

APRIL 14, 1986

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$60 a year

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Risk Management Honor Roll

Delmer Ison
Washington Metropolitan Area
Transit Authority
Government entity

William E. Rogers
Conemaugh Valley Memorial
Hospital
Not-for-profit entity

Donald Nelson
ARA Services Inc.
Page 120



Risk Manager of the Year



Insurance Is Getting Killed In Self-defense.

In 1974, the average product liability jury award was \$345,000. Last year it was \$1.07 million.

A shade behind came the average medical malpractice award: \$950,000.

Big numbers. But not as big as those expected this year.

The mounting wave of losses, which last year cost insurers more than \$116 for every \$100 of premium taken in, has forced insurers to act defensively. Most have stopped offering pollution insurance entirely and have cut back severely on other vital liability coverages, such as insurance for directors and officers.

Nothing has done more to

create this ominous situation than the field day plaintiffs are having in court. Last year, one out of every fifteen Americans filed a private civil suit—16.6 million suits in state courts alone. Worse yet, as juries hand out larger and larger awards, judges keep expanding the definition of liability.

In our view, the courts have adopted a theory of entitlement that has led to rampant “judicial inflation,” spawning some sad results. Insurers are worried about survival. Corporations are stripped of the protection they need. And the public pays the bill in the end.

Something has to be done. If that requires legislation, then so

be it. The existence of insurance contracts should not be used to justify extravagant awards.

There is a difference between an “award” and a “reward.” Making that distinction can mean the difference between an organization’s having insurance or having to go it alone.

Clearly, it is time for corporations to speak out in their own defense.

JOHNSON & HIGGINS

Consulting on a lot more than insurance.

APRIL 14, 1986

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update

Asbestos class action settled for \$130 million

MARSHALL, Texas—In the largest asbestos settlement ever, 13 asbestos producers have settled the claims of 751 asbestos plaintiffs for a total of approximately \$130 million.

The settlement, which was announced last week, came during the fourth week of trial in U.S. District Court in Marshall in the nation's first asbestos class-action suit.

The \$130 million settlement is "ac-
Continued on next page

Tort reform gains momentum

Prospects improving on Hill for federal product liability law

By JERRY GEISEL

WASHINGTON—Senate Commerce Committee Chairman John Danforth, R-Mo., is directing his staff to draft a new, streamlined product liability reform bill.

The new bill will replace a controversial and complex proposal, S. 99, introduced just three months ago.

Sen. Danforth's new bill, coupled with the federal product liability bill that the Reagan administration is expected to release later this month, suggests chances are improving that Congress will enact a federal product liability reform statute.

The drive to enact a federal product liability reform measure to preempt state product liability laws began nearly five years ago.

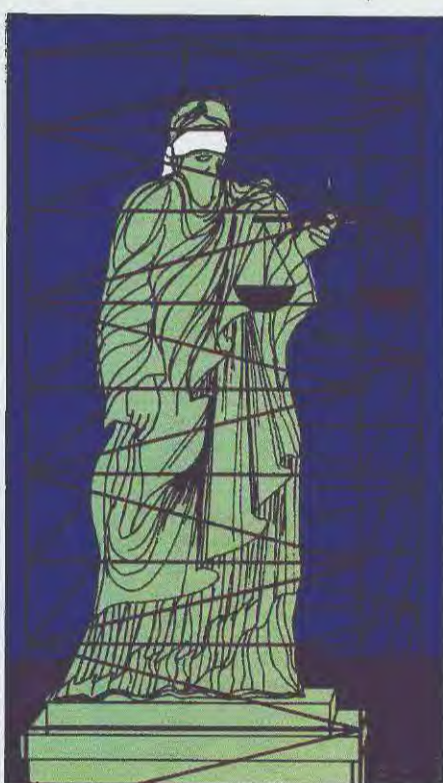
"We want a bill that will be more limited in scope, but still will balance the rights of consumers and manufacturers," a congressional staffer said, adding that the original bill tried to do too much (see story, page 2).

The stripped-down Danforth bill is expected to drop controversial and complex provisions in the current bill that give plaintiffs quick but limited compensation in exchange for waiving their right to sue.

In their place will be still unspecified provisions to encourage plaintiffs and defendants to settle product liability suits quickly, before they go to trial.

Sen. Danforth's new bill—which will be proposed as a substitute for an earlier bill—also is expected to include some of the product liability commendations made recently by the administration.

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Graphics: Amy Palmer

Maryland passes legislation to cap non-economic awards

By MEG FLETCHER

ANNAPOLIS, Md.—Maryland is expected to become the third state to try and solve rising liability award problems by capping non-economic damage awards for personal injuries.

The bill, S.B. 558, proposed by Gov. Harry R. Hughes to cap all non-economic damages in all personal injury tort cases at \$350,000, sailed through the Maryland Legislature last week. When signed, it will go into effect July 1.

The Legislature's action is viewed as another signal that the drive for tort reform in state capitals around the country is succeeding.

Supporters in both houses of the Maryland Legislature outnumbered opponents by at least 4-to-1 in the final vote to cap all non-economic damages in the state.

Non-economic damages are awarded for intangible injuries such as pain and suffering, emotional distress and embarrassment. In contrast, economic damages are awarded for more quantifiable items like lost wages and medical and rehabilitation expenses.

"There is no guarantee that insurance rates will be reduced because of this, but in the long run, it will stabilize them," said a spokeswoman for the governor.

"This will probably be looked at also as a good economic development piece of legislation for industry that might think of locating in Maryland," said Gov. Hughes.

The Legislature also approved giving judges the authority to decide whether to structure payments for future economic damages rather than lump-sum payments.

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Midland consents to liquidation order

By STEPHEN TARNOFF

NEW YORK—New York-based Midland Insurance Co., with a \$34.6 million insolvency at year-end 1985, is now being liquidated.

The New York Insurance Department filed a petition April 3 in New York State Supreme Court for the liquidation of the Katy Industries Inc. subsidiary, and Midland consented to the order.

Katy Industries, based in Elgin, Ill., already had written off its investment in the 50-state-licensed insurer, and efforts to find a buyer for the company had failed.

Midland, which had a policyholder surplus at year-end 1984 of \$23 million, was a victim of the competitive insurance market, said Richard Karpin, assistant chief examiner of the New York Insurance Department.

Midland had underpriced its products and had underreserved for losses, he said. In addition, the company suffered from "severe staffing problems," leading to a deterioration in internal control, he added.

Midland, which wrote \$137.8 million in direct premiums in 1984, specialized in excess and umbrella liability insurance. However, in 1985, the company discontinued these products and announced that it would specialize in workers compensation and short-tail insurance products.

In 1985, Midland wrote \$87.7 million in direct premiums, more than one-third of which was related to workers compensation insurance.

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Discount pact won't affect new business, CIGNA says

By JUDY GREENWALD

PHILADELPHIA—CIGNA Corp. says its ability to write new business will not be affected by an agreement reached with state regulators to discount a smaller portion of its previously announced \$1.2 billion addition to property/casualty reserves.

Under the agreement with the Pennsylvania and Connecticut insurance departments, CIGNA will discount only \$360 million of the reserve addition for statutory accounting purposes, compared with its original intention to discount \$587 million of the addition.

Regulators staunchly opposed CIGNA's original discount proposal, and at least one state rejected the company's 1985 convention statement because of the discounting.

CIGNA, under the agreement, will only discount reserve contributions for workers compensation and some reinsurance losses for long-tail claims. Originally, CIGNA had wanted to discount reserve additions for long-term liability lines like professional liability and excess casualty (BI, Feb. 24).

Additional contributions to reserves necessitated by the agreement will be taken from CIGNA's surplus, reducing it by \$228 million to \$1.249 billion as of Dec. 31, 1985. The surplus decline means the insurer's net premium-to-surplus ratio at year-end 1985 will increase to 3.2-to-1 from the 2.7-to-1 ratio originally reported.

The reduced surplus will not "cramp our style," said a CIGNA spokesman, who added the insurer had not planned any "massive" increase in its premium volume this year.

The spokesman noted that CIGNA has no plans to raise capital through an equity offering to offset the \$228 million drain on surplus, although he said CIGNA plans to raise long-term capital in the stock market to replace the \$600 million in short-term funding used to

boost CIGNA's reserves under the original discounting arrangement.

"We'll let ratios ride up just a little bit. We don't need to raise additional capital," he said, noting that CIGNA's 3.2-to-1 premium-to-surplus ratio is not "widely out of line" with the insurer's "peer group."

However, some analysts believe CIGNA will have to raise more than just \$600 million, and some say the company's rising premium-to-surplus ratio could hinder its operations.

June I. Hoffer, a securities analyst with Prudential/Bache Securities Inc. in New York, said CIGNA will have to bolster surplus, "even if they don't do it initially, if they want to continue to grow."

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update

Largest asbestos settlement

Continued from previous page

tual cash dollars," said Rex Houston, lead plaintiffs' counsel in the litigation. Half will be paid July 1, 30% will be paid the second year, and 20% will be paid the third year.

U.S. District Court Judge Robert Parker will apportion payments, which will range from \$75,000 to \$700,000, Mr. Houston added.

While punitive damages will not be sought by plaintiffs, the producers agree to admit liability, Mr. Houston added.

Participating producers are Combustion Engineering, GAF Corp., Nicolet Inc., Raymark Industries Inc., Armstrong World Industries Inc., Celotex Corp., Eagle-Picher Industries Inc., Fibreboard Corp., Keene Corp., Owens-Corning Fiberglas Corp., Owens-Illinois Inc., Pittsburgh-Corning Corp. and Standard Insulators Inc.

Warnings protect tobacco firms

PHILADELPHIA—Federally required health warnings on cigarette packages protect the tobacco industry from product liability claims from smokers charging they were not warned that smoking is dangerous, a federal appeals court ruled last week.

A three-judge panel of the 3rd U.S. Circuit Court of Appeals overturned a lower-court ruling that plaintiffs could argue that cigarette advertising negated the warning, exposing tobacco companies to suits.

U.S. District Court Judge H. Lee Sarokin earlier had ruled that the federal warnings, required by a 1966 law, did not protect tobacco companies from claims that they failed to warn consumers.

The case involves a suit filed by the estate of Rose Cipollone against Liggett Group Inc., Philip Morris Inc. and Loews Corp. She died at age 58 from lung cancer allegedly caused by smoking.

New Jersey attorney Marc Edell, who represents the estate, plans to appeal last week's ruling to the full 12-judge appeals court.

USF&G reports loss in 1985

BALTIMORE—United States Fidelity & Guaranty Corp.'s delayed and restated results for 1984 and 1985 reveal a 1985 net operating loss of \$258.1 million compared with a \$40.9 million loss in 1984.

USF&G had delayed reporting its year-end 1985 results because of a disagreement with its accounting firm, Coopers & Lybrand, over how its investment income should be reported (BI, Feb. 10). As a result, part of the insurer's investment income has been reclassified as realized gains, and its results for the first three quarters of 1985 and for 1984 have been restated.

Had USF&G's 1985 and 1984 operating income not been restated, it would have reported a \$104.5 million loss in 1985, compared with a \$93.3 million profit in 1984, the spokesman said.

In other 1985 results, net written premiums totaled \$3.15 billion, up from \$2.32 billion in 1984. The restated investment income was \$347.8 million in 1985, up 4.4% from \$333.1 million in 1984.

The company's combined ratio before dividends was 121.9% in 1985, compared with 120.7% in 1984. Policyholder surplus increased 39.9% in 1985 to \$913.3 million from \$652.6 million in 1984.

USF&G's restatement only affects results compiled according to generally accepted accounting principles; statutory financial statements, filed with insurance regulators, were not changed.

Tentative Protective settlement

OMAHA, Neb.—Nebraska Insurance Commissioner Michael J. Dugan says Protective National Insurance Co. of Omaha, Frank B. Hall & Co. Inc. and others have reached what amounts to a "tentative deal" to save the insurer from liquidation.

Protective, a member of the St. Regis Group, which is owned by Champion International Corp. in New York, placed itself under voluntary supervision of the Nebraska Insurance Department in January after failing to recover an undetermined amount from about 100 reinsurers on losses connected to business written by managing general agent Global Surplus Services Inc., a Hall unit (BI, Jan. 27).

Mr. Dugan would not release any details of the discussions concerning Protective, but said Hall "would be a participant" in the tentative agreement to keep Protective from being liquidated.

Hall reported last month it has reserved \$64 million with respect to Protective's dispute with Global, which is no longer in business.

John Iacono, Hall's acting secretary and general counsel, confirmed the parties are close to an agreement in principle. Protective officials could not be reached.

Reagan signs PBGC increase

WASHINGTON—President Reagan last week signed H.R. 3128, which boosts pension costs and requires extending group health insurance to employees' divorced and widowed spouses.

The new law boosts the annual termination insurance premium employers with defined benefit plans must pay the Pension Benefit Guaranty Corp. to \$8.50 per plan participant from the current \$2.60.

The increase is retroactive to Jan. 1; the PBGC is mailing new
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Judge says tort overhaul will not solve liability crisis

By ROBERT A. FINLAYSON

LOS ANGELES—A drastic overhaul of the tort system is not the answer to manufacturers' complaints about rising product liability awards, a federal judge says.

U.S. District Judge Jack B. Weinstein of New York told viewers of last week's four-hour, coast-to-coast teleconference on product liability issues that lawsuits cited by the business community as proof that tort reform is needed are not typical of the vast majority of cases.

"It is important from the outset to put into context what we are dealing with," said Judge Weinstein, who presided over class-action litigation that resulted in a \$180 million settlement between Vietnam veterans and manufacturers of the herbicide Agent Orange.

"In most cases we are not dealing with outlandish situations. We are dealing with real people who have been innocently injured and are going to other real people in the community for redress."

However, a congressman and various business representatives appearing during the teleconference, sponsored by the Public Broadcasting Service and APCO Associates of Washington, disagreed with Judge Weinstein.

Rep. Thomas A. Luken, D-Ohio, said legislators now believe tort laws must be changed and that Congress

will likely consider a limited and "pragmatic approach by enacting legislation capping some tort awards.

And a Washington attorney maintained that court are awarding enormous judgments in cases that never would have gone to court in the 1960s.

"In 1962 you couldn't recover money for simply watching somebody else get hurt by a product. Today you can in some states," remarked Victor E. Schwartz, counsel for The Product Liability Alliance, a Washington-based business lobbying group that favors enactment of federal product liability legislation.

He noted courts have awarded damages even though a product, such as a handgun, performs exactly in the manner in which it was intended. And some courts have held that plaintiffs can recover damages in product liability cases in which they allege they may be injured at some point in the future, he said.

"So you have people that are not directly hurt, products without defects, manufacturers who are innocent all entering into the money till. And at some point some line has to be drawn," Mr. Schwartz said.

The current tort system is "open ended," he said, contending that plaintiffs play the system "like it was lottery."

"Until some restraints are placed... so that an injured party that is hurt by a defective product is paid an adequate award but not more, we're going to have problems."

Continued on page 1

Cameron-Webb agrees to pay \$1.5 million to Richard Beckett

By STACY SHAPIRO

LONDON—Former Lloyd's of London underwriter Peter Cameron-Webb has agreed to pay \$1.5 million to Richard Beckett Underwriting Agencies Ltd., which from 1983-85 managed syndicates previously managed by PCW Underwriting Agencies Ltd.

Lloyd's has charged Mr. Cameron-Webb with misappropriating syndicate funds for his own use.

However, apparently the members of the PCW syndicates will not receive any of the \$1.5 million, because the first 13 million pounds (\$18.8 million) of any of PCW funds recovered must go to PCW parent Minet Holdings P.L.C. and Alexander & Alexander Services Inc., whose subsidiary brokered reinsurance for PCW (BI, March 10).

The money will go to Minet and A&A under terms of an 1984 agreement by which Minet and A&A reimbursed the syndicate members 38.17 million pounds. The brokers contributed 13 million pounds of the settlement, and the remainder came from recovered funds (BI, July 30, 1984).

The agreement with Mr. Cameron-Webb, who did not admit to any wrongdoing, has been accepted by Jufcrest Ltd., which was formed in 1984 to represent Beckett and PCW members, said Horton Kennedy, Jufcrest general manager.

Under British law, the agreement has been filed in the Chancery Division of the High Court in London and must be ratified by the court before it takes effect. This may take three to six months, Mr. Kennedy says.

About \$1 million of the money will come from the sale of Mr. Cameron-Webb's home in London Island N.Y., Mr. Kennedy said. The house was in the name of Mr. Cameron-Webb's wife, who also has agreed to the payment.

Mr. Cameron-Webb and former PCW Chairman Peter Dixon were accused by Lloyd's in November 1982 of conspiring to misappropriate at least 39 million pounds (\$56.5 million) from PCW syndicates for the own benefit. Lloyd's claims that Mr. Cameron-Webb derived 6.5 million pounds (\$9.4 million) in personal benefits from the misappropriation.

Lloyd's expelled Mr. Dixon last year and fined him million pounds (\$1.45 million) for his role in the misappropriation from the PCW syndicates (BI, Nov. 1, 1985).

However, Mr. Cameron-Webb was not disciplined by the Lloyd's council because he already had resigned as a member of Lloyd's.

After leaving London, he was employed as an underwriter by Lincoln Underwriting Management Inc., which manages the Usher Syndicate on the Insurance

Continued on page 1

Self-insuring to save Illinois \$20 million

By DONNA DiBLASE

CHICAGO—The state of Illinois expects to save \$20 million in the first year by switching from its group health plan underwritten by Blue Cross/Blue Shield to a self-insured plan that includes a preferred provider option.

The state is ending a 13-year relationship with The Blues when its current contract expires on June 30.

Currently, 157,000 state employees and 94,000 dependents are covered under that plan, which costs the state about \$184 million a year, said Michael Tristano, director of the state's Department of Central Management Services in Springfield.

The savings under the new plan will come from improved cash flow, reduced administrative costs and the PPO network, Mr. Tristano said.

The state will take some of the \$20 million in savings and invest it in a new prepaid dental plan to be implemented in October. Employees do not currently have a dental plan, Mr. Tristano said.

"The dental plan will cost \$8 million (a year), so we will be saving money and enriching benefits at the same time," he said. The dental plan will be fully funded by the state, with no contributions from employees.

The state also plans to use some of the savings to add or enrich other benefit areas, such as adding to psychiatric care benefits and reducing the employee's out-of-pocket costs for medical coverage.

Even after the added costs for these benefit enrichments, Mr. Tristano said, the state expects to save \$7

million annually under the self-insured program.

Mr. Tristano said the state began considering changing the current benefit plan two years ago.

After conducting a cost analysis of potential savings under a self-insured plan, the state determined that could save about \$4.7 million as a result of the PP network alone, said Mr. Tristano.

Continued on page 1

errors & omissions

• The Royal York hotel, one of the Toronto hotels at which Risk & Insurance Management Society conference participants will be staying, is located at 100 Front St. West. An incorrect location was indicated on the map that appeared in last week's special RIMS preview section.

• Employee Benefit Plans Inc., a subsidiary of Summit Ventures of Boston, is negotiating to acquire the third-party administration business of 3Pa Corp. of Seattle, according to Frederick J. Rahn, vp of 3Pa Corp. Due to incorrect information provided to Business Insurance, an article in the Jan. 27 issue of BI said EBP had purchased 3Pa Corp.

(When the article was published, EBP was a subsidiary of Employee Benefit Claims Inc. of Minneapolis, but both were acquired by Summit last month.)

Bermuda: Harboring risks



Photo: Kathryn J. McIntyre

The sunshine on Hamilton Harbor is reflective of the bright business picture in Bermuda's center for international insurance.

Rocky commercial market waters spawn surge in captive formations

By DOUGLAS McLEOD

HAMILTON, Bermuda—A new wave of offshore insurance company growth is building in Bermuda as corporations in the United States and abroad react to the high cost or unavailability of commercial insurance coverage.

Although this increased development is not expected to equal the crest of growth reached in the 1970s, Bermuda last year reversed a four-year slide in the rate of new captive insurance company formations.

Several captive managers confirm seeing a rising tide of new incorporations and inquiries within the last six months.

The renewed interest relates not only to association and group captives—long expected to be the predominant area of new growth in the offshore insurance industry—but also to single-parent companies, some managers say.

Anticipating larger premium volume from the assumption of greater risk, many of these new captives are being formed with increased start-up capital.

Along with increasing numbers of new formations,

managers report expansion in the business written by existing captives.

Several association captives, for example, have dramatically increased the ranks of their policyholders, while association and single-parent captives are expanding into new lines of coverage or assuming greater levels of risk, managers say.

Some single-parent captives are also being used to fill holes in their parents' commercial insurance programs, managers add.

"We are seeing just a tremendous amount of activity generally," said Stuart H. Grayston, president of Hanna Insurance Management Ltd.

"We're very, very busy, and I don't see it letting up," added David A. Brown, president of Insurance Managers Ltd., a unit of Alexander & Alexander Inc.

Mr. Brown noted, though, that the current phase of captive growth will develop more gradually than the initial boom of a decade ago.

"It isn't coming in a great avalanche. It did in the 1970s, but not now," Mr. Brown observed, adding that Bermuda's growth will come from larger captives rather than larger numbers of captives.

Continued on next page

Tight market brews golden opportunity

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—The worldwide reinsurance capacity crunch is creating a new variety of "Bermuda Gold" savored by Bermuda-based commercial reinsurers:

Good business at high rates is pouring into Bermuda, seeking reinsurance protection.

Submissions to Bermuda-based reinsurers increased as much as 50% in the last year, including those from London-based ceding markets that in the past made no secret they considered Bermuda-based companies suspect at best and, at worst, capacity to be shunned.

But, the dozen Bermuda-based reinsurance companies regularly writing commercial reinsurance for brokers aren't getting intoxicated on their brand of Bermuda Gold, unlike those who overindulge on Bermuda's famous liqueur.

These reinsurers seldom commit their maximum capacity to a contract. And, to accommodate new and better underwriting opportunities, they are culling their books of less desirable business and generally budgeting for modest growth.

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Captives grow around the world

Captive insurance companies are back in vogue—more popular than ever before.

Not only in Bermuda (see story above), but elsewhere around the world, businesses, institutions and professionals are capitalizing new insurance companies to fund

their risks. And existing captives are writing larger limits and new types of insurance for their owners.

It's the insurance buyers' response to the unavailability of commercial liability insurance and gigantic premium increases.

In this annual report on captive insurance companies, *Business Insurance* delves into the new growth of cap-

tives and other developments in the last year in leading captive domiciles offshore and in the United States.

Reports on the 10th Annual Captive Insurance & Reinsurance Forum in Bermuda and the Captive Insurance Cos. Assn. meeting also are included.

This special report continues through page 104, followed by a directory of captive management specialists.

Bermuda captives

Continued from previous page

While the hard market is producing significantly greater interest in alternative risk financing, other managers say they are still waiting for much of this interest to translate into action.

"There's a lot of smoke out there" but "not enough" fire yet, observed Robert C. Whiting, managing director of Pinehurst Management Co., a unit of Emett & Chandler Cos. Inc.

One area that has seen plenty of action in the last year has been the development of new multiowner insurance companies to provide high excess casualty coverage unavailable from commercial markets (see story, page 18).

These new companies may offer coverage either to a broad base of shareholder/policyholders—like A.C.E. Insurance Co. Ltd.—or to specific industry groups, like

banks, railroads or chemical and pharmaceutical companies.

In the past year, Bermuda has also seen:

- An explosion in commissions earned by the brokerage arms of the top captive managers, all related to placement of business with A.C.E.

- Substantial growth in the operation of several rent-a-captive facilities (see story, page 26).

- Mergers of several captive management operations, in some cases following the merger of the managers' brokerage parent companies.

- Increasing concern over competition from Barbados, which has signed a tax treaty with the United States that eliminates federal excise taxes on premiums paid to Barbados captives.

- Improvements in application procedures for new captive formations—recommended by the Bermuda Insurance Managers Assn.—

designed to speed government approval of new incorporations.

Seventy-two new insurance companies formed in Bermuda in 1985, up from 66 in 1984, according to A. Verbena Daniels, Bermuda's registrar of companies.

This reversed four years of decline in new formations: 85 companies incorporated in 1983, 89 in 1982 and 118 in 1981.

In the first quarter of 1986, 22 companies were incorporated, compared with 15 in the first quarter of 1985, Ms. Daniels said.

Since January, the government has received an average of five to six applications a week. Among these are an average of two applications a week from existing companies that want to expand their underwriting into new lines of business, like directors and officers liability insurance.

The remaining applications are for new captive company incorporations.

The government says most of the new applications are from U.S. corporations seeking to form pure captives, though some are association captives. Also, two new rent-a-captives have been formed.

About half the captives forming are writing insurance directly; the other half use fronting companies, Ms. Daniels said.

Most of the captives are forming to write general liability insurance on an occurrence form. Many of the new association captives will write D&O risks, though some pure captives are also being formed to write D&O coverage, she said.

Overall, the captives are being formed with higher capitalization than in the past, Ms. Daniels said, because the captives are funding larger retentions of \$500,000 or more.

Capital contributions to the new companies ranged from \$2 million to \$100 million.

Meanwhile, 41 Bermuda insurers

were dissolved in 1985, compared with 35 in 1984 and 29 in 1983. Four other companies were lost to amalgamations. An additional 25 companies were in various forms of winding up last year.

Eleven of these were undergoing court-ordered windings up, including two that were ordered liquidated last year: Cambridge Reinsurance Ltd. and Mentor Insurance Ltd.

One company—Bercanus Insurance Co. Ltd.—underwent creditors' voluntary winding up, a procedure under which the company cannot prove its solvency and creditors—as opposed to a court—exercise control over its operations.

The remaining 13 companies underwent members' voluntary windings up, under which the companies are declared solvent and shareholders retain control.

In all, the number of international insurance companies registered in Bermuda stands at 1,221, up from 1,219 a year ago. However, about 108 of these companies are inactive, leaving a total of 1,113 active Bermuda insurers, Ms. Daniels said, compared with 1,135 last year.

While 1985 figures aren't yet available, Bermuda insurers reported writing gross premiums of \$7.58 billion in 1984, up 16.3% from \$6.52 billion in 1983. Net written premiums were \$5.45 billion, up 15.8% from \$4.71 billion in 1983.

Total assets of Bermuda insurers jumped 30% to \$22.19 billion from \$17.09 billion in 1983, while total capital and surplus rose 18.8% to \$9.93 billion from \$8.36 billion in 1983.

The 10 largest Bermuda captive management companies managed 698, or 57%, of Bermuda's total of 1,221 insurers in 1985. The top managers' clients also accounted for \$2.92 billion, or 39% of Bermuda's total 1985 gross premium volume of \$7.58 billion.

Some Bermuda managers report continuing interest in the formation of new single-parent captives despite the gradual loss of tax benefits in recent years (see story, page 66).

"You find out when you get into a hard market that the tax problems are the least of their worries," observed IML's Mr. Brown.

Of the five new captives James (Bermuda) Ltd. hopes to incorporate this year, two will be owned by single parents, according to Warren D. Sproule, president and managing director.

"The single-parent interest did come as a bit of a surprise," Mr. Sproule said.

James has targeted association and group captive business for growth, however, and several other managers agree that multiowner captives are where the action is.

"We are seeing quite a bit of group business—not association—but multiowner," said Mr. Grayston, adding that "virtually all" of the growth in Hanna's business will come from multiowner captives.

Lack of fronting and reinsurance capacity continues to hinder the formation of some association and group captives, managers note.

While captives can issue many types of property and liability policies directly without using fronting companies, this isn't possible for workers compensation coverage since state laws require the use of authorized insurers.

And, the lack of reinsurance has forced several new captives to write business on a net-line basis, adds Andrew D. Carr, president of Marsh & McLennan (Bermuda) Ltd.

"Association captives work that way often," taking a net line on a "modest" primary layer, Mr. Carr explained.

While these factors are slowing some captive formations, however, the hardening commercial insurance

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But today, the ranks of older Americans are growing like never before. By the year 2030, 55 million people will be age 65 or older. And some are wondering if programs like Social Security will be enough to meet the future health and financial needs of this rapidly expanding group.

Clearly, new ideas are needed to help supplement programs like Social Security, Medicare and Medicaid.

At NWNL Group, we're working on a solution. It's a program called LifeScopeSM. It's designed to provide health and financial security for a person's working and retirement years by sharing financial responsibility among participating individuals, employers and health care providers.

LifeScopeSM will be implemented through traditional employee benefit channels. But its comprehensive approach to retirement care is unequalled in the history of employee benefits.

Obviously for an idea of this magnitude to succeed, it will require the help of government legislation, the participation of

health care providers and the support of business in making LifeScopeSM available to employees.

NWNL Group invites each of these institutions to join us in shaping our plan. Contact Ginny Patrick, NWNL Group, Box 20, Minneapolis, MN 55440 or call 612-372-5784 for a detailed report on the problem and how we can solve it together.

Quite obviously, our task is enormous. But so is the need.

**THE FASTER THINGS CHANGE,
THE MORE YOU NEED NWNL.[®]**

NWNL GROUP

Bermuda captives

Continued from page 4
 insurance market is applying pressure in the opposite direction.

"From everything we see here, there are many association groups talking to our branches about the captive alternative," said Brian R. Hall, president and chief operating officer of J&H Ltd., a unit of broker Johnson & Higgins.

Roger Gillett, vp with J&H Ltd., adds that the "gestation period" for association captives has been reduced by the hard market.

"Non-availability of coverage speeds the decision-making process considerably," Mr. Gillett observed.

Several existing association captives have also benefited from the tightening commercial insurance marketplace, managers say.

One captive managed by Pinehurst is now insuring 176 members of an association, compared with 94

last year, according to Mr. Whiting.

IML's Mr. Brown sees association captives expanding not from growth of membership but from increasing premiums. Property premiums among the association captives managed by IML, for example, are up 40% over last year, he noted.

Meanwhile, premiums totaling hundreds of millions of dollars are expected to flow into the several multiowner casualty insurance companies that have been formed since last year or are in the process of formation.

These include:

- Railroad Association Insurance Ltd., or RAIL, which will provide liability limits of \$50 million excess of \$50 million to U.S. and Canadian railroads. The insurer has already received preliminary approval from the Bermuda government, according to Alan E. Chilvers, group vp of International Risk Management Ltd., which will

manage the company.

About 10 railroads have committed to the facility and several more are expected to join, Mr. Chilvers said.

- Bankers Insurance Co. Ltd., which will write bankers blanket bonds and directors and officers liability coverage with a primary or excess limit of \$10 million, Mr. Chilvers said. The facility hopes eventually to offer a \$25 million limit, he added.

Bankers Insurance has already been incorporated by 28 banks, Mr. Chilvers said.

- Casualty Excess Assurance Ltd., an assessable mutual that will provide liability limits of \$50 million excess of \$50 million to a group of chemical companies.

- A.C.E., which started issuing policies last year to a broad spectrum of investor/policyholders. A.C.E. provides general liability limits of \$100 million excess of \$100 million and varying D&O limits ex-

cess of at least \$25 million.

- X.L. Insurance Co. Ltd., which will provide a \$25 million limit underlying A.C.E. as part of a line slip of U.S. insurance companies or will write coverage excess of A.C.E.

One byproduct of A.C.E.'s formation has been a sudden jump in the brokerage commissions earned by several Bermuda managers. U.S. business submitted to A.C.E. must be placed through a Bermuda broker.

Brokerage will account for 10% of Pinehurst's revenues this year, compared with 1% last year, because of A.C.E., Mr. Whiting pointed out.

"It's the greatest thing to come down the pike in a long time," he said.

"It's the only game in town and it's a hell of a good one," added John J. Lorhan, president of Rollins Burdick Hunter Co. (Bermuda) Ltd., which will draw 98% of its

brokerage revenues this year from A.C.E.

While Bermuda captive managers are enjoying a business boom because of the new formations, increased premium volume and the new brokerage revenue, the number of managers in Bermuda is being reduced by mergers and acquisitions. These include:

- The merger of Alexander International Ltd. and IML, the former captive management unit of Reed Stenhouse Cos. Ltd. A&A Alexander International's parent acquired Reed Stenhouse last year, though a physical merger of the Bermuda operations isn't yet complete, according to Alan C. Cossar, Alexander International's president.

- The merger of James (Bermuda) and Sedgwick Group Overseas Management Services Ltd. following last year's acquisition of James by Sedgwick Group P.L.C. The physical merger of these Bermuda operations is still being studied, according to Mr. Sproule.

- The acquisition of S.H. Grayston Management Ltd. and Corroon & Black Corp.'s Bermuda management business by Hanna.

- The acquisition of H&H Management Services Ltd. by International Advisory Services Ltd. Combined, the two operations manage 34 captives with premium volume of \$114 million.

Several managers say that they don't expect much more merger activity this year.

"I don't think there can be too many more because there aren't that many independents left," said Hal Forkush, president of Atlantic Security Ltd., an independent management company with 25 captive clients.

As Bermuda managers work to form new captives or expand existing companies, several are eyeing Barbados as a potential threat to their island's business.

Few managers expect many existing captives to move from Bermuda to Barbados, but Barbados could attract new captive formations away from Bermuda. The Barbados tax treaty, exempting premiums from U.S. excise tax, would be especially attractive to direct-writing captives with high premium volumes and high retention, managers note.

While Barbados hasn't developed the range of support services that Bermuda has, Bermuda managers say they should not be complacent.

"I don't think Bermuda should underestimate Barbados as a competitor," said Mr. Grayston, adding that Hanna is considering opening a Barbados office.

Meanwhile, managers are trying to streamline the process of forming new captives in Bermuda. The Bermuda Insurance Managers Assn. has recommended that managers include in their submission to the government several pieces of information that are not specifically requested in the application forms.

The purpose of the additional information is to head off delays in new formations that result when the government has to ask manager for additional information after an application is submitted, according to Mr. Chilvers.

"If all of these procedures are followed, there is a reasonable chance of getting an application through and approved within three weeks, Mr. Chilvers said.

While some captive managers busy with new formations, reported significant growth last year in premium volume or the number of captives managed, others reported little or no growth.

At J&H Ltd., the largest Bermuda captive manager, premium volume of managed companies jumped to \$750 million last year from \$651 million in 1984, not including premiums written by First

Continued on page 1

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A. You mean The Hartford stag. And no, OSCAR's the name of Hartford Specialty's amazing on-line claim reporting system.

Q. Does OSCAR help you spot problems and prepare custom reports?

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*INA Special Risk Facilities is the marketing organization for products underwritten by the CIGNA Property and Casualty Insurance Companies.

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opinions

Shifting waters won't sink ship

THE NEW SURGE OF GROWTH in captive insurance companies resembles passengers fleeing from a sinking ship.

But, unlike the fate likely to greet leaky lifeboats and an abandoned ship, we expect both captives and the commercial insurance marketplace to survive.

Indeed, we believe the massive change in risk financing taking place today is to the good of insurance buyers and the insurance industry alike, over both the short and long term.

For the short term, the development of new captive insurers by individual businesses and groups of businesses is providing the capacity desperately needed now to fund risks.

It is both creating capacity for the owners of these captives and reducing demand on commercial insurers for capacity.

For the long term, we are not in the camp with those who contend that commercial insurers will someday regret forcing businesses to self-insure, form captives or invest in multiowner insurers. The insurance industry will experience, but will not suffer from, some loss of market share.

Once commercial insurers recover from past underwriting losses and again charge reasonable prices, they will regain many clients that are turning to self-insurance, wholly owned captives or rent-a-captive plans to fund their own risks.

These businesses will be perfectly happy to again pay insurers for real insurance—if the price beats the risks of funding their own losses.

Those hundreds of businesses and institutions that never again will turn to the commercial insurance business to fulfill their most vital risk financing needs—the businesses forming multiowner captives—will be doing the industry, as well as themselves, a favor.

Clearly, experience shows most commercial insurers are incapable of properly underwriting these risks.

We are reasonably sure that the businesses investing in multiowner captives, which are incorporating at breakneck speed, will not return en masse to the commercial insurance market (see story, page 3). These multiowner insurance companies are structured to

make it difficult, if not impossible, for their investors to ever withdraw their capital.

This forced loyalty, however, will not be the sole reason that investor/policyholders stick with the insurance companies they are creating today out of need.

Instead, we think that the well-designed and well-managed multiowner insurance companies will prove to be so profitable over time that their investor/policyholders will remain with the program to reap their rewards.

By well-designed we mean adequately funded, and by well-managed we mean enforcing prudent underwriting and providing sophisticated claims handling. These multiowner insurers will require specialized underwriters and specialized claims personnel, but we expect them to commit the required resources to develop and maintain the specialized expertise needed to be successful, something that too many multiline insurers have been unwilling or unable to do.

The reward these multiowner companies will bestow will be profits, plowed into surplus, providing more capacity to underwrite more investors' risks.

In the long run, this is good news—not bad news—for today's commercial insurers.

It will remove a highly competitive faction from the commercial insurance marketplace.

The investor/policyholders will not seek or engage in the sort of suicidal rate cutting that has characterized the conventional large-risk commercial marketplace. These investors/policyholders will not risk losing their investments in the heat of competition.

Ultimately, this could reduce the dramatic pricing swings in the commercial insurance marketplace and stabilize rates, which will benefit both insurance buyers and insurance company investors.

Of course, there is no question that these multiowner insurance companies also run the risk of losing all the capital their investors have contributed, and even more money if the investor/policyholders are subject to calls for additional capital.

As a result, managers of—and investors in—these multiowner insurance companies should keep a keen eye on exactly who is jumping into these lifeboats.

letters

Controlling health care costs starts with providers

To the editor: Your endorsement of "managed" health care and utilization review as welcomed trends (*BI*, March 31) is well-founded, but I believe you and your readers still demonstrate an inhibition to accept the notion that meaningful, long-term control of health care costs must be implemented at the provider level.

The vehicle(s) to achieve that objective can take several forms, but once achieved and coupled with an effective, comprehensive utilization review program, the magnitude of savings in health care costs will be dramatic.

I am surprised that the linkage, intellectually and pragmatically, has still escaped so many practitioners, plan sponsors and observers.

I would applaud B. Marc Allen, whose letter on the same page points out the value of utilization review programs for controlling the stop-loss reinsurer's costs, but we know from experience over the past two years that the ultimate savings to the reinsurer comes from two sources: negotiated fees with providers and utilization review.

The former is far more valuable than the latter to the reinsurer. That is what makes reinsurers with which we work so delighted to offer substantial reductions

Illinois Insurance Exchange is growing

To the editor: As counsel to the oldest active syndicate at the Illinois Insurance Exchange, I would like to comment on your article "Illinois Exchange Gains New Member" (*BI*, March 31).

After noting approval of the Cal Fed Syndicate, you reported the withdrawal of the LWB Syndicate, which had written 42% of the exchange's 1985 volume.

However, the article did not note that the other syndicates have more than

in stop-loss premiums.

Ralph N. Galascione

Principal
The Benefits Consulting Group
San Diego, Calif.

taken up the slack. The present pace of writings by active syndicates should increase 1986 writings by at least 40% to 50% over 1985's volume, even without LWB Syndicates's help.

The exchange has grown and diversified enormously with new syndicates and the hard market.

Randall Kleinman

Malloy & Kleinman
Des Plaines, Ill.

Marketing ends don't justify creative means

To the editor: A letter on March 31 criticized a Delta Dental ad for its "blatant sexist approach." The subsequent reply from a spokesperson for the advertiser said, in part:

"We feel the ad is appropriate in the context of the campaign, which features different parts of the body that people insure. Sometimes the more striking the campaign, the stronger the reaction to it."

Without arguing whether or not the ad was blatantly sexy, or questioning the distinction between one ad and a "campaign," I would take extreme issue with any statement that suggests marketing ends justify creative means. And, I'm

using the word "creative" advisedly.

If you just want a strong reaction to an ad, I suggest running a colorful picture of a dog that's just been flattened by an 18-wheeler. You'll get a strong reaction, but does that make it a strong ad?

While I personally don't think the Delta Dental ad was all that bad, I'd hate to see somebody really make ads on the premise "the more striking the campaign the stronger the reaction to it."

Tom Butters

Director of Communications
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Bermuda captives

Continued from page 6
Island Reinsurance Assn., a captive reinsurance pool.

The number of captives managed also climbed to 140 last year from 135 the previous year.

Several factors account for the growth in premium volume, according to Thomas A. Clark Jr., assistant vp with J&H Ltd.

The company has seen "a significant amount of activity" in the formation of captives to write fully funded directors and officers liability programs, Mr. Clark said. In such programs—which typically operate without reinsurance—policyholders fund their captive's aggregate limit of liability with cash or letters of credit.

Along with the addition of new captive clients, the casualty premiums of existing clients have increased, he noted.

J&H has added more captives

since the beginning of the year and currently manages about 143, according to Mr. Hall. In all, since the beginning of 1985, J&H has added about 13 captive clients and lost five others for a net gain of eight, he said.

"A couple" of captive clients were lost when their parent companies were acquired by other corporations that already had their own captives, he said, adding that in one case, the acquiring corporation already had a self-managed insurance subsidiary.

One association captive that was formed five years ago and never became very active went into voluntary liquidation after its participants "lost confidence" in the captive's usefulness, Mr. Hall said.

However, the tightening of commercial property/casualty markets may change the association members' minds, he added. Two other single-parent captives that were in the process of being wound down

have decided to resume operations because of the hard market, Mr. Hall noted.

Last September, J&H arranged a new program to provide investment management and banking services to captive clients through Schroder Investment Management Services Ltd., a unit of J. Henry Schroder Wagg & Co. Ltd., a London merchant banking firm.

These services include:
● Investment of short-term funds in Eurodollar floating rate notes issued by sovereign entities, government agencies or international banks rated AA or better by Standard & Poor's Corp., Moody's Investor Services Inc. or other agencies, and in Eurodollar certificates of deposit issued by banks.

● Securing letters of credit in amounts greater than \$100,000 from J. Henry Schroder Bank & Trust Co. of New York at a preferred rate of 0.25% of the amount of the letter of credit.

About 10 J&H-managed captives participate in the investment management program.

International Risk Management, the Reiss Organization unit, reported 80 captives under management last year, up from 72 in 1984.

Premium volume, however, remained flat at about \$514 million, not including about \$86 million in captive reinsurance premiums ceded to Hopewell International Insurance Ltd., a property and marine pool.

Mr. Chilvers said he has seen little change so far in the way existing captives are being used, though he added that there will be some change as captives start to participate in facilities like Tortuga Casualty Co., an excess casualty insurer whose shareholders are Reiss captive management clients.

IRM has added about 10 new captive clients in the last six months and doubled the number of multiowner captives it manages, Mr.

Chilvers says.

Half of the new captives are multiowner companies and half are single parent captives, he said.

Of IRM's total of 90 captives currently, nine are now multiowner companies, Mr. Chilvers said.

"We have seen a lot more activity in the last six to nine months," he observed. "Basically, it's been very active."

Business at Parker & Co. InterOcean Ltd., the captive management unit of Frank B. Hall & Co. Inc. remained flat last year.

Parker & Co. manages 55 captives with premium volume of about \$450 million, unchanged from 1984, according to Geoffrey A. Hunt, vp and controller.

The premium volume figures include premiums written by Paumanock Insurance Co. Ltd., net of premiums ceded to Paumanock by other Parker & Co. captive management clients, Mr. Hunt said.

Frank B. Hall (Underwriting Managers) Ltd. writes unrelated reinsurance risks for Paumanock, a unit of Grumman Corp.

Mr. Hunt said that Parker & Co. has three or four new captives in various stages of formation, adding that most new clients will probably not be single parent captives.

"Recently there has been more interest in the way captives are being used, for obvious reasons," he said, referring to the tight commercial property/casualty market. "We are expecting to see very few single-parent captives, but probably more groups and associations being formed."

Captives managed by M&M (Bermuda) produced premiums of \$266 million last year, according to Mr. Carr, up from an estimated \$225 million in 1984. At year-end M&M (Bermuda) managed 80 captives, up from 78 in 1984.

Captives now under management number 82, four or five of which were formed in the last six months, Mr. Carr said. Another three captives are in various stages of formation, he added.

Recently formed captives have included both single-parent and group or association companies, he said. Twelve of M&M's 82 captive are association-owned entities, he said.

Premium volume growth is coming not only from new captives but from expansion of established ones, Mr. Carr reported.

Membership in Attorney Liability Assurance Society Ltd., a lawyers' professional liability group captive, has jumped to 200 law firms from 50 a year ago, he said.

Other parent companies or groups are considering using captives to write new lines of coverage, to assume higher retention levels, or to fill holes in commercially insured primary layers.

"The areas where we have seen big growth are product liability and professional liability," he said. "We have seen captives writing product liability that were never interested in writing it before."

Other new lines being considered by some captives are directors and officers liability and credit risks, he said. Satellite manufacturers are also thinking about insuring satellite risks with captive insurers, Mr. Carr said.

Rollins Burdick Hunter (Bermuda) Ltd., a unit of Combined International Corp., reported premium volume of \$260 million from 40 managed companies last year, up from \$222 million in premium from 30 managed companies in 1984.

RBH added five new multiowner captives to its stable in 1985, according to Mr. Lorhan. The five new captives—like eight other that RBH incorporated in 1984—reinsure auto risks written by Globe Life Insurance Co. and Virginia Surety Co. Inc., both Combined International units. The cap

Continued on page 1



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What if the light at the end of the tunnel

While recent optimism in the commercial insurance business suggests a favorable turnaround, the price we're paying for that turnaround is a steep one. The issues of client frustration, regulator concern and industry insecurities are roaring toward us. We've all been at this crossroads before, but never has the approaching light been more dangerously seductive.

The reality is this: the commercial insurance business is *continuously a cyclical one*. Good times, bad times, good times. And it is essential that the industry continuously improve the management of the cycle.

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Bermuda captives

Continued from page 10
tives' shareholders are agents producing business for the two companies, Mr. Lorhan explained.

"Last year was a big year for the car business," Mr. Lorhan observed, explaining the increase in premium volume.

RBH is also talking with "a number of groups" unrelated to the car business about forming captive companies, he added. One of these is a group of construction contractors for which RBH hopes to have a captive capitalized at \$50 million operating by May, Mr. Lorhan said. RBH had planned to have this captive running by last June, but problems between reinsurers and the fronting company have delayed its start-up, he explained.

Mr. Lorhan added that several parent companies or groups are expanding their use of captive facilities. Four RBH-managed captives, for example, are now writing excess casualty layers on which they hadn't participated before. Another company has added foreign property exposures to its captive coverages, he said.

Hanna Insurance Management became Bermuda's sixth-largest captive manager based on premium volume last year—up from the No. 9 spot in 1984—mainly on the strength of its acquisition of S.H. Grayston Management and Corroon & Black's captive management business.

Hanna reported volume of \$250 million from 71 managed captives last year, compared with \$150 million from 32 managed captives in 1984. The premium figures include premiums written by Corporate Insurance & Reinsurance Co. Ltd. and the Risk Exchange Assn., two pools managed by Hanna.

However, Mr. Grayston said inclusion of the pools' premiums results in very little double-counting of premiums, since most of the pools' participants are not Hanna-managed captives.

Mr. Grayston says he brought 25 to 28 clients with him when he sold

Grayston Management to Hanna. Corroon & Black added another 12 to 14 clients, he said.

"A couple" of the Corroon & Black-managed captives did not move over to Hanna, one because it was running off its book after its parent company merged with another corporation, Mr. Grayston said.

Hanna expects to have eight to 15 new captives on board by the end of this year, two or three of which will be single-parent captives and the rest of which will be multiowner captives, he said.

Hanna is now putting together a series of joint-venture captives to cover the workers compensation risks of groups of employers represented by various agents or insurance companies. In some of these arrangements, the U.S. insurance company will provide fronting services, own shares in the captive and act as the captive's reinsurer, Mr. Grayston explained.

About 40% of Hanna's captives are multiowner entities, he added. Mr. Grayston said he eliminated three jobs in combining the staffs of Grayston Management, Corroon & Black and Hanna, and now has a total staff of 23.

Pinehurst, the management subsidiary of Emmett & Chandler, jumped to the No. 7 spot among Bermuda's top managers last year from No. 8 in 1984, reporting premium volume of \$250 million from 65 managed captives in 1985, compared with \$180 million in premiums from 56 captives the previous year.

Mr. Whiting said he hopes to add another dozen captives to the roster by year-end, several of which will be former clients of Jardine Risk Services Ltd. The Jardine captives are currently under the management of Continental Risk Services Ltd.

Pinehurst has submitted applications for three new captives so far this year, one an association captive and the other two single-parent captives that will write workers compensation and general liability coverage, Mr. Whiting said.

Bermuda captive managers

Manager Parent	Premium volume		Captives		Staff	
	1985	1984	1985	1984	1985	1984
J&H Ltd. Johnson & Higgins	\$750 million	\$651 million	140	135	99	95
International Risk Management Ltd. The Reiss Organization	514 million	514 million ⁴	80	72	65	65
Parker & Co. Interocean Ltd. Frank B. Hall & Co. Inc.	450 million	450 million	55	55	40	37
Marsh & McLennan (Bermuda) Ltd. Marsh & McLennan Cos. Inc.	266 million	225 million ⁵	80	78	55	53
Rollins Burdick Hunter (Bermuda) Ltd. Combined International Corp.	260 million	222 million	40	30	15	10
Hanna Insurance Management Ltd. M.A. Hanna Co.	250 million	150 million	71	32	23	17
Pinehurst Management Co. Ltd. Emmett & Chandler Cos. Inc.	250 million	180 million	65	56	17	17
Alexander International Ltd.² Alexander & Alexander Inc.	200 million	200 million ⁵	65	65	28	28
James (Bermuda) Ltd.³ Fred S. James & Co. Inc.	200 million	200 million ¹	45	45	22	23
Insurance Managers Ltd. Alexander & Alexander Inc.	150 million	130 million	57	53	35	32

¹ \$ estimate

⁴ Restated

² Not including Insurance Managers Ltd.

⁵ \$ estimate, restated

³ Not including Sedgwick Group Overseas Management

Chart: Holly Seguire, Amy Palmer

Overall, 20% to 25% of Pinehurst's clients are association captives, he added.

About half of Pinehurst's business is produced by Risk Management Inc., a Los Angeles-based affiliate, while a third comes from Emmett & Chandler offices and the remainder from Pinehurst itself, Mr. Whiting said.

Alexander International, A&A's management unit, dropped to the No. 8 spot last year with the expansion of Hanna and Pinehurst.

Premium volume of captives managed by Alexander International last year remained flat at \$200 million and the number of captive clients stood at 65—including rent-a-captive programs—unchanged from 1984.

However, these figures do not include the business of Insurance Managers Ltd., the Reed Stenhouse unit acquired when A&A merged with Reed Stenhouse last year.

IML reports managing 57 cap-

tives last year with estimated total premium volume of \$150 million. Combined, the two operations would have 103 captive clients—not including rent-a-captive programs—with total premiums of \$350 million, making it Bermuda's fourth-largest captive manager.

The two management units had planned to merge their operations by last December, but office renovation problems have delayed the physical merger until early May, according to Mr. Cossar.

While Alexander International's clients write primarily casualty business—especially U.S. casualty—most of IML's clients write property risks, Mr. Cossar added.

"I think we are going to see more interest on the property side because we have the reinsurance facility," he noted, referring to IML's non-marine property reinsurance program, available to all A&A captive clients.

James (Bermuda) Ltd. also

dropped to the No. 9 spot among Bermuda managers from No. 7 in 1984 because of Hanna's and Pinehurst's expansion.

James reported managing 45 captives with total premiums of \$200 million last year, unchanged from the year before.

Again, however, these numbers do not include Sedgwick Group Overseas Management Services Ltd., the Bermuda management arm of Sedgwick Group P.L.C., which acquired James last year.

Sedgwick reported managing 21 captives with total premiums of \$70 million last year. Combined, the two operations managed 66 captives with premiums of \$270 million in 1985, making it the fifth-largest Bermuda manager behind the combined Alexander International/IML operation.

A preliminary integration report covering the James and Sedgwick operations was finished last December, though it is "unclear" when the two firms will actually merge, according to Mr. Sproule.

James' business comes almost exclusively from the United States, is casualty-oriented and includes a large number of association programs. Sedgwick's business, on the other hand, is mainly European, mainly property and is often written directly rather than through fronting insurers, Mr. Sproule said.

The two operations have also evolved different data processing systems, and Sedgwick's business is more labor-intensive than James', he added.

"That's not to suggest that that's incompatible with an integration of the two operations," he explained, noting simply that there are hurdles to be cleared.

One additional hurdle, he noted, is that both firms are tied into long-term leases on their current office space and will have to decide if the savings from greater efficiency will be worth the cost of the merger.

James last year added two captives—one association and one single-parent—but lost two others, one of which was liquidated and the other of which became dormant.

Mr. Sproule said he hopes to add five new clients this year: three association and two single-parents captives.

American International Co. Ltd., the Bermuda management arm of American International Group Inc., was bumped from the No. 10 spot last year by A&A's IML.

American International had 25 captives under management producing \$130 million in total premiums, unchanged from 1984.

American International hopes to add three or four new captives this year, according to Dennis J. Higginbottom, vp and director of captive operations.



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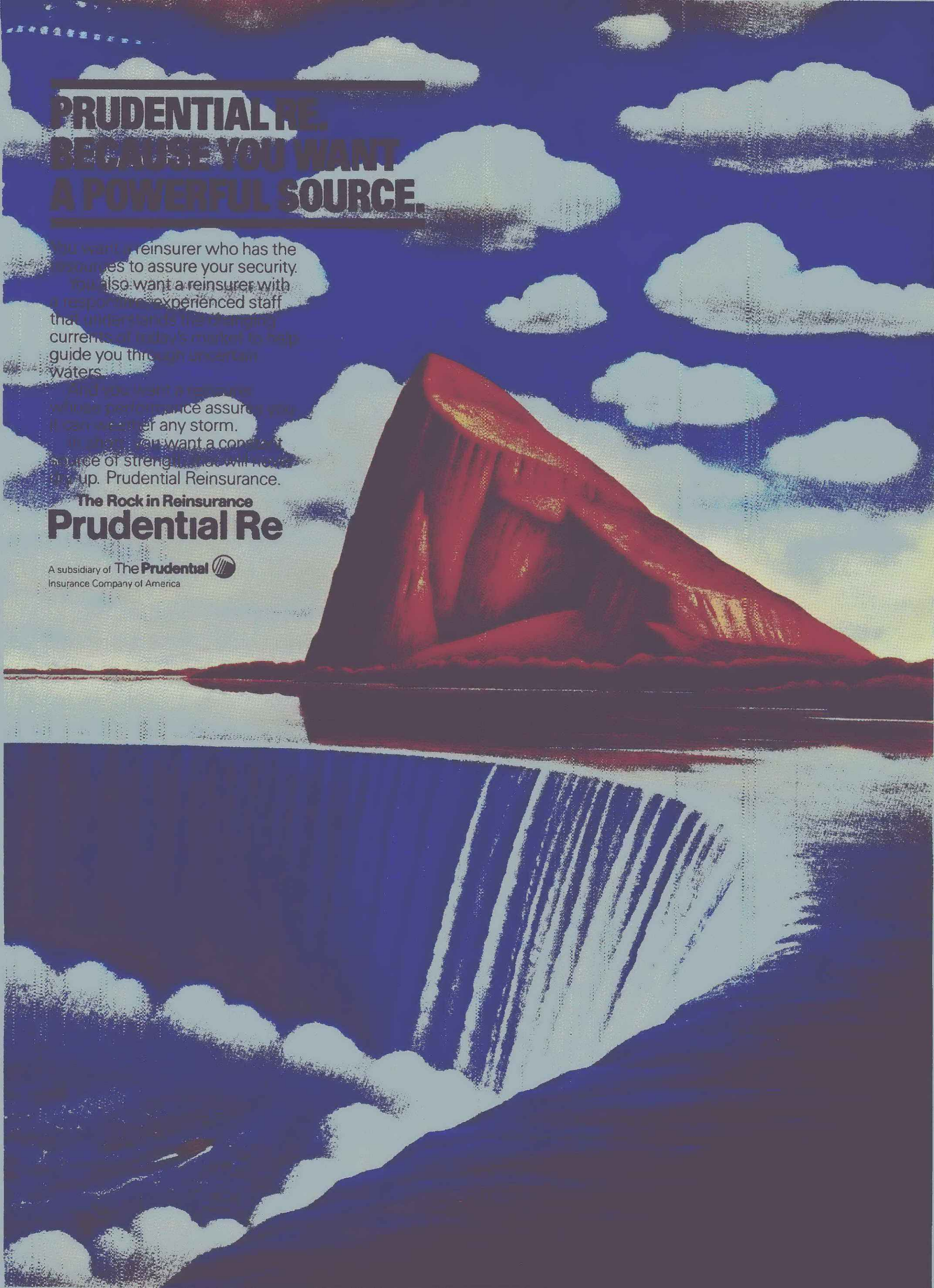
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Bermuda captive pools yield mixed results

By DOUGLAS McLEOD

HAMILTON, Bermuda—The most recent results of Bermuda's property and casualty reinsurance pools are as varied as the pools themselves.

While the relatively new Risk Exchange Assn. reported growth in membership and premium volume, other more-established pools—including Hopewell International Insurance Ltd. and First Island Reinsurance Assn.—reported little or no growth.

The Risk Exchange, formed in 1983 and managed by Hanna Insurance Management Ltd., recorded \$5.25 million in earned premiums in 1985, up from \$1 million in 1984.

The number of captive insurance company participants in the exchange increased to 25 with the addition of eight new members, according to Robert J. Rosser, assistant vp of Hudson Underwriting Ltd. and manager of underwriting services for the exchange.

The new members' parent companies are Weyerhaeuser Co., Louisiana General Services Inc., Berwind Corp., Dome Petroleum Ltd., Revco D.S. Inc., Gulf Resources & Chemical Corp., Brunswick Corp. and Kellogg Co.

In addition, a captive owned by E&J Gallo Winery is expected to join the exchange soon, Mr. Rosser added. This would bring total participation to 26 captive companies with a combined net worth of \$225 million.

Interest in the exchange "is higher than it's ever been and I can only see it going higher," Mr. Rosser said.

The exchange—which reinsures the property, casualty and marine risks of its members—has had inquiries from an additional 15 companies, according to Mr. Rosser, who expects to see more than 30 captive members by the end of this year.

With the increase in membership comes the increase in per-risk capacity. Exchange capacity for property risks increased to \$3.2 million from \$2.25 million in 1984. Capacity for casualty risks rose to \$1.5 million last year from \$1 million the previous year, and marine risk capacity climbed to \$2 million from \$1.58 million.

Each risk submitted to the exchange is individually underwritten and ceded to members based on underwriting guidelines set for each captive by the captive member itself, according to Mr. Rosser, who has binding authority for all but three of the captive participants.

The exchange underwrites property, casualty and marine "capacity" risks, which consist of pro-rata shares of large limits or a layer of risk between working and catastrophe levels.

It also offers a property reinsurance, or "swapping," program, in which members reinsure one another's working-layer exposures with expected losses of predictable frequency.

Mr. Rosser said that the exchange's earned premium volume probably will increase to \$8.75 million this year from the \$5.25 million recorded last year.

About \$4.5 million of the 1986 volume is expected to come from casualty risks, about \$2 million from property, \$500,000 from marine and \$1.75 million from the swapping program, he said.

The growth in volume is coming not only from increased membership, Mr. Rosser indicated, but also from increased premiums on existing business.

"Most of the business we've seen on renewal has been placed at increased premiums," he observed,

adding that no renewals have been bound at lower premiums.

Most of the exchange's property business consists of highly protected risks, while casualty business is "straight vanilla," with no high-risk lines like directors and officers liability, errors and omissions or environmental impairment liability, he said.

Nevertheless, property rates have jumped an average of 25% in the last year, while casualty rates also have risen, he noted, although

he would not give a figure for the average casualty rate increase.

The exchange is writing most new casualty business on a claims-made form, Mr. Rosser added.

"Just like the commercial market, the exchange is benefiting from tightening terms," he observed.

Exchange members have held "some discussions" about writing D&O, E&O and EIL business, Mr. Rosser said, though the exchange has no current plans to expand into

these lines.

If it did expand, he added, this coverage would be written in a separate pool.

"It wouldn't pass through the mainstream mechanism of the exchange," he explained.

The exchange's loss ratio on 1985 business was 80%, including provision for incurred-but-not-reported losses, compared with 83% including IBNR for 1984.

The 1985 loss ratio is probably inflated by conservative IBNR

projections, Mr. Rosser said, explaining that reserves for the exchange's 12 pieces of casualty business were set assuming a 100% loss ratio.

The exchange's expense ratio was less than 5% in 1985, and is expected to drop in 1986 as volume increases.

Another facility reporting growth is the non-marine property reinsurance facility managed by Insurance Managers Ltd., a unit of

Continued on next page



Continued from previous page
Alexander & Alexander Inc.

The IML facility, which has been operating for 12 years, provides a \$10 million primary property reinsurance layer to captive clients. If the maximum foreseeable loss on a property risk exceeds \$10 million, the facility can provide additional limits to the extent that it can arrange internal facultative excess or automatic excess reinsurance to cover that risk.

The IML facility's reinsurers include two lead London underwriters and 50 following international reinsurance markets, said IML President David A. Brown.

Reinsurance for the facility is

brokered by Alexander Howden Reinsurance Brokers Ltd., a London-based A&A unit.

The facility is limited to captive management clients of IML, the former management unit of Reed Stenhouse Cos., which A&A acquired last year, and Alexander International Ltd., A&A's own management subsidiary.

About 16 of IML's 57 captive management clients cede business to the facility, though none of Alexander International's captive clients has yet ceded any risks, according to Alan C. Cossar, Alexander International's president.

Premiums ceded to the facility are expected to total more than \$50

million for the year ending June 30, 1986, compared with just more than \$20 million in ceded premiums for the year ending June 30, 1985, according to Bernard S.Y. Fung, executive vp of IML.

"A significant piece" of the increase in volume has come from rising property insurance rates, Mr. Fung said.

Meanwhile, premium growth was marginal for Hopewell, managed by The Reiss Organization's International Risk Management Ltd. and owned by 36 captive insurance company shareholders.

Hopewell reinsures the property and marine hull and cargo risks of about 50 Reiss-managed captives

under a series of quota-share and excess-of-loss treaties.

Under its quota-share treaty arrangements, Hopewell and its shareholders retain about 30% of the business written, while the remaining 70% is reinsured with about 250 professional reinsurance companies.

Hopewell's earned premiums for the fiscal year ended June 30, 1985, rose slightly to \$86.2 million from \$85.6 million in 1984. In its annual report, IRM explains that the slight change "reflects the tail-end of the soft market conditions which historically provide little incentive for increasing the volume of exposures at the risk of rate adequacy."

Net earned premiums after ceded reinsurance premiums remained basically flat at \$1.76 million in 1985, compared with \$1.77 million in 1984.

After ceding and other commissions earned, Hopewell's total underwriting income amounted to \$21.4 million, down slightly from \$21.7 million in 1984.

Underwriting expenses, meanwhile, also dropped slightly to \$20 million from \$20.5 million in 1984. Net incurred losses—one component of underwriting expenses—declined to \$502,864 last year from \$719,911 in 1984.

The result was an increase in net underwriting profits, which amounted to \$1.4 million last year, compared with \$1.2 million the year before. Net income after administrative expenses and investment gains, however, declined to \$3.2 million from \$3.3 million in 1984, mainly because of declining yields on Hopewell's bond portfolio, the annual report says.

First Island, owned by nine captive insurers and managed by Johnson & Higgins (Bermuda) Ltd., reported a slight drop in premiums last year.

First Island reinsures the first \$25,000 per occurrence of members' workers compensation, general liability and automobile liability risks, making it a facility for insuring exposures with a high frequency of losses rather than high severity.

All reinsurance assumed by the pool is retroceded to participating companies in varying percentages. Three of the captive participants—not identified by name in First Island's annual report—assume a little more than 70% of the facility's total retrocessions.

Parent companies of the nine shareholders are Clark Equipment Co., Continental Can Co., Bundy Corp., GTE Corp., Burlington Mills, Dexter Corp., Chesebrough-Pond's Inc., Reynolds Metals Co. and Reichold Chemical Co.

A 10th captive, Beryl Insurance Co. Ltd., owned by Acme Stores, stopped ceding and accepting reinsurance premiums through First Island last June.

Reinsurance premiums assumed through the facility amounted to \$58 million for the year ended June 30, 1985, down from \$61 million in assumed premiums in 1984, according to First Island's annual report.

Losses paid and outstanding losses, meanwhile, rose to \$52.5 million last year from \$52 million in 1984. After management fees and expenses, total underwriting expenses amounted to \$52.9 million in 1985, compared with \$52.5 the previous year.

First Island participants divided net underwriting income of \$5.1 million last year, compared with net underwriting income of \$8.4 million in 1984.

The 1985 underwriting results for Corporate Insurance & Reinsurance Co. Ltd., managed by Hanna Insurance Management Ltd., weren't available at press time.

CIRCL reinsures the workers compensation, general and products liability, automobile, umbrella liability and patent infringement risks of its 15 captive participants, retroceding the risks back to the captives under a quota-share excess casualty treaty.

Business assumed under the excess casualty treaty relates to losses in excess of \$250,000 up to a maximum of \$5.5 million per occurrence.

CIRCL retains 10% of the reinsurance ceded to it and retrocedes the rest to participating captive insurance companies.

The facility discontinued a primary casualty treaty program in November 1984.

In 1984, the facility recorded gross premiums of \$22.7 million, \$14.3 million in the primary casualty program and \$8.4 million in the excess casualty program.

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AIG seeking sponsors for excess facility

By DOUGLAS McLEOD

HAMILTON, Bermuda—American International Group Inc. is trying to line up corporate sponsors in the United States for a new off-shore insurance company that would provide liability limits ex-

cess of at least \$25 million.

The new company, Excess Liability Insurance Ltd., was incorporated in Bermuda earlier this year, and a holding company, Excess Liability Holdings Ltd., was incorporated in Barbados, according to Dennis J. Higginbottom, vp

and director of captive operations for American International Co. Ltd. in Bermuda, AIG's captive management subsidiary.

Excess Liability Insurance is not yet capitalized, Mr. Higginbottom said.

However, the holding company

hopes to raise a minimum of \$100 million from corporate sponsors to begin underwriting.

AIG itself will invest \$10 million in the company and is looking for other sponsors to contribute \$10 million each, though contributions may be smaller, Mr. Higginbottom

bermuda

said.

"We are trying to get together a fairly small group of sponsors that are prepared to put up substantial capital," he explained. "That will make it easier to organize."

John G. Gantz Jr., a vp with AIG Risk Management in New York, declined to comment on whether the facility has received any sponsor commitments, citing legal constraints connected with the private offering of the holding company's stock.

"I don't want to suggest to you that we have \$98 million in our hip pocket and only need \$2 million more. That's not where we are," Mr. Gantz said. "We have had discussions with a number of companies that are very interested in the program."

American International Co. in Bermuda has sent prospectuses to about 100 potential investors, including chemical and pharmaceutical companies, according to Mr. Higginbottom.

A meeting of Excess Liability Insurance organizers has been scheduled for the end of April, at which time the new company will have a better idea how much capital it will raise, Mr. Gantz said.

The new company will write two separate policies: one covering umbrella liability, including general liability, product liability and auto liability, and another for sudden and non-sudden pollution liability. Policyholders must buy the umbrella coverage to obtain the pollution coverage, which will be "subject to very stringent underwriting," Mr. Gantz said.

The coverage will be written on a claims-made form excess of \$25 million or the amount of underlying commercial coverage, whichever ever is higher, Mr. Higginbottom said. The company also will provide coverage excess of self-insured retentions of \$25 million or more, he added.

Limits available from Excess Liability Insurance will depend on the amount of capital raised and the amount of reinsurance it is able to obtain, though the insurer's net line on a single policy will not exceed 10% of the company's capital base, Mr. Higginbottom said.

For example, if Excess Liability Insurance is capitalized with \$100 million, its maximum net line per policy would be \$10 million.

The facility hopes eventually to raise a total of \$500 million in capital, which would allow it to write a maximum net line of \$50 million per risk, Mr. Gantz said.

The insurer's gross line per risk will rise with the amount of reinsurance it lines up, according to Mr. Gantz, who said that AIG affiliates—possibly American Home Assurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa.—will reinsure Excess Liability Insurance.

He stressed, however, that the AIG companies will simply employ underutilized capacity in their reinsurance of the new facility.

"It won't take away from the capacity we devote to the commercial market now," Mr. Gantz said. "We are not reallocating capacity, we are dedicating additional capacity to this facility."

The new insurer will write coverage for both sponsor and non-sponsor corporations, and may also reinsure captive insurers rather than issuing direct policies to parent companies in the United States, Mr. Higginbottom said.

Like A.C.E. Insurance Co. Ltd.—the Cayman-domiciled excess lia-

Continued on page 2



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Operations of rent-a-captives changing

By DOUGLAS McLEOD

HAMILTON, Bermuda—The lack of fronting insurers and scarcity of reinsurance capacity is changing the way some rent-a-captive programs operate, managers report.

While traditional rent-a-captive programs have used authorized fronting insurers in the United States to issue policies, the withdrawal of several fronting companies during the last two years has led some Bermuda rent-a-captives to issue policies directly for new programs that involve coverages other than workers compensation.

The simultaneous withdrawal of reinsurance capacity also has produced more "fully funded programs," which operate without re-

insurance, managers say. In these programs, policyholders fund their aggregate limits of liability with cash or letters of credit.

Despite these constraints—which a year ago produced gloomy predictions of a decline in rent-a-captive operations—some managers have seen significant growth in their programs during the last year and are predicting further growth this year.

Other rent-a-captives, meanwhile, have for various reasons grown very little, while still others have become dormant since last year.

It's hard to make general predictions about the growth of rent-a-captives, said Robert A. Mulderig Jr., executive vp of Mutual Indemnity Ltd., formerly known as

Aneco Mutual Ltd.

While established, well-structured rent-a-captive programs will do well in the next year, "some of the more marginal rent-a-captives I think you will see fall by the wayside," Mr. Mulderig said.

The number of participants in Mutual Indemnity's rent-a-captive program, Insurance Profit Center, has grown to 105, up from 78 in 1984 and more than double the 50 programs written in 1983, according to Mr. Mulderig.

Written premiums jumped to \$73 million last year from \$49 million in 1984, and annualized written premiums hit \$110 million in 1985 from \$68 million in the previous year.

Income from operations grew to \$7.4 million last year from \$6.9 mil-

lion in 1984, while assets climbed to \$93.4 million from \$61.9 million, Mr. Mulderig said.

Single-insured programs—as opposed to association or agency programs—account for the largest block "by far" of Mutual Indemnity's business, he noted. About 63% of Mutual Indemnity's written premiums were produced by single-insured programs at the end of 1984, and those programs now account for closer to 70% of written premiums, he said.

The remaining 30% of written premiums come from association programs and "very few" agency programs, he added.

"With the tightening in the insurance marketplace, agency programs became virtually impossible and association programs are very

difficult," Mr. Mulderig explained, noting that fronting insurers and reinsurers would rather deal with single insureds.

"Single-insured programs, while not easy, are the easiest of the three to put together," he said.

Because of difficulties finding fronting insurers, Mutual Indemnity is now issuing policies direct to five or six of its 105 rent-a-captive clients, Mr. Mulderig said.

While direct writing isn't possible for workers compensation coverage—which state laws require to be written by authorized insurers—it is possible for other non-statutory liability lines like errors and omissions, directors and officers liability, environmental impairment liability, product liability and municipal liability, he explained.

Workers compensation and U.S. life and health insurance programs account for about 70% of Mutual Indemnity's written premiums, though this percentage probably will decline as premiums for other liability lines rise, Mr. Mulderig said.

Meanwhile, most of the reinsurance available to rent-a-captive programs is offered by only a few large direct-writing reinsurers, including General Reinsurance Corp., Employers Reinsurance Corp. and American Re-Insurance Co., he added.

"That whole market has gone completely to the large direct writers," he said.

To get around the shortage of reinsurance support, seven or eight of Mutual Indemnity's 105 programs also are being written on a fully funded basis, with the policyholder funding the aggregate limit of its policy with premiums and with the purchase of preferred shares in Mutual Indemnity, according to Mr. Mulderig.

"They are doing that because coverage is generally not available or because the cost is so prohibitive that they might as well fund it themselves," he explained.

Companies that cannot buy commercial primary coverage for such risks as asbestos removal liability may also opt for fully funded programs rather than self-insurance because they need to show proof of insurance to their own customers or because commercial excess insurers need proof of primary coverage, he said.

Mr. Mulderig predicted an increase in direct written and fully funded programs, though he said that these routes will be taken mainly by new rent-a-captive clients.

Established Mutual Indemnity programs have had "pretty good" loss experience and probably will be able to maintain their fronting and reinsurance arrangements, he said.

Mutual Indemnity has added six new clients since the beginning of the year, and written premiums should top \$100 million in 1986 with annualized written premiums topping \$150 million, Mr. Mulderig said.

While most of the insurer's growth in 1985 came from new rent-a-captive clients, Mr. Mulderig said that growth in 1986 will come mainly from expansion of existing programs.

This growth will come in two ways, he noted:

- Workers compensation premiums will increase with the improvement in the U.S. economy and the acquisition of new subsidiaries by rent-a-captive clients.
- Programs for other liability lines will expand with the "explosive growth" in premiums brought about by the hardening of the commercial insurance market.

Continued on next page

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'Rent-a-captives have suddenly started blossoming again,' says Mr. Forkush.

owned by Alexander & Alexander Services Inc. and managed by its captive management unit, Alexander International Ltd.

A&A contributed \$15 million in capital to Hemisphere Marine & General last November, bringing the insurer's total capital to \$21 million from \$6 million at the end of 1984, according to Alan C. Cosar, president of Alexander International.

The capital increase is intended to finance future growth for the rent-a-captive operation, Mr. Cosar said.

"If you want to have fronting companies, you have to be able to show a commitment," he observed.

• Bermuda Fire & Marine Insurance Co. Ltd., which started a rent-a-captive program last year.

Written premium volume last year was small, but BF&M Management Ltd. expects the facility to write \$25 million in premiums this

Continued on next page

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Universal Reinsurance Ltd., a privately held rent-a-captive facility managed by Atlantic Security Ltd., also has seen growth in the last year, according to Hal Forkush, Atlantic Security's president.

Universal—whose stable of rent-a-captive clients dropped to six in 1984 from 10 in 1983—is now writing 15 programs, Mr. Forkush said.

Written premiums increased to \$15.8 million last year from \$11.2 million in 1984, and Mr. Forkush predicted that premiums will rise again in 1986 to more than \$20 million.

"It's been very, very active in the hard market," he said. "Rent-a-captives have suddenly started blossoming again."

Mr. Forkush acknowledged, however, that fronting and reinsurance continue to be major hurdles for these programs.

"The most difficult problem today is finding fronting paper," he said.

General Re is expected to begin using the recently acquired Monarch Insurance Co. of Ohio as a fronting insurer by midyear, Mr. Forkush noted.

While this may help ease the fronting problem, it still falls far short of a complete solution, he observed.

"We still need half a dozen major companies coming back into the market before things become easier," he said. "I think it's going to be this way for at least two years."

Mr. Forkush added that reinsurers are supporting only those programs with good loss experience.

"It has to be a tremendously good program before you can get a Gen Re, an Employers Re, an American Re interested," he noted.

The fronting problem, Mr. Forkush observed, has spawned a growing "rent-a-captive" industry.

These unsuited, compensatory programs have not achieved the success of the original program.

Mr. Forkush noted that the "very" program is being reduced.

Under the 1984 insurance of the program, the original program is being reduced.

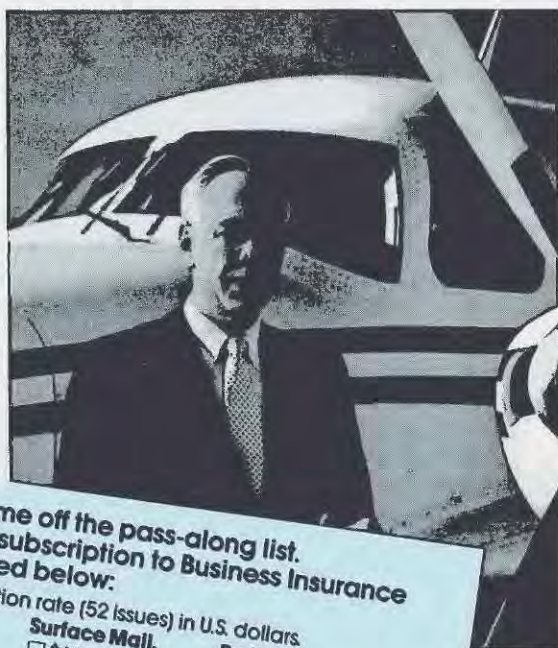
One of the original investors transferred its program last year to a newly formed, wholly owned captive, Mr. Hall added.

Vista Life Insurance Co. Ltd., another rent-a-captive capitalized by J&H, has five policyholders, unchanged from 1984, according to Mr. Hall. Vista Life writes employee benefit-related coverages.

• Hemisphere Marine & General Assurance (Bermuda) Ltd.,

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Rent-a-captives

Continued from previous page
 year from its five current clients, according to General Manager W. Allen Taft.

BF&M Management—now writing mainly work comp programs—also hopes to add five additional clients by year-end, he added.

The rent-a-captive has "been under a fair amount of pressure" to issue direct policies, especially on product liability risks, but has not done so, according to Mr. Taft.

"Third-party coverages in the U.S. where BF&M is issuing the paper are out," he said.

BF&M has considered some fully collateralized programs, but has not written any as yet, he added.

None of BF&M's five current clients is using the rent-a-captive facility to build up surplus so that their risks can be transferred to a wholly-owned captive, Mr. Taft noted.

"We are looking for long-term relationships. We aren't looking for clients who are using this as a stop-gap measure," he said.

While some Bermuda rent-a-captives expand, others report no growth or shrinking business, and others have ceased operating altogether. These include:

- **Trenwick Guaranty Insurance Co.**, which now has 15 clients compared with 23 last year, according to Mark W. Hinckley, executive vp of Trenwick Reinsurance Group. TGIC had 14 clients in 1983.

Written premiums totaled about \$25 million last year, down from \$46.5 million in 1984. Written premiums in 1983 totaled \$23.5 million.

Part of the premium increase in 1984 related to a transfer of prior period loss reserves for one client for one year only, Mr. Hinckley explained.

He said that TGIC probably will stay the same size or grow slightly in 1986, though growth will not be substantial either in the number of programs written or in premium volume.

"We are not putting as much behind the marketing of that product as we did in 1984," he said. "I look at it as a stable product that will become increasingly useful as market constraints lead clients to that alternative."

TGIC is interested mainly in single-insured programs, preferably work comp programs with at least \$2 million in annual premiums.

About two-thirds of TGIC's clients are now single insureds, while the remaining one-third are associations, Mr. Hinckley said.

- **Hurst Holme Insurance Co.**, formed in 1983 and managed by H&H Group. Although H&H was looking for possible rent-a-captive clients last year, it has since given up the search and Hurst Holme is now dormant, according to Treasurer David Pickering.

"We aren't convinced that rent-a-captives have a long-term future," Mr. Pickering said. "If anybody is serious about a captive, they can do it themselves."

- **Old Dominion Insurance Co.**, formerly a unit of Combined International Corp., managed by Rollins Burdick Hunter (Bermuda) Ltd.

RBH (Bermuda) had planned last year to use the dormant Old Dominion as a rent-a-captive, but the insurer has since been sold to an automobile dealer that will use it as a single-parent captive, according to John J. Lorhan, president of RBH (Bermuda).

Meanwhile, RBH is acquiring another Bermuda company that may be used as a rent-a-captive. The company—tentatively named Dreadnought Insurance Co. Ltd.—has not yet been capitalized, Mr. Lorhan said.

"We aren't really pushing the thing," he said, explaining that RBH wants to have a rent-a-captive facility available if clients need one. ■

'Bermuda Gold'

Continued from page 3

"No one here is going mad writing huge amounts of premiums," reports one broker.

Even though total capacity among Bermuda's reinsurers writing commercial reinsurance is small—anywhere from \$50,000 to \$5 million per treaty depending on the type of business offered and the security requirements of the ceding company—it is prized by brokers.

The capacity was especially valuable in the difficult January renewal season.

"I have never been so happy with half a point," declared Robert

J. Hedges, senior vp of Intere (Bermuda) Ltd., referring to an underwriter agreeing to assume 0.5% of a treaty—a \$25,000 to \$50,000 line. "It was the hardest renewal I've been involved in as a broker."

Smaller insurers, which include some captive insurers venturing conservatively into unrelated business, generally write \$30,000 to \$50,000 treaty lines. Larger Bermuda-based reinsurers offer maximum treaty capacity of as much as \$500,000, although more often they offer \$100,000 to \$200,000 lines.

How Bermuda-based reinsurers use this capacity, however, has changed dramatically in the last several years, especially for risks in

the United States.

"It used to be a large percentage were writing casualty and long-tail business. The emphasis now is on property and short-tail business," says broker Wolcott H. Outerbridge, vp of Fairway Bermuda Ltd. "The only exception to that is the captive market" (see story, page 46).

And, except for normal catastrophe protectives, most reinsurers are writing a net account, not the gross-line accounts favored by those reinsurers no longer in business in Bermuda.

Bermuda is the only captive insurance company domicile that also is home to reinsurers offering their

capacity to unrelated risks.

Corralling capacity from about 12 to 18 active markets, and supplementing it with lines from captives writing a few treaties, brokers marketing risks in Bermuda can find:

- Capacity of up to \$750,000 for international excess-of-loss casualty treaties.

- Capacity of up to \$2 million and perhaps \$3 million for U.S. and international excess-of-loss property treaties.

- Capacity for a marine whole account, such as a treaty for a Lloyd's of London syndicate or good London company, of about

Continued on next page



Continued from previous page \$500,000 to \$750,000.

Less capacity generally is available for proportional treaties. And any U.S. casualty treaties, unless they are reinsurance for captive accounts, are much more difficult to place and have to carry extremely favorable terms to the reinsurers before brokers will even take the time to show the business.

Capacity for facultative reinsurance placements, meanwhile, is basically limited to two regular markets: Zurich International Ltd. for U.S., Canadian and British property and casualty risks and the new—and much smaller—Victoria Underwriting Agency for U.S. and in-

ternational property risks only.

Zurich International writes in layers only excess of \$20 million, offering up to \$2.5 million in casualty limits and \$6.8 million in property limits. Victoria has current capacity of \$750,000.

While grateful for the current capacity, brokers nostalgically recall the halcyon early 1980s when capacity was much larger, provided by the insurance subsidiaries of four U.S. oil companies that diversified into commercial reinsurance.

"It's a pity the oil people came in and went out at the wrong time," says Mr. Hedges of Intere.

The oil company captives grew substantially in the early 1980s

when prices were depressed by worldwide marketplace competition. Mounting underwriting losses or the prospect of little profit caused each to stop underwriting:

● Phillip's Petroleum Co.'s Walton Insurance Co. Ltd., shocked by mounting losses, withdrew in 1983 (BI, Jan. 31, 1983).

● Exxon Corp.'s Ancon Insurance Co. Ltd., unimpressed with the profit potential, stopped writing in 1984 (BI, Oct. 8, 1984).

● Gulf Corp.'s Inscor Ltd., after suffering its first operating loss in 1983 and the Gulf merger with Standard Oil Co. of California, withdrew in 1984 (BI Nov. 26, 1984).

● Ocean Drilling & Exploration Co.'s Mentor Insurance Ltd., walloped with losses, stopped writing in 1985 (BI, Feb. 4, 1985).

Except for Mentor, which is now in court-ordered liquidation and not yet paying any claims, the oil company captives are running off their business in an orderly and professional manner, brokers report.

Even in the last year, more capacity has disappeared from Bermuda:

● Dana Corp.'s Fairway Bermuda Ltd. stopped underwriting in Bermuda on behalf of Dana's Solar Insurance Co. Ltd. and Summit Fidelity & Surety Co. in March 1985.

● INA International Insurance Co. Ltd. stopped even renewing international treaty business in May 1985, after adopting new underwriting guidelines earlier in the year calling for the cancellation of U.S. risk business and prohibiting new international treaty underwriting.

● Bermuda Fire & Marine Insurance Co. Ltd.'s subsidiary, Bermuda London Underwriting Agency, stopped writing in June 1985.

● Trenwick Reinsurance Group stopped underwriting in Bermuda July 1, 1985, and moved all its underwriting to the United States. Trenwick is conducting "virtually no underwriting in Bermuda," says an executive, and is renewing a very limited amount of the business it had written there.

Trenwick's office is, however, managing its rent-a-captive program, Trenwick Guaranty Insurance Co., and captives.

● Cargill Inc.'s Horizon Insurance Co. Ltd. decided last September to stop writing international treaty reinsurance. It had decided in April 1985 to stop writing U.S. treaty reinsurance.

● General Reinsurance Corp. closed its contact office in October, although its underwriter had already moved to New York.

The capacity offered by these companies, however, was either relatively small or very specialized, so that the reduction in capacity in Bermuda was much less than when the oil company captives stopped writing.

And, new capacity is emerging in Bermuda, most notably the creation of Victoria Underwriting Agency in October, which is supported by its seven Bermuda-based company owners and two other Bermuda reinsurers.

Other captives also are selectively expanding their unrelated risk underwriting now that business appears to be profitable, including Tate & Lyle Reinsurance Ltd., a subsidiary of British-based conglomerate Tate & Lyle, and, on an even more select basis, General International Ltd., a reinsurance subsidiary of General Motors Corp.

But while capacity has changed little, higher prices and new attractive business opportunities are driving up the gross premiums written for commercial reinsurance by the remaining Bermuda-based companies. Gross premiums written for this business will exceed \$300 million this year, up from about \$260 million in premiums written in 1983 by a larger number of insurers.

And, the \$300 million estimate excludes the hundreds of millions of dollars in premiums ceded to Bermuda-based subsidiaries of international insurance companies for various management reasons.

With basically the same capacity as last year and increasing premiums, brokers declare that market conditions in Bermuda have stabilized.

"Any broker who doesn't use Bermuda is not doing his client a service," contends Mr. Hedges of Intere.

The reinsurers writing commercial reinsurance in Bermuda include insurance subsidiaries of U.S., Canadian, British and Belgian industrial corporations and conglomerates, affiliates of major insurance companies based elsewhere, private-investor-owned companies and one publicly traded company.

They have varying reasons for operating from Bermuda. Some started as Bermuda captive insurers, writing only related risks, and are now growing into conventional reinsurers. Others, structured so that they are exempt from taxation in other jurisdictions, freely admit they benefit from operating in a tax-free environment.

Continued on next page

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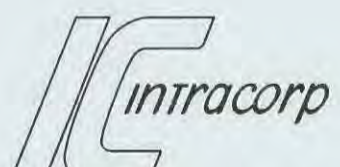
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Financial reinsurer offers new capacity

The leading financial reinsurance specialist is offering new capacity to needy ceding companies.

Pinnacle Reinsurance Co. Ltd., known as an underwriter of runoff reinsurance, is responding to "great demand for filling coverage gaps," says President Alan D. Kilby.

Pinnacle is providing capacity by writing "prospective timing risk" contracts, under which Pinnacle guarantees to pay losses up to an aggregate limit as claims covered by the contract arise. Pinnacle prices the contract expecting to pay the aggregate limit. If it does not, the ceding company receives a commutation with a profit commission.

An actuary hired earlier in the year is the timing risk underwriter, bringing Pinnacle's staff to eight.

Pinnacle's runoff reinsurance contracts also are in high demand, both by U.S. companies and now a growing number of companies in other countries, Mr. Kilby says.

Competition from U.S. insurers in the past year didn't develop as expected, Mr. Kilby says.

"The domestic companies were hurt by the AICPA guidelines and Regulation 108," he says. The guidelines

from the American Institute of Certified Public Accountants and New York Regulation 108 say runoff contracts must transfer the risk of when claims will be paid to qualify as reinsurance for financial and statutory reporting.

Pinnacle writes contracts passing these tests, but also can write contracts without accepting the timing risk at the request of a client and when regulations don't prohibit it. Writing contracts that promise to pay a certain amount at certain times decreases the premium charged. But, Pinnacle prefers contracts that pass the tests, notes director Stephen Lawrence, because they have more profit potential.

U.S. insurers and reinsurers also hesitated to get into financial reinsurance as they devoted more time to their own financial problems and raising rates on conventional business, Mr. Kilby adds. So, 1985 was a good year for Pinnacle, with a record number of contracts written, he says.

Pinnacle's 1985 financial statements are not yet available, but Mr. Kilby said that the company is expected to show good growth. At year-end 1984, Pinnacle reported capital and surplus of \$42.6 million, up from \$34.1 million in 1983.

Another Pinnacle venture intended to provide new capacity is not writing business yet. Apex Reinsurance, which Pinnacle capitalized last year at \$5 million to provide rent-a-captive programs, has yet to accept a client. Finance & Risk Services Ltd. in Bermuda is Apex's producing agent.

Among several other reinsurers in Bermuda specializing in runoff reinsurance is a new competitor: Forum Reinsurance Co. Ltd., formed in July with \$30 million in capital.

The company has four staffers in Bermuda, and sources say it is writing business, but newly appointed Insurance Manager Richard Thompson would not comment.

T.J. Marett, who formerly was with Pinnacle, was Forum's first president. He resigned in January.

A one-time competitor, Shippan International Insurance Co., is currently dormant.

Bacardi Capital Ltd., which purchased 75% of Shippan from several original shareholders, is now analyzing the financial reinsurance business Shippan had written and is looking for a manager, said an executive. The other 25% of Shippan is still owned by General Reinsurance Corp.



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'Bermuda Gold'

Continued from previous page

And most say that Bermuda's geographic location offers them the best of what all international markets have to offer, especially now that capacity is scarce worldwide.

Reports on the largest of these reinsurance companies and several others representing the various types of reinsurance business written in Bermuda follow:

GTE Reinsurance Co. Ltd.

Treaty reinsurer GTE Reinsurance Co. Ltd. is preparing to become "a first-class international reinsurance company," says newly appointed Managing Director Jens Juul, who joined GTE Re in March.

Mr. Juul succeeds retiring Vp and General Manager Kenneth Biersack and Managing Director Albert Lawton, who had retired.

"This is a fantastic challenge," Mr. Juul says. "The company has been operating for close to 10 years. It's a survivor among the many fellow captives."

GTE Re, the Bermuda-based subsidiary of GTE Corp., already is the most active conventional treaty reinsurance underwriter in Bermuda.

Gross premiums written grew 6.6% in 1985 to \$188.8 million and net premiums written grew 16.2% to \$166.9 million. Less than 30% of its business is related to GTE risks.

Net income was \$5.1 million, compared with \$200,000 in 1984, despite a 1985 operating loss of \$8.3 million that far exceeded 1984's operating loss of \$2.3 million. Realized investment gains of \$13.3 million in 1985 made the difference.

GTE Re reported an underwriting loss in 1985 of \$25.7 million, compared with \$16.1 million in 1984. However, the company also increased its loss reserves 49% in 1985 to \$271.3 million from \$182 million.

Investment income before realized investment gains totaled \$18.4 million in 1985.

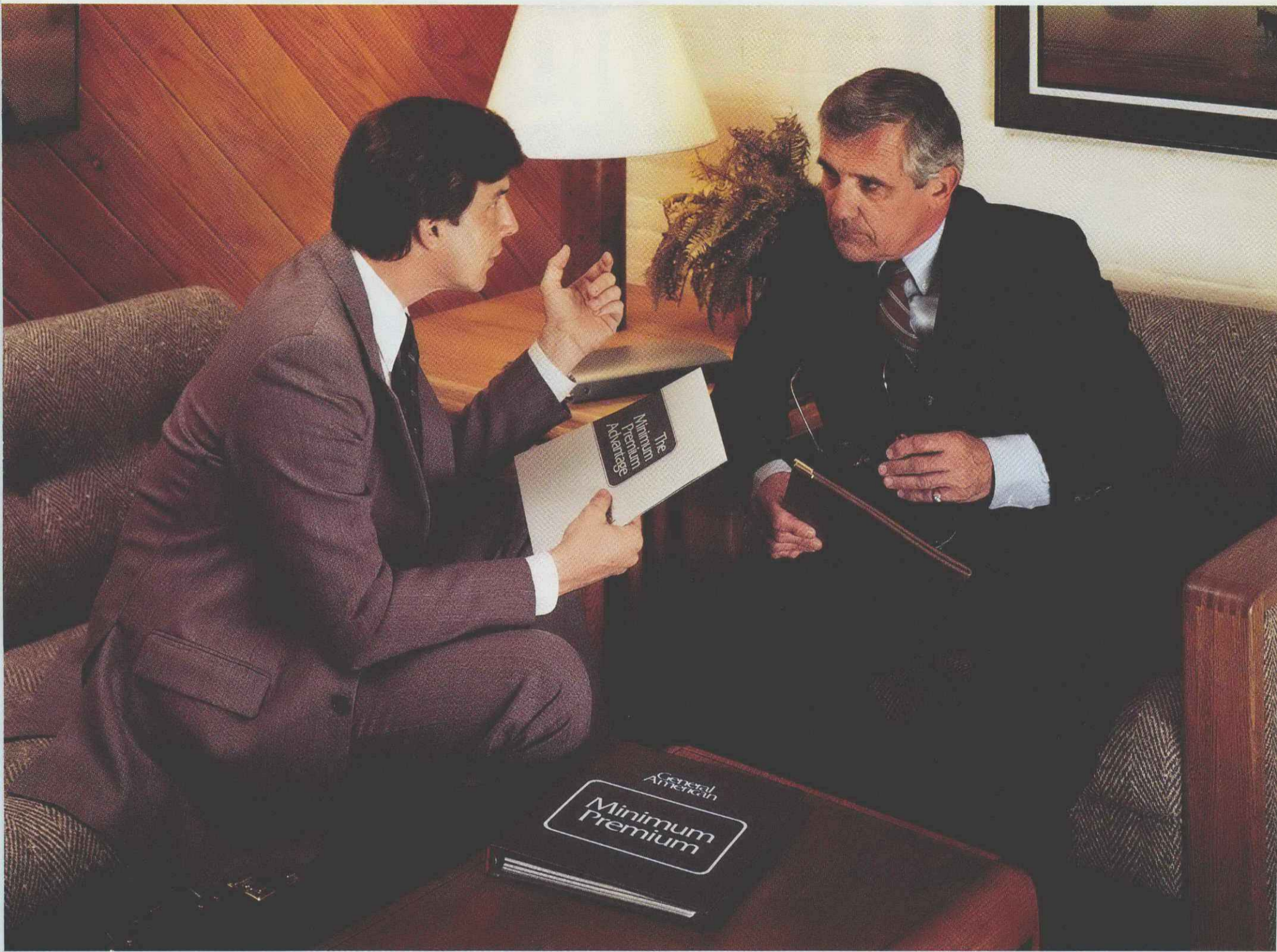
Shareholders equity at year-end 1985 was \$61.9 million, up from \$55.2 million in 1984.

"We completed what we set out to do in 1985—reviewed the entire book. Our decks are clear and we are dealing with problems," said Mr. Biersack in mid-March before leaving for an extended vacation preceding his July 1 official retirement.

GTE Re "made significant increases in non-U.S. source business, up to about 15% of its book," Mr. Biersack noted. One method used: It exchanged with a European rein-

Continued on next page

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How Digital developed nobody can h

If there's one thing that can make a computer company hot under the collar, it's watching millions of dollars worth of high technology products go up in smoke.

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But in the end, we expect Digital's solution to be quite a breakthrough. For one thing, the new boxes will have low combustibility and will be a lot less expensive to manufacture. And because the packaging materials are expected to be FDA approved, there may be other applications outside the high tech industry.

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'Bermuda Gold'

Continued from previous page
surer GTE Re's \$16 million in re-
trocessional premium from the
First Island reinsurance pool of
U.S. workers compensation, gen-
eral liability and auto liability risks
for an equal
amount of non-
U.S. source busi-
ness.



Mr. Biersack

GTE Re, a
net-line un-
derwriter, "spar-
ingly" uses its
maximum ca-
pacity of
\$500,000 for ex-
cess-of-loss re-
insurance.

\$250,000 for working excess-of-loss
and \$125,000 for proportional re-
insurance, Mr. Biersack said.

GTE Re's business is about 60%
casualty and 40% property.

It is a market for captive reinsur-

**GTE Re is not an
enthusiastic market
for surplus lines
business, Mr.
Biersack observes.**

ance on a specific excess basis only.
Its volume of captive business is
very small, Mr. Biersack says, be-
cause most programs have been
ceded to captives on a net basis.

GTE Re also continues to write
loss portfolio transfers, taking the
timing risk as is required for rein-
surers in the United States to ob-
tain credit for the reinsurance.

GTE Re is not an enthusiastic
market for surplus lines business,
Mr. Biersack observes. "A lot of it
has come through MGAs and we're
not enamored of MGA business."

Among risks GTE Re will not

write are aviation, satellites, ma-
rine, errors and omissions, directors
and officers liability, financial
guarantees, accident and health
political risk, environmental im-
pairment liability, medical mal-
practice and railroads.

In the last year, GTE Re also
stopped underwriting pure catast-
rophe reinsurance. But, if the ca-
strophe exposure is part of a pro-
gram, GTE Re will consider it.

The retrocessional cover needed
to underwrite the pure catastrophe
was too expensive, Mr. Biersack
said, considering that the business
did not generate that much in pre-
mium.

Assessing the company, Mr. Juul
says GTE Re has been through
Phase One of its development: "It
has established a skilled staff, a
name and a reputation. Now it's
entering Phase Two: to become a
truly international reinsurance
company."

Between now and June, the com-
pany's strategic plan will be rewrit-
ten and some reorganization will
follow, Mr. Juul says.

There will not be a dramatic
change in underwriting approach
but a continuation of the conserva-
tive approach employed in the last
year, he said.

Noting that GTE Re eventually
will need a presence not only in the
United States but also in other parts
of the world, Mr. Juul says Ber-
muda's location is "very conven-
ient."

Mr. Juul, 37, had been a senior vp
for Chritiana General Insurance
Corp. of New York, part of Store-
brand-Norden Group in Norway,
where he was in charge of finance
and administration. At the same
time, he was vp and chief executive
officer of Storebrand-Norden Rein-
surance Co. Ltd. in Toronto.

Upon retirement, Mr. Biersack
will move to Savannah, Ga., and
will become a consultant with New
York-based Curtis International
Inc. "It's too good a time to leave
the business," Mr. Biersack says.

Belvedere Underwriting Agents

Belvedere Insurance Co.'s capital
and surplus is now \$20.1 million, up
from \$17.5 million at year-end
1985.

"Hopefully
that will be the
magic number,"
says President
Francis J.
Carter.

Belvedere's
increased capital
and surplus posi-
tion includes \$1
million in net in-
come for 1985, a
turnaround from 1984 when it re-
ported a net loss of \$3.7 million.

And, in 1985, Belvedere in-
creased its loss reserves 41% to \$31.4
million, including additional re-
serves for uncollectable reinsurance.

For Belvedere Insurance to pass
the often-cited security test of \$20
million, Belvedere Holdings contri-
buted additional surplus of \$2.6
million to the company on March
20. The parent company also repaid
intercompany advances and invest-
ments of \$2.9 million, which nor-
mally had been excluded from the
company's capital account by ced-
ing company security committees.

Belvedere's insurance under-
writing is conducted by its subsidi-
ary Belvedere Underwriting
Agents Ltd., which also under-
writes for Brittany Insurance Co.
Ltd., a subsidiary of Petrofina S.A.

Both companies maintain a \$1.5
million trust account for the pro-
tection of U.S. policyholders and
each is approved as an excess/sur-
plus lines insurer in 35 states.

Mr. Carter projects that Belve-
dere Agents will write about \$35
million in premiums in 1986, 57%
of which will be written by Belvedere

Continued on page 39

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Bermuda

Continued from page 34

Insured and 43% Brittany, which had nearly \$200 million in capital and surplus at year-end 1985.

Brittany also entertains submissions outside of its agency agreement with Belvedere, but the business is essentially a European account.

Belvedere has dramatically changed its underwriting since 1983, becoming a specialized underwriter.

Its business is about 25% casualty; 25% surety, credit and bonding; 17.5% workers compensation; 12.5% major medical; 10% property catastrophe, and 7.5% marine.

Its largest capacity is \$975,000 excess of \$25,000 for self-insured health plans, created by proportional reinsurance. Otherwise, Belvedere is writing on a net-line basis following a review of its reinsurance support.

"We've lost money on the insolvency of retrocessionaires," Mr. Carter commented, including Cherokee Insurance Co., a Dana Corp. subsidiary that is in rehabilitation in Tennessee.

Belvedere's 1984 net included a \$1.9 million reserve for uncollectable and doubtful recoveries from reinsurers.

Belvedere leads about 35% of its business. And, on 90% of its business, Belvedere acts as though it were a direct-writing reinsurer, visiting the ceding company and conducting claims audits, Mr. Carter points out.

Before underwriting casualty risks, Belvedere conducts an actuarial study of the business, using an in-house actuary and the services of Tillinghast, Nelson & Warren Inc., Mr. Carter said.

Belvedere is a market for captive reinsurance needs, but only about 20% of its premiums will be generated by captive reinsurance in 1986, compared with 45% in 1982. Fronting insurers in the United States took much of Belvedere's captive reinsurance business at lower rates than Belvedere would write, Mr. Carter says.

Now, however, Mr. Carter expects to write reinsurance for more association captives. Their reinsurance programs are not as controlled by a U.S. broker as those of single-parent captives, he notes.

Belvedere is one of the few reinsurers in Bermuda willing to underwrite U.S. casualty risks, but about half of its casualty business is related to captive reinsurance.

And, in addition to applying a stringent underwriting review, Belvedere imposes terms to cap its exposure under casualty reinsurance contracts.

For example, if Belvedere writes a \$250,000 excess of \$25,000 layer of casualty reinsurance, it also imposes an aggregate limit, such as \$3 million.

Belvedere also writes financial reinsurance treaties, but it does not assume the risk of when the claims will be paid so the premiums are not booked as reinsurance premiums. "That doesn't mean there is not a timing risk in the original treaty," Mr. Carter commented. Indeed, Belvedere will only write those treaties that have been approved by insurance commissioners in the United States or auditors at Lloyd's of London.

Belvedere's staff has grown to 18 and moved into new offices on Church Street.

The new accommodations include "more electronic wizardry," as Mr. Carter described it. For example, Belvedere now has access to on-line banking facilities.

Frank B. Hall (Underwriting Managers) Ltd.

Frank B. Hall (Underwriting Managers) Ltd. is increasing premium writings this year without increasing its liabilities, says Vp John C. Williams.

Huge increases in premiums makes it possible, explains Robin Spencer-Arscott, president of Frank B. Hall (Bermuda) Ltd. and its subsidiaries.

Hall Underwriting, which specializes in international short-tail treaty business, expects to write \$30 million to \$35 million in premiums in 1986, compared with \$26 million in 1985.

Since last year, it also has written high-excess U.S. treaty business, excluding casualty risks.

About 72% of its business is property, 20% marine and only 8% casualty. About 35% is related to U.S. risks.

Hall underwrites on behalf of Paumanock Insurance Co. Ltd., a subsidiary of Grumman Corp., whose capital and surplus totaled \$34.6 million in 1984, the latest year for which Paumanock's figures are available.

Paumanock retains 25% of premiums and cedes the 75% to seven other captive insurers.

Paumanock wrote \$34 million in premiums in 1985, including several treaties it has supported in addition to the business written by Hall Underwriting.

Submissions to Hall, which deals regularly with only about 12 brokers, have increased 50% in the last year, Mr. Williams says.

"We've taken five years to get

known on non-U.S. business," comments Mr. Williams.

"And we are certainly a lot better known," adds Mr. Spencer-Arscott.

But, only about 30% of the increased premium volume is related to new business, Mr. Williams notes.

Paumanock's capacity of \$500,000 is seldom used, with lines of \$200,000 to \$300,000 more common.

National Underwriters (Reinsurance) Ltd.

Property reinsurance could grow to almost half of the \$30 million in gross premiums written by National Underwriters (Reinsurance) Ltd. this year, up from 40% of \$29 million last year.

The marine and property treaty reinsurer is seeing property rate increases of 20% to 200%, with excess-of-loss retrocessions rising the most, said President James G. Par-

kinson.

"Last renewal season was excellent," he commented. "We had the opportunity to look at absolutely everything."

"Layers were freed up everywhere," Mr. Parkinson noted, because many reinsurers considered top security withdrew from the market due to poor results or mergers.

"There was space to come on old established treaties, and that's what we want," Mr. Parkinson pointed out.

To accommodate the new opportunities, especially on excess-of-loss treaties, National Underwriters withdrew from some large-income proportional reinsurance contracts that had broken even or developed small losses.

National Underwriters, writing at about a 3-1 premium-to-surplus ratio, wrote gross premiums of \$29 million in 1985, about the same as 1984. "Our current surplus would

Continued on next page



Mr. Williams

Evaluation of utilization review firms:



1. Firm Name Medical Review Corporation
 Address 40 Maple Avenue, Morristown, NJ 07960
 Contact/Title Marc Allen, President Tele. (201) 267-2233

2. Check those Health Care Cost Management services provided by your firm:

<input checked="" type="checkbox"/> Pre-Admission Review	<input checked="" type="checkbox"/> Second Surgical Opinion
<input checked="" type="checkbox"/> Length of Stay Management	<input checked="" type="checkbox"/> Mental Health - Rehab. Review
<input checked="" type="checkbox"/> Concurrent Utilization Review	<input checked="" type="checkbox"/> Others (Specify):
<input checked="" type="checkbox"/> Retrospective Utilization Review	<u>Hospital Bill Audit</u>
<input checked="" type="checkbox"/> Long Term Case Management	<u>DRG Case Mix Analysis</u>

3. Geographical area serviced: Nationwide Other (Specify)

4. Any group size restrictions? Yes No

5. Size range of groups currently servicing: From 100 to 100,000

6. Type of clients currently servicing: Fortune 500 Corps, TPAs, PPOs, MEJs, Insurance Companies, Unions, Small Employers, Trade Associations.

7. Year firm founded 1982. Total years executive staff actively involved in utilization review Over 40 years

8. Does your firm provide:

A. Employee Education Programs	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
B. Employee Education Materials	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
C. Employee Information Line	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
D. COST BENEFIT GUARANTEE	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
E. No Charge Reports and Analysis	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
F. Re-Insurer Discounts	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

9. If your firm is selected, how long between execution of contract and implementation. 30 days

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It's the Unionmutual Seniors Golf Classic, our way of saying thanks to our top producers. You'll soon receive full details on how to qualify. If you haven't heard from us by April 10, 1986, contact your local Unionmutual office.

Golf, tennis...

For the past two years, our top producers have walked away from the Seniors Golf Classic Pro-Am with enough memories to last a lifetime. This year, you could find yourself practicing putts with Arnold Palmer or getting tips on your game from one of 20 other golf legends.

Individual Disability Division Contest: Only submitted Unionmutual Stock Life Insurance Co. of America individual disability policies will be considered in awarding prizes in the Individual Disability Seniors Contest.

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If golf's not your game, you can improve your skills with another exciting legend, tennis great Rod Laver, in our Tennis Clinic and Challenge Cup.

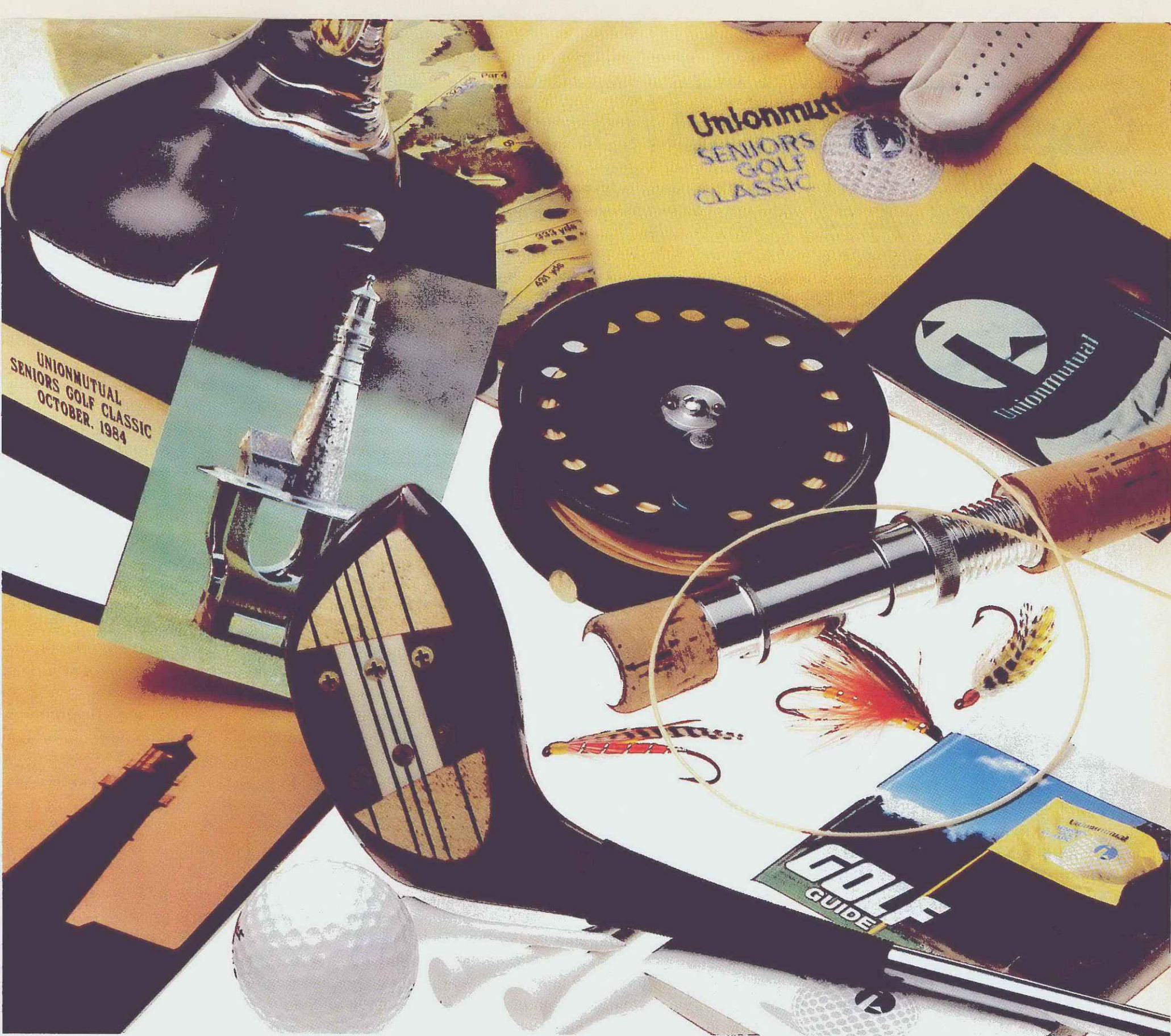
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There's a lot more to the Unionmutual Seniors Golf Classic than golf and tennis. You're welcome to say 'the heck with sports!' and have a lobster. Go shopping at L.L. Bean. Take in the magnificent foliage along the Maine coastline. Or team up with other insurance professionals for some good conversation, terrific food, or a few laughs.

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off the green. Golf Classic.

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Small band of brokers tap island's capacity

By KATHRYN J. MCINTYRE

HAMILTON, Bermuda—Bermuda-based reinsurers' capacity is tapped by U.S. and London brokers via telephone, telex and facsimile machines, but a small corps of Bermuda-based brokers personally corral capacity on the island for captives and international reinsurance programs.

About a half-dozen brokerage offices are staffed in Bermuda to market reinsurance programs on the spot to Bermuda-based reinsurance companies and to reinsurers abroad.

They are a minority among Bermuda's 65 licensed brokers, most of which are captive insurance company managers that use their license to market only reinsurance for their captive clients.

And, the number of international reinsurance brokers based in Bermuda continues to shrink as U.S. and London operations decide that the reduced capacity in Bermuda cannot support a local staff (see story, page 49).

However, the surviving international reinsurance brokers in Bermuda say they are finding the capacity they need to service their clients.

And, several of these brokers spot big opportunities to share in new brokerage income generated by placing clients with A.C.E. Insurance Ltd., which requires the use of a local broker. A.C.E. provides for a maximum 12% commission, which may be shared by the Bermuda broker with a U.S. broker, one-third, two-thirds.

Privately held Amberco Brokers Ltd. maintains the largest brokerage staff in Bermuda, with four brokers out of its seven-person brokerage staff based in Bermuda. About half of the broker's \$70 million to \$100 million in annual premiums are placed with about 22 Bermuda-based markets, says President John K. McGarrity.

Amberco also has brokerage offices in New York, Miami and Hartford, Conn., which employ 19 of its 27-person total staff.

The bulk of the business placed in Bermuda by Amberco is reinsurance for captives, Mr. McGarrity says. This includes reinsurance behind specialty insurance programs for such risks as errors and omissions, municipal liability, pest control and asbestos abatement.

"We're specialty brokers brokering specialty risks. Bermuda is not for conventional reinsurance, although there are some markets here for it and we do place standard reinsurance in this market," he added.

Mr. McGarrity pegs capacity for captive reinsurance at \$1 million to \$2 million.

Amberco's Hartford office conducts captive feasibility studies, helps organize captives and designs specialty insurance programs for which Amberco places the reinsurance.

Amberco also is organizing a new insurance company in the Cayman Islands to underwrite errors and omissions insurance for small to medium-sized insurance agents and brokers: Sherburne Insurance Co.

Amberco executives are big investors in the company, along with others, Mr. McGarrity said.

Sherburne policyholders, projected at 25 to 30, will contribute to the company's surplus and have the opportunity to benefit from the company's success, but policyholders will not be shareholders, Mr. McGarrity said. Sherburne is managed in Cayman by Samuel Montagu & Co.

Sherburne will offer an initial limit of \$500,000, written on a claims-made policy form, "but we

hope to have \$1 million by mid-year," Mr. McGarrity said.

Amberco's eight-person staff in Bermuda also manages captives in Bermuda. Mr. McGarrity hopes to build on the two "very active" captives under management now.

Also very active in Bermuda, but offering a very different book of reinsurance business to Bermuda-based companies is Intere (Bermuda) Ltd., a subsidiary of Intere Intermediaries Inc., the sixth-largest U.S.-based reinsurance intermediary.

Intere's two Bermuda-based brokers regularly market shares of 4% to 5% of about 200 Intere primarily property treaties to about a dozen Bermuda-based companies. As many as 30 markets are used by Intere in Bermuda, counting captive

bermuda

insurers that write just one or two treaties.

Intere's philosophy is to show its treaties to markets around the world, not relying on one geographical market to provide all the needed capacity.

And, Intere is finding the needed capacity in Bermuda, says Senior Vp Robert J. Hedges, completing most of the January renewals offered in Bermuda by mid-February and the last one in March.

Intere can corral as much as \$3 million of capacity in Bermuda on an excess-of-loss property treaty, Mr. Hedges observes.

Casualty business, however, is

"very difficult," Mr. Hedges says, admitting that generally it can't be placed. Only if the treaty contained very good terms would he show a casualty treaty, Mr. Hedges said, such as a casualty treaty for \$4 million excess of \$1 million with one free reinstatement for a \$4 million premium.

"That is the sort of casualty treaty that is in the market at this time, not only in Bermuda but in London and the U.S.," Mr. Hedges said.

In the past year, Jeffrey L. Sirr, formerly assistant manager in Ber-

muda, moved to E.W. Payne in New York. Layton C. Outerbridge, who had been underwriting assistant at INA International Insurance Co. Ltd., joined Intere in July as the new assistant manager.

Intere's five-person staff is committed solely to serving Intere clients' reinsurance brokering needs.

At Arthur J. Gallagher (Bermuda) Ltd., three brokers place reinsurance, including Managing Director Jean-Francois Gelot.

Gallagher brokers primarily two types of programs: reinsurance behind retail property/casualty programs developed by its parent company, U.S. retail broker Arthur J. Gallagher & Co., and reinsurance for captives and rent-a-captive programs.

Continued on next page



Mr. Hedges



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Continued from previous

Virtually all the reinsurance for Gallagher package programs is placed in markets outside of Bermuda, Mr. Gelot says, because Bermuda offers a "very limited market for conventional reinsurance programs," in his view.

"There is no consistency in the Bermuda market," Mr. Gelot says. "It's an eclectic group of companies." A broker could perhaps find \$500,000 to \$1 million of capacity for conventional reinsurance, depending upon the security requirements of ceding companies, he says.

However, Gallagher places most of the reinsurance for captives and rent-a-captive programs with Ber-



Mr. Gelot

muda-based companies. "Companies here are more willing to provide reinsurance of captives and rent-a-captive programs," he says, pegging capacity at \$1 million to \$2 million, depending upon the security restrictions adopted by the broker. Gallagher's security requirements limit available capacity to around \$1 million, Mr. Gelot notes.

"We should have more Mutual Indemnities and more Crawleys," Mr. Gelot said, referring to the rent-a-captive program offered by Mutual Indemnity Ltd. and the aggregate reinsurance market offered by Jonathan J. Crawley at Aneco Reinsurance Underwriting Ltd.

Gallagher's five-person Bermuda staff also manages about 10 captives, including rent-a-captive programs that the office has brokered to companies in Bermuda.

Montgomery & Collins International Ltd. in Bermuda, which had three broker positions, in the last

year redefined one of those brokers on its 10-person staff as a secretarial position.

The increased number of telexes and phone calls entailed in brokering more business to markets outside of Bermuda necessitated the change, explained Bernard J. Cutts, vp and director of the CIGNA Corp. unit.

M&C International is the only Bermuda-based reinsurance intermediary to regularly broker primarily facultative U.S. and international property programs in Bermuda and abroad for major U.S., London and European brokers.

Mr. Cutts could not estimate what percent of M&C's \$30 million in annual premiums is placed in

Bermuda, but he noted that the broker's biggest markets are not in Bermuda but in New York: CIGNA Worldwide and INA International.

In Bermuda, M&C regularly markets facultative reinsurance to only three entities: Victoria Underwriting Agency, National Underwriters (Reinsurance) Ltd. and Zurich International Ltd. For treaty business, the broker uses Hudson Reinsurance Co. Ltd., National Underwriters and Arion Insurance Co. Ltd., a Canadian Pacific Group company.

But, Montgomery & Collins also continues to do business with companies that have left Bermuda, such as London-based Pearson Webb Springbett.

Premiums on M&C's business are pretty evenly split between U.S. and international business, but by number of contracts, it's 75% international, reflecting the fact that international risks tend to be smaller than U.S. risks, notes Mr. Cutts.

M&C International handles business from 70 countries around the world.

Only 20% of its business by brokerage income is treaty reinsurance, a reversal from just four to five years ago when 80% of its business was treaty, with a large amount of marine business, Mr. Cutts notes. The change reflects the reduction in capacity in Bermuda, he says.

Frank B. Hall (Intermediaries) Ltd., a subsidiary of Frank B. Hall & Co. Inc., also has two brokers marketing reinsurance in Bermuda, out of a staff of five.

The company places about 120 treaties and more than a dozen facultative accounts in Bermuda, with an estimated premium volume of \$10 million to \$12 million.

"We placed virtually all our renewals, but it was a bit more of a struggle," commented Vp Michael T.W. Jenkins. The treaties are pri-

Continued on next page

When you look at all the facts...

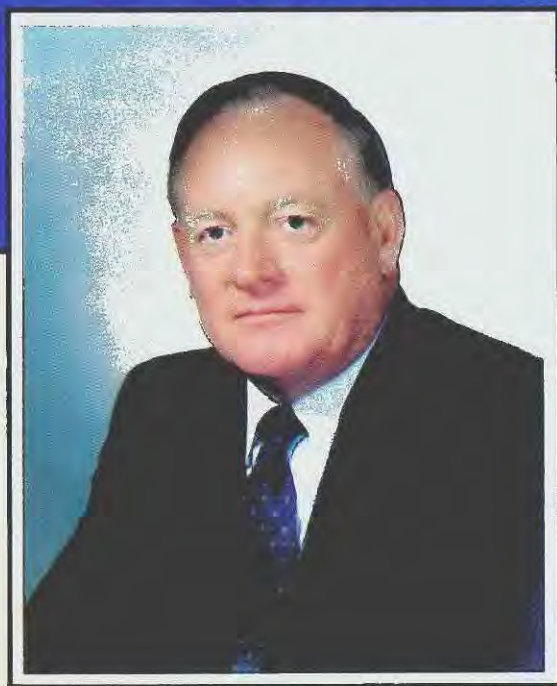
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Gordon Cantley
Gordon Cantley,
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Bermuda loses 2 familiar faces

Two once high-profile Bermuda-based brokers are missing from the marketplace today.

The Crump Cos. Inc. is not replacing the two reinsurance brokers previously employed at Regency Reinsurance Brokers Ltd.

And, London-based Pearson Webb Springbett closed its Bermuda underwriting and brokering operation at the end of May.

Former Regency brokers Phillip Hancock and Steven J. Wrigglesworth resigned in July and December, respectively, to move to England.

But, while PWS left Bermuda completely, Crump's Regency operation still employs a staff of seven, which is servicing the reinsurance business that had been brokered in Bermuda.

The staff also manages 10 insurance companies, including the local management service required by Nobel Insurance Ltd., the Bermuda-based publicly traded reinsurer specializing in reinsurance for explosives industry risks.

"We're trying to retain what we have, but we are not trying to acquire new reinsurance business in Bermuda," explained Donald Thomas, executive vp in Crump's Memphis, Tenn., headquarters.

Crump is not stationing new brokers in Bermuda now because "we have found that currently the market in Bermuda for risk deals is pretty limited. Couple that with the problems of uncollectible reinsurance and Best's stance on non-admitted reinsurance, and there is not a lot of brokering to do there," Mr. Thomas said.

"Loss portfolio transfer markets are available, but we can access Bermuda from here," he added.

Crump originally incorporated in Bermuda in 1975, contracting for services from Risk Treatment Services. E.H. Crump (Bermuda) Ltd. was formed a few years later. In the early 1980s, Crump, then operating under the name Regency, had four reinsurance brokers placing business in Bermuda.

While always owning 100% of its captive management company in Bermuda, Crump had sold interests in the brokerage company to others at different times.

In July, Crump had re-acquired full ownership of the brokerage operation.

"We're keeping out options open and our non-sales staff intact," Mr. Thomas stressed.

"If we saw a revitalized market that is acceptable, we would probably station brokers there again," Mr. Thomas said.

"But Bermuda is in a state of change and no one knows what the result will be," he observed. ■

Private sector may get regulatory role

By KATHRYN J. McINTYRE
and DOUGLAS McLEOD

International business in Bermuda, including insurance, could soon be regulated under a new statutory corporation.

Loosely referred to as a QUANGO—a British term for a quasi-autonomous non-governmental organization—the corporation's stock will be owned by the government, and its board of directors will include private citizens in international business appointed by the government.

The QUANGO board, in turn, hires a full-time managing director and other staff needed to fulfill its purpose.

Generally, the purpose of the QUANGO "is to promote international business, to further formalize the partnership between government and the private sector and to have a regulatory responsibility," says Financial Secretary Mansfield Brock.

"It makes no sense to have a QUANGO that would be just a promotional tool," Mr. Brock says.

The minister of finance hopes to present legislation establishing the QUANGO to the House before it recesses at the end of July, Mr. Brock said.

"We accept that that's a lot of work to be done in that time," Mr. Brock commented, but the Ministry of Finance would like to see the QUANGO operating by the end of the year, he added.

How much regulatory authority the QUANGO will have has not been decided yet, Mr. Brock said.

Legal adviser leaving Bermuda to join law firm

HAMILTON, Bermuda—A familiar face in Bermuda insurance company regulation is leaving Bermuda to join a Washington, D.C., law firm.

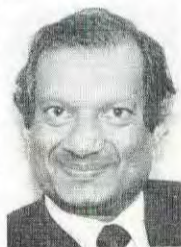
Bala Nadarajah, legal adviser to the Registrar of Companies since 1979, is joining Hanson, O'Brien, Birney & Butler on May 1 as an expert on Bermuda law and the laws of other offshore domiciles for captive insurance companies.

The firm brought the first mutual insurer to Bermuda in 1961—Mutal Insurance Co., formed to insure the risks of members of the American Newspaper Publishers Assn. The firm has advised others forming companies since then.

"It's a new challenge," said Mr. Nadarajah. "And I will be able to provide a useful service in Bermuda's most important market. Seventy percent of Bermuda's 6,000 international companies have a U.S. connection."

Mr. Nadarajah was instrumental in the formulation of regulations to implement the Bermuda Insurance Act of 1978 and was associated with the drafting of later amendments to the act. He also was involved in the consolidation of the Companies Act of 1981 and in the formulation of policy on international company matters, including the committee system to advise government on insurance matters.

Mr. Nadarajah, an attorney in Sri Lanka and a barrister and attorney of the Bermuda bar, holds a master of law degree from Georgetown University.



Mr. Nadarajah

The government wants to formalize the private sector's role in the regulation of the insurance business in Bermuda through the QUANGO.

Currently, a committee of insurance industry representatives sitting as the Insurance Advisory Committee advises government on insurance issues and regulation and an Insurance Admissions Committee advises government on applications for insurance company licenses.

bermuda

The Insurance Advisory Committee could be folded into the QUANGO board of directors, or there may be a need for the Insurance Advisory Committee to continue, reporting to the QUANGO, Mr. Brock noted. And, the admissions committee could report to the QUANGO.

The insurance regulatory re-

sponsibilities now handled by the Registrar of Companies, including the licensing of companies and monitoring compliance with insurance regulation, also could be assigned to the QUANGO.

"It seems to make sense for us to do that, but it is difficult to say now in some detail what the terms of reference will be," Mr. Brock explained.

Noting that the insurance company managers were the driving force behind an amendment to

Bermuda's insurance law to require them to report any likely insolvency to the Registrar of Companies, Mr. Brock said, "Since that's the kind of people we have, why not take advantage of it and give them real responsibility in the regulatory system?"

The QUANGO also is being developed to prevent government regulation from becoming too unwieldy, commented Brian R. Hall, chairman of the Insurance Advisory Committee. Continued on next page

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Continued from previous page
sory Committee and president of
J&H Ltd.

"To avoid a bureaucracy being developed, the private sector will advise on what is now becoming every day a more complex business," Mr. Hall said.

The experience and knowledge of the QUANGO's private sector participants will ensure that government doesn't introduce "unrealistic" insurance regulation, he explained.

"It's the same as forming a ministry, I guess, except that it's more controllable," he added.

But, Mr. Brock stressed, "We are not surrendering to the

QUANGO." The Ministry of Finance will retain control of the QUANGO's budget and provide general direction on all matters of policy.



Mr. Brock

In addition to some regulatory authority, "We hope with the QUANGO to look at possible ways of enhancing our position as an international center," Mr. Brock noted. "We want to react quickly and flexibly," he said.

'We hope with the QUANGO to look at possible ways of enhancing our position as an international center. We want to react quickly and flexibly,' Mr. Brock says. 'Government, by nature, is less flexible than a non-governmental organization.'

"Government, by nature, is less flexible than a non-governmental organization."

Mr. Brock expects the QUANGO will detect trends and recommend needed responses in Bermuda more quickly than the government has in the past.

For example, Mr. Brock noted that the Bermuda government acted at the "11th hour" to lower the stamp duty on capitalization of insurance companies, which formerly inhibited the incorporation of highly capitalized companies in Bermuda.

The government did not recognize quickly enough that the worldwide insurance capacity shortage was leading to the formation of highly capitalized group-owned captives and that Bermuda's former stamp duty deterred the captives from forming in Bermuda. Now, Bermuda's stamp duty is capped at \$25,000, effectively eliminating any tax on capital exceeding \$10 million.

A QUANGO also will make it easier to employ needed talent, Mr. Brock said.

"Assume there are other changes in the international company business that require different expertise in government. Now it is difficult for us to change a post and put in a different person," Mr. Brock said, referring to the civil service system.

However, the QUANGO is not under the same civil service constraints in hiring and firing.

Other QUANGOs in Bermuda include the Bermuda Housing Corp., the West End Development Corp., the Bermuda Hospital Board, the Public Transportation Board, the Bermuda College and the Bermuda Monetary Authority.

Even before the QUANGO was unveiled, the industry's role in advising government on insurance issues was revamped this year for greater efficiency.

The previous system involved 70 people in various committees; now there are only 27 people involved and fewer committees.

In practical terms, the number of people working in international insurance has shrunk: to 1,378 in 1985 from 1,455 in 1984 and 1,577 in 1983—nearly 200 fewer in two years.

But, the major reason for streamlining the committee system was to accelerate response time to problems, said Hudson Reinsurance Co. President Robert Baker, who had been chairman of the advisory committee for four years.

Mr. Baker resigned effective Dec. 31 and was succeeded by Mr. Hall.

"It's fitting to have a Bermudian and someone in captive management as chairman," Mr. Baker commented.

Mr. Hall noted that the former size of the advisory committee and subcommittees was causing "significant delays in turnaround time" for such pieces of committee business as draft amendments to the insurance law.

Eight-member subcommittees would discuss a draft proposal and pass it on to an executive committee, which in turn would pass it on to the advisory committee. If the advisory committee wanted changes, it would have to come back up through the system again, Mr. Hall explained.

Now, the executive committee has been eliminated and the subcommittees of underwriters, brokers, managers and others consist of four members each rather than eight. Only the Insurance Admissions Committee retains eight members.

"When you had a meeting with eight people, you could meet all morning before you came to a decision," Mr. Hall said.

The Insurance Advisory Committee, which previously had 15 members, now has eight members.

"It's a trimmed-down, lean machine, and basically it's working very well," according to Mr. Hall.

Other managers agree that the new system is an improvement.

"That's a major step forward in my view," said David A. Brown, president of Insurance Managers Ltd., a unit of Alexander & Alexander Services Inc.

"The old committee system was much too large and unnecessary," added Alan E. Chilvers, group vp with International Risk Management Ltd.

"It was a rather unwieldy way to do things."

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Hard market triggers MEDMARC growth

By DOUGLAS McLEOD

HAMILTON, Bermuda—The hard liability insurance market is producing explosive growth for MEDMARC Ltd., a medical industry association captive that almost shut down two years ago.

MEDMARC, a mutual insurer formed in 1978 to write product liability coverage for medical equipment manufacturers, followed competitive insurance industry pricing trends in the early 1980s, according to President Jaxon A. White.

"We learned that we underpriced our product, which the insurance industry learns to its pain once every five or 10 years," Mr. White said.

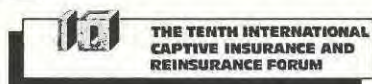
As premiums shrank and losses

rose, MEDMARC—which suffered its only operating loss in 1984—asked broker Marsh & McLennan Inc. for an opinion on whether the company should be wound down, Mr. White said.

However, M&M told MEDMARC officials to wait six months before deciding the insurer's fate, and while they were waiting the hard market arrived, Mr. White observed.

While MEDMARC had only 35 policyholders and \$1.3 million in earned premiums in October 1984, it now has 225 policyholders and earned premiums of \$10 million, according to Mr. White.

Meanwhile, the insurer has raised its rates and since last year has switched its coverage to a claims-made policy from an occur-



rence form.

Speaking at The 10th International Captive Insurance and Reinsurance Forum, Mr. White offered advice to those considering formation of an association captive insurer, using MEDMARC as a case in point.

The Washington-based Health Industry Manufacturers Assn., comprising about 150 makers of medical devices excluding pharmaceuticals, became interested in its members' insurance programs as a result of the product liability crisis of the mid-1970s, according to Mr. White.

Many association members that

had been commercially insured were told at the height of the hard market that they were no longer insurable, he said.

The first step in MEDMARC's formation was a survey to define the extent of members' insurance problems, he explained.

"We used the strengths of the association, which are primarily communication and education," said Mr. White, who served in various positions on the association's staff before becoming MEDMARC's president.

After the survey was finished, the association conducted feasibility studies to determine what kind of insurance mechanism would best suit members' needs.

The cost of the survey, feasibility studies and legal expenses—total-

ling about \$100,000—was covered in part by the sale of the study results to interested association members, Mr. White noted. The association also collected subscription fees of up to \$1,000 from each interested member.

Mr. White stressed the importance of having the right people involved in the various phases of an association captive's development.

In the early stage of researching members' insurance needs, an association's efforts should be led by a senior industry executive whom other association members would trust, Mr. White said.

A later task force phase, involving development of specific plans for the captive, can be directed by less prominent management executives and members of the association staff.

Finally the organization phase
Continued on page 59

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Mock awards mark anniversary

It was record attendance for the 10th International Captive Insurance and Reinsurance Forum sponsored in Bermuda last month by consultants Tillinghast, Nelson & Warren Inc.: 285 attendees.

The conference first was held in 1977 by Risk Planning Group, which merged with Tillinghast at the end of 1984.

To celebrate the anniversary, conference host Felix Kloman of Tillinghast honored the conference registrant with the best attendance at the conference: Roger Greiner, second vp of

General Reinsurance Corp., who has attended the last nine conferences.

Mr. Greiner was presented with an honorary consultant's scroll entitling him to charge an hourly rate of \$282, which is what Tillinghast calculated as the hourly cost of attending its meetings.

The award entitles Mr. Greiner to pose as an honorary consultant in captive insurance company affairs: "to finesse feasibility studies, compromise claims, replicate reinsurance, proscribe premiums, meddle with managers and otherwise make a nuisance of himself at an hourly rate of \$282, with the proviso that under all conditions his expense accounts shall be rendered to the General Reinsurance Corp."

General Re President John C. Eting, who was a speaker at the conference, joined in the ribbing and presented Mr. Greiner with a "golfers' award"—a stuffed owl sporting a turtleneck sweater, a bag of golf clubs and an umbrella to keep off the offending rain.

Mr. Greiner, tipped off that he would receive an award, was not empty-handed. He presented Mr. Kloman with a stuffed toy cow and the announcement that he had performed some calculations of his own. He concluded that the firm had earned nearly \$1 million from its 10 conferences.

Handing Mr. Kloman the cow, he asked, "Where's the beef?"



Mr. Kloman

MEDMARC Ltd.

Continued from page 54

—in which individual association members are asked to commit to participating in the captive program—again should be spearheaded by a senior executive who can act as a "point person" with other chief executives.

"An association staff person really can't do that," Mr. White said, adding that it is important to get personal commitments from the top managements of members participating in the captive.

In educating association members in insurance matters, Mr. White advised larger members to share their risk management knowledge with smaller members and to allow the association to exploit their insurance industry contacts.

In MEDMARC's case, for example, Becton Dickinson & Co., a large association member based in Paramus, N.J., shared the expertise of its risk management department, Mr. White said.

Once a captive is formed, its management should keep a close eye on all aspects of its operation, including the quality of services provided by fronting insurers, brokers and legal advisers, Mr. White said.

While association members may assume that these parts of the captive operation can be left to run in harmony, "it simply doesn't work that way," he explained.

MEDMARC, for example, found at one point that its fronting insurer, National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group unit, had mistakenly credited some of its premiums to another company, Mr. White said.

The mistake was a joint one, he said, since MEDMARC wasn't monitoring the premium flow closely enough.

"You realize after the fact that you need to spend some time with your business," he said, noting that National Union continues to front for the MEDMARC program and that the relationship is satisfactory.

Mr. White predicted that even if the commercial product liability market were to turn competitive again, most MEDMARC policyholders would stay with the program.

"The people who have joined this company are so mad at the insurance industry that they see the advantage of staying with an industry group," he explained, referring to members' reactions to commercial insurance rate hikes and coverage restrictions.

Nevertheless, associations can be structured to discourage dropouts during a soft market, he added.

One method is to allow withdrawal of a member's equity in the captive only over an extended period. MEDMARC members, for example, can withdraw only 20% of their equity per year over a five-year period.

In addition, MEDMARC uses a profit-vesting formula under which members are vested in their share of the captive's yearly profits at a rate of 20% per year, Mr. White said. For example, a company that had been a MEDMARC member for one year would be vested in only 20% of its share of that year's profits, while a member of five years' standing would be fully vested in its share of the prof-

its.

Mr. White also noted the importance of keeping information on individual members confidential from other members.

"Our industry is heavily populated with closely held companies that would not want to share that information with any other company," he observed.

MEDMARC, which recently added general liability coverage to its traditional product liability program, provides a combined single limit of \$500,000 or \$1 million, though nearly all policyholders choose the \$1 million limit, Mr. White said.

The claims-made form includes a

Mr. White advises larger members to share their knowledge with smaller members.

two-year extended discovery period if a policy is canceled or not renewed at an additional premium of 200% of the expiring policy's premium, he said.

Minimum deductibles are \$5,000 per claim on the \$1 million policy, or \$10,000 per claim for policyhold-

ers that have been in business for under three years.

Initially, MEDMARC participants were required to contribute capital of \$30,000 each, \$7,500 in cash and \$22,500 in the form of a letter of credit. With 31 initial participants, MEDMARC raised just under \$1 million in capital, Mr. White said.

However, that capital contribution requirement has since been changed to \$7,500 in cash or 20% of the policyholder's first year premium, whichever is greater. MEDMARC adopted the 20% rule to preserve adequate surplus as premiums rose, Mr. White explained. The rule requires a larger capital con-

tribution from members who bring in large premiums.

The minimum premium for MEDMARC coverage is \$23,000, and the largest premium currently being charged is \$60,000, he said.

MEDMARC allows Marsh & McLennan a 10% brokerage commission, which M&M splits 50/50 with local producing brokers who bring in new business, according to Mr. White.

In all, fronting, brokerage and stop-loss reinsurance costs add up to 30% of gross premiums. Administrative expenses add up to an additional 5%, leaving 65% of MEDMARC's premiums to cover losses, Mr. White said.

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Lay captive foundation early, manager advises

By **DOUGLAS McLEOD**

HAMILTON, Bermuda—Problems of structuring and managing group-owned and association captives must be faced early in the captives' formation or much bigger problems could arise later on, one expert advises.

"It is the single most important point that in setting up a company there be close communication with the client group," says Donald J. Westmoreland, managing director of Cayman-based Transnational Risk Management Ltd., a Reiss Organization captive management unit.

Otherwise, Mr. Westmoreland warned, a host of potential pitfalls could produce complex and costly legal problems for the captive and its shareholders.

Speaking at the 10th International Captive Insurance and Reinsurance Forum, Mr. Westmoreland noted several questions about corporate structure that captive organizers must address. These include:

- Whether the captive will be a controlled or a non-controlled foreign corporation for U.S. tax purposes.

Non-controlled foreign corporations do not have to pay tax on underwriting or investment income until the income is repatriated to the United States. Controlled foreign corporations, however, must report the income.

If 25% or more of a captive's gross premium is attributable to foreign risks, the captive is considered a controlled foreign corporation only if more than 50% of voting power is controlled by U.S. shareholders. U.S. shareholders are defined as those who own 10% or more of total combined voting power of all classes of stock entitled to vote.

If less than 25% of gross premiums is attributable to foreign risks, the captive is considered a controlled foreign corporation if more than 25% of its voting power is controlled by U.S. shareholders.

To maintain non-controlled foreign corporation status, many group captives are formed with 11 or more members so that each controls less than 10% of the captive's voting shares.

"I'm in favor of having more than 11 (shareholders) to give a little safety margin," Mr. Westmoreland said, explaining that if one shareholder withdrew from a captive with only 11 shareholders, the offshore company would revert to controlled foreign corporation status.

- How the captive will be capitalized and what limitations will be put on the sale of members' shares.

Some group captive participants may want varying benefits from their stock, he said. For example, some may want dividends while others may not. Organizers may thus decide to issue different classes of stock to provide different benefits, he explained.

Where possible, however, Mr. Westmoreland added that he is "more in favor of a single class of shares where relative rights are determined by the number of shares held."

- The provisions to be made for withdrawal of shareholders and the entry of replacements.

One problem to be faced, Mr. Westmoreland said, is how to compensate a withdrawing member for its stock: should the member receive book value for the stock, or should the payback be based on the member's loss experience?

If the captive is writing casualty business, he noted, provisions should be made for a withdrawing member to leave enough money to cover its long-tail losses.

- The basis on which initial and

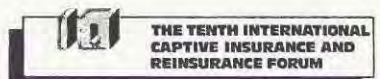
operating expenses will be allocated among shareholders. This problem is more complex where a captive issues different classes of stock, he observed.

- The initial or continuing requirements for membership in the captive.

Group reinsurance facilities managed by Reiss—including Hcpewell International Insurance Ltd., United Insurance Co. and Tortuga Casualty Co.—require that captive insurance company members themselves be managed by Reiss captive management units.

"This allows us to monitor the performance of each individual captive," Mr. Westmoreland said.

Group captives also may require each participant to cede or accept a certain amount of reinsurance



business to remain a member, he added.

If a captive shareholder didn't actually participate in the captive's business and decided after a few years to sell its shares, the shareholder may be taking out profits built up by other members to which it did not contribute, Mr. Westmoreland explained.

Along with these structural considerations, captive organizers must also decide how underwriting operations will be handled, Mr. Westmoreland said.

Among the areas to be considered, he said, are the following:

- The lines of business to be un-

derwritten by the captive.

- The basis for rating risks. In some cases, the fronting insurer will determine rates, Mr. Westmoreland explained. If the captive is writing business directly, however, shareholders will have to decide on criteria for rating.

- Allocation of underwriting and investment income among shareholders. This again may be more complex for captives that issue different classes of shares.

- Onshore servicing and loss adjustment for members' business. One consideration in this area is how much the captive should pay for these services, Mr. Westmoreland said.

"One of the reasons group captives have failed is that everybody's hand has been in the pot be-

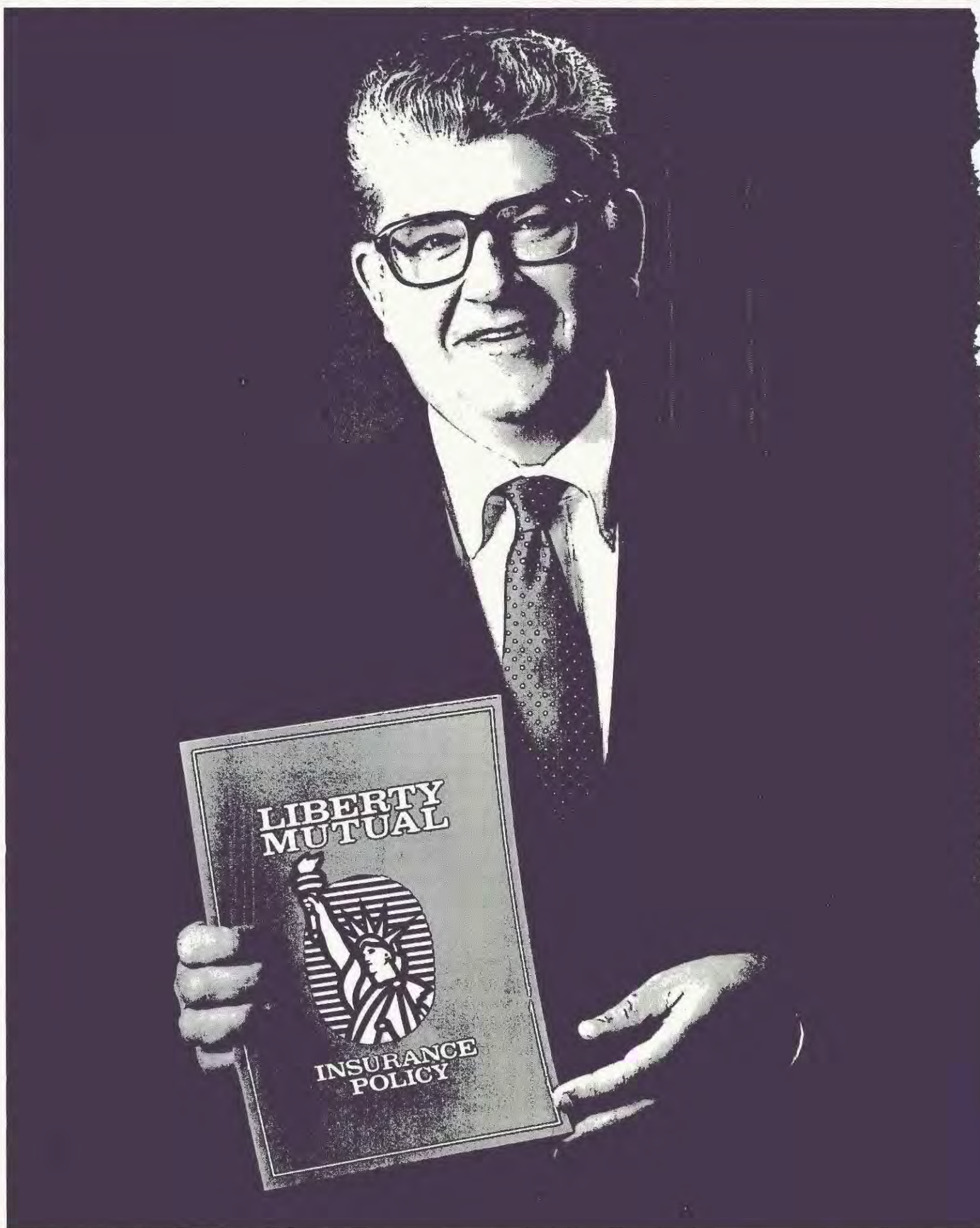
fore the premium reaches the captive," he observed. In some cases, he said, captives may receive only 40 cents of each premium dollar after the various servicing costs are deducted.

- Allocation of reinsurance or funding costs among shareholders. One solution to this problem, Mr. Westmoreland said, is to allocate the costs on a pro-rata basis based on individual members' premiums.

Once questions relating to underwriting procedures are resolved, captive organizers also must deal with several operational questions. These include:

- Appointing an onshore official with authority to make rapid decisions on behalf of captive shareholders and to coordinate share-

Continued on next page



Continued from previous page holder meetings. This official could be a retired insurance company executive, Mr. Westmoreland suggested.

He added, however, that the official should not be an employee of the captive, since a captive that is found to be engaging in trade or business in the United States would be considered a controlled foreign corporation and therefore subject to U.S. taxation.

- Appointing a board of directors and forming executive committees.

- Coordinating members' needs onshore and setting up lines of communication with the offshore management company.

- Establishing investment policy and delegating investment authority.

- Defining the limits of the management company's authority, particularly on financial matters. A clear understanding of the man-

ager's authority is especially important for multiowner captives, Mr. Westmoreland said.

"With a multiowner captive, you are much more open to challenge. Was this the right thing to do or was it not?" he explained.

- Agreeing on the extent and frequency of circulation of financial and other information.

- Organizing Mr. Westmoreland board meetings and general meetings of shareholders.

- Containing administrative expenses.

Mr. Westmoreland added that the tightening commercial insurance market has left captive managers "in a vastly changed environment," where multiowner captives



Mr. Westmoreland

are proliferating.

Market conditions have forced managers to become more innovative and flexible in their services, he said.

"At the very moment that business is coming back to captives from the easy market of the last few years, reinsurance is drying up," he observed.

Managers must play a part in addressing the collapse of capacity through mechanisms that don't require reinsurance, such as Tortuga Casualty and A.C.E. Insurance Co. Ltd., he said.

With the growth of captives and other alternative risk funding vehicles, managers also must spend more time assessing the advantages and disadvantages of various captive domiciles, and open offices in the various domiciles to provide the best service to clients, Mr. Westmoreland said.

While the number of multiowner captives is growing, the future for

'With a multiowner captive, you are much more open to challenge,' Mr. Westmoreland says.

new single-parent captives is uncertain, according to Clayton P. Cormier, senior vp with Johnson & Higgins in New York.

"My crystal ball is not that clear, but I think captives are in a period of transition with a great deal of uncertainty ahead," Mr. Cormier said.

While growth in new single-parent captives was slower in 1984 and 1985 than in previous years, interest in new formations is coming increasingly from companies in the Far East, Europe and Latin America, he said.

The turn in the commercial property/casualty market, bringing with it increased self-insurance, also will assure continued growth for new and existing single-parent captives, Mr. Cormier added.

For a number of reasons, however, single-parent captives are not likely to re-emerge as markets for non-related risks, he noted.

Congress and the Internal Revenue Service have gradually eroded the perceived tax advantages of writing non-related business. Parent companies no longer can expect to deduct premiums paid to captive subsidiaries, for example, and captive income generally can no longer be used to absorb the parent company's excess foreign tax credits, Mr. Cormier noted.

Despite "encouraging" early results, captives' loss experience on non-related risks ultimately proved disastrous, he added.

"The shakeout in captive capacity for non-related business has been so traumatic for the companies involved" that captives aren't likely to return to open-market underwriting anytime soon, Mr. Cormier said.

In 1981, more than 50% of the net premiums earned by Insko Ltd., Gulf Oil Co.'s captive, were from non-related business, while non-related risks accounted for more than 75% of the net earned premiums of Mentor Insurance Ltd., a unit of Ocean Drilling and Exploration Co., and Walton Insurance Ltd., a unit of Phillips Petroleum Co., according to Mr. Cormier.

By the end of 1983, non-related business accounted for 17% of the net earned premiums of Ancon Ltd., a unit of Exxon Insurance Holdings Ltd., of which Mr. Cormier was chairman until he resigned last year.

Walton stopped underwriting unrelated risks in 1983; Insko ceased all underwriting in 1984; and Ancon decided in late 1984 to write only risks of Exxon's foreign affiliates in 1985. Mentor is currently in liquidation.

While the aggregate premium capacity of Bermuda captives for non-related risks hit a peak of \$225 million in the early 1980s, that capacity has fallen sharply and probably won't return, Mr. Cormier predicted.

"Bermuda is not likely to benefit from this non-related activity in the future," he concluded. ■

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'Bedpan mutuals' falling on hard times

By DOUGLAS McLEOD

HAMILTON, Bermuda—Doctor- and hospital-owned captive insurers, already stung by poor underwriting results, are facing mounting problems, including probable further deterioration of loss experience and a lack of reinsurance capacity, one expert says.

Although hospital captives—also known as "bedpan mutuals"—will continue to provide stability in a volatile line of insurance, their operation won't be easy, says Daniel F. Creasey, president of the Risk Management Foundation of the Harvard Medical Institutions.

"It's basically a fairly depressing business and is unlikely to change much," Mr. Creasey summed up for an audience at The 10th Interna-

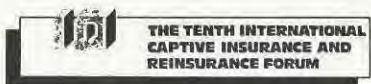
tional Captive Insurance and Reinsurance Forum.

Most of the approximately 60 doctor- and hospital-owned captives are domiciled onshore, and many of these were formed as a response to the commercial medical malpractice insurance crunch of the 1970s.

"None of these captives were started because anyone wanted to do it," Mr. Creasey explained. "The simple problem was that as of the first of the month, you had no insurance."

Malpractice captives typically insure doctors or hospitals, but usually not both, according to Mr. Creasey.

However, the Harvard Risk Management Foundation—which operates a malpractice program for



the university and 11 affiliated medical institutions and includes a Cayman-based captive, Controlled Risk Insurance Co. Ltd.—does insure both doctors and hospitals, Mr. Creasey said, explaining that this provides greater loss control and efficiency.

Medical associations and hospital corporations "typically did not have a lot of insurance expertise" at the time they formed captives, Mr. Creasey said, noting that the impetus for many formations came from brokers, "many of whom did not know what they were doing, either."

"We clearly underestimated the

loss picture and the administrative problems," he said.

The underwriting experience of many malpractice captives to date has been poor, and in some cases disastrous, Mr. Creasey observed. Among several malpractice mutuals now in trouble, the "biggest disaster," Mr. Creasey said, is New York-based Medical Liability Mutual Insurance Co., which he said faces a huge reserve deficiency.

The impact of poor underwriting results was blunted to some extent by the abundance of reinsurance capacity in the early 1980s, he added.

"We were able to push our garbage on the reinsurers," Mr. Creasey said.

However, the captives' biggest concern now is the scarcity of rein-

surance and the insolvency of some established reinsurance markets.

"My single biggest loss is Transit Casualty, not some doctor I insured," Mr. Creasey said. Transit Casualty Co. was ordered liquidated by a Missouri court last December (BI, Dec. 9, 1985).

Several other malpractice captives have been "badly hurt" by the insolvency of Northumberland General Insurance Co., which was ordered liquidated last year, he added (BI, July 22, 1985).

Along with the reinsurance problems, the malpractice captives face the imminent possibility of even worse loss experience, Mr. Creasey warned.

"The trends in the health care system point to a deterioration of the malpractice business," he said.

Among these trends is the move by government and corporate health insurance programs to cut costs by:

- Introducing diagnosis-related groups—DRGs—as the basis for reimbursement, rather than covering charges as billed by hospitals.

- Using physician networks established through preferred provider or health maintenance organizations to provide health care, rather than leaving the choice of health care provider to the patient.

Where 7,000 community hospitals provided acute care 15 years ago, there may soon be only 1,000, Mr. Creasey said, noting a "tremendous aggregation of health care."

All of this, along with a general move to eliminate unnecessary health care procedures, spells trouble for malpractice insurers, he said.

"Gold-plated medicine works to our advantage, and we are going to see a lot less of it," he observed.

He then paused to apologize for the perspective on health care issues that his position as a malpractice insurer forces him to adopt.

"It's amazing how many times I find myself on the opposite side of the fence from what is good social policy. I don't know what that says about this business," he observed.

Other trends that will hurt malpractice captives include:

- Improvements in medical technology that are keeping alive patients who might otherwise die. For example, improved cure rates for some forms of cancer are giving rise to malpractice claims in cases where cancers are not quickly diagnosed and treated, Mr. Creasey said.

- An oversupply of doctors.
- A weakening of the doctor-patient relationship.
- An increase in the rate of malpractice lawsuits.

Forty years ago, medical "screw-ups" resulted in lawsuits only 1% to 2% of the time, Mr. Creasey said. Today, such mishaps yield lawsuits 25% of the time, and this rate will probably increase further.

"That means we are going to have to run like hell in the quality assurance area to stay even," he observed.

- The rise of doctors' paid testimony against other doctors in malpractice cases.

"Twenty years ago it was hard to get a physician into court. Now it's easy. You can call an 800 number," Mr. Creasey said.

Despite their problems, though, the malpractice captives have contributed immense capacity and stability to medical malpractice insurance buyers and are likely to continue to do so, Mr. Creasey predicted.

"They have a fairly loyal market and they are clearly here to stay," he said. "It is extremely unlikely that there will ever be any backing off of this type of approach." ■

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Continued from previous page

"Because of this, is it not contradictory to think in terms of the Bermuda government turning around and insisting on regulating these captive companies as if they were U.S. commercial property/casualty companies?" Mr. Crawley asked.

The plea for more regulation, he acknowledged, followed the disastrous results suffered by a few captives that began underwriting commer-

ing identities," as reinsurance companies began closing down or moving from Bermuda.

"Today we in Bermuda have swept aside the dust of confusion and resolved our identity conflict," Mr. Crawley asserted. Bermuda's identity is that of a "captive insurance company servicing industry," he maintained.

"There is a marked atmosphere of revitalized interdependence and of renewed self-confidence

strength, an instinctive entrepreneurial ability to know when and in which direction to move.

"The force is present amongst Bermudians engaged not just in the captive insurance company servicing area but in the whole international company scenario, from government to the bankers, the lawyers and the accountants, through to the specific management companies."

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Improve reinsurance submissions: Consultants

By **KATHRYN J. McINTYRE**

HAMILTON, Bermuda—Finding reinsurance for captive insurers today is more difficult than it ever has been.

And, group-owned captives have the most trouble finding reinsurers to provide aggregate reinsurance.

As a result, the quality of a submission to reinsurers is more important than ever, two consultants agree.

"The more information, the more professionally it is presented, the more comfort the reinsurers will have," advises Greg Leonard, a Tillinghast, Nelson & Warren consultant and actuary based in Bermuda.

Buying reinsurance for a group or single-parent captive also "requires a strong marketing effort,"

adds Michael A. Waskom, a Tillinghast consultant based in Darien, Conn.

Speaking at a workshop on marketing reinsurance for captives during The 10th International Captive Insurance and Reinsurance Forum in Bermuda last month, the two consultants reminded the audience why captives need reinsurance, and advised how to best secure the coverage.

A captive buys specific reinsurance if it issues a policy with limits exceeding what it can retain.



Mr. Leonard



If, however, the captive is retaining as risk only the limits it issues, "the normal premium should cover expected losses and expected expenses," noted Mr. Waskom.

A captive's capital is there "for deviations from the expected results."

Captives, however, buy aggregate reinsurance to protect their capital from unexpected losses and expenses, Mr. Waskom said.

Aggregate reinsurance caps all of a captive's losses in a given year, whether from severity of frequency—many small losses—or frequency of severity—very few losses all hitting the captive reten-

tion. If the capital of the captive is spent, the next line of defense is the assets of the captive's parent company or its owners, Mr. Waskom pointed out. If the captive owner suffers a third-party liability loss and the captive can't pay it, the captive owner is still liable for the loss.



Mr. Waskom

Protecting the captive's capital is important not only to the parent company, but also to the insurance company that agrees to front for the captive—that is, the insurer who issues ad-

mitted insurance policies to the captive owner and reinsures the risk with the captive.

"To get a front, you need stop-loss or enough capital in the group captive to handle adverse loss experience," Mr. Leonard out. Even with adequate capital, captives are finding it difficult to secure fronting arrangements.

There are fewer than 10 insurers willing to front for captives, and some of those are very selective about the classes of business they will write and whom they will deal with, Mr. Leonard pointed out.

Mr. Waskom observed: "Potential fronts are concerned about the impact on their surplus of non-admitted reinsurance."

While a letter of credit will satisfy state insurance regulations, A.M. Best Co. doesn't recognize letters of credit when analyzing an insurer's surplus position.

"We're suggesting that captives offer to provide surplus relief with a capital contribution from the captive to the insurer in exchange for an equity or debt position," Mr. Waskom said. The earnings off the capital contribution could reduce the fronting fee, which is now running from 15% to 20%.

The capital needed is only enough to match the insurers' current premium-to-surplus ratio, Mr. Waskom notes. For example, for a \$1 million policy from an insurer writing premiums of three times surplus, the captive would need to invest about \$300,000.

"I can't report success yet, but it may be viable," Mr. Waskom said.

Buying stop-loss or aggregate reinsurance to cover casualty line written by group-owned captives is most difficult, Mr. Leonard observed. The captive has to convince the reinsurer that it will be around to cover adverse loss development and that the reinsurer is not going to be hit with expected losses.

Several reinsurers now are requiring actuarial studies before they will write aggregate reinsurance or stop-loss for a group captive, Mr. Leonard reported.

Three types of information are essential for an actuarial study: Paid losses, incurred losses and an exposure base.

"The problem with group captives is you can't get decent information," Mr. Leonard said.

The data secured is usually obtained from surveys of the group membership. The data gathered can be inconsistent because it is often supplied by different brokers, and/or taken from statistical loss runs from different periods of time.

In addition, the data may not be comparable because different insurers have provided coverage to the various members of the group and insurers' loss reserving practices vary.

Therefore, group captives in particular need what Mr. Leonard characterizes as an "enlightened actuary," not a "closet actuary."

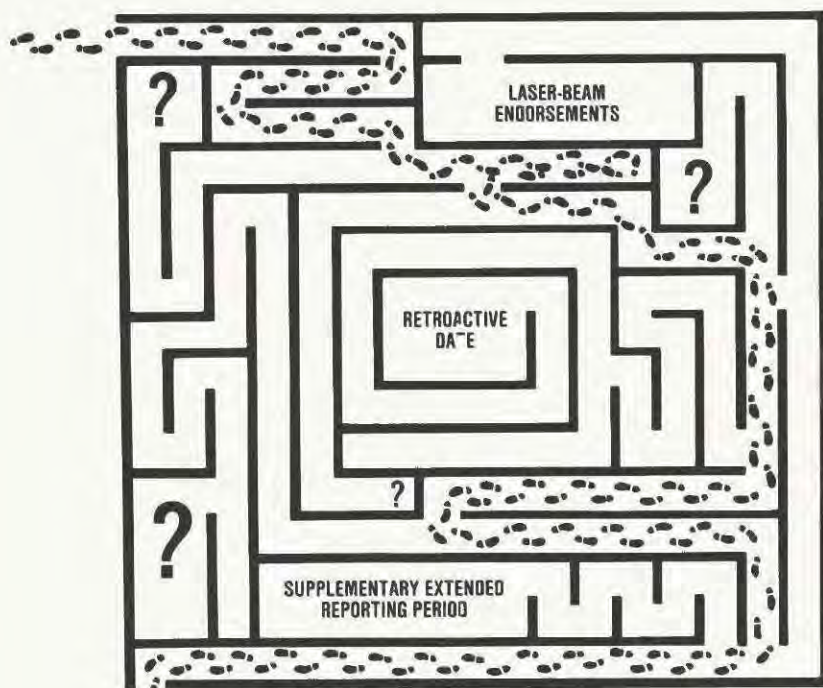
The closet actuary bases his actuarial study and loss projections on the data provided, Mr. Leonard explained, while the enlightened actuary "questions the information given. And that's critical."

With additional information about the statistics' validity in mind, the loss data is developed and trended and a range of future losses predicted.

The actuarial study also should project when losses will be paid. Once that is determined, the projected losses are discounted to their net present value to determine the amount of money needed today to pay claims in the future.

The captive will have to fund for those losses or have enough capital to cover them.

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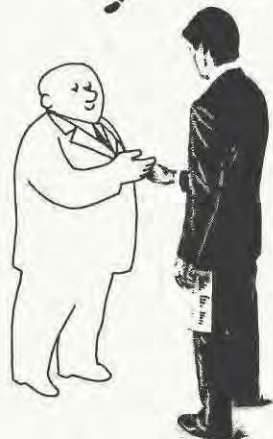


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gests that captive organizers first consider the environment in which they can make a profit.

desire direct taxation since it raises \$210 million in revenues annually from indirect taxation, "that doesn't make it a tax haven," Mr. Crawley contends.

Nor does Bermuda deserve the label and attendant connotations of being described as "offshore," Mr. Crawley argued.

Bermuda lies 700 miles off the North Carolina coast, while "Guernsey is an island lying some 70 miles off the southeast coast of England and some 20 miles off the

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Industry needs cash, not regulation: Lobbyist

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—The insurance industry needs more money—not more regulation—to return to health, an insurance lobbyist maintains.

"There is nothing wrong with current patterns of property/casualty insurance regulation that insurance price and insurance capital adequacy cannot cure," contends Leslie Cheek, vp-federal affairs for Crum & Forster Insurance Cos. in Washington.

But, "the depth and breadth of the current crisis in the availability and affordability of liability insurance has spawned calls to round up the usual suspects—that is the insurance industry and its regulators," Mr. Cheek told attendees of The 10th International Captive Insurance and Reinsurance Forum held in Bermuda last month.

Some industry officials say regulators should have acted to save the industry from itself and some regulators say that insurers cannot cope with deregulation, Mr. Cheek pointed out.

"It would be an unparalleled disaster, both for the industry and for the insurance-buying public, to attempt to recreate, in a rapidly evolving 20th-century financial services marketplace, the insurance pricing and regulatory pat-

terns of the 19th century," Mr. Cheek warned.

"It is simply contrary to human nature and to the nature of our free enterprise economic system, to expect insurance regulators or insurance consumers to complain about, or to act to prevent, declines in insurance prices," he said.

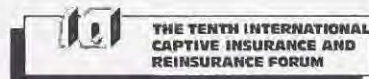
Insurance regulators tolerated falling commercial insurance prices in the 1980s, he observed, because the downward price spiral was consistent with the boom-or-bust character of the industry. Also, it appeared until late 1984



Mr. Cheek

that the cheap prices were not affecting the rate of insolvencies, they minimized consumer complaints and they seemed to validate one of the premises of insurance regulation: "Commercial insurance rates will find their more appropriate level in a competitive market."

Now, however, if insurers want to reject that premise, they will find that regulatory controls over the downward movement of rates will be accompanied by similar controls on the upward movement of rates, Mr. Cheek advised.



And, regulators who complain that insurers can't function in a competitive marketplace "are ignoring the uniqueness of the circumstances that precipitated the price war of the early 1980s—circumstances that are, thank God, unlikely to recur," Mr. Cheek said.

Now, the recovery of the property/casualty insurance industry is "far more dependent on factors beyond its regulators' control than it is on the action or inaction of those regulators," Mr. Cheek suggested.

"While regulators can affect the adequacy of rate levels, they cannot, without legislation converting a pluralistic private enterprise into a monolithic public utility, force insurers to charge a price either at, above or below the indicated industry average," Mr. Cheek said.

"And while regulators can compel insurers to cease writing new business unless they add to their capital and surplus, they cannot, in a free economy, compel investors or policyholders to commit the necessary funds to the enterprise.

"And, while regulators can license insurers willing to provide coverage in an insurable line of business, they cannot force carriers who surrender their licenses to

write coverage in a line or class of business that courts and/or legislatures have rendered uninsurable.

"And while regulators can control the elements of insurance accounting, they cannot control the actions of federal tax legislators that would ignore those accounting principles and force revenues even from companies with no economic income."

Mr. Cheek stressed that he did not mean to suggest that regulators are powerless. "Rather, my point is that the destiny of the insurance industry is dependent on a plethora of external factors over which regulators have no control. Substituting the federal government for the states would not alter this reality, nor would closer cooperation among the states."

Mr. Cheek criticized most of the proposed solutions, such as the suggestion by Sen. Paul Simon, D-Ill., and others that the McCarran-Ferguson Act be repealed. Sen. Simon has said the act shields insurance companies from the competition that keeps the free enterprise system going, Mr. Cheek said.

"Our business could easily do without the antitrust immunity of McCarran-Ferguson," Mr. Cheek said. "Our problem has been too much competition, not too little."

Mr. Cheek also criticized another solution proposed by Sen. Simon: the development of a federal reinsurance program.

That would be "tantamount to giving the keys to the U.S. Treasury to the organized plaintiffs' bar," Mr. Cheek warned. "It would make Uncle Sam the deepest pocket of them all and it would remove the last restraint on the most litigious society in the world."

Mr. Cheek did endorse—with reservation—one proposed measure: expansion of Risk Retention Act to allow businesses to group self-insure their liability risks.

But, he also suggested that the act be amended only to permit group

self-insurance of lines of insurance that are unavailable.

In addition to providing needed capacity, allowing more self-insurance will teach businesses "the truths about which they are now a little bit skeptical—the truths like the need for a claims-made policy form, the importance of IBNR (incurred but not reported) loss reserves, the volatility of judge-made law and the incredible transaction costs of our tort system," he said.

"The shrinking markets and soaring prices for these lines are messengers of a common reality: the liabilities to which these lines are designed to respond have outstripped the ability of the insurance mechanism to predictably measure their economic consequences."

"The industry is now trying to bring prices back in line with underlying loss costs. Much of the availability and affordability problems of today are attributable to this process. As insurance prices approach adequacy and surplus is rebuilt, many of the insurance availability problems will resolve themselves," Mr. Cheek predicted.

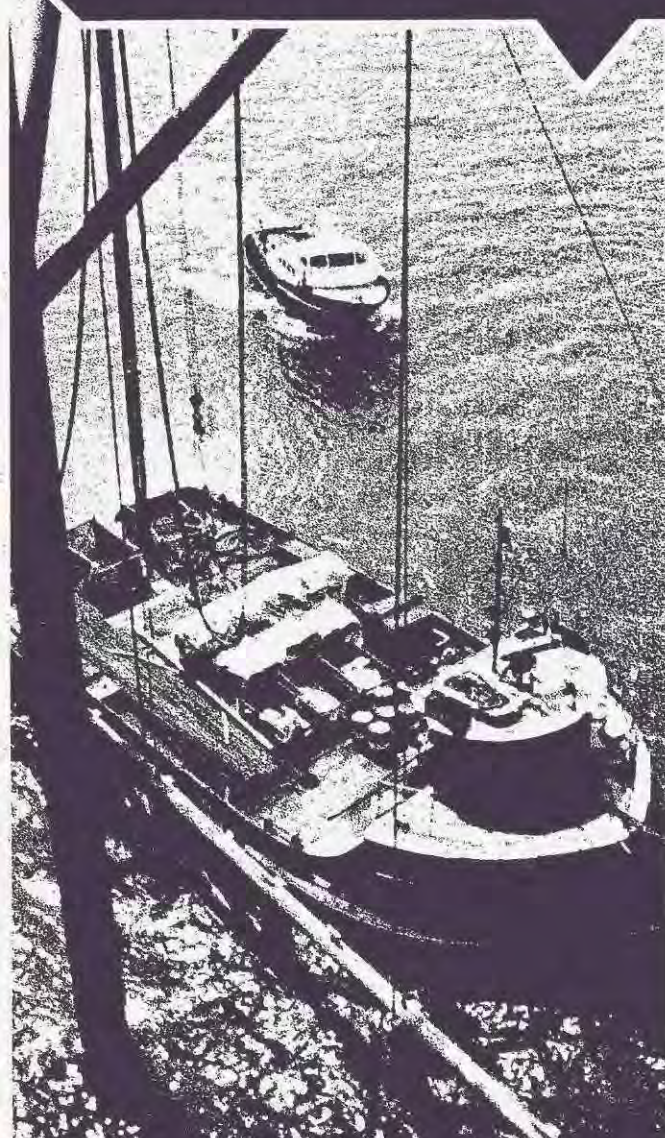
And, he noted that the "industry and regulators have worked together to place limitations on some of the more extreme early reactions by insurers to their financial distress—sudden cancellation, mid-term premium increases and non-renewals without explanation."

The resulting market assistance plans, insurance hot lines and other means of putting willing buyers in touch with willing sellers of insurance "is about as much as can be done to deal with the insurance industry's role in the crisis," Mr. Cheek maintained.

"Further regulatory response premised on the notion that the crisis is solely a function of the insurance industry's behavior risks doing major damage while doing nothing to address the other elements of the crisis," Mr. Cheek suggested.

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'Simple' secrets to success

HAMILTON, Bermuda—The secrets of running a successful captive insurance company are simple:

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- Buy retroactive property coverage to fund fire losses.

These totally facetious pointers for risk management success were offered by Richard Duer, underwriting manager for Des Moines, Iowa-based Kirke-Van Orsdel Inc., and this year's winner of the Tillinghast captive insurance company simulation game.

The computer game—offered as a diversion and learning tool at the 10th International Captive Insurance and Reinsurance Forum—assigns each player the responsibility for forming and managing a captive for a hypothetical company, Universal Manufacturing Inc.

UMI—an automotive, marine and aviation parts manufacturer with \$1 billion in annual sales—is forming a captive to write workers compensation, general and product liability and property and business interruption coverages.

As president of UMI's captive, each player has to make several decisions, including:

- Capitalization, ranging from \$1 million to \$7.5 million.
- Premiums to be charged.
- Investment strategy, including the mix of stocks, bonds and U.S. Treasury bills.
- The type and amount of reinsurance protecting the captive.
- Whether to write unrelated business, of what type and amount and the level of reinsurance protection for this business.

Players were scored on the cost of the captive coverage per \$100 of parent company sales. Presidents who bankrupted their captives over the five years covered in the game were not assigned scores.

Of the 140 scores recorded over three days of play, Mr. Duer produced the best: \$1.711 of insurance cost per \$100 of sales.

In another attempt at the game, however, Mr. Duer also recorded the worst score: \$7.913 of cost per \$100 of sales.

On the final day of the captive conference, therefore, H. Felix Kloman, a Tillinghast vp and advisory director, presented Mr. Duer with a fifth of Crown Royal and a rubber duck, the first- and last-place awards.

Mr. Duer explained his triumph by noting that in order to win the game, the captive has to be capitalized at the lowest possible level, the lowest possible premium has to be charged to the parent company and the captive has to go totally without reinsurance.

"You totally run it the way you would not run a captive—if you want to win the game," said Mr. Duer.



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Crisis not solely caused by rate cuts: Etling

By KATHRYN J. MCINTYRE

HAMILTON, Bermuda—The insurance affordability crisis would have emerged even if insurers had not slashed rates when cash flow underwriting was in vogue, the president of the largest U.S. reinsurance company says.

"Cash-flow underwriting is only part of the story," maintains John C. Etling, president of General Reinsurance Corp., the largest subsidiary of General Re Group.

"If we had not slashed rates, we wouldn't be in the shape we are now. We would have, however, cover by cover, segment by segment, gotten to the affordability crisis a piece at a time," Mr. Etling told attendees of The 10th International Captive Insurance and Reinsurance Forum held in Bermuda last month.

The reason: Liability losses are mounting under an expanded tort system. Defenses have been eroded

and defendants are facing absolute liability, joint and several liability, increasing award sizes, punitive damages and mushrooming defense costs, Mr. Etling said. In addition, courts are extending coverages beyond what was originally contemplated in the insurance contract, he added.

"The current problem is society. Hard choices must be made about the extent to which injured parties can be compensated, by what definition and by whom," Mr. Etling advised.

"In the final analysis, insurers are really score keepers, adding up the losses sustained and spreading them back as premiums to insureds. Unlike the federal government, none of us has a printing press," Mr. Etling said.

This is a lesson that the growing number of self-insurers will learn, Mr. Etling suggested.

"Whether the risk assumer is an insurance company or self-insurer, the risk assumer is a scorekeeper and does not affect the process of the underlying risk," Mr. Etling pointed out.

"If insurance is going to be available and affordable, we must address the question: How much



should people be compensated and who should pay," he said.

"I encourage everyone of you and your companies to get involved in tort reform. It's the first time I've seen a real movement toward consideration for some type of tort reform not only by insurance companies, but also by industry and the general public at large," said the 25-year veteran of General Re.

For that reason, he said, "I think it is better the way it has happened," with rates rising dramatically.

"It brings to the fore the tremendous problem which underlies the insurance problem and perhaps we can all get together and work on that problem: the tort system and society," Mr. Etling said.

While emphasizing the need for tort reform, Mr. Etling also acknowledged the economic forces that contributed to current difficult commercial insurance market conditions.

Unlike the personal lines insurance market that is dominated by relatively few companies, the com-

mercial lines market is highly fragmented, Mr. Etling said.

In personal lines insurance, the top six companies write more than 40% of the premium volume and one controls almost 20%. While personal lines loss experience has deteriorated, it's still far better than commercial lines' loss experience because the relatively few dominant companies exercise greater underwriting discipline and price leadership.

But in commercial insurance lines, "the top six companies write only 23% of premium volume and the largest controls only 5%. As a consequence, the commercial lines market tends to be highly competitive."

The historic insurance cycle also contributed to the current crunch in the marketplace.

But, the cycle didn't turn as it would have in the past with deteriorating underwriting results because the rapid rise in interest rates attracted insurers to cash flow.

The combined ratio worsened each year as prices fell.

"By 1984, risks were being written at 30% to 40% of tariff. As long as interest rates remained high, the

effects of the excessive high combined ratio were masked," Mr. Etling explained.

Reinsurers also contributed to the prolonged downturn in insurance prices, Mr. Etling said. Reinsurance became "highly competitive, with tremendous increases in the number of reinsurance companies, almost tripling between 1973 and 1983," he reported.

When operating losses appeared in 1984, however, insurers' and reinsurers' immediate reaction was to stop the bleeding, raise rates, cancel business, withdraw from markets and cut lines and classes, Mr. Etling said.

Surpluses now need to be rebuilt, he said.

But, Mr. Etling reminded the audience that the consequence of a competitive and cyclical insurance market for insurance buyers is: "A competitively priced insurance product—if somewhat difficult to manage because of the cycles and excessively low rates and high rates."

Nonetheless, "the cyclical nature of the business tends to keep rates relative to the risk assumed over a period of time from being excessive," Mr. Etling said.



Mr. Etling

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Europeans considering benefit captives: Expert

By DOUGLAS MCLEOD

HAMILTON, Bermuda—European multinational corporations are increasingly interested in using captives to reinsure employee benefit programs, though interest from U.S. multinationals has flagged, one expert says.

"The number of new inquiries from U.S. multinationals has reduced itself from the previous year. The reason for this we do not know," said Ernst Schneebeli, senior vp with Zurich-based Swiss Life Insurance Co.

The rate of inquiries from other multinationals has increased, however, and the number of benefit captives will probably increase as a result, Mr. Schneebeli told an audience at The 10th International Captive Insurance and Reinsurance Forum.

Captive reinsurance can be a useful component in the multinational benefit programs that have been developed since the 1960s, Mr. Schneebeli observed.

In such programs, networks of local insurance companies are formed to provide services to a multinational's local affiliates, collecting premiums and making benefit claim payments, he explained.

If profits remain in such a program after payment of benefits, expenses, commissions, taxes and dividends to the multinational's affiliate, the parent company itself is able to collect a dividend.

The advantages of such programs—which insurers developed to retain the business of multinationals that might otherwise self-insure—include:

- Reduced administrative expenses.
- Reduced cost for stop-loss reinsurance, since the programs produce a greater spread of risk.
- The ability to recapture profits resulting from better-than-expected claims experience.
- Increased coordination and control by the parent company of its international benefit plans.

A captive can be added to such a program as a reinsurer of the various local insurance companies, which would act as fronting insurers, Mr. Schneebeli explained. The captive in turn would buy retrocessional coverage, including excess of loss and aggregate stop-loss reinsurance.

Advantages of using a captive, Mr. Schneebeli said, include:

- More centralized management.
- Improved cash flow. Rather than pay premiums quarterly or yearly in advance—as would be the case with commercial coverage—premiums could be paid through to a captive on a retrospective basis.
- Greater freedom of investment and better management of currency exposures. A captive would be better able to invest premium funds in currencies other than those of the original policyholders, Mr. Schneebeli said.

Swiss Life currently manages nine large multinational benefit programs that involve captive reinsurers. Over the last three years, the multinationals have averaged profits of 13% of original gross premiums after the cost of the captives' retrocessional coverage, Mr. Schneebeli said.

The best experience was recorded in 1982, when the five captive programs Swiss Life then managed recorded profits of 21.7% of original gross premiums, according to Mr. Schneebeli.

Mr. Schneebeli predicted that multinational captive benefit programs will grow and become more complex.

However, he also noted that increasing competition among local insurance companies could produce attractive programs for a multinational's local affiliates, and may mean that coverages for the local affiliates are better left with local insurers.

"There is a future for captives in the employee benefit field," he concluded, adding, however, that each parent company must decide for itself the most cost-effective way to insure its exposures.

"No general conclusion can be reached. No general recommendation can be given," Mr. Schneebeli said.

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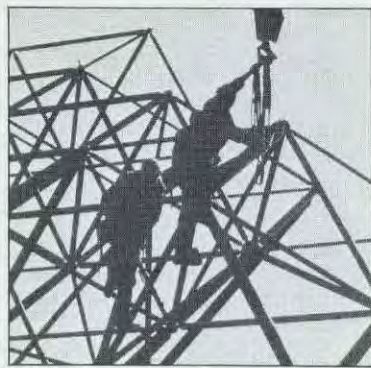
While the market for Property coverages, particularly smaller risks with values of \$15 to \$20 million, is more and more restricted, and more and more costly, there are steps that agents and brokers can take to secure proper protection.

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efficiently. And that may mean working with a professional wholesale broker such as Swett & Crawford Group, the nation's leader. The Group puts considerable leverage and buying power at your disposal because of its extensive contacts with domestic insurers, London and other international markets.

Thomas S. O'Brien, a senior vice president with Swett & Crawford, recommends one way to pave the way toward an efficient buy for your client is to provide underwriters with accurate and complete information. "While large premiums no longer attract underwriters, well-packaged submissions do."

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O'Brien, it is extremely important that your submission contain complete loss information and identify and outline exposures such as joint ventures; overseas activities; owned watercraft; liquor law liability; contractual; care, custody and control; personal injury; advertising liability; and if the underlying cover is occurrence or claims-made.

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Insurers' capacity inadequate, consultant says

By KATHRYN J. MCINTYRE

HAMILTON, Bermuda—The risk-taking capacity of insurers is inadequate to meet the needs of giant corporate concerns, a consultant says.

As a result, commercial insurers in the future may serve only as facilitators, not risk-takers, to giant corporations, predicts James C. H. Anderson, managing principal with Tillinghast, Nelson & Warren Inc. in Atlanta.

The earnings of the largest U.S. corporations in one year are more than the capital and surplus of most U.S. insurers, Mr. Anderson pointed out in his remarks to The 10th International Captive Insurance and Reinsurance Forum.

And, mega-mergers of giant U.S. corporations continue, increasing the number of companies whose annual earnings will be larger than the capital and surplus of insurance companies.

"This creates problems for the insurance industry," Mr. Anderson said. "The relative sizes are disproportionate."

portionate."

Insurance industry consolidation is inevitable if insurers are to meet the risk-transfer needs of large companies, Mr. Anderson said. "Consolidation with banks is clearly part of the future. Consolidation with industrial organizations also is part of the future," he predicted.



Mr. Anderson

And, reinsurers will have to mobilize capacity to meet demand, he said. Nonetheless, it may develop that the giant U.S. corporations shift risk only to each other, with "insurers standing between, acting as facilitators," Mr. Anderson said.

The seeds of this change are being planted in the difficult insurance market, marked by "dramatic price increases and extensive non-availability," he said.

To illustrate the magnitude of

THE TENTH INTERNATIONAL CAPTIVE INSURANCE AND REINSURANCE FORUM

price increases, Mr. Anderson cited a specific errors and omissions policy that he had analyzed. The 1955 coverage had an expected claim value of about six times the premium. The renewal quotation for 1986, however, had an expected claim value of 10% of the premium.

While stressing the example is not representative across all lines, he added, "stories of premiums doubling or tripling are dramatically under the facts in many cases."

However, the enormous price increases are "an overdue response to an unrecognized problem," Mr. Anderson said. Low prices and declining interest rates have played a role, he said, but loss reserves also are probably still understated.

"Looking backward on work we have done, the estimates of reserves we have made—and we've been highest estimator—have proved to be inadequate," Mr. An-

erson said. "So there still may be some bad news to come."

Still, "current price action is probably an overreaction," he said. Mr. Anderson expects insurers to show "fair to good results in 1986, and better results in 1987 when full effects of price changes are felt."

"Price cutting may resume in 1987," he said.

But in the meantime, unable to find commercial insurance, insurance buyers may learn to go bare and learn to like it, he said.

"We going to see some creative accounting that is aimed at loss stabilization," Mr. Anderson predicted. "It will provide much of the answers to insurance needs."

"We'll see some uninsured risk-sharing agreements of one type or another," Mr. Anderson predicted.

If insurers can "get in the middle of this, the insurers will act as the facilitators," Mr. Anderson commented. "Otherwise, companies will make their own deals."

Mr. Anderson also predicted that "captives will play an increasing role" in risk financing. "The mar-

ket share of captives will increase."

In addition to risk sharing of one type or another and captives, corporations also will learn to use post-loss insurance—buying insurance after a loss—for accounting and tax reasons, he also predicted.

Demand for post-loss insurance could create a new product for insurers, which otherwise are going to suffer some permanent loss of market share to expanded self-insurance.

At the same time, "risk control and loss prevention programs are going to play an increasing role in the future," Mr. Anderson added.

As a result of these changes, corporations will need "qualified and objective advice as to how best to budget their cost of risk," Mr. Anderson said.

In that vein, "insurance intermediaries of all types will become part of the knowledge business as contrasted to the marketing business," Mr. Anderson said. And, they will move to a fee-based from a commission-based compensation system, he added.



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Equitable regulation of self-insurers urged

By KATHRYN J. MCINTYRE

HAMILTON, Bermuda—Insurance regulators should fairly treat corporations that self-insure, a risk manager advocates.

Self-insurance, captive insurance companies and pools accounted for just 12% of the commercial property/casualty business in 1975, but by 1985 the figure had grown to 25%, points out Ronald W. Stasch, corporate risk manager for Federal-Mogul Corp. in Detroit.

"Considering the options available in the conventional markets, this figure can do nothing but grow in the future," Mr. Stasch told attendees of The 10th International Captive Insurance and Reinsurance Forum held in Bermuda last month.

"As this balance between traditional and non-traditional funding shifts, the regulatory mechanism will have to accept the reality of change and hopefully provide for it on a fair, equitable and non-discriminatory basis," Mr. Stasch advised.

Currently, he observed, signals from state regulators regarding self-insurance "are somewhat mixed, depending on whether the individual regulators perceive the major challenge in their respective states to be making more capacity available for insurance buyers or making certain that conventional insurance plays the primary part in guaranteeing loss payments to claimants."

This creates apparently inconsistent regulations.

For example, if a business elects to go bare, doing nothing to finance or handle any losses, it is outside the regulator's authority, Mr. Stasch pointed out. If, however, the business formalizes a self-insurance program, "the insurance department may have authority under the guise of making certain that losses claimed by third-parties will be properly funded."

And, if the business buys conventional insurance and the insurer goes bankrupt, the business could find itself partially or totally excluded from any direct protection or benefit from guaranty funds, Mr. Stasch said.

He was referring to the amendments to the National Assn. of Insurance Commissioners' model law governing guaranty funds adopted last December (BI, Dec. 16). One of the amendments to the model law provides for guaranty funds to subrogate against policyholders whose net worth exceeds \$50 million for claims paid to third parties by the fund on the policyholders' behalf.

Mr. Stasch summed up the situation facing business as: "If he goes bare, there are no restrictions. If he self-insures, he is suspect and needs to be more closely watched. And if he buys conventional insurance, regardless of its quality, he is smart enough to be responsible for his own losses."

Looking at the entire regulatory system for insurance companies, Mr. Stasch asked: "Will it be able to adapt, or will the system have to be overhauled, or has the problem gotten so far out of hand the present system of regulation will have to be totally scrapped?"

"There will be change," Mr. Stasch predicted. "But whether this change will include a shift in regulatory oversight from the state level to the federal level remains to be seen."

While expecting insurers will continue to be primarily regulated by the states, Mr. Stasch also predicted some modifications to state regulation, such as those created by the federal Risk Retention Act.

That act permits manufacturers, wholesalers and distributors to form groups to buy or self-fund their product liability risks free from much of the state regulation that would otherwise apply. And, pending amendments to the act would permit all businesses and governmental entities to form such groups to fund all liability risks except workers compensation.

Mr. Stasch also predicted that "as a result of the bad press and publicity that the industry has been able to generate for itself, the federal government will maintain a keener interest and will more closely monitor the industry in the future."

"At the same time, states will place greater emphasis on their regulatory roles as well," he said. "There will probably be additional efforts directed toward increasing both the quality and quantity of the regulatory oversight exercised by the states."



Mr. Stasch

Cayman captive growth picks up steam

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—Although visitors to the Cayman Islands are greeted by the image of a friendly turtle printed on everything from drinking cups to boxer shorts, there's nothing slow about the Cayman captive community.

Cayman began picking up steam as a captive domicile in 1985 after a slow 1984, and the trend is continuing this year.

The tightening commercial insurance market has sparked a new wave of interest in Cayman, where the number of captives grew to 304 in mid-March from 277 as of Jan. 31, 1985. Eight of the 27 new captives were incorporated this year, and managers and regulators say new applications are arriving at a healthy pace.

This spurt of growth compares with a virtual standstill in 1984: The number of captives in Cayman grew by just one between January 1984 and January 1985. In 1983, the number of captives increased by 19.

While the number of new captives added last year is significantly higher than the previous year, it doesn't compare with 1982, when 60 new captives were licensed in the domicile.

The 304 offshore insurers now domiciled in Grand Cayman account for about \$1.25 billion in annual premiums.

Most captive managers, regulators and legal experts say the captive market in Cayman is "booming."

"It appears the insurance reasons for forming a captive are overriding any tax considerations," said Timothy Ridley, an attorney with the Cayman law firm of Maples & Calder. The firm does legal work for captive clients on the island.

"There is pressure to get coverage, even if the tax benefits are no longer there," he added, noting that Maples & Calder was working on the licensing of 15 captives early last month.

"That is a lot more than a year ago," he said. "The telephone is ringing a lot more."

Ian Kilpatrick, managing director of Johnson & Higgins (Cayman) Ltd., agreed that "the days of people worrying about the tax aspects of forming a captive are long gone. They are more concerned with getting adequate insurance coverage."

"I don't even think tax is considered to be an important factor any more," he said.

"The important factor is that they need coverage they can't get elsewhere."

Cayman Insurance Superintendent Peter Bates remarked that the conventional insurance market

"hasn't done itself any favors by the way it's been turning business our way" by raising rates to the point at which buyers refuse to pay them.

Mr. Bates said he expects the captives that are formed during the current tight market will remain in place, even if competition again heats up among commercial insurers.

"It's become a long-term alternative," said Mr. Bates. "People are putting more money in the captives and we don't have to fight with them about putting the money in."

"Captives are here to stay," he added. "I've heard a number of people say they are completely fed up with being dictated to by the open market. That's why it's easier to get them to put sufficient capital

into the captives. They're looking long-term."

All Cayman captive managers are reporting that more captives are capitalizing at higher than the minimum amount required by the Cayman Department of Insurance.

While the regulations require holders of an unrestricted Class B license—the type of license obtained by most captives—to have at least \$240,000 in capital, managers say captives are now forming in the Caymans with anywhere from \$5 million

cayman

to \$100 million in initial capital.

The managers agree with Mr. Bates that new captives are now better capitalized because they want to do more than weather the storm of high rates brought by the hard market. But managers also point out that the captives today require more capital because they are retaining more risk.

Reinsurance has become costly and hard to find for offshore insurers, managers agree.

The evidence that tax considerations are now less important to captive parents can be found in the shift of emphasis from the formation of multiple-owner captives in Cayman to a renewed interest in single-parent captives. The Internal Revenue Service is less likely to challenge the deductibility of premiums paid to group captives than to single-parent captives.

"At the beginning of last year, when the market started to harden, we started seeing a lot more interest in single-parent captives," said Mr. Bates. "I think that's going to be true for the remainder of this year, too."

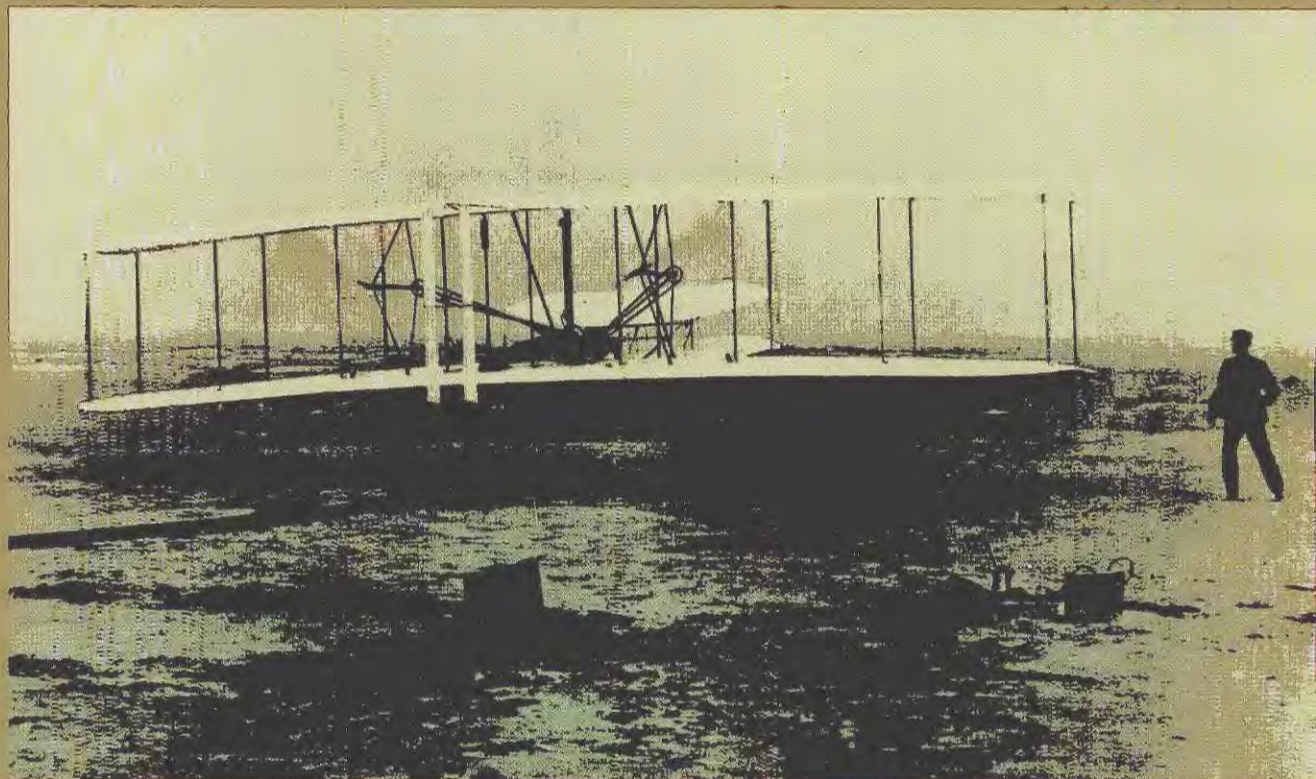
Most of the 20 new captives managed by Johnson & Higgins are owned by single parents, according to Mr. Kilpatrick.

Timothy Marsh, vp of Marsh & McLennan (Cayman Islands) Ltd.

Continued on next page

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Cayman officials promise quick action

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—The opportunity to form a captive insurance company quickly is luring new captives to the Cayman Islands.

"People have formed captives in extremely short periods of time here," says Timothy Ridley, an attorney with the Cayman law firm of Maples & Calder. "If a company's board of directors makes a decision to form a captive in two weeks, they could do it. It would take some scurrying around, but it could be done."

Once regulators are convinced that a sound business plan has been devised by the applicant, fees have been paid, capitalization is in place and other regulations have been met, licensing can be accomplished swiftly.

In the case of BankAmerica Corp.'s formation of B.A. Insurance (Cayman) Ltd. to provide directors and officers liability coverage for its Bank of America subsidiary, the license was approved in a day, Cayman officials say (*BI*, April 29, 1985).

Anthony Stelling, director of captive manager Samuel Montague & Co. (Cayman) Ltd., pointed out that single-parent captives are especially interested in locating in Cayman as opposed to other domiciles because "in other areas licensing tends to take more time."

Corporations battling deadlines, like those whose D&O coverage is about to expire, are apt to choose Cayman for a captive domicile, Mr. Bates pointed out. "The government here is very willing to assist in reviewing license applications in a short time frame."

"They are very good about dealing with urgent cases and issuing a license as quickly as possible," Mr. Stelling adds.

The Cayman government's executive council, which grants final approval of captive licenses, meets fortnightly on Tuesdays. But, if a license is needed urgently, Insurance Superintendent Peter Bates said he can have it "walked around" to the executives that must approve it before the council's regularly scheduled meeting.

And, Mr. Bates said it isn't difficult to review an application and have a license approved quickly if there is a need.

"The application form isn't exactly difficult," he said. "The thing that is crucial is the business plan. Chances are that we've talked to whomever wants to set up the captive. We know who the principals are, what their ideas are. Once we get to the application, there's not a lot involved."

"It doesn't take a week to decide if a business plan is good," says Mr. Bates. "It can be done in a few hours."

But, he points out, a license won't be rushed through to approval unless there is a good reason. "We're reacting to market conditions. People have been desperate for coverage."

And, Mr. Bates cautioned that Cayman will not be looked upon as an 11th-hour dumping ground for slipshod companies looking for last-ditch coverage.

"We certainly do try and be as accommodating as possible. We realize the situation, but we don't lower our standards in any way," he says.

Mr. Ridley said, "You can't draw the inference that there is any lack of regulation. Applicants have to have their ducks in order."

"The superintendent is very, very responsive. They realize that it is a very competitive world with Bermuda, and Barbados is coming along. If you can't perform, you lose good business," Mr. Ridley explained.

Cayman Islands

Continued from previous page
 said that although he still receives a lot of inquiries concerning the formation of association captives, most of the 13 new captives under his company's management are single-parent captives.

The increased number of single-parent captives turning to Cayman can be traced partly to businesses searching for directors and officers liability coverage, according to experts on the island.

The most publicized example of a corporation establishing a Cayman captive to write D&O liability risks involved BankAmerica Corp. The San Francisco-based company formed B.A. Insurance (Cayman) Ltd. last year to provide D&O coverage for its Bank of America subsidiary (*BI*, April 29, 1985).

Bank of America's \$80 million in primary D&O coverage with Employers Insurance of Wausau and a \$20 million excess layer with First State Insurance Co. were canceled last year after the bank sued against the insurers seeking to recover a \$95 million loss from allegedly fraudulent mortgage-backed securities (*BI*, March 11, 1985).

"That seems to be pretty much the scramble," Mr. Marsh said of the increasing interest in forming a captive to insure D&O exposures. He added that most of the new captives that M&M helped form in the past year are writing D&O coverage.

So far, Mr. Bates says, his department can handle the increased interest in Cayman without too much staff expansion or changes in operations.

"We would like it to be a steady growth instead of sudden. We like it like it is now, with 50 to 60 applications a year. Personally, I think that's the way it will go," he said.

The department has hired a senior assistant secretary since the number of applications for captive licenses began increasing last year. Gilbert Connolly, the new staffer, will get "very involved" in the administration process, says Mr. Bates.

The department also added a new clerical staffer.

In other expansion, a new Digital Equipment Corp. computer system installed for Cayman government agencies at a cost of \$900,000 will give the Insurance Department extra capability in monitoring the increased business.

Sometime this year, the department will have two new computer terminals added to one already in place. When fully installed, the system will allow department personnel to track insurance company data more quickly.

"It will give us information on things like how much new capital is put into a company and how much goes out," Mr. Bates said. "We can do all those things now, but it is a lengthy exercise," he noted, adding that the system also will ease clerical functions.

Despite the recent growth in Cayman, Mr. Bates said the domicile's captive community still has not attracted a broad enough group of international risks. But, he believes businesses in other countries are experiencing the same insur-

ance problems as those in the United States and eventually they also will turn to captives as a risk financing alternative.

"Last year, we had applications from 11 countries other than the United States," including nations in Africa, South America and Scandinavia, said Mr. Bates. "They're having the same problems."

Part of the problem in attracting more international risks is that "it's not easy to publicize yourself worldwide," Mr. Bates remarked.

In an effort to get the word out about Cayman, Mr. Bates said two department representatives attended the 10th International Captive Insurance and Reinsurance Forum in Bermuda last month, and the department may be represented at this week's Risk & Insurance Management Society conference.

Mr. Bates said last year that he hoped to "tidy up" the Cayman Insurance Law of 1979, the legislation regulating Cayman captives. He was concerned that the department does not have sufficient power to take control of insurers with financial problems.

While those hoped-for changes have not yet been made, Mr. Bates vows, "There will be some changes to give us a little more power when things go wrong. Now, we have very little power to step in."

While there have been no changes in the regulatory requirements for establishing a captive on Cayman, licensing fees increased.

Captives, which are established as Class B insurers, now have to pay \$4,500 for a license instead of \$3,000.

Insurance brokers, which were paying \$750 for a license, now pay \$1,250. And, it now costs \$7,500 to secure a license as an underwriting manager, up from \$5,000.

If there is a down side to an increase in interest in Cayman, it is that the lure of quick profits could tempt the less-scrupulous to take advantage of desperate insurance buyers by setting up shop on Cayman. But Cayman would be a bad choice for anyone with such plans, captive managers say.

Mr. Bates and Deputy Insurance Superintendent Steven Butterworth have established a reputation among managers on the island as thorough investigators of both the background and business objectives of any applicant.

Mr. Bates stresses the importance of a prospective captive's business plan, which is regarded as the one of the keys that determine whether a license is granted.

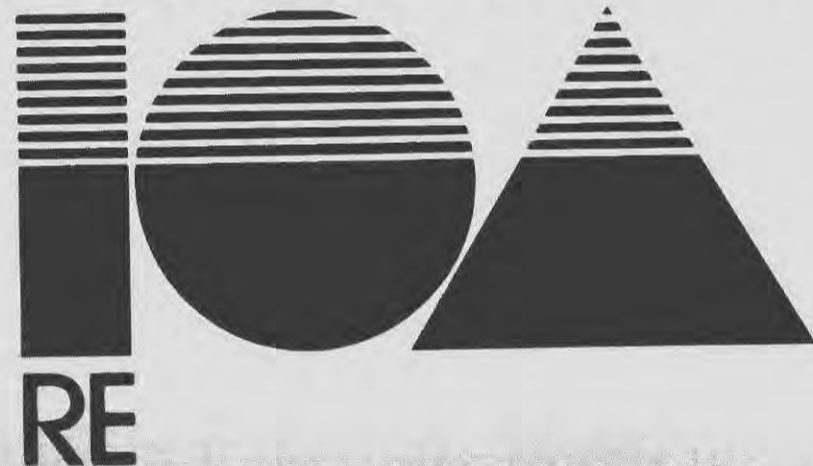
And if an applicant is on the department's "black list," a license will not be granted.

Mr. Butterworth noted the department maintains a close relationship with the National Assn. of Insurance Commissioners, which provides reliable information on the background of applicants.

"We haven't had any problems. We've turned down a couple of licenses and basically the reason was the business plan," Mr. Bates said.

He added that whenever the department has contact with anyone whose business motives are suspect, a telephone call is made to regulators in other domiciles to let them know that the applicant may be headed their way.

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Survivors of Cayman manager shuffle cash in

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—The shakeout among Cayman captive managers appears to be over, and some of the survivors are cashing in on the increased business that is fleeing the commercial insurance market and heading to Cayman.

While 1984 was marked by a reshuffling of Cayman captive managers and a minuscule increase in the number of offshore insurers, last year saw significant growth among the island's largest management companies as interest in the domicile surged.

The premium volume under management by the four largest Cayman captive managers increased by about \$375 million last year (see chart, page 82). Those four managers added a total of 54 new captives between Jan. 31 of 1985 and March of this year.

The four top managers—Transnational Ltd., Johnson & Higgins (Cayman) Ltd., Samuel Montagu (Cayman) Ltd. and Marsh & McLennan (Cayman Islands) Ltd.—manage 55% of the captives in the domicile. Those captives write gross premiums of approximately \$805 million.

Total premium volume generated by the island's 304 captives is currently about \$1.25 billion, up from around \$1 billion in premiums written by 277 captives as of Jan. 31 of last year.

The realignment of managers in Cayman began during 1984, when the second-largest captive manager on the island, Scotia Insurance Services, pulled out of the marketplace.

Also in 1984, the island's largest independent manager, Insurance Management Consultants (Cayman) Ltd., was acquired by Johnson & Higgins, and Samuel Montagu & Co. formed and established itself as one of the market's top managers.

The shuffling continued into 1985, as the proposed acquisition of Corroon & Black (Cayman) Ltd. by Homeland Insurance Management (Cayman) Ltd. fell apart because of differences over how much should be paid for the C&B Cayman captive management unit (BI, April 15, 1985).

C&B eventually withdrew from the Cayman marketplace, leaving nine captives that generated around \$10 million in premiums to be picked up by other captive managers.

Rollins Burdick Hunter (Cayman) Ltd., which had managed one captive, also has left the market.

However, two new captive management companies currently are establishing themselves in Cayman as business continues to grow.

Stone & Webster, which is already licensed as a manager in Bermuda, and Delta Management Co. are planning to manage captives in Cayman, according to Cayman regulators.

The most significant growth among all Cayman managers belongs to Johnson & Higgins, which added 20 captives since January of last year. Premium volume under management has likewise soared to \$300 million from \$50 million.

J&H now manages 60 captives, more than any other manager on the island, and is the second-largest in terms of premium volume under management after Transnational Ltd.

Ian Kilpatrick, managing director of J&H's Cayman office, said he expects to have at least six more captives operational within the next six months and conservatively predicts the office will be managing 75 offshore insurers by the end of 1986.

"Our staff has doubled and we

expect to increase it further," says Mr. Kilpatrick.

The tremendous increase in J&H's managed premium volume can be attributed largely to one captive that writes around \$200 million in annual premiums alone, Mr. Kilpatrick says. That captive, he says, is the subsidiary of a large domestic insurer that provides

surplus relief programs for other insurers. It was initially capitalized at \$100 million.

Mr. Kilpatrick explained that because of their increasing premium



Mr. Kilpatrick

cayman

volume, some U.S. insurers are having difficulties meeting state-imposed net premium-to-surplus ratios that govern how much business an insurer can write.

The J&H-managed captive offers reinsurance to insurers "whose premiums have grown too much for the amount of capital they have," said Mr. Kilpatrick. "They have to stop writing or buy reinsurance."

Eventually, the captive will cede the business back to the U.S. insurer when the insurer's surplus reaches a point where it legally can accept the business.

Mr. Kilpatrick said J&H lost four captives under its management in

the past year, and six of its current 60 are in runoff positions.

"A couple had finished their business and two others were broker-controlled that we had acquired from IMC," Mr. Kilpatrick explained, referring to the four captives that left the J&H fold.

The two captives that were controlled by brokers, "obviously didn't want (broker-owned) J&H to manage them," Mr. Kilpatrick said. Insurance Management Consultants was an independent manager that was owned by Mr. Kilpatrick before it was acquired by J&H.

The 20 new captives managed by J&H are mostly single-parent captives, he said. All write U.S. risks, primarily directors and officers liability and medical malpractice.

Of the captives that were already

established under J&H's management, medical malpractice and workers compensation are the most common risks written, Mr. Kilpatrick remarked.

"We're also seeing an increase in credit life and extended warranties for car dealers" as risks written by captives, he added.

An increase in automobile sales in the United States has resulted in a significant increase in premiums among the captives that write extended warranty coverage, he explained.

J&H, like other managers, is having a hard time finding reinsurance for its managed captives, Mr. Kilpatrick notes.

"It's still possible to find it," says Mr. Kilpatrick, but he emphasized

Continued on next page

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Cayman managers

Continued from previous page
 that captives with minimum capitalization will have an especially tough time finding any reinsurance. "Reinsurers are looking for a substantial capital base."

Fronting insurers that cede risk to Cayman captives are also in short supply, he notes. "There are companies out there, but they, too, are demanding a substantial capital base" before accepting a risk on behalf of a captive.

"In many instances, they're requiring a real nice cushion in the way of a letter of credit," Mr. Kilpatrick noted.

Comparies are careful of fronting, he explained, because of instances in which captives have been unable to pay claims. Many fronting companies "never thought they would have to pay out; they thought they were just providing a fronting service," said Mr. Kilpatrick.

J&H has spent \$100,000 to improve automation in its Cayman office, says Mr. Kilpatrick. Office personnel are currently entering the records of the captive clients onto the new Wang system, and Mr. Kilpatrick expects all 60 companies to be "on-line" within six months.

The new system can break down each client's business according to

annual activity by specific line of business and according to different division of the parent company insured by the captive, said Mr. Kilpatrick.

"It can break down underwriting results by lines for each year in each factory," Mr. Kilpatrick explained.

Transnational Ltd., a Reiss Organization affiliate, holds its place as the largest captive manager on Cayman, with 38 captives—12 more than at the end of 1984—and \$365 million in premium volume under management.

Donald J. Westmoreland, managing director of Transnational, said new and existing captives contributed an increase of around \$17 million to \$20 million in premiums managed, while the premium generated by shareholder-owned United Insurance Co. rose to \$260 million from \$207 million in 1984.

The premium increase attributed to United, which is owned by more than 30 shareholders including Transnational, is due mainly to premium increases on treaty risks written by subsidiary Universal Insurance Co. of Ireland Ltd. in Shannon, Ireland.

Business written by Universal is retroceded to United members. "Premiums came through much more strongly than we anticipated," said Mr. Westmoreland.

Apart from United, Transna-

Manager Parent	Premium volume		Captives		Staff	
	1985	1984	1985	1984	1985	1984
Transnational Ltd. The Reiss Organization	\$365 million	\$300 million	38	26	30	30
Johnson & Higgins (Cayman) Ltd. Johnson & Higgins	\$300 million	\$50 million	60	44	17	12
Samuel Montagu & Co. (Cayman) Ltd. Samuel Montagu & Co. Holdings Ltd.	\$110 million ¹	\$80 million	45	32	15	12
Marsh & McLennan (Cayman Islands) Ltd. Marsh & McLennan Inc.	\$30 million ¹	\$15 million ¹	24	11	5	3
CSI International Underwriting (Cayman) Ltd. HL Capital Insurance Group of Calif.	\$24 million	\$25 million	18	26	4	4
Homeland Insurance Management (Cayman) Ltd. Homeland Insurance Cos. Group	\$20 million	\$14 million ¹	18	19	4	3
British-American Management (Cayman) Ltd. British-American Insurance Co. Ltd	\$16 million	\$13 million	1	1	2	3
Insurance Management Services Ltd.	\$13 million	\$35 million	12	10	5	5
Asbit Insurance Management Ltd.	\$8 million ¹	\$8 million ¹	7	7	4	4
BPC Underwriting Managers Ltd. Nationwide Insurance Co.	\$5.1 million	\$1.7 million	10	3	6	5

¹ BI estimate

Chart: Holly Seguire, Amy Palmer

tional manages 37 other captives through subsidiary Transnational Risk Management Ltd., and there is "a long prospect list," says Mr. Westmoreland.

He said Transnational is talking with 30 to 40 prospective clients that the manager feels may be qualified to set up a captive, he said.

"This time around, there will be

no going back," Mr. Westmoreland says of the captives that are forming in Cayman. "I think there is a determination that people are not seeking captives just until the commercial market gets back on track.

"We're seeing better quality staff, better capitalization and a more realistic structuring," he says.

The new captives under Transnational's management mostly write primary casualty coverage, says Mr. Westmoreland. "There is a good spread, with an emphasis on professional liability and D&O."

He said one captive recently capitalized at \$2 million to initially write D&O exposures will eventually expand to other casualty lines.

Transnational is also managing Tortuga Casualty Co., a facility developed to provide excess liability limits of \$25 million in excess of \$50 million for its investors (see story, page 85).

Since Tortuga's formation, officials also have discussed creating additional excess casualty pools that would provide excess limits of \$25 million above \$25 million and D&O limits of \$25 million excess of \$10 million (BI, March 17).

Tortuga currently has 25 shareholders that each have contributed \$150,000 in capital. More shareholders may be added later, according to Roger Phelps, an underwriter at Transnational connected with Tortuga's operations.

Mr. Phelps said Tortuga's board of directors would decide whether to allow new shareholders to participate in Tortuga. "If good players come in, I don't suppose they would stop them," he noted.

Samuel Montagu & Co., which established itself in Cayman in 1984, has grown steadily since, adding 13 captives since January 1984 and increasing its annual premium volume under management to an estimated \$110 million from \$80 million. It is now the third-largest manager on the island.

Montagu is headed by directors Anthony B. Stelling and David Whitefield, former officers at Scotia before that management company left the marketplace in 1984. Montagu is a subsidiary of Samuel Montagu & Co., a major merchant bank owned by Midland Bank of London.

Of the 13 new captives now managed by Montagu, seven were formed since the first of this year, says Mr. Stelling. Mr. Stelling said the company expects to have 50 captives under management by the end of June.

The parents of Montagu's new clients are based in the United States and write coverage in "the traditional liability fields: medical, accountants, engineers and consultants," said Mr. Stelling. "And of course, the D&O coverages.

"We're perhaps seeing more single-parent companies than before, but there is still an interest to form

group captives," he added.

More single-parent captives are forming in Cayman so that companies can insure their D&O risks and retain their directors, he explained, noting that many companies cannot find or afford D&O coverage from commercial insurers.

These companies prefer to form a captive rather than self-insure because "they need to separate funds outside the corporate balance sheet," said Mr. Stelling. If there are no claims and reserves pile up in a company account, he explained, it might be tempting for the company to use the funds for some other purpose.

"And a new piece of machinery won't pay claims," said Mr. Stelling.

All of Montagu's 45 managed captives are active, he said. One former Montagu-managed captive was liquidated last year after running off its business, he said.

Montagu-managed captives also write credit life, credit accident and health and professional liability coverages, said Mr. Stelling.

Inquiries about new captive formation continue to be received steadily, according to Mr. Stelling. "There is a substantial number which we will be pursuing and finding out if they are viable proposals or not."

The percentage of inquiries that eventually result in captive formation is substantially higher than in previous years, he noted. "We were fortunate if 10% of the inquiries two years ago came to fruition. Now, it may be as high as 40%."

Last May, Montagu went "completely automated," Mr. Stelling said. Its AT&T computer system features enough capacity to accommodate 46 terminals and will maintain all banking records; handle word processing and spreadsheet functions; and produce trial balances and other data.

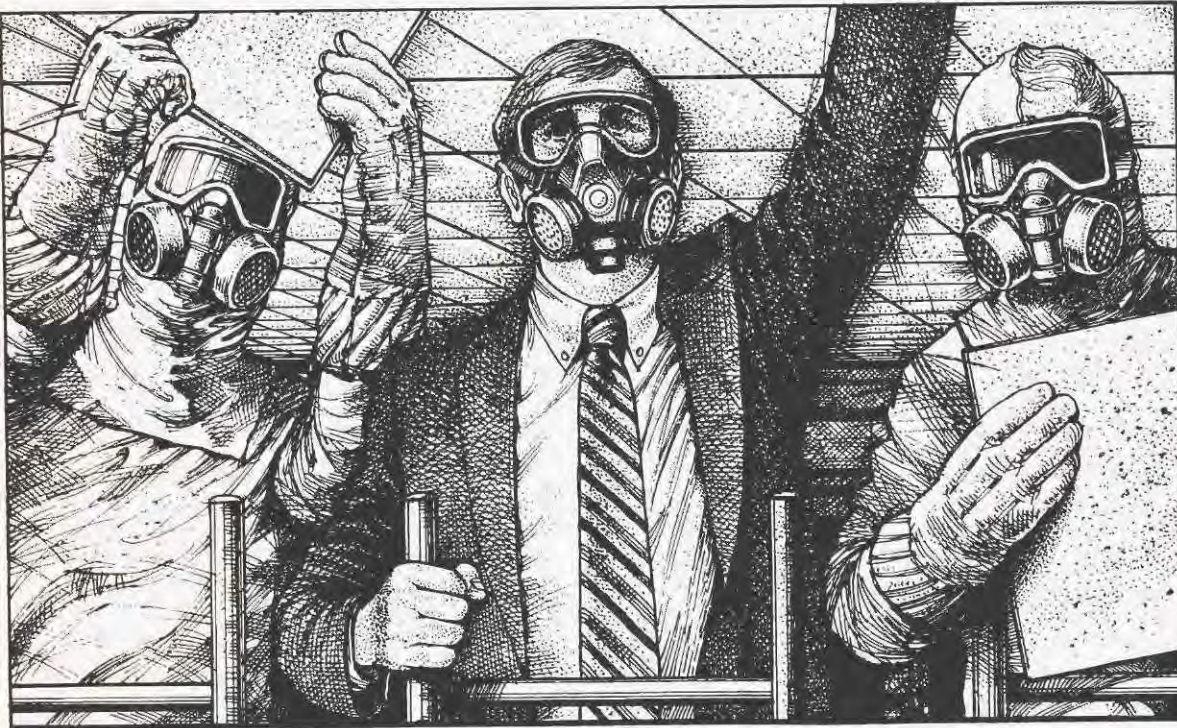
The 24 captives now under management by Marsh & McLennan (Cayman) Ltd. are more than twice the number of insurers it supervised a year ago. Premium volume under management has grown from to an estimated \$30 million per year from \$15 million.

Timothy Marsh, vp of the New York-based brokerage's Cayman subsidiary, said, "We have enough inquiries that appear to be of so much better quality than before that we could put on 20 by the end of the year if things stay the way they are. That would be great."

Captive proposals from the United States are of a much higher quality than those of previous years, Mr. Marsh noted. "Some of the inquiries are still pretty desperate, but by and large, the approach by the people from the States is much better."

Applicants interested in forming captives now have clearer ideas of
Continued on next page

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"what they want and what they are getting into. And they seem to have the funds available to capitalize adequately," he said.

Sometimes, he noted, it is still somewhat of a surprise to hear someone say, "no sweat" when told they should capitalize their company at double the required minimum \$240,000.

While Mr. Marsh says M&M's 24 captive clients are evenly split between single-parent and association captives, its new clients are mostly single-parent captives that write D&O exposures.

In addition to the 24 captives under its management, M&M also "looks out for the Cayman end of A.C.E.,"

said Mr. Marsh, referring to A.C.E. Insurance Co. Ltd., which was formed late last year. A.C.E. offers policyholders \$100 million of general liability coverage excess of \$100 million.

A.C.E.—incorporated in the Caymans but operating out of Bermuda—was organized by Marsh & McLennan Cos. Inc. and the New York investment banking firm of Morgan Guaranty Co. Corporate sponsors have invested up to \$10 million each in the company, while non-sponsor policyholders are required to purchase common stock in A.C.E. in amounts based on their first-year premiums.

"We're here to make sure A.C.E. is in compliance with Cayman law," Mr. Marsh noted, adding that "the amount of work would not warrant A.C.E. having its own, separate presence here. Ours is more of a liaison role."

During a year that has seen a renewed interest in single-parent captives on Cayman, the island's largest manager of multiple-owner captives has streamlined its operations and changed its focus.

While CSI International Underwriting (Cayman) Ltd. had hoped to manage 38 captives this year, it instead has lost eight of the 26 captives it had under management last year because "they never got off the ground," explained Paul Goldsworthy, CSI's managing director.

CSI is owned by HL Capital Insurance Group of California, of which 15% is owned by BankAmerica Corp. and 37.8% by Fremont General Corp.

Of CSI's 18 clients, the 16 captives that are currently writing business generate a total of about \$24 million in annual premium, about the same amount as in 1984. They all are multiple-owner captives that write workers compensation coverage for California employers.

Workers compensation policies are reinsured by CSI captives after coverage is written by Pacific Compensation Insurance Co. in Woodland Hills, Calif.

Pacific Compensation retains 10% of the risk and cedes 90% to CSI, making it a "reinsurance transaction," rather than a fronting arrangement, says Mr. Goldsworthy, noting that pure fronting arrangements are illegal in California.

While CSI has specialized in the past in forming captives for California insurance agents or for groups of homogeneous employers, CSI has decided to pursue forming captives that are "CSI-promoted," says Mr. Goldsworthy.

Although CSI will still form multiple-owner captives if it gets a request from a qualified group, it is

concentrating more on structuring companies like two captives—Centennial Reinsurance Co. (Cayman) Ltd. and Millennium Reinsurance Co. (Cayman) Ltd.—it is currently putting together. Both should begin writing business sometime this year, says Mr. Goldsworthy.

The captives will cover the workers compensation exposures of heterogeneous groups of employers assembled by CSI. Centennial should generate around \$2.25 million this year, while annual premiums for Millennium should be about \$5.5 million.

Mr. Goldsworthy pointed out that prospective clients for the two captives are culled partly from files

'When we are putting the packages together, we initially get 40 or 50 prospective clients,' says Mr. Goldsworthy. 'We always look for people with the same level of estimated premium, that makes it a lot easier to deal with.'

built up over the years.

"We have accumulated a file of prospective persons who may be interested," Mr. Goldsworthy said, adding that recommendations of qualified clients also come from California brokers.

"When we are putting the pack-

ages together, we initially get 40 or 50 prospective clients," said Mr. Goldsworthy. "We always look for people with the same level of estimated premium, that makes it a lot easier to deal with."

The two CSI-promoted captives are still deciding which individual

parent companies will participate in each of the captives, he said. He expects Centennial clients each to generate premiums of from \$50,000 to \$200,000, while those in Millennium will be companies that pay \$200,000 to \$500,000 annually.

Although interest in forming single-owner captives has increased in the domicile, Mr. Goldsworthy notes that there is still a lot of interest in California in multiple-owner captives. However, that interest may not translate into a big jump in the number of captives managed by CSI because many of the clients it accepts will join existing captives, he said.

Homeland Insurance Manage-

Continued on page



Mr. Marsh

said Mr. Marsh, referring to A.C.E. Insurance Co. Ltd., which was formed late last year. A.C.E. offers policyholders \$100 million of general liability coverage excess of \$100 million.

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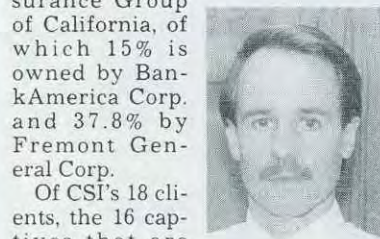
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Mr. Goldsworthy

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Barbados

Continued from previous page
test. Further, he says, the act allows for corporate mobility. "A company can move in and out of Barbados with reasonable ease, subject to it looking after its liabilities," he says. The act also allows for telephone board meetings.

Incorporation requirements for companies under the Exempt Insurance Act, as amended by the 1982 Companies Act, include:

- One director who must file with the island's registrar of companies a written consent to act on behalf of the captive.
- An annual government fee of \$2,500 U.S.
- A \$375 U.S. captive application fee.
- Minimal capital requirements of \$125,000 U.S. A 5-to-1 premium-to-capital ratio must be maintained for an annual premium volume of \$5 million U.S., while a 10-to-1 premium-to-capital ratio for premium volume over \$5 million is required.
- Annual audited financial statements closed to the public.
- A register of policies, claims books and financial records to be maintained in Barbados.

Captive managers and consultants say Barbados' limited captive infrastructure will be the major inhibitor of its growth as a captive domicile.

David Brown, president of Insurance Managers Ltd., which has offices in Cayman, Guernsey and Barbados and is owned by Alexander & Alexander Services Inc., says he expects growth to be slow.

"The basic problem is the infrastructure for handling international exempt insurance companies. It has to improve in Barbados," he says.

Mr. Brown points out that it took 15 to 20 years to develop the Bermuda infrastructure. "I'm not saying it will take as long in Barbados, because new technology moves things along an awful lot quicker these days. But it will take time."

Other captive managers say that services such as banking, accounting and legal services are available, but that a significant growth in captive management firms is needed.

IPC's Mr. Kessock says he was surprised at the level of services available. "I don't think the infrastructure is as strong as Bermuda," he says. "But I was quite surprised with the services that were available there with regard to accounting, telex and phone service."

Mr. Kessock notes that several major U.S. accounting firms were represented on the island and says that legal and international banking services were readily available.

IPC is setting up a large association captive in Barbados that Mr. Kessock expects will handle about \$25 million in premium this year.

Mr. King acknowledges that Barbados does not have as much experience with captive insurance companies as other offshore island domiciles, but he says the island has extensive experience with international finance.

"Insurance is only one plank in our offshore package," Mr. King says. "One of the features of Barbados is that we offer a kind of one-stop shop to the international investor" with offshore banking, international trading companies, holding companies, exempt insurance companies and foreign sales corporations.

Mr. King also says that as more captive business locates in Barbados, the infrastructure will develop to service that business. Further, he says, Barbados has one of the most sophisticated communications systems in the Caribbean.

Although Barbados is further from the United States than Bermuda or Cayman, Mr. King says airline service to the island from major U.S. cities is excellent.

Turks managers optimistic despite setback

By ROBERT A. FINLAYSON

turks & caicos

TURKS & CAICOS, B.W.I.—Although the government has yet to take up legislation supported by captive managers that would place tighter controls on captives, managers in Turks & Caicos say they're optimistic about the future.

That's because the British government has agreed to make funds available to this British territory to hire a commissioner of insurance.

Last year's arrest of Chief Minister Norman Saunders in Miami on drug trafficking charges was a major setback for captive managers here, who are trying to gain government approval of a captive insurance company ordinance.

The previous ordinance governing incorporation of offshore companies, which expired in 1984, treated captives as standard tax-exempt companies and imposed few restrictions.

Captive managers on the islands contend

that some regulation is needed to give the domicile legitimacy and allow it to compete.

Christopher Coriat, director of Sabre Management Ltd., which manages about 28 captive insurers here, says there is a consensus among captive managers on the type of ordinance they want, "but at this stage the ball is back in the government's court."

Captive managers gave the attorney general's office their proposed ordinance last year, but the attorney general has yet to take any action, managers say. The attorney general's office would not return phone calls.

Mr. Coriat and other managers see the approval of funding for the commissioner as a major step toward improving the domicile's ability to attract new captive business.

Captive managers on the island admit that the captive ordinance has been extremely controversial.

They say they want some regulation of captives, but not so much that it will chase away future business.

Government officials, captive managers say privately, support legislation that they feel is too complex and anti-competitive, and they complain that the government has placed too low a priority on getting a captive ordinance in place.

At least one captive management firm, IMC (Turks & Caicos) Ltd., has withdrawn from the island because of the scandal over Chief Minister Saunders' arrest and the lack of any regulation of captive insurers.

But Mr. Coriat takes a more optimistic view. "There is room for another (captive) jurisdiction. It's just a delicate balance that has to be struck (in the ordinance)," he maintains.



imum capitalization," he said. "Our experience shows that captives with minimum capitalization have problems down the road finding

Confusion inhibits Virgin Island growth

By MICHAEL BRADFORD

ST. THOMAS, U.S. Virgin Islands—Hard-to-interpret legislation and regulations are slowing the growth of the U.S. Virgin Islands as a captive domicile despite the islands' unique advantage over other offshore domiciles, captive managers and regulators say.

With the enactment of the Virgin Islands Exempt Insurance Act in February 1984, U.S. companies were given the green light to form captives in the Virgin Islands to fund their employee benefits.

While the Employee Retirement Income Security Act does not permit the benefits of U.S. employees to be funded through captives in non-U.S. domiciles, the U.S. Labor Department in 1983 defined the

U.S. Virgin Islands as a state under ERISA and, thus, said that insurers in the Virgin Islands can write employee benefit coverages for U.S. workers.

The Labor Department does limit the amount of employee benefit business an insurance subsidiary can write to no more than half of the captive's total business.

However, two years after the Virgin Islands enacted a captive law, only four captives have been formed, and only one has been created within the past year.

The islands' only active captive manager and an official of the government's banking and insurance division agree that hard-to-interpret legislation is the main stumbling block.

Graeme M. Harper, vp of John-

virgin islands

son & Higgins (USVI) Ltd., which manages the islands' four captives, said there is some confusion in legislation that concerns Class A and Class B licenses as to what the advantages are between the licenses.

The insurance act says a Class A license must be held by "international affiliated insurers or reinsurers." According to the act, an international affiliated insurer is one in which 90% or more of the net retained premium is composed of reinsurance or risks related or unrelated to a parent corporation and/or direct underwriting of risks related to a corporate parent or large shareholder.

A Class B license must be obtained by "international insurers." The act says such insurers are those that are not an affiliated international insurer or reinsurer.

To obtain a Class A or B license, applicants must file a non-refundable \$1,000 application fee. Class A license holders must pay an annual license fee of \$3,000, while a Class B license carries a \$1,500 yearly fee. Mr. Harper said one of J&H's primary goals is to try to improve the legislation to end the confusion.



Mr. Harper

He also noted that the Virgin Islands government's Department of Banking and Insurance, which regulates captives, should be separated into two divisions.

"It is my contention that you can't mix apples and oranges," he added. "Banking and insurance are two separate businesses."

William Mahar, chief examiner and acting director of the Department of Banking and Insurance, agreed that parts of the law are difficult to interpret and should be changed.

"(We're) going to have to propose legislation to make the Virgin Islands more attractive to captives," said Mr. Mahar.



Mr. Mahar

"There seems to be some ambiguity in the way the current law was written because experts have had some trouble interpreting it. Sometimes, there have been more than one opinion in some areas. It is not all that clear what the differences are between an A and B license."

Mr. Mahar said the domicile "has to be competitive with other domiciles—whether it's Barbados, Bermuda or Cayman—if we expect to grow. They can all come here or they can go down the road."

"What's another 200 miles in the Caribbean?" he asked.

Besides the two types of insurer licenses, exempt support licenses are required of all companies whose primary business will be to

Continued on next page

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Few captives show interest in incorporating

TORTOLA, British Virgin Islands—While it is possible for captive insurance companies to incorporate in the British Virgin Islands, few show much interest, according to a local banker.

Prospective captive insurers would have to incorporate under the British Virgin Islands' All Companies Act of 1885 and be subject to a maximum 15% tax on profits.

Offshore financial companies that are not insurance businesses are allowed to form under the International Business Companies Ordinance of 1984 and are exempt from all local tax liabilities.

Roger Dawes, manager of International Trust Co. B.V.I. Ltd. on Tortola, explained there are probably less than 20 "captive-type" insurers located in the British Virgin Islands. He described them as reinsurance operations for risks like credit life insurance that are written in the United States.

Apart from rules governing workers compensation and motor vehicle insurance; there are no regulatory requirements for captives in the British Virgin Islands. There also are no capital and surplus requirements.

A captive that is a non-resident British Virgin Islands company pays a licensing fee of \$250. Resident companies forming under the All Companies Act are charged a fee based on gross assets in the previous year. The fee is charged on a sliding scale that begins at \$25 and does not exceed \$10,000.

There are no filing regulations for a company with fewer than 50 shareholders, and there are no currency exchange restrictions for companies locating in the British Virgin Islands.

Virgin Islands

Continued from previous page
provide support for licensed exempt insurers. Captive managers, agents and brokers doing business in the Virgin Islands must hold an exempt support license. An exempt support license holder must pay the \$1,000 application fee and a \$1,000 yearly fee.

Besides paying applicable fees, applicants also must provide:

- A certified copy of the corporate charter and bylaws.
- A statement of financial condition, including balance sheets and income statements, audited for the most recent year for which financial information is available.
- References from two banks that each maintain more than \$300 million in gross assets.
- All policy forms and endorsements the company plans to use in the islands.

If exempt insurers are writing general business, like property/casualty risks, they must maintain minimal capital of \$120,000. Insurers with "long-term" business like life, health and accident, must maintain \$200,000 in capital. An insurer writing general and long-term business is required to have \$320,000 in capital. Insurers can file an irrevocable letter of credit to help meet capital requirements.

Regulations say the insurer must maintain loss reserves equal to the amount that would be required in the jurisdiction where the risk is located. New York insurance laws apply if there are questions.

Insurers may be required to invest as much as 10% of their minimum capital requirements in Virgin Islands government securities after three years. If the securities aren't available, the investment must be made in other U.S. government issued or guaranteed securities.

Exempt insurers must maintain a registered branch or principal office staffed by at least three full-time employees who have been residents of the Virgin Islands for at least one year. A board of directors must meet annually on the islands.

To attract more captives to the islands, the Virgin Islands government has agreed not to charge local premium taxes on direct or reinsurance coverage written by captives if the federal excise tax is charged on the coverage.

J&H to launch captives push in Virgin Islands

ST. THOMAS, U.S. Virgin Islands—As soon as problems with captive legislation are resolved, Johnson & Higgins (USVI) Ltd. will begin a push to attract more captive insurance companies to the U.S. Virgin Islands.

Graeme Harper, vp of the Johnson & Higgins unit, said his firm expects to work closely with the local government to help clear up wording in the Virgin Islands Exempt Insurance Act (see story, page 89).

The legislation was passed in 1984 to open the door for captives to locate in the Caribbean domicile.

However, the hard-to-read law is seen as a deterrent to drawing the offshore insurers to the islands.

J&H, the only active captive manager in the islands, has until now concentrated its management forces on handling foreign sales corporations incorporated in the Virgin Islands.

Those companies are U.S. exporters licensed in the Virgin Islands to take advantage of tax laws that are less burdensome than those on the mainland.

"We've been working on the FSCs and concentrating on keeping our clients happy in that area. Our next thrust is the captive area," Mr. Harper said.

He pointed out that "a lot of businesses aren't aware that they can run business through the U.S. Virgin Islands."

He said as soon as the legislative infrastructure that governs formation of captives is reworded, J&H's New York office will be the center of a marketing effort to attract captives that could fund employers' group life and health insurance benefits through a Virgin Islands captive.

Funding employee benefits is a unique opportunity the Virgin Islands offers because—unlike all other offshore domiciles—it is defined by the U.S. Labor Department as a state under the Employee Retirement Income Security Act.

That means insurers in the Virgin Islands are authorized to write employee benefit coverages for U.S. workers.

Currently, J&H's Virgin Islands office manages four captives that are funding employee benefits.

Mr. Harper said he expects to manage two other captives to be licensed soon.

Of the four captives currently managed by J&H, three are branches of captives located in Bermuda.

Burlington Industries Inc. of Greensboro, N.C., set up the first captive in the islands in 1984 when it located a branch of its Bermuda captive, Insuratex Ltd., there.

GTE Life Insurance Co., a branch of GTE Reinsurance Co. Ltd. in Bermuda, funds employee benefits through its Virgin Islands captive, as does Caterpillar Tractor Co. in Peoria, Ill., through Caterpillar Insurance Co., a branch of the heavy machinery manufacturer's Bermuda company that bears the same name.

The fourth captive, St. Thomas Life Assurance Co. Ltd., also is funding employee benefits for its parent. The captive is owned by a U.S. company, which Mr. Harper would not identify.

Mr. Harper was unable to provide figures for premium volume generated by the four captives.

According to the Virgin Islands government's Banking and Insurance Division, another company besides J&H, Bliss Insurance Management Corp., has been granted a temporary license to act as a captive manager.

However, the company has no captive clients.

Guernsey captive business booming

By STACY SHAPIRO

GUERNSEY, Channel Islands—Guernsey's captive community is booming, even though the island has not adopted formal insurance legislation and has not hired an insurance supervisor.

The tightening insurance market brought more than 17 new captives to Guernsey during the last year, bringing the total number of captives on the island to nearly 200.

While most of the new captives are owned by British companies, three are owned by U.S. companies, one by a New Zealand company and several by Scandinavian interests.

Guernsey captive managers expect more captives to be formed here this year. Clients are "dusting off" captive feasibility studies made five years ago by London brokers and are seriously considering implementing them, the managers say.

Such activity is a change for Guernsey. For the last four or five years, little has been happening on the captive insurance scene because of cheap and plentiful commercial insurance, admitted Michael Savage, managing director of Channel Islands Insurance Consultants Ltd.

But now, "there has been a big increase in the captive insurance system since last October because of the hard market and the lack of coverage," explained Bruce Riley,

Guernsey's commercial relations adviser, who regulates the island's captives.

"The captives we are seeking now are from parent companies with real insurance problems. They can find no insurance available at any rate, particularly levels of professional indemnity coverage."

"In the last year we have seen an increase in Scandinavian business, seen captives come from as far away as New Zealand and Australia (and) a fair number of North American inquiries."

"We have had more inquiries than we have ever had," said Michael Ward, managing director of Risk Management Ltd., a Guernsey captive manager. "We used to have to go out and offer our services. But, in the last 12 months people are looking for solutions to their insurance problems and come to us."

This growth can be seen at Transglobe Underwriting Management (Guernsey) Ltd., probably Guernsey's largest captive manager. Gross premium volume of captives managed jumped to more than 60 million pounds (\$90 million) in 1985, from \$28 million in 1984. Transglobe, which manages 10 pure captives and three captives that write unrelated business, now employs 32 people, up from 25 last year.

About half of Transglobe's premium volume is generated from Polygon Insurance Co. Ltd., which is owned by KLM Royal Dutch Airlines, Scandinavian Airline System and Swiss Air Transport Co. Ltd.

Polygon, which is a major market for aviation risks, has applied to the British Department of Trade and Industry to write aviation, marine and non-marine business onshore within three years.

New captives managed by Transglobe in the last year include Caledonia International Insurance Ltd., owned by British Caledonia

guernsey

Airways Ltd.; Scanport Insurance Ltd., owned by the Port of Gothenberg Authority in Sweden; and Cronors Insurance Ltd., owned by Norcross P.L.C. of Britain.

The premium volume managed by Channel Islands Insurance Consultants Ltd. and Guernsey Insurance Management Services shot up to \$70 million in 1985 from \$30 million the previous year, while the number of captives managed rose to 23 from 15.

However, the number of employees has been cut to six from 16 and the companies were moved to St. Peter's Port from St. Sampson after Mr. Savage, the companies' managing director, bought them from Insurance Corp. of Ireland last May.

R.C.G. Holdings Ltd., ICI's Channel Islands holding corporation, was taken over by the Irish government last year along with the rest of ICI (BI, March 25, 1985).

In addition, ICI's Guernsey-domiciled insurer, Insurer Corp. of the Channel Islands, is being sold to a major British insurer, sources in Guernsey say.

Mr. Savage's operations formed five new captives last year, including three owned by U.S. parents: Rhode Island Insurance Co. Ltd., owned by Bridgeton Distributing Co. of Providence, R.I., which writes third-party European property business; Bridge Indemnity Co. Ltd., owned by Bridge Products Inc. in Chicago; and Inverness Indemnity Co. Ltd., owned by Boler Co. in Itasca, Ill.

The U.S. captives were formed in Guernsey because "it was a good selling effort on my part," said Mr. Savage.

One of the U.S. captives was formed to write coverage to fill gaps created by differing London claims-made liability forms, but Mr. Savage would not say which one.

Meadows Indemnity Co. Ltd., owned by Gould Inc. of Rolling Meadows, Ill., and managed by Mr. Savage, is also thriving. Pretax profits in 1985 exceeded \$8 million on written premiums of \$31 million. In 1984, it reported a loss of \$700,000 on premiums of \$18.5 million. Meadows also increased its capital to \$20 million from \$8.5 million, says Mr. Savage.

In the last year, Transglobe, which manages the aviation captive Polygon, started writing an aviation account for Meadows, says David Johnstone, assistant general manager of Transglobe.

In addition to this business, Meadows is also writing quota-share reinsurance through three companies in London, including English & American P.L.C., Transglobe's parent.

Transnational Risk Management (Guernsey) Ltd., a subsidiary of The Reiss Organization, formed two Guernsey captives in 1985.

"Business is buoyant," said John Parkinson, managing director of Transnational.

One of the captives writes professional liability coverage for a U.S. accounting firm, while the other, Terrace Insurance Ltd., writes property and marine business for a company with operations in New Zealand and Australia.

"They decided to come here because it is easier to get here than to Bermuda," he said.

Mr. Parkinson is also hoping to set up an association captive to write automobile and trucking risks for 500 to 600 small British

Continued on next page

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Continued from previous page companies.

"We are talking to one or two European companies as well," he said.

Altogether, Transnational manages seven captives with gross premium volume of \$10 million to \$12 million.

Managed captives include Stage Insurance Ltd., owned by the House of Fraser Ltd., which is the parent of Harrods, the famous London department store.

Transnational has increased its staff to four from three last year and plans to hire two more employees this year, according to Mr. Parkinson.

Hogg Robinson (Guernsey) Ltd., which currently manages eight captives, formed two insurers last year but lost one captive to Luxembourg "for geographical reasons," says Managing Director Roger Hall.

"We are involved in three or four studies and two of those will probably form captives this year," Mr. Hall added. "And, we have had a couple of inquiries from Bermuda who are thinking of immigrating. One is U.S.-owned with a European presence."

The company's captives write 15 million pounds (\$22.5 million) in premiums. It employs four people, though it plans to hire another employee soon.

One of Hogg Robinson's new captives will write liability coverage for the U.S. subsidiaries of a European service business because "the U.S. subsidiaries cannot buy any liability insurance coverage," said Mr. Hall.

The other will write travel insurance for a company in the travel and tourism business, Mr. Hall said.

Other captives managed by Hogg Robinson include Curzon Insurance Ltd., owned by U.K. asbestos manufacturer Turner & Newall P.L.C., and Ocean Insurance Ltd., owned by Bass P.L.C., the British brewer.

While Guernsey managers agree that more companies are interested in Guernsey, there may be some obstacles to the formation of more insurers.



Mr. Johnstone

"There are more people having a closer look at captives because of the hardening market," admitted Transglobe's Mr. Johnstone.

"But the hard market is also working against the captive because reinsurance is tougher to find...and reinsurance is vital to most captives."

Also, some managers say some companies reject Guernsey as a domicile because the island has never adopted formal insurance legislation.

While the legislation has been discussed for 13 years, initial drafts were prepared five years ago and several additional drafts have since been prepared, none has been acted upon by the States of Guernsey, the government for all the Channel Islands except for Jersey.

Mr. Riley, who predicted last year that the legislation would be passed in 1985, said last month he has been promised that the legislation would be presented to the government within two months and he expects it will be implemented in January 1987.

The legislation basically will formalize the practices that have been adopted by the government to regulate captives, he noted.

Under the new legislation, captives and other Guernsey-domiciled insurers that are not registered with the British Department of Trade and Industry or in another European Community nation must:

- Apply to the island's Advi-

sory and Finance Committee for approval.

- Have a minimum paid-up capital of 100,000 pounds (\$150,000).

- Satisfy a solvency margin of 18% for the first 5 million pounds (\$7.5 million) of net written premiums and 16% for net premiums exceeding 5 million pounds.

- Prove that the company's manager is suitably experienced. Each insurer must have a representative on the island, who can be an executive of the insurer or its management company.

- Annual financial statements must be filed with the government.

- At least 75% of the companies' assets have to be approved liquid assets.

The lack of formal insurance legislation damages Guernsey's reputation as a domicile, captive managers say.

"Guernsey as a center loses a wee bit of credibility when year after year it says it will have legislation

and it doesn't," says Transglobe's Mr. Johnstone.

"It diminishes credibility the longer it is delayed."

Managers also say Guernsey is hurt by the lack of an insurance supervisor. Mr. Riley, the island's commercial relations adviser, currently examines all new captive applications.

Guernsey advertised for an insurance supervisor last December, but none of the candidates was suitable, said Mr. Riley.

Guernsey has now hired a recruiting firm to locate the right person for the job.

However, Guernsey may not hire an insurance supervisor until it finds a banking supervisor, sources say. The banking post has been open since the beginning of the year.

Some Guernsey captive managers are also concerned they may be losing business because of the island's tax rate.

"Guernsey has just lost a very substantial company, which would have moved here except for the tax," said Roger Taylor, managing director of captive manager Prescot Management Ltd., a subsidiary of broker Minet Holdings P.L.C.

Generally, Guernsey imposes a 20% tax on an insurer's profits, though pure captives are only taxed on their investment income.

However, under a quirk in the tax law, a captive's parent can set up a non-resident subsidiary to which the captive can transfer its reserves and avoid the tax.

The reserves can be invested outside Guernsey—many are located on Sark, just off the coast of Guernsey—or can be deposited in Guernsey banks since non-resident companies pay no tax to Guernsey on their bank deposits.

While some managers complain about taxation, others say Guernsey's tax laws could be a drawing card, especially for British captive

insurance companies.

Now that the British corporate tax rate has been lowered to 35%, Guernsey's 20% tax rate is more than half of the British rate. That's important because under British law, offshore subsidiaries of British parent companies must pay British income tax unless:

- The tax rate in the offshore domicile is at least 50% of the British rate.

- More than 50% of the offshore company's business comes from third parties.

- The offshore company returns more than 50% of its profits as dividends to the parent.

Managers also point out that Guernsey is probably the most settled and suitable captive domicile in Europe.

Located off of the French coast, the 24-square-mile island is the home of 47 banks, more than 400 accountants and several large law firms.

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Isle expects to gain one new captive a month

By STACY SHAPIRO

DOUGLAS, Isle of Man—For companies looking to set up captives or pools in Europe, the Isle of Man is an exciting place to be.

During the last year, the Isle of Man boosted its number of industry captives to 17 from 12 and the total number of tax-exempt insurance companies—including captives—to 39 from 30, says David Vick, assistant to Duncan Neil, the island's insurance supervisor.

Mr. Neil predicts that the hard market, particularly for liability insurance, will prompt at least one captive a month to be formed on the island during the next year.

And, in the next few months:

- The Manx government, the official name of the Isle of Man's government, will pass the Insurance Act of 1986, giving the Isle of Man its first insurance law. Royal assent, or the official approval of Queen Elizabeth II, is expected in June or July.

- A feasibility study may begin on setting up an insurance exchange on the island. Mr. Neil is looking for support and says the Manx government may pay for half the cost of the study if industry will pick up the rest.

- Sedgwick Risk Management Services Ltd., the subsidiary of the world's third-largest insurance broker, Sedgwick Group P.L.C., will set up a captive manager on the Isle of Man.

In the last year, four new captives were formed by Sedgwick Risk Management through Isle of Man broker J.M. Pearson Management Ltd. The captives are called G.D. Insurance Co. Ltd., Marine, Rail & Auto Insurance Ltd., Arrows Insurance Co. Ltd. and NIRA Ltd., but the parent companies were not revealed.

Two new captives were also formed by Willis Faber (Isle of Man) Ltd.: Tapton Insurance Ltd. and Cleveland Insurance Ltd.

Among the other captives on the island are Bedfront Insurance Ltd., owned by R.M.C. Ltd. of Great Britain; Calor Insurance Ltd., owned by Calor Gas, a subsidiary of Continental Gas of Great Britain; Galleon Insurance Co. Ltd., owned by Gallagher Ltd., a British subsidiary of American Brands Inc. of New York; and Osiris Marine & General Insurance Co. Ltd., owned by Louis Dreyfus Shipping & Trading of Great Britain.

"There is steady growth in the captive business on the island," said Tom Osborne, managing director of Tower Insurance Co. Ltd., a Manx subsidiary of Royal (U.K.) Ltd. "It is growing satisfactorily. We are getting pedigree operations to the island and there are quite a lot more in the pipeline."

But, Mr. Neil is looking carefully at U.S. companies that want to set up captives on the Isle of Man because of the hard U.S. liability insurance market.

"I am still slightly nervous of inviting too much business from America," Mr. Neil told *Business Insurance*.

"Business is difficult to place there and I get a lot of calls out of the blue from companies (in the United States) that want to set up captives here because they cannot get any coverage. I don't know them from Adam, so I suggest they call up a broker like Marsh & McLennan or Johnson & Higgins that I know and I am familiar with. "I may go across to the United

States myself to see U.S. brokers and tell them that the Isle of Man exists," Mr. Neil adds.

By July, the Isle of Man will have new, tougher insurance legislation. It has only taken the island 12 months to discuss the legislation, draft it and introduce it to the Manx government. The Insurance Act of 1986 is currently in the third reading in the government and will soon be passed.

Basically, the new legislation formalizes the practice that Mr. Neil has been using to approve captives in the last few years. If anything, however, the legislation is stricter.

According to Mr. Neil, Mr. Vick and a guide to the new act, the measure will set up a new Insurance Authority, which is a government body to oversee the activities

isle of man

of the insurance supervisor. The supervisor, however, will continue to authorize insurers and exercise the act, and Mr. Neil will remain the supervisor.

Also under the act, no one will be able to carry on an insurance business in or from the island, and no Isle of Man company may carry on an insurance business outside the island, unless it is specifically authorized by the insurance supervisor.

The only exceptions are if the company is an authorized insurer in another country or carries on certain classes of business, such as strike insurance for a trade union

or employer's association, which are spelled out in the act.

In addition, insurance managers will have to be registered under the new act with the insurance supervisor and will have to file annual financial returns for the exempt insurance companies they manage, said Mr. Vick.

Applications should be filed at least one month before the date on which it is desired to commence business. And, under the new act, they must be signed by two directors and be accompanied by specified documents and information.

In order to be registered as an exempt insurer under the Insurance Act 1986, each company must establish to Mr. Neil and the Insurance Authority that:

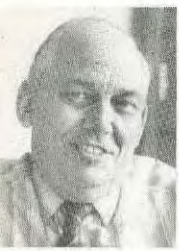
- The company has a minimum

paid-up capital of 50,000 pounds (\$73,000) for pure captives but up to 500,000 pounds (\$730,000) for certain classes of business. The amount of capital will depend on the class of business that the captive writes and the solvency margin it needs to meet.

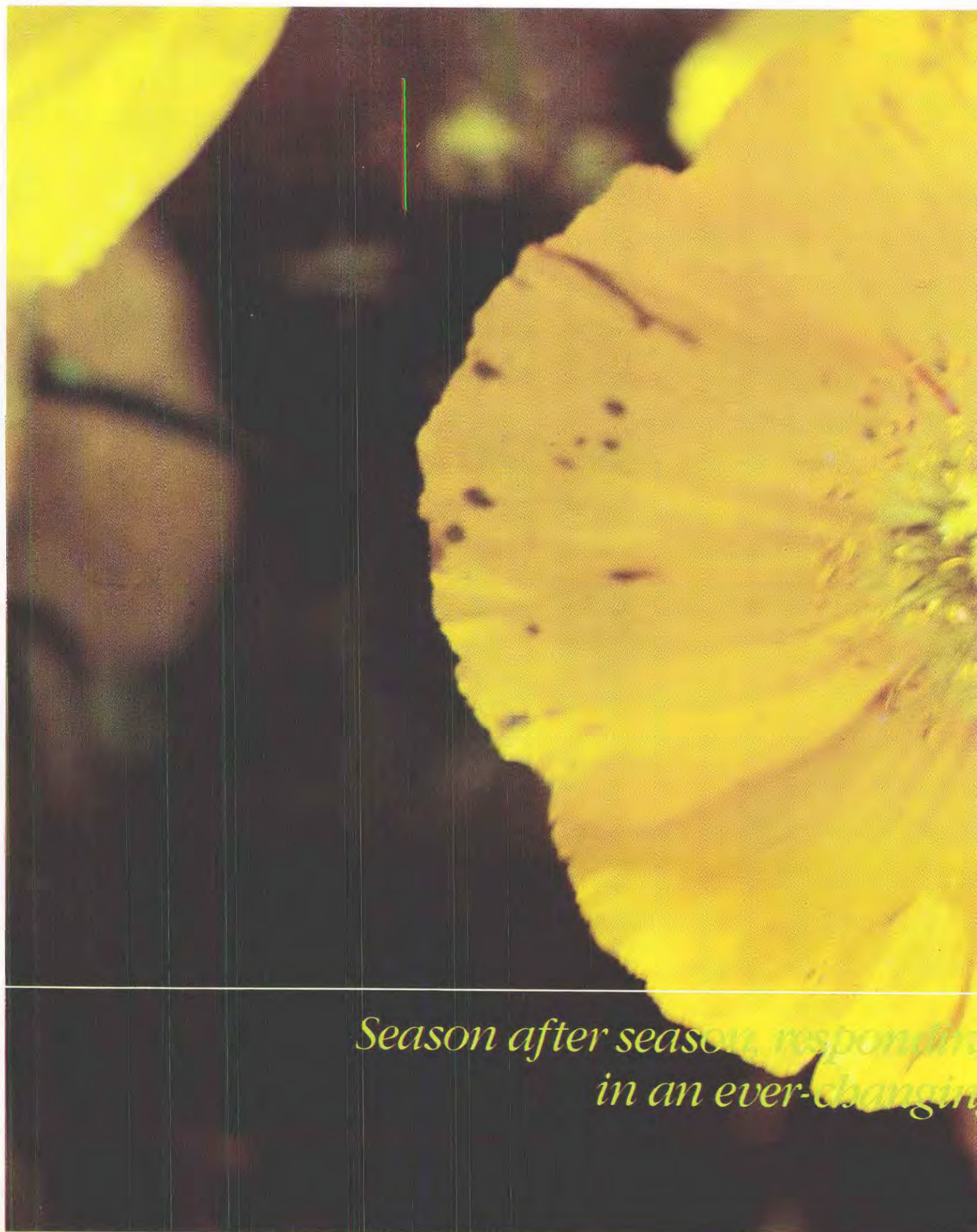
However, the minimum capital requirement plus 10% of the rest above 50,000 pounds will have to be paid in cash and deposited with an Isle of Man bank.

- Solvency will be maintained by the minimum capital plus 10% of the net written premiums up to 2 million pounds (\$2.9 million) and 5% of net written premiums after that for pure captives. Captives writing third-party business for general classes must maintain 15%

Continued on next page



Mr. Neil



*Season after season, responding
in an ever-changing*

Continued from facing page of net premiums written but not less than 150,000 pounds (\$219,000).

- A three-year business plan must be drawn up and presented to the insurance supervisor that will include the maximum net retention per risk or occurrence and the aggregate after all reinsurance is ceded; policy limits; the reinsurance program, with types of reinsurance and names of reinsurers; projected claims, gross and net of reinsurance; projected cash flow; and projected profit and loss.

- Demonstrate that there is suitable management on the island to manage the affairs of the captive. In theory, this would eliminate the managing of captives by companies in London or Guernsey, noted Mr. Vick.

Each year, accounts will have to be submitted to the insurance supervisor. There will be a 1,000 pound (\$1,460) registration fee and an initial "business fee," calculated

from the date of reauthorization after April 5, 1987.

The annual business fee payable on or before April 6 each year is 2,500 pounds (\$3,650), but this is reduced for any year in which the company opts to pay income tax instead of being exempt from it.



Mr. Bigland

Any company that is authorized to write insurance business in or from the Isle of Man does not have to pay any income tax under the provision of the Income Tax (Exempt Insurance Cos.) Act of 1981. But, the company must apply to the Manx government for this exemption.

There will be a 12-month transitional period to allow all companies on the island to come into line with

the new act, according to Mr. Vick.

However, if companies refuse to register in accordance with the new law, the company could face a 2,000 pound fine and its Manx directors could face one to two years in prison.

Although there is some skepticism off the island about the wording of the new act, those on the island are thrilled.

"I think it is wonderful," Mr. Vick said, explaining, "It gives us more credibility."

The legislation is "first class," said Robin Bigland, managing director of Isle of Man Insurance Management Ltd., a subsidiary of Isle of Man Assurance Ltd.

"It is what the island has been needing. Now we can hold our heads high," he said.

"It is a question of spelling out what Duncan Neil needs to do his job," said Mr. Osborne, who was on the three-member committee that drafted the bill.

The new act 'is what the island has been needing. Now we can hold our heads high,' Mr. Bigland says.

"It will be welcome in the insurance world and puts teeth into the Isle of Man," he said.

The insurance legislation also allows the Isle of Man to set up an insurance exchange, a concept that Mr. Neil is promoting actively.

Last October, Mr. Neil first presented his idea for an exchange at a seminar given by the Assn. of Insurance & Risk Managers in Industry & Commerce, recalls AIRMIC Chairman Norman Bennet.

This year, Mr. Neil sent a letter to Mr. Bennet saying that the Manx government is willing to pay 50% of

a feasibility study for an insurance exchange if AIRMIC would pay the rest, said Mr. Bennet.

After a few meetings, AIRMIC wrote back to Mr. Neil and said that it would support a feasibility study and contribute 1,000 pounds for the project.

Since that is not enough money for a study, Mr. Neil is now talking to others, including one or two AIRMIC members.

"It is a shame if people do not take the idea seriously," said Mr. Vick.

"I am an optimist," said Mr. Neil. Despite its bracing climate, the Isle of Man may be ideal for companies looking for a sound European country with little or no income tax to pay.

The Isle of Man—which is 33 miles long and about 13 miles wide—sits in the Irish Sea, equidistant from England, Scotland and Ireland. Airline service from London is excellent.

The island boasts the oldest democratic government in the world—more than 1,000 years old—and houses 12 insurance brokers, 43 banks, 43 accountants, 13 lawyers and 17 real estate agents.

There are 10 captive managers on the Isle of Man, an increase from seven captive managers this time last year, according to Mr. Vick.

This includes Sedgwick's new operation, which will be set up soon, says Michael S. Coulson, director of Sedgwick Risk Management Services in London. Sedgwick manages five captives on the island and one is in formation, writing coverages such as professional indemnity.

The largest captive manager on the island seems to be Mr. Bigland's Isle of Man Insurance Management Ltd., which was formed in 1976.

"This year has been a remarkable year," said Mr. Bigland. Isle of Man Management has 17 or 18 inquiries at the moment about captives and has formed three new captives this year. One is for a U.S. corporation, one for an Irish corporation and one for a British corporation, mostly professional indemnity cover.

The company now manages 11 captives, up from seven last year, with a total of 57 million pounds premium volume (\$83.2 million), up from 32.5 million pounds (\$47.5 million) last year. At least two write third-party business.

Another important Manx manager is Royal Insurance Services (Isle of Man) Ltd., a subsidiary of Tower Insurance. The manager has not grown this year, however, noted Mr. Osborne. It still manages two captives with a total premium volume of 5 million pounds (\$7.3 million), he said.

But, Royal, which owns Tower, may grow this year.

"We have not been aggressive in our marketing, but we may change our stance," said Mr. Osborne. "I'm just writing a note about that."

The manager, together with Tower Insurance, employs 19 people.

Also, in the year since an office was opened on the island, Willis Faber (Isle of Man) Ltd. has increased the number of captives it manages to six from three with a total premium volume doubled to 6 million pounds (\$8.8 million).

The new captives write extended warranty coverage and professional indemnity coverage among other risks, said David Campbell, director of Willis Faber.

To sum up the growth of the Isle of Man, Mr. Campbell said, "Last year was a bit of a consolidating year. 1985 reflected the hardening of the market and a few more studies (for captives) were done, some to fruition.

"1986 is the same. People are dusting off feasibility studies and we are seeing a steady move toward opening captives," said Mr. Campbell." ■

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Luxembourg nurtures captive growth

By STACY SHAPIRO

LONDON—The Isle of Man and Guernsey aren't the only European countries that can cater to captives.

Luxembourg is by far the most popular since it added an amendment to its insurance supervision law in 1984 to allow formation of reinsurance companies and captive reinsurers (*BI*, April 2, 1984).

Last year, Luxembourg increased its number of reinsurance captives to 21 from 11 and expects the number to increase to more than 40 this year, said Insurance Commissioner Victor Rod.

The number of captive managers also has increased to four from two last year. They are SINSER Luxembourg S.A.R.L., a subsidiary of Scandinavian Insurance Services

Ltd. in Stockholm; Jecalux S.A.; Soxelux Group S.A.; and another firm to be set up soon by Swedish insurer Atlantica Insurance Co.

Sixteen of the Luxembourg captives—including Electrolux Reinsurance, owned by Electrolux in Sweden—are managed by SINSER, up from 10 captives last year, confirmed Mats Lindkvist, managing director of SINSER in Stockholm. Total premium for the 16 captives is \$75 million to \$80 million, including third-party business, he said.

Of the 21 captives in Luxembourg, 17 are Swedish, one is Dutch/U.S. captive company KTI Richmond Insurance Co., one is Danish and one is Belgian.

The Swedish favor Luxembourg because it is close to Sweden and in the same time zone, said Mr.

Lindkvist. Also, the two nations have a favorable double taxation treaty. Luxembourg also has excellent support services, including 120 banks.

At the end of last year, Luxembourg changed its reserve taxation. Previously, captives were exempt from paying Luxembourg's 50% corporate tax for a 10-year period. Now, under the new rule, the 10-year tax holiday is suspended and replaced with a general system. Each captive—which can only write reinsurance business of the parent or third parties—will be allowed to reserve a certain amount of earnings into a catastrophic provision tax-free under the "equalization reserve" formula.

According to Mr. Rod, the tax-free reserve will be 12.5 to 20 times

the average of net retained premium income over the last five years. Only after reaching the highest level possible in the formula will normal tax be paid.

To form a captive in Luxembourg, the company must have capitalization of 50 million Luxembourg francs (about \$1 million), although if it reinsures only its parent company's risks, it needs just 6 million francs in capital.

The captive manager must be a Luxembourg resident and have professional reinsurance qualifications and/or captive expertise.

Other captive host countries include Sweden, which passed a law on Jan. 1, 1985, to allow Swedish companies to form domestic captives. So far, there are four Swedish captives in Sweden, said Mr.

Lindkvist, with two managed by SINSER. They are owned by gas company A.J.A., rolling bearings company S.K.F., Electrolux and Saab Scania.

Jersey, one of the Channel Islands, still allows captives to be formed, but doesn't encourage them. Not one captive has been formed in Jersey since 1983, when it repealed its century-old law barring insurers from the island, said Richard Syvret, States of Jersey commercial relations officer.

Jersey, the largest of the Channel Islands, located 20 miles off the coast of France, would seem to be an attractive domicile for European captives. It is the home for 45 banks and has attracted countless accountants and support services.

But, sources say Jersey has a staff shortage and that the island is already glutted with finance houses.

Captives are allowed on the island by the Insurance Business (Jersey) Law of 1983, which allows insurers to operate freely on the island if they are licensed in the United Kingdom or another European Community nation. These companies, since they fall under the regulation of other governments, do not need a permit.

Insurance companies not licensed elsewhere—like most prospective captives—must receive a permit from Jersey's Finance and Economics Committee.

To qualify, a captive must:

- Certify the reputation and nature of the business carried on by the parent company.
 - Prove that the insurer's managers have the knowledge and expertise to operate the company.
 - Meet a capitalization requirement of at least 100,000 pounds (\$150,000), varying according to the amount of premium written and the type of risks insured.
 - File its reinsurance arrangements with the Jersey authorities.
 - Prove that the captive's managers are "fit and proper" persons.
- Pure captives domiciled in Jersey must pay a 20% tax on net investment income, while reinsurers writing third-party risks also must pay a 20% tax on underwriting profits.

There are other potential captive domiciles in Europe, captive managers and consultants note. Paul Bawcutt, managing director of a new offshoot of Risk Research Group called Risk & Insurance Research Group Ltd., favors Gibraltar.

"Insurance legislation is being put in line with EC (European Community) insurance legislation in Gibraltar," said Mr. Bawcutt. "In theory, that means that Gibraltar could be magnificent because the captives can write as non-admitted insurers throughout Europe."

Under the new insurance legislation, Gibraltar would require 18% to 20% solvency ratios, he said, and other stringent requirements met by EC insurers. But, there would be no tax to pay, and only a 200 to 250 pound fee, he said.

In addition, some captives have been set up in France, Denmark and Norway, he said.

Cyprus also offers itself as a captive domicile, said Alan Bristow, financial director for Commercial Union Risk Management Ltd.

And, even the United Kingdom could be a good option for German companies now that the U.K.'s corporate tax has been reduced to 35%, said John Parkinson, managing director of Transnational Risk Management (Guernsey) Ltd.

Germany's corporate tax is 60% to 65%, he said. But German law says that if a company pays more than 50% of the German tax limit to a foreign country, then it pays no more tax to Germany. ■



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Vermont roster of captive parents impressive

By JERRY GEISEL

MONTPELIER, Vt.—The "giants" are discovering Vermont's captive law.

Some of the nation's largest corporations have chartered insurance subsidiaries in Vermont during the last year, while captive management subsidiaries of large national brokers and consultants are grabbing much of the new captive business coming to the state.

The list of parent companies that formed Vermont captives in 1985 is impressive: Citicorp, the huge New York financial organization; Mobil Holdings Corp., a unit of New York-based Mobil Corp., the giant petroleum company; Toyota Motor Sales U.S.A. Inc., the Torrance, Calif.-based subsidiary of the Japanese automaker; and Westin Hotel Co., the Seattle-based hotel chain and a unit of UAL Inc.

Thirty-two captive insurers are now chartered in Vermont, up from 22 in 1984 and 14 in 1983, and formations continue unabated.

In January, Mobil chartered its second Vermont captive, and last month a unit of the Equitable Life Assurance Society of the United States received permission from the Vermont Department of Banking and Insurance to form a captive.

Other corporations forming Vermont captives in the past year include: Cabot Corp. of Boston; Consolidated Freightways Inc. of Menlo Park, Calif.; Crown Central Petroleum Corp. of Baltimore; KKROWN Associates L.P. of Stamford, Conn.; and National Refractories & Minerals Corp. of Oakland, Calif.

Vermont's captive boom also is reflected in the enormous growth in the captives' aggregate premium volume. The 28 captives that filed financial reports with the Insurance Department reported a gross premium volume of \$115.2 million, more than double the 1984 premium volume of \$47 million reported by 21 captives filing reports.

The \$20.4 million premium volume produced last year by one captive—Bluefield International Insurance Inc., which writes a variety of Mobil's property and liability risks—is almost half of the premium volume generated by all 21 Vermont captives in 1984.

Captive managers and regulators say the premium volume written by Vermont captives could double again in 1986 because of the formation of new captives and increased underwriting by existing captives.

"We don't see any leveling off of growth in the near future," said Edward Meehan, chief examiner at the Department of Banking and Insurance, pointing to a several-inch-thick stack of captive applications filed with the department.

"I think this will be the greatest year of captive growth in Vermont's history," Mr. Meehan said.

One organization waiting for a captive application to be approved is the National League of Cities, the 62-year-old Washington-based trade association. The captive is to reinsure liability and workers compensation self-insurance pools operated by state municipal leagues.

"We're very excited and optimistic that a Vermont captive will help state pools that have had difficulty securing the reinsurance they need," said Donald Jones, special assistant to the group's executive

director.

In addition, the University of Pittsburgh has filed an application to establish a Vermont captive to supplement medical malpractice coverage offered through its 10-year-old Cayman Islands captive, said Wilbur McCoy Otto, the university's special medical legal counsel and an attorney with Dickie, McCamey & Chilcote in Pittsburgh.

Vermont also is continuing to lure captives from other domiciles.

In 1984, Seattle-based Boeing Co. began transferring business from its Colorado captive, Colinco Inc., to Astro-II Inc., its new Vermont captive, because of dissatisfaction with the investment restrictions Colorado imposes on captives. That transfer is virtually complete, said

vermont

Walter Woodard, Boeing's corporate insurance manager.

In addition, Elixir Industries, a diverse Gardena, Calif.-based manufacturer, transferred risks from its Colorado captive to GarDen Insurance Co. of Vermont, its Vermont captive, to gain more freedom to write third-party business.

Now, the move to Vermont is partly coming from businesses that are moving their captive programs onshore to escape Bermuda's high costs.

For example, Cabot Corp. of Boston is dissolving Cabot Insurance Co. Ltd., its 9-year-old Bermuda captive, and has set up a Vermont

captive, known as Cabot Insurance Co. Ltd. of Vermont, to reinsure workers compensation and comprehensive general liability risks written by CIGNA Corp.

The new captive should generate a premium volume of about \$1.5 million this year, says Karen Inman, Cabot's corporate insurance manager.

The cost of operating the Vermont captive is 65% less than the cost of operating the Bermuda captive, which should be liquidated sometime this summer.

Citing the proximity of Vermont to Cabot's Boston headquarters, Ms. Inman says: "We feel we will have more control and more access" compared with an offshore program.

Similarly, Westin Hotels is liqui-

dating its Bermuda captive because of high offshore costs and lack of easy access.

"The cost of doing business in Bermuda has gotten rather expensive," observed Erwin Mallernee, Westin's risk manager. "Vermont is providing the services we need at less cost than if we were operating offshore."

Westin's new Vermont captive, Westel Insurance Co., wrote \$11.5 million in premium in four months of operation in 1985. It reinsures workers compensation and comprehensive general liability policies issued by Aetna Life & Casualty Co., and writes direct property coverage.

Mr. Mallernee said Bermuda was the logical domicile when Westin

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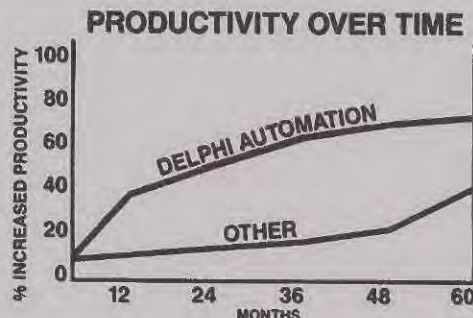
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Vermont captives

Continued from previous page
 first set up a captive in 1977. Today, though, "Vermont is the place to be as far as our program is concerned."

Vermont captives are also writing more than "plain vanilla" property/casualty coverages.

For example, the new Equitable captive will write excess SIPC coverage for the securities industry. SIPC is the acronym for the Securities Investor Protection Corp., a private corporation that indemnifies investors if stockbrokerages cannot deliver promised securities. The SIPC program, which is financed through a premium paid by securities brokers, provides an investor with up to \$500,000 of coverage.

To give large investors like corporations and pension funds more protection, the Equitable captive will write \$9.5 million of coverage

over the \$500,000 in SIPC level for Donaldson, Lufkin & Jenrette, a New York-based securities firm that Equitable purchased last year.

"We think the Vermont captive statute fits our program to a tee," said Craig Johns, vp-treasurer with Equitable Investment Corp. in New York.

As more and more big businesses are forming captive insurers in Vermont, the large, national captive management companies are strengthening their position in the state, and some say they are squeezing out local competitors.

For example, all nine Vermont captives established in 1985 are managed by national managers: American Risk Management Inc., Frank B. Hall Management Co., Johnson & Higgins Services Inc. and M&M Insurance Management Inc.

The growth of the national management firms in Vermont is also demonstrated by the huge jumps in

Vermont captive managers						
Manager Parent	Premium volume		Captives		Staff	
	1985	1984	1985	1984	1985	1984
Vermont Insurance Management Inc.	\$26.8 million	\$13.4 million	6	5	4	4
M & M Insurance Management Services Inc. Marsh & McLennan Inc.	\$26.7 million	1st client in 1985	3	1	2	2
Johnson & Higgins Services Inc. Johnson & Higgins	\$23.5 million	\$3 million	6	2	3	3
American Risk Management Inc. The Reiss Organization	\$14.1 million	\$12.8 million	5	4	5	4
Yankee Captive Management Inc.	\$8.3 million	\$10 million	4	3	4	4
Frank B. Hall Management Co. Frank B. Hall & Co.	\$7.3 million	1st client in 1985	1	0	9	9
Becher & Carlson Management (Vermont) Becher & Carlson Risk Management Inc.	\$4.7 million	\$6 million	2	2	1	1
Green Mountain Captive Management Inc.	\$3.8 million	\$1.8 million	2	2	6	6

Chart: Holly Seguire, Amy Palmer

their managed premium volume.

Johnson & Higgins Services Inc.'s managed premium volume grew to \$23.5 million in 1985 from

about \$3 million in 1984. It now manages six Vermont captives, up from two in 1984.

Arthur Koritzinsky, vp of the

company, a unit of broker Johnson & Higgins, says J&H could pick up nine additional captives during the next year. "Our clients are very interested in Vermont," he says.

Premiums managed by M&M Insurance Management, a unit of Marsh & McLennan Inc., jumped from zero in 1984 to \$26.7 million last year. With the recent chartering of Mobil's second Vermont captive—Rosecrest International Insurance Co.—M&M now manages four captives in Vermont.

The Vermont captives managed by M&M may write more than \$80 million in premiums this year, said Vp Raymond Oberg.

American Risk Management Inc., a Reiss Organization unit, expects to manage eight to 10 Vermont captives within a year, up from five in 1985.

ARM is in a real growth posture, said Vincent Bell, a vp in ARM's Burlington office.

"There is a lot of growth on the horizon, and we are preparing for it," Mr. Bell said, noting that ARM is doubling the amount of office space it rents in Burlington.

Anistics Inc., a unit of Alexander & Alexander Services Inc., is opening a Vermont captive management office.

"We're very encouraged by the growth that we expect to see in Vermont," said Arnold Goldstein, an Anistics assistant vp who is moving to the new Burlington office from the Anistics office in Denver.

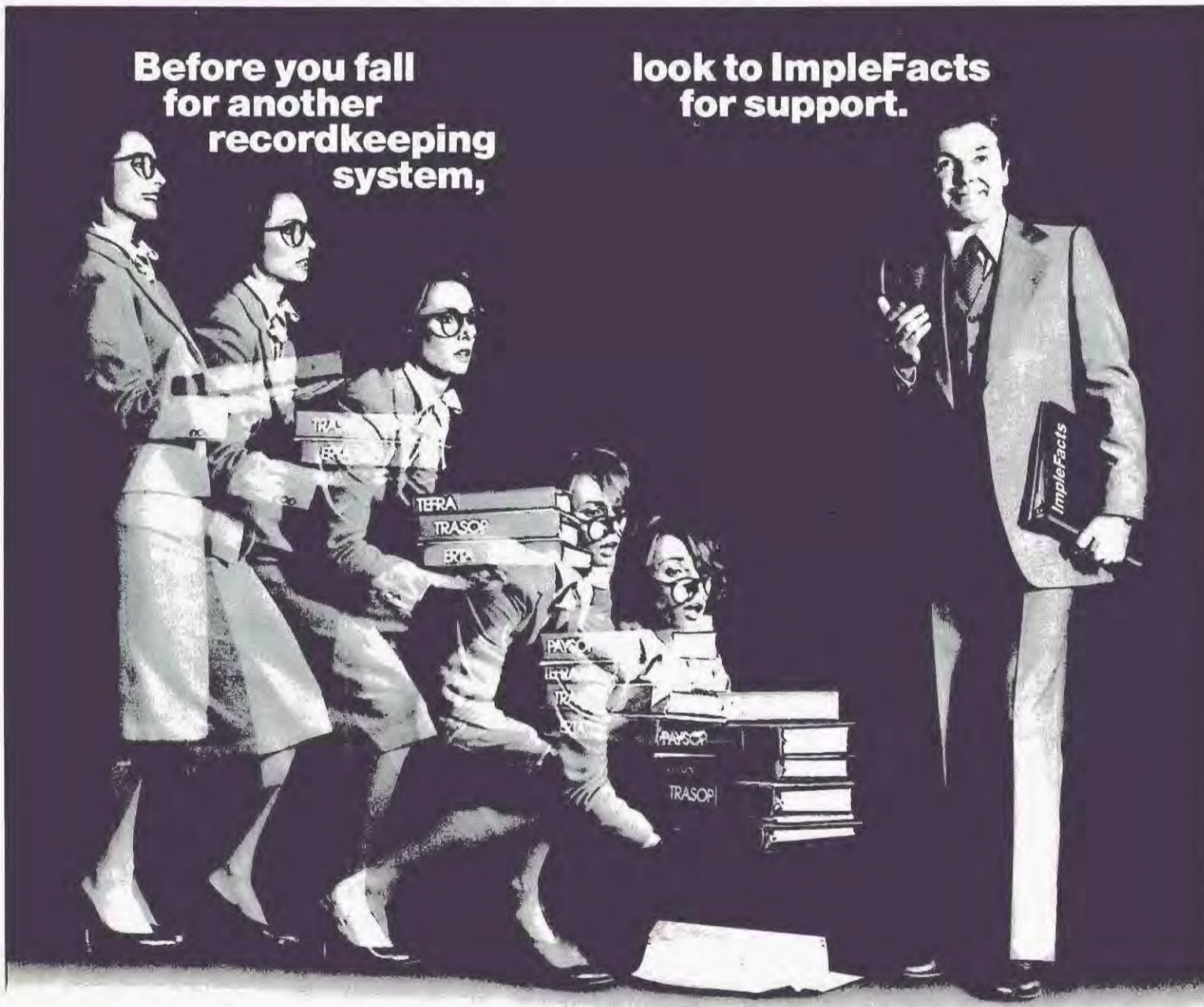
Some of the smaller Vermont captive managers, many of which snared the bulk of Vermont's first captives because they were local companies already operating in the state, may be frozen out of the captive boom.

For example, local manager Yankee Captive Management Inc. in Burlington saw its managed premium volume slide to \$8.3 million in 1985 from about \$10 million.

The decrease was attributed to a drop in business written by Trust Property & Casualty Insurance Co., which is owned by an Alexander & Alexander affiliate.

While Yankee Captive Management did pick up a new client last year, raising its total to four, the new business was the result of a parent company switching managers rather than a new captive formation. Late last year, Pioneer Hi-Bred International Inc., a Des Moines, Iowa-based producer of hybrid seeds, moved management of its PHI Insurance Co. to Yankee from Becher & Carlson Manage-

Continued on next page



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Continued from previous page
ment (Vermont).

Yankee could be vulnerable to a further slide in managed premium volume. With the arrival of Anistics in Vermont, Yankee could lose the management of Trust Property & Casualty.

"It is very likely that Anistics will take over the management of the A&A captive," said Anistics' Mr. Goldstein.

James McNally, vp of Yankee Captive Management, acknowledges his company could lose accounts this year, but he believes Yankee could pick up new captives, perhaps by affiliating with another large broker.

Risk & Benefit Management Systems Inc., based in Aurora, Colo., is discontinuing its registration with Vermont as a captive manager.

"We felt it was not worthwhile to continue and instead want to concentrate on Colorado," said RBMS President Tom Littell. The company manages three Colorado captives, but no Vermont insurers.

Another smaller management firm, Green Mountain Captive Management Inc. of Barre, Vt., did see its managed premium volume jump to \$3.8 million from \$1.8 million in 1984.

The growth was caused by increased business by Verlan Ltd., one of the two captives Green Mountain manages. Verlan was sold in early 1985 by National Paint & Coatings Assn., a Washington-based trade association, to its policyholders for an undisclosed sum.

The other captive managed by Green Mountain, Machine Tool Assurance Ltd., owned by Minster Machine Co. of Minster, Ohio, has not written any business in the last two years.

Richard Huskes, a Green Mountain vp, notes that many newly formed Vermont captives are owned by giant corporations and that these captives may need more services than local managers can provide.

"The national firms can market and manage big risks. The little guys will struggle to do that since they do not, unlike the larger firms, have extensive reinsurance contacts and large professional staffs," noted ARM's Mr. Bell.



Mr. Bell

But one local manager appears—at least for now—to be bucking the trend. Vermont Insurance Management Inc. of Montpelier in 1985 doubled its managed premium volume to \$26.8 million from \$13.4 million. It is the state's largest captive manager in terms of managed premium volume, just edging out M&M.

In addition, Vermont Insurance Management, with six captives managed in 1985, tied with J&H for the lead in this category.

The company continues to win new accounts. For example, Vermont Insurance Management is managing the new Equitable captive, Equitable Casualty Insurance Co., and it is expected to manage both the University of Pittsburgh and National League of Cities captives when those insurers are chartered.

Many believe that a major reason for the manager's success against tough competition is the widespread recognition of its president, George Chaffee, a former commissioner of the Vermont Department of Banking and Insurance.

Mr. Chaffee was commissioner when Vermont enacted its landmark captive statute in 1981 and was the state's top captive regulator during the statute's early years.

However, Mr. Chaffee will leave Vermont Insurance Management next month to become a senior vp



Mr. Chaffee

at Hickok & Boardman Inc., a large Burlington-based insurance agency.

Mr. Chaffee downplays the effect his departure may have on the management company's growth, observ-

ing that Lincoln (Link) Miller, the firm's chairman and a long-time insurance broker, was a key backer of Vermont's captive statute from its beginning.

"Link was involved in captive management long before I was here. He ran the firm before I came along and is well-equipped to continue the management firm," Mr. Chaffee said.

He also disputes suggestions that local captive management companies will play little—if any—role in the Vermont captive scene, not-

ing there is room in Vermont for both local and national management companies.

Some captive parents, with a broad array of in-house captive and risk management services, simply will not want to pay for unneeded services from a national firm, Mr. Chaffee says. Such companies can be well-served by local managers that have a lower fee structure, he says.

Other executives at local management companies support Mr. Chaffee's view.

"There always will be a role played by the local management companies. They will manage captives for firms that don't need and don't want to pay for a complete line of management and accounting services," said Mr. Huskes of Green Mountain Captive Management.

While Vermont's captive statute has been praised by both risk managers and captive managers, the

premium tax provisions in the law will probably be amended this year, which could further accelerate captive growth, experts say.

Under Vermont's captive law, a 1% tax is charged on direct written premiums, but reinsurance premiums are not taxed.

However, the captive statute also requires that a prospective captive prove that it will provide an economic benefit to the state of Vermont. That economic benefit test is tough for a captive to meet if it only assumes reinsurance and thus does not generate premium taxes.

Regulators, with the support of captive managers, are proposing to impose a very small reinsurance premium tax so captives that exclusively write reinsurance can meet the economic benefit test.

A measure, H. 631, now working its way through the Vermont Legislature, would impose a tax of 0.3% on reinsurance premiums assumed by captives. To make the proposal

revenue-neutral, the 1% tax on direct written premiums would be lowered to 0.8%.

Captive managers say this proposal is expected to be modified slightly before it is enacted. Under the expected modification, the reinsurance tax would be 0.3% on the first \$15 million of reinsurance assumed and 0.2% on reinsurance premiums exceeding \$15 million.

At the same time, under this two-tier structure, the tax on the first \$15 million of direct premiums written by a captive would be 0.8%, while the tax on direct premiums exceeding \$15 million would be 0.6%.

Captive managers say a reinsurance tax could act as a boon to captive development since reinsurance captives, which otherwise might be rejected by the state, now will be able to meet the economic benefit test.

"It is an attempt to rebalance the
Continued on next page

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Vermont-based captives
 (1985 results)

Management company Captive/Parent	Gross premiums	Net income/loss
American Risk Management		
First Charter Insurance Co. BF Goodrich Co.	\$131,033	\$298,501
NRHC Insurance Corp. National Refractories & Minerals Corp.	945,302	426,746
Three Rivers Insurance Co. Aluminum Co. of America	8,457,362	-531,649
Ver Bes' Insurance Co. Weyerhaeuser Co.	4,293,646	762,341
Vermisco Inc. Fortune Investments Inc.	230,571	60,788
Becher & Carlson		
GarDen Insurance Co. of Vermont Elixir Industries	4,324,435	240,173
Toyota Motor Insurance Corp. Toyota Motor Sales U.S.A. Inc.	336,795	-1,858
Green Mountain Captive Management Inc.		
Machine Tool Assurance Ltd. Inc. Minster Machine Co.	0	38,862
Verlan Ltd. Owned by individual policyholders.	3,813,291	46,481
Frank B. Hall Management Co.		
KKROWN Insurance Co. KKROWN Associates L.P.	7,368,922	-18,207
Johnson & Higgins Services Inc.		
ABS Boiler & Marine Insurance Co. American Bureau of Shipping	2,893,661	-3,975,389
Astro-II Inc. Boeing Co.	7,587,470	-18,113,678
Cabot Insurance Co. Ltd. of Vermont Cabot Corp.	Not available	Not available
Citicorp Insurance (USA) Inc. Citicorp	1,447,389	1,018,410
Tiara Insurance Co. Crown Central Petroleum Corp.	Began underwriting in 1986	
Westel Insurance Co. Westin Hotels	11,532,791	436,651
M&M Insurance Management Services Inc.		
Bluefield International Insurance Inc. Mobil Holdings Corp.	20,430,502	3,759,676
CF Financial Services Inc. Consolidated Freightways Inc.	5,700,467	-13,644
Rockefeller Insurance Co. 5600 Inc.	533,212	52,120
Vermont Insurance Management Inc.		
Elm Insurance Co. Electric Insurance Co.	10,744,513	700,234
Greenway Insurance Co. of Vermont Ogden Corp.	5,624,560	431,651
HC Insurance Co. Hallmark Credit Corp.	288,314	-75
Health Providers Insurance Co. American Hospital Assn.	4,730,278	-71,219
Keystone American Insurance Co. LLC Corp.	2,603,700	635,610
NL Insurance Ltd. of Vermont NL Industries	2,809,947	345,429
Yankee Captive Management		
Brookstone Insurance Co. American Can Co.	255,000	87,101
PHI Insurance Co. Pioneer Hi-Bred International Inc.	2,174,077	69,958
Robins Marine & Casualty Insurance Co. Todd Shipyards Corp.	1,987,900	618,989
Trust Property & Casualty Insurance Co. Trust Life Insurance Co. (Alexander & Alexander Services Inc.)	3,895,417	-1,026,869
Self-managed		
National Telecom Corp. National Telephone Cooperative Assn.	951,846	-93,210

Source: Annual statements filed with the Vermont Insurance Department.
 Chart: Holly Seguine, Amy Palmer

Vermont captives

Continued from previous page
 tax structure so that all captives pay their fair share," said Mr. Chaffee. "Reinsurance captives will be able to show that they are contributing to the economic welfare of the state."

While the premium tax structure may be changing, the essence of Vermont's captive law, which its backers say is more attractive than any other state's, remains intact.

Vermont has relatively low capitalization requirements. A single-parent captive can be set up with a capital and paid-in surplus of \$250,000. An industrial insured

captive needs \$500,000 in capital and surplus, while an association captive needs \$750,000.

An industrial insured is a group captive in which each member must have at least 25 employees, \$25,000 in annual insurance premiums and a full-time worker responsible for insurance matters.

By contrast, the other major domestic captive domiciles, Colorado and Tennessee, require \$750,000 in capital and paid-in surplus for a pure captive and \$1 million for a trade association captive.

In addition, in the case of pure captives, Vermont has easier annual financial reporting requirements than Colorado or Tennessee.

Vermont also provides freedom from prior approval for rates and forms.

The new commissioner of the Department of Banking and Insurance says he supports the state's captive statute and wants to encourage further captive formations.

"The statute quo doesn't change with a new commissioner," said Thomas Menson, a former banking executive who replaced David Bard as head of the department.

"The captive statute is in place. There is a statewide consensus that financial services, of which captives are a part, should be developed and encouraged," Mr. Menson said.

Firms eye Vermont for first risk groups

By JERRY GEISEL

MONTPELIER, Vt.—The first product liability risk retention groups in Vermont may be formed this summer.

Members of two major Chicago-based trade associations—the National Marine Manufacturers Assn. and the Assn. of Home Appliance Manufacturers—are actively considering formation of risk retention groups to cover their members' product liability exposures.

"Vermont is the ideal state for risk retention groups because of its state-of-the-art captive insurance company law," said Richard Duer, underwriting manager for Kirke-Van Orsdel Inc., a Des Moines, Iowa-based captive manager and administrator who is advising the members of the two associations.

Under the federal Risk Retention Act, businesses can form captive insurers—known as risk retention groups—to self-insure product liability exposures with minimal interference from state regulators. Coverage only can be offered to member-owners; policies cannot be sold to the general public.

After a risk retention group is licensed in one state, it can operate nationwide without having to be separately licensed in other states. In addition, it does not have to seek rate and policy form approval from other state regulators.

Congress approved the Risk Retention Act in 1981 in reaction to the product liability crisis of the 1970s, when insurers were accused of panic-pricing product liability coverage. Legislators wanted to give manufacturers a new risk financing alternative—relatively easy-to-establish captive insurance companies—in case product liability coverage again dried up.

But when product liability insurance became cheap and plentiful in the early 1980s, manufacturers had little incentive to establish risk retention groups.

In fact, HOW Insurance Co., chartered in Delaware and sponsored by a homebuilders association, is believed to be the only major domestic risk retention group to be established.

But as product liability coverage become more scarce and expensive, new risk retention groups are likely to be formed, Mr. Duer said. "This is the first year when it becomes economically feasible to form a risk retention group."

However, even more businesses may form risk retention groups if Congress approves legislation, already passed by the Senate Commerce Committee, that would allow companies, trade groups and some professionals to establish risk retention groups for all liability exposures except workers compensation.

Members of the National Marine Manufacturers Assn., which make recreational boats and other marine equipment, are ideal candidates to form a Vermont-based risk retention group for product liability exposures, Mr. Duer said. "It is almost as if the Risk Retention Act was written for us."

The marine manufacturers, according to Mr. Duer, contend that rising product liability insurance rates are not based on their loss experience.

A recent survey of 257 trade association members found that insurers wanted to charge \$29 million in premiums for their combined product liability exposures, even though the members said their insurers had only paid \$1.6 million in claims over the last five years, according to Mr. Duer.

"Insurers think this class of business is awful. The experience indicates otherwise," Mr. Duer said. "Some companies have been hit with 1,500% premium increases in the last year, despite having no claims."

Establishing a risk retention group to provide primary product liability insurance "would allow us to provide coverage for companies that have not been fairly rated," Mr. Duer said.

The marine manufacturers plan to apply next month to the Vermont Department of Banking and Insurance for an association captive charter to form the risk retention group, Mr. Duer said.

Under Vermont's captive statute, an association captive must post a minimum capitalization of \$750,000. Capital for the marine manufacturers captive could come from the association and from individual members, Mr. Duer said.

The captive, tentatively called National Marine Manufacturers Insurance Co., could initially develop a premium volume of \$5 million, and later write up to \$10 million in premium, he added.

As currently envisioned, the Skokie, Ill., office of risk management and actuarial consultant Tillinghast, Nelson & Warren, would recommend a premium structure for the captive. Premiums would be based on policyholders' annual sales and loss experience.

Policyholders would have to attend special loss-control seminars and would be expected to have in-house safety experts, Mr. Duer said. "Everyone wants to make this program safety-first."

The captive would be managed by Kirke-Van Orsdel through Johnson & Higgins Services Inc. in Vermont, he said.

The other possible Vermont risk retention group is intended to ease liability coverage capacity problems for members of the Assn. of Home Appliance Manufacturers, Mr. Duer said.

Mr. Duer said the insurance offered by the appliance manufacturers' risk retention group be first-layer excess liability coverage over the members' high self-insured retentions and under high excess layers purchased from commercial insurers.

"This would allow members to stack their liability coverage over a higher primary base," Mr. Duer explained.

A small group of appliance association members, including Whirlpool Corp., Maytag Co. and White Consolidated Industries Inc., are now examining the risk retention group proposal, Mr. Duer said.

The appliance manufacturers' risk retention group/captive probably would be established as an industrial insured under Vermont's captive law, Mr. Duer said.

Industrial insured captives have easier reporting requirements and a lower capitalization requirement—\$500,000 as opposed to \$750,000—than association captives.

To qualify as an industrial insured, each group member must have at least 25 employees and have more than \$25,000 in annual insurance premiums as well as a fulltime worker responsible for insurance matters.

vermont

Colorado sees slow but steady growth

By STEVE TARAVELLA

colorado

DENVER—Colorado's captive insurance community was quiet last year, but captive managers here don't expect it to stay that way for long.

No new captives were formed here in 1985 and, although none has dissolved since *Business Insurance's* 1985 Colorado captive report, two have joined the ranks of those that are not writing new business but are, for various reasons, keeping their licenses.

Growth has not been as swift as captive managers a year ago predicted it would be (*BI*, April 15, 1985). But today they see definite, but slow, captive formation in the Rocky Mountain state's future, fueled both by the tightening commercial insurance market and by a commissioner increasingly supportive of captive business.

M&M Insurance Management Services Inc. is working now with two serious prospects, one an association and one an independent business. Both may put down roots in Colorado over the next two months; in fact, an interview with M&M was postponed last month because potential captive founders were visiting from out of town.

Frank B. Hall Management Co. and Risk & Benefit Management Systems Inc. each say they are working with a business favoring Colorado as home for its captive. The three management companies report numerous other inquiries in the past three months by parties perhaps less serious-minded than the others, but nonetheless indicative of the growing interest in captives.

"Companies are thinking more about captives now than they were two years ago. That's encouraging," says Arnold Goldstein, assistant vp at Anistics Inc. in Denver, a captive manager that is part of Alexander & Alexander Services Inc.

Colorado's insurance department is also seeing renewed interest in the domicile, and it reports being approached by about five potential captive parents over the past three months.

New captives would join a community of 23 captives already licensed in Colorado, the same number licensed in 1985 and down from 26 in the spring of 1984. These captives collectively reported \$49.2 million in gross written premiums in 1984, the most recent year for which figures are available.

One business recently queried the department about setting up a captive to fund bond deductibles and directors and officers liability coverage for a group of banks. John Kezer, insurance commissioner for 14 months, says he will probably respond with a thumbs-down on the project because of a Colorado statute prohibiting any bank from owning an insurance company.

Other potential Colorado captive parents include Avis Inc., the rental car giant in Garden City, N.Y., which approached Mr. Kezer through a local attorney, and a large Colorado employer that Mr. Kezer declined to identify.

"If one or two of these get noticed, I think it will stimulate more interest," the commissioner says.

That interest would be welcome news to Colorado, which has seen the captive community in Vermont flourish at its expense; three Colorado captive parents, including Seattle-based Boeing Co., have left the domicile for what they perceived to be a more favorable regulatory environment in the Green Mountain State.

"With the ease of setting up captives in Vermont, it's been easier for companies to go in that di-

rection," says Richard A. Johnson, vp at M&M Insurance Services Inc. in Denver, a subsidiary of Marsh & McLennan Inc.

But captive managers here are working to avoid such an exodus.



Mr. Johnson

They are meeting with Colorado's insurance regulators, both individually and collectively, to air their concerns about Colorado's captive law. And, an executive from M&M Insurance Management's New York headquarters met briefly with the regulators.

"Any growth in Colorado is going to hinge on whether we can get some changes through in the law," says Thomas G. Littell, president of RBMS in Aurora, Colo. "That would significantly help attract more interest.

"We're very optimistic. I don't think Colorado would ever go as far as Vermont in terms of flexibility, but certainly, key things can be done to make it more attractive," he says.

The changes being sought could be accomplished through regulatory or legislative actions.

Among the issues being discussed, according to the captive managers, are:

- Colorado's capital and surplus requirements.
- Whether the state would let captives write accident and health business.

- Whether it would abolish policy and rate approval requirements.

- What professional standards captive managers should meet.

- What constitutes "need" in Colorado's captive law, referring to a requirement that potential captive parents prove they cannot obtain coverage in the commercial market or that they can only obtain the coverage at an unreasonable price.

"If one considers that a multibillion dollar corporation isn't going to set up a captive insurance company as a knee-jerk, fun thing to do, that it's only going to do it if it makes good financial sense, then there is a need for that corporation to do that, whether the need is to stabilize insurance premiums, stabilize deductibles or stabilize retention levels," explains Alverd C. Stutson, executive vp at Hall in Englewood.

Hall, the oldest and largest Colorado manager, today handling captives with assets of more than \$100 million, says the prospect of discussing regulatory changes with the department is "very exciting."

Colorado regulation requires that single-parent captives capitalize at \$750,000 and association captives at \$1 million, although an unwritten rule demands \$1 million from single-parent captives as well.

Less stringent capitalization requirements in Vermont, where a pure captive can be set up with capital and paid-in surplus of \$250,000 and an association captive with \$750,000, snared one captive parent that first had inquired into Colorado, says Mr. Johnson.

But Colorado's captive managers offer nothing but praise for the attention and understanding Mr. Kezer and Daniel J. Colaianna, deputy insurance commissioner, are devoting to captive issues.

"They realize how important it is to get some activity going in Colorado. They can see what's going on

Manager Parent	Premium volume		Captives		Staff	
	1985 ¹	1984 ²	1985	1984	1985	1984
M&M Insurance Management Services Inc. Marsh & McLennan Inc.	\$17 million	\$10.5 million	5	6	4	6
Risk & Benefit Management Systems Inc. Bayly, Martin & Fay Int'l Inc.	\$16 million	6 million	4	6	6	7
Frank B. Hall Management Co. Frank B. Hall & Co. Inc.	\$15 million+	\$32.2 million	10	10	8	8
Anistics Inc. Alexander & Alexander Services Inc.	\$300,000	\$394,637	3	3	2	3

¹ Source: Captive managers' estimates

² Source: 1984 annual captive insurance company statements

Chart: Holly Seguire, Amy Palmer

in Vermont and they realize they're missing the boat on some premium dollars," says M&M's Mr. Johnson.

Mr. Johnson says Colorado's regulators are approaching the issue with an open mind, thinking, "OK, what can we do now to get captives back to Colorado?"

For his part, Mr. Kezer says he is willing to review the regulation "to see if it's in keeping with the times," especially in this tight market. Nonetheless, he believes Colorado offers reasonable, sound captive supervision, not "regulatory overkill."

There is some evidence already that the department is receptive to change. While it has not officially abandoned its rule against captives writing third-party business, it now sometimes permits them to write that business if the risks are of the same type as those of the parent.

For example, Michigan General Corp. of Saddle Brook, N.J., continues to insure the exposures of

former affiliates through its Lone Star Indemnity Co. captive, even though the risks are no longer considered its own, Mr. Johnson reports.

But Hall believes "consistent regulation" is one of Colorado's strongest suits and, in fact, does not see all of it as hindering growth.

Mr. Stutson recalls one malpractice reinsurer that has agreed to reinsure captive business Hall managed in Colorado but not in Vermont because it wants to operate with that regulation. He declined to identify the insurer.

Also, while Colorado requires captives to submit policy forms and rates for department approval, not one policy form Hall has submitted since 1972 has been denied, Mr. Stutson points out.

This apparently cooperative working relationship with the insurance department, combined with the pressures of the tightening market, have made most managers here optimistic about their domi-

cile's future.

"I feel really positive for 1986 and '87. It's going to be good growth," says Mr. Johnson. M&M has cause for enthusiasm; its two prospects appear to be moving swiftly toward incorporation.

One is a not-for-profit association looking for general liability and faced with an April 15 renewal date.

The other is Trailways Lines Inc., a transportation company in Dallas that is seeking a facility for general and auto liability. Insurance managers at the company are working to meet a May 1 renewal deadline.

The department, which must approve each new captive, has been "very receptive" to approving captives by both parents, which are also brokerage clients of affiliate Marsh & McLennan Inc., Mr. Johnson says.

Hall has one prospect that will almost certainly establish its cap-

Continued on next page

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Colorado-based captives

Management company Captive/Parent	Gross written premiums	Net income	Management fee
Frank B. Hall Management Co.			
Arroyo Insurance Co. ¹ Lear Siegler Inc.; Santa Monica, Calif.	\$145,237	\$125,416	\$27,000
Chesapeake Casualty Insurance Co. Chesapeake Physicians, P.A.; Baltimore	377,679	(62,181)	26,700
Clifton Casualty Insurance Co. Emory University Clinic; Atlanta	816,559	367,980	60,000
Denver Insurance Co. ¹ American Medical International; Eeverly Hills, Calif.	17,450,924	31,566	50,000
Greenway Insurance Co. ¹ American Medical International; Eeverly Hills, Calif.	3,966,209	(202,786)	38,000
Havican Insurance Co. Holy Cross Shared Services Inc.; Notre Dame, Ind.	6,317,446	2,109,495	105,433
Interstate Indemnity Co. CLC of America Inc.; Houston	181,643	32,211	24,000
Lombardy Insurance Co. Clougherty Packing Co.; Los Angeles	1,189,400	734,959	28,000
Regal Insurance Co. Chatham Supermarkets Inc.; Detroit	1,744,595	130,115	20,004
United Insurance Corp. ¹ Empire Gas Corp.; Lebanon, Mo.	(149,465)	54,470	24,000
M&M Insurance Management Services Inc.			
Columbine Casualty Co. ¹ Tenneco Inc.; Houston	0	(3,432)	1,681
Insurance Co. of Colorado Inc. Darling-Delaware Co. Inc.; Chicago	2,276,850	250,870	39,800
Lone Star Indemnity Co. Michigan General Corp.; Saddle Brook, N.J.	2,543,550	286,512	32,400
Mountainview Insurance Co. W.R. Grace Co. & Hanna Mining Co.	1,018,504	360,745	28,200
MSJ Insurance Co. Sisters of Charity; Cincinnati	4,640,632	40,844	48,997
Risk & Benefit Management Systems Inc.			
Constance Insurance Co. Crawford Fitting Co.; Cleveland	260,000	99,424	14,453 ²
Neimann Insurance Co. Franciscan Health System; Philadelphia	2,102,618	6,425	127,831 ³
Wescap Insurance Co. National Welding Supply Assn.; Philadelphia	3,590,087	14,488	112,113 ³
Anistics Inc.			
Coachmar Insurance Co. IU International Corp.; Philadelphia	286,021	166,584	30,000
GarDen Insurance Co. ¹ Elixir Industries Inc.; Gardena, Calif.	(67,053)	69,077	3,078
Holborn Reinsurance Co. ¹ Whittaker Corp.; Los Angeles	0	(115,375)	17,894
Sunset Insurance Co. Santa Fe Southern Pacific Corp.; San Francisco	41,563	89,293	22,500
Johnson & Higgins Services Inc.			
Colinco Inc. Boeing Co.; Seattle	314,719	833,825	13,500

¹ Wrote no new business in 1985
² Includes letter-of-credit fees
³ Includes consulting fees
 Source: Annual statements filed with the Colorado Insurance Department. All figures are for 1984; 1985 data not yet available.
 Chart: Holly Seguire, Amy Palmer

Colorado captives

Continued from previous page
 tive here during 1986, the management company says. Hall will say only that the parent is American.

RBMS, whose captive clients handled \$16 million in total premium volume last year, says it is working with one company seriously considering a Colorado captive, but declined to identify it. Several Colorado businesses have also queried RBMS about captives for associations to which they belong.

An Avis captive is a possibility, but is "really in the exploratory stage," cautions Stanley Roth, Avis vp-insurance and claims. The captive probably would handle domestic auto-related exposures. Avis already operates a captive for its international risks, Bermuda-based Visa Assurance Ltd.

Captive managers agree that employers are not being discouraged by the Internal Revenue Service's numerous Tax Court victories against parent companies seeking a deduction for premiums paid to their captives.

The transportation company setting up a captive with M&M doesn't even intend to take a tax deduction for premiums paid to its captive, Mr. Johnson says. It's strictly looking to get the coverage and to open up the reinsurance markets.

"Premiums have gone up so much that the significance of the tax deduction has really become minimal," says Mr. Littell.

"People seem to be just disregarding it. Those who are interested in captives have already done their homework and know the negative side, but still seem interested."

Today, most Colorado captives are writing working layers of coverage, but some also write excess layers. Workers compensation, product liability, general liability and medical malpractice are among the most common coverages written here, although at least one captive, Havican Inc. owned by Holy Cross Shared Services Inc. in Notre Dame, Ind., is writing unemployment compensation insurance.

Besides attracting new captives to the state, captive managers here predict the tightening market will draw more premium into the captives already operating—at least as much as capitalization levels will permit—and evidence of that exists already.

Santa Fe Southern Pacific Corp., for example, was preparing to close down its Colorado captive, Sunset Insurance Co., but the tightening market caused the San Francisco-based company to railroad those plans.

"All of a sudden, things are turning around for it," reports risk manager John A. Edwards. The company now hopes to use Sunset for a March 31 property renewal. The captive is managed in Denver by Anistics.

MSJ Insurance Co., meanwhile, increased its aggregate liability limits to \$15 million from \$4 million last May, reports M&M's Mr. Johnson. M&M manages MSJ, a captive of the Sisters of Charity in Cincinnati.

Crawford Fitting Co. last year began putting excess liability coverage through its Constance Insurance Co. captive to augment what the parent was able to find in the commercial insurance market, says Mr. Littell of RBMS, the Bayly, Martin & Fay International Inc. subsidiary that manages Constance.

Constance continues to insure Crawford's product liability exposures.

Wescap Insurance Co., Colorado's only association captive, grew sharply in policyholder members last year, Mr. Littell says. At year-end 1985, Wescap had about 300 policyholders, up from a peak of 160 during its 1983-84 policy

year. Under a package policy fronted by Insurance Co. of North America, Wescap insures the general liability, product liability, auto liability and physical damage and property exposures of National Welding Supply Assn. members nationwide.

Wescap's premium volume has "really mushroomed," says Mr. Littell, jumping to about \$9 million in gross written premium at year-end 1985 from about \$3 million annually in recent years.

To sustain the additional business, Wescap has increased its surplus since last September by \$5.9 million, generated by a new membership drive.

Neumann Insurance Co., owned by the Franciscan Health System in Philadelphia, brought one more hospital on board last year, bringing the institutions covered to 11. Neumann writes medical malpractice coverage of \$2.5 million per occurrence and \$25 million aggregate, and also writes excess above that.

Lone Star's parent, Michigan General, has merged with General Felt, which might funnel some of its exposures through the Colorado captive as well, Mr. Johnson says.

Insurance Co. of Colorado Inc. and Mountainview Insurance Co. are operating at about the same level they were a year ago. Mr. Johnson suspects their parents might retain a greater amount of the risk and use the captive above a higher retention. Darling-Delaware Co. Inc. owns Insurance Co. of Colorado and W.R. Grace Co. and Hanna Mining Co. jointly own Mountainview.

In other captive news, Elixir Industries Inc. in Gardena, Calif., has moved its captive's license from one manager to another.

Elixir transferred control of GarDen Insurance Co. to Anistics in February. GarDen had been managed by RBMS since 1978. The captive was basically empty at the time, and still is, having transferred its business to Elixir's Vermont captive, GarDen Insurance Co. of Vermont.

Elixir, a manufacturer of mobile home and trailer construction components, gave GarDen to Anistics "purely (because of) the fees," says Elixir's controller Steve Smith. Last year, Elixir paid RBMS a management fee of about \$1,500; this year, RBMS sought to apply a \$24,000 annual minimum fee to GarDen, Mr. Smith said.

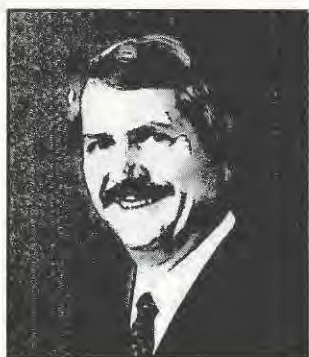
"Why pay \$24,000 a year for a shell?" Mr. Smith says. He expects to pay Anistics about \$3,000 in annual fees.

Besides GarDen, Colorado captives that wrote no new business in 1985 include Greenway Insurance Co. and Denver Insurance Co., two large medical malpractice captives owned by American Medical International Inc. in Beverly Hills and managed by Hall.

AMI decided last fall to self-insure the primary layer of coverage written by the captives and to purchase excess coverage above that (BI, Sept. 2, 1985). The company paid \$166,329 to Hall in management fees in 1983 and 1984, according to the captives' annual statements.

Other inactive but still licensed Colorado captives are: United Insurance Corp., a captive of Empire Gas Corp. in Lebanon, Mo.; Arroyo Insurance Co., which parent Lear Siegler Inc. in Santa Monica is using to run off work comp and product liability coverages written from 1976-80; Holborn Reinsurance Co., owned by Whittaker Corp. in Los Angeles; and Columbine Casualty Co., a captive of Houston-based Tenneco Inc.

Both Anistics and Hall manage Vermont captives from their Colorado offices, although Anistics is in the process of putting down roots in Vermont and M&M does the accounting for a Tennessee captive from its Denver office.



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Delaware hopes to get its first captive in 1986

By JERRY GEISEL

DOVER, Del.—Delaware hopes to attract its first captive insurance companies this year.

State Insurance Department officials say they've seen a recent burst of interest among businesses to set up insurance company subsidiaries under Delaware's 1984 captive law.

"Two months ago, we received about one inquiry a week," says Daniel Koch, admissions officer at the Delaware Insurance Department. But he says the department now is logging about a dozen calls each week from businesses wanting to know more about the state's captive regulations.

"Because the market has hardened, companies are not able to find coverage and they are seriously considering forming captives," Mr. Koch says.

Delaware officials say the state has a lot to offer prospective captives. They promise smooth and fair regulation of captives by a lean-but-efficient Insurance Department.

With a staff of about 40, "We are large enough to get the job done, but not too large as to be unwieldy," Mr. Koch said.

"This is a very streamlined department. Employers know that if they have a problem, they can quickly obtain an answer."

Under the Delaware captive statute, the state has the same liberal capitalization requirements as Vermont: \$250,000 for a pure or single-parent captive; \$500,000 for an industrial insured; and \$750,000 for an association captive. An industrial insured captive is an insurance program formed by several companies.

Also, no prior approval is required on rates and forms. A 1% premium tax is imposed on direct insurance written by captives.

However, Delaware's captive law, modeled after Vermont's 1981 statute, differs in one significant way: Only companies whose principal place of business is Delaware can establish captives in the state—a provision that will limit the number of captives that want to make Delaware their domicile.

This isn't the first time that Delaware Insurance Department officials have been optimistic about attracting captives. Last year, for example, officials predicted there was a chance that several commercial insurance buyers would set up captives before the end of the year (*BI*, April 15, 1985).

One reason that businesses may have held off from forming Delaware captives, some observers say, is that the state—through the actions of a previous insurance commissioner—may have acquired a reputation as being hostile to captive insurance programs.

David Elliott, the former insurance commissioner who was defeated in 1984 in a re-election bid by current Commissioner David Levinson, did not support the captive proposal as it was working its way through the Legislature. Mr. Levinson, by contrast, has been an outspoken advocate of the captive statute.

In addition, Mr. Elliott openly battled with a national association of home builders that wanted to establish a risk retention group—a kind of captive insurer—in Delaware to cover association members' product liability exposures.

Ultimately, the homebuilders and their captive—HOW Insurance Co.—had to obtain a federal court order to force Mr. Elliott to recognize HOW as a bona fide risk retention group (*BI*, Oct. 17, 1983).

Mr. Koch stresses that the con-

delaware

trovery surrounding HOW is over, and the department now is welcoming well-structured, financially sound risk retention groups.

"We want bona fide risk retention groups to come to Delaware. Being a center for risk retention groups will add to the economy of Delaware," Mr. Koch says, explaining the state's interest in the groups.

Mr. Koch notes that the state is just beginning to overhaul its insurance code and the final statute will further encourage risk retention group formation in Delaware. ■

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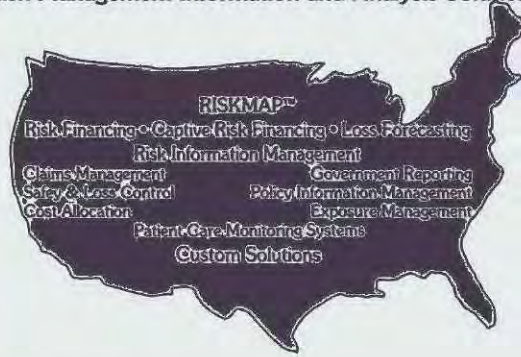
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MetPRO ... Our Experience Shows

Tough market is seen as lure to captives

By DAVE LENCKUS

tennessee

NASHVILLE, Tenn.—Despite Tennessee's sluggish captive activity, some observers still believe the state will attract more captive business because of the property/casualty insurance crunch.

The number of captives licensed in Tennessee dropped to six in January when Methodist Health Systems of Memphis surrendered the license of its captive, United States Security Insurance Co., to the state Insurance Department.

The captive reported net income of \$47,800 last year, according to the department.

MHS combined its captive's book of business with the captive's subsidiary, United States Security Fire & Casualty Co., last year.

The captive wrote professional liability and general liability coverages for MHS. The subsidiary is a commercial insurer that writes third-party hospital professional liability and hospital general liability coverages in Tennessee, Texas, Mississippi and Georgia. The insurer is licensed in all four of these states and is seeking licenses in Arkansas and Alabama also.

"We no longer saw a need for a

captive," explains Buddy Nichols, president of U.S. Security Fire & Casualty, a senior vp of MHS and president of the hospital chain's now-defunct captive. "And, we can just as easily insure the parent in Fire & Casualty," he said.

Although MHS has left the captive market, Mr. Nichols gives good marks to Tennessee as a captive domicile. "I found the Tennessee department to be almost overly cooperative," he said.

Mr. Nichols does not understand why the state has not attracted more captives, but he is one of several observers who expect more captives to locate there.

"I think the growth will go beyond the four, five or six that's been here, with the new increased emphasis on captives and poolings," he predicted.

The number of licensed captives in Tennessee has hovered between five and seven for several years.

The manager of another Tennessee-based captive also believes the state eventually will attract more captives.

"We still feel positive" about Tennessee as a viable captive domicile, said John Matthews, an account executive with American Risk Management Inc. in Nashville.

"In fact, with the state of the insurance market, we feel very positive. We feel like it's got an excellent future," Mr. Matthews said.

In Tennessee, ARM manages Pinkerton Insurance Co., which is owned by Pinkerton's Inc. of New York, the security and investigative agency. The captive reported a net loss of nearly \$803,500 in 1985, according to the state Insurance Department.

"Now, with the change of the market, people are looking at captives who never had them. People already with captives are looking at a second captive. Tennessee will get its share of that," Mr. Matthews said.

He explained that many multinational companies that already own captives to cover their domestic exposures are considering forming additional captives to cover their foreign exposures.

Mr. Matthews also said there is "greater than an 80% chance" that a "couple of companies" currently

'With the change of the market, people are looking at captives who never had them. People already with captives are looking at a second captive. Tennessee will get its share of that,' says John Matthews of ARM.

investigating forming captives will locate them in Tennessee. However, the companies have not made any firm commitments, he conceded.

He declined to identify the companies by name or industry.

Not all observers believe the state will attract any more captives than it already has, however.

"I don't see a great amount of growth," predicted Robert Pierson, president of Parthenon Insurance Co., a captive insurer owned by Nashville-based Hospital Corp. of America.

Mr. Pierson contended that the Tennessee Insurance Department is not aggressively promoting the state as a captive domicile.

"It seems to me they haven't been as aggressive in seeking captives as they were initially," he said.

Bill Hosea, director of financial affairs in the department, does not deny that.

"We are supporting captives as an alternative form of self-insurance, but we are not campaigning for them," he said.

However, Mr. Hosea believes the state will garner its share of captives.

"I assume things will pick up," he said, though he could not estimate the number of new captives that might be domiciled in Tennessee.

Mr. Pierson theorized that the state's capital and premium requirements may scare away prospective captives. Tennessee requires \$750,000 in combined capital and surplus when forming a pure captive and \$1 million when forming an association captive.

The state also requires a minimum of \$500,000 in annual premium volume from pure captives and \$1 million from association captives.

Vermont, for example, requires \$250,000 in capital and surplus for a pure captive and \$750,000 for an association captive. And, the state does not require captives to generate a minimum premium volume.

But Tennessee's stricter requirements could benefit a captive, Mr. Pierson contended.

"We like the regulations. We formed a captive to gain access to reinsurance, and the reinsurers like that kind of regulation," he said.

Another Tennessee captive has not been as fortunate in that regard, however. Financial Guaranty Insurance Co., owned by State Credit Union Share Insurance Co. of Chattanooga, has not written any business since it was formed in 1984.

SCUSI formed the captive to gain access to the reinsurance market but has been unable to do so, said Tom Gaines, president of SCUSI.

"We have not been effective in finding reasonably priced reinsurance," he said.

None of the observers believes that tax rulings that have gone against captive parents will affect the growth of captives in Tennessee.

"I don't think it's had any effect," observed Mr. Matthews of ARM. "Captives are formed for insurance reasons, not tax reasons, in general, at least with every captive and client I have worked with."

"Taxes weren't the motivating reason HCA set up Parthenon. The motivation was the last medical malpractice crisis in the 1970s," Mr. Pierson noted.

Parthenon writes professional liability and general liability coverages for HCA-owned facilities. The captive reported more than \$4.3 million in net written premium volume and \$29,200 of net income last year, according to the state Insurance Department.

HCA last year formed a commercial insurer, Parthenon Casualty Insurance Co., to reinsure Parthenon's exposures above \$250,000 per occurrence, provide medical malpractice liability to physicians at HCA-owned facilities and offer coverage to non-HCA-owned facilities. The combined net written premiums of both the captive and the commercial insurer totaled more than \$135.6 million in 1985, according to Mr. Pierson.

Currently, the commercial insurance company is writing only a few "pilot" malpractice coverages for physicians at HCA facilities while HCA evaluates whether it will proceed with its plans for the commercial insurer, Mr. Pierson said.

"It would help our relationship with our staff by providing that added benefit. Offsetting that would be our exposure. We're evaluating that now," Mr. Pierson commented.

He expects that HCA will determine within the next three months whether it will expand Parthenon Casualty's operations or fold the facility.

Mr. Pierson said the commercial insurer, which is licensed in 10 states, will not be maintained solely to reinsure Parthenon Insurance Co.'s exposures. He added the captive will not be folded if Parthenon Casualty's operations are expanded.

Other captives in the state are Financial Services Insurance Co. of Tennessee, owned by Deutz-Allis Corp. of Milwaukee; Distributors Insurance Co., owned by members of the Chattanooga-based Tennessee Valley Public Power Assn.; and Hospital Underwriting Group Inc., owned by a group of hospitals.

West Germany-based Klockner-Humboldt-Deutz AG acquired Financial Services last May when it purchased several major elements of the Allis-Chalmers agricultural equipment business, including Allis-Chalmers Credit Corp., which was the captive's original owner. The West German company then established Deutz-Allis to handle its North American business.

Financial Services, which is managed by broker Corroon & Black, reported a net income of more than \$1.5 million last year, according to the state Insurance Department.

Distributors Insurance Co., which is managed by broker Marsh & McLennan Cos. Inc. in Atlanta, reported a net written premium volume of \$2.23 million and a net loss of \$548,000 last year, according to the department. Members of the TVPPA distribute power generated by the Tennessee Valley Authority.

Hospital Underwriting Group last year reported a net written premium volume of nearly \$7.9 million and net income of about \$473,000, according to the department.

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Court rulings fueling group captive growth

By **STEPHEN TARNOFF**

The controversy over whether businesses can take tax deductions for payments to single-parent captives is rapidly becoming a dead issue in the courts.

While some cases brought by businesses that assert their right to deduct premiums are pending, a series of recent court decisions almost uniformly have denied such deductions.

As a result, companies may consider forming group-owned captives rather than single-parent insurance subsidiaries, some attorneys and consultants say.

And, others contend the tightening commercial insurance market is fostering an opportunity for businesses to push for legislation that would permit companies to take deductions for premiums paid to captives and for contributions to self-insurance reserves.

However, little has been accomplished on the legislative front so far, and there are no bills currently pending in Congress to authorize such deductions. The Loss Reserve Deduction Committee, a coalition of risk management interests that has in the past pushed for such legislation, has been largely dormant, its members say.

Last year, at least six court decisions said that companies cannot deduct as ordinary and necessary business expenses premiums paid to their captives because there was no transfer of risk—and thus no insurance—involved.

These included decisions by the U.S. Tax Court involving Humana Inc., Clougherty Packing Co. and Raymond C. Pariseau; the U.S. Claims Court involving Mobil Oil Corp.; and the 10th U.S. Circuit Court of Appeals involving Stearns-Roger Corp. (*BI*, Aug. 26, 1985; June 3, 1985).

Also, the tax court held late last year that a professional corporation, Anesthesia Service Medical Group Inc., could not take deductions for payments made to a medical malpractice insurance trust, because there was no risk shifting and the payments did not constitute malpractice insurance premiums.

Only in a case brought by Crawford Fitting Co. did a court hold for the taxpayer. But in that case, the company did not directly own the insurer to which it paid premiums—a deciding factor in the judge's ruling (*BI*, Feb. 18, 1985).

The federal government subsequently appealed that decision to the 6th U.S. Circuit Court of Appeals. However, it later withdrew the appeal.

Some tax cases are pending, including a suit brought by Gulf Oil Co., which is before the U.S. Tax Court in Dallas (*BI*, April 15, 1985). Humana also has filed a motion for reconsideration of its case with the tax court, while Clougherty has appealed to the 9th Circuit.

In addition, an appeal by Beech Aircraft Corp., which lost a deductibility case to the government in 1984, is pending in the 10th Circuit (*BI*, Sept. 10, 1984). Oral arguments are scheduled for May 15.

Mobil has still not decided if it will appeal the decision in its tax case, which was issued last August.

Although Mobil lost on the issue of deductibility of premium payments to its captives, it won its contention that certain payments made to its captives were not constructive dividends paid to benefit Mobil and thus taxes paid should be refunded.

Mobil has since submitted to the government the amount it contends should be refunded. The government then will determine what it believes it owes Mobil and the numbers will be submitted to the claims court.

In light of the largely unfavorable rulings, attorneys and consultants are not optimistic about the ability of owners of single-parent captives to take deductions.

"It represents a formidable line of cases," said Michael Heitz, a tax partner with the accounting firm of Coopers & Lybrand in New York.

"With regard to a single-owned captive insuring a parent company, it is unlikely the courts will reverse the cases decided," said James Cameron, an attorney with Baker & McKenzie in New York.

And if courts did reverse the decisions, the Internal Revenue Service and the Treasury Department probably would seek legislation to bar the deductibility of premiums paid to captives, he added.

"It is not a dead issue, but it sure

is not a strong issue from the taxpayer's viewpoint," says Thomas Mahoney, a partner with Arthur Andersen & Co. in Philadelphia.

Mr. Mahoney added that when single-parent captives are formed, the chance of companies actually sustaining a deduction for premium deductions are "slim and none."

However, Mr. Mahoney does say that a company may be able to successfully deduct premiums if unrelated business accounts for more than 50% of the captive's premium volume, though he said the Mobil decision casts some doubt on this.

But, attorneys and consultants note that single-parent captives still are being formed for non-tax reasons, such as gaining direct access to the reinsurance market.

Nevertheless, the court decisions

are boosting the popularity of group captives, many observers say.

The IRS' Revenue Ruling 78-338 provides that payments made by 31 domestic petroleum companies to a foreign insurance company in which each held less than a 5% interest were deductible because there was the requisite risk shifting and risk distribution.

"Many of the captives getting formed are groups as opposed to single-parent situations," according to attorney Bruce Wright with the New York law firm of LeBoeuf, Lamb, Leiby & MacRae.

Mr. Heitz of Coopers & Lybrand agrees there has been a shift to group captives in light of the court decisions.

However, Mr. Mahoney of

Arthur Andersen says, "I've seen more talk than action" as far as more group captives being formed. He noted that companies are often reluctant to accept responsibility for the risks of other companies.

Observers also say that the tight commercial insurance market could prompt Congress to pass legislation permitting companies to deduct premiums paid to single-parent captives and contributions to self-insurance reserves.

"The mood and climate today is more favorable than five or 10 years ago" when captives were seen by many in Congress as a tax gimmick, says Mr. Mahoney.

Legislators now believe there is an insurance crisis and might be more amenable to permitting de-

Continued on next page

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Court rulings

Continued from previous page
 ductions for payments to captives or self-insured reserves, he explains.

"In that type of psychological-political environment, it could lead to a favorable development," he adds, though no specific bill permitting such deductions has been introduced.

Cited as potential vehicles for this legislation are the proposal to expand the Risk Retention Act, S. 2129, which was approved by the Senate Commerce Committee, and the tax bill, H.R. 3838, now before the Senate Finance Committee.

Members of the Loss Reserve Deduction Committee—which in the past has supported legislation allowing deductibility of contributions to self-insured loss reserves and premiums paid to captives—have sensed some increased interest for legislation.

Although the committee has "pretty much been dormant" in recent months, the tight insurance market has generated interest in the issue, said Barbara Haugen, director of federal affairs for the National Assn. of Insurance Brokers in Washington. Whether this interest will be sustained, however, "depends on grass-roots support for the issue," she notes.

The National Small Business Assn. in Washington is pushing for such legislation and believes that the current tax reform bill might be the most appropriate vehicle.

A NSBA committee recently passed a resolution asking for the tax deductibility of contributions to self-insured reserves and payments to captives, subject to review in three to five years, said Herbert Liebenson, senior consultant to the association.

However, neither the current tax proposals nor the bill to expand the Risk Retention Act, passed by the Senate Commerce Committee last month, permit such deductions.

Moreover, not everyone agrees that Congress is amenable to permitting deductions. "I don't believe it," Mr. Cameron said. "I don't think that, given the desire of the Treasury for revenue, they are going to give deductions for self-insurance."

"It would be extremely difficult to enact a proposal that would cost the Treasury revenue," agreed Walter Vinyard, an attorney with the Washington firm of Zuckert, Scoutt, Rasenberger & Johnson.

Mr. Vinyard added it would be "very unusual" for the House or Senate tax panels to begin serious consideration of tax-deduction proposals without considering bills that would raise revenue in other areas to make up the difference.

Recently, Jon Harkavy, general counsel and director of governmental affairs for the Risk & Insurance Management Society in New York, proposed that legislation be focused on permitting deductions for premiums to domestic captives, leaving the foreign captive deductibility issue at the status quo.

"There are many advantages to such an approach," Mr. Harkavy said in a speech. "From the parent company's perspective, you're creating a safe harbor of certainty under which the captive premium deduction can be taken.

"From the captive's perspective, it would no longer be induced to accept outside business which may jeopardize its solvency, in order to sanctify its parent's premium deduction. Instead the decision to accept or reject such outside business would be based on underwriting rather than tax principles," he said.

He noted that there are currently "few defenders" of the captive concept in the House or Senate. But, he says support for domestic captive deduction legislation could be generated among legislators from states with captive laws. ■

Captive insurance company tax cases

Case	Most recent court	Winner	Status
Anesthesia Service Medical Group Inc. vs. Commissioner	U.S. Tax Court (1985)	Government	Appeal likely
Beech Aircraft Corp. vs. U.S.A.	U.S. District Court of Kansas (1984)	Government	Appeal before 10th Circuit
Carnation Co. vs. Commissioner	9th Circuit Court of Appeals (1981)	Government	Concluded*
Clougherty Packing Co. vs. Commissioner	U.S. Tax Court (1985)	Government	Appeal before 9th Circuit
Crawford Fitting Co. vs. U.S.A.	U.S. District Court for No. District of Ohio (1985)	Crawford Fitting Co.	Concluded
Gulf Oil Corp. vs. Commissioner	U.S. Tax Court	Undecided	Awaiting decision
Humana Inc. vs. Commissioner	U.S. Tax Court (1985)	Government	Pending motion for reconsideration
Mobil Oil Corp. vs. U.S.A.	U.S. Claims Court (1985)	Government	Awaiting final judgment
Pariseau vs. Commissioner	U.S. Tax Court (1985)	Government	Concluded
Stearns-Roger Corp. vs. U.S.A.	10th Circuit Court of Appeals (1985)	Government	Concluded; remanded to U.S. District Court in Colorado on other issues

* Denied review by U.S. Supreme Court Chart: Amy Palmer

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Directory of captive management firms

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Absit Insurance Management Ltd.
P.O. Box 1549, Grand Cayman, B.W.I.; 809-949-4688

Year founded: 1976.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, investment management; occasional captive formation, captive formation, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, specialized accounting services for associations.
Staff: Four total staff members, one professional staff member who holds

FCA and ACII designations.
Clients: Seven total clients.
Compensation: Time and expense.
1985 gross revenues: Not reported; 100% from fees charged for captive management.
Principal officers: Roger A. Corbin, president; James Gill, vp.

Alexander International Ltd.
P.O. Box HM 681, Hamilton 5, Bermuda; 809-295-3336

Year founded: 1965.
Parent company: Alexander & Alexander Inc.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting; occasional captive feasibility studies, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecast-

ing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations.

Staff: 28 total staff members, seven professional staff members. Professional designations held by staff include six CPAs, one MBA.

Clients: More than 65 total clients; 25% with premiums under \$1 million, 45% \$1 million-\$3 million, 15% \$4 million-\$10 million, 15% \$11 million-\$20 million. Minimum size client, \$500,000 premium volume.

Compensation: Minimum annual fee, \$20,000; time and expense, average rate \$65-\$75 per hour.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Peter G. Leitch, chairman/chief executive officer; Alan C. Cossar, president; William B. Nicholson, senior vp; Jennifer C. Woods, vp.

Altamid Management Co. (Vermont) Ltd.
P.O. Box 730, 102 South Winooski Ave., Burlington, Vt. 05402; 802-658-4600

Year founded: 1982.
Parent company: M.A. Hanna Co. and Smith, Bell & Thompson Inc.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.

Staff: Staffing provided by parent companies.

1985 gross revenues: Not reported.
Principal officers: Warren L. Thompson, president; Roger D. Teese, v.p.

American International Co. Ltd.
American International Building, Richmond Road, Pembroke, Bermuda; 809-295-2121

Year founded: 1947.
Parent company: American International Group Inc.

Services provided: Frequent government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, underwriting pools (SUMIT III, 14 participants, \$32 million premium volume, closed membership), investment management, specialized accounting services for associations, onshore services for associations, funding, fronting, guaranteed cash flow, risk management programs; occasional captive feasibility studies, captive formation, manual claims processing, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss-control services (New York and Brussels, Belgium).
Staff: 52 total staff members, 26 professional staff members. Professional designations held by staff include one

Continued on next page

Information included in managers' listings

The annual *Business Insurance* directory of captive managers lists companies in the United States and abroad that perform a variety of services for captive insurance companies. There is no charge to be listed; however, companies must fill out and return a questionnaire provided by *BI* in order to be included in the directory.

Each company's name, address, telephone number, year founded and parent company (if any), are provided. Specific services the manager provides are listed next, followed by details on staffing and clients.

Subsidiaries and affiliated companies listed include those involved in captive management in a different domicile, for which a separate listing is usually given. If there are no separate listings, information on staff, clients and revenues have been combined for all offices.

Details on how the company bills for its services are included, as well as 1985 gross revenues when reported. Companies were also asked to identify the percentage of their gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokerage and other services the company may provide.

Names and titles of principal officers complete the listings.

Although *Business Insurance* makes every effort to report complete and accurate information for companies in the directory, there are no public documents available to allow verification of all figures.

Following are the full professional designations for those abbreviated under the staff heading:

ACA is Associate, Chartered Accountants; **ACIA** is Associate, Chartered Insurance Arbitrators; **ACII** is Associate, Chartered Insurance Institute; **ACIS** is Associate, Chartered Institute of Secretaries; **AIB** is Associate, Institute of Bankers; **ARM** is Associate in Risk Management; **BII** is Bermuda Insurance Institute; **CA** is Chartered Accountant; **CE** is Chartered Engineer; **CGA** is Certified General Accountant; **CPA** is Certified Public Accountant; **CPCU** is Chartered Property Casualty Underwriter; **FAAI** is Fellow, Administrative Accounting Institute; **FCA** is Fellow, Chartered Accountants; **FCAS** is Fellow, Casualty Actuarial Society; **FCCA** is Fellow, Certified Corporate Accountants; **FCII** is Fellow, Chartered Insurance Institute; **FCIS** is Fellow, Chartered Institute of Secretaries; **FIIC** is Fellow, Chartered Insurance Institute; **GIC** is General Insurance Certificate; **HND** is Higher National Diploma; **IBAC** is Insurance Brokers Assn. (Canada); **MBA** is Master of Business Administration; **PLCC** is Property Loss Control Consultant; **RU** is Reinsurance Underwriter.



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Continued from previous page
CA, one CMA, two FCILs, six ACILs.

Clients: 25 total clients; 22% with premiums under \$1 million, 32% \$1 million-\$3 million, 29% \$4 million-\$10 million, 14% \$11 million-\$20 million, 3% exceeding \$20 million. Total premium volume of captives managed, \$130 million.

Compensation: Minimum annual fee, \$20,000; time and expense, professional, \$100 per hour; clerical, \$75 per hour.

1985 gross revenues: \$10.5 million; 20% from fees charged for captive management, 80% from fronting and funding programs.

Principal officers: J.C.H. Johnson, president/chief executive officer; D.J. Higginbottom, vp/director-captive operations; J. Cassell, assistant vp-underwriting; P. Jarrett, assistant vp-captive management; K. Bond, assistant vp-financial services.

American International Management Co. (Barbados) Ltd.

Trident House, Broad Street,
Bridgetown, Barbados;
809-427-5320

Year founded: 1985.

Parent company: American International Co. Ltd.

Principal officers: J.C.H. Johnson, D.J. Higginbottom, P.R.P. Evelyn, J. Clarke.

American Risk Management Inc. (The Reiss Organization)

1 Executive Drive, Fort Lee, N.J.
07024; 201-592-7100

Year founded: 1958.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (through affiliated companies, loss-control services (Cleveland), specialized accounting services for associations, onshore services for associations, consulting and risk management services, infrared thermographic surveys; occasional manual claims processing.

Staff: 200 total staff members, 150 professional staff members. Professional designations held by staff include three CPAs, 25 CPCUs, 20 ARMs, 10 MBAs, three attorneys, 65 PLCCs.

Clients: 12 total clients; 32% with \$1 million-\$3 million in premiums, 52% \$4 million-\$10 million, 8% \$11 million-\$20 million, 8% exceeding \$20 million. Total premium volume of captives managed, \$100 million. Minimum size client, \$1 million in premiums.

Affiliated companies: International Risk Management Ltd., Hamilton, Bermuda; European Risk Management Ltd., Weybridge, England; Transnational Risk Management Ltd., Georgetown, Grand Cayman, B.W.I.; Universal Management Ltd., Shannon, Ireland; Transnational Ltd., St. Peter Port, Guernsey; Transnational Risk Management (IOM) Ltd., Isle of Man. Loss-control offices in Cleveland and Youngstown, Ohio; Bridgewater, N.J.; Louisville, Ky.; Chicago; Minneapolis; Burlingame, Calif.; Atlanta; Seattle; Southfield, Mich.; Dallas; Nashville, Tenn.; Kansas City, Mo.; Toronto; Weybridge, England.

Compensation: Time and expense, professional, \$75-\$200; clerical services included.

1985 gross revenues: Not reported.

Principal officers: John J. Ryan, MacVicker Snow and William F. Nehls, senior vps; Thomas G. Grilli Jr., Donald Mosier, William T. Torpey and William G. Watson, vps.

Anistics Inc. (Captive Management Division)

370 17th St., Suite 2300, Denver,
Colo. 80202; 303-592-5560

Year founded: 1972.

Parent company: Alexander & Alexander Services Inc.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, loss forecasting.

Staff: Two total staff members. Professional designations held by staff include one CPA, one FCAS.

Clients: Six total clients; 90% with under \$1 million in premiums, 10% \$1 million-\$3 million. Total premium volume of captives managed, \$5 million. No minimum size client.

Compensation: Annual fee; time

and expense, professional, \$40-\$110 per hour.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Luther T. Griffith, president/chief executive officer; William D. Scaff, executive vp/chief operating officer.

Anistics Inc. (Captive Management Division)

7 Burlington Square, Suite 600,
Burlington, Vt. 05401

Year founded: 1986.

Parent company: Alexander & Alexander Services Inc.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, loss forecasting.

Clients: Four total clients. No minimum size client.

Compensation: Annual fee, time and expense.

Gross revenues: 1986 estimate: \$100,000.

Principal officers: Luther T. Griffith, president/chief executive officer; William Scaff, executive vp/chief operating officer.

Argus International Management Ltd.

Argus Insurance Building, 12
Wesley St., P.O. Box HM 1064,
Hamilton 5, Bermuda;
809-295-2021

Year founded: 1971.

Parent company: Argus Group of Cos.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, actuarial studies through associate company, specialized accounting services for associations; occasional captive formation, reinsurance brokered for captives, investment management.

Staff: 13 total staff members, staff members from parent company provide additional services. Professional designations held by staff include six CPAs, two ACILs.

Clients: 22 total clients.

Compensation: Annual fee; time and expense, professional, \$85-\$130 per hour; clerical, \$45.

1985 gross revenues: Not reported.

Principal officers: E.J. Sainsbury, managing director; M. Hardy, Manager.

Atlantic Security Ltd.

Kitson Building, P.O. Box HM 2078,
Hamilton 5, Bermuda;
809-295-5425

Year founded: 1978.

Parent company: Atlantic Security (Holdings) Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, investment management; occasional loss forecasting, reinsurance brokered to captives, specialized accounting services for associations, onshore services for associations.

Staff: 10 total staff members; six professional staff members. Professional designations held by staff include two CPAs.

Clients: 25 total clients; 76% with under \$1 million in premiums, 4% \$1 million-\$3 million, 12% \$4 million-\$10 million, 8% \$11 million-\$20 million. Total premium volume of captives managed, \$55 million. No minimum size client.

Compensation: Minimum annual fee, \$15,000; commissions for reinsurance brokered; time and expense, professional, \$75 per hour; clerical, \$30 per hour.

1985 gross revenues: \$750,000; 75% from fees charged for captive management, 20% from commissions charged for brokering insurance and/or reinsurance; 5% from consulting.

Principal officers: Hal Forkush, president; Colin James, vp.

b

B.F. & M. Management Ltd.

110 Pitt's Bay Road, Pembroke,
Bermuda, or P.O. Box HM 1007,
Hamilton 5, Bermuda;
809-295-5566

Year founded: 1969.

Continued on next page

Continued from facing page

Parent company: Bermuda Fire & Marine Insurance Co. Ltd.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, specialized accounting services for associations, captive rental facilities, funding programs; occasional captive feasibility studies, manual claims processing, loss forecasting.

Staff: Four total staff members, three professional staff members. Professional designations held by staff include one CPA, one MBA.

Clients: 20 total clients.

Compensation: Annual fee.

1985 gross revenues: Not reported.

Principal officers: C.E. Rance, managing director; W. Allen Taft, general manager; J.A. Wilkins, treasurer.

BPC (Bermuda) Managers Ltd.

Washington Mall, P.O. Box HM 2070, Hamilton 5, Bermuda; 809-295-1646

Year founded: 1981.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, specialized accounting services for associations.

Staff: Five total staff members, all of whom are professional staff members. Professional designations held by staff include one CPA, one CLU, one attorney, one FCA.

Clients: One client with a \$2.5 million premium volume.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Thomas A. Cockrell, president; John E. Smith and Peter J.N. Strong, vps; Philip R. Hinderberger, secretary; Lloyd E. Disney, treasurer.

BPC Underwriting Managers Ltd.

P.O. Box 878, West Wind Building, Grand Cayman, B.W.I.; 809-949-8184

Year founded: 1984.

Parent company: Beaver Pacific Corp.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, specialized accounting services for associations.

Staff: Six total staff members, five professional staff members. Professional designations held by staff include one CPA, one CLU, one attorney, one FCA.

Clients: 10 total clients; 80% with under \$1 million in premiums, 20% \$1 million-\$3 million. Total premium volume of captives managed, \$6.6 million. Minimum size client, \$200,000 premium volume.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Thomas A. Cockrell, president; John E. Smith and J. William Rewalt, vps; Philip R. Hinderberger, secretary; Lloyd E. Disney, treasurer.

B.R.I. International Agency Inc.

156 William St., New York, N.Y. 10038; 212-233-7171

Year founded: 1981.

Parent company: B.R.I. Holding Corp.

Services provided: Frequent captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (surety facility); occasional accounting, computerized accounting, reinsurance brokered for captives, loss control services, services for associations.

Staff: Eight total staff members, four

professional staff members. Professional designations held by staff include three CPCUs, one ARM, three MBAs.

Clients: Three total clients.

Compensation: Annual fee, commissions for reinsurance brokered.

1985 gross revenues: Not reported; 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Donald P. Ferrarini, president; Joseph Zweig, senior vp; Bruno Rumignani, vp.

Becher & Carlson Management Ltd.

Global House, Church Street, Suite 206, Hamilton, Bermuda; 809-295-0519

Year founded: 1981.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, onshore services for asso-

Continued on next page

Less Expense

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update

**RIMS REPORT:
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Continued from preceding page
Associations; occasional computerized
claims processing, reinsurance bro-
kered to captives, tax advice, special-
ized accounting services for associa-
tions.

Staff: Three total staff, two profes-
sional staff members. Professional des-
ignations held by staff include one CA.
Clients: Six total clients; 60% with \$1
million-\$3 million in premiums, 50% \$4
million-\$10 million.

Affiliated companies: Becher &
Carlson Risk Management Inc. and
Becher & Carlson Insurance Services
Inc., Woodland Hills, Calif.

1985 gross revenues: Not reported.
Principal officers: William E.
Becher Jr., chairman; David L. Carlson,
president; James J. Kofmehl Jr., vp;
J.P. Stuart Whitfield, senior vp-admin-
istration/accounting; Martin Rayfield,
assistant vp.

Becher & Carlson Management (Vermont)

7 Burlington Square, Suite 600,
Burlington, Vt. 05401;
802-658-7831

Year founded: 1982.
Services provided: Frequent captive
feasibility studies, captive formation,
government reporting, accounting,
claims reserves analysis, actuarial stud-
ies, loss forecasting, reinsurance bro-
kered for captives, underwriting and
ratemaking for captives, investment
management, onshore services for asso-
ciations; occasional computerized
claims processing, reinsurance bro-
kered to captives, tax advice, special-
ized accounting services for associa-
tions.

Staff: One total staff member who is
a professional.

Clients: Two total clients, 100% with
\$4 million-\$10 million in premiums.

Affiliated companies: Becher &

Carlson Risk Management Inc. and
Becher & Carlson Insurance Services
Inc., Woodland Hills, Calif.

1985 gross revenues: Not reported.
Principal officers: William E.
Becher Jr., chairman; David L. Carlson,
president; James J. Kofmehl Jr., vp;
J.P. Stuart Whitfield, senior vp-admin-
istration/accounting; Martin Rayfield,
assistant vp.

British-American Management (Bermuda) Ltd.

c/o British-American Management
Ltd., P.O. Box N-3005, Nassau,
Bahamas; 809-322-2694

Year founded: 1984.
Parent company: British-American
Insurance Co. Ltd.

Services provided: Frequent captive
formation, government reporting, ac-
counting, computerized accounting,
manual claims processing, computer-
ized claims processing, reinsurance bro-
kered for captives, reinsurance bro-
kered to captives, investment manage-
ment, tax advice, legal advice, loss con-
trol services, specialized accounting ser-
vices for associations; occasional captive
feasibility studies, claims reserves anal-
ysis, actuarial studies, loss forecasting,
underwriting and ratemaking for cap-
tives.

Staff: 59 total staff members, 11 pro-
fessional staff members. Professional
designations held by staff include four
CPAs, one CPCU, one ARM, four
MBAs, two FCASs, one attorney, one
GIC.

Clients: Four total clients; 25% with
under \$1 million in premiums, 75% \$4
million-\$10 million. Total premium vol-
ume of captives managed, \$11 million.
Minimum size client, \$500,000 premium
volume.

Associated companies: British-
American Management Ltd., Bahamas;

British-American Management (Cay-
man) Ltd., Cayman Islands.

Compensation: Minimum annual
fee, \$15,000; commissions for reinsur-
ance brokered.

1985 gross revenues: \$50,000; 100%
from fees charged for captive manage-
ment.

Principal officers: R. Peyton Wood-
son chairman; David L. Watson and
Judy A. Higgs, directors.

British-American Management (Cayman) Ltd.

P.O. Box 2186, British-American
Center, Georgetown, Grand
Cayman, B.W.I.; 809-949-5627

Year founded: 1982.
Parent company: British-American
Insurance Co. Ltd.

Services provided: Frequent captive
formation, government reporting, ac-
counting, computerized accounting, in-
vestment management; occasional cap-
tive feasibility studies, claims reserves
analysis, actuarial studies, loss forecast-
ing, reinsurance brokered for captives,
reinsurance brokered to captives, un-
derwriting and ratemaking for cap-
tives, tax advice, legal advice.

Staff: Two total staff members, one
professional staff member who holds a
CA designation.

Clients: One total client with a \$20
million premium volume. Minimum
size client, \$500,000 premium volume.

Associated companies: British-
American Management (Bermuda)
Ltd., British-American Management
Ltd.

Compensation: Minimum annual
fee, \$15,000; commissions for reinsur-
ance brokered.

1985 gross revenues: \$126,000; 48%
from fees charged for captive manage-
ment, 52% from other services.

Principal officers: David J. Gurlow,

chairman; Michael E.J. Taylor,
vp/director.

British-American Management Ltd.

51 Frederick St., P.O. Box N-3005,
Nassau, Bahamas; 809-322-2694

Year founded: 1979.
Parent company: British-American
Insurance Co. Ltd.

Services provided: Frequent captive
formation, government reporting, ac-
counting, computerized accounting,
manual claims processing, computer-
ized claims processing, reinsurance bro-
kered for captives, investment manage-
ment, specialized accounting services
for associations; occasional captive fea-
sibility studies, claims reserves analysis,
actuarial studies, loss forecasting, rein-
surance brokered to captives, under-
writing and ratemaking for captives,
tax advice, legal advice.

Staff: 56 total staff, 11 professional
staff members. Professional designa-
tions held by staff include four CPAs,
one CPCU, one ARM, four MBAs, two
FCASs, one attorney, one GIC.

Clients: Eight total clients; 50% with
under \$1 million in premiums, 12% \$1
million-\$3 million, 25% \$4 million-\$10
million, 13% \$11 million-\$20 million.
Total premium volume of captives
managed, \$32 million. Minimum size
client, \$500,000 premium volume.

Associated companies: British-
American Management (Cayman) Ltd.,
Cayman Islands; British-American
Management (Bermuda) Ltd., Ber-
muda.

Compensation: Variable minimum
annual fee, commissions for reinsur-
ance brokered.

1985 gross revenues: \$217,000; 51%
from fees charged for captive manage-
ment, 22% from commissions charged
for brokering insurance and/or rein-
surance, 27% other services, including
accounting, financial services and cor-
porate secretarial work.

Principal officers: David J. Thur-
low, chairman; Judy A. Higgs and
David L. Watson, directors.

computerized accounting, claims re-
serves analysis, loss forecasting, rein-
surance brokered for captives, under-
writing and ratemaking for captives,
investment management, loss-control
services (California), onshore services
for associations; occasional actuarial
studies.

Staff: Four total staff members, two
professional staff members.

Clients: 18 total clients; 91% with \$1
million-\$3 million in premiums, 9% \$4
million-\$10 million. Total premium vol-
ume of captives managed, \$24 million.
Minimum size client, \$1 million pre-
mium volume.

Compensation: Minimum annual
fee, \$15,000 or percent of premiums
managed; time and expense.

1985 gross revenues: \$402,000; 100%
from fees charged for captive manage-
ment.

Principal officers: James E. Little,
Douglas Helm and Nicholas Mascitelli,
directors; R. Paul Goldsworthy, manag-
ing director.

Capacity Resources (Bermuda) Ltd.

P.O. Box HM 447, Hamilton 5,
Bermuda; 809-292-3146

Year founded: 1980.
Parent company: Capacity Re-
sources Ltd.

Services provided: Frequent gov-
ernment reporting, accounting, com-
puterized accounting, manual claims
processing, investment management.

Staff: Two total staff members, one
professional staff member.

Clients: One total client.

Compensation: Annual fee.

1985 gross revenues: Not reported.

Principal officers: R.A. Jones,
director.

Cityside Associates Inc.

180 South Gannon Ave., Staten
Island, N.Y. 10314; 718-494-5786

Year founded: 1982.

Services provided: Frequent cap-
tive formation, computerized claims
processing, claims reserves analysis,
underwriting and ratemaking for cap-
tives, tax advice, legal advice, loss-
control services (New York, New Jer-
sey, Michigan); occasional captive fea-
sibility studies, government reporting,
manual claims processing, loss fore-
casting, specialized accounting ser-
vices for associations, onshore services
for associations.

Staff: Six total staff members, four
professional staff members. Profes-
sional designations held by staff include
one ARM, two MBAs, one attorney.

Clients: Two total clients; 50% with
under \$1 million in premiums, 50% with
\$1 million-\$3 million in premiums.
Total premium volume of captives
managed, \$4 million. Minimum size
client, \$1 million premium volume.

Compensation: Time and expense
professional, \$75-\$125 per hour; clerical,
\$30 per hour.

1985 gross revenues: \$600,000; 15%
from fees charged for captive manage-
ment, 85% from self-insurance manage-
ment for hospitals.

Principal officers: Ralph Carnese-
chi, president; Kenneth Richman,
senior vp; Robert Self, vp.

Continental Risk Services Ltd.

Continental Insurance Building,
P.O. Box HM 824, Hamilton 5,
Bermuda; 809-295-6015

Year founded: 1981.

Parent company: Continental Corp.

Services provided: Frequent captive
formation, government reporting, ac-
counting, computerized accounting,
manual claims processing, computer-
ized claims processing, reinsurance bro-
kered for captives, reinsurance bro-
kered to captives, underwriting and ra-
temaking for captives, investment
management; occasional captive fea-
sibility studies. Services available
through subsidiaries of parent company
include claims reserves analysis, actu-
arial studies, loss forecasting, loss con-
trol services.

Staff: 10 total staff members, five
professional staff members. Profes-
sional designations held by staff include
three CPAs.

Clients: 18 total clients.

Compensation: Annual fee, commis-
sions for reinsurance brokered, time
and expense.

1985 gross revenues: Not reported.

Principal officers: David B.
Vaughan, president; Anita Weinberger,
vp; William H. Bolinder, chairman.

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ARIG -Reinsurance Worldwide

For further information and a copy of the Annual Report contact the Public Relations Department

Head Office:
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المجموعة العربية للتأمين (ش.م.ب)
ARAB INSURANCE GROUP (B.S.C.)

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8th Floor, Plantation House (Sec-B)
31-35 Fenchurch Street
London EC3M 3DX
Tel: 01-626 4155/6
Telex: 893281 Arig G
Telefax: 01-283 1923



CIGNA International Insurance Managers Ltd.

Victoria Hall, Victoria Street, P.O.
Box HM 1181, Hamilton, Bermuda;
809-295-7777

Year founded: 1978.
Parent company: CIGNA Corp.

Services provided: Frequent captive
formation, government reporting, ac-
counting, computerized accounting,
manual claims processing, computer-
ized claims processing, claims reserves
analysis, loss forecasting, reinsurance
brokered for captives, reinsurance bro-
kered to captives, underwriting pools,
investment management, loss-control
services, onshore services for asso-
ciations, financial management services;
occasional captive feasibility studies,
actuarial studies, underwriting and ra-
temaking for captives, specialized ac-
counting services for captives.

Staff: 45 total staff members, nine
professional staff members. Profes-
sional designations held by staff include
three CPAs, two FCASs.

Clients: 24 total clients; 46% with
under \$1 million in premiums, 33% \$1
million-\$3 million, 13% \$4 million-\$10
million, 4% \$11 million-\$20 million, 4%
exceeding \$20 million. Total premium
volume of captives managed, \$84.5 mil-
lion. No minimum size client.

Subsidiaries: Montgomery & Collins
International Ltd.

Compensation: Minimum annual
fee, \$10,000; commissions for reinsur-
ance brokered; time and expense.

1985 gross revenues: Not reported.

Principal officers: John C. Boden,
president; John R. Wilson, vp/trea-
surer; Bernard J. Cutts, vp; Paul M.
Perech, assistant treasurer; Evelyn F.
Mallory, assistant vp/secretary.

CSI International Underwriting (Cayman) Ltd.

Box 1392, Grand Cayman, Cayman
Islands, B.W.I.; 809-949-7322

Year founded: 1982.
Parent company: HL Capital Insur-
ance Group of California.

Services provided: Frequent captive
feasibility studies, captive formation,
government reporting, accounting,

Continued from facing page

Corporate Risk Consultants

24370 Northwestern Highway, Southfield, Mich. 48075; 313-358-1100

Year founded: 1976.

Parent company: Meadowbrook Insurance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services (Southfield, Mich.), specialized accounting services for associations, onshore services for associations; occasional manual claims processing, claims reserves analysis, loss forecasting, investment management.

Staff: Six professional staff members. Professional designations held by staff include one CPA, two CPCUs, one ARM, one MBA, one FCAS.

Clients: Nine total clients.

Subsidiaries: Corporate Risk Consultants, Boca Raton, Fla.

1985 gross revenues: Not reported.

Principal officers: Merton J. Segal, president; Robert A. Engle, vp; Lawrence Kraus and Lee F. Kelly.

e

European Risk Management Ltd. (The Reiss Organization)

31/33 Monument Hill, Weybridge, Surrey KT 13 8RS, England; 09-325-4711

Year founded: 1969.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (through affiliated companies), loss-control services (Weybridge, Surrey, England), specialized accounting services for associations, onshore services for associations, risk management and consulting services, infrared thermographic surveys.

Staff: 29 total staff members, 21 professional staff members. Professional designations held by staff include three CPAs, five CPCUs, one MBA, seven ACIIs, six PLCCs.

Clients: Five total clients.

Affiliated companies: American Risk Management Inc., Fort Lee, N.J. and 13 other locations throughout the U.S.; International Risk Management Ltd., Hamilton, Bermuda; Transnational Risk Management Ltd., George Town, Grand Cayman, B.W.I.; Universal Management Ltd. Shannon, Ireland; Transnational Ltd., St. Peter Port, Guernsey; Transnational Risk Management (IOM) Ltd., Isle of Man.

Compensation: Time and expense, professional, \$75-\$250; clerical services included.

1985 gross revenues: Not reported.

Principal officers: Robert Brown, director; Frank How, financial director; William F. Sennett, managing director; Christopher J. Temple, manager-risk management services; Timothy Windbank, director.

f

Fairway (Captive Services) Ltd.

P.O. Box HM 2261, Hamilton 5, Bermuda; 809-295-8473

Year founded: 1982.

Parent company: Dana Corp.

Services provided: Frequent government reporting, accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, loss-control services (Dana Risk Management, Maumee, Ohio), specialized accounting services for associations; occasional captive feasibility studies, captive formation, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: 20 total staff members, 15 professional staff members. Professional

designations held by staff include three CPAs, three CPCUs, four ARMs, four MBAs, one attorney.

Clients: 11 total clients; 56% with under \$1 million in premiums, 22% \$1 million-\$3 million, 22% \$4 million-\$10 million.

Compensation: Minimum annual fee, \$10,000; time and expense, professional, \$85 per hour and up; clerical, \$30 per hour and up.

1985 gross revenues: Not reported; 97% from fees charged for captive management, 3% commissions for brokering insurance and/or reinsurance.

Principal officers: C.R. Pingel, president; N.J. Doree, C.J. Davidson and W.H. Outerbridge, vps; G. Neilson, manager.

g

Arthur J. Gallagher & Co. (Bermuda) Ltd.

P.O. Box HM 2000, Hamilton 5, Bermuda; 809-292-4654

Year founded: 1972.

Parent company: Arthur J. Gallagher & Co.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax and legal advice (as it affects Bermuda), loss-control services (Rolling Meadows, Ill.), specialized accounting services for associations, onshore services for associations.

Staff: Five total staff members, four professional staff members. Professional designations held by staff include one FCA, one ACII.

Clients: Five total clients. No minimum size client.

Subsidiaries: Arthur J. Gallagher & Co. (Cayman) Ltd.

1985 gross revenues: Not reported.

Principal officers: J.P. Gallagher, president/director; R.E. Gallagher, vp/director; J.F. Gelot, chief executive officer/managing director; R.L. Hubbard, chief financial officer/director; C.R. Formby, director.

Arthur J. Gallagher & Co. (Cayman) Ltd.

P.O. Box 309, Grand Cayman, B.W.I.; 809-949-2081

Year founded: 1983.

Parent company: Arthur J. Gallagher & Co. (Bermuda) Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims re-

serves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax and legal advice (as it affects Cayman Islands), loss-control services (Rolling Meadows, Ill.), specialized accounting services for associations, onshore services for associations; occasional investment management.

1985 gross revenues: Not reported.

Principal officers: J.F. Gelot, president/director; R.E. Gallagher, J.P. Gallagher and R.L. Hubbard, directors.

Green Mountain Captive Management Inc.

P.O. Box 628, Barre, Vt. 05641; 802-479-1046

Year founded: 1982.

Staff: Six professional staff members. Professional designations held by staff include one CPCU, three attorneys.

Clients: Two total clients.

1985 gross revenues: Not reported.

Principal officers: Thomas Salmon, president; James Mulligan, executive vp; George Nostrand, secretary/treasurer; Richard Huskes, vp.

h

H & H Management Services Ltd.

H&H House, Hurst Holme, Trott Road, P.O. Box 1861, Hamilton 5, Bermuda; 809-295-3342

See listing for International Advisory Services Ltd.

Frank B. Hall & Co.

Craig Appin House, Hamilton 5, Bermuda; 809-295-5454

Year founded: 1965.

Parent company: Frank B. Hall & Co. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (15-20 participants, more than \$100 million premium volume, minimum capital requirement), loss-control services, onshore services for associations; occasional computerized claims processing, claims reserves analysis, investment management, tax advice, legal advice, specialized accounting services for associations.

Staff: 70 total staff members. Professional designations held by staff include 12 CFAs, six CPCUs, two ARMs, six

MBAs, four FCASs, one attorney.

Clients: 86 total clients; 8% with under \$1 million in premiums, 24% \$1 million-\$3 million, 49% \$4 million-\$10 million, 13% \$11 million-\$20 million, 6% exceeding \$20 million. Total premium volume of captives managed, \$500 million.

Subsidiaries: Frank B. Hall Management Co. (Colorado and Vermont); Frank B. Hall Underwriting Managers; Frank B. Hall Intermediaries Ltd.; Park & Co.; Interocean Ltd.; Frank B. Hall (Cayman) Ltd.; Frank B. Hall (Bermuda) Ltd.

Compensation: Minimum annual fee, \$20,000; commissions for reinsurance brokered; time and expense.

1985 gross revenues: Not reported.

Principal officers: George E. Corde, senior vp-Frank B. Hall & Co. Inc.; Robin Spencer-Arscott, president-Frank B. Hall (Bermuda) Ltd.; Alverd Stutson, vp-Frank B. Hall Management Co.; Geoffrey A. Hunt, vp/controller-Frank B. Hall (Bermuda) Ltd.; Michael Jenkins, vp-Frank B. Hall Intermediaries Ltd.; John Williams, vp-Frank B. Hall Underwriting Managers.

Hanna Insurance Management Ltd.

P.O. Box HM 2062, Hamilton 5, Bermuda; 809-295-2185

Year founded: 1978.

Parent company: M.A. Hanna Co.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (CIRCL, 15 participants, \$25 million premium volume, members must have a net worth of \$500,000; Risk Exchange Assn., 26 participants, \$9 million premium volume, members must have a net worth of \$1 million), investment management, specialized accounting services for associations, telecommunication of computerized data; occasional captive feasibility studies, loss forecasting.

Staff: 23 total staff members, eight professional staff members. Professional designations held by staff include four CPAs, one ARM, one attorney.

Clients: 71 total clients; 25% with under \$1 million in premiums, 15% \$1 million-\$3 million, 35% \$4 million-\$10 million, 20% \$11 million-\$20 million, 5% exceeding \$20 million. Total premium volume of captives managed, \$250 million. No minimum size client.

Subsidiaries: Altamid Management Co. (Vermont) Ltd.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported; 99% from fees charged for captive management, 1% commissions charged for brokering insurance and/or reinsurance.

Principal officers: Dan A. McCoy, chairman/chief executive officer; Philip Stamp, director/chief operating officer; Stuart H. Grayston, president; W. Jay Branum, senior vp.

Hogg Robinson (Guernsey) Ltd.

Provident House, Havilland Street, St. Peter Port, Guernsey, Channel Islands; 04-812-6049

Year founded: 1978.

Parent company: Hogg Robinson Group P.L.C.

Services provided: Frequent accounting, manual claims processing; occasional captive feasibility studies, captive formation, government reporting, claims reserves analysis, loss forecasting, investment management, tax advice, loss-control services (Reading, Berkshire, England), services for associations.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include two FCIs.

Clients: Seven total clients; 70% with under \$1 million in premiums, 30% \$1 million-\$3 million. No minimum size client.

Subsidiaries: Hogg Robinson (Isle of Man) Ltd., Douglas, Isle of Man.

Compensation: Minimum annual fee, \$10,000; time and expense, professional, \$80 per hour; clerical, \$35-\$55 per hour.

1985 gross revenues: Not reported.

Principal officers: Roger A. Hall, managing director; Graham M. Powell, company secretary.

Homeland Insurance Management (Cayman)

P.O. Box 2167, George Town, Grand Cayman, B.W.I.; 809-947-4616

Year founded: 1981.

Parent company: Homeland International Inc.

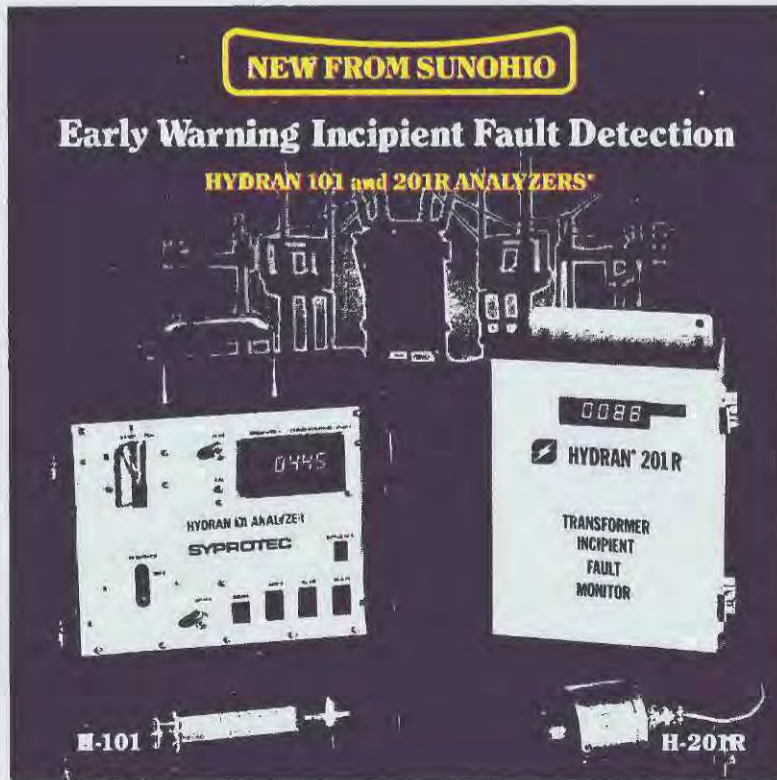
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss-control services, services for associations.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include one CPA.

Clients: 17 total clients; 76% with under \$1 million in premiums, 18% \$1 million-\$3 million, 6% \$4 million-\$10 million. Total premium volume of captives managed, \$20 million.

Subsidiaries: Homeland International Management Ltd., Hamilton, Bermuda.

Continued on next page



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Continued from preceding page

Compensation: Minimum annual fee, \$7,500.

1985 gross revenues: Not reported; 95% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: David S. Williams, president; Michael G. Herberger, executive vp; Peter MacKay, managing director.

Hudson Underwriting Ltd.

Craig Appin House, Wesley Street, P.O. Box 1514, Hamilton 5, Bermuda; 809-295-2482

Year founded: 1979.

Parent company: Skandia Group.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting; occasional captive feasibility studies, manual claims processing, computerized claims processing, investment management, specialized accounting services for associations.

Staff: 29 total staff members, six professional staff members. Professional designations held by staff include two CPCUs, two ChAs, two CAs.

Clients: 10 total clients; 30% with under \$1 million in premiums, 60% \$1 million-\$3 million, 10% \$11 million-\$20 million. Total premium volume of captives managed, \$23 million. No minimum size client.

Compensation: Minimum annual fee, \$15,000; time and expense, professional, \$60-\$95 per hour; clerical, \$25-\$40 per hour.

1985 gross revenues: Not reported; 80% from fees charged for captive management, 20% from other services.

Principal officers: Robert A. Baker, president; Nicholas S. Dove, vp; Robert J. Rosser, assistant vp.

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Independent Management Group Ltd.

P.O. Box HM 2070, Hamilton 5, Bermuda; 809-295-1646

Year founded: 1984.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance bro-

kered for captives, specialized accounting services for associations; occasional manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, investment management, tax advice, legal advice.

Staff: Six total staff members, four professional staff members. Professional designations held by staff include two CPAs, two MBAs.

Clients: 21 total clients; 40% with under \$1 million in premiums, 45% \$1 million-\$3 million, 15% \$4 million-\$10 million. Total premium volume of captives managed, \$35 million. No minimum size client.

Subsidiaries: Independent Brokers Ltd., Bermuda.

Compensation: Minimum annual fee, \$10,000; commissions for reinsurance brokered; time and expense, \$90 per hour.

1985 gross revenues: \$650,000; 57% from fees charged for captive management, 43% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Peter J.N. Strong, president; John G. Neal, vp.

Insurance Brokerage & Management Co. Ltd.

Penthouse, Masters Building, Reid Street, P.O. Box HM 1752, Hamilton 5, Bermuda; 809-295-2470

Year founded: 1974.

Services provided: Frequent government reporting, accounting, reinsurance brokered for captives, investment management; occasional captive feasibility studies, captive formation, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one ACII, two ACIAs.

Clients: Nine total clients; 67% with under \$1 million in premiums, 33% \$1 million-\$3 million. Total premium volume of captives managed, \$12 million. Minimum size client, \$500,000 premium volume.

Compensation: Minimum annual fee, \$15,000; commissions for reinsurance brokered.

1985 gross revenues: Not reported; 60% fees charged for captive management, 40% commissions charged for brokering insurance and/or reinsurance.

Principal officers: Eric J.M. Arcay, managing director.

Insurance Management Services Ltd.

Butterfield House, P.O. Box 1289, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7823 in Cayman Islands; 305-665-3053 in Miami

Year founded: 1979.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, investment management, legal advice, specialized accounting services for associations; occasional loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, registered office facilities.

Staff: Five total staff members, two professional staff members. Professional designations held by staff include one CPA, one attorney.

Clients: 12 total clients; 50% with under \$1 million in premiums, 30% \$1 million-\$3 million, 10% \$11 million-\$20 million, 10% exceeding \$20 million. Total premium volume of captives managed, \$40 million. Minimum size client, \$500,000 premium volume.

1985 gross revenues: Not reported.
Principal officers: David I. Moed, managing director; Steven R. Butler, financial director.

Insurance Managers Ltd.

Dorchester House, P.O. Box HM 2020, Hamilton 5, Bermuda; 809-295-0265

Year founded: 1969.

Parent company: Alexander & Alexander Services Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (Insurance Managers Ltd., \$37 million premium volume, members must be clients of Insurance Managers Ltd. or Alexander & Alexander Services Inc.), investment management, specialized accounting services for associations; occasional reinsurance brokered to captives.

Staff: 35 total staff members, eight professional staff members. Professional designations held by staff include five CPAs, two IBACs, one BIL.

Clients: 57 total clients; 53% with under \$1 million in premiums, 35% \$1 million-\$3 million, 3% \$4 million-\$10 million, 4% \$11 million-\$20 million.

Subsidiaries: Insurance Managers (Barbados) Ltd., Barbados; Insurance

Managers (Guernsey) Ltd., Channel Islands; Westwinds Insurance Managers Ltd., Cayman Islands.

Compensation: Minimum annual fee, \$35,000; time and expense, average of \$75 per hour.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: David A. Brown, president; Robert E. Barclay, Bernard S.Y. Fung and Donald C. Wiseman, executive vps; David J. Perry, vp/corporate treasurer.

Insurance Services International Ltd.

Box 1345, Grand Cayman, Cayman Islands, B.W.I.; 809-949-5499

Year founded: 1968.

Parent company: Intex Underwriters.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, specialized accounting services for associations, onshore services for associations.

Staff: Three total staff members. Professional designations held by staff include one ARM.

Compensation: Annual fee, commissions for reinsurance brokered.

1985 gross revenues: Not reported.
Principal officers: Anthony T. Verchinski, president; Klaus J. Gebhardt, chairman.

Intercontinental Risk Managers Ltd.

Third Floor, The First Home Tower, P.O. Box 1062, George Town, Grand Cayman, Cayman Islands, B.W.I.; 809-949-5566

Year founded: 1984.

Parent company: The Intercontinental Financial Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss control services (through Intercontinental Insurance Managers Inc., Schaumburg, Ill.), specialized accounting services for associations, onshore

services for associations; occasional reinsurance brokered to captives.

Staff: Six total staff members, four professional staff members. Professional designations held by staff include one CPA, one MBA, two attorneys.

Clients: One total client.
Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1985 gross revenues: Not reported.
Principal officers: Robert F. Coleman, director/chairman/chief executive officer; Robert B.D. Bativala, director/president; Barry J. Freeman, secretary/general counsel.

International Advisory Services Ltd.

P.O. Box HM 1760, Hurst Holme, Trott Road, Hamilton, Bermuda; 809-295-3688

Year founded: 1981.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, investment management, specialized accounting services for associations; occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: 11 total staff members, five professional staff members. Professional designations held by staff include one CPCU, one attorney, three CAs.

Clients: 34 total clients; 48% with under \$1 million in premiums, 24% \$1 million-\$3 million, 10% \$4 million-\$10 million, 15% \$11 million-\$20 million, 3% exceeding \$20 million. Total premium volume of captives managed, \$114 million. No minimum size client.

Subsidiaries: H&H Management Services Ltd., Hamilton, Bermuda.

Compensation: Minimum annual fee, \$5,000; commissions for reinsurance brokered; time and expense.

1985 gross revenues: Not reported; 85% from fees charged for captive management, 5% from commissions charged for brokering insurance and/or reinsurance, 10% from other services.

Principal officers: David Ezekiel, president/managing director; Terence Power, Simon Everett and David Pickering, directors.

International Insurance Management Ltd.

Collymore Rock, Bridgetown, Barbados; 809-426-1442

Year founded: 1985.

Services provided: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, loss forecasting, tax advice, legal advice.

Staff: Four total staff members. Professional designations held by staff include one MBA.

Clients: One total client.
Associated company: CGM Insurance Brokers Ltd., Bridgetown, Barbados.

Compensation: Annual fee plus expenses.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: William Tomlin and Trevor Carmichael, directors.

International Risk Management Ltd. (The Reiss Organization)

P.O. Box 660, Hamilton, Bermuda; 809-295-0713

Year founded: 1962.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance placed for captives, underwriting and ratemaking for captives; occasional manual claims processing, claims reserves analysis, loss forecasting, reinsurance ceded to captives, underwriting pools (Hopewell International Insurance Ltd., 36 participants, \$89 million premium volume, members must be captives managed by the Reiss Organization and ceding business to the pool), tax advice, legal advice, specialized accounting services for associations.

Staff: 65 total staff members. Professional designations held by staff include 12 CPAs, one CPCU, one MBA, one attorney, one FCII, one ACII.

Clients: 75 total clients; 20% with under \$1 million in premiums, 15% \$1 million-\$3 million, 35% \$4 million-\$10 million, 15% \$11 million-\$20 million.

Continued on facing page

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Continued from facing page
15% exceeding \$20 million. No minimum size client.

Associated companies: American Risk Management, Fort Lee, N.J.; Transnational Risk Management, Cayman Islands; Universal Management Ltd., Shannon, Ireland; Transnational (Guernsey) Ltd., Guernsey; European Risk Management Ltd., Weybridge, England.

Compensation: Minimum annual fee, \$25,000.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Frederick M. Reiss, president; Arthur H. Deters, executive vp; Alan E. Chilvers, group vp; Anna W. Summers, vp/secretary; David Hackett, vp/treasurer.



James (Bermuda) Ltd.

Global House, Church Street, P.O. Box HM 2280, Hamilton 5, Bermuda; 809-292-6667 or 809-295-8662

Year founded: 1977.
Parent company: Sedgwick Group P.L.C.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss-control services (worldwide), specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: 22 total staff members, nine professional staff members. Professional designations held by staff include seven CPAs, one CPCU, one FCAS.

Clients: 45 total clients. No minimum size client.

Subsidiaries: James (Cayman) Ltd., Cayman Islands, B.W.I.; Overseas Reinsurance Corp. Ltd., Bermuda.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional, \$80-\$150 per hour; clerical, \$30-\$70 per hour.

1985 gross revenues: Not reported.

Principal officers: Warren D. Sproule, president/managing director; Pamela Lambarth, senior vp; Norman C. Amondson and Jonathan C. Richmond, vps; Stanley Mayhew, chairman.

James (Cayman) Ltd.

P.O. Box 309, Grand Cayman, Cayman Islands, B.W.I.; 809-949-2329

Year founded: 1983.
Parent company: James (Bermuda) Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss-control services (worldwide), specialized accounting services for associations, onshore services for associations; occasional reinsurance brokered to captives.

Staff: Staff provided through parent company.

Clients: Total clients not reported. No minimum size client.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional, \$80-\$150; clerical, \$30-\$70.

1985 gross revenues: Not reported.

Principal officers: Warren D. Sproule, president/managing director; Pamela Lambarth, senior vp; Norman C. Amondson, vp; Stanley Mayhew, chairman; Anthony T. Pett, director.

Jardine Risk Services Ltd.

Continental Insurance Building, P.O. Box HM 824, Hamilton 5, Bermuda; 809-295-6015

Year founded: 1985.
Parent company: Jardine Matheson Holdings Ltd.

Services provided: Frequent captive formation, government reporting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives,

underwriting and ratemaking for captives; occasional captive feasibility studies. Services available through subsidiaries include claims reserves analysis, actuarial studies, loss forecasting, loss-control services.

Staff: Staff provided by Continental Risk Services Ltd.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported.

Principal officers: David J. Batchelor, president; David B. Vaughan, vp/general manager.

J.S. Johnson & Co. Ltd.

P.O. Box N-8337, Nassau, Bahamas; 809-322-2341

Year founded: 1977.

Parent company: Hogg Robinson Group P.L.C.

Services provided: Frequent government reporting, accounting; occasional captive formation, computerized accounting, manual claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management.

Staff: 58 total staff members, 13 pro-

Tony Trabert—Wimbledon Champion for Utica National Insurance.



In this court, complaining about unfair calls is in everyone's interest.

Most players realize that unfair calls are a part of any sport. But our civil justice system is no game, and when the calls are bad in this court, everyone comes out a loser.

The stakes are simply too high, both to our industry and our society, for us to stay silent and deal with this issue solely as an insurance problem. It's primarily a crisis generated by societal forces, and can only be alleviated by society as a whole.

So at Utica National, we're doing all we can to make the public aware that the civil justice problem is their

problem too. We've directed our consumer advertising toward publicizing this issue. Our annual report and related company publications discuss the subject in detail. And our chairman, Jack Riffle, has spoken and written extensively on the civil justice problem.

Surprisingly, even some within our own industry haven't realized the critical importance of this issue. The fact is, without significant civil justice reform, insurance companies and their agents will be increasingly

unable to provide many of the essential protections that society's come to depend on.

Of course, there are a lot of problems involved in civil justice reform. But there are a lot of good answers too. Groups like the Insurance Information Institute and the Alliance of American Insurers are developing them. And Utica is supporting their efforts.

Yes, there's still a lot to be done, but we're convinced that by raising all our voices, and working together, our concerns can make a difference.



Continued from preceding page
Professional staff members. Professional designations held by staff members include five FCIs, three ACIs, one AIB, two FIICs.

Clients: Two total clients; 50% with \$1 million-\$3 million in premiums, 50% \$4 million-\$10 million. No minimum size client.

Compensation: Annual fee.
1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: C.T. Fernie, chairman; A. McGill, managing director; P. O'Gorman, department manager.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, P.O. Box HM 1826, Victoria Street, Hamilton 5, Bermuda; 809-292-4402

Year founded: 1969.

Parent company: Johnson & Higgins.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (First Island Reinsurance Assn., nine participants, more than \$60 million premium volume, members must be brokered by parent company), loss-control services (through parent company offices), specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, claims reserves analysis, actuarial studies, tax and legal advice (as it affects Bermuda), accounting and administrative services.

Staff: 99 total staff members, 35 professional staff members. Professional designations held by staff include two ARMs, one MBA, 16 accountants, two ACIs, two FCIs, two CGAs.

Clients: 140 total clients. Total premium volume of captives managed, \$750 million.

Affiliated companies: Johnson & Higgins (Cayman Islands) Ltd., Cayman Islands; J&H Intermediaries Ltd., Bermuda; Johnson & Higgins (U.S.V.I.) Ltd., U.S. Virgin Islands.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported.

Principal officers: Brian R. Hall, president/chief operating officer; Wayne Morgan, Roger Gillett, Philip Simpson and Thomas A. Clark, vps; Ian Kilpatrick, managing director (Cayman Islands); Peter McKenzie, vp/general manager (J&H Intermediaries Ltd.).

Johnson & Higgins (Cayman Islands) Ltd.

P.O. Box 1051, Butterfield House, Grand Cayman, B.W.I.; 809-949-7988

Year founded: 1978.

Parent company: Johnson & Higgins.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for captives.

Staff: 17 total staff members, seven professional staff members. Professional designations held by staff include three CAs, two ACIs, two attorneys, two AIBs.

Clients: 60 total clients; 5% with under \$1 million in premiums, 75% \$1 million-\$3 million, 15% \$4 million-\$10 million, 3% \$11 million-\$20 million, 2% exceeding \$20 million. Minimum size client, \$1 million premium volume.

Subsidiaries: IMC (Turks & Caicos) Ltd., Turks & Caicos.

Compensation: Minimum annual fee, \$18,000; commissions for reinsurance brokered; time and expense, professional, \$75-\$125 per hour; clerical, \$40-\$75 per hour.

1985 gross revenues: Not reported.

Principal officers: Ian Kilpatrick, managing director; Brian Allen, assistant vp; Brian Bridson, James Boyd, Graham Cork and Wayne Cowan, account managers.

Johnson & Higgins Services Inc.

7 Burlington Square, Suite 600, Burlington, Vt. 05401; 802-658-7865

Year founded: 1983.



M & M Insurance Management Services Inc.

650 South Cherry St., Suite 630, Denver, Colo. 80222; 303-399-5580

Year founded: 1976.

Parent company: Marsh & McLennan Inc.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, tax advice; occasional captive feasibility studies, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.

Staff: Four total staff members, all of whom are professionals. Professional designations held by staff include one CPCU, one ARM.

Clients: Six total clients; 30% with under \$1 million in premiums, 50% \$1 million-\$3 million, 20% \$4 million-\$10

million. Total premium volume of captives managed, \$19 million. Minimum size client, \$500,000 premium volume.

Compensation: Minimum annual fee, \$30,000.

1985 gross revenues: \$200,000; 100% from fees charged for captive management.

Principal officers: Tony Demas, president; Richard Johnson, vp.

M & M Insurance Management Services Inc. (Vermont)

Park Plaza, 95 St. Paul St., Burlington, Vt. 05401; 803-658-0776

Year founded: 1981.

Parent company: Marsh & McLennan Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, policy wording, internal control, administration; occasional manual

claims processing, reinsurance brokered to captives, investment management, tax advice, legal advice, loss-control services (through M&M Protection Consultants), specialized accounting services for associations, onshore services for associations.

Staff: Two total staff members, both of whom are professionals. Professional designations held by staff include one CPA, one MBA.

Clients: Three total clients; 33.3% with under \$1 million in premiums, 33.3% \$1 million-\$20 million, 33.3% exceeding \$20 million. Total premium volume of captives managed, \$27 million. No minimum size client.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported; 100% from fees for captive management.

Principal officers: Raymond C. Oberg, vp.

Marsh & McLennan (Bermuda) Ltd.

P.O. Box 1262, Hamilton, Bermuda; 809-295-3278

Year founded: 1970.

Continued on facing page



Will his company
before he does?

Continued from facing page

Parent company: Marsh & McLennan Inc.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, loss-control services (onshore through M&M Protection Consultants), specialized accounting services for associations, onshore services for associations; occasional captive feasibility studies, reinsurance brokered to captives.

Staff: 55 total staff members, 19 professional staff members. Professional designations held by staff include 16 CPAs, two CPCUs, one attorney.

Clients: 80 total clients.

Subsidiaries: Marsh & McLennan (Cayman) Ltd., Cayman Islands.

1985 gross revenues: Not reported.

Principal officers: Andrew D. Carr, president; Bryan S. Thompson, vp-insurance; Brian G. Walford, vp-accounting; Fiona E. Luck, Tim Felton and David Earl, assistant vps.

Marsh & McLennan (Cayman Islands) Ltd.

P.O. Box 2196, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7466

Year founded: 1978.

Parent company: Marsh & McLennan (Bermuda) Ltd.

Services provided: Computerized offshore insurance company management services.

Staff: Five total staff, three professional staff members. Professional designations held by staff include three CPAs.

Clients: 20 total clients. No minimum size client.

Compensation: Annual fee; time and expense, professional, \$90-\$120; clerical, \$45.

1985 gross revenues: Not reported.

Principal officers: A. Carr, president; Tim Marsh, vp/manager; Chris Jackson, account executive.

McDonough Caperton International Ltd.

129 Front St., Hamilton 5, Bermuda; 809-295-9911

Year founded: 1978.

Parent company: McDonough Caperton Insurance Group Inc.

Services provided: Captive feasibility studies, captive formation, computerized accounting, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, specialized accounting services for associations, onshore services for associations.

Staff: Four total staff members, two professional staff members.

Clients: Two total clients; 50% with under \$1 million in premiums, 50% \$1 million-\$3 million. Total premium volume of captives managed, \$3 million. Minimum size client, \$1 million premium volume.

Compensation: Annual fee, commissions for reinsurance brokered.

1985 gross revenues: Not reported.

Principal officers: Michael Egan and Vivian Tierney (Bermuda office); Dennis Vogelsberger, W. Marston Becker and Gaston Caperton (U.S. office).

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340, Hamilton, Bermuda; 809-292-7569

Parent company: Meadowbrook In-

urance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, investment management, loss-control services (Southfield, Mich.), specialized accounting services for associations, onshore services for associations; occasional manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, legal advice.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include two FCASs.

Clients: 15 total clients; 60% with under \$1 million in premiums, 33% \$1 million-\$3 million, 7% \$4 million-\$10 million. Total premium volume of captives managed, \$12 million. No minimum size client.

Compensation: Annual fee, commissions for reinsurance brokered.

1985 gross revenues: Not reported.

Principal officers: Merton J. Segal, president; William R. Storie, managing

director; Brian Stephenson, vp.

Samuel Montagu & Co. (Cayman) Ltd.

P.O. Box 1109, Grand Cayman, Cayman Islands, B.W.I.; 809-949-7755

Year founded: 1984.

Parent company: Midland Bank P.L.C.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, investment management, banking services; occasional manual claims processing, specialized accounting services for associations.

Staff: 15 total staff members, five professional staff members. Professional designations held by staff include one CPA, two AIBs, two ACIIs.

Clients: 45 total clients. No minimum size client.

Compensation: Minimum annual fee, \$7,500; time and expense, professional, \$100-\$120 per hour; clerical, \$60-\$80 per hour.

1985 gross revenues: Not reported.

Principal officers: David A. Whitefield, managing director; Anthony B. Stelling, director; Thomas Clark, manager-client services; L. Kevin Sedgwick, manager-operations; Christopher J. Bowring, client accountant.

Mutual Risk Management Ltd.

Trimingham Building, Front Street, 5th Floor, Hamilton 5, Bermuda; 809-295-4239

Year founded: 1977.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, investment management, specialized accounting services for associations; occasional manual claims processing, loss forecasting, underwriting and ratemaking for captives; management of Mutual Indemnity Ltd.'s insurance profit center program.

Staff: 10 total staff members, six professional staff members. Professional designations held by staff include three CPAs, one attorney.

Clients: 12 total clients; 60% with under \$1 million in premiums, 20% \$1 million-\$3 million, 20% \$4 million-\$10 million. Total premium volume of captives managed, \$17 million. Minimum size client, \$500,000 premium volume.

Subsidiaries: Mutual Indemnity Ltd., Bermuda; IPC Group of America Ltd., Philadelphia; Commonwealth Risk Services Inc., Philadelphia; An-exco Insurance Agency Inc., Boston; Mutual Risk Management (Barbados) Ltd., Barbados; Overseas Insurance Services Ltd., Cayman Islands.

Compensation: Annual fee.

1985 gross revenues: \$6.8 million; 3% fees charged for captive management; 50% commissions charged for brokering insurance and/or reinsurance; 47% other services, including Mutual Indemnity Ltd. profit center program.

Principal officers: Robert A. Mulderig, president; James C. Kelly, controller; David Alexander, assistant controller.

Overseas Insurance Services Ltd.

P.O. Box 1363, Grand Cayman, Cayman Islands, B.W.I.; 809-947-4199

Year founded: 1982.

Services provided: Frequent government reporting, accounting, computerized accounting, investment management; occasional captive feasibility studies, captive formation, manual claims processing, reinsurance brokered for captives, tax advice, specialized accounting services for associations, onshore services for associations.

Staff: Two total staff members, one professional staff member who has a CPA designation.

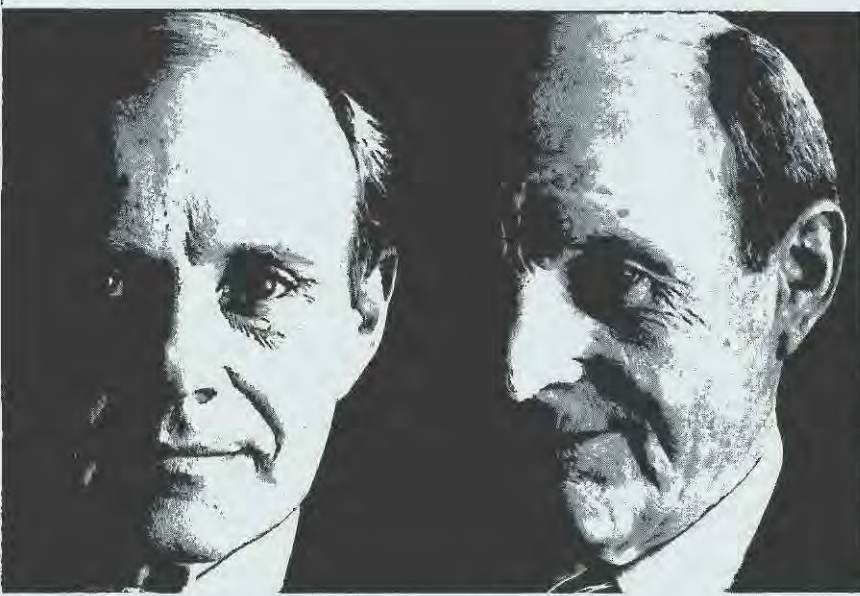
Clients: Three total clients, all with \$1 million-\$3 million in premiums.

Compensation: Minimum annual fee, \$7,500; time and expense, professional, \$100 per hour; clerical, \$25 per hour.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Peter Mackay, general manager/director; Spottswood P. Dudley, director.

Continued on next page



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Continued from preceding page

P

Paramount Insurance Brokers & Agents Ltd.

Sears Road, Shirley Street and
Sears House, P.O. Box N 1323,
Nassau, Bahamas; 609-326-6905

Year founded: 1982.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, legal advice.

Staff: Four total staff members, three professional staff members. Professional designations held by staff include one MBA.

Clients: Three total clients, all with \$1 million-\$3 million in premiums. Total premium volume of captives managed, \$5.5 million. Minimum size client, \$1 million premium volume.

Compensation: Minimum annual fee, \$20,000; time and expense, professional, \$65 per hour; clerical, \$25 per hour.

1985 gross revenues: Not reported.

Principal officers: Charles A. Donaldson, vp/managing director.

Pinehurst Management Co. Ltd.

Penthouse, Masters Building, Reid Street, Hamilton, Bermuda;
809-295-4864

Year founded: 1967.

Parent company: Emmet & Chandler Cos. Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, loss-control services (through E&C Self Insurance Services), specialized accounting services for associations, onshore services for associations, captive rental facilities.

Staff: 17 total staff members, seven professional staff members. Professional designations held by staff include one CPA, one CA, two CGAs, one GIIC.

Clients: 65 total clients; 3% with under \$1 million in premiums, 54% \$1 million-\$3 million, 38% \$4 million-\$10 million, 2% \$11 million-\$20 million, 3% exceeding \$20 million. Total premium volume of captives managed, \$250 million. Minimum size client \$500,000 premium volume.

Subsidiaries: Pinehurst Management Co. (Cayman) Ltd.

Compensation: Annual fee; time and expense, professional, \$63-\$200 per hour; clerical, \$25-\$40 per hour.

1985 gross revenues: \$2.5 million; 95% from fees charged for captive management, 5% from other services.

Principal officers: Robert C. Whiting, managing director; H.B. Kast, senior vp; Cyril Whitter, vp; Michael Langford, assistant vp; L.E. Patton treasurer.

Polaris International Insurance Managers (Bermuda) Ltd.

P.O. Box 1154, Hamilton 5,
Bermuda; 809-292-1330

Year founded: 1981.

Parent company: Polaris International Inc., Scottsdale, Ariz.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss control services, specialized accounting services, onshore services for associations, captive rental facilities.

Staff: Five total staff members, four professional staff members. Professional designations held by staff include one CPA.

Clients: 10 total clients; 10% with under \$1 million in premiums, 60% \$1 million-\$3 million, 20% \$4 million-\$10 million, 10% \$11 million-\$20 million. Total premium volume of captives managed, \$28 million.

Compensation: Minimum annual fee \$10,000; commissions for reinsurance brokered; time and expense, professional, \$100.

1985 gross revenues: Not reported; 90% from fees charged for captives managed, 10% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Clive Eims-worth, John M. Oien, Alan Amarel and Beryl Pearson.

Polaris International Insurance Managers (Cayman) Ltd.

P.O. Box 1289, Grand Cayman,
Cayman Islands, B.W.I.;
809-549-7823

Year founded: 1982.

Parent company: Polaris International Inc., Scottsdale, Ariz.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss control services, specialized accounting services, onshore services for associations, captive rental facilities.

ratemaking for captives, investment management, loss-control services, specialized accounting services for associations, onshore services for associations, captive rental facilities.

Staff: Four total staff members, three professional staff members. Professional designations held by staff include one CPA.

Clients: One client with \$1.5 million in premiums.

Compensation: Minimum annual fee, \$10,000; commissions for reinsurance brokered.

1985 gross revenues: Not reported; 100% from fees charged for captive management.

Principal officers: Clive Hims-worth and John M. Oien.

Polaris International Insurance Managers (Turks & Caicos) Ltd.

PMB 10, Grand Turk, Turks &
Caicos, B.W.I.; 609-943-2080

Year founded: 1982.

Parent company: Polaris International Inc., Scottsdale, Ariz.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss-control services, services for associations, captive rental facilities.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one attorney.

Clients: Two total clients; 50% with under \$1 million in premiums, 50% \$1 million-\$3 million. Total premium volume of captives managed, \$5 million.

Compensation: Minimum annual fee, \$10,000; commissions for reinsurance brokered.

1985 gross revenues: Not reported; revenues are generated both from fees charged for captive management and from commissions for brokering insurance and/or reinsurance.

Principal officers: Clive Hims-worth and John M. Oien.

Powerscourt Group Ltd.

P.O. Box HM 2267, Hamilton 5,
Bermuda; 809-295-8495

Year founded: 1984.

Services provided: Frequent accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, reinsurance brokered for captives, investment management; occasional captive feasibility studies, captive formation, government reporting, computerized claims processing, underwriting and ratemaking for captives, underwriting

pool, services for associations.

Staff: Three total staff members, all of whom are professionals. Professional designations held by staff include two CPAs, one MBA.

Clients: Total clients not reported, 100% with \$4 million-\$10 million in premiums. Total premium volume of captives managed, \$20 million.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported.

Principal officers: John R. Kane, president; Laura Schoenlein, vp.

R

Regency International Ltd.

Medical Hall Building, P.O. Box HM
1224, Hamilton 5, Bermuda;
809-295-5921

Year founded: 1977.

Parent company: The Crump Cos. Inc.

Services provided: Frequent captive feasibility studies, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives; occasional captive formation, claims reserves analysis, loss forecasting, reinsurance brokered to captives.

Staff: Seven total staff members, one professional staff member who holds an AICU designation.

Clients: 10 total clients. No minimum size client.

Subsidiaries: Regency Reinsurance Brokers Ltd., Hamilton, Bermuda.

Compensation: Annual fee, commissions for reinsurance brokered.

1985 gross revenues: Not reported.

Principal officers: Donald A. Thomas, president; Sandra J. Ferguson, executive vp; Horace W. Nelson, vp.

Risk & Benefit Management Systems Inc.

3025 S. Parker Road, Suite 825,
Aurora, Colo. 80014; 303-752-4912

Year founded: 1979.

Parent company: Bayly, Martin & Fay International Inc.

Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management; occasional captive feasibility studies, computerized accounting, specialized accounting services for associations.

Staff: Six total staff members, five professional staff members. Professional designations held by staff include one CPA.

Clients: Four total clients; 50% with under \$1 million in premiums, 50% \$4 million-\$10 million. Total premium volume of captives managed, \$16 million. No minimum size client.

Compensation: Annual fee; time and expense, professional, \$60-\$125 per hour; clerical, \$25 per hour.

1985 gross revenues: More than \$350,000; 95% from fees charged for captive management, 5% from other services including claims management.

Principal officers: Thomas G. Littell, president; Duane Metcalf, treasurer.

Risk Management Ltd.

Invicta House, Candie Road, St.
Peter Port, Guernsey, Channel
Islands; 04-812-3612

Year founded: 1978.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, reinsurance placed for captives, underwriting and ratemaking for captives, investment management, tax advice; occasional onshore services for associations.

Staff: 16 total staff members, eight professional staff members. Professional designations held by staff include four FCIs, one AICU, one FCA, one CE.

Compensation: Minimum annual fee, \$20,000; time and expense, professional, \$45-\$80 per hour; clerical, \$30-\$45.

1985 gross revenues: Not reported; 70% from fees charged for captive management, 30% other services including non-captive underwriting management.

Principal officers: Michael A. Ward, managing director; Diane J. Ward and Michael Dallamore, directors; M. John Palin, director/secretary; Peter Rowe, underwriting manager.

Risk Treatment Services (Bermuda) Ltd.

Kitson Building, P.O. Box HM 2078,
Hamilton 5, Bermuda;
809-295-5425

Year founded: 1972.

Parent company: Bayly, Martin & Fay International Inc.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, investment management, specialized accounting services for associations; occasional loss forecasting, reinsurance brokered to captives, loss control services, onshore services for associations.

Staff: 10 total staff members, six professional staff members. Professional designations held by staff include two CPAs.

Clients: Seven total clients; 86% with under \$1 million in premiums, 14% \$4 million-\$10 million. Total premium volume of captives managed, \$7 million. No minimum size client.

Compensation: Minimum annual fee, \$15,000; commissions for reinsurance brokered; time and expense, professional, \$75 per hour; clerical, \$30 per hour.

1985 gross revenues: \$150,000; 90% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Hal Forkush, president; Colin James, vp.

Rollins Burdick Hunter Co. (Bermuda) Ltd.

P.O. Box HM 2450, Hamilton 5,
Bermuda; 809-295-0723

Year founded: 1970.

Parent company: Combined International Corp.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools, investment management, tax advice, legal advice, loss-control services (Chicago), specialized accounting services, onshore services for associations; occasional manual claims processing.

Staff: 15 total staff members, seven professional staff members. Professional designations held by staff include two CPAs, two CPCUs, two ARMs, three MBAs.

Clients: 40 total clients; 14% with under \$1 million in premiums, 14% \$1 million-\$3 million, 55% \$4 million-\$10 million, 17% \$11 million-\$20 million. Total premium volume of captives managed, \$260 million.

Subsidiaries: Rollins Burdick Hunter (Cayman) Ltd., George Town Grand Cayman; Rollins Burdick Hunter (Turks & Caicos) Ltd., Grand Turk, Turks & Caicos.

Compensation: Minimum annual fee, \$15,000; commissions for reinsurance brokered; time and expense, professional, \$90-\$125 per hour; clerical, \$40-\$60 per hour.

1985 gross revenues: Not reported; 90% from fees charged for captive management, 7% from commissions charged for brokering insurance and/or reinsurance, 3% investment income.

Principal officers: John J. Lorhan, president; Windsor H. Ironside, vp; R. David Turner, president-RBH Management Inc.; Stephen J. McElroy and Daniel L. Siegel, vps-RBH Management Inc.

S

Sedgwick Group Overseas Management Services Ltd.

P.O. Box HM 1669, Hamilton 5,
Bermuda; 809-295-4863

Year founded: 1972.

Parent company: Sedgwick Group P.L.C.

Continued on facing page

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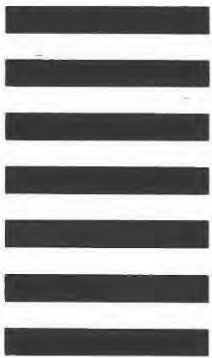
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Staff: 28 total staff members, 11 professional staff members. Professional designations held by staff include five CPAs, one FCII, one ACIS.

Clients: 27 total clients; 37% with under \$1 million in premiums, 48% \$1 million-\$3 million, 9% \$4 million-\$10 million, 3% \$11 million-\$20 million, 3% exceeding \$20 million. Total premium volume of captives managed, \$70 million. No minimum size client.

Subsidiaries: Sedgwick Group Management Services, Curacao, Netherland Antilles.

Compensation: Minimum annual fee, \$20,000; time and expense, professional, \$85-\$160 per hour; clerical, \$55-\$85 per hour.

1985 gross revenues: \$2 million; 88% from fees charged for captive management, 12% from captive rental.

Principal officers: Barrie Eady, president; Bryan Cooper, vp/treasurer; Simon Moore, group underwriter; Andrew Sargeant, controller.

Sentry Assurance Management Ltd.

P.O. Box 1776, Hamilton 5, Bermuda; 809-295-5303

Year founded: 1979.

Parent company: Sentry Insurance Group.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, investment management, specialized accounting services to associations.

Staff: Four total staff members, one professional staff member who holds an FCCA designation.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported.

Principal officers: Larry Ballard, president; Harvey Hoth, vp; Dean Zoss, vp/treasurer.

Southwest Offshore Management Ltd.

P.O. Box 1571, Grand Cayman, Cayman Islands, B.W.I.; 809-949-5422/6424

Year founded: 1978.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, insurance brokering; occasional manual claims processing, computerized claims processing, actuarial studies, loss forecasting, underwriting and ratemaking for captives, underwriting pools, investment management, specialized accounting services for associations.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include one CPA, one CPCU, one ARM, one CLU, one AIM.

Clients: 10 total clients; 80% with under \$1 million in premiums, 20% \$1 million-\$3 million. Total premium volume of captives managed, \$7 million. Minimum size client, \$400,000 premium volume.

Compensation: Minimum annual fee, \$7,500; commissions for reinsurance brokered; time and expense, professional, \$100-\$125 per hour; clerical, \$25-\$40 per hour.

1985 gross revenues: Not reported; 60% from fees charged for captive management, 40% from commissions charged for brokering insurance and/or reinsurance.

Principal officers: Ross Blumentritt, J.D. Hemphill, Winnie Chung and Christoph Blumentritt, directors.

Stewart Wrightson Group (Bermuda) Ltd.

P.O. Box HM 447, Hamilton 5, Bermuda; 809-292-3146

Year founded: 1978.

Parent company: Stewart Wright-

son (Overseas Holdings) Ltd.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, investment management.

Staff: Two total staff members, one professional staff member.

Clients: Five total clients.

Compensation: Annual fee.

1985 gross revenues: Not reported.

Principal officers: R.A. Jones, director.

Sussex International Ltd.

P.O. Box HM 104, Commerce Building, Reid Street, Hamilton 5, Bermuda; 809-295-8847

Year founded: 1983.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Two total staff members, one professional staff member who holds ACII and AIB designations.

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Continued from preceding page

Clients: 14 total clients; 40% with under \$1 million in premiums, 40% \$1 million-\$3 million, 20% \$4 million-\$10 million. Total premium volume of captives managed, \$15 million. No minimum size client.

Subsidiaries: CMR Insurance Brokers Ltd., Hamilton, Bermuda.

Compensation: Minimum annual fee, \$2,500; commissions for reinsurance brokered; time and expense, professional, \$75-\$100; clerical, \$30.

1985 gross revenues: \$250,000; 85% from fees charged for captive management, 10% from commissions charged for brokering insurance and/or reinsurance; 5% from other services.

Principal officers: R.N. Hughes, chairman; C. Gordon-Seymour, president; M. Davis, secretary; J. Whatley.

t

T & C Inter-Insurance Exchange Ltd.

P.O. Box 116, Grand Turk, Turks & Caicos, B.W.I.; 809-946-2614

Year founded: 1984.

Services provided: Captive feasibility studies, captive formation, government reporting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (Turks & Caicos Inter-Insurance Pool in formation), loss-control services (United States).

Staff: Seven total staff members, three professional staff members. Professional designations held by staff include one CPA, one FCAS, two attorneys, two RUs.

Clients: Three total clients; 67% with under \$1 million in premiums, 33% \$1 million-\$3 million. Minimum size client, \$500,000 premium volume.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1985 gross revenues: Not reported.

Principal officers: Bernard Gershuny, David Gershuny, Charles W. Hannon, John Miller, Leonard Mintz and James Stergiou, members-board of advisers; Peter M. Fisher, underwriting manager.

W.A. Taft & Co. Ltd.

P.O. Box HM 2210, Hamilton 5, Bermuda; 809-295-8128

Year founded: 1983.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, specialized accounting services, consulting on run-offs, loss portfolio reinsurance, funding programs, captive rental facilities; occasional captive feasibility studies, claims reserves analysis, actuarial studies, loss forecasting.

Staff: Three total staff members; two professional staff members. Professional designations held by staff include one MBA.

Clients: Two total clients.

Compensation: Annual fee, commissions for reinsurance brokered, time and expense.

1985 gross revenues: Not reported.

Principal officers: W.A. Taft, president; Brenda Smith-Casey, vp.

Tate & Lyle Management & Finance Ltd.

129 Front St., P.O. Box HM 337, Hamilton 5, Bermuda; 809-295-9911

Year founded: 1981.

Parent company: Tate & Lyle P.L.C.

Services provided: Captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance bro-

kered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include one ACII.

Clients: Nine total clients; 80% with under \$1 million in premiums, 10% \$1 million-\$3 million, 10% \$4 million-\$10 million.

Compensation: Annual fee.

1985 gross revenues: Not reported.

Principal officers: Michael Egan, managing director; Vivian Tierney, treasurer.

Transglobe Underwriting Management (Guernsey) Ltd.

P.O. Box 34, Le Riche House, 50 High St., St. Peter Port, Guernsey, Channel Islands; 04-812-8136

Year founded: 1975.

Parent company: English & American Insurance Group P.L.C.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, insurance and reinsurance company management services; occasional legal advice, specialized accounting services for associations.

Staff: 32 total staff members; four professional staff members. Professional designations held by staff include two ACAs, one CA, one ACII.

Clients: 13 total clients; 32% with under \$1 million in premiums, 22% \$1 million-\$3 million, 38% \$4 million-\$10 million, 8% exceeding \$20 million. Total premium volume of captives managed, \$70 million. Minimum size client, \$500,000 premium volume.

Compensation: Minimum annual fee, approximately \$21,900; time and expense.

1985 gross revenues: Not reported; 95% from fees charged for captive management, 5% from other services.

Principal officers: Ian G. Daish, general manager; David Johnstone, captive services manager; Martin C. Belcher, underwriter; Michael E.J. Perrett, manager-non-captives; Brian M.L. Kirkland, deputy underwriter.

Transnational Risk Management (Guernsey) Ltd. (The Reiss Organization)

31-33 Le Pollet, St. Peter Port, Guernsey, Channel Islands; 04-812-7220

Year founded: 1976.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance placed for captives, underwriting and ratemaking for captives, loss-control services (through European Risk Management, Weybridge, Surrey, England); occasional actuarial studies, loss forecasting, reinsurance placed to captives, specialized accounting services for associations, onshore services for associations.

Staff: Four total staff members, three professional staff members. Professional designations held by staff include one FCII, one FBIM, one FID, one CA.

Clients: Six total clients; 33% with under \$1 million in premiums, 17% \$1 million-\$3 million, 50% \$4 million-\$10 million. Total premium volume of captives managed, \$9 million. Minimum size client, \$250,000 premium volume.

Compensation: Annual fee, time and expense.

1985 gross revenues: Not reported; 95% from fees charged for captive management, 5% from consulting.

Principal officers: John R. Parkinson, managing director; John W. Stuart, company accountant.

Transnational Risk Management Ltd. (The Reiss Organization)

Transnational House, P.O. Box 69, Grand Cayman, Cayman Islands, B.W.I.; 809-947-4455

Year founded: 1979.

Parent company: Transnational Ltd.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (United Insurance Co., 32 participants, \$200 million premium volume; Tortuga Casualty Co., 25 participants, \$50 million premium volume), loss-control services (Cleveland), specialized accounting services for associations, onshore services for associations.

Staff: 30 total staff members, 10 professional staff members. Professional designations held by staff include three FCII's, two FCAs, one ACA, one FAAL, one HND.

Clients: 35 total clients; 25% with under \$1 million in premiums, 35% \$1 million-\$3 million, 20% \$4 million-\$10 million, 10% \$11 million-\$20 million, 10% exceeding \$20 million. Total premium volume of captives managed, \$400 million. Minimum size client, \$1 million in premiums.

Compensation: Minimum annual fee, \$20,000.

1985 gross revenues: Not reported; 93% from fees charged for captive management, 2% from commissions charged for brokering insurance and/or reinsurance, 5% from consulting.

Principal officers: F.M. Reiss, chairman; D.J. Westmoreland, managing director; Omar R. Cordial, assistant general manager; G.R. King, financial controller; Elwyn S. Hughes, senior accountant.

Trenwick Services Ltd.

Trenwick House, Church Street, Hamilton, Bermuda; 809-295-3009

Year founded: 1979.

Parent company: Trenwick Group Inc.

Services provided: Frequent captive formation, government reporting, accounting, investment management; occasional computerized accounting, manual claims processing, loss forecasting, reinsurance brokered to captives.

Staff: 15 total staff members, three professional staff members. Professional designations held by staff include three CPAs, one CPCU, two MBAs, two FCASs.

Clients: Seven total clients.

Subsidiaries: Trenwick America Reinsurance Co., Westport, Conn.

Compensation: Annual fee.

1985 gross revenues: Not reported.

Principal officers: James F. Billett, chairman; Angus Robinson Jr., president; Mark W. Hinkley, executive vp; Brian M. O'Hara, senior vp; Jacques Q. Bonneau, vp.

U

Universal Risk Management Ltd. (The Reiss Organization)

Universal House, Shannon, County Clare, Ireland; 06-161-1955

Year founded: 1976.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (United Insurance Co., 32 participants, \$200 million premium volume), loss-control services (Weybridge, Surrey, England), specialized accounting services for associations, onshore services for associations.

Staff: 40 total staff members, 21 professional staff members. Professional designations held by staff include one CPA, three FCII's, one FCA.

Clients: Two total clients; 50% with under \$1 million in premiums, 50% exceeding \$20 million. Total premium volume of captives managed, \$104 million. Minimum size client, \$250,000 premium volume.

Compensation: Minimum annual fee, \$20,000.

1985 gross revenues: Not reported; 95% from fees charged for captive management, 5% from consulting.

Principal officers: F.M. Reiss, chairman; B.D. Murphy, managing director; T.G. Owens, financial control-

ler; T.J. Carroll and D. Neylon, assistant managers.

V

Vermont Insurance Management Inc.

118 Main St., P.O. Box 306, Montpelier, Vt. 05602; 802-229-5042

Year founded: 1981.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, occasional captive feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, investment management, services for associations.

Staff: Four total staff members, two professional staff members. Professional designations held by staff include one CPCU.

Clients: Six total clients; 10% with under \$1 million in premiums, 30% \$1 million-\$3 million, 50% \$4 million-\$10 million, 10% \$11 million-\$20 million. Total premium volume of captives managed, \$25 million. No minimum size client.

Subsidiaries: Vermont Group Inc., Montpelier, Vt.

Compensation: Minimum annual fee, \$12,000.

1985 gross revenues: Not reported.

Principal officers: George A. Chaffee, president/treasurer; H. Lincoln Miller Jr., vp/secretary.

y

Yankee Captive Management Co.

140 Kennedy Drive, P.O. Box 2127, South Burlington, Vt.; 802-658-1100

Year founded: 1983.

Parent company: Yankee Insurance Corp.

Services provided: Captive formation, accounting, manual claims processing, claims reserves analysis.

Staff: Three total staff members, two professional staff members. Professional designations held by staff include one FCAS.

Clients: Four total clients; 50% with under \$1 million in premiums, 25% \$1 million-\$3 million, 25% \$4 million-\$10 million. Total premium volume of captives managed, \$7 million.

Compensation: Minimum annual fee, \$2,000.

1985 gross revenues: Not reported.

Principal officers: L.F. Hackett, president; J.F. McNally, vp.

Z

Zurich International Ltd.

P.O. Box HM 2268, Reid House, 31 Church St., Hamilton 5, Bermuda; 809-292-8155

Year founded: 1977.

Parent company: Zurich Insurance Group.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, risk financing; occasional actuarial studies, loss forecasting, underwriting and ratemaking for captives, tax advice, legal advice, loss control services.

Staff: 11 total staff members, six professional staff members. Professional designations held by staff include one CA.

Clients: Nine total clients; 60% with under \$1 million in premiums, 20% \$1 million-\$3 million, 10% \$4 million-\$10 million, 10% exceeding \$20 million. Total premium volume of captives managed, \$40 million. Minimum size client, \$250,000 premium volume.

Compensation: Minimum annual fee, \$20,000.

1985 gross revenues: \$328,875; 100% from fees charged for captive management.

Principal officers: Peter J. Jones, president; Nigel J. Pooley, comptroller; Elizabeth M. Ochoa, assistant vp.

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CICA meeting

Captive owners urged to create own capacity

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—It may be time for members of the Captive Insurance Cos. Assn. to band together and create some capacity of their own, one member suggests.

Larry Bell, assistant vp of risk management for Revco D.S. Inc. in Twinsburg, Ohio, told attendees at CICA's annual conference last month in Scottsdale that, "The leopards are truly showing their spots these days," and "the insurance industry has come out of the closet, shall we say, and no longer is it masquerading as the good guy."

During a workshop on "The Effect of Current Market Conditions on Captive Operations," Mr. Bell noted there is "tremendous capacity" among CICA captives.

"Why don't we bring it together to form a D&O facility for example?" he asked.

Or, he suggested that CICA members form their own fronting companies.

He urged members to "quit reacting and start acting. Let's look at this crisis as an opportunity, let's start preparing for the next crisis now."

"Let's use vehicles like CICA to join together to develop solutions to problems beyond the capacity of our individual captives," he said.

In a later interview, Mr. Bell said he expects captive owners to speak further about forming their own capacity—and possibly even to initiate some action—during the Risk & Insurance Management Society conference this week in Toronto.

During the CICA workshop, Mr. Bell reminded his audience about how the insurance industry "solicited our loyalty, promising to reward us with continued protection when times got tough. So much for our misplaced loyalty."

"To hear them tell it, the cause of the insufficient rating was not their greed for investment income, it was because we forced them to compete with the innocent capacity we created with our captives," he added.

Mr. Bell also took issue with action by insurance regulators.

"The regulators, both federal and state, have continued to demonstrate their bias against captives. You all know the efforts of the IRS to treat us as illegitimate children," he said, referring to the Internal Revenue Service.

"State regulators have also demonstrated their disapproval of the one good thing that the federal legislation has done—the Risk Retention Act," he said.

State regulators, by opposing the act, appear to be more concerned with keeping commercial insurers from losing their market share than with helping consumers find risk-financing alternatives, he said.

Regulators express concern "about the financial viability of self-insurance, captives, surplus lines and any vehicle that they can't control. All the while, they allow the carriers under their control to operate unsoundly and become insolvent," he charged.

Panelist Charles W. Brandyberry, vp with Johnson & Higgins in New York, said problems experienced by captives are not attempts by commercial insurers and regulators to drive captives out of business, but instead are "spilling over" from problems experienced by the insurance industry and business in general.

"What we have going on, in terms of what you face with your captives, is not so much an attempt by the industry to attack captives and make life difficult and force us

to close down all the captive operations," he said.

"A lot of the problems we are experiencing are related to the industry itself and to business."

As an example, he pointed to mounting pressure from attorneys for "tighter agreements" between parties involved in insurance transactions, whether in the commercial or captive marketplace.

And insurers and reinsurers are demanding letters of credit and cash deposits "from everybody."

"Problems for the industry—insurance and reinsurance—are absolutely and definitively spilling over" into the captive business, Mr. Brandyberry said. ■



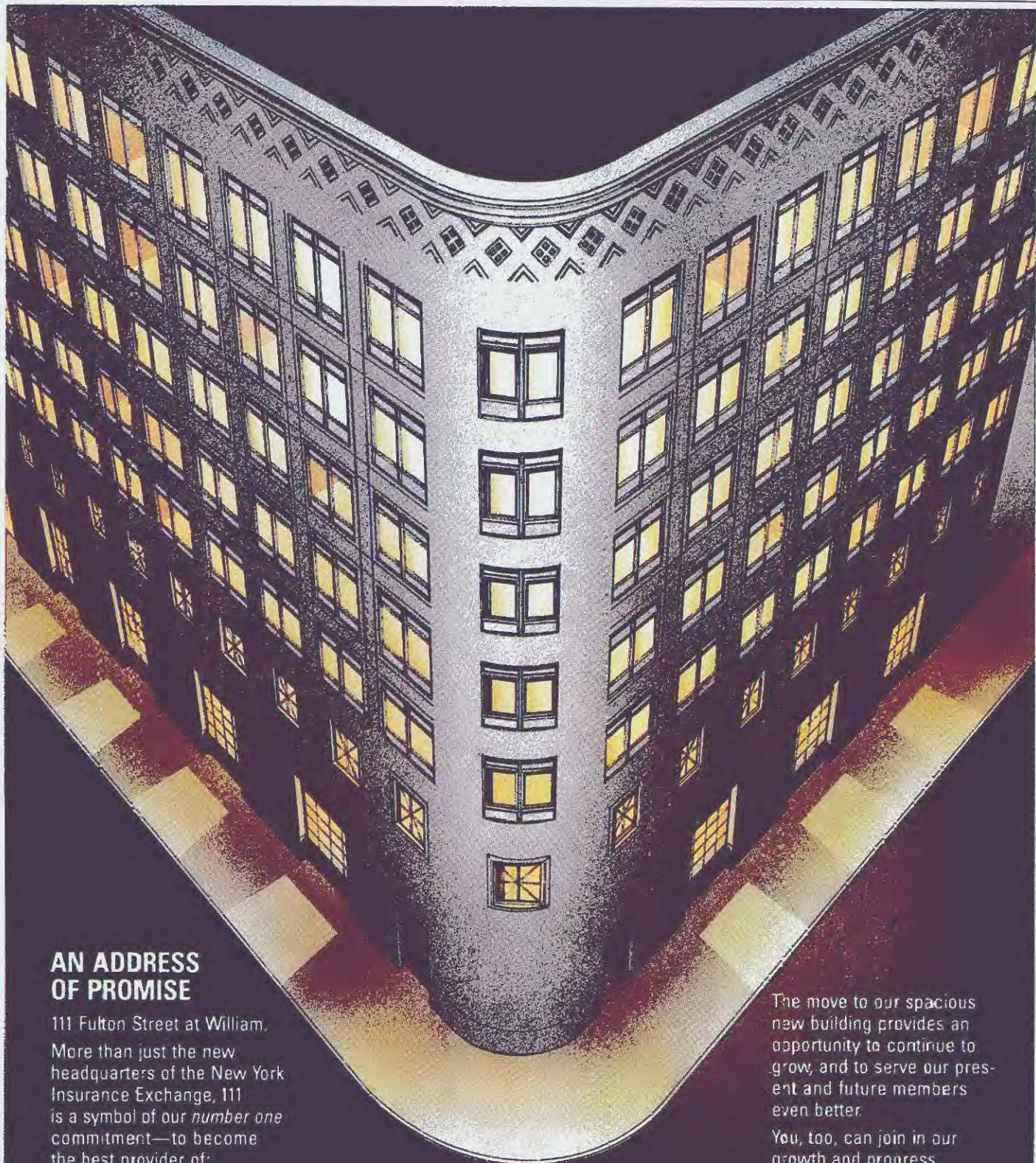
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CICA meeting

Bill polishes captives' image: RIMS head

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—Expansion of the federal Risk Retention Act could enhance the image and "vital interests" of the captive insurance company community, says the president of the Risk & Insurance Management Society.

"For too long, I think captives have been misperceived as a sinister mechanism by the Fortune 500 corporations and conglomerates for tax avoidance and money laundering purposes," said P. Richard

Hackenburg, RIMS' president and also staff vp and assistant treasurer at Allegheny International Corp. in Pittsburgh.

However, enactment of S. 2129, the legislation to extend the provisions of the Risk Retention Act to all lines of liability coverage except workers compensation, "would obviously encourage the formation of risk retention groups by a much broader range of participants such as midwives, architects, day-care centers, municipalities and other entities besides corporate

America," he said.

"With this broadened base, I think the perspective on our particular industry would certainly change and would certainly come to be considered something which is more normal and more traditional," he added.

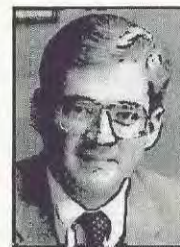
Mr. Hackenburg made his remarks at last month's Captive Insurance Companies Assn. conference in Scottsdale, Ariz.

The legislation to expand the Risk Retention Act, which was approved by the Senate Commerce

Committee last month, would allow businesses, trade groups and municipalities to purchase all forms of commercial casualty coverage except workers compensation on a group basis or to form captive insurers, called risk retention groups, to pool their risks.

These groups would be largely exempt from state regulation (BI, March 10; March 31).

Under the current Risk Retention Act, which was approved in



Mr. Hackenburg

1981, groups can be formed only to purchase or self-insure product liability and completed operations insurance.

Mr. Hackenburg pointed out that many businesses today that are considered "traditional" have their roots in movements that bucked conventional trends.

For example, he noted, the Factory Mutual System was formed by "a group of cotton mill operators getting together and forming this company because they felt they couldn't get adequate coverage" from the then-"traditional" insurance industry.

"Today, they're traditional," he said, referring to Factory Mutual. "And that's the way the worm turns."

"It seems that at the end of the day, there's really nothing new under the sun. It's just the reactions to current environment."

Mr. Hackenburg pointed out that unlike the original act allowing formation of product liability risk retention groups, the expanded legislation would require groups to be licensed in at least one state.

The original risk retention legislation allowed risk retention groups to be formed for a time in Bermuda or the Cayman Islands.

The reason for licensing requirements is to draw capital involved in the formation of the new groups to the United States, instead of letting it go to offshore domiciles, said Mr. Hackenburg.

"There is great political pressure to do that, and I think a lot of people can understand the reasoning behind it," he remarked.

An effort to retain "that grandfather provision under (the new bill) would have dealt an even more serious blow to the chances of passage of S. 2129" than will "the modicum of trouble that we are going to have from a few people that are not exactly excited about potential passage of a broadening of the Risk Retention Act," Mr. Hackenburg added.

Mr. Hackenburg said he believes prospects for enactment of the expanded act are good and expects new legislation to be approved sometime in late spring or early summer.

But, he warns, passage won't come without a continued fight from insurance agents and probably the National Assn. of Insurance Commissioners.

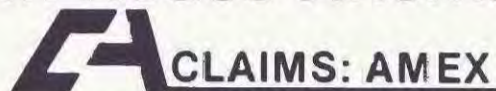
"We should not be lulled into complacency and believe that the thing is a sure bet," he warned.

Insurance agents drafted amendments to the risk retention legislation that would have required organizations wanting to set up risk retention groups to prove to regulators in each state in which the groups were to operate that commercial insurance was not available on reasonable terms from admitted and licensed insurance companies.

The Senate Commerce Committee did not consider this and other agents' proposals when it passed the bill last month. But business lobbyists warn that opposition to the legislation will continue as it winds its way through Congress.

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Distressed market puts risk managers in spotlight

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—Despite the current problems facing insurance buyers, this is a "golden era" for risk managers, one expert says.

Risk managers have never had such high visibility "in the branches of government... in the halls of Congress and in our corporations," said Richard L. Casey, director of risk management at Navistar International Corp., formerly International Harvester Corp.

The amount of publicity generated by the current insurance crisis "is the greatest thing to happen to risk management in 25 years," he told members of the Captive Insurance Cos. Assn. at their annual conference, held March 23-25 in Scottsdale.

And, Mr. Casey urged risk managers to take advantage of their increased visibility in a marketplace where their advice and expertise is needed more than ever.

"This is the greatest market in the world," Mr. Casey said. "The insurance industry is in an absolute state of chaos, which is great. I mean, that's where we expected to be. That's why we formed these captive companies, so we could react to this type of marketplace."

He urged his listeners to "get more involved in what's going on. Realize that we are now in the golden era of risk management."

"We have all the visibility that we need. We have to become more involved in the legislative process, whether we do it through (the Risk & Insurance Management Society) or CICA or whatever."

In addition, Mr. Casey said CICA should "support all those institutions that support us."

He referred to new excess coverage facilities like A.C.E. Insurance Co. Ltd. in Bermuda and Tortuga Casualty Co. in the Cayman Islands, which have created capacity for insurance buyers in the distressed market.

Mr. Casey also said he feels strongly that federal regulation of insurance eventually may evolve from the insurance industry problems that continue to repeat themselves.

"And if we get federal regulation of insurance, it might not be all bad," he added. "But I think we should be part of the process if it's going to take place."

Mr. Casey noted, "Somehow, they're going to start to repeal the McCarran-Ferguson Act and put the insurance industry back in with the rest of industry."

Reinsurers still have problems: Expert

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—The primary insurance industry will "march to the drumbeat of the reinsurers" at least through next year, as the current tight market cycle lasts longer than past cycles, an expert says.

Myron M. Picoult, senior insurance analyst with Oppenheimer & Co. in New York, said slow reinsurance payments and problems with recoverables from reinsurers have become major problems "no one wants to talk about."

And these problems will cause insurers to continue to write cautiously and at high prices at least through 1987 and possibly longer, Mr. Picoult said during a panel discussion at the annual conference of the Captive Insurance Cos. Assn. in Scottsdale.

He noted: "Recoverables have grown from 60% of the property/casualty industry's surplus in '82 to an 87% figure in '84," the last year for which there are figures.

He added that while figures on how much is currently owed in recoverables aren't available from primary insurers, indications are that "the numbers are not going to be pretty."

And, there are indications that some insurers' recoverables are well above 100% of surplus, he said.

"What you find if you just assume that 5% of the recoverables aren't going to be paid... you get a hell of a hit to surplus; more than most people realize."

Mr. Picoult quoted figures that recoverables between reinsurers have grown from 65% of surplus in 1982 to 120% in 1984. "Again, what that means is, if some of those recoverables are not paid, the reverberations in the reinsurance business are going to be kind of stiff."

He remarked that, "To the purchasers of reinsurance, caveat emptor clearly applies."

Renewals for primary insurance buyers in July and January 1987 are going to be tougher, Mr. Picoult predicts. "I don't see any reason at all for that to change."

But, despite his prediction, Mr. Picoult is optimistic that the insurance industry is on the road to a recovery

from years of disastrous underwriting performances.

"I am much more positive today than ever before about a recovery in the industry," he noted.

"However, it is premature for you to assume that all is well... Don't let the euphoria of the property/casualty stocks lull you into a false sense of security.

"Things are getting better, but they have a long way to go. This is not... a healthy industry yet."

However, Steven Satler, vp of major accounts with American Re-Insurance Co. in New York, is more optimistic than Mr. Picoult about the industry's recovery.

"Normally, these speeches that I give over the past 2½ years have actually been doom and gloom. This is the first time, I can actually say to you, 'The party is about to begin again,'" he said.

Mr. Satler said a "holy war" among reinsurers ended in 1984, when prices started to climb again. However, he notes, a leveling should occur in 1987.

He said that because it takes 12 to 18 months for higher rates to have an impact on earnings, the results of price increases are just beginning to show up in the reinsurers' balance sheets.

But, he said that capacity is being added to reinsurers, which in turn will "relieve some pressure" that has forced primary underwriters to pay more for reinsurance and pass the cost on to buyers.

However, Mr. Satler points out that there are still lingering problems among reinsurers, including:

- Inadequate management information systems. "That is the biggest problem. Reinsurers are very poor and inadequate on management information systems"

- Some of the runoff business, especially on treaty books of business, is going to cause "tremendous hits to surplus," particularly among U.S. reinsurers.

- Reinsurers cannot find personnel with proper experience in both hard and soft market cycles.

"And the long tail's coming," he said. "We do see some insolvencies... We expect one large direct writer, one stock (company) to go under in 1986. There might be more on the brink...."



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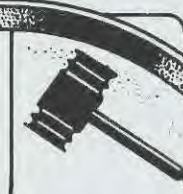
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Risk Manager of the Year

Donald Nelson

Best insurance deal is worth fighting for

By KATHRYN J. McINTYRE

PHILADELPHIA—ARA Services Inc. Director of Risk Management Donald Nelson fights for what he wants.

He uses his sharp wit, keen logic and astute understanding of insurance and risk management issues convince those around him that he is right.

But, on the odd occasion Mr. Nelson perceives that someone isn't listening to him, he is inclined to shout and pound his fist on a table to get attention.

It's what his staff calls his "John Madden Routine," named for the former Oakland Raiders football coach who was notorious for his enthusiastic displays of personal opinion both on and off the field.

Mr. Nelson's most famous John Madden-outburst exploded when one in a series of several brokers insisted that he didn't want to seek bids for a guaranteed-cost insurance program in 1984 because his management wouldn't buy it.

"He almost threw the guy out of his office," recalls ARA Corporate Insurance Manager Lawrence Kwasny.

Instead, Mr. Nelson started pounding his desk and he recalls shouting something to the effect: "I know my company better than you do. I know what I can sell to my management. Don't you tell me what I can sell. Just get me what I ask for."

He was asking for: First-dollar guaranteed-cost primary insurance to \$1 million for workers compensation, general liability and auto liability with the annual premium paid up front but discounted to the net present value.

So was created an insurance program that ARA management heralds today for accomplishing three important goals: preserving insurance coverage for the \$3.5 billion services company at a time when others are going without; producing immediate savings; and providing ARA operators with fixed insurance costs.

Mr. Nelson's hard-fought guaranteed-cost insurance program is just one reason that he is the 1986 *Business Insurance* Risk Manager of the Year.

In addition to citing Mr. Nelson's contribution to the "bottom line for his company and its shareholders," the 10 independent judges who selected Mr. Nelson as the recipient of this year's award also praised Mr. Nelson's "creative, innovative and comprehensive use of tools," his "hands-on approach to risk management" and his "advanced risk management practices and professional association involvement."

All these attributes have enabled the 56-year-old Mr. Nelson to provide ARA Services with the right risk management program for a rapidly growing and changing services conglomerate over a 15-year career with the company.

As ARA's first and only risk manager, he continually altered the risk-financing program to meet the company's changing needs while loss prevention and loss control programs were developed to protect ARA employees, and claims-handling procedures were improved to control costs.

When Mr. Nelson joined ARA Services in 1971, liability insurance for the predominately food service and vending company with \$675 million in revenues was provided under several traditional incurred-loss retrospectively rated insurance programs with what was then known as Royal Globe Insurance Co. ARA had insured with Royal for 20 years.

But, within two years, ARA was on an acquisition drive and cash flow was an established priority. Mr. Nelson generated approximately \$10 million in cash flow by introducing several paid-loss retro programs for the various lines of business in 1973, which also were underwritten by Royal.

At the same time, Mr. Nelson drafted with then-broker Fred S. James & Co. the first version of a broad-form manuscript liability insurance policy that would continue to be revised in the coming years to cover the diverse needs of the growing services company. The form included only two major exclusions: war and nuclear.

Mr. Nelson and ARA were satisfied with the programs, but in 1977 Royal said the paid-loss programs could not be supported by a letter of credit, based on the advice of the New York Insurance Department.

To maintain cash flow for the continually growing company, Mr. Nelson recommended a captive insurance company for ARA, which now was generating \$1.5 billion in revenues from expanded food service operations and new ventures into nursing homes and school bus operations.

In April 1977, ARA began insuring the first \$250,000 of workers compensation, general liability and auto liability losses through a newly incorporated Bermuda-based captive insurance company: Aramont Co. Ltd. And, a good portion of the company's coverage was for the first time consolidated in the captive, managed by International Risk Management in Bermuda, part of The Reiss Organization.

The 1973 manuscript liability policy Mr. Nelson had

drafted was used verbatim.

Royal initially fronted for the captive—issuing policies to ARA and reinsuring 90% of the risk with the captive—and provided excess insurance to \$1 million. The reinsurance was secured by a letter of credit, which was acceptable to the New York department.

"In October, The Reiss Organization came up with a more advantageous program for fronting and excess costs," Mr. Nelson recalls, and ARA switched from Royal to Northwestern National Insurance Co.

But in 1980, Mr. Nelson objected to the higher fronting fees and excess insurance charges, which Northwestern National said were justified by the company's loss experience.

Mr. Nelson turned to a trusted broker and adviser, William R. Schuck of Frank B. Hall of California in Los Angeles, who advised him to seek quotes for a paid-loss retro program. ARA had revenues of \$2.7 billion in 1980 and was providing construction management services and uniform rental services.

American International Group indeed offered ARA a better deal in Mr. Nelson's opinion: a paid-loss retro program for the first \$1 million limit, with a \$250,000 loss limit per occurrence.

The program was funded with a deposit premium, a letter of credit and a promissory note. And, again, Mr. Nelson's policy wording was adopted, but a cancellation clause was inserted providing for mutual acceptable negotiations on terms at the time of the cancellation.

"Everything was working fine," Mr. Nelson says.

But, in the fall of 1983, Mr. Nelson developed uneasy feelings that the competitive insurance marketplace was going to change soon and the company could lose the more advantageous aspects of its retro program with AIG.

He remembers sitting on panel at the Philadelphia I-Day in November 1983 with Stephen Satler, vp of American Re-Insurance Co., who advised risk managers to "hug your reinsurers." He predicted that reinsurers would soon stop supporting the competitive pricing that marked the commercial insurance marketplace in the early 1980s.

At the same, Mr. Nelson was struggling with the problem of stabilizing insurance costs of ARA operating units, which the company calls operators.

Under generally accepted accounting principles, the company had to book expected losses, "so we projected losses and allocated rates to each operation, hoping those were correct," Mr. Nelson says.

But, they weren't. "I was no better than the insurance industry," Mr. Nelson says, referring to insurers' inability to properly rate risk that led to growing underwriting losses.

"In 1979, I said the cost would be X, but by 1983 I had to say 'You owe me more money for 1979-81.'"

"The operators told me: 'I have problems. I don't know what my costs are going to be. I can't make a profit.'"

A commitment to lock in insurance coverage before the insurance marketplace changed, coupled with his goal to solve the insurance budgeting problems of the operators who could not tolerate fluctuations in insurance prices, led Mr. Nelson to conclude: "It's time to find real insurance."

His idea of real insurance: the first-dollar primary insurance policy with a \$1 million limit for workers compensation, general liability and auto liability risks for all ARA operations. The insurer was to project losses and then discount them to the present value to arrive at an annual pre-



Photo: Mary Herlehy

Donald Nelson inspects an ARA-operated gift shop at the Philadelphia airport.

mium for the next three years to be paid at the start of each policy year.

And, Mr. Nelson wanted rates guaranteed at the same level for three years as well as the terms of the policy he had written in 1973.

The program not only would serve to fulfill his two goals, it also would create immediate savings for ARA because the premium charge credited the investment income to be earned upfront.

Concurrently, Mr. Nelson wanted to consolidate insurance programs that were still rather splintered to obtain a quantity discount. The AIG paid-loss retro program covered only the operations of the ARASERVE food service and Air/Leisure sectors. Separate paid-loss retro programs were purchased from AIG to cover the operations under the Transportation and Health/Care Sectors.

"And there was quite a bit of self-insurance," Mr. Nelson said.

With his program defined, Mr. Nelson called in several brokers in early 1984 who were handling various aspects of ARA's insurance and told them what he wanted. The brokers: Frank B. Hall & Co. Inc. of California, Fred S. James & Co. and Alexander & Alexander Services Inc.

"They told me that I'd never convince my management to buy such a program," Mr. Nelson reports today. That's when he told them in John Madden terms what he wanted.

Nonetheless, the brokers' proposals "almost all came back as some sort of a cash-flow program," Mr. Nelson says. AIG, for example, wanted ARA to continue its present program under guaranteed terms, but not guaranteed rates. The few guaranteed-cost, net-present-value programs were unacceptable for the discount offered.

"I sent them back to the drawing board," Mr. Nelson says.

Continued on next page

ARA Services is a quiet giant of a company

Unless you live in Philadelphia or are very observant of the name on a vending machine, you may not know ARA Services Inc.

But, you certainly have drunk coffee brewed in an ARA vending machine, eaten food cooked by ARA staff, bought a newspaper or paperback book that was distributed by ARA, or perhaps even skied on its slopes.

ARA is the world's largest services management company, with \$3.5 billion in 1985 revenues generated by more than 50 lines of service businesses in all 50 states, Puerto Rico, seven foreign countries and on offshore oil drilling rigs. Its 112,000 employees provide services daily to 10 million people.

Since Dec. 19, 1984, ARA has been privately held, primarily owned by a group of more than 350 company executives and managers.

ARA's largest business sector is ARASERVE, whose six operating divisions provide food service to millions of people. Clients include 375 of the Fortune 500, the Pentagon, and enough schools, universities and nursing homes to make ARA the largest institutional food service.

In addition, more than 400,000 meals are served daily at more than 350 nursing homes and hospitals in 44 states and Puerto Rico by ARA's Healthcare Nutrition Services.

And, ARA's Vending Services Division serves 2 million people from more than 66,000 vending machines, while ARA/Cory Refreshment Services serves coffee and snacks at 150,000 locations in 39 states.

ARA also has fed the Olympic athletes each Olympics since 1968, except in the Moscow games. ARA did not bid on those games, which the United States ultimately boycotted.

ARA is more than the food and vending service company it began as in 1959.

ARA's Air/Leisure Sector furnishes food, refreshment and concession services for stadiums, convention centers, national and state parks, airports and gourmet restaurants, including the "95th" atop Chicago's John Hancock Center.

And, in addition to feeding people trapped in 19 major airports, ARA's Aero Enterprises manages gift shops and newsstands, while ARA's Ground Services Inc. provides ground service to more than 70 commercial airlines at 23 major airports in the United States and the Caribbean.

Air/Leisure also operates the Sugarbush ski area in Vermont, hotels in national parks and ARA's Environmental Services Inc., which provides janitorial and maintenance services to businesses. And, Solon Automated Services supplies multifamily housing with more than 200,000 washers and dryers.

The Distributive Sector includes ARA's Magazine and Book Division, which is the largest distributor of periodicals, delivering annually more than 500 million copies of periodicals to 20,000 retail locations across the country.

It also includes ARATEX Services, which rents uniforms, linens, maintenance items and career apparel to 300,000 clients, and is the largest garment and textile rental company.

Where it is not the largest, ARA is often second-largest.

ARA's Health/Care Sector operates 160 Daybridge Learning Centers in 13 states attended by more than 23,000 children, the second-largest day-care center chain. And ARA Living Centers operates 290 long-term care facilities in 12 states for the elderly, the disabled and the mentally handicapped, making ARA the second-largest in nursing homes.

This service sector also provides emergency room management services, staffing 400 hospital emergency rooms in 43 states, and health care services for 30 correctional facilities.

ARA's Transportation Sector includes ARA Smith's, with more than 8,000 vehicles.

Under the International Sector, six companies employ more than 12,000 people in food and restaurant services. Wholly owned subsidiaries operate in Belgium, France, the United Kingdom, Germany and Spain, while ARA is engaged in joint ventures in Canada and Japan.

ARA International also provides food service on oil rigs in the North Sea and the Gulf of Mexico.

For those who have a difficult time digesting these statistics, ARA has compiled some interesting descriptions to portray the size of its service business:

- 33.4 million gallons of coffee are sold annually from ARA vending machines, enough to fill 67 swimming pools.

- If all the milk cartons sold in one year by ARA's School Nutrition Services Division were placed end-to-end, they would stretch from New York City to Los Angeles.

- The 8 million spools of towels rented to businesses contain enough material to circle the globe more than eight times.

- The American cheese and sliced bread ARA uses each day would make a stack of cheese sandwiches higher than Mount McKinley, at 20,320 feet.

- The weekly load of paperbacks distributed by the Magazine and Book Division totals 450,000 pounds, about the weight of the Statue of Liberty.

- The 22 million gallons of diesel fuel used by ARA/Smith's would drive a truck to the sun and back.

nizes it will be difficult to do now.

Mr. Nelson negotiated the guaranteed-cost insurance and loss portfolio transfer in the nick of time, before the competitive insurance marketplace turned into a nightmare for risk managers, he stresses today.

"I got away from this terrible market," Mr. Nelson says with relief. "I could not duplicate this program today. The opportunity to do this ended in mid- to late 1985."

Mr. Nelson knew he was shaving it close in May 1984. Indeed, he was so convinced that time was of the essence that he paid a midterm cancellation penalty to get out of the paid-loss retro with AIG.

"If we had waited until October, we never would have gotten it," Mr. Nelson says of the guaranteed-cost insurance.

"It's the best move I ever made in my entire career," he says with 20-20 hindsight. But, he never doubted it would be.

The guaranteed-cost net-present-value insurance program would have been appropriate for any company with a large volume of claims that was buying a cash-flow insurance product and having difficulty accurately predicting losses, Mr. Nelson says.

Any company that didn't have the cash but needed the program could have borrowed the money from a premium finance company, he notes.

While proud of his program, Mr. Nelson says he made one mistake:

"I didn't buy a \$2 million limit."

Mr. Nelson says today that he didn't anticipate in 1984 that the umbrella market would contract as much as it has. "The umbrella market is worse than the primary market," he says.

Mr. Nelson is now negotiating to renew ARA's \$100 million of umbrella coverage that expires May 1. And, like other risk managers, Mr. Nelson is finding insurers are demanding higher prices, are distancing themselves further from the risk by attaching higher layers and want to issue claims-made policies.

A quote offered last month from Peter Wilson at H.S. Weavers (Underwriting) Agencies Ltd. in London for \$20 million of limits was "considerably more than we paid last year for \$100 million excess of \$1 million," Mr. Nelson said.

"We wouldn't buy the same limits at these prices," Mr. Nelson says.

And, the coverage attaches excess of \$1.5 million to \$5 million—depending on the exposure—instead of \$1 million, and is offered on Mr. Wilson's claims-made form, not the expiring occurrence coverage that Mr. Nelson wants.

Brokers Frank B. Hall & Co. of California and Alexander & Alexander Inc. together are working on the umbrella renewal.

Meanwhile, Mr. Nelson is trying to negotiate another \$1 million layer under the primary guaranteed-cost program, supported by a reinsurer, to bring the occurrence-based coverage to \$2 million.

Even with a \$2 million primary, there would be a gap in coverage for auto liability risks, which Mr. Wilson says he will insure only excess of \$5 million. Mr. Nelson expects to purchase a swing plan—a variation in a paid-loss retro—to cover the gap.

And, to build additional excess coverage, ARA may invest in one of the giant multiowner insurance companies being formed offshore to provide their owners with excess insurance, such as X.L. Insurance Co. Ltd. Marsh & McLennan Cos. Inc., which is organizing X.L., hopes the insurance company will participate in a slip that will provide X.L. owners with liability insurance limits of \$75 million excess of \$25 million (BI, March 19).

In the past, ARA has decided against investing much of its capital in the insurance business. The only recommendation of Mr. Nelson's turned down in 15 years involved this very issue. He wanted ARA's captive to underwrite general reinsurance and life insurance for employees, but senior management did not.

ARA management may have a different viewpoint on contributing capital to become a shareholder in X.L.

"The company can't afford a large uninsured loss, and we can't afford some of the premiums I'm hearing," Mr. Nelson explains.

While tackling the excess insurance problems, Mr. Nelson is not sitting back basking in the glory of his past accomplishments.

He travels about 25% of the time, explaining and helping to implement risk management programs throughout ARA, which has decentralized management control—including risk management. Only the risk financing aspect of risk management remains a centralized corporate function.

As corporate risk manager in a decentralized environment, Mr. Nelson is in demand as a consultant to the operating units of ARA and their personnel assigned to risk management duties. And he works with them, giving them advice on how to improve their programs.

"I talk to operators, to line of business management, about insurance, safety program and claims," Mr. Nelson says. "It's constant communication."

He adds: "You are never finished improving safety and claims administration. I am always looking to do it differently—and always asking: 'How can we do it better?'"

And, he continues to evaluate his prized guaranteed-cost insurance program.

"I have to watch our programs. I can't sit here and let the program ride. That's one reason I have never collapsed the captive.

"Who knows what business changes are ahead."

'The company can't afford a large uninsured loss, and we can't afford some of the premiums I'm hearing,' Mr. Nelson explains.



Continued from previous page

In the meantime, Mr. Nelson had mentioned his insurance idea to Joseph Giampetro, executive vp of Alexsis, the A&A subsidiary that had been handling ARA's claims since 1980. "I hadn't thought of Alexsis, but Joe was here and I told him what I wanted and he asked for a crack at it," Mr. Nelson says.

Alexsis succeeded where the other brokers failed. It obtained a quote from Crum & Forster to provide just what Mr. Nelson wanted, covering all ARA operations ranging from trucking to day-care centers to nursing homes to food service. The only excluded risks: medical malpractice in the emergency rooms and general liability coverage for the airport ground services operation and the Sugarbush ski area. Each of these is insured under separate programs due to their specialized risks.

Mr. Nelson credits Robert Needle, then sales and marketing manager for the Eastern Division of Alexsis, for developing a program that could be marketed to insurers and reinsurers. While the insurance company issued the insurance coverage, the bulk of the risk and premium was reinsured with A&A's Bermuda-based subsidiary, Hemisphere Marine & General Assurance (Bermuda) Ltd. Hemisphere then obtained reinsurance exceeding the predictable loss layer of \$250,000 and the premium available to pay expected losses.

"They used their expertise in self-insurance excess programs to create a first-dollar program," Mr. Nelson observed.

Mr. Needle is now managing vp of Alexander & Alexander Inc. in Philadelphia.

With his proposed guaranteed-cost program in hand, Mr. Nelson then had to convince management that it wanted to part with more than \$35 million in premium in one fiscal period. He easily convinced his immediate superior, Vp and Controller Anthony Tanzola, who has been his boss since hiring him in 1971.

"I just asked, 'Are you sure?'" Mr. Tanzola recalls.

After all, Mr. Nelson's original cash-flow program, then the captive program, then the second cash-flow program had all been "excellent for the time," Mr. Tanzola said.

Together, Mr. Nelson and Mr. Tanzola sold the merits of the program to Executive Vp and Chief Financial Officer Francis J. Palamara and the three of them went to ARA's chairman.

The program was approved.

ARA management approved the guaranteed-cost net-present-value program for the reasons Mr. Nelson developed it: to lock in a three-year guaranteed rate and to fix the operators' costs. The operators were now guaranteed that in years to come they wouldn't be paying more for their insurance coverage in 1985, 1986 and 1987 than their original charge in each of those years.

And, the cost savings to the company were just as important as cash. Charges were reduced 25% in 1984 and 50% in 1985 from what would have been accrued under the paid-loss program had it remained the same. In dollars, the savings since May 1984 exceed \$10 million.

And, these savings figures do not calculate what ARA's costs would have been in the current high-priced and capacity-short commercial insurance market if it had not locked in coverage.

In May 1985, the program was extended with Crum & Forster for coverage in 1987 to continue through 1988 at a 10% increase to be paid in 1987. And, the program was amended to provide for quarterly payments to ARA covering the expected claims payments each quarter.

The effect was a cash-flow advantage for ARA, although if claims exceed the budgeted amount, ARA pays the difference, subject to an annual aggregate cap. But, if claims payments do not exceed the quarterly budget, ARA keeps the savings.

In March 1986, however, both Crum & Forster and ARA mutually agreed to terminate the contract, which had included a non-cancellation clause except for non-payment of premium.

Old Republic Insurance Co. became the new insurer and wanted a full three years under its program, extending the coverage through 1989.

In addition to fixing operators' future insurance costs, Mr. Nelson addressed the problems of the past.

He capped liabilities for prior years' costs by selling the loss reserves for fiscal years 1979 through 1983 held by Aramont and under the AIG paid-loss retro program.

And, the loss portfolio transfer saved ARA an immediate \$3.2 million.

The July 1, 1984, loss portfolio transfer also was facilitated by the use of A&A's Bermuda-based Hemisphere, which assumed the loss reserves and purchased aggregate reinsurance.

Aramont then paid a \$12 million dividend to ARA, after starting with \$120,000 in 1977. "People like to say their captives made money," Mr. Nelson comments, "but it's internal money."

The captive did write some third-party risks through The Reiss Organization. "We didn't lose money, but we didn't make money either," Mr. Nelson admitted.

Aramont is still licensed in Bermuda, in case it is needed in the future.

Loss reserves for claims under the retro program from October to May 1984 were not sold, Mr. Nelson notes, because the loss experience was considered "too green" to properly price the loss portfolio transfer.

"My goal is to find a buyer," Mr. Nelson says, but he recog-

Insurance coverage costs ARA \$40 million

By KATHRYN J. MCINTYRE

It takes \$40 million and six brokers and their subsidiaries to insure the diversified businesses of ARA Services Inc.

Of the \$40 million insurance budget for 1986, in excess of \$35 million is the annual cost of the guaranteed-cost net-present-value primary insurance program providing a \$1 million per occurrence limit for workers compensation, general liability and auto liability risks (see story, page 120).

Umbrella liability insurance of \$100 million excess of \$1 million is costing ARA \$2.1 million this year, which is a "considerable increase from the previous year," says Director of Risk Management Donald Nelson.

The cost doubled this year due to increased costs to replace an expiring special layer of \$10 million excess of \$1 million covering ARA's Health/Care Sector. The coverage was needed because the umbrella insurers on ARA's \$100 million program would not cover the risks of this sector—including nursing homes and day-care centers—below \$11 million.

The premium for the replacement coverage in October 1985 shot up to \$1 million from \$89,000 the year before, and the limits were reduced to \$4 million excess of \$1 million.

Mr. Nelson continues to try to find coverage to fill the gap.

Almost as expensive as the current umbrella and excess insurance programs for almost all ARA operations is the \$12 million of medical malpractice insurance for ARA's Spectrum Emergency Care division that staffs and manages hospital emergency rooms.

First-dollar primary medical malpractice insurance is underwritten by an American International Group Inc. company under an occurrence policy with a \$2 mil-

lion aggregate limit.

ARA also purchases \$10 million of medical malpractice insurance excess of \$4 million, self-insuring the \$2 million gap that Mr. Nelson found too expensive to buy.

"We're comfortable we won't pierce the \$2 million," Mr. Nelson says, but he considers it prudent to purchase insurance for a catastrophe.

The \$12 million in limits costs ARA about \$2 million.

Mr. Nelson notes that ARA does not need more than \$14 million in medical malpractice insurance because "in the emergency room our people stabilize you and then turn you over to an admitting physician or your own physician."

Healthcare Insurance Services Inc. in Houston brokers the medical malpractice insurance both to AIG and in London, in conjunction with Associated Agencies Inc. in Chicago.

Associated Agencies was ARA's first broker when the company was formed in 1959 and continues to work with other ARA brokers on various projects.

The largest liability limits purchased by ARA cost about \$1 million: \$200 million of coverage for ARA's Ground Services Inc., which provides ground services at major airports around the country, including de-icing airplanes.

The first \$100 million is underwritten by Aviation Office of America and the second \$100 million is insured in London, with British Aviation Insurance Co. as the lead.

Frank B. Hall & Co. of California in Los Angeles and Hall's London subsidiary Leslie & Godwin P.L.C. place the coverage.

The only other ARA operation requiring separate liability coverage is the Sugarbush ski area in Vermont, which is insured under a \$20 million policy placed in the London market.

The policy is subject to a \$300,000 deductible for all claims plus a \$10,000 deductible on each of the next 15 claims.

The coverage, which costs \$750,000, is brokered by Associates of Glens Falls Inc. in Glens Falls, N.Y., the East Coast representative of Seattle-based Pettit-Morrey Co., a major broker for ski areas.

ARA's more than \$1 billion in property is insured under an all-risk manuscript policy issued by Continental Casualty Co., a subsidiary of CNA Financial Corp., and brokered by Alexander & Alexander Inc.

The policy, purchased in October, provides \$25 million of replacement cost coverage per location and per occurrence, subject to a \$25,000 deductible per loss. Coverage for earthquake and flood losses is included, subject to a \$100,000 deductible or 5% of value in California, whichever is greater.

"It's a low per-site limit for a company this size because we do not have a large single facility," Mr. Nelson commented.

The policy also includes coverage for extra expenses incurred to get back into business after a loss. Business interruption coverage is not purchased except under contractual relationships, because ARA is committed to getting back into business as soon as possible after a loss.

The property policy also provides automatic coverage for new locations, with the premium based on property owned at the beginning of the policy year.

The rate for the property insurance doubled the expiring rate, jumping to 12 cents per \$100 of value from 6 cents—a reflection of higher pricing in the commercial property insurance market.

Previously, ARA purchased property insurance from several companies under a layered program provided by a managing general agent and brokered by Hall. But, the MGA lost its capacity.

Wholly owned international operations in five European countries and the food services operations on North Sea offshore oil rig operations are now insured under a global manuscript policy covering property and liability risks issued by Chubb International.

The coverage, effective last year, replaced what had been individual programs and for the first time provides difference-in-conditions coverage for both property and liability risks, wrapping around local policies as required. Limits are written and losses are paid in U.S. dollars under the policy to ensure that losses aren't compounded by foreign exchange fluctuations.

Mr. Nelson started working on consolidating coverage for international operations in 1979, but in 1985 he went to Europe determined to succeed.

"I wanted the broadness of a U.S. form," Mr. Nelson explains.

Reed Stenhouse Cos. Ltd. in London, which had been the broker for the Belgian subsidiary, consolidated the splintered coverages that had been placed by other brokers, including Stewart Wrightson in London.

Local brokers continue to serve ARA foreign operations, but they are now paid on a fee basis for services rendered, such as contract review and the issuance of required policies.

Not only is the new consolidated coverage broader, but it also saved ARA 20% on its international insurance costs. The current cost is about \$600,000.

Meanwhile, ARA is one of the fortunate companies to have a directors and officers liability insurance premium to pay.

Bonding not a problem

Missing a bid bond could cost an ARA Services Inc. company a contract.

But, bid bonds are not the problem they could be because two members of the ARA corporate risk management department have the power of attorney to issue bid bonds and contract bonds at the ring of a telephone.

"A company will call at 4 p.m. and want the bid bond by 4:30," explains Director of Risk Management Donald Nelson.

The bond is handed to a member of the ARA unit requesting the bond, who can deliver it wherever it is needed.

Mr. Nelson and Corporate Insurance Manager Lawrence Kwasny have the power of attorney to issue the bonds on behalf of National Fire Insurance Co. of Hartford, a CNA Financial Corp. unit.

ARA issues 50 to 100 bid bonds a month and 600 to 700 contract bonds annually—the production of an entire branch office of a surety company.

But, Mr. Nelson does not exercise his contract bond power too often, he says. He prefers to have the bonding company issue the contract bonds, which can represent long-term commitments in excess of \$100 million. And, contract bonds generally are not requested on a rush basis, he notes.

The bid and contract bonds issued are mostly in connection with food service work for government entities such as colleges, stadiums and state-run hospitals. Government entities require service providers be bonded to ensure they will fulfill their contract.

Mr. Nelson is a bit bemused by the bonding requirement, since suretyship is not insurance. "I try to convince our clients that we have as good a financial base as the insurance company, and since we are guaranteeing it to the insurance company, we could guarantee it to them and save the premium cost for all concerned."

The bonding contract was negotiated by The Simkiss Agency Inc. in Philadelphia.

While other companies are losing their D&O insurance—and as a result also are losing members of their boards of directors—ARA has D&O insurance under a three-year executive risk policy negotiated at year-end 1984 with Federal Insurance Co., a Chubb Group unit.

The policy, which costs \$500,000 annually, was renegotiated with Federal at the time of the leveraged buyout of ARA.

Chubb's executive risk policy, brokered by Hall, includes not only D&O insurance but also crime coverage and fiduciary liability insurance. The crime coverage is subject to \$50,000 deductible.

Although not high-priced, a novel insurance policy developed for ARA allowed its Health Care Sector's Correctional Medical Systems to land three contracts it otherwise would not have bid to service.

The system had the chance to bid on providing total medical services to several state prison systems on a fixed-cost basis.

It's not difficult, after studying the medical history of inmates, to project the medical needs of a prison population, which is normally young and healthy.

But, the management of the system told Mr. Nelson they had concerns about pricing the bid to accommodate for the risks of riots, fires, epidemics or natural disasters that would require using outside medical services and create catastrophic medical costs.

Mr. Nelson discussed the problem with his longtime broker and adviser, William Schuck of Hall in Los Angeles. Mr. Schuck, in turn, went to Hall's employee benefits experts, who suggested drafting a policy along the lines of group medical plan stop-loss insurance.

Underwriters at Lloyd's of London accepted the proposal to write a policy capping the system's costs for outside medical services over an expected amount, after ARA satisfies a self-insured corridor.

While the premium was "nominal," Mr. Nelson said, "without this insurance, they would not have written the contracts."

ARA now purchases three such policies from Lloyd's underwriters.

Among other small-premium miscellaneous policies purchased by ARA are a nuclear risk policy underwritten by American Nuclear Insurers to cover the risk of ARA-

owned trucks that sometimes transport medical supplies. It is brokered by Hall.

ARA-owned aircraft are insured with United States Aircraft Insurance Group for hull values, and a \$20 million primary aviation liability policy underlies the umbrella program. This coverage also is brokered by Hall.

ARA continues to self-insure some risks, such as workers compensation in the monopolistic states of Ohio and West Virginia. Excess insurance is purchased from Old Republic Insurance Co. and claims are adjusted by Gates McDonald Harrington Compensation Consultants in Columbus, Ohio.

ARA also will soon self-insure its risk of gradual pollution losses.

An environmental impairment liability insurance policy with \$10 million in limits purchased from underwriting manager Shand, Morahan & Co. in Evanston, Ill., will not be renewed this month.

Shand pulled out of the EIL market in January 1985, as have most other insurers.

ARA's guaranteed-cost insurance, however, continues to provide coverage for sudden and accidental pollution claims.

One broker no longer placing insurance for ARA continues as a consultant: Insurance Management Corp. in Kansas City, which had been the day-care centers' broker when they were acquired in the early 1980s and continued on the account until May 1984, when the day-care centers' insurance was brought into the blanket program.

Now, IMC helps develop risk management programs for the day-care centers, such as evacuation plans and medicine control procedures. IMC also advises claims administrator Alexsis Inc. on any claims against the centers.

On the cover

The cover photograph of Donald Nelson, director of risk management at ARA Services Inc., was taken by Mary Herlehy, chief photographer for Crain Communications Inc., at a gift shop operated by ARA Services Inc. in the Philadelphia International Airport.

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Nelson may raise his voice, but don't take it personally

PHILADELPHIA—Donald Nelson has a short fuse, but he does not hold a grudge.

The director of risk management at ARA Services Inc. is known to raise his voice and bang on tables to make a point, but he isn't attacking anyone personally.

"When Don feels he is right, he does have a tendency to be dogmatic and vocal," says William R. Schuck, president of Frank B. Hall of California in Los Angeles, who has known Mr. Nelson for 15 years.

"But he doesn't let it interfere with a personal relationship," Mr. Schuck says. "No matter how angry or upset Don appears to be in a discussion, it does not have a bearing on you personally."

"I don't get mad at people as individuals," Mr. Nelson says. "I'm mad at myself that I haven't properly conveyed my position."

And although his temper is legendary at ARA, Mr. Nelson also is known as affable and fun-loving.

"I've never heard so many jokes in my life," contends Corporate Insurance Manager Lawrence Kwasny.

Mr. Nelson is also complimented by those who work with him for his honesty and his integrity in his contact with everyone, which is just as sincere when he deals with insurers and brokers as when he deals with his staff.

Mr. Nelson—married for 34 years and the father of three grown daughters—generally is in good humor because, he says, he likes risk management—especially at ARA.

He started his career as an underwriter in April 1949 and two years later became an insurance broker. Ten years later he switched to risk management.

"You can see things through to completion as a risk manager," Mr. Nelson says. "After you underwrite it, it's in the file, but you don't get involved in the business. If you are a broker, you visit people, sell them a program, but you are not part of the program."

"Now, I follow it through. I get a concept and I talk management into it."

But, he credits his experience as an underwriter and broker for improving his understanding of others' positions in negotiations.

Mr. Nelson's first risk management position in 1963 was as assistant insurance manager for United Engineers & Constructors Inc. in Philadelphia. He had left brokering after the brokerage where he worked merged with Marsh & McLennan Inc.

Mr. Nelson moved to L.B. Foster Co. in Pittsburgh in 1969 for a promotion to insurance manager, but soon returned to his native Philadelphia to become the first insurance manager at ARA Services Inc.

Fifteen years later, he says: "I like the dynamics of ARA—the constant change."

"And I like working for Tony," he adds, referring to Anthony Tanzola, ARA's vp and controller who hired him in 1971.

"He treats me like I treat my people. I have the freedom to get the job done."

Freedom to get the job done, however, can interfere with one's personal life.

Mr. Nelson and his wife, Elaine, were scheduled to celebrate their 25th wedding anniversary in 1977 with an auto trip through the South, including a stop in Asheville, N.C., where Elaine was born.

But the trip never occurred. Instead, Mr. Nelson stayed in Philadelphia to address the finance committee of the board of directors on

the proposed incorporation of a captive insurance company.

Mr. and Mrs. Nelson did celebrate their anniversary: Dinner at the Hotel DuPont compliments of ARA.

Mr. Nelson's commitment to risk management is reflected not only in his work at ARA but also in his contributions to the profession.

"He's always reading, studying and keeping current," comments Mrs. Nelson.

After obtaining a bachelor's degree in business administration from Temple University in 1956, Mr. Nelson went on to earn the Chartered Property Casualty Underwriter designation in 1964.

He later participated in a research committee that wrote "A Study in Risk Management," which is a required textbook in the CPCU curriculum.

Now, Mr. Nelson grades examinations for the C.P.C.U. and Associate in Risk Management designations.

Mr. Nelson speaks at national conferences of the Risk & Insurance Management Society, meetings of the Society of Chartered Property Casualty Underwriters and Philadelphia "I" Day meetings.

Mr. Nelson also has served as president of the Delaware Valley Chapter of the Risk & Insurance Management Society and as a national director of RIMS.



Photo: Mary Herlehy

Risk Manager of the Year Donald Nelson and his wife, Elaine.



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Risk Management Honor Roll

Delmer Ison



Ison puts brakes on transit system risks

By DAVE LENCKUS

WASHINGTON—Noting that he turns 65 in July, Delmer Ison figures he will retire at year-end as risk manager of the Washington Metropolitan Area Transit Authority.

Yet, in the same breath—but with a little more fire in his voice—he says he is kicking around a few more ideas on how to further improve the self-insured workers compensation program for the WMATA's bus and rail transit operations in the District of Columbia area.

Maybe after he molds those ideas into reality, Mr. Ison can leave the WMATA a little more easily, he says.

Since his appointment in October 1983 as the authority's first risk manager, Mr. Ison has been consumed with reducing workers compensation costs, which he has accomplished by totally reshaping the authority's workers comp program.

But, even if Mr. Ison retired today, his risk management legacy at the transit authority would be highly impressive. For example, under Mr. Ison's revamped program:

- The WMATA's outstanding workers compensation liabilities have been trimmed 35%, from \$31.3 million in 1982 to \$20.3 million in 1985.
- Unfunded liabilities were cut even further to \$7.8 million from \$31.3 million in 1984.
- An \$11 million reserve was established to promptly pay claims, thus avoiding about 25% in the added claim expenses that the WMATA typi-

cally incurred by deferring claim payments.

- Open claims were slashed by 84% to 898 in 1985 from 5,666 in 1982.
- Reported claims dropped by 39%, to 1,686 in 1985 from 2,761 in 1982.

What's even more impressive is that the WMATA's workforce grew by 27% to 8,400 from 6,600 during the same period.

'One thing I've learned in working for a government entity is that you've got to be aggressive,' Delmer Ison says.

In addition, Mr. Ison managed last summer to renew numerous property/casualty policies for both the WMATA's transit operations and its construction program—with the same limits as the expiring coverage—at rates only 60% greater than the previous year's rates and with minimal coverage gaps (see story, page 128).

This coverage includes property and liability insurance covering the WMATA's fleet of 1,329 buses

that are expected to transport more than 132 million passengers 47 million miles in fiscal year 1987. It also covers the 446 rail cars that the authority projects will carry 117 million passengers during the next year.

WMATA's tangible assets—transit facilities and other buildings, revenue vehicles and other equipment, and land—are valued at about \$7.8 billion, according to the authority's 1985 annual report.

In recognition of Mr. Ison's accomplishments, the judges of the *Business Insurance* Risk Manager of the Year competition named him to the 1986 Risk Management Honor Roll, representing government entities.

Mr. Ison credits his success to the support he has received from WMATA's top management and the attitude that he and the authority's risk management team bring to the job.

As Mr. Ison talks about his risk management philosophy, he sprinkles his thoughts about assistants, contractors, brokers and himself with the word "aggressive"—which belies his easygoing manner that shows his Kentucky roots.

In fact, aggressiveness is his only risk management tenet, he says. He hits risk management problems head-on at full steam and pushes top management for changes that he believes in.

"One thing I've learned in working for a government entity is that you've got to be aggressive to get anything done. And I'm aggressive," Mr. Ison said.

He also expects—and receives—the same work
Continued on next page

Transit authority risks

Continued from previous page

ethic from his staff of 20, to whom he gives major credit for implementing the authority's risk management program.

For example, referring to Richard Barnes, his chief assistant and the head of the risk management office's workers compensation branch, Mr. Ison said: "I have no qualms about giving Rick the major credit for many of the workers compensation programs which have supplemented the great work of Crawford & Co.," the authority's claims adjuster.

Although Mr. Ison was appointed risk manager just 2½ years ago, his risk management duties with the WMATA began in late 1966 when the authority was formed by the Washington Metropolitan Area Transit Commission. The commission then regulated area mass transit.

Mr. Ison, who at the time was the commission's executive director and chief executive officer, was named the new authority's corporate secretary and treasurer. In fact, he was the authority's first employee.

Mr. Ison assisted in organizing and staffing the WMATA; developed and implemented a loss-control program for the authority's massive subway construction project in the District of Columbia and suburban counties; and took charge of the authority's insurance program.

Developing the insurance program eventually proved to be his biggest challenge. For example, to ensure that all the contractors working on the construction project had proper coverage, Mr. Ison devised a wrap-up insurance program covering all their exposures.

In addition, Mr. Ison and the WMATA's office of construction and general counsel developed a safety incentive program that motivated contractors to improve their safety performance, thus reducing claims significantly.

The wrap-up insurance program and the safety program are still in place today. However, the federal government has not appropriated funds to allow the authority to continue constructing the 103-mile rail system beyond this summer. The authority in June plans to open another nine miles of the system for service, bringing the total number of miles to 70.

By the early 1980s, after the wrap-up program was completed, Mr. Ison had dropped his role as WMATA's treasurer to spend more time on the risk management program, though he still retained his title as secretary.

"I feel that area was the one most needed to be corrected," Mr. Ison said, referring to the risk management program.

Then, in 1983, Mr. Ison, who is a lawyer, was selected to head the authority's new Office of Risk Management and gave up his other duties and titles.

"Del was appointed risk manager based on his notable accomplishments developing the wrap-up insurance program

for WMATA, along with his legal and administrative background," said William A. Boleyn, the authority's assistant general manager for finance and comptroller.

"He immediately addressed several serious risk management problems costing us millions of dollars annually and which threatened to get worse. Now WMATA has a controlled risk management system supporting the operational needs of the organization," Mr. Boleyn wrote in his letter nominating Mr. Ison for this year's Risk Manager of the Year competition. He is Mr. Ison's immediate supervisor.

Mr. Ison recalls when the WMATA's general manager, Carmen E. Turner, asked him to become the authority's risk manager: "She said, 'I want you to straighten out that mess,'" referring to work comp claims.

The WMATA began totally self-insuring its workers compensation exposures in July 1981 after its per-occurrence retention climbed over a 10-year period to \$2 million from \$100,000.

"We felt that with a deductible that high, our exposures would never reach those limits," Mr. Ison explained.

At the time Mr. Ison was appointed risk manager, workers compensation claims were handled in-house by inexperienced adjusters, who had been pulled primarily from secretarial and clerical ranks. The authority did not have a computerized risk management information system, so statistics were compiled by hand. And, most of the claims were settled before the formal hearing stage.

"Outstanding liabilities had been climbing at the rate of over \$7 million per year," Mr. Ison pointed out.

One of Mr. Ison's first recommendations was to contract for workers compensation claims adjusting with a private firm—Atlanta-based Crawford & Co.—and to give the firm full authority from the time a claim is filed to its adjudication.

Under the contract, which comes up for renewal at the end of the year, Crawford was given authority to contract for rehabilitation, medical management and legal counsel services. "If you're going to hold them accountable, you've got to give them the tools to work with," Mr. Ison pointed out.

Under Mr. Ison's directive, Crawford immediately implemented a risk management information system, which would anchor the WMATA's work comp loss-control program.

The RMIS breaks down data by department, office and branch—the WMATA has six departments, 35 offices and 119 branches. Not only does the information allow the WMATA to evaluate the performance of its subdivisions, but more importantly, it also builds an awareness of loss control and safety throughout the organization, Mr. Ison contends.

Data first produced by the RMIS in 1984 indicated that workers compensation claims and costs were higher than necessary because:

- The authority lacked a funded reserve program to

promptly pay workers compensation claims.

- There was an excessive amount of orthopedic injuries, which were often treated improperly.

- The cost of medical care was excessive.

- Modified duty and rehabilitation programs were not available to claimants.

- The authority did not structure settlements.

Mr. Ison immediately moved to establish a reserve fund that would fully fund the authority's outstanding workers compensation liabilities within five years.

Prior to 1984, the WMATA's annual workers compensation claims payment budget did not account for the added costs incurred by deferring some claim payments during previous years, he explained. Because the authority did not budget for those added incurred costs, claims liabilities in the current year nearly always exceeded the budget. That meant the authority had to again defer paying a portion of the current year's claim liabilities.

That vicious circle was costly. Deferred payments were costing the WMATA nearly 25% of its \$14 million in outstanding work comp liabilities at the time, or more than \$3 million, annually, he noted.

In mid-1984, the WMATA approved Mr. Ison's recommendation to establish a \$14 million claims reserve, \$11 million of which was appropriated to pay workers compensation claims and the remainder earmarked to pay general liability claims.

Nearly all of the fund—\$13 million—was drawn from the interest earnings of a similar reserve that Mr. Ison set up in 1977 to pay workers compensation and general liability claims arising from the wrap-up program covering the authority's construction project.

In addition, under Mr. Ison's five-year plan to fully fund outstanding WMATA workers compensation liabilities stemming from operations, the authority agreed to appropriate \$1 million in interest earnings from the construction claims fund each year and transfer the money to the operations fund.

Since the operations fund was created in 1984, unfunded workers compensation liabilities have been reduced to \$7.8 million from \$31.3 million. And, Mr. Ison now projects that workers compensation claims will be fully funded by next summer, two years ahead of schedule.

As many as 80% of the authority's workers compensation claims are orthopedic in nature. To ensure that those injuries are properly treated, Mr. Ison contracted in September 1984 with Health Care Systems Inc. of Washington to review claims.

Now, after a WMATA employee sustains an orthopedic injury and is examined by his or her personal physician, the employee must submit to an examination by an HCS physician.

Continued on next page



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Transit risks

Continued from previous page
An HCS computerized monitoring program evaluates the treating physician's diagnosis and prescribed treatment, identifying the severity of the injury and a recovery curve of victims who have sustained similar injuries and indicating whether the treating physician's prescribed treatment is suitable.

The WMATA's risk management office reviews this analysis and related HCS reports and recommendations to determine how the cases should be handled.

Another element of the program provides for injured employees to be examined weekly by certified orthopedic specialists, who are assisted by the authority's occupational nurse. Again, those findings are compared with the treating physician's findings. In the event of discrepancies, the orthopedic specialists and the treating physician

consult.
The orthopedic clinic has saved the WMATA approximately \$500,000, or 25% of orthopedic medical costs annually since its inception, according to Mr. Ison. The number of lost-time cases involving orthopedic injuries also has dropped.

In a loss prevention effort, the WMATA is testing orthopedically designed seats for bus operators to find a seat design that will reduce the number and severity of lower back injuries claimed by drivers.

To further trim the fat from medical costs, Mr. Ison hired a Medical Cost Reductions Systems Inc. of Bethesda, Md., to audit any work comp-related medical expenses exceeding \$300.

The firm, an affiliate of National Medical Advisory Service Inc., utilizes a computer program based on 16 algorithms, or special methods of studying certain kinds of problems, to analyze the medical care provided a work comp claimant.

The algorithms are based on medical and surgical ground rules established by the American Medical Assn. for the injury or disease that was treated, validated research papers on treatment effectiveness, and usual costs in the geographical area (*BI*, Sept. 16, 1985).

The program, implemented in September 1985, has reduced audited medical bills as much as 49%, saving the authority \$250,000 since its inception, Mr. Ison said.

"And, we put in a fudge factor," he said, referring to allowable treatment costs. "We allow 50% more than the normal costs to make sure people are getting the therapy they need."

The WMATA's risk management office last summer established a modified duty program under which injured employees are placed in alternative jobs until they can return to their normal duties.

The program, in which 20 injured employees are now participating, is still in the "experimental stage," Mr. Ison pointed out.

However, he estimates that workers compensation costs for employees in the program are 25% lower.

In addition, Crawford administers a work comp vocational rehabilitation program, attempting to place WMATA employees who are on total temporary total disability in jobs outside the authority. If an employee later fully recovers, he or she can return to the previous WMATA position with full seniority. Meanwhile, the income from an employee's new job offsets his or her work comp disability benefits.

"Psychologically, we believe these programs will keep people from going on workers compensation unless it's absolutely necessary" because employees would rather retain their present jobs than learn new ones, Mr. Ison says.

The authority's computerized work comp structured settlement program, which was implemented in June 1984, allows the WMATA to develop payment structures of any type and for any period.

For example, if a WMATA employee is permanently disabled, the program identifies several investments the authority can make at a fraction of the cost of the ultimate workers comp liability that will totally fund the ultimate liability.

The program's software, developed by Brokers' Service Corp. of Providence, R.I., also allows the WMATA to analyze the immediate cost of a variety of payout structures in minutes "with the touch of a key," Mr. Ison noted.

Other programs that Mr. Ison says have contributed "significantly" to solving workers compensation problems are the coordinators' program and the specialists' program. These programs apply only to employees in the Department of Bus Services, from which more than 80% of the authority's

work comp claims arise.
The coordinators are 38 WMATA staff members whose part-time responsibility is to provide the risk management office with information concerning a claim and assist in its verification.

Coordinators also keep their individual departments up to date on work comp procedures. "They're an extension of the risk management office," Mr. Ison said.

In addition, three specialists—one each for the authority's Maryland, Virginia and Capital regions—perform their duties on a full-time basis. Like the coordinators, they are involved in the original investigation of a claim, but they also assist adjusters and attorneys through disposition of cases.

And, the specialists sometimes testify as witnesses at workers compensation hearings.

The coordinators and specialists represent another example of risk management team member's aggressiveness, Mr. Ison said.

Shirley DeLiberio, assistant general manager for bus services and a member of the WMATA's nine-member risk management committee, first advocated the program. Mr. Ison opposed the plan initially but eventually relented to Ms. DeLiberio's insistence.

Mr. Ison now calls the program "the greatest thing since sliced bread when it comes to solving workers compensation problems."

Overall, by next summer, the authority's renovated workers compensation program will have cut the WMATA's annual claims costs by more than two-thirds, he says.

"I can see a budget of no more than \$5 million for fiscal year 1988," which begins July 1, 1987, Mr. Ison said. That figure includes paid and incurred claim costs.

In comparison, work comp claim costs, including incurred costs, exceeded \$17 million for fiscal year 1985 and \$12.2 million for 1986. The WMATA board has approved a \$7.8 million workers compensation budget for 1987.

In fiscal 1985, Crawford disposed of 442 cases without hearings. Of the 206 cases that were heard, Crawford's contingent of five law firms won 109 cases, settled 73 and lost 24.

In addition, Crawford's attorneys proved in several permanent disability cases that an injured employee's disability was caused in part by another injury the employee sustained in a non-work-related incident.

In those second-injury cases, the authority is only required to pay the injured employee only 104 weeks of workers compensation benefits.

Mr. Ison noted that because of the "aggressiveness" of Crawford attorneys in pursuing second-injury cases, \$365,000 was returned to the authority in fiscal year 1985, which paid for about half the attorneys' total fees for the year.

The risk management department is developing three more programs designed to trim workers compensation costs further:

- A comprehensive risk management analysis of the entire authority, to identify every occupational injury risk and existing loss-control measures and to design new measures.

- The program also is expected to improve communications and coordination between the risk management office and other authority offices.

- A program to charge back the cost of all work comp claims to WMATA departments, offices and divisions.

- A program to provide permanent employment alternatives to permanently injured employees who cannot return to their regular duties.

Mr. Ison hopes to implement these programs before the end of the year. ■

WMATA's insurance provides extensive cover

By DAVE LENCKUS

WASHINGTON—While Delmer Ison has focused on the Washington Metropolitan Area Transit Authority's workers compensation program since becoming risk manager in 1983, he hasn't neglected the authority's other property/casualty insurance programs.

Mr. Ison says he is "extremely pleased" with the program covering other exposures that stem from the authority's transit operations.

"I don't know of any other transit authority out there that has more than \$50 million in coverage," he said, referring to the WMATA's liability limits. "We are extremely pleased, and frankly, we are out in front of most transit companies as far as coverage is concerned."

In addition, Mr. Ison continues to oversee a wrap-up insurance program that covers all the contractors working on the WMATA's rail construction project. That program was put together in 1971.

"There's no way this project could have been built without the wrap-up program," Mr. Ison says. "The insurance industry couldn't have supported it."

All of the coverages for the WMATA's transit operations are written on an occurrence basis, as are the coverages under the authority's wrap-up rail construction insurance program.

The WMATA retains the first \$3 million per occurrence of liability exposures for bus and rail operations and purchases coverage with limits of \$47 million excess of \$3 million.

The excess coverage is led by Indemnity Insurance Co. of North America, a subsidiary of California Union Insurance Co., CIGNA Corp.'s surplus lines affiliate, and brokered by Railroad Insurance Brokers of Los Angeles, which specializes in placing railroad insurance.

After Indemnity establishes the lead, Mr. Ison heads to the London market with representatives of RIB and New York-based Johnson & Higgins, another authority broker, to fill out the remaining layers.

Mr. Ison noted that under the current program, the first \$7 million of liability coverage above the WMATA's \$3 million retention is completely insured. He also estimated that WMATA's brokers have managed to place 75% of the \$40 million layer excess of \$10 million.

Mr. Ison declined to name other excess underwriters besides Indemnity to avoid jeopardizing the exclusivity of those markets.

The authority insists that the underwriters that provide the WMATA's operating liability coverage also must write the authority's special railroad liability coverage for the same limits. Like its operating liability coverage program, WMATA retains \$3 million per occurrence for special railroad liability risks.

"We have insisted that this coverage be written as a package" to create a market for the special railroad coverage, Mr. Ison said.

The coverage is required by the four long-haul railroads that allow the WMATA to operate a portion of its rail transit system parallel to their rights of way. The special railroad liability coverage would respond if a WMATA train and one of the long-haul trains collided, regardless of which train was at fault, Mr. Ison says.

However, the authority last year was not able to secure special railroad property coverage, which would cover losses to a long-haul railroad's property in the event a WMATA train and a long-haul train collided.

"We are, in fact, self-insuring that," Mr. Ison said. But, if such a collision occurred, the authority can draw on a \$9.2 million contingency fund established to pay catastrophic losses resulting from its construction project.

Much of the remainder of the WMATA operations' insurance program is brokered by J&H.

The authority purchases \$30 million of coverage of its own property above a \$250,000 deductible from American Protection Insurance Co. of Long Grove, Ill., a Kemper Group unit.

The property insurance covers the authority's buses, trains and buildings, but not the subway tunnels. "We think it's a matter of economics," Mr. Ison explained. "If we were flush with money, we could insure them. There are some risks we just decided to self-insure rather than buy insurance for."

Mr. Ison added that under the authority's wrap-up construction insurance program, a builders' risk policy covers the tunnels while they are under construction.

St. Paul Fire & Marine Insurance Co. writes coverage for the WMATA's electronic data processing equipment for its stated value of \$11.5 million. The WMATA retains a \$1,000 deductible.

The Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn., writes \$3 million of boiler and machinery coverage. The WMATA's deductible is \$10,000.

Lumbermans Mutual Casualty Co. of Long Grove, Ill., a Kemper Group unit, writes several types of coverage for the WMATA:

- Crime coverage, with a \$1.5 million limit and a \$25,000 deductible.
- Transit police vehicles coverage, with a \$500,000 limit with no deductible. The insurance covers third-party liability arising from the operation of transit police vehicles.
- Automobile fleet coverage, with property and liability combined limits of \$5 million. There is no liability deductible, a \$100 deductible for damage caused by a collision and a \$50 deductible for claims for damage not caused by an accident.
- Garagekeeper's liability coverage, with a \$120,000 limit and a \$100 deductible. The policy covers third-party losses of vehicles attended, parked or stored in the garages of the authority's headquarters building.
- Snow removal liability coverage, with a \$500,000 limit and no deductible. The policy covers liabilities arising from the authority's snow removal operations.

The WMATA also purchases two owners, landlords and tenants liability policies through McFarlin Insurance Agency, a managing general agent in Riverdale, Md. Northeast Insurance Co. of Portland, Maine, writes a \$500,000 policy for the authority's bus storage facility. Aetna Casualty & Surety Co. of Hartford, Conn., writes a \$1 million limit for an office where the authority stores its construction specifications. There is no deductible on either policy.

And, Continental Casualty Co. of Chicago, a subsidiary of CNA Financial Corp., writes \$5 million in first-dollar fiduciary liability insurance, which covers the trustees who administer the WMATA employee retirement plans.

Continued on next page

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WMATA cover

Continued from previous page

The WMATA's intricate wrap-up insurance program, which covers the general liability and workers compensation exposures of the contractors that are constructing the authority's rail transit system, has earned Mr. Ison praise from WMATA management and the judges in this year's Risk Manager of the Year competition.

One judge commented: "He applied the management process to a difficult situation in great fashion and made himself and the authority winners in my view."

Construction of the rail transit system began in 1969, and as many as 600 contractors have been involved in the project at any time.

Between 1969 and 1971, the authority required each contractor to secure a total of \$10 million of general liability, workers compensation and builders risk coverage. But two years into the project, it became apparent that the commercial insurance marketplace could not meet the insurance needs of all the contractors. A number of contractors' coverages during that period were canceled, or insurers refused to renew them.

And those contractors often failed to inform the authority they had lost their coverage. "We never were hit by any serious claims, but we always felt we were very fortunate," Mr. Ison recalled. "We felt very uncomfortable with the situation."

To prevent ever facing that type of problem, Mr. Ison implemented the wrap-up insurance program in 1971, which provides general liability, workers compensation and builders risk coverage to WMATA contractors.

Under an arrangement that Mr. Ison negotiated in 1977 with Lumbermens, which manages the program, the authority pays the insurer an annual flat administration fee.

The fee is currently set at 3% of the authority's outstanding liability for work comp and general liability claims arising from the construction project. However, the fee cannot exceed \$1.6 million in any year, regardless of the level of the authority's outstanding liabilities.

Currently, the WMATA is paying a \$1.3 million fee, based on \$42.8 million in outstanding general liability and workers comp liabilities.

The services Lumbermens provides for the fee include reviewing claims, setting reserves and other "normal functions" an insurer would perform, Mr. Ison explained.

The WMATA self-funds \$3 million of general liability and workers compensation exposures per occurrence. According to the arrangement, the authority projects its total liability for the upcoming year and pays that amount to Lumbermens in 12 equal monthly installments. The authority assesses its loss record quarterly and adjusts its monthly premium installment to reflect its loss record.

For fiscal 1986, the authority projected it would have to fund for approximately \$12 million of losses. "But, we're going to be quite a bit under that," Mr. Ison noted.

He explained that losses have decreased in part because of the slowdown in construction, which is due to a drop in federal funds for mass transit construction.

After Lumbermens pays the WMATA's current losses out of each monthly installment payment, any excess amounts are deposited into a joint reserve fund maintained by Lumbermens and the authority. If monthly losses exceed the WMATA's monthly contribution, the insurer withdraws the difference from the fund.

Under the arrangement, the authority also must keep the reserve funded at 120% of outstanding lia-

bilities.

Meanwhile, the authority earns more than \$7.5 million annually in interest income from the joint reserve fund principal of more than \$63.5 million.

Lumbermens also writes a \$2 million excess general liability and work comp layer above the authority's \$3 million per-occurrence retention.

The authority also has \$45 million in liability coverage excess of \$5 million that is written by U.S. and London underwriters, though a few coverage gaps exist, he said.

Again, Mr. Ison declined to name the underwriters to protect the exclusivity of the markets.

If the authority suffers a loss that pierces a gap in its coverage, the authority would not find itself empty-handed, however. Mr. Ison appropriated \$5 million from the joint reserve fund's interest earnings in 1981 and established a contingency insurance fund.

"We plow the interest earnings from the contingency fund back into the fund every month, so it feeds on itself." The contingency's fund current value is \$9.2 million.

"But, the point of it is we've just never had those kinds of losses," he said. "We've been able to control losses."

The WMATA also contracts with National Loss Control Service Corp., another Kemper unit, to investigate, settle and pay all work comp and general liability claims related to the construction project.

NATLSCO also provides loss-control engineering services, such as inspecting all construction activities to ensure that contractors are following safety procedures.

NATLSCO reports to Metro Insurance Administrators, a J&H unit, which then reports to the WMATA's risk management office.

The wrap-up program also provides builders risk coverage, which covers the loss of construction

work in progress.

Under the builders' risk program, which provides \$30 million of coverage limits, the contractor that triggers coverage pays a \$100,000 deductible. The first \$10 million layer is written by American Home Assurance Co. of New York, a subsidiary of American International Group Inc. Philadelphia-based Insurance Co. of North America, another CIGNA unit, and National Union Fire Insurance Co. of Pittsburgh, Pa., another AIG subsidiary, each write about 50% of the \$20 million layer excess of \$10 million.

The authority's contingency fund could be used in the event a loss pierces a coverage gap, Mr. Ison noted.

Mr. Ison believes the major reason the authority is able to secure as much insurance as it has while some transit systems are scrambling for coverage is because it did not shop around for the best insur-

ance buys during the soft market, electing instead to stay with the same insurers.

"We've been loyal to our underwriters through thick and thin, and now they are willing to stand by us," he said. "When the going gets tough, they're willing to do business with us."

But, Mr. Ison goes farther than maintaining longstanding relationships with brokers and underwriters—about 3,000 miles farther. Every year, he accompanies Earl Adams, vp and account executive with J&H, and Thomas Carey, president of RIB, when they travel to London to line up excess insurance for both the operations and the wrap-up insurance programs.

Along with Mr. Adams and Mr. Carey, Mr. Ison meets with officials at C.E. Heath P.L.C., the authority's London broker for the operations program, and those at Willis Faber P.L.C., the London broker, for the wrap-up program. ■

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Energetic Ison will never really retire

By **DAVE LENCKUS**

"I like to move quick," says Delmer Ison, describing how he manages the Washington Metropolitan Area Transit Authority's risk management office.

While that energy level has enabled him to solve many of the authority's risk and insurance problems in short order during his 20-year tenure, it leaves him a little uneasy about his retirement at the end of the year.

"I'm thoroughly enjoying this risk management. That's one of the regrets I have about leaving," said Mr. Ison, 64, who was named to the 1986 *Business Insurance* Risk Management Honor Roll, representing government entities.

And, he says he especially hates leaving now that the transit authority's risk management program is seeing the light at the end of the tunnel.

But, this is a time when family wishes must take precedence. Mr. Ison and his wife, Ellen, who have two daughters and a son, plan on retiring to Pinehurst, N.C., a renowned golfing center where Mr. Ison bought a piece of property in 1978.

Mr. Ison, the son of a coal miner, was born and raised in Kingdom Come Creek, Ky.

After graduating in 1942 from

Chillicothe Business College of Chillicothe, Mo., he served in World War II.

Mr. Ison then worked in a clerical capacity for the Atchison, Topeka & Santa Fe Railroad, before heading to law school and earning a law degree from the University of Kentucky College of Law in 1951.

Mr. Ison is licensed to practice law in Kentucky and before the U.S. Supreme Court and the Interstate Commerce Commission. Following law school, Mr. Ison was director of rates and service for the Kentucky Department of Motor Transportation in Frankfort. In that capacity, Mr. Ison established and regulated rates for all forms of motor transportation in the state.

"When I got out of law school, I had to get into a profession where I could make a living to support my family," said Mr. Ison.

In 1955, he was named the department's deputy commissioner of motor transportation, where he remained until 1961.

From Kentucky, he headed to Washington, D.C., where he was named executive director and chief executive officer of the Washington Metropolitan Area Transit Commission, a predecessor of sorts to the WMATA.

Although the WMATC is still in existence, it now regulates only

sightseeing and tour buses in the region.

Mr. Ison was the first employee of the WMATC, which regulated the area's mass transit system in the region until 1967, when the commission established the WMATA, which would build a subway system that would serve the district and nearby areas in Maryland and Virginia, as well as regulate the existing bus transit system.

Mr. Ison was also the new entity's first employee.

Mr. Ison was corporate secretary and treasurer of the WMATA until 1983, when he was appointed risk manager.

Other than attacking problems aggressively, Mr. Ison does not subscribe to any risk management dogma.

"I feel very strongly that even among transit properties there is no cut-and-dried approach to risk management," he told the American Public Transit Assn. at a risk management seminar in Seattle last fall.

"Personally, I feel that anyone who advocates uncompromising approaches to risk management does the concept a disservice," Mr. Ison said.

He also does not believe in one-man shows.

Mr. Ison gives his staff credit for



Photo: Mary Herlehy

'I'm too young to retire—too young in spirit, that is,' Mr. Ison says.

much of the success of the WMATA's risk management program.

"Delmer Ison has relied heavily on people—he's a people-oriented person," noted Earl L. Adams Jr., a vp with Johnson & Higgins and the transit authority's account executive.

"His ability has come about because of selecting good people for his staff.

"If you look around to the people who service his account, I know his players and they're all top-level people," said Mr. Adams, referring to the WMATA's risk management staff, the contractors the transit authority uses to administer some of its programs and its underwriters.

But, whatever approach a risk manager takes, it "must cross organizational lines," Mr. Ison told the transit association in his autumn speech.

"Because the risk manager must place so much reliance on other of-

fices in the implementation and execution of his own programs, it is incumbent upon him or her to establish excellent working relationships with these other offices. . . .

"Mere coordination and cooperation is not enough. We must work together."

Although he will be retiring at year-end, Mr. Ison does not plan to stop working, at least not entirely.

"I'll play some golf, and I'll work some on the side," he said. "I'm too young to retire—too young in spirit, that is."

In addition to his law degree, Mr. Ison has a real estate license, and he expects to use both in some capacity during his retirement from the transit authority.

"And, I know a little about risk management," he said, hinting that he is interested in joining the profession of risk management consulting.

"I think I'm thoroughly going to enjoy retirement, as long as I mix a little work with it," said Mr. Ison. ■

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This game show gambler spun his way out of a job

WASHINGTON—From the beginning of the round, the "Wheel of Fortune" contestant appeared in control. He had first crack at the two-word puzzle during a segment of the television game show, and the letter he guessed appeared three times.

The other two contestants stood by idly as he completely dominated the round, cheered on by the studio audience. He built up his winnings to more than \$3,000 in that game.

Although a few letters in the puzzle remained unsolved, the visibly excited contestant decided not to risk losing his prize money or the round. He ended the game by solving the puzzle with a single guess: "presidential inauguration."

His winning performance, however, eventually cost the man, an employee of the Washington Metropolitan Area Transit Authority, his job.

At the time the contestant appeared on the show, the WMATA was paying him workers compensation benefits for an injury he claimed severely limited his ability to focus on any activity or conversation, preventing him from performing his job with the WMATA.

The authority's Transit Police and Security team tipped off the WMATA's risk management department about the employee's game show appearance, and the department bought a copy of the tape for \$125 from the producers of the show.

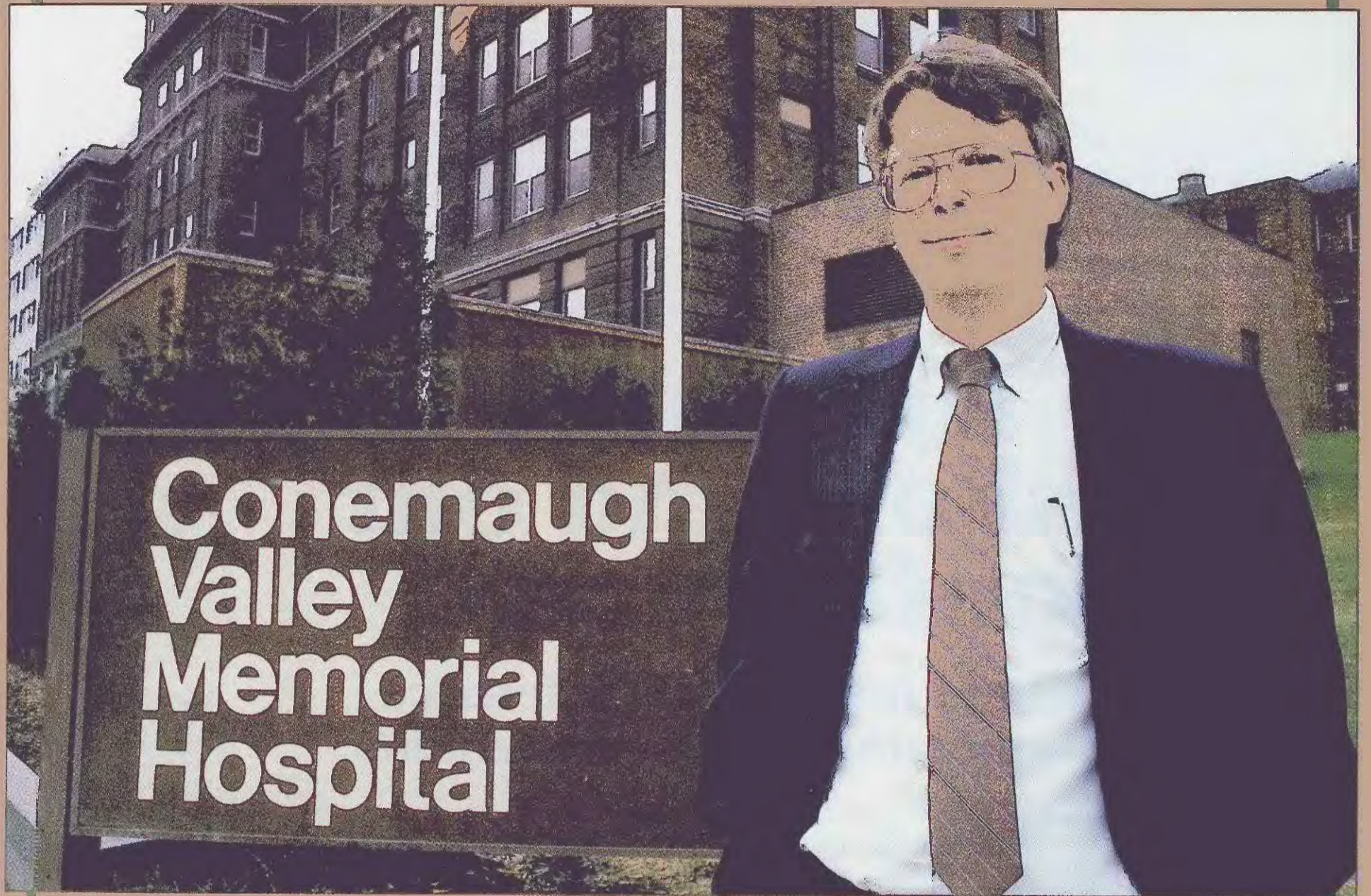
After the department showed the tape to the employee's physicians, they re-examined the employee.

The results:

- The physicians reversed their earlier diagnoses and concluded that the employee was faking his claimed injuries.
- The employee resigned.
- The employee's attorney withdrew from the workers compensation case, and the employee withdrew his claim.
- The employee's request for disability retirement was denied.
- The authority will save as much as \$500,000 in work comp payments.

Risk Management Honor Roll

William E. Rogers



Conemaugh Valley Memorial Hospital

Rogers cures hospital's risk management ills

By CAROL CAIN

JOHNSTOWN, Pa.—Finding the risk manager's office in Conemaugh Valley Memorial Hospital requires a short elevator ride, a much longer trek through a maze of corridors and an ascent up two flights of stairs.

William E. Rogers followed a similar path to become the hospital's first risk manager, and more recently, to be named to this year's *Business Insurance* Risk Management Honor Roll, representing tax-exempt organizations.

Mr. Rogers, 38, who now holds the title of director of community health services and risk management for the 97-year-old hospital, says his "personal philosophy is that diligence, persistence and attention to detail are the keys to successful risk management."

Those attributes can be seen in what Mr. Rogers has accomplished since joining the hospital in 1976:

- The establishment in that year of an employee and patient safety program, emphasizing loss prevention and the flow of key information. He also coordinated diverse safety and loss prevention activities into a central office.

- The addition in 1978 of a system in which information about potential losses flows from the hospital's physicians and staff to the risk management office; the placement of heavy emphasis on claims control; and the further development of a manual information system.

- Development of consultative responsibility in

the late 1970s and early 1980s for loss funding and risk financing while, at the same time, pioneering and implementing a computerized risk management information system (see story, page 136). Use of that system showed favorable loss frequency and severity that led to the establishment of loss-sensitive retrospectively rated workers compensation and professional liability programs.

'Diligence, persistence and attention to detail are the keys to successful risk management,' William Rogers explains.

- Assumption of full responsibility for all risk management functions in 1984, as well as enhancing the computerized risk management information system to allocate costs to operating units within the hospital.

- Switching last year to a paid-loss retro program for general and professional liability coverage from an incurred-loss program.

Risk management was the furthest thing from

Mr. Rogers' mind in 1972 when he was honorably discharged from the Navy with a background as a communications technician.

Among the many things Mr. Rogers learned from his stint in the Navy was that he liked working with electronics and he did not like big cities. So it seemed natural for Mr. Rogers, a native of Uniontown, Pa., to gravitate to Johnstown, where he found a job as a two-way radio repairman and sales technician with JM Communications & Electronics.

The electronics sales and service company held the service contract for Conemaugh Valley Memorial Hospital. Mr. Rogers got to know the people at Conemaugh Valley and ultimately became the hospital's director of safety and electronics in 1976.

But within a few years, it became obvious that the risk management aspects of the job were a full-time assignment, Mr. Rogers said. The hospital administration agreed, and electronics was returned to the maintenance department so that Mr. Rogers could devote himself exclusively to risk management—even though it wasn't called that at the time.

"I learned as I was going along," Mr. Rogers explained of his introduction to risk management.

He signed up for the Insurance Institute of America's Associate in Risk Management self-study program and received that designation in 1981.

During the same time, he attended night classes at the University of Pittsburgh to complete an undergraduate degree in economics. He graduated

Continued on next page

Reagan signs PBGC increase

Continued from page 2

billing notices to employers who paid premiums at the old rate.

The law also will make it more difficult and expensive for companies to terminate underfunded pension plans and shift the liabilities to the PBGC (*BI*, March 31; March 10; Jan. 6).

And, the law requires employers with at least 20 full-time employees to extend their group health coverage for three years to former spouses and for 18 months to employees who lose their jobs.

The law also requires most employers to give workers and spouses age 70 and older the option of enrolling in their group health insurance instead of Medicare for their primary health care coverage.

Some Presidio recoveries seen

INDIANAPOLIS—Presidio Insurance Co.'s assets should be enough to cover claims from the small portion of direct business it wrote, but liquidators of the Indianapolis-based insurer say the assets probably won't cover all reinsurance losses.

Presidio was declared insolvent in August 1985 and was ordered liquidated by a Marion Circuit Court in Indianapolis in February.

Presidio had \$14.7 million in assets, \$39.7 million in liabilities and a \$25 million deficit in policyholder surplus as of June 30, 1985, the latest figures available.

James Lund, assistant to the liquidator for the Indiana Department of Insurance, said "proportioning" of Presidio's assets would probably begin among "Class 3 creditors," or companies that purchased reinsurance from Presidio.

Presidio wrote mostly treaty reinsurance until spring 1984, when it stopped writing. The company reported a 176.1% combined ratio and a \$2.7 million operating loss in 1984 on net premiums of \$4.5 million in 1984. In 1983, it recorded a combined ratio of 249.7% and an \$11.2 million operating loss on net premiums of \$9.4 million.

Mr. Lund said Presidio's insolvency partly stems from product liability reinsurance it wrote in the mid- and late 1970s.

Presidio is a subsidiary of the Beloit Corp. in Beloit, Wis.

Continental, officers settle suit

CHICAGO—Continental Illinois Corp. and its former officers have agreed to settle for \$45 million a consolidated class action brought by shareholders citing the bank's losses stemming from the 1982 failure of Penn Square Bank in Oklahoma City.

Under the settlement, Continental will pay \$25 million to shareholders who purchased stock from Sept. 1, 1981, through July 5, 1982. The company said the former officers will attempt to recover the remaining \$20 million from the insurers that wrote the company's directors and officers coverage in 1981. Those insurers are Allstate Insurance Co., Harbor Insurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa. (*BI*, Nov. 25, 1985).

In a related action, the former officers agreed to settle a derivative action suit in which the Federal Deposit Insurance Corp. reportedly will seek about \$65 million from the D&O insurers. However, Continental and its D&O insurers are litigating in federal court here on whether the policies should respond.

The shareholders' settlement must be approved by U.S. District Judge John F. Grady. Claims by the shareholders and the FDIC against Continental's auditor Ernst & Whinney remain.

Continental said the \$25 million will come from a reserve set aside before 1986 and there will be no impact on current results.

Midland liquidation

Continued from page 1B

According to a letter to New York Insurance Superintendent James P. Corcoran from Midland Executive Vp Fred A. Koernig that accompanied Midland's 1985 convention statement, Midland became insolvent due to:

- The establishment of an \$8.5 million reserve for potential uncollectible reinsurance.

- An \$8.8 million underwriting loss during the fourth quarter.

- Disallowance as an admitted asset under New York regulation of the \$12.3 million value of Midland's wholly owned subsidiary, Midland Property & Casualty Insurance Co. (MIDPAC).

According to the department's liquidation order, MIDPAC was sold to Sabre Holdings Co. Inc., under a stock sale agreement for \$250,000 over MIDPAC's \$12.3 million policyholder surplus. However, Mr. Karpin said the sale is not finalized.

- Treating as a non-admitted asset a federal income tax recovery from its parent of \$1.8 million.

- An \$8.5 million increase in the fourth quarter in agents balances receivable to \$14.2 million.

- Disallowance of \$2.3 million of its receivables from affiliates as a non-admitted asset.

Midland reported 1985 assets of \$81.8 million and total liabilities of \$116.3 million, leaving it with a \$34.6 million deficit in its surplus.

Mr. Koernig pointed out in his letter that many of the charges against surplus would be restored, but that even after adjusting for them, policyholders surplus would be approximately a negative \$10 million.

However, Mr. Koernig also stated that negotiations had been under way since late 1985 with a group of investors who had given Katy Industries a letter of intent to acquire Midland and restore Midland's surplus to a positive position.

Mr. Koernig said the agreement could be final in two weeks. However, the agreement was never consummated.

He also stated that Midland had voluntarily discontinued writing any new or renewal business.

In response, the department issued a letter to Midland on March 7

directing it to repair its insolvency.

Katy Vp and Treasurer William Murphy said Katy could not contribute more money to Midland because Katy was undergoing financial problems of its own.

Katy has interests in commercial fishing, communications, construction, manufacturing and transportation.

"Much as we would have liked to, under the circumstances, we just couldn't do it," Mr. Murphy said.

Midland's potential buyers, whom Mr. Murphy declined to name, could not come to an agreement with Katy to buy the company. "We tried very hard and the parties on the other side tried very hard," but the parties could not reach an agreement, he said.

"We were a victim of the times—the recent problems everybody in the industry has had," he added.

Midland's problems collecting reinsurance payments do not appear to concern unauthorized reinsurers, but rather licensed reinsurers.

According to its 1985 convention statement, Midland reinsured with the insolvent Mentor Insurance Ltd., for example, but apparently has withheld enough funds to cover losses.

However, among Midland's licensed reinsurers are, for example, Mission Insurance Co., Mission Reinsurance and Constellation Reinsurance Co.

Mission and its subsidiaries are under conservatorship in California, and Constellation is working with the New York department to correct a \$29.2 million deficit in its policyholder surplus at year-end 1985 (*BI*, April 7).

Midland's 1985 convention statement shows Mission companies owe Midland \$5.1 million on paid and unpaid losses. Constellation Re owes Midland \$389,283.

Midland tried to restructure its business last year, after its surplus had fallen to \$23 million at year-end 1984 from \$58 million at year-end 1983.

In April of last year, Midland said it had stopped writing association and excess liability business, which had accounted for about one-half of Midland's \$75 million in net premiums in 1984 (*BI*, April 22, 1985).

But last July, A.M. Best Co. lowered Midland's rating from B-

'We were a victim of the times—the recent problems everybody has had,' Mr. Murphy says.

plus to Omitted, which is the worst rating a company can receive and is assessed when the company's performance does not qualify for a rating of at least C, Best's lowest alphabetical rating (*BI*, July 1, 1985).

Lawrence P. Johnsen, Midland's secretary and general counsel, said at the time Midland would continue to write new policies, but only for workers compensation, short-line railroad risks, maritime risks and other specialty lines.

Midland also stopped writing directors and officers liability insurance in the first quarter of 1985 as part of a move to focus on specialty lines.

However, the New York department determined that Midland was not a candidate for rehabilitation. A spokesman for the department said that in this case, liquidation "was the most realistic" step.

All Midland insurance contracts will terminate May 4.

However, since Midland was licensed in all states, guaranty funds will respond to claims, subject to limitations and certain exclusions.

Much of Midland's \$87.8 million in direct written premiums in 1985 was written in New York, California and Florida.

New York accounted for \$12.1 million, California \$11 million and Florida \$10.8 million.

Among Midland's policyholders are Manville Corp. and Union Carbide Corp.

In February 1985, Midland agreed to pay Manville \$47 million as part of a \$112 million settlement between Manville and three insurers to cover asbestos claims.

In addition, Midland wrote \$11.5 million of Union Carbide's \$200 million in excess liability insurance available to pay claims stemming from the deadly gas leak at a Carbide plant in Bhopal, India, that killed more than 2,000 persons and injured hundreds of thousands of others.

Tort overhaul

Continued from page 2

lems that affect every aspect of the economy," Mr. Schwartz said.

But Judge Weinstein argued that abusive cases are not the rule.

"I agree that we do have transactional cost problems, and that we do have to reconsider some aspects of tort law," he said. "But to take these peripheral cases and suggest that they are typical of the mass of cases would be wrong."

Judge Weinstein did acknowledge that some product liability cases tried in his court are heard only because of "procedural defects in the law that should be remedied."

He explained that the workers compensation system does not provide enough compensation to injured workers, so workers are forced to sue product manufacturers.

However, if persons injured by defective products could look to workers comp and other alternative systems to fully compensate them for their injuries, they would not sue.

"You wouldn't have to worry about punitive damages and pain and suffering," he said.

Some of the problems businesses see with the court system are the result of enormous technological and sociological changes, Judge Weinstein added, defending the legal system's response to these changes.

"I think myself that the law has made a remarkable adjustment to what are radical changes that we have experienced in our lives," he said.

"That there are problems no one can deny. But that there needs to be a radical disruption of the system and a new start seems to be somewhat doubtful," Judge Weinstein added.

Another speaker, George Frazza, general counsel at pharmaceutical maker Johnson & Johnson, agreed with Judge Weinstein that the tort system works most of the time, but he noted one large judgment can force a company to withdraw a product from the market or to not release a potentially useful product.

Mr. Frazza used the example of drills used in brain

surgery that are manufactured by Johnson & Johnson. One multimillion-dollar verdict would exceed the profit the company expects to make on the product for years to come, he said.

Calling the tort liability system a "wacky way" of determining who should be compensated and by how much, Mr. Frazza said society must change the system.

"If judges tried to make rational decisions and left tort law where it's supposed to be, we'd be OK," he said. "But many judges have delegated to themselves the power of legislators and tried to look at tort law as if it were a compensation system."

Rep. Luken added that the current insurance availability/affordability crisis has been caused by the courts and that Congress may act to correct the situation.

"It's due to the judge-made law," he said, adding "there has been a continuous widening of liability."

Rep. Luken, a member of the House Energy and Commerce Committee, said Congress will likely take a "pragmatic approach" to amending the problems that legislators see with the court system. He noted that tort reform bills considered by the Senate in the past have been too broad.

"The battlefield over insurance liability and tort reform is strewn with the corpses of those who have tried to do too much," Rep. Luken said.

"I don't think we can satisfy all the elements. And I think that's what they're trying to do in the Senate," he said.

"They have tried to do too much. They've tried to satisfy the manufacturers, the insurers, the consumer and even sometimes they've tried to satisfy the lawyers," he added (see story, page 1).

Rep. Luken said he supports legislation that would make three changes in tort law: Place limits on punitive damages, modify the strict liability doctrine and modify joint and several liability.

"I think if we concentrated on those three areas that I've advanced we could come up with some legislation that would be extremely helpful in putting us in the right direction," he said.

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CIGNA agreement

Continued from page 1B

"I would expect they would probably be looking" by the end of the year to raise additional capital, agreed Thomas Rosencrants, research director at Conning & Co. in Hartford, Conn.

Gloria Vogel, vp at Legg Mason Walker Inc. in New York, said that CIGNA "won't be able to be as aggressive in going after business" as it may otherwise have been because of the surplus drain.

"Obviously, if they're running at 3.2-to-1, they'll be growing at a slower pace" than they would have otherwise, she said.

But other analysts disagree with such assessments.

"I don't think it is a big deal," says Gus Demeo, senior insurance analyst at Alex. Brown & Sons in Baltimore. A jump in CIGNA's premium-to-surplus ratio to 3.8-to-1 or 4-to-1 would make a big difference, but the current 3.2-to-1 ratio "doesn't really change matters much."

Frederick V. Hill, principal with New York-based Derby Securities, said, "I'm assuming it will have no effect on their operations or on how they proceed over the next two to three years."

While he noted CIGNA's premium-to-surplus ratio may be above 3-to-1, "it's not alarmingly so." He said he "doubts" CIGNA's growth will be slowed "because they're still very careful and selective in what they're doing."

Other companies, Mr. Hill pointed out, have higher premium-to-surplus ratios, including Aetna Life & Casualty Co., which reported a 3.5-to-1 ratio at year-end 1985 (BI, March 24).

"I don't know what the insurance commissioners would do about it," Mr. Hill said, referring to CIGNA's ratio.

"They're certainly not going to go in and put CIGNA out of business for that. It's just something that's just going to have to be lived with."

The CIGNA spokesman said the insurer expects to refile its statutory financial statements in Connecticut and Pennsylvania "shortly."

"At this point, it's more a clerical function, more than anything else," added Peter F. Kelly, director of financial and regulated affairs for the Connecticut Insurance Department.

Under the agreement with Connecticut and Pennsylvania, CIGNA will continue to discount \$255 million in additional workers compensation reserves and \$65 million in reinsurance reserves for long-tail claims.

The company can also continue to discount about \$40 million in previously discounted reinsurance reserves that had already been reflected in CIGNA's 1984 financial statement, said the CIGNA spokesman.

The decline in CIGNA's surplus will have no impact on the results released to its stock-

CIGNA 'won't be able to be as aggressive in going after business. Obviously, if they're running at 3.2-to-1, they'll be growing at a slower pace' than the company would have otherwise, says Gloria Vogel, vp at Legg Mason Walker Inc.

holders, which are in accordance with generally accepted accounting principles. CIGNA boosted its reserves \$1.2 billion on a GAAP basis, charging the entire amount to its fourth-quarter earnings.

Insurance regulators in Connecticut and Pennsylvania—where most of CIGNA's property/casualty subsidiaries are domiciled—as well as other states had objected to CIGNA's decision to discount reserve additions to lines other than workers compensation (BI, March 24).

At least one state, California, rejected CIGNA's 1985 convention statement because of the discounting, though CIGNA was given until April 15 to refile a corrected statement, said a California Insurance Department spokesman.

Norris Clark, chief of the California department's financial analysis division, said last week he has not yet seen the agreement between CIGNA and the Connecticut and Pennsylvania departments, but said the decision not to discount \$228 million of the increase "sounds like it would probably pass muster. I guess we have to look at the details."

The new statement should meet California's objections, the CIGNA spokesman said, adding that most of the other states will either "follow the form" of Pennsylvania and Connecticut or, at worst, request minor changes.

"We discounted, we discussed it with the commissioners, we reached an agreement and life goes on. Everyone can live with it, there's no problem," said the spokesman.

However, there is a possibility that CIGNA might suffer a further hit on surplus related to the additions to its reserves.

A Pennsylvania Insurance Department official explained that under the agreement with CIGNA, the insurer now will discount its workers compensation reserves using a 6% interest rate. Originally, CIGNA had estimated the discount on the basis of a 5% interest rate over a 20-year period.

Under the new agreement, if the discount had not been raised to 6%, CIGNA would have had to put up about another \$30 million in reserves immediately, said the official, who did not want to be named.

But it's not yet clear whether CIGNA will actually be able to use the 6% interest rate, he said.

Under a Pennsylvania statute, workers compensation reserves must be discounted at a 4% rate, which can be raised or lowered at

the discretion of the insurance commissioner. However, if the discount rate is increased for CIGNA, it must also be increased for all other Pennsylvania-domiciled insurers, the official said.

The Pennsylvania department believes the insurer has the financial resources to use a 6% interest assumption—and therefore put up less in reserves—but the department may not conclude that other insurers have such resources and decide not to raise the interest rate, he said.

That would mean that CIGNA may again have to boost its reserves and file its financial statements a third time.

The Pennsylvania commissioner is expected to make a decision within 120 days, said the official.

The official noted that Connecticut statutes are silent on workers compensation discount rates, but the Connecticut department has indicated it will follow Pennsylvania's decision.

The Pennsylvania official said he could not comment on CIGNA's decision to continue to discount \$65 million in reinsurance reserves because CIGNA's reinsurance subsidiaries, Aetna Reinsurance Co. and INA Reinsurance Co., are domiciled in Delaware.

The CIGNA spokesman referred questions on the reinsurance reserves to the Delaware Insurance Department. Delaware officials could not be reached for comment.

While analysts disagree on what affect the agreement will have on CIGNA's operations, they do agree that CIGNA's move will discourage other insurers from discounting reserves other than workers compensation reserves.

"I think the water's been tested," said Mr. Hill at Derby Securities. "In other words, companies can't go in and discount all their reserves."

Prudential/Bache's Ms. Hoffer said even before the agreement she had not expected other companies to follow CIGNA's lead. "This will just reinforce that belief, that on an industrywide basis, it's not a prudent course."

CIGNA's decision to refile its statement is good for the industry as well as the company because it had the "good judgment not to make an issue" of reserve discounting, commented Alex. Brown's Mr. Demeo.

"Why take on the regulators when it's not really necessary? I think it was a smart move and a good move on their part to back down on that matter."

Peter Cameron-Webb

Continued from page 2

Exchange of the Americas. He resigned that position earlier this year to form a consulting firm in Miami, called International Consultatory Management Services (BI, Feb. 10).

Jufrest will continue to seek money from other PCW sources, including Mr. Dixon, Mr. Kennedy said.

The PCW syndicate members face up to 130 million pounds (\$188.5 million) in total losses from 1979 to 1982, largely as a result of U.S. liability claims. New estimates, however, say the losses may reach 250 million pounds (\$362.5 million) or higher, as Lloyd's closes accounts for 1983 under its three-year accounting system.

So far, most PCW members have refused to pay the money, saying that the losses result from negligence and the alleged fraud.

Since last Christmas, PCW members, Lloyd's, Minet and A&A have tried to come to some agreement on how these losses should be paid without going to court.

They drew up a "standstill agreement," under which PCW members could seek a court settlement if no final agreement was reached before the statute of limitations on possible criminal charges expired.

The standstill agreement ended March 31, but it has been renewed until the end of September, according to a recent letter from a PCW members steering committee.

However, the letter also says if there is no satisfactory progress toward a settlement by July 1, the committee will begin legal action, confirmed PCW members' lawyers Ashurst, Morris & Crisp.

In addition, about 50 members who are U.S. citizens are being advised they can sue Lloyd's and other defendants in the United States under the Racketeer Influenced and Corrupt Organizations Act, under which plaintiffs can recover triple damages.

The members are being advised by the New York law firm of Angel & Mulholland, Howner & Simon, whose lawyers were in London recently to discuss the matter.

British Issues

8 April	Price	P/E	Div.	Yield	1 Week High—Low
Companies	pence		pence	%	pence pence
Comm Union	313	28.5	16.9	5.3	315—308
Genl Accident	927	16.9	31.4	3.3	934—918
Gdn Royal Exch	920	20.0	40.7	4.4	920—878
Royal	900	16.4	36.7	4.0	915—893
Sun Alliance	732	24.4	23.6	3.4	749—716

Brokers

CE Heath	670	9.1	36.0	5.3	670—663
Hogg Robinson	340	11.3	13.4	3.9	346—340
JH Minet	279	10.3	10.7	3.8	282—274
Sedg Grp	390	14.1	15.7	4.1	385—380
Stew Wrightson	418	13.5	15.7	3.7	424—412
Willis Faber	415	15.4	12.5	3.0	425—415

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

April 9, 1986

4/3/86 thru 4/9/86

Brokers	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)	
Alexander & Alexander Svcs	NYSE	34.50	0.0	0.0	1.00	2.9	34.63	32.63	782.8
Baldwin & Lyons Inc	OTC	101.00	-1.9	388.5	0.80	0.8	101.00	101.00	0.0
Corrao & Black Corp	NYSE	60.25	-2.8	19.1	1.30	2.2	62.75	59.50	62.7
Crump E H Cos Inc	OTC	24.00	-0.5	22.9	0.25	1.0	24.25	24.00	338.3
Emett & Chandler Cos Inc	OTC	18.25	0.0	27.2	0.00	0.0	18.63	18.25	10.5
Gallagher Arthur J & Co	OTC	55.00	0.9	25.0	0.40	0.7	56.50	55.00	3.4
Hall Frank B & Co Inc	NYSE	21.25	0.0	0.0	0.00	0.0	22.00	21.00	517.1
Marsh & McLennan Cos Inc	NYSE	104.75	-3.5	23.5	3.00	2.9	108.25	104.25	427.8
Poe & Assoc Inc	OTC	19.00	1.3	0.0	0.80	4.2	19.00*	18.75	8.1
AGENTS/BROKERS	AVERAGE		158.3		1.7				
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	66.00	-2.6	18.6	1.36	2.1	66.88	63.88	4,637.7
Anderson (Clayton/Ranger/PanA)	NYSE	54.50	4.8	31.1	0.00	0.0	54.50	52.38	159.9
Araco Inc	NYSE	9.38	-14.8	0.0	0.00	0.0	11.00	9.38	760.8
Berkley W R Corp	OTC	51.50	-3.3	54.4	0.36	0.7	53.25	51.25	259.9
CIGNA Corp	NYSE	70.50	-2.3	0.0	2.60	3.7	72.00	70.50	961.5
CNA Finl Corp (CNA)	NYSE	72.00	5.1	23.9	0.00	0.0	73.25	68.00	446.7
General Re Corp	NYSE	119.50	0.4	86.3	1.76	1.5	120.50	113.88	750.8
JIT (Hartford Group)	NYSE	44.75	-2.5	23.7	1.00	2.2	45.38	43.38	2,380.7
Sears Roebuck & Co. (Allstate)	NYSE	47.50	-1.3	13.5	1.76	3.7	48.13	45.88	4,945.0
Tedleyne Inc (Argonaut)	NYSE	335.25	-2.0	7.2	0.00	0.0	340.50	335.25	113.7
Transamerica Corp (Occidental)	NYSE	37.63	3.4	17.5	1.68	4.5	37.63	36.00	658.5
CONGLOMERATES/HOLDING COS.	AVERAGE		17.8		1.2				
Insurers									
Aetna Life & Cas Co	NYSE	63.75	-1.4	16.6	2.64	4.1	64.50	62.38	5,540.5
American General Corp	NYSE	41.88	2.1	13.0	1.12	2.7	41.88	40.50	1,407.9
Ameri Heritage Life Invst Co	NYSE	40.00	-5.0	15.0	1.20	3.0	41.63	40.00	3.1
American Indty Finl Corp	OTC	21.00	-4.5	0.0	1.12	5.3	21.75	21.00	19.1
American Intl Group Inc	NYSE	132.00	0.6	26.9	0.44	0.3	133.75	127.00	785.3
Aneco Reins Ltd	OTC	1.00	0.0	0.0	0.00	0.0	1.00	1.00	8.2
Avemco Corp	NYSE	38.38	6.6	15.1	0.60	1.6	38.38	36.13	19.2
Business Mens Assurn Co Amer	OTC	30.38	7.5	14.1	1.10	3.6	30.50	29.00	272.8
Chubb Corp	NYSE	72.13	2.3	0.0	1.56	2.2	72.13	68.63	577.7
Combined Intl Corp	NYSE	60.00	-4.2	12.4	2.24	3.7	60.75	59.50	154.0
Continental Corp	NYSE	48.25	-3.5	0.0	2.60	5.4	49.75	47.88	1,575.5
Crown Life Ins Co	OTC	270.00	0.0	16.3	0.00	0.0	270.00	270.00	1.0
Durham Corp	OTC	43.00	1.2	11.8	1.36	3.2	43.50	42.88	73.6
Farmers Group Inc	OTC	84.25	-0.6	15.5	2.00	2.4	84.75	82.00	416.5
Fairmont Finl Inc	AMEX	22.50	-3.2	18.7	0.00	0.0	23.00	22.50	34.9
Fireman Fd Corp	NYSE	40.75	-1.8	0.0	0.30	0.7	41.38	39.00	394.1
Freemont Gen Corp	OTC	30.50	0.8	0.0	0.48	1.6	31.00	30.13	233.5
Great West Life Assurn Co	OTC	590.00	10.0	5.5	18.00	3.3	550.00*	500.00	0.0
Home Group Inc	AMEX	250.00	3.1	0.0	0.00	0.0	29.00	27.88	980.4
Hanover Ins Co	OTC	65.25	-0.8	64.0	0.56	0.9	65.75	65.25	19.2
Hartford Steam Boiler Insptn	OTC	69.63	-1.9	12.8	2.00	2.9	72.00	68.50	30.3
Kens City Life Ins	OTC	32.00	-3.0	12.6	0.87	2.7	33.00	32.00	50.9
Kemper Corp	OTC	93.25	3.9	20.2	1.80	1.9	93.25	88.25	672.7
Liberty Corp S C	NYSE	41.88	-0.3	17.5	0.72	1.7	42.25	41.88	16.3
Lincoln Natl Corp Ind	NYSE	58.13	0.0	13.5	2.00	3.4	58.13	55.00	448.2
Mission Ins Group Inc	PAC	4.25	0.9	0.0	0.00	0.0	4.38	4.00	503.0
Monumental Corp	OTC	38.88	1.0	13.2	1.40	3.6	39.25*	38.75	17.6
Nac Re Corp	OTC	34.75	-3.5	0.0	0.00	0.0	35.88	34.13	212.7
Nobel Ins Ltd	OTC	16.25	1.4	21.4	0.25	1.5	16.50	16.25	36.0
Northwestern Natl Life Ins	OTC	26.88	-2.3	13.3	0.80	3.0	27.75	26.88	487.6
Ohio Cas Corp	OTC	85.50	-0.6	25.1	3.00	3.5	85.50	82.75	129.2
Old Rep Intl Corp	OTC	41.38	-0.6	11.2	0.74	1.8	41.63	40.13	137.9
Orion Cap Corp	NYSE	37.25	-0.3	0.0	0.76	2.0	37.25	36.00	106.6
Protective Corp	OTC	21.00	-1.2	12.1	0.66	3.1	21.00	20.75	117.9
Provident Life & Acc Ins Co	OTC	29.50	-2.9	10.2	0.84	2.8	30.13	29.00	179.2
St Paul Cos Inc	OTC	97.25	-3.0	43.0	3.00	3.1	99.25	95.00	388.0
SAFECO Corp	OTC	54.38	-1.6	16.5	1.60	2.9	54.50	52.38	773.0
Sri Corp	OTC	22.25	0.0	0.0	0.80	3.6	22.50	22.00	1,148.7
Seibels Bruce Group Inc	OTC	21.25	-2.3	11.8	0.80	3.8	21.75	21.25	10.9
Statesman Group Inc	OTC	6.88	-5.2	0.0	0.05	0.7	7.25	6.88	42.0
Tokio Marine & Fire Ins Co	OTC	306.75	-9.6	57.8	1.05	0.3	322.75	303.75	15.2
Torchmark Corp	NYSE	32.88	-0.4	15.1	0.60	1.8	32.88	30.25	825.9
Travelers Corp	NYSE	55.50	-0.2	13.9	2.16	3.9	55.50	53.75	1,976.7
United Fire & Cas Co	OTC	23.00	0.0	766					



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