensation: annual fee, commissions;

Officers: Sherman S. Hee, president/secretary; Gary Osborne, vp.

Contact: B. Troy Winch.

Subcontracts for some captive management services with Vermont Captive Insurance Management Inc.

I

IAS (Barbados) Ltd.

Mars House 13 Pine Road,
Belleville, St. Michael, Barbados;
246-436-8296; fax: 246-426-0433

Founded: 1987.

Parent: Mutual Risk Management Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; association captive management.

Staff: 3 total, 1 professional.

Clients: 7 total captives, 5 active captives, 2 inactive captives. Captive premium volume, $160,000,000. No minimum size client.

Compensation: annual fee, $10,000 minimum; commissions; hourly.

1998 gross revenue: 100% from fees charged for captive management.

Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power. vps.

IRMG/American Risk Management Corp.

5 Burlington Square, Fourth Floor,
Burlington, Vt. 05401;
802-862-4400; fax: 802-862-7797
www.irmg.com

Founded: 1958.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management.

Staff: 14 total, 12 professionals.

Clients*: 48 total captives, 48 active captives, 48 directly managed. Captive premium volume, $660,000,000. Capital and surplus managed, $299,000,000. No minimum size client.

Compensation: annual fee, hourly.

1998 gross revenue: 100% from fees charged for captive management.

Officers: Peter A. Joy, president; Nancy L. Gray, Gary O'Hare, vps.

**Includes captives in other domiciles*

IRMG Australia/IRMG New Zealand

Level 5/347 Flinders Lane,
Melbourne, Victoria 3000, Australia;
61-3-9629-7655; fax: 61-3-9629-6922

Founded: 1993.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data;

Continued on next page



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claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; association captive management.

Subcontracted services: reinsurance brokered for captives; reinsurance brokered to captives.

Staff: 5 total, 4 professionals.

Clients: 3 total captives, 3 active captives, Captive premium volume, $32,000,000. Capital and surplus managed, $20,000,000. No minimum size client.

Compensation: annual fee, hourly.

1998 gross revenue: 30% from fees charged for captive management, 70% from other services.

Officers: Anthony Cope, general manager-IRMG Australia; Doug Wilkinson, general manager-Global Risk Consultants; Jim Routledge, general manager-IRMG New Zealand.

Subcontracts for some captive management services with IRMG Bermuda; IRMG Guernsey.

Independent Management Group Ltd.

P.O. Box HM 2070, 20 Reid St.,
Hamilton, HM HX, Bermuda;
441-295-1646; fax: 441-292-8062

Founded: 1984.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services; actuarial studies; loss forecasting; investment management; tax advice; legal advice.

Staff: 5 total, 3 professionals.

Clients: 23 total captives, 19 active captives, 4 inactive captives. 23 directly managed. Captive premium volume, $64,000,000. Capital and surplus managed, $226,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly: professional, $160.

Officers: Peter J.N. Strong, president; Cyril Whitter, executive vp.

Contact: Peter J.N. Strong.

International Advisory Services Ltd.

P.O. Box HM 1760,
Chevron House 11 Church St.
Hamilton, HM HX, Bermuda;
441-295-3688; fax: 441-295-2584

Founded: 1981.

Parent: Mutual Risk Management Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; association captive management; rent-a-captive management.

Staff: 57 total, 25 professionals.

Clients: 104 total captives, 100 active captives, 4 inactive captives. Captive premium volume, $1,200,000,000. No minimum size client.

Compensation: annual fee, $15,000 minimum; commissions; hourly.

1998 gross revenue: 95% from fees charged for captive management, 5% from other services.

Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers.

International Insurance Management Ltd.

13C Pine Road,
St. Michael, Barbados;
246-436-8296; fax: 246-426-0433

Founded: 1986.

Direct services: captive formation; government reporting; accounting; computerized accounting; investment management.

Staff: 4 total, 3 professionals.

Clients: 25 total captives, 20 active captives, 5 inactive captives. No minimum size client.

Compensation: annual fee, $5,000 minimum; hourly: professional, $55; clerical, $25.

Officers: William M. Tomlin, director; Christine M. O'Connor, manager.

Contact: Christine M. O'Connor.

Subcontracts for some captive management services with Bermuda.

International Insurance Services Inc.

P.O. Box 61,
Lewiston, Maine 04243-0061;
800-343-7900; fax: 207-783-6678

Founded: 1986.

Parent: Hartford Financial Services Group Inc.

Direct services: captive feasibility studies; captive formation; accounting; computerized accounting; claims processing; online access to claims data; loss control services; managing underwriting facilities; underwriting and ratemaking for captives; association captive management.

Staff: 9 total, 6 professionals.

Clients: 2 total captives, 2 active captives, 2 directly managed. Captive premium volume, $5,000,000. Capital and surplus managed, $10,000,000. No minimum size client.

Compensation: annual fee, $10,000 minimum; hourly: professional, $80; clerical, $40.

1998 gross revenue: $900,000. 94% from fees charged for captive management, 6% from other services.

Officers: Lucas B. Hartford, president; Robert A. Hartford, vp-marketing; Rodney S. Shaw, treasurer.

International Risk Management (Barbados) Ltd.

International P.O. Box 1264, 2nd Floor,
Thomas Daniel Building, Hincks Street
Bridgetown, Barbados;
246-436-7541; fax: 246-436-8814
www.irmg.com

Founded: 1986.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Staff: 1 total, 1 professional.

Clients: 5 total captives, 5 active captives, 5 directly managed. No minimum size client.

Compensation: hourly.

1998 gross revenue: 100% from fees charged for captive management.

Officers: Richard E. Ince, general manager/director; John R. English; Anthony B. Stelling, directors.

Contact: Richard E. Ince.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660,
Hamilton, HM CX, Bermuda;
441-295-0713; fax: 441-295-1712

Founded: 1963.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Staff: 32 total, 13 professionals.

Clients: 70 total captives, 68 active captives, 2 inactive captives. 70 directly managed. Captive premium volume, $290,000,000. Capital and surplus managed, $890,000,000. No minimum size client.

Compensation: annual fee, $15,000 minimum; hourly.

Officers: J.R. English, chairman; P. Bailie, president.

Contact: Paul Bailie.

International Risk Management (Cayman) Ltd.

P.O. Box 69GT, British American Tower,
Dr. Roy's Dr. George Town,
Grand Cayman , B.W.I.;
345-949-0155; fax: 345-949-0002

Founded: 1975.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services.

Staff: 24 total, 10 professionals.

Clients: 28 total captives, 25 active captives, 3 inactive captives. 28 directly managed. Captive premium volume, $461,281,000. Capital and surplus managed, $317,889,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: Anthony Stelling, president; Michael Donelly, Lawrence J. Walters, Kieran O'Mahony, vps.

International Risk Management (Dublin) Ltd.

Block 3, Harcourt Centre, Harcourt Road,
Dublin, Ireland;
353-1-7902600; fax: 353-1-7902606

Founded: 1990.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives.

Staff: 6 total, 4 professionals.

Clients: 9 total captives, 9 active captives, 9 directly managed. Captive premium volume, $107,144,364. Capital and surplus managed, $86,944,760. No minimum size client.

Compensation: annual fee, hourly.

Officers: Garry Cullen, managing director; Ann O'Keeffe, senior accountant.

International Risk Management (Guernsey) Ltd.

IRM House, Le Bordage
St. Peter Port, Guernsey, GY1 1BR,
Channel Islands;
44-1481-727220; fax: 44-1481-712443

Founded: 1988.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; rent-a-captive management.

Staff: 28 total, 10 professionals.

Clients: 39 total captives, 39 active captives, 39 directly managed. Captive premium volume, $315,000,000. Capital and surplus managed, $605,000,000.

Compensation: annual fee, hourly.

Officers: Nick Wild, managing director; John Stuart, director-finance; Don Lawson, director-client service; Ian McCathie, director-operations.

Contact: Nick Wild.

International Risk Management (Isle of Man) Ltd.

Suite 3, 4th Floor, Peveril Buildings,
Douglas, IM1 2BS, Isle of Man;
44-1624-629198; fax: 44-1624-629199

Founded: 1985.

Parent: International Risk Management Group.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; reinsurance brokered for captives; underwriting and ratemaking for captives.

Staff: 6 total, 3 professionals.

Clients: 7 total captives, 7 active captives, 7 directly managed. No minimum size client.

Compensation: annual fee, hourly.

Officers: J.R. English, chairman; N.H. Wild, managing director; M.A. Skehan, general manager.

Contact: M.A. Skehan.

J

J&H Marsh & McLennan Ltd.

161 Bay St., Suite 1400,
Toronto, Ontario, Canada;
416-868-2615; fax: 416-868-2526

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 1 total, 1 professional.

Clients: 3 total captives, 3 directly managed. Captive premium volume, $2,715,412. Capital and surplus managed, $3,642,625.

Compensation: annual fee, hourly.

Contact: Les Rowley.

J&H Marsh & McLennan Management Inc.

Amfac Building, Hawaii Tower,
745 Fort St., Suite 800
Honolulu, Hawaii 96813-3800;
808-585-3500; fax: 808-585-3513

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting

Continued on page 72

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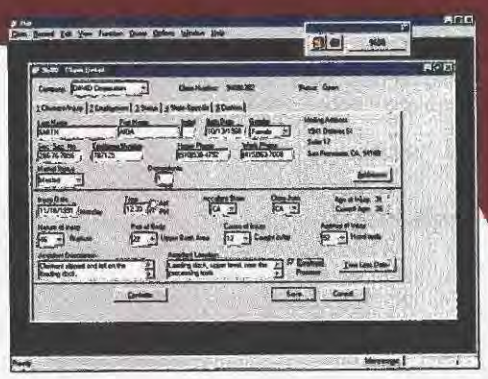
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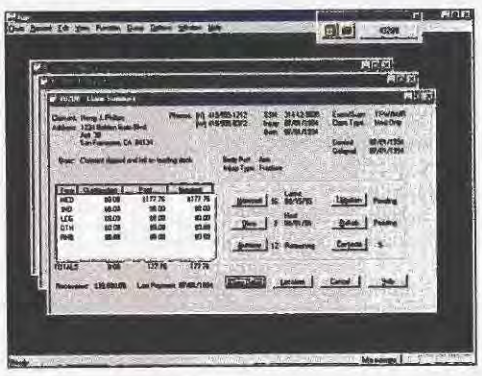
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Continued from previous page

facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 8 total, 6 professionals.

Clients: 25 total captives, 26 active captives, 3 inactive captives. Captive premium volume, $118,100,057. Capital and surplus managed, $397,332,253.

Compensation: annual fee, hourly.

Officers: Peter Lowe, senior vp; Fay Okamoto, vp; Denys Kazama, assistant vp.

Contact: Peter Lowe.

J&H Marsh & McLennan Management Inc.

1225 17th St., Suite 2100,
Denver, Colo. 80202;
303-313-8424; fax: 303-313-8430

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 154 total.

Clients: 313 total captives, Captive premium volume, $2,767,482,955. Capital and surplus managed, $7,919,237,632.

Compensation: annual fee, hourly.

Officers: Andrew Carr, managing director; Rory Gorman.

Subcontracts for some captive management services with Marsh & McLennan Cos. Inc.

J&H Marsh & McLennan Management (Barbados) Ltd.

Whitepark House, White Park Road,
Bridgetown, Barbados;
246-436-9929; fax: 246-436-9932

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 11 total, 4 professionals.

Clients: 28 total captives, Captive premium volume, $84,000,000. Capital and surplus managed.$112,000,000.

Compensation: annual fee, hourly.

Officers: Kevin Walton, senior vp; Nicholas Crichlow.

J&H Marsh & McLennan Management (Bermuda) Ltd.

Victoria Hall, Victoria Street,
Hamilton, Bermuda;
441-298-6617; fax: 441-297-9787

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 1 total, 1 professional.

Clients: 4 total captives, 2 active captives, 2 inactive captives. Captive premium volume, $60,000. Capital and surplus managed, $9,800,000. No minimum size client.

Compensation: annual fee, hourly.

1998 gross revenue: 100% from fees charged for captive management.

Contact: Paul Froment, vp, 404-586-1601.

J&H Marsh & McLennan Management (Cayman) Ltd.

Barclays House, 3rd Floor,
Grand Cayman, Cayman Islands, B.W.I;
345-949-7988; fax: 345-949-7849

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 43 total, 18 professionals.

Clients: 145 total captives, 142 active captives, 3 inactive captives. 145 directly managed. Captive premium volume, $817,000,000. Capital and surplus managed, $575,000,000. No minimum size client.

Compensation: annual fee, commissions; hourly.

Officers: Wayne A.M. Cowan, senior vp/branch manager; Seamus B. Tivnan, vp/deputy branch manager; Peter O'Leary, Michael Gibbs, Paul Macey, Toni Silich, Graham Manchester, vps.

Contact: Wayne A.M. Cowan.

J&H Marsh & McLennan Management (Dublin) Ltd.

Level 2, Treasury Building,
Lower Grand Canal St.
Dublin 2, Ireland;
353-1-6762748; fax: 353-1-6789636

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 30 total.

Clients: 52 total captives, Captive premium volume, $929,743,288. Capital and surplus managed, $844,503,396.

Compensation: annual fee, hourly.

Officers: Ian Clancy, John Magee.

J&H Marsh & McLennan Management (Guernsey) Ltd.

P.O. Box 34, Albert House,
South Esplanade, St. Peter Port,
Guernsey GY1 4AU, Channel Islands;
44-1481-728136; fax: 44-1481-713617

Parent: Marsh & McLennan Cos. Inc.

Direct services: claims processing; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 23 total, 8 professionals.

Clients: 61 total captives, 56 active captives, 5 inactive captives. Captive premium volume, $358,000,000. Capital and surplus managed, $646,000,000. No minimum size client.

Compensation: annual fee, hourly.

Officers: John Copeland, general manager; Granville De Cruz, Merise Wheatley, directors.

Contact: John Copeland.

J&H Marsh & McLennan Management (Isle of Man) Ltd.

P.O. Box 305, Atlantic House,
4-8 Circular Road
Douglas, IM99 2BB, Isle of Man;
44-1624-625313; fax: 44-1624-624523

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 22 total.

Clients: 45 total captives, Captive premium volume, $416,752,560. Capital and surplus managed, $2,112,559,680.

Compensation: annual fee, hourly.

Officers: Graham King, Alan Rickett, Stephen Winrow.

J&H Marsh & McLennan Management (Luxembourg) S.A.

65 Avenue de la Gare, BP 2217,
L-1022, Luxembourg;
35-2-496951; fax: 35-2-496936

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 14 total.

Clients: 38 total captives, 36 active captives, 2 inactive captives. 38 directly managed. Captive premium volume, $208,651,453. Capital and surplus managed, $120,748,570.

Compensation: annual fee, hourly.

Officers: Claude Weber.

J&H Marsh & McLennan Management (Singapore) P.L.C. Ltd.

6 Temasek Blvd., Suite 14-01,
Suntec Tower Four,
038986, Singapore;
65-332-0185; fax: 65-333-8369

Parent: Marsh & McLennan Cos. Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: investment management; tax advice; legal advice.

Staff: 23 total, 16 professionals.

Clients: 28 total captives. Captive premium volume, $89,457,102. Capital and surplus managed. $210,151,714.

Compensation: annual fee, hourly.

Officers: George McGhie, branch manager; Bernard Sze, senior account manager; Lucy Chan, financial controller.

Contact: George McGhie.

Jardine Risk Management Ltd.

16th Floor, 1111 W. Georgia St.
Vancouver, B.C V6E 4G2, Canada;
604-682-9528; fax: 604-682-3520
www.jardine.ca

Founded: 1987.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; association captive management.

Staff: 6 total, 3 professionals.

Clients: 1 total captive, 1 active captive.

Compensation: annual fee, commissions; hourly.

Officers: Paul Murphy, president; John Wright, Peter T. Kelly, secretary.

Contact: Peter T. Kelly.

L

Lambert Fenchurch Insurance Management (Guernsey) Ltd.

P.O. Box 308, 11 Westerbrook Centre,
South Side St. Sampson,
Guernsey, Channel Islands;
44-1481-49984; fax: 44-1481-48308

Founded: 1979.

Parent: Lambert Fenchurch Group P.L.C.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.

Subcontracted services: loss control services; actuarial studies; investment management; tax advice; legal advice.

Staff: 12 total, 8 professionals.

Clients: 16 total captives, 13 active captives, 3 inactive captives. 16 directly managed. Captive premium volume, $261,000,000. Capital and surplus managed, $175,000,000. No minimum size client.

Compensation: annual fee, $30,000 minimum.

1998 gross revenue: 100% from fees charged for captive management.

Officers: Leonard J. Banks, chairman; Brian R.S. Soutar, managing director; Alexander Lindsay, director.

M

Meadowbrook Risk Management Ltd.

P.O. Box 724, ICB Building,
Roebuck Street,
Bridgetown, Barbados;
246-426-4684; fax: 246-426-4878

Founded: 1992.

Parent: Meadowbrook Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management.

Staff: 3 total, 1 professional.

Clients: 13 total captives, 9 active captives, 4 inactive captives. 13 directly managed. Captive premium volume, $15,903,500. Capital and surplus managed, $8,216,717.

Compensation: annual fee, $15,000 minimum.

1998 gross revenue: $286,903. 100% from fees charged for captive management.

Officers: Diana Gooding, manager.

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340
Hamilton, HM JX, Bermuda;
441-292-7569; fax: 441-292-3299

Founded: 1979.

Parent: Meadowbrook Inc.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.

Staff: 4 total, 2 professionals.

Clients: 14 total captives, 11 active captives, 3 inactive captives. 14 directly managed. Captive premium volume, $35,000,000. No minimum size client.

Compensation: annual fee, $15,000 minimum; hourly.

1998 gross revenue: 100% from fees charged for captive management.

Officers: Merton J. Segal, president; Brian Stephenson, vp/managing director; Jim Kelly, vp.

Merchant Corporate Management Ltd.

Paravacino Office Complex,
Bideford, Hastings
Christ Church, Barbados;
246-435-8220; fax: 246-435-8243

Founded: 1989.

Parent: Connor Clark Ltd.

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; actuarial studies; reinsurance brokered for captives.

Subcontracted services: reinsurance brokered for captives; investment management.

Staff: 4 total, 2 professionals.

Clients: 10 total captives, 10 active captives, 10 directly managed. Captive premium volume, $210,000,000. Capital and surplus managed, $55,000,000. No minimum size client.

Compensation: hourly: professional, $150 to $250; clerical, $75 to $100.

Continued on page 74

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See us online at www.corvel.com and

CorVel

Continued from page 72

Officers: William R. Andrus, chairman; Roland F. Wilson, general manager/secretary; Heinrich N. Funk, managing director.
Contact: Roland F. Wilson.

Midland Bank Trust Corp. (Cayman) Ltd./HSBC Insurance Management

P.O. Box 1109 G.T.,
Grand Cayman, Cayman Islands , B.W.I.;
345-949-7755; fax: 345-949-7634

Founded: 1984.
Parent: HSBC Holdings P.L.C.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; association captive management; rent-a-captive management; captive feasibility studies.
Staff: 20 total, 16 professionals.
Clients: 82 total captives, 75 active captives, 7 inactive captives. 82 directly managed. Captive premium volume, $220,000,000. No minimum size client.
Compensation: annual fee, $10,000 minimum; hourly: professional, $90 to $265;

Officers: David A. Whitefield, Tom Clark, Linda Haddleton.

MIMS International (Barbados) Ltd.

Chelston Park, Building 2,
Collymore Rock, St. Michael, Barbados;
246-426-6467; fax: 246-429-8517
www.sunbeach.net/mims

Founded: 1986.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking for captives.
Staff: 5 total, 3 professionals.
Clients: 20 total captives, 19 active captives, 1 inactive captive. 20 directly managed. Captive premium volume, $376,000,000. Capital and surplus managed, $351,000,000.
Contact: Martin R. Hole, president.

Monkton Insurance Services Ltd.

P.O. Box MP 11383,
George Town, Grand Cayman,
Cayman Islands, B.W.I.;
345-947-8437; fax: 345-947-8437
www.monkton.com

Founded: 1997.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; loss forecasting; reinsurance brokered for captives; association captive management.
Staff: 2 total, 1 professional.
Clients: 1 total captive, 1 active captive, 1 directly managed. Captive premium volume, $5,000,000. Capital and surplus managed, $4,000,000. No minimum size client.
Compensation: annual fee, hourly.
Contact: David Self, president.

Mutual Risk Captive Group Ltd.

44 Church St., P.O. Box HM 2064,
Hamilton HM HX, Bermuda;
441-295-5688; fax: 441-292-1867
www.mrm.bm

Founded: 1977.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Staff: 19 total, 10 professionals.
Clients: 55 total captives, 47 active captives, 8 inactive captives. 55 directly managed. Captive premium volume, $203,000,000. Capital and surplus managed, $263,000,000. No minimum size client.
Compensation: annual fee, hourly: professional, $135 to $250; clerical, $75 to $95.
1998 gross revenue: $3,800,000. 100% from fees charged for captive management.
Officers: C. Simon Scupham, chairman; Colin M. Alexander, senior vp; P. Christopher Regan, vp.

Mutual Risk Management (Barbados) Ltd.

The Business Centre, Upton Road,
St. Michael, Barbados;
246-436-5887; fax: 246-427-5328

Founded: 1986.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting.
Staff: 1 total, 1 professional.
Clients: 6 total captives, 6 active captives, 6 directly managed. Captive premium volume, $53,000,000. Capital and surplus managed, $65,000,000. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Robert Mulderig, president.

Mutual Risk Management (Cayman) Ltd.

P.O. Box 1363,
Genesis Building, Second Floor
Grand Cayman, Cayman Islands, B.W.I.;
345-949-7966; fax: 345-949-8068

www.accessmrm.com

Founded: 1982.
Parent: Mutual Risk Management Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; association captive management; rent-a-captive management.
Subcontracted services: claims processing; loss control services; actuarial studies; investment management; tax advice; legal advice.
Staff: 8 total, 5 professionals.
Clients: 50 total captives, 42 active captives, 8 inactive captives. 50 directly managed. Captive premium volume, $109,000,000.
Compensation: annual fee.
Officers: Peter MacKay, chairman/CEO/director; John Peterson, president/COO; Robert Mulderig, director.
Contact: Peter MacKay, John Peterson.

Mutual Risk Management (Vermont) Ltd.

1 Lawson Lane,
Burlington, Vt. 05401;
802-860-1717; fax: 802-864-2533

Founded: 1994.
Parent: Mutual Risk Management Ltd.
Direct services: captive formation; government reporting; accounting; computerized accounting.
Subcontracted services: captive feasibility studies; actuarial studies.
Staff: 1 total, 1 professional.
Clients: 2 total captives, 2 active captives, 2 directly managed. Captive premium volume, $6,500,000. Capital and surplus managed, $6,300,000.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Rocco J. Digilio, vp.

N

Nordic Mutual CMO Zurich A.G.

P.O. Box 4558, Schipfe 2,
Zurich, Switzerland;
41-1-226-5555; fax: 41-1-226-5365
www.nordic.ch

Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; tax advice; legal advice; association captive management.
Subcontracted services: investment management; tax advice; legal advice.
Staff: 10 total, 8 professionals.
Clients: 17 total captives, 17 active captives.
Officers: Hans Erik Engelbrelates, managing director.

O

Richard Oliver International Pte. Ltd.

78 Shenton Way, Suite 23-01,
Singapore 079120;
65-221-8561; fax: 65-221-8569
www.richardoliver.com

Founded: 1989.
Parent: Richard Oliver Pty. Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; computerized accounting; claims processing; online access to claims data; loss control services; loss forecasting; reinsurance brokered for captives; investment management; underwriting and ratemaking for captives.
Subcontracted services: government reporting; accounting; claims processing.
Staff: 7 total, 4 professionals.
Clients: 5 total captives, 3 active captives, 2 inactive captives. 4 directly managed, 1 subcontracted. Captive premium volume, $8,000,000. Capital and surplus managed, $22,000,000. Minimum size client $1,000,000.
Compensation: annual fee, $25,000 minimum; hourly.
1998 gross revenue: 42% from fees charged for captive management, 58% from other services.
Officers: A. Pellen, CEO; G. Edwards, underwriting manager; Ng Hwee Hong, financial controller.
Subcontracts for some captive management services with Willis Corroon Management (Guernsey) Ltd.

Optimum Risk Research (International) Ltd.

Continental House, 28 Cornet St.,
P.O. Box 627, St. Peter Port, Guernsey
GY1 4PP, Channel Islands;
44-148-172-4212; fax: 44-148-172-0400

Founded: 1991.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; reinsurance brokered for captives; reinsurance brokered to captives.
Subcontracted services: actuarial studies.
Staff: 6 total, 3 professionals.
Clients: 1 total captive, 1 active captive, 1 directly managed. Captive premium volume, $500,000. Capital and surplus managed, $100,000. No minimum size client.
Compensation: annual fee, $10,000 minimum.
1998 gross revenue: $25,000. 100% from fees charged for captive management.
Officers: Jean-Francois Gelot, managing director; R. Lemessurier; F. Gelot.
Contact: Mrs. R. Lemessurier.

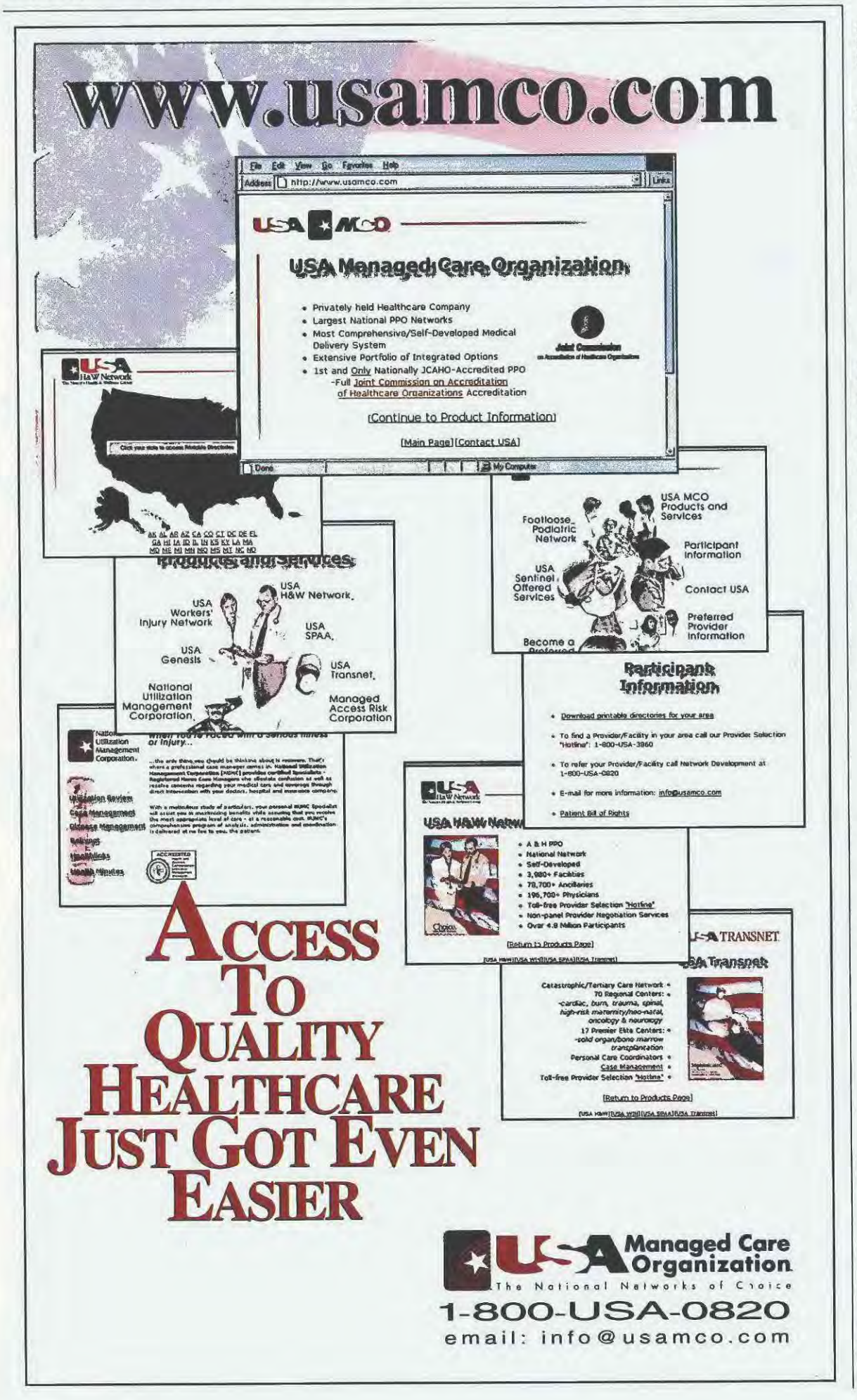
P

Pinehurst Management Co. Ltd.

P.O. Box HM 1752,
Hamilton HM GX, Bermuda;
441-295-4864; fax: 441-292-7375

Founded: 1986.
Parent: Charles Taylor Group P.L.C.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Subcontracted services: captive feasibility studies; actuarial studies; loss forecasting; tax advice; legal advice.
Staff: 16 total, 9 professionals.
Clients: 35 total captives. Captive premium volume, $200,000,000. Capital and surplus managed, $800,000,000. No minimum size client.
Officers: Joe Roach, chairman; Carl Daly, managing director; Norman Long, director.

Continued on next page



Continued from previous page

1998 gross revenue: 00% from fees

surplus managed, $49,000,000. No minimum size client.

Officers: Guy F. Ragosta, managing director-North American captive management; James

1998 gross revenue: Captive premium volume, $101,000,000. Capital and surplus managed

and surplus managed, $60,000,000. No minimum size client.

Continued from previous page

Powerscourt Management Ltd.

Windsor Place, 18 Queen St.,
Hamilton HM 11, Bermuda;
441-295-8495; fax: 441-292-1196
www.powerscourt.bm

Founded: 1984.
Parent: The Powerscourt Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management; association captive management; rent-a-captive management; reinsurance run-off consulting & management.
Subcontracted services: claims processing; underwriting and ratemaking for captives.
Staff: 12 total, 8 professionals.
Clients: 26 total captives, 24 active captives, 2 inactive captives. 26 directly managed.
Compensation: annual fee, hourly.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Andrew McComb, president/CEO; Steven Western, senior vp; Adrian Kimberley. assistant vp.
Contact: Andrew McComb, Steven Western.

Q

Quail Street Management Ltd.

34 Church St., Imperial Building,
Third Floor, P.O. Box HM 2635,
Hamilton HM KX, Bermuda;
441-292-2582; fax: 441-292-1880
www.quailstreet.com

Founded: 1986.
Parent: Quail Street Casualty Ltd.
Direct services: captive feasibility studies; captive formation; computerized accounting; claims processing; reinsurance brokered for captives; reinsurance brokered to captives; investment management.
Staff: 4 total, 2 professionals.
Clients: 2 total captives, 2 active captives, 2 directly managed. No minimum size client.
Compensation: annual fee, $7,500 minimum; commissions; hourly: professional, $150; clerical, $35.
1998 gross revenue: $600,000. 15% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 80% from other services.
Officers: Mark G. Moffat, president/director.

R

Risk Services (Bermuda) Ltd.

Armory Building,
37 Reid St., Second Floor,
Hamilton HM BX, Bermuda;
441-295-8441; fax: 441-295-1210

Founded: 1997.
Direct services: captive formation; government reporting; accounting; computerized accounting; reinsurance brokered for captives; legal advice; association captive management.
Subcontracted services: captive feasibility studies; actuarial studies; investment management; tax advice.
Staff: 3 total, 2 professionals.
Clients: 13 total captives, 13 active captives, 3 directly managed, 10 subcontracted. No minimum size client.
Compensation: annual fee, commissions;
1998 gross revenue: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.
Officers: Michael T. Rogers, president; G. Wayne Harris; Jon Harkavy.
Contact: Michael T. Rogers, 802-223-2200.
Subcontracts for some captive management services with Cranham Management Co. Ltd.

RiskCap

1655 Lafayette St., Suite 200,
Denver, Colo. 80218;
303-388-5688; fax: 303-388-5585
www.riskcap.com

Founded: 1976.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; managing underwriting facilities; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management; claims reserves analysis.
Staff: 21 total, 14 professionals.
Clients: 8 total captives, 8 active captives. 8 directly managed. No minimum size client.
Compensation: annual fee, hourly: professional, $175 to $200; clerical, $35.
1998 gross revenue: $200,000. 60% from fees charged for captive management, 40% from other services.
Officers: Sherlyn Farrell, J. Lawrence Lawson, senior consultants; Richard Poling, Michael Murphy, consultants.
Contact: Michael Murphy.

S

SB&T Captive Management Co.

102 S. Winooski Ave., P.O. Box 730,
Burlington, Vt. 05402-0730;
802-863-5774; fax: 802-658-6191

Founded: 1982.
Parent: Smith, Bell & Thompson Inc.
Direct services: captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss control services; reinsurance brokered for captives; underwriting and ratemaking for captives; tax advice; association captive management.
Staff: 8 total, 7 professionals.
Clients: 13 total captives, 13 active captives, 13 directly managed. Captive premium volume, $109,670,649. Capital and surplus managed, $239,446,755.
Compensation: annual fee, hourly.
Officers: Roger D. Teese, president/CEO; Bradley D. Matulonis, vp/CFO; William D. Thompson, senior vp.

SLR Management (Bermuda) Ltd.

Continental Building, Church St.,
P.O. Box HM 1978,
Hamilton HM HX, Bermuda;
441-295-8270; fax: 441-292-8611

Founded: 1978.
Parent: International Nederlanden Group.
Direct services: captive feasibility studies; captive formation; government reporting; computerized accounting; accounting; claims processing; underwriting and ratemaking for captives.
Subcontracted services: actuarial studies; investment management; legal advice.
Staff: 6 total, 4 professionals.
Clients: 11 total captives, 8 active captives, 3 inactive captives. 11 directly managed. No minimum size client.
Compensation: annual fee.
Officers: Nicholas E.J. Wheeler, president; Angus G. Hyslop, vp; Duarte de Frias, assistant controller.
Contact: Nicholas E.J. Wheeler, Angus G. Hyslop.

Sartor Resources Ltd.

St. Georges House, P.O. Box 391,
St. Georges Place, St. Peter Port,
Guernsey GY1 3FJ, Channel Islands;
44-148-171-4792; fax: 44-148-171-5071
www.sartor.guernsey.net

Founded: 1989.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Subcontracted services: claims processing.
Staff: 4 total, 3 professionals.
Clients: 5 total captives, 3 active captives, 2 inactive captives. 5 directly managed.
Compensation: annual fee, commissions; hourly.
Officers: Roger Taylor, managing director; George Freeman.

SINSER A.B.

Grev Turegatan 9, 2tr,
SE-114 46 Stockholm, Sweden;
46-8-614-1700; fax: 46-8-678-1800
www.sinser.com

Founded: 1983.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; managing underwriting facilities; actuarial studies; loss forecasting; underwriting and ratemaking for captives; association captive management; rent-a-captive management.
Subcontracted services: online access to claims data; loss control services; investment management; tax advice; legal advice; claims processing.
Staff: 8 total, 6 professionals.
Clients: 17 total captives, 17 active captives, 17 directly managed.
Compensation: annual fee, hourly.
Contact: Karl-Ove Andersson, managing director.

SINSER (Aland) A.B.

Kopmansgatan 6, SF-22100,
Mariehamn, Aland;
358-18-27698; fax: 358-18-27699
www.sinser.com

Founded: 1996.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management; conferences and seminar.
Staff: 1 professional.
Officers: Bo Sture Sjölund, managing director; Karl-Ove Andersson, director.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE 114 46 Stockholm, Sweden; 46-8-614-1700.

SINSER (Asia) Pte. Ltd.

Vesta Forsikring A/S,
8 Temasek Blvd., Suite 26-01A,
Suntec City Tower, 038988 Singapore;
65-333-8511; fax: 65-333-8711
www.sinser.com

Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management.
Clients: 1 total captive, 1 active captive, 1 directly managed.
Compensation: annual fee.
Officers: Gert Rosenberg; Tommy Rydberg.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden; 46-8-614-1700.

SINSER (Denmark)

Stamholmen 161, DK-2650,
Hvidovre, Denmark;
45-3687-4693; fax: 45-3687-4694
www.sinser.com

Founded: 1992.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; association captive management.
Staff: 2 total, 2 professionals.
Clients: 3 total captives, 3 active captives.
Contact: Nikolaj Boysen, branch manager.

SINSER (Europe) S.A.

11 Rue Beaumont,
LU-1219, Luxembourg;
352-223-422-310; fax: 352-470-257
www.sinser.com

Founded: 1988.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; managing underwriting facilities; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; tax advice; legal advice; rent-a-captive management.
Subcontracted services: actuarial studies; investment management.
Staff: 9 total, 8 professionals.
Clients: 19 total captives, 18 active captives, 1 inactive captive. 19 directly managed. No minimum size client.
Compensation: annual fee, hourly.
Officers: Charles Besnehard, managing director; Maite Lambillon, manager.

SINSER (Guernsey) Ltd.

P.O. Box 14, Sarel House,
Berthelot St., St. Peter Port,
Guernsey GY1 3AQ, Channel Islands;
44-148-171-0502; fax: 44-148-171-0524
www.sinser.com

Founded: 1992.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; underwriting and ratemaking for captives.
Subcontracted services: reinsurance brokered for captives; reinsurance brokered to captives; tax advice; legal advice.
Staff: 6 total, 5 professionals.
Clients: 20 total captives, 17 active captives, 3 inactive captives. 20 directly managed. No minimum size client.
Compensation: annual fee, hourly.
Officers: Callum Beaton, managing director; Steve Denning, financial controller.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden, 46-8-614-1700.

SINSER (International) S.A.R.L.

11 Rue Beaumont,
LU-2015, Luxembourg;
352-223-4221; fax: 352-470-250
www.sinser.com

Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; rent-a-captive management; online access to claims data.
Subcontracted services: claims reserves analysis; tax advice; legal advice.
Staff: 1 total, 1 professional.
Clients: 4 total captives, 4 active captives, 4 directly managed.
Compensation: annual fee, hourly.
Officers: Tomas Wittbjer, managing director.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden; 46-8-614-1700.

SINSER (Ireland) Ltd.

12/13 Exchange Place, Third Floor,
IFSC, Dublin 1, Ireland;
353-1-6126500; fax: 353-1-6126599
www.sinser.com

Founded: 1989.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 9 total, 7 professionals.
Clients: 17 total captives, 17 active captives, 17 directly managed.
Compensation: annual fee, hourly.
Officers: Michael Walsh, office manager; Aidan Pyke, marketing manager.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden; 46-8 614-1700.

SINSER (Isle of Man)

P.O. Box 276,
Douglas, Isle of Man;
44-162-461-4901; fax: 44-162-461-4284
www.sinser.com

Founded: 1995.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; investment management; tax advice; legal advice; conferences & seminars.
Clients: 1 total captive, 1 active captive.
Compensation: annual fee, hourly.
Officers: Tomas Wittbjer, director.

SINSER (Luxembourg) S.A.R.L.

11 Rue Beaumont, B.P. 593,
LU-2015, Luxembourg;
352-223-4221; fax: 352-470-250
www.sinser.com

Founded: 1984.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; rent-a-captive management.
Subcontracted services: actuarial studies; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 16 total, 12 professionals.
Clients: 32 total captives, 32 active captives, 32 directly managed. No minimum size client.
Compensation: annual fee.
Officers: Norblad Tony, managing director.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden, 46-8-614-1700.

SINSER (Norway)

P.O. Box 235, Skoyen,
NO-0212 Oslo, Norway;
47-23-13-3060; fax: 47-23-13-3061
www.sinser.com

Founded: 1998.
Parent: SINSER Holding AB.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; association captive management; rent-a-captive management.
Subcontracted services: claims reserves analysis; loss control services; managing underwriting facilities; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 3 total, 3 professionals.
Clients: 4 total captives, 4 active captives, 4 directly managed.
Compensation: annual fee, hourly.
Officers: Thomas Tronsgaard, branch manager.
Contact: SINSER Holding A.B., Grev Turegatan 9, SE-114 46 Stockholm, Sweden; 46-8-614-1700.

Skandia International Risk Management Ltd.

Skandia International House,
16 Church St., P.O. Box HM 2062,
Hamilton HM HY, Bermuda;
441-295-2185; fax: 441-292-1143
www.sinser.com

Founded: 1979.
Parent: SINSER Holding AB.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; association captive management; rent-a-captive management.
Staff: 15 total, 8 professionals.
Clients: 83 total captives, 83 active captives. No minimum size client.
Compensation: annual fee, commissions; hourly.
Officers: Nicholas S. Dove, president; Robert J. Rosser, Adrian Lee-Emery, senior vps.

Skandia International Risk Management (Vermont) Inc.

346 Shelburne Road,
Fourth Floor, P.O. Box 64649,
Burlington, Vt. 05406;
802-658-1474; fax: 802-658-0692

Founded: 1986.
Parent: SINSER Holding A.B.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing.
Staff: 5 total, 4 professionals.
Clients: 19 total captives, 16 active captives, 3 inactive captives. 19 directly managed. Captive premium volume, $31,085,104. Capital and surplus managed, $45,214,183. No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees charged for captive management.
Officers: George A. Chaffee, president; Patricia L. Henderson, vp/secretary; David M. Boardman, vp.

Sogecore

6B, Route de Treves,
Senningerberg 2633, Luxembourg;
352-34-68661; fax: 352-34-6840
www.sogecore.com

Founded: 1987.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking for captives; association captive management.
Staff: 19 total, 19 professionals.
Clients: 51 total captives, 51 active captives.
Officers: Jean Thilly, CEO; Gilles Coremans.

Sogecore A.G.

Genferstrasse 23,
Zurich 8027, Switzerland;
41-1-202-0112; fax: 41-1-202-0112

Founded: 1994.

Continued on next page

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Staff: 12 total, 4 professionals.
Clients: 13 total captives, 13 active captives, 13 directly managed.
Compensation: annual fee.
Officers: Tim Byrne, managing director.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, The Albany,
South Esplanade
St. Peter Port, Guernsey,
Channel Islands;
44-1481-720049; fax: 44-1481-710455
williscorroon.com.uk

Founded: 1980.
Parent: Willis Corroon Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; managing underwriting facilities; loss forecasting; underwriting and ratemaking for captives; association captive management.
Staff: 25 total, 19 professionals.
Clients: 42 total captives, Captive premium volume, $500,000,000. Capital and surplus managed, $300,000 000. No minimum size client.
Officers: M.J. Cutts-Watson, managing director; R.W. Falla; D. Wheatley; G. Tansell directors.

Willis Corroon Management (Isle of Man) Ltd.

10 Finch Road,
Douglas, 1M1 2PT, Isle of Man;
44-1624-620274; fax: 44-1624-661586

Foundad: 1982.
Parent: Willis Corroon Group Ltd.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis; loss forecasting; underwriting and ratemaking for captives; rent-a-captive management.
Subcontracted services: reinsurance brokered for captives.
Staff: 22 total, 10 professionals.
Clients: 43 total captives, 40 active captives, 3 inactive captives. 43 directly managed, Captive premium volume, $300,000,000. Capital and surplus managed $1,000,000,000.
Officers: I.M. McDonald, executive chairman; P.J. Foulger, D.G. Prince, directors.

Y

Yankee Captive Management Inc.

P.O. Box 2127, 140 Kennedy Drive,
South Burlington, Vt. 05407-2127;
802-658-1100; fax: 802-658-9419
www.hvm.com

An explanation of the terms used in this directory appears on page 54.

Founded: 1983.
Direct services: captive formation; government reporting; accounting; claims processing; online access to claims data; loss control services.
Subcontracted services: captive feasibility studies; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking for captives; investment management; tax advice; legal advice.
Staff: 6 total, 3 professionals.
Clients: 5 total captives, 5 active captives 5 directly managed. Captive premium volume, $325,000,000.
Compensation: annual fee; hourly.
Officers: L.F. Hackett, president; James F. McNally, executive vp.
Contact: James F. McNally.

Z

Zurich International (Bermuda) Ltd.

Crawford House, 50 Cedar Ave.,
P.O. Box HM 2268
Hamilton, HM JX, Bermuda;
441-292-8155; fax: 441-292-7368

Founded: 1977.
Parent: Zurich Financial Services.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; online access to claims data; claims reserves analysis; loss control services; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives investment management.
Staff: 15 total, 6 professionals.
Clients: 13 total captives, 13 active captives.
Compensation: annual fee.
1998 gross revenue: $300,000. 100% from fees charged for captive management.
Officers: Gunther Gose, president; Giuseppe D' Imperio, CEO; Michael Deevy, COO.

Zurich International Services (Ireland) Ltd.

IFSC House, Custom House Quay,
Dublin 1, Ireland;
353-1-6700988; fax: 353-1-6701108

Founded: 1991.
Parent: Zurich Financial Services.
Direct services: captive feasibility studies; captive formation; government reporting; accounting; computerized accounting; claims processing; claims reserves analysis.
Staff: 2 total, 2 professionals.
Clients: 4 total captives 4 active captives 4 directly managed. Captive premium volume, $23,000,000. Capital and surplus managed, $12,000,000. No minimum size client.
1998 gross revenue: 100% from fees charged for captive management.
Officers: Lawrence Shebin, general manager; Frank Coyle, financial controller. BI



Geographical listing of captive insurer managers

The geographical index lists organizations appearing in the directory along with their subsidiaries and sister companies by the domiciles served. Organizations that subcontract for captive management services also are listed by domicile. Subsidiaries for which a separate directory listing was not provided are identified with an asterisk.

Aland

SINSER (Aland) A.B.

Australia

IRMG Australia &
IRMG New Zealand

Barbados

AIG Insurance Management Services (Barbados) Ltd.
Aon Insurance Managers (Barbados) Ltd.
Atlantic Security (Barbados) Ltd.*
BF&M Management (Barbados) Ltd.*
Bott & Associates (Barbados) Ltd.*
CNA Risk Services (Barbados) Ltd.
Chandler Insurance Management (Barbados) Ltd.*
IAS (Barbados) Ltd.
International Insurance Management Ltd.
International Risk Management (Barbados) Ltd.
J&H Marsh & McLennan (Barbados) Ltd.
Meadowbrook Risk Management Ltd.
Merchant Corporate Management Ltd.
MIMS International (Barbados) Ltd.
Mutual Risk Management (Barbados) Ltd.
The Towner Management Group

Bermuda

AIG Insurance Management Services (Bermuda) Ltd.
Aon Insurance Managers (Bermuda) Ltd.
Atlantic Security Ltd.
BF&M Management Ltd.
Becher & Carlson Management Ltd.
Bott & Associates Ltd.
CFM Insurance Mangers Ltd.*
Caledonian Management Ltd.
CNA Risk Services Ltd.
Cranham Management Ltd.
Arthur J. Gallagher (Bermuda) Ltd.
HSBC Insurance Management-HSBC-Gibbs Harnett & Richardson Ltd.
Hartford Management Ltd.
Independent Management Group Ltd.
Insurance Brokerage & Management Ltd.*
International Advisory Services Ltd.
International Risk Management (Bermuda) Ltd.
J&H Marsh & McLennan (Bermuda) Ltd.
Meadowbrook Risk Management Ltd.
Mutual Risk Captive Group Ltd.
Pinehurst Management Co. Ltd.
Powerscourt Management Ltd.
Quail Street Management Ltd.
Risk Services (Bermuda) Ltd.
SLR Management (Bermuda) Ltd.
Skandia International Risk Management Ltd.
Sogecore Ltd., Bermuda
Symphony Management Ltd.
W.A.Taft & Co. Ltd.
Tate & Lyle Management & Finance Ltd.
Triangle Insurance Management Ltd.
USA Offshore Management Ltd.
Uni-Ter International Management Ltd.
Welbeck Management Ltd.
Willis Corroon Management (Bermuda) Ltd.
Zurich International (Bermuda) Ltd.

British Columbia

Aon Insurance Managers (Vancouver)
J&H Marsh & McLennan Ltd.
Jardine Risk Management Ltd.

Cayman Islands

AIG Insurance Management Services (Cayman) Ltd.
Aon Insurance Managers (Cayman) Ltd.
Britannia Insurance Management (Cayman) Ltd.
Captive Resources Inc.
Chandler Insurance Management Ltd.
Crusader International Management (Cayman) Ltd.
Gallagher Captive Services (Cayman) Ltd.*
International Risk Management (Cayman) Ltd.
J&H Marsh & McLennan Management (Cayman) Ltd.
Midland Bank Trust Corp. (Cayman) Ltd. dba HSBC Insurance
Monkton Insurance Services Ltd.
Mutual Risk Management (Cayman) Ltd.
North Atlantic Insurance Managers Ltd.*
RiskCap Cayman Ltd.*
TRISTAR Risk Management
Willis Corroon Management (Cayman) Ltd.

Colorado

AIG Insurance Management Services (Colorado) Ltd.*
Alternative Insurance Management Services Inc.
J&H Marsh & McLennan Management Inc.
RiskCap

Cyprus

HSBC Insurance Management

Denmark

SINSER (Danmark)

Dublin

AIG Insurance Management Services (Ireland) Ltd.
AIM Associated Insurance Management (Ireland) Limited
Aon Insurance Managers (Dublin) Ltd.
EURCO (Ireland)*
International Risk Management (Dublin) Ltd.
J&H Marsh & McLennan Management (Dublin) Ltd.
Mutual Coyle Hamilton Ltd.*
SINSER (Ireland) Ltd.
Sogecore Ireland Ltd.
Willis Corroon Management (Dublin) Ltd.
Zurich International Services (Ireland) Ltd.

Finland

FINNCAP Oy Finnish Captive & Risk Services Ltd.

France

Sogecore France

Gibraltar

AIG Insurance Management Services (Gibraltar) Ltd.*
European Insurance Management Services Ltd.
SINSER (Gibraltar)*

Guernsey

AIG Insurance Management Services (Guernsey) Ltd.
Aon Insurance Managers (Guernsey) Ltd.
Channel Islands Insurance Consultants Ltd.
HSBC Gibbs (Guernsey) Ltd.
International Risk Management (Guernsey) Ltd.
J&H Marsh & McLennan Management (Guernsey) Ltd.
Lambert Fenchurch Insurance Management (Guernsey)
Optimum Risk Research (International) Ltd.
Sartor Resources Ltd.
SINSER (Guernsey) Ltd.
Willis Corroon Management (Guernsey) Ltd.

Hawaii

Aon Insurance Managers (Hawaii)
Becher & Carlson Risk Management Inc.
50th State Risk Management Services Inc.
Hawaii Captive Insurance Management Inc.
J&H Marsh & McLennan Management Inc.
Risk Services (Hawaii)*

Isle of Man

AIG Insurance Management Services (Isle of Man) Ltd.
Aon Insurance Managers (Isle of Man) Ltd.
Caledonian Management Ltd.
Eaglehurst Insurance Management Ltd.
International Risk Management (Isle of Man) Ltd.
J&H Marsh & McLennan Management (Isle of Man) Ltd.
SINSER (Isle of Man)

Continued on next page

Clients: No minimum size client.
Compensation: annual fee.
1998 gross revenue: 100% from fees

Client: No minimum size client.
Compensation: annual fee, commissions;

Continued on next page

Continued from previous page

Willis Corroon Management (Isle of Man) Ltd.

Jersey

Aon Insurance Managers (Jersey) Ltd.
Sogecore Management Ltd. Jersey

Luxembourg

AIG Insurance Management Services (Luxembourg) S.A.
Aon Insurance Managers (Luxembourg) S.A.
EURCO SA (Luxembourg)*
Gecalux S.A.
J&H Marsh & McLennan Management (Luxembourg) S.A.
SINSER (Europe) S.A.
SINSER (International) S.A.R.L.
SINSER (Luxembourg) S.A.R.L.
Sogecore
Zurich Compagnie D'Assurances*

Maine

Down East Captive Services Inc.

Netherland Antilles

Aon Insurance Managers (Antilles) NV

Netherlands

Aon Insurance Managers (Nederland)

Norway

SINSER (Norge)

Panama

Aon Insurance Managers (Panama) S.A.

Singapore

AIG Insurance Management Services (Singapore) Ltd.*
Aon Insurance Managers (Singapore) Pte., Ltd.
HSBC Gibbs (Asia-Pacific) Ltd*
J&H Marsh & McLenann Management (Singapore) P.L.C. Ltd.
Richard Oliver International Pty. Ltd.
SINSER (Asia) Pte. Ltd.

South Africa

Guardrisk Insurance Co. Ltd.

Sweden

SINSER AB

Switzerland

EURCO AG
Gecalux Switzerland AG*
Nordic Mutual CMO Zurich AG
Sogecore AG

Turks & Caicos Islands

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

Vermont

AIG Insurance Management Services Inc.
ARS Management
Aon Insurance Managers (USA) Inc.
Becher & Carlson Cos.
Berkley Risk Administrators Co. L.L.C.
Commonwealth Risk Management Inc.
Green Mountain Captive Management Co.
IRMG/American Risk Management Corp.
International Insurance Services Inc.
J&H Marsh & McLennan Management Inc.
Mutual Risk Management (Vermont) Ltd.
SB&T Captive Management Company
Skandia International Risk Management (Vermont) Inc.
United Insurance Management Co.
Vermont Insurance Management Inc./ USA Risk Group
Vermont Risk Services Inc.
Willis Corroon Management
Yankee Captive Management Inc.

BI

Directory of alternative risk financing facilities upcoming

Business Insurance will publish its annual Directory of Alternative Risk-Financing Facilities on June 7.

The directory, which also lists rent-a-captives, is published as an editorial service, and there is no charge to be included.

To be listed, companies must provide this information: 1998 written premium volume, assets and capital and surplus. Reinsurance facilities must directly provide coverage to captive insurers or self-insured policyholders or corporations other than insurance companies to be included.

If your company meets the requirements and has not received a questionnaire, please request one immediately by calling Directory Editor Kevin Edison at 312-649-5279.

Copies of the questionnaire also can be printed from the *BI* Web site at www.businessinsurance.com/magazine/directories.html.

Completed questionnaires must be submitted by the extended deadline of May 6.

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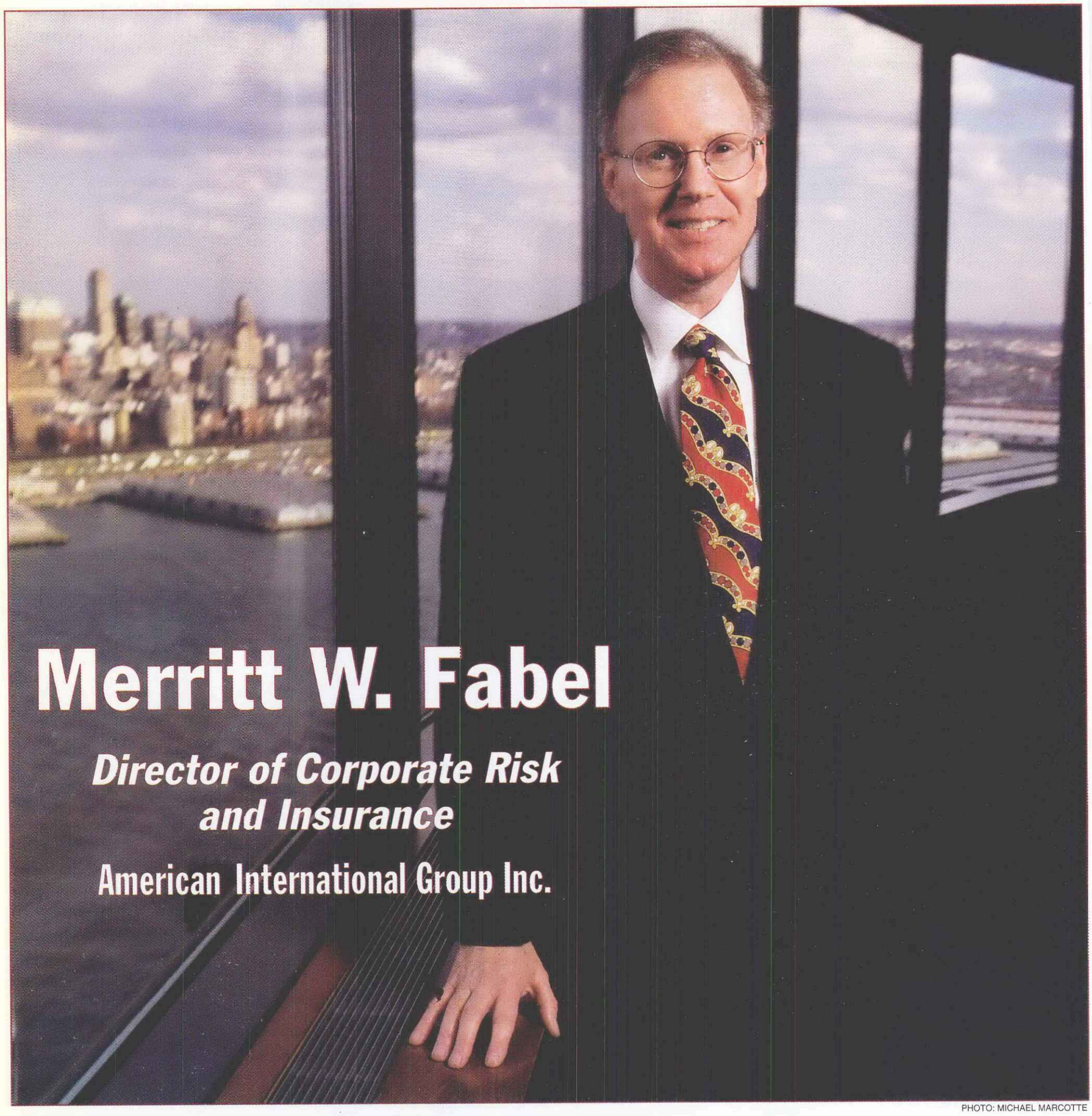


PHOTO: MICHAEL MARCOTTE

By DAVE LENCKUS

Now, don't get rational on me."

Talk to Merritt W. Fabel at any length about risk management, and he probably will note that he likes using that one-liner to rein in anyone who has made an assumption about how well any component of a risk management program is working.

The detail-oriented Mr. Fabel, director of corporate risk and insurance for American International Group Inc. of New York, has several favorite aphorisms that sum up his risk management philosophies.

They all boil down, though, to two precepts: First—take nothing for granted. Second—provide a service, not just additional overhead cost, to "clients," which are the units of the mammoth insurance and financial services organization. The service is providing clients guidance on various risk management issues, which is built on the foundation of understanding what unit management wants and needs.

Mr. Fabel's management, underwriters and brokers concur that his style is an equally important element of the substance he brings to risk management. Whether aiding AIG due diligence teams in assessing acquisition targets and startup companies, cultivating markets to underwrite risks, or pitching risk management ideas to senior brass or unit management, Mr. Fabel is a gentlemanly educator, they say.

Mr. Fabel "epitomizes" what a risk manager should be, asserted Maurice R. Greenberg, chairman and chief executive officer of AIG.

"He understands risk. He understands people. He understands organizations. He knows how to present an issue so you don't spend hours having to listen to boring discussions," Mr. Greenberg said.

"Merritt is an excellent educator of our marketplace, and the best educator wins in this business," summed up Pamela J. Newman, executive vp for Aon Risk Services Inc. of New York, which places AIG's property coverage.

Mr. Fabel's latest victory is the 1999 *Business Insurance* Risk Manager of the Year Award. Ten independent judges selected Mr. Fabel for the 22nd annual award, which he received at a March 22 luncheon

Continued on next page

Continued from previous page
(see story, page 94). Mr. Fabel's selection marks the first time that a risk manager for an organization that writes commercial insurance has won the top award, though others have been named to the Risk Management Honor Roll in past years.

But AIG is much more than an international property/casualty and life insurer. Worldwide, hundreds of financial services operations and myriad other businesses also comprise the 80-year-old AIG organization, which a U.S. Army veteran launched as an insurance agency in Shanghai, China, shortly after World War I *(see story, page 82).*

Award judge Edward Molloy said he was impressed that AIG's risk management program has the flexibility to easily handle the diverse and continually changing risks in AIG's global operations. Mr. Molloy, director of corporate risk management at Aetna Inc., was a member of the 1998 Risk Management Honor Roll.

Succeeding in an environment where Mr. Fabel has to deal, on a daily basis, "with management as risk management-conscious as he is" wowed award judge James E. Green, risk manager for Justin Industries Inc. and a member of the 1998 Honor Roll.

Since being named AIG's first full-time risk manager in January 1987, Mr. Fabel has centralized risk management for the far-flung and decentralized AIG organization.

Some of the most notable accomplishments by Mr. Fabel and his five-member staff are:

• Quickly rebuilding a directors and officers liability insurance program for AIG's executives when the program's single underwriter announced just weeks after Mr. Fabel came on board that it would be slashing limits at the next renewal.

• Helping to "demystify" AIG for underwriters reluctant to view the risks of their competitor as a good business opportunity for them.

• Developing a true cost-of-risk picture for AIG's professional liabilities and a self-insurance fund that covered professional liability losses with more cost efficiency than did AIG's previous coverage.

• Ensuring that all of AIG's oft-changing list of properties are covered by a global excess difference-in-conditions program.

• Keeping on top of casualty loss trends and implementing loss prevention efforts, which at each of the last two renewals have led to 60% reductions in the loss provision funding of the large-deductible and loss-sensitive casualty program.

• Developing formulas to equitably allocate the cost of various risk-financing programs to AIG units.

• Establishing the corporate risk and insurance department as a valuable information resource for AIG due diligence teams that evaluate acquisitions and startups.

"He has gotten control of the issues worldwide, which is not an easy job in an entrepreneurial company like AIG," said Patrick Foley, a 32-year veteran at AIG before retiring in 1995 as a vp and associate general counsel. Until then, Mr. Foley was Mr. Fabel's immediate supervisor.

"He does a good job of analyzing risk and works well with profit center managers," Mr. Foley said. He noted that those managers "are very independent, as long as they make enough profit."

The underpinnings of Mr. Fabel's success at AIG is the business plan that he fashioned for the corporate risk and insurance department.

"He works from a game plan. That I found remarkable," Mr. Foley said.

That also impressed Philip J. Grewar, the 1998 Risk Manager of the Year and a judge in this year's competition. He said Mr. Fabel has "exhibited a strategic approach to problem-solving and program implementation."

Mr. Fabel "established the corporate risk department as a business unit and tried to give people a positive reason to use it," said Mr. Grewar, director of the risk management branch for the Canadian province of British Columbia.

Mr. Fabel accomplished that through a combination of communication, value-added services and relationship building, Mr. Grewar said.

"Autonomous units resent someone coming in from a corporate level with additional cost. It has to come in with value added rather than with additional overhead," Mr. Grewar said.

Before Mr. Fabel's tenure, property/casualty risk management at AIG largely was an insurance-procurement and broker-selection function, recalled former AIG executive Joseph P. De Alessandro, who recruited Mr. Fabel to be AIG's first risk manager.

"The shoemaker has no shoes," observed AIG Senior Vice Chairman Thomas R. Tizzio in his first interview of Mr. Fabel.

Mr. Fabel has reported directly to Mr. Tizzio since Mr. Foley's retirement in 1995, but from the beginning Mr. Tizzio was part of Mr. Fabel's reporting matrix.

"The beauty of this company" is the accessibility to and the timely and decisive responses from top management, Mr. Fabel noted.

Mr. Fabel's planning and research expertise and technical competence landed him the risk management post at AIG, said Mr. De Alessandro, who then was president of several AIG subsidiaries, including National Union Fire Insurance Co. of Pittsburgh, Pa.

Mr. Fabel recalled that, from the outset, Mr. Tizzio wanted a risk management function "that people will use."

Mr. Fabel determined that implementing a centralized risk management function at the huge organization, which was on the cusp of a new era of expansion, would require deft ambassadorial efforts. He also kept in mind a favorite risk management tenet of his first boss out of college: "It's okay to spend more time to identify problems and where you want to go, because the solutions are readily available to you."

Mr. Fabel's first step was determining what AIG operations worldwide expected from his department, including its insurance-purchasing role. He also surveyed the various operations about their concerns about unique exposures, their insurance requirements, whether they preferred to finance risk with non-related companies or through effective self-insurance programs, and what they needed in safety loss control and claims management.

In addition, Mr. Fabel analyzed AIG's various operations, creating work-flow charts and reviewing losses to get a feel for trends.

Mr. Grewar said he was impressed that Mr. Fabel "built relationships very early" within AIG. Mr. Grewar did the same in British Columbia's government to cut through the bureaucracy of a governmental organization in building his risk management program.

"His communication skills seemed to be quite well honed," Mr. Grewar said, noting that AIG's size means that Mr. Fabel has to express his ideas to people of many different cultures.

There is "no excuse for not knowing what is going on" in the company and how it could effect the company's risk, Mr. Fabel asserted.

AIG's employee dining room, for example, is a "great" venue for networking, according to Mr. Fabel. He said the process sometimes can be as easy as approaching company attorneys who have recently returned from business trips and asking them what their latest projects have been.

In his first business plan, written in 1989, Mr. Fabel promoted a risk management department that, as a case study in best practices, would assist AIG managers and enhance their operations.

To that end, the risk management program would identify exposures and transfer risk, where appropriate, to unrelated insurers. Purchasing coverage from AIG companies would not be a prudent risk-financing measure. Buying coverage from AIG companies would amount to self-insuring risk while absorbing commercial insurance transaction costs, including premium taxes.

But with AIG's expansion into financial services, the corporate risk and insurance department would need a budget to purchase insurance that provided greater limits and coverages than had been obtained historically, the business plan asserted.

Mr. Fabel also insisted that the corporate risk and insurance department operate in the same entrepreneurial spirit that imbues AIG. He established the department as a business unit that would assume responsibility for risk management functions that units previously had to manage.

Risk management steadily became part of the fabric of the company, as Mr. Fabel developed the respect of AIG units "in a very low-key way," Aon's Ms. Newman observed. "It's easy to be an ambassador for somebody else. When you're an ambassador for your own function, that's very tough."

Mr. Fabel's success is exemplified by the financing of risk at AIG units overseas. Because of cultural, historical and regulatory issues, those units handle their primary coverage needs locally. But, "more and more, we're being asked to get in with the design and handling of local coverages" as those units grow, Mr. Fabel noted.

Mr. Fabel's diplomacy also reached outside of AIG, another important factor in his success. After building relationships inside of AIG during his first year, he turned his attention to the broker and underwriting communities.

With the major brokers and intermediaries, he stressed that he expected representation that showed the marketplace that AIG is a solid underwriting risk, as well as broker expertise on various exposures and insurer competition for AIG business.

But Mr. Fabel said his greatest challenge was "demystifying" AIG so that underwriters of various risks would regard the company as a business opportunity rather than a market competitor. He stressed AIG's financial soundness, the result-oriented personality of AIG management, and the company's routinely increased dividends.

The approach eventually paid off for AIG. Mr. Fabel said that while the market in the past had written some coverage for AIG, market resistance to underwriting AIG's expanding exposures melted away.

Mr. Fabel also was able to negotiate important improvements in policy terms and conditions.

For example, under many policies, the clock does not begin running on the period in which AIG has to notify its insurers of a claim until the information about the claim reaches the corporate risk and insurance department. That could result in a substantial cost savings for AIG if, for example, a claim were to languish in the office of an overseas unit.

And, after most acquisitions, AIG does not have to pony up additional premiums for many coverages until those coverages' normal renewal dates. The rare exception occurs when a basis on which the acquisition can be measured exceeds a predetermined threshold, such as asset size or employee population.

Overall, the evaluation of exposures, the relationship-building both inside and outside of AIG, and the business plan for the corporate risk and insurance department have combined to "institutionalize programs" for AIG's core risks, Mr. Fabel said.

"You want to make sure they're built on bedrock and function well, so if there's a crisis

See **Fabel** *on next page*

Merritt W. Fabel

Birthplace: Harlem, N.Y.

Age: 56

Title: Director of corporate risk and insurance at American International Group Inc.

Previous experience: Assistant treasurer at Long Island Lighting Co. in Hicksville, N.Y., 1974-1987; director of insurance at the American Management Assn. in New York, 1970-1974; assistant insurance manager at United Parcel Service Inc. of New York, 1966-1970.

Honors/professional affiliations: A 1988 "Wall of Fame" selection by the American Management Assn. in recognition of his work in helping to develop managers; the 1978 Business Achievement Award from the Long Island Assn. of Commerce & Industry in recognition for his insurance education work.

Education: Bachelor of science degree in business administration from Morehead State University in Morehead, Ky., 1965; professional courses at The College of Insurance in New York; Chartered Life Underwriter and Associate in Risk Management designations.

Family: Wife, Marla, a professional liability and fidelity underwriter in the financial institutions department at Chubb Corp.; 22-year-old twin daughters, Robin and Michelle.

Hobbies: Gardening, golf and attending animal shows, art shows and state fairs.



PHOTO: MICHAEL MARCOTTE

Mr. Fabel and his staff. Left to right: Jennie Pizzarelli, assistant director of corporate risk and insurance; Kathleen Keane, associate director; Georgette Fedunie, associate director; Leslie Mathews, underwriting assistant; David Mbuthia, assistant director.

Fabel

Continued from previous page

somewhere else, we're ready to move and give full attention to that situation," he explained.

Identifying risk is "like peeling an onion," he observed. "You never get to the bottom of it. Every time you identify a risk, there's something behind it. But if you identify the principal problems, the peripheral problems will sort themselves out."

Today, "there's no one major exposure that keeps us up more at night than any other one," Mr. Fabel said.

Additionally, that attention to detail cut AIG's insurance costs immediately, according to Mr. Fabel. By consolidating some redundant coverages, correcting wrong codes used by workers comp insurers and developing more accurate insurable values for property risks, he trimmed AIG's insurance budget substantially during his first year, he said. "When you get behind the numbers, most of the time it's too high, not too low," Mr. Fabel said.

Other risk-financing programs were restructured. Mr. Fabel shifted AIG's casualty coverage from individual guaranteed-cost insurance for general liability, workers comp and auto risk to a single large-deductible and loss-sensitive program for those risks. Along with Mr. Fabel's efforts to focus AIG units on loss prevention, the casualty program continues to save AIG money.

Mr. Fabel also scrapped inefficient professional liability insurance in favor of a self-insured program.

Neither the self-insurance or high-deductible risk-financing approach sends a negative message about insurance to AIG's clients, Mr. Greenberg maintained.

"You have to consider AIG's capital base of $30 billion," he said. "It's inefficient to purchase first-dollar coverage on any and all risks. It's what most industrial companies do, and we understand the risk."

Indeed, Mr. Tizzio's instructions from the day that Mr. Fabel took the helm of AIG's risk and insurance department was "to function as though you were risk manager of General Motors," not of an insurance company, Mr. Fabel recalled.

At the same time the new large-deductible and self-insurance programs were implemented, Mr. Fabel devised for participating AIG units equitable cost allocation systems, which were based on those units' risk and loss experience.

"That's a major accomplishment in any company," said Mr. De Alessandro, now executive vp and a director of American European Group, a holding company for several insurance companies.

Reflecting on the list of risk management accomplishments at AIG over the past 12 years, Mr. Fabel stressed that the strategies and techniques he has used have not been "uniquely Merritt Fabel's."

"Many of the things I say and do may sound awfully familiar, because I read whatever is out there and I save whatever I read," he explained. Indeed, he keeps a library of material he pulls from various resources.

But Brian Duperreault, chairman and CEO of ACE Ltd. and a former AIG executive, said there is more to Mr. Fabel's success.

"AIG is a very complicated company and is managed by some very strong people, very demanding," said Mr. Duperreault, who was among the judges who selected Mr. Fabel for the award.

"He created the risk management unit out of nothing. You've got to give him a lot of credit at a company that does it for a living," he said. "The fact that he's been so successful must be based on a real gift for that job." BI

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80 years of growth and diversification: The AIG story

American International Group Inc. has grown from an insurance agency that an entrepreneurial army veteran launched 80 years ago in Shanghai, China, to a diversified global company with hundreds of insurance and financial services and other operations in approximately 130 countries. It has more than 40,000 employees worldwide, 17,000 of whom are U.S.-based.

AIG is among the largest underwriters of commercial and industrial insurance in the United States and is a leading international insurer.

AIG also offers other financial services and owns hotels, shopping centers, a commercial aircraft leasing subsidiary, golf courses and a ski resort. At one time, AIG even was in the furniture-making business.

In1998, AIG's consolidated assets totaled approximately $194 billion, up 18% from a year earlier.

It reported net income of nearly $3.8 billion, a 13% increase from 1997. Net written property/casualty premiums totaled $14.6 billion and life premiums exceeded $10.2 billion.

The following, compiled largely from AIG's booklet "A Short History of AIG" and AIG annual reports, is an overview of some of the major events in AIG's history.

- 1919: U.S. Army veteran Cornelius Vander Starr, at age 27, establishes the Shanghai insurance agency from which AIG sprouted.

- 1923: Mr. Starr obtains exclusive representation of two fire insurers. One, Globe & Rutgers Fire Insurance Co., later would become American Home Assurance Co. The other was National Union Fire Insurance Co. of Pittsburgh, Pa. Decades later, both would become AIG flagship companies.

  Noting the typically long lifespans of the Chinese but unable to find an insurer willing to sell life insurance in that country, Mr. Starr forms Asia Life Insurance Co.

- 1926: Mr. Starr opens a New York agency, American International Underwriters Corp., to place insurance for U.S. risks outside of the United States and Canada. The agency was crucial in keeping Mr. Starr's insurance business alive during World War II, when Asian business plummeted.

- 1933: Edwin A.G. Manton joins AIU. In 1941, at age 32, he is appointed president. He later serves as executive vp of AIG. Now 90, Sir Edwin is a senior adviser and an honorary director at AIG, and he still maintains his New York office.

- 1938: Ernest E. Stempel joins AIU as an assistant manager in New York. He eventually would become president of a Bermuda company that consolidated AIU's overseas operations. Later, he would be named vice chairman of AIG. Today, he is a senior adviser to the company. He also maintains a New York office.

- 1939: Company headquarters are moved to New York.

- 1942: In Shanghai, the late K.K. Tse, then AAU chief operating officer, persuades Japanese Occupation forces charged with liquidating the business to store the company's records. The availability of those files allowed the company to be the first foreign business to resume operations in Shanghai after the war.

- 1946: AIU establishes a foothold in Japan after the U.S. military government there invites the company to insure the property of U.S. Occupation forces. AIU enters the German market in a similar fashion.

- 1948: Mr. Starr takes a major controlling interest in International Assurance Co., a general insurer with a small life unit that he had set up earlier in Shanghai. He adds the word "American" to the company's name and assigns American International Assurance the Southeast Asia territory. Today it is a leading life insurer in Southeast Asia and an AIG flagship company.

Continued on next page

Continued from previous page

•1949: During the Communist takeover of Shanghai, Mr. Tse airlifted AIU's staff and their families and company records to Hong Kong, where the company remained in business.

Mr. Starr sets up American International Underwriters Assn., an unincorporated partnership of the U.S. insurers that AIU represents.

•1950: AIU voluntarily closes all local operations in China.

•1951: Japan lifts its ban on underwriting general insurance; that allows AIU to grow dramatically there. Today, Japan is one of AIU's largest foreign markets.

Asia Life, relatively inactive for a decade, changes its name to American Life Insurance Co. It focuses on the individual and business risks that other insurers had considered unattractive in the Caribbean, the Middle East and Africa. Today, operating in 50 countries, ALICO is the largest U.S.-based international life insurance company. At year-end 1997, it reported $173 billion of life insurance in force.

•1952: As a hedge against a drop in AIU business if an AIUA partner were to withdraw from a foreign market, Mr. Starr purchases U.S.-based Globe & Rutgers and licenses it and its subsidiaries in as many foreign markets as possible.

The Globe & Rutgers acquisition also helps establish American International companies in the U.S. domestic market.

•1954: Globe & Rutgers merges with majority-owned subsidiary American Home Assurance Co. and takes its name.

•1950s: Under the stewardship of John J. Roberts, regional manager for Europe and the Middle East, and Artemis Joukosky, vice chairman, AIU establishes insurance operations in the major insurance markets in Western Europe and the Middle East. By the decade's end, AIU is represented in about 75 countries. Mr. Roberts eventually becomes chairman and chief executive officer for AIU and vice chairman for external affairs at AIG. Today, he is a senior adviser and an honorary director.

•1960: Looking to build accident and health insurance business internationally for American International companies, Mr. Starr recruits Maurice R. Greenberg, a vp with Continental Casualty Co. Mr. Greenberg was an architect of Continental's accident and health insurance business.

•1962: Mr. Starr appoints Mr. Greenberg president of American Home to lead the company in a new direction.

Under Mr. Greenberg, American Home sells its expensive and unwieldy agency business and begins concentrating on underwriting large commercial and industrial risks, selling through brokers to retain risk selection and underwriting control, creating new products and services, and developing reinsurance facilities to write large blocks of major risks. Deductibles are emphasized over first-dollar coverage. An early specialty is difference-in-conditions coverage.

American Home forms American International Life Insurance Co. of New York, which specializes in term and group life insurance.

•1966: American Home purchases a significant block of New Hampshire Insurance Co. to help the AIUA partner fend off an unfriendly takeover.

Southeastern Aviation Underwriters Inc., an Atlanta-based managing general agent, begins representing AIG companies.

•1967: AIRCO forms wholly owned American International Group Inc. in Delaware to hold shares of the domestic companies. Mr. Greenberg is named president and chief executive officer of AIG.

•1968: The controlling interest in National Union, another AIUA partner, is purchased. The company's transformation is modeled after that of American Home.

Before Mr. Starr dies, he declares Mr. Greenberg his successor.

•1969: AIG becomes a publicly traded company on the over-the-counter market. Net property/casualty premiums total $245.5 million and life total $38 million. Net income is $13.4 million, and assets total $606.8 million. A $1,000 investment in AIG common stock in June 1969 would have been worth $219,327.27 on March 31, 1999.

•1970: The modern structure of AIG is established, as AIU and most of its affiliated agencies and companies become AIG subsidiaries.

•1974: AIG forms premium financing company A.I. Credit Corp. to service AIG policyholders.

•1976: AIG breaks $100 million in annual net income.

•1978: AIG completes corporate consolidation by absorbing its parent, AIRCO.

Two years after AIG purchases it, the 70 Pine St. property in Manhattan becomes AIG's official headquarters.

•1979: AIG breaks $200 million in annual net income.

AIU sets up Bermuda-based joint ventures with state-run insurers in Hungary, Poland and Romania.

•Throughout the 1980s: AIG dramatically expands its financial services through acquisitions and new company launches.

Those financial service operations include AIG Capital Corp., which provides cash management and short-term investment services; Ueberseebank A.G., a Swiss-based private bank; AIG Financial Products Corp., which specializes in complex derivative product transactions; AIG Investment Corp., which specializes in asset management, long-term financing and corporate advisory services; AIG Trading Corp., which specializes in hedged trading and market-making activities in foreign exchange, base and precious metals, and energy; and International Lease Finance Corp., which leases and remarkets advanced-technology jets to airlines worldwide.

•1980: AIG and the People's Insurance Co. of China form China America Insurance Co. Ltd. to write reinsurance and property/casualty insurance. The Bermuda-chartered insurer is the first partnership deal that the People's Insurance Co. has inked with any foreign insurer.

•1981: AIG purchases United Guaranty Corp., a holding company for a group of mortgage guarantee insurers.

•1983: AIG purchases MGA Southeastern Aviation Underwriters and renames it AIG Aviation Inc. The agency grows into a major player in the global aviation insurance market.

•1984: AIG lists its shares on the New York Stock Exchange, enhancing liquidity.

•1987: AIG breaks $1 billion in net income and lists its shares on the stock exchange in Tokyo.

•1988: AIG lists its shares on the stock exchange in London.

•1989: Mr. Greenberg is elected chairman and retains his position as CEO.

•1990: AIG lists its stock on the exchange in Paris.

•1991: Thomas R. Tizzio is elected president of AIG.

AIG lists its shares on the stock exchanges in Zurich and Geneva.

•1992: The People's Republic of China grants AIG a license to operate a life and non-life insurance company in Shanghai. It marks the first license the Chinese government has granted a foreign insurer in more than 40 years.

•1993: AIG sponsors two new specialty companies in Bermuda: Starr Excess Liability Insurance Co. Ltd. and International Property Catastrophe Reinsurance Co., holding slightly under 25% equity interests in each.

AIG opens a representative office in Hanoi, the first to be established by any foreign insurance organization.

AIG's annual report celebrates its 75th anniversary, closing 1993 with record revenues of $20.13 billion and record profit of $1.94 billion and shareholders equity of $15.2 billion.

•1994: AIG breaks $2 billion in net income.

AIG invests in 20th Century Industries to further AIG's objective of becoming a more significant factor in U.S. personal lines.

AIG enters Russia, the first major foreign investment in the Russian insurance industry. AIG also re-enters Pakistan, the first foreign company permitted in that country in more than two decades.

•1995: AIG restructures its brokerage group to sharpen its focus on serving the needs of specific industry groups and creates two new divisions to serve global companies and others requiring customized services.

AIG enters Slovakia and returns to South Africa.

IPC completes an initial public offering, turning AIG's original investment of $58 million into a market value of $134 million.

•1997: Evan Greenberg, son of Mr. Greenberg, is named president and chief operating officer of AIG. Mr. Tizzio is named senior vice chairman.

AIG invests $500 million in Unibanco, one the largest banks in the emerging market of Brazil.

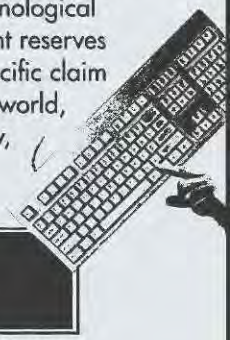
•1998: In an $18 billion deal, AIG and SunAmerica Inc. merge, putting AIG in the retirement savings business.

Mr. Greenberg is named the Insurance Leader of the Year by The College of Insurance, recognizing his leadership at AIG for over 30 years. BI

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Fabel's leadership inspires students, colleagues

By DAVE LENCKUS

Merritt W. Fabel has run the risk management departments at two organizations during his 33-year career, but he has influenced the stewardship of many more.

Several of Mr. Fabel's former employees and risk management students at a New York university credit him with teaching them some valuable lessons that they continue to apply today in the risk management departments they now run at various organizations.

Be a leader, not a follower, in setting risk policy in your organization. Apply general management principles to risk management. Mentor staff. Network.

Those risk management precepts, some that Mr. Fabel conveyed by word and others by deed over the past couple of decades, now can be found in practice in the risk management departments at, for example: Omnicom Group Inc., a holding company for advertising and marketing companies; Physicians' Reciprocal Insurers; and the Catholic Diocese of Rockville Centre, N.Y.

Mr. Fabel said he learned many risk management concepts that he still employs today, as director of risk management and insurance at American International Group Inc., from his supervisor at his first insurance-related job out of college.

The New York-area native, the younger of two sons of a tailor and a homemaker, graduated with a bachelor of science degree in business administration from Morehead State University in Morehead, Ky., in 1965.

Relying on an acquaintance's assurance that United Parcel Service Inc. was "a great place to work," Mr. Fabel interviewed and was hired there.

As did many risk managers at the onset of their livelihoods, though, Mr. Fabel then did not realize the direction his career would take. He was hired on a Friday and was told he would start the following Monday in one of three departments.

His first interview that Monday was with the company's insurance manager. "I didn't know what he was talking about," Mr. Fabel recalled.

Nevertheless, Mr. Fabel jumped at the accounting position that the insurance manager offered at the end of the interview, deciding not to investigate the opportunities available in the other two departments.

Mr. Fabel said his introduction to insurance was in surety bonds and other "things which you can't get into too much trouble with."

He eventually took on tougher challenges as he worked his way up to assistant insurance manager by the time he left UPS in 1970.

Because UPS built and leased many facilities during his four-year tenure, Mr. Fabel developed "an affinity for real estate from an insurance standpoint."

He said he "learned a great deal" from his first boss, the late Wendall Taylor, who held a master's degree in business administration from Harvard University. For example, Mr. Fabel said he learned about the importance of organization—that things have to be done in a logical order.

Perhaps the most important lesson he learned from Mr. Taylor, he said, was that managers should spend as much time as they need identifying and understanding problems before attacking them, because the solutions are "readily available."

"That's one of those things that stick with you, even if you don't think about it at the time," Mr. Fabel observed.

"I certainly would attribute to him my sound basis in risk analysis," he said of Mr. Taylor.

Mr. Fabel also decided during that period that he would stay in risk management. "I liked it. I felt I was lucky that I wound up in something that I liked to do," he said.

From 1970 until 1974, Mr. Fabel designed and promoted seminars and briefing studies on the hot topics of the day in risk and employee benefits management for the American Management Assn. in New York.

"That was incredible," he said of his years with the organization. "I met all the movers and shakers in the business," he said. "I didn't think much about it then, but the people who brought me into AIG I met while I was at the AMA."

But his teaching vocation did not begin until a few years after he left the association. Larry Geneen, now a managing director with broker Marsh Inc. in New York, had been a guest lecturer for the association at Mr. Fabel's behest. When Mr. Geneen later headed the association's insurance program, he invited Mr. Fabel to return as a guest lecturer and mentor.

Mr. Fabel later developed for the organization the course "Principles and Practices of Insurance Buying."

That course eventually evolved into two.

One course, which Mr. Fabel continues to teach for the organization, is "How to Audit Your Insurance Program: Getting Your Money's Worth." The course delves into how to detect and remedy concealed exclusions, unfair conditions and costly coverage gaps.



PHOTO: MICHAEL MARCOTTE

Merritt W. Fabel with his wife Marla, a professional liability and fidelity underwriter with Chubb Corp. The couple lives on Long Island and has 22-year-old twin daughters, Robin and Michelle.

The other course is called "Fundamentals of Risk Management and Insurance for Non-Insurance Executives."

"Thousands of new risk managers, financial, administrative and human resource executives have taken these courses, improving their knowledge and practical ability to impact their organizations through best practices in risk management," Mr. Geneen wrote in supporting Mr. Fabel's nomination for Risk Manager of the Year.

The American Management Assn. honored Mr. Fabel in 1988 for his role in developing managers by adding his name to the organization's Wall of Fame.

In the late 1970s, another former American Management Assn. colleague took over the evening continuing education program at Hofstra University in Hempstead, N.Y., on Long Island and invited Mr. Fabel to teach courses leading to the Associate in Risk Management designation.

Mr. Fabel taught the ARM courses for about 13 years, until 1992.

James McGuire, the director of risk management for New York-based Omnicom Group since 1987, took one or two of those ARM courses while he worked for Mr. Fabel at what was then Long Island Lighting Co. LILCO was an electric utility in Hicksville, N.Y., that Mr. Fabel joined as assistant treasurer with responsibilities for risk management and employee benefits after leaving the American Management Assn.

"One thing he used to stress is that risk management is not rocket science," Mr. McGuire recalled about those courses. Like management in general, risk management involves the basic principles of planning, organizing, directing and controlling. "It's an extension of general management principles," he said. "That sticks with you."

Jeanne Pores took away from Mr. Fabel's ARM classes the philosophy that risk managers have the opportunity to set some policies for their organizations and that "they should run with it."

Mr. Fabel stressed that "it's your responsibility to identify problems and your responsibility to make sure problems get solved and followed up on," said Ms. Pores, a senior vp for hospitals and special programs with Physicians' Reciprocal Insurers in Manhasset, N.Y.

Ms. Pores said she also appreciated the time Mr. Fabel took to answer her questions. She said she asked more questions than did the other students because she was the only student from the health care field.

Mr. Fabel also taught his students to respond to situations logically, Mr. McGuire recalled. "That concept probably has stuck with a lot of people through the years," he said.

Mr. McGuire credits Mr. Fabel for getting him into risk management by giving him an opportunity to move out of his position as an accountant in the utility's employee benefits area.

Mr. Fabel also had Mr. McGuire and other staff members "involved in as much as he could, to get them well educated in risk management," Mr. McGuire recalled. Mr. Fabel got his staff involved in the intricacies of risk management processes, sharing information with them so they could handle those challenges, Mr. McGuire said.

For example, Mr. Fabel gave Mr. McGuire responsibility for negotiating claims coverage issues with the utility's property insurers. "He provided guidance but gave me a pretty free hand. He was a good mentor," Mr. McGuire recalled.

Mr. McGuire noted that he reflected on that time in his career when he recently hired a new staffer. "It's my intent to get him involved in as much as possible," he said.

Bill Chapin, director of risk management for the Catholic Diocese of Rockville Centre, N.Y., also said his pursuit of a risk management career was energized by Mr. Fabel.

"When you're sitting a class and there's a lot of boring stuff you have to memorize, he put in a real-life situation you could latch onto and say, 'Hey, this is interesting,' " Mr. Chapin said. "He interested me in continuing the process of education and move toward risk management to make it a career."

Ms. Pores and Messrs. McGuire and Chapin, all of whom attended Mr. Fabel's classes at Hofstra University during the mid-1980s, keep in contact with Mr. Fabel to discuss professional issues that arise.

Indeed, many of his other students also maintain contact, Ms. Pores said. "It was a very unique environment he nurtured," she said. "It was a very long time ago, and people have moved around. But he's still the link."

Mr. Fabel's guest lectures with the American Management Assn. led to invitations to lecture other business groups, such as the Independent Insurance Agents of New York and a group of school districts.

"That's how I learned to do research on non-related areas"—issues in which he was not involved in his own job, Mr. Fabel said. It also made his audiences more comfortable with him, because "they thought I understood their problems," he said. "So when I got here (at AIG), I felt really comfortable being able to take on the myriad types of risks we had."

Joseph P. De Alessandro, then a high-ranking AIG executive, recommended Mr. Fabel as AIG's first full-time risk manager.

Mr. Fabel lives on Long Island with his wife Marla, a professional liability and fidelity underwriter in the financial institutions department at Chubb Corp. The couple has 22-year-old twin daughters, Robin and Michelle.

One of Mr. Fabel's hobbies is gardening. In recent years, he has given away nine or 10 dozen dahlia plants at the end of each growing season.

Other hobbies include golf and attending animal shows, art shows and state fairs.

His fondness for animal shows, particularly dog shows, developed when his daughters were young. The shows gave his family a reason to spend a day in the country. "It's like going to an art show, except the pictures move," he observed. BI

Fabel overhauls management of E&O risks

By DAVE LENCKUS

When corporate risk management is not given information on a significant portion of the professional liability losses a company shoulders, one might expect some problems.

At American International Group Inc. in the late 1980s, there were a few.

Uncertainty over the actual frequency and severity of its professional liability losses made determining the cost of risk and budgeting for those losses problematical for AIG.

That lack of complete information also hampered its loss prevention efforts.

That has all changed since Merritt W. Fabel, director of corporate risk and insurance, centralized professional liability risk management at AIG.

In addition, last year, for the first time, the professional liability program that he crafted attracted affordable excess coverage for the self-insurance fund. Mr. Fabel's ability to arrange that additional protection for AIG is directly tied to the reliability of the information AIG risk management now has on professional liability losses and AIG's "boringly consistent" loss experience.

Mr. Fabel's efforts to centralize professional liability risk management at AIG is "one of the most important things he did" for the financial services organization, said Patrick Foley, retired vp and associate general counsel of AIG. Before retiring in 1995, Mr. Foley was Mr. Fabel's immediate supervisor.

Mr. Fabel said AIG's professional liability losses—which stem from claims filed by clients of the company's various insurance and non-insurance operations—never have been a serious problem. "But it's a wonderful story how we dealt with it," he said.

In 1987, when Mr. Fabel became AIG's first full-time risk manager, risk management could not readily determine the company's worldwide cost of its professional liability risk.

The problem was that the organization had a fragmented record on the frequency and severity of professional liability claims it faced.

When AIG profit centers faced professional liability claims, claims adjusters at each affected unit typically sought funds from the unit's controller or president to

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finance the defense and settlement of the claim.

Sometimes, a profit center representative later would contact risk management to inquire whether the loss it had paid out was covered by insurance. That would be risk management's first notice of a loss.

But profit centers often failed to report their claims, defense costs or losses to risk management at all.

Mr. Fabel's challenge, keeping in mind all of AIG's diverse operations, was to create:

- A corporatewide claims-reporting system.
- A centralized unit to manage claims.
- A self-insurance financing system that fairly reflected each unit's risks and the frequency and severity of each unit's losses.

Mr. Fabel's plan also included keeping AIG units informed about claim outcomes to raise management's awareness about the causes of claims and claim costs.

The claims-reporting system did not induce an overnight turnabout in claims-reporting practices, but it did trigger an important and permanent change. By around 1990, AIG units were reporting nearly all of their professional liability claims to risk management.

In the meantime, risk management pulled together company-wide professional liability claims data. "It was a long-term project and probably one of the most satisfying, because it got into the details of what caused claims," Mr. Fabel said.

Risk management also financed the new self-insurance fund for paying professional liability claims by charging AIG units quarterly assessments based on insurance underwriting criteria.

The claims data that risk management now has been collecting for more than a decade shows that, with only a couple of aberrations, "from year to year to year our claims are boringly consistent," Mr. Fabel said.

That consistency in frequency and severity is a positive trend, because during that time AIG's professional liability exposure has increased significantly as the company has added functions, services and units.

As a clearer picture of professional liability loss activity developed, Mr. Fabel turned his attention to devising an allocation system for financing a self-insurance fund for the risk.

"It's something that I'm equally proud of," he said, because it is "simple, equitable, objective and understandable."

AIG previously had covered the risk under a high-retention policy that Mr. Fabel said was not cost-efficient.

Mr. Fabel hammered out the allocation formula in about four hours with the assistance of a group of AIG claims-handling and underwriting experts he had pressed into service. He said he has used that problem-solving technique on other projects since then, because it is much more efficient than sending draft proposals around and waiting for responses. "This way, we're all working on the same page at the same time," he explained.

Under the allocation formula, which was implemented around 1991, corporate risk and insurance added an experience modification factor to the general underwriting criteria that the department used to make quarterly adjustments.

Participating AIG units fund 50% of AIG's retention, an amount that still is higher than its anticipated losses.

In addition to the quarterly adjustments, each unit is subject to a $50,000 deductible per loss, with no aggregate.

Overall, each unit ends up paying a majority of its own losses, with the remainder paid from general plan assets, Mr. Fabel said.

If the self-insurance fund runs short, corporate risk and insurance imposes a special assessment on AIG units that participate in the program.

The units with the heaviest losses—more than $200,000 over the past year or so—pay the bulk of the assessment. The assessment typically is spread over several quarters to smooth the financial impact against those units.

Such assessments are infrequent, Mr. Fabel noted.

Indeed, the base quarterly charge has been cut in half for the past three quarters because of excellent loss experience, Mr. Fabel noted. That is directly tied to an overall management effort to drive down claims and manage the defense process, Mr. Fabel said.

> *More than a decade of claims data shows that 'from year to year our claims are boringly consistent.'*
>
> —Merritt W. Fabel

However, at times when loss trends do not look attractive at the end of a fiscal year, risk management will suggest that units budget for a higher amount than the previous year's actual contribution, so the units "don't get caught short," Mr. Fabel said.

"That's very important with smaller companies, where every nickel and dime they have goes to the bottom line," he said.

With accurate claims information in hand, Mr. Fabel began surveying the market to learn whether affordable excess professional liability coverage was available to cover AIG against a catastrophic loss.

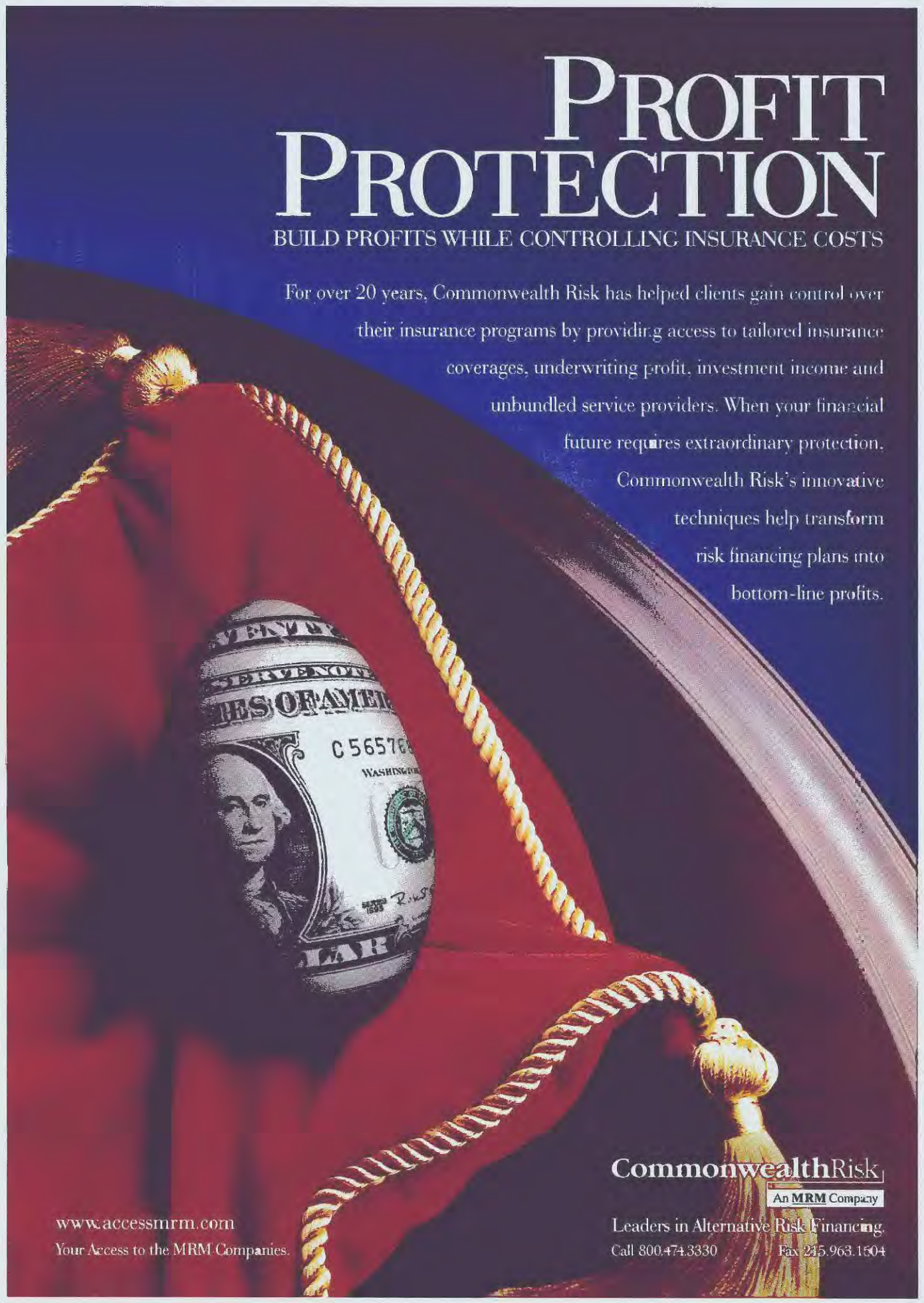
Last year, AIG purchased a one-year excess-of-loss policy at an affordable premium, Mr. Fabel said.

The excess coverage protects AIG against losses that exceed its self-insured retention. As strictly catastrophe protection, the coverage will not respond to any losses that do not pierce AIG's retention, regardless of aggregate losses.

Where applicable, though, the coverage also sits above stand-alone professional liability coverage purchased by some AIG units with risks that are incompatible with AIG's core risks.

But obtaining the excess coverage was not a pressing concern for Mr. Fabel, he said. AIG never has had a professional liability loss that has exceeded its self-insured retention, and until last year Mr.

See **E&O risk** *on next page*



E&O risk

Continued from previous page

Fabel did not find excess coverage that he considered reasonably priced.

Still, catastrophic coverage "at least puts a cap on your (potential) costs," Mr. Fabel said.

AIG's decision to move slowly before purchasing the coverage is typical, observed Thomas F. McKenna, a managing director of the FINPRO division at Marsh Inc., which placed the coverage for AIG.

"That's one of the last coverages purchased because it's so expensive, and major corporations look at this (professional liability exposure) as a business risk up to a point," Mr. McKenna said.

But as the market softened and underwriters became comfortable with AIG's loss experience, Mr. Fabel entertained a few bids for the coverage.

The excess coverage "was the result of long-term discussions with insurers," Mr. Fabel said. "They started showing signs of interest because they saw the same numbers and a real positive story," he said.

Wholesale broker Albert L. Salvatico credited the success of the transaction to Mr. Fabel and his diplomatic skills with AIG management as well as with underwriters.

> *Attracting insurers to AIG's professional liability risks 'required diplomacy and people-handling skills.'*
>
> —Albert L. Salvatico

He said Mr. Fabel faced a dual challenge. One was dispelling a "perceived negative claims reputation" that AIG had among underwriters. The other was an "inherent reluctance at AIG" to release claims-handling information that could be considered proprietary but that also would mollify underwriters' concerns.

More than merely explaining AIG's claims-handling practices to underwriters, Mr. Fabel had to demonstrate they were sound, according to Mr. Salvatico, a principal with ARC Excess & Surplus L.L.C. of Mineola, N.Y. ARC is the wholesale broker on the account.

"It was a very slow process," Mr. Salvatico said.

It involved setting up meetings at which AIG's claims-handling professionals would show potential insurers claims documentation and review internal reserving issues, he said.

"It all required diplomacy and people-handling skills," Mr. Salvatico said about Mr. Fabel. "He's very persistent. He works through it. There's no shortcuts with Merritt." BI

Fabel rebuilds D&O protection

Overcomes hard market, competitive fears

By DAVE LENCKUS

Neither the additional limits nor the broadened coverage that Merritt W. Fabel has negotiated with directors and officers liability insurers for American International Group Inc. defines Mr. Fabel's greatest accomplishment with the program.

"If I succeeded anywhere, it's that I demystified the company" for those D&O insurers, said Mr. Fabel, director of corporate risk and insurance for New York-based AIG.

Wholesale broker Albert L. Salvatico agrees.

D&O insurers during the late 1980s were reluctant to underwrite AIG's D&O risk because of the bruised feelings some were nursing after battling AIG as a competitor, he said.

But, Mr. Fabel "made sure the insurers knew what AIG was about" as a business opportunity for the insurers, said Mr. Salvatico, a principal with ARC Excess & Surplus L.L.C. of Mineola, N.Y. ARC is the wholesale broker on the account. Marsh Inc. is AIG's retail broker for the coverage.

"Putting the emotional issues aside, AIG is a fantastically well-run company," he said. "In a highly competitive market, it's the kind of risk you want to write."

But in early 1987, just weeks after Mr. Fabel assumed the helm of AIG's risk management department as the company's first full-time risk manager, the D&O market was not clamoring to write AIG's coverage.

The D&O market, which was smaller then, was not entirely singling out AIG. The insurance industry's hardest-ever liability market was just ending, and capacity in D&O liability and in other lines still was in short supply.

However, the "anti-AIG feelings complicated the buying process," Mr. Salvatico said.

Former AIG executive Brian Duperreault recalled that he had been aware back then about AIG's less-than-stellar image in the D&O market. "But, what's a better-run company?" asked Mr. Duperreault, now chairman and chief executive officer of ACE Ltd.

AIG's D&O predicament began when Lloyd's of London, the lone underwriter of AIG's D&O risk, lost much of its capacity and informed AIG that the market would be cutting AIG's limits by two-thirds at renewal in May 1987.

That was a major concern for AIG, said Patrick Foley, retired vp and associate general counsel of AIG. Before retiring in 1995, Mr. Foley had been Mr. Fabel's immediate supervisor.

Not only had Lloyd's been AIG's lone underwriter but AIG also was coming off a multiyear program with the market.

"We needed to develop commercial relationships with entities that competed with us in the market-

Continued on next page

Unique exposures covered separately

Some E&O risks not in self-insurance fund

Not all American International Group Inc. units are covered by the company's blanket professional liability self-insurance fund and excess-of-loss insurance.

Units with exposures that are incompatible with those of AIG's core operations purchase stand-alone professional liability coverage.

For example, a portion of SunAmerica Inc.'s operations purchase stand-alone coverage. SunAmerica, which merged with AIG last year, specializes in individual retirement savings and investment products and services.

Ninety percent of SunAmerica's risk of loss is covered by the blanket program. Even though SunAmerica's operations, such as its life insurance sales, are retail businesses, they are compatible enough with AIG's operations to be included in the professional liability program, explained Merritt W. Fabel, director of corporate risk and insurance for AIG.

However, corporate risk and insurance has arranged separate coverage for the registered representatives of SunAmerica broker/dealer entities. Those entities sell retirement annuity products to individuals, a service that is "totally unique to what we had," Mr. Fabel said.

Mr. Fabel also noted that regulatory constraints preclude self-insuring some operations.

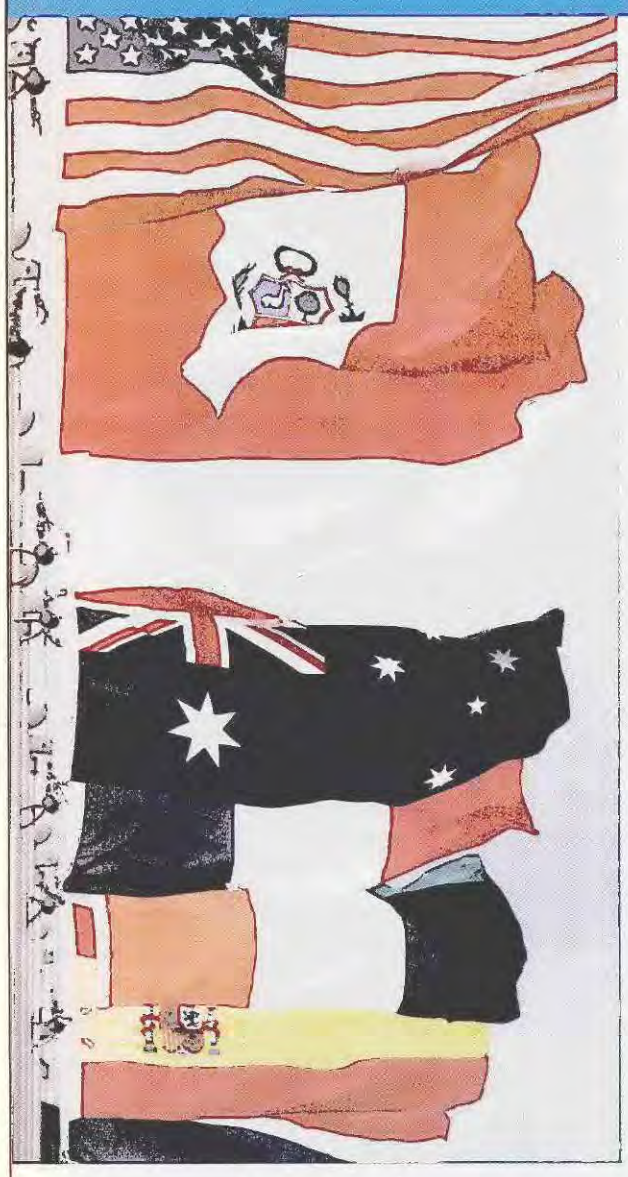
In addition, some units, for budgetary reasons, prefer to transfer the risk. And what management wants is what risk management wants to provide, Mr. Fabel said. "That's the beauty when you have these discussions with management. You get to know what they do for a living and what their business philosophy is."

AIG Consultants Inc. is another AIG subsidiary that purchases stand-alone professional liability coverage, because it provides third-party oversight and management of environmental remediation.

All of AIG's risks are subject to a continual assessment of how their potential losses would affect the self-insured and excess professional liability coverage, Mr. Fabel said.

—By Dave Lenckus

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Continued from previous page

place," Mr. Fabel said.

Further complicating the effort to find secure D&O underwriters was market gossip about AIG, according to Mr. Fabel.

"It was incredible the kinds of stories you would hear about AIG" and the amount of "disinformation" about the insurer that had been spread throughout the marketplace, he said.

Mr. Fabel began rebuilding AIG's D&O coverage by visiting as many underwriters as possible, including some that he expected would not agree to underwrite the risk within the following one to three years. His plan with that "very ambassadorial" market approach was to lay the groundwork for the future.

"We wanted to be in a position where we wouldn't get stuck again," Mr. Fabel said.

He recalled how senior underwriting executives with other insurers queried why their companies would want to insure AIG. Mr. Fabel said one underwriting executive told him: "Why would we want to do business with you? You're the evil empire."

Most of those executives did not realize—until Mr. Fabel pointed it out to them—that their companies already were insuring other AIG risks and that AIG was insuring some of their risks.

Mr. Fabel said he also gave those underwriters "an overwhelming amount of information from an underwriting standpoint." He addressed their concerns and showed them AIG's proxy statement.

"They have to step back from market politics" and evaluate AIG as a business opportunity, he said.

Mr. Fabel said he believed that if he could persuade a few D&O markets to write AIG's coverage, "it would send a signal to others."

Although not without "some nerve-wracking moments," by the May renewals in 1987, Mr. Fabel negotiated somewhat better D&O coverage than the program that AIG had lost. AIG obtained $5 million in additional coverage from a primary market in London and two excess insurers.

By the third year, AIG doubled its limits. Just as important, Mr. Fabel had established additional D&O insurer relationships. That was important not only for AIG's D&O coverage, but also because it gave AIG access to more markets for other coverages, Mr. Fabel said.

Referring to anti-AIG sentiment in the D&O marketplace, Mr. Salvatico observed, "It certainly has diminished."

AIG's D&O limits have tripled since 1987. In addition, AIG now has a multilayer D&O program.

Great American Insurance Co. of Cincinnati became the primary underwriter on the risk in the early 1990s, when the previous lead underwriter announced a "change in underwriting philosophy," Mr. Fabel said.

Mr. Fabel said that while Great American had not been on the risk before, he felt comfortable that the insurer knew AIG well enough to step into the primary underwriting role.

Mr. Fabel had courted Great American over a two- or three-year period before the insurer first underwrote the risk.

As a backstop against primary coverage problems on many risks, Mr. Fabel likes to have relationships already established with insurers that could step into the primary underwriting role.

"When you have a risk that requires extra underwriting attention, you want to introduce them to it so they have a long time to seriously consider it," Mr. Fabel explained.

After the switch to Great American, AIG's D&O premiums dropped 45% during a three-year period.

General market softening significantly contributed to that decline. However, other factors were important as well.

One, Mr. Fabel said, was Great American's keen understanding of AIG's D&O risk.

Another factor was Mr. Fabel's efforts to minimize potential problems with executives serving as outside directors at companies in which AIG has an investment but no direct management control.

Often, those companies' core business differs from AIG's.

Mr. Fabel routinely educates those executives on how to best protect themselves and AIG against potential D&O claims.

If those executives are sitting on boards of AIG investments at AIG's request, AIG's D&O coverage sits excess of the other company's coverage.

Mr. Fabel also asks the outside directors to investigate whether the companies have D&O coverage.

If the companies do not buy coverage, he asks the directors to find out why. He asks the directors to determine whether corporate charters provide for company indemnification of directors and officers, and whether the companies even have the financial ability to do that.

Mr. Fabel said AIG has never had a D&O liability loss involving those outside directors, "but it makes good business sense" to understand the potential risk.

While declining to disclose details about AIG's D&O coverage, includ-

See **D&O** *on next page*

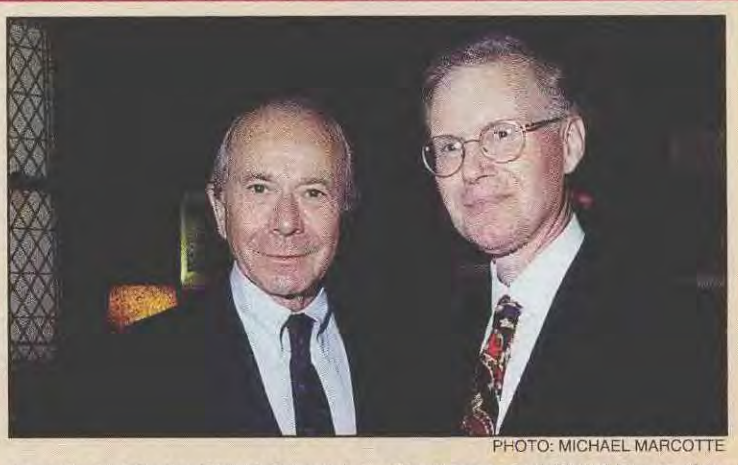
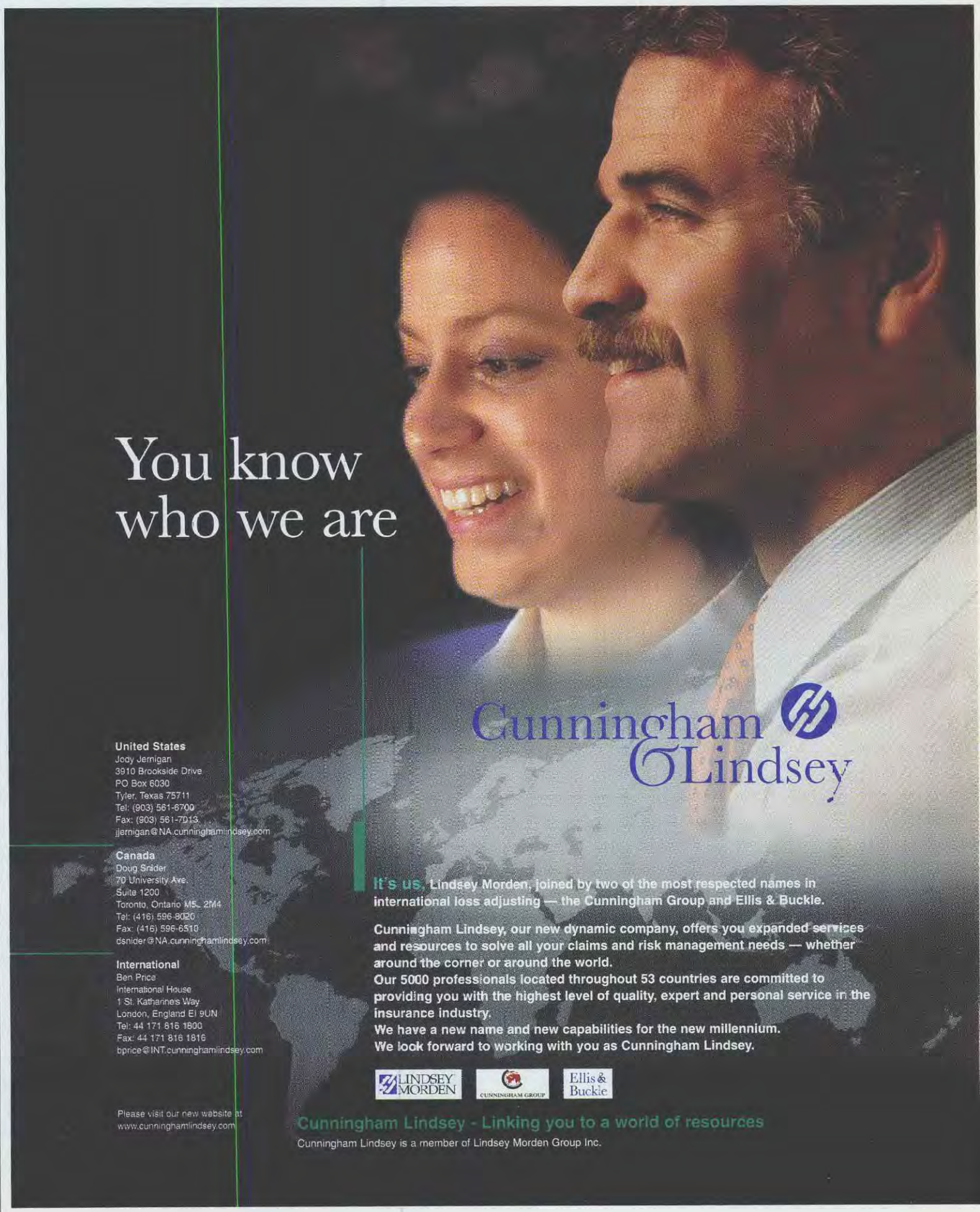


PHOTO: MICHAEL MARCOTTE

American International Group Inc. Chairman and Chief Executive Officer Maurice R. Greenberg, left, congratulates AIG's Merritt W. Fabel, winner of the 1999 Risk Manager of the Year award.



D&O

Continued from previous page

ing whether it provides entity coverage, Mr. Fabel did note that AIG purchases specific Y2K protection in its D&O program.

On the Y2K risk, Mr. Fabel did say: "Suffice it to say the Y2K issue is addressed to everyone's satisfaction. There is no problem under the D&O or the E&O program," he said.

"We seek to negotiate deletions of any exclusionary language arising out of a Y2K incident," Mr. Fabel said. AIG will do what it needs to do to satisfy underwriters that the company is "on top of that" risk, he said.

Another protection for AIG and its executives that Mr. Fabel insisted on from the time he began shoring up the D&O program minimizes AIG's risk of filing a late notice of claim, which could preclude coverage. The period that AIG has to file its notice of a claim begins running when Mr. Fabel's office is informed about the claim, regardless of how long the information may have languished in another office within the organization. That could occur if, for example, an individual in another office receives a summons and does not know where to send it.

Mr. Fabel also negotiated this provision into other coverages that other insurers have written for AIG.

The D&O program covers executives in all AIG operations, regardless of whether the operation is part of AIG's core business.

Mr. Salvatico described the D&O program as "extremely broad."

"Like with any good D&O program, it is good for how AIG operates," he said.

With a company that large, one cannot generalize about how its D&O coverage should be structured, he said.

"I think Merritt has steered a very consistent course on this," Mr. Salvatico said. "He's come up with the very best coverage for AIG, and it can withstand the test of time" both economically and from a coverage standpoint.

Mr. Salvatico said that Mr. Fabel and his brokers accomplished that by ensuring "the insurers knew what AIG was about and understood that AIG is an aggressive risk-taker on acquisitions." The insurers that were selected demonstrated their confidence in AIG's abilities to make acquisitions like the SunAmerica Inc. deal, Mr. Salvatico said.

Mr. Fabel is "a very demanding buyer," Mr. Salvatico observed.

AIG's "excellent" loss history demands that, according to Mr. Fabel.

The company has not had any D&O losses. AIG's stock splits and increasing dividends "are not the type of things that generate D&O claims," he noted.

AIG's acquisitions typically have minimal impact on the company's D&O program, according to Mr. Fabel. Most acquisitions are small, privately held companies, he said. "They just roll into the program."

Of course, some acquisitions, like SunAmerica's, are significant transactions.

In most cases, though, AIG does not have to pay an additional premium during a policy period to cover an acquisition's D&O risks. Typically, AIG pays the additional premium at the next renewal.

There are exceptions when an acquisition exceeds a predetermined size. Mr. Fabel would not disclose details on that policy condition. Any policyholder that arranged a similar deal with its D&O underwriters would have to establish its own "comfort level," he said.

If D&O underwriters ever considered coverage disputes between AIG and policyholders a risk, "they don't do it anymore," Mr. Fabel said.

"I don't think it's an issue, because at the end of the day, AIG's claim-handling practices are similar to a great number of entities' and we just get bad press over it," he said.

The success of the D&O program does not mean Mr. Fabel's work is done with the D&O market. To minimize renewal surprises by underwriters who may have picked up some intelligence—either accurate or false—on AIG activities, Mr. Fabel routinely communicates with AIG's D&O underwriters. He will field their questions on AIG's activities and update them on transactions that he believes may impact AIG's D&O risk. BI

Collaborative style helps manage vast holdings

By DAVE LENCKUS

American International Group Inc.'s property insurance program demonstrates how Merritt W. Fabel "revels in the details" of risk management, according to the company's property broker.

Even with AIG's multitude of operations around the world, Mr. Fabel has fashioned a global property insurance program that addresses the unusual exposures that some AIG properties have.

The multiyear global excess coverage is a layered difference-in-conditions program that five insurers underwrite. It sits excess of the primary coverage that AIG purchases for its domestic operations and that AIG's overseas operations purchase locally (see related story).

Aon Risk Services Inc. of New York places AIG's property insurance.

Among the various challenges that risk managers face, the general perception is that arranging directors and officers liability protection is the most demanding, observed Edward Molloy, a judge in this year's Risk Manager of the Year award competition. However, because of the vastness of AIG's property portfolio, "protecting property is probably a lot of work" for Mr. Fabel, according to Mr. Molloy.

"Earthquake, believe it or not, is one of the more crucial issues for companies like insurance companies that have a large property portfolio that is multinational," said Mr. Molloy, director of corporate risk management for Aetna Inc. and a member of the Risk Management Honor Roll in 1998.

AIG's vast real estate portfolio includes owned, leased and investment property in 130 countries, including Pacific Rim countries with significant earthquake risks.

The diverse portfolio includes office buildings, hotels, shopping centers, golf courses and apartment buildings.

Domestically, AIG's real estate portfolio consists of approximately 30 owned properties and 280 leased properties. Most of the domestic properties that AIG owns can be seen from the top floor of the company's headquarters, at 70 Pine St. in Manhattan. AIG also owns property in Atlanta, Houston and Tampa, Fla., and it is constructing a building in San Juan, Puerto Rico.

Overseas, AIG owns more than 300 properties and leases about 1,500.

The majority of AIG's offices are in state-of-the-art buildings, so they tend to be highly protected risks, according to Mr. Fabel. Most physical damage claims result from burst water pipes and the occasional waste basket fire, he said.

But Mr. Fabel has pressed underwriters to expand the definition of insured property beyond that typically covered for office occupancy risk, which is AIG's dominant risk.

In addition, he has negotiated carve-out coverages that are peculiar to individual operations.

One carve-out, for example, covers the shrubbery and greens on AIG's golf courses. Another carve-out applies only to risks unique to AIG's garden apartments.

"We're constantly tweaking that," Mr. Fabel said. Corporate risk and insurance spends "a lot of time analyzing risk of loss."

Mr. Fabel's attention to such details is unusual, said Matthew Schneider, a senior vp and the AIG property account executive with Aon Risk Services.

"A lot of risk managers prefer everything to be blanket coverage," said Mr. Schneider, referring particularly to chief financial officers who act as their companies' risk managers. "They don't have the time to understand all the intricacies of all their businesses.

"Merritt revels in the details," he said. "Merritt goes into extra detail for all of the subsidiaries."

In addition, he painstakingly reviews policy language, noted Pamela J. Newman, executive vp for Aon Risk Services.

"I don't think there's anybody as persistent as to the requirements of their policy language," she said. "He lived and breathed the form and got the most out of it."

Ms. Newman added, "That's more challenging than people think it is, even in the soft market."

Mr. Fabel's attention to detail also is apparent in his ability to arrange a global excess property program for most of AIG's numerous operations worldwide. Mr. Fabel has to make sure that he is up to date on AIG's expansive, expanding and fluid portfolio of operations and real estate holdings, Ms. Newman said.

AIG began its most recent era of expansion just as Mr. Fabel became risk manager in 1987. AIG's total assets have nearly quintupled since then, noted Gary J. Kleinman, managing director of AIG Global Real Estate Investment Corp. AIG Global Real Estate, a unit of AIG Global Investment Group Inc., which is part of AIG's Financial Services Group, is responsible for all of AIG's real estate investment activities worldwide. Those include lending activities, equity placements, commercial property developments, joint ventures and management of AIG-owned properties.

Keeping track of AIG's properties is "hard to do," Ms. Newman said. It gets done, though, because Mr. Fabel is "proactive. He gets on the phone and establishes a rapport" with individuals in the company on whom he depends to provide that information.

He also elicits management support, Ms. Newman said.

Mr. Fabel explained that his success is linked directly to understanding the various cultures of AIG operations.

"Most of the people I'm dealing with are in real estate or in the finance function," he explained. "You don't want to take up a lot of their time. So you look for information that's readily available but may be in a different format" than will ultimately be used by corporate risk and insurance. For example, valuable information may be contained in surveys or questionnaires that AIG operations have completed for the accounting or tax departments.

Otherwise, Mr. Fabel prepares simple single-page surveys that cover all of the questions he needs to have answered.

But he does not design those surveys for the sole use of corporate risk and insurance. He identifies other departments, such as accounting or auditing, that could use the information and solicits their input on the survey questions. "Now, you have a partner in the process," he said.

When those departments begin calling risk management for input on their surveys, "you've won," Mr. Fabel said.

Mr. Kleinman of AIG Global Real Estate applauded Mr. Fabel's efforts.

"To me, it's tremendously convenient to talk to someone internally and say, 'Here's a problem. How do we solve it?' That's a huge benefit," he said.

Insurance is "such a totally different field from real estate. It's what they're expert in," Mr. Kleinman said. "I'd be lost trying to place coverage for all of those properties on an effective basis."

Without Mr. Fabel's assistance, AIG Global Real Estate "would have to hire experts" outside of the company, he said.

"He has a collaborative style," Aon's Ms. Newman said. "People see him as an agent of solution, not an obstacle—that his input will be helpful to what they're trying to do."

That style also is critical in dealing with underwriters, she said. Arranging broad, multilayered global coverage at a bargain for "a tremendously diverse portfolio that's ever-changing" is challenging, she said. "Keeping underwriters comfortable is critical and very demanding."

"This is the risk manager coming through" by creatively using the insurance marketplace, Mr. Molloy said. BI

Worldwide protection

Global excess property program insures diverse risks

By DAVE LENCKUS

A global insurance program provides high-limit difference-in-conditions coverage of American International Group Inc.'s properties worldwide.

In addition, Merritt W. Fabel, director of corporate risk and insurance, has developed a relationship with his excess underwriters that leaves him and his broker virtually certain that one of the excess insurers would be ready to step into the primary underwriter's role very quickly if ever necessary. That has happened twice before.

Travelers Insurance Co. writes AIG's domestic property coverage. AIG units are subject to a "small deductible," Mr. Fabel said. The deductible is a "budgetable item" that is helpful particularly for AIG's real estate operators, which can factor that cost into the leases of the properties they manage, Mr. Fabel said.

AIG's overseas units purchase property coverage locally. Corporate risk suggests that those units obtain either usual and customary coverage in those locations or the minimum coverage necessary to meet local regulations.

A global excess property program covers many AIG properties above their primary insurance. The excess program comes in above varying attachment points. Five insurers write the layered excess coverage, with some layers written on a quota-share basis.

The global program provides some valuable DIC coverage, Mr. Fabel said.

For example, while the primary property insurance in a Western European country may fully cover earthquake damage, the primary insurer in an Asian nation may place a sublimit on the amount of coverage available for quake damage. In the latter case, the DIC policy would drop down and cover the damage, Mr. Fabel said.

The global policy covers business interruption losses, he said. It also will cover extra expenses, but not loss of profits.

Aon Risk Services Inc. of New York places AIG's property coverage.

Not all AIG properties are covered by this program; some are covered by stand-alone programs.

For example, a stand-alone property program covers AIG's Mount Mansfield ski resort in Stowe, Vt., because the resort's risks are "totally different," Mr. Fabel explained.

Corporate risk and insurance also arranges stand-alone programs for properties that AIG expects to sell within a year or two. That tack could help facilitate a sale of the property, because potential buyers easily can see the property's loss history and insurance cost, Mr. Fabel explained. "And, we're going to have to delete the property from our schedule anyway," he said.

While there is no formal structure in place for another insurer on the program to step into the primary underwriting role, "several underwriters would care to enhance their roles on the account and

See **Property** *on next page*

Looking behind the numbers for comp savings

By DAVE LENCKUS

Even when a company's principal workers compensation risk is as benign as office occupancy, cost containment can be a challenge.

It was a significant issue for American International Group Inc. in January 1987 as Merritt W. Fabel stepped in as the insurance and financial services company's first full-time risk manager, according to Patrick Foley, who was Mr. Fabel's immediate supervisor for several years before retiring as vp and associate general counsel in 1995.

After first examining AIG's workers comp codes, which form the basis for how its risks are priced, Mr. Fabel recognized that AIG was incurring expenses that could be reduced several ways.

Mr. Fabel began by ferreting out mistaken codes. He also identified the company's main workers comp cost drivers, some of which could be minimized with relatively minor changes in employee duties.

Mr. Fabel recognized, though, that cost savings generally would have to come through across-the-board measures that would trim costs a little here and there. He did not have the "benefit" of a limited number of workplaces driving up costs.

Mr. Fabel said his evaluation confirmed that risk managers should "never take for granted the numbers you're given are accurate. Look at what drives those numbers."

Along with those measures, Mr. Fabel modified AIG's workers comp coverage. He combined it and other casualty coverages into a single large-deductible and loss-sensitive casualty program. A controlled master blanket program sits excess of the casualty program and the primary casualty coverage that AIG's overseas operations purchase locally.

At the same time, he introduced a cost allocation system that held AIG units financially responsible for their losses.

By the early 1990s, all of those efforts had resulted in a significant decline in the company's workers comp experience rate modification factor. And in the past two years, Mr. Fabel's success in holding down workers comp losses has been a major reason why the underwriter of AIG's casualty program has slashed AIG's loss funding requirement, according to Mr. Fabel.

As Mr. Fabel began his workers comp evaluation process, he kept in mind a favorite risk management tenet of his first boss out of college: Take as much time as you need to understand a problem, because the solutions are readily available.

Mr. Fabel evaluated AIG's workers comp numbers during his first year with the company to understand how the underwriting criteria "that drove the numbers" were derived.

He repeats the process when AIG acquires companies, most of which have workers comp risks comparable to those that AIG's core businesses face. Mr. Fabel also determines whether the acquired company is big enough to have its own experience modification. If it is, he verifies whether the modifier is the same as AIG's or at a level expected by AIG.

If the acquired company's risks

See **Work comp** *on next page*

Property

Continued from previous page

would more than qualify if the need ever came," said Matthew Schneider, a senior vp and the AIG property account executive at Aon Risk Services.

Excess underwriters twice in the past 10 years have stepped into the primary underwriting role.

The first move was triggered by a surprise announcement from the primary insurer that it was exiting the property insurance business, Mr. Fabel explained.

But AIG's real estate unit already had established a strong relationship with the lead excess insurer. "You never know when you'll need them," Mr. Fabel said, referring to the excess insurer. "You want a strong lead excess who has a thorough knowledge of your risk. You don't want to have to introduce them to your account."

That excess insurer became AIG's primary property underwriter.

Three or four years later, that underwriter failed to meet AIG's financial security requirements, though it had treated AIG "very well," Mr. Fabel said.

Because it had kept Travelers, then the lead excess insurer, closely apprised of AIG's property risk, corporate risk and insurance was quickly and smoothly able to bring Travelers on as the primary underwriter.

Messrs. Fabel and Schneider also developed a premium allocation system. Base rates were applied according to the type of occupancy, such as office buildings, leased office spaces or golf courses. Those were modified by credits and surcharges based on a property's construction, protection systems and exposure to catastrophic perils, such as earthquakes.

The key to structuring a global property program is to make it so attractive that the company's various units could not do better by arranging their coverage independently, according to Mr. Schneider.

Mr. Schneider also noted Mr. Fabel's flexibility and responsiveness with the program. He recalled that a few AIG units a few years ago pointed out they could do better independently. In response, Mr. Fabel modified the allocation system to those units' benefit, he said. BI

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PHOTO: MICHAEL MARCOTTE

Merritt W. Fabel celebrates at the Risk Manager of the Year luncheon with, from left, Alexis Goulard and Lynn Hutley, both of AIG Risk Management, and Kathleen Keane of Mr. Fabel's department.

Work comp

Continued from previous page

are dissimilar from AIG's core risk, Mr. Fabel's department then evaluates that company's workers comp risks and looks for claims trends.

The corporate risk department reviews not only the workers comp codes applied to the acquired company but also the accompanying text in which the insurer explains the codes.

For example, he said, not every executive officer should be classified as such for workers comp purposes. The executive officers code assumes some aspect of running an office and traveling. That generates a more expensive workers comp premium than do codes for other managers.

"So there may be some savings there," Mr. Fabel said of matching codes to responsibilities.

Evaluations of payroll figures used in workers comp pricing also has netted savings for AIG.

For example, depending on the state, overtime costs can be excluded from payroll when determining workers comp insurance rates, Mr. Fabel noted. In addition, there may be a cap on the amount of salaries used in determining rates, he said.

Looking behind the workers comp numbers also has revealed how job functions can be modified to reduce workers comp costs.

The evaluation helped Mr. Fabel uncover that an AIG-owned ski resort was paying high workers comp rates for a group of workers with low-risk duties.

A group of workers at the Mount Mansfield resort in Stowe, Vt., spent 80% to 90% of their time taking tickets at the bottom of ski runs. However, the workers comp code assigned to those workers did not reflect that relatively low-risk job function. Instead, the codes assigned to them were based on the 10% to 20% of the time they spent assisting another group of workers perform much higher-risk duties at the top of the hill.

Mr. Fabel, who approaches AIG units as though he is a consultant, pointed out to the resort's management that the traditional way of scheduling work on the hills was very expensive, because it created the highest workers comp rates for all workers.

Now, the ticket-takers remain at the bottom of the hill, which has led to dramatically lower workers comp rates for that group of workers.

To make up for the loss of available crews at the top of the hill, the work crew at the hilltop now either job-shifts or works overtime. "It saves meaningful money" in workers comp premiums, Mr. Fabel noted.

With AIG being primarily an office occupancy risk, though, the most common injuries are sprains, strains and falls. Some of those injuries can be expensive, however, Mr. Fabel noted.

Injured workers typically are not accident-prone, Mr. Fabel said. Instead, because they are so familiar with their working environment, they tend to lose sight of the risks inherent in an office, he said.

Mr. Fabel retained AIG Consultants Inc., which provides safety, security, loss prevention and risk control services, to assist AIG managers in identifying unsafe activities in the office workplace.

AIG Consultants first issued a checklist on unsafe practices to local managers, who then were trained to identify unsafe workplaces through regular inspections. The managers learned how to document those inspections and then implement the necessary corrective measures.

A poster on workplace safety tips that AIG Claim Services Inc. produced for the corporate risk and insurance department is designed to bring those risks to workers' attention. The poster lists two dozen suggestions, such as keeping aisles and walkways clear, closing file drawers immediately after use and using proper techniques when lifting and moving materials.

In addition, employees are encouraged to view their offices as small businesses, with each one dependent on another to ensure safe working conditions. That training consisted of video instructions with support training, via the AIG intranet, on ergonomics.

Over the past two or three years, the corporate risk and insurance department also has conducted ergonomic audits and surveys. Based on that data, the company has redesigned workstations to reduce the potential of repetitive motion claims.

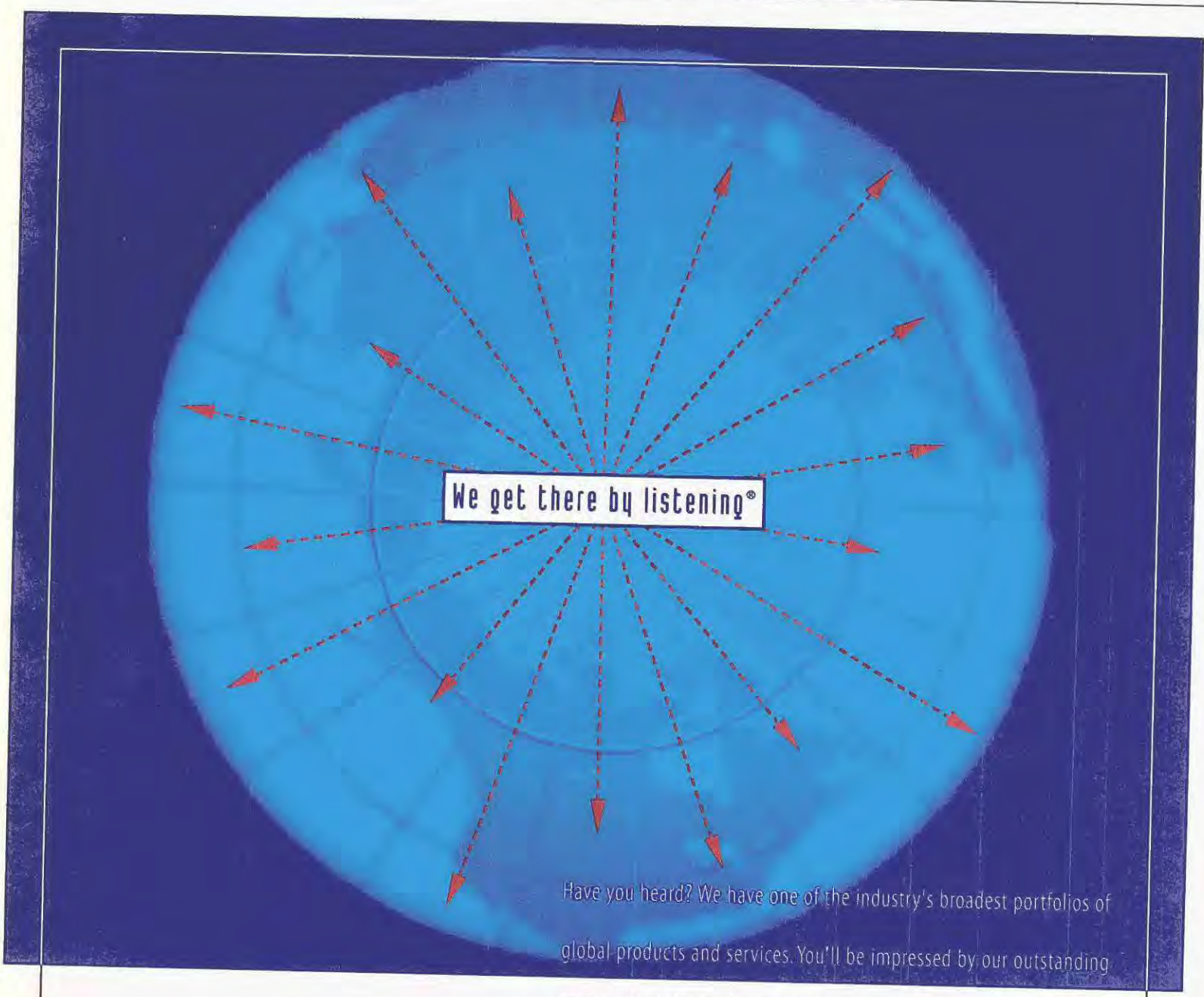
Regarding the evaluations of workers comp codes and related figures, Mr. Fabel observed: "Some people will treat it as an academic exercise. But it forces you to get to the numbers you need to know anyway."

He said the evaluation "doesn't require a lot of time out of your activity, but it can be critical to the process."

With his firm grasp of AIG's workers comp risks and their proper coding, Mr. Fabel in his second and third years at AIG began crafting a more efficient workers comp insurance program.

Previously, AIG's risks generally were covered by guaranteed cost insurance, though AIG self-insured some workers comp risks where applicable. But, by focusing on what drives claims, corporate risk and

Continued on next page



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Work comp

Continued from previous page

insurance also saw how it could drive down premium costs, Mr. Fabel said.

Mr. Fabel changed the coverage for workers comp risks, as well as for general liability and automobile liability risks, from separate guaranteed cost insurance programs to a combined large-deductible and loss-sensitive program.

Unique workers comp exposures posed by AIG units still are covered in stand-alone programs. Those programs could be guaranteed cost or large-deductible programs, depending on the size of the unit and AIG's long-term plans for that unit.

Mr. Fabel contracts with AIG Claims Services for claims-handling services. It provides the reports on frequency and severity that AIG Consultants Inc. uses in providing safety, security, loss prevention and risk control services.

> *'A bad test modifier could be the difference between being awarded a job and not even being allowed to compete for it.'*
>
> — Merritt W. Fabel

Mr. Fabel also developed a workers comp cost allocation system for AIG units, working closely with the management of AIG units most affected by the allocation system.

"The worst thing to do is surprise units with it," he said.

Particularly with those units most affected, Mr. Fabel asked each unit for "meaningful time" on one day to review that unit's numbers and discuss the allocation system in-person.

By discussing the system with the units before implementing it, unit managers understood the problem, saw how the solution was developed and bought into the plan more readily, he said.

"Since most things risk managers do are generally accepted practices, you have to convey that to management that doesn't have a close relationship with you," Mr. Fabel said.

"Generally, they understand they have losses. They may not want to pay for it, but who does?"

The allocation system encouraged AIG units to become more aware of and to comply with safety procedures, according to Mr. Fabel.

As a result, by the early 1990s, the workers comp experience rate modification factor for AIG's office occupancy risk fell by 28%. "And we watch that like a hawk," Mr. Fabel said.

The continued attention to safety is a major reason why the organization's casualty program underwriter has drastically cut AIG's loss funding requirement the past two years, Mr. Fabel indicated. Both this year and last, the underwriter slashed the funding requirement by 60%, he said.

AIG's workers comp success extends beyond its office occupancy risk, as well.

One example is Fischbach Corp., an electrical contractor that AIG purchased in July 1990 and currently is in the process of selling.

Because of Fischbach's business, the contractor's workers comp risk is covered in a stand-alone program.

Fischbach management recognized that workers comp insurance costs were a significant overhead cost and that safety was a major driver of that cost, Mr. Fabel said.

At the request of the corporate risk and insurance department, Fischbach enhanced its safety program. The department asked Fischbach's top management to enhance the company's safety department and have it report directly to the electrical contractor's senior management.

A management/employee group began running the enhanced safety function at the company.

Within about three years, the effort led to a 60% drop in a test workers comp modifier for the company.

That improved Fischbach's profitability as well as its insurance costs.

General contractors that hire subcontractors like Fischbach ask for test modifiers to assess the subcontractor's true workers comp picture. Fischbach's actual modifier is the same as its parent company's.

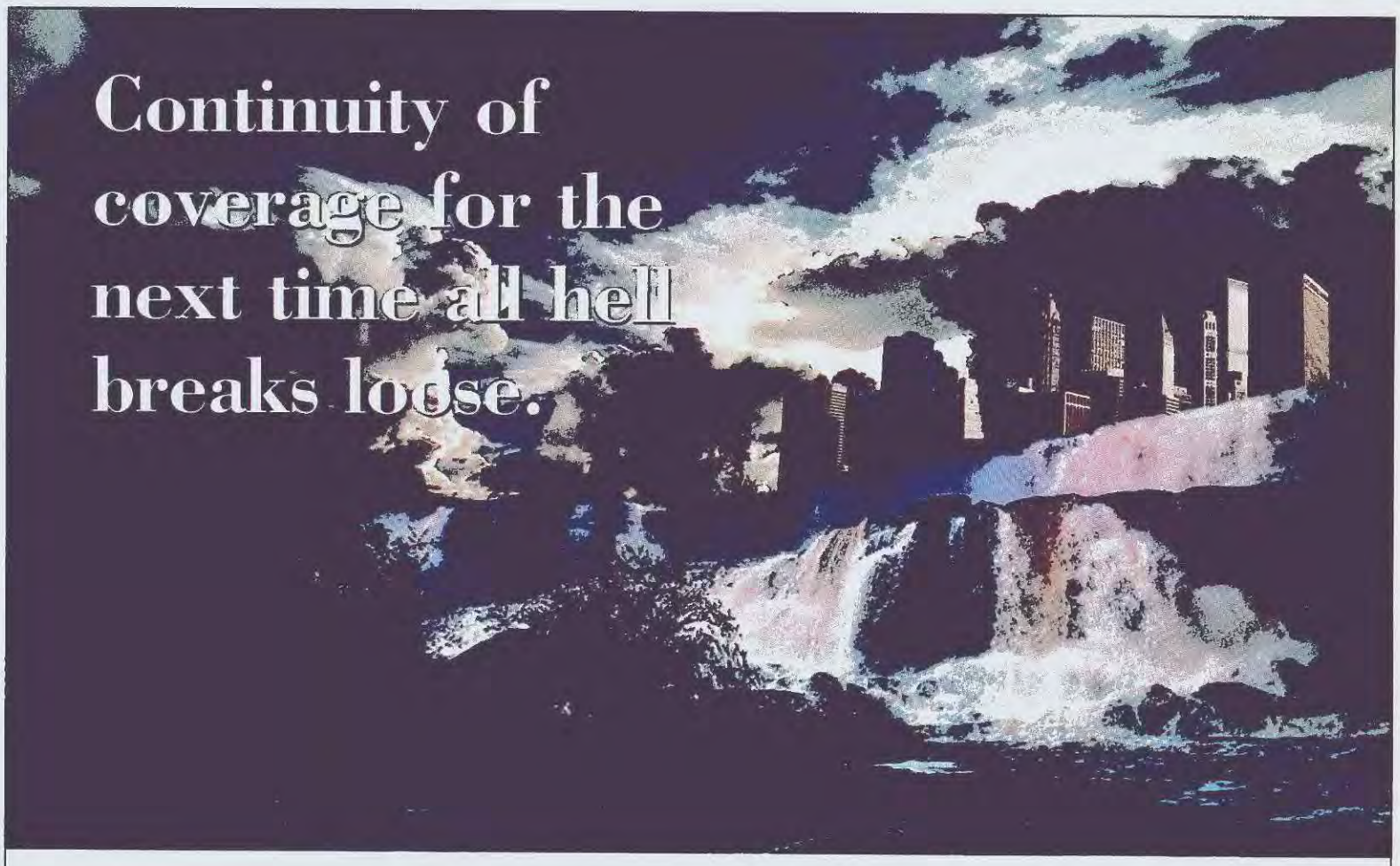
Fischbach's improved workers comp picture improved the company's reputation with general contractors, Mr. Fabel said.

"A bad test modifier could be the difference between being awarded a job and not even being allowed to compete for it," he said. BI



PHOTO: MICHAEL MARCOTTE

At the luncheon honoring Merritt W. Fabel, center, as 1999's Risk Manager of the Year were: Lawrence Geneen, left, a managing director at Marsh Inc., and Norman Barham, vice chairman of Marsh.



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Risk manager steers a U-turn in auto safety

Merritt W. Fabel "was getting a little annoyed" three years ago when he saw how some careless driving was bumping up physical damage losses in American International Group Inc.'s automobile fleet.

But a new auto fleet risk control program, hammered out in short order by a safety committee that AIG's risk manager pulled together, stemmed the losses quickly.

"The ultimate dollars involved here were not substantial, but they were out of line with what we thought they ought to be, which was slim and none," said Mr. Fabel, director of corporate risk and insurance at AIG.

And, if left unchecked, the careless driving problem could have led to third-party losses. That could have caused sweeping problems with AIG's risk-financing program. Third-party losses would be covered by AIG's large-deductible and loss-sensitive casualty program, which covers not only AIG's automobile liability losses, but also its workers compensation and general liability losses.

AIG does not insure for physical damage to autos. AIG charges the cost of repairing damaged autos to the department responsible for the vehicles.

AIG has a fleet of about 1,300 vehicles, which typically are driven by employees in claims-handling functions, Mr. Fabel said.

Through IntelliRisk, an AIG risk management information system that provides real-time access to claims information, corporate risk and insurance department staff discovered that automobile liability loss experience was deteriorating in frequency and severity.

The RMIS system showed that the losses largely were preventable. Employees were "backing into things." And, many accidents occurred during unapproved personal use of the cars.

> *'The ultimate dollars involved were not substantial, but they were out of line...'*
>
> — Merritt W. Fabel

In an effort to reduce losses, Mr. Fabel suggested to the senior management responsible for operations and fleet administration that a safety committee be formed and empowered to quickly devise and implement a plan to stem losses. Committee members consisted of representatives of the fleet administration; the corporate risk, human resources and legal departments; and loss prevention engineering subsidiary AIG Consultants Inc.

Mr. Fabel wanted to address the problem quickly, avoiding the delays that typically occur with committees that circulate multiple drafts of suggested plans and hold numerous follow-up meetings. To accomplish this, Mr. Fabel suggested that committee members hold limited but intense information-sharing meetings to devise a solution.

The committee surveyed supervisors and drivers for their knowledge of how to safely operate vehicles and to report accidents.

The survey results showed that AIG needed to continually reinforce driver safety and company policy and procedures. Indeed, the survey showed that employees typically signed off on AIG's policy and procedures form without reading it.

The committee took several measures to reduce losses:

- Standards were updated for conducting pre-employment and annual checks of motor vehicle departments to verify that drivers' licenses are valid and to check for moving violations. AIG will revoke an employee's access to fleet autos if the employee has been cited for a number of moving violations, even if those violations have not led to a license revocation. AIG's threshold for revoking an employee's access to fleet autos varies according to each state's system for revoking licenses.
- A standardized internal driver training program was implemented.
- The section in AIG's personnel manual regarding the personal use of fleet autos was revised to more clearly state company rules.
- Standardized accident reporting investigation procedures were implemented.
- A policy was implemented for charging up to $300 of physical damage losses to those drivers who were not using fleet vehicles according to company procedures when their accidents occurred.

—By Dave Lenckus



PHOTO: MICHAEL MARCOTTE

AIG's Senior Vice Chairman Thomas R. Tizzio, right, observed that 'the shoemaker has no shoes' in 1987, when Merritt W. Fabel was hired as AIG's first full-time risk manager.

Fabel earns role in M&A reviews

Risk management a resource in due diligence

By DAVE LENCKUS

Risk managers can play key roles in mergers, acquisitions and startups, but they should not wait for an invitation from their corporate due diligence teams, according to Merritt W. Fabel.

"While we, as risk managers, are quick to say risk management should be part of the acquisition team—and I agree—it has to be reinforced," he said.

Due diligence team members typically are accountants, lawyers, information technology experts and administrators without risk management expertise, he observed. "You can't always wait for them to come to you" with questions about potential risks, he said. "They don't always know the questions to ask."

When Mr. Fabel joined American International Group Inc. in 1987 as AIG's first full-time director of corporate risk and insurance, the company was about to step up its acquisitions and start-up activities. When AIG launched those activities, Mr. Fabel presented company due diligence teams with what amounted to bids for consulting contracts that identified the services corporate risk could provide.

Mr. Fabel's foresight provided the company's due diligence teams with a clearer picture of the risks that AIG would be acquiring.

The significance of his efforts quickly and dramatically increased for the company over the past 12 years, as acquisitions became "such an art form" at AIG, observed Pamela J. Newman, executive vp for Aon Risk Services Inc. of New York. Aon places AIG's property coverage.

"I never know what business we're in," Mr. Fabel said.

His efforts also have given risk management a head start on addressing loss control issues at new companies.

The risk manager outlined his "acquisition protocols" in the business plan he developed for the

Continued on next page

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Continued from previous page

corporate risk and insurance department during his first year at AIG.

For the most part, the protocols are equally useful for startups and acquisitions, because the protocols aid management in assessing the risks underlying an entity's day-to-day functions, Mr. Fabel explained.

The protocols recommend that corporate risk assists the AIG personnel responsible for considering acquisitions by:

- Analyzing and identifying which of the new entity's risks are compatible with AIG's dominant office occupancy risk.
- Evaluating the new entity's risk-financing programs and whether AIG's existing programs would be appropriate to cover the new entity's risks.
- Analyzing the new entity's risk control and safety programs.

> *'Risk management has to put a lot out there and leave it to them to deal with.'*
>
> —Merritt W. Fabel

"None of it's a mystery, and it shouldn't be," Mr. Fabel said of the protocols. "I don't consider them to be uniquely Merritt Fabel's. They're not." And, he said, they're always evolving.

"The big thing risk managers can do is shed light where light needs to be shed. While risk managers may not be part of the ultimate decision group, they're clearly part of the discussion group," Mr. Fabel asserted.

"Most people on due diligence teams are focused on other issues, such as the integration of manufacturing and back-office issues. So they're not focused on workers comp and compatibility" of risks between the new and the existing entities for risk-financing purposes, he observed.

Risk managers have to step in and give the due diligence teams a reason to want to involve risk management, he said. "Let them see the benefit," Mr. Fabel advised.

"Management needs to be aware of budget issues to deal with the problems" related to risk management that could escape the due diligence team's attention without assistance from risk management, he said.

Some issues that risk managers flag also could aid senior management later in negotiations for the entity, he added.

Mr. Fabel observed that "risk management has to put a lot out there and leave it to them to deal with it."

Initially, Mr. Fabel presents a due diligence team with a proposal that suggests that risk management analyze the deal in two phases.

The first phase is a cursory risk management accounting review that focuses on premium allocation and the cost of adding the compatible risk of the new entity to AIG's existing risk-financing programs.

In the second phase, risk management thoroughly analyzes the components of all the new entity's cost factors to determine how to best integrate its risks with AIG's risk-financing programs.

Risk management follows up the proposal with an engagement letter that details the expectations that management should have of risk management. The letter includes a bullet list of goals.

"It goes a long way toward putting people at ease," Mr. Fabel explained. With the engagement letter, everyone involved throughout the process should be able to understand why risk management asks for various pieces of information crucial to completing its analysis, he said. That stems communication problems, Mr. Fabel said.

The engagement letter also is a yardstick to measure risk management's work, Mr. Fabel observed.

Risk management generally has the first phase of the evaluation completed when it approaches the due diligence team for the first time. This phase, which Mr. Fabel said establishes a discussion point with management, is a preliminary number-crunching exercise that takes just a few hours to complete.

Using revenue, census and payroll figures from the entity being acquired, risk management calculates the effect of moving that entity's "generic" risks into AIG's coverage programs. For this part of the review, risk management focuses on its "generic" property, general liability, workers compensation and automobile coverages.

See **M&As** *on next page*



PHOTO: MICHAEL MARCOTTE

From left to right, Matthew Schneider, senior vp for Aon Risk Services Inc. of New York, Marla and Merritt Fabel and Pamela Newman, executive vp for Aon Risk Services Inc. of New York.



M&As

Continued from previous page

This part of the review does not evaluate terms, conditions or comparable limits of liability. It also does not include an analysis of an entity's "unique" risks, or risks that American International Group does not have with its core business. Such risks would include environmental or unique professional liability.

Referring to AIG's coverage for the generic risks, Mr. Fabel said, "We like to think of our programs as broader, which leads to phase two."

The second phase is a far more detailed analysis of how compatible all of the new company's risks are with AIG's risks. Risk management performs an in-depth review of the new entity's claims runs, coverage and loss control reports.

The first step is reviewing the claims history. "We like to do that before referring to policies, so as not to prejudice ourselves about the risks that are there," Mr. Fabel explained.

Risk management will seek out at the new entity an individual with a thorough understanding of the operation and its risks to answer a 20- to 30-page questionnaire on the four key risks. The title of the person interviewed varies from company to company, Mr. Fabel pointed out.

The questions are based on underwriters' questions that AIG has seen, as well as on underwriting guides for the industry in which the entity operates.

"We want to formulate as many questions as we can in our mind. Very often it creates questions on both sides of the table," Mr. Fabel said. "I think that's what we're all working for. If that's a risk in your operation, let's look at how it's dealt with."

"You ask 'what if' questions, because the solutions to these things are readily available. It allows you to step back and see the forest from the individual trees," Mr. Fabel said.

AIG's corporate risk department also reviews the new company's principal leases and contractual arrangements to determine the responsibilities AIG is acquiring.

After gaining a clear understanding of the new entity's risks, the risk management department evaluates the new entity's existing coverage.

Risk management looks for gaps or overlaps in coverage compared with AIG's programs. If the new company has, for example, a large book of open self-insured claims, AIG risk management obtains an actuarial update of that figure and calculates the cost, beyond insurance recoveries, of closing out those claims.

The due diligence team may figure that cost into the overall cost of the acquisition.

Beyond the coverage the new entity has, AIG risk management evaluates how the company's insurers, brokers and other risk management service providers support the company.

> *You don't want to make any snap decisions' about axing an acquisition target's service provider.*
>
> — Merritt W. Fabel

A broker or one of its offices may have a valuable technical expertise. "It may be a good participant in the process," Mr. Fabel said. "You don't want to make snap decisions" about axing a service provider simply because it does not already participate in one's core risk management programs. "That may be something you want to keep."

To unearth the driving forces behind losses, AIG risk management evaluates the new company's risk control and safety programs. Mr. Fabel's department also measures the company's loss experience and trends against those of its industry.

"I'm looking for any comparisons I can get," he said. That evaluation would help support AIG corporate risk if it later recommends boosting the budget for the new company's risk control programs.

As he does with many documents he prepares, Mr. Fabel prepares self-explanatory reports on this phase of the project. "I always assume the reader doesn't know what we do," he explained. "We must help key staff understand property, liability, loss of income and risk to personnel."

AIG corporate risk staff conducts nearly all of the analysis performed during the project. The staff will use some services that other AIG units offer, such as actuarial work.

The time to complete this phase of the project will depend on the time frame allowed and the size of the acquisition, according to Mr. Fabel. Often, though, his five-member staff can complete the evaluation in less than 40 staff hours and without visiting the new site.

However, there can be exceptions to that guideline, Mr. Fabel said.

For example, corporate risk's evaluation of AIG's acquisition of SunAmerica Inc. was "substantially greater" and required immense micro-assessment, he said. "You would want that," because of SunAmerica's size, he explained.

No delays in closing deals have resulted from the AIG corporate risk department's evaluations, according to Mr. Fabel. "We always keep an eye on the closing date or what the closing date might be," he said.

Despite risk management problems uncovered with a new company, Mr. Fabel has not recommended backing away from any deal. The corporate risk department's goal is "being a problem solver," which does not entail advising AIG to walk away from deals it finds attractive for other reasons, Mr. Fabel explained.

Mr. Fabel said he could not say with any certainty how the corporate risk department's evaluations have affected any deals. "If the problem is big enough, one would think it has to" affect the deal, he said. But that depends on how big the problem is in relation to the size of the deal.

"Risk managers can't expect to always be close to the ultimate decision," he said. But they can be advisers. "That's where you bring that value added."

Referring to management and due diligence teams, Mr. Fabel observed: "When they're asking you questions or telling you things they think you ought to know, you've won." BI









Risk Manager of the Year Merritt W. Fabel reflects on his career during a luncheon at which he received his award. Among those congratulating him were, clockwise from right, broker Pamela J. Newman of Aon Risk Services of New York; former staffer James M. Obregon of Westport Reinsurance Management; and former student Jeanne Pores of Physicians' Reciprocal Insurers.

PHOTOS: MICHAEL MARCOTTE

Fabel credits mentors, friends

By DAVE LENCKUS

For those of you who know me, this is one of the few times I've been at a loss for words," Merritt W. Fabel said in accepting the 1999 *Business Insurance* Risk Manager of the Year Award.

But Mr. Fabel, who has taught risk management courses for a couple of decades and is a frequent speaker on the topic, quickly recovered and cited several individuals who he said have been important to his career.

Mr. Fabel, director of corporate risk and insurance at American International Group Inc., accepted the 22nd annual award at a luncheon with about 60 of his colleagues, peers, business associates and family in attendance on March 22 in New York. *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre, Editor Paul D. Winston and Senior Editor Dave Lenckus presented the award, signified by a crystal obelisk.

Ten independent judges selected Mr. Fabel for this year's honor. The judges included the 1998 Risk Manager of the Year and three members of the 1998 Risk Management Honor Roll, as well as representatives of insurers, brokers, risk management consultants and educators.

Holding the award, AIG's first full-time risk manager mused about his risk management career and how things might have been different. He noted that at the outset of his career in the mid-1960s, when the risk management discipline was in its infancy, "everybody was getting into plastics."

Mr. Fabel, a business administration major, was drawn into risk management by the enthusiastic insurance manager while at his first job out of college (see story, page 84).

Among those whom Mr. Fabel thanked were two peers who began their risk management careers as students of his at Hofstra University on New York's Long Island, where he taught risk management courses.

Bill Chapin, director of risk management for the Catholic Diocese of Rockville Centre, N.Y., and Jeanne Pores, a senior vp for hospitals and special programs with Physicians' Reciprocal Insurers in Manhasset, N.Y., are "the reason I'm standing here," Mr. Fabel said. He related how, during a golf outing, they pressed him into agreeing to help them prepare his nomination for the award.

"To my staff, thank you," he continued. "We always think of ourselves as a business and as a partnership."

Mr. Fabel then took a friendly jab at broker Lawrence I. Geneen. Mr. Geneen, a managing director with Marsh Inc., a subsidiary of Marsh & McLennan Cos. Inc., first drew Mr. Fabel into teaching by inviting Mr. Fabel to serve as guest lecturer at the American Management Assn. in the late 1970s.

Usually, "we're not allowed in the same room at the same time," Mr. Fabel said. "No matter what I say, as a broker, he has something more to say."

One current and two former AIG officials drew special thanks from Mr. Fabel.

Thomas R. Tizzio, senior vice chairman of AIG, and Patrick

See **Award** *on next page*

Award

Continued from previous page

Foley, who retired from AIG in 1995 as a vp and associate general counsel, "gave me immense challenges and encouragement," Mr. Fabel said.

Until he retired, Mr. Foley was Mr. Fabel's immediate supervisor.

> *'I could hardly think of one who is as professional and and, at the same time, as much a true gentleman.'*
>
> — Walter S. Thomenson Jr.

Mr. Fabel has reported directly to Mr. Tizzio since that time, though Mr. Tizzio has always been a part of the reporting matrix for Mr. Fabel.

To Joseph P. De Alessandro, the former AIG executive who sought out Mr. Fabel to head AIG's corporate risk and insurance department, Mr. Fabel said, "What can I say? Thank you for coming. Thank you for being my mentor."

Mr. Fabel noted that Mr. De Alessandro, now an executive vp and a director of American European Group, a holding company for several insurance companies, continues that mentoring to this day.

"Two weeks ago, he said, 'Now, don't forget to get a haircut,' " Mr. Fabel recounted. "He just doesn't let go."

After Mr. Fabel's acceptance, several of his guests offered their congratulations.

"Can you imagine being a risk manager at AIG?" Mr. Tizzio asked. "It's not easy."

He applauded Mr. Fabel for bringing a businesslike approach to risk management that fits the mold of the profit center manager at AIG.

"It's a characteristic we treasure," said Mr. Tizzio, adding that Mr. Fabel has a "great mind."

Mr. Geneen noted that he got his "first break in life" when Mr. Fabel asked him to serve as a guest lecturer at the American Management Assn. That was years before Mr. Geneen approached Mr. Fabel with a similar opportunity.

"He's one of the kindest people I know," Mr. Geneen said.

Linda H. Lamel, executive director of the Risk & Insurance Management Society Inc. and a former president of The College of Insurance, said: "I've always had a high regard for him because of his interest in education."

Ms. Lamel also praised Mr. Fabel for "always giving when people come to him for advice."

Ms. Pores, representing Mr. Fabel's "student body," thanked him "for always being there for us."

Pamela J. Newman, executive vp for Aon Risk Services Inc. of New York, which places AIG's property coverage, called her assignment to write the nominating statement one of the "easiest in the world." Referring to Mr. Fabel, she explained that was "because of the material" she has to work with.

Thomas F. McKenna, a managing director and a client executive with Marsh Inc.'s FINPRO financial and professional services division, called Mr. Fabel "a class act," because he motivates people and believes in partnerships. Marsh is involved in placing AIG's directors and officers liability and professional liability coverages.

Mr. McKenna read a note from Walter S. Thomenson Jr., chairman of global client development at Marsh and a friend of Mr. Fabel's for nearly 30 years. Mr. Thomenson was unable to attend the luncheon due to a last-minute business conflict.

In his note to Mr. Fabel, Mr. Thomenson said, "On my end of the business, I have dealt with every size and shape of risk manager, and I could hardly think of one who is as professional and, at the same time, as much a true gentleman as you are."

Referring to the former slugging New York Yankee center fielder who, until his recent death, was known as the greatest living ballplayer, Mr. Thomenson asserted, "In my opinion, you are truly 'the Joe DiMaggio' of your profession." BI

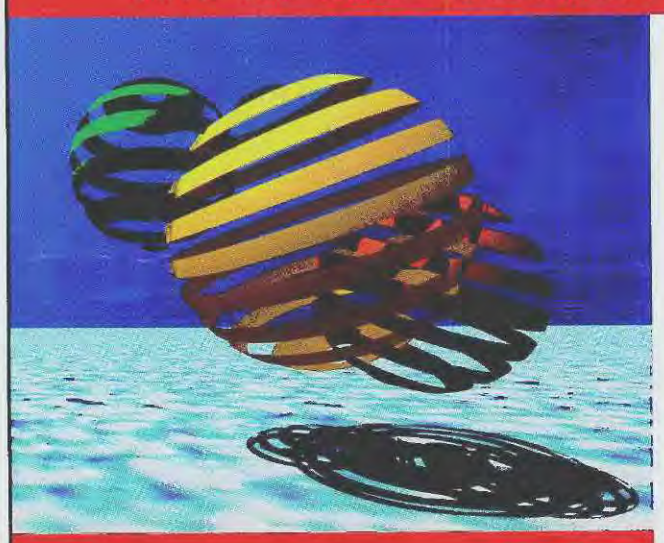




AIG Honorary Director Sir Edwin A.G. Manton, left, was among those attending the luncheon honoring Merritt W. Fabel. Below, Mr. Fabel accepts the Risk Manager of the Year Award. From left are: Martin J. Ross III, *Business Insurance* associate publisher/advertising director, Mr. Fabel, Editor Paul Winston, Publisher/Editorial Director Kathryn J. McIntyre and Senior Editor Dave Lenckus.

PHOTOS: MICHAEL MARCOTTE

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Keeping pace as the sport races forward



By RODD ZOLKOS

As risk manager for International Speedway Corp./ NASCAR, David A. Holcombe describes the risks he deals with as "very similar to the exposures that you would have at any mass gathering stadium."

It's the risks to fans: getting them into the race track safely, making sure they enjoy the race without injury and then getting them safely off the property.

"We obviously have one exception," Mr. Holcombe concedes. "And that is we have 43 cars that weigh 3,400 pounds going 200 miles an hour in front of them."

Truth be told, there are a few other differences as well. One is that those colorful cars roaring around speedways nose to tail have become one of the hottest shows in sports, and certainly the fastest growing, multiplying the risks Mr. Holcombe manages.

In his job, Mr. Holcombe actually wears two hats, serving as risk manager for two closely related companies: International Speedway Corp. and NASCAR, the National Assn. for Stock Car Auto Racing Inc.

ISC is a publicly traded Daytona Beach, Fla.-based company created in 1958 to build and operate the Daytona International Speedway.

It now counts among its holdings race tracks across the country, the Americrown Services Corp. concession service that feeds race fans, an interactive stock car racing museum and the Motor Sports Network radio network that offers syndicated broadcasts of NASCAR races.

Sister company NASCAR is the privately owned sanctioning body formed in 1947 to establish the rules and regulations governing races at member tracks.

Stock car racing's soaring popularity in recent years has not only swelled the size of the two organizations but also has increased the risk management challenges Mr. Holcombe confronts.

As the crowds grow at events and the number of events increases to accommodate burgeoning interest, it's becoming more difficult for Mr. Holcombe to personally examine race sites with an eye toward preventing injuries to race fans and ISC/NASCAR employees and to handling claims from those that do occur.

With new tracks under construction to meet the demand for more races, Mr. Holcombe spends considerable time traveling not just to existing races but also to deal with details of ISC's owner-controlled construction wrap-up insurance program for new track projects.

NASCAR's rapidly growing marketing activity has created an ever-increasing volume of indemnification agreements—indemnifying both NASCAR and event sponsors—for Mr. Holcombe to consider.

As car construction technology constantly changes, it also becomes necessary to stay current with cutting-edge approaches to reducing the risk of injuries to spectators and ISC/NASCAR employees from flying debris from accidents.

And although Mr. Holcombe doesn't deal specifically with reducing the risk of driver injuries—a task assigned to NASCAR's competition department in cooperation with drivers, crew chiefs and others—he is involved, as litigation coordinator for ISC/NASCAR, when drivers are injured and they or their families sue.

"The biggest problem we have now is the rapid growth of the company," he said. "It's hard to keep up."

When Mr. Holcombe came on board in 1988, the company had three Winston Cup tracks: Daytona, Talladega and Darlington. "Now we have five Winston Cup tracks, half of another Winston Cup track in Miami that I basically provide risk management for, a weekly track in Tucson, and then we have two more tracks in Kansas City and Chicago that are about to come about."

Since Mr. Holcombe came to ISC/NASCAR, ISC's revenues have jumped to an estimated $182 million in 1998 from $33 million in 1988. And annual attendance at NASCAR's two top racing series, the Winston Cup and Busch series, grew to more than 8 million from 3.2 million in 1988.

NASCAR has certainly come a long way since its founding by William H.G. France, who pioneered stock car racing in the 1930s with a race that ran on a half beach/half road course, up the hard-packed sands of Daytona Beach and back down a section of Highway A1A.

Today the France family owns the bulk of ISC stock and continues to run the operation.

"Bill Sr.'s" son, William C. France ("Bill Jr.") is president of NASCAR and chairman and chief executive officer of ISC, while son James C. France is ISC's president and NASCAR's executive vp.

ISC/NASCAR's offices are located across International Speedway Boulevard from the Daytona speedway in a building sporting an enormous checkered flag on the facade. The offices are decorated with vintage stock car racing photos and memorabilia, and a photo of the old beach oval hangs behind Mr. Holcombe's desk.

Mr. Holcombe is ISC/NASCAR's first risk manager.

Thomas M. Martin, vp at Poe & Brown Inc. in Daytona Beach, said, "I think that it seems to be apparent that it's a unique, self-developed, home-grown position out there."

The most significant aspect of the risk management performance that won Mr. Holcombe a spot on this year's *Business Insurance* Risk Management Honor Roll probably is the risk manager's "adaptability," Mr. Martin said.

"He adapted himself to the needs that evolved with the corporate growth of NASCAR and ISC," added Mr. Martin, who has worked with Mr. Holcombe as one of ISC/NASCAR's brokers and who nominated him for the award he received on the Risk Management Honor Roll, representing small companies.

Continued on next page

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"It was a start-up, fresh, new position that has grown and continued to grow," Mr. Martin said. It has grown "beyond just qualifying and buying insurance, which has become a minor part of it.

"And he really enjoys it," the broker added. "He likes dealing with the ordinary, temporary-type people who are there doing all the grunt work at these events as well as dealing with corporate-type people dealing with the issues of their finances."

Another major difference between the risk management challenges Mr. Holcombe faces and those offered by other mass spectator sports is in the nature of the crowd itself.

> *'My philosophy has always been that we want to be very aggressive about investigating any incidents that occur.'*
> — David Holcombe

Roughly half of the 200,000 people who fill Daytona International Speedway each February for the most prestigious event on NASCAR's annual circuit camp in the speedway's infield for days before the race.

"The closest thing I can compare it to is we create a city, a municipality," Mr. Holcombe said.

To serve that "city," ISC provides police, firefighting and medical services. It collects garbage, maintains roads, runs retail stores and sells food and beverages. Each, of course, brings with it the typically associated risks.

"Basically, we create a municipality for about six days, and then Monday morning, it's gone," Mr. Holcombe said. "Then the show picks up and goes someplace else for another week."

And when the show travels, Mr. Holcombe and his risk management team travel with it.

"We go in ahead of time, several days in advance of a race," the risk manager said. "I believe in walking around. I go all over the race track. . .looking for things that could be a potential hazard."

Different facilities require different attention, Mr. Holcombe noted. The Talladega Superspeedway in Talladega, Ala., for example, is a huge facility, "bigger than Daytona," but it receives very limited use.

While Daytona International is in use nearly every day of the year for an event, be it racing or filming a commercial, Talladega is "basically only open two weekends a year," Mr. Holcombe said. Consequently, a skeleton crew keeps the track maintained most of the year.

"Then, prior to the event, people come in from all over the country to do their specialty, which could be the ticketing or the parking or ushering or the fire rescue," the risk manager said. "So we come in prior to an event as a team."

During the race itself, much of Mr. Holcombe's risk management focus shifts to investigating potential claims as quickly as possible.

"During an event, which usually runs from Thursday to Sunday night, I maintain a staff of insurance adjusters, and we keep them onsite at the various care centers," he said. "If something does occur, we can be on the scene as quickly as possible to document what took place.

"My philosophy has always been that we want to be very aggressive about investigating any incidents that occur," he said. "And we've been very successful at controlling losses."

No matter how good the risk management effort, accidents and injuries are inevitable when 200,000 people gather for an event, many arriving hours beforehand, spending several hours watching a race—often in the heat of summer—then trying to leave as quickly as possible afterwards.

Another element is that NASCAR fans don't want to miss a minute of race action. They won't budge while the race is running under the green flag. But let an accident or track conditions slow the field down with a yellow caution flag, and they are rushing to the concession stands and rest rooms.

"Our fans are great; they're the most enthusiastic people in sports that I know of, and they don't leave while the race is going on," Mr. Holcombe said.

"But the minute a caution comes out. . .150,000 people want to leave and get into where they need to go as quickly as possible and then get back." That inevitably leads to falls and related injuries.

When injuries do occur at an ISC track—whether to fans, employees, drivers or crew at a race—treatment is provided by medical services personnel overseen by Mr. Holcombe. The size of that operation varies with the event.

For the Daytona 500, for example, in addition to the infield care center there are several first-aid stations beneath the grandstands staffed by 20 registered nurses, 12 physicians, a trauma surgeon, an orthopedic surgeon, four respiratory therapists, an X-ray technician, several family practice residents and emergency medical service personnel. Also, 10 advanced life support ambulances are stationed around the track and as many as 65 emergency medical service technicians.

For the week of championship motorcycle races at the track in early March, a smaller group of six R.N.s, two to four physicians and a respiratory therapist staff the care center.

Though they occur infrequently, there are, of course, some risks very specific to auto racing, such as wheels, hoods or windshields flying into the crowd after a car collision.

"At a football game, when a football goes into the crowd after an extra point, somebody will catch it," Mr. Holcombe said. It's quite different when auto parts fly into the crowd.

Most of the loss control effort for that particular risk is provided by the sanctioning bodies, whose expertise in car construction and race procedures helps reduce the potential for loss, and the insurance companies, which provide underwriting guidelines for the construction of the facility.

Mr. Holcombe is a big believer in information-sharing, and the information he communicates to his insurers helps them get a better handle on their loss control efforts.

Communications is a cornerstone of Mr. Holcombe's risk management success, and his approach to risk management is heavily weighted in "management by walking around."

"I have a philosophy of getting out and meeting as many of the people as possible at our events," he said. During a race event, Mr. Holcombe spends a lot of time on a golf cart, traveling around the facility meeting car parkers, security guards, fire and rescue personnel, "developing a relationship with them that if they see something they can call me directly," he said.

"I can't tell you the number of times people have called and said: 'I found something and I'm just not real comfortable with it. Would you mind coming to take a look at it?' " Mr. Holcombe said.

"And we can make that decision right away and get it handled. They don't feel they have to write it up on a report and send it to their boss who sends it to somebody else and three days later it finally shows up on my desk."

The company utilizes hundreds of two-way radios, which are put to full use before, during and after an event.

"We're in constant radio communication. I can talk to security, fire, rescue, the tower, the hospital, anybody else that I need to talk to. I just push a button and wait for my turn and I can talk to them," Mr. Holcombe said. "We're able to mobilize very quickly."

Ernie E. Thurston, ISC/NASCAR's corporate coordinator of emergency services, noted that Mr. Holcombe doesn't just communicate with people at the various race tracks, he "communicates with them effectively."

"If you go in there like George Patton and try to beat them up, it won't happen," Mr. Thurston said.

> *'He's got extensive knowledge of the racing business and racing crowds and just how the whole business works.'*
> — W. Garrett Crotty

"He is just a wealth of information," Becky Tate, nursing director at the Daytona speedway's infield care center, said of Mr. Holcombe. "I go to him for just about everything. Just day-to-day activities that I have a question about, I'll call him. I've called him in an airplane before."

"The best part about Dave, other than that he's a very nice guy to work for, is that he listens," said Bruce Beckwith, coordinator of emergency medical services at the Daytona International Speedway. "We can institute changes in the way we do business quicker because management listens."

Mr. Holcombe also believes in full communication with his insurers, which often leads him to invite underwriters to a race so they see exposures firsthand.

Such a visit set the stage at this year's Daytona 500 for an amusing coincidence.

"At the 500 this year we were walking through the garage area prior to the race with some insurance people," Mr. Martin recalled. "And, as so often happens, somebody comes up to Dave and tapped him on the shoulder to tell him about some hazard."

It was a potential slip-and-fall problem, and Mr. Holcombe quickly got on his cellular phone to make sure the problem was corrected.

"And the comment from the insurance underwriters was, 'Was that a staged incident?' " Mr. Martin said.

Once an event ends, Mr. Holcombe regularly meets with his adjusters to discuss every incident and the strategy for dealing with them.

"We somewhat emulate Disney's philosophy. We try to do everything we can to make the people happy," he said. "But if that's not possible, we will aggressively defend the speedway, NASCAR."

And Mr. Holcombe's communications skills come to the fore once again in his claims-handling activities. He knows that with NASCAR fans' love of the sport that race tickets, a garage pass or a chance to meet a favorite driver often can go a long way toward smoothing over less serious claims.

"He's got very good people skills, and he's got extensive knowledge of the racing business and racing crowds and just how the whole business works," said W. Garrett Crotty, ISC/NASCAR's corporate counsel and Mr. Holcombe's boss.

"So when we get claims for everything from somebody who's slipped and fallen to somebody whose motor home was too tall to get through the tunnel at Talladega, Dave is right there," Mr. Crotty said. "And when you're dealing with somebody who's driven a couple hundred miles to some race and now has a big hole in the roof of his motor home, you've got to have good people skills."

Away from the risks at the speedways themselves, a risk management task that's grown increasingly time-consuming is handling exposures associated with marketing the events and the NASCAR brand. NASCAR racing is hot, attracting a lot of manufacturers lining up to link their name with NASCAR's.

"One of the areas that has become a huge task is that with the growth of the sport, everybody wants to associate with International Speedway Corp., the Daytona name, NASCAR especially," Mr. Holcombe said. "We've got the official hot dog of Daytona Speedway, official everything."

Every use of the NASCAR name has to be approved under a contract. "Every contract has to come through the legal and risk departments. I have to review the indemnity section of every contract and the insurance section, and, with the various marketing departments, determine what limits we want based on what kind of product they want to put our name on."

Putting the NASCAR name on a shirt or a jacket or a tie generally isn't too big an issue, Mr. Holcombe said. "Yesterday we heard from someone about putting our corporate name on a fishing rod holster," he said.

"But when you start getting into putting the NASCAR name on electric-powered kiddy cars, there's a higher exposure. How much insurance should you require? Would corporate indemnities be acceptable in lieu of insurance?"

Even more concerning, Mr. Holcombe said, "is when people want to put our name on brakes, car products. When we get something like that, obviously we have to look at it much closer than a shirt or something."

ISC/NASCAR maintains hundreds of certificates of insurance, including those it issues to sponsors, Mr. Holcombe said. "Obviously we have to give out a lot of certificates of insurance, also. Pepsi, for example, with the Pepsi 400," requires indemnification for the race it sponsors. "Obviously, they don't want to get sued if something happens during a race just because their name was on it."

Dealing with the number of certificates that go out and the number that come in creates "a constant reviewing process," he said.

As ISC/NASCAR continues to grow, Mr. Holcombe may have to change how he approaches his job. Before long, he knows he may have to delegate more, much like the risk managers for some of the Fortune 500 companies whose logos decorate the cars flying around ISC's tracks.

"This company is growing. At some point we will have so many events going that I will not be able to get to every event. There will be conflicts," he conceded. "And obviously, if you're a risk manager for a GM or a Ford, you'll have to rely on other people.

"But I think your philosophy can still flow down that you want your people to know what everybody does," Mr. Holcombe said. "And they'll feel comfortable coming to you if there's a problem." BI



PHOTO: MICHAEL MARCOTTE

W. Garrett Crotty, left, is corporate counsel of International Speedway Corp./NASCAR and David A. Holcombe's boss.

Liability waivers take a front seat at NASCAR

By RODD ZOLKOS

Undeniably, motor sports are riskier ventures than most sports, not just for the drivers but also for the crews, owners, press and myriad others who might be in restricted areas during a race.

Given the extent of those risks, the liability waiver is a critical component of a motor sports risk management program.

"Our sport lives or dies by that waiver release," said David A. Holcombe, risk manager at International Speedway Corp./NASCAR.

"Obviously, motor sports contains a higher degree of risk than some other sports," Mr. Holcombe said. "Consequently, insurance basically would not be available to motor sports facilities and the sanctioning bodies around the country without the use of this waiver."

Anyone entering a "restricted area" at an ISC track or a National Assn. for Stock Car Racing Inc. event is expected to sign a waiver, from the drivers, to the pit crew, to sponsors' guests being treated to a behind-the-scenes look at a race.

A restricted area is kind of defined as an area where the general ticket-buying public can't go," Mr. Holcombe said. Such areas include the track's pits, pit road, garage area and the racetrack itself. "That is obviously where your higher degree of injury lies.

"And we want everybody to read that document before they sign," the risk manager said.

As the popularity of stock car racing has grown, so, too, has the number of waivers to be signed. A look at the corporate logos adorning the cars, the drivers and their crews shows how great a part corporate sponsorship plays in NASCAR racing.

Sponsors can spend millions of dollars on each car they back, and they expect some return. Part of the return clearly comes in the television exposure their participation provides them.

"But they also like to use racing as an opportunity to reward employees or division managers or vendors for a job well done, and they'll bring them down to a race. And they want to be able to touch and feel the car," Mr. Holcombe said. "So there are a lot of people coming in and out of the restricted areas."

Although it happens infrequently, sometimes NASCAR has to look to the waiver when facing a suit from a driver injured in an accident.

"Overall, when you consider the number of races that are run with the NASCAR name associated with them, the number of lawsuits that come out of them is very, very small," Mr. Holcombe said. "But occasionally we do get involved in litigation."

"The first thing the competitor's attorney will do is try to eliminate the waiver release," the risk manager said.

"Since I've been involved in litigation, they've used just about every kind of argument that you could dream up to try to eliminate the waiver," he said. "'It was folded in half and I didn't get a chance to read the language on it'; 'When the registrar showed me the waiver release. . .because his hand was moving back and forth I couldn't read the language'; 'I was rushed in line to sign it as quickly as possible and they never gave me a chance to read it.'"

> *'The first thing the competitor's attorney will do is try to eliminate the waiver release.'*
> — David A. Holcombe

While acknowledging that most judges don't like to deny an injured party's right to trial, Mr. Holcombe said most have viewed the waiver as a valid contract, waiving the victim's right to sue.

"Our document is an evolving document, but it is a contract, and fortunately for motor sports, most courts have looked at it as a contract," the risk manager said.

And because the drivers are expected to sign the waivers before each race, the "I didn't read it" argument rarely flies.

"In most cases, people who have been injured in a sport like ours have been involved in it for quite a while," Mr. Holcombe said. "I'll go back to the warehouse and pull out 25 or 30 other documents the driver signed over the past couple of years and say, 'Well, judge, you might want to buy his argument that he didn't read that one, but what about the 25 others that we have here?'"

When problems do occur, they often arise from the smaller tracks around the country rather than the major speedways, Mr. Holcombe said.

"Most people are aware of the Daytona 500 and the Indianapolis race we run and Charlotte, but there are 90 little weekly tracks around the country that are racing under NASCAR rules," he said. "Where we generally get involved in litigation is something that occurred on a weekly track. NASCAR can't have employees at all 90 race tracks. . .so it's run by a local owner.

"With a weekly track, we're at their mercy because we send them the waiver release and insist that they be done, but we're not there on a week-in, week-out basis,"

See **Waiver** *on next page*

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ISC/NASCAR job satisfies Holcombe's two loves

By RODD ZOLKOS

After 15 years as a commercial insurance broker for the Tucker-Branham Insurance Agency in Orlando, Fla., David A. Holcombe decided it was time for a change.

"I was a great fan of the operation," Mr. Holcombe said. But, about the time he turned 40, he'd started thinking about what really interested him professionally, and had decided it was the risk management aspect of the business.

Meanwhile, though he'd only actually attended one automobile race, "I had been a motor sports enthusiast since day one," he recalls.

Thus was the stage set one Sunday morning in early 1988, when Mr. Holcombe's wife, Sandi, spied the perfect job listing among the classifieds.

"I regularly read the classifieds," she said. "One day I was reading through the classifieds and I said, 'Dave, here's your two loves, right here.' "

The advertisement was for a Daytona Beach-based motor sports organization seeking a risk manager.

The ad didn't identify the organization by name, but Mr. Holcombe had little doubt what the company was and quickly applied for the job.

In September 1988, Mr. Holcombe became ISC/NASCAR's first risk manager.

ISC/NASCAR had previously used a risk management consultant to deal with risk management and insurance issues, and Mr. Holcombe's new job "started out as basically just trying to keep track of all the various insurance that we need to run a motor sports facility and a sanctioning body," he recalled.

Things moved quickly, though, and he subsequently landed responsibility for coordinating litigation, overseeing employee benefits, managing loss control and loss prevention, claims management, and for managing the emergency fire and medical response teams at the race tracks.

Mr. Holcombe also is in charge of transportation for ISC/NASCAR, overseeing a fleet of more than 350 vehicles.

Further increasing Mr. Holcombe's responsibility was the growth in the ISC organization and the rapid growth in the popularity of stock car racing.

As a result, with his travel to the various ISC sites to provide risk management for races, to the sites of new tracks under construction to supervise details of construction wrap-up programs, and to meet with the various boards and committees on which he serves, Mr. Holcombe, 51, spends considerable time on the road. He travels three of every four weeks, by his estimate.

> *'I've got no complaints because he truly loves what he does here.'*
>
> — Sandi Holcombe

This year he and Sandi will celebrate 30 years of marriage. "It happens to be a weekend I have to be out of town for a race," Mr. Holcombe said.

"I haven't had him home for an anniversary since he's been here, but I've got no complaints," Ms. Holcombe said."Because he truly loves what he does here. How many people do you know that get to do what they truly love?"

That hectic travel schedule also made necessary some creative flight arrangements when the Holcombes' son, Chris, was married in March. But after changing flight reservations several times, he was able to stay for the entire event. "I was able to leave late enough so that the reception was over," Mr. Holcombe said. "There was never a question."

Hobbies clearly have been casualties of Mr. Holcombe's busy travel schedule. He used to restore automobiles, for example. "I haven't done that for years.

See **Career** *on next page*

Waiver

Continued from previous page

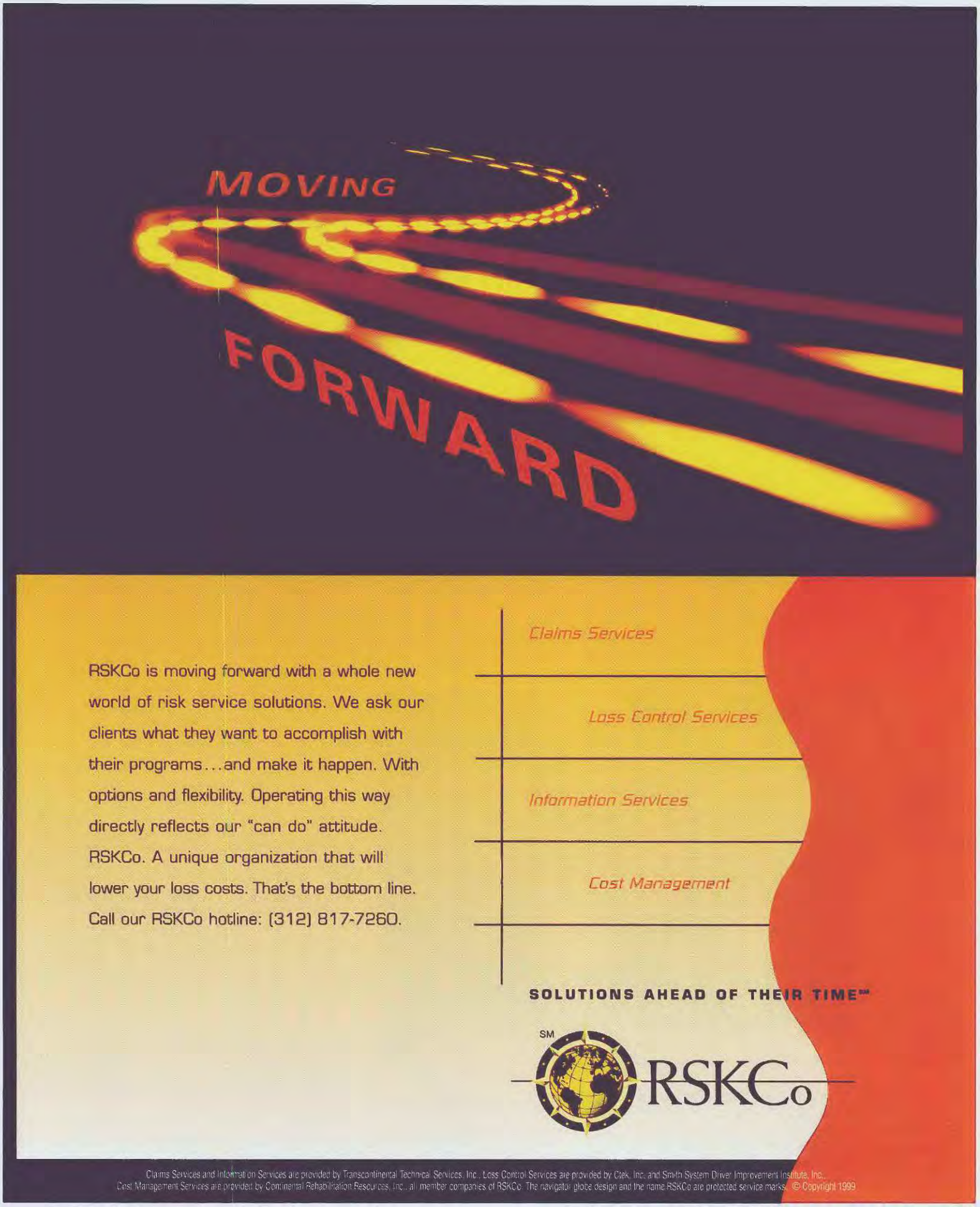
Mr. Holcombe said. "But remarkably, we have a great record. We've not been successful 100% of the time, but overall we have been."

And ISC/NASCAR's use of liability waivers doesn't end once one steps outside the racetrack itself. Among the attractions at NASCAR's Daytona USA interactive museum just outside the Daytona International Speedway is "The Ingersoll-Rand 16-Second Pit Stop Challenge."

The attraction challenges Daytona USA visitors to match the performance of a top pit crew, changing a car's tires, filling its tank and the like during a simulated pit stop.

Various precautions, such as creating low-speed impact wrenches specifically for the 16-Second Pit Stop, were taken to minimize exposures, of course. "We went and asked the crews what could hurt them," Mr. Holcombe said.

But before stepping into the attraction, participants also sign a waiver indicating they know they are participating in a physically strenuous activity and are aware of the risks. BI



Career

Continued from previous page

Frankly, I'm never home anymore," he said. "But I will get into a project one of these days.'

Now he describes himself as "in between hobbies."

"I just gave up golf last year," Mr. Holcombe said. After playing two or three times a year and realizing it's tough to be a good golfer without playing more regularly, "I asked myself, 'What can I do to reduce stress?' " he said.

He is an avid fountain pen collector, taking advantage of any extra time when he's on the road to look for new pen stores. The full display cases around his office show off an impressive collection.

Turning his loves into his job has done nothing to temper Mr. Holcombe's enthusiasm for either risk management or motor sports.

Risk management, he said, "has far exceeded my expectations."

"My areas are probably a little more diverse, possibly a little more exciting than a lot of people that have risk management responsibilities," Mr. Holcombe said. "But it still gets down to the same old process of managing exposures."

And, as for motor sports, "I think racing is fantastic," he said. "I watch it every Sunday when I'm not on the road." But, "when there's a race going on here at Daytona or at Talladega, I don't see much of it."

> 'My areas are. . .possibly a little more exciting. . .but it still gets down to the same old process of managing exposures.'
>
> — David A. Holcombe

That is an irony of his current position. Though he's at the track for every big race he rarely gets to watch the race itself.

"He's asked me a million times. 'Do you know who won the race?' " Ms. Holcombe said.

After graduating from the University of South Florida in 1970 with a bachelor's degree in marketing, the Sarasota, Fla.-born Mr. Holcombe worked for Allstate Insurance Co. in St. Petersburg, Fla., as office operations supervisor until 1973.

From 1973 until he took his current ISC/NASCAR position in 1988, Mr. Holcombe was branch manager at Tucker-Branham in Orlando.

Mr. Holcombe received his Chartered Property Casualty Underwriter designation in 1982, and in addition to being a member of the CPCU Society, he is a member of the Risk & Insurance Management Society, the National Fire Protection Assn. and the Council of Motorsports Science.

Among his various professional activities, Mr. Holcombe is a past president of both the Central Florida Chapter of the CPCU Society and the North Central Florida RIMS chapter. He was chairman of RIMS' Governmental Affairs Committee from 1996 though 1997 and is the 1998-99 leader of the RIMS State and Province Task Force External Affairs Committee.

In 1998, Mr. Holcombe was appointed to the board of governors of the Florida Surplus Lines Service Office.

The Holcombes live in De Bary, Fla., between Daytona Beach and Orlando. "My wife has a very good career in the mortgage broker business, and all her business is in the Winter Park/Orlando kind of area," Mr. Holcombe said.

While conceding she's not a race fan, Ms. Holcombe said, "I love my husband, and the fact that he loves his job is good enough for me."

She has gone to some races with him, and walking the infield with Mr. Holcombe has given her enough of a glimpse of her husband at work to get a good sense of what it means to him to be at the track at 5:30 a.m. on a race day, come home covered with dust, shower and change into a suit or formal attire, go to an evening dinner event, and then get up the next morning and do it all again.

And Ms. Holcombe understands that in a way, her husband's job provides the ISC/NASCAR risk manager a sort of ongoing 40th birthday present.

He's among those qualified to take guests for "hot laps" on the Daytona International Speedway, and he'll enthusiastically describe the feeling of steering his company Firebird into one of the famed tri-oval's 31-degree banked turns.

"On his 40th birthday I asked what he'd like for his milestone birthday. And he said, 'I've always wanted a Porsche,' " Ms. Holcombe recalled. "But the second thing he said was, 'I always wanted to drive a lap on a super speedway,' never knowing that a year later. . . ." BI

Holcombe draws praise

Staff applauds approach of 'all-around good guy'

By RODD ZOLKOS

While International Speedway Corp./NASCAR Risk Manager David A. Holcombe works closely with people throughout the companies' organizations, four people report to him directly on a full-time basis.

Ernie E. Thurston, ISC/NASCAR's corporate coordinator of emergency services, is Mr. Holcombe's assistant and credits Mr. Holcombe with luring him to the Daytona Beach headquarters from ISC's Watkins Glen, N.Y., track earlier this year.

"He's a very special person. I've never been involved in the corporate side of a business before," Mr. Thurston said of his boss. "Dave can relate to everybody, no matter where they are in the corporate structure.

"He's an all-around good guy," Mr. Thurston added. "And I probably would not have come down here to work if it had not been for Dave Holcombe."

Cricket Leuzinger, Mr. Holcombe's administrative assistant since last June, describes the risk manager as "incredibly easy to work for and incredibly easy to work with.

"He's very easygoing, calm," Ms. Leuzinger said, "even when he's dealing with some of these claimants who aren't the easiest to deal with. I don't know how he does it. He's on the go all the time. And so many track people will call all the time to pick his brain on things," Ms. Leuzinger said.

But Mr. Holcombe's always patient in offering answers and explanations, she said. "I guess he figures that way next time the question won't even need to be asked."

Also reporting to Mr. Holcombe are Dana Brill, the claims processor for the Competitor Liaison Bureau, the company's third-party administration unit handling race drivers' medical claims; and Gary Cross, ISC/NASCAR's transportation coordinator.

During race events, teams of six or seven adjusters hired to immediately investigate any potential claims also report to Mr. Holcombe.



PHOTO: MICHAEL MARCOTTE

ISC/NASCAR's team includes, from left, Glenn Padgett, director of corporate compliance; Cricket Leuzinger, administrative assistant-risk management; Suzanne Thompson, administrative assistant-legal department; Dana Brill, claims administrator; Susan Wilson, administrative assistant-legal department; W. Garrett Crotty, corporate counsel; Dawn Gilmore, paralegal; and David A. Holcombe, risk manager. Not pictured is Ernie E. Thurston, corporate coordinator of emergency services.

Scope of coverage key to liability policy

By RODD ZOLKOS

The backbone of the insurance program for International Speedway Corp./NASCAR is the spectator/participant liability insurance policy.

Essentially a general liability policy specific to the motor sports industry, "this is the broadest liability policy that I've ever seen," said David A. Holcombe, ISC/NASCAR's risk manager. "It covers just about everybody for an event."

He ticks off the covered insureds: "As a track, we are required to name the sanctioning body as an additional insured. Not only do we cover the sanctioning body, but we cover every car driver, car owner, car sponsor, bike owner, bike rider, bike sponsor as an additional insured. We cover every sponsor of the event."

The policy also covers such exposures as product liability and coverage for selling food and beverages.

It also covers injuries to drivers who allege the injury arose from a rule infraction, "and even though the track didn't make the rule, it was NASCAR or AMA (American Motorcyclist Assn.) or whoever it happens to be, they're defended under the policy," Mr. Holcombe said.

"It's a huge policy that's almost like an umbrella that covers the whole event," the risk manager said. "We cover the municipalities that provide fire, rescue and police to us. We provide medical malpractice for the doctors and nurses who work out of our facilities."

This policy was developed because "it would be extremely difficult to try to control insurance coverages for each one of those individual entities," Mr. Holcombe explained. If they were all insured individually, "if something happens, everybody's going to start finger-pointing because they're separately insured," Mr. Holcombe said. "This way, everybody's insured by the same insurance company, and it just flows so much more smoothly."

That scope makes the "spectator/participant" policy decidedly unique, and not surprisingly, there's a very limited universe of insurers willing to provide the coverage. "Consequently, we are more susceptible to market swings, as any narrow niche in the market would be."

> 'It's a huge policy that's almost like an umbrella that covers the whole event.'
>
> — David A. Holcombe

Obviously, given the importance of the coverage to an operation like ISC/NASCAR and the potential volatility of the market, the state of the spectator/participant liability insurance market is a key concern for Mr. Holcombe.

"Part of my job is to nurture competition," Mr. Holcombe said. "The thing that has kept the rates reasonable and decreasing is obviously the overall market is soft. But, we have developed four very good, viable markets who compete with each other.

"There is real competition within the motor sports insurance field now, and part of my job is to make sure that continues," Mr. Holcombe said. "If somebody comes to me and says, 'I'd like to start up a new motor sports program,' if I think it's legitimate and has a chance, I'll do whatever I can to help them and make sure that it's a good product and a sound company."

The soft market, the presence of four viable markets for the spectator/participant liability coverage and Mr. Holcombe's aggressive approach to loss control have brought costs down dramatically.

Since 1988, for example, ISC's premiums for the coverage have been cut almost in half, while coverage terms have broadened.

"Obviously that has a lot to do with the overall market. Reinsurance is cheap," Mr. Holcombe said. "But also, there were only two markets when I came aboard in 1988, and now there are four, and they write national motor sports business. So I'm quite comfortable with the fact that some of that decrease is due to that competition."

ISC's spectator/participant liability insurance is underwritten by TIG Insurance Co., with excess layers written by RLI Insurance Co., Chubb Corp. and Gulf Insurance Group. The coverages are placed by K&K Insurance Group Inc. of Fort Wayne, Ind.

"It's a partnership when you're dealing with the product," he said. "I believe I bring some expertise to them to help them fine-tune their policy and keep up with the way race tracks

Continued on next page

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are evolving."

Varied and diverse exposures at ISC/NASCAR are covered under the workers compensation program as well.

"That covers essentially everybody from International Speedway Corp., fire personnel that rescue drivers to ticket takers," Mr. Holcombe said. It also includes food service workers, clerical workers in the ISC office and others.

"From the NASCAR side we have the inspectors who stand out there and check the cars and stand out there every race and make sure rules are being adhered to," he said. "We've got pilots and boat captains."

Workers comp coverage for both ISC and NASCAR is underwritten by the Travelers Insurance Co., as are the two entities' automobile policies, and both are placed by Poe & Brown Inc. of Daytona Beach.

Employment practices liability, directors and officers and fiduciary liability coverage for both entities are with Chubb, also placed by Poe & Brown.

Poe & Brown also places both ISC's and NASCAR's property coverages, which are written by Gerling America Insurance Co.

"Overall, the property rates for most of your motor sports facilities are pretty low," Mr. Holcombe said. "They can approach HPR rates if it's a steel grandstand."

But, the Daytona Beach location of most of ISC's property, with the Atlantic Ocean in view from the top of the Daytona International Speedway's Winston Tower, spells hurricane exposure for insurers, creating some concerns. "ISC has a little bit of a problem on our property exposure basis, because the vast majority of our property values are here," Mr. Holcombe said. "The biggest facility (is here); we have an interactive museum entertainment complex here, two large office complexes."

But overall, ISC's property portfolio benefits from its diversity, with tracks from Phoenix to Alabama to upstate New York. "Because they're all scattered around, it's not a difficult product to get right now," Mr. Holcombe said.

Last year, Mr. Holcombe successfully pressed an unusual property claim after the summer wildfires that raged through Florida prompted ISC to postpone its July 4 race at Daytona International Speedway.

The postponement cost ISC an estimated $1 million, but because civil authorities would have forced postponement of the race if ISC hadn't done so voluntarily, Mr. Holcombe sought coverage under the property policy's civil authority clause in its business income form.

Ultimately, after traveling to New York to meet face-to-face with underwriters and claims managers and months of discussion, the insurer paid ISC's claim.

NASCAR carries a contingent excess liability policy from Gerling that provides excess coverage above an individual track's coverage. Excess layers are written by Transcontinental Insurance Co., Great American Insurance Co. and Travelers.

The motor sports sanctioning body has an extensive aviation department, which includes seven planes and full hangar facilities in Daytona Beach and Charlotte, N.C. NASCAR also has several pleasure boats that are used for entertainment purposes.

NASCAR's aircraft coverage is with United States Aircraft Insurance Group, placed by Hilb, Rogal & Hamilton Co. The company's yachts are insured by Lloyd's of London syndicates, with the coverage placed by Poe & Brown.

Construction wrap-up coverage on the speedway ISC is building in Kansas City, Kan., is with CIGNA, placed by Marsh Inc. in Kansas City.

The coverage will be rolled over to cover construction of another new track to be built in Joliet, Ill., with that coverage handled through Marsh's Chicago office. Builders' risk coverage on the projects is with Reliance National Insurance Co.

Employee benefit programs for both entities are self-insured and self-administered, with stop-loss coverage that includes both specific and annual aggregate limits provided by Employers Reinsurance Corp.

> *Annual bids for the spectator/participant coverage are necessary, as 'market swings can occur very quickly.'*
> — David A. Holcombe

Medical insurance for NASCAR race drivers is placed with Lloyd's syndicates by Naughton Insurance Agency. Claims are administered in-house through an operation known as the Competitor Liaison Bureau.

Typically, Mr. Holcombe places the ISC/NASCAR coverages out for bids every three years, except for the spectator/participant coverage, which is put out for bid every year. While this causes some "wailing and gnashing of teeth" by brokers, he considers it necessary to seek annual bids because "it's such a narrow market that swings can occur very quickly," he said.

Pricing for that cornerstone coverage of ISC/NASCAR's insurance program is currently relatively affordable, but Mr. Holcombe concedes that that situation could change.

"At some point down the road, let's face it, if we go back into a hard market, all the competition in the world isn't going to stop those rates from going through the roof," the risk manager said.

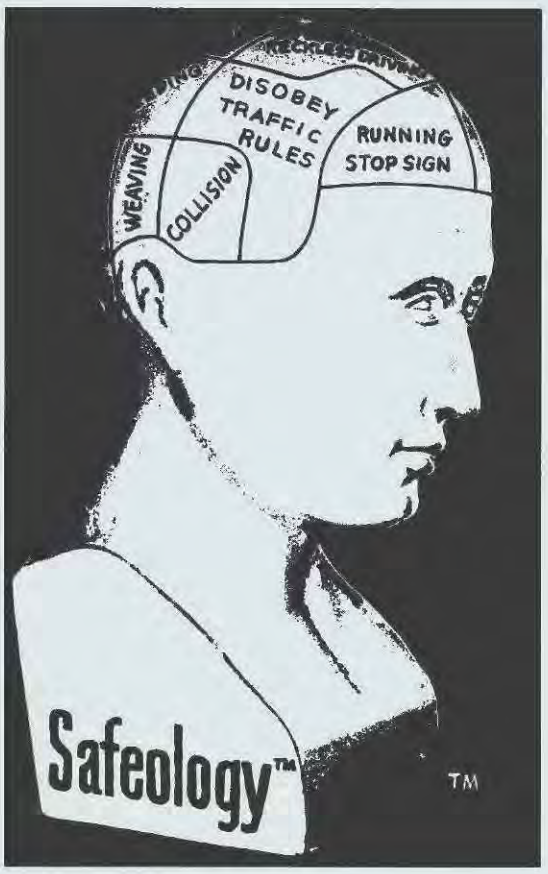
In anticipation of such a change, ISC/NASCAR has studied the possibility of forming a captive.

"We have looked at captive programs, done some groundwork for a captive down the road," Mr. Holcombe said. "I believe right now is not the time to be in a captive. It's the time to be ready to be in a captive.

"We'd have a good spread of risk, we know the business," the risk manager said. "So if the market got relatively tight, it would be relatively easy to put a captive in place." BI

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To serve and protect public officials



PHOTO: MICHAEL MARCOTTE

By ROBERTO CENICEROS

Lewis Leigh, executive director of the Washington Cities Insurance Authority, knows he has to retain members in his self-insured pool by giving them the best possible risk management service—especially in a state where he competes with other municipal pools.

In providing that service, however, he doesn't hesitate to confront elected city officials who want to take action that could result in claims against the 95-member self-insurance pool, based in Renton, Wash.

Mr. Leigh takes his risk management message into city council chambers and back rooms, sometimes late into the night. This is especially the case after November elections infuse city councils across the state with new members unfamiliar with the potential liabilities of their actions.

Educating officials about political cause and effect is becoming crucial, Mr. Leigh said.

Washington's legislators and the state's courts have limited urban growth while increasing municipalities' liability for land-use decisions. Consequently, pitched legal and political battles between developers and no-growth advocates have become a litigation minefield for Washington cities and one of the largest exposures faced by pool members.

Pressing municipal leaders to adhere to land-use laws, rather than act on political emotion, is clearly a task the risk manager revels in.

"There are all manner of environmentalists, neighborhoods and industry that all want the same land all at once," Mr. Leigh said. "And you have to get the city councils to stay to their comprehensive plans and the zoning rules and their permit processes."

Mr. Leigh gets high praise from associates and peers for delivering quality service to his pool members, being an insurance pool and risk management leader in Washington, standing by cities when they take on controversial issues, and for pioneering and developing innovative programs.

He also has improved risk management for public entities nationwide. For example, in 1996 he was among a handful of risk managers who formed an excess liability insurance purchasing group for five government pools. The National Public Entity Excess Program, or NPX, now includes 10 pools. NPX is a multiyear facility offering its member pools $20 million in limits:an optional $10 million layer excess of $10 million. NPX provides excess coverage to the WCIA.

For those and other achievements, the WCIA's Mr. Leigh has been named to *Business Insurance*'s 1999 Risk Management Honor Roll, representing self-insurance pools.

The WCIA is the largest of 17 pools in Washington. It has more than $60 million in assets, including surplus equity of $30 million and $28 million in claim reserves.

The pool offers a wide range of risk management and claims services, including all-risks property and specialty liability coverages (see story, page 103).

While most claims and litigation are managed in-house, the WCIA also uses Seattle-based third-party administrator Evergreen Adjustment Service Inc. for field services.

Created in 1981, the WCIA now has 14 staff members and operates on a $2.4 million administrative budget. The pool collects $12 million in annual premium assessments from 85 cities and towns as well as 10 other public entities, such as regional 911 emergency dispatch centers that serve multiple communities.

Under Mr. Leigh's leadership since 1984, the WCIA has grown from 11 members in Washington's Puget Sound area to 95 members statewide.

The WCIA's investment strategy, which includes principally mortgage-backed securities, has helped grow its surplus by an average of $5 million a year. As a result, WCIA members' assessments have not increased in six years, Mr. Leigh said.

The pool's members have a total insured property value of $1.5 billion, said Eric B. Larson, WCIA assistant executive director.

Among the programs that Mr. Leigh has pioneered is a Membership Compact. The compact sets requirements for member risk management audits and requires training conducted by experts in areas such as employment practices liability (see story, page 104). The program has helped lower WCIA's claim costs in part because members agree to incur substantial financial penalties for failing to follow compact requirements, Mr. Leigh said.

The WCIA program won recognition from the Public Risk Management Assn. in 1996 for Meritorious Achievement in Pooling.

"That Membership Compact is the one tool that gives a pool teeth behind its loss control recommendations," said David Hayasaka, a former WCIA assistant director and now executive director of the Puget Sound Risk Management Pool in Burien, Wash.

Mr. Hayasaka considers Mr. Leigh his mentor and credits him as an early innovator of influential risk management ideas,

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such as a Pre-Defense Review program. This program, instituted in 1989, helps WCIA members to develop their defense before a lawsuit is filed (see story, page 105).

"Since that time, I have heard of that program being implemented all over the country by other pools," Mr. Hayasaka said.

The WCIA presented the idea at a PRIMA conference, and other public entity pools began calling Mr. Leigh for advice, Mr. Hayasaka said.

"It's an administrative expense, and if you are not well-funded, then it's not something you want to take on," Mr. Leigh advised. "We put $25,000 into it the first year, and we are now up to $250,000 (annually). We could put $400,000 into it and people would keep using it."

> *'We had to change people's direction and they did not like it that a political person could not be political anymore.'*
>
> — Lewis Leigh

With its Membership Compact and the Pre-Defense Review, the WCIA reduced members' employment practices liability claim costs from an average of $60,000 per claim in 1992 to $30,000 in 1997.

The programs also helped lower the average cost of land-use litigation claims from $50,300 per claim in 1990 to $19,200 per claim in 1997.

Developing innovative programs, such as the Membership Compact, and helping shape state pool regulation are among the reasons Mr. Leigh is one of the most respected pool administrators in Washington, said John C. Nicholson. Mr. Nicholson oversees pool regulation as the local government self-insurance program administrator for Washington state's Risk Management Office in the Department of General Administration.

Mr. Leigh has been successful in his career because he is willing to take risks, such as in implementing the Membership Compact, Mr. Nicholson observed. Then Mr. Leigh will work to make those risks perform to his pool's favor.

One of Mr. Leigh's biggest problems has been Washington's land-use controversies. The pool pays out about $1 million a year for indemnity and defense costs related to lawsuits against member public entities over the issue.

City officials making land-use decisions typically are insured under the pool's errors and omissions liability coverage.

The land-use issue rose to prominence during the mid-1980s, when Washington state legislators moved to control explosive growth and protect the state's farmland and natural forests. They planned to corral most building development within city boundaries. Under the state's resulting Growth Management Act, cities were to absorb most building development and create "Comprehensive Growth Plans," or blueprints for allowing building concentration within their borders.

Some city council representatives and other opponents of development rebelled. Builders and real estate agents, who found themselves beset with land supply shortages, began to sue for their right to annex and build.

"We were in court a lot," Mr. Leigh recalled of the issue's early days. "Everybody was in court. Legislators had given cities a directive to contend with growth but didn't explain how to do it."

The state's courts, including appellate courts and finally the Washington Supreme Court, sided against cities. The cities wanted to regulate growth through their old system of allowing their councils to have the final say within their boundaries. Instead, the courts made the issue a matter of civil rights for builders.

"As those courts responded to those new cases and expanded the law, it just got worse and worse for cities," Mr. Leigh said.

Litigating land-use disputes is very profitable for plaintiffs' attorneys and very punitive for cities, he added. According to Washington law, plaintiffs' attorneys who win cases that expand the state's land-use statutes may ask the court to multiply their normal fees, which must be paid by the defense.

"So there is every incentive for a plaintiff attorney to jump into this area of law," Mr. Leigh said.

The Growth Management Act first caught cities by surprise, and the WCIA quickly stepped in to arm members of city councils with legal knowledge. Never before had Washington city councils been held liable for such an issue.

They were ill-prepared for the legal onslaught, and the WCIA's choice was either to exclude coverage or provide them with defense training, Mr. Leigh said. The WCIA chose to train.

Mr. Leigh's also took up the task of reining in council members who might be eager to rally political support by threatening to stunt development. City Council members who were used to running to their local newspapers and announcing they opposed development become easy lawsuit targets, he explained.

"We had to change people's direction, and they did not like it that a political person could not be political anymore," he said.

"We were in closed executive sessions in city council rooms, banging on elected officials, telling them: 'This is what you must do. I don't care if it's unpopular. This is the law and you must follow it,' " he said.

It took five years to make councils around the state aware of the technical aspects of the law and that they had to allow some growth if they were to comply with the law and avoid lawsuits.

"The first thing we had to do was convince no-growthers that you could moderate growth but you could not stop growth," Mr. Leigh said. "That was a major hurdle once you got people to stop saying, 'Hell no' without documentation and no procedure."

Due process requires cities to investigate and weigh several factors before ruling on land use, Mr. Leigh explained. "Until you did all of that, you were instantly liable," he said. "You had to be technically and procedurally competent."

The WCIA hired defense attorneys to train the city councils of pool members about the procedure. The training was provided anywhere and anytime municipal leaders were ready to listen. That philosophy sometimes kept Mr. Leigh at city council meetings around the state late into the night.

"There were times when they would turn off the lights in the building and we would be talking under street lights in the parking lot just to get it through somebody's head," he said.

But training alone wasn't enough.

The WCIA also advised its members to rely on hearing examiners, rather than elected officials, to weigh building requests and issue permits. The examiners are city administrators or attorneys skilled in land-use law, Mr. Leigh explained.

Using examiners removes the political influence, leaving the process to those with technical experience. That, in turn, improves a city's standing in court, he said.

At first, large cities implemented a hearing administrator system, then midsize cities followed, and now small towns are replacing their volunteer planning commissions with hearing administrators.

Mr. Leigh's tactics have helped the WCIA hold the line on land-use claims.

Meanwhile, the state's high court is not friendly to municipalities, and new city council members are elected every November, Mr. Leigh said. Some of those city council members want to show their supporters and the interest groups that put them in office that they are tough on developers.

That makes fighting land-use losses a continual challenge for the WCIA. Additionally, the counties around the Puget Sound are increasingly congested, leaving little high-grade land for new development. Builders more than ever are willing to sue to develop property that cities argue is not safe for building.

While the WCIA must rein in council members, that task requires tact, Mr. Leigh said.

"When I go to their meetings, I risk their (pool) membership just to fight the good fight," Mr. Leigh said. Sometimes the city manager asks the WCIA to visit "out of control" council members and figuratively "beat up on the guy," he said.

That can mean warning council members of past unfavorable court decisions, explaining the legal boundaries they may operate within and that coverage may be withheld because their policy will not cover punitive damages they generate.

"If you go outside the (legal) lines, I won't help and I will be aggressive in not helping," Mr. Leigh tells officials. "So just stay between the lines and do as much as you can for your supporters, but you have to follow the law."

Mr. Leigh tells them that as city council members they may be big fish in their small municipal pond. But once they enter federal court to defend a land-use civil rights suit, they become small fish in a national-size pond.

Some respond by threatening to take their municipality's business away from the pool and to an insurer. Mr. Leigh lets them know they will learn the same lessons in loss control there. But an insurance broker will not risk a commission by warning them of this ahead of time, Mr. Leigh said. Instead, a broker will let the insurer's claims managers break the bad news of premium increases and declined coverage, he said.

Despite its tough loss prevention stance, Mr. Leigh's WCIA does not hesitate to stand behind its municipalities when they take on controversial issues that are important to them. Such was the case about two years ago, when officials for one Washington city decided to clean up an area abundant with adult book stores, strip clubs, prostitution and accommodating motels.

They planned to decrease undesirable traffic by strictly enforcing criminal laws, re-zoning the area, increasing lighting and encouraging new businesses with favorable tax opportunities.

Such an endeavor can be "incredibly dangerous" for a city, Mr. Leigh said. Civil rights complaints can follow, forcing a city and the WCIA into federal court. But in the situation two years ago, the WCIA successfully defended the city against a false-arrest claim.

Standing behind cities on those types of undertakings wins their loyalty, Mr. Leigh said. "If I commit to cleaning up (the city), then I've got them forever" because it allows the WCIA to provide a service level that traditional insurers won't rival, he said.

For Mr. Leigh, committing to help a city clean up adult entertainment strips can entail reining in some conservative council members who need to learn that they can't do everything they might want to, because the city cannot overstep citizens' civil rights.

Like any good risk manager, Mr. Leigh wants to be notified early on when a city decides to embark on such potentially risky endeavors. That way Mr. Leigh can position the city to win in court by paying, with WCIA funds, for defense attorney oversight and coaching before authorities begin taking action that can lead to claims.

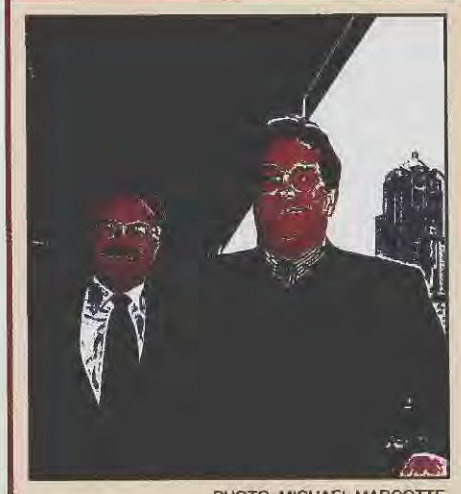


PHOTO: MICHAEL MARCOTTE

Lewis Leigh and his boss, Lynn Karl Nordby, WCIA president and city administrator of Bainbridge Island, Wash.

In the case of the city that cleaned up adult entertainment businesses, the WCIA was able to support police by making sure officers understood laws limiting abuse of force and abuse of warrants.

"If it is a matter of principle to the city, we are going to find a way that we can defend them and win," Mr. Leigh said. "We will do it with Pre-Defense Review. The (insurance) industry won't do that. If (insurers) can see it's going to cost $650,000 to defend the city on a matter of principle, they will just cut the city off at the knees and settle. That's not what the cities are in the pool for. The industry just won't commit to that type of insider help."

Insider help is what WCIA members look for in service. The self-insurance pool has lost only six members in 15 years, Mr. Leigh said. Most of them were "tiny little" municipalities that wanted to give their business to a local agent strictly because the agent resided in their town. They did not leave because of price, Mr. Leigh added.

The pool promises its members adequate rates that will be the lowest available over the long term.

"In the short term, we are not going to ante into the (current) price competition" and lower rates, he said. "Nor in the hard market are we going to raise our rates. Most cities, especially if you can give them the stellar, triple-A-plus service, they find value in what you do."

Each pool member is visited by WCIA staff an average of twice a year for matters such as training, claims investigation, risk management consultation or facility review.

The WCIA tracks its staff's service to members by using an activity database. In that way, the WCIA can monitor the issues and concerns that are of greatest concern to most members.

There is a three-year membership commitment for joining the WCIA. To be a member, public entities must be geographically clustered with other members. That facilitates the wide variety of risk management training the WCIA provides them.

"If we were going to discuss a Supreme Court case on what a dispatcher can or can't say on the telephone, then we would have regional sessions," Mr. Leigh said of the clustering requirement. "We could get a whole bunch of police and fire dispatchers together." BI

Pool's protections

Members of the Washington Cities Insurance Authority have first-dollar liability coverage from the pool.

Coverages provided by the self-insurance pool include general liability, personal injury, third-party property damage, advertising liability, errors and omissions liability, paramedic malpractice and police professional.

Members also have automobile collision and comprehensive coverage and all-risk property coverage that includes inland marine.

Other group coverages available through the WCIA include: fidelity and faithful performance bonds, boiler and machinery, underground storage tanks, airport liability, public official and notary bonds, special events and crime.

The WCIA's liability programs have three layers: a $1 million-per-claim primary layer, a $2 million excess layer and above that an $11 million layer insured through the National Public Entity Excess Program, an excess pool for public entities. NPX purchases reinsurance from Reliance Insurance Co. of Illinois.

The primary layer does not have an aggregate limit. The $2 million excess layer has a $12 million annual aggregate, and the $11 million layer applies an $11 million annual aggregate only to employment practices liability losses.

RISK MANAGEMENT HONOR ROLL

Leigh's efforts help insurance pools stay afloat

Pools credit WCIA's example for their survival

By ROBERTO CENICEROS

Washington's insurance pools were 'on the hot seat big-time" in the early 1990s, when the state's chief auditor dragged them before state legislators, recalled Lewis Leigh.

A couple of broker-managed pools had operational problems, so the legislators formed a committee to investigate and create regulations for all Washington pools, said Mr. Leigh, executive director of the self-insured Washington Cities Insurance Authority. To make matters worse, insurers saw an opportunity to capture pool business and lobbied against the pools.

While pool representatives were testifying on the groups' contributions and trying to convince legislators that the problems were not widespread, "all the guys in the blue suits were in the back of the room buttonholing senators and buttonholing people in the hallways, trying to legislate us out of business," Mr. Leigh recalled.

But several observers credit Mr. Leigh's lobbying efforts, his leadership and the example set by the WCIA as reasons that self-insured pools in the state ended up with favorable legislation in 1992 and oversight by Washington's Risk Management Office.

The office has a reputation for fairness and allowing pools to help create the regulation most appropriate for themselves, Mr. Leigh said.

Having regulatory authority assigned to the state risk manager instead of the insurance commissioner was a major accomplishment, said David Hayasaka, executive director of Puget Sound Schools Risk Management Pool in Burien, Wash. The difference helps preserve the distinction between municipal self-insurance and commercial insurance, he added.

> 'We're not like an insurance company. If we get a claim, we are not looking at how to deny it. We are looking to how we can cover it.'
>
> — Eric B. Larson

Having survived the hard market of the 1980s, Mr. Leigh keeps the WCIA positioned for the next turn, said Eric B. Larson, WCIA assistant executive director.

"We realize that things are not always going to be rosy, and we are taking the best steps we can to insulate ourselves," Mr. Larson said.

Among those steps are the amassing of more than $60 million in WCIA assets and Mr. Leigh's role in forming the National Public Entity Excess Program, an excess liability insurance purchasing pool. In 1998, Mr. Leigh was elected vp of NPX.

He instills an attitude among his staff that the WCIA should operate as the Nordstrom of the pool industry, Mr. Larson said, referring to the upscale department store chain known for impeccable customer service.

"We're not like an insurance company," Mr. Larson said. "If we get a claim, we are not looking at how we can deny it. We are looking to see how we can cover it."

For example, if a city submits a claim for an accident involving one of its automobiles that the city forgot to place on a list of insured vehicles, the WCIA will likely pay the claim, Mr. Larson said.

It was the WCIA's claims and fiscal management practices that convinced legislators that pools could manage themselves without burdensome regulations, Mr. Hayasaka remarked. "That pool set the model for the rest of us, and how he runs his pool set the basis for regulation," Mr. Hayasaka said.

There are now 17 pools in Washington state.

Legislators gave regulatory authority for the pools to the state's Risk Management Office of the Department of General Administration. The Risk Management Office regulates them by seeking advice from the State of Washington Pooling Advisory Board. Advisory board members are governor-appointed, and Mr. Leigh was elected Board chairman in 1998.

Leadership positions are not new to Mr. Leigh. He has served as a past president of the Washington state chapter of the Public Risk Management Assn., served on the board of directors for PRIMA's National Pooling Section, and he has provided technical assistance for the design and creation of other Washington-based pools.

Mr. Leigh has the respect of other pool directors, and that has made him very effective in helping shape the state's regulation, agreed John C. Nicholson, local government self-insurance program administrator for Washington's Risk Management Office.

"He really understands the relationship between local government, the (self-insured pool) industry and how the two groups can interact," Mr. Nicholson said.

Mr. Leigh also keeps the WCIA at the forefront of pool management, added Lynn Karl Nordby, WCIA president and city administrator for the City of Bainbridge Island in Washington. Attend any national conference for government risk managers or pool directors and the WCIA has already implemented the latest strategies being presented, Mr. Nordby said.

Mr. Leigh's leadership also brings the WCIA plenty of recognition at those conferences.

"A lot of people in the other pools nationwide, when you mention where you are from they say, 'Oh yeah, Lew,' " Mr. Nordby said.

"Other people in other pools recognize him as a leader as well," he said. BI

Compact allows all pool members to succeed

By ROBERTO CENICEROS

To improve its members' risk profile and decrease its exposures, the Washington Cities Insurance Authority launched a Membership Compact requiring risk management training for all pool participants.

Submitting to annual risk management audits conducted by WCIA staff also is required. And in an unusual twist, cities in the compact agree to face hefty penalties for failing to comply with compact requirements.

"You don't want to get there," said Lewis Leigh, the WCIA executive director in Renton, Wash. "It's not a slap on the wrist."

But the compact is designed for members to succeed. Those who do meet all compact requirements are rewarded with lower premium assessments.

After four years in existence, the compact has proved a success among members, Mr. Leigh said. Some pool participants even "raised the bar" by demanding more training than the compact initially required, he said.

So beginning in January 1999, as the compact entered a second phase, audit and training requirements increased.

The WCIA launched the Membership Compact in 1995 as a four-year program because the loss history of the pool's best cities continued to improve while the cities with the worst histories continued deteriorating, Mr. Leigh said.

During the compact's first four-year phase, which just ended, all pool members annually had to undergo one of four available training elements. Training in all four areas had to be completed within the four years. The training topics included claims and incident reporting, land use liability, personnel liability and defensive driving. Mr. Leigh's staff and contracted professionals conduct the training sessions.

> 'Some pool participants even "raised the bar" by demanding more training than the compact initially required.'
>
> — Lewis Leigh

Each element includes several subcategories. For example, personnel liability includes training to identify sexual harassment, gender bias and wrongful termination.

Some training sessions, such as claims incident reporting, can include all types of city workers. For example, if an automobile driver approaches a city landscaper, claiming his or her windshield was cracked by a rock ejected from the lawn mower, the worker can collect basic information that might later help disprove a fraudulent claim.

The compact also sets attendance requirements for the number of city employees, supervisors, professionals and elected officials who must attend specific training sessions, said Patti H. Crane, WCIA risk manager. That way, city officials can't escape training obligations by merely sending one or two subordinates.

Sessions are free and made easy to attend by holding them at a city facility and letting city staff schedule them. Some sessions also can take place during evening hours to accommodate elected officials, Ms. Crane said.

The risk management audit topic areas, on the other hand, are chosen by WCIA staff who use the pool's loss history tracking system to determine the most pressing needs. Pool members must comply with the audit's recommendations for improvements, and their compliance is checked during the next year's audit.

To keep the audits friendly and helpful, questionnaires are sent to pool members beforehand so they know what areas the auditors will review. Then when recommendations are made by the auditors, the WCIA will help the member comply with those recommendations.

"If that means that you have to spend money on consulting or training (to comply), we will fund that for you," Ms. Crane said. "So we are making it as easy to comply as possible."

The help might include producing employment policy manuals for a city that lacks them. That action, in turn, might well help the pool if it ever has to defend the member against an employment-related lawsuit.

The compact also has requirements for "organizational attentiveness." That includes attending one full board meeting annually, paying assessments on time and reporting claims on a timely basis.

During the first phase of the compact there was a surge in pool members requesting additional training. So beginning in 1999, the start of the second phase, the WCIA raised the training requirements so that now, all cities must rise to the level of the most conscientious members that requested additional instruction, Ms. Crane said.

Now members must attend two training sessions each year instead of one.

Under the compact's first phase, 25% of all employees with a primary duty of driving had to attend defensive driver training. Now, 50% must attend.

The second phase also requires that city attorneys attend one of these: a member training session, a special seminar that the WCIA sponsors just for city attorneys, a full board meeting or another form of education that the WCIA approves in advance. The first

Continued on next page



PHOTO: MICHAEL MARCOTTE

Among Lewis Leigh's staff at the Washington Cities Insurance Authority are, left to right: Jill Makela, administrative services manager; Eric B. Larson, assistant executive director; Patti H. Crane, risk manager; Mr. Leigh, executive director; and Peg Campbell, claims manager. Mr. Leigh instills an attitude among his staff that the WCIA should operate as the Nordstrom of the pool industry, says Mr. Larson.

Continued from page 104

compact did not have requirements for city attorneys.

"It's expensive," Mr. Leigh said of the pool-financed training requirements. "You have to have the education budget to train these people at your cost."

The WCIA's 1998 risk management budget exceeded $500,000, with about $325,000 going toward training, education and consulting, Ms. Crane said.

Aside from the cost, the WCIA must find knowledgeable speakers with exciting presentations. If pool-hired educators are boring, then attendance could suffer at future training sessions, said Ms. Crane.

Audit conditions also have changed in the compact's second phase. Now auditors visiting a city compare that member's loss history with the history of other pool cities of similar size. They can show city officials and supervisors how they compare for claims frequency and severity generated by activities such as animal control, parks and recreation management, fire suppression and other municipal functions.

Understanding the details of their loss history helps city officials focus prevention and loss control efforts, Ms. Crane said.

"It increases their awareness of the loss activity," she said. Otherwise, "since we have such broad coverage, some of them may not know some of the details to that loss history."

Compact non-compliance is rare. There has only been one infringement per year since the compact was implemented. Most infringements stem from members failing in the simpler areas, such as paying assessments late or neglecting to attend full board meetings, Mr. Leigh said.

> *The most unusual part of the compact is they agreed to penalize themselves in this program, and they didn't have to.'*
>
> —Lewis Leigh

The WCIA tries to help members meet their requirements by sending compliance status reports and plenty of notices before it is too late for them to meet certain deadlines, Ms. Crane said.

Penalties can be severe for falling out of compliance. One city was fined 10% of its annual assessment.

But it's not the "municipal way" and highly unusual for cities to allow themselves to be penalized in such a manner, Mr. Leigh said. So the WCIA has a formal appeals process as well as a policy of notifying members several times before they fall out of compliance.

"We stack all these things on their side, and then if they still screw up, it's real awful," Mr. Leigh said. "But they did agree to that. The most unusual part of the compact is they agreed to penalize themselves in this program, and they didn't have to."

Appeals are heard by the pool's Executive Committee. Member representatives who are argumentative in unsuccessful appeals before the committee usually face stiffer penalties, while contrite representatives get consideration, Mr. Leigh said. However, most cases are remedied before the appeal level.

For example, the committee might apportion a penalty between an assessment increase and member-funded risk management measures that benefit the member's own city.

In that case, the committee might fine a small city $8,000 but require that half of that amount be spent on equipment that makes one of their park playgrounds safer, Mr. Leigh explained. BI

Pre-defense program positions members to win

Early attorney coaching educates WCIA participants, helps them avoid litigation mistakes

By ROBERTO CENICEROS

Under his direction, the Washington Cities Insurance Authority is a litigious pool, spending heavily to defend its members and fight for the causes they believe in, says Lewis Leigh, the pool's executive director.

The pool shells out about $8 million in litigation-related expenses annually, about half on defense costs and half to indemnify claimants. The pool spends another $250,000 annually on a creative pre-defense review program.

The pre-defense program provides pool participants with attorney coaching early on, when lawsuits are first anticipated and before they are filed, so that members are better positioned to win once the matter does go to court.

"We won 68% of our cases last year," Mr. Leigh said. "That doesn't sound like much of a batting average, but when you are defending police, land use and personnel (issues), those are horrendous exposures to try to control."

He considers it a win when the pool pays no indemnity costs, not when a jury returns with a low award.

"That is a quirk of this pool," he said. "We are highly litigious."

The aggressive philosophy on defending lawsuits is a real perk for member municipalities that would otherwise settle cases they can't afford to defend themselves against, Mr. Leigh said.

Plaintiffs' attorneys generally find it surprising, because they expect the WCIA to react as many traditional insurers do and settle claims rather than litigate them, he added.

"We have won some significant cases," Mr. Leigh said. "That dampens plaintiff attorney willingness, knowing we are willing to go to the mat and they need to have some pre-funding to play our game."

The pool even litigates personnel cases, such as terminations, that corporations typically settle, figuring that juries will decide against corporations because of a bias favoring employees.

> *'We have won some significant cases. . .That dampens plaintiff attorney willingness, knowing we are willing to go to the mat...'*
>
> —Lewis Leigh

"Especially if we have gotten a city to do their homework, then we are really willing to stand behind them," Mr. Leigh said.

To help pool participants do their homework, the WCIA weighs in with its pre-defense program, providing members with free legal consultation when a claim or lawsuit is first anticipated or a member fears its actions might result in a lawsuit.

The practice works well for many issues, but it is especially effective in employment practices liability, Mr. Leigh said. In those cases, a defense attorney can guide a municipality when it needs to spend time properly documenting problems before terminating someone.

Bringing an attorney in at that time deprives plaintiffs' attorneys of the chance to exploit mistakes employers typically make in such cases. It is a clever strategy because it protects the city's files on the matter with attorney/client privilege, Mr. Leigh pointed out. Otherwise, plaintiffs' attorneys would have access to those files through discovery.

Under common law, attorney/client privilege makes confidential the information exchanged between attorney and client. The communication cannot be discovered without client consent.

"We are able to prepare a better defense in case a claim or lawsuit is filed," elaborated WCIA Claims Manager Margaret "Peg" Campbell.

"But we are also able to provide some education while we are providing pre-defense services," Ms. Campbell said. "The attorney in a personnel case, where someone is being terminated, can walk the city through all the steps and give them the rationale why they have to go through all the steps. Hopefully, the next time they will be able to do it on their own."

Additionally, the process typically uncovers other issues that municipalities need to exercise caution on. Once city officials start talking about one problem with an attorney, they are more likely to discuss other situations, allowing the WCIA to help them set up an early defense.

The pre-defense program helps retain member loyalty because the WCIA essentially subsidizes their city-attorney budget, Mr. Leigh said. In 1998, the WCIA provided pre-defense review in 120 cases.

Some members try to push the issue so that pre-defense review program dollars extend into the actual claims defense. Such an action would minimize their loss history, which begins once a claim is filed.

It is Ms. Campbell's job to act judiciously, cutting them off from the program when appropriate, typically when a claim occurs.

"There is just so much money," she said. "Some cities push every time they have a pre-defense. Some cities don't. You try to be as fair as you can."

The pre-defense program has helped the WCIA stabilize its losses, Mr. Leigh said. Four years ago, the WCIA won 62% of its claims compared to the 68% it won last year.

> *The attorney in a personnel case, where someone is being terminated, can walk the city through all the steps. . . Hopefully, the next time they will be able to do it on their own.*
>
> —Margaret 'Peg' Campbell

Meanwhile, the pool is now spending more on defense costs than on indemnity costs. Before, the opposite was true; more was spent on indemnity than on defense.

One unusual case highlighting the program's success involved a police officer who was terminated because of a history of problems, including leaving his pistol in a restaurant, a domestic violence arrest and brawling with other officers who responded to the domestic violence call.

During a civil service hearing, the terminated officer claimed protection under the Americans with Disabilities Act because he is an alcoholic and had placed himself in a treatment program, Ms. Campbell said.

The pool provided the city with pre-defense counseling through the civil service hearing. The WCIA usually does not involve itself in civil service processes, but the outcome of the case had grave consequences for the city and would have set a precedent for other cities.

"We were able to get very, very strong language (from the civil service commission) that said, 'Yes, he may have been an alcoholic, but his alcoholism was not the reason for his termination,' " Ms. Campbell said.

A lawsuit was never filed, likely because the plaintiff and his attorney were left with a weak case. That would not have been the situation had the civil service ruling gone against the city, said Ms. Campbell. BI

Incommodious unseating honored

Hall of fame roasts farfetched, humorous claims

It's a story that cartoon creators might have dreamed up: Municipal workers activate a high-pressure water jet sprayer to scour out a city sewer line, and, in a nearby home, the force ejects a man off his commode.

But the scenario actually happened, and the resulting claim earned "hall of fame" status, an achievement highly sought by members of the Washington Cities Insurance Authority.

To generate esprit de corps among its participants, the WCIA annually hosts a claim-roasting party during a membership meeting. The most farfetched and humorous claims filed against its members are honored, said Lewis Leigh, the WCIA executive director. The honorees receive a certificate and sometimes a gag gift, such as a watch with only one hand.

The claims might include, for example, a false-arrest complaint against police officers for detaining someone who asserts they are combating aliens.

Often the WCIA will roast claims filed by plaintiffs' attorneys who have a knack for misusing flowery language in their complaints.

"There is some educational value, but it's a camaraderie thing," Mr. Leigh said.

Every year, members are eager to hear if one of their claims is deemed worthy of a roasting. One year a member whined incessantly because he felt his city should have been deemed worthy. The next year he was given an award for whining, Mr. Leigh said.

Every two or three years a really outrageous claim garners hall-of-fame status. Such was the case in the mid-1980s when the municipal workers blew the man off his commode.

The workers mistakenly connected the jet sprayer to the wrong sewer line, sending the spray's force up a smaller-diameter pipe than it was manufactured for. The stream, compressed into the smaller diameter, amplified the thrust that reached the man's home.

Another hall-of-fame winner resulted from a police dog that was supposed to flush out a store robbery suspect. When the store owner pointed out where he thought the suspect might be hiding, the confused dog bit the owner in the crotch and wouldn't release him, Mr. Leigh said.

The WCIA feared it had a huge claim on its hands. But the store owner's wife later conceded to a police officer that the incident hadn't injured her husband.

"The officer wrote it down in his report, and the guy had no damages," Mr. Leigh said.

—By Roberto Ceniceros

Self-taught in risk management success



PHOTO: MICHAEL MARCOTTE

By SALLY ROBERTS

Reflecting on her risk management career at Storage Technology Corp., Sheryl A. Pixler says she is most proud of raising the visibility of risk management and demonstrating that risk management brings value to the corporation.

That has not been an easy task. Four months after she joined the risk management department as a secretary in 1984, the digital information storage giant filed for Chapter 11 bankruptcy protection. Eight months later, the risk manager for Louisville, Colo.-based StorageTek went out on disability leave and never returned to the company.

The three women remaining in the risk management department were left to divide up responsibilities, a joint effort that lasted eight years until Ms. Pixler was named risk manager in 1993.

At that time, "our primary goal was to keep the ship steady," said the 18-year StorageTek veteran. "We were very aware that we had the obligation to back up the corporate goals of coming out of bankruptcy without any financial surprises when it came to claims."

While the risk management department was successful and StorageTek emerged from bankruptcy in 1987, other problems were emerging. Namely, workers compensation costs were out of control and there was no one focal point for risk management.

With a large manufacturing population, repetitive motion and back injuries were a common occurrence.

"People were dropping like flies," Ms. Pixler said. "We had not instituted any ergonomics. We had no proper equipment. We didn't have a budget. We didn't have the authority to push the program because we had no management structure. And the corporation didn't understand where this was leading and what would happen."

"We were frustrated," Ms. Pixler said. "We were not having an impact."

"We didn't want to be known as just an insurance department," she said. "The corporation at that time didn't understand the need for risk management. They figured the insurance was in place, so life was good."

In 1991, the risk management department went to the assistant treasurer and lobbied for implementing some loss control measures.

"That was when we really started raising our visibility, because we needed corporate support," Ms. Pixler noted.

A new $25,000 budget paid for educational materials on repetitive motion and back injuries, as well as a work injury prevention program. Consultants were hired to train employees how to prevent cumulative trauma disease and back injuries.

The department also convinced top management to hire a full-time ergonomist in the environmental, health and safety department to assist in work site evaluations to prevent and reduce injuries.

While the loss control efforts were reducing medical costs, a big portion of StorageTek's costs were still going to pay disabled people.

The department once again lobbied for upper-management support, this time for a return-to-work effort that would provide temporary jobs to injured workers so they could return to work in a restricted capacity.

In 1993, the company's transitional duty

Continued on next page

Continued from previous page
department began to take shape.

"It took a couple of years before we really started to see a reduction of claims, but we knew it was happening," Ms. Pixler said. "We had a lot of confidence in the program we had put in place and that ultimately it would work. We were betting the risk management department on this, because we had made a lot of noise about it and made a lot of promises."

After the transitional duty department began operating in 1994, claims really started coming down, Ms. Pixler said. "The first year's results from just our intervention in bringing people back to work was pretty amazing."

At the end of 1994, StorageTek's lost days plummeted 67% and lost time costs dropped 63%.

That really caught senior management's attention.

"Corporations are results-oriented, and we were able to show them we were serious about this and could produce results from loss control, that buying insurance was not the answer. That you can't do that without a program to control your losses," Ms. Pixler said. "It helped a lot to be able to bring significant refunds from our workers comp insurer."

Indeed, one of the first decisions Ms. Pixler's made after being named risk manager in 1993 was to scrap StorageTek's guaranteed cost workers comp program and implement a new retrospective rating plan policy with a $250,000 deductible.

Ms. Pixler said that StorageTek was beating its expected loss levels significantly, and St. Paul Insurance Co., StorageTek's workers comp insurer, began giving the company "major refunds."

In addition, Ms. Pixler and St. Paul came to a mutual agreement in 1995 to close out StorageTek's retro program from the prior year.

"We felt that it was advantageous to the company to close those claims out so we didn't have an exposure," she said. "I don't like retros that go into infinity. . . .So when we had the opportunity to come to a mutual agreement to value and close the claims, we did that."

Since that time, Ms. Pixler and St. Paul have come to mutually agreed terms each year to close out all prior year's claims.

With the implementation of loss control measures and the transitional duty department, StorageTek's workers comp premiums have gone to a retro program with a total premium and loss cost of $1 million in 1997, from a guaranteed cost program with a premium of $3.7 million and losses of $2.2 million in 1993. The company's employee population has remained relatively level during this period.

"It's an amazing success story," said Ray C. Henningson, chairman of Willis Corroon Corp. of Minnesota, StorageTek's long-time broker.

> *'Sherry's really brought the risk management position within the company to a higher level. . .She has been able to really create a team.'*
>
> —Ray C. Henningson

And Ms. Pixler's successes do not stop there.

Since being named risk manager in 1993, Ms. Pixler, among other things, has:

- Reduced StorageTek's total risk management budget to $5.9 million in 1998 from $8.9 million in 1993, while expanding coverages and increasing limits on other coverages. During the same time, sales increased to $2.4 billion in 1998 from $1.4 billion in 1993.
- Secured multiyear general liability, errors and omissions and directors and officers liability policies that contain no Year 2000 computer bug exclusions and expire after 2000 (see story below).
- Expanded the transitional duty department into the company's short-term and long-term disability program (see story, page 108).
- Developed a risk management World Wide Web site on the company's intranet to raise the visibility of risk management and to make the department more efficient (see story, page 109).

All these accomplishments have culminated in a much-heightened awareness by StorageTek of the risk management department's expertise and the benefits it provides the company, observers say.

For these accomplishments, Ms. Pixler was selected this year as a member of *Business Insurance*'s Risk Management Honor Roll in the large-company category.

"Sherry's really brought the risk management position within the company to a higher level," Willis Corroon's Mr. Henningson said.

"She has been able to really create a team. All of these people are headed for the same goal of keeping costs down and communicating with the company what risk management is all about," he said.

"In the last year and a half, Sherry's come a long way," said Mark D. McGregor, StorageTek's vp and treasurer and Ms. Pixler's immediate boss. "Part of that was in the past the department was little known. Nobody really understood what they did or how they could play into protecting the company."

Now, "when we've got a particular situation, we think, 'Well, we better check with risk management,' " he said.

For example, when the track coach from a new neighboring high school recently asked StorageTek if the school's track team could use the running track that surrounds the corporate campus for practice, "we called Sherry to see if it was OK and what she thought," Mr. McGregor said.

"I have met with the track coach, and we listened to their needs and discussed the risks we saw in allowing them on our property and how we might mitigate those risks," Ms. Pixler said.

"We're involved in all of those kinds of decisions now," whereas a few years ago, "I'd never have known about it," she said.

StorageTek decided to open up its campus and allow the track team to use its running path.

"When I really think about it, it's been tough and it's been hard, but I think we're really getting there," Ms. Pixler said of efforts to raise the department's visibility.

"We've had a very strong commitment from all of my people, and we have a great desire to succeed at this. We also understand that we can't do it alone. It's a partnership, and it's teamwork," she said. "If I've accomplished anything else, I think I've been able to break down some barriers. We don't think of it as benefits, risk management, safety and legal. We think of it as teamwork, and we've been promoting that for a long time."

Today, Ms. Pixler's risk management department participates in numerous task forces within StorageTek and gives many presentations explaining the value that risk management brings to the company.

"We've had to expand our influence by participating with teams," she said. "We've had to get out there and prove our worth. You can't do it by sitting in your office. So we've been out there really promoting the value of risk management."

While Ms. Pixler said that there is still work to be done in that area, the toughest aspect of her job at the moment is keeping up with the changing environment at StorageTek.

"We are moving so quickly and changing so rapidly and have so many new products and new initiatives that it is very difficult to keep your arms around the elephant," she said.

StorageTek's products and services, which are installed in more than 35 countries worldwide, are used to store, transport and secure more than 100 petabytes of the world's information, ranging from mainframe data to client/server applications to video, audio and still images.

To put that into perspective, one petabyte of data equals approximately 1,000 terabytes. At 12 characters per inch, one terabyte of data would circle the earth 56 times.

Ms. Pixler said that StorageTek is moving much more into the consulting and solution business now, which "brings to focus a whole new world out there of risk and opportunity."

Not surprisingly, one of the biggest risks StorageTek faces is an interruption of business.

"We need to pay attention to what in this company can cause us not to be able to produce a product," Ms. Pixler said. "When that happens, everything goes."

"We've had some near-disasters," she said, "which has driven our mind set to really want to organize and pay some very close attention to business continuity."

StorageTek has an emergency response coordinator who reports to the environmental health and safety department. One of his primary job functions is to put together a comprehensive business interruption program for the corporation, Ms. Pixler said. He works closely with risk management.

"We've got some good plans in place to mitigate that risk and full cooperation for that from upper management," she said.

Ms. Pixler also has recently addressed StorageTek's exposure related to intellectual property.

"For a company like StorageTek, intellectual property is a huge exposure," she said. "With the loss of intellectual property, we could be out of business in several years."

In 1997, "we started looking at this as an exposure, and we couldn't figure out a good way to control it. We felt one of the major problems was that people didn't even know what it was. They didn't understand that a patent was important," she said.

Under Ms. Pixler's directive, an intranet, available to all employees, was developed. It provides comprehensive information on what employees need to know to protect trade secretes, patents, trademarks and copyrights (see story, page 109).

"Sherry's very tuned into things that could create risk," Mr. McGregor said. "She's done an excellent job at being able to get a sense of what is going on in the company, what is changing, and how that affects our risk profile."

Constance Burkhard, senior risk management specialist, who has worked with Ms. Pixler for the last 15 years, agrees. "Sherry has a way of being able to cut right to the heart of matters. She is so sensible and level-headed and has a lot of common sense." BI

Foresight allows Pixler to sidestep Y2K exclusions

By SALLY ROBERTS

While many corporations are now in the midst of grappling with the Year 2000 computer bug problem, Storage Technology Corp. has nipped much of that uncertainty in the bud.

In 1995, before Y2K came into vogue with many other companies, Sheryl A. Pixler, StorageTek's risk manager, was researching what the millennium might bring to the corporation's risk management program.

"An insurance contact mentioned something to me like 'What do you think about this Y2K problem?' " Ms. Pixler said, recalling the first time she heard of the millennium bug. "It piqued my interest, and I began reading as much about it as I could get my hands on."

In late 1995, "I started raising the issue of Y2K to the corporation, stating, 'This is looming on the horizon, and is anybody doing anything?' " Ms. Pixler recalled.

She found others in the company, especially those in StorageTek's information systems division, who were aware of the Y2K bug and also were concerned.

In 1996, StorageTek formed a Y2K steering committee. Ms. Pixler served as a consultant to provide a risk management perspective on the corporation's efforts to bring its products into compliance.

At the same time, she realized that Y2K was going to be a fairly major exposure for insurers.

"I have been through the old pollution exclusions that were instituted in 1985, when the asbestos and environmental impact began to hit and insurers started imposing absolute pollution exclusions," she said. "I told my broker that I feared that the same thing would happen with Y2K, because the analogy to me was comparable."

Ms. Pixler and her broker, Ray C. Henningson, chairman of Willis Corroon Corp. of Minnesota, began preparing to ask StorageTek's insurers for multiyear contracts without Y2K exclusions.

"I put together some presentations, and we started presenting to our insurance companies, telling them that we were focusing on this problem and what we were doing. We were very open about it," Ms. Pixler said.

"The whole idea was to make sure the underwriters were well aware of what StorageTek was doing in order to be compliant," Mr. Henningson said.

Because the underwriters felt comfortable with StorageTek's compliance efforts, Ms. Pixler was successful in obtaining multiyear renewals without Y2K exclusions, Mr. Henningson said.

Ms. Pixler negotiated with The St. Paul Cos. Inc. a three-year general liability policy and a three-year errors and omissions policy that expire Oct. 1, 2000, and contain no Y2K exclusions. She also negotiated with Corporate Officers & Directors Assurance Ltd., a subsidiary of ACE Insurance Co., a three-year directors and officers liability contract expiring Dec. 31, 2000, without Y2K exclusions. Ms. Pixler has since been successful in negotiating with CODA to roll over the first year of its three-year policy, so that the policy now expires at the end of 2001.

> *'I started raising the issue of Y2K to the corporation, stating, 'This is looming on the horizon, and is anybody doing anything?' '*
>
> —Sheryl A. Pixler

"We have had a good working relationship with our insurers," Ms. Pixler said. "St. Paul and ACE are partners to us. They understand our business and also understand that we were addressing Y2K. I think that they had a confidence level in StorageTek that we were doing the right thing."

After obtaining those primary coverages, Ms. Pixler was able to go to the marketplace early and buy additional layers of general liability, E&O and D&O coverage and they followed form with no exclusions, she said.

Ms. Pixler said that she understood at that time that the property insurance would have a Y2K exclusion, so she negotiated with Allendale Mutual Insurance Co. to make sure the exclusion was not overly restrictive. She noted that the exclusion used is Allendale's standard Y2K exclusion.

"Our greater concern is the liability, especially the E&O," Ms. Pixler said.

"We're very fortunate to have what we have. The market is much tighter now," she said.

"I'm not going to sit and tell you that I guarantee that it's going to cover even without an exclusion. No one knows where this is going," Ms. Pixler said. But having the insurance protection in place has given the company, specifically its directors and officers, a sense of confidence, she said. "If there's any protection in the world, they've got it."

"With Sherry's efforts. . .we were able to bridge over Y2K long before a lot of other companies thought about doing it," said Mark D. McGregor, vp and treasurer of StorageTek, to whom Ms. Pixler reports. While it's "yet to be seen how all of this will play out. . .having the coverage, in my view, is a very good benefit for us." BI

Transitional duty effort cuts disability lost time

By SALLY ROBERTS

After implementing various loss control measures in 1991 to curb soaring workers compensation costs, the risk management department at Storage Technology Corp. quickly learned that, while prevention was important, intervention was key.

The loss control efforts "were reducing costs, but what it was not attacking was our lost time," said Sheryl A. Pixler, risk manager.

"We really needed an avenue to bring people back to work, because that's where we were losing money," she said.

In 1993, the department asked upper management to approve a transitional duty department to bring injured employees back sooner.

"They listened and gave us support," Ms. Pixler said.

In 1994, the transitional duty department was created as a unit reporting to the risk management department. The new department had the sole responsibility of returning injured employees to work as soon as was medically appropriate.

Barbara J. Melton is StorageTek's transitional duty specialist.

"When I first came on board... someone who had surgery for carpal tunnel was averaging six months off work," Ms. Melton said.

The problem was that most of the people who had repetitive motion problems were from manufacturing and it was just about impossible, with their restrictions, to safely put them back in that environment until they had healed, she explained.

With the advent of the transitional duty department, however, someone who has surgery today for carpal tunnel syndrome averages five days off work, Ms. Melton said.



PHOTO: MICHAEL MARCOTTE

Sheryl A. Pixler and staff. Left to right: Constance Burkhard, senior risk management specialist; Sharon Bolsinger, advisory risk management analyst; Ms. Pixler; and Barbara Melton, transitional duty specialist.

The way the program works is, if an employee has temporary medical restrictions that cannot be accommodated in his or her own department or division, he or she is transferred into the transitional duty department for temporary work assignment. The department, which has its own budget of roughly $200,000, pays the full salaries of injured workers returning to restricted work, and they can stay in the department up to six months.

While in the department, the employee reports to Ms. Melton, who meets with the employee on a regular basis to discuss any questions or concerns that might arise.

"I have about 15 jobs throughout the company," Ms. Melton said. "They're all temporary, and they're all office jobs."

All the job descriptions, which include such functions as mailing, filing, answering phones and photocopying, are written up by an occupational therapist, Ms. Melton explained. The treating physician must also approve of the restricted work assignment.

Within three working days after being placed in temporary work, StorageTek's ergonomist makes sure that the office equipment properly suits the temporary employee.

"The last thing we want is to injure them in some other way," Ms. Melton said.

The response from employees has been "quite good," Ms. Melton said. "I've had very few people that have seemed upset that I would bring them back before they are physically ready" for their old jobs.

In most cases, employees in transitional duty eventually go back to their old jobs. Under the Family Medical Leave Act, a job can be filled within 12 weeks, but managers usually keep them open for four months, which is the average time a person stays in transitional duty, Ms. Melton said.

Ms. Melton averages about 15 people a year in transitional duty.

"We've made a significant difference," she said.

In 1994, when the department was created, lost-time injuries averaged 33 days off work. By the end of 1997, the average time off was 11 days. Furthermore, in 1994, the average lost-time indemnity cost incurred for a workers comp claim was $5,000. By 1997, the average lost-time cost per claim was down to $1,100.

With the success of the transitional duty department already apparent, Ms. Pixler began in 1995 to explore the possibilities of expanding the return-to-work strategy outside of the workers comp arena.

Working with the human resources and health services departments, whose responsibilities include the oversight and administration of short- and long-term disability programs, Ms. Pixler formed an integrated disability task force. Now the transitional duty department's resources are available to any disabled worker.

"We really started thinking that, if we can bring people back to work in workers comp and do medical case management here with some of these principles we employ here, why can't we bring this over to the other side?" Ms. Pixler said.

"They were really receptive to working with us," she said.

"Our department and risk management have had a pretty productive working relationship," said P.J. Hollister, manager-corporate health services at StorageTek. "I guess, in some organizations, that may be more adversarial, but we didn't have to overcome those obstacles."

Ms. Hollister and Ms. Pixler served as co-chairs on the integrated disability management task force, which met for almost two years until last August.

The health services department reports to human resources.

Goals for the task force included seeing what other companies were doing in integrated disability management; creating an integrated disability management philosophy that would drive policies and practices; and developing an integrated data base that tracks leaves and costs associated with those leaves.

One of the main goals, however, was to better integrate transitional duty into the STD and LTD program.

Today, "if someone gets released to work from a non-work-related injury with restrictions, and if his or her manager cannot accommodate those restrictions, I call Barb to see if she can put that person in transitional duty until those restrictions are lifted," explained Beverly A. Lewis, leave administrator in the health services department.

In 1996, the first year employees on non-occupational disability were placed in transitional duty, the average lost time per individual employee was reduced by one and one-half weeks, which translated into a hard dollar savings of $165,000.

StorageTek also saw a 39% reduction in employees applying for LTD benefits after the first year.

The risk management and health services departments also convinced UNUM Corp., StorageTek's LTD insurer, to recognize time spent in transitional duty as fulfilling the waiting period for LTD coverage. So, if after six months in transitional duty, an employee is still disabled, he or she does not have to wait another six months to receive LTD coverage, Ms. Pixler explained.

While human resources and risk management are successfully working together, full integration of the two departments is not likely in the near term.

"We are as integrated as we decided we want to be right now," Ms. Pixler said. "We looked at that very closely to see how far we wanted to go with it. But we want to do what works for us. And right now, full integration, to us, is having one carrier do it all, and we found that we didn't have to do that."

"Right now, it's not broke, so we're not going to try and fix it," Ms. Pixler said. BI

Coverage a well-considered commitment to the basics

By SALLY ROBERTS

For a high-tech company that strives to solve complex data storage problems with megabytes, gigabytes and terabytes, Storage Technology Corp.'s insurance program may seem pretty basic.

The Louisville, Colo.-based data storage giant has more than 25 insurance policies to cover its operations, conducted by 8,700 employees located in hundreds of offices throughout the world, and one lead insurance broker to place the business.

"We've looked at captives, and we have looked at finite risk programs, and we have looked at integrated risk programs," said Sheryl A. Pixler, StorageTek's risk manager. "We don't feel, at this time, any of those programs have a benefit to StorageTek. We are not a company that has a high product-liability exposure. For some companies carrying these kind of programs, they do have significant, difficult or uninsurable risks. We don't seem to fit into those categories. We've analyzed it, but with the market being as soft as it is right now and our premiums are very manageable and our retentions are very manageable, we don't see the advantage."

"We continue to look at it. We're constantly assessing that," Ms. Pixler said. "If the market turns, hardens or changes in some other way, we're certainly going to be open to it."

In the meantime, Ms. Pixler refers to the thick three-ring binder she calls her "Bible" to access information regarding StorageTek's insurance program:

- Domestic property insurance, which includes business interruption coverage, is underwritten by Allendale Mutual Insurance Co. on a blanket basis. While primarily a domestic policy, it also covers manufacturing facilities in Puerto Rico and Toulouse, France.

All other international property insurance is placed with CIGNA Corp., which is issued with master difference-in-condition policies in the United States and local admitted policies written in each country of operation.

- Domestic primary general liability insurance is placed with The St. Paul Cos. Inc., which also underwrites the first umbrella layer. Federal Insurance Co., National Union Fire Insurance Co. of Pittsburgh, Pa., and Twin City Fire Insurance Co., in that order, provide additional excess layers. The insurance is written on a multi-year basis set to expire Oct. 1, 2000, and contains no Y2K-exclusion language.
- International casualty insurance is issued with master DIC policies in the United States and local admitted policies written in each country of operation. St. Paul writes both the primary and umbrella layers, providing the local coverage through various international affiliations.
- Errors and omissions insurance is a specific electronic manufacturer's E&O policy and is placed with St. Paul. Federal Insurance and Gerling America Insurance Co., respectively, provide the excess coverage.

St. Paul, Federal and Gerling also provide separate but similar E&O policies for two of StorageTek's foreign subsidiaries in Canada and Australia to better satisfy the demands of government contract language.

The entire E&O program is a three-year policy expiring Oct. 1, 2000 and contains no Y2K exclusions.

- The first layer of directors and officers liability insurance is underwritten by Corporate Officers & Directors Assurance Ltd., a subsidiary of ACE Insurance Co. ACE provides the first layer of excess, XL Insurance Co. provides the second layer of excess, and ACE provides an additional third layer. The D&O coverage is a three-year program expiring in 2001 and contains no Y2K exclusions.

> *'We've looked at captives, finite risk programs and integrated risk programs. We don't feel, at this time, any of those programs have a benefit to StorageTek.'*
>
> —Sheryl A. Pixler

- Workers compensation insurance is underwritten with a large deductible and on a retrospectively rated basis by St. Paul.
- Fiduciary liability insurance is underwritten by ACE.
- A worldwide business travel and accident policy is underwritten by CIGNA.
- A worldwide blanket crime insurance policy is placed with Federal Insurance.
- A worldwide aviation policy that covers StorageTek when it charters aircraft is provided by CIGNA.
- Medical professional liability insurance, which covers the doctors in StorageTek's medical unit, is provided by St. Paul.
- A cargo policy that covers the shipment of all of StorageTek's products on a worldwide basis is underwritten by CIGNA.
- A business automobile policy that covers all owned, hired and non-owned vehicles in Canada, the United States and Puerto Rico, is underwritten by St. Paul.
- A new employment practices liability insurance policy was purchased last October and is underwritten by Executive Risk Inc. An excess layer is provided by XL.

After assessing the marketplace, Ms. Pixler decided that the timing was right to purchase EPL insurance.

"As a high-tech company, we had seen a lot of attention focused on D&O liability claims," she said. After federal legislation was passed in 1995, however, "it made it more difficult for attorneys to file claims against corporations. So a lot of their focus, it seems to me, has changed to employment practices litigation. There's a much

Continued on next page

Continued from previous page
greater emphasis on it today."

"We had looked at (EPL) internally and said that the market seems to be at a point where they're offering a pretty good policy at reasonable terms and premiums. And considering what was happening in the field of litigation, we thought it was the prudent thing to do," she said.

With as many insurers and insurance policies that Ms. Pixler has to contend with, the ongoing consolidation in the marketplace is of concern to her.

"The continued compaction of insurers is of some concern, because choices are becoming fewer," she said. "One hopes that there are advantages attached to that. I'm not so sure. As with other risk managers, I'm waiting to see the positives of all of this. Right now, I see confusion. People don't know if they have jobs. The morale in some companies is a problem. I hope this eventually will translate into something positive for the insurance buyer. I think the jury's out."

Consolidation is just one of the topics of conversation brought up during StorageTek's annual stewardship meetings, which the company holds with all of its insurers.

"Last summer, we had our 10th consecutive stewardship meeting with these folks," noted Ray C. Henningson, chairman of Willis Corroon Corp. of Minnesota, StorageTek's longtime broker.

During this two- to four-day annual event, he and StorageTek's risk management department and Mark D. McGregor, StorageTek's vp and treasurer, discuss with each insurer developments at StorageTek and the insurer shares its news, Mr. Henningson explained.

"In this day and age, (the meetings) are very interesting," he said. "I think all the carriers on StorageTek's account have been involved in a merger."

With the stewardship meetings, StorageTek has been able to "get out on the table" any issues or problems it has with an individual underwriter before it turns into a bigger issue, Mr. Henningson said. "The format has been very successful in doing that."

Unlike many other Fortune 1000 companies that prefer to have two lead brokers handle their accounts, Ms. Pixler is content to have one broker handle her business.

"For a high-tech company, I feel it's extremely important for a broker to understand your business," she said. "You need trust and faith in your broker, and I've never felt that Willis Corroon violated that trust or faith."

"Ray has done an excellent job," Ms. Pixler said. "He knows this company as well as we do. He is as much a part of the risk management team as we are."

Because a Bermuda-based broker must place the business with Bermuda-based insurers, StorageTek uses Kitson Brokerage Services Ltd. in Hamilton to place that business. BI

Intranet site increases visibility, efficiency

By SALLY ROBERTS

A main goal of the risk management department at Storage Technology Corp. is to continually raise the visibility of risk management within the corporation.

Not surprising in a high-tech company that is World Wide Web literate, the department is using Internet technology to do so.

StorageTek's seven-month-old risk management intranet is not only providing employees with a variety of risk-related information on matters ranging from rental cars to intellectual property but it also helping to simplify and to make more efficient risk management operations.

"We saw an opportunity to put together a functional intranet site so employees knew what to do if they had a car accident or what to do if they had a workers comp claim—all the things that we hoped would reduce the number of phone calls we get, where we could push a button and play back a tape," said Sheryl A. Pixler, risk manager for the Louisville, Colo.-based data storage manufacturer.

When accessing the risk management site, StorageTek employees have 18 hypertext links to point and click on. These run the gamut from an overview of the risk management department to briefings about loss control and information on the corporation's safety department.

> *'We need to adapt the site as the needs of the corporation change. We're constantly looking at how we need to change it.'*
>
> —Sheryl A. Pixler

On an "Auto Claims" link, for example, a StorageTek employee can get instructions about what to do and whom to contact if he or she is involved in an automobile accident while conducting company business. And following an "On-Line Forms" link, employees can download bid and performance bond forms, requests for certificates of insurance forms and accident reporting and investigation forms. Additional forms will be added as they are identified.

The department also plans to put a general summary of StorageTek's insurance program online in the near future, so "our people can go on and know what's available," Ms. Pixler said. "It avoids questions and concerns."

"We need to adapt the site as the needs of the corporation change," she said. "We're constantly looking at how we need to change it."

One of the more recent additions to the site is a link to an intellectual property site that was developed last August.

The intellectual property online training tool was the logical answer to the goal of trying to protect StorageTek's corporate assets, explained Sharon Bolsinger, advisory risk management analyst, whom Ms. Pixler appointed as project manager for the IP Web site.

While conducting research on intellectual property for StorageTek in 1997, Ms. Bolsinger found that managers in various departments handled intellectual property differently. "There was not one place to go to find information about it," she said.

Ms. Bolsinger worked closely with the company's attorneys, its global learning network—which offers training and corporate development resources—and its corporate design and creative services department, developing an intranet almost entirely in-house.

The site includes information on how and when to apply for patents, trademarks, copyrights, non-disclosure agreements and legal releases. It also defines what each legally protected corporate asset is, why it is important and whom to talk to if there are questions, Ms. Bolsinger explained.

"We feel it has been successful because everything they need to know is online," Ms. Bolsinger said. She noted that employees are still learning about the IP site.

Ms. Bolsinger was authorized to spend up to $15,000 on the site, and she stayed within her budget. Most of the expenses paid for an outside writer, she said.

The risk management intranet was developed entirely with in-house resources, so there are no costs associated with it, Ms. Pixler said. "It was more time than anything," she said.

Connie Burkhard, StorageTek's senior risk management specialist, will be speaking about the risk management intranet Wednesday morning during this week's Risk & Insurance Management Society Inc.'s annual conference. BI

Department kicks up its heels while doing its job

By SALLY ROBERTS

Sheryl A. Pixler was so overwhelmed in her first job at Storage Technology Corp. in 1981 as a secretary to the manager of corporate services that she quit after one week.

"I was born and raised on a farm. I'm a small-town Iowa girl, and StorageTek is a huge corporation," she said. "The building is a quarter of a mile long from one end to the other in addition to having 2 million square feet in total building space on this campus. For the first couple of days, I literally got lost in the buildings," she said.

"So, after one week, I told my boss it was just not for me. I'm out of here," Ms. Pixler recalled.

Her boss, however, encouraged her to stick it out for six months and gave her a 20% raise.

That was 18 years ago.

Today, as risk manager of StorageTek, Ms. Pixler is responsible for the company's worldwide risk management program, with her primary focus on protecting the assets and earnings of the company from significant loss due to foreseeable and unexpected events.

To do this, Ms. Pixler, among other duties, identifies and analyzes exposure to loss and determines the appropriate risk management technique for treatment of the exposure; organizes and implements loss control programs; supervises a computer database of risk management information and analyzes the data for trends; coordinates risk management activities with other departments; works with corporate and subsidiary officers and employees to formulate risk and financing programs and provides counsel on risk management issues.

Ms. Pixler's road to success as risk manager of StorageTek was not always an easy one, but it is a sterling example of on-the-job training.

After graduating from high school in Mapleton, Iowa, Ms. Pixler worked for the Woodbury County Farm Bureau in Sioux City, Iowa, for 11 years. As the office manager, she was responsible for the management of the day-to-day administration of the Farm Bureau as well as its insurance operations.

She moved to Colorado with her husband and son in 1975 and obtained a real estate license. After becoming dissatisfied with the real estate market and financing conditions at the time, she dropped off an application with StorageTek.

She joined the corporation in 1981 as secretary to the manager of corporate services, where she was in charge of, among other things, the company's van pool, an employer-sponsored car pool service. Sensing that the van pool was not going to survive the corporate cutbacks taking place at StorageTek during that time, Ms. Pixler took a job in 1984 in the risk management department as a secretary to the risk manager.

Four months later, StorageTek declared Chapter 11 bankruptcy.

Eight months after that, the company's risk manager went out on medical leave and never returned.

The three women left to run the risk management department, Ms. Pixler, Constance Burkhard and Sharon Bolsinger, each divided up the responsibilities and assumed the risk manager role of the department.

For her part, Ms. Pixler took on responsibility for the insurance program, broker contact and all claims administration except workers compensation.

During that time, Ms. Pixler also attended many RIMS-sponsored educational seminars as well as local seminars and forums on topics pertaining to risk management topics.

Ms. Pixler's increased awareness of trends in insurance and risk management and her on-the-job training were rewarded in 1993, when she was named risk manager.

"Sherry had a lot of excellent qualities in terms of leadership skills, communication skills, knowledge of the insurance industry and of StorageTek," said Mark D. McGregor, vp and treasurer, who lobbied the company to promote Ms. Pixler. "I've been fortunate to work with her in kind of developing her into a new manager."

Ms. Pixler continues to work in tandem with Ms. Burkhard, senior risk management specialist, who is the loss control specialist for both property and workers compensation; and Ms. Bolsinger, advisory risk management analyst, whose responsibilities include gathering financial data from other areas of the corporation and assimilating it so that it can be quantified for insurance treatment and exposure base detail.

Barbara Melton, a transitional duty department specialist, joined the risk management department in 1992, primarily to administer workers compensation claims. In 1994, she took on the responsibility for the transitional duty department.

This close-knit all-woman department works hard, but there's little doubt they also know when to have fun. To many at StorageTek, the women are known simply as the "Riskettes."

Ms. Burkhard explains, "StorageTek used to have big Halloween parties, and in the late '80s we got the idea that we would dress up as the Rockettes of Radio Center Music Hall fame," she said.

"We couldn't call ourselves the Rockettes," she continued, "so we became the Riskettes. We had the tuxedo tops and the top hats, canes, white gloves, shorts and high heels, and we sang and danced to the song 'Let Us Entertain You.' We won a prize."

"So we've been called the Riskettes ever since, by the people who are in the know," Ms. Burkhard said.

"There's a lot of imagination in that department. We have a good time. I think we know when to work and when to have fun," she said.

The Riskettes made a second appearance at a StorageTek Halloween party in the early 1990s. At that time, Ms. Melton also joined in the fun. BI



PHOTO: ROBERT GUILLOT

Sheryl A. Pixler, risk manager of Louisville, Colo.-based Storage Technology Corp., reports to Mark D. McGregor, StorageTek's vp and treasurer.

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Issue of April 12

Reader Service #	Advertiser	Page #
—	ACE Group	17
1	Acordia	36
—	AIG Corporate	60-61
2	Allianz Insurance Company	24
3	American Institute for CPCU	86
4	AON Group	15
5	Assurex International	53
6	Beech Street Corporation	31
—	Blue Cross Blue Shield-Assn.	71
—	Blue Cross Blue Shield-Assn. CA	71R
7	Burnham Systems	112
—	Business Insurance	40, 65
8	Carvill America, Inc.	83
—	Centre Solutions	20-21
—	CGU Insurance Companies	26-27
9	CNA/E&S	77
10	CNA/Investigative Options	34
11	CNA/Reinsurance	4
12	CNA/Risk Management	90
—	College of Insurance	98
14	Commonwelath Risk Service	85
15	Corvel Corporation	73
16	Cunningham Lindsey	87
17	David Corporation	70
18	Enterprise Advisors Inc.	28
—	Fleetsafe Corporation	101
19	Frontier Insurance Co.	82
20	GAB Robins	47
21	Gates McDonald	46
22	General Star Management	35
23	GENEX	12
—	Ian H. Graham Inc./Chubb	50
24	Gulf Insurance Company	48
—	HCC Benefits Corp.	72
—	Humana Workers Compensation	6
26	Inex	42
27	InPhoto Inc.	69
—	Inquislogic, Inc.	59
28	Insurance Overload Systems	92
—	IRMG	63
29	Kemper Insurance Companies	5
30	Lexington Insurance	I. B. Cov.
31	Liberty Mutual	9
32	Liberty Mutual/Risktrac	55
33	Liberty Mutual	43
—	London Special Risks Ltd.	44
35	Wm. H. McGee & Co., Inc.	93
36	Meadowbrook Insurance Group	50
—	R. E. Moulton Insurance Agency	22
37	Munich-American Risk Partners	18-19
38	NYDIC Open MRI of America	66
39	Old Republic Risk Management	67
—	Outdoorsman Agency	78
40	Phico Group	38-39
41	PMA Reinsurance Corp.	30
42	Policy Management Systems	51
—	PXRE Reinsurance Company	91
43	Pyramid Services Inc.	112
44	Reliance Group Holdings	24A-D
45	Reliance National	7
46	Reliance National/Enterprise Earnings Protection Insurance	23
47	Reliance National/Integrated Benefits Choice	29
48	Riskcap	76
13	RSKCo.	99
49	Royal & SunAlliance	B. Cov.
50	Scor U.S.	Cov. 2, 2A-2B
51	Standard & Poor's Corp.	37
52	Standard & Poor's Corp.	48A-D
53	Summit Global Partners	52
—	Swiss Re America/New Markets	13
54	Tenconet	83
—	The Travelers P/C Ins. Co.	45
55	United Resource Networks	62
—	USA Managed Care Organization	74
—	Ward North America Inc.	89
—	Wausau Insurance Companies	33
—	Wicklow Excess Insurance Svc.	68
56	Willis Corroon Corporation	79
—	World Captive Forum	95
—	X. L. Capital	14
57	Zurich-American	10-11

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31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
136	137	138	139	140	141	142	143	144	145	146	147	148	149	150

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Ten judges select top risk manager, honor roll

Ten independent judges from all sectors of the risk management profession and the insurance industry selected the 1999 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

The honorees were selected based on the judges' assessments of the risk managers' programs as detailed in their nominations.

"The prestige of the Risk Manager of the Year award and Risk Management Honor Roll awards is greatly enhanced by the composition of our judging panel," said Kathryn J. McIntyre, publisher and editorial director of *Business Insurance* in Chicago. "These leaders in their fields gave their very valuable time to carefully review the nominations and select the Risk Manager of the Year and the Risk Management Honor Roll. We at *Business Insurance* are very grateful for their contributions to the awards process."

The 10 judges for 1999 included the 1998 Risk Manager of the Year, the three members of the 1998 Risk Management Honor Roll, two insurance company executives, two insurance brokerage executives, a risk management consultant and an insurance educator.

The judges for the 1999 awards were:

• John E. Cay III, chief executive officer of Palmer & Cay Inc. in Savannah, Ga. Mr. Cay is serving on the panel for the first time, representing insurance brokers.

• Helen I. Doerpinghaus, associate professor of insurance at the Darla Moore School of Business at the University of South Carolina. Ms. Doerpinghaus is serving on the panel for the first time, representing insurance educators.

• Brian Duperreault, chairman, president and chief executive officer of Hamilton, Bermuda-based ACE Ltd. He is serving on the panel for the second time, representing stock insurance companies.

• James E. Green, risk manager of Justin Industries, a diversified manufacturer based in Fort Worth, Texas. Mr. Green is a member of the 1998 Risk Management Honor Roll.

• Philip J. Grewar, director-risk management branch of the Canadian province of British Columbia. Mr. Grewar is the 1998 Risk Manager of the Year.

• Mark L. Hubbard, vp-risk/human resource management at Loma Linda University Adventist Health Sciences Center in Loma Linda, Calif. Mr. Hubbard is a member of the 1998 Risk Management Honor Roll.

• Edward Molloy, director-corporate risk management at Aetna Inc. in Hartford, Conn. He is a member of the 1998 Risk Management Honor Roll.

• Shivan S. Subramaniam, chairman, president and CEO of Allendale Mutual Insurance Co. Mr. Subramaniam is serving on the panel for the first time, representing mutual insurers.

• Arvid R. Tillmar, chairman and CEO of T.E. Brennan & Co. in Milwaukee. Mr. Tillmar is serving on the panel for the first time, representing risk management consultants.

• Frank C. Witthun, president and chief executive officer of Acordia Inc. in Indianapolis. He is serving on the panel for the second time, representing insurance brokers.

The judges score each of the candidates on 10 criteria (see story, page 112). The candidate with the highest score after the judging is completed is named Risk Manager of the Year. Then, the remaining nominees are separated by employment category:

• Corporations with sales exceeding $300 million.

• Corporations with sales of less than $300 million.

• Government entities.

• Tax-exempt or non-profit en-

See **Judges** *on next page*

Risk Managers of the Year

Philip J. Grewar
Director, Risk Management Branch
Government of British Columbia

Judy Lindenmayer
Vp of Fidelity Insurance and Risk Management
FMR Corp.

Brian D. Casey
Director of Risk Management and Loss Prevention
Corning Inc.

Scott K. Lange
Director of Risk Management
Microsoft Corp.

Lucille A. Gallagher
Vp of Risk Management
ConAgra Red Meat Cos.
Monfort Inc.

Richard C. Heydinger
Director of Risk Management
Hallmark Cards Inc.

Millicent W. Workman
Director of Corporate Risk Management
Belz Enterprises

Arnold L. Davenport
Vp-Risk Management
Marriott Corp.

Stephen M. Wilder
Director of Corporate Risk Management
The Walt Disney Co.

Jeffrey W. Pettegrew
Risk Manager and Chief Administrative Officer
Contra Costa County Municipal
Risk Management Insurance Authority

William L. Mather
Administrator of Risk Management
The Gillette Co.

Edith F. Lichota
Senior Vp
Irving Trust Co.

Donald Nelson
Director of Risk Management
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Risk Manager
General Motors Corp.

Edward L. Erickson
Director of Insurance
American Broadcasting Cos. Inc.

Howard T. Weber
Director of Insurance
Minnesota Mining & Manufacturing Co.

Risk Management Honor Rolls

1999
James E. Green, Justin Industries, Small corporation
Edward Molloy, Aetna Inc., Large corporation
Mark L. Hubbard, Loma Linda University Adventist Health Sciences Center, Non-profit institution

1998
John J. Carney, National Freight Industries Inc., Small corporation
Betsy Kutska, Park District Risk Management Agency, Self-insurance pool
William R. Powell, Salt River Project, Government entity
Russell Opferkuch, Bankers Trust Co., Financial institution
Jeannie Sedwick, AHA-Insurance Resource Inc., Non-profit institution

1997
Craig S. Macdonald, Bi-State Development Agency, Government entity
Michael Tawney, Loomis Armored Inc., Small corporation

1996
Lee D. Holland, Tennessee Municipal League Risk Management Pool, Self-insurance pool
K.C. Kidder, Norwest Corp., Financial institution
Judith Payne, South Dakota, Government entity
Bruce Zaccanti, Jupiter Mechanical Industries Inc., Small corporation

1995
Sal M. Bianchi, Intergovernmental Risk Management Agency, Self-insurance pool
Judith Moses McDonald, Comerica Inc., Financial institution
Ronald J. Guilfoile, City of St. Paul, Minn., Government entity
Thomas J. Hickey, Malcolm Pirnie Inc., Small corporation

1994
David G. Adler, The Portman Cos., Small corporation
Thomas E. Bell Sr., Middle Cities Risk Management Trust, Self-insurance pool
June Dickinson, SunTrust Banks Inc., Financial institution
C. David White, State of Oregon, Government entity

1993
Marc Darby, Bombardier Inc., Large corporation
Jerry Newsom, State of Georgia, Government entity
Judith Tornese, Transamerica Corp., Financial institution

1992
Donald D. Batchelor, Union Planters Corp., Financial institution
Rod Umscheid, University of California, Non-profit institution
Mary L. DeCampli-Stewart, Metropolitan Washington Airports Authority, Government entity

1991
Josephine Goode Johnson, University of Maryland Medical Service System, Self-insured fund
Roger D. Oaks, Tennessee Farmers Cooperative, Small corporation
M. Michael Zuckerman, Thomas Jefferson University, Non-profit institution

1990
John A. Lindquist, Browning-Ferris Industries Inc., Large corporation
J. Douglas Higley, State of Louisiana, Government entity

1989
Gregory L. Daniels, American National Red Cross, Non-profit institution
Timothy G. Galarnyk, Lunda Construction Co./Phoenix Steel Inc., Small corporation
Stephen A. Finley, City of Lakewood, Colo., Government entity
Edward G. Weiss, First of America Bank Corp., Financial institution

1988
Susan M. Werner, Hardee's Food Systems Inc., Large corporation
Mark F. Wilson, First Mississippi Corp., Small corporation

1987
Delmer Ison, Washington Metropolitan Area Transit Authority, Government entity
William E. Rogers, Conemaugh Valley Memorial Hospital, Non-profit institution

1986
Susan N. Weiner, Dade County Public Schools, Government entity
Eva F. Goodrich, Cincinnati Electronics Corp., Small corporation

1985
Sidney D. Blatt, Holloway Cos., Small corporation
Gene Snyder, State of Oregon, Government entity

1984
Jerri Nelson MacMillian, Aetna Life & Casualty Cos.' Real Estate Investment Department, Large corporation
Robert Sinclair, Metropolitan Government of Nashville and Davidson County, Government entity

1983
Spencer J. Traver, BF Goodrich Co., Runner-up
Paul B. Harvey, Ponderosa Homes, Small corporation
Gene M. Marsh, General Conference of Seventh-Day Adventists, Non-profit institution
George N. Pierce, Orange County, Fla., Government entity

1982
Robert Bieber, Westchester County, N.Y., Government entity
William Ryan, University of Michigan, Non-profit institution

Judges

Continued from previous page

tities.

- Financial institutions.
- Self-insurance funds and pools.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year is eligible to be named to the Risk Management Honor Roll, subject to the judges' discretion.

For the 2000 awards, financial institutions and self-insurance pools will be no longer be separate categories; risk managers for those entities will be judged along with other corporations and public entities, respectively.

> *The prestige of the Risk Manager of the Year award...is greatly enhanced by the composition of our judging panel.'*
>
> — Kathryn J. McIntyre

Business Insurance created the Risk Manager of the Year competition in 1977, on its 10th anniversary of publication, to recognize outstanding risk management practices. The first award was presented in 1978.

In 1981, *Business Insurance* created the Risk Management Honor Roll to recognize outstanding achievements in risk management in different types of employment categories.

To be nominated, a candidate need not handle risk management functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate can 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 other service supplier can nominate a client. And a risk manager can nominate a colleague.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by an executive of the candidate's organization, who may be the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

Nomination forms for the 2000 awards are available from *BI*'s Chicago office. All nominations must be submitted by Nov. 19.

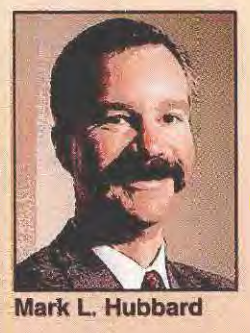
All nominations will be kept in the strictest confidence, with only the honored candidates' names announced.

To request a nomination form for the 2000 awards, contact Karen Tucker, assistant to the publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319. BI

1999 Judges



John E. Cay III



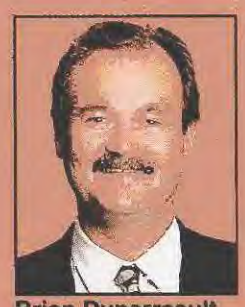
Mark L. Hubbard



Helen I. Doerpinghaus



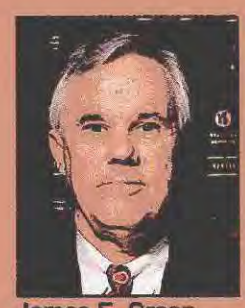
Edward Molloy



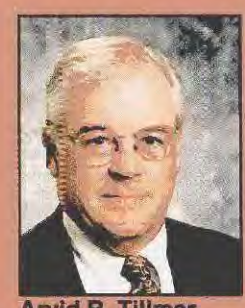
Brian Duperreault



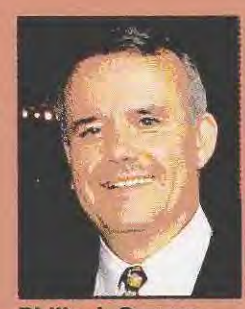
Shivan S. Subramaniam



James E. Green



Arvid R. Tillmar



Philip J. Grewar



Frank C. Witthun

Criteria judges use in picking winners

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The panel of 10 independent judges will score each nominated 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).
- 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 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 operational aspects 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). BI

Services Guide

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INTERNATIONAL

Global Briefs

Bermuda-based **New Cap Reinsurance Corp. Holdings Ltd.** has informed the Australian Stock Exchange that it still is unable to report its 1998 results. In a letter dated March 31, Paul Williams, acting managing director of Australian subsidiary New Cap Reinsurance Corp. Ltd., informed the ASE that both the company and its auditors need to do more work on the accounts, which were originally due March 15. Mr. Williams stated the company anticipates it will report results soon but cannot set a timetable. It has already missed two reporting dates, and its shares were suspended on the ASE in mid-March at New Cap Re's request. New Cap Re suspended its underwriting activities in Bermuda in February, when reserves fell below statutory levels. Since then, directors Jonathan Beach and Craig Deery, and Azmin Daya, managing director of the Australian operation, have resigned. . . .Mark Hodges has been appointed finance director of U.K. general insurance at multiline insurer **Norwich Union P.L.C.** He replaces Bridget McIntyre, who has been appointed finance director of Norwich Union's U.K. long-term savings business. Geoff Shaw also has been appointed chief actuary for Norwich Union's life and pensions, annuity and pension management companies. . . .City of London police arrested an employee of the **Corporation of Lloyd's** late last month on suspicion of fraud. A police spokesman confirmed that the Fraud Squad had arrested and questioned a male Corporation employee, who has been released on bail pending further investigation. A Lloyd's of London spokesman declined to provide more information. . . .Sean Dalton has been appointed managing director at **Liberty Syndicate Management Ltd.** in London. . . .Lloyd's broker **FirstCity Insurance Brokers Ltd.** has set up a new trade and political risks division. The division is headed by Rupert Morgan, who previously was director of Lambert Fenchurch Ltd. He will soon be joined by Mark Gubbins and Toby Heppel, deputy chairman and managing director, respectively, of Lambert Fenchurch's political risks division. . . . John Roberts has been appointed by U.K. loss adjuster **Gates Adjusting Partnership** to develop its U.K. business. Mr. Roberts previously was director of Crawford-THG (UK) Ltd.'s special investigations division. . . .Simon Burley has been appointed head of U.K. business development for **Crawford-THG (UK) Ltd.** He previously was a partner with Ashworth Mairs Group. . . .Ratings agency Standard & Poor's has assigned an A+ insurer financial strength rating, with a stable outlook, to Japanese insurer **Nissan Fire & Marine Insurance Co. Ltd.** The ratings agency said its decision was based on the insurer's solid market position in the middle tier of the Japanese non-life industry, as well as its very strong capitalization, high-quality asset mix and satisfactory operating performance. . . .Steve Harris has been appointed contingency underwriter at London-based underwriting agency **IGI Underwriting Agencies Ltd.** Mr. Harris' appointment marks IGI's expansion into contingency business; previously it has written only accident and health insurance and reinsurance on behalf of Lloyd's syndicates and reinsurers. The new contingency book will include prize indemnity, non-appearance, major events, cancellation/abandonment, confidential life, and failure to telecast. Coverage will be written on behalf of Lloyd's underwriters for up to $1 million per risk. . . .**Chartwell Underwriting**, the U.K. subsidiary of U.S. insurer Chartwell Re Corp., has opened an office in Birmingham to expand its regional business in the United Kingdom.

Brazil to sell state reinsurer

By MARIA KIELMAS

SAO PAULO, Brazil—Brazil's monopoly reinsurer, IRB Brasil Resseguros S.A., will be privatized this summer, and competition for the government's half-share in the reinsurer is expected to be fierce.

The long-awaited sale was announced March 26 by the National Development Bank, BNDES, which is in charge of the privatization.

While the state owns half of IRB, the remainder is owned by private insurers in Brazil, which are allocated ownership based on their annual premium volume.

The country's largest insurer, Rio de Janeiro-based Sul America Companhia Nacional de Seguros, owns between 7% and 8% of IRB, according to Sul America President Patrick Laragoiti.

The state's 50% share will be a block trade to one company, said Ozires Mendes Ribeiro, the executive in charge of modeling the IRB privatization at the Rio office of London-based investment banker N.M. Rothschild & Sons, which is advising BNDES on the sale. Mr. Mendes is a former international director at IRB.

Munich Reinsurance Co. is considered the prime candidate to buy IRB. Munich Re opened an office in Sao Paulo, Brazil's principal industrial city, two years ago.

"Munich Re cannot say that it is not interested or that it will buy IRB. We don't know all the reinsurance regulations and the model" Brazil will use, said Nicklaus Von Bomhard, managing director of Munich Re's Sao Paulo office. "There will be fierce competition for it."

While the IRB's value will depend on new rules governing IRB's market share as a private company, Mr. Mendes calculates IRB's net present value at 650 million reals ($375.7 million).

IRB, which has about 300 employees, wrote about 1.03 billion reals ($595.3 million) in reinsurance premiums in 1998. While its 1998 results have not been published yet, preliminary figures issued by the company show it retroceded 15% of its risks to foreign reinsurers and 15% to local insurers, retaining 70%. Preliminary 1998 net profits were 200 million reals ($115.6 million), up from 51.69 million reals ($46.3 million) in 1997. Gross reinsurance premiums written in 1997 were 605 million reals ($542.1 million).

The National Privatisation Council, CND, is organizing the sale and plans to open the company's books to potential buyers at the CND offices in mid-April.

Formerly known as Instituto de Resseguros do Brasil, IRB's status as a state-owned monopoly reinsurer was stipulated in Brazil's 1988 constitution. A 1996 constitutional amendment stripped this status, but new regulations have not been issued, so IRB has continued as a monopoly.

The swift privatization of IRB was a condition of the letter of intent signed by the Brazilian government with the International Monetary Fund in November providing Brazil with a $41.5 billion emergency credit line.

BNDES is expected to issue the tender documents April 30 and the sale should occur 60 days later.

Still to be determined under new reinsurance regulations is what percentage of the Brazilian market will be reserved for IRB and what will be underwritten by national and foreign reinsurers. Other issues to be decided include the minimum capitalization, solvency margins and reserve requirements of the new reinsurers expected to move into the Brazilian market.

Reinsurance will be regulated by Conselho Nacional de Seguros Privados in Brasilia.

A draft of rules governing reinsurance, which

See **IRB** *on page 115*

HSE issues record safety fines

By CAROLYN ALDRED

LONDON—British engineering conglomerate Balfour Beatty Group of Cos. has received two record fines for safety lapses in the last two months totaling a massive £1.7 million ($2.7 million).

Both fines were welcomed by the Health and Safety Executive, the government agency responsible for workplace health and safety, which has been calling for U.K. courts to impose higher fines on companies that fail to ensure safe working environments.

Balfour Beatty Rail Maintenance Ltd. was fined £500,000 ($807,650)—a record for a railway accident—by the Chelmsford Crown Court on March 22 after pleading guilty to a breach of the Health and Safety at Work Act.

The decision to prosecute followed an HSE investigation into the September 1997 derailment of the last eight vehicles of a 21-vehicle freight train at Rivenhall, Essex. The derailment blocked two rail tracks for five days and cost £1 million ($1.6 million) to repair.

"This prosecution and the size of the fine send a strong safety message to the railway industry, particularly railway maintenance contractors. I am pleased that the court treated this case with the seriousness it deserved," said Vic Coleman, HSE's chief inspector of railways.

In February, Balfour Beatty Civil Engineering was fined £1.2 million ($1.9 million) by the Old Bailey court for breaches of safety that led to the collapse, during construction, of tunnels at London's Heathrow Airport in October 1994.

"This is the biggest single fine ever for offenses under the health and Safety at Work Act," said a statement from the HSE.

Balfour Beatty's Austrian subcontractor Salzburg-based Geoconsult ZT GmbH was fined £500,000.

The court judge, Justice Cresswell, pointed out that companies exposing people to serious risks should face fines large enough to bring the health and safety message home to managers and shareholders.

"This case raises many issues from which lessons need to be learned," said Sandra Caldwell, HSE's chief inspector of construction, adding that the "level of the fines sends a clear message to all in the industry—including clients, designers, consultants, contractors and subcontractors—that they must ensure the safety of the public and workers."

No one was injured in either incident.

Balfour Beatty pointed out in statements that management procedures and working arrangements for safety have been reviewed across the London-based group since both incidents.

"The health and safety of its employees and of the general public is of the highest priority to Balfour Beatty," the company noted.

Geoconsult did not comment on the ruling.

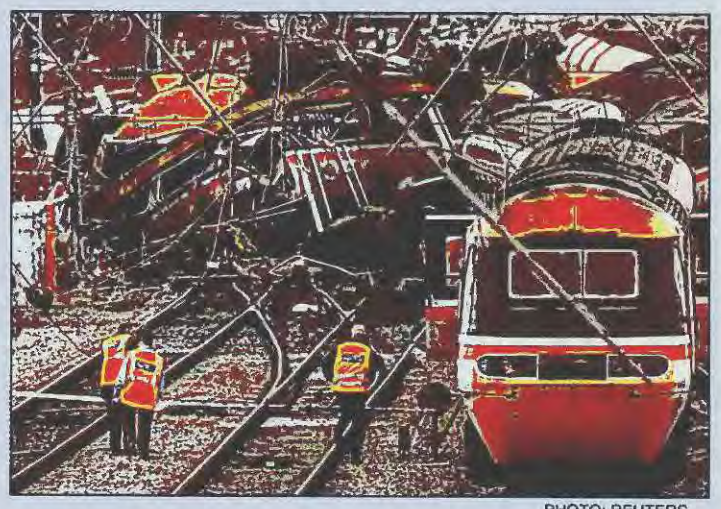


PHOTO: REUTERS

A 1997 U.K. derailment resulted in a record fine of more than $800,000 for railway safety violations.

Worry over stress claims growing: Survey

By SARAH GODDARD

NOTTINGHAM, England—Stress claims are becoming a significant challenge for U.K. risk managers, according to a survey released last month.

In a joint survey by the Assn. of Insurance & Risk Managers and Lloyd's of London, risk manager respondents cited stress-related employee claims as the most significant risk their companies will face this year.

The survey, "Focusing on the Future," was unveiled at the AIRMIC Conference 1999, held in Nottingham, England, March 29-April 1.

The survey of 160 AIRMIC members, most of them risk managers in the top 200 U.K. companies, took place in January and February. Of the 44 questionnaires returned, 61% of respondents came from publicly held companies, 14% represented private companies and 14% represented U.K. subsidiaries of U.K. or overseas companies. The balance included public-sector organizations and charities.

The concern over stress claims reflects research conducted last year by the Trades Union Congress, an association of U.K. labor unions. The TUC survey found that 77% of responding companies identified stress as the main health and safety hazard in U.K. industry, up from 68% the previous year.

The TUC found the highest number of lawsuits against employers resulted from stress claims. And the Confederation of British Industry estimated U.K. businesses lost £5 billion ($8.42 billion) last year due to stress-related illness.

U.K. risk managers are less concerned about the effects of the millennium bug than about those of stress claims, according to the AIRMIC/Lloyd's survey. More than half the risk manager respondents identified Y2K risk growth as increasingly serious this year, and at the same time, 30% are concerned about the lack of insurance coverage for systems failure as a result of Y2K. In contrast, 16% said Y2K-related risks will be less serious.

"This suggests that some organizations are coming to terms with the levels of exposure created by potential problems and are developing, or have developed, contingency plans to cope," says the survey's commentary. "Another factor could be that the gathering impetus of in-house (information technology) programs within larger organizations will do much to defuse successfully any possible claims experience as Y2K approaches."

Other areas identified by the survey as of growing significance included loss of reputation, claims against directors and officers, and climatic exposures.

Risk managers said they were particularly concerned over the lack of insurance coverage for loss-of-reputation exposures, with 34% identifying it as a problem.

Commenting in the survey, Robert Chase, special risks underwriter for R.J. Kiln & Co. Ltd.,

See **Stress** *on page 115*

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IN THE MATTER OF LIQUIDATION)
OF AAI SYNDICATE #1 LTD.) NO. 99 CH 1639

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on February 9, 1999, the Circuit Court of Cook County, Illinois, entered an Agreed Order of Liquidation With a Finding of Insolvency against AAI Syndicate #1 Ltd. ("AAI Syndicate"). Nathaniel S. Shapo, Director of Insurance of the State of Illinois, is the statutory and court affirmed Liquidator of AAI Syndicate ("Liquidator").

TAKE FURTHER NOTICE, that on March 17, 1999, the Circuit Court of Cook County, Illinois, entered an Order Fixing Rights and Liabilities and Providing for the Filing of Claims and the Setting of Claim Filing Deadlines ("Fixing Order"). Pursuant to the Fixing Order, all rights and liabilities of AAI Syndicate and its policyholders, creditors and stockholders, and all other persons interested in its property or assets, are fixed as of February 9, 1999, unless otherwise provided in prior or subsequent orders of the Court.

TAKE FURTHER NOTICE, that all persons, companies or entities who have, or may have claims, against AAI Syndicate, its property or assets, or against an AAI Syndicate insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before February 9, 2000 at 4:30 p.m. (C.S.T.)

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by AAI Syndicate shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before February 9, 2000 at 4:30 p.m. (C.S.T). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made a the fourth priority level [215 ILCS 5/205 (1) (d)] unless such claim has been liquidated and the insured claimant has presented and filed evidence of payment of such claim to the Liquidator on or before February 9, 2001 at 4:30 p.m. (C.S.T.). Any contingent claim for which a proper proof of claims is filed on or before February 9, 2000 at 4:30 p.m. (C.S.T), but which is not liquidated on or before February 9, 2001 at 4:30 p.m. (C.S.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level [215 ILCS 5/205(1)(e)] unless otherwise directed by the court.

TAKE FURTHER NOTICE, that the form and required content of all proofs of claim are described in 215 ILCS 5/209. Proofs of claim, along with supporting documents, if any, are to be filed with, and may be obtained from, the Liquidator of AAI Syndicate, c/o the Office of the Special Deputy Receiver, located at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. A proof of claim shall be deemed "filed" with the Liquidator upon the Liquidator's receipt thereof. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may be deem necessary. The Liquidator further reserves any and all defenses available to AAI Syndicate upon all filed claims. All proofs of claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS, COMPANIES OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST AAI SYNDICATE, ITS PROPERTY OR ASSETS, OR AGAINST AN AAI SYNDICATE POLICYHOLDER, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE FEBRUARY 9, 2000 AT 4:30 P.M. (C.S.T).

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Special Deputy Receiver

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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 13,382

Sub-total 30,302
Associations 249
Government, Unions and Educational Institutions 982

Commercial Consumers Sub-total 31,533
Insurance Agents and Brokers 7,902
Insurance Companies 6,627
Accountants, Actuaries, Attorneys & Consultants 2,488
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers 1,435
Others Allied to the Field 774

Total Qualified 50,759
Non-qualified/Paid Subscriptions 18
Single Copy Sales 1

TOTAL CIRCULATION 50,778

★ *Source Business/Occupational breakdown of qualified circulation, November 30, 1998 Issue, as submitted to BPA for December 1998 BPA Publisher's Statement*

IRB

Continued from page 113

was due to be published last month but has been delayed, reserved 40% of the Brazilian reinsurance market for the privatized IRB, implying that insurers will be obliged to cede 40% of all reinsurance policies to IRB before seeking other reinsurance.

At the end of March, not even IRB President Demosthenes Madureiro de Pinho could predict what the new rules will be. He said he believes matters will become clearer soon.

Brazil's regulator of private insurance, the Superintendencia de Seguros Privados, has issued recommendations on the new regulation.

In January, Susep recommended a minimum capitalization of 50 million real ($28.9 million) for local reinsurers. Susep also recommended that local insurers should not be able to reinsure more than 75% of their risks.

"There are rumors that fronting arrangements will not be allowed," says Fabio Basilone, deputy managing director of broker Aon Group Ltd. in Rio de Janeiro, a division of Aon Corp.

Insurers, brokers and risk managers welcome the privatization.

Mr. Basilone said the new reinsurance market will bring more business to brokers and insurers.

Munich Re, however, has not written much business since opening in Brazil because "we are offered the business only when IRB doesn't want it," said Mr. Von Bomhard, noting the business offered wasn't attractive.

Munich Re has been following the progress of the market opening, keeping in contact with federal and state government insurance officials as well as prospective clients, he noted.

Brazilian insurers can reinsure facultative risks in the international market, but only with IRB permission.

Maria Beatriz Cesar Schiesari, industrial risks underwriter at Brazil's third-largest insurer, Sao Paulo-based Itau Seguros S.A., says reinsurance can be negotiated with the international market but the arrangement must be be approved by the IRB.

Ms. Cesar predicts that an open reinsurance market will bring in new expertise in risk management and loss control. Before joining Itau, Ms. Cesar spent 10 years as risk manager for the Brazilian and Latin American business of Dutch electronics group Philips Electronics N.V.. She also is the international director of the Brazilian risk management association, Sao Paulo-based Associaciao Brasileira de Gerencia de Riesgos.

Brazil, which is experiencing a recession, has had a further economic slowdown following a 40% devaluation of the real against the U.S. dollar in January. The government forecasts that Brazil's gross domestic product will shrink by 2% to 3% this year, and the insurance market is expected to shrink between 1% and 3%, said Sul America's Mr. Laragoiti.

Munich Re's Mr. Von Bomhard said the IRB's privatization comes at an unfortunate time when the global reinsurance market is so competitive and Brazil is in recession. But so far, Brazil's insurance sector has weathered the devaluation well, he said.

IRB's Mr. Madureiro de Pinho said the devaluation had no effect on his company. "We didn't have a problem. We have all the money we needed to pay claims," he said.

For insurers such as Sul America, the devaluation had little effect as all the company's assets and liabilities are in reals, said Mr. Laragoiti. BI

Stress

Continued from page 113

said the survey results show that the industry is in "a knowledge economy where shareholders value a company mainly for its ideas and expertise, so that intangible assets such as intellectual property and brands count for far more than tangible ones, and, secondly, the results show that the insurance industry has generally been slow to react to this sea change in business."

However, 14% of risk managers polled said their organizations opted not to buy coverage for reputation, image and brand value exposures.

Topping the list of risks organizations have decided not to insure are credit and environmental/pollution risk; 25% of risk managers polled said their organizations were choosing not to buy coverage for these exposures.

In the survey's commentary, independent risk consultant Graeme Lee said credit risks are likely to be retained, rather than insured, as they are "quite rightly viewed as a controllable business risk."

Political risk coverage followed close behind, with 21% deciding to remain uninsured. Risk managers identified terrorism as the only area causing them less worry this year and thus less need for coverage. This could be partly due to Northern Ireland's Good Friday peace accord last year that resulted in the Irish Republican Army and other groups calling a cease to their terrorist activities.

But, Philip Perry, terrorism underwriter at Hiscox Syndicates Ltd., warned in the survey commentary that "the evidence is that the risks are not gone, just hidden."

More than 60% of the respondents are using alternative risk transfer products, from self-insurance and captives to securitization.

This is not surprising, considering those polled generally represent the largest U.K. businesses, the survey noted. Even so, more-sophisticated alternative risk financing instruments are being eschewed in favor of traditional products as risk managers take advantage of the soft market.

"There's no great advantage in a soft market of looking at these things," AIRMIC Chairman David Ketley said at the release of the survey. A market hardening will help develop more sophisticated risk-financing products. But, he suggested the capital markets would be more interested in large reinsurers' portfolios than in individual policyholders.

Of the 39% of respondents not using alternative risk transfer, 53% said they were considering it for the future.

By far the most common ART strategy is self-insurance, with 89% of ART users saying they retain risk. Most of this was via captives: 71% of respondents own a captive, with larger companies more likely to own captives than smaller organizations.

Although only 19% of survey respondents using ART products currently use finite risk insurance—the second most popular ART technique, according to the survey—52% of the respondents that say they foresee using alternative risk transfer methods are considering using finite risk insurance. Almost 40% are considering financing risk through their balance sheets, and 22% are looking at derivatives for risk financing.

ART products' flexibility is their largest attraction for risk managers, with 70% of respondents using ART citing this as their reason for doing so. Almost 60% cited the ability to protect non-traditional risks, and the same number said price was the main reason for using ART products.

"There continues to be concern over the lack of cover for loss of intellectual property and reputational risks," commented Mr. Ketley in the survey, "and considering that this has been identified by risk managers as the No. 1 risk area threatening U.K. organizations, it does present a major opportunity for the insurance market and the burgeoning ART sector."

•

Copies of the survey are available free by contacting Andrew McKenzie, Marketing Department, Lloyd's of London, 1 Lime St., London EC3M 7HA; phone: 44-171-327-5832; e-mail: andrew.mckenzie@lloyds.com.

Domicile data omitted

Information on the British Virgin Islands was omitted from the chart of captive domiciles on page 54.

The domicile had 81 captives registered in 1998, up from 72 in 1997. It has a minimum capital and surplus requirement of $200,000 for property/casualty captive insurers writing up to $1 million in net premiums; and $250,000 for life/health captive insurers.

The domicile's premium-to-surplus requirement is 5-to-1 for P/C captives writing up to $5 million in net premiums.

The application fee for starting up a captive is $500, and there is a $2,000 annual license fee; there are no applicable taxes.

Captives are governed under the Insurance Act, passed in 1994, and regulations passed in 1995.

For information, contact Peter Bates, Supervisor of Insurance, Financial Services Department, The Haycroft Building, Pasea Estate, Road Town, Tortola, British Virgin Islands; 284-494-4190.

FTR FOR THE RECORD

Health plan to provide grants, loans

DETROIT—In an effort to improve the quality of health care, Health Alliance Plan, a Michigan non-profit managed care organization, will provide $7 million in grants and loans to medical providers.

The money is designed to spur providers to develop programs that improve quality and raise the health maintenance organization's overall ranking compared to other health plans.

"Quality is really first on our agenda," said Emily Santer, assistant vp of health and medical affairs for HAP in Detroit.

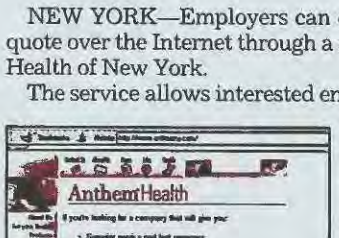
HAP will give the funds to affiliated providers that serve more than 15,000 of its members. Grants totaling $5 million and low-interest loans of $2 million will go to programs that improve health quality, such as raising childhood immunization rates or increasing use of beta blockers in patients who have had heart attacks.

Applications are due by April 19. If the entire $7 million is not spent, a second round of applications will be accepted later this year.

Health rates over the Internet

NEW YORK—Employers can obtain a real-time health plan quote over the Internet through a new service offered by Anthem Health of New York.

The service allows interested employers and brokers to choose different combinations of benefits offered by Anthem and receive a quote.



"Companies—especially small to mid-sized firms—wanting to price health insurance on their own can now do so when it's convenient for them, since the web never sleeps," Carmine Morano, Anthem New York's president, said in a written statement.

The system also allows employers to pick different combinations of services, such as pharmaceutical benefits, and vary the number of plan members to compare prices.

The service is available at the company's Web site, www.anthemny.com.

Intel wins ergonomics award

ALEXANDRIA, Va.—The Intel Corp. has won the Outstanding Office Ergonomics Award for 1999 from the Center for Office Technology.

Using a standardized ergonomics training program launched in 1992, Intel slashed its overall injury rate 33% each year over the past four years. At the same time, sprain/strain and cumulative trauma disorder rates fell an average of 37% in each of the last four years. In addition, the company experienced a 72% reduction in time away from work for each lost-day case.

The COT also commended Intel for the significant injury rate reduction despite a threefold increase in the size of its workforce over the past four years.

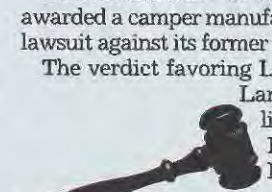
Two employers received Honorable Mention awards: Bankers Trust Corp. and the City of Portland, Ore.

Based in Alexandria, Va., the Center for Office Technology is a national association of employers and manufacturers dedicated to improving the office working environment and promoting comfort and well-being in working with computers and office technology.

$6.3 million bad-faith award

LOS ANGELES—A California superior court jury last month awarded a camper manufacturer about $6.3 million in a bad-faith lawsuit against its former workers compensation insurer.

The verdict favoring Lance Camper Manufacturing Corp. of Lancaster, Calif., includes about $4.6 million in punitive damages assessed against Republic Indemnity Co. of America in Encino, Calif.



Lance Camper alleged that its former workers comp insurer manipulated claims reserves between 1986 and 1993. The insurer unfairly reduced dividends, which increased premiums, said the manufacturer's lead trial attorney, Marilyn Smith of Mahoney, Coppenrath, Jaffe & Pearson L.L.P. of Los Angeles.

Specifically, "there was a clear pattern of Republic increasing reserves just before annual dividends were calculated and then later decreasing those reserves after the calculation was made," Ms. Smith said.

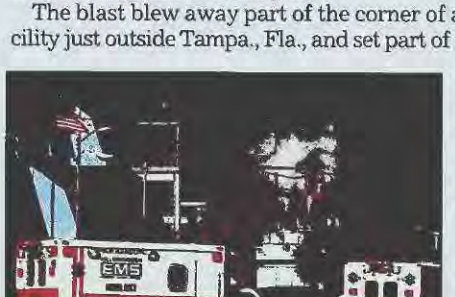
A spokesman for Republic Indemnity Co. of America said the insurer was surprised and disappointed by the verdict. It intends to seek reconsideration or, if necessary, file an appeal, according to a statement by Republic's counsel, Ray L. Wong of Hancock Rothert & Bunshoft L.L.P. in San Francisco.

Mr. Wong said that Republic paid nearly $250,000 in dividends to Lance Camper. The manufacturer's experience rating modification factor generally decreased during the period, which is indicative of good claims handling, he said.

Generator test suspected in blast

TAMPA, Fla.—A generator test is suspected as the cause of an explosion that killed two people and injured 49 last week at a TECO Energy Inc. electric plant.

The blast blew away part of the corner of a building at the facility just outside Tampa., Fla., and set part of the structure on fire.



AP/ WIDE WORLD PHOTOS

Investigators from the Hillsborough County Fire Department, the Federal Bureau of Investigation and the Occupational Safety and Health Administration combed the site last week in an effort to determine the cause of the explosion.

A sheriff's office spokesman said the investigation points to an "explosion in a generator that occurred during a static test" as the likely cause of the accident.

TECO did not return phone calls.

Claims management firm expands

SALEM, Mass.—Northshore International Insurance Services Inc., the Salem, Mass.-based claims management and auditing firm, is expanding to the West with the acquisition of SRG Strategy & Risk Group.

Phoenix-based SRG provides insurance claims and risk management consulting services.

The combined company has additional offices in Georgia, Illinois, Indiana, Pennsylvania, Texas, South Africa and England. BI

CRO

Continued from page 1

said. No one reports to a common officer until the level where individuals report to the CEO.

The establishment of the chief risk officer role, therefore, is an important step in the right direction, he said.

"It's a process," Mr. Riley said. "It's going to be a long process."

Dun & Bradstreet, he said, is moving toward an enterprise risk management approach.

Richard M. Inserra, assistant treasurer-risk management and insurance for Danbury, Conn.-based Union Carbide Corp., said, "Most companies are stepping along that path" toward a more consistent or integrated approach to risk management and the eventual naming of one individual to head the process (see related story). The true advantage of a CRO is to have someone whose full-time responsibility is to develop and implement risk management strategy and communicate it up and down the organization, Mr. Inserra said. The actual execution of the strategy, he said, may be done by a team of specialists or technical experts.

Companies have different theories about who in an organization has the broad view to assume the chief risk officer position, said John Bugalla, managing director of Advanced Risk Management Services at Willis Corroon Corp. in Nashville, Tenn.

Some companies view the traditional risk manager as the most appropriate person to step up to the CRO role. Others see the corporate treasurer as the likely candidate, while still others find the general counsel best suited.

And some companies are filling the CRO position from outside their organizations, consultants say.

Driving the establishment of the chief risk officer position is "greater awareness and appreciation on the part of senior management of corporations, or any entities, of the impact of risk on their business," said Charles R. Lee, principal and marketing and development manager for Tillinghast-Towers Perrin Worldwide in Dallas.

When companies see risks ranging from natural catastrophes to reputational catastrophes, Mr. Lee said, they begin to ask whether they need, "if not a uniform way of addressing them, at least an organized way of assessing, identifying, quantifying and mitigating risks."

"If a CEO thinks that way, then he or she is going to logically say, 'I need somebody I can rely on to pull all this together and help me analyze and manage this,' " he said.

In some cases, high-profile losses are prompting companies to rethink their risk management strategies and, ultimately, to name a more senior person to coordinate efforts at the corporate level.

The CRO trend is most prominent in the financial services industry, followed by public utilities and petrochemical industries, said H. Felix Kloman, a former Tillinghast consultant and now the Lyme, Conn.-based editor of the Risk Management Reports newsletter. The financial services and petrochemical industries both have had high-profile losses that suggest the need to rethink their risk management approaches, Mr. Kloman said. The public utilities have "major risks on their radar scopes," ranging from nuclear risks to extremes in cold and heat that can disrupt the power grid.

Within five years, about 50% of companies in those three industries will have chief risk officers who probably will report to the CEO and the board of directors, Mr. Kloman predicted.

"It used to be we had a handful of CROs in the United States," said Mr. Lam of Enterprise Risk Solutions. "Now we have dozens globally, across different industries."

Another reason companies may decide to name a CRO is the increased focus on corporate governance by regulators in the United States, Canada and the United Kingdom. Government-backed commissions in those countries all have developed standards aimed at achieving efficiency, reliable financial disclosure and compliance with laws, said Willis Corroon's Mr. Bugalla. Commission reports have said the responsibility for identifying and quantifying risks should be at the level of the board of directors and not at the middle-management level, he said.

Driving establishment of the CRO position is 'greater awareness and appreciation on the part of senior management. . .of the impact of risk on their business,' says Charles R. Lee.

As the perceived value of senior-level risk management leadership increases, the role of the chief risk officer will expand.

"A few years ago, the role of the CRO was much more narrow. It was the role of integrator," Mr. Lam said. That role consisted of integrating different market risks or of trading the risks of various business activities.

Mr. Lam formerly was CRO at GE Capital Corp.'s Capital Markets Services Division, with responsibility for credit, market and operational risks. Most recently, he was chief risk officer at Fidelity Investments in Boston, with corporatewide risk management responsibilities.

The titles that may go along with the role are many, said Mr. Lam. In addition to chief risk officer, the role sometimes is called chief market and credit officer, principal risk officer, executive vp-risk management, head of risk management, or global head of risk management.

In a nutshell, the CRO's key responsibility is "to reduce risk at the appropriate times and to increase risk at the appropriate times," he said.

That mandate includes enhancing the business performance of the organization through risk-adjusted pricing so the company is appropriately rewarded for taking risks.

The CRO is going to be more of a consultant than a transaction person, said Mr. Bugalla of Willis Corroon. The CRO will meet with the CEO and the CFO to understand their strategies and to offer risk management insights related to those strategies. The CRO also will provide insights for strategic and tactical actions that senior risk management might want to take. The key objectives would be to protect earnings, to increase market capitalization or the underlying asset value of a private corporation, and to take advantage of accounting efficiencies to reduce the overall cost of risk, he said.

Another significant part of the CRO's role is ensuring that the right people are in place to carry out the enterprise risk management approach.

"You have to have the right risk management expertise managing risk at the source of the risk," said Mr. Sacks of Arthur Andersen.

The CRO also usually has a team of people to assess, evaluate and analyze key risk information provided by business units. That information is then summarized by the CRO and reported to senior management and the board of directors, he said.

CROs most often report to the CEO or the CFO, said Mr. Lam, and a growing number report directly to the board.

Those reporting to the CRO include the heads of market risk, credit risk, operational risk and risk management systems analysis, as well as the heads of risk management within the various business units, he said.

While specific academic credentials in finance and a knowledge of insurance both are assets for the position, those qualifications alone do not make a CRO.

Several characteristics needed in a CRO include leadership and management strength, strong communication skills and the ability to effect change, said Mr. Sacks. The person should be able not only to strategize, but also to execute, he said.

"I'm not sure people look for specific credentials, but they do look for specific skill sets," said Mr. Lam. Those skills come from a "broad and deep risk management experience," including an understanding of international markets and of credit and operational risk, and an in-depth knowledge of derivatives and alternative risk transfer applications, he said.

Companies also look for a "solid risk management record," which includes the use of risk transfer tools to optimize portfolio performance and the application of risk-adjusted capital to increase shareholder value.

"My challenge to those who wear the risk manager title," said Tillinghast's Mr. Lee, "is that they need to position themselves—if not to be the chief risk officer, then to be a core member of that whole process."

"I think one thing they must do is really understand the business that their company is in and the industry very, very intimately," he added.

Risk managers that wish to enhance their role should get to know all the key decision-makers at the operating company and corporate levels of the organization and offer to participate in risk-related decisions, Mr. Lee advised.

It's important for the risk manager to understand the key financial measures or performance indicators that the company uses to determine success. Risk management steps should be taken with the purpose of improving those indicators, Mr. Lee said.

"The role that the traditional risk manager needs to evolve toward is much more of an added-value role," said Mr. Lam. Risk managers must see "where there are gaps" in their own experience and then work to fill them.

To help prepare students and risk managers for the new professional environment, The College of Insurance in New York has changed its curriculum over the past few years, said President Ellen Thrower.

The master of science in risk management program, launched about 18 months ago, gears students to the broader, integrated approach to risk management, with in-depth education in risk financing and financial risk management.

Those who choose the risk management concentration in the college's master of business administration program also now receive more emphasis on alternative risk financing, including the use of capital markets and derivatives, in addition to traditional risk management, Ms. Thrower said.

In addition, the college offers customized courses to meet the needs of risk management professionals at specific companies.

"Certainly, not every company or organization, or even every big company, will have a CRO, but we do believe we're going to see more of it," Ms. Thrower said. BI

Expanding the envelope

How 2 companies extend risk management's reach

When Hydro Quebec decided to pursue additional lines of business, the company also had to prepare to manage new risks.

The Montreal-based electric utility received a government mandate in 1996 to improve profitability, and the utility's board decided to develop commercial products and conduct more business outside Quebec to become a world leader in energy markets.

With new ventures on the drawing board, a task force was convened in 1997 to determine how Hydro Quebec could take a more dynamic and proactive approach to risk management.

The task force in late 1997 recommended an integrated approach to risk management and the development of a unit to coordinate the effort. Andre Richard Marcil was named general manager of controlled and integrated business risk management, leading the unit of six additional risk management professionals and one administrator. He reports to the chief financial officer.

Mr. Marcil, who has been with the company about 20 years, previously had been director of financial markets, where he developed value-at-risk measures, loss limits and other elements of integrated risk management.

Mr. Marcil said the unit has two principal responsibilities. One is to support Hydro Quebec's individual business units in the development and implementation of risk management strategy. The second is to integrate the risk profiles of the various business units at the corporate level and make appropriate risk management recommendations to the chief executive officer and board of directors.

"Top management is highly committed to this approach for better decisions and better profitability of the corporation," Mr. Marcil said.

Managing risk requires a vision of the company's future, he said. Communicating that vision to managers and explaining their responsibilities in making it a reality was an early priority, he said. The effort has been enhanced with an intranet site, information in the company newspaper and a discussion in the annual report.

Mr. Marcil and his staff are creating an educational program that will give the company's managers the information and tools needed to embrace Hydro Quebec's integrated risk management approach.

The risk management unit has established a 22-member group of coordinators representing each business unit, profit center and cost center. The members were chosen by their units' senior managers to implement the necessary steps in the integrated or enterprise risk management approach.

'Top management is highly committed to this approach for better decisions,' says Richard Marcil.

Subsidiary Hydro Quebec International has been working with Arthur Andersen to launch the new process in accord with the increased emphasis on international business. Mr. Marcil said that arrangement has allowed him to exchange ideas with the consultants.

As of this year, when the individual business units present their two-year business plans, they must report on their risk profile and how they are managing the risk, Mr. Marcil said.

Now, the risk management unit is delving into quantitative risk analysis.

The goal is that in one year the individual business units will be more active in identifying their risks and opportunities and implementing new management approaches, Mr. Marcil said.

The company is "not just putting in place a strategy to manage risks, but to develop interest in making this one of the key elements to succeed in achieving corporate objectives," he said.

Another company taking a fresh look at risk management is Union Carbide Corp. of Danbury, Conn. The chemical company has been working toward a more consistent approach to risk management for two years, said Richard M. Inserra, assistant treasurer-risk management and insurance.

Representatives of different areas of the company have been meeting to discuss their risks, risk management approaches and how the various departments can work together, Mr. Inserra said.

The risk management department helps those representatives examine risk management options. For example, discussions have generated ideas about using the company's insurance subsidiary, Westbridge Insurance Ltd. in Bermuda, to cover commodity or credit risk "to provide value and a more consistent risk management philosophy," Mr. Inserra said.

The discussions have created awareness that "the risk management department can bring value to non-traditional risks," he said. The result is that the department is more frequently contacted for advice on new approaches to dealing with risks.

Mr. Inserra said the department hopes to have more interaction with various staff and business groups to generate solutions and non-traditional ways of handling Union Carbide's risks.

A logical extension of the company's risk management communication effort, he said, would be to have one person addressing a wide array of risks.

Commentary

Winstonia enters the domicile pool

Even as the never-ending soft commercial insurance market dampens some buyers' enthusiasm for captive insurers, there is no letup in the fervor among governments vying to attract these entities.

Each spring when *Business Insurance* conducts its annual report on captive insurance, there are a handful of new Bermuda wannabees to be discovered, reviewed and given a seal of legitimacy by their inclusion in our roundup.

We counted 35 captive domiciles around the world in 1998, and more will no doubt pop onto our radar screens by 2000.

In addition to the 35 jurisdictions that actually have laws pertaining specifically to captive insurers, there are many more, such as Montenegro, the Netherlands and Switzerland, that allow businesses to form captives under insurance or offshore business laws. I have nothing against these countries, but show me the golf courses.

No doubt there are other locales that allow captives to form under no laws whatsoever. Soon, there may even be virtual domiciles on the Internet, providing an electronic "location" for a captive's articles of incorporation and transactions.

This proliferation of available real estate is turning the planet into a real buyer's market for captive owners. There was a time when a risk manager had only a handful of serious domiciles to choose from. Luckily, most of these were also pretty cool places to be and, over time, attracted high-quality support services to help the risk manager show his or her boss that the choice was no mere boondoggle.


Paul D. Winston

Today, though, with the globalization of the megabrokers, the immediacy of the Internet and intense competition for captives, why settle for Bermuda, South Dakota or Guam, when you can set up a captive just about anywhere?

In this increasingly crowded field, you might expect that a new domicile would need a little something extra to compete for risk managers and their captives. Some natural splendor, recreational opportunity or unique feature, perhaps?

Arizona has seized on this idea, where a lawmaker recently attempted to parlay its sunny climate, status as a tourist destination and wealth of golf courses into a winning captive combination (*BI*, April 5).

With all these jurisdictions trying to make a buck off captives, I just might have to form a captive domicile of my own. Having studied captives and their domiciles now for 15 years, I think I am prepared to offer top-notch domiciliary services.

The domicile would have to be physically located in my garage, but captive board meetings don't actually have to be held there; you can meet in my kitchen. If, however, the board members wish to smoke cigars, they *will* have to go to the garage, or at least in the backyard.

Why else should a risk manager choose my domicile? Because of these features:

Transportation: My garage is only 30 minutes away from O'Hare, the world's busiest airport.

Support services: There are a Kinko's, several banks and a Starbucks nearby. The owners of the largest captive managers all have offices about 30 minutes away in downtown Chicago.

Labor pool: Nobody on my street knows a thing about captives, but I'm sure they'd be willing to learn for the fees you'd be willing to pay.

Taxes: None! That beats Dublin's 10% rate any day.

Climate: Generally four seasons, though they sometimes are indistinguishable from one another.

Golf: There are hundreds of golf courses to choose from in the area, but rent a car. I belong to none of them but can point you to them on a map.

Entertainment: My 6-year-old plays the piano, while my 4-year-old performs dramatic readings and interpretive dance from "Pippi in the South Seas." For the truly exotic, watch my cat chase its tail.

Large body of water: Lake Michigan is 30 minutes away; if you close your eyes you can maybe pretend it's the Irish Sea, English Channel or Hamilton's Great Sound.

Interested? Just forward to me a modest application fee of $10,000 and, once your check clears, we can get started on your paperwork right away.

Editor Paul D. Winston's commentary appears fortnightly.

Salaries

Continued from page 1

agers' average salary was $108,585 and average bonus was $7,377.

- At companies with sales of $2 billion to $4 billion, risk managers received an average salary of $118,957 and average bonus of $9,311.
- At companies with sales of $4 billion to $7 billion, the average salary was $133,678, and the average bonus was $13,255.
- At companies with sales of $7 billion or more, risk managers earned an average salary of $151,586 and an average bonus of $18,113, making them the highest paid among their peers.

The Risk Management Salary Survey is compiled biennially. The 1998 survey was sent to 3,601 companies nationwide and in the U.S. Virgin Islands and Puerto Rico.

The Risk & Insurance Management Society Inc. also conducts a biennial survey of risk management salaries, though meaningful comparison between the two surveys is not possible because of differences in methodology.

"Risk management is right now in a very good, positive period," said Bill Perry, president of Logic Associates. Risk managers "have come through some dark times in the early 1990s," when the recession caused layoffs, he said.

A risk manager's job has become increasingly complex, driving salaries and bonuses upward, risk manager recruiters say.

"The risk manager is on the front line today when companies are going to make any major financial investment," said Mr. Perry.

Additionally, risk managers are working more closely with companies' chief financial officers, said Brooks Chamberlin, managing director and head of global insurance recruiting for Korn/Ferry International, a New York-based recruiting firm.

"We're starting to see risk managers being paid pretty well for the job they're doing," Mr. Chamberlin said. "For a good risk manager, these levels are not high enough," he added. "They're not compensated in line with the impact that they have on the company's bottom line and stock price."

Mr. Chamberlin said he thinks risk managers should be paid salaries comparable to others who work closely with the CFO, such as the controller and treasurer. According to the Logic survey, more than 88% of risk management department heads reported to a financial officer.

Also, Mr. Chamberlin said, the role of risk manager should not be compartmentalized as it has been at many companies in the past.

"The risk management job should be a stepping stone to the CFO job. It doesn't have to be a position without career advancement."

The percentage of women responding to the 1998 Logic survey increased across all sales levels. This reflects the growing number of women in the risk management field, said Mr. Perry. At companies in the lowest sales volume category, 41% of respondents were women, while at the largest companies, women accounted for just 10% of survey respondents.

'The risk manager is on the front line today when companies are going to make any major financial investment,' says Bill Perry.

While risk management salaries increase with an organization's size, the industry in which a risk manager worked also factored into total compensation.

The highest average total compensation, $193,400, was paid to risk managers in the entertainment industry, at companies with a sales volume of more than $7 billion, according to the survey.

Retail and service risk managers at companies with sales over $7 billion also were among the highest compensated, earning $178,368 and $175,500 respectively.

Risk managers working for companies in the natural resources industry with sales of up to $200 million earned the lowest average total compensation in 1998—$59,042. Utilities and food were other industry categories within the same sales volume level that compensated risk managers the least.

Compensation "just falls in line with how a company is doing," Mr. Perry said. In addition, "the more esoteric the risks are in a company or in an industry, the more value a risk manager has," he noted.

The percentage of risk managers with accreditations such as an Associate in Risk Management or the Chartered Property & Casualty Underwriter designation was down slightly in most categories, according to the survey. For example, 40% of risk managers in companies with sales of $2 billion to $4 billion reported holding the ARM designation, down from 44% in 1996.

Only respondents in the $1 billion to $2 billion sales category showed an increase in the ARM designation, to 45% from 38%.

The CPCU designation is less popular among risk managers, ranging from a low of 15% among risk managers in the smallest companies to a high of 31% among risk managers in the largest companies.

The average total compensation of assistant risk managers grew drastically from 1996 to 1998 because the senior risk manager, dealing with a more complex risk environment, relied more heavily on subordinates to handle some elements of the department, said Barry Citron, vp of Logic Associates. As a result, he said, an increase in compensation was necessary to hire and retain qualified assistants.

The highest-compensated assistant risk managers were those working for companies with sales of more than $7 billion, with an average total compensation of $108,059. The lowest-compensated assistant risk managers were those working for the smallest companies, earning an average total compensation of $40,277.

Assistant risk managers working in the Northeast—the highest compensated geographic region nationwide—earned an average of $81,574. In the Southwest, however, assistant risk managers' average total compensation was just $59,424. The survey did not examine regional compensation among risk managers.

"I was pleased to see the No. 2 people were being paid as well as they were at larger companies," Mr. Citron said. "The insurance program just can't be handled by one solid person at the larger companies. They need support."

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Copies of the 1998 Risk Management Salary Survey can be obtained for $75 by contacting Logic Associates at 67 Wall St., Suite 2411, New York, N.Y. 10005; 212-227-8000.

Y2K

Continued from page 2

spond to a Year 2000 loss, the report recommends.

Generally, insurance only covers unexpected and unforeseen events. As it is widely known that Year 2000 problems may occur on specific dates, insurers may successfully avoid paying claims under most conventional commercial policies. However, M&M notes, there still are bound to be conflicts between insurers and policyholders over policy interpretation.

Areas for potential conflict include: instances when insurers cite inaction to address the problem as evidence that any losses are uninsured business losses; the treatment of claims from policyholders who only recently became aware of the problem; and the treatment of claims from policyholders who were aware of the general problem but had no idea of its specific impact on their business.

"The resolution of these issues could have far-reaching effects that apply to the entire spectrum of potential Y2K-related losses," the report says.

They include: damage to computer systems; the loss of use of computer systems and the consequent loss of business income; resulting physical damage; and direct and vicarious legal liabilities, the report says.

Corporate directors and officers also face potential exposures, as they are obliged to ensure that their companies are Year 2000-compliant, the report says.

Allegations against directors and officers by shareholders may include a failure to ensure that the company or one of its major business partners is Year 2000 compliant, or conversely, that overspending on remediation adversely affected a company's financial performance or share price, the report says.

D&O policies should cover Year 2000 claims, M&M says. "Year 2000 exposures are neither explicitly covered nor expressly excluded from most D&O policies currently in force. It appears that D&O policies should, in general, respond to Y2K-related claims brought against directors of officers," the report says.

The coverage likely would apply to both shareholder and third-party claims, the report added.

However, D&O insurers may fight claims, citing typical policy exclusions, the report says. These include: fraud and criminal acts exclusions; known wrongful acts exclusions; and professional services exclusions.

Insurers may also use allocation provisions to deny claims.

For example, under a claim alleging breach of contract by directors or officers, insurers may assert that under D&O allocation provisions, the bulk of a claim is the liability of the corporation, and therefore the individuals are not covered.

Also, insurers may respond that the fortuity defense also applies to D&O policies by asserting that there has been extensive media interest in the problem, and thus the policyholder should have expected a loss, the report says.

Other coverage denials may be be based on responses to questionnaires relating to Year 2000 exposures that many insurers have required policyholders to complete in coverage applications. "Insurers may deny coverage if the information contained in the application is ultimately inaccurate, or if the company fails, for whatever reason, to meet the specifications outlined in its Y2K remediation plan," the M&M report says.

Year 2000-related claims also will likely be made on E&O policies.

Companies involved in systems work, providers of Year 2000-related services, and firms that depend on their own systems to deliver services all could face Year 2000 losses that will lead to claims on their E&O policies, the report says.

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Free copies of Marsh & McLennan's Management Liability Review are available from local offices of the company.

System

Continued from page 1

Illinois State University in Normal, Ill., said William Thornhill, president and chief executive officer of IQL.

Users of the Internet-based service also can receive daily updates on enterprise risk-related developments in their industries, such as new-product announcements from competitors; track the kind of information other system users are seeking; and question various risk management experts on myriad topics.

In addition, risk managers would be able to use the system to solicit various suppliers for projects.

With that information and those services at their fingertips, system users—risk managers as well as other employees in their organization—can evaluate the entire spectrum of operational, strategic and financial risks their organizations face, Mr. Thornhill said.

While existing tools already "do very well" in aiding risk managers in evaluating some enterprise risks, "no one has ever tried to cover the whole spectrum" of enterprise risk with a single system, he said.

The IQL system is Mr. Lange's brainchild. Mr. Lange retired as director of risk management at Microsoft in December 1998 after nearly nine years with the software giant. In 1995, Mr. Lange received the *Business Insurance* Risk Manager of the Year award for his accomplishments as Microsoft's first risk manager.

One of Mr. Lange's projects at Microsoft was an effort to develop an internal system to help spread risk management information throughout the company. He wanted an intranet site that would guide any manager within the organization through the process of identifying quantitative and anecdotal information on the risks associated with the business activities of his or her unit.

But because of development time and costs, Microsoft ultimately decided to wait for outside development of the product before implementing it itself for the risk management community. XL Insurance Co. Ltd. and Aon Corp. took lead roles in developing the system, including financing its cost (*BI*, Dec. 7, 1998; Dec. 1, 1997).

XL Capital Ltd., XL Insurance's Bermuda-based parent company, currently owns IQL, but that will change soon. A new holding company backed by several additional investors is being formed as IQL's new parent. Citing restrictions imposed by federal securities law, Mr. Thornhill would not identify the investors.

Always intending to rejoin the risk management community in some capacity after leaving Microsoft, Mr. Lange has accepted the position as chief knowledge officer at IQL. Mr. Lange, who is working from a home office, is responsible for designing and developing the systems and technologies that IQL and its business partners are building.

IQL expects risk managers who take advantage of the giveaway to provide feedback on the system.

"Basically, we have taken the risk tool originally conceived at Microsoft and built it out to serve the largely unmet needs of a profession challenged with expanding its bandwidth in response to the rapidly evolving trend toward holistic risk management," Mr. Lange said.

However, both Messrs. Lange and Thornhill emphasized that IQL will not be pushing products at customers. During its product demonstration at RIMS in Dallas this week, IQL will be seeking suggestions on the system's design and function.

Indeed, IQL expects risk managers who take advantage of the company's giveaway to provide feedback on the system.

"Our mantra is 'Built by you,' " Mr. Thornhill said.

IQL already has solicited suggestions for the system from other risk managers. Most recently, for example, system critiques by three risk managers prompted IQL to streamline the flow of the system's content and make the content more applicable to business practices and less academic in nature, Mr. Thornhill said.

He expects that the generic version of the system that IQL plans to demonstrate at the RIMS conference and offer free to risk managers for a month or so will be ready for marketing in the third quarter.

Over the summer, IQL plans to unveil industry-specific versions of the system for about a half dozen companies that are leaders in their respective industries, he said. Those companies are among a group of about 40 companies for which IQL has demonstrated the system.

"Virtually every one" asked for the system after the demonstration, Mr. Thornhill said.

XL Capital is the first company to order a custom version of the system, he said.

Customized versions of the system will, among other things, allow users to access information from within their own organizations as well as from the IQL Web site.

IQL's main business partners in pulling together the system are:

- Andover, Mass.-based venture capital holding company CMGI, which is responsible for developing and managing IQL's Web site.
- International Business Machines Corp. of Armonk, N.Y. IBM will provide IQL's data repository.
- Telcordia Technologies Inc., formerly Bell Communications Research, in Morristown, N.J. The subsidiary of Science Applications International Corp. provides system security.
- Electronic Laser Forms Inc., a division of CBF Systems Inc. of Fraser, Mich. ELF is responsible for providing electronic forms over the system. BI

Surplus

Continued from page 2

written by Judge Dennis Jacobs, the appeals panel noted that neither participants nor employers have any "presumptive entitlement" to a plan's surplus under ERISA. Three conditions must be met before an employer can claim the surplus: all plan liabilities must be met; the employer distribution must be in accordance with law; and the plan itself must provide for such a distribution. The court noted that Coleman had clearly met the first two conditions and that the dispute stemmed from whether the plan allowed such a distribution.

A 1984 amendment to the plan read that Coleman had no right to the surplus "except that after satisfaction of all liabilities of the Plan, any funds remaining in the Trust Fund as a result of overpayment may revert to the Company or Adopting Employer."

The district court had found that "overpayment" was an ambiguous term and agreed with the plaintiffs that because the plan's surplus grew out of investment returns rather than Coleman's contributions actually overfunding the plan, Coleman had no right to claim the surplus.

The appeals court, however, held that such a definition of overpayment "rests on a misunderstanding of the fundamental nature of defined benefit plans." The court cited the U.S. Supreme Court's recent decision in *Hughes Aircraft Co. et al. vs. Stanley I. Jacobsen et al.*, which said participants in a defined benefit plan have no right to a plan's surplus (*BI*, Feb. 1). The 2nd Circuit went on to say that employers will inevitably make contributions that "will ultimately prove to be either more or less than required." In fact, a surplus or deficit "can only be determined by hindsight."

After further dissecting the specifics of the case, the appeals panel ruled unanimously in favor of Coleman.

"I think *Hughes Aircraft* certainly paved the way for this decision," said Lauren Bloom, general counsel of the Washington-based American Academy of Actuaries. The academy joined the American Society of Pension Actuaries in filing a brief with the appeals court in support of Coleman's position. Their brief was the only business or insurer brief, besides Coleman's, filed in the case.

The case would have been more significant if the appeals court had upheld the lower court, Ms. Bloom said.

"It had the potential to be very significant if it had gone the other way. It would have made it very difficult for actuaries to calculate the employer contributions to defined benefit plans in a meaningful way," she said.

"And I think it would have had the effect of discouraging employers from fully funding defined benefit plans, because they would have been afraid that any excess contribution would not be recoverable. Ultimately, underfunding defined benefit plans is not to the benefit of participants or to the stability of the nation's pension system," said Ms. Bloom.

"The holding in the case is not surprising. It affirms settled law to the effect that where the plan provides an employer is entitled to surplus in a defined benefit pension plan," said Pam Scott, principal with PwC Kwasha in Teaneck, N.J.

"If the court had ruled differently, the result would have been very surprising and possibly contrary to the Supreme Court's recent decision in *Hughes Aircraft*. I think that employers would have been caught in a hard place. Many employers have significant surpluses in their defined benefit plans today because of the extraordinary performance of the market. Some of these plans are so overfunded that employers will not have to make contributions to their plans for many years to come," said Ms. Scott.

An attorney who filed a brief in support of the participants had an understandably different view.

"The thing that concerns me is the judge's definition of the term 'overpayment' to include not only contributions but also investment returns," said Mary Ellen Signorille, staff attorney with AARP Foundation Litigation, the legal arm of the American Assn. of Retired Persons in Washington. The AARP had filed an amicus brief in support of the participants.

Ms. Signorille said she is concerned that some employers will use the definition in an attempt "to recoup some of the surplus" accrued by the plans they sponsor.

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Harold E. Shepley Jr. et al. vs. New Coleman Holdings Inc. et al., 2nd U.S. Circuit Court of Appeals, No. 98-7519. Decided April 1, 1999.

Updates

Aon buys California TPA

Continued from page 2

ranking among the 10 largest TPAs based on revenues. Combined, the companies paid $644 million in claims for self-insurers; that level falls short of breaking into the 10 largest claims administrators as ranked by *Business Insurance* (*BI*, Feb. 15).

The acquisition of Presidium follows two others by Cambridge earlier this year.

In February, the TPA unit acquired Boston-based Galaher Settlements & Insurance Services Inc., which merged into Aon's existing structured settlement unit, Minet Settlement Services, to form the combined Cambridge Galaher Settlement & Insurance Services Inc.

In March, Cambridge acquired Dallas-based CARE Systems Corp., which specializes in back-office services, Mr. Rice said.

Active storm season predicted

FORT COLLINS, Colo.—Colorado State University's hurricane forecast team last week confirmed its initial prediction for an active 1999 storm season, with storms similar in number and strength to those of 1998.

The storm season runs from June 1 to Nov. 30.

Coastal dwellers should brace themselves for 14 tropical storms, nine hurricanes, and four intense hurricanes, said William Gray, leader of the forecast team and a professor of atmospheric science at CSU. Annual averages are 9.3 tropical storms, 5.8 hurricanes and 2.2 intense hurricanes.

Florida and the East Coast are more predisposed to see a major storm hit land than the Gulf Coast and the Caribbean, according to Mr. Gray's predictions. Major storms are those with wind speeds of at least 111 mph.

This season's predictions also indicate a large hurricane damage potential, almost twice the 40-year average. The hurricane damage potential is a measure that examines the propensity of a hurricane to cause ocean-surge and wind damage.

Kansas tornado causes damage

WICHITA, Kan.—A small tornado that ripped through Wichita, Kan., last Monday morning caused roughly $4.3 million in commercial and residential damages, according to figures from the county's emergency management agency.

Overall, 21 structures were hit; some were damaged only slightly while others were completely destroyed, said Randall C. Duncan, Sedgwick County director of emergency management.

The hardest commercial hit was to a local strip mall that sustained an estimated $566,000 in damages, Mr. Duncan said. "For all practical intents and purposes, it was 100% destroyed."

A local Albertson's supermarket sustained $250,000 in damages from the storm, according to the emergency management department.

In addition, a local elementary school's portable classroom buildings were destroyed, causing an estimated $250,000 in damages, according to the school.

Sedgwick County will not apply for federal disaster aid for the recovery effort because the uninsured damage from the storm will not exceed the $5.5 million trigger, Mr. Duncan said.

Briefly noted

Cleveland joined a swelling number of U.S. cities last week by **suing 17 handgun manufacturers** and three trade associations. The lawsuit, based on product liability, negligence and public nuisance statutes, alleges manufacturers did not introduce safety devices into handgun design. . . **Robert C. Salipante** has been named president and chief operating officer of Minneapolis-based ReliaStar Financial Corp. Currently, Mr. Salipante is senior vp of ReliaStar's personal financial services division. He succeeds John H. Flittie, who will retire the end of June. . . **David L. Eslick** has been named president and chief operating officer of San Francisco-based USI Insurance Services Corp. Mr. Eslick, who previously held the title of chief operating officer, succeeds five-year president John Addeo, who left the company to pursue other interests, said a company spokesman. . . .Nationwide Mutual Insurance Co., parent company of Nationwide Insurance Enterprise, named **Galen R. Barnes** president and chief operating officer. Prior to his appointment, Mr. Barnes was president of the Enterprise subsidiaries focusing on commercial services. . . .A new group called Citizens for Long Term Care kicked off a campaign to make **long-term care** an issue in the 2000 presidential election. The coalition, which is chaired by former Sen. David Durenberger, R-Minn., unveiled its principles at a Washington press conference last week. One principle holds that "costs should be spread broadly and progressively, so that out-of-pocket costs are affordable" and calls for strengthening "public and private financing mechanisms" to reach this goal. Members of the coalition include private insurers, the American Assn. of Retired Persons and the Service Employee International Union. . . .A San Francisco Superior Court judge last week **cut in half the punitive damages awarded** to former smoker Patricia Henley, bringing the total award to $26.5 million from $51.5 million that Philip Morris Cos. originally was ordered by a jury to pay. The tobacco company is appealing the verdict reached in February. . . .U.S. District Court Judge Ewing Werlein said last week the court will order a new trial in a **$22.7 million libel ruling** against Dow Jones & Co., publisher of The Wall Street Journal. The judge found that MMAR Group Inc. won its 1997 case against the publishing company partly by withholding audiotapes that prevented the defendants from "fully and fairly presenting their defense." . . **Medicare HMOs** now have until July 1 rather than May 1 to determine their proposed benefits packages for next year. The Health Care Financing Administration announced the new deadline last week.

MSAs

Continued from page 1

pensive would that make operating a car?" he asked.

Doug Emery, a health care economist and research fellow at the Institute of Political Economy at Utah State University in Salt Lake City, agreed with Mr. Forbes.

"The more efficient way to do things is to leave the probability risk to insurers, the technical risk to providers and the choice utility risk to consumers," he said in an interview with *Business Insurance* after the conference.

Mr. Emery defined "choice utility risk" as the risk of possible dissatisfaction that all consumers face when they choose to buy a good or service at a particular price.

Managed care, in which rationing decisions are imposed on the consumer, "doesn't work. Rationing has to be made at the consumer level."

"Thirty years of research has shown that when people have more choice at the point of service, consumption usually goes down," added Mr. Emery, who also is president of Zoadigm Health Systems Inc. in Sandy, Utah.

For example, a RAND Corp. study conducted between 1974 and 1991 found that health care utilization dropped significantly when individuals were forced to bear more of the cost. At the same time, "it didn't really detect any negative effect on the quality of care," he said.

"That's why if you put in MSAs, people tend to behave more responsibly," Mr. Emery said.

But Mr. Forbes said that federal regulation currently hampers the use of MSAs in this country.

"The 1996 MSA pilot was a good start, but it's in a regulatory straitjacket," he said.

Under 1996 federal legislation, MSAs were granted tax-favored status under certain conditions. Employer contributions to MSAs are not added to taxable income. In addition, employees can withdraw money from an MSA tax- and penalty-free to pay for uncovered health care-related expenses, while withdrawals for other purposes are subject to taxes and penalties.

However, to be eligible for tax-favored status, the MSA must be linked to a high-deductible health insurance policy. Currently, annual deductibles for individual coverage can be no less than $1,500 and no more than $2,250, while the deductible for family coverage must be at least $3,000 and no more than $4,500. The federal law also limits the availability of tax-favored MSAs to employers with no more than 50 employees.

Deductibles under the law are too high, availability is too limited, and contributions should equal as much as 100% of deductibles, Mr. Forbes said.

Mr. Forbes also advocated reforming flexible spending accounts, often offered as part of cafeteria plans, to pay employee health care expenses. Currently, employees forfeit any money left in FSAs at the end of the year. By contrast, employees can carry MSA balances over from year to year.

"We also need to make it easier for churches and community groups to form health care purchasing groups and get the same advantages that large employers have," Mr. Forbes said. BI

OSHA

Continued from page 2

of the employer groups' arguments last week and vacated the rule, though one judge dissented, saying the case should have been reviewed first in the district court.

"We are deeply disappointed in the court's ruling today. While we are reviewing the decision, we will continue our outreach efforts aimed at helping high-hazard employers learn how they can improve workplace safety and health before an OSHA inspector arrives at their door," U.S. Labor Secretary Alexis Herman, whose department includes OSHA, said in a written statement Friday afternoon.

Employers, not surprisingly, had a different opinion.

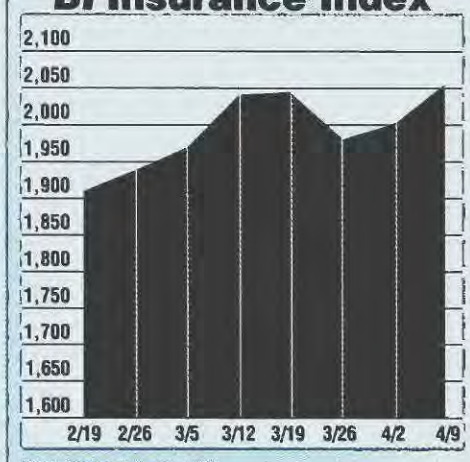
"It stopped OSHA dead in its tracks and sent it back to the drawing board," said Robin S. Conrad, senior vp of the U.S. Chamber Litigation Center Inc., the litigation arm of the U.S. Chamber of Commerce.

Jenny Saunders Krese, director of employment policy for the NAM, said: "It would have affected 12,000 of our 14,000 members. I think the court's decision is a clear indication that it will not tolerate ambush rule-making, in addition to requiring OSHA to obtain comments on the program before implementing it."

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U.S. Chamber of Commerce et al. vs. U.S. Department of Labor et al., U.S. Court of Appeals for the District of Columbia Circuit, No. 98-1036, Decided April 9, 1999.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of April 9

Call spread	Price bid/ask
National Annual 1999	
40/60	12.0/16.0
60/80	6.0/12.0
80/100	5.0/8.0
150C	5.3/6.0
200/250	3.6/4.0
Southeastern September 1999	
40/60	2.8/—
60/80	2.3/3.0
80/100	2.0/2.4
Eastern September 1999	
40/60	3.3/—
California Annual 1999	
60/80	1.2/2.3
80/100	1.0/1.9
150C	0.5/2.5
Western Annual 1999	
80/100	0.5/2.2
Midwest June 1999	
10/20	1.2/1.8
Florida Sept./Dec. 1999	
100/150	2.6/—

Total volume: 0 Total open interest: 10,679

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	374	5.6	10.0	3.4	380-331
Legal & Gen	783	23.2	14.5	2.4	946-670
Royal & Sun	588	20.3	23.0	4.9	633-455
Brokers					
Lmbrt Fenchurch	79	6.4	5.7	9.0	90-58
JLT	216	9.8	12.0	6.9	226-166

Note: Prices are April 9 closings; other numbers from April 8.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

Cost-cutting message misdirected: Speaker

As main health care decision-makers, women hold key to controlling costs

By JOANNE WOJCIK

ATLANTA—Women, who for generations have been given the short shrift in health care, may be the key to medical cost containment, a former governor says.

The 11th Annual National Managed Health Care Congress NMHCC NMH/IT

"In the 1996 election, 'soccer moms' were the targets of the media because it was clear that those women were going to determine who the next president of the Unites States was going to be. And we're also going to determine the degree to which we feel satisfaction with the health care system and the way in which our employers help us enter it," said Ann Richards, former governor of Texas.

"Women may be only a slight majority of the population, but we make 75% of the health care decisions in this country, and we spend two out of every three health care dollars and we undergo two out of every three hospital procedures," said Ms. Richards, who now works as a lobbyist in Washington.

"In other words, the people who have the most contact with the system, make the most decisions about individual expenditures, are the ones that have got to be satisfied with the efficiency and the quality and the cost of the system," Ms. Richards said during a keynote speech at the 11th Annual National Managed Health Care Congress, held March 29-April 1 in Atlanta.

"So when we're talking about 'women's health,' we're talking about a whole lot more than having babies and hot flashes," she said. "We're talking about the key to managing the health care costs and improving our national health."

"Many major companies are beginning to understand that cost concerns cannot be addressed by simply cutting back on benefits and reducing services. That doesn't work anymore. There is a developing recognition that what our mammas told us is absolutely right, and that is that an ounce of prevention is worth a pound of cure, and it costs a whole lot less," the former governor said.

Employers that take a proactive approach to health care will reap the most benefit, she said.

For example, the California Department of Personnel Administration recently reported that for every $1 an employer spends on preventive health care programs, it can save $6 in insurance costs, Ms. Richards reported.

Aetna Financial & Investment Services real

See **Women** *on next page*

BI Industry Stock Report APRIL 5, 1999, THROUGH APRIL 9, 1999

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Aon Corp.	NYS	65.19	1.16	16.28	75.56	48.25	1795
E.W. Blanch Holdings Inc.	NYS	53.69	4.76	14.99	60.00	34.69	465
Gallagher Arthur J. & Co.	NYS	48.50	4.72	10.86	50.63	34.88	104
Hilb, Rogal & Hamilton	NYS	17.63	2.55	-5.37	19.88	15.38	85
Kaye Group Inc.	NDQ	7.50	1.69	3.45	8.06	5.13	17
Marsh & McLennan	NYS	76.00	3.49	28.54	79.38	43.38	4767
Poe & Brown	NYS	31.75	-2.31	-9.12	42.50	29.31	29
BROKERS	AVERAGE		2.48	7.22			
INSURERS/REINSURERS							
ACE Ltd.	NYS	29.31	-5.06	-10.33	43.00	24.38	2054
Accel International Corp.	NDQ	2.56	0.00	-14.58	3.50	2.13	27
Acceptance Insurance Cos.	NYS	12.56	-6.94	-36.79	25.63	12.38	258
AEGON N.V.	NYS	92.63	2.63	-24.04	130.13	62.75	610
Aetna Life & Casualty	NYS	78.63	-5.63	-1.49	91.44	60.19	3206
AFLAC Inc.	NYS	49.63	-3.99	12.78	54.50	25.13	3061
Alimerica Financial Corp.	NYS	57.31	3.15	1.21	75.25	38.38	779
Allstate Corp.	NYS	36.00	-1.20	-6.49	52.38	34.75	12939
AMBAC Indemnity Corp.	NYS	51.81	-0.84	-13.56	65.94	40.88	1760
American Bankers Ins.	NDQ	52.25	0.36	9.42	65.19	30.13	3645
American Financial Group	NYS	33.69	-3.58	-18.21	45.75	30.50	280
American General	NYS	69.94	-0.89	-10.62	79.00	52.38	2907
American Heritage Life Ins.	NYS	24.50	0.00	1.82	26.69	18.63	146
American Indemnity/Fin'l	NDQ	13.44	15.59	26.47	15.38	10.25	17
American International	NYS	126.00	4.24	29.40	128.88	64.88	9577
American Safety Insurance	NYS	7.50	-6.25	-21.05	15.06	6.75	63
Argonaut Group	NDQ	23.94	-6.13	-0.26	37.00	21.25	154
AXA-UAP Group	NYS	68.75	2.71	-3.93	80.25	38.25	311
Baldwin & Lyons Inc.	NDQ	21.00	-0.59	-10.16	26.00	18.50	18
Berkley W.R. Corp.	NDQ	25.81	3.77	-23.52	49.88	23.50	410
Berkshire Hathaway Inc.	NYS	72000.00	-3.49	5.42	84000.00	57000.00	2
Capital RE Corporation	NYS	16.38	-3.68	-16.29	38.69	11.94	376
Capitol Transamerica Corp.	NAS	14.00	0.00	-20.85	22.75	13.75	28
Centris Group Inc.	NYS	11.00	-3.83	17.33	14.81	7.94	171
Chartwell Re	NYS	16.00	-6.91	-31.18	32.38	16.00	122
Chubb Corp.	NYS	59.88	1.59	-7.80	88.81	54.00	4434
CIGNA Corp.	NYS	82.69	-3.36	6.35	86.94	57.19	3817
Cincinnati Financial Corp.	NYS	37.16	-1.57	4.12	45.31	30.50	1456
Citigroup	NYS	73.63	13.82	45.61	73.63	28.50	50635
CNA Financial Corp.	NYS	35.69	-5.62	-9.22	53.25	33.00	824
CNA Surety	NYS	12.63	-6.05	-15.48	16.75	10.19	198
EMC Insurance Group Inc.	NDQ	11.75	-1.57	-7.84	15.88	9.00	341
ESG Re Limited	NDQ	15.25	0.83	-23.03	27.50	12.75	135
Enhance Financial Services	NYS	20.63	-5.17	-31.82	37.56	17.31	953
Everest Reinsurance	NYS	31.44	3.07	-14.31	45.25	28.75	1076
Executive Risk Inc.	NYS	71.94	1.68	33.53	74.00	35.50	996
EXEL Ltd.	NYS	59.63	-0.21	-16.68	83.25	56.69	1272
Fremont General Corp.	NYS	17.06	-5.54	-29.27	30.06	16.75	936
Frontier Insurance Group	NYS	11.50	-1.08	-8.00	25.56	10.88	1589
Gainsco Inc.	NYS	4.75	-5.00	-24.75	10.00	4.75	157
Harleysville Group	NDQ	17.81	-7.77	-30.15	28.50	17.25	216
Hartford Steam Boiler	NYS	35.69	-4.03	-11.20	59.56	34.75	247
HCC Insurance Holdings	NYS	18.63	-3.56	9.96	23.38	16.00	664
ING Groep N.V.	NYS	57.75	5.72	-5.33	76.75	36.06	603
IPC Holdings Ltd.	NDQ	19.50	-2.50	-14.29	33.25	19.00	248
Hartford Financial Services	NYS	58.00	0.54	3.92	60.00	37.63	2819
LaSalle Re Holdings Ltd.	NYS	12.13	-15.65	-41.21	42.50	12.13	505
Lincoln National	NYS	97.13	-1.71	17.19	100.50	67.00	1571
MAIC Holdings Inc.	NYS	30.00	3.90	-6.25	33.13	23.25	148
Markel Corp.	NYS	177.31	-1.70	-1.63	187.00	132.00	31
MBIA Insurance Group	NYS	57.31	-0.33	-13.57	80.13	46.06	2709
Meadowbrook Insur. Group	NYS	14.25	-1.72	-12.64	35.00	13.63	100
MMI Cos. Inc.	NYS	15.19	-2.80	-8.99	24.94	13.75	139
Mutual Risk Mgmt. Ltd.	NYS	39.44	-1.71	3.95	43.25	25.38	391
NAC Re Corp.	NYS	53.06	0.24	13.65	55.88	43.69	625
Navigators Group	NDQ	14.31	-0.43	-6.15	19.50	13.25	21
NYMagic Inc.	NYS	12.75	-1.92	-38.92	34.25	12.63	24
Ohio Casualty Corp.	NDQ	36.94	-4.06	-10.18	51.75	33.75	292
Old Republic Int'l	NYS	19.00	3.05	-11.37	32.25	17.94	1586
Orion Capital Corp.	NYS	34.81	5.89	-11.16	59.25	28.00	601
Partner Re Ltd.	NYS	39.56	-3.21	-12.45	52.50	33.63	422
Penn-America Group Inc.	NYS	10.00	-9.09	8.11	20.88	8.13	76
PMA Capital Corporation	NDQ	20.00	0.63	2.24	23.75	16.63	37
Philadelphia Cons. Holding	NDQ	21.19	-2.59	-0.29	24.50	18.63	175
PXRE Corp.	NYS	19.31	3.00	-23.51	32.88	18.00	87
Reliance Group Holdings	NYS	7.75	-5.34	-40.10	19.81	7.56	1463
ReliaStar Financial Corp.	NYS	38.50	-10.07	-13.97	52.44	29.00	4378
RenaissanceRe Holdings Ltd.	NYS	34.25	-1.08	-5.19	50.69	31.50	173
Risk Capital Holdings	NDQ	14.88	0.00	-29.59	25.50	12.00	142
RLI Corp.	NYS	27.94	-5.10	-16.29	45.63	27.94	55
St. Paul Companies	NYS	30.88	-3.14	-11.79	45.44	28.06	1902
SCOR	NYS	53.63	5.41	-17.50	72.75	50.00	59
SAFECO Corp.	NDQ	39.94	-2.29	-6.03	55.38	36.69	2321
SCPIE Holdings Inc.	NYS	25.31	-7.74	-15.80	38.38	25.25	NA
Seibels Bruce Group	NDQ	3.50	0.00	0.00	8.38	2.69	81
Selective Ins. Group	NDQ	18.00	2.13	-11.11	29.25	16.69	343
Terra Nova Ins Co. Ltd.	NYS	22.06	0.28	-9.49	35.00	21.25	374
TIG Holdings	NYS	16.31	-0.38	5.24	27.75	11.63	1684
Tokio Marine & Fire	NDQ	60.00	2.56	1.91	62.81	39.00	72
Torchmark Corp.	NYS	31.25	-3.47	-10.07	49.81	30.69	1387
Transatlantic Holdings	NYS	74.94	0.00	-0.91	94.50	73.50	103
Travelers Property Casualty	NYS	34.50	-3.83	12.65	45.75	24.13	1123
Trenwick Group Inc.	NDQ	26.63	-2.74	-15.81	41.75	25.50	177
Unico American Corp.	NDQ	9.75	0.00	-15.45	16.25	8.63	75
United Fire & Casualty	NDQ	23.88	-8.61	-28.26	44.00	23.81	63
Unitrin	NDQ	31.63	-1.56	-10.76	37.75	27.88	399
UNUM Corp.	NYS	44.13	-7.11	-26.38	62.50	41.75	4586
Vesta Insurance Co.	NYS	4.06	-18.75	-29.35	59.00	3.38	294
Zenith National Ins.	NYS	23.56	-2.84	1.89	30.50	20.31	79
INSURERS/REINSURERS	AVERAGE		-1.68	-8.41			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	11.06	-4.84	0.57	32.63	5.88	3050
Humana Inc.	NYS	11.50	-28.13	-39.27	32.13	10.06	18548
Oxford Health Plans	NDQ	14.81	-5.95	5.80	20.50	5.81	7547
Pacificare Health Sys.	NDQ	56.75	-5.42	-20.63	88.88	53.75	141
Safeguard Health Enter.	NDQ	4.25	65.85	19.30	9.38	2.34	106
Sierra Health Services	NYS	11.63	-7.92	-44.31	27.63	11.13	364
United HealthGroup	NYS	47.38	-10.19	6.31	73.94	29.56	9261
Wellpoint Health Networks	NYS	70.00	-6.98	-18.49	87.88	50.50	2065
HMOs	AVERAGE		-0.45	-11.34			
ALL COMPANIES	AVERAGE		0.12	-4.18			

Top advancing issues: Safeguard Health Enter., American Indemnity/Fin'l, Citigroup. Leading decliners: Humana Inc., Vesta Insurance Co., LaSalle Re Holdings Ltd. Most active issue: Citigroup. The *BI* Index increased 2.6%; the Dow Jones 30 Industrials gained 3.5%; the S&P 500 rose 4.2% and the NYSE Composite increased 3.6%. Average P/E: Brokers, 18.1; Insurers/reinsurers, 19.6; HMOs, 14.3.

Source: *Nordby International Inc.* (nordby.com), Boulder, CO

Women

Continued from previous page

ized a $282-per-person savings in health care costs for every employee who used state-of-the-art health clubs the company installed at workplaces, she said.

Johnson & Johnson saved $13 million a year by making health risk appraisal available to its employees and promoting lifestyle changes, she said.

"The fact of the matter is, what cuts health care costs most is wellness," according to Ms. Richards.

"The good news is women want to help you focus on prevention. . . .Twice as many women as men use preventive services, and we want more.

"We want coverage so that we can have pap smears, bone density scans, heart healthy examinations, mammograms, not just so that you can keep us alive but so that we can avoid catastrophe and catastrophic costs," she said.

Ms. Richards suggested that employers would get more mileage out of wellness and preventive health care benefits by directing communications about them toward female plan participants.

"While it's taking generations for women to get the attention of the health care system, we are the majority of the patients and we are the caregivers of society," Ms. Richards said.

"*We're* the ones who take daddy to the urologist and momma to the cardiologist. *We're* the real triage experts in the medical system.

"*We* make the initial decision about whether that scuffed knee is bad enough to go to the emergency room and get stitches. *We're* the ones who pick up the prescriptions for everybody. *We're* the ones who check to make sure the medications got taken," Ms. Richards said.

"*We're* the ones who sit in the waiting room and the emergency room and the ICU, and *we're* the ones who see directly the effects that the change has on the system," Ms. Richards asserted.

"The Bible told us that Eve was created from one of Adam's ribs. And ever since, we've been viewed as a lesser version of the real thing. A sort of male with a serious plumbing problem," she joked.

"For years women were excluded from research studies. A doctor friend of mine said even the lab rats were white males." BI

Hospitalists' savings potential 'huge'

Inpatient doctors also can improve quality of care: Speaker

By JOANNE WOJCIK

ATLANTA—A new "team" approach to treating hospital patients could significantly reduce the cost of health care in the United States, an expert says.

"This is the first thing that we've seen that has pulled this amount of cost out of the system without having a real serious impact on the quality of care," said Dr. Ronald A. Greeno, vp of network development for Laguna Hills, Calif.-based Hospitalists Inc. "The potential for cost savings for employers and insurance companies is huge."

The 11th Annual National Managed Health Care Congress NMHCC NMH/IT

Under the hospitalist concept, which was brought here from Europe, primary care physicians turn patient care over to a group of health care professionals once the patient enters a hospital.

While the idea is not unique, it is new to the U.S. health care system, according to Dr. Greeno, who spoke during a session at the National Managed Health Care Congress March 29-April 1 in Atlanta.

"It's always been done this way in Europe,"Dr. Greeno said. "There are inpatient doctors and outpatient doctors. It is so much more efficient that it's just incredible."

The term "hospitalist" was first introduced in the United States in an August 1996 article in the New England Journal of Medicine on the changing role of hospital doctors under managed care.

Hospitalists Inc. was created to enable independent practice associations to better manage the cost of inpatient care when health maintenance organizations transferred much of this risk to the IPAs, Dr. Greeno explained.

"In California, health plans have delegated more risk to doctors and medical groups. This has resulted in financial problems for many IPAs," he said, referring in particular to the recent Department of Corporations takeover of the California subsidiary of MedPartners, an Alabama-based IPA. The DOC, which regulates health plans in California, placed the unit in Chapter 11 bankruptcy protection last month.

In Europe, 'there are inpatient doctors and outpatient doctors. It is so much more efficient that it's just incredible,' says Dr. Ronald A. Greeno.

Currently about 3,000 doctors are practicing as hospitalists in the United States, and their ranks are expected to grow as the concept gains popularity, according to Dr. Greeno.

Besides cost savings, hospitalist programs can improve the quality of care because they more aggressively manage patient care, he said.

Because hospitalists know the ropes at their facilities and can push for faster treatment and order fewer, but more effective, tests, they can cut the average length of stay by as much as two days, Dr. Greeno estimated.

And, in many cases, hospitalist programs can reduce or even eliminate the need for outside utilization review services, which many physicians resent anyway.

While UR administrators still may be required to gather certain data on patient care for regulatory purposes, "a lot of their other functions can be replaced by what we do," Dr. Greeno said. "What you've done is. . .taken the job of the chief utilization review person and given that to the physician."

Hospitalists also enable primary care physicians to focus on outpatient care, which health plans are increasingly emphasizing to reduce overall health care costs, he added.

"The average doctor has just 0.7 patients in the hospital at any one time," Dr. Greeno said. "At the same time, (primary care physicians) are being pressured to treat more patients in their offices," which can be difficult to achieve when so much time is lost visiting so few admitted patients at the hospital.

However, Dr. Greeno did acknowledge that introducing the hospitalist concept to a group of physicians unfamiliar with it can create some communication problems.

"You have to figure out a way to communicate between the inpatient and outpatient doctors," Dr. Greeno said.

But this hurdle can be overcome, he said.

"Hospitals are a more efficient way to care for patients. It's essentially a form of intensive inpatient case management that's becoming increasingly necessary due to the fact that fewer—but sicker—patients are being admitted to hospitals," he said.

Y2K efforts stifling disease management: Doctor

By JOANNE WOJCIK

ATLANTA—While some innovative health data management firms are using the Internet to provide disease management services, insurers are well behind the technology curve in disease management, experts say.

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In particular, preoccupation with Year 2000 compliance issues has taken insurers' resources away from developing technology necessary to improve disease management, according to Dr. Joseph I. Berman, former chief medical officer for Anthem Blue Cross & Blue Shield in Cincinnati.

"I think that there was a conference in late 1995-96 where people decided in order to prevent clinical folks from making any headway in disease management, a problem had to be created. We call that problem Y2K," he said during a session at the 11th Annual National Managed Health Care Congress March 29-April 1 in Atlanta.

"The reason why the problem has become so important is that in insurance companies that are struggling with it, essentially nothing has happened for the past year and a half in the area of IT that would allow one to develop an effective disease management program," Dr. Berman suggested.

"When one goes to IT and says, 'I need help; I need to get on the Internet; I have to figure out a way to get clinical data into my company,' the answer is, 'We can't, because everyone is tied up doing Y2K.'

"There seems to always be a reason why at insurance companies the needs for clinical data processing always seem to lag behind."

By contrast, he said, "Administrative data is something that insurance companies have a great deal of.

"All of you I would imagine also know about the legacy systems, which are the legacy of insurance companies. These are systems that were created in the '70s, written in COBOL by people who have all since died. They have been changed and changed and changed until now they are no longer recognizable even if these people could be resurrected from the grave," Dr. Berman quipped.

"These are the systems upon which most insurance companies depend most of the time for their data. These machines block and prevent anyone from doing disease management.

"I can't resist also saying that one of the ways that insurance companies seem to be solving their legacy problems is by merging, because everyone knows if you put two or three legacy systems together then somehow things will get better," Dr. Berman said.

Further complicating things, "I think there is a lack of understanding—at least in insurance company ranks—by both IT people and general administrators of what the potential of the Internet might be in a clinical sense," he said.

"These folks are not particularly looking at that. They're worried about legacy problems, Y2K problems, and the kinds of opportunities that may exist I think for the most part are lost on them," he said.

"While it's humorous, perhaps, to talk about it, the fact of the matter is that they are a tremendous obstruction to painting the kind of disease management picture that Jeremy was talking about," Dr. Berman said. He was referring to a description of the potential technology has in effecting population-based disease management provided by Dr. Jeremy J. Nobel, a professor in the Department of Health Policy and Management at the Harvard School of Public Health in Boston.

Insurers' legacy systems 'block and prevent anyone from doing disease management,' says Dr. Joseph I. Berman.

"Technology will provide the ability to have rapid and accurate candidate identification and personalized outreach capabilities in the home or the workplace," Dr. Nobel said. And the Internet will provide easy access, two-way communication, flexibility, is low-cost and fast, he added.

"When people have the ability to exchange meaningful information about their own disease. . .they build a relationship with the person they're interacting with, and that relationship, empowered by knowledge, becomes the basis for coordinating effective action," he said.

"And the real action you're trying to coordinate here involves making sure patients get the right care at the right time at the right place and understand the opportunities to impact their own health by changing their behaviors."

While insurers may be lagging when it comes to Internet-based disease management, some health care data management firms are "starting to move," according to Dr. Nobel.

For example, New York-based Active Health is conducting clinical data analysis and intervention for 300,000 members of the Empire Blues.

And Boston-based NaviMedix has built an Internet-based system that enables physicians to access health plan protocols while the patient is in the office.

But, for the most part, "many of the provider and payer organizations are simply not ready," Dr. Nobel acknowledged.

However, there is good news, he said.

"There is a tremendous electronic information infrastructure already out there," he said. "Much of it was put together in pieces to solve little pieces of health care, so there's an electronic exchange between laboratories and the doctor's office, there's electronic exchange between the pharmacy and (a formulary management company), electronic exchange between doctors trying to coordinate practice, and we're just starting to see into the electronic exchange between doctors and patients and certainly between patients and outside information sources." BI

Meeting draws 8,500

ATLANTA—Approximately 8,500 people from the health care industry attended the 11th Annual National Managed Health Care Congress, held March 29-April 1 in Atlanta.

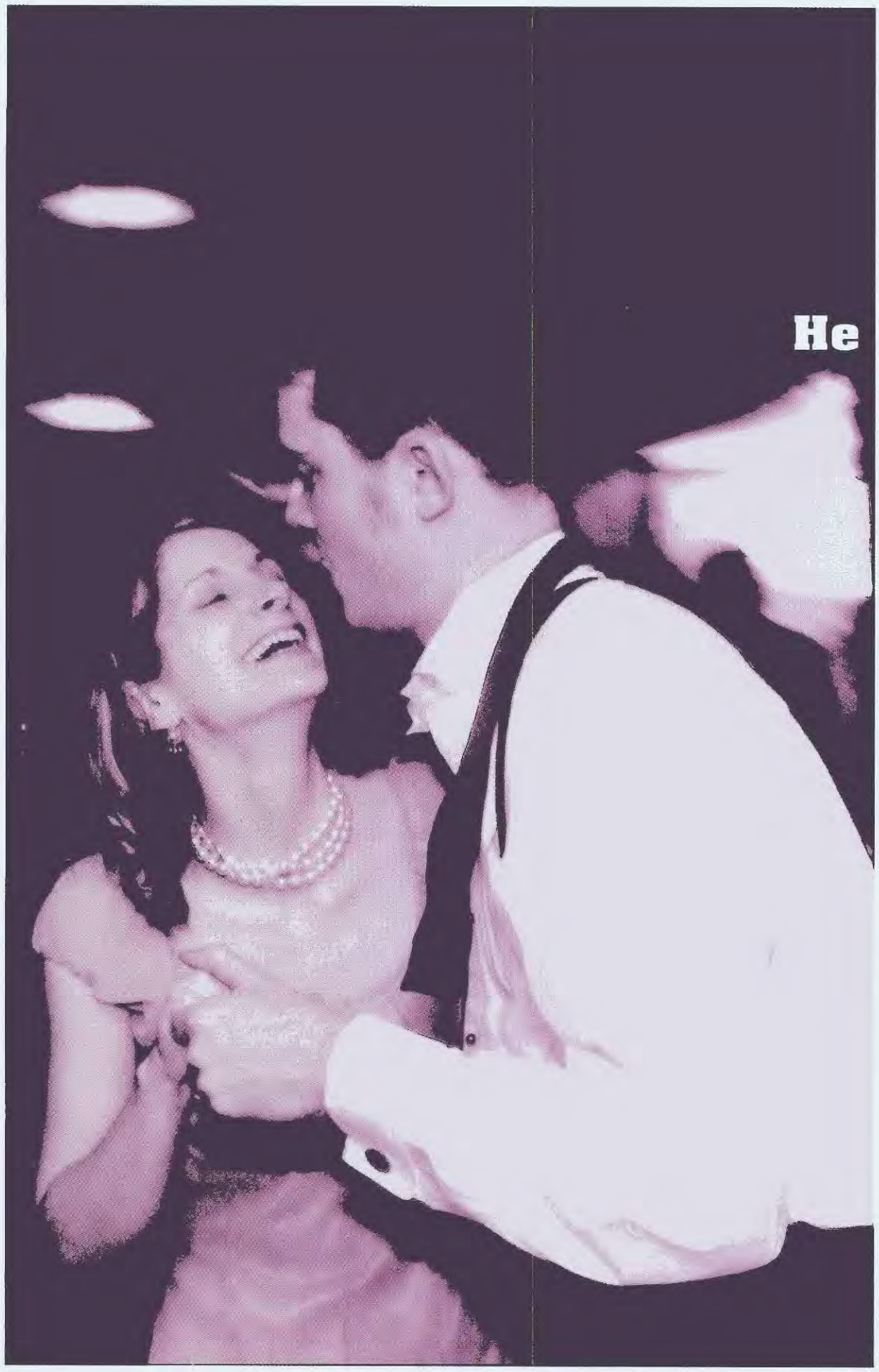
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More than 120 sessions were offered at the conference, covering such diverse topics as Internet-based disease management, coverage for alternative medicine, health care economics and clinical outcomes and guidelines.

In addition, more than 600 companies displayed their products and services.

Conference keynote speakers included GOP presidential candidate Steve Forbes, former Texas Gov. Ann Richards, psychosexual therapist Dr. Ruth Westheimer, and Dr. Patch Adams, the inspiration for the movie starring Robin Williams.

Next year's national conference will be held April 16-19 in Atlanta. For more information, contact the NMHCC at 888-882-2500.



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