APRIL 14, 1997

Business Insurance®

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / $4

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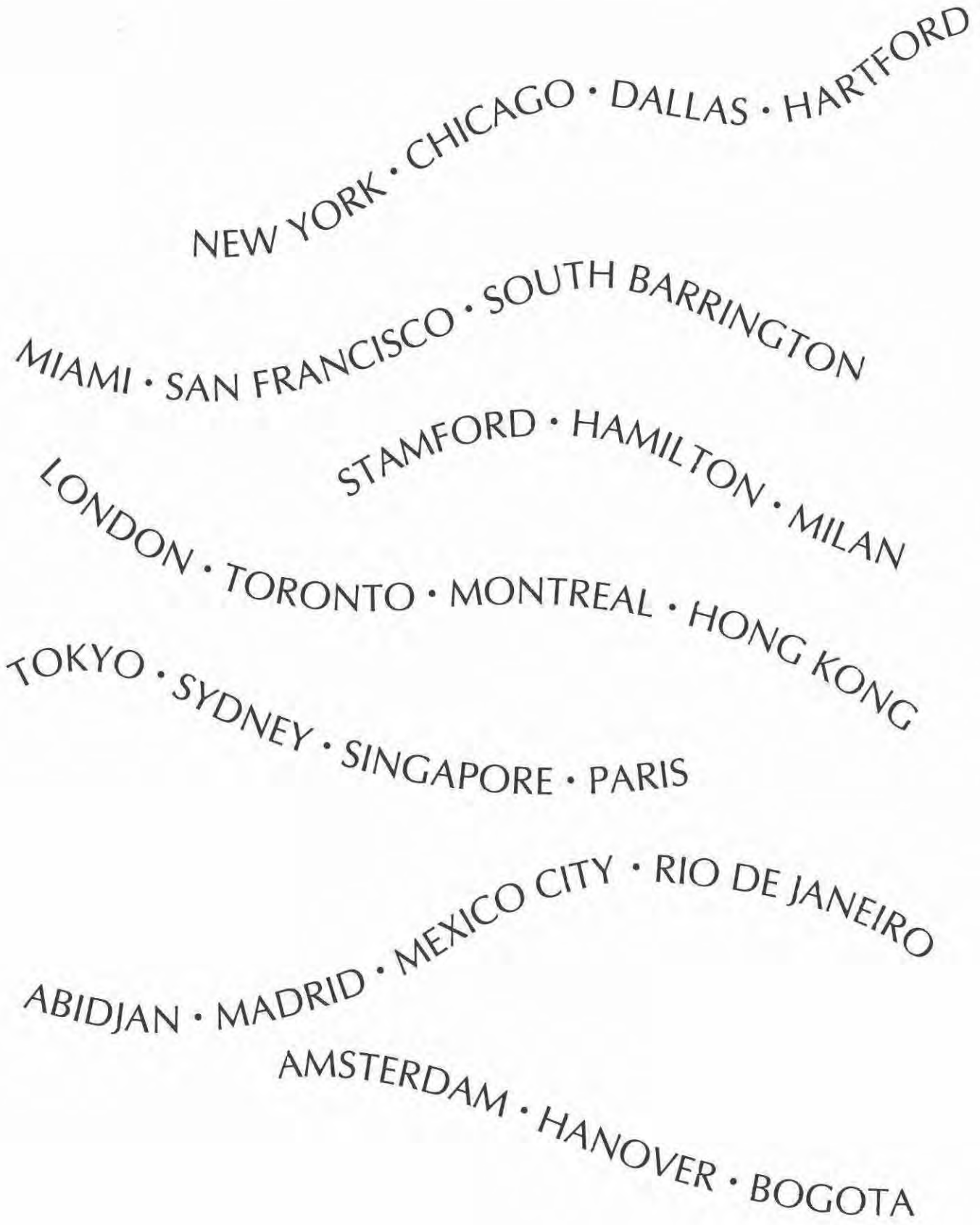
Risk Manager of the Year

JUDY LINDENMAYER

FMR Corp.

Plus

1997 Risk Management Honor Roll



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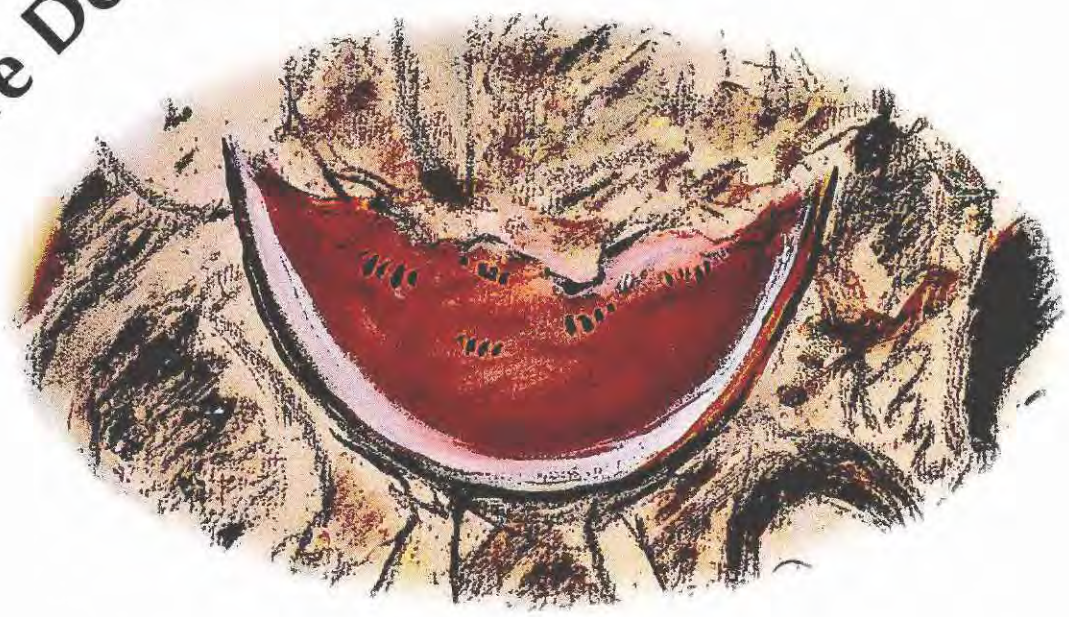

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Updates

CNA takes major position in synthetic GIC market

CHICAGO—CNA Financial Corp. has acquired the synthetic guaranteed investment contract business of Provident Life & Accident Insurance Co. for an undisclosed amount.

The book of business, which has assets of more than $2 billion, gives CNA an estimated 5% market share in the highly fragmented synthetic GIC business and makes it one of the largest insurers in the business, said Jeff Mohrenweiser, assistant vp of pension markets at CNA. The insurance company has been seeking to enter this market for the past 18

See **Updates** *on next page*

Aon buys Minet from St. Paul

Price 'immaterial' for both companies

By SALLY ROBERTS

CHICAGO—After months of intense speculation over its future, Minet Group will become part of Aon Group Inc. and not J&H Marsh & McLennan Inc.

Aon Corp. and The St. Paul Cos. Inc. on Friday announced they have entered into a definitive purchase agreement in which Aon will acquire all of Minet's operations.

Terms of the Aon/Minet deal, which were described as "not deemed to be material to either party" were not disclosed. London sources say Aon will pay $50 million to $100 million for the London-based broker, which would represent 20% to 40% of Minet's estimated 1996 revenues of $250 million.

The transaction is expected to close within the next several weeks, subject to regulatory approval.

In January, St. Paul and then Marsh & McLennan Cos. Inc. confirmed they were in negotiations for M&M to buy Minet (*BI*, Jan. 27).

"We had not formally ceased negotiations with M&M," a spokeswoman for St. Paul said. "Within the last several weeks, Aon approached us; it was unsolicited."

Speculation in London and the U.S. insurance markets is that Marsh's interest in Minet had diminished a bit following its $1.8 billion acquisition of Johnson & Higgins last month (*BI*, March 31), which left the door open to another bidder.

A spokeswoman for J&H Marsh & McLennan said that the reason the

See **Minet** *on page 148*

World's five largest brokers

(Ranked in millions of dollars)

Broker	1996 revenues
J&H Marsh & McLennan Inc.[1]	$5,500
Aon Group Inc.[2]	3,850
Sedgwick Group P.L.C.	1,510
Willis Corroon Group P.L.C.	1,140
Acordia Inc.	661

[1] *BI* pro forma 1996 revenue estimate of Johnson & Higgins, Marsh & McLennan Cos. Inc. and CECAR revenues. [2] Aon's pro forma 1996 estimate of Aon Group, Bain Hogg Group P.L.C., Alexander & Alexander Services Inc. and Minet Group revenues.

Risk managers' pay on the rise

Staff size remains constant: Study

By ROBERTO CENICEROS

Risk managers at some very large companies earned average salaries of nearly $135,000 last year, as risk management compensation overall increased 11% to 14% over a two-year period, depending on the industry and the size of the company.

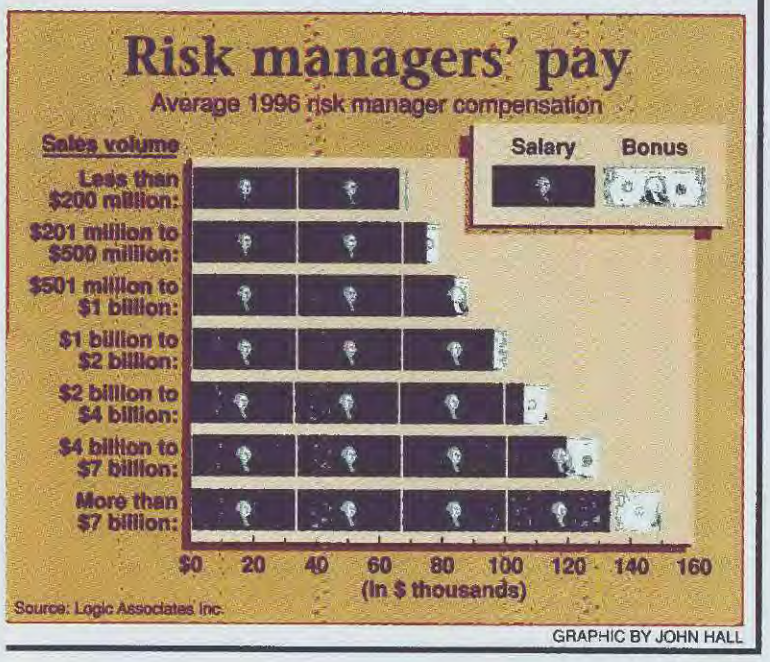
A just-released study of compensation and risk management responsibilities in 1996 also found that risk management staff size either edged up slightly or held firm from two years prior.

Risk managers working at the smallest companies and therefore earning the lowest salaries saw greater total gains over the past two years than risk managers at the largest operations, according to the study commissioned by Logic Associates Inc., a New York-based executive recruitment firm specializing in risk management. The survey generated responses from 1,256 risk managers in 20 industries. A total of 3,487 surveys were distributed.

Risk managers at companies with sales of $200 million or less reported an average increase of 14.1% in total compensation, which is salary plus bonus. Their average salary jumped 14% to $66,105 in 1996, from $57,915 in 1994, while their average bonus rose nearly 15.7% to $2,532 from $2,190 over the same period.

Some of the highest gains also were reported at companies with $4 billion to $7 billion in sales volume. Risk managers there garnered, on average, a 13.9% increase in total compensation, with salaries rising 14.1% to $119,052 from $104,363 in 1994. Their

See **Salaries** *on page 139*



GRAPHIC BY JOHN HALL

Audit questions validity of Equitas' first financials

By STACY SHAPIRO

LONDON—The first report and accounts of runoff reinsurer Equitas Holdings Ltd. are heavily qualified by the auditor and the size of the company's surplus has been brought into serious question.

The company's executives say they are not surprised, given the nature of the beast.

Underwriters in Lloyd's of London, who reinsured their syndicate accounts into Equitas, say they believe the new company is better off than the accounts show.

The Lloyd's underwriters are concerned, however, that a negative spin greeting Equitas' accounts could tarnish the ongoing market.

Last week, Equitas published its first financial report, for the period ended Sept. 4, 1996, the date when the company officially started business. The report gives a detailed view of Equitas' position at the time of startup, after Lloyd's members paid 95% of premium owed to assume their liabilities.

Equitas was set up to run off an aggregate of 740 Lloyd's syndicates' years of account, covering 1992 and prior years. It was designed to segregate Lloyd's massive liabilities, allowing the market to end litigation over those losses with its membership and move forward.

Equitas began business with £11.2 billion ($17.4 billion) in premium, less than the £14.7 billion ($22.8 billion) that had been originally forecast as of Dec. 31, 1995. The reduction reflects claims paid by syndicates and investment income during the eight-month interim up to Sept. 4, totaling £2.7 billion ($4.2 billion).

Equitas also did not accept £700 million ($1.1 billion) in premium because it decided not to reinsure the runoff business of Syndicate Underwriting Management Ltd., which manages the runoff of Lioncover Insurance Co. Ltd. Equitas may reinsure Lioncover in the future. Lioncover is the reinsurer set up by Lloyd's for syndicates formerly managed by PCW Underwriting Agencies Ltd., which collapsed in 1982.

Altogether, Equitas' assets total

See **Equitas** *on page 145*

Health care portability law adds to employer duties

By JERRY GEISEL

WASHINGTON—Employers have less than two months to get their administrative systems in order to comply with the federal law that curbs their ability to exclude coverage for new employees' pre-existing medical conditions.

Although the law's key component—limiting pre-existing medical condition exclusions—won't go into effect for many employers until Jan. 1, 1998, a requirement that companies certify that employees have had health care coverage kicks in on June 1.

To aid employers in complying with the new law—known as the Health Insurance Portability and Accountability Act of 1996, or HIPAA—the departments of Health and Human Services, Labor and Treasury have published about 500 pages of interim regulations.

Fortunately, much of the law and regulations are, as Mary Case, a principal at The Kwasha Lipton Group in Fort Lee, N.J., puts it, "pretty straightforward and mechanical."

"Compared with Section 89, this is a walk in the park," added Barry Carleton, a consultant in the Philadelphia office of Towers Perrin, referring to the ultra-complex health care non-discrimination rules that Congress repealed in 1989.

Still, with the clock ticking, employers will have a lot of information to assimilate.

To help employers understand their responsibilities and related issues under the portability law, *Business Insurance* interviewed employee benefit experts for their insights:

Q: What is the basic intent of HIPAA?

A: HIPAA is intended to make it easier for employees to move from

See **Portability** *on page 148*

Updates

CNA buys synthetic GIC book

Continued from previous page
months, he said. The acquisition involves 75 pension plans, most representing Fortune 500 employers.

CNA already is a major factor in the traditional GIC market. Synthetic GICs allow pension plans to retain ownership of the underlying assets while participating in asset performance.

A spokesman for Chattanooga, Tenn.-based Provident said the insurer's sale of its synthetic GIC business to CNA is in line with a 1994 strategic decision to get out of the group pension business and to focus instead on its group and individual disability and its non-medical employee benefit business, including group life. It is now in the process of running off its traditional GIC business, which had just over $3 billion in assets under management at year-end 1996, the spokesman said.

Sexual harassment suit settled

MINNEAPOLIS—The settlement of a sexual harassment lawsuit filed by the Equal Employment Opportunity Commission against a nationwide executive recruitment firm will stand as an example of cooperative resolution of such complaints, an attorney says.

Cleveland-based Management Recruiters International Inc. agreed to pay $1.3 million to 17 female workers after the women, employees of MRI's Edina, Minn., office, accused a sales manager of inappropriate physical contact, verbal propositions and other lewd remarks over about 13 years. The sales manager was fired last year. The EEOC said this is the largest settlement it has reached in a sexual harassment suit.

MRI also agreed not to rehire the manager, to explicitly state why he was fired and to conduct sexual harassment awareness training for managers, which the EEOC is entitled to monitor. The company also agreed to maintain and post policies concerning sexual harassment.

The case stands out for MRI's willingness to own up to the behavior of a senior employee in one of its locations, said Lloyd Zimmerman, EEOC senior trial attorney.

"Ultimately the company apologized for what happened," he said. "Most employers have a reflex action to fight, to scream, to deny."

In an MRI prepared statement, the company denied liability for the manager's misdeeds, but said a friendly resolution with the EEOC was better than "spending years in expensive and protracted litigation."

Also last week, a federal judge assigned class-action status to a sexual discrimination suit involving Northlake, Ill.-based Dominick's Finer Foods Inc. The suit alleges that some 15,000 female Dominick's grocery workers have been subject to discrimination in job advancement since 1993. It accuses the 83-store chain of promoting male employees faster and giving poor work assignments and inadequate training to women.

Dominick's President Robert A. Mariano, in a statement to employees, said none of the allegations has been proven and that every employee can advance "by choosing departments and jobs that best suit personal schedules, professional growth and financial goals."

Hyde calls for tort reform

WASHINGTON—House Judiciary Committee Chairman Henry Hyde, R-Ill., is renewing his call for comprehensive civil justice reform.

In his opening statement during a hearing on product liability reform last week, he said the list of legal areas that need reform "goes on and on."

In addition to product liability, Rep. Hyde said, "We need to address reforms in the areas of non-profit organizations and their volunteers, automobile insurance litigation, medical malpractice litigation, procedures for class-action litigation and punitive damage awards."

Neither a product liability reform bill nor a broader-based tort reform measure has been introduced in the House this session. The House passed a wide-ranging tort reform bill in 1995, but ultimately it was scaled back and merged into the Senate's product liability bill.

Although the compromise bill passed both houses of Congress, it fell victim to President Clinton's veto pen in May 1996. A bill identical to the one vetoed by the president has been introduced in the Senate by that chamber's Republican leadership. The measure is, however, considered to be a "place holder" bill that could undergo significant revision before it comes to a vote.

Meanwhile, Sen. John Ashcroft, R-Mo., introduced a bill last week designed to protect volunteers and charitable organizations from frivolous lawsuits. S.514, the Liability Reform for Volunteer Services Act, would cap the amount of punitive damages a plaintiff could recover from a covered volunteer or organization to the lesser of $250,000 or two times economic and non-economic damages; institute proportional rather than joint and several liability for such cases; and require a higher standard of evidence for awards in such cases.

Labor still reviewing stock plan

WASHINGTON—A decision by the U.S. Department of Labor on a request by Travelers Group for approval on its plan to contribute stock options to its 401(k) plan for all eligible employees is not imminent, a department official says.

"There is a lot of information to digest," said the official, who could not say when a decision would be reached.

In recent weeks, employee benefit consultants had been saying Labor Department approval of the trailblazing arrangement was all but certain and was expected by the end of March. Those predictions now appear to have been premature.

As proposed, Travelers would contribute stock options equal to 10% of an employee's compensation, up to $40,000 of compensation. The options would give employees the right to buy Travelers common stock at the closing price on the day before the option is granted. Unlike conventional stock option plans in which employees are taxed when they exercise the options, under the Travelers 401(k)-linked stock option plan, employees would not be taxed when they exercise the options or when they sold the shares, as long as the proceeds remained in the 401(k) plan (*BI*, March 31).

See **Updates** *on page 146*

AIG wins Golden Eagle

By JOANNE WOJCIK

SACRAMENTO, Calif.—American International Group Inc. has won the bidding war for Golden Eagle Insurance Co., marking the second time AIG has picked up a financially troubled California insurer in recent years.

AIG beat out bids from rival Liberty Mutual Insurance Co., which has been serving as interim reinsurer of Golden Eagle while in rehabilitation, and nearly a dozen other insurers and reinsurers that expressed interest in the troubled company after California regulators put it on the auction block in February (*BI*, March 3, Feb. 10).

According to AIG's winning bid and rehabilitation plan, Golden Eagle's existing business, including related assets and liabilities, will be transferred to newly created San Diego Casualty Insurance Co., which will write new and renewal business.

Other Golden Eagle assets and non-insurance liabilities will be transferred to a liquidating trust. Former Golden Eagle owner John C. Mabee will be entitled to anything left in the trust when the plan is

See **AIG** *on page 146*

NCCI to wait on for-profit move

By MEG FLETCHER

BOCA RATON, Fla.—The decision by the National Council on Compensation Insurance's board to sidestep a vote on converting to a for-profit entity from a not-for-profit is making the former monopoly more vulnerable to competitors.

After a year of study, the board's recent decision to establish a task force to further examine the organization's needs and options was motivated by the strong opposition of six major workers compensation insurers—only half of whom had seats on the board—according to board and industry sources.

The impact of the board's postponement may be encouraging to buyers of NCCI services and workers comp coverage who seek cost-effective services at the lowest-possible price.

See NCCI conference coverage on page 143

Increased competition in providing ratemaking and residual market services may help to drive down overall workers comp system costs and pro-

See **NCCI** *on page 143*

Immersion begins for new executive director

Lamel meets RIMS members

By MICHAEL BRADFORD

The new executive director of the Risk & Insurance Management Society Inc. is getting her feet wet in a hurry.

On the job less than two months, Linda H. Lamel will be in the eye of the national conference storm this week in Atlanta. She's worked hard to get ready.

"It's been pretty busy," she said, "learning what the issues are and trying to catch up as much as I can, particularly on those items that are going to be focal points at the conference. I think I would have liked a year to get ready to show up at my first conference."

Such a grace period was not available, though, because the society needed her on the job to succeed Eugene Ricci, who retired at the end of February.

Ms. Lamel is only the third executive director to lead the 47-year-old society. Mr. Ricci succeeded Ron Judd, who served for 24 years.

Ms. Lamel

Ms. Lamel brings to the post a background in education and politics, having served as president of The College of Insurance from 1983 to 1988.

Prior to that, she was deputy superintendent of the New York Insurance Department and chief of staff to the lieutenant governor of New York.

See **Lamel** *on page 138*

Laws on medical marijuana raise workers' rights issues

By JUDY GREENWALD

Employers may need to revise their drug policies to avoid potential liability in light of new California and Arizona laws that permit the medical use of marijuana.

Policies that call for automatically refusing to hire potential employees or firing existing employees who test positive for marijuana use may have to be re-examined in light of California's Proposition 215 and Arizona's Proposition 200, which voters approved in November.

These laws state that people can lawfully possess or cultivate marijuana for medical treatment and that physicians will not be punished for recommending marijuana use to a patient.

Employers who have blanket policies "could face a problem, because they are arguably denying employment to someone who is lawfully using a drug, and that could be considered illegal, or illegal discrimination," said Larry J. Shapiro, an attorney and publisher of the Tiburon, Calif.-based California Employer Advisor.

But numerous complicating issues surround the proposition and their effect on the workplace

See **Marijuana** *on page 13*

Inside

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• Betsy Kutska, executive director of the Park District Risk Management Agency in Wheaton, Ill., is named to the 1997 Risk Management Honor Roll. **PAGE 115**

• Russell Opferkuch, vp of corporate risk and insurance for Bankers Trust Co. in New York, is named to the 1997 Risk Management Honor Roll. **PAGE 121**

• William R. Powell, manager of the risk management department for the Salt River Project in Phoenix, is named to the 1997 Risk Management Honor Roll. **PAGE 128**

• Jeannie Sedwick, director of risk management at Wake Medical Center in Raleigh, N.C., is named to the 1997 Risk Management Honor Roll. **PAGE 133**

• 1997 should bring good commercial rate news to policyholders a report says. **PAGE 147**

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Interest from evolving markets, new uses drive captive growth

The pace of captive insurance company growth is accelerating worldwide, with a net gain in the number of formations and domiciles sprouting up all over the globe.

Growth is attributed to new interest in markets where risk management is gaining sophistication, such as Latin America, Southeast Asia and Eastern Europe.

Formations also are driven by companies developing new risk financing uses for captives, or a desire to have multiple captives for varied risks.

Several domiciles are emerging to try to tap into this burgeoning market, which continues to see gains despite continued soft and competitive pricing in the commercial property/casualty markets. The newer domiciles—all of which have yet to attract their first captives—include: Guam, Malta, Montenegro, New Brunswick, New York, New Zealand and Panama.

Even the Council of Lloyd's is contemplating a proposal to make the market a domicile for captive insurers (see story, page 76).

In the 27 domiciles—up from 25 a year ago—with captives covered by *Business Insurance*, the number of licensed companies grew 6.8% to 3,104 from 2,905. That's up from a 5.6% gain in 1995, 6.4% in 1994 and 2.6% increases in both 1993 and 1992. However, not all of those entities prior to 1995 were captive insurers, because some domiciles do not distinguish between forms of insurance entities. *Business Insurance* now attempts to exclude non-captives from its count, where possible.

Bermuda, the largest captive domicile by far, continues to refine its tally of captives in the domicile, made easier by the Insurance Amendment Act of 1995, which broke insurers and captives into four categories. As a result, *BI* has revised its method for estimating the number of captives in Bermuda, and that revision is reflected in the domicile's 1995 and 1996 captive totals provided in this report.

Despite the emergence of several domiciles, it was the largest domiciles that saw the biggest gains in the number of captives last year.

Bermuda not only is the largest domicile, but in 1996 it also saw the largest net gain in the number of captives, up 64 companies, or 6.5%, to an estimated 1,050 captives.

The domiciles with the next-highest gains were: Cayman Islands, up 37 to an estimated 373; Guernsey, up 29 to 324; and Vermont, up 23 to 293.

While plenty of domiciles had a flat year in 1996, only three domiciles actually saw a decline in the number of captives: Illinois' total fell by four captives to four at year end; Colorado saw its count drop by two to 18; and Tennessee lost one captive for a total of 10.

Several domiciles last year revised their captive laws, though not as many as in 1995. Those with more recent changes include:

- Luxembourg, which is abolishing a municipal business tax and plans to reduce corporate income tax.
- Isle of Man, which amended its law to make the transfer of captives from other domiciles easier, among other changes.
- Guernsey, which enacted a law allowing companies to form a type of rent-a-captive and aims to pass reforms making captive transfers easier.
- Caymans, which have a new regulatory body and regulator, though no changes to laws.

Business Insurance's 1997 captive market report begins on page 4, with a report on the status of North Carolina's rogue fronting proposal.

A report on reinsurers' growing appetite for captive business starts on page 6. For the start of reports on each domicile, please refer to the index at right.

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Captive Report

North Carolina lawmakers delay fronting bill

By MEG FLETCHER

RALEIGH, N.C.—North Carolina legislators last week delayed action on a controversial North Carolina bill that would restrict fronting arrangements for businesses, especially captives.

Lawmakers postponed action at a committee meeting Wednesday because of the strength of the opposition to the bill as well as "confusion" over some unpublished amendments proposed by the Insurance Department, said Bill Hale, the department's legislative counsel.

The bill, however, could be considered again this week.

A broad-based coalition, including risk managers and insurance industry groups, are seeking to revise—or preferably kill—the bill.

The Risk & Insurance Management Society Inc. is among seven industry groups opposing the measure, S.B. 611, according to Anne Allen, RIMS legislative director.

Opponents fear that the proposed legislation would burden businesses with unnecessary and onerous reporting regulations and would hamper their ability to make the best use of captives for reinsuring their risks.

RIMS helped organize the opposition and planned a letter-writing campaign to North Carolina lawmakers last week, Ms. Allen said.

The mobilization effort had an almost immediate impact on the state Senate's Pensions & Retirement and Insurance Committee, which is considering the fronting legislation.

The bill is North Carolina regulators' proposed solution to perceived problems stemming from fronting arrangements, according to Sen. Brad Miller, D-Raleigh, who filed the bill late last month.

However, Ken Mitchell, chairman of the North Carolina Self-Insured Guaranty Assn. in Raleigh says that his concerns were "very narrow," yet "regulators came out with a model bill that had to do with so many different things, it was really not the right vehicle to use." Mr. Mitchell also is executive vp of the North Carolina Homebuilders Assn. in Raleigh.

Sen. Miller said that action on the bill was delayed because "various industry folks expressed concern and we pulled it off the agenda to see if their concerns could be accommodated."

"The point of the law is to protect the policyholders, as well as the recipients of workers compensation benefits," said Deputy Commissioner Ray Martinez, who oversaw the proposal's drafting.

North Carolina Commissioner Jim Long has said uncontrolled fronting arrangements can cause insolvencies.

Specifically, the proposed legislation would impose reporting requirements and prior approval of certain reinsurance transactions upon insurers domiciled in North Carolina. It also would impose those requirements in some situations when a licensed insurer delegates to an unauthorized reinsurer underwriting or claims settlement authority.

North Carolina's proposed fronting disclosure act is very similar to the controversial model fronting disclosure act adopted in 1993 by the National Assn. of Insurance Commissioners (*BI*, Dec. 13, 1993).

However, the NAIC model law actually applies to few, if any, fronting transactions involving captives, because no states have adopted the NAIC's model and very few states have enacted related fronting legislation or regulations.

The initial version of the North Carolina bill generally would have offered an exemption to "an insurance company owned by one or more affiliated persons and domiciled in a jurisdiction that is accredited under the financial regulation standards of the NAIC," Sen. Miller said in an interview.

However, the Insurance Department quickly introduced amendments that would expand the exemption to most single-parent captives or pools of such captives in a similar industry, regardless of their location.

"By carving out single-parent captives domiciled anywhere, the North Carolina proposed model is substantially more liberal than the NAIC model that restricted the exemption of single-parent captives to only those captives domiciled in the United States," said Mr. Martinez, the state regulator.

"That is a tremendous improvement, in my book," said C.J. "Jim" Spivey of Charlotte, N.C. He is executive director of the North Carolina Housing Authorities Risk Retention Pools, which uses reinsurance provided by a Bermuda-based captive.

RIMS generally opposes all fronting legislation because it increases costs and reporting requirements unnecessarily. In addition, regulators "shouldn't treat single-parent and group captives differently," Ms. Allen said.

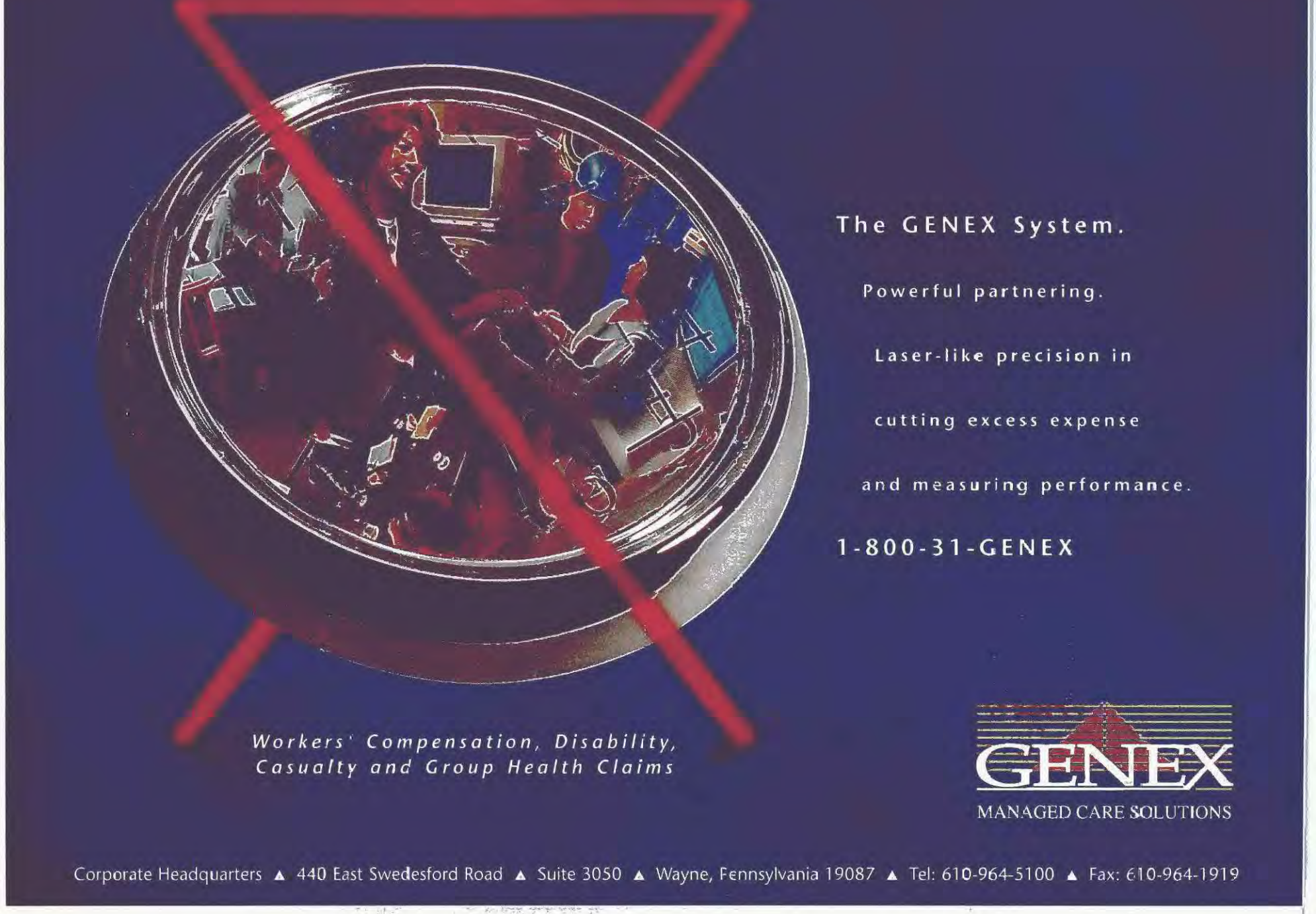
However, Mr. Spivey said the recent liberalization of the definition of the captive domicile may make the proposed legislation something he could support, though he said he needs to study the legislation.

North Carolina's Mr. Martinez late last month predicted that the proposed amended legislation would have "a fair chance" of being enacted, once it is introduced.

However, the bill's chances appear to have dimmed already.

Regulatory problems with fronting may be better addressed by two bills proposing regulations for workers compensation self-insurance, which will be introduced this week, said the department's Mr. Hale.

In addition to RIMS, the bill's opponents include: the Alliance of American Insurers, the American Insurance Assn., the Coalition of Alternative Risk Funding Mechanisms, the Council of Insurance Agents & Brokers, the National Assn. of Insurance Brokers and the Reinsurance Assn. of America. American International Group Inc. also opposes the bill. BI



Captive Report

Reinsurers captivated with alternative market

By JUDY GREENWALD

Reinsurers are eying captive insurer business longingly.

Whether entering this market for the first time or focusing on it more seriously, reinsurers clearly are more intensely interested in seeking premium growth from captives in a hotly competitive reinsurance market.

Captive insurers are particularly appealing prospects to reinsurers because risk managers using captive insurers tend to focus more on loss control.

Also, captive owners are potential candidates for cutting-edge reinsurance products, including blended finite risk and risk transfer programs as well as securitized risk products.

"We're finding a lot more people interested in becoming reinsurers for captives," said David Ezekiel, president and managing director of Hamilton, Bermuda-based International Advisory Services Ltd., a captive manager.

These include reinsurers that never have served the captive market as well as those who had exited and now are coming back in, said Mr. Ezekiel.

U.S. reinsurers are more interested in captives, as are previously monoline Bermuda-based catastrophe reinsurers seeking to diversify their books of business, said Mr. Ezekiel.

"I would say that the interest of the existing players remains undiminished, and there do appear to be some newer entrants into the area of reinsuring captives," said Kenneth J. LeStrange, executive vp of Princeton, N.J.-based American Re-Insurance Co. and president of Am-Re Managers Inc. American Re began reinsuring captives more than 20 years ago.

In addition to more activity on the part of Lloyd's, "Really almost all of the significant domestic reinsurers have been active in this area one way or another," said Mr. LeStrange.

Harry Richter, chairman of Stamford, Conn.-based Genesis Insurance Co., a General Reinsurance Corp. unit that focuses on the alternative market, says "The absolute number of markets is pretty static; it's just the intensity with which they're pursuing the business that's been a real change."

David Seifer, an analyst with Donaldson, Lufkin & Jenrette Securities Corp. in New York, suggests that captives are "a replacement for primary business that reinsurers have lost to a combination of primary insurers or clients just self-insuring."

Interest in this market is "high and growing," said Alan Levin, senior vp at rating agency Standard & Poor's Corp. in New York.

"I think a lot of reinsurers recognize that as captives take a greater and greater share of the (primary) business," they need reinsurance support behind them, he said. "And that's the same kind of a business that a reinsurance company had traditionally done with a traditional insurance company," with the difference that the reinsurer markets directly to the captives or the brokers that represent them, he noted.

But the nature of the risk and of the relationship remains the same. "It's the classic risk that they've been underwriting and accepting all along, for many decades," said Mr. Levin. The only difference is "Instead of a primary company writing the first layer of coverage, it'll be a captive."

"Because the reinsurance pie is getting smaller, you can sort of sit on your laurels and say, 'I'm content to take a smaller piece of the reinsurance pie,' or you can look elsewhere," said Dennis Zettervall, chief executive officer of Hartford, Conn.-based Hartford Re Co.

Hartford Re now is exploring captives, said Mr. Zettervall. "We think we have some expertise we can bring to it. We are looking to develop our capabilities more fully" as well as improve marketing so "we can get our message out there," he said.

Hartford Re already has reinsured some captive business, particularly in the public entity area, "But there's a lot more we can and will be doing," said Mr. Zettervall.

Swiss Re America also is interested in becoming more active in this area and has formed an alternative risk transfer department headed by Executive Vp John Gantz, said Heidi Hutter, chairman, president and CEO.

"We think we can bring value and capacity and capabilities" to captives, said Ms. Hutter. Swiss Re America has done business in this area, but never in a "concerted or thoughtful way, and now we're taking a much more coordinated approach to it," she added.

Of the $17.3 million in gross premiums written by Chubb Atlantic Indemnity Ltd., about 30% is reinsurance for captives, said R. Lincoln Trimble, vp-underwriting manager property/casualty at the Bermuda-based insurer.

Captives are attractive to Chubb because they are easily accessible in Bermuda.

In addition, reinsurers are attracted to what they consider the very good business that captive insurers write.

Reinsurers "are looking for quality business, and I think people are beginning to recognize that captive business is generally of good quality," said Mr. Ezekiel.

It is generally better business than conventional reinsurance, said Mr. Trimble.

"When a company sets up a captive it takes on more risk itself, so there is probably more likelihood that it has greater control of the risk," he said.

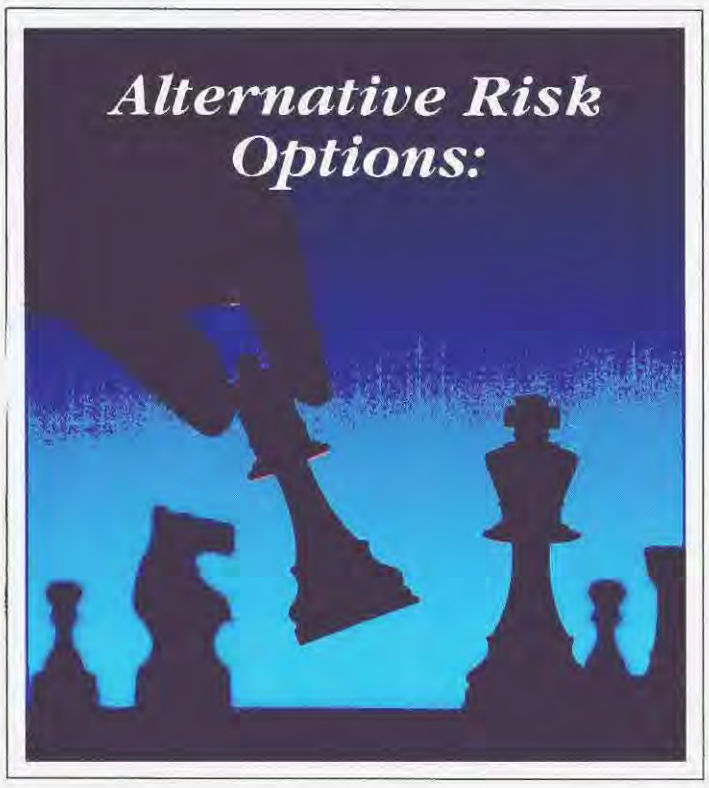
Swiss Re's Ms. Hutter also emphasized the quality of the business.

"I think it's appealing because the fundamental premise is the insured or the ultimate risk-bearer is taking larger share of their own risk," and when this occurs, "it brings about behavioral and structural changes," including higher retentions, and more interest in risk management, Ms. Hutter said.

"I think getting to that level of financial and business involvement very attractive," she said.

"They know the risk is their They recognize they'd better b paying attention to it, and they in vest more in it" in terms of man aging the risk before and after loss occurs, said Swiss Re's M Gantz.

See **Reinsurance** *on page* 3



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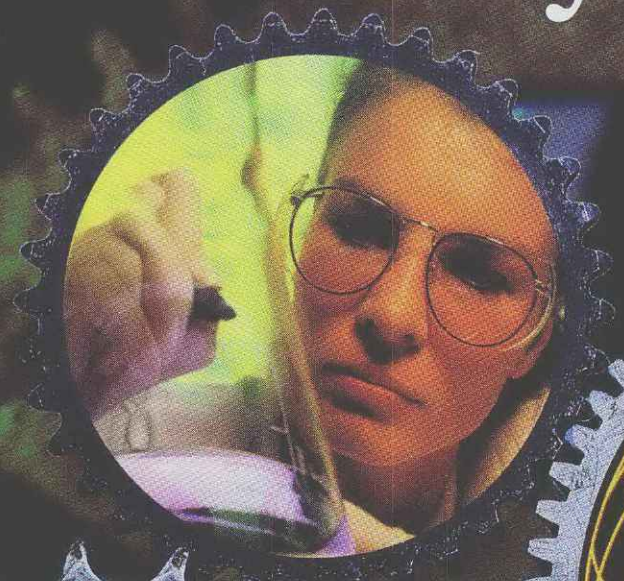

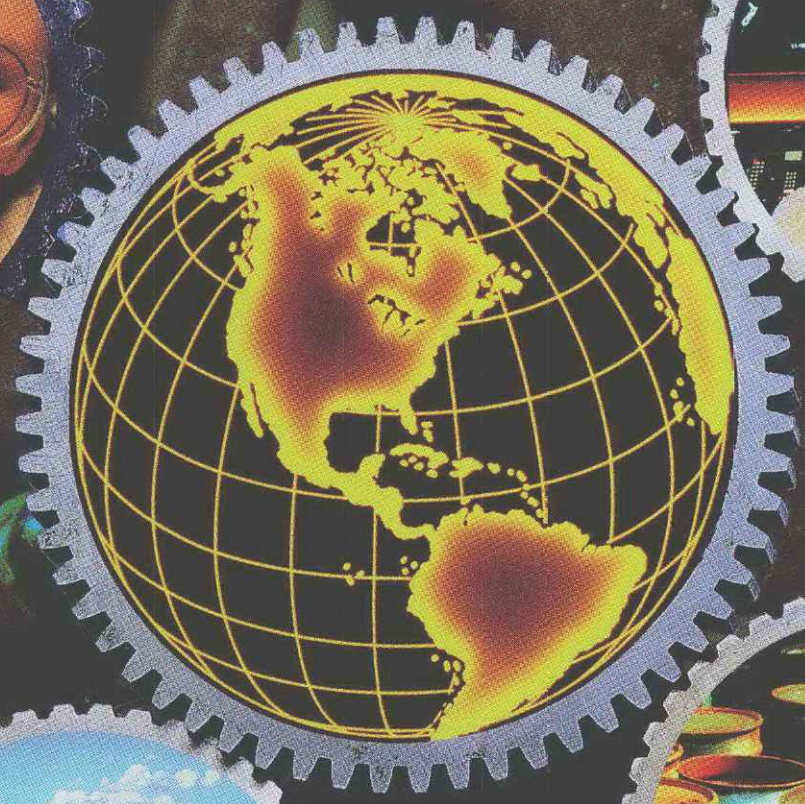

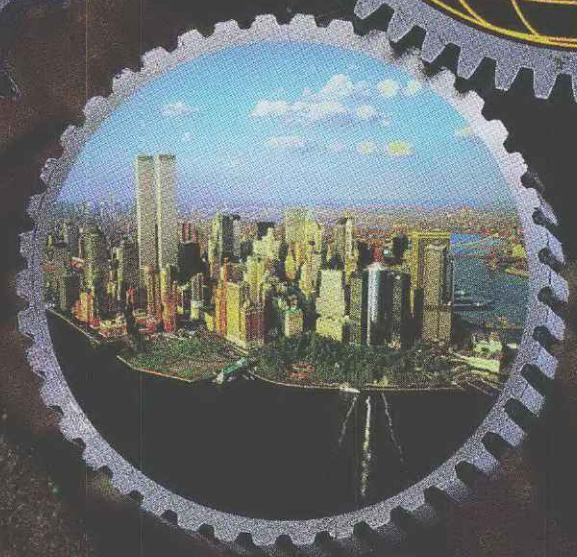

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Opinions

Quality risk management

CONTINUOUS IMPROVEMENT is said to be the key to ensuring quality performance and service in the business world.

It is also what distinguishes the exemplary risk managers profiled in this issue and makes them leaders in their profession.

Their drive for continuous improvement can be seen in many areas: identifying and eliminating sources of losses; communicating the goals of risk management throughout their organizations; exploring and developing innovative loss control and risk financing solutions; and constantly expanding their knowledge and abilities while educating those around them.

Not only does this set them apart in their profession, but it also has a very positive effective on their organizations' performance, making them successes in their field and protecting the bottom line.

Risk Manager of the Year Judy Lindenmayer is constantly searching for new directions to take risk management at FMR Corp., while assuring that the organization's risks are adequately protected. She has developed an array of innovative risk financing solutions, including an integrated risk financing program, a multiyear financial insurance program, and even a captive to protect mutual fund investors.

Through her career, Ms. Lindenmayer has pursued and encouraged others in risk management, while also devoting time and energy to the Risk & Insurance Management Society Inc. at the local and national level.

The members of the 1997 Risk Management Honor Roll also embody top-quality risk management:

• John Carney drew on his experience in the structured and disciplined world of law enforcement to create a formal program of operating procedures to minimize National Freight Industries Inc.'s risks. Emphasizing teamwork, Mr. Carney's program overhauled communications, safety procedures and risk financing for the company.

• Betsy Kutska has strived to make recreational facilities safer for the public while at the Park District Risk Management Agency. She employs an array of communication tools to gather and spread information and is constantly seeking new risk financing options to lower costs and risks for the self-insurance pool's members.

• Russell Opferkuch engineers solutions to potential problems before they become full-blown losses for Bankers Trust Co. To get the job done, he stresses teamwork and staff empowerment, while constantly striving to teach the lessons of risk management both within and outside the organization.

• William Powell skillfully communicates the goals and rewards of better safety to employees and management alike at Salt River Project. His successful efforts help the company prepare for coming competition in the utility industry by giving it a risk management edge.

• Jeannie Sedwick built a risk management program from the ground up for Wake Medical Center, in the process reaching out to doctors, nurses, hospital personnel and even patients to help them identify and avoid potential problems. She re-engineered the medical center's information system to better track claims and revamped risk financing for lower costs.

The achievements of these six risk managers demonstrate the highest quality in their profession. Their examples will truly help others in risk management on their path to continuous improvement.

Letters

Bermuda defends EMLICO response

To the editor: I am writing on behalf of the Bermuda insurance industry with regard to your March 24 editorial "At What Cost Convenience?" on the subject of Electric Mutual Liability Insurance Co.

The aim of this letter is to correct misconceptions and challenge assumptions that seem to have arisen as a result of a decision by the Bermuda insurance domicile not to become publicly embroiled in this dispute, a decision heavily influenced by the dictates of *sub judice*.

Before doing so, I should point out that this is not the first time, nor is it likely to be the last, that as a matter of prudent regulation the island has chosen to remain neutral and stay out of what is essentially a disagreement between contracting parties, each of whom has a range of legal and other remedies open to them.

So what is to be made of Bermuda's public silence on the EMLICO matter? Your answer to that question, as indicated in the editorial, seems based on the assumption that instead of initiating an investigation, Bermuda's authorities did nothing and "remained inert when evidence suggested their U.S. counterparts were duped."

Our response is that EMLICO's continuance application to move to Bermuda was first subjected to a thorough review by Bermuda's Insurers Admissions Committee. Though this committee's deliberations and findings are, and must remain, confidential, it is clear from an affidavit sworn by Bermuda's registrar of companies that EMLICO's license was issued on condition that it be subject to several key restrictions. More recently, and as a result of allegations emerging from the EMLICO dispute, it became clear from court proceedings that the registrar had conducted an extensive internal review before concluding that an independent investigation would not be appropriate. It would not have been appropriate, in view of the legal actions that had been commenced at that time, for the registrar to have discussed this review in public.

Furthermore, Bermuda's regulators have maintained close contact with Massachusetts regulators and have monitored relevant information as it was made available. Based on that information, the Bermuda regulators have not been persuaded that the U.S. regulators were duped. As was indicated in the registrar's affidavit, the Bermuda regulators were aware from the outset that the nature and number of adverse developments in the area of environmental claims was such that "EMLICO could be rendered insolvent."

Against this background, it is quite unreasonable to suggest that an investigation outside the court system should have been commenced. According to a Bermuda Supreme Court judgment on an application for a judicial review, the EMLICO matter does not constitute a case of "clear and manifest fraud." It goes without saying that had this not been the situation, the registrar's position would have been drastically different.

It is perhaps also worth remembering that the Supreme Court decision allowing an application to set aside leave to begin judicial review proceedings has been appealed and could go before Bermuda's Court of Appeal this summer. If the review is allowed to proceed, matters up for examination will include the Bermuda government's decision to consent to the EMLICO continuation, the registrar's decision to register the EMLICO consent, and the minister of finance's decision to register EMLICO as an insurer.

The bottom line, as indicated by an earlier judgment on the hearing of a petition for the winding up of EMLICO, is that remedies such as arbitration are available under the terms of valid reinsurance contracts concluded with EMLICO.

Lastly, I take issue with your contention that "Bermuda's hands-off attitude" should be a concern to all companies doing business in the domicile.

Bermuda has worked long and hard to strike the right balance between onerous regulation and weak, meaningless controls. One of the reasons the Bermuda market succeeds is because of the spirit of a very real working partnership between the regulated and the regulators, which produces an efficient regulatory environment that does not stifle private-sector innovation.

Roger R. Scotton
Director of Information
Bermuda insurance industry
Hamilton, Bermuda

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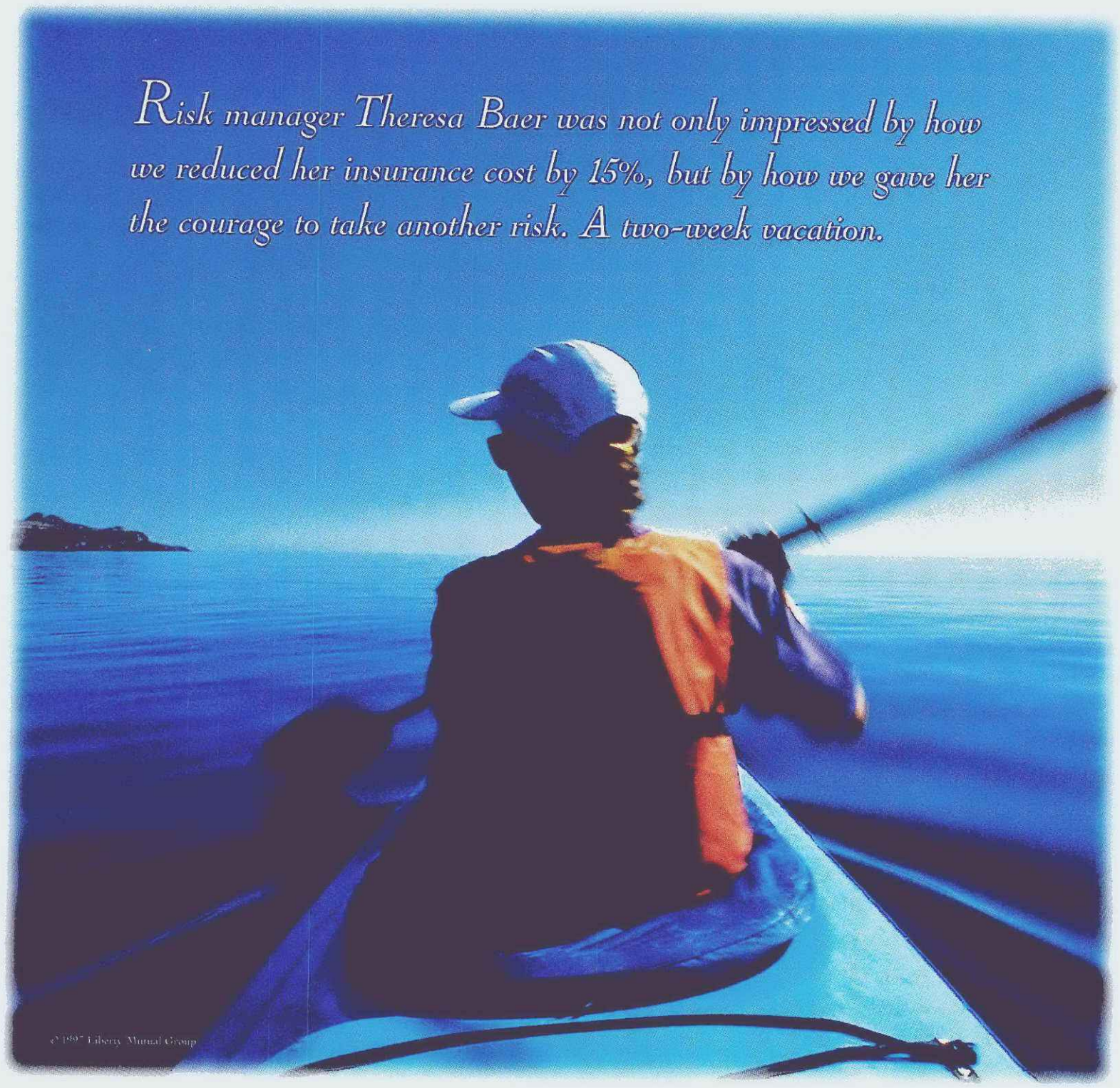

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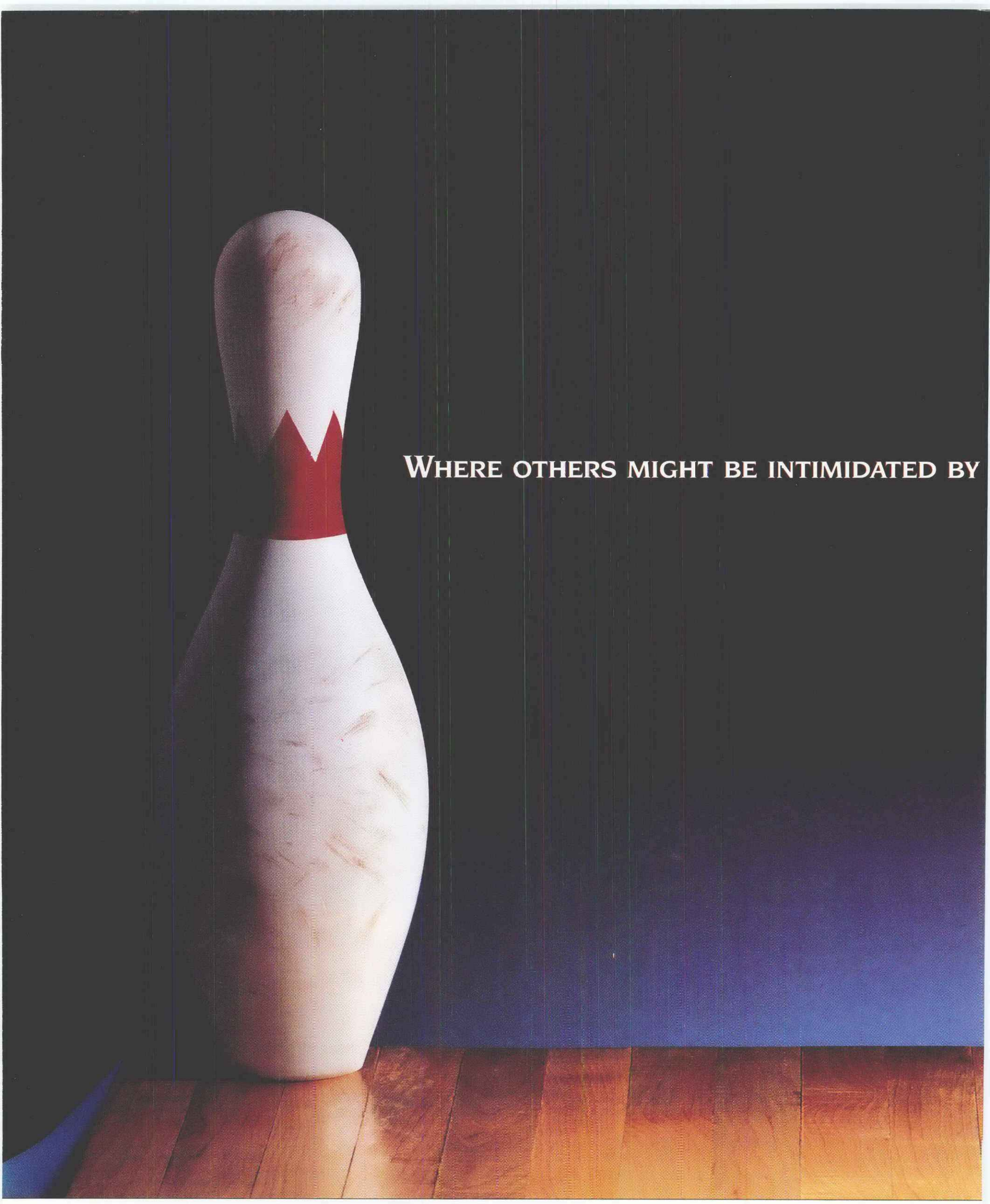

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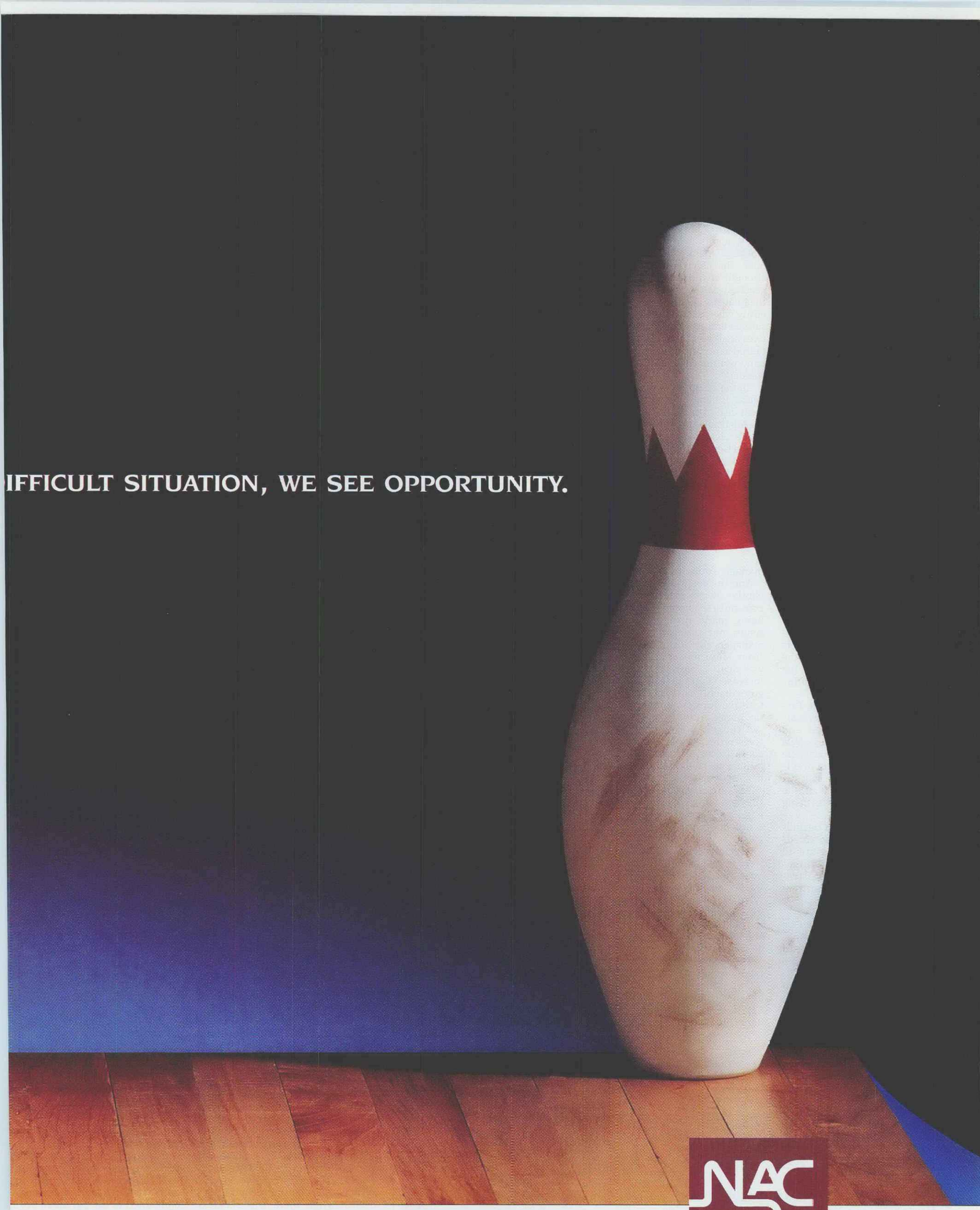

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Captives

Continued from page 12

Some captive owners welcome the Clinton proposal because it would firmly establish what level of unrelated business has to be met, said Denville C. Reed, president of Sedgwick Management Services (Bermuda) Ltd.

"If it goes through, we'll know what you have to do, whereas up to now it's largely been speculation," based on court rulings, he said.

The Clinton proposal emphasizes, though, that captives should not be established for tax reasons, said Nigel M. Godfrey, senior vp at Sedgwick.

"One always glibly says that you shouldn't form a captive solely for tax reasons, and this illustrates that point," he said.

Captive owners that want to obtain a tax advantage will likely look to pool more risks with other captives, said Roger C. Gillett, senior vp at Johnson & Higgins (Bermuda) Ltd.

Several J&H-managed captives already are pooling more of their risks through the newly formed Green Island Pool.

The pool, which was launched with $60 million in premium, will reinsure member captives' liability risks, Mr. Gillett said.

"The principal benefit will be the stabilizing of loss costs through a greater spread," he said.

The risks covered are at the primary level, so while the volume of claims may vary, there will be little variation in the size of claims, Mr. Gillett said.

Losses and dividends will be distributed in proportion to the amount of business participants put into the pool, he said.

Another trend that is emerging in Bermuda is the growth in the number of captives being formed by health care companies.

Traditionally, the Cayman Islands has been the preferred domicile for captives covering risks of health care providers, but now Bermuda is home to some 85 to 90 health care captives, estimated Alan C. Cossar, executive director at Alexander Insurance Managers Ltd. and also president of the Bermuda Insurance Management Assn.

One of the six new formations at A&A in 1996 was a health care captive, and A&A has formed several other health care captives in Bermuda in recent years, Mr. Cossar said.

Often the formation of health care captives reflects the changes in the health care industry in the United States, he said.

"A lot of it is to do with integrated health care delivery systems. You can tie the members of a network together with a captive," Mr. Cossar said.

And Bermuda is gradually managing to persuade health care organizations interested in setting up a captive that it is a good domicile for the risks, he said.

"There is nothing you can do in the Cayman Islands in terms of health care captive business that can't be done here—and to our mind done better—because of our synergy with the commercial market here," Mr. Cossar said.

Four of the five captive formations at Atlantic Security Ltd. were health care captives, said Colin C. James, president and CEO.

The opportunity to access the rest of the insurance market in Bermuda is an added attraction to captive owners who previously may have gone to the Cayman Islands, he agreed.

"There is no tax or other advantage to either domicile, so the decision often comes down to other issues, like how easy is it to get here and the fact that we do have an actual insurance market here," Mr. James said.

Independent Management Group is currently forming a captive to reinsure the underwriting risk of a workers compensation managed care program for small businesses in Tennessee, said Mr. Strong of IMG.

The workers comp program is administered by one of the investors in the captive, Provident Assurance Co., an insurer. The hospital providing health care is the other investor.

"The hospital and the managed care provider are putting their hands in their pockets to take the risk and the reinsurers have been lining up to reinsure it," Mr. Strong said.

The reinsurers believe that the combination of the managed care company and a hospital will produce better controlled and more profitable risks, he said.

The health care captives forming in Bermuda are often covering risks not traditionally associated with captives, said Tracy E. Keill, senior vp at Aon Risk Services (Bermuda) Ltd.

Two of the seven new captives formed by Aon last year for clients were health care captives. Including captives that were transferred from other managers, Aon added 14 new captives in 1996, she said.

The health care captives are covering capitation risks and long-term care programs, as well as the medical malpractice risks that are traditionally covered by such captives, Ms. Keill said.

Three of the other new formations at Aon were agency captives, she said.

Bermuda generally is seeing more interest from insurance agencies seeking to establish captives, noted regulator Mr. Astwood.

"A typical example is where a U.S. fronting company would like to reward its best agents by allowing them to obtain an ownership stake in an agency captive so they can receive a small quota share of the business they produce," he said.

'There is nothing you can do in the Cayman Islands in terms of health care captive business that can't be done here–and to our mind done better,' says Alan Cossar.

Mr. James of Atlantic Security agreed that more insurance agencies in the United States are interested in setting up captives.

The agency captives allow insurers to cement a stronger relationship with their best agents or brokers and they allow the agents or brokers the opportunity to profit from their good business, he said.

Many agency groups are too small to form a captive so they join a rent-a-captive instead, said Mr. Dove of Skandia (see story, page 26).

Three of the eight captives taken on by International Advisory Services Ltd. last year were insurance agency captives, said David Ezekiel, president and managing director of IAS.

One of the agency captives covers special sports events. The coverage ranges from hole-in-one coverage for golf events to prize free throw competitions at National Basketball Assn. games, he said.

"The loss ratio is excellent," Mr. Ezekiel said.

In addition to writing new risks, captives setting up in Bermuda are coming from a more diverse range of countries, managers report.

For example, Yukong Ltd., a South Korean manufacturing group, set up a property insurance captive in Bermuda last year. The captive is one of 12 new ones set up by J&H last year.

The formation of the Yukong captive comes after several years of marketing the captive concept in South Korea, said Mr. Gillett of J&H.

"Once you get one company in a particular country to set up a captive, usually it is followed fairly quickly by others," he said.

Another large Southeast Asian company, Petron Corp., an oil company in the Philippines, formed a captive in Bermuda last year. The captive, which will cover property risks, is managed by International Risk Management (Bermuda) Ltd.

In general, Southeast Asian companies are becoming a lot more interested in captives, said John R. English, president of IRM in Bermuda.

"We get so many questions from Japan and South Korea. They tend to look at things that companies from other countries take for granted about Bermuda like infrastructure and regulatory issues," he said.

In the future, IRM expects to see more Bermuda captive formations from European companies, said Gareth Bradburn, president and chief executive officer of International Risk Management Group Ltd.

Earlier this year, IRMG signed a co-operation agreement with GECALUX, a captive manager in Luxembourg (*BI*, Feb. 3, 1997). The agreement will give IRMG greater access to central European countries, Mr. Bradburn said.

"We have done very little marketing in that area because of the language barrier," he said.

Eastern Europe could also begin to generate more captives, but it is likely to be a slow process, said Mr. Reed of Sedgwick.

"There are a lot of obstacles to overcome, which is often due to the regulatory environment, but there are some opportunities there," he said.

A more promising area for Bermuda captive managers is Latin America, Mr. Reed said.

IRM set up captives for Colombian and Venezuelan companies last year, Mr. English said.

However, he added, some captive owners in Latin America may opt to set up captives in Panama, which last year set itself up as a domicile targeting Latin American companies (see story, page 76).

"We have a consultant in Panama, and we are seeing interest in Panama from some clients," Mr. English said.

J&H continues to see interest in Bermuda from Latin American companies, said Shaun A. Reape, senior vp at the captive manager. J&H now manages 12 captives from Latin America in Bermuda, he said.

Six of the Latin American captives are from Mexico. And while J&H formed one of the Mexican captives only last year, there may be a hiatus in new Mexican captive formations due to recent tax changes, said Mr. Gillett of J&H.

Late last year, the Mexican government introduced controlled foreign corporation legislation that took away many tax advantages of captives, he said.

"It will probably cause a pause in the formations because if you were about to form a captive and the tax advantages are taken away, you have to go back and look at the other benefits," Mr. Gillett said.

But the formations should return as the sound risk management reasons for forming a captive remain unchanged, he added. "In every other country where we've seen this type of legislation introduced, we've seen a pause in formations and then they pick up again."

J&H, like several other managers in Bermuda, saw a fall in the gross premiums written despite an increase in the number of captives it manages.

At J&H the reason for the 5.5% fall to $1.6 billion in 1996 from $1.7 billion in 1995, is that several large one-time premium payments were made to some reinsurance captives in 1995, Mr. Reape said.

Other captive managers cite the general soft insurance rates in the market as the reason for downturns in premium volume.

At M&M, gross premiums fell 10.2% to $500 million from $55[illegible] million in 1995.

"Rates are soft so captives are paying less premium for risks assumed," said Mr. Carr of M&M.

Net premiums for some captives are also down as captives take advantage of soft reinsurance rates to cede more of their risks, he said.

Soft rates also contributed to the fall off in premium at IRM, said Mr. English. Gross premiums fell 33.9% to $240 million from $36[illegible] million.

The reduction is also attributable to the winding up of the Hopewell captive reinsurance facility formerly managed by IRM, said Mr. Bradburn of IRM.

The successor facility, Harrington International Insurance Co. Ltd., is being independently managed by its investors, Swiss Reinsurance Co. and Winterthur Swiss Insurance Co.

In addition, Mr. Bradburn cited a growing trend of U.S. companies setting up a second captive in Vermont to manage high-volume business such as workers comp.

Captive owners say it is easier to manage the investments of the captive when they are closer to home, he said.

International Advisory Services saw a 12.4% increase in premium volume to $925 million from $81[illegible] million in 1995, but that was largely due to new business, said Mr. Ezekiel of IAS.

"Most of the premium volume for existing captives is pretty flat

See **Captives** *on page 1*

1995 law sets requirements for Bermuda companies

HAMILTON, Bermuda—Risk managers seeking to establish a captive in Bermuda face a variety of regulatory requirements depending on the risks the captive covers.

Under the Insurance Amendment Act of 1995, insurers and captives are licensed in four classes.

- Class 1 licenses are issued to single-parent captives insuring only the risks of the parent and its affiliates.

Minimum capital for this class of company is $120,000.

- Class 2 licenses are issued to group and association captives that derive no more than 20% of net premiums from unrelated companies.

Minimum capital for this class is $250,000, and the companies have to file an actuarial certification of loss reserves every three years.

- Class 3 licenses are issued to commercial insurers and reinsurers writing third-party business. This includes finite risk insurers and captives with more than 20% of their business from unrelated companies.

Minimum capital for this class is $1 million, and companies must file annual actuarial certifications of loss reserves.

- Class 4 licenses are issued to excess liability insurers and catastrophe reinsurers.

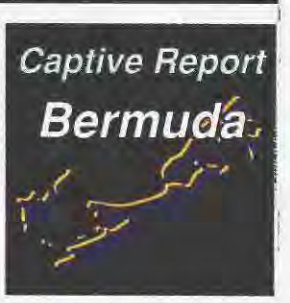
Minimum capital for these companies is $100 million, and they also must file annual actuarial certifications of loss reserves.

Fees for insurers in Bermuda changed April 1.

Previously, all companies paid the same $2,315 registration fee and the $1,155 annual business fee, but now the level of fee varies by the class of license.

Class 1 and 2 insurers pay a $1,500 registration fee and an $800 business fee; Class 3 insurers pay a $2,500 registration fee and a $2,500 business fee; and Class 4 insurers pay a $15,000 registration fee and a $15,000 business fee.

The annual company tax for insurers remains unchanged. The maximum tax is $25,000 for companies with $500 million or more in capital. The minimum tax for any company is $3,360.



Information on incorporating a Bermuda captive is available from the Kymn C. Astwood, Registrar of Companies, Government Administration Building, 30 Parliament St., Hamilton HM 12, Bermuda; 441-297-7574; fax: 441-292-6640.

—By Gavin Souter

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Captives

Continued from page 14
if not reducing," he said.

The Mead Corp. in Dayton, Ohio, still receives benefits from its captive despite the soft market, said Terry A. Reiff, director of risk management.

"We continue to use the captive because of the ceding commission that we get back from the reinsurers. If we didn't have the captive, that would just be gone, so the captive serves as a cost reduction center," he said.

Mead originally set up a captive in Bermuda in 1971, when the island was one of the few captive domiciles available, Mr. Reiff said. When Mead closed the original captive and started a new one in 1987, there was no obvious reason to look for another domicile, he said.

"There was no tax advantage in going elsewhere, so we decided to stay in Bermuda," Mr. Reiff said.

Meanwhile, the Bermuda market continues to reverberate with rumblings surrounding the controversial redomestication of Electric Mutual Liability Insurance Co., the General Electric Co. liability insurance subsidiary that moved to Bermuda from Massachusetts shortly before it went in to liquidation in 1995 (*BI*, Dec. 11, 1995).

While no business has been lost as a result of the episode, Bermuda continues to suffer bad publicity from the incident, captive managers say.

Prior to its relocation, EMLICO had reorganized as part of a plan to separate loss-plagued old liability policies from more profitable, unrelated ongoing business. The poor business was included in the company that relocated to Bermuda.

The relocation resulted in a contentious dispute between EMLICO and its reinsurers, which argued that the liquidation should take place in Massachusetts.

While most managers in Bermuda argue that the relocation was justifiable on business grounds they acknowledge that the controversy surrounding the relocation may have harmed Bermuda's image.

"The discussions going on cast aspersions on Bermuda's liquidation process, which is totally unfair," said Mr. Cossar of A&A. Bermuda's liquidation process is largely based on English law, and the liquidators are independent, he noted.

Among other things, the reinsurers were critical that GE picked the liquidators for its own failed insurer, which is permitted under Bermuda law.

In spite of the controversy, risk managers are not discouraged from using Bermuda as a captive domicile, Mr. Cossar said.

"It comes up in discussions, but I don't think people are shying away," he said.

The EMLICO episode does not reflect badly on Bermuda regulators, said Mr. Reiff of Mead.

"It is an issue for GE and the way it chose to manage things. It is not a domicile issue," he said. BI

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Soft rates bring new products in Bermuda

By GAVIN SOUTER

HAMILTON, Bermuda—The so liability insurance market is creatin more opportunities for risk manage shopping for coverage in Bermuda.

As rates for excess liability and d rectors and officers liability insuranc continue to slump, Bermuda's insur ers are seeing the premium incom from their traditional markets fall.

Bermuda's one-time excess an D&O specialists are softening th blow of the market forces, however, by offering flexible coverage and continuing to add to an array of new products.

Some of the diversification strate gies have been more successful tha others, but by offering more and mor new products and services, mos Bermuda insurers have avoided shar declines in premium income.

Now risk managers traveling t Bermuda can buy a wide range o products, including coverage for: ex cess liability; D&O; professional lia bility; political risk; aviation; exces property; reinsurance; satellites; mu tiyear combined aggregate; employ ment practices liability; wrap aroun punitive damages; currency tradin coverage; and financial insurance.

Some of the additional and flexibl coverages may last only as long as th soft liability market, brokers say. Bu for now, at least, the Bermuda insur ers are eager to please.

And with the addition of Zuric Global Energy Ltd. to offer energ property and liability coverages thi year, the buyers' market looks set t continue in Bermuda.

"Diversification has been the savin grace of the market," said Paul Scop president of broker Park Internation al Ltd. Park added 13 new insuranc accounts last year; nine were for prop erty coverage, he said.

Clients also are showing interest i the non-core liability coverages of th Bermuda insurers, said Michael C Foulger, executive vp at Park. For ex ample, the employment practices lia bility coverage written in Bermud will likely take off this year, he said.

When insurers began to offer th coverage last year, clients were slo to take it up, in part because the thought they had coverage for the ris under other existing policies, M Foulger said.

But with several high-profile an costly employment practices-relate settlements taking place last yea more buyers are interested in the ded icated coverage, he said.

"People presumed that the cove ages in the EPL policies were picke up by general liability and D&O pol cies, but now they are sitting dow and seeing whether they really c cover EPL," Mr. Foulger said.

Buyers are also becoming a lot mo interested in the multiline combine aggregate coverages Bermuda insu ers offer, brokers say.

See **Bermuda** *on page 1*

Captive Report

Bermuda

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X.L. Insurance Co. launched its Risk Solutions product with CIGNA Property & Casualty Insurance Co. last year; it offers large-limit, multiline, multiyear coverage. Other Bermuda insurers have not offered a definitive multiline product, but they have started to offer tailor-made multiline and basket aggregate coverages.

The coverage is attractive to clients that have hard-to-place business, said Sheila Nicholl, vp at J&H Intermediaries, a unit of what is now J&H Marsh & McLennan.

"It works well for clients who have risks that are difficult to place in the market because it gives them access to large blocks of multiyear capacity at a fixed price," she said.

Multiline coverages are proving attractive to clients, agreed Gregory W. Springer, president and chief executive officer of Aon Risk Services (Bermuda) Ltd. "It will be one of the biggest growth areas over the next two to three years," he said.

The products come together with the overall balance sheet protection many risk managers are seeking to establish, Mr. Springer said.

Multiline coverages are not new to the insurance market, several brokers point out. Some insurers offered the coverages in the early 1980s when the liability market also was soft. However, the coverages soon disappeared when the market hardened in the mid-1980s, they say.

While clients must be wary that the multiline products may only last as long as the soft market, there is a greater chance the products will survive a change in the market this time around, said Karen White Lawson at Alexander Howden Group Ltd.

The products are based on net-line capacity rather than relying on a large amount of reinsurance as the old multiline products did, so the customers have a closer relationship with the insurer providing the capacity. Also, the products are multiyear deals, so they are less likely to be disrupted by sudden swings in price, she said.

And at the moment, the only direction excess liability and D&O rates in Bermuda are heading is down, Ms. Lawson said. D&O rates fell about 10% to 15% in the past year as buyers found plenty of capacity around the world, she said.

Bermuda insurers added to the range of products available to clients with X.L. offering primary D&O coverage, which it calls IDOL, and ACE offering a pared-down version of its own primary coverage, which it calls ACE Plus.

But with the plentiful capacity available, demand for the new products is limited, brokers say. In particular, clients have shown little interest in ACE Plus, as it does not offer the broad coverage many clients are seeking, said Ms. Lawson.

The product has suffered from the overall market conditions, agreed Mr. Scope of Park.

"Some clients like it, but it came at a particularly tough time in the D&O market," he said.

Excess liability rates are seeing even steeper falls, brokers report.

In particular, energy liability rates are dropping by about 20% in Bermuda, they say. But this is still short of the 40% to 50% reductions that can be found in the London market.

In general, excess liability rates are falling 15% to 20%, said Mr. Springer of Aon.

The current market is as soft as it was in 1983-84, said Colin C. James, president and CEO of Atlantic Security Ltd. "Buyers are dictating prices and terms. . .prices are down about 20% on average, but it depends on the class and how much the buyer pushes," he said.

X.L. Insurance Co.

X.L. is stepping up its expansion strategy to embrace the purchase of outside books of business, investing in an investment management company to help it develop financial products, as well as offering new products on its own and in conjunction with ACE.

The broader strategy follows three years of diversifying product lines, usually to ones related to its core excess liability and D&O business.

Over the past year, X.L. bought two rivals' books of business. First, it acquired the rights to renew the business of the American Excess Insurance Assn., and then it bought Railroad Assn. Insurance Ltd.

AEIA has 120 contracts, and X.L. is renewing about 60% of the contracts as they expire, said Brian M. O'Hara, chairman and CEO.

The amount it pays in the AEIA deal will depend on how many accounts it renews. Although X.L. will have first bite at the accounts, it still will have to compete for the renewal with other insurers, including Bermuda rival Starr Excess Liability Insurance Co. Ltd., which last year brought on Clinton N. Greene—the former president of AEIA's management company—as senior vp.

In the RAIL deal, X.L. took on $22 million in three-year prepaid coverage for railroads in the mutual insurer.

Another X.L. investment was the purchase of 30% of Pareto Partners, an investment management firm with operations in London and New York. X.L. will use the expertise available at Pareto to develop insurance products to cover financial risks, including coverage for currency risks, Mr. O'Hara said.

The financial products will likely be offered through X.L.'s Risk Solutions product.

So far, Risk Solutions has six full policyholders with a total $25 million in gross written premium. Another eight have purchased property coverage under the program with the intention of including other lines as their existing insurance contracts expire, Mr. O'Hara said.

This in part accounted for X.L.'s dramatic 122% increase in gross property premiums to $40.7 million in 1996 in 1994.

Risk Solutions provides $600 million in combined single aggregate annual limits, up from $400 million last year, and $300 million per occurrence up from $200 million last year. The programs run for three- to five-year terms.

Originally, only X.L. and CIGNA covered the programs. Now other insurers can be included on the program along with X.L. and CIGNA.

"Since we launched the joint initiative it has become apparent that our capacity isn't enough to complete all of the programs, and additional partners were needed," said Robert J. Cooney, president and chief operating officer of X.L.

Also, policyholders who had existing relationships with other insurers wanted to include them in the program, he said.

The program frequently has replaced X.L.'s existing multiyear program, MAXL, he said.

X.L. continues to offer MAXL and

See **Bermuda** *on page 2*

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Captive Report

Bermuda

Continued from page 18

this year introduced a deferred-premium option for the product. Policyholders can pay the premium at the end of the three-year term if no losses are reported during the policy term. Policyholders that choose this option must pay an annual interest payment, currently 6.5%.

Another product X.L. began to offer last year was EPL insurance with limits of $100 million excess of $1 million. So far, 17 policies have been sold.

"We've had to be very selective," said Mr. O'Hara. "We've declined a good number of accounts where the risk management procedures were not good enough and there was an accident waiting to happen or it had already happened."

Last year, X.L. also started offering first-dollar primary D&O coverage with $50 million in limits. The product, called IDOL, is similar to ACE's CODA coverage.

While X.L. and ACE compete in the D&O market, the latest product to be offered by both companies is a combined political risk product with Risk Capital Reinsurance Co. (*BI*, March 10). The three companies formed Sovereign Risk Insurance Ltd. to offer limits of $50 million per project and $100 million per country. ACE and X.L. will underwrite 45% of the risk each, and Risk Capital will underwrite 10%.

Bermuda brokers report strong initial interest in the new product.

Another example of the sometimes close relationship between ACE and X.L. was seen earlier this year when the two won government approval to develop a new office building on the site of the former Bermudiana Hotel in Hamilton.

X.L.'s established excess liability and D&O coverages saw little growth in 1996 due to the soft liability insurance market, said Mr. O'Hara.

Gross premiums for general liability in 1996 fell 3.3% to $432 million. D&O gross premiums increased 11.3% to $27.6 million.While rates have fallen in most markets, X.L. has avoided drastic rate reductions by attaching at a higher level, he said.

"We don't think it's a bad trade-off to give up a little premium in return for moving a little further away from the risk of loss," Mr. O'Hara said.

The soft market also has hit COAXL, the insurer's less extensive liability product for smaller companies, he said. The product has seen little demand since its launch in 1994.

Overall, X.L.'s gross premiums increased 4.5% to $729.4 million in 1996. After adjusting for multiyear premiums, gross annual premiums edged up a little more than one-hundredth of 1% to $590 million in 1996.

The favorable investment market helped push net income up 48.5% to $494.3 million.

In the future, X.L. expects to see more business from new offices opened in foreign markets. In late 1996 its reinsurance arm, X.L. Reinsurance Co. Ltd., opened a contact office in London, and early this year X.L. opened an office in Sydney.

ACE Ltd.

ACE's strategy in 1996 followed its now-familiar line of diversification.

Compared with its excess liability specialist beginnings in 1985, ACE now covers a broad spectrum of risk in a variety of locations and through several different vehicles.

The insurer writes liability, property, aviation, satellite, and financial lines in its main office in Bermuda; through its acquisition of Tempest Reinsurance Co. Ltd. it writes property catastrophe reinsurance; in London, it has its own contact office as well as one of the largest corporate holdings in Lloyd's of London; and later this year it expects to diversify further in Europe by opening a Dublin office.

"1996 was a terrific year for us, because we saw our new lines of business come to fruition, and we acquired our whole Lloyd's operation as well as Tempest," said Brian Duperreault, chairman, president and CEO.

But it was not all smooth sailing. The company had to beat off a last-minute rival bid for Tempest; it has lost satellite underwriters to another rival; it failed in its attempt to place a capital markets-based line of reinsurance; and, like other liability insurers, ACE is watching premium income fall on its excess liability and D&O accounts. Despite those setbacks, ACE is now a stronger company than when it depended solely on its original lines of business, Mr. Duperreault said.

One of the main events in 1996 for the company was its investments in Lloyd's. ACE bought Methuen Group Ltd., which has six syndicates, and it acquired seven of the nine former Sturge syndicates managed by Ockham Holdings P.L.C., including two of the largest aviation syndicates in Lloyd's.

In 1997, ACE will control more than £750 million ($1.26 billion) of capacity at Lloyd's.

Although Lloyd's has suffered numerous problems over the past several years, the market is well-positioned for the future, and the syndicates ACE now controls were well-managed even during the bad times at Lloyd's, Mr. Duperreault said.

"The two organizations have excellent underwriters who had done well in spite of the conditions at Lloyd's, and those are the kind of people we want in the company," he said.

William J. Loschert, the former head of underwriting at ACE, will head the Lloyd's operations. He moved to London last year to become chairman of ACE UK Ltd.

Mr. Loschert has a reputation in Bermuda as a strong manager. However, ACE does not plan to make the Lloyd's operations a clone of the Bermuda operations, Mr. Duperreault said.

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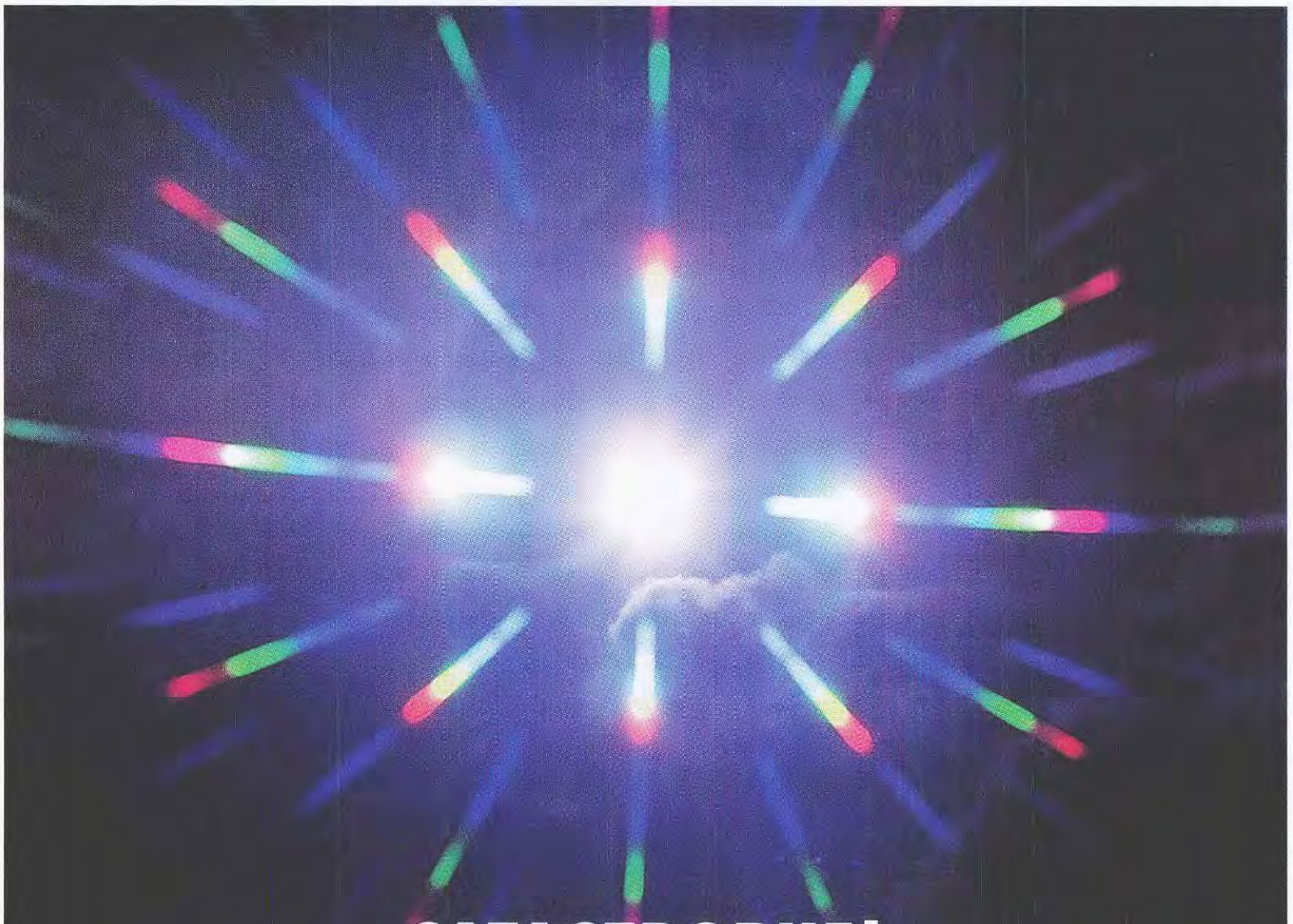

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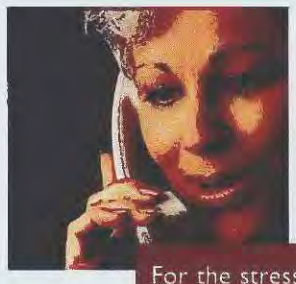

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Captive Report

Bermuda

Continued from page 20

"The active underwriters will manage their own syndicates within our overall business plan. . .we don't want to lose the entrepreneurial spirit you find in Lloyd's," he said.

ACE also entered the Bermuda property catastrophe reinsurance market last year through the purchase of Tempest for about $950 million. However, ACE had to fight off a last-minute bid from rival Bermuda cat reinsurer International Property Catastrophe Reinsurance Co. Ltd.

Overcoming the IPC offer was the first of a few problems ACE faced over the past year.

Earlier this year, ACE lost most of its satellite underwriting department to the Brockbank Group P.L.C., a Lloyd's managing agency in which Bermuda-based reinsurer Mid Ocean Reinsurance Co. Ltd. is the majority owner. Chuck Rudd, former senior vp for satellite underwriting and his underwriting staff, Inken Gerlach and Jeff Sadler, all joined the rival in London. ACE still is writing satellite business, and it will replace the staff, Mr. Duperreault said. For now, the business is being written using other resources in the company, including satellite underwriters in London.

Another hiccup in ACE's plans was the failure of a catastrophe-linked bond last fall that would have provided additional property reinsurance coverage for ACE.

The $25 million to $30 million bond offering arranged with Goldman Sachs was to have offered a yield of about 7.75% if industry losses did not exceed a set amount. ACE would not reveal why the issue failed, but the company plans to continue investigating securitization deals.

ACE also has faced a common foe of many insurers: the soft liability insurance market.

"There is a lot of capacity out there, and it affects us in a very particular way because we are at the top of most placements," Mr. Duperreault said.

Like X.L. and Starr, ACE is attaching to programs at higher levels and is exposed to less risk but also takes in less premium as a result of the shift.

Net premiums for excess liability fell 15.4% to $202.3 million in 1996.

The D&O market also remained competitive in 1996, and despite the launch of a new pared-down coverage for smaller companies, ACE Plus, net premiums fell 7% to $97.6 million.

But ACE did see substantial growth in many areas it entered in 1995. For example, excess property premiums grew to $13.9 million from $5.3 million, and financial lines rocketed up to $119.2 million from $9.2 million.

The financial lines products often include finite risk insurance but are tailor-made to fit client needs, Mr. Duperreault said.

Overall, ACE's net premiums leapt 41.9% to $602.7 million in 1996. Net income increased 21.9% to $289.7 million.

ACE also increased the amount of reinsurance it buys. Ceded reinsurance premiums increased 118% to $43.1 million. The reinsurance is mainly for property and aviation risks.

In 1997, ACE may derive more business from Europe as it will likely open an office in Dublin, Mr. Duperreault said.

ACE formed a reinsurance captive in Dublin in early 1995 (*BI*, April 24, 1995), but a larger operation will likely be opened there this year, he said.

Starr Excess Liability Insurance Co. Ltd.

Starr increased its premiums, capacity and product line in the past year.

But while the company has grown in successive years since its debut in 1993, that growth has slowed in the first few months of 1997 as energy rates in particular have tumbled, said Mr. Greene, senior vp.

Firmer pricing in professional liability, employment practices liability and other liability lines may help compensate for the drop in excess and D&O rates and fuel premium growth, he said.

Also, renewing business available to the market from AEIA, which Mr. Greene formerly managed before it was wound up, also may boost premiums this year, he said.

"The market is very difficult at the moment," Mr. Greene said.

Starr itself has contributed to the competitiveness in the market by increasing its excess liability limits to $150 million excess of $25 million for most programs from $100 million excess of $50 million. Starr also dropped its D&O attachment point to $25 million from $50 million, but it continues to offer $50 million in limits for D&O.

In addition to the increased limits, in February Starr launched a formal, follow-form professional liability policy.

In the last six months of 1996, Starr wrote $4 million in professional liability premiums on a manuscript policy, and its success prompted the insurer to offer the coverage on a more formal basis, Mr. Greene said.

"We've been able to write quite a bit of professional liability business on good terms," he said.

Starr writes limits of $25 million excess of $25 million for professional liability business. The coverage is offered to non-bank financial service companies and other miscellaneous professional liability risks, but not to higher-risk banking professionals, architects and engineers, lawyers and accountants.

The insurer also writes professional liability and D&O business on a combined aggregate basis, Mr. Greene said. In the combined contracts, the professional liability exposure has a sublimit of $25 million, or the limit for the whole policy is $25 million.

Starr also writes some EPL business, but it does not yet have a formal EPL policy.

Starr also is increasing the number of three-year policies it writes as more clients look for long-term coverage, Mr. Greene said.

Overall, Starr's gross premiums increased 15.9% to $116.7 million in 1996.

Almost 75% of the business was derived from the United States, and 10.4% was derived from Britain.

Excess liability premiums increased 10.4% to $106.1 million in 1996, and D&O premiums increased to $6.1 million from $4.6 million.

The company also drew down a further $100 million in capital from its shareholders to write its increased limits. Starr now has $263.2 million in shareholders equity and a further $300 million available to be called from shareholders.

Chubb Atlantic Indemnity Ltd.

Taking a flexible approach to nontraditional coverages is proving to be the key to success for Chubb Atlantic Indemnity Ltd.

By offering coverages not available

See **Bermuda** *on page 24*

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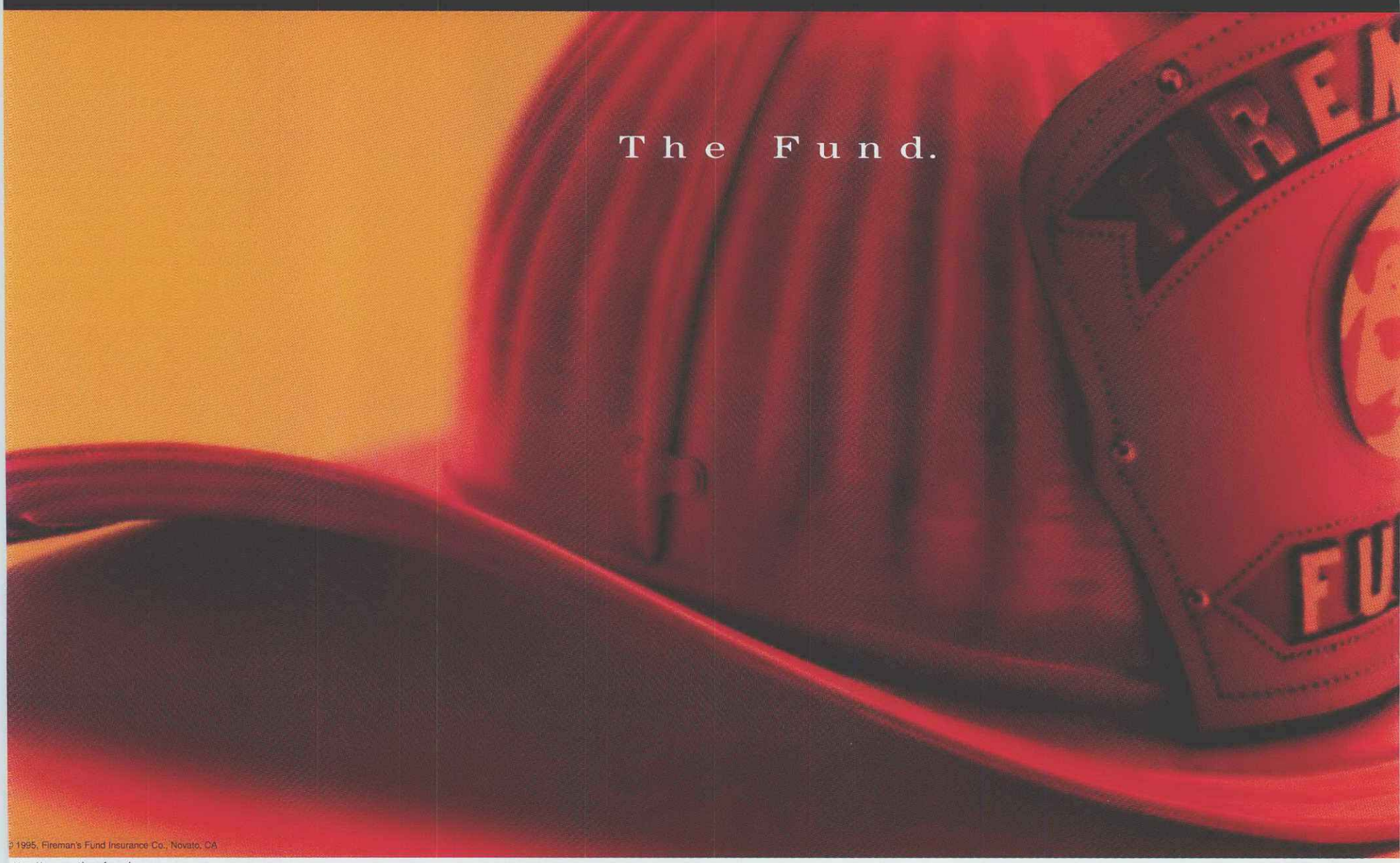

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Bermuda

Continued from page 22

to Chubb Corp. clients in the United States, the Bermuda subsidiary has enjoyed strong premium growth since it set up in 1994.

And increasingly, Chubb Atlantic is writing more business coming to the Bermuda market that has no connection to its parent in Warren, N.J., said R. Lincoln Trimble, vp, underwriting manager property/casualty. Thirty percent of the business it writes is unrelated to Chubb Corp.

But coverage for Chubb clients that cannot be written in the United States is the core business for Chubb Atlantic.

In particular, wrap around punitive damages coverage is popular with U.S. clients, Mr. Trimble said.

The demand is fueled by the inability of policyholders to buy the coverage in the United States, as 24 states are either undecided or have ruled against allowing punitive damages to be insured, he said.

Like other Bermuda liability insurers, Chubb Atlantic is seeing an increase in demand for multiyear, multiline, single aggregate coverages, he said. "Often it is for D&O and E&O coverages but we will consider any combination of lines," Mr. Trimble said.

Indeed, brokers report that Chubb is the most flexible liability writer in Bermuda. That flexibility has helped push gross premiums up 53.1% to $17.3 million in 1996.

Chubb Atlantic also is attracting more business since it increased its limits to $50 million from $25 million in October last year, Mr. Trimble said.

Future growth at Chubb Atlantic will likely center on other coverages difficult to place in the United States, such as a secondary product recall policy, he said. "We get approached all of the time to do things that are just hard to place, and as long as they make sense, we are willing to take a look," Mr. Trimble said.

Due to the insurer's growth, Chubb Atlantic will have its first president based on the island this year when Christopher Longo moves down from Warren, N.J. He formerly was manager of the worldwide umbrella department.

Lexington Insurance Co.

The soft liability market and the increase in capacity at other insurers on Bermuda led to a drop in gross premiums at Lexington Insurance Co.'s Bermuda branch.

Lexington's Bermuda premiums fell 40% to 60% to $2 million to $3 million last year, said President Kevin Kelly. And as the insurer was writing little business on the island, it pulled its underwriter, Kevin Moss, back to the United States. He still travels to Bermuda when he needs to write business there.

Lexington offers $25 million excess of $25 million in liability capacity. It will consider some risks excess of $15 million, but the market is so soft there is little opportunity to write much good quality traditional excess liability in Bermuda, Mr. Kelly said. "We'll maintain a low profile, but we are there for the long term," he said.

Oil Insurance Ltd.
Oil Casualty Insurance Ltd.

Oil Insurance Ltd. had a good year in a difficult market, says Jon R. King, president and CEO of the mutual energy insurer.

The main reason for the good results was an absence of any large losses. The company wrote little new business.

Net premiums written at OIL for 1996 fell 29.9% to $101.7 million. However, as the premium plan is designed to recover losses on a retrospective basis, reductions in premium are welcomed, Mr. King said.

OIL suffered only two losses in 1996, for which a combined $5.5 million loss reserve has been established.

The lower premium level led to a 23% decrease in net income to $39.7 million.

During the year, the company added one client, taking the total to 45.

The most significant change at OIL over the past year has been the increase of the maximum annual aggregate limit to $450 million from $337.5 million. The increase reflects the need for higher limits due to the growth in formations of large joint ventures, Mr. King said. The maximum per-occurrence limit remains $225 million.

Oil Casualty Insurance Ltd.'s gross premiums edged up 1.4% to $42.2 million in 1996. Net income fell 17.6% to $16.8 million from $20.4 million in 1995. Losses and loss expenses declined 62% to $5.8 million in 1996.

During the year, the company put on six new members, while one company left and several members merged, so the number of members edged up to 66 from 64 in 1995.

In 1996, OCIL increased the limits to customers that pay flat premiums to $100 million from $75 million. Customers that pay on a retrospective basis already can buy up to $100 million excess of $50 million.

The change, along with the soft liability market, led to an increase in the average attachment point of members, Mr. King said.

D&O limits are $50 million excess of $25 million.

TOPS Insurance Ltd.

TOPS Insurance Ltd. had another static year in 1996, as there were no major offshore property losses.

The affiliate of OIL and OCIL writes total loss coverage for 16 member companies with offshore production platforms.

The coverage is designed to cover losses similar to the Piper Alpha loss in the North Sea in 1988. It offers $70 million in limits.

Gross premiums fell 42% to $8 million in 1996 from $14 million in 1995, because of a reduction in limits at TOPS in 1996 and then an increase in limits at OIL, said Mr. King.

Zurich Global Energy Ltd.

The latest addition to the energy insurance market in Bermuda is Zurich Global Energy Ltd., a unit of Zurich Insurance Group.

The Bermuda office, which set up last year, is one of seven underwriting offices the Zurich energy business unit has worldwide.

Zurich Global Energy offers $75 million in limits excess of $25 million for liability risks and $100 million excess of primary policies for property risks, said Cathy Duffy, senior vp.

Zurich Global Energy will follow the forms of other insurers in Bermuda, she said. "We are trying to complement the market rather than come up with another form that people will have to learn," Ms. Duffy said.

The insurer offers multi-year programs and blended programs as well as traditional coverages. BI

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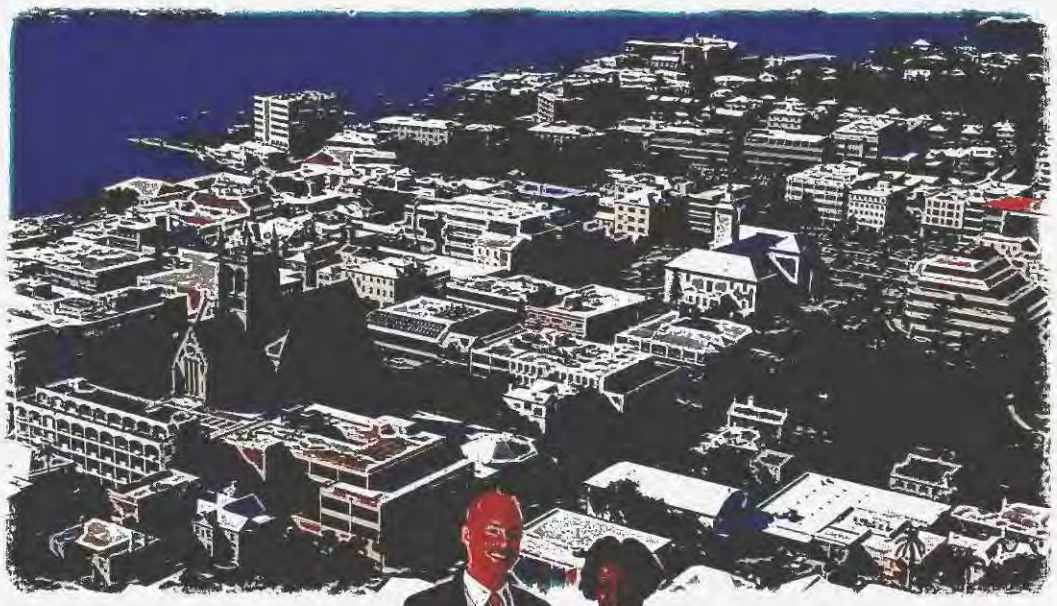

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TUNE IN

Captive Report

Bermuda rent-a-captives popular despite soft market

By GAVIN SOUTER

HAMILTON, Bermuda—Rent-a-captive facilities in Bermuda are continuing to attract significant amounts of new business.

Despite the soft liability insurance market, policyholders are still attracted to the prospect of benefiting from their own favorable loss records, captive managers say.

And though workers compensation insurance and other liability lines are unlikely to experience significant rate increases this year either, the outlook for rent-a-captive facilities remains good, they say.

One cloud on the horizon is the U.S. Internal Revenue Service's investigation of Bermuda's largest rent-a-captive, the Insurance Profit Center.

In its 10-K last month, Mutual Risk Management Ltd., the group that owns IPC parent Mutual Indemnity, acknowledged the IRS is investigating MRM's calculation of its clients' related party insurance income for 1993 and 1994.

Rent-a-captive members often claim tax deductions for income related to their parent companies. They may claim deductions if as little as 30% of their income comes from related party business.

In its 10-K, MRM says: "The company believes that its calculation of RPII was materially correct in both years. In addition, any adjustment made by the IRS would affect the company's clients and not the company directly."

All the members of IPC have different characteristics and structures, so it is difficult to determine a broad-brush approach to the taxation liability for IPC members, said Paul D. Watson, president of Mutual Indemnity.

Few of the IPC members join solely for tax reasons, he said.

Outside the IRS audit, IPC had another good year in terms of new business, but decreasing workers comp rates kept premiums from growing, Mr. Watson said.

The number of clients grew to 450 from 398. About half the programs are active, and half are in runoff.

"The new accounts were pretty much from all over the U.S., but we've seen particularly strong growth on the East Coast," Mr. Watson said.

Gross premiums slipped 3% to $161.8 million, largely due to falling workers comp rates, he said.

"A lot of states are putting through rate decreases, so we are writing the same accounts, but we are not getting the same premium," Mr. Watson said.

While traditional workers comp accounts remain the core business of IPC, more varied lines also are being placed into the programs, he said.

For example, more clients are forming programs for combined automobile liability and general liability risks, Mr. Watson said.

And the level of agent and broker program business is also increasing, he said. "They are finding that the market is very competitive, and this is a way for them to maintain their profitability," Mr. Watson said.

Skandia International Risk Management Ltd. saw more interest in its rent-a-captive than it did in single-parent captives in 1996, said President Nicholas S. Dove.

Membership in the facility, SINSER Insurance Ltd., grew to 19 in 1996 from 11 in 1995. Three more members have joined so far this year, he said.

"Smaller companies are suddenly discovering that they can get involved in self-insurance and alternative risk transfer mechanisms," Mr. Dove said.

The new members in 1996 included a religious association and health care associations, and this year added a race horse association, he said.

"Rent-a-captives are particularly attractive to associations, because it is difficult for them to raise the money for their own captive," Mr. Dove said.

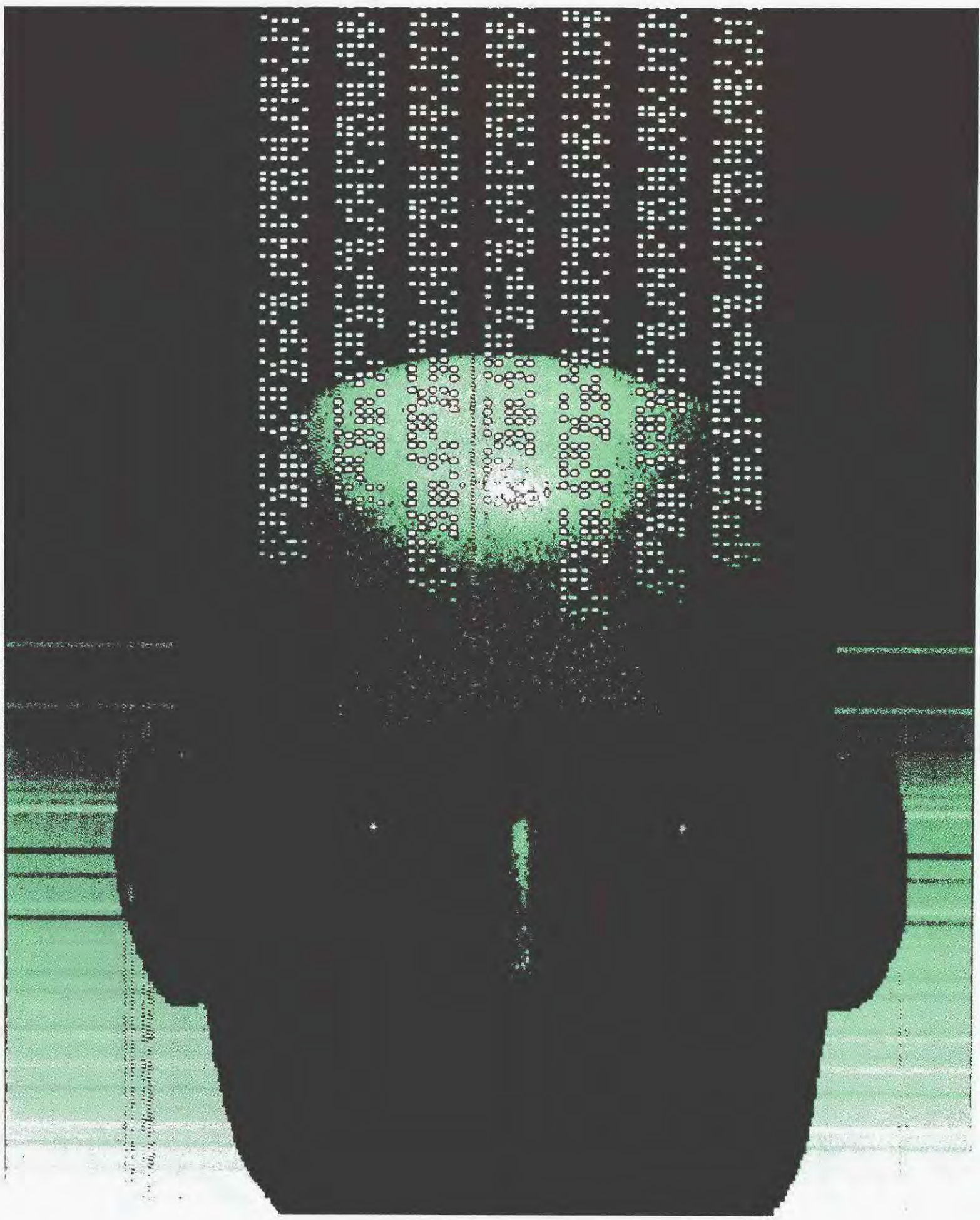
Universal Re-Insurance Co. Ltd., managed by Atlantic Security Ltd., added three new members in 1996, bringing the total to 29, but gross premiums remained little changed at about $25 million, said Hal Forkush, president of Universal.

The three new members include two employee leasing companies and one auto dealer, he said. All of them cover workers comp risks.

Gross premiums for Universal International Reinsurance Co. Ltd. increased to $20 million in 1996 from about $15 million in 1995. The facility, which has 15 members, is used for programs that want to be taxed as U.S. corporations.

Hanseatic Insurance Co. saw strong growth, with premiums increasing to $7 million from $5 million, said Colin C. James, president and CEO of Atlantic.

Continued on next page



Continued from previous page

Several of the 12 members of Hanseatic have seen premiums grow as a result of programs used to reinsure letters of credit for U.S. companies involved in foreign trade, he said.

Magna Carta, a conventional rent-a-captive covering risks from the West Coast, saw premiums grow to $2 million from $1.6 million in 1996, Mr. James said.

BF&M Management Ltd. saw no growth at its rent-a-captive, Fortress Insurance Co. Ltd., which maintained its seven members but added no new ones, said Irmgard Viera, vp of Fortress.

A combination of the soft market and the decision by BF&M not to aggressively market the facility caused the stagnation, she said.

Hurst Holme Insurance Co. Ltd. lost one account, bringing the total members down to 15. But gross premiums increased 13.2% in 1996 to $12 million.

Existing members of the rent-a-captive are placing more business into the facility as they become more familiar with the advantages of rent-a-captives, said David Ezekiel, president and managing director of facility manager International Advisory Services Ltd.

Pennsylvania Manufacturer's International added two new programs, bringing the total to eight in 1996, said Peter J.N. Strong, president and director of facility manager Independent Management Group Ltd.

"It's growing slowly but surely, and it seems to be working well for the members," he said. BI

Cayman Islands look to grow beyond medical malpractice

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—With no more uncertainty over who will oversee insurance regulation in the Cayman Islands, captive managers and regulators are optimistic about continued growth in the world's second-largest captive domicile.

While Cayman continues to be known as a mecca for medical malpractice captives, leading captive managers are successfully recruiting captives writing other lines of business.

Regulators and managers say new captives being licensed in Cayman are a mix of workers compensation, general liability, accident and health, product liability, and medical malpractice companies.

In addition, captive managers are finding opportunities in revived rent-a-captive and life and annuity markets. They also are helping reinsurers and insurers tap the capital markets and are looking to expand Cayman's reach to other parts of the world.

Overall, Cayman licensed 41 new companies in 1996, bringing the island total to 418 at year end. Another 10 captives have been licensed so far in 1997.

Most of the companies are single-parent and group or association captives that primarily insure members' risks. Less than 50 of the 418 companies are open-market companies that primarily write third-party business and are more strictly regulated, said William N. McCullough, the new head of insurance supervision (see related story).

Cayman lost 13 captives in 1996, mainly as a result of consolidation, with a few voluntary liquidations resulting from inactivity, Mr. McCullough said.

Premium volume for Cayman captives increased about 10% in 1996 to roughly $1.9 billion, he estimated. Exact figures have yet to be determined.

"The captive movement is as strong as ever," noted Wayne A.M. Cowan, senior vp for Johnson & Higgins (Cayman Islands) Ltd., Cayman's largest captive manager. "That's the fascinating thing: In a soft market, captives are forming at quite a considerable rate."

J&H added 19 new captives in 1996, bringing its total of true captives under management to 98.

With Marsh & McLennan Cos. Inc.'s recent acquisition of J&H, the combined captive management company will be an even bigger powerhouse in Cayman, with more than 130 captives under management and nearly $600 million in premium volume based on year end 1996 figures.

"Even with the soft market, there are still opportunities out there; it's a matter of finding them," agreed Tim Byrne, vp of Willis Corroon Management (Cayman) Ltd. Since its formation 3½ years ago, Willis has added 23 captives: three new ones in 1996 and four new ones so far in 1997. Two captives moved to other managers in 1996.

Ian Kilpatrick, president of Crusader International Management (Cayman) Ltd., said, however, that while Cayman had an active year overall, most of the new business is "going to big-named brokers who have the task force over in the U.S."

See **Cayman** *on next page*

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Captive Report

Cayman

Continued from previous page
to help bring in business.

Crusader added three new captive companies in 1996 that are funding workers comp, general liability and automobile liability risks. Crusader manages 13 captives and saw a 3% rise in premium volume in 1996 to $64 million.

While medical malpractice captives continue to be Cayman's stronghold, captive managers are also attracting other lines of business.

According to the Monetary Authority, Cayman's new regulatory body, medical malpractice captives represented 34% of the island's captives at the end of 1996. While the total number of medical malpractice captives is up by four to 144, its proportion of the market is down from 36% in 1995.

Workers comp, general liability, and accident and health companies all increased Cayman presences in 1996.

"Although Cayman is the top domicile for health care-related captives, we don't see ourselves catering exclusively to that group," said John M. Pitcairn, vp of Mutual Risk Management (Cayman) Ltd. "It makes up 35% to 40% of the business (at MRM), but new business tends to be across the board."

MRM added three new captives in 1996, and premium volume increased 35% to $87 million.

After years of promoting medical malpractice business, J&H is "trying to promote" the setup of association or group captives among small and midsized companies—those with less than $1 million in premium and typically without the necessary capital to form their own captives, Mr. Cowan said.

"Workers comp, property, and automobile liability are the major risks we look at with smaller companies," he said.

"Medical malpractice is our bread and butter, and we're keen to continue that, but we have to look outside. . .to a whole myriad of different business," he said.

In addition to attracting new lines of business, many captive managers are looking to rent-a-captive facilities for growth opportunities.

"The market is changing," noted Anthony B. Stelling, director of Midland Bank Trust Corp. (Cayman) Ltd. More U.S. companies "are aware of captives even if they are not big enough to have their own captive." These companies understand entering into group or rent-a-captive arrangements is a way to obtain more financial benefits from their insurance programs.

"There is tremendous interest in the rent-a-captive field," Mr. Stelling said. "This is probably going to be a new growth area for the island."

While Midland does not own a rent-a-captive facility, "We have two companies that are in the rent-a-captive field that are just about ready to take on business," he said.

Midland added six new captives in 1996, predominantly medical malpractice companies, bringing its total under management to 75. Premium volume remained basically flat at $230 million.

International Risk Management (Cayman) Ltd. is managing two new rent-a-captive facilities licensed at the beginning of 1997, said its president, John R. Lower.

- Safety National Re insures workers compensation, general liability, product liability and automobile liability risks for 10 clients.

The rent-a-captive will write an estimated $10 million in gross premiums in 1997, Mr. Lower said.

Safety National Re's fronting insurer is Safety National Casualty Corp.

- Gulf Re also was formed at the beginning of 1997. It insures, among other risks, workers comp, dental and group life and disability, for 10 clients. Clients include third-party administrators, health care providers and managed care organizations.

Gulf Re is expected to write an estimated $3 million in gross premiums in 1997, Mr. Lower said.

Due to the increased interest in rent-a-captives, MRM's Mr. Pitcairn, who is chairman of the Cayman Insurance Managers Assn., said his goal this year is "to develop legislation to specifically attract rent-a-captives to the Cayman Islands."

Mr. McCullough said he also wants to strengthen the island's policy on rent-a-captives—specifically policies concerning segmenting accounts.

Regulators are concerned that if a rent-a-captive does not segment its accounts, one troubled company can adversely affect the entire captive, Mr. McCullough explained.

Many captive managers also are pursuing new interest in life and annuity business.

"In the last 12 months, I've seen a lot of inquiries for life and long-term business, and I'm not just seeing it from North America, but from Europe and Central America," said Seamus Tivnan, general manager of Marsh & McLennan Management Services (Cayman) Ltd. M&M added one new medical malpractice captive in 1996, bringing its total number under management to 34. Premium volume increased 30% to $83 million.

Other captive managers are taking advantage of increased interest in tapping capital markets to fund risk.

Major worldwide insurers and reinsurers are looking to capital markets to help extend their capital bases and hedge their catastrophe risks, Mr. McCullough said.

As many as five new companies have applied to form captives using capital markets. Some have been approved; some are under review, Mr. McCullough said.

"We see this as a tremendous potential for the reinsurance market, and it's great potential for Cayman to develop this type of business as it did with medical malpractice a couple of decades ago," Mr. Stelling said.

Midland Bank, for instance, is working with two catastrophe bond programs, he said. The companies, which were incorporated in 1996 but have yet to start business, are set up on behalf of one insurer and one reinsurer and are funding catastrophe risks.

Similarly, a "single purpose vehicle" was formed late last year to provide increased capacity for The St. Paul Cos. Inc.'s short-term property risks, said Mr. Cowan of J&H, which is managing the new company, called Georgetown Re.

St. Paul, with the assistance of Goldman Sachs, issued bonds to private investors to raise the capital.

In addition to attracting new lines of business to the island, regulators and captive managers are setting their sites on attracting new business from other parts of the world.

Cayman, 500 miles south of Miami, always has attracted primarily U.S. captive owners. While this will most likely continue, regulators and several managers are trying hard to attract business from other countries.

Recently, some companies have been formed in Cayman that have Far East owners, Mr. McCullough said. "I'd like to see the rest of the countries opening up."

To help in this quest, the government last year went on "a road show to spread the word a little bit" about Cayman to Hong Kong and Asia, Mr. McCullough said.

Part of this involves explaining the advantages of Cayman.

"Our flexibility and interpretation of regulation makes Cayman attractive," he said. However, "I think one of the big factors is that you can speak here to the decision-makers" quite easily. "We do all of our applications and licensing based on a business plan, which makes it so much easier" for individual captives, he said. "We look at the company's net worth, but we want the business plan to understand the whole basis of submission and how the company will work."

This year, Mr. McCullough plans to attend the Risk & Insurance Management Society Inc. annual conference and exhibition in Atlanta and its equivalent meetings in Europe, Australia and South America "to explain our position."

Captive managers have their sights set on Latin America for future growth.

"We've concentrated really on Mexico and Latin America," said J&H's Mr. Cowan. "Our feeling is European

See **Cayman** *on page 3*

Largest managers of Cayman captives

(Ranked by premium volume in millions of dollars)

Manager	Premium volume 1996	Premium volume 1995	Captives 1996	Captives 1995	Staff 1996	Staff 1995
Johnson & Higgins (Cayman Islands) Ltd.	$501.7	$533.1	98	92	37	34
International Risk Management (Cayman) Ltd.	413.0	330.0	32	32	21	20
Willis Corroon Management (Cayman) Ltd.	283.0	52.0	19	18	4	4
Midland Bank Trust Corp. (Cayman) Ltd.	230.0	236.6	75	69	29	29
Cayside Insurance Management Ltd.	90.8	107.3	15	14	3	3
Mutual Risk Management (Cayman) Ltd.	87.0	64.0	43	40	5	5
Marsh & McLennan Management Services (Cayman) Ltd.	83.0	64.0	13	10	6	4
Crusader International Management (Cayman) Ltd.	64.0	62.0	13	10	8	8
Caledonian Bank & Trust Ltd.	55.2*	49.6	16	15	5	5
Chandler Insurance Management Ltd.	22.3	19.6	9	8	3	3

*Estimate. Source: *BI* survey

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to

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Prudential Insurance Company of America

The undersigned acted as advisor to London Insurance Group

LEHMAN BROTHERS

ISO

Insurance Services Office, Inc.

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Florida Hurricane Catastrophe Fund

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American Annuity Group Capital Trust I	$75 million Capital Securities
Hartford Capital II	$500 million Capital Securities
Lumbermens Mutual Casualty Company	$400 million Surplus Notes
MBIA Inc.	$289.3 million Common Stock
Orion Capital Trust I	$125 million Capital Securities
RenaissanceRe Holdings Ltd.	$84 million Common Stock
Transamerica Capital I	$100 million Capital Securities
Transamerica Capital II	$225 million Capital Securities
Travelers/Aetna Property Casualty Corp.	$200 million Notes
Travelers/Aetna Property Casualty Corp.	$500 million Notes
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Cayman

Continued from page 28

business will migrate to Dublin, Isle of Man or Guernsey. We've seen a bit of progress out of Mexico, but in Latin America, it's going to be a longer time," he said.

Latin America will be an opportunity for Cayman in the future, agreed MRM's Mr. Pitcairn. However, "The market there is getting used to regular insurance. It will take further time before it gets used to self-insurance and captives."

For instance, when talking to Latin American businesses, "We don't discuss why Cayman is better than Bermuda; it's more, 'This is what a captive is,'" Mr. Pitcairn said.

Incidentally, "Cayman does have a couple of advantages for Latin American business," he noted. "With 580 banks, we already have the infrastructure that deals with Latin America, so those businesses can use the same bank." The proximity of Cayman also is an advantage, he said.

Indeed, according to several of the 24 licensed managers in Cayman, the domicile's stable, flexible approach toward regulation within a tax-free environment attracts many companies to the island.

Not only will Cayman license companies quickly if they have solid business plans, it also has one of the world's largest and most developed financial infrastructures. Nearly 600 banks, several major law firms with captive expertise and all the Big Six accounting firms have offices on Grand Cayman.

"You can get everything done you have to in a couple of days," Mr. McCullough said.

Indeed, the short turnaround time was attractive to Peter Trapp, director of insurance and dealer support services for Ford Motor Credit Co. in Detroit, which formed Vista General Reinsurance Ltd. in late 1995 to write credit life and disability coverage.

Mr. Trapp said he was impressed by the "extremely friendly environment" in Cayman. "They are very interested in business and have a very favorable business environment."

Clearly, its proximity to the United States also is attractive, he said.

Willis Corroon Management manages Vista Re, and as a result, Willis' premium volume jumped more than 400% to $283 million in 1996. BI

Cayman welcomes changes in regulator, regulatory body

By SALLY ROBERTS

GRAND CAYMAN, B.W.I.—The appointment of William McCullough as head of insurance supervision and the establishment of the semi-autonomous Monetary Authority in the Cayman Islands has captive managers relieved and optimistic.

A measure of uncertainty surrounded the island domicile last year as many waited to see who would fill the void created in July when John Darwood, the island's deputy inspector of insurance since 1993, left to become senior adviser in the Insurance Division of the Guernsey Financial Services Commission.

That concern was resolved in November with the hiring of Mr. McCullough (*BI*, Jan. 27).

Mr. McCullough's appointment coincided with the startup of the Monetary Authority as well as passage of new legislation aimed at inhibiting white-collar crime in Cayman.

Mr. McCullough, a native of Northern Ireland, has held posts in insurance brokerage, underwriting and supervision around the world since 1976. Most recently he was general manager of a Commercial Union Assurance Co. P.L.C./Swiss Reinsurance Co. joint venture in Saudi Arabia. Prior to that, he was the insurance regulation and supervision adviser in Bahrain.

In other administrative changes, Christopher Collins was named deputy head of insurance supervision for the Monetary Authority, replacing John Mantz, who left the island when his contract expired last year. Mr. Collins has worked in the insurance industry in senior executive roles in Europe, South America and the United States.

Mr. McCullough, who signed a two-year deal but expects to stay at his post at least four years, said he has no great plans to overhaul Cayman's laws or regulations.

Instead, his goal is "maintaining our position of importance," he said. "My predecessors have done a magnificent job" in bringing Cayman to its position. "I hope to make more progress."

"There will be some changes, but more to clarify and streamline current regulation, rather than change," he said.

"I'm not going to reinvent the wheel. I'm just going to add more oil to make it work a little smoother," he said.

For captive managers, it is Mr. McCullough's and Mr. Collins' private sector experience and the Monetary Authority's new semi-private sector status that has them most pleased.

In creating the Monetary Authority, the Cayman Island government disbanded the Financial Services Supervision Department, which oversaw insurance and banking, and created a more widespread unit that oversees banking, insurance, mutual funds management companies, the Cayman's Currency Board and the island's new stock exchange.

While the Monetary Authority is still quasi-governmental, it is one step away from a bureaucracy and one step closer to the private sector.

"We're relieved it's all finished and settled," said Seamus Tivnan, general manager of Marsh & McLennan Management Services (Cayman) Ltd. "They've done an excellent job of getting it together quickly."

"Over the last 18 months, juris

See **Regulation** *on page 3*

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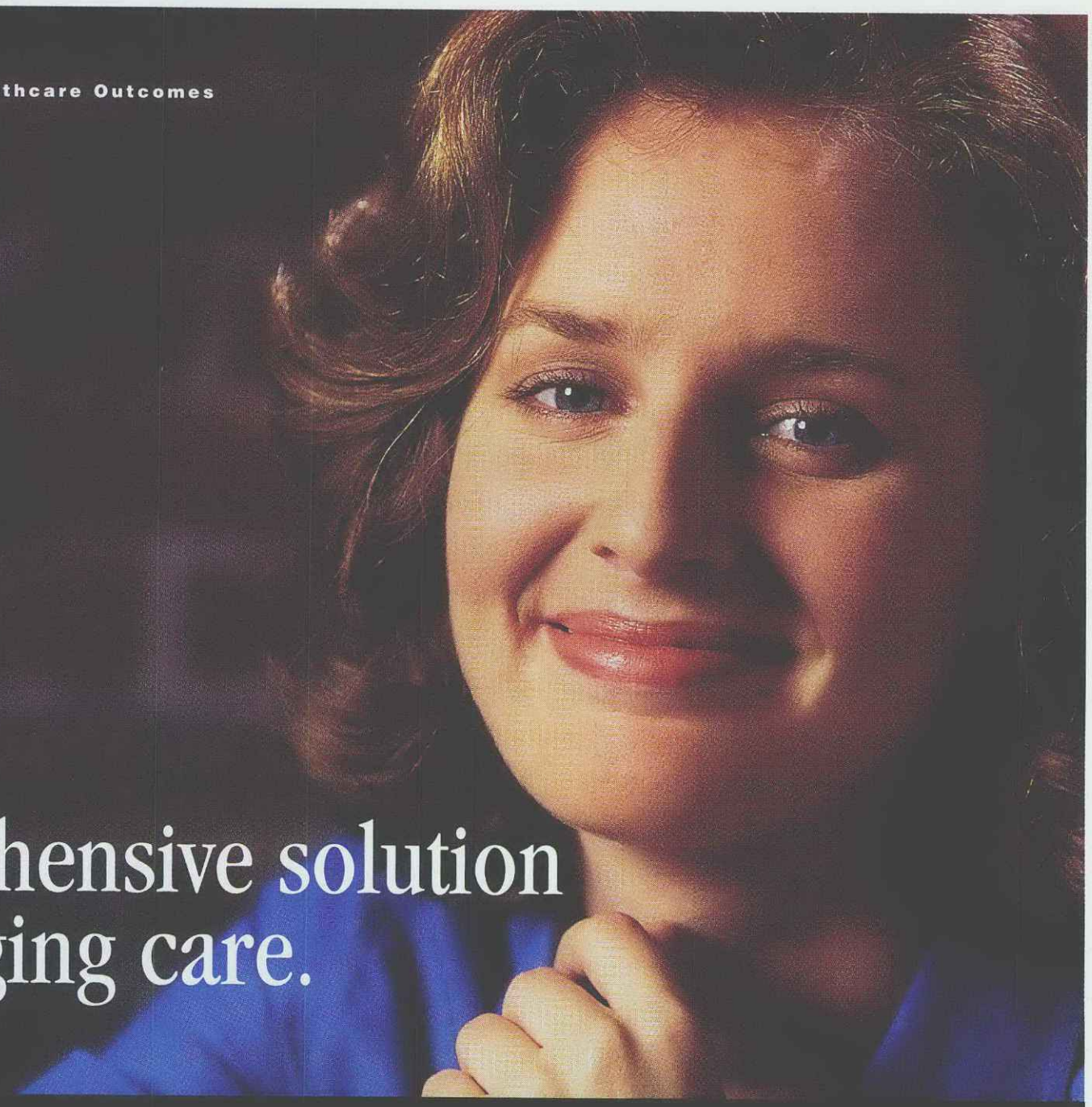

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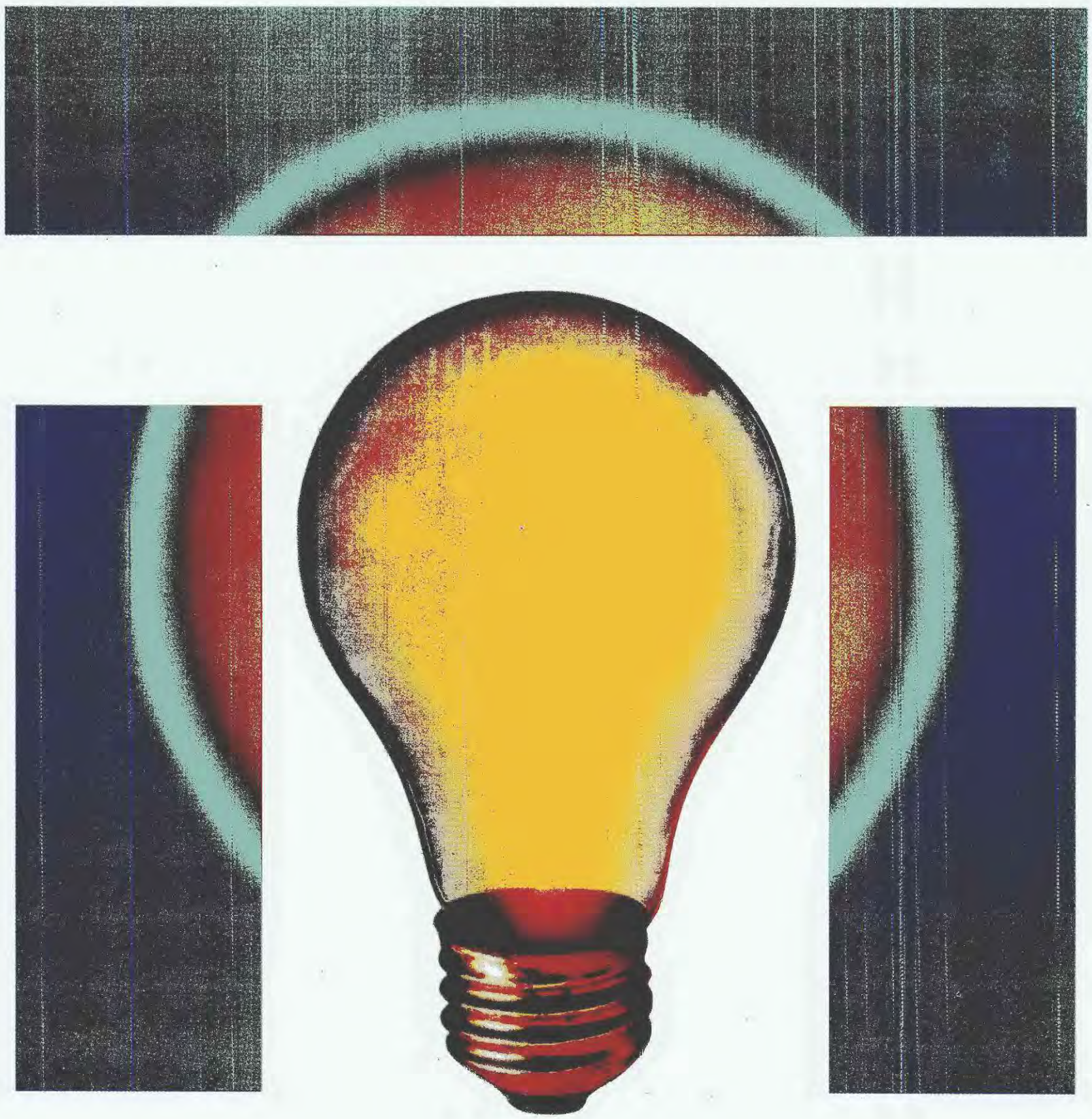

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Captive Report

Regulation

Continued from page 32

diction was floundering because of the lack of direction as to what was happening in the Insurance Department," said Ian Kilpatrick, president of Crusader International Management (Cayman) Ltd.

"The Monetary Authority is a step in the right direction." And with "the appointment of Bill and Chris, we now have an exceptionally good department," he noted.

Furthermore, "To see an independent body overseeing it, with what I consider outside directors, it's an improvement because you have both sides of the fence's point of view, not just the government's," Mr. Kilpatrick said.

"The Monetary Authority is a very good idea," agreed Wayne A.M. Cowan, senior vp of Johnson & Higgins (Cayman Islands) Ltd. It can act more as a private company, especially in terms of its pay scale, he said. "It can recruit the brightest and best."

For individual captives, the major advantage of the Monetary Authority is "there's less red tape," Mr. Cowan said.

While the Monetary Authority does not result in any specific change in regulation for captives, "it makes (procedures) easier," Mr. McCullough said. "The Monetary Authority is responsible for administration now, rather than the government." And private sector people tend to be "more understanding of private sector needs."

Tucked into the Monetary Authority Law was legislation amending longstanding confidentiality laws on the island.

Previously, Cayman's insurance regulators were prohibited under the island nation's financial services secrecy laws from disclosing any information about a captive insurer to authorities outside the Cayman Islands without first gaining approval from higher government officials.

The law came under fire from those who thought that the time it takes the Insurance Department to obtain permission to talk about a suspicious Cayman-based insurer was long enough for the insurer to transfer assets and clean up its books to make all look well.

Under the new law, "The Monetary Authority is able to discuss with other regulators and crime bureaus information where there is suspicion of money laundering or fraud," Mr. McCullough said.

"Confidentiality still remains, but in terms of suspicion of fraud, we can now discuss matters openly with," for example, the U.S. Federal Bureau of Investigation, he said.

In addition to amending secrecy laws, Cayman became the first offshore finance center in the Caribbean to pass legislation allowing all proceeds of serious crime to be seized by the government.

The Proceeds of Criminal Conduct bill also makes it a criminal offense for a financial services provider to fail to report any suspicions he may have that a client is benefiting from crime (*BI*, Oct. 7, 1996).

"Those two bills, in themselves, make much clearer the government's intention to make our domicile very clean," Mr. McCullough said.

Most captive managers support the new laws, saying they will encourage quality business and discourage dishonest business from coming to Cayman.

The laws should help quell outsider perceptions that the island is an offshore money-laundering haven.

"I think Cayman suffers from a considerable number of misconceptions, money-laundering being one of them," commented Anthony B. Stelling, director of Midland Bank Trust Corp. (Cayman) Ltd. "It's extremely difficult, once established, to change minds about the island.

"We try to encourage people to come down and discuss the issues. More often than not, it is not the principal (of a corporation) but an intermediary who comes and has to go back and say, 'Cayman is not as it is portrayed, but is worthy of being the fifth-largest financial center in the world with appropriate checks and balances and controls in place to supervise activity.' "

The new laws "will give some confidence that there is legislation here to counter money-laundering," Mr. Stelling said.

"The Cayman Islands has to realize there are skeletons in the closet," Mr. Kilpatrick noted. "Banks did hide suitcase money. But that ended 15 years ago, and anyone in the business knows that."

"The image of the Cayman Islands portrayed in movies like 'The Firm' is really not the reality," added John R. Lower, president of International Risk Management (Cayman) Ltd. "I can't say it's never happened here, but you can't say it's never happened anywhere."

There has been lots of discussion about the two new bills, Mr. Lower continued. "All in all, I'm not upset. I like the aspect of having some ability to deal with the fraud element if it exists," he said.

The two bills are "another step in getting rid of unwanted business," J&H's Mr. Cowan said. "Any law that can encourage quality business in coming to Cayman and discourage the dishonest business from coming, we're very supportive of." BI

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Despite personnel changes, Cayman laws the same

Captive Report
Cayman Islands

GRAND CAYMAN, B.W.I.—While Cayman captives are operating under a new regulatory body and a new head of insurance, all regulations, capitalization requirements, tax laws, licensing fees and reporting requirements remain unchanged on the island domicile.

As required by the Insurance Law of 1979, captives with a Class B license—the most common license issued for single-parent captives writing property/casualty insurance—must be capitalized with at least $120,000.

Captives writing long-term coverages, such as life insurance, must maintain at least $240,000 in working capital.

Captives that write both long-term and general business need capital of at least $360,000.

The annual licensing fee for most companies still is $5,625.

While the Monetary Authority does not set a fixed premium-to-surplus ratio, William N. McCullough, the new head of insurance supervision, said captives writing liability and other long-tail lines should maintain a 5-to-1 ratio, while shorter-tail business may require only a 3-to-1 ratio.

Captive investments are not regulated, and there are no direct local taxes or controls on exchanges of currency, transfers or withdrawals.

Solvency is monitored by the Monetary Authority through the review of audited financial statements that must be filed no later than six months after the close of a captive's fiscal year. Newly licensed captives must submit a financial report within six weeks after their first six months of operation.

All captives need a resident manager, which much provide a certificate showing the captive had adhered to its department-approved business plan. The annual fee for captive managers is $9,375. An auditor also can provide the certificate of compliance.

For more information, contact Mr. McCullough or Christopher Collins, deputy head of insurance supervision, Monetary Authority, Elizabethan Square, George Town, Grand Cayman, B.W.I.; 345-949-7089; fax: 345-949-2532. BI

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Captive Report

Guernsey still adding captives at a record pace

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—Guernsey's continued push for geographic expansion and legislation allowing a new insurance vehicle could further fuel its captive growth engine, which remains in high gear.

Another law that took effect this year makes it easier for captives to enter and leave Guernsey.

Steve Butterworth, Guernsey's superintendent for financial services, predicted a year ago that captive growth would slow and Guernsey would license 20 captives in 1996. The domicile actually added a Guernsey record 40 new captives to its roster last year.

This total quashed Mr. Butterworth's assessment of a year ago that Guernsey probably would cease to be Europe's fastest-growing captive domicile. As it turned out, 1996 marked the seventh consecutive year in which Guernsey led Europe's captive growth, enabling the island to remain the continent's captive leader.

With 11 captives surrendering their licenses in 1996 due to mergers or acquisitions of their parent companies, Guernsey's net gain was 29, bringing its total to 324 by year end. At the end of 1995, Guernsey had a revised total of 295 captives.

Three more captives have formed in 1997, and Mr. Butterworth says six more are "in the pipeline."

Figures on 1996 captive premiums were not available for this report, but Mr. Butterworth expects the combined total for 1996 to be about 22% above the 1995 figure of £1.5 billion ($2.33 billion). Total assets at the end of 1996 are anticipated to be about £4.30 billion ($7.23 billion), up 20.4% from the previous year.

The United Kingdom remained Guernsey's largest source of new captives—25 out of the 40 formations. However, the U.K. representation is a lesser proportion than in past years. Last year, six captives came from European parents outside the United Kingdom, four from South Africa and one each from the United States, Australia, the Middle East, Bermuda and the Far East.

Partly in response to its growing captive numbers and partly as a result of its commitment to geographic diversification, Guernsey last summer hired John Darwood, former deputy inspector of insurance in the Cayman Islands, as senior adviser in the Insurance Division of the Financial Services Commission.

Mr. Butterworth said Mr. Darwood, with whom he worked in the Caymans, brings familiarity with the U.S. captive insurance industry and other worldwide contacts, which will assist Guernsey's efforts to diversify its captive base.

Among notable registrations last year was a captive to underwrite low-risk liabilities for the U.K. Post Office. The Post Office is the second U.K. government body to start a Guernsey captive, following London subway network operator London Transport's 1995 formation of London Transport Insurance (Guernsey) Ltd. to underwrite employee and public liability risks.

U.K. building societies, similar to U.S. savings and loan institutions, continued to use Guernsey as a captive location. This sector became important a few years ago after building societies turned to captives when the U.K. reinsurance market withdrew from writing mortgage indemnity guaranty business after heavy claims at the end of the 1980s.

Having set up a mortgage indemnity guaranty captive in 1995, the Halifax Building Society, Britain's largest, last year became the first society to set up a captive to protect mortgage holders from negative equity.

The new captive is termed a Personal Lines Insurance Body, or PLIB, which enables Halifax to undertake a wide range of insurance activities—though initially its business will be restricted to writing negative equity insurance.

Howard Posner, general manager-general insurance at Halifax, cited three key reasons he chose Guernsey.

"First, we already had a captive there and were satisfied with the management of that company. Also, the local regulation is stronger than in other competing domiciles. Another point was that Guernsey is easily accessible from our headquarters in the north of England," he said.

Mr. Butterworth said he sees the potential for further growth in

See **Guernsey** *on page 40*

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Guernsey

Continued from page 38

business originating from U.K. building societies.

"I see building societies setting up separate captives for maybe some sort of commercial advantages, rather than traditional risks," he said.

Possibilities could include more societies setting up captives to insure against negative equity in property and against other problems caused by fluctuations in the financial markets.

Nick Wild, managing director of International Risk Management (Guernsey) Ltd., which manages the Halifax captive, said there is opportunity for PLIBs to be used for other niche sectors of personal lines risks. These could include such risks as household insurance, credit cover, and possibly an automobile account, he said.

Guernsey also has gained a new alternative insurance market operation and a new captive management operation. They are part of a joint venture between Mutual Risk Management Ltd., a Bermuda-based risk management service company, and Guernsey-based Wilde & Co. Insurance Managers Ltd.

The first, which will be a branch of Mutual Indemnity (Bermuda) Ltd., will offer facilities to clients of brokers, agents and corporate risk managers seeking an alternative to traditional commercial insurance. These could include self-insurance or captive insurance programs.

The new captive manager, Mutual Risk Management (Guernsey) Ltd., will handle the promotion and administration of MIL's branch operation in Guernsey.

Simon Scupham, MRM president and chief executive, said Guernsey was selected because it is "one of the world's largest and fastest-growing captive insurance centers. . .has an excellent infrastructure and is well-regulated."

Although Guernsey is trying to broaden the geographic spread of its captives away from the United Kingdom, this one source still accounts for 80% of its captives, a proportion unchanged from 1995. However, that may change in the face of U.K. legislation passed last year that makes it less tax-favorable for U.K. companies to form captives. The law has raised concerns in Guernsey.

The legislation, which would affect U.K. captives in every domicile, applies to U.K.-parented controlled foreign corporations, requiring them to remit for tax purposes 90% of their annual taxable profits, minus capital gains and foreign taxes, rather than the 50% remittance previously required.

Mr. Butterworth's second-in-command, Senior Analyst Diane Potter, who overseas Guernsey's captive sector, acknowledges that the CFC legislation is slowing growth of U.K.-parented captives, but she pointed out that "It's difficult to say who didn't come because of it."

Mr. Wild said that while initially there was a normal "knee-jerk" reaction of concern over the legislation, now that it is in place, "Everybody has been pleasantly surprised."

He maintains: "For too long people have taken business decisions on the way the captive is run in order to satisfy that 50% ruling. I think that was wrong. Just to satisfy a tax position, they made certain decisions that they might not otherwise have made."

Mr. Wild said personally he finds it "refreshing" that people are now encouraged to operate a captive more for commercial than tax reasons. The good thing is that they now are prepared to set the level of reserves and premiums appropriate to that captive, regardless of what the tax situation will be at the end, he added.

Clive James, director in charge of captive administration at Alexander Insurance Managers (Guernsey) Ltd., said that while his company has not lost any captives because of the CFC legislation, the law will force U.K. parents to examine more closely their motives for setting up a captive.

"If the captive is there as a cost-control factor, then CFC is not that critical. If it's there as a profit center then, yes, you have to look hard at the way the company is structured, at its activities," he explained.

As hoped, South Africa is proving a fruitful source for new captives. Helped by a positive response to Mr. Butterworth's trip there in February, Guernsey added four more South African captives in 1996, which, with two more captives formed this year, take the current South African total to 12.

Guernsey's success with South African captives is shared to a lesser extent by other domiciles. The domiciles are benefiting from a relaxation of that country's foreign-exchange laws, which have allowed the release of pent-up demand for captive facilities.

One South African captive formed here last year was Home Finance Guarantee (Insurance) Ltd., whose parent, Home Loan Guarantee Co., provides guarantees to mortgage lenders.

The purpose of the captive is to increase the parent's capacity to assist local lenders and support the South African government's target of building a million low-cost homes over the next decade.

Mr. Wild of IRM, which manages the new captive, said he believes his company's success in securing the business is a result of the expertise it has built up managing mortgage guaranty captives for U.K. parents.

Mr. Butterworth said he was not at liberty to discuss Guernsey's new

See **Guernsey** *on page 42*

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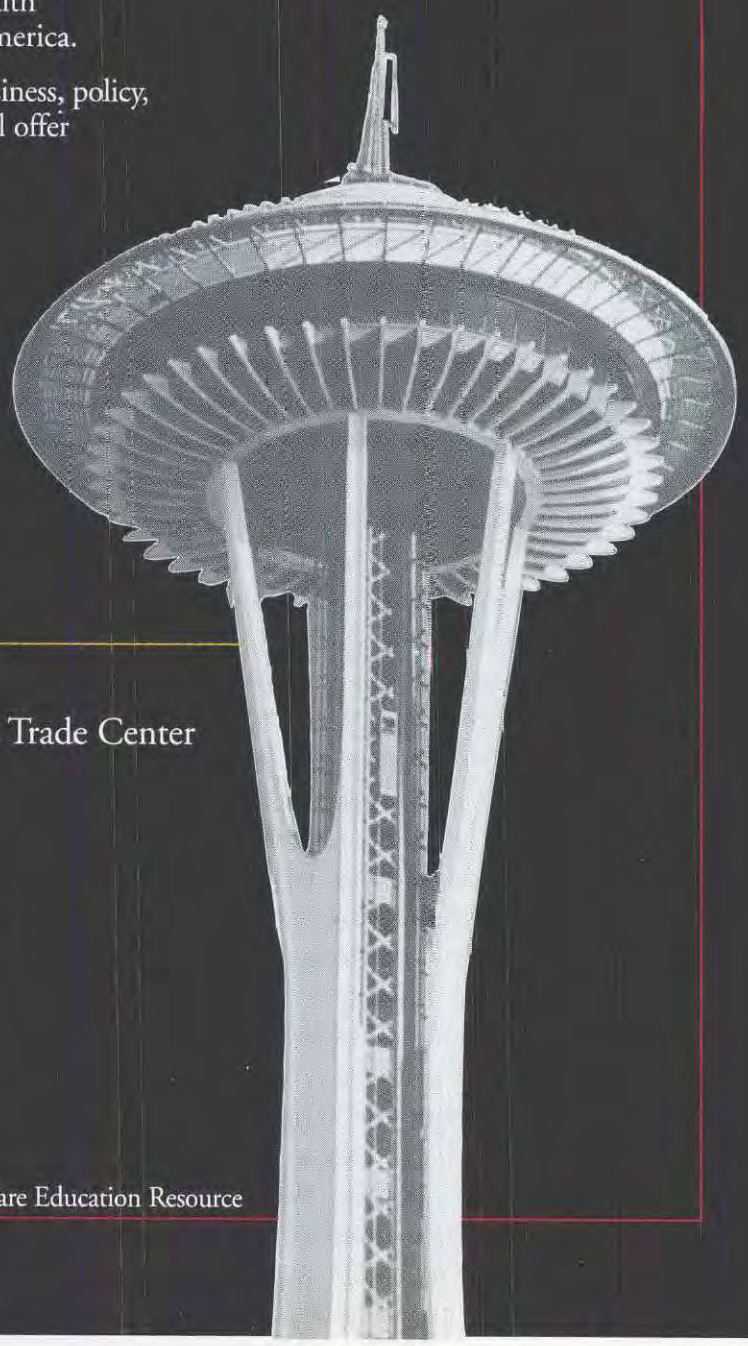

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Captive Report

Guernsey

Continued from page 40

U.S.-parented captives or details of those captives that had transferred from the Isle of Man or Bermuda.

However, Swiss engineering company ABB Asea Brown Boveri confirmed it transferred a captive to Guernsey from Dublin and formed another Guernsey captive.

It set up ABB Power Insurance Ltd. to provide property coverage for gas and turbine facilities, and it transferred ABB Reinsurance Co. Ltd. to the domicile. Chris Noon, ABB's general representative in Guernsey, said: "In coming to this decision, ABB considered a number of factors and selected Guernsey because it is the European center for captive operations and combines this with an excellent regulatory environment."

Guernsey is confident that two legislative changes, one enacted earlier this year and another due this summer, also will begin bringing in more business this year.

At the end of January, Guernsey's Protected Cell Companies Ordinance, 1997 became effective (see story, page 44). A PCC is a new type of company intended to be a practical alternative to standalone captives and to offer more protection to participants than the traditional rent-a-captive, with which it is has similarities.

Participants in a PCC insurance company contribute to the capital of the company, but their insurance assets and liabilities are treated as individual companies or "cells" doing business with the core company.

Mr. Butterworth said prospective users from a wide variety of sources have "enormous" interest in the concept. However, it is taking a long time to establish the first one, because a PCC formation requires multiple participants. Mr. Butterworth expects the first applications for PCCs this month.

Views among captive managers are more varied.

IRM's Mr. Wild said he expects PCCs to have a slow start. "I think people are still looking to find how they can best be used. . .for the right niche," he said.

However, he acknowledged that the concept is likely to prove more popular with broker-owned captive managers, which would have a bigger pool of potential clients to group together into a PCC.

"For the likes of us as an independent, we would have to go out and find a number of small to medium-sized companies who have a sort of common aim and purpose, get them to agree with one another and then form a company. That is notoriously difficult," he noted.

However, he agreed that it is beneficial to have the PCC legislation as "another tool that we can use" to attract captive business to Guernsey.

Malcolm Cutts-Watson, managing director of one of those broker-owned captive managers, Willis Corroon Management (Guernsey) Ltd., thinks the PCC law is "quite an exciting piece of legislation." It already has enabled his company, which manages 41 active captives in Guernsey, to attract a couple of new clients in anticipation of them participating in PCCs.

He expects all the various PCCs, once established, to be very different from one another. "There's no standard template," he said.

Mr. James at Alexander Insurance Managers also emphasized that PCCs are a new concept and thus likely to need time to be understood and accepted. He said some questions still need to be answered, such as the tax treatment of the cells and clarification of how their legal status will be interpreted.

On the positive side, Mr. James said startup and running costs should be "considerably" lower than for individual captives, and Alexander Insurance Managers has had a number of inquiries.

One company already in Guernsey that is keenly looking at the PCC option is Polygon Insurance Co., which is owned by five airlines and provides insurance for about 35 others.

Because the PCC is a combined placement structure, "It's ideal for a big captive, which is Polygon," said Richard Tee, Polygon's director and general manager.

"It's a structure we're considering for the non-aviation risks, where we are handling risks for the different airlines and where we need different things for different airlines. We've already effectively followed a rent-a-captive approach for those accounts. We could actually turn that into a PCC structure. That's something we're actively considering," he said.

The other piece of legislation with which Guernsey hopes to attract new customers is its proposed migration law, which would make it easier for captives to transfer from other domiciles, mainly by eliminating the need for them to shut down

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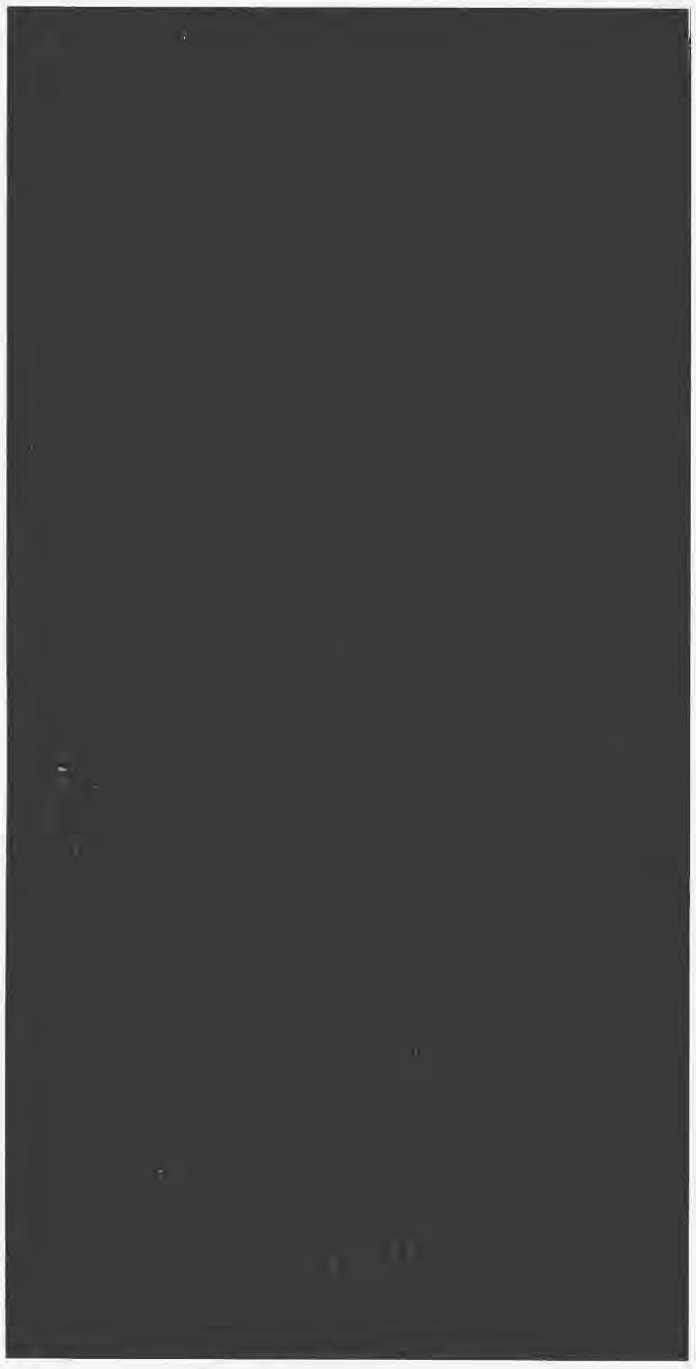

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Captive Report

Guernsey legislation designed to boost flexibility, captive count

ST. PETER PORT, Guernsey—Two new pieces of legislation in Guernsey will enable the domicile to offer captives more options and greater flexibility.

The Protected Cell Companies Ordinance 1997 took effect Jan. 29, making Guernsey the first domicile to offer this type of insurance facility. A protected cell company operates similarly to a rent-a-captive, offering participants many of the benefits of a group captive but with lower startup costs. A PCC offers more security to policyholders by isolating each participant's assets and liabilities as if they were a separate company, called a cell, doing business with the core company.

Members of a PCC contribute to the core capital of the central company, but their insurance business is not pooled and the assets are protected under law from the liabilities of other cells. Creditors of one cell will have access only to the assets of that cell. If those assets are exhausted, though, the creditor may attempt to secure the capital assets of the core cell.

Guernsey Superintendent of Insurance Steve Butterworth sees PCCs as a practical alternative for a company that cannot afford a standalone captive but wants more protection than traditional rent-a-captives offer.

One of the concerns about rent-a-captives has been that the intended protection of individual members from the liabilities of other members never has been properly tested. The PCC setup is intended to create such strict demarcation among cells that this concern is put to rest.

However, while captive managers think the idea is a good one, they acknowledge it is a new concept and will take time before it becomes a significant source of new business.

One of the rules that may help it get started is that existing captive companies can be converted into a PCC. Also, the Guernsey Insurance Commission says the expected uses for PCCs as insurers are extremely varied, "from those with a large core capital to those with a nominal founders' share; from those with a few large cells to those with thousands of small cells."

PCC applicants must submit a separate prescribed business plan summary and policyholder's profile for each cell. Participants can subscribe to one or many cells. The Insurance Commission emphasizes that apart from solvency and risk management, the principal regulatory focus will be on management capabilities. This means the insurance manager must demonstrate the necessary management expertise and technical backup to deal with the requisite segregation of assets.

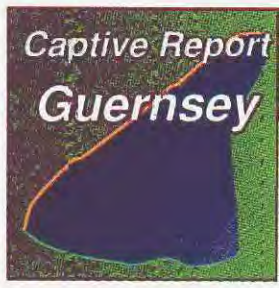
Another long-awaited legislative change deals with migration, or redomiciliation. New legislation that Mr. Butterworth expects to have in place by June will make it easier for captives to transfer to Guernsey from other locations by doing away with the need for them to liquidate the former captive and then start fresh.

Mr. Butterworth says interest in this is keen, and "We are getting phone calls all the time asking when it will be up and running."

General requirements related to captive solvency are set out in the Insurance Business (Guernsey) Law 1986 and are unchanged from a year ago.

The minimum solvency margin is 18% of the first £5 million ($8.3 million) of net premiums and 16% for anything above £5 million. The minimum capital requirement is £100,000 ($165,270).

Returns must be submitted annually showing audited annual accounts, the margin of solvency calculation, new business plans each year and a certificate from the General Representative—either a resident executive director of the captive or a captive manager—declaring that the captive insurer has carried on its business in accordance with its application.



For captive insurance industry information, contact Steve Butterworth, Superintendent of Insurance, Valley House, Hirzil Street, St. Peter Port, Guernsey, Channel Islands; 011-44-1481-712801; fax: 011-44-1481-712010; e-mail: info@gfsc.guernsey.net

—By Edwin Unsworth

Guernsey

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and start fresh.

The enabling legislation for the change has been passed, and Mr. Butterworth hopes to have the law in place by June.

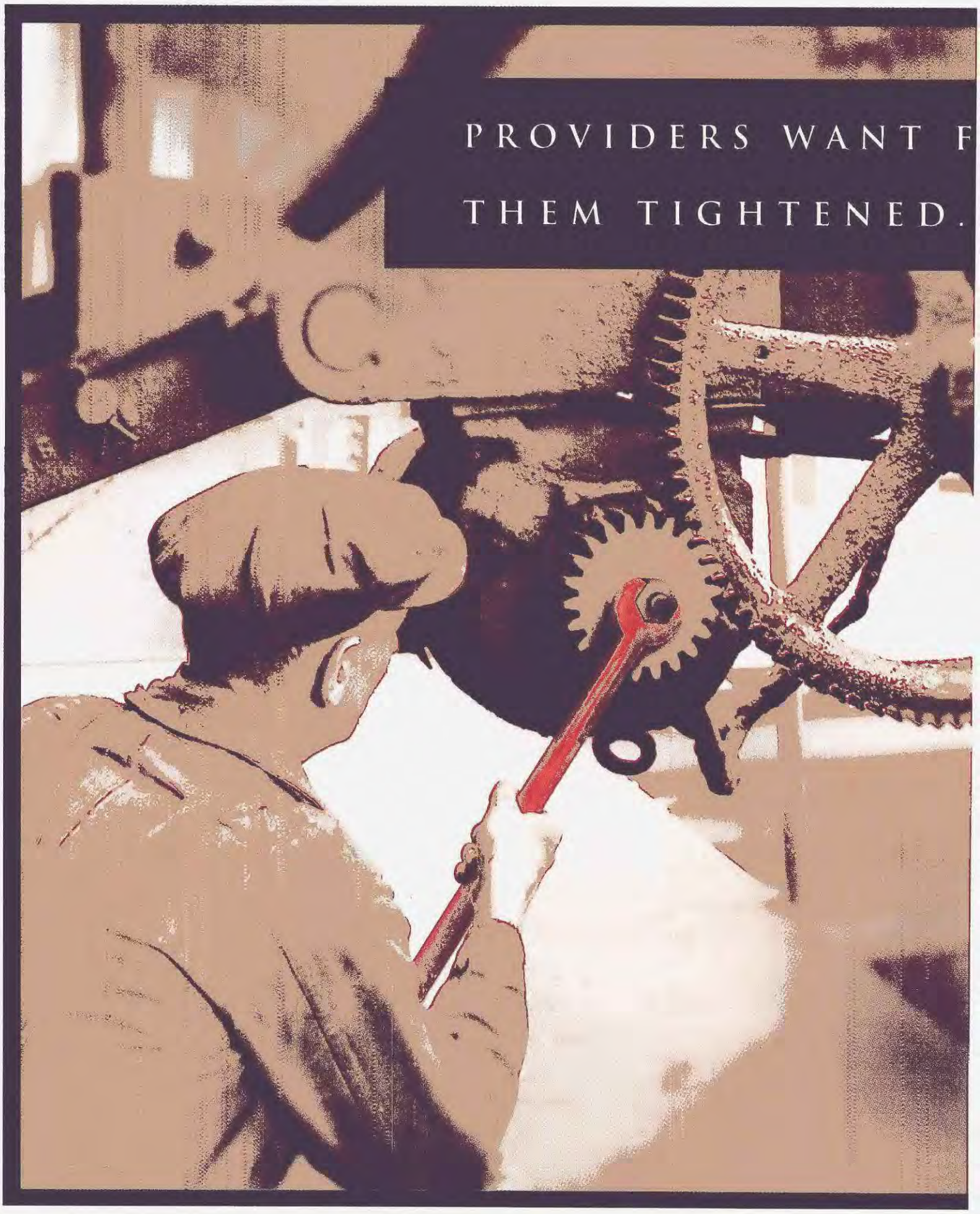
Despite Guernsey's success in attracting new business in 1996, Mr. Butterworth believes there could be some slowdown, or possibly even a contraction, in its captive and broker numbers by the end of this year.

He attributes this largely to two factors: the PCC legislation and the mergers in recent months of some of the world's major insurance brokers. These developments have so dominated attention of so many of the concerned parties that formations have been put on hold, he says.

Mr. Butterworth also said some of the domicile's existing captives are likely to combine into PCCs, thus reducing captive numbers.

The number of Guernsey's captive managers, 37 last year, also is likely to decrease as a result of Aon Group Inc.'s takeovers of Alexander & Alexander Services Inc. and Bain Hogg Group P.L.C., and the merger of Marsh & McLennan Cos. Inc. with Johnson & Higgins. This will mean a consolidation of their captive management operations.

Mr. James at Alexander Insurance Managers (Guernsey) said there will be a merger sometime later this year of his group with the local captive management operations of Aon and Bain Hogg. Together they will manage about 85 captives—about a quarter of all those in Guernsey. BI



Captive Report

Vermont looking to keep its edge sharp, while captive growth continues at healthy pace

By RODD ZOLKOS

MONTPELIER, Vt.—Soft market or not, Vermont continues to attract its fair share of new captives.

Still, state officials and those in the industry are looking for new ways to sharpen Vermont's competitive advantages.

A key provision of a legislative package under consideration this spring would allow single-parent captives to write "controlled unaffiliated" business.

This regulatory change could attract new captives to the state and allow greater use of some existing ones, enabling risk managers whose companies are increasingly reliant on outsourcing to use their Vermont captive programs to address new risks.

Meanwhile, considerable activity by banks to form Vermont captives to write credit life and mortgage insurance is raising hopes that financial institution captives might be a boom market for Vermont in the year ahead.

Thirty new captives formed in Vermont in 1996, with seven dissolving, bringing the total at year's end to 293, a net gain of 23 from 1995. That increase was a sizable jump from the net gain of six the state racked up in 1995 when 17 new licenses were issued and 11 captives dissolved.

"This is the irreducible minimum, I think, 20 to 30 a year regardless of hard market or soft," said George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington. "People find plenty of good reasons to form captives," he added.

The growth trend appears likely to continue this year, according to Leonard D. Crouse, Vermont's director of captive insurance. Through February the state had added five new captives, and had three applications pending.

"They're large corporations. Two of them are Fortune 500 companies," Mr. Crouse said. "Regardless of what people say, not every Fortune 500 company has a captive yet," he said.

"The captive formations are continuing despite the market conditions," he said.

Premium volume continued to grow in 1996 as well, increasing nearly 5.5% to $2.89 billion last year.

Ranked on 1996 premium volume, Johnson & Higgins Services Inc. overtook M&M Insurance Management Services Inc., for the top spot among Vermont Captive managers. Since then Marsh & McLennan Cos. Inc., the parent of M&M Insurance Management, bought J&H.

Adding 10 captives last year, which brought its captive roster to 72 at the end of 1996, J&H managed captives wrote $661.6 million in premium last year, with M&M's 38 Vermont-managed captives writing $633.4 million in gross premiums.

"We had a phenomenal year. A lot of new business, expanding business from our existing clients," said Julie S. Boucher, vp at J&H in Burlington. "We grew a lot, but it was manageable growth," she said.

As a result of the growth, J&H added five people to its Vermont staff last year, bringing the total to 37, and had planned to add four more staffers this year. "And that's pretty significant for us or anybody," Ms. Boucher said.

M&M also was growing, adding five captives last year, two new ones so far this year "and we've got quite a few in the pipeline, and I think that's true of the industry," said Raymond C. Oberg, senior vp at M&M in Burlington.

Also in the process of adding staff, M&M already had plans to move to new offices in Burlington later this year before the merger with J&H was announced. In the wake of the merger, though, the two big captive managers are evaluating their future office plans and operations.

Rounding out the top five managers in Vermont last year were:

- American Risk Management Corp. with 38 captives writing $428.1 million in premiums.
- Yankee Captive Management Inc. with four captives writing $273.7 million in premiums.
- Alexander Insurance Managers with 36 captives under management writing $257.8 million in premiums.

In January, Aon Corp., acquired Alexander & Alexander Services Inc., which was Alexander Insurance Managers' parent.

W. Scott Frazier, who had been executive director of North American captive operations for A&A, is now heading the combined Aon/Alexander Insurance Managers operation in Burlington.

With Aon's captive management operation in Burlington having a much smaller staff and far fewer captives under management than AIM, combining the two operations was relatively easy, Mr. Frazier said.

While conceding that the move might not be as straightforward in every domicile, he said "there's a lot of good synergies in a lot of domiciles."

"I hope Aon with the merger will continue to grow its alternative markets," the captive division's Mr. Crouse said. "I think the Alexander portion of that business is good for Aon."

Others in Vermont offered

See **Vermont** *on next page*

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Vermont

Continued from previous page

varied views of the potential effect of the major broker mergers on the state's captive business.

Some independent captive managers suggested that rather than allowing broker-owned management companies to dominate the captive insurer marketplace, the broker mergers might actually spur the independent companies' business.

"I think being an independent has some advantages," said Andrew Sargeant, president of Vermont Insurance Management Inc. in Montpelier. An independent view might be sought when a captive owner has several broker relationships, for example.

Mr. Sargeant came to VIM from Sedgwick Management Services in 1995 when Sedgwick struck a deal with VIM and its USA Risk Group partner companies to manage Sedgwick's U.S.-domiciled captives.

"You never know, if Sedgwick was to merge with somebody it may work out to our benefit," Mr. Sargeant said, adding such a merger might bring in business.

Nancy Gray, a vp at ARM in Burlington, agreed that the mergers of the large brokers could be good news for independent captive managers.

"I think ultimately the mergers will be very beneficial to us," she said. "There are fewer managers to choose from now and that might be good for the independents."

But Peter A. Joy, president of ARM, suggested the merger and partnering activity could prompt some industry changes.

"The Sedgwick and VIM agreement, the Aon acquisition of A&A, and the pending purchase of Minet and now J&H by M&M are really limiting the choices of the captive owner in selecting a captive manager capable of offering an independent analysis of the overall captive program and the performance of the associated service providers," Mr. Joy said.

That could make things tougher for the smaller independents though, he said.

"Those small independent managers without an international presence and an understanding of the market outside of just their management capabilities will find it increasingly difficult to compete for quality clients," Mr. Joy said.

Roger D. Teese, president and CEO of SB&T Captive Management Co. in Burlington, said activity from the large "alphabet house" brokerages is already making it tough for independent companies like his.

"We're seeing cut-throat competition with national brokers," Mr. Teese said. "You see them going after your accounts."

SB&T lost the University of Michigan captive, Veritas Insurance Co., to A&A this year, "but the University of Michigan had A&A as its broker for a long time," he said. "I guess it was a matter of time. We had them for 10 years."

While he wasn't certain what sort of fallout might develop from deals like the Aon-A&A and M&M-J&H mergers, he allowed that it might provide independents some new opportunities.

"When we've been able to have an apples for apples comparison for the clients, we come out ahead," Mr. Teese said. "For one thing we can compete on price. Our overhead is lower. We appeal to stronger risk managers who know what they want to do."

The leap one independent manager—Yankee Captive Management—made up the Vermont rankings to fourth last year from the ninth spot in 1995 was largely the result of the addition of Attorneys' Liability Assurance Society Inc., A Risk Retention Group, which redomesticated to Vermont from Illinois last year, bringing $234.3 million in premium with it. ALAS is by far Vermont's largest group captive.

Missing from the top five was Vermont Insurance Management, however, which fell from the fifth

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Largest managers of Vermont captives

Ranked by 1996 premium volume (in millions of dollars)

Manager	Premium volume 1996	Premium volume 1995	Captives 1996	Captives 1995	Staff 1996	Staff 1995
Johnson & Higgins Services Inc.	$661.6	605.1	72	62	37	32
M&M Insurance Management Services Inc.	633.4	770.7	38	33	11	10
American Risk Management Corp.	428.1	397.0	38	36	5	16
Yankee Captive Management Inc.	273.7	38.9	4	3	4	4
Alexander Insurance Managers	257.8	258.2	36	35	11	10
SB&T Captive Management Co.	129.5	131.7	13	14	8	8
AIG Insurance Management Services Inc.	127.5	129.8	12	12	7.5	8
Vermont Insurance Management Inc.	115.8	211.2	25	29	19	26
Willis Corroon Management (Vermont) Ltd.	57.9	48.1	9	6	7	6
Skandia International Risk Management (Vermont)	36.4	28.4	19	18	5	5

Source: *BI* survey

20 largest Vermont-based group captives

Ranked by 1996 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
Attorneys' Liability Assurance Society Inc., A Risk Retention Group Law firms (Yankee Captive Management Inc.)	$234,267,624	$8,426,689	($637,749)
United Educators Insurance Risk Retention Group Inc. Educational institutions (M&M Insurance Management Services Inc.)	38,964,627	8,918,821	(41,255)
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (Johnson & Higgins Services Inc.)	36,693,219	10,500,707	531,167
AmHS Insurance Co. Risk Retention Group Hospitals (Johnson & Higgins Services Inc.)	33,066,703	1,509,836	1,360,439
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	30,997,130	15,995,965	6,170,632
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Inc.)	19,904,388	17,824,812	(1,836,458)
NLC Mutual Insurance Co. Public entities (Yankee Captive Management Inc.)	16,249,467	7,282,743	148,586
Ophthalmic Mutual Insurance Co., A Risk Retention Group American Academy of Ophthalmology (Johnson & Higgins Services Inc.)	13,128,731	12,155,157	2,848,475
MPC Insurance Ltd. California law firms (Johnson & Higgins Services Inc.)	11,672,288	7,981,228	2,575,721
Professional Consultants Insurance Co. Professional actuarial firms (Skandia International Risk Management Vermont Inc.)	10,658,721	5,522,615	(867,820)
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (American Risk Management Corp.)	10,427,200	8,492,450	6,106,365
American Safety Risk Retention Group Inc. Asbestos abatement contractors (Mutual Risk Management Vermont Ltd.)	10,164,179	3,331,654	307,181
Bar Vermont Risk Retention Group Inc. New York City law firms (American Risk Management Corp.)	10,114,471	914,293	384,325
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	9,032,521	5,364,053	5,946,947
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (American Risk Management Corp.)	7,375,577	2,974,940	543,594
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	6,553,740	3,781,029	3,190,890
Terra Insurance Co.(A Risk Retention Group) Geo-science engineers (Vermont Insurance Management Inc.)	6,136,003	5,204,905	1,357,402
Nonprofits' Mutual Risk Retention Group Inc. Non-profit organizations (Vermont Insurance Management Inc.)	6,052,195	2,310,055	(219,658)
Mental Health Risk Retention Group Inc. Non-profit mental health centers (Skandia International Risk Management Vermont Inc.)	5,779,335	2,331,769	832,805
Mount Mansfield Insurance Group Inc. MMIG Inc. (AIG Insurance Management Services Inc.	5,616,408	5,616,408	(1,140,024)

Source: Vermont Department of Banking, Insurance and Securities

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Captive Report

Vermont

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spot in 1995 to ninth last year. The manager's Vermont captive count dropped to 25 last year from 29 the prior year, with premium volume following suit, dropping to $115.8 million in 1996 from $211.2 million in 1995.

The departure of VIM's president, Michael T. Rogers, led to some clients moving their business to other captive managers.

One of those moves was Professional Consultants Insurance Co., which wrote nearly $10.7 million in premium last year. It left Vermont Insurance Management for Skandia last October.

Great prospects for captive growth in Vermont are captives formed to write mortgage and credit-life coverage.

"We licensed our first mortgage insurance company in 1995 and we licensed three in '96," Mr. Crouse said. "This is really quite active. There are a number of banks out there that are now looking at forming these insurance companies."

From a regulatory perspective, Mr. Crouse noted that any bank setting up a mortgage insurance company will have to be examined by the federal Office of the Comptroller of Currency and, while non-bank mortgage lenders are not required to go through the OCC, "We're going to do mortgage companies by the rule and regulation of the OCC."

"It's like you have two people looking at them, us and the OCC, so you feel comfortable with that," Mr. Crouse said.

"All these mortgage insurers are monoline insurers," the captive division head said. "We've had some banks ask us if they could use their existing captives and we told them, 'No, you have to set up a separate one.' "

"We're protected because it's all fronted anyway," Mr. Crouse said, with the captive typically accepting risks ceded by a primary mortgage insurer.

In the credit-life area, a more favorable regulatory environment seems to be leading Vermont to draw captives previously located in Arizona.

"Vermont will allow a multiline captive for credit life. Arizona won't," M&M's Mr. Oberg said. That could be particularly significant in the face of Clinton administration proposals to cut tax advantages for captives that fail to meet a 50% third-party business threshold.

"It's a profit play for financial institutions," Mr. Oberg said. "With the Clinton proposal, at least that industry has a practical solution to a potential problem if they write enough credit life," Mr. Oberg said.

"The reduced costs, more enlightened regulation and greater flexibility in adding new lines of business and lack of investment restrictions are causing many Arizona-based captives to relocate to Vermont," ARM's Mr. Joy said. "We are actively working on five and have two more in the pipeline."

He added that his firm also expects to have two mortgage insurance captives active in the next few months.

Mr. Teese said he believes a firm like his can capitalize on the captive opportunities emerging in the banking area.

"Sometimes there are tax advantages for smaller banks that could encourage them to get involved," Mr. Teese said. "And they're all looking at how to get involved in insurance and this is a way they could do it fairly painlessly."

"I think we will have opportunity there because a lot of the banks are insured through small to midsize agencies, and they'll want to keep that business there," he said. "Vermont can now do credit life and mortgage insurance and a small bank can still do that."

"The alphabet house, of course is going to figure it out and the independent agency isn't going to figure it out as soon," Mr. Teese said. "So we're going to help them, bring it to their attention."

"There's that opportunity now to make captives make sense for even small banks in Vermont," said Gary Osborne, a senior vp with USA Risk Group in Montpelier. "We're seeing quite a lot of interest on that front. It's a profit opportunity rather than just a cost saving opportunity."

Mr. Joy suggested larger banks enjoy some advantages in establishing mortgage insurance captives but that there may be ways for smaller institutions to clear any hurdles.

"You have to have a willing fronting carrier," he said. "And obviously the leverage the big banks can bring in premium volume goes a long way to getting a compliant fronting carrier."

The potential may prompt some local banks to come together to get that purchasing power, however.

For example, an association of Vermont banks to form a mortgage insurance captive might be a logical step, Mr. Joy said. "Several of them have spoken to me about whether I think a captive through their association would work."

Those in Vermont's captive industry also are excited about the legislative package that could expand business opportunities for Vermont captives.

The legislation would allow single-parent captives in Vermont to write controlled unaffiliated business, extend confidentiality protection to state files on captive companies and permit captive insurance companies to form as reciprocal insurers.

"What we're trying to do is basically stay abreast of the market, what companies are looking for, what they're looking to do," the captive division's Mr. Crouse said.

Under the legislation, the unaffiliated business would still have to be somehow connected to the captive sponsor's business, Mr. Crouse said. "One of our pure captives is not going to go out and do completely unrelated business."

Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. in Kansas City, Mo., said the legislation illustrates the responsiveness of Vermont officials to the captive industry and captive owners.

He said he first met with legislators to discuss the issues last year. His company is particularly interested in the confidentiality

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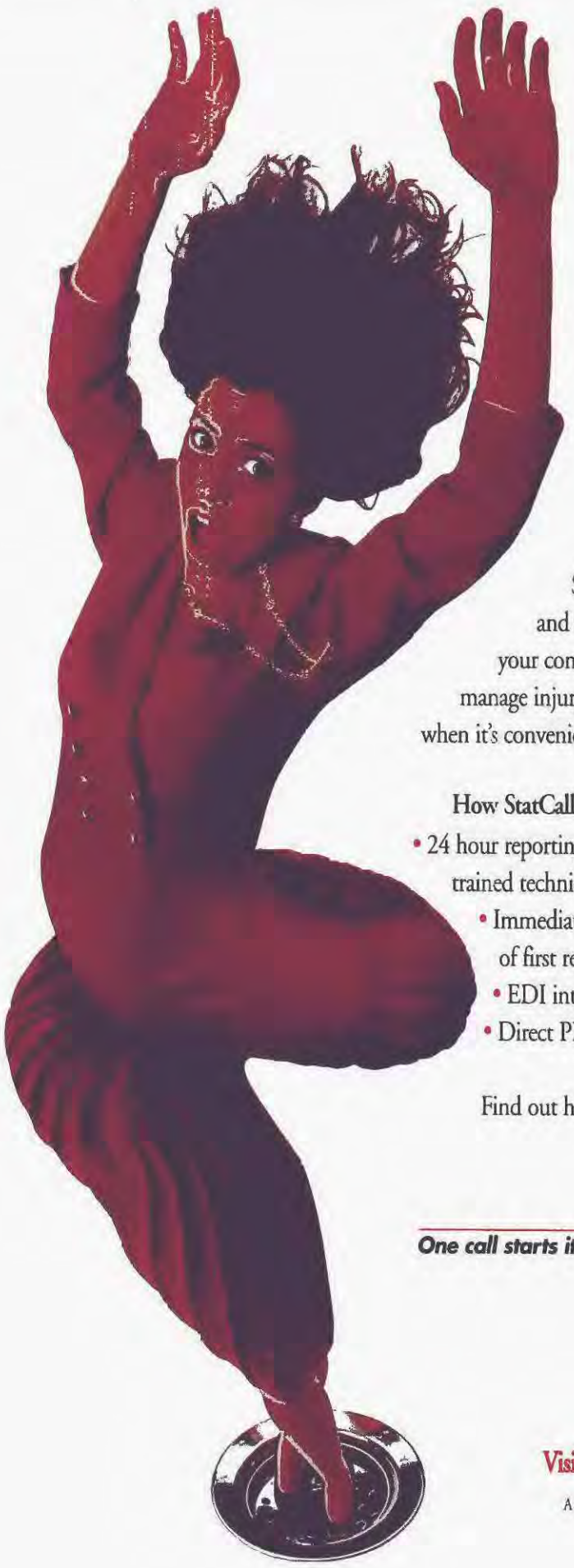

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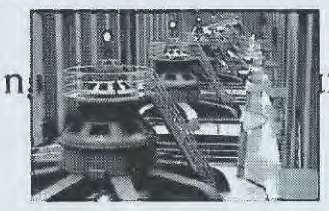
Commercial/Retail/Wh **ns** Consultants Civil Engi **nical Consultant** Training Agricultural Properties **Architects & Engineers** Remediation Contractors Demolition Contractor **ractor** Drilling **Excavation** Superfund Chemical Distributors **Colleges/Universities** General/Specialty Utility Contractor **Electronic Manufacturers** Civil Engineers Fuel Blenders **s Distributor** Contractors Financial Institutions Fuel Blending Incinerators **Hospitals** **n** Plant **Truck** Medical Waste Treatment **Painting Contractor** Mines/Mills **Laboratories** Health Services Facilities Landfills Research and D **bs** Product Testing Company Lumber Yards **er/Plastics Manufacturers** **Dry Cleaners** Petroleum Storage/Distribution Quarries Manufacturers Textile Mill Nursing Homes Apartment Com **Development Firm** Property Recycling/Reclamation Centers **Commercial Real Estate** Refineries Golf Courses **rm** Smelting Waste Transfer Station **Office Complexes** Clothin  **facturer** **Warehouses** Residential Developments/Apartments **Utilities** Water **Commodities** **Transporter** Service Sta Quarry Trucks **Heating Oil Companies** Treatment **Shopping Centers/Malls** **Transporters** Fuel Blenders Storage

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Vermont

Continued from page 48

and unrelated business provisions.

"For companies like Hallmark, confidentiality is darn important because we file real detailed business plans. That's how they regulate our captive up there," he said.

"When we went to the Legislature and said we need to support the department on confidentiality and say we don't want to allow anybody who wants to do Hallmark some harm or get access to details of our business they did it," the Hallmark risk manager said.

"It's very unfair for a large risk retention group, a large captive, whatever to put a lot of time into putting a program together and then somebody else comes in and just looks at the file and there you go," Mr. Crouse said.

As for the unrelated business provision, Vermont's captive insurance provisions must keep pace with changes in the way corporations do business, Mr. Heydinger said.

'Pure captives have a lot of proprietary information they don't want competitors to know,' says Raymond C. Oberg.

"The stuff they used to call 'related unrelated,' that's the sort of stuff we're interested in because we rely more and more on our vendors and our distributors," he said. "Business models shift and the shift that's going on now is outsourcing.

"What that means is we're relying on a lot more unrelated but very strategic partners. They're very critical to us," Mr. Heydinger said. "We need to help these people do the right things for us and for themselves as part of our risk management program."

Covering those partners through the captive would allow Hallmark to extend its loss control programs to them, thus reducing Hallmark's exposure to losses stemming from problems the partners might suffer.

Essentially, the confidentiality provision would codify a position the captive division has already been taking, M&M's Mr. Oberg said. "Pure captives have a lot of proprietary information they don't want competitors to know about."

Mr. Oberg said he was wary of any unrelated business legislation curtailing flexibility by setting specific limits on such business. The measure passed from the Vermont House to the Senate in late March left the limit at the discretion of the captive division, however, which Mr. Heydinger said he thinks is the right approach.

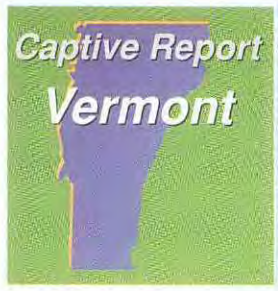
"I think Vermont is ready for it now," SB&T's Mr. Teese said of the third-party business provision. "There's enough experience at the state level to regulate it and there's enough experience and expertise at the management companies to support it." BI

Regulations unchanged in Vermont

MONTPELIER, Vt.—Requirements for captive insurance companies under Vermont's Special Insurer Act of 1981 include:

• Minimum capitalization of $250,000 for single-parent captives, $500,000 for industrial insured captives and $750,000 for association captives.

Approved letters of credit can be used to meet capitalization requirements.



• A multi-tier tax structure for direct and reinsurance premiums.

The first $20 million of direct written premiums is taxed at 0.4%.

That rate falls to 0.3% for direct premiums from $20 million to $40 million and to 0.2% for premiums between $40 million and $60 million.

The tax on direct premiums exceeding $60 million is 0.075%.

• For reinsurance, the tax is 0.225% on the first $20 million of reinsurance assumed, 0.15% on premiums between $20 million and $40 million, 0.05% on premiums between $40 million and $60 million and 0.025% on premiums exceeding $60 million.

In addition, captives are subject to a minimum annual premium tax of $5,000.

• Single-parent and industrial insured captives file simplified annual financial reports; trade association captives and risk retention groups use the National Assn. of Insurance Commissioners' convention blank.

Financial reports are due by Feb. 28 each year.

Single-parent captives may apply to file on a fiscal year-end basis consistent with the parent company's fiscal year. If an alternative reporting date is granted, the annual report is due 60 days after the fiscal year ends.

To support its premium tax return, the captive must file pages 1, 2, 3 and 5 of the "Captive Annual Statement, Pure or Industrial Insured" by Feb. 28.

• Captives can directly write all types of property/casualty insurance except primary workers compensation coverage. Primary workers comp risks can be reinsured by a captive; however, while excess workers compensation coverage can be written directly or reinsured.

• A captive's financial records must be kept in the state and its board of directors must hold an annual meeting in Vermont.

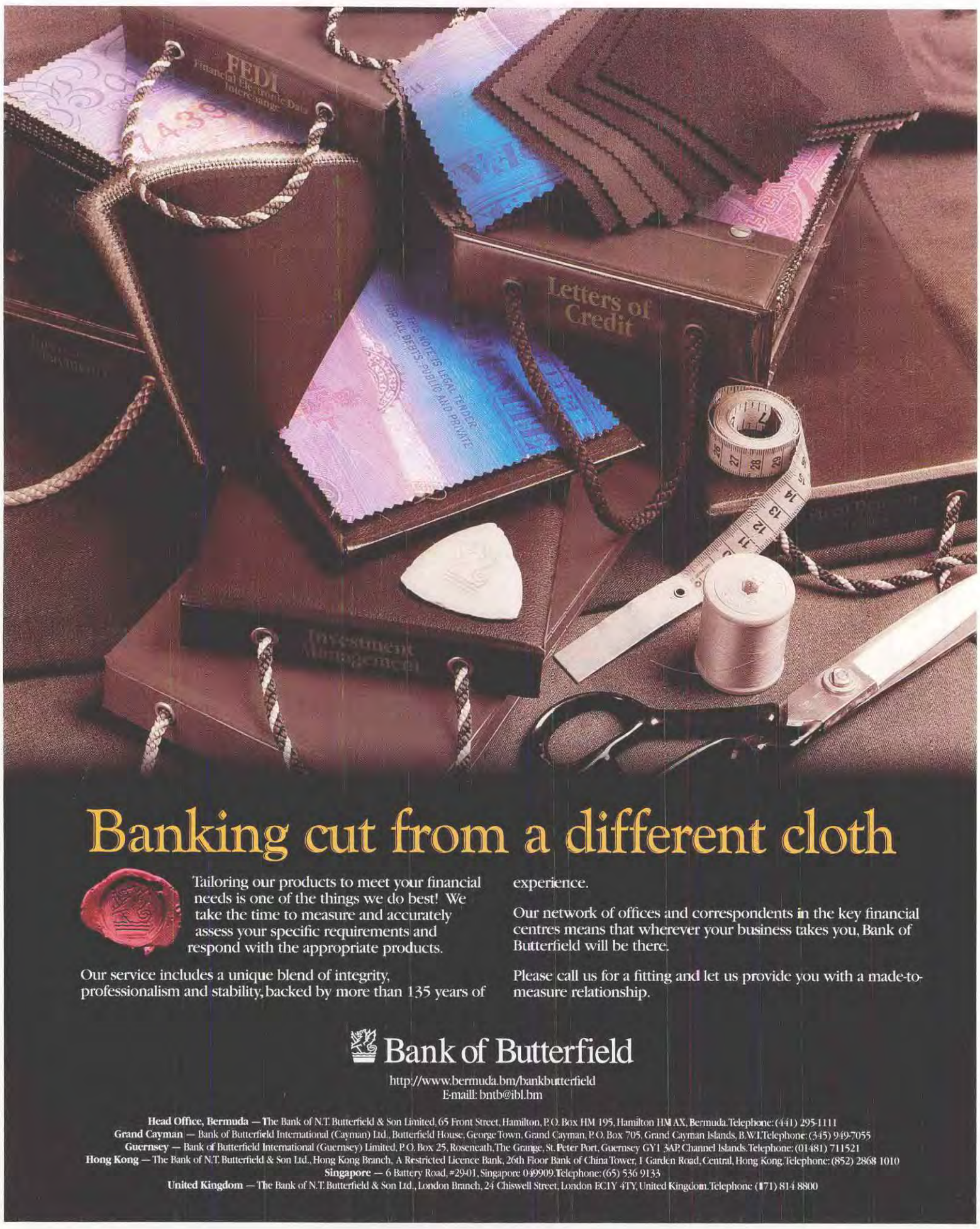
• A $200 initial application fee and a $300 annual license fee.

A prospective captive must have its actuarial assumptions reviewed by one of five actuar-ial/risk management consulting firms selected by the insurance department. The review fee is $3,200.

Rate and policy form approval are not required.

For more information about captives in Vermont, contact Leonard D Crouse, Director of Captive Insurance, Vermont Department of Banking, Insurance and Securities, 89 Main St., Drawer 20, Montpelier, Vt. 05620-3101; 802-828-3304.

—By Rodd Zolkos



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Captive Report

Luxembourg managers eager to pick up pace after quiet '96

By STACY SHAPIRO

LUXEMBOURG—All's quiet on Luxembourg's captive front, though captive managers are optimistic that activity will pick up this year.

There was a net gain of six captive reinsurance companies on the books at year-end 1996, bringing the total to 236, according to Marc Warken, director at the Commissariat aux Assurances. Nine captives were set up in Luxembourg last year, while three were discontinued at the request of their owners, he said.

This year Luxembourg already has added another four captives to its books, bringing the total to 240, said Mr. Warken. "It's steadily growing," he said. Two of the new captives this year are owned by insurers, and the other two are owned by banks that sell insurance and reinsure it into their captives.

Luxembourg captives are only allowed to write reinsurance. About 15% to 20% of all of the country's reinsurance captives are owned by insurance companies.

One of the growth areas at the moment in Luxembourg is in the life insurance and reinsurance arena as banks begin to offer this coverage to their customers throughout Europe.

'It was quiet all through the year and then new interest picked up at the end of the year,' says Claude Weber.

"It's been a moderate year," said Tim Yeates, managing director of UNISON Management (Luxembourg) S.A. UNISON manages 25 captives at the moment, up from 21 at year-end 1995, representing parent companies from 10 different countries. That's an addition of three in 1996 and one so far in 1997.

"We've not seen an explosion of captives from Southern Europe or Eastern Europe, which was expected a few years ago," he noted.

It could be that the Luxembourg captive market has "matured" and it's now time for another stage of alternative market development, just as Bermuda has evolved over the years, Mr. Yeates said. It may mean new products developing in Luxembourg or owners from different countries setting up captives in Luxembourg, he said.

"Not much has happened since last year," said Tony Nordblad, managing director of SINSER (Luxembourg) S.A.R.L. "Growth has been slower than in the past."

There has not been the influx of French-parent captives as in the past few years, he said. "For us, it's a more mature market."

SINSER manages 34 captives, writing mainly property risks and some liability coverages.

Growth for the domicile may come from companies in countries such as Spain, Italy or Germany, he said.

"Things are steadying up," said Frederick Gabriel, general manager for GECALUX S.A., the largest captive manager in Luxembourg. "The growth that we saw here five or 10 years ago is not happening. Things are developing, but as Fred Reiss would say, 'All the elephants have been shot.' "

Mr. Reiss, founder of what is now International Risk Management Group Ltd., now a part of Swiss Reinsurance Co., was one of the pioneers in developing captive insurance companies.

Mr. Gabriel foresees Luxembourg adding about 20 captives per year on a regular basis, with GECALUX taking in five or six new ones annually.

GECALUX managed 67 reinsurance captives at year-end 1996 with an estimated premium volume of $500 million. The company added five new captives last year whose owners came from Germany, France and Spain. About five of the 67 are owned by insurance companies. Four of the managed captives come from Japan.

GECALUX also does the accounting for the only group captive in Luxembourg, Indurisk Ruckversicherung A.G. of Luxembourg. Indurisk, owned by German companies Hoechst A.G., Bayer A.G. and BASF A.G., writes environmental liability coverage (*BI*, Oct. 2, 1995).

While the captive market in some countries is mature, in others captives are still new, which means those countries will continue to be interested in Luxembourg, Mr. Gabriel said. These include Germany, Portugal, Spain and Italy.

"It was quiet all through the year and then new interest picked up at the end of the year," said Claude Weber, vp and general manager of Marsh & McLennan Management Services (Luxembourg) S.A. He is confident that as a result of the new interest, new reinsurance captives will be on the books this year.

M&M has a total of 26 captives under management with a total premium volume of about $200 million.

Companies that are attracted to Luxembourg come mainly from continental Europe. Few, if any, come from the United Kingdom and none of the captives is from the United States.

Luxembourg is attractive because it has long-term stability, both politically and economically, and is part of the European Union, captive managers say. Indeed, Luxembourg takes over the six-month presidency of the Euro-

Continued on next page

Continued from previous page
pean Union in July.

Luxembourg also has 25 different tax treaties with other nations, a good infrastructure and a mature banking industry.

More German, Belgian and Luxembourg companies are interested in setting up reinsurance captives in Luxembourg, noted Mr. Warken of the Commissariat aux Assurances. Parents of the new captives come from all areas of business, from the food industry to banks. Many of the new reinsurance captives write liability business.

Luxembourg's latest total premium volume is 78 billion Luxembourg francs ($2.50 billion) at year-end 1995. The year-end 1996 premium volume won't be available until October.

Changes in captive management are expected in the wake of recent consolidation among the broker parents of some managers.

UNISON, for example, is owned by the members of the UNISON network of insurance brokerages including Johnson & Higgins. With J&H acquired by M&M, it is unclear whether UNISON will remain independent in Luxembourg or if M&M will merge with UNISON in the Grand Duchy.

"Things are under study until the end of April," said Mr. Yeates of UNISON, which has 18 employees and has been in Luxembourg for 11 years.

"It's too early at this stage to comment on this one," said M&M's Mr. Weber. M&M, established for 10 years in Luxembourg, has seven employees.

Meanwhile, GECALUX and International Risk Management Group plan to cooperate with each other worldwide now that Swiss Reinsurance Co. has taken a substantial undisclosed minority shareholding in GECALUX. Swiss Re already has a 70% stake in IRMG. GECALUX's managing director and founder, Roland Frere, will continue to have a controlling interest in his company.

"The fit is very good," said Mr. Gabriel of GECALUX. While IRM is not a major player in continental Europe, GECALUX is well known there as it is a Luxembourg-based company. Indeed, GECALUX has been managing IRMG's office in Luxembourg. "They're in English-speaking countries; we are not," said Mr. Gabriel. BI

Grand Duchy reducing tax burden on captive reinsurers

LUXEMBOURG—Taxation is decreasing slightly in Luxembourg for captive reinsurance companies that are domiciled in the Grand Duchy.

As of this year the municipal business tax of 0.5% on the net worth of a company above 1.8 million Luxembourg francs ($51,840) has been abolished.

This will give "a substantial savings" to captive reinsurers, said Claude Weber, vp and general manager of Marsh & McLennan Management Services (Luxembourg) S.A.

In addition, Luxembourg plans to reduce its corporate income tax over the next three years, ultimately falling to about 37.5% by 1999. The tax already was reduced this year by 1%, to about 39.3%.

This has very little effect on captive reinsurers, however, as most set up tax-deductible equalization reserves and only pay income tax when profits are released.

Luxembourg is a domicile used mainly by continental European companies looking to set up a reinsurance captive under the country's 1991 Insurance Law and Grand Ducal Regulation.

The attraction of Luxembourg is the ability to set up so-called equalization, or catastrophe, reserves that are tax deductible because they are for future liabilities. These reserves are set as multiples—varying between 12.5 and 20 times the annual average net premium volume over the last five years, depending on the type of risks written.

Captives also are subject to other taxes, including:

- Net worth tax, at a rate of 0.5% of the net worth of the company at the start of the year.
- Municipal business tax of 9.09% on income over 700,000 Luxembourg francs ($21,868).
- Subscription tax of 1% on incorporation or introducing new capital.

Captives must have paid-in capital of at least 50 million Luxembourg francs ($1.6 million). However, captives with capital of 200 million Luxembourg francs ($6.3 million) or more need only pay in 25% of the share capital.

The solvency margin for non-life business is unencumbered assets representing 10% of net premiums, and 50% of unpaid share capital can be used for solvency margin calculations. Life reinsurance business requires a solvency margin of 2%.

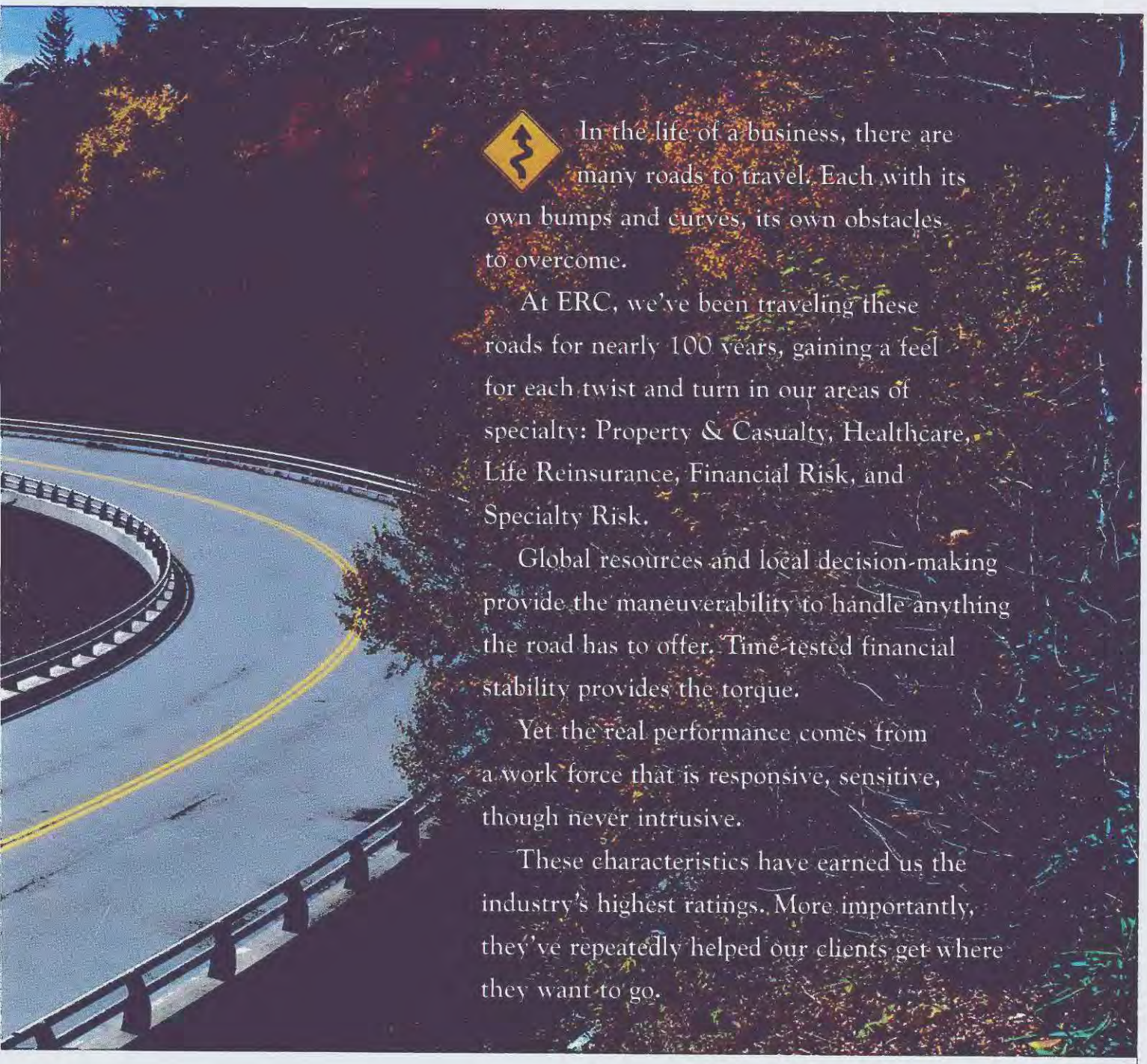
Captives in the domicile must have at least two shareholders and three directors. None need be in the country, but the company must have a locally licensed captive manager and undergo an audit by a local auditor approved by the Commissaire aux Assurances.

Accounts are filed annually with the Commissariat aux Assurances.

New captives must pay an initial license application fee of 150,000 Luxembourg francs ($469) and from then on established captives must pay an annual business fee of 100,000 Luxembourg francs ($312).

For further information, contact Victor Rod, Commissariat aux Assurances, 7 Boulevard Royal, B.P. 669, Luxembourg L-2016; 011-352-226911-1; fax: 011-352-226910.

—By Stacy Shapiro



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Captive Report

Tax conflict with Canada is slowing new captive formations in Barbados

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—A year ago, it looked as though the Barbados government had navigated around new Canadian restrictions on tax breaks for Canadian-owned captives, one of the domicile's biggest sources of business.

Apparently not.

A 2-year-old tax struggle between Barbados and Canada is going a few extra rounds, leaving the tax status of some Canadian captives in limbo and slowing the formation of new companies, captive managers report.

Canadian legislation that went into effect in 1995 denied tax benefits to companies that were not "residents" of Barbados. To qualify as a resident, a captive had to be subject to local tax.

The Barbados government responded by amending its insurance law in December 1995 to impose taxes on captive earnings for the first time. The tax rate, though, was 0%, creating no new costs for captives.

While tax experts believed the change would meet the "residency" requirement, the Canadian government is apparently not impressed. Both Canada and Barbados are now mulling additional changes in their laws, tax experts say.

The result has been a drop-off in new Canadian-owned captives.

"There is a slowdown," said Denis C. Brown, a partner with Ernst & Young L.L.P. in Toronto. "It's the uncertainty that is the problem."

"We are still in a bit of a limbo situation right now," confirmed Stephen B. White, vp and general manager of Marsh & McLennan Management Services (Barbados) Ltd.

Several M&M clients are looking to form captives in Barbados, but "they would just like to see the tax situation resolved."

The impact is clear in the Barbados government's 1996 licensing statistics: Five new Canadian-owned insurers were formed last year, only half the 10 Canadian formations in 1995.

Overall, Canadian-owned insurers represented 101, or nearly a third, of the 323 Barbados insurers licensed as of year-end 1996. U.S.-owned companies accounted for 199, or roughly two-thirds, and other countries brought in the remaining 23, according to figures compiled by Towner Risk Management Ltd., a Barbados captive manager.

Despite the tax upheaval, though, Barbados' captive business is keeping pace.

The domicile saw a total of 23 new insurers formed last year—the same number as in 1995—with formations from the United States and other countries making up for the loss of Canadian business.

Excluding companies that have stopped underwriting, Barbados had 196 active insurers at the end of last year, unchanged from year-end 1995, according to government figures.

Of these, *Business Insurance* estimates that 15% are commercial insurers or reinsurers set up primarily to write third-party business, leaving 167 licensed captive insurers at the end of 1996.

In the first few months of 1997, Barbados licensed two new insurers, both owned by U.S. companies, according to government figures. Eight new insurers were licensed in the same period last year.

Barbados should maintain a steady pace of growth, drawing more new business from the United States and even some from Canada, some managers say.

"I think we will see a fairly consistent pattern—maybe 25 new formations for the year," predicted Christopher Towner, president of Towner Risk Management.

"While the tax situation is very significant, we are still an attractive domicile," Mr. Towner said. "The fact that the U.S. market has come back to Barbados to the extent that it has is an indication of that."

Apart from captives, Barbados is targeting other types of financial services businesses, including commercial reinsurance companies. For example, a new finite risk underwriter, Underwriters Reinsurance Co. (Barbados) Ltd., was formed last December with $111 million in capital, confirmed Dan McKay, president and chief executive officer.

Underwriters Reinsurance Group of Woodland Hills, Calif., contributed $11 million of the capital, and $100 million was raised from U.S. institutional investors in a private placement of preferred stock, Mr. McKay said.

The new reinsurer, which is self-managed, will retrocede some of its finite risk business to Underwriters Re in the United States, he said.

Most captive managers agree, however, that captive growth will be hampered in coming months by the Canadian tax question.

The problem stems from a set of 1994 Canadian tax reforms that took effect in 1995.

Under previous Canadian law, a Canada-Barbados tax treaty allowed companies to generate captive earnings tax-free if the earnings were related to third-party Canadian risks or the risks of the owner's non-Canadian operations. After the 1994 reforms, though, the tax breaks for third-party Canadian business were eliminated, and income on all Canadian business became taxable unless non-Canadian risks account for more than 90% of a captive's volume.

Hardest hit by this change were credit life and warranty captives set up by Canadian banks and auto dealers to insure customers. While these captives previously generated tax-free earnings on third-party Canadian risks, owners have seen this benefit evaporate.

The new rules preserved a tax break for earnings on related non-Canadian risks, maintaining a benefit for Canadian multinational companies that insure their non-Canadian operations with their captives.

To qualify for this break, though, the captive must be a "resident" of Barbados under the tax treaty, meaning that it must be subject to local taxation.

Responding to this, the Barbados government amended its Exempt Insurance Act of 1993 to make captives liable for local taxes. The change amounted only to "virtual taxation," though, because it imposed a tax of 0% on exempt insurers' earnings for the first 15 years after the company is licensed. For the next 15 years, the tax rate is 2% of the first $125,000 of profits—or $2,500—which will be offset by a waiver of the government's $2,500 annual license fee.

Though tax experts believed that the Barbados amendments would pass muster with Canadian tax authorities, Revenue Canada apparently feels otherwise.

In a letter to a Canadian corporation last year, Revenue Canada said the Barbados amendments are not in accordance with the "spirit" of the Canada-Barbados tax treaty and that Barbados captives still may not be considered "residents" of the domicile.

The Canadian tax authorities have since reaffirmed this view, according to Ernst & Young's Mr. Brown.

Revenue Canada was especially unhappy with moves made by some bank-owned credit life insurers to blunt the impact of the reforms, captive observers say. One strategy, for example, was for a credit life insurer to trade Canadian risks for non-Canadian business in reinsurance "swaps" that would cut Canadian business to less than 10% of the total and preserve the tax break.

Canadian authorities were not impressed with the steps that were taken to avoid the new taxes, Mr. Brown observed.

Summed up one management official who asked not to be named, "It seems we've pissed off Revenue Canada."

Barbados officials and the Barbados Exempt Insurance Management Assn. are now working on ways to resolve the problems.

One possibility, captive experts say, would be for Barbados to impose full taxation on Canadian-owned companies and then largely offset the taxes with credits generated by the foreign currency a captive brings to the island. Such foreign currency tax credits, for example, might reduce a tax rate of 40% to under 3%, experts say.

See **Barbados** *on next page*

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Largest managers of Barbados captives

Ranked by premium volume (in millions of dollars)

Manager	Premium volume 1996	Premium volume 1995	Captives 1996	Captives 1995	Staff 1996	Staff 1995
International Insurance Management Ltd.	$600.5	NA	23	22	5	4
MIMS International (Barbados) Ltd.	514.0	532.0	20	20	5	5
IAS (Barbados) Ltd.	120.0	75.0	8	7	3	3
Watson Wyatt Management (Barbados) Ltd.	115.0	110.0	15	9	5	5
Alexander Insurance Managers (Barbados) Ltd.	89.0	75.0	27	20	10	10
Johnson & Higgins (Barbados) Ltd.	76.1	79.0	25	28	12	11
Continental Risk Services (Barbados) Ltd.	75.0	40.0	12	11	3	3
Mutual Risk Management (Barbados) Ltd.	48.0	63.5	6	4	1	1
Marsh & McLennan Management Services (Barbados) Ltd.	40.0	124.0	6	9	3	3

Source: *BI* survey

Barbados

Continued from previous page

For its part, the Canadian government is considering a more radical change: eliminating altogether the concept of "exempt surplus," or the tax-free buildup of earnings in a foreign affiliate, according to Mr. Brown.

With such a reform, Canada would do away with all tax breaks for captives and impose full Canadian taxation on captive earnings, offset by foreign tax credits reflecting local taxes paid in Barbados, he explained.

If Canada pursues it, this change could take years to become effective, he noted.

In a statement, Phillip Goddard, Barbados Minister of International Business & Trade, acknowledged that "some uncertainties have arisen recently affecting Canadian investors in the international insurance sector.

"The government of Barbados is working with the Canadian government to clarify these matters and to provide certainty of tax treatment to all Canadian investors in Barbados," Mr. Goddard said. "Constructive dialogue between officials of both countries is progressing. We are confident that the outcome of these discussions will be positive and mutually acceptable to our two governments, which have always had and continue to have strong fraternal ties as members of the commonwealth."

Amid the confusion, Barbados has seen the growth of its Canadian business fall off, and several managers say they expect it to remain slow.

Mr. Brown said he has advised clients to wait on forming Barbados captives until the tax questions are answered.

"If you've waited this long, why not wait just a bit longer?" he asked.

There is interest in forming new captives, "but it is tempered by a wait-and-see attitude," agreed Anderson Marshall, deputy branch manager of Johnson & Higgins (Barbados) Ltd.

"In terms of existing clients, there has been no impact," said Chris Evans, general manager of Watson Wyatt Management (Barbados) Ltd. "None of my clients has expressed a desire to cease underwriting or move."

But "the issue has created uncertainty and has hindered our marketing efforts," he added.

Mr. Evans and other managers stressed the importance of resolving the questions.

"If we start messing up the way we resolve these things, we are just not sending a good message to the world," he said.

Solutions may be several months in coming, though.

"I'm certainly not telling my clients to expect a resolution in a month or two," Mr. Evans said.

Barbados' largest managers have very different groups of clients and reported widely varying experience last year. They include:

- International Insurance Management Ltd., an independent manager with 17 active clients and $600.5 million in premium volume at the end of last year. IIM manages reinsurance units of Lincoln National Corp., which generate a large part of its total volume, confirmed Christine M. O'Connor, manager.
- Watson Wyatt, which had 15 clients at the end of the year, including 11 active insurers that generated $115 million in premiums. Watson Wyatt's business includes clients of Sedgwick Group P.L.C. that it manages under contract.
- Alexander Insurance Managers (Barbados) Ltd., which saw its client base increase to 27 captives from 20 in 1995 and its premium volume rise to $89 million from $75 million.

Aon Group Inc., which acquired Alexander & Alexander Services Inc. in December, also has a small Barbados management unit, with two captives under management. It is unclear when and how the two operations will be combined.

- J&H (Barbados), which saw a slight drop in clients to 25 from 28 in 1995 and in premium volume to $76.1 million from $79 million.

A few of J&H's clients shut down last year, including one whose parent also had a Bermuda captive and decided to consolidate and one owned by a Canadian company that lost tax benefits, Mr. Marshall said.

J&H has also added two new Canadian-owned captives and a U.S.-owned company, he said.

Mr. Marshall said he expects continued new business, including from Canada, though "obviously given the state of the Canadian market, it will not be as buoyant as in previous years."

- M&M (Barbados), which saw its client list shrink to six insurers from nine in 1995 and its premium volume fall to $40 million from $124 million.

A couple of M&M's large Canadian clients substantially cut back their Barbados operations because of the loss of tax benefits, and another client became self-managed last year, Mr. White said of the drop in volume.

Marsh & McLennan Cos. Inc. recently completed its acquisition of Johnson & Higgins, though Mr. White and Mr. Marshall both said there has been no decision on how the companies' Barbados operations will be combined. BI

Isle of Man acts to ease captive transfers

By EDWIN UNSWORTH

DOUGLAS, Isle of Man—The Isle of Man recorded its third consecutive year of captive growth in 1996, helped in no small measure by a change early in the year to its 1986 Insurance Act to allow virtually free movement of captives between qualifying jurisdictions.

In 1996, the Isle of Man had a net gain of eight captives, taking its total number to 158 by year-end. Year-end financial figures have not been released.

Bill Hastings, chief executive of the Isle of Man's recently created Insurance and Pensions Authority, is confident the law change easing redomiciliation will work in the Isle of Man's favor. Redomiciliation allows captives to move more easily between domiciles by removing the requirement for them to shut down in one location before re-starting in another.

As of Jan. 1, Mr. Hastings' role has expanded, too. He now heads the Insurance and Pensions Authority, which replaced the previous, less-encompassing Insurance Authority, of which he was also chief executive. The expansion shows the domicile's determination to expand its role as an insurance center, he said. Whereas the previous authority dealt just with captive and life insurance business, the enlarged body will spearhead development of the pension industry.

One goal of the IPA is to make the Isle of Man a "one-stop shop" for insurance and pensions business, with the new regulator acting "as a conduit for all contact in respect of both the providers and consumers of insurance and pensions services on the island," says the Authority's promotional material.

SINSER (Isle of Man) Ltd. last year became the Isle of Man's 35th approved captive manager, though it does not yet have any captives on its books. Irene Ryan, managing director of SINSER (Ireland) Ltd. in Dublin, who oversees the new office, says the Isle of Man office was started because SINSER wanted to gain access to the U.K. insurance market and because SINSER wanted to be able to offer the Isle of Man to clients in its range of domicile choices.

The first captive to transfer to the Isle of Man last year under the redomiciliation rules was L.S. Reinsurance, which had been based in Bermuda since 1963. It is owned by Manchester, England-based London Scottish Bank P.L.C., which also set up a second, new Isle of Man captive, London Scottish Reinsurance Ltd., with a goal of providing greater flexibility.

Caledonian Management Ltd., also relatively new to the domicile, manages the two captives. David Brown, managing director, said the one captive's switch from Bermuda was to enable U.K.-based directors of the insurer to take advantage of direct flights between Manchester and Douglas to save on time and travel costs when attending meetings in the Isle of Man.

Another captive manager, Willis Corroon Management (Isle of Man) Ltd., the domicile's largest manager with 42 active captives on its books, has two captives with British parents that transferred to the island from Bermuda. Willis Corroon Director Peter Foulger says other potential transfer clients are "in the pipeline."

He said he believes that as Bermuda is second only to the Isle of Man in hosting captives belonging to the U.K.'s "Top 100" companies, the redomiciliation legislation is bound to prompt further movement of captives nearer to home.

About 80% of the Isle of Man's captives have U.K. parents. For the past few years, Mr. Hastings also has been trying to increase growth from other countries.

The risks inherent in being too dependent on one territory were highlighted last year when the United Kingdom passed legislation requiring Controlled Foreign Corporations to remit 90%—rather than the previous 50%—of their profits after expenses back to their U.K. parents, for which it would be subject to U.K. tax rules.

To help overcome this, the Isle of Man passed its International Business Act 1996, which allows any captive with U.K. parents to register as an international business. This means that rather than pay tax at the Isle of Man's standard 20% corporate rate, it would pay tax at 75% of what it would pay in the United Kingdom. This met a provision of the CFC legislation that exempts an offshore insurer paying tax in the United Kingdom if it pays tax elsewhere of at least 75% of what it would be liable for in the United Kingdom.

While the Isle of Man so far has not lost any U.K.-parented captives as a result of the CFC legislation, it is too early to tell if the measures in the domicile's International Business Act 1996 help it prevent any losses or win more U.K. business.

However, Mr. Hastings maintains with regard to the CFC legislation that "the perceived threat has not materialized."

Mr. Foulger said "none of our clients has closed as a result," though he acknowledges there is a general feeling of uncertainty about how the tax will be applied. And while he is "cautiously optimistic there will be modest growth" overall in the Isle of Man's captive number this year, he adds that "until the uncertainty of

See **Isle of Man** *on next page*

Barbados captive requirements

BRIDGETOWN, Barbados—The Barbados government more than a year ago amended its Exempt Insurance Act of 1983 to make captives subject to local taxation at an initial rate of 0%.

Apart from those December 1995 amendments, however, there have been no major changes in the insurance law.

Under the law, captives must:

- Pay a one-time registration fee of $250 and an annual fee of $2,500.
- Maintain minimum capital of $125,000 in cash. A letter of credit drawn on a bank licensed in Barbados may be used for added capital.
- File annual audited financial statements with the insurance supervisor, which are not available to the public.
- Keep a register of policies, claims books and records in Barbados.

One captive director must be a Barbados resident citizen and must file with the registrar of companies a written consent form to act on behalf of the captive. Shareholders may not be residents of Barbados or any other Caribbean nation.

For more information, contact Ian Carrington, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 246-426-3815.

—By Douglas McLeod

Isle of Man updates captive law

DOUGLAS, Isle of Man—A major change in Isle of Man legislation affecting captives was enacted in February 1996, when the 1986 Insurance Act was amended to facilitate the transfer of captive business to and from other qualifying domiciles.

The law on "redomiciliation" makes such a switch easier and less expensive by allowing parent companies to move a captive insurance unit from one domicile to another without having first to liquidate it and reform it in the new domicile.

The Isle of Man last year also passed its International Business Act 1996 to allow captives to register as international businesses. The measure is an attempt to counter the potentially damaging effects on captive business of a change last year in U.K. legislation requiring Controlled Foreign Corporations to be taxed on 90% of their pretax profits, rather than the previous 50%.

The Isle of Man's new act allows captives to avoid meeting the U.K. requirement by paying tax in the Isle of Man at 75% of what they would pay in the United Kingdom—rather than the usual 20% Manx corporate tax rate—thus meeting a provision of the U.K. CFC legislation.

The Isle of Man also abolished from the start of 1997 its requirement for captives with an exposure ratio greater than 25% in any one contract of general business to make transfers to a statutory reserve.

Apart from these changes, requirements for forming an Isle of Man captive remain the same:

- Single-parent captives must have a minimum paid-up capital of £50,000 ($82,600). For captives writing third-party business, reinsurance or life insurance, the minimum capital requirements range from £100,000 ($165,300) to £500,000 ($826,400).

The minimum capital requirements plus 10% of any amount above £50,000 in capital must be paid in cash and deposited in an Isle of Man bank, though this requirement can be relaxed at the regulator's discretion.

- Single-parent captives must maintain a solvency margin equal to the minimum capital requirement plus an amount equal to 10% of net written premiums up to £2 million ($3.3 million) and 5% of net written premiums exceeding £2 million.

Captives that write third-party business must maintain a solvency margin equivalent to 15% of net premiums written but totaling not less than £150,000 ($247,900).

- Captives must present to the insurance supervisor a three-year business plan. This must include the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance is ceded; policy limits; details of the reinsurance program, including the names of the reinsurance companies; projections for claims; projections for the captive insurer's cash flow; and projections for its profits.
- A "suitable" manager on the island must manage the captive. The criteria for suitability are determined by the domicile's insurance regulator.
- A £1,000 ($1,650) registration fee is required for all new captives.
- Authorized insurance companies on the island also pay an annual fee of £500 ($826).
- For captive insurers with tax-exempt status, there is an additional annual fee of £2,000 ($3,300).

For more information on the Isle of Man's captive insurance industry, contact Dr. Bill Hastings, chief executive, Insurance and Pensions Authority, 12/14 Ridgeway St., Douglas, Isle of Man, 1M1 1EN; 00-44-1624-685695; fax: 00-44-1624-663346.

—By Edwin Unsworth

Captive Report

Irish eyes are smiling on captive industry's growth

By SARAH GODDARD

DUBLIN, Ireland—The emerald tiger is roaring.

Low inflation, a booming economy and a huge number of tourists are the outward signs of a spectacular turnaround in Ireland's fortunes.

Ten years after the International Financial Services Centre was established in Dublin's former derelict dockyard area, the IFSC has been a resounding success. Although recently the meteoric rise in other financial services has eclipsed the insurance sector's performance, captive growth continues.

Sixteen captive insurers and reinsurers were formed in 1996, but following the first-ever review of active companies, Dublin recorded a net gain of seven captives. According to the Industrial Development Agency of Ireland, a government department that promotes the IFSC, Dublin had 134 captives in 1996. Because the IDA did not review operational captives previously, past years' figures may have been inflated by including inactive captives.

Thirty captives were licensed in 1994 to beat a deadline set by the European Commission to take advantage of the 10% corporation tax rate it authorized for overseas companies setting up operations within the IFSC. Some of these never started operating, partly because of reduced premiums in the traditional insurance and reinsurance market, said David Smith, business development executive at the IDA. Even though they remain authorized, the IDA has decided to stop counting them.

Dublin's captive managers generally are pleased with 1996 growth, amid low insurance and reinsurance rates.

"Educated risk managers realized that insurance is a cyclical market," said Michael Trainor, managing director of Willis Corroon Management (Dublin) Ltd. Although pricing in the reinsurance market is squeezing the captive market, captives can help smooth out the cycle, he said.

Eamon O'Brien, managing director of Alexander Insurance Managers (Dublin) Ltd. and chairman of the Dublin International Insurance & Management Assn., said the worldwide depression of insurance rates has helped slow captive growth.

While "there are various niches Dublin is not strong in, such as association captives," captive managers are looking to establish other types of captive structures, Mr. O'Brien said.

DIMA has created a document on the domicile's future that it is discussing with the regulators, and the subject of rent-a-captives, which currently are not permitted in Dublin, has resurfaced.

Paul Sinnott, managing director of Mutual Coyle Hamilton Managers Ltd., has championed the rent-a-captive cause for some time, and more detailed proposals are being drawn up for submission to the authorities.

Mr. Sinnott said he thinks the time is right for regulators to relax their views on certain types of operations, such as rent-a-captives. Dublin "should be able to offer all options" to compete with domiciles such as the Isle of Man, he said.

But Patrick Kelly, assistant principal of the insurance section at the Department of Enterprise and Employment, said rent-a-captives are somewhat more complex and harder to regulate than regular captives.

Nevertheless, captive managers are interested in the principle. "Most people in the captive market support the rent-a-captive concept," said Aidan Pyke, senior account executive at SINSER (Ireland) Ltd.

And a number of midsize European companies would like to explore captives but cannot justify the expense of setting up their own, noted Michael Matthews, managing director of AIG

Continued on next page

Isle of Man

Continued from previous page

CFC legislation is resolved, selling new captives will be more difficult, at least as far as U.K. companies are concerned."

Graham King, general manager of Marsh & McLennan Management Services (Isle of Man) Ltd., said that as a result of the United Kingdom's CFC legislation, "We'll have to look to other markets for captives."

Mr. Hastings and most captive managers on the Isle of Man say that in the drive to win business from other geographic areas, a major source of recent business has been South Africa, which over the past couple of years has contributed seven Isle of Man captives. Continental and eastern European countries are another growing source of business.

Last year, Willis Corroon set up Gallium Insurance Co. Ltd. for ESKOM, South Africa's public utility. It also manages Interbuild Insurance Ltd., a captive of the South African company Murray & Roberts, which last year transferred to the Isle of Man from Bermuda.

Sedgwick Management Services (Isle of Man) Ltd. last year set up ABSA Manx Insurance Co. Ltd. for ABSA Bank, the biggest in South Africa.

The Isle of Man is closely watching developments at rival Guernsey, which in January introduced legislation allowing a form of rent-a-captive known as a "protected cell company" (see story, page 38). A PCC can involve any number of participants whose assets are protected in individual "cells," with the main attraction being that creditors of any one cell have no recourse to assets of any other cell. So far, though, Guernsey has yet to attract any new business under this facility.

Colin Kniveton, account manager at Sedgwick Management, which manages 33 Manx captives, said the move by Guernsey is being closely studied in the Isle of Man. He added that he does not think it will be very long before the Isle of Man authorities, which already have sought the views of captive managers on the topic, introduce similar legislation. BI

Continued from previous page

Insurance Management Services Ltd.

It would make sense for these companies to enter a rent-a-captive operation to get used to retaining risk, he said, and eventually they could use the rent-a-captive fund to capitalize a stand-alone captive.

Mr. Matthews predicted that Dublin's regulators eventually will support the concept of rent-a-captives. "As Dublin continues to grow and to be as successful as it is, the pressure will ease off from people like the IDA, and they will look at new structures," he said.

One of Dublin's biggest selling points is the ability to write direct and reinsurance business across the European Union, under the third insurance directive. This continues to attract multinationals, particularly from the United States. Of the 16 captives set up in 1996, half have U.S. parents.

"There is still a lot of interest from the U.S.," said Willis Corroon's Mr. Trainor. "They are learning about Dublin and identifying that the European Union is going to be a real thing with the introduction of Economic and Monetary Union. Ireland is one of the major participants within EMU," he added.

"Major multinationals, particularly from the U.S., are interested in one-stop shopping," said Alexander's Mr. O'Brien. In response, more captive managers are adding treasury services to handle captives' financial needs.

Meanwhile, managers are hopeful the Irish government will address the issue of the 10% tax rate for captives, which is set to expire in 2005

Most observers think a new rate for captives will be set, to take effect after the deadline, of between the 10% rate for captives and the 37% that domestic businesses now pay.

The Irish minister of finance has hinted the tax issue will be addressed this year, though few captive managers expect a resolution soon.

"The tax regime is quite important, and Dublin will have to put itself into a position where it is not an issue by 2005," said Garry Cullen, director at Sedgwick Management Services (Ireland) Ltd.

Other managers place less emphasis on the tax. "Our clients are not concerned at all," said AIG's Mr. Matthews. "They see the tax as a plus rather than the motivating force of being in Dublin."

"The primary reason to set up in Dublin is to direct-write, to save fronting fees and eliminate or reduce the number of brokers involved—cutting out a layer of additional cost," said Alexander's Mr. O'Brien.

Other attractions of Dublin include low costs, a well-educated and English-speaking workforce and expertise in the domicile, said SINSER's Mr. Pyke. "The whole infrastructure from the regulators down is geared and focused to accommodate all financial services," he said.

If there is a cloud on the horizon, it is the possibility that new European regulations, likely to be introduced within the next two years, will raise solvency margins and minimum guaranty funds for European-based insurers.

As one of the European regulators involved in the changes, the DEE's Mr. Kelly takes a pragmatic view. "If they set the threshold too high at entry level, it could be a barrier," he said. The current levels, set in 1973, are outdated, he added. BI

No change in Dublin's captive rules

DUBLIN, Ireland—The regulatory environment in Dublin is stable, and captive formation requirements have not changed in the past year.

Regulation is ultimately governed by European Union insurance directives that have been incorporated into Irish law.

Captives are eligible for a 10% corporation tax if they are located in the International Financial Services Centre in the Custom House area of the city. Neither regulators nor captive managers think the 10% rate will last beyond 2005, when it is set to expire. New companies can be licensed under the 10% rate through the end of the year 2000.

Captives in Dublin also must commit to employing a certain number of people. The Industrial Development Agency of Ireland, a government body responsible for marketing the IFSC, determines the required number of employees for each captive.

Establishing a reinsurance captive typically takes less than two months. Once the company has been incorporated, it applies to the IDA and Certification Advisory Committee for a 10% tax certificate. Approval for the certificate comes from the CAC, at which point the company can begin doing business.

The application fee is 4,000 Irish punts ($6,318), with an additional 142 punts ($224) payable on registration, and all companies must pay the standard capital duty of 1% of paid-up share capital. All captives must have a registered office, and direct-writing captives are required to have an authorized insurance manager.

Minimum capitalization levels of 500,000 punts ($789,750) apply only to direct-writing captives, while reinsurance captives meet a 100,000-punt ($158,000) mark.

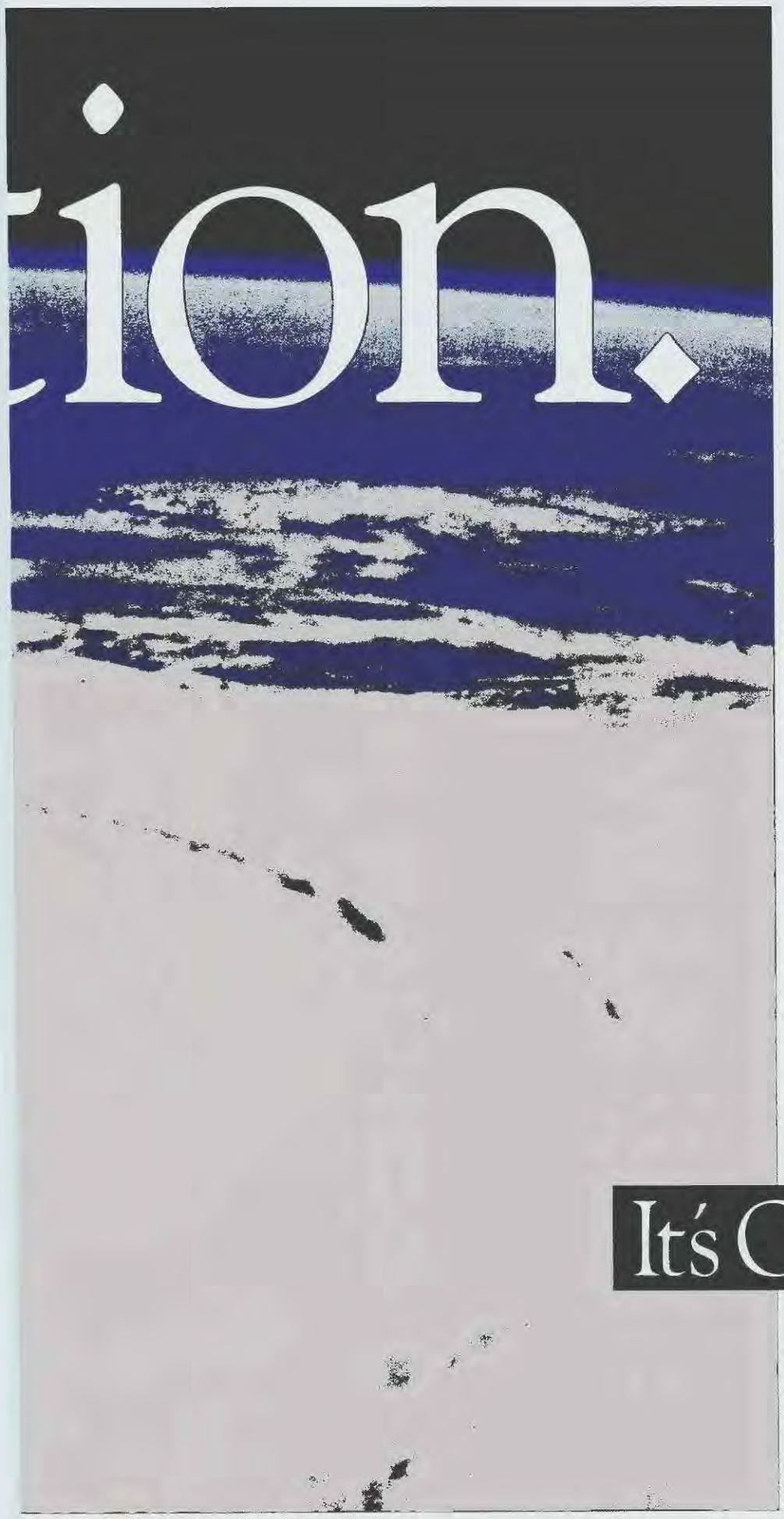
Direct-writing captives are required to fulfill all the regulatory criteria demanded of insurers, including filing annual accounts and quarterly returns with the Department of Enterprise and Employment.

Solvency requirements are the standard E.U. criteria of 18% of gross premiums or three years' claims experience.

Ireland has more than 30 double-taxation treaties either in place or being negotiated with countries around the world, including the United States.

For more information, contact the Financial Services Division, IDA Ireland, Wilton Park House, Wilton Place, Dublin 2, Ireland; 353-1-603-4000; fax: 353-1-603-4040; or the Department of Enterprise and Employment, Frederick Building, Setanta Center, S. Frederick St., Dublin 2, Ireland; 353-1-661-4444; fax: 353-1-679-5710.

—By Sarah Goddard



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–Charles Dudley Warner, 1890

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Captive Report

Singapore shows net gain of one captive in 1996

By KATE TILLEY

SINGAPORE—Captive growth in Singapore is inching forward.

Three captives formed in the island nation in 1996, but two others were deregistered, bringing the year-end 1996 total to 49, one more than at year-end 1995, according to The Monetary Authority of Singapore.

Two captives owned by Japanese companies have registered so far this year, while one has deregistered, bringing the current number to 50.

Gross premiums written in 1995 dropped 8.4% from 1994 to $284.2 million Singapore ($201.2 million). Year-end 1996 figures are not yet available.

Singapore's first life insurance captive, Northern Insurance Pte. Ltd., owned by a Canadian company that is keeping a low profile, was formed last year. It is managed by NMG Risk Managers & Actuaries Pte. Ltd.

Among 1996 formations was Sedgwick Management Services (Singapore) Pte. Ltd.'s establishment of a captive for Normandy Mining Ltd., an Adelaide, Australia-based mining company. It began writing business Dec. 1.

The captive manager also established Fernz Insurance Pte. Ltd. for Auckland, New Zealand-based Fernz Corp. Ltd., but it also lost a captive with the deregistration of Sydney-based Matila Insurance Pte. Ltd. Matila was established in 1986 to write tobacco product liability coverage for Sydney-based WD & HO Wills (Australia) Ltd., but had been in runoff in recent years.

Sedgwick is the largest of Singapore's captive managers, with 21 captives under management, including two outsourced from other managers.

This year's entrants to the domicile include Johnson & Higgins Risk Management Services (Singapore) Pte. Ltd.'s startup of a captive owned by a Japanese toothpaste manufacturer, SunStar.

Last year Johnson & Higgins, which now manages five Singapore captives, took over of Southern Insurance (Singapore) Pte. Ltd., a captive of paperboard manufacturer Visy Industries Pty. Ltd., from International Risk Management's Singapore office. IRM now manages only one captive in Singapore.

George Tarabaras, Sedgwick managing director, said there is "a general trend" for captives to write more business, despite the soft market, and to retain more risk. Many Singapore-based captives are maturing and are positioning themselves for a change in the insurance market by retaining increased layers of coverage, he noted.

Singapore's chances of attracting more Australian-owned captives to the domicile have been hurt by an Australian government proposal to remove Singapore from Australia's "white list," a list of countries with tax rates considered sufficiently similar to Australia's. Therefore, Australian businesses that set up companies in those nations are not required to pay additional tax to Australia (*BI*, Feb. 24).

If Singapore is taken off the list, Australian-owned captives will have to pay another 10% in tax to the Australian government.

Mr. Tarabaras said Sedgwick is lobbying the Monetary Authority of Singapore to ask the Australian government to retain Singapore's white-list status.

Sedgwick has already submitted its own protest to the Australian government, arguing that the removal of Singapore is "inconsistent with Australia's trade policies."

Some smaller captives are "examining their future" in light of the Australian tax plan, but larger clients are taking "a professional" attitude, Mr Tarabaras said.

Even without the white list issue the Australian insurance market is so soft Australia-based companies have few incentives to establish captives observed George McGhie, managing director of Johnson & Higgins Risk Management Services (Singapore).

Richard B.H. Tan, managing director of Alexander Insurance Managers (Singapore) Pte Ltd., which manages six captives, said growth in Singapore is deterred for other reasons as well. Asian companies do not yet see the advantages of captives, and there is a global move toward finite risk transfer options, which slows captive growth worldwide, Mr. Tan said.

But Mr. McGhie downplayed that saying there is "a lot of smoke but no much fire" with finite risk financing options. "Cheap insurance is still the best way to secure risk," he said.

While captive managers agree Asia still represents the major growth area for potential new captive owners Asian companies will not necessarily choose Singapore as their domicile Mr. Tan noted.

A new alternative may be Hong Kong. Draft captive legislation has been prepared there, but Hong Kong won't take off as a domicile until ramifications of the upcoming July 1 transition to Chinese rule are known Messrs. Tan and Tarabaras agreed.

Still, once Asian risk managers understand "what captives can do and how flexible they can be," there will be increased growth from that region Mr. McGhie said.

Mr. Tan said Japanese companies are starting to consider captives as a viable option, particularly with the freeing up of Japan's insurance market. In the past, because many big Japanese insurers are linked with major industrial companies, those companies have placed all their insurance with the related insurers.

Mr. Tarabaras agreed that Japanese companies are very interested in Singapore, and added that there is still interest from Australia as well.

Sedgwick completed a feasibility study in February for a big Taiwanese company, and Mr. Tarabaras is confident the company will license a captive this year. Sedgwick also is preparing captive feasibility studies for two Australian companies.

For more information on Singapore as a domicile, contact the Insurance Commissioner's Department, 1 Shenton Way, MAS Building, Singapore 0207; 65-225-5577; fax: 65-229-9694. BI

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Captive Report

Hawaii grows slowly but enjoys appeal on West Coast

By ROBERTO CENICEROS

HONOLULU—Captive growth is slow in Hawaii, with only four new captives added in 1996.

But the domicile remains appealing to West Coast companies.

By year's end, Hawaii had 49 licensed captives, which wrote $204.7 million in gross premiums, according to the state Insurance Division. In 1995, the state's 45 captives wrote $220.4 million in gross premiums.

Among other factors, Hawaii is probably getting passed over by some potential clients and their brokers merely because it still has relatively few captives, captive managers suspect. It has yet to develop the critical mass that has helped Vermont's growth snowball, they say.

Yet Hawaii continues to attract some large, innovative captives, and new legislation may add appeal.

In September, Santa Clara, Calif.-based National Semiconductor Corp. redomesticated most of its Bermuda captive operations to Hawaii. The company will use the captive in part to create a nationwide automobile insurance program for employees, said Eugene Kiernan, National Semiconductor's corporate director of risk management.

As envisioned, employees would purchase policies with minimum mandated coverage levels from commercial insurers in the states where they reside, Mr. Kiernan said. Then, the captive would help provide employees with additional auto coverage at a lower cost than conventional insurers.

The program will allow National Semiconductor to get more use out of its captive and will stimulate employee loyalty and productivity by providing them a vehicle to obtain low-cost insurance, Mr. Kiernan said. The company is also considering using the captive similarly to provide employees with homeowner coverage.

The company already uses its Hawaii captive for property, marine, trade disruption, reinsurance coverages and marine insurance for corporate customers.

The semiconductor company chose Hawaii for its captive operation in part because of the ease in reaching the domicile from California.

"Going to Bermuda is a three-day trip just for a one-day meeting because it takes two days to get there and come back," Mr. Kiernan said. "Hawaii can be almost an overnight trip, and the airfare to go to Hawaii is $400, where Bermuda can be $1,300."

Additionally, National Semiconductor eventually wants to provide employee benefits, such as life insurance, through the captive. That, among other things, would require it to have a domestic domicile, Mr. Kiernan said.

National Semiconductor uses M&M Insurance Management Services Inc. for captive management.

Risk managers with long-established captives in Honolulu also remain loyal to the domicile and recommend it to colleagues considering forming a new captive or redomesticating an existing one.

The state has a good regulatory environment and an Insurance Department that is focused and understands the business of creating a captive, said Dean A. Reynolds, director of risk management and human resources for Nissan North America Inc. in Torrance, Calif. The state also has the necessary infrastructure for captive growth, he maintains.

Nissan has two captives in Hawaii, and Mr. Reynolds is a director of the Hawaii Captive Insurance Council (*BI*, Feb. 26, 1996). He delivered his comments during a recent meeting of the Risk & Insurance Management Society Inc.'s Los Angeles chapter, where he was one of three risk managers with Hawaiian captives who discussed the domicile's attraction.

They extolled a desirable tax structure and the ease of reaching Hawaii from California. Beside the frequency of flights from the West Coast, time-zone changes mean time is wasted in reaching domiciles to the east, while traveling west stretches the business day.

Hawaii is "just a lot easier for people to get to from the West Coast," said T. Michael Shelton, assistant treasurer and director of risk management for Occidental Petroleum Corp. in Los Angeles.

Occidental redomesticated a captive from Bermuda to Hawaii a few years ago and chose the domicile partly because of its low premium tax structure, Mr. Shelton said.

The state's captive premium tax for pure captives is 0.25%.

Pam Rogers, director of corporate risk management for Nestle USA Inc. in Glendale, Calif., also praised the domicile's favorable tax structure.

When Nestle consolidated several risk management programs and departments in 1992, it created a captive the next year so that it could maintain one deductible for corporate insurance programs yet allow its operating units to have separate deductibles that fit their individual needs, she said.

Nestle uses its Hawaii-based captive, Meridian Pacific Insurance Co Inc., for "buybacks" of its property and casualty retentions and to fund workers compensation losses, which account for more than 50% of the company's cost of risk, according to Ms. Rogers.

"We looked all around the world at different domiciles and narrowed it down to Bermuda and Hawaii," Ms Rogers said. "I was quite surprised to find out that, both on an accelerated tax deduction basis and looking at non-accelerated tax deduction, Hawaii still came out ahead financially in the analysis."

Location also was a factor.

"It's a long trip to get (to eastern domiciles) from here," Ms. Rogers said. "You waste a lot of time getting there, and we know we can get to Hawaii much more quickly when we need to. So geography was an issue for us."

Nestle uses M&M Insurance Services for management.

Despite the appreciation for the

Continued on next page

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domicile, growth also was slower than industry supporters liked in 1996 as well as in 1995 when five captives were added.

Consolidation among brokers stunted potential growth in 1996, Hawaii captive observers said. Hawaii has relatively few smaller captive management companies, and some of the large alphabet brokers were distracted by the recent consolidations, they said.

Six captive management companies have offices in Hawaii, and three others manage captives there from offices outside Hawaii.

Cheap commercial insurance rates also distracted companies from seeking out alternatives, Hawaii captive managers said. This is especially the case with workers comp insurers in California offering guaranteed rates below expected loss costs, said Peter J. Lowe, senior vp of M&M Insurance Management Services Inc. in Honolulu.

One company won a $600,000 premium decrease at renewal from its incumbent insurer by having a captive approved by the Hawaii Insurance Division, a Honolulu captive manager said. When the insurer came through with the reduced rate, the company dropped its captive application and paid the manager a fee for its service.

Hawaii supporters are hoping newly enacted and proposed legislation will help spur growth.

Act 248, signed by Hawaii Governor Benjamin Cayetano in July, aims to attract more formations by liberalizing pure captives' ability to write "affiliate" business. Pure captives now can insure entities that share common risks and maintain a working relationship with the insurer. The previous law contained requirements of common ownership, control and management.

The Hawaii Captive Council also is backing legislation calling for the state to fund a captive administrator within the Insurance Division. Under H.B. 2202, the administrator would be dedicated only to captive regulation. Currently, insurance division personnel split their time, serving on a captive task force group while still performing other duties not related to captives.

"That will add some of the marketing and technical expertise necessary for the industry to grow in Hawaii," said Craig M. Wantanabe, president of the HCIC and director of captive operations for 50th State Risk Management Services Inc., an affiliate of AIG Insurance Management Services. It could also cut startup costs, because the state now sends applications to an independent reviewer.

"That's a little bit more cost you need to incur," Mr. Wantanabe said. "With a full-time position within the insurance division, you have more consistency in the review process. And if it does go out for a review, it will probably be very specific."

Yet the current arrangement also has its advantages, National Semiconductor's Mr. Kiernan said. Outsourcing the review process puts it in the hands of professionals who have a strong understanding of the insurance industry.

H.B. 2202 is supported by the Hawaii Insurance Division, said Gordon Nishiki, an insurance program specialist for the division. It has passed through the state's lower house and has gone to the senate, as have three other bills backed by the HCIC.

The organization also is seeking to allow reciprocal insurance groups to set up association or risk retention groups. The organization hopes H.B. 1189 would attract quasi-government groups and nonprofit organizations that now go to the Cayman Islands to form captives, said Marc J. Lapointe, managing director of Alexander Insurance Managers in Honolulu.

H.B. 1190 would liberalize a captives' ability to write credit life and credit disability insurance.

H.B. 1216 would give the insurance commissioner more latitude in overseeing association captives, including risk retention group operations. That bill would reverse a 1994 law prompted by concerns from the National Assn. of Insurance Commissioners.

Hawaii's recently appointed insurance commissioner, former legislator Rey Graulty, "is extremely supportive of our industry," said Mr. Lapointe.

According to the Insurance Division, other captives formed in Hawaii during 1996 were:

- Centaur Insurance Co. Inc., formed by Emeryville, Calif.-based Chiron Corp. The pure captive writes casualty coverage for the biotech company and is managed by M&M Insurance Management Services.
- Oceanic Insurance Inc., formed by Los Angeles-based Castle & Cooke Inc., a real estate developer and resort owner and operator. It writes surety insurance and is managed by Johnson & Higgins Services Inc.
- Residential Insurance Co. Inc., a Risk Retention Group, whose members are building contractors. The captive writes homeowners warranty insurance in 45 states. It is managed by Hawaii Captive Insurance Management Inc. BI

Hawaii's largest captives

(Ranked by 1996 gross premium volume)

Captive / Parent
Nissan Motor Insurance Corp. Nissan North America Inc.
Meridian Pacific Insurance Co. Inc. Nestle Holdings Inc.
Entertainment Risk Management Insurance Co. Inc. Draney Information Service Corp.
Opcal Insurance Inc. Occidental Petroleum Investment Co.
GCI Indemnity Inc. Grancare Healthcare Services Inc.
California Hospitals Insurance Services Co., A Risk Retention Group California acute care hospitals
Attorneys Insurance Mutual Risk Retention Group Inc. California law firms
National Liberty Insurance Co. Equity Group Investment Inc.
F.L. Insurance Corp. Marriott International Inc.
Sutter Insurance Services Corp. Sutter Health

Source: State of Hawaii Insurance Division; premiums not released.

Largest managers of Hawaii captives

(Ranked by premium volume in millions of dollars)

Manager	Premium volume 1996	Premium volume 1995	Captives 1996	Captives 1995	Staff 1996	Staff 1995
M&M Insurance Management Services Inc.	$92.1	$94.7	14	12	5	4
Becher & Carlson Risk Management Inc.	50.0	51.1	8	8	2	3
Johnson & Higgins Services Inc.	21.6	29.4	10	9	3	3
Willis Corroon Management Ltd.	14.5	13.7	2	2	NA	NA
Sedgwick Management Services (USA) Ltd.	12.7	14.5	6	6	**	NA
Alexander Insurance Managers	8.5	13.1	2	2	2	2
Hawaii Captive Insurance Management Inc./USA Risk Group	2.3	1.5	5	4	4	4
IAS Insurance Management	2.2	1.1	1	1	NA	NA
50th State Risk Management Services Inc.	0.4	0.9	1	1	4	4

**Subcontracts regulatory and accounting services to Hawaii Captive Insurance Management Inc./USA Risk Group
Source: The Hawaii Insurance Division and *BI* survey

Hawaii sets capital, surplus on case-by-case basis

Captive Report Hawaii

HONOLULU—The Hawaii Division of Insurance determines capital and surplus requirements on a case-by-case basis, but an applicant may expect minimum capitalization requirements to be $250,000 for pure captives, $750,000 for association captives and $500,000 for risk retention groups.

Application review fees are about $3,500 for pure or single-owner captives and $7,500 for association captives and risk retention groups, depending on the degree of complexity of the filing.

License renewal fees for captives in the state are $300 annually.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Other category requirements include:

- A minimum of one annual board of directors meeting, which the captive insurer must hold in the state of Hawaii.
- Maintaining the captive's principal place of business in the state.
- Appointing a resident agent to represent the captive company locally.

Captive companies based in Hawaii normally are permitted to underwrite property, casualty, marine and transportation, surety, title and workers compensation coverages.

- For more information on forming a captive insurance company in Hawaii, contract Rey Graulty, Insurance Commissioner, 250 S. King St. P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2790.

Despite reforms, no growth in Colorado

By JOANNE WOJCIK

Captive Report Colorado

DENVER—Colorado's captive insurance industry has stalled, in spite of recent legislative changes aimed at giving the nation's oldest captive domicile a jump start.

Colorado in 1994 revamped its captive law to permit captive insurers to write employee benefits coverage.

However, that same year the U.S. Labor Department rejected a proposal by transportation giant CSX Corp. to reinsure its group term life insurance business through its Vermont captive. The Labor Department ruling, a nearly insurmountable roadblock for employers that want to use their captives as a benefits funding tool, held that too much CSX-related business would have flowed through the captive.

So far, only one captive has taken advantage of the Colorado law: the Farm Credit System Assn. Captive Insurance Co., which used its unique status as a government entity to form a captive writing medical stop-loss coverage for its members (*BI*, April 15, 1996).

Colorado had only 18 captive insurance companies at year-end 1996, down from 20 at the end of 1995.

With the recent legislative reforms falling flat, most members of the captive community are hopeful that new faces in the Insurance Division will help the state grow more captives.

This optimistic outlook is perhaps best evidenced by the number of captive managers operating in the state relative to the number of captives managed. Colorado has seven captive managers and 18 captives.

"It's the domicile of choice for captive managers," quipped Paul Burkett, president of Snoaspen Insurance Group Inc., a captive management company he formed in 1995 when he left Meadowbrook Insurance Group of Colorado, another captive manager.

Based in Golden, Colo., Snoaspen manages Westmerica Insurance Co., a pure captive formed in 1994 to write workers compensation, physical damage and garage liability coverage for Phil Long Auto Dealership Group of Colorado Springs.

"The division's attitude is that they want to work with you to solve problems," said Mr. Burkett. "And the infrastructure is here: We've got Milliman & Robertson, Tillinghast, good captive lawyers and TPA networks and managers."

Michael Murphy, principal consultant of Denver-based captive manager RiskCap, agreed: "Nancy Litwinski is very proactive, very solutions-oriented."

Ms. Litwinski took over as assistant commissioner for financial regulation in October 1996. She succeeds Frank Dino, who left in late 1995 to accept a position in the Florida Insurance Department (*BI*, April 22, 1996).

She came to Colorado after working eight years in the Maine Bureau of Insurance, where she most recently held the post of director of financial analysis. In that position she was responsible for the self-insured workers compensation market as well as the financial oversight and licensing of domestic and foreign insurers operating in the state.

Ms. Litwinski's most significant achievement while in Maine was a 1993 award given to her by the governor for helping address problems employers faced when the insured workers compensation market collapsed there in 1992.

Even though Colorado regulators have done what they could to stimulate growth, a number of outside uncontrollable factors are keeping captives away, some managers suggest.

For example, the CSX decision on

See **Colorado** *on next page*

Colorado

Continued from previous page
employee benefits effectively nullifies the change in the Colorado captive law, Mr. Burkett said.

And Richard Johnson, president and chief executive officer of Alternative Insurance Management Services Inc., was forced to move both Neumann Insurance Co. and M.S.J. Insurance Co. to the Cayman Islands because of the prohibition against captives writing third-party business in Colorado, he said.

After the owners merged, they decided to consolidate their Colorado captives, Mr. Johnson said. Neumann is owned by the Franciscan Health System and M.S.J. is owned by the Sisters of Charity. Both hospital chains are based in Cincinnati.

"They also needed to do third-party medical malpractice because they made a lot of joint ventures with other hospitals, but they didn't want those hospitals to become joint owners of the captive," he explained.

So the captives were merged and moved offshore to the Caymans where they are being managed by Aon Risk Services (Cayman) Ltd. Mr. Johnson continues to do the claims administration work for the captives from his Englewood, Colo., office. This move will likely remove AIMS from its spot as the domicile's largest captive manager. At year-end 1996, it was managing four captives with gross premiums totaling $22.3 million. But next year that figure will be cut in half.

Also leaving the domicile in 1996 was Global Indemnity Assurance Co., a pure captive owned by Browning Ferris Industries. Global redomesticated to Vermont.

The move occurred after Global changed managers, explained Paul A. Froment, vp and branch manager for Johnson & Higgins Services Inc. of Colorado in Denver. J&H lost the business to M&M Insurance Management Services Inc., which moved Global to Vermont, he said. Ironically, J&H earlier this year was acquired by Marsh & McLennan Inc., the parent firm of M&M Insurance Management Services. J&H managed the only new captive formed in Colorado last year, keeping its roster at two.

Largest managers of Colorado captives

(Ranked by premium volume in millions of dollars)

Manager	Premium volume		Captives		Staff	
	1996	1995	1996	1995	1996	1995
Alternative Insurance Management Services Inc.	$22.3	$23.4	4	4	7	9
RiskCap	21.9	21.6	4	4	18	15
Aon Risk Services	15.0	15.2	1	1	1	1
Johnson & Higgins Services Inc.	19.3	2.5	2	2	1	1

Source: Annual statements filed with the Colorado Division of Insurance and Business Insurance questionnaires and interviews.

Lion Insurance Co. was licensed last November as a pure captive by MDC Holdings Inc., the parent of Denver-based homebuilder Richmond Homes. The captive was formed as a result of an insurance settlement from a class-action construction defect lawsuit, Mr. Froment said. MDC Holdings capitalized the captive with $575,000 and paid the remainder of the settlement from its insurer as premiums to the captive, which will then cover any defect claims as they arise.

While Colorado had a net loss of two captives in 1996, things may be different this year, managers say.

RiskCap already has two captive applications pending. One is for a single-parent captive to write the contractual liability risk of a large national association. The other is Healthcare Professional Indemnity Co., which is being formed as a risk retention group to write medical malpractice coverage for rural medical clinics.

Mr. Murphy expects both to be approved in the next few months.

Alan Schmitz, an attorney with Hall & Evans in Denver, is working on a hole-in-one captive for the National Auto Dealers Assn. based in McLean, Va.

The captive, to be called NADA Indemnity Inc. will cover the cost of car giveaways in member-sponsored golf tournaments. Previously, car dealers self-insured this exposure since the odds of making a hole-in-one are roughly one in 43,000, he explained.

Meanwhile, Farm Credit's captive is adding four new lines to its current stable of coverages which include directors and officers liability, fidelity and trustee liability, bankers blanket bond, auto liability, general liability, workers compensation and medical stop-loss.

By the end of 1997, the captive also will be writing auto physical damage, owned property, mortgage impairment insurance and lenders single interest. The last two lines are coverages typically purchased by banks and financial institutions to guarantee the properties they mortgage are insured, explained Don Pasmore, underwriting manager.

Mr. Pasmore's captive is perhaps the Colorado market's greatest success story, returning 76 cents on each dollar of premium paid by its owners since it was formed in 1988.

Unfortunately, not enough other captive owners view Colorado as "home" for their insurance business ventures.

In fact, the Colorado Assn. of Captive Entities decided to cancel its annual conference in Vail because of lack of interest. Instead, CACE is working with the Captive Insurance Company Assn. to co-sponsor an event linked with its spring annual meeting, which is usually held in Southern California. BI

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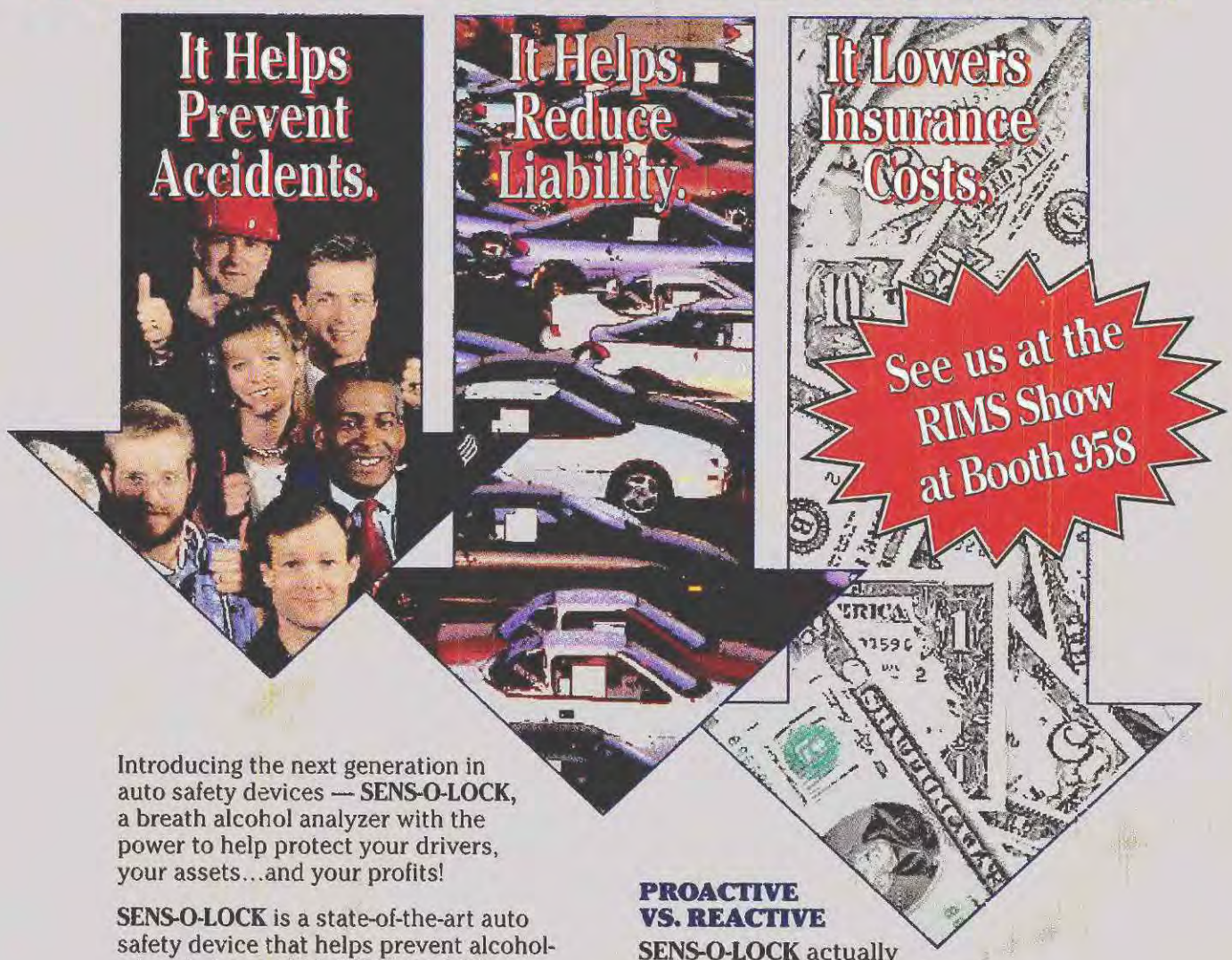

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Captive Report

Colorado law spells out captive requirements

DENVER—Companies can form both single-parent and group captives in Colorado to write insurance and reinsurance covering the risks, hazards and liabilities of their parent company and affiliated entities.

Changes to Colorado's captive law in 1994 permit captives to write employee benefits coverage. However, captives that write employee benefits must provide the minimum mandated coverage that commercial insurers provide under Colorado law.

The 1994 captive law reform also eliminated the "industrial insured" classification under which some group captives, like risk retention groups, had been established.

Under the new law, captive insurers can be formed either as single-parent or as group captives. Risk retention groups now may be formed either as group captives or as commercial insurance companies.

Initial capitalization requirements also were lessened so that both single-parent and group captives need only $500,000—including $300,000 in capital and $200,000 in surplus—before they can begin underwriting.

The 1994 captive law also simplifies premium tax payment requirements for captives that report their earnings on a fiscal-year basis.

Under the previous law, captive insurers operating on a fiscal-year basis were required to file their financial reports on a calendar-year basis so the Division of Insurance could calculate premium tax liability.

Captives that use a fiscal-year reporting method now can pay the minimum $5,000 premium tax at the end of the calendar year, with the balance due 60 days after the end of the captives' fiscal year.

Several other changes were made in 1994:

- Captive owners no longer need to maintain joint deposits with the commissioner.

Because owners could get to those funds only by physically going to the bank with an Insurance Department official, the approach effectively restricted owners' access to captive funds. Captives now establish joint custody accounts that require only the captive owner's and the commissioner's signature for withdrawals.

- Captives that are managed by captive management companies are no longer required to purchase their own fidelity bonds if the captives are covered under their managers' fidelity bond.

Unchanged provisions in the law:

- The tax imposed on captives is the greater of $5,000 or 0.5% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million. Captives that write reinsurance pay 0.25% of the first $20 million in assumed reinsurance premiums, plus 0.1% of each dollar thereafter.
- Home offices must be located in Colorado, and all books, records and claims-handling documents must be maintained in the state.
- Single-owner captives may make loans to their owners as long as they maintain the minimum capital and surplus levels.
- Captive insurers must pay an initial application fee of $200 and an annual $300 fee.

The commissioner may require that a captive retain independent outside insurance examiners to supplement the division's evaluation in organizing a captive or for annual financial examinations of existing captives. All expenses related to the outside examiner must be paid by the captive.

For more information about forming a captive in Colorado, contact Jack Ehnes, Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499, ext. 305.

—By Joanne Wojcik

Smaller international domiciles strive to woo new captive insurer business

Several jurisdictions around the world are vying with more established captive insurance domiciles for new business, though growth is non-existent for most.

In addition to relatively long-established centers like the Turks & Caicos, there are a host of new domiciles, including the Aland Islands, Guam, Montenegro, New Zealand, New Brunswick and Panama.

Reports on this handful of domiciles follow:

Turks & Caicos

The Turks & Caicos Islands is slowly expanding its captive insurance business while remaining primarily a domicile for credit life reinsurers.

The domicile finished last year with 61 licensed captive insurers, a net gain of five from year-end 1995, according to Superintendent of Insurance Colin Holder.

Most of the captives have been set up by North American companies and many have been formed to fund deductibles for their parents' workers compensation programs, he reported.

Some captives have also been formed to write high excess environmental liability coverages for non-U.S. operations of companies that need coverage to meet local legal requirements, he said.

In contrast to the relatively small number of captives, the Turks & Caicos had licensed 1,855 credit life companies by the end of last year, with 194 new licenses issued during 1996, Mr. Holder said.

Credit life companies may be set up by auto dealers, for example, to assume life insurance written for car buyers who finance their purchases.

Licensing requirements under the Turks & Caicos Insurance Ordinance of 1989 have changed little in the last year. Under the law, an insurer must submit a business plan that describes: its risk exposure and asset base; types, sources and volume of business; its retentions and proposed reinsurance relationships; its loss ratio projections; and its reasons for choosing the Turks & Caicos as a domicile.

The superintendent can set minimum capital and solvency requirements based on an insurer's business plan. However, regulators follow some general guidelines:

- General insurers should have a minimum of $100,000 in capital and may have to add more based on expected premium volume, types of business to be written, retentions and loss and expense ratios.

Although not mandatory, the government has encouraged non-domestic insurers—those writing business outside the Turks & Caicos—to keep at least $100,000 in assets within the domicile to ensure the funds are accessible to regulators in case an insurer is wound up.

- Insurers writing up to $5 million in net property/casualty premiums should maintain a net worth equal to 20% of premium volume. Those writing more should have a net worth equal to $1 million plus 10% of net premiums over $5 million.
- Those writing life business should have a minimum net worth of $180,000.
- Those writing both life and property/casualty premiums up to $5 million should maintain a net worth equal to 20% of premiums, and those writing more than $5 million should have a net worth equal to $1 million plus 10% of net premiums over $5 million.

Annual fees are $2,000 for captives, $3,500 for insurance managers and $1,000 for brokers.

For more information, contact Colin Holder, Superintendent of Insurance, P.O. Building, Front Street, Grand Turk, Turks & Caicos Islands; 809-946-2791.

—By Douglas McLeod

British Virgin Islands

The British Virgin Islands, which enacted its first international insurance law in 1994, saw a net gain of 10 new captive insurers last year, bringing its total to 54 captives by year-end, according to Peter Bates, supervisor of insurance.

So far this year, the domicile has added another five captives and one insurance manager, bringing the number of managers in B.V.I. to eight.

Most of the captives are U.S.-owned single-parent entities and many are relatively small, generating $4 million to $5 million in annual premiums, Mr. Bates said.

"We aren't aiming at small companies particularly," but that is the business B.V.I. has attracted, he said. "We are happy to have them because a lot of them make very sound sense."

At the same time, the islands saw a dramatic decline in the credit life reinsurance sector after the government imposed a $1,000 annual license renewal fee on credit life companies in January 1996 and scores of companies left for other domiciles.

B.V.I. ended last year with 69 credit life reinsurers, losing 300 to 400 such companies, Mr. Bates estimated.

The government is now considering several changes to its insurance law that may become effective later this year. Among these are allowing captive managers to serve as directors of their captives, a service that is currently not permitted; and giving managers more time to make annual insurer financial filings, Mr. Bates reported.

Last year, the government considered proposals from managers to reduce minimum solvency margins for property/casualty insurers, but ultimately decided against any loosening of the requirements, Mr. Bates said.

B.V.I.'s insurance law, The Insurance Act, 1994, sets several minimum solvency requirements, including:

- $200,000 for property/casualty insurers writing up to $1 million in net premiums. The minimum for those writing $1 million to $5 million is 20% of net premiums, and for those writing more than $5 million is $1.2 million plus 10% of net premiums exceeding $5 million.
- $250,000 for insurers writing life/health business only.
- $250,000 plus the amounts required of property/casualty insurers for those writing both life/health and property/casualty.

Captive insurers must pay a $500 license application fee and a $2,000 annual fee for license renewal.

Responding mainly to tremendous growth in its other financial services sectors—notably the expansion of B.V.I.-based international business companies—the government is preparing a package of new anti-crime legislation.

One provision—expected to go into effect later this year—will establish a "code of conduct" for B.V.I.-licensed service providers, requiring them to subject all business referred by overseas professionals to due diligence and "know your client" reviews.

Another bill would criminalize all acts of money laundering.

Mr. Bates, a former Cayman Islands regulator, was named B.V.I.'s insurance supervisor in May 1996 under a two-year contract paid for by the British Overseas Development Authority, a British government agency.

He reports to Robert Mathavious, director of financial services and commissioner of insurance.

For more information, contact Mr. Bates at the Financial Services Department, Road Town, Tortola, British Virgin Islands; 809-494-4190.

—By Douglas McLeod

Sweden

Although Sweden isn't a traditional captive domicile, Swedish companies are forming captives under the country's insurance laws.

At the end of last year there were 34 captives in Sweden, up six from the prior year.

The 34 captives wrote 991 million Swedish krona ($129.6 million) in premiums, up 16% from 1995.

Swedish companies have set up captives domestically because "the insurance law is good," says Bo Goranpersson, deputy managing director responsible for the Nordic market at captive manager SINSER A.B. in Stockholm.

The law, which does not differentiate between insurance companies and captives, allows insurers to maintain an untaxed "security reserve" as a buffer against adverse claims results. The amount allowed in the reserve varies depending on the type of business written.

The reserve for a property insurer, for example, can be 150% of net retained premium, but if it is writing credit insurance, the reserve can be up to 600% of net retained premium.

Premium and claim reserves also must be maintained as well as equalization reserves for credit insurers.

Swedish companies have set up captives in other domiciles such as Luxembourg because they can maintain higher retentions than in Sweden, said Mr. Goranpersson, who noted that several companies with captives elsewhere have formed second captives in Sweden.

To obtain a license to set up a non-life captive, a company must submit a business plan to the Swedish financial regulators. The plan should include: the type of risks to be written; reinsurance arrangements; estimated premiums, claims, and technical reserves over the first three years of operations; and the estimated set-up administrative costs.

A captive must have a minimum capitalization of 200,000 to 1.4 million ECU ($232,260 and $1.6 million), depending on the class of business written. An application fee of 24,800 SEK ($3,244) is required.

The other Nordic countries of Norway and Finland have similar arrangements, according to Mr. Goranpersson.

For further information on setting up a captive in Sweden, contact Finansinspektionen, Regeringsgatan 48, Box 7831, S-103 98 Stockholm, Sweden; 46-8-787-8000; fax: 46-8-24-13-35.

—By Stacy Shapiro

British Columbia

British Columbia is seeing some new interest in captives with one formation in 1996 and one so far in 1997, after several years of no activity.

However, hoped-for growth as a result of a federal tax law change designed to make offshore captives less attractive to Canadian companies has yet to materialize.

Under the change that began with the 1995 tax year, any third-party Canadian business written by an offshore captive that is as little as 10% owned by a Canadian parent is subject to a foreign accrued business income tax of up to 45%.

The only exemption from that tax is income on non-Canadian business that is related to the parent, such as the risks of a Canadian parent company's foreign affiliates.

British Columbia captive management experts had hoped the tax assessment would induce many Canadian-owned offshore captives to come ashore. While British Columbia captives are not subject to the accrued business income tax, they are subject to regular federal and provincial income taxes that can total as much as 45%.

But so far the only new business to materialize was a single-parent captive launched by Alexander Insurance Managers (Canada).

Though Concrete Casualty Inc. was formed as a single-parent captive in 1995, it did not begin writing until last year. The captive will write property coverage for concrete trucks owned by its parent company, Atlas Concrete Inc. of Alberta, according to William Morgan, managing director of Alexander Insurance Managers in Vancouver.

The captive manager also just

See **Worldwide** *on next page*

Worldwide

Continued from previous page

received approval for another single-parent captive, which began operations April 1. That captive, West Fraser Captive Inc., was formed by West Fraser Timber Co. Ltd. of Vancouver to write property and environmental impairment liability.

At year-end 1996, British Columbia had a total of 17 captives, up from 16 at year-end 1995. To enhance growth in the domicile, the British Columbia Captive Insurance Assn. is lobbying for legislation that would make B.C. captives eligible for a refund of the provincial income taxes they pay on business related to non-British Columbia risks, said Mr. Morgan.

Under current regulations, an international captive that writes non-Canadian risks with its British Columbia captive would pay 30% in federal income tax and 16% in provincial income tax. But under the proposed change, the portion of the 16% tax that is not related to British Columbian risks would be refunded.

Captive managers believe the exemption would attract Asian companies to the Pacific domicile.

Without the exemption, British Columbia is likely to remain a domicile primarily for B.C. risks, said David Self, vp-global captive management at J&H Marsh & McLennan Inc. in Vancouver.

The captive association is also lobbying for amendments to the International Financial Business Act to permit captives to write some third-party business. However, no new legislation has been drafted.

The British Columbia Insurance (Captive Company) Act of 1987 permits the formation of three types of captives: single parent; association; and "sophisticated insureds," which, unlike association captives owned by companies in a related industry, are owned by unrelated companies with insurance expertise and minimum combined premiums of $500,000 Canadian ($359,000).

Applicants must pay a non-refundable application fee of $500 Canadian ($359) and an initial registration fee of $2,500 Canadian ($1,795). Annual renewal fees are $2,500 Canadian. Minimum capitalization of $200,000 Canadian ($143,600) and $100,000 Canadian ($71,800) in reserves are required.

Captives may write property and liability insurance including product liability, directors and officers liability, and marine insurance. They cannot write life, health, accident or motor vehicle insurance on a personal lines basis, though such risks can be written on a commercial lines basis. Annual reports including audited financial statements and actuarial reports are required.

For information, contact Larry A.W. Neilsen, Deputy Superintendent, Insurance and International Financial Business, Suite 1000, 1050 West Pender St., Vancouver, B.C. V6E 3S7; 604-660-2947.

—By Joanne Wojcik

Netherlands Antilles

There are 17 captives currently domiciled in the Netherlands Antilles, unchanged from year-end but one more than last year at this time.

Two new captives formed in the Caribbean domicile last year and one is being liquidated.

In 1995, captives in the Netherlands Antilles wrote $101 million in gross premiums, up from $93 million the previous year. Premiums for 1996 have not yet been calculated.

There are no minimum capital and surplus requirements and no premium-to-surplus requirements in the Netherlands Antilles. "The amount of initial capital is determined by the amount of funds necessary to start up operations according to the business plan and the minimum solvency margin applicable," said Raynold Nivillac, superintendent of insurance at the Central Bank, which regulates captives.

The minimum amount of assets a captive must maintain is $225,000 for life insurance and $170,000 for non-life insurance.

Captives must pay a one-time license fee of $3,400 and an annual fee of $1,700. Captives must submit an audited financial statement within six months after the end of the financial year.

Most of the captives in the Netherlands Antilles are association captives.

There are 17 management companies currently operating in the Netherlands Antilles, according to a bank official. Management companies do not need a license.

Captive insurers are governed by a Special Insurance License Decree that was enacted in May 1992. No changes have been made to the law since its enactment.

For further information, contact Raynold Nivillac, Superintendent of Insurance, Bank van de Nederlandse Antillen (Central Bank), Breedestraat 1(P), Curacao, Netherlands Antilles; 599-9-461-3600; fax: 599-9-461-5004 or 599-9-461-7425.

—By Deborah Shalowitz Cowans

Bahamas

The Bahamian Legislature is revising capitalization requirements set under its 1983 law for all new and existing captive insurance companies.

Under that law, minimum capitalization is $100,000 for non-life companies and $200,000 for captives writing life insurance. The amended law will require a $1 million minimum capitalization for non-life companies and a $2 million minimum capitalization for life companies.

"In keeping with the amount in premiums the captives write, we had to increase it," said Beryl Roll, an analyst

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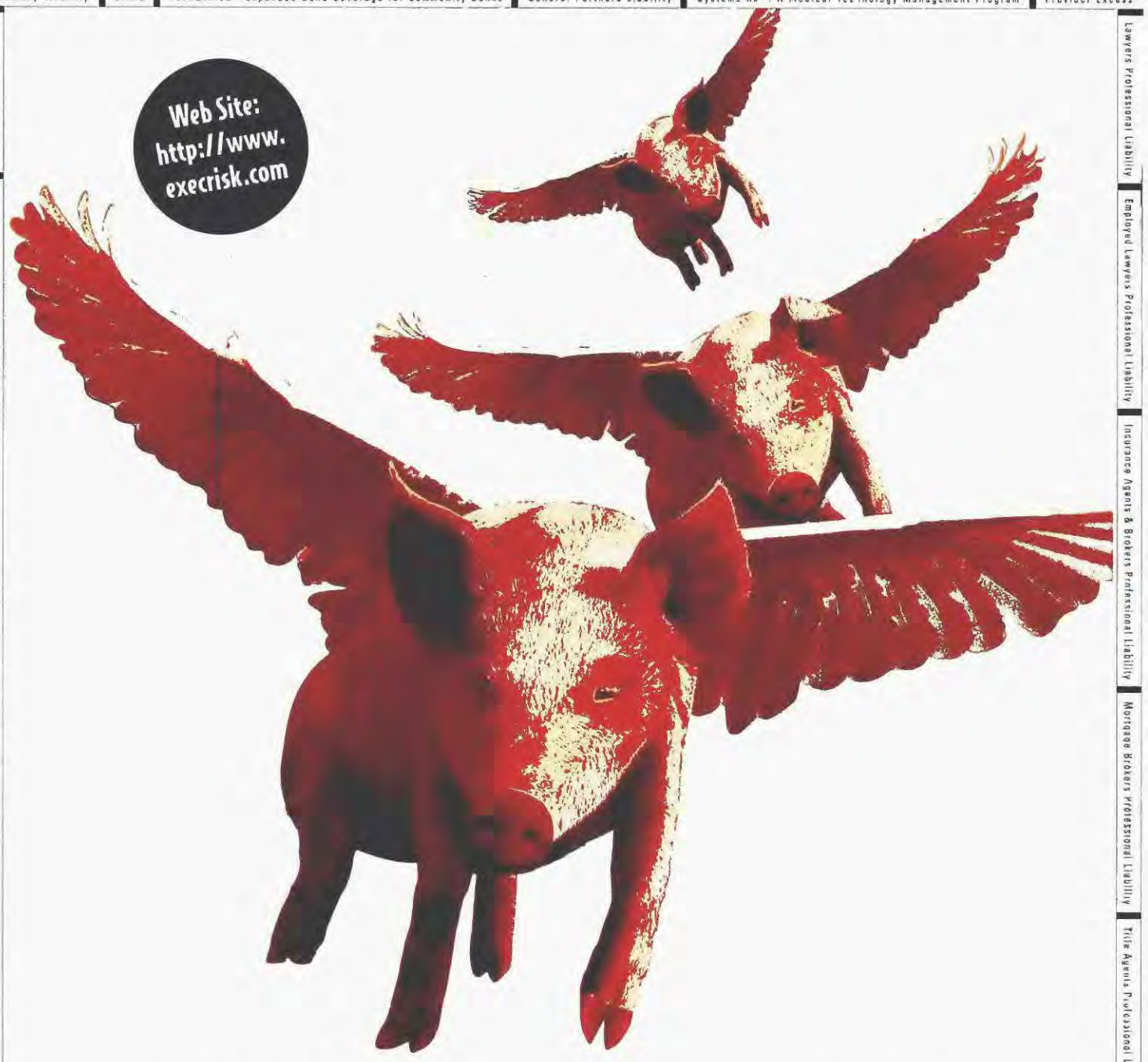

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Worldwide

Continued from page 66

with the Bahamian Ministry of Finance and Planning's Insurance Section in Nassau.

The amended requirements are expected to become law at the end of this year, but Ms. Roll said that the Bahamian regulators are already requiring the higher amounts for new companies.

All existing captives in the Bahamas will be given "adequate time" to build up their capital, if needed, she added.

Three new captives were formed in the Bahamas in 1996, three were lost and no new companies have been licensed so far in 1997.

At year end, 11 true captives were operating under the Bahamas' 1983 captive insurance law, the same as in 1995 and down from 14 in 1994.

Fees set under the 1983 law will remain unchanged. Captives are required to pay a $2,500 annual fee, a $650 fee for the captive manager, and a $100 business fee.

Captives also must file an audited annual financial statement with the registrar's office.

Seven captive managers are licensed in the Bahamas: British-American Management Ltd.; Captive Managers Ltd.; Corporate Captive Management Ltd.; Johnson & Higgins (Bahamas) Ltd.; Russian Investment Insurance Management Ltd.; Beta Management Ltd.; and Equitable Underwriting & Sales Agency (Bahamas) Ltd.

For more information, contact Telzena Coakley, Insurance Registrar, Bahamian Ministry of Finance and Planning's Insurance Section, P.O. Box N-3017, Nassau, Bahamas; 242-328-1068; fax: 242-328-1070.

—By Sally Roberts

Jersey

Jersey has a new insurance director and law designed to attract new captives and offshore insurance companies, though additions to date have been limited.

Last autumn, the Insurance Business (Jersey) Law 1996 was enacted to update the provisions of a similar law passed in 1983. The changes were designed to remove restrictions to setting up captives in Jersey, said Sarah Ferguson, senior professional assistant in the banking and insurance divisions of the States of Jersey Financial Services Department.

For example, a variety of legal entities—such as partnerships—can now own captives under the new law, unlike the prior law.

Also last autumn, Nigel Woodroffe became the first deputy director of insurance for Jersey. Mr. Woodroffe, formerly an accountant for Provident Mutual Life Assurance Assn. in London, is in charge of the newly created insurance division.

The new division has been developing various marketing initiatives to raise the profile of Jersey as an offshore captive and insurance company market and so far "we're getting a fair bit of interest," said Ms. Ferguson.

Jersey is one of the most developed offshore financial centers in the world, with 78 banks handling more than £90 billion ($147.96 billion) in deposits. However, Jersey lags far behind its neighbor Guernsey in terms of captive insurance.

At the end of last year, Jersey had nine captives, unchanged from the end of 1995.

Jersey will announce the captives' 1996 results in May or June, but estimates that captives wrote at least the same amount of gross premiums as in 1995, when captives wrote £85 million ($139.7 million), said Ms. Ferguson.

Also last year, AIG Combined Risks Ltd., an investment bank wholly owned by American International Group Inc., placed catastrophe-linked bonds through a special-purpose vehicle set up in Jersey. The bonds, placed by specialist reinsurance broker Benfield Ellinger Ltd., would respond if there were catastrophic industry losses in any of five geographic areas: the United States, Japan, Australasia, Caribbean and Western Europe.

Minimum capitalization to set up a Jersey captive is £100,000 ($164,400) but it may be larger depending on the portfolio of business to be written. Solvency margins for non-life business is 17.5% of net premium income. Application fees range from £1,500 to £5,000 ($2,466 to $8,220) depending on the business written. A captive also must pay a stamp duty of .5% of the authorized capital up to a maximum of £2,500 ($4,110).

A Jersey company can choose a variety of income tax levels, from zero to 30%, depending on what suits its parent company.

For more information, contact Nigel Woodroffe, Deputy Director: Insurance Division, Financial Services Department, P.O. Box 267, Cyril Le Marquand House, The Parade, St. Helier, Jersey, JE4 8TP; 011-44-1534-603647; fax: 011-44-1534-89155; e-mail: jsyfsd@itl.net.; WWW: http://www.itl.net.jersey.gov.uk.

—By Stacy Shapiro

Gibraltar

Gibraltar is one of the most talked about captive domiciles at the moment in Europe.

This British territory on the tip of Spain is awaiting a ruling from the British Department of Trade and Industry on the competence of its Financial Services Commission following a recent government review.

If it passes DTI muster, Gibraltar also will be automatically recognized by regulators throughout the European Union. Captives located in the territory would then be able to offer cross border insurance services, as in other E.U. domiciles.

The DTI's decision may not be known, however, until after the United Kingdom's general election May 1.

"As a government, we are wholly committed to the development of Gibraltar as a credible and responsible financial center providing cross-border services," stated Peter Caruana, chief minister of Gibralter last month. "The development of the insurance sector forms a very important part of our plans."

If Gibraltar captives can write business directly in the European Union, "the potential is certainly there," said Michael C.R. Baddeley, executive director of captive development for Willis Corroon Group P.L.C. in London. "If you look at niches, you've got the Latin influence (and) the languages there, and the perceived permanence."

Though Spanish is spoken regularly in Gibraltar, business is conducted in English and the local currency is the British pound.

Gibraltar is not new to the captive scene.

In fact, there are 13 insurance companies incorporated in the territory, including six captives.

But Gibraltar has had a stigma attached to it since a series of financial

See **Worldwide** *on page 70*

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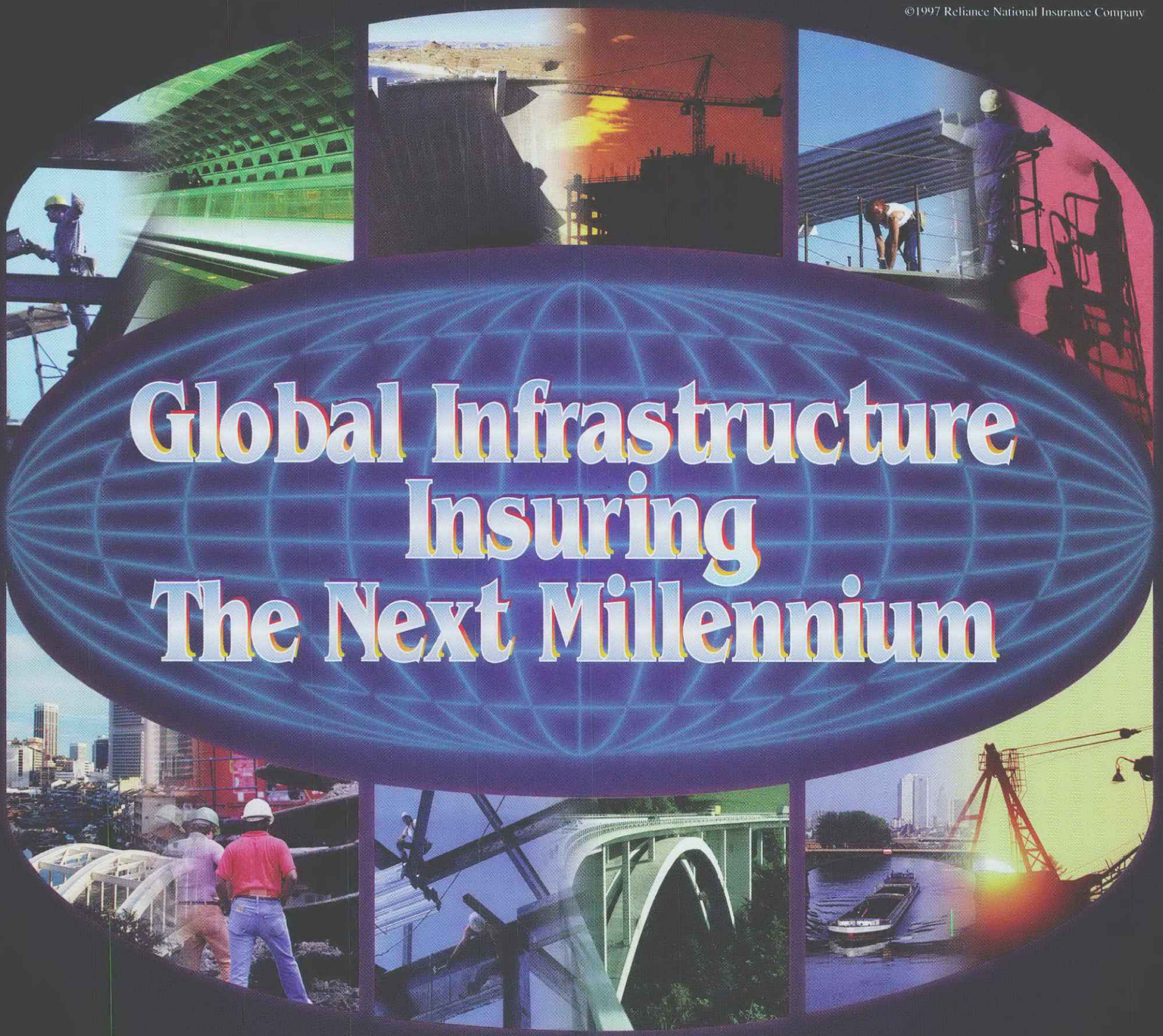

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Captive Report

Worldwide

Continued from page 68

scandals in the late '80s and early '90s in which offshore funds were diverted through the territory.

This reputation is "undeserved," contends Chris Johnson, senior insurance director for Norwich Union Fire Insurance Society (Gibraltar) Ltd., which manages four captives.

In all cases, Gibraltar only played a small part in major worldwide problems that stretched from the United States to the United Kingdom, he said.

To address concerns, however, the Gibraltar government in recent years has beefed up its financial services regulation and sought the DTI's stamp of approval. New insurance regulations have been passed to implement the European Union's life and non-life insurance directives.

Last October, Gibraltar's financial services commission hired its first insurance supervisor, Jim Costin, who previously served with the DTI for 10 years involved in life insurance regulation.

"If there is a stigma attached to Gibraltar, then the only way to overcome that is to make sure we have an acceptable standard of regulation," said Mr. Costin.

Gibraltar's government also is putting efforts into marketing the territory as an offshore insurance market and has asked Mr Johnson of Norwich Union to spearhead these efforts.

A captive in Gibraltar must meet the same criteria as any other insurance company in the United Kingdom and be licensed by the insurance division of Gibraltar's Financial Services Commission.

In particular, to gain exempt insurance company status in Gibraltar, a captive must:

- Pay an application fee of £500 ($822); a stamp duty of 0.5% on authorized capital; and an annual fee of £2,000 ($3,283).
- Maintain solvency margins along E.U. standards of 18% of net premiums for the preceding year up to 10 million ECU ($11.6 million) and 16% above the first 10 million; or 26% of net losses based on the average over the last three years up to 7 million ECU ($8.1 million) and 23% after the first 7 million.
- Maintain a guaranty fund of not less than one third of the solvency margin or a maximum of 200,000 to 400,000 ECU ($232,260 to $464,520), whichever is the greater.

An exempt insurance company is given a tax exemption certificate for up to 25 years and pays only £1,000 ($1,644) per annum in tax regardless of the profits. However, a captive can opt out of this and become a "qualifying company," paying tax of between 2% and 35% of profits to maintain maximum compatibility with the parent company's tax regime.

There are three captive managers in Gibraltar, said Mr. Costin, namely Norwich Union, SINSER (Gibraltar) agy and AIG Insurance Management (Gibraltar) Ltd.

For further information on how to set up a captive in Gibraltar, contact Jim Costin, Insurance Supervisor, Financial Services Commission, P.O. Box 940, Suite 943, Europort, Gibraltar; 350-40-283.

—By Stacy Shapiro

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Australia

Captive insurer growth in Australia has been virtually non-existent despite tax reforms that may make the country more attractive than other domiciles for Australian companies.

In February, the Australian government proposed removing Singapore from the domiciles on its "white list," which allows a captive insurer to pay taxes in the domicile rather than in Australia. Singapore has a tax rate of 26%; Australia has a rate of 36% (*BI*, Feb. 24).

Australia's finance and insurance industries also are awaiting a major report on Australia's financial system. There is speculation it may recommend significant changes, such as merging various regulatory agencies, including the Insurance and Superannuation Commission, which oversees insurers and captives.

Meanwhile, there has been only one additional captive registered in Australia in the past 12 months. As of Dec. 31, 1996, there were five captives, plus four Section 37 insurers and three medical defense insurers.

Under Australian law, captives generally have the same capitalization requirements as other non-life insurers. An exception is companies licensed under Section 37 of the Insurance Act 1973. Section 37 insurers are restricted to writing personal injury and property damage insurance for members or employees of an organization who are engaged in a common trade or business.

The additional captive, registered on March 8, 1996, was set up by the Queensland Law Society to write professional liability coverage for its members (*BI*, April 22, 1996).

According to the latest figures available from the ISC, which are for the year-ending Dec. 31, 1995, Australia's captives wrote $125.2 million Australian ($97.7 million) in gross premiums, with a captive owned by Melbourne-based BHP Ltd., Australia's biggest mining and resources company, responsible for the majority, $111.5 million Australian ($87.4 million). That was little changed from the previous year.

Risk managers say one reason for the limited growth is uncertainty over the tax status of captive premiums in Australia.

Last year, an Australian Federal Court ruled that premiums paid to an offshore captive are fully tax-deductible and ruled the Australian Tax Office had to refund $7.4 million Australian ($5.8 million) to Sydney-based cigarette company WD & HO Wills (Australia) Ltd., which made the tax payment in June 1993, for its Singapore-based captive, Matila Insurance Pte. Ltd. (*BI*, April 15, 1996).

However, before the ruling, the ATO had been preparing a report clarifying its stance that captive premiums were not deductible. ATO officer Elliott Reich, who last year said the rewrite would be finished by year-end 1996, said it will "still be reconsidered in light of the Wills decision." He estimated the redraft would be finished by June, and may be made public in September.

For more information on Australian captives, contact the Insurance and Superannuation Commission, GPO Box 9836, Braddon, Australian Capitol Territory, Australia, 2601; 011-616-247-2299; fax: 011-616-257-1639.

—By Kate Tilley

Aland Islands

The future of the Aland Islands as an offshore financial center remains in limbo as the local authorities await a Finnish government decision on whether the islands may continue to

See **Worldwide** *on page 72*

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Worldwide

Continued from page 70
set a local corporate tax rate.

The islands remain home to one captive insurer.

Karin Holmquist, head of the Trade and Industry Department in the Aland Islands government, said a new "tax border" was created between the Finnish mainland and the islands earlier this year.

Visitors to the islands may buy goods on the islands at reduced sales tax rates from those on the Finnish mainland. A decision on corporate taxes is expected by the end of the year, Ms. Holmquist said.

The Aland Islands are a largely autonomous group located in the Baltic Sea between Finland and Sweden. Under 1995 regulations, captives are taxed at 16.8%, compared with 28% for other Finnish companies. The Finnish government has been considering whether to change the islands' status so that it could not set a separate tax rate.

For more information on Aland captives, contact Alandlanskapstyrelse, P.O. Box 60, 22101 Mariehamn, Aland, Finland; 358-18-25000; fax: 358-18-19155.

—By Maria Kielmas

Labuan

Although Labuan has yet to register a second captive, the Malaysian island is developing the infrastructure of a modern financial center.

Izzuddin Tajudin, director/general manager of MNI Offshore Ins. (L) Ltd., said only one captive, with a French parent, is currently domiciled in Labuan, unchanged from 1995, though an application has been received for a second captive.

The Malaysian Government established the Labuan Offshore Financial Services Authority early in 1996 to encourage greater development of the island as a financial center.

In addition to its one captive, the island now hosts 11 insurance companies and several insurance brokers.

Proposals for reducing the capital requirements for captives in Labuan have not yet been implemented, Mr. Tajudin said. MNI Offshore drafted such a proposal and submitted it to the Malaysian government last year.

Altogether, it costs about 20,200 ringgit ($8,157) to register a captive in Labuan, plus another 16,600 ringgit ($6,690) in annual fees, including auditing fees.

A captive is not subject to Malaysian income tax, but is required to pay a "business activity tax" of 20,000 ringgit ($8,060) or 3% of the disclosed profits in the captive's audited accounts.

Captives must have capital and a solvency margin of 1 million ringgit ($403,000).

For more information on Labuan captives, contact Awang Hadek, Director-General, LOFSA, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, Labuan 87000WP; 60-87-413166; fax: 60-87-413328.

—By Kate Tilley

Guam

Risk managers forming captive insurance companies have a new domicile to consider in the Pacific.

Legislation passed in Guam and effective Jan. 1 is aimed at establishing the U.S. territory as the financial and insurance hub of the Pacific, according to the law. It allows for abatement of all taxes levied on insurance premiums and investment income earned by underwriters.

All other taxes required by the Guam government will be rebated to captives and other insurers. The law calls for underwriters who locate in Guam under the new legislation to invest at least 50% of the amount of abated or rebated taxes in the local economy for at least five years.

The law, passed last summer, states that its intention is to broaden the base of the Guam economy "to include more than tourism and military base employment."

It also states that the island should capitalize on its "unique geographic location to become a financial/insurance capital of the Pacific, much like Bermuda is in the Atlantic."

The legislation says that apart from the tax exemptions, Guam offers insurers "the advantage of being located in a modern American community with some of the world's finest communications tools, with access to American courts and to the American school and health systems."

The tax exemptions are available through the Qualifying Certificate Program of the Guam Economic Development Authority. More information is available from the authority at 590 S. Marine Drive, Suite 511, Tamuning, Guam 96911; 671-647-4332; fax: 617-649-4146.

—By Michael Bradford

Malta

Malta still is awaiting its new insurance legislation to become law and thus far no captives have set up in the domicile.

The new insurance legislation was expected to be passed through Malta's Parliament last year, but an election and a change in government last October put all efforts on hold, according to John Bonett, director of insurance.

The proposed Insurance Business Act and Insurance Brokers and Other Intermediaries Act are expected to be published for comment in the next few weeks.

Under the proposed law, captives would have to have a minimum of $250,000 in capital to become licensed. Solvency margins will be in line with European Union legislation for insurance companies, which is the greater of 18% of gross premiums or three years' claims performance.

Captives must pay an annual fee of 1,000 Maltese lira ($2,650), but this may change after the law is passed.

Captive manager Willis Corroon Management (I.O.M.) Ltd. has been in Malta for two years on a "speculative" basis, said Michael C.R. Baddeley, executive director of captive development for Willis Corroon Group P.L.C. in London. The territory could be especially interesting to companies based in Mediterranean countries, he said.

For more information, contact John Bonett, director of insurance, Malta Financial Services Center, Attard, Malta: 356-44-11-55; fax: 356-44-11-88.

—By Stacy Shapiro

Montenegro

The Republic of Montenegro, part of the Federal Republic of Yugoslavia was declared an offshore financial center Nov. 16, 1996.

Montenegran Prime Minister Milo Djukanovic said the project demonstrates the government's intention for the republic to join the world economy.

The move is a response to interest from Romanian, Austrian, Hungari-

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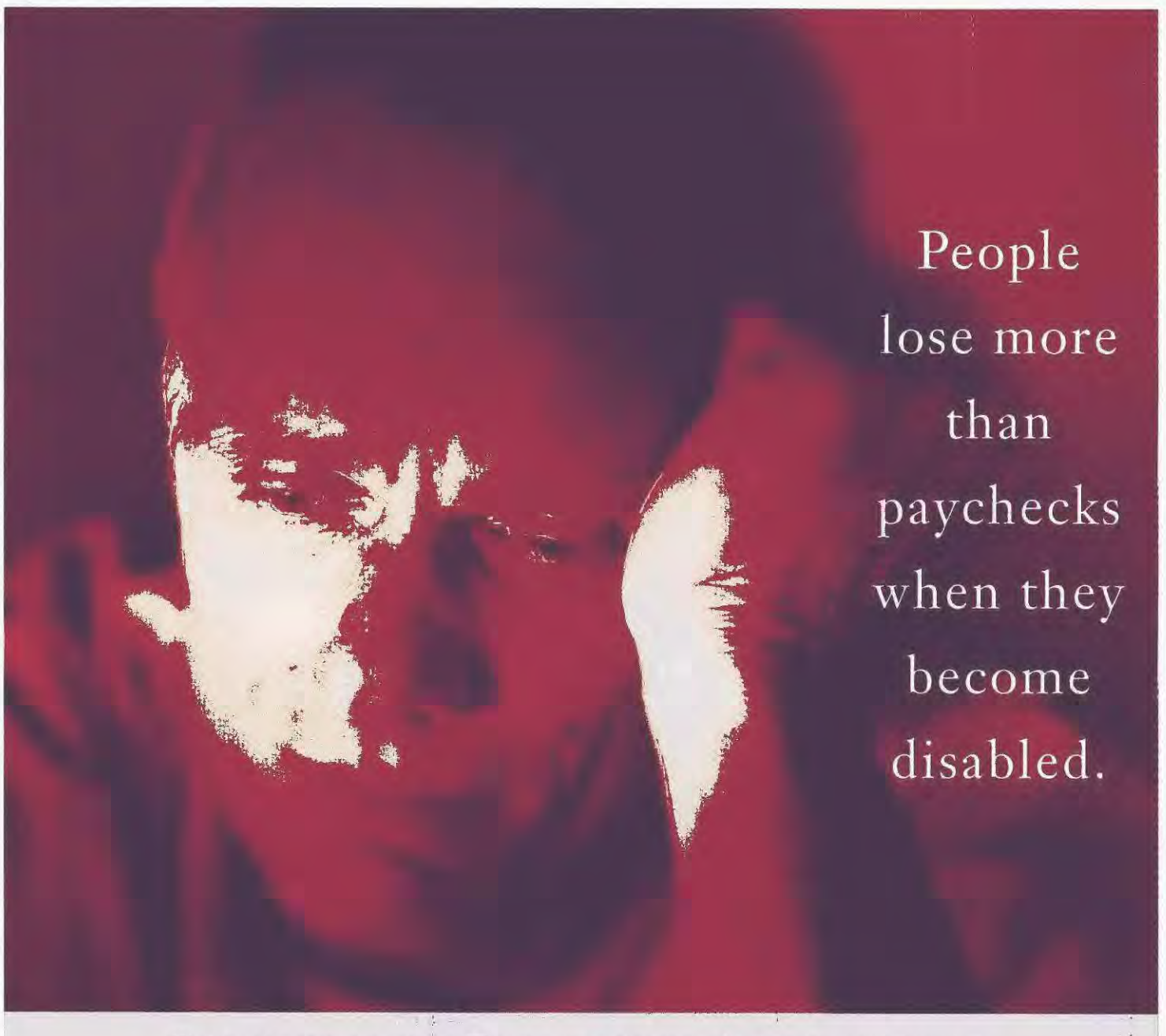

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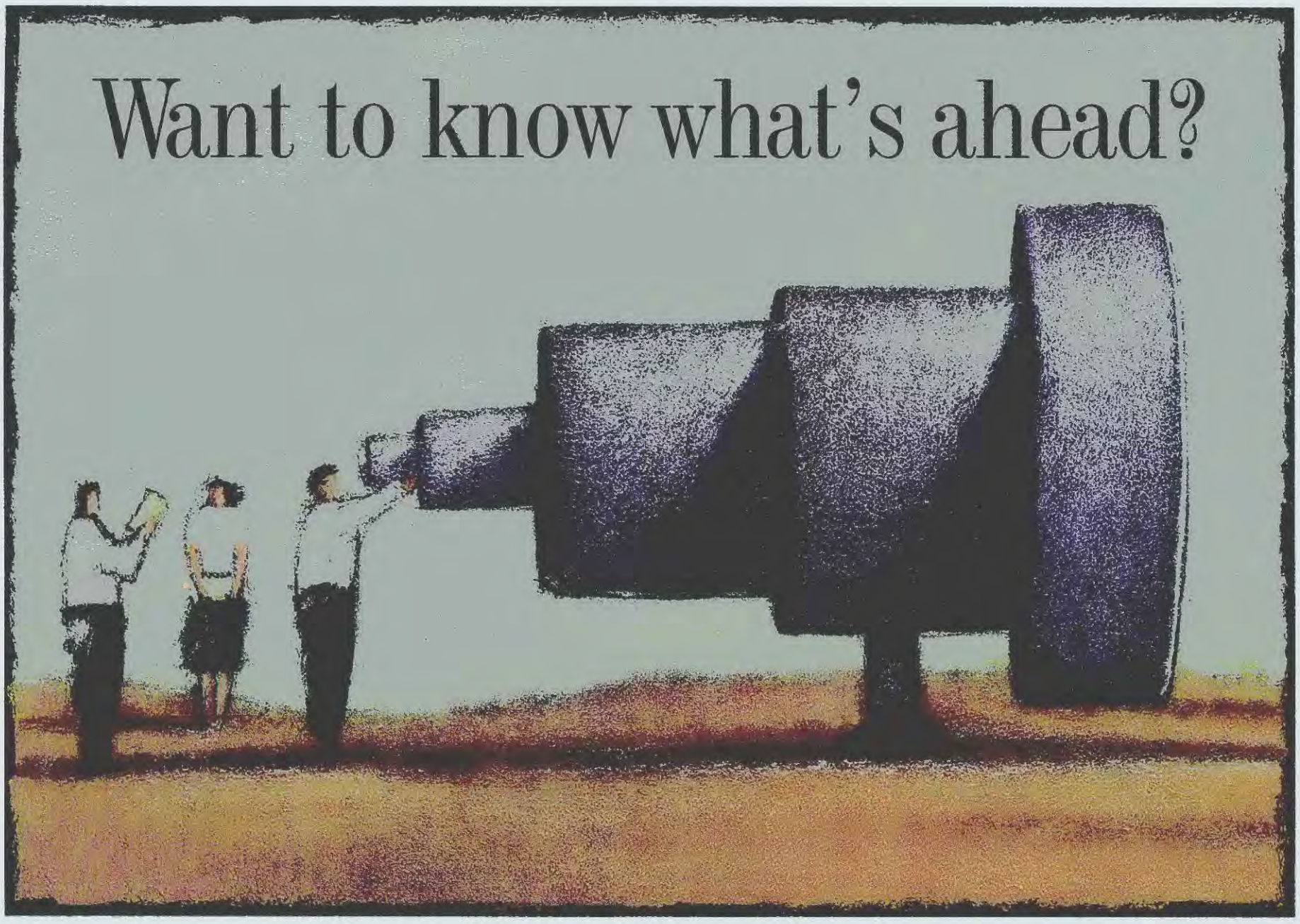

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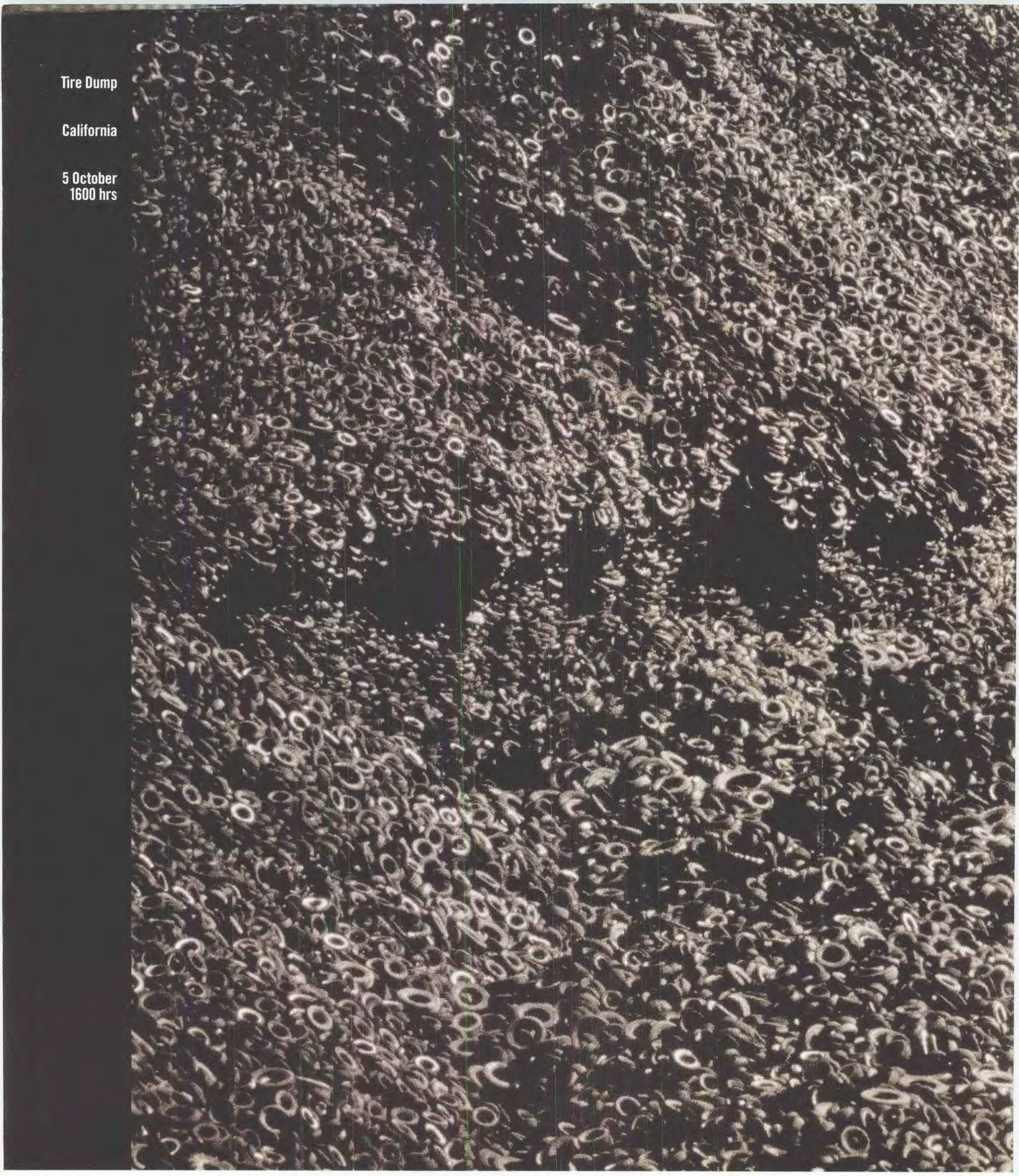

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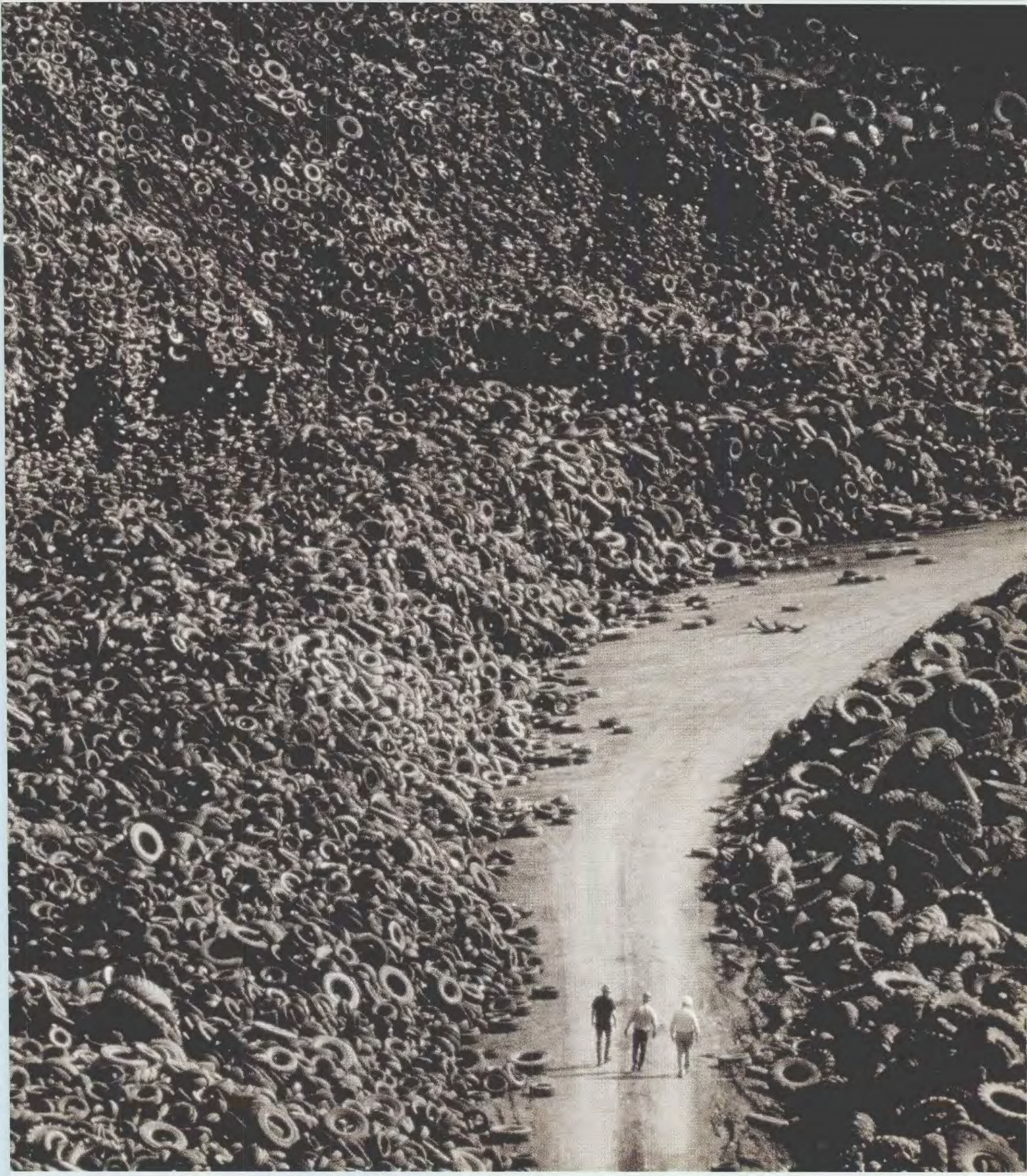

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BI directory of captive insurance company managers

A

AIG Insurance Management Services Inc.

156 College St., Burlington, Vt. 05401; 802-658-9405; fax: 802-658-0112

Founded: 1988.
Parent: American International Group Inc.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control (New York); association captive management services, including specialized accounting services and onshore services.
Occasional services: Manual claims processing.
Staff: Eight; one professional.
Clients: 12 active captives managed at year-end 1996. Captive premium volume, $127.5 million. Capital and surplus managed, $98.8 million. No minimum size client.
Compensation: Annual fee; hourly: professional, $90 to $150; clerical, $55 to $85.
1996 gross revenues: $557 000, 100% from fees charged for captive management.
Officers: Paul Obolensky, president-AIMS worldwide; David Hupp, director-regional operations/marketing-AIG; Anne Wick AIMS regional director-U.S. onshore.
Contact: Anne Wick or David Provost.

AIG Insurance Management Services (Barbados)

Alico Building, Cheapside, Bridgetown, Barbados; 246-436-4771; fax: 246-427-5809

Founded: 1985.
Parent: American International Group Inc.
Offers rent-a-captive services.
Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, investment management, funding risk management programs.
Occasional services: Feasibility studies; captive formation actuarial studies; loss forecasting; underwriting and ratemaking; loss control (New York, Brussels); association captive management services, including specialized accounting services and onshore services.
Staff: Three; two professionals.
Clients: Four active captives managed at year-end 1996.
Compensation: Annual fee, $25,000 minimum; hourly: professional, $100 to $130; clerical, $50 to $75.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Helen Roper, president/general manager; D.A. Conway, vp; L.M. Murphy, director; P. Obolensky president-AIMS.
Contact: David A. Conway.

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- Sphere Drake Underwriting Management (Bermuda) Ltd.

44 Church Street
Hamilton HM 12
Bermuda

Correspondence Address:
P.O. Box HM 2064
Hamilton HM HX Bermuda

Telephone
441-295-7396

Facsimile
441-295-4622 or
441-295-6052

An MRM Company

AIG Insurance Management Services (Bermuda)

American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda; 441-295-2121; fax: 441-292-6735

Founded: 1947.
Parent: American International Group Inc.
Offers rent-a-captive services.
Frequent services: Captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; loss forecasting; investment management; association captive management services, including specialized accounting services and onshore services, fronting, funding, guaranteed cash flow, finite risk programs, risk management programs.
Occasional services: Feasibility studies, manual claims processing, online access to claims data, actuarial studies, underwriting and ratemaking, loss control (New York, Brussels).
Staff: Nine; four professionals.
Clients: 20 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $196.0 million. Capital and surplus managed, $110.0 million. No minimum size client.
Compensation: Annual fee, $25,000 minimum; hourly: professional, $115 to $150; clerical, $55 to $80.
Officers: J.C.H. Johnson, president/CEO; L.M. Murphy, senior vp/general counsel; S.G. Cubbon, senior vp/treasurer; B.S. Abrams, senior vp; P. Obolensky, president-AIMS.
Contact: David A. Conway, vp-insurance management services.

AIG Insurance Management Services (Cayman) Ltd.

P.O. Box 1392, Cayman Islands, B.W.I.; 345-949-2445; fax: 345-949-7814

Founded: 1994.
Parent: American International Group Inc.
Officers: P. Obolensky, president; D. Conway, D.M.L. Roberts, L.M. Murphy, directors.
Contact: David Roberts, 345-949-2445 or D. Conway, 441-295-2121.
Subcontracts for captive management services with CSI International Underwriting (Cayman) Ltd.

AIG Insurance Management Services (Guernsey) Ltd.

P.O. Box 119, Commerce House, St. Peter Port, Guernsey GY1 3HB; 44-1481-700667; fax: 44-1481-711657

Founded: 1994.
Parent: American International Group Inc.
Officers: Mike Matthews, managing director; David Stafford, finance director; Callum Beaton, director.
Contact: Mike Matthews.
Subcontracts for captive management services with Spread Insurance Management Services Ltd. in Guernsey.

AIG Insurance Management Services (Ireland) Ltd.

AIG House, Merrion Road, Dublin 4, Ireland; 353-1-283-7788; fax: 353-1-283-7821

Founded: 1989.
Parent: American International Group Inc.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, underwriting and ratemaking, investment management.
Occasional services: Managing underwriting pools/facilities.
Staff: Nine; four professionals.
Clients: Seven active captives and two inactive captives managed at year-end 1996. Captive premium volume, $129.0 million. Capital and surplus managed, $37.5 million. No minimum size client.
Subsidiaries: AIG Insurance Management Services (Luxembourg) S.A.
Compensation: Annual fee.
Officers: Mike Matthews, managing director; David Stafford, finance director.
Contact: Mike Matthews.

AIG Insurance Management Services (Isle of Man) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man; 44-1624-670129; fax: 44-1624-622500

Founded: 1994.
Parent: American International Group Inc.
Officers: Mike Matthews, managing director; David Stafford, finance director; Richard Drinkwater, director.
Contact: Mike Matthews.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

AIG Insurance Management Services (Luxembourg) S.A.

11 Avenue Guillaume, P.O. Box 615, L-2016 Luxembourg; 352-44-30-32; fax: 352-44-31-07

Founded: 1986.
Parent: American International Group Inc.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, underwriting and ratemaking, investment management.
Occasional services: Managing underwriting pools/facilities.
Staff: Two; one professional.
Clients: One active captive managed at year-end 1996.
Compensation: Annual fee.
Officers: Mike Matthews, director; Jacques Emsix, general manager.
Contact: Jacques Emsix.

AIM Associated Insurance Management (Ireland) Ltd.

International House, 3 Harbourmaster Place, I.F.S.C., Dublin 1, Ireland; 353-1-670-0677; fax: 353-1-670-0688

Parent: Colonia Versicherung A.G.
Frequent services: Accounting, claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice, loss control.
Occasional services: Feasibility studies, captive formation, government reporting, loss forecasting.
Staff: Two professionals.
Clients: Two active captives managed at year-end 1996. Captive premium volume, $61.0 million. Capital and surplus managed, $46.0 million.
Compensation: Annual fee.
1996 gross revenues: $80,000; 100% from fees charged for captive management.
Officers: Michael Doering, managing director.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

P.O. Box 169, Aberdeen House, Barricks Hill, Palm Grove Drive, Turks & Caicos Islands, B.W.I.; 809-946-2570; fax: 809-946-2856

Founded: 1989.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis.
Occasional services: Claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice.
Staff: Three; one professional.
Clients: Four active captives managed at year-end 1996. Captive premium volume, $8.9 million.
Compensation: Annual fee, $3,000 minimum; hourly: professional, $100; clerical, $40.
1996 gross revenues: 86% from fees charged for captive management, 2% from commissions charged for brokering insurance/reinsurance, 12% from other services.
Officers: Ross Blumentritt, resident managing director; Hans Frederich Christoph Blumentritt, director; Patricia Smith, assistant secretary.
Contact: Ross Blumentritt.

Alexander Insurance Managers

346 Shelburne Road, Burlington, Vt. 05401; 802-860-0444; fax: 802-860-0440

Founded: 1983.
Parent: Aon Corp.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.

Continued on next page

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Occasional services: Reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.

Staff: 11 total.

Clients*: 40 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $279.3 million. Capital and surplus managed, $223.8 million. No minimum size client.

Compensation: Annual fee; hourly.

1996 gross revenues: 100% from fees charged for captive management.

Officers: W. Scott Frazier, executive director; James Murray, managing director; Beth Albright, assistant vp.

Contact: James Murray.

Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

**Includes captives in other domiciles.*

Alexander Insurance Managers Ltd. (Bermuda)

Dorchester House, 7 Church St., P.O. Box HM 2020, Hamilton HM HX, Bermuda; 441-295-0265; fax: 441-292-4910

Founded: 1965.

Parent: Aon Corp.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Staff: 35; 13 professionals.

Clients: 82 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $572.0 million. Capital and surplus managed, $1.6 billion. No minimum size client.

Compensation: Annual fee; hourly.

1996 gross revenues: 100% from fees charged for captive management.

Officers: Alan C. Cossar, executive director; Philip A. Barnes, managing director; Gail Y. Fox, executive vp; Peter J. Jones, Kate Robinson, Louise Funy, Michael McGuinness, vps.

Contact: Philip Barnes.

Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Barbados) Ltd.

P.O. Box 134, Financial Services Centre, Bishop's Court Hill, St. Michael, Barbados; 246-436-4895; fax: 246-436-9016

Founded: 1984.

Parent: Aon Corp.

Frequent services: Government reporting, accounting, computerized claims processing.

Occasional services: Feasibility studies; captive formation; manual claims processing; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.

Staff: 10; three professionals.

Clients: 26 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $89.0 million. Capital and surplus managed, $132.0 million. No minimum size client.

Compensation: Annual fee; hourly.

1996 gross revenues: 100% from fees charged for captive management.

Officers: Ronald W. Jones, managing director; Vinston E. Hampden, vp.

Contact: Ronald W. Jones.

Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Canada)

900 Howe St., Box 3228, Vancouver, B.C. V6B 3X8, Canada; 604-683-2561; fax: 604-682-4026

Founded: 1988.

Parent: Aon Corp.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis.

Occasional services: Underwriting and ratemaking.

Staff: Three; two professionals.

Clients: 10 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $18.3 million. Capital and surplus managed, $18.5 million. No minimum size client.

Compensation: Annual fee; hourly.

1996 gross revenues: 100% from fees charged for captive management.

Contact: William J. Morgan, managing director.

Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Cayman) Ltd.

P.O. Box 1125, Georgetown, Cayman Islands, B.W.I.; 345-945-2888; fax: 345-945-2889

Founded: 1981.

Parent: Aon Corp.

Frequent services: Accounting, computerized claims processing.

Occasional services: Feasibility studies; captive formation; managing underwriting pools/facilities; association captive management services, including onshore services.

Staff: Two; one professional.

Clients: Five active captives and one inactive captive managed at year-end 1996. Captive premium volume, $11.2 million. Capital and surplus managed, $32.4 million. No minimum size client.

Compensation: Annual fee; hourly.

1996 gross revenues: 100% from fees charged for captive management.

Contact: Peter Jones, vp/managing director.

Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Dublin) Ltd.

71 Lower Baggot St., Dublin 2, Ireland; 353-1-676-2911; fax: 353-1-676-2744

Founded: 1990.

Continued on next page

How to use this directory

The annual *Business Insurance* directory of captive managers lists companies that manage captive insurance companies, either directly or through subcontracts.

The directory is published as an editorial service, and there is no charge to be included. However, to be listed companies, are required to complete a *BI* questionnaire.

To locate organizations managing captives in a particular domicile, refer to the index after the directory. The index includes companies that provide direct service and those that subcontract in the specified domiciles.

Listings begin with the company name, address, telephone and fax numbers, then year **founded**, **parent** company (if any) and a note identifying companies that **offer rent-a-captive services.**

Frequent and **occasional services** provided are listed next. If loss control services are offered, principal location is noted.

Staff information is reported on a full-time equivalent basis and includes the total number of staff members and the number of professional staff members involved in captive management services at year-end 1996.

The **clients** section includes the number of active and inactive captives managed at year-end 1996 along with the total gross premium volume of captives managed and their capital and surplus in 1996.

The minimum size client accepted (by premium volume) also is included.

Compensation details how the company bills for its services; commissions refers to commissions for reinsurance brokered. **1996 gross revenues** are included when reported. Percent of 1996 gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered, and other services are given next.

Names and titles of the company's principal **officers** and a **contact** for readers seeking additional information complete the listings.

Although every effort is made to report complete and accurate information, *BI* is unable to verify all information received.

Each one is pulling his weight. That's the only way to win. CNA understands that this is especially true in surety bonding. So we're with you every step of the way, building long-term relationships through communication, trust, and a daily working knowledge of the industry.

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CNA SURETY

Surety bonds from CNA are underwritten by three of the CNA Insurance companies: Continental Casualty Company, American Casualty Company of Reading, Pennsylvania and National Fire Insurance Company of Hartford. CNA is a registered service mark of the CNA Financial Corporation.

Continued from previous page

Parent: Aon Corp.
Frequent services: Captive formation, government reporting, accounting, claims processing, underwriting and ratemaking, investment management.
Occasional services: Feasibility studies, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, captive finance company management, agency treasury company management.
Staff: Nine; six professionals.
Clients: Nine active captives managed at year-end 1996. Captive premium volume, $59.0 million. Capital and surplus managed, $31.0 million. No minimum size client.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Eamon O'Brien, managing director; Anne Finn, assistant director.
Contact: Eamon O'Brien.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Guernsey) Ltd.

Alexander House, Victoria Road,
St. Peter Port, Guernsey;
44-1481-728180;
fax: 44-1481-710551

Founded: 1977.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, loss forecasting, reinsurance brokered for captives; underwriting and ratemaking.
Occasional services: Claims reserves analysis.
Staff: 19; five professionals.
Clients: 40 active captives managed at year-end 1996. Captive premium volume, $420.0 million.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Barry Seymour, managing director; Clive James, Richard Gale, directors.
Contact: Barry Seymour.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Hawaii) Ltd.

1221 Kapiolani Blvd., Suite 901,
Honolulu, Hawaii 96814;
808-593-3316; fax: 808-593-3301

Founded: 1994.
Parent: Aon Corp.
Frequent services: Captive formation, government reporting, accounting.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, investment management.
Staff: Two professionals.
Clients: One active captive and one inactive captive managed at year-end 1996. Captive premium volume, $8.5 million. No minimum size client.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Marc Lapointe, vp; Karen Venner, assistant vp.
Contact: Marc Lapointe.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Isle of Man) Ltd.

Post Office Chambers, Regent St.,
Douglas, Isle of Man;
44-1624-673833;
fax: 44-1624-673242

Founded: 1985.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking.
Occasional services: Online access to claims data, investment management.
Staff: 18; nine professionals.
Clients: 17 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $166.5 million.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Geoffrey A. Hunt, managing director; Duncan Donald, director-financial services; David P.J. Newman, director-insurance services.
Contact: Geoffrey Hunt.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Jersey) Ltd.

La Gallais Chambers, 54 Bath St.,
St. Helier, Jersey; 44-1481-728180;
fax: 44-1481-710551

Founded: 1995.
Parent: Aon Corp.
Frequent services: Accounting, loss forecasting.
Occasional services: Feasibility studies, captive formation, claims processing, online access to claims data, claims reserves analysis.
Clients: One active captive managed at year-end 1996.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Contact: Barry J. Seymour.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Luxembourg) S.A.

European Bank & Business
Centre, 6B Route de Treves,
Senningerberg, Luxembourg;
352-34-98-98-202;
fax: 352-34-98-98-306

Founded: 1988.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking.
Occasional services: Actuarial studies, reinsurance brokered for captives.
Staff: Two professionals.
Clients: Two active captives managed at year-end 1996. Captive premium volume, $6.5 million. Capital and surplus managed, $6.4 million. No minimum size client.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Alain Dufraisse, general manager; Denis Regrain, finance manager.
Contact: Alain Dufraisse.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alexander Insurance Managers (Netherlands Antilles) N.V.

P.O. Box 305, Curacao,
Netherlands Antilles; 599-9-66-1114;
fax: 599-9-66-1611

Parent: Aon Corp.
Contact: Ron Jones, 246-436-4895.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997. Subcontracts for captive management services with Maduro & Curiels Insurance Services.

Alexander Insurance Managers (Singapore) Pte. Ltd.

Capitol Building, Fourth Story,
11 Stamford Road, Singapore
178884; 65-339-9233;
fax: 65-338-9880

Founded: 1987.
Parent: Aon Corp.
Frequent services: Feasibility studies, government reporting, accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking, investment management.
Occasional services: Captive formation, manual claims processing, online access to claims data, loss forecasting, reinsurance brokered for captives, captive strategy reviews.
Staff: Three; one professional.
Clients: Six active captives managed at year-end 1996. Captive premium volume, $12.8 million. Capital and surplus managed, $15.0 million. Minimum size client, $500,000.
Compensation: Annual fee; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Philip Stamp, chairman; Richard Tan, managing director.
Contact: Richard Tan.
Alexander & Alexander Services Inc. was acquired by Aon Group Inc. in January 1997.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205,
Englewood, Colo. 80111;
303-694-9360; fax: 303-694-9363

Founded: 1989.
Parent: Catholic Health Initiatives.
Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; managing underwriting pools/facilities; loss control (Colorado); association captive management services, including specialized accounting services and onshore services; self-insurance trust funds.
Occasional services: Feasibility studies, actuarial studies, underwriting and ratemaking, investment management, tax advice, legal advice.
Staff: Seven; three professionals.
Clients: Four active captives managed at year-end 1996. Captive premium volume, $30.0 million. Capital and surplus managed, $85.0 million. No minimum size client.
Compensation: Annual fee, $10,000 minimum; hourly: professional, $90 to $180; clerical, $50.
1996 gross revenues: $300,000, 85% from fees charged for captive management, 15% from other services.
Officers: Richard A. Johnson, president /CEO; John F. Dicola, secretary; Robert J. Halonen, treasurer; Ronald P. Nikolas, controller; Mitch H. Melfi, chairperson.

Alternative Risk Management & Consulting Inc.

Harborside Professional Building,
P.O. Box 545, Colchester,
Vt. 05446; 802-860-1958;
fax: 802-863-2198

Founded: 1995.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, retention analysis, captive performance analysis, training in alternative risk analysis risk management techniques.
Occasional services: Loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services and onshore services.
Staff: Five; four professionals.
Clients: Six active captives managed at year-end 1996. Captive premium volume, $9.5 million. Capital and surplus managed, $1.0 billion. No minimum size client.
Compensation: Annual fee, $25,000 minimum.
Officers: Kathryn Westover, president; Sue Urie, treasurer.

American Risk Management Corp.

5 Burlington Square, Fourth
Floor, Burlington, Vt. 05401;
802-862-4400; fax: 802-862-7797

Founded: 1990.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives.
Occasional services: Manual accounting, manual claims processing, online access to claims data, underwriting and ratemaking.
Staff: Five, all professionals.
Clients*: 42 active captives managed at year-end 1996. Captive premium volume, $447.0 million. Capital and surplus managed, $272.0 million. No minimum size client.
Compensation: Annual fee, $15,000 minimum; hourly: professional, $50 to $175; clerical, $30 to $50.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Peter A. Joy, president; Nancy Gray, Gary O'Hare, vps; Cynthia Reer, Mary Wrenn, assistant vps.
** Includes captives in other domiciles.*

Aon Insurance Management Services of the Virgin Islands Inc.

109-113 Castle Coakley,
Christiansted, St. Croix, 00820,
U.S. Virgin Islands;
809-778-0449; fax: 809-778-1510

Founded: 1994.
Parent: Aon Corp.
Offers rent-a-captive services.
Frequent services*: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.
Staff: One professional.
Clients: Three active captives managed at year-end 1996.
Compensation: Annual fee.
Officers: Thomas Comer, CEO.
Contact: Tracy Keill, 441-295-2220.
*Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc. * Some services provided by affiliates.*

Aon Risk Services (Antilles) N.V.

Kaya Flamboyan 3,
Curacao, Netherlands Antilles;
599-9-369-294; fax: 599-9-369-350

Founded: 1994.
Parent: Aon Corp.
Frequent services: Captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis.
Staff: Two professionals.
Clients: Three active captives managed at year-end 1996.
Officers: Rudy Maasdamme, managing director.
Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

Aon Risk Services (Barbados) Ltd.

Chelston Park, Building 2, Collymore
Rock, St. Michael, Barbados;
246-429-9512; fax: 246-429-8917

Founded: 1986.
Parent: Aon Corp.
Offers rent-a-captive services.
Frequent services*: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Staff: Three; two professionals.
Clients: Two active captives managed at year-end 1996. No minimum size client.
Compensation: Annual fee; commission; hourly.
Contact: Thomas Comer, CEO; Martin Hole, vp/general manager.
*Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc. * Some services provided by affiliates.*

Aon Risk Services (Bermuda) Ltd.

Craig Appin House, 8 Wesley St.,
Hamilton HM 12, Bermuda;
441-295-2220; fax: 441-292-0217

Founded: 1970.
Parent: Aon Corp.
Offers rent-a-captive services.
Frequent services*: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.
Occasional services: Underwriting and ratemaking.
Staff: 30; 15 professionals.
Clients: 82 active captives and eight inactive captives managed at year-end 1996. Captive premium volume, $650.0 million. Capital and surplus managed, $750.0 million. No minimum size client.
Subsidiaries: Aon Risk Services (Barbados) Ltd., Aon Risk Services (Cayman) Ltd.
Compensation: Annual fee; commission; hourly.
Officers: Gregg Springer, president/CEO; Tracy Keill, senior vp; Pauline Richards, senior vp/controller; Dawn Simons, Kelli Richardson, vps.
*Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc. * Some services provided by affiliates.*

Aon Risk Services (Cayman) Ltd.

Anderson Square, Third Floor,
George Town, Cayman Islands,
B.W.I.; 345-945-2888;
fax: 345-945-2889

Founded: 1996.
Parent: Aon Corp.
Offers rent-a-captive services.
Frequent services*: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management; managing underwriting pools/facilities; loss control (United States); association captive management services, including specialized accounting services and onshore services.
Occasional services: Underwriting and ratemaking.
Clients: Two active captives managed at year-end 1996. No minimum size client.
Compensation: Annual fee; commission; hourly.
Officers: Thomas Comer, CEO; Tracy Keill, senior vp.
*Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc. * Some services provided by affiliates.*

Aon Risk Services (Colorado)

4100 E. Mississippi Ave., Denver,
Colo. 80222; 303-758-7688;
fax: 303-758-9458

Founded: 1976.
Parent: Aon Corp.
Frequent services*: Feasibility studies; captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control.
Occasional services: Claims processing;

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online access to claims data; association captive management services, including specialized accounting services and onshore services.

Staff: Two professionals.

Clients: One active captive managed at year-end 1996. Captive premium volume, $12.1 million. Capital and surplus managed, $56.7 million. No minimum size client.

Compensation: Annual fee.

Officers: Kathleen Knowlton, vp.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

** Some services provided by affiliates.*

Aon Risk Services (Deutschland) GmbH

Marstrasse 24, Munich 80335, Germany; 49-89-5482-9716; fax: 49-89-5482-9718

Founded: 1996.

Parent: Aon Corp.

Offers rent-a-captive services.

Frequent services: Feasibility studies, captive formation, accounting, claims processing, reinsurance brokered for captives, association captive management services, consulting, reinsurance brokering.

Staff: Two professionals.

Contact: Julius von Rotenhan, managing director.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

Aon Risk Services (Europe) S.A.

283 Route d'Arlon, Strassen 8011, Luxembourg; 352-31-71-71; fax: 352-31-71-74

Founded: 1994.

Parent: Aon Corp.

Frequent services: Feasibility studies, captive formation, accounting, reinsurance brokered for captives, association captive management services, consulting, reinsurance brokering.

Staff: Four, all professionals.

Clients: Six active captives managed at year-end 1996.

Officers: Ronald Deane, managing director; Lambert Schroeder, director.

Contact: Lambert Schroeder.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

Aon Risk Services (Guernsey) Ltd.

P.O. Box 160, Dixcart House, Sir William Place, St. Peter Port, Guernsey; 44-1481-713-322; fax: 44-1481-729-189

Founded: 1995.

Parent: Aon Corp.

Frequent services: Feasibility studies, captive formation, accounting, association captive management services.

Staff: Four, all professionals.

Clients: Six active captives managed at year-end 1996.

Officers: Peter Walpole, managing director; Nick Leighton, account executive.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

Aon Risk Services (Ireland) Ltd.

10/12 Lansdowne Road, Dublin 4, Ireland; 353-1-605-9359; fax: 351-1-660-1187

Founded: 1992.

Parent: Aon Corp.

Frequent services*: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, international insurance brokering and consulting.

Occasional services: Online access to claims data.

Staff: Three, two professionals.

Clients: Two active captives managed at year-end 1996. Captive premium volume, $22.0 million. Capital and surplus managed, $10.0 million.

Compensation: Annual fee.

Officers: Joyce MacRedmond, director.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

** Some services provided by affiliates.*

Aon Risk Services (Isle of Man) Ltd.

Clinch's House, Lord St., Douglas, Isle of Man IM1 1LD; 44-1624-615101; fax: 44-1624-615102

Founded: 1995.

Parent: Aon Corp.

Frequent services*: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Two; one professional.

Clients: One captive managed at year-end 1996. No minimum size client.

Compensation: Annual fee, commission, hourly.

Contact: Ian M. Gerrard.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

** Some services provided by affiliates.*

Aon Risk Services (Nederland) B.V.

31 K.P. van der Mandelelaan, 3062 MB, Rotterdam, Netherlands; 31-10-498-1155; fax: 31-10-212-1698

Founded: 1994.

Parent: Aon Corp.

Frequent services*: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking, investment management, loss control, association captive management services.

Staff: Four; three professionals.

Clients: Three active captives managed at year-end 1996.

Compensation: Annual fee.

Officers: Adri van Veluw, managing director; Paul Kabel, senior consultant; Eric Fritz, coordinating director-Aon Risk Services (Europe).

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

** Some services provided by affiliates.*

Aon Risk Services (Vermont) Inc.

346 Shelburne Road, Burlington, Vt. 05401; 802-860-0444; fax: 802-860-0440

Founded: 1986.

Parent: Aon Corp.

Frequent services*: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; association captive management services, including specialized accounting services and onshore services.

Occasional services*: Reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.

Staff: Two; one professional.

Clients: Five active captives managed at year-end 1996. Captive premium volume, $32.9 million. Capital and surplus, $65.8 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Tom Corner, president.

Contact: James Murray.

Figures do not reflect Aon's January 1997 acquisition of Alexander & Alexander Services Inc.

** Some services provided by affiliates.*

Argus International Management Ltd.

Craig Appin House, 8 Wesley St., P.O. Box HM 1064, Hamilton HM EX, Bermuda; 441-296-2131; fax: 441-292-6763

Founded: 1971.

Parent: Argus Insurance Co.

Offers rent-a-captive services.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; underwriting and ratemaking; association captive management services, including specialized accounting services.

Staff: 10; five professionals.

Clients: 43 active captives and two inactive captives managed at year-end 1996.

Compensation: Annual fee; hourly, professional, $150 to $225; clerical, $45 to $75.

1996 gross revenues: 100% from fees charged for captive management.

Officers: Michael Hardy, CEO; E. John Sainsbury, managing director.

Contact: Michael Hardy.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton, Bermuda; 441-295-5425; fax: 441-295-5444

Founded: 1974.

Parent: ASL Holdings Ltd.

Offers rent-a-captive services.

Frequent services: Captive formation; government reporting; accounting; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting facilities; association captive

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management services, including specialized accounting services.

Occasional services: Feasibility studies, claims processing, online access to claims data, claims reserves analysis, underwriting and ratemaking, investment management.

Staff: 10; six professionals.

Clients: 27 active captives and six inactive captives managed at year-end 1996. Captive premium volume, $110.0 million. Capital and surplus managed, $65.0 million. No minimum size client.

Compensation: Annual fee, $15,000 minimum; commission; hourly: professional, $150; clerical, $75.

Officers: Colin C. James, president; Richard J. Witkowski, senior vp.

B

BF&M Management Ltd.

P.O. Box HM 1007, Hamilton HM DX, Bermuda; 441-292-6396; fax: 441-292-8682

Founded: 1969.
Parent: BF&M Ltd.
Offers rent-a-captive services.
Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; investment management; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: Eight; four professionals.
Clients: 28 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $47.1 million. Capital and surplus managed, $186.5 million.
Subsidiaries: BF&M Management (Barbados) Ltd.
Compensation: Annual fee, $20,000 minimum; commission; hourly.
1996 gross revenues: 85% from fees charged for captive management, 2% from commissions charged for brokering insurance/reinsurance, 13% from other services.
Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager; John Wilkins, treasurer.

Bain Hogg Insurance Management (Guernsey) Ltd.

St. Julian's Court, St. Julian's Ave., St. Peter Port, Guernsey GY1 4AT; 44-1481-726049; fax: 44-1481-712428

Founded: 1978.
Parent: Aon Corp.
Services: Feasibility studies, captive formation, government reporting, accounting, manual claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, tax advice.
Staff: 13; two professionals.
Clients: 31 active captives and five inactive captives managed at year-end 1996. Capital and surplus managed, $425.0 million. No minimum size client.
Compensation: Annual fee, $35,000 minimum; hourly.
Officers: Roger Hall, managing director; Graham Powell, director.

Becher & Carlson Cos.

84 Pine St., 600 Financial Plaza, P.O. Box 5559, Burlington, Vt. 05401; 802-658-7831; fax: 802-658-7843

Founded: 1982.
Parent: American Re-Insurance Co.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting reinsurance brokered for captives, underwriting and ratemaking, investment management, loss control.
Occasional services: Reinsurance brokered to captives.
Staff: Three; two professionals.
Clients: Five active captives managed at year-end 1996. Captive premium volume, $22.7 million. Capital and surplus managed, $29.5 million. No minimum size client.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, Robert W. Hessel, senior vps; Ann C. DesLauriers, general manager.

Becher & Carlson Management Ltd.

Continental Building, P.O. Box HM 2461, 25 Church St., Hamilton HM JX, Bermuda; 441-295-0519; fax: 441-295-0933

Founded: 1981.
Parent: American Re-Insurance Co.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, actuarial studies, loss forecasting, reinsurance brokered for captives, managing underwriting pools/facilities.
Staff: Five; two professionals.
Clients: 11 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $129.0 million. Capital and surplus managed, $610.0 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: David L. Carlson, president/CEO; Rob Mehta, senior vp/general manager; Karen Nagel, James J. Kofmehl, John Sharpe, vps.
Contact: Pam Brooskin, 818-715-0300.

Becher & Carlson Risk Management Inc.

Pacific Tower, 1001 Bishop St., Suite 2788, Honolulu, Hawaii 96813; 808-521-1121; fax: 808-521-1288

Founded: 1991.
Parent: American Re-Insurance Co.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, loss control.
Occasional services: Investment management.
Staff: Two; one professional.
Clients: Six active captives and two inactive captives managed at year-end 1996. Captive premium volume, $50.0 million. Capital and surplus managed, $305.9 million. No minimum size client.
Compensation: Annual fee.
1996 gross revenues: 100% from fees charged for captive management.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, Robert W. Hessel, senior vps; Wanda L. Jong, vp/manager.
Contact: Pam Brooskin, 818-715-0800.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM EX, Bermuda; 441-292-6564; fax: 441-292-5796

Founded: 1979.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, managing underwriting pools/facilities.
Staff: Six; four professionals.
Clients: 12 active captives managed at year-end 1996. Captive premium volume, $14.5 million. Capital and surplus managed, $28.0 million. No minimum size client.
Subsidiaries: Bott & Associates (Barbados) Ltd.
Compensation: Annual fee, $12,000 minimum; commission.
1996 gross revenues: 50% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance, 10% from other services.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp-broking; Scott W. Nickerson, executive vp/CFO.
Contact: Roy V. Bray.

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Caledonian Bank & Trust Ltd.

P.O. Box 1043, George Town, Cayman Islands, B.W.I.: 345-949-0050; fax: 345-949-8062

Founded: 1970.
Frequent services: Government reporting, accounting, manual claims processing, banking.
Occasional services: Captive formation, investment management.
Staff: Five; four professionals.
Clients: Nine active captives and seven inactive captives managed at year-end 1996. Captive premium volume, $55.2 million*. Capital and surplus managed, $83.6 million*. No minimum size client.
Compensation: Annual fee, $5,000 minimum; hourly: professional, $150 to $250; clerical, $50 to $120.
Officers: David S. Sargison, managing director; David J.V. Burge, general manager; Peter L. Woolfall, manager-corporate services; F. Kate Bowring, manager-compliance; Bernard G.H. McGrath, manager-accounting services.
** Estimate.*

Caledonian Management Ltd.

73 Front St., P.O. Box HM 2455, Hamilton HM JX, Bermuda; 441-295-1683; fax: 441-295-1704

Founded: 1988.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, consulting.
Occasional services: Association captive management services.
Staff: Two professionals.
Clients: Eight active captives managed at year-end 1996. Captive premium volume, $6.0 million. No minimum size client.
Compensation: Annual fee, hourly.
1996 gross revenues: 90% from fees charged for captive management, 10% from other services.
Officers: David A. Brown, president; Rhonda M. Caza, vp; Mark L. Carter, account executive.
Contact: Rhonda M. Caza.

Caledonian Management Ltd.

Highbury House, 3 Parliament Square, Castletown, Isle of Man IM9 1LA; 44-1624-825399; fax: 44-1624-825309

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, consulting.
Occasional services: Actuarial studies, association captive management services.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1996. Captive premium volume, $8.0 million. No minimum size client.
Compensation: Annual fee, hourly.
1996 gross revenues: 90% from fees charged for captive management, 10% from other services.
Officers: David A. Brown, managing director.

Captech Management Service (Barbados) Ltd.

CGM Building, Collymore Rock, St. Michael, Barbados; 246-436-8296; fax: 246-426-0433

Founded: 1994.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, online access to claims data, reinsurance brokered for captives, reinsurance brokered to captives.
Occasional services: Loss forecasting, tax advice, legal advice, association captive management services.
Staff: Four; one professional.
Clients: Three active captives managed at year-end 1996. Captive premium volume, $23.0 million. Capital and surplus managed, $3.3 million. Minimum size, $1 million.
Compensation: Annual fee, $15,000 minimum; commission.
Officers: Lawrence Dixon, president; Elizabeth Powell, vp.
Contact: Lawrence Dixon, 441-295-3974.

Captive Resources Inc.

201 E. Commerce Drive, Schaumburg, Ill. 60173-5338; 847-781-1400; fax: 847-781-1455

Founded: 1981.
Offers rent-a-captive services.
Frequent services*: Feasibility studies; captive formation; accounting; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services; claims and loss control oversight services; risk management training services.
Occasional services*: Government reporting, reinsurance brokered to captives, underwriting and ratemaking, tax advice.
Staff: 43; 38 professionals.
Clients: 20 active captives managed at year-end 1996. Captive premium volume, $172.0 million. Capital and surplus managed, $201.0 million. No minimum size client.
Subsidiaries: Captive Benefits Services Inc., Schaumburg, Ill.
Compensation: Annual fee.
1996 gross revenues: $6.1 million, 100% from fees charged for captive management.
Officers: Karl von Heimburg, chairman; George V. Rusu, president; Tom Ullrich, senior vp-marketing; Jennifer Beard, senior vp-operations; Michael Kilbane, CFO/treasurer.
Contact: George V. Rusu.
** Local services provided by Johnson & Higgins (Cayman Islands) Ltd.*

Caribbean Insurance Management Ltd.

Columbus Centre, P.O. Box 362, Road Town, Tortola, British Virgin Islands; 809-494-4884; fax: 809-494-6850

Founded: 1990.
Frequent services: Captive formation, government reporting, computerized accounting, computerized claims processing, audit by arrangement.
Occasional services: Feasibility studies; reinsurance brokered for captives; reinsurance brokered to captives; tax advice; association captive management services, including onshore services.
Staff: Three; one professional.
Clients: Six active captives and one inactive captive managed at year-end 1996.
Compensation: Annual fee, $5,000 minimum (negotiable); hourly.
1996 gross revenues: 80% from fees charged for captive management, 20% from other services.
Contact: Richard H. Clayson, managing director.

Cayside Insurance Management Ltd.

P.O. Box 2322, 1 Cayman House, N. Church St., Cayman Islands, B.W.I.; 345-949-8184; fax: 345-949-7228

Founded: 1984.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, claims reserves analysis, investment management.
Occasional services: Feasibility studies; manual claims processing; loss forecasting; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: Three; two professionals.
Clients: 15 active captives managed at year-end 1996. Captive premium volume, $90.8 million. No minimum size client.
Compensation: Annual fee, hourly.
1996 gross revenues: 100% from fees charged for captive management.
Contact: John E. Smith, managing director.

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor, P.O. Box 1854, Cayman Islands, B.W.I.; 345-949-8177; fax: 345-949-8376

Founded: 1990.
Parent: Chandler Insurance Co. Ltd.
Offers rent-a-captive services.
Frequent services: Government reporting; accounting; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, captive formation, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: Three; one professional.
Clients: Seven active captives and two inactive captive managed at year-end 1996. Captive premium volume, $22.3 million. Capital and surplus managed, $75.4 million. Minimum size client, $500,000.
Officers: W. Brent Lagere, chairman; Benjamin T. Walkingstick, Steven R. Butler, directors.

Channel Islands Insurance Consultants Ltd.

26 Cornet St., St. Peter Port, Guernsey GY1 1LF; 44-1481-710336; fax: 44-1481-710696

Founded: 1982.
Frequent services: Government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, underwriting and ratemaking, investment management, tax advice, loss control (London, Guernsey).
Occasional services: Feasibility studies, captive formation, actuarial studies, loss forecasting, reinsurance brokered for captives.
Staff: Six; three professionals.

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Clients: 14 active captives and five inactive captives managed at year-end 1996. Captive premium volume, $75.0 million.

Subsidiaries: Guernsey Insurance Management Services Ltd.

Compensation: Annual fee, hourly.

1996 gross revenues: 100% from fees charged for captive management.

Officers: Michael Savage, managing director; Timothy Spafford, chairman; Mike Bubb, director.

Contact: Michael Savage.

CIGNA International Insurance Managers Ltd.

P.O. Box HM 1181, Hamilton HM EX, Bermuda; 441-295-0169; fax: 441-292-1930

Founded: 1978.
Parent: CIGNA Corp.
Frequent services: Government reporting, accounting, computerized claims processing, investment management, loss control (Philadelphia).
Occasional services: Feasibility studies, captive formation, online access to claims data, claims reserves analysis, loss forecasting.
Staff: Four; two professionals.
Clients: Four active captives managed at year-end 1996. Captive premium volume, $21.0 million. Capital and surplus managed, $80.0 million. No minimum size client.
Compensation: Annual fee.
1996 gross revenues: 45% from fees charged for captive management; 55% from other services.
Officers: John C. Boden, president; Heinz Schoenberger, vp/treasurer.

Commonwealth Risk Management Inc.

P.O. Box 834, Montpelier, Vt. 05601-0834; 802-229-5000; fax: 802-244-1687

Founded: 1987.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, investment management.
Occasional services: Claims processing, online access to claims data, actuarial studies, loss forecasting, underwriting and ratemaking, tax advice, legal advice.
Staff: Three; two professionals.
Compensation: Annual fee, commission, hourly: professional, $125; clerical, $35.
Officer: Peter D. Sanger, president.

Continental Risk Services Ltd.

Continental Building, 25 Church St., P.O. Box HM 824, Hamilton HM CX, Bermuda; 441-295-6015; fax: 441-295-1702

Founded: 1980.
Parent: CNA Financial Corp.
Offers rent-a-captive services.
Frequent services: Captive formation; government reporting; accounting; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control.
Staff: Four; three professionals.
Clients: Eight active captives managed at year-end 1996. Captive premium volume, $67.8 million. Capital and surplus managed, $546.0 million. No minimum size client.
Subsidiaries: Continental Risk Services (Barbados) Ltd.
Compensation: Annual fee, hourly.
1996 gross revenues: 72% from fees charged for captive management, 28% from other services.
Officers: Peter Conway, chairman; Hector Mendez, COO; Thomas R. McMahon, vp; Richard Spurling, secretary; Judy Taylor, assistant secretary.
Contact: Thomas R. McMahon.

Continental Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck St., Bridgetown, Barbados; 246-427-3362; fax: 246-426-0426

Founded: 1986.
Parent: Continental Risk Services Ltd.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, investment management.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control (New York).
Staff: Three; two professionals.
Clients: Six active captives and six inactive captives managed at year-end 1996. Captive premium volume, $75.0 million. Capital and surplus managed, $60.0 million. No minimum size client.
Compensation: Annual fee, hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Peter Conway, chairman; Hector Mendez, senior vp/COO; Fiona Williams, president/general manager; Trevor Carmichael, secretary; Andrew Ferreira, assistant secretary.

Cranham Management Ltd.

P.O. Box HM 397, Hamilton HM BX, Bermuda; 441-295-8441; fax: 441-292-1210

Founded: 1996.
Frequent services: Feasibility studies, government reporting, accounting, run-off management.
Occasional services: Captive formation.
Staff: Two professionals.
Clients: Four active captives and one inactive captive managed at year-end 1996. No minimum size client.
Compensation: Annual fee.
Officers: Stephen W. Pearce, president; Toni E. Tavares, vp.
Contact: Stephen W. Pearce.

Crusader International Management (Cayman) Ltd.

P.O. Box 2185 G, Crusader House, Mary St., George Town, Cayman Islands, B.W.I.; 345-949-1599; fax: 345-949-0520

Founded: 1993.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; online access to claims data; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Eight; three professionals.
Clients: 11 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $64.0 million. Capital and surplus managed, $68.0 million. No minimum size client.
Compensation: Annual fee, $20,000 minimum; hourly: professional, $200; clerical, $70.
Officers: Ian Kilpatrick, president; J. Terry Burke, executive vp; Fiona Moseley, account administrator.

E

Eaglehurst Insurance Management Ltd.

P.O. Box 16, Analyst House, 16/20 Peel Road, Douglas IM99 1AP, Isle of Man; 44-1624-673811; fax: 44-1624-629983

Founded: 1986.
Parent: Pannell Kerr Forster.
Offers rent-a-captive services.
Frequent services: Feasibility studies, government reporting, accounting, investment management, tax advice.
Occasional services: Captive formation, computerized accounting, manual claims processing, claims reserves analysis, legal advice.
Staff: Three, all professionals.
Clients: Two active captives and one inactive captive managed at year-end 1996. Captive premium volume, $1.0 million. Capital and surplus managed, $3.1 million. No minimum size client.
Compensation: Hourly: professional, $85 to $280; clerical, $50.
1996 gross revenues: $76,000, 100% from fees charged for captive management.
Officers: I.M. Foster, J. Scott, J.N. Nugent, directors.
Contact: Isobel Foster.

Continued on next page

Refer to the index on page **93** to locate organizations managing captives in a particular domicile. The index includes companies that provide direct service and those that subcontract for services.

What do Tampa, San Diego, Washington, D.C. and New Orleans have in common?

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Continued from previous page

F

50th State Risk Management Services Inc.

6 Waterfront Plaza, Room 405, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-543-9786; fax: 808-521-1802

Founded: 1991.
Parent: American International Group Inc.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; loss control (Hawaii); association captive management services, including specialized accounting services and onshore services; risk management; finite risk programs.
Occasional services: Online access to claims data; claims reserves analysis; actuarial studies; reinsurance brokered to captives; underwriting and ratemaking.
Staff: Four; two professionals.
Clients: One active captive managed at year-end 1996. Captive premium volume, $400,000. Capital and surplus managed, $1.2 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $50 to $100; clerical, $20 to $30.
Officers: Robin K. Campaniano, chairman; Linda K. Gilchrist, president; Craig M. Watanabe, senior vp.
Contact: Craig Watanabe, 808-543-0439, or Ann Wick, 802-658-9405.

FBD International Captive Management Ltd.

2/3 Exchange Place, I.F.S.C., Dublin 1, Ireland; 353-1-670-1340; fax: 353-1-670-1342

Founded: 1990.
Officers: Philip Fifzsimons, Paul O'Callaghan, directors; Noel Kavanagh, secretary.
Subcontracts for captive management services with Sogecore S.A. in Luxembourg.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8 A, 00035 Helsinki, Finland; 358-10-515-12; fax: 358-10-514-5388

Founded: 1988.
Parent: Risk Management Ltd. (U.K.), Industrial Insurance Co. (Finland).
Officers: E. Holma, chairman; R. Kamarainen, vice chairman; Yngve Nygardas, director; L. von Hertzen, managing director; Derek Douglas, C.G. Bradburn, directors.
Subcontracts for captive management services with International Risk Management in Dublin, Guernsey and Isle of Man.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

Sofia House, 48 Church St., Hamilton HM 12, Bermuda; 441-292-4654; fax: 441-292-8231

Founded: 1972.
Parent: Arthur J. Gallagher & Co. Inc.
Frequent services: Captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; loss control (Itasca, Ill.); association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, online access to claims data.
Staff: Five; three professionals.
Clients: 11 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $25.0 million. No minimum size client.
Compensation: Annual fee, $20,000 minimum; commission.
Officers: Peter Mullen, president: Brian Webb, vp.
Contact: Brian Webb.

Gecalux S.A.

5 Place de la Gare, L-1616, Luxembourg; 352-4038801; fax: 352-492706

Founded: 1984.
Frequent services: Feasibility studies, captive formation, accounting, manual claims processing, actuarial studies.
Occasional services: Government reporting, computerized claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, tax advice, legal advice.
Staff: 52, all professionals.
Clients: 67 active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Roland Frere, managing director; Frederick Gabriel, general manager; Claude Stiennon, deputy general manager; Jean Francois Mirarchi, general manager-accounting; Arnaud Bierry, general manager-administration.

Global Risk Financing Services Ltd.

4870 The Dale, West Vancouver, B.C. V7W 1K3, Canada; 604-925-3939; fax: 604-925-3934

Founded: 1990.
Officers: Terry Holdom, president; Susan Gallivan, vp.
Subcontracts for captive management services with the International Risk Management Group.

Green Mountain Captive Management Co.

P.O. Box 628, 83 Washington St., Barre, Vt. 05641; 802-479-1046; fax: 802-479-2761

Founded: 1982.
Services: Association captive management services.
Staff: Three; two professionals.
Compensation: Annual fee, $6,000 minimum.
Officers: Richard W. Huskes Jr., president; James L. Mulligan, vp.
Contact: Richard W. Huskes.

Griffiths & Wanklyn Management Ltd.

Craig Appin House, 8 Wesley St., Hamilton, Bermuda; 441-295-1639; fax: 441-295-1638

Founded: 1985.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, computerized claims processing, reinsurance brokered for captives.
Occasional services: Feasibility studies; online access to claims data; investment management.
Staff: Six total.
Clients: Three active captives managed at year-end 1996.
Compensation: Annual fee. $12,000 minimum; commission.
Officers: Julian Griffiths, William Wanklyn, Lisa Robinson, John LaLone, directors.

Guardrisk Insurance Co. Ltd.

P.O. Box 62018, Marshalltown 2107, Johannesburg, South Africa; 27-11-484-4906; fax: 27-11-484-3010

Founded: 1993.
Officers: Roger Voysey, managing director; Fernando Patrizi, general manager-business development; Volker von Widdern, general manager-finance/operations.
Contact: Roger Voysey.
Subcontracts for captive management services with Willis Corroon Management (Isle of Man) Ltd.

H

H&H Management Services Ltd.

P.O. Box HM 1760, Hamilton HM HX, Bermuda; 441-295-3688; fax: 441-295-2584

Founded: 1977.
Parent: International Advisory Services Ltd.
Subcontracts for captive management services with International Advisory Services Ltd.

Hartford Holdings Ltd. (Fencourt Re)

Crawford House, 50 Cedar Ave., Hamilton, Bermuda; 441-295-5243; fax: 441-295-4460

Founded: 1975.
Parent: ITT Hartford Group Inc.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, computerized claims processing, investment management, managing underwriting pools/facilities.
Occasional services: Manual claims processing; online access to claims data claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking; loss control (Hartford, Conn.); association captive management services, including specialized accounting services and onshore services.
Staff: 10; four professionals.
Compensation: Annual fee. $25,000 minimum.
Officers: C. Robert Burns Jr., president; Stewart A. McCrae, controller; Thomas S. Johnston, vp; Jean Sennett, treasurer/chief information officer; Loretta D. Weir, assistant vp.
Contact: C. Robert Burns Jr., 860-547-2457.

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1411, Honolulu, Hawaii 96813; 808-538-7766 or 888-872-5064; fax: 808-538-7780

Founded: 1988.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services and onshore services.
Occasional services: Claims processing, online access to claims data, reinsurance brokered to captives, investment management, tax advice.
Staff: Four; two professionals.
Clients: 10 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $17.6 million. Capital and surplus managed, $38.3 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $100 to $125; clerical, $50 to $80.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Sherman S. Hee, president; Gary H. Osborne, Reid Richards, vps.
Contact: Reid Richards.

I

IAS (Barbados) Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados; 246-436-8296; fax: 246-426-0433

Founded: 1987.
Parent: International Advisory Services Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Reinsurance brokered to captives, underwriting and ratemaking, tax advice, onshore services for associations.
Staff: Three; one professional.
Clients: Six active two inactive captives managed at year-end 1996. Captive premium volume, $120.0 million.
Compensation: Annual fee, $10,000 minimum; commission; hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, vps.

Independent Management Group Ltd.

Williams House, Third Floor, 20 Reid St., P.O. Box HM 2070; Hamilton HM HX, Bermuda; 441-295-1646; fax: 441-292-8062

Founded: 1984.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, reinsurance brokered for captives, managing underwriting pools/facilities.
Occasional services: Manual claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice.
Staff: Five; three professionals.
Clients: 18 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $146.5 million. Capital and surplus managed, $201.5 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $135.
Officers: Peter J.N. Strong, president.

Insurance Brokerage & Management Co. Ltd.

Jardine House, 33/35 Reid St., P.O. Box HM 604, Hamilton HM CX, Bermuda; 441-295-2470; fax: 441-292-8243

Founded: 1974.
Frequent services: Government reporting, accounting, reinsurance brokered for captives, investment management.
Occasional services: Feasibility studies, captive formation, claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, legal advice.
Staff: Three; one professional.
Clients: Seven active captives and one inactive captive managed at year-end 1996. Captive premium volume, $14.0 million. Capital and surplus managed, $18.0 million. No minimum size client.
Compensation: Annual fee, $15,000 minimum; commission.
1996 gross revenues: 90% from fees charged for captive management, 10% from commissions charged for brokering insurance/reinsurance.
Officers: Eric J.M. Arcay, managing director; Denise Caimey, executive assistant.

International Advisory Services Ltd.

Chevron House, 11 Church St., Hamilton HM 11, Bermuda; 441-295-3688; fax: 441-295-2584

Founded: 1981.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services, reinsurance placed for captives via H&H Re-Insurance Brokers Ltd.
Occasional services: Actuarial studies, reinsurance brokered to captives, underwriting and ratemaking, tax advice, loss control.
Staff: 50; 21 professionals.
Clients: 88 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $925.0 million. No minimum size client.
Subsidiaries: H&H Management Services Ltd., Bermuda; IAS (Barbados) Ltd.; IAS Insurance Management Inc., California; International Advisory Services Inc., Vermont.
Compensation: Annual fee, $15,000 minimum; commission; hourly.
1996 gross revenues: 95% from fees charged for captive management, 5% from other services.
Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers; Simon Everett, David Lampit, Lal Gunawardene, senior officers.

International Insurance Management Ltd.

CGM Building, Collymore Rock, St. Michael, Barbados; 246-436-8296; fax: 246-426-0433

Founded: 1986.
Frequent services: Government reporting, accounting.
Occasional services: Captive formation, manual claims processing, reinsurance brokered for captives, investment management.
Staff: Five; two professionals.
Clients: 17 active captives and six inactive captives managed at year-end 1996. No minimum size client.
Compensation: Annual fee, $5,000 minimum; commission; hourly: professional, $55; clerical, $25.
Officers: William M. Tomlin, director; Christine M. O'Connor, manager.
Contact: Christine M. O'Connor.

Continued on next page

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President, Title Reinsurance Company, Washington DC
Executive VP & Treasurer, Title Industry Assurance Company

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Continued from previous page

International Insurance Services Inc.

P.O. Box 61, 655 Main St., Lewiston, Maine 04213-0061; 207-784-4566; fax: 207-783-6778

Founded: 1986.
Parent: Hartford Inc.
Officers: Richard A. Hartford, president; Robert A. Hartford, vp-marketing; Rodney S. Shaw, treasurer; Claire M. Bellefleur, assistant vp.
Contact: Richard A. Hartford.
Subcontracts for captive management services with International Insurance Management Ltd. in Barbados.

International Risk Management (Australia) Pty. Ltd.

5/347 Flinders Lane, Melbourne, Victoria, Australia 3000; 613-9629-7655; fax: 613-9629-6922

Founded: 1993.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting; computerized claims processing, claims reserves analysis, reinsurance brokered for captives, investment management, loss control, risk management consulting.
Staff: Two; one professional.
Clients: One active captive managed at year-end 1996. Captive premium volume, $500,000. Capital and surplus managed, $200,000. No minimum size client.
Compensation: Annual fee, $25,000 minimum.
Officers: Doug Wilkinson, managing director; Tony Cope, general manager-risk advisory services.
Contact: Tony Cope or Doug Wilkinson.

International Risk Management (Barbados) Ltd.

P.O. Box 1264, Bridgetown, Barbados; 246-436-7541; fax: 246-436-8814

Founded: 1988.
Parent: International Risk Management Group Ltd.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.
Occasional services: Captive feasibility studies, reinsurance brokered for captives, risk management with engineering consulting.
Staff: One professional.
Clients: Four active and one inactive captive managed at year-end 1996. No minimum size client.
Compensation: Hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Richard E. Ince, general manager/director; John R. Lower, Michael Goulet, directors.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 441-295-0713; fax: 441-295-1712

Founded: 1963.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (Europe, North America); association captive management services, including specialized accounting services; risk management consulting; primary and excess insurance brokerage; reinsurance intermediary services.
Occasional services: Claims reserves analysis, loss forecasting.
Staff: 39; 14 professionals.
Clients: 76 active captives managed at year-end 1996. Captive premium volume, $240.0 million. Capital and surplus managed, $1.0 billion. No minimum size client.
Compensation: Annual fee, $10,000 minimum; hourly.
Officers: J.R. English, president; A.W. Summers, senior vp; M. Searson, vp/company secretary; M. Haydon, vp; S. Arrowsmith, assistant vp/assistant secretary.

International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69GT, Cayman Islands, B.W.I.; 345-949-0155; fax: 345-949-0002

Founded: 1975.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (North America, Europe) association captive management services, including specialized accounting services and onshore services; risk management consulting; primary and excess insurance placement services; reinsurance intermediary services.
Staff: 21; 10 professionals.
Clients: 30 active captives and two inactive captive managed at year-end 1996. Captive premium volume, $413.0 million. Capital and surplus managed, $350.0 million. No minimum size client.
Compensation: Annual fee, $25,000 minimum; hourly.
Officers: John R. Lower, president; Roger Phelps, senior vp; Lawrence J. Walters, Michael S.A. Donnelly, vps.

International Risk Management (Dublin) Ltd.

Block 3 Harcourt Centre, Harcourt Road, Dublin 2, Ireland; 353-1-790-2600; fax: 353-1-790-2606

Founded: 1990.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, loss control.
Occasional services: Manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives.
Staff: Five, all professionals.
Clients: Eight active captives managed at year-end 1996. Captive premium volume, $220.3 million. Capital and surplus managed, $63.4 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Andrew Halsall, managing director; Michael Goulet, J.W. Stuart, directors.
Contact: Andrew Halsall.

International Risk Management (Guernsey) Ltd.

IRM House, Le Bordage, St. Peter Port, Guernsey GY1 1BR; 44-1481-727220; fax: 44-1481-712443

Founded: 1988.
Parent: International Risk Management Group.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, loss forecasting, underwriting and ratemaking.
Occasional services: Claims reserves analysis, online access to claims data, reinsurance brokered for captives.
Staff: 26; nine professionals.
Clients: 28 active captives and one inactive captive managed at year-end 1996. No minimum size client.
Officers: Nick Wild, managing director; John Stuart, financial director; Don Lawson, client service director.

International Risk Management (Isle of Man) Ltd.

Peveril Buildings, Suite 3, Fourth Floor, Douglas, Isle of Man IM1 2BS; 44-1624-629198; fax: 44-1624-629199

Founded: 1985.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, risk management consulting.
Occasional services: Accounting, manual claims processing, loss forecasting.
Staff: Six; three professionals.
Clients: Seven active captives managed at year-end 1996. Captive premium volume, $35.0 million. Capital and surplus managed, $23.0 million. No minimum size client.
Subsidiaries: Risk Management Consultants (Africa) Pty. Ltd., Johannesburg, South Africa.
Compensation: Annual fee, hourly.

Continued on next page

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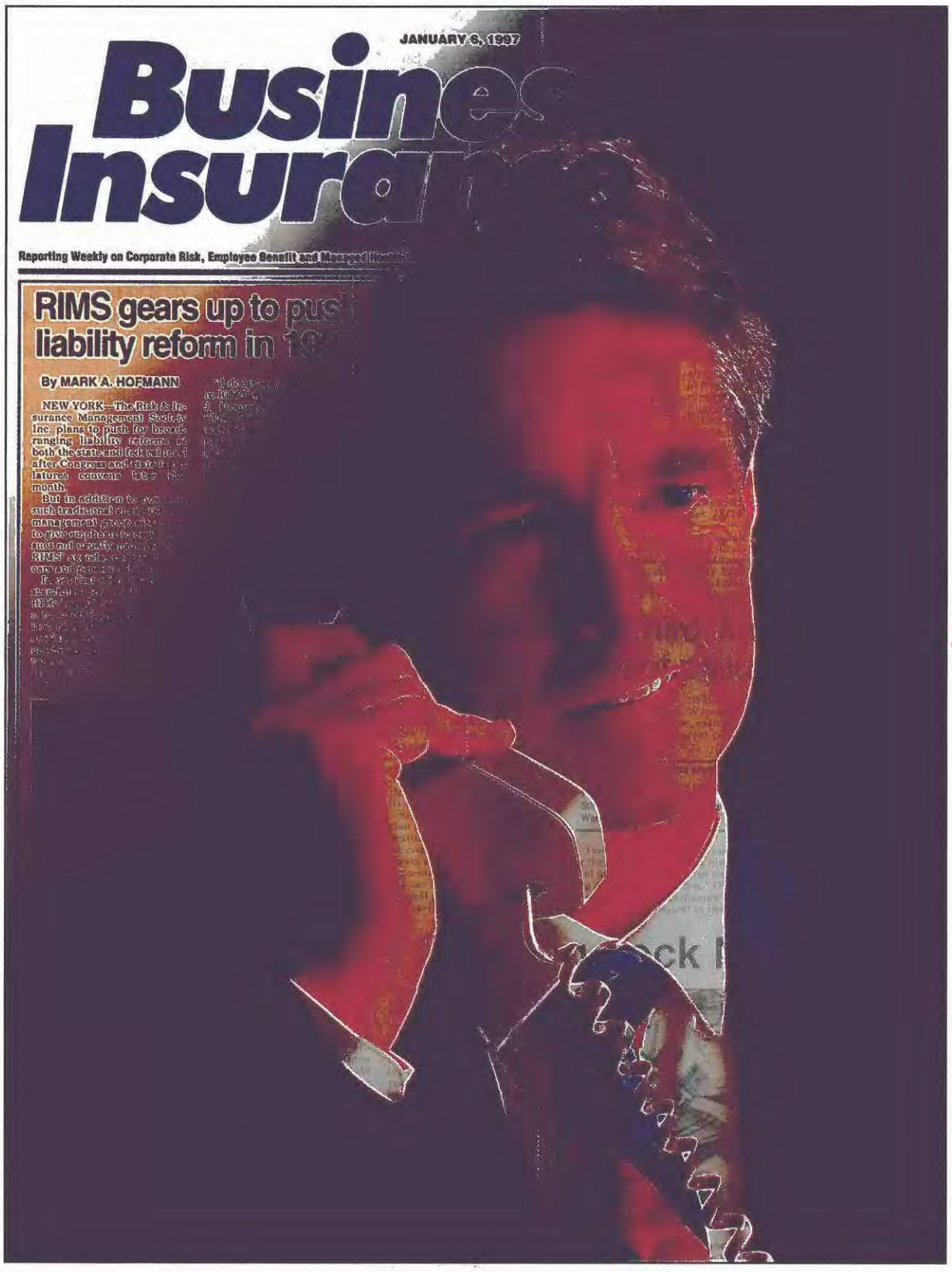

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Sedgwick Management Services (U.S.) Ltd.

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 802-229-6280

Founded: 1982.
Parent: Sedgwick James Inc.
Officers: Jane Hill Fleming, president.
Contact: John Harrington, 802-229-5042.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

SINSER A.B.

Grev Turegatan 9, Stockholm, Sweden 11446; 46-8-614-1700; fax: 46-8-678-1800

Founded: 1983.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 13 professionals.
Clients: 16 active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, Cecilia Backlund, deputy managing directors.

SINSER (Aland) A.B.

Koperhamnsgatan 6, SF-22100 Mariehamn, Aland; 358-18-27690; fax: 358-18-27699

Founded: 1996.
Parent: SINSER Holding A.B.
Staff: One professional.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, Bo Sture Sjolund, directors.

SINSER Denmark

Stamholmen 161, DK-2650 Huidoure, Denmark; 45-368-74693; fax: 45-368-74694

Founded: 1992.
Parent: SINSER.
Offers rent-a-captive services.
Services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, tax advice.
Staff: Two professionals.
Clients: Two active captive managed at year-end 1996.
Officers: Nikolaj Boysen, actuary.

SINSER (Europe) S.A.

P.O. Box 593, L-2015 Luxembourg; 352-22-34-22-310; fax: 352-47-02-51

Founded: 1988.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Seven, all professionals.
Clients: 17 active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Charles Besnehard, managing director.

SINSER (International) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg; 352-22-34-22-219; fax: 352-47-02-50

Founded: 1994.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: One professional.
Clients: Three active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Tomas Wittbjer, managing director.

SINSER (Ireland) Ltd.

11 Windsor Place, Lower Pembroke St., Dublin 2, Ireland; 353-1-676-8766; fax: 353-1-676-8792

Founded: 1989.
Parent: SINSER Holding A.B.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Nine, all professionals.
Clients: 17 active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Irene Ryan, managing director.

SINSER (Isle of Man) Ltd.

P.O. Box 276, Douglas, Isle of Man; 44-1624-614901; fax: 44-1624-614284

Founded: 1995.
Parent: SINSER Holding A.B.
Officers: Irene Ryan, managing director.

SINSER (Luxembourg) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg; 352-22-34-22-1; fax: 352-47-02-50

Founded: 1984
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 15, all professionals.
Clients: 33 active captives managed at year-end 1996.
Compensation: Annual fee, hourly.
Officers: Tony Nordblad, managing director.

Skandia International Risk Management Ltd.

Skandia International House, 16 Church St., P.O. Box HM 2062, Hamilton HM HX, Bermuda; 441-295-2185; fax: 441-292-8637

Founded: 1979.
Parent: Skandia/SINSER Group.
Offers rent-a-captive services.
Frequent services: Captive formation; government reporting; accounting; computerized claims processing; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, manual claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: 15; eight professionals.
Clients: 82 active captives captives managed at year-end 1996. No minimum size client.
Subsidiaries: Skandia International Risk Management (Vermont) Inc.
Compensation: Annual fee, hourly.
Officers: Nicholas S. Dove, president; Robert J. Rosser, Robert W. Eastham, Adrian Lee-Emery, senior vps.

Skandia International Risk Management (Vermont) Ltd.

346 Shelburne Road, P.O. Box 64649, Burlington, Vt. 05406-4649; 802-658-1474; fax: 802-658-0692

Founded: 1986.
Parent: SINSER Holding A.B.
Offers rent-a-captive services.
Frequent services: Captive formation; government reporting; accounting; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Occasional services: Feasibility studies, claims processing, investment management.
Staff: Five; four professionals.
Clients: 16 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $36.5 million. Capital and surplus managed, $64.3 million. No minimum size client.
Compensation: Annual fee.
1996 gross revenues: 100% from fees charged for captive management.
Officers: George A. Chaffee, president; Patricia Henderson, vp/secretary; David M. Boardman, vp.

Sogecore A.G.

Bleycherweg 39, Zurich, CH 8027, Switzerland; 41-1-201-79-70; fax: 41-1-201-25-88

Founded: 1994.
Parent: Sogecore Group.
Services: 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; association captive management services, including specialized accounting services.
Staff: One professional.
Clients: Two active captives managed at year-end 1996.
Officers: Rubo Schilling, Pierre Perrenoud, Jean Thilly, Gilles Coremans.

Sogecore S.A.

6B Route de Treves, Senningerberg, Luxembourg 2633; 352-34-68-66; fax: 352-34-68-40

Founded: 1987.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Staff: 12, all professionals.
Clients: 37 active captives managed at year-end 1996.
Officers: Jean Thilly, Gilles Coremans, Jhyslayn Laurent, Lidia Palunbo, Sophie Vandeuen.

Sogecore Ireland Ltd.

2/3 Exchange Place, I.F.S.C., Dublin 1, Ireland; 353-1-670-1340; fax: 353-1-670-1342

Founded: 1989.
Parent: Sogecore Group.
Officers: Jean Thilly, director; Gilles Coremans, John Prosser.
Subcontracts for captive management services with FBD Management Services.

Spread Insurance Management Ltd.

P.O. Box 119, Commerce House, St. Peter Port, Guernsey GY1 3HB; 44-1481-714161; fax: 44-1481-711657

Founded: 1992.
Parent: Reads Holdings Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking, tax advice, legal advice, subcontract captive management facilities.
Occasional services: Manual claims processing, loss forecasting, investment management.
Staff: 140; 100 professionals.
Clients: 16 active captives and four inactive captives managed at year-end 1996. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Callum Beaton, managing director; Steven Parrott, John Rowe, John Fewkes, Eifion Thomas, directors.

Symphony Management Ltd.

P.O. Box HM 1538, Hamilton HM FX, Bermuda; 441-295-2447; fax: 441-292-0511

Founded: 1991.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; reinsurance brokered for captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Online access to claims data, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: Six; five professionals.
Clients: 13 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $100.0 million. Capital and surplus managed, $60.0 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $130 to $200; clerical, $75 to $90.
Contact: John G. Neal, president; Helen J. Trundle, vp.

T

W.A. Taft & Co. Ltd.

Windsor Place, 18 Queen St., P.O. Box HM 2210, Hamilton HM JX, Bermuda; 441-295-8495; fax: 441-292-1196

Founded: 1982.
Services*: Captive formation; government reporting; computerized accounting; computerized claims processing; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services and onshore services.
Staff: Two; one professional.
Clients: One active captive and one inactive captive managed at year-end 1996.
Compensation: Annual fee, commission, hourly.
Officers: W. Allen Taft, president; Richard Goff, executive vp.
Contact: W. Allen Taft, 610-430-7757 or Richard Goff, 410-296-1500.
** Some services are subcontracted to The Powerscourt Group Ltd.*

Tate & Lyle Management & Finance Ltd.

Jardine House, 33-35 Reid St., P.O. Box HM 337, Hamilton HM BX, Bermuda; 441-295-9911; fax: 441-292-6139

Founded: 1979.
Parent: Tate & Lyle P.L.C.
Offers rent-a-captive services.
Frequent services: Government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, investment management.
Occasional services: Captive formation, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Staff: Four; three professionals.
Clients: Five active captives managed at year-end 1996. Captive premium volume, $38.8 million. Capital and surplus managed, $85.1 million. No minimum size client.
Compensation: Annual fee, $25,000 minimum.
1996 gross revenues: $5.2 million, 10% from fees charged for captive management, 1% from commissions charged for brokering insurance/reinsurance, 89% from other services.
Officers: James A. Kemp, managing director; Dermot P. Caslin, controller; Georgi C. Barbosa, assistant controller.
Contact: James A. Kemp.

Towner Risk Management Ltd.

Second St., Holetown, St. James, Barbados; 246-432-5950; fax: 246-432-5952

Founded: 1986.
Parent: Towner Management Group Inc.
Offers rent-a-captive services.
Frequent services: Computerized accounting.
Occasional services: Feasibility studies; captive formation; reinsurance brokered for captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Six; three professionals.
Clients: Six active captives managed at year-end 1996.
Compensation: Annual fee, commission, hourly.
Officers: Christopher Towner, president; Lindell Earle, Ricardo Knight, account managers.

Triangle Insurance Management Ltd.

The Phoenix Building, 2 Reid St., Hamilton HM 11, Bermuda; 441-292-4364; fax: 441-295-3982

Founded: 1983.
Parent: Triangle Holdings Ltd.
Offers rent-a-captive services.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, reinsurance brokered to captives.
Staff: Four; one professional.
Clients: 10 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $3.8 million. Capital and surplus managed, $22.6 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Bruce Fenton, president/managing director; Janice Witkowski, vp.

Trifoliate Ltd.

26 Cornet St., St. Peter Port, Guernsey GY1 1LF; 44-1481-710336; fax: 44-1481-710696

Founded: 1984.
Contact: Michael Savage, managing director.
Subcontracts for captive management services with Channel Islands Insurance Consultants Ltd. in Guernsey.

TRISTAR Risk Management

6133 Bristol Parkway, Suite 300, Culver City, Calif. 90230; 310-342-0500; fax: 310-342-0503

Founded: 1987.
Parent: Sierra Center Inc.
Offers rent-a-captive services.
Services: Feasibility studies, captive formation, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives; underwriting and ratemaking, investment management, managing underwriting pools/facilities, loss control, association captive management services.
Staff: 15; 11 professionals.
Clients: 10 active captives and three inactive captives managed at year-end 1996. Captive premium volume, $20.0 million. Capital and surplus managed, $38.0 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $45 to $150; clerical, $25 to $50.
1996 gross revenues: $45 million, 11% from fees charged for captive management, 5% from commissions charged for brokering insurance/reinsurance, 84% from other ser-

Continued on next page

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Continued from previous page

vices, including loss prevention, claims management and claims investigation.

Officers: Tom Veale, president; Kevin Burke, Ken Beck, Linda DeVreugd, vps; Kathie Schaap, controller.

U

USA Risk Group

The Phoenix Building, 2 Reid St., Hamilton HM 11, Bermuda; 441-295-3952; fax: 441-295-3982

Officers: H. Lincoln Miller, president; Gary Osborne, senior vp; Andrew Sargeant, treasurer.

Contact: Gary Osborne, 800-872-7475.

Subcontracts for captive management services with Triangle Insurance Management.

UNISON Management (Dublin) Ltd.

12-14 Lower Mount St., Dublin 2, Ireland; 353-1-676-2748; fax: 353-1-678-9636

Founded: 1990.
Parent: Johnson & Higgins.
Frequent services: Captive formation, government reporting, accounting, claims processing, underwriting and ratemaking.
Occasional services: Feasibility studies; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 28; 15 professionals.
Clients: 23 active captives managed at year-end 1996. Captive premium volume, $653.5 million. Capital and surplus managed, $247.3 million.
Compensation: Annual fee, hourly.
Officers: John Perham, managing director; Tim Hennessy, senior manager.

UNISON Management (Guernsey) Ltd.

P.O. Box 34, Albert House, South Esplanade, St. Peter Port, Guernsey GY1 4AU; 44-1481-728136; 44-1481-713617

Founded: 1975.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, accounting, manual claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.
Occasional services: Computerized claims processing, online access to claims data, reinsurance brokered to captives, investment management, managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 11; five professionals.
Clients: 12 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $45.0 million. Minimum size, $500,000.
Compensation: Hourly: professional, $100 to $180; clerical, $60 to $80.
Officers: David Johnstone, managing director; Merise Wheatley, Ian Daish, directors.

UNISON Management (Luxembourg) S.A.

25 A, Boulevard Royal, L-2449 Luxembourg; 352-46-96-01-1; fax: 352-46-96-09;

Founded: 1986.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing.
Occasional services: Manual claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice, managing underwriting pools/facilities, loss control.
Staff: 18 total.
Clients: 24 active captives managed at year-end 1996.
Compensation: Annual fee, commission, hourly.
Officers: Timothy Yeates, managing director; Nicolas Fouquet, assistant vp.

UNISON Management (Scandinavia) A.B.

Birger Jarlsgatan 64, P.O. Box 5908, Stockholm, Sweden 11489; 468-613-2820; fax: 468-24-8848

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, claims reserves analysis.
Staff: Five, all professionals.
Clients: Two active captives managed at year-end 1996. Captive premium volume, $12.1 million. Capital and surplus managed, $4.0 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Peter Flensburg, managing director; Krister Wanblad, marketing director; Berit Lignercrona, administrative manager.

United Insurance Management Co.

2 Wisconsin Circle, Suite 1040, Chevy Chase, Md. 20815; 301-907-4740; fax: 301-907-4830

Founded: 1991.
Parent: SCUUL Ltd.
Frequent services: Government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking, investment management, tax advice, managing underwriting pools/facilities, loss control (Maryland).
Occasional services: Feasibility studies, captive formation, legal advice.
Staff: 32; 26 professionals.
Clients: One active captive managed at year-end 1996. Captive premium volume, $39.0 million. Capital and surplus managed, $8.0 million. No minimum size client.
Compensation: Annual fee.
1996 gross revenues: $450,000, 100% from fees charged for captive management.
Officers: Burton Somenstein, president; Arthur Broadhurst, senior vp; Davison Obenauer, vp-finance/administration.
Contact: Davison Obenauer, 301-907-4908.

V

Vermont Insurance Management Inc./USA Risk Group

P.O. Box 306, Montpelier, Vt. 05601; 800-872-7475; fax: 802-229-6280

Founded: 1980.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; policyholder services to group captives.
Occasional services: Claims reserves analysis, loss forecasting, reinsurance brokered to captives, investment management, tax advice, legal advice.
Staff: 19; four professionals.
Clients: 40 active captives and one inactive captive managed at year-end 1996*. Captive premium volume, $115.8 million**. Capital and surplus managed, $137.6 million**. No minimum size client.
Subsidiaries: Hawaii Captive Insurance Management, Honolulu; USA Risk Group International, Bermuda.
Compensation: Annual fee, commission.
1996 gross revenues: 75% from fees charged for captive management, 25% from commissions charged for brokering insurance/reinsurance.
Officers: H. Lincoln Miller Jr., chairman; Andrew Sargeant, president; Edward E. Meehan, executive vp.

** Figures include total of all USA Risk Group captives.*
*** Figures include Vermont captives only.*

Vista Insurance Services Inc.

60 Pompton Ave., Verona, N.J. 07044; 201-857-7999; fax: 201-239-0666

Founded: 1985.
Services: Feasibility studies; captive formation; computerized accounting; computerized claims processing; claims reserves analysis; association captive management services, including specialized accounting services and onshore services.
Staff: Five total.
Clients: Three active captives managed at year-end 1996. Captive premium volume, $4 million.
Compensation: Annual fee, $25,000 minimum; commission; hourly: professional, $175; clerical, $65.
1996 gross revenues: $425,000, 75% from fees charged for captive management, 25% from commissions charged for brokering insurance/reinsurance.
Officers: E. Arnold Powell, president; Joan McDougall, administrative assistant; Judith Colomb, claims administrator.

W

Watson Wyatt Management Co. (Barbados) Ltd.

International Trading Centre, Third Floor, Warrens, St. Michael, Barbados; 246-425-4959; fax: 246-425-2170

Founded: 1989.
Parent: Watson Wyatt & Co.
Offers rent-a-captive services.
Services*: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Five; two professionals.
Clients: 11 active captives and four inactive captives managed at year-end 1996. Captive premium volume, $115.0 million. Capital and surplus managed, $53.0 million. No minimum size client.
Compensation: Hourly: professional, $130 to $230; clerical, $60 to $70.
Officers: Brian Kennedy, chairman; Jim Swanke, director; Chris Evans, general manager.
Contact: Chris Evans.

** Subcontracts for some captive management services with Sedgwick Management Services (Barbados) Ltd.*

Willis Corroon Management (Bermuda) Ltd.

F.B. Perry Building, 40 Church St., Hamilton, Bermuda; 441-295-1272; fax: 441-295-4143

Founded: 1962.
Parent: Willis Corroon P.L.C.
Frequent services: Captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis.
Occasional services: Feasibility studies, manual claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, legal advice, managing underwriting pools/facilities.
Staff: Six; one professional.
Clients: 14 active captives and one inactive captive managed at year-end 1996. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Guy Ragosta, president; J. Oliver Heyliger, vp; Paul M. Pereech, controller.

Willis Corroon Management (Cayman) Ltd.

P.O. Box 30600 SMB, George Town, Cayman Islands, B.W.I.; 345-949-6039; fax: 345-949-6621

Founded: 1978.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Frequent services: Captive formation, government reporting, accounting, computerized claims processing.
Occasional services: Feasibility studies; manual claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Four; two professionals.
Clients: 18 active captives and one inactive captive managed at year-end 1996. Captive premium volume, $283.0 million. Capital and surplus managed, $27.0 million. No minimum size client.
Compensation: Annual fee, $12,000 minimum.
Officers: Guy Ragosta, president; Tim Byrne, vp.

Willis Corroon Management (Dublin) Ltd.

80 Harcourt St., Dublin 2, Ireland; 353-1-478-4832; fax: 353-1-478-4772

Founded: 1990.
Parent: Willis Corroon Group P.L.C.
Frequent services: Captive formation; government reporting; accounting; underwriting and ratemaking; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, loss forecasting.
Staff: Six, all professionals.
Clients: 11 active captives managed at year-end 1996. Captive premium volume, $36.0 million. Capital and surplus managed, $24.0 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Michael P. Trainor, managing director; Mark E. Kealy, Christine L. Douse, Kenneth V. Mahony, directors.
Contact: Michael Trainor or Mark Kealy.

Willis Corroon Management (Gibraltar) Ltd.

Suite 18, Portland House, Glacis Road, Gibraltar; 350-51801; fax: 350-51802

Founded: 1986.
Parent: Willis Corroon Group P.L.C.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Online access to claims data, reinsurance brokered to captives.
Staff: One total.
Officers: Christine L. Douse, chairman; Bruno G.R. Callaghan, managing director; Peter A. Isola, James C. Boyd, directors.
Contact: Bruno G.R. Callaghan.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, The Albany, South Esplanade, St. Peter Port, Guernsey GY1 4NF; 44-1481-720049; fax: 44-1481-710455

Founded: 1980.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: 25; 20 professionals.
Clients: 41 active captives and two inactive captives managed at year-end 1996. Captive premium volume, $265.0 million. Capital and surplus managed, $180.0 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Malcolm J. Cutts-Watson, managing director; Tim R. Edwards, Richard W. Falla, directors.

Willis Corroon Management (Isle of Man) Ltd.

Third Floor, 10 Finch Road, Douglas IM1 2PT, Isle of Man; 44-1624-620274; fax: 44-1624-661586

Founded: 1982.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, managing underwriting pools/facilities.
Occasional services: Online access to claims data, reinsurance brokered to captives.
Staff: 24; 10 professionals.
Clients: 42 active captives managed at year-end 1996. Captive premium volume, $300.0 million. Capital and surplus managed, $900.0 million.
Officers: James C. Boyd, managing director; Peter J. Foulger, David G. Prince, Christine L. Douse, directors.
Contact: James C. Boyd.

Willis Corroon Management (Luxembourg) S.A.

26 Place de la Gare, L-1616 Luxembourg; 352-48-90-20; fax: 352-48-90-22

Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive services.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Nine; seven professionals.
Clients: Five active captives managed at year-end 1996. Captive premium volume, $53.0 million. Capital and surplus managed, $93.5 million. No minimum size client.
Compensation: Annual fee, $40,000 minimum; hourly.
Contact: Serge Pineau, managing director or Philippe Charpentier, director.

Willis Corroon Management (Vermont) Ltd.

76 St. Paul St., Suite 501, Burlington, Vt. 05401; 802-658-9466;fax: 802-658-5520

Founded: 1992.
Parent: Willis Corroon Corp.
Offers rent-a-captive services.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking.
Occasional services: Manual claims processing; reinsurance brokered for captives; tax advice; managing underwriting pools/facilities; loss control (Nashville, Tenn.); association captive management services, including specialized accounting services and onshore services.
Staff: Seven; four professionals.
Clients*: 15 active captives managed at year-end 1996. Captive premium volume, $74.9 million. Capital and surplus managed, $61.1 million.
Compensation: Annual fee, hourly.
1996 gross revenues: 100% from fees charged for captive management.
Officers: Guy F. Ragosta, managing director-North American captive management operations; James R. Girardin, vp.
Contact: Guy F. Ragosta.

** Includes captives in other domiciles.*

Y

Yankee Captive Management Co.

140 Kennedy Drive, P.O. Box 2127, South Burlington, Vt. 05407-2127; 802-658-1100; fax: 802-658-9419

Founded: 1983.
Services: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, investment management.
Staff: Four; three professionals.
Clients: Four active captives managed at year-end 1996. Captive premium volume, $273.7 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: L.F. Hackett, president; James F. McNally, vp.
Contact: James F. McNally.

Continued on next page

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Geographical listing of captive insurer managers

The geographical index lists organizations appearing in the directory along with their subsidiaries and sister companies by the domiciles served. Organizations that subcontract for captive management services also are listed by domicile. Subsidiaries for which a separate directory listing was not provided are identified with a footnote.

Aland

SINSER (Aland) A.B.

Antigua

International Insurance Management (Antigua) Ltd.*
Sedgwick Management Services (Antigua) Ltd.*

Australia

International Risk Management (Australia) Pty. Ltd.

Barbados

AIG Insurance Management Services (Barbados)
Alexander Insurance Managers (Barbados) Ltd.
Aon Risk Services (Barbados) Ltd.
BF&M Management (Barbados) Ltd.*
Bott & Associates (Barbados) Ltd.*
Captech Management Service (Barbados) Ltd.
Chandler Insurance Management (Barbados) Ltd.*
Continental Risk Services (Barbados) Ltd.
IAS (Barbados) Ltd.
International Insurance Management Ltd.
International Insurance Services Inc.
International Risk Management (Barbados) Ltd.
Johnson & Higgins (Barbados) Ltd.
Marsh & McLennan Management Services (Barbados) Ltd.
Meadowbrook Risk Management Ltd. (Barbados)*
MIMS International (Barbados) Ltd.
Mutual Risk Management (Barbados) Ltd.
Pinehurst Management Co. (Barbados) Ltd.*
Sedgwick Management Services (Barbados) Ltd.*
Towner Risk Management Ltd.
Watson Wyatt Management (Barbados) Ltd.

Bermuda

AIG Insurance Management Services (Bermuda)
Alexander Insurance Managers Ltd.
Aon Risk Services (Bermuda) Ltd.
Argus International Management Ltd.
Atlantic Security Ltd.
BF&M Management Ltd.
Becher & Carlson Management Ltd.
Bott & Associates Ltd.
CFM Insurance Managers Ltd.*
Caledonian Management Ltd.
Capital Management Services Ltd.*
CIGNA International Insurance Managers Ltd.
Continental Risk Services Ltd.
Cranham Management Ltd.
Arthur J. Gallagher Management (Bermuda) Ltd.
Griffiths & Wanklyn Management Ltd.
H&H Management Services Ltd.
Hartford Holdings Ltd.
Incependent Management Group Ltd.
Insurance Brokerage & Management Co. Ltd.
International Advisory Services Ltd.
International Risk Management (Bermuda) Ltd.
Johnson & Higgins (Bermuda) Ltd.
Marsh & McLennan Management Services (Bermuda) Ltd.
Meadowbrook Risk Management Ltd.
Minet Risk Services (Bermuda) Ltd.
Mutual Risk Management (Bermuda) Ltd.
Pinehurst Management Co. Ltd.
Powerscourt Management Ltd.
Quail Street Management Ltd.
SLR Management (Bermuda) Ltd.
Sedgwick Management Services (Bermuda) Ltd.
SIRM (Bermuda) Ltd.*
Skandia International Risk Management Ltd.
Symphony Management Ltd.
W.A. Taft & Co. Ltd.
Tate & Lyle Management & Finance Ltd.
Triangle Insurance Management Ltd.
USA Risk Group
Vista Insurance Services Inc.
Willis Corroon Management (Bermuda) Ltd.
The Yasuda Management Service Co. Ltd.
Zurich International (Bermuda) Ltd.

British Columbia

Alexander Insurance Managers (Canada)

Continued on next page

Continued from previous page

The Yasuda Management Service Co. Ltd.

P.O. Box HM 1181, Hamilton HM EX, Bermuda; 441-295-7777; fax: 441-292-1930

Founded: 1983.
Parent: Yasuda Fire & Marine Insurance Co.
Officers: Heinz Schoenberger, vp/treasurer.
Subcontracts for captive management services with CIGNA International Insurance Managers in Bermuda.

Zurich International (Bermuda) Ltd.

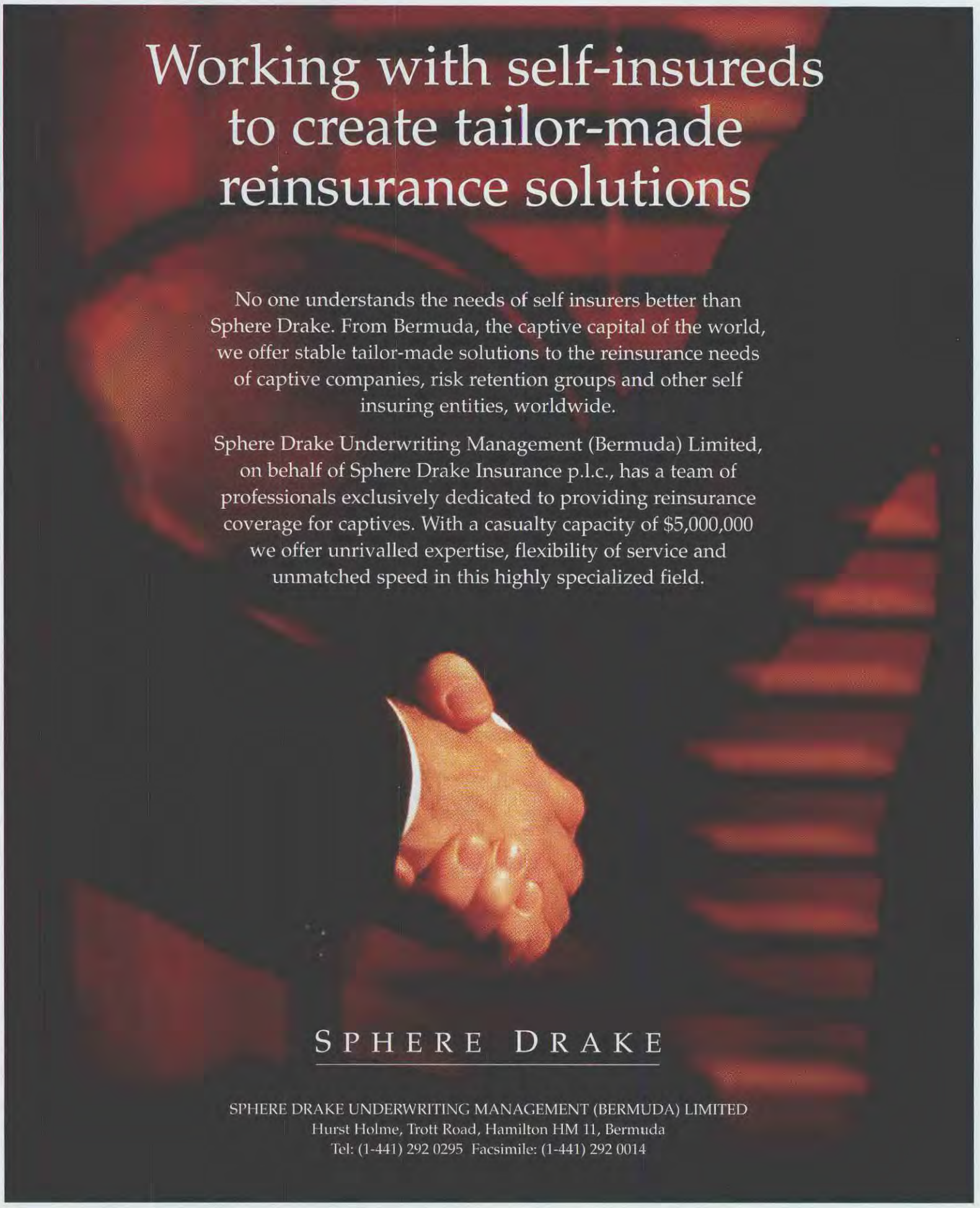
Crawford House, 50 Cedar Ave., P.O. Box HM 2268, Hamilton, Bermuda; 441-292-8155; fax: 441-292-7368

Founded: 1977.
Parent: Zurich Insurance Co.
Frequent services: Government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.
Occasional services: Feasibility studies, captive formation, reinsurance brokered to captives.
Staff: 12; five professionals.
Clients: 12 active captives managed at year-end 1996.
Compensation: Annual fee.
1996 gross revenues: $710,000, 100% from fees charged for captive management.
Officers: Laurence W. Cherg, president/CEO; Michael R. Deevy, vp/COO.

Zurich International Services (Ireland) Ltd.

I.F.S.C. House, Custom House Quay, Dublin 1, Ireland; 353-1-670-0988; fax: 353-1-670-1108

Founded: 1991.
Parent: Zurich Insurance Co.
Services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; association captive management services, including specialized accounting services and onshore services.
Staff: Three; two professionals.
Clients: Two active captives managed at year-end 1996. Captive premium volume, $15.0 million. Capital and surplus managed, $5.0 million. Minimum size, $1.0 million.
Compensation: Annual fee.
Officers: Laurence Sherin, general manager; Frank Coyle, financial controller. BI



Continued from previous page

Global Risk Financing Services Ltd.
Jardine Risk Management Ltd.
Sedgwick Management Services (Canada) Ltd.*

British Virgin Islands

Caribbean Insurance Management Ltd.

Cayman Islands

AIG Insurance Management Services (Cayman) Ltd.
Alexander Insurance Managers (Cayman) Ltd.
Aon Risk Services (Cayman) Ltd.
Caledonian Bank & Trust Ltd.
Captive Benefits Services Inc.*
Captive Resources Inc.
Chandler Insurance Management Ltd.
Crusader International Management (Cayman) Ltd.
International Risk Management (Cayman) Ltd.
Johnson & Higgins (Cayman Islands) Ltd.
Marsh & McLennan Management Services (Cayman) Ltd.
Midland Bank Trust Corp. (Cayman) Ltd.
Mutual Risk Management (Cayman) Ltd.
RiskCap Cayman Ltd.*
Sedgwick Management Services (Cayman) Ltd.*
TRISTAR Risk Management
Vista Insurance Services Inc.
Willis Corroon Management (Cayman) Ltd.

Colorado

AIG Insurance Management Services (Colorado) Ltd.*
Alternative Insurance Management Services Inc.
Aon Risk Services (Colorado)
Johnson & Higgins Services Inc. (Colorado)
Marsh & McLennan Inc.*
Mountain States Insurance Managers
RiskCap
Sedgwick Management Services (U.S.) Ltd.
Vista Insurance Services Inc.

Denmark

SINSER Denmark

Dublin

AIG Insurance Management Services (Ireland) Ltd.
AIM Associated Insurance Management (Ireland) Ltd.
Alexander Insurance Managers (Dublin) Ltd.
Aon Risk Services (Ireland) Ltd.
FBD International Captive Management Ltd.
FINNCAP-Oy Finnish Captive & Risk Services Ltd.
International Risk Management (Dublin) Ltd.
Marsh & McLennan Management Services (Dublin) Ltd.
Mutual Coyle Hamilton Managers Ltd.
Sedgwick Management Services (Ireland) Ltd.*
SINSER (Ireland) Ltd.
Sogecore Ireland Ltd.
UNISON Management (Dublin) Ltd.*
Willis Corroon Management (Dublin) Ltd.
Zurich International Services (Ireland) Ltd.

Georgia

Environmental Management Insurance Services Inc.*
Intersure

Gibraltar

Valmet Insurance Services Ltd.
Willis Corroon Management (Gibraltar) Ltd.

Guernsey

AIG Insurance Management Services (Guernsey) Ltd.
Alexander Insurance Managers (Guernsey) Ltd.
Aon Risk Services (Guernsey) Ltd.
Bain Hogg Insurance Management (Guernsey) Ltd.
Channel Islands Insurance Consultants Ltd.
FINNCAP-Oy Finnish Captive & Risk Services Ltd.
Guernsey Insurance Management Services Ltd.*
International Risk Management (Guernsey) Ltd.
Lowndes Lambert Insurance Management (Guernsey) Ltd.
Marsh & McLennan Management Services (Guernsey) Ltd.
Minet Risk Services (Guernsey) Ltd.**
Mutual Risk Management (Guernsey) Ltd.*
Optimum Risk Research (International) Ltd.
Sartor Resources Ltd.
Sedgwick Management Services (Guernsey) Ltd.
Spread Insurance Management Ltd.
Trifoliate Ltd.
UNISON Management (Guernsey) Ltd.
Willis Corroon Management (Guernsey) Ltd.

Hawaii

AIG Insurance Management Services (Hawaii) Ltd.*
Alexander Insurance Managers (Hawaii)
Becher & Carlson Risk Management Inc.
50th State Risk Management Services Inc.
Hawaii Captive Insurance Management Inc./USA Risk Group
IAS Insurance Management Inc.*
Johnson & Higgins Services Inc. (Hawaii)
M&M Insurance Management Services
Sedgwick Management Services (U.S.) Ltd.
Willis Corroon Management (Vermont) Ltd.

Illinois

Sedgwick Management Services (U.S.) Ltd.

Isle of Man

AIG Insurance Management Services (Isle of Man) Ltd.
Alexander Insurance Managers (Isle of Man) Ltd.
Aon Risk Services (Isle of Man) Ltd.
Caledonian Management Ltd.
Eaglehurst Insurance Management Ltd.
FINNCAP-Oy Finnish Captive & Risk Services Ltd.
Guardrisk Insurance Co. Ltd.
International Risk Management (Isle of Man) Ltd.
Lowndes Lambert Insurance Management (Isle of Man) Ltd.*
Marsh & McLennan Management Services (Isle of Man) Ltd.
Sedgwick Management Services (Isle of Man) Ltd.
SINSER (Isle of Man) Ltd.
UNISON Management (IOM) Ltd.*
Willis Corroon Management (Isle of Man) Ltd.

Jersey

Alexander Insurance Managers (Jersey) Ltd.
Minet Risk Services (Jersey) Ltd.**

Luxembourg

AIG Insurance Management Services (Luxembourg) S.A.
Alexander Insurance Managers (Luxembourg) S.A.
Aon Risk Services (Europe) S.A.
Gecalux S.A.
Lowndes Lambert Insurance Management (Luxembourg) Ltd.*
Marsh & McLennan Management Services (Luxembourg) S.A.
Sedgwick Management Services (Luxembourg) Ltd.*
SINSER
Sogecore
UNISON Management (Luxembourg) S.A.
Willis Corroon Management (Luxembourg) S.A.

Continued on next page

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Continued from previous page

Zurich Compagnie d'Assurances*

Malta

Willis Corroon Management (Malta) Ltd.*

Netherlands

Aon Risk Services (Nederland) B.V.

Netherlands Antilles

Alexander Insurance Managers (Netherlands Antilles) N.V.
Aon Risk Services (Antilles) N.V.
Sedgwick Management Services (Curacao) N.V.*

Panama

Qstion Managers Panama Inc.

Singapore

Alexander Insurance Managers (Singapore) Pte. Ltd.
Johnson & Higgins Risk Management Services (S) Pte. Ltd.
Minet Risk Services (Singapore) Pte. Ltd.**
Richard Oliver Risk Managers Pte. Ltd.
Sedgwick Management Services (Singapore) Pte. Ltd.
SINSER (Asia) Ltd. Pte.*
Willis Corroon Management (Singapore) Pte. Ltd.*

Sweden

SINSER A.B.
UNISON Management (Scandinavia) A.B.

Switzerland

Sogecore A.G.

Tennessee

Sedgwick Management Services (U.S.) Ltd.

Turks & Caicos

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

U.S. Virgin Islands

Aon Insurance Management Services of the Virgin Islands Inc.
Johnson & Higgins (USVI) Ltd.*

Vermont

AIG Insurance Management Services
Alexander Insurance Managers (Vermont)
Alternative Risk Management & Consulting Inc.
American Risk Management Corp.
Aon Risk Services (Vermont) Inc.
Becher & Carlson Cos.
Commonwealth Risk Management Inc.
Green Mountain Captive Management
International Advisory Services Inc.*
Johnson & Higgins Services Inc. (Vermont)
Marsh & McLennan Insurance Management Services Inc.
Mutual Risk Management (Vermont) Ltd.*
SB&T Captive Management Co.
Sedgwick Management Services (U.S.) Ltd.
SINSER (Vermont) Inc.*
Skandia International Risk Management (Vermont) Inc.
Vermont Insurance Management Inc./USA Risk Group
Vista Insurance Services Inc.
Willis Corroon Management (Vermont) Ltd.
Yankee Captive Management Co.

** A directory listing for this domicile was not provided.*

*** Information for this domicile is included in the Minet Risk Services (Bermuda) Ltd. listing.*

BI

The deadline is approaching for companies to return questionnaires to be listed in *Business Insurance*'s annual directories of policyholder-owned alternative risk financing facilities and rent-a-captives.

The directories will appear in the May 19 issue of *Business Insurance*, which will also contain a Spotlight Report on government risk management.

If you manage an alternative facility or rent-a-captive and you have not yet received a questionnaire, please request one immediately by calling Assistant Directory Editor Rich Trout at 312-649-5483.

The extended deadline for returning questionnaires is April 25.

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1997 Risk Manager of the Year

Judy M. Lindenmayer

VP
Fidelity Insurance
& Risk Management

FMR Corp.

1997 Risk Manager of the Year

PHOTO: MICHAEL MARCOTTE

Staying faithful to risk management

Fidelity's Judy Lindenmayer earns *BI*'s 20th award for innovative approach to diverse exposures

By DAVE LENCKUS

With a glint in her eyes and a smirk sliding across her face, Judy Lindenmayer recalled a professional crossroads she reached nine years ago. She was interviewing for the risk manager's position at Boston-based FMR Corp., better known as Fidelity Investments. Fidelity's FMR Co. subsidiary provides investment advisory, management and shareholder services to the nation's largest pool of mutual funds.

By all accounts, the highly energetic and plain-dealing Ms. Lindenmayer loves a good challenge, whether she is on the giving or receiving end. So she had some doubts about the appeal of Fidelity's risk management position.

"During the course of the interview, and I laugh about this today, I wondered if I'd feel challenged working for a mutual fund complex," she recollected.

"I soon found out I needn't have worried about that."

That is because the far-flung Fidelity is much more than a mutual fund complex, with its Boston World Trade Center, computer software development, credit card, executive livery service, executive search firm, hotel, life insurance company, publishing, retail art gallery, stockbrokerage, telecommunications and trust operations, among others.

Fidelity's various business interests were not quite that expansive in 1988, but they were well on their way.

From the day Ms. Lindenmayer took over what was then a 9-month-old risk management department that did not even keep copies of its insurance policies on site, through her current cutting-edge risk management projects, she has been tested.

"She's balancing the core business and operational challenges of being a financial institution with the professional liability issues and being the biggest in the mutual fund business," observed Anne Blodget, a vp with Aon Risk Services Inc. of Massachusetts in Boston.

Then the Fidelity Capital group of companies, which are not involved in the mutual fund operation, "has some real basic issues, like workers comp," Ms. Blodget noted.

"She'll pick up one phone call and have to deal with a mutual fund. The next phone call, she will have to deal with the hotel that's under construction and how well the construction site is gated.

"That repeats itself overseas with FIL," Ms. Blodget noted, referring to Bermuda-based mutual fund complex Fidelity International Ltd. FIL is independent from Fidelity, though both have some common ownership. Ms. Lindenmayer, on a consulting basis, serves as FIL's part-time risk manager.

But, Fidelity has its own foreign-based operations as well, and Ms. Lindenmayer must manage their risks, pointed out Bill Williamson, another vp at Aon Risk Services.

Ms. Lindenmayer said her toughest challenge may be "having to think like Ned Johnson," Fidelity's "visionary" chairman and chief executive officer, who has diversified Fidelity greatly since he took over the company's reins from his father a quarter century ago.

"He feels comfortable doing new things," said Ms. Lindenmayer, who last year was promoted to vp-Fidelity insurance and risk management. That goes for more than Fidelity's business ventures. Mr. Johnson and Ms. Lindenmayer brainstorm two or three times a year about new directions risk management could take.

And, it has taken quite a few new twists and turns at Fidelity.

One of the most notable is the financial insurance product she negotiated that covers previously uninsurable risks.

Under the coverage Ms. Lindenmayer nailed down last fall, Fidelity now is protected, for example, against the potential financial havoc that a rogue securities trader could wreak—a lesson British bank Barings P.L.C. painfully learned in its 1995 downfall (*BI*, March 6, 1995).

That's just one example of Fidelity's broadened protection under that coverage. Assembling an extensive list of others is not possible because the coverage is not limited to scheduled perils. Indeed, it is limited by only a handful of exclusions.

Ms. Lindenmayer and her staff of seven, to whom she routinely provides the opportunity to handle major projects, have strengthened Fidelity's risk protection in many other ways, as well.

They have, among other things:

- Developed two separate integrated, or concentric, programs—one each for FMR Co. and FMR Corp.—that consolidate their respective bond and professional coverages. Both have dramatically expanded coverage and cut insurance costs.
- Moved Fidelity's retained casualty risk into a new pooling arrangement designed to provide Fidelity's captive insurer tax-advantageous third-party business as well as even more stable loss variability.
- Developed another captive that would protect Fidelity's money market mutual funds if par value in any one of them drops below $1 per share and the fund steps in to keep its shareholders' positions whole. Fidelity is awaiting approval from securities regulators, but tax regulators already have green-lighted the captive.
- Developed a construction wrap-up insurance program with unusually low per loss and total project loss retentions.

"She has taken risk management from a defensive position to an offensive one," observed Brian Kawamoto, one of Ms. Lindenmayer's brokers. Her department is "not just a cost center," said Mr. Kawamoto, an executive vp at Aon Risk Services Cos. Inc. in San Francisco.

Those and other accomplishments have earned Ms. Lindenmayer the 1997 *Business Insurance* Risk Manager of the Year Award.

The 1997 award marks the 20th annual presentation of the honor and its first official recognition by the Risk & Insurance Management Society Inc.

For Ms. Lindenmayer, the fourth woman to receive the award, it comes 28 years after she was drafted into the risk management profession by her boss at bedding company Sealy Inc. in Chicago. Sealy's then-changing business interests were pulling her boss into new areas of responsibilities. As a result, he coaxed Ms. Lindenmayer, then a personnel manager, into taking over responsibility for purchasing the company's property/casualty insurance—an alien task to her at that time (see story, page 105).

Continued on next page

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The measures available to protect companies against risk have come a long way since then, as has Ms. Lindenmayer.

Case in point: Fidelity's new three-year financial insurance program, which protects the company against previously uninsurable risks. The program, which went into effect Sept. 30, 1996, is the first phase of a work in progress that perhaps by year's end also will provide Fidelity broad catastrophe coverage.

Hand in glove with that greater protection is a cleaner balance sheet, noted Gerald Lieberman, a senior vp and chief financial officer for Fidelity.

"It gives us more freedom, quite frankly, with our balance sheet," because it frees up capital and reserves that had been allocated to previously uninsurable risks.

"The last thing you want to do is protect risk on the balance sheet itself. It's much like hedging risk in corporate finance," he said. "It's really exciting for us."

The multiyear policy period is a recurring feature throughout Fidelity's risk-financing portfolio—and it is an important one, Ms. Lindenmayer said.

"With the way our industry is changing, everybody has to grab pieces of time wherever they can. For risk managers to go through the annual hazing process of renewal on every piece of coverage does a disservice to them and to their employers."

In describing the broad protection that the first phase of the coverage provides Fidelity, Ms. Lindenmayer and Mr. Kawamoto said it is best portrayed by itemizing the relatively few exposures it does not cover. And, most of the excluded risks are covered by other risk-financing arrangements. Those excluded risks are: automobile; employee liability; customer losses resulting from stock market fluctuations; losses excess of Securities Investor Protection Corp. coverage, a government program that insures stock market investors against losses resulting from stockbroker insolvency; pollution; first-party political risk; war; workers compensation; and property.

Fidelity walked into the project willing to accept those exclusions because it figured it probably would not be able to hash out a risk-financing program that covers all insurable and all uninsurable risks, Ms. Lindenmayer explained. "So, we said let's carve out the things we're not concerned about. Anything else is covered."

But, the policy does not schedule those covered risks. "It's almost the opposite," Mr. Kawamoto said. "None of us is smart enough to think about all the things that can happen," and those are the risks the policy covers, he said.

Ms. Lindenmayer and Mr. Kawamoto, though, have some thoughts about the previously uninsurable exposures that now are covered.

Foremost in their minds are the losses that a rogue securities trader can generate.

Nick Leeson, a futures trader for Barings who now is imprisoned in Singapore, was responsible for more than $1.3 billion in losses that landed the British bank in liquidation. While Barings had bankers blanket bond coverage, that protection was not triggered because the rogue trader was not enriched by his unauthorized securities trading.

Additionally, the insurance would cover Fidelity against losses arising from the computer millennium problem, according to Mr. Kawamoto. "This is not (specifically) designed to cover it, but it will cover it," he said.

"It's clearly catastrophe sleep insurance" he said.

Over a 15-month period beginning in 1995, Ms. Lindenmayer hammered out the financial insurance product with Aon Risk Services and American International Group Inc., the lone insurer involved in the project.

PHOTO: MICHAEL MARCOTTE

FMR Corp.'s Judy Lindenmayer received the 20th annual *Business Insurance* Risk Manager of the Year Award. Congratulating Ms. Lindenmayer are her son, Michael, right, and Scott, one of her four grandchildren.

The broad, multiyear coverage incorporates elements of finite risk insurance and capital market functions.

"But, it's not an off-the-shelf event," Mr. Kawamoto stressed. "It's not just another finite risk product. It went through many mutations. It's truly best categorized as a financial insurance product."

"It's really cutting-edge stuff in risk management," said Ms. Lindenmayer's supervisor, John D. Crumrine, vp and corporate treasurer at Fidelity. "Judy is great at pulling and pushing into this area."

AIG, though, has structured some programs like this one for other companies, according to Robert Omahne, executive vp of AIG Risk Finance, a division of AIG of New York.

Fidelity and AIG are partners for a part of this program, but there also is strict risk transfer in the program, said Ms. Lindenmayer, Mr. Kawamoto and Mr. Omahne.

For losses stemming from previously uninsurable risks, there is a $100,000 deductible of sorts.

But, the financial insurance product is structured in such a way that Fidelity does not have a regular insurance policy under which there is a definable deductible and the insurer pays for losses after that deductible is met. To a certain extent, Fidelity and AIG will share the losses or, if losses are minimal, the returns on the portion of the premium that is used to establish an experience account for Fidelity.

The coverage does multiple duty by also serving as excess insurance above $100 million of coverage and as difference-in-conditions insurance.

It sits excess of—among other coverages—the integrated, or concentric, risk program that consolidates FMR Corp.'s bond and professional coverages (see related story).

It serves as DIC coverage over Fidelity's other insurance, except property, workers compensation, automobile and the SIPC coverage.

And, often, the financial insurance does not exclude risks barred in the underlying coverage.

The financial insurance is only the first phase of an ambitious plan to line up $1 billion of catastrophe coverage, which Ms. Lindenmayer hopes to complete by next year.

Mr. Johnson, Fidelity's chairman, sparked the whole process in 1995 after Ms. Lindenmayer unveiled her plans for the concentric risk programs.

They began talking about where Fidelity was headed and "what kinds of questions we all ask a lot that keep you up at night," she explained. "While we are confident that our control and compliance activities are keeping pace with the rapid pace of the company, we all worry something is going to sneak through."

Mr. Johnson told her he wanted $1 billion of catastrophe coverage and that he would be willing to have Fidelity carry a $100 million deductible.

Ms. Lindenmayer was charged with finding the coverage.

Recalling a presentation she had heard Mr. Kawamoto make at a Massachusetts Chapter of RIMS meeting, she turned to him for help.

They then identified the markets they wanted to approach.

"You can imagine the reaction we got when we said we wanted a policy that covered everything except a few things," she said.

Five insurers expressed interest in the whole concept, but only two were interested in the financial insurance piece, which Fidelity concentrated on first.

Those that were interested had concerns about the risks that triggered Fidelity's search.

"We talked to them individually and collected their concerns," Ms. Lindenmayer said.

She then set up meetings for the underwriters to address their concerns with the people who ran the business.

For example, they were taken to the trading floor at the Boston World Trade Center.

"Our company is extremely advanced when it comes to technology," spending $200 million to $300 million a year on advancements, she said. "It's a great story to tell the underwriters."

For example, if a trader attempts to execute an unauthorized transaction, "he gets flamed," which is a warning that appears in the form of a graphic of flames on the trader's computer screen.

At the same time, the computer sends a warning message to the compliance group and a representative heads to the trading floor to review the activity.

"That all happens before the trade is made. That's very unusual," Ms. Lindenmayer said.

The underwriters also talked with Fidelity's chief risk officer, James C. Lam, a Fidelity vp who focuses on the corporation's financial risks. He had conducted a global risk review from which he discerned the risks, risk-evaluation procedures, key risk-control measures and total losses at Fidelity's operating companies and corporate departments.

Mr. Omahne said AIG won the coverage for a few reasons, including the flexibility of coverage AIG offered and the structure of the program.

"But it's not just the funding that makes the deal go for us. We're a risk-taker, so there is a substantial amount of risk transfer in the program," Mr. Omahne said.

In addition, AIG had worked with Fidelity before, so it was experienced in dealing with its types of claims.

Neither Ms. Lindenmayer nor Mr. Omahne attribute to the enduring soft property/casualty insurance market her ability to craft this protection or AIG's willingness to offer it.

"I think some underwriters are forward thinkers about what they can do to keep all that money from going to the alternative market," Ms. Lindenmayer said. "They should get more than a pat on the back for all of that forward thinking."

"I firmly believe this is the way insurance will be done for many companies in the future," Mr. Omahne said. "Many companies, like Fidelity, are perfectly capable of assuming risk but want catastrophic or shock-loss coverage" plus the preferential tax and accounting treatment.

"I quite frankly believe it's not a function of the soft market."

"It has interesting implications not only for our company but for the insurance industry as well," said Mr. Crumrine, Fidelity's treasurer.

For Fidelity, though, it is an evolving program, Ms. Lindenmayer said.

"Limits will go up from here. My charge is to protect the company's catastrophic risks," she said.

"I think it's going to be a very powerful tool."

Regarding the catastrophe coverage Fidelity is trying to line up, Mr. Lieberman, Fidelity's CFO, said, "We can't find anyone else who's done it," though Fidelity knows of a few other companies that are trying to pull together a similar program.

Fidelity officials are not commenting now about how they are trying to structure the catastrophe portion of the program. But, Mr. Lieberman has an idea why others have not done something similar before.

"I think you have to sit back and think about insurance in an unconventional way." Part of that process is "coming up with the financial techniques to minimize risk and its cost."

Mr. Lieberman lauded Ms. Lindenmayer for her efforts to fashion a risk-financing program that frees up a chunk of Fidelity's capital.

She was able to pull it off because of her experience, her ability to translate financial and insurance terms into a common, understandable language, her knowledge about how the insurance industry thinks, and her outstanding networking ability within the U.S. and the London markets, he said.

"She's a real seasoned pro." BI

Name: Judy Lindenmayer
Birthplace: Shaker Heights, Ohio
Age: 55
Title: Vp-Fidelity insurance and risk management for FMR Corp.
Previous experience: Director-corporate risk management for Boston-based Data General Corp., 1985-1988; director-risk management for Atlanta-based Rollins Inc., 1981-1985; corporate risk manager for Chicago-based Zenith Radio Corp., 1978-1981; risk manager for Chicago-based Sealy Inc., 1969-1978.
Honors/professional affiliations: Involvement in the Risk & Insurance Management Society Inc. spans several offices and extensive committee service: vp conference, 1996/1997; vp international, 1995/1996; vp education and research, 1994/1995; national conference committee member, 1978-1981, 1984, 1985, 1987, and 1992-1994; society director for the Massachusetts RIMS chapter, 1993; national chairman for mini-sessions of the national conference, 1980; national market liaison committee, 1978; first woman president of the Chicago RIMS chapter, 1978/1979. Also served on the national nominating committee and the RIMS national committee for governmental affairs.
Education: Earned Associate in Risk Management designation and completed half of the course work toward the Chartered Property & Casualty Underwriter designation at the Insurance Institute of America in Chicago; earned business credits at Hillsdale College in Hillsdale, Mich.
Family: Son, Michael, and four grandchildren.
Hobbies: White-water rafting, fishing, reading.

1997 Risk Manager of the Year

Concentric risk programs mean big savings

Innovative programs to save FMR time, money

By DAVE LENCKUS

FMR Corp. will bank millions of dollars and its risk management staff will save considerable time under two multiyear integrated risk programs that Judy Lindenmayer has fashioned for the company.

And, if FMR, better known as Fidelity Investments, exhausts either of the programs' limits, it can opt for either full or much cheaper partial reinstatements of limits, according to Ms. Lindenmayer, vp-Fidelity insurance and risk management.

The integrated, or concentric, risk program may be the first of its kind for a mutual-fund complex, according to Thomas F. McKenna, a J&H Marsh & McLennan managing director who helped Ms. Lindenmayer put together the programs.

The broker's Fin Pro division placed both of the three-year integrated programs, which combine coverage for multiple bond and professional liability exposures.

The programs went into effect in July 1996.

One concentric risk program covers Fidelity's mutual fund complex. Fidelity's FMR Co. subsidiary provides investment advisory, management and shareholder services to the nation's largest pool of mutual funds, which Fidelity does not own.

The other program, known as the corporate concentric risk program, covers all of Fidelity's other business operations. Fidelity runs a multitude of businesses, ranging from computer software development to stockbrokerage to credit card operations to an executive livery service, to name a few.

By combining about 30 employee dishonesty, crime and professional coverages into two concentric risk programs, Fidelity will trim its total risk-financing costs by more than $1 million, or about 30%, annually, said Donna M. Manzo, corporate risk manager and a member of Ms. Lindenmayer's staff.

The programs also free a huge block of time for Ms. Manzo and Finance Manager Tom Wronski, another member of Ms. Lindenmayer's staff.

Previously, they spent a lot of their time from March through July every year pulling together information the underwriters required before covering those risks.

"That's time saved over the next few years," Ms. Lindenmayer said.

Fidelity did not combine all of the coverages in both programs into a single concentric risk program because the company takes "a painfully conservative approach" in terms of protecting the funds and shareholders separately from corporate risks, Mr. McKenna said. "They are on the cutting edge on a lot of things. When it comes to the funds, they're very conservative."

The mutual funds program combines two coverages, which share the available limits:

- Government-mandated fidelity bonds, which would protect mutual funds' customers from losses resulting from employee dishonesty at Fidelity Investments, the loss of securities on Fidelity's premises or in transit, losses due to forgery or alteration, and losses due to counterfeit currency.
- Errors and omissions liability insurance, which protects Fidelity against third-party suits that allege a failure in professional services performed by any Fidelity or fund officer, director, trustee or employee in connection with the fund.

The corporate program combines several coverages. All share the $100 million of available limits.

The covered risks are:

- Consolidated financial institutions bond. The coverage protects Fidelity, including its employee benefit plans, and Fidelity's customers' assets from losses due to dishonest acts by Fidelity employees.
- Part B of Fidelity's directors and officers liability exposure. It covers Fidelity for the company's indemnification of its directors and officers. The insurance also covers all Fidelity employees against numerous employee liability claims.

Fidelity purchases Part A D&O coverage, which provides personal coverage to directors and officers when corporate indemnification is not permitted, from American International Group Inc.

- Stockbrokers E&O.
- Corporate E&O.
- E&O liability for its Charitable Gift Fund.
- Electronic and computer crime. The coverage protects Fidelity and its customers'

Continued on next page

PHOTO: MICHAEL MARCOTTE

As vp-Fidelity Insurance and risk management, Judy Lindenmayer coordinates a staff of seven at Fidelity Investments. From left to right are: Donna M. Manzo, Sally Talbot, Debbie Brosz, Don Hagerty, Bob Rizzotto, Peter B. Burd, Ms. Lindenmayer, and Tom Wronski.

FMR Corp.

Founded: Attorney Edward C. Johnson II—who specialized in corporate reorganizations and recapitalizations, served as an in-house counsel and an officer for one of Boston's first open-ended mutual funds and played a role in developing the federal Investment Company Act of 1940—founds Fidelity Management & Research Co. in 1946. FMR, which begins operations with three employees, was created as an investment adviser for Fidelity Fund, a small Boston mutual fund that a group of Boston investors formed in 1930. Mr. Johnson took over the under-performing fund as its president and a director in 1943 and infused it with some Johnson family trust funds he was managing. By 1946, the fund's assets had grown to $13 million. One of Mr. Johnson's earliest efforts was devising a program for piloting new funds designed to make money, not just preserve it, for shareholders. FMR Corp. was formed in 1972 as the holding company and sole shareholder of FMR Co. and most of its subsidiaries. FMR Co. then had $4.2 billion of assets under management.

Headquarters: Boston, where the company has offices in 18 locations.

Ownership: Privately owned. In 1995, 51% of FMR Corp.'s voting common stock was divided among 50 members of senior management. The Johnson family now controls a total of 12% of FMR's voting common stock. Among the remaining 49% of stock that was distributed, employees own an undisclosed portion.

Revenues: In 1995, the last year for which figures are available, revenues totaled about $4.28 billion, almost a 23% increase from nearly $3.48 billion in 1994.

Employees: Nearly 24,000 domestically. Fidelity International Ltd., a Bermuda-based company that FMR Corp. Chairman Edward C. Johnson III also owns in part but which is independent from FMR Corp., employs more than 1,100.

Lines of business: FMR Corp., commonly known as Fidelity Investments, is a holding company for a highly diversified mixture of businesses, though it is best known for its management of a family of mutual funds.

Subsidiary FMR Co. provides investment advisory, management and shareholder services to the nation's largest pool of mutual funds. The pool consists of 252 funds, with a total of $469.8 billion of assets under management for more than 10 million shareholders.

The retirement assets of about 4.8 million participants from the private and public sector are managed by Fidelity Investments Institutional Retirement Group, the nation's leading provider of 401(k) retirement plan services.

The Fidelity Brokerage Group, one of the nation's largest discount brokerages, handled more than 8 billion securities trades last year for retail and institutional clients.

National Financial Correspondence Services ranks among the top three firms in the securities clearing and settlement business.

The far-flung enterprises of Fidelity Capital, which has more than 100 subsidiaries, include:

- A new company, which combines several established operations, that focuses on high net worth investors' needs, such as life insurance, personal trust services and a charitable gift fund.
- Various publishing companies that produce 117 newspapers in eastern Massachusetts, Worth magazine, Mutual Fund Guide and customized retirement guides.
- Technology concerns that are involved in many different pursuits. There is a fiber-optic telecommunications company in London. Another company is building and operating telephone networks. Its software companies are developing products to run the "smart home"; provide digital simulations of air-tunnel testing for cars, trucks and jets; route customer telephone calls within a company more efficiently; and help microchip manufacturers bring new chips to market faster by providing a better way to test new chip designs.
- The Boston World Trade Center.
- A 427-room hotel that the company is developing jointly with The John Drew Co. at the center.
- Retail art galleries.
- A national executive transportation service for corporate and individual clients.
- An executive search firm.
- A credit card business.

Milestones

1946: Edward C. Johnson II forms Fidelity Management & Research Co. to act as an investment adviser to Fidelity Funds. Assets under management total $13 million.

1956: Ten years after it was created, FMR Co. manages two funds and has $286 million of assets under management.

1957: Edward C. "Ned" Johnson III, who later would become chairman and chief executive officer of FMR Corp., joins FMR Co. as a research analyst.

1960: Assets under management reach $500 million.

1963: Assets under management reach $1 billion. Fidelity launches an international and U.S. growth fund that today is the popular Magellan Fund. But it was closed to new investors in 1965 for nearly two decades because of a lack of public interest.

1964: FMR Investment Management Service Inc. formed to provide investment advisory services to large corporate pension plans.

1968: Fidelity International Ltd. formed in Bermuda to manage or advise offshore funds.

1972: FMR Corp. formed as a holding company and sole shareholder of FMR Co. and most of its subsidiaries. Mr. Johnson III is named president and Mr. Johnson II is named a director.

1973: Fidelity is one of the first fund groups to bring customer service in-house, which is the catalyst for much of its later involvement in technology development.

1974: The Fidelity Daily Income Trust—the first money market fund with check-writing privileges and Fidelity's first no-load fund—is launched.

1977: Assets under management reach $5 billion. Mr. Johnson III becomes chairman and CEO of FMR Corp. Peter Lynch begins managing the Magellan Fund.

1979: Fidelity removes sales charges from most funds to sell directly to the public. Fidelity Investments Institutional Services established to sell products and services to banks, corporations and broker/dealers. Fidelity introduces the first voice-activated computer response system for use by the general public to provide price and yield quotes 24 hours a day.

1980: Fidelity International Ltd. spun off as a separate, independent company.

1981: Fidelity Systems Co. established to oversee computer and telecommunications efforts. Fidelity Management Trust Co. established to manage large companies' employee benefits assets and to hold individual IRA account assets. Magellan Fund reopened to new investors.

1985: Boston Coach, an executive transportation service, begins operating.

1986: Fidelity introduces the first credit card offered by a mutual fund company.

1987: Fidelity Capital formed as an umbrella company for startup ventures. Fidelity enters the insurance and annuity business with Fidelity Investments Life Insurance Co.

In the aftermath of the stock market crash in October, Fidelity did not face any of the types of claims other fund complexes had to deal with over customers' inability to access their accounts and order trades.

1989: Fidelity Institutional Retirement Services Co. is launched to provide corporations investment management and record keeping services for 401(k) plans. Assets under management surpass $100 billion.

1990: Peter Lynch retires from Magellan Fund.

1991: Worth magazine is launched.

1993: Assets under management surpass $200 billion.

1994: Fidelity Capital opens a 35,000-square-foot trading floor—the largest in the Northeast—at the Boston World Trade Center.

Continued from previous page
assets from losses due to fraud committed through computer or electronic transmission activity, including computer viruses and fraudulent customer voice instructions.

On a shared-limits basis, Fidelity's Bermuda-based captive, Fidvest Ltd., retains the first $10 million of bond and stockbroker E&O losses.

The corporate concentric program provides first-dollar coverage for the other risks.

By using the captive, managed by Marsh & McLennan Management Services (Bermuda) Ltd. in Hamilton, Fidelity could afford enhanced coverage.

Most notably, the captive's participation allowed Fidelity to eliminate several exclusions in its stockbroker E&O coverage. For example, E&O claims arising from options or futures trading are not excluded under Fidelity's coverage, Ms. Manzo noted.

But, Fidvest does not play any role in the mutual funds' concentric risk program.

"We have always kept the funds' program separate from anything else we do on the corporate side," Ms. Lindenmayer explained. If it used the captive in the funds' program as well as in the corporate program, Fidelity might risk the amount of coverage that would be available to its mutual funds' customers, she said.

The main underwriters of both concentric risk programs are AIG, Chubb Corp., Reliance Insurance Group and underwriters at Lloyd's of London, which participate on a quota-share basis.

Fidelity's new financial insurance product provides excess coverage over the corporate concentric risk program.

If losses exhaust the concentric risk programs' limits, Fidelity can reinstate the limits twice on the mutual funds' program and once on the corporate program. Notably, though, Fidelity in all cases has the option of obtaining only partial reinstatements.

The reinstatements are an important financial concession by Fidelity's underwriters, Ms. Lindenmayer and Ms. Manzo said.

Partial reinstatements mean Fidelity does not have to incur the full cost of replacing its limits but still can protect itself if its earlier limits are exhausted a short time before the end of the policy period, Ms. Lindenmayer said.

The dual reinstatements on the funds' program were "extremely difficult to get," Ms. Manzo said.

"That was a big hurdle," Ms. Lindenmayer said. But, it was a "very important" one to clear.

Though this program's limits are shared by the bond and E&O risks, the program in combination with the reinstatements provide Fidelity the full bond protection it must maintain under Securities and Exchange Commission regulations, Ms. Lindenmayer explained.

"We didn't want the funds not to have the same limits they would have had if we didn't do this combined program," she said.

She would not say, though, how much E&O coverage that leaves the funds.

Another attractive feature with the reinstatements is that Fidelity can call on all of them within one year if necessary.

Ms. Lindenmayer and her staff spent about 18 months pulling the program together.

That period included several months that she spent going through several corporate levels and various counsel to obtain approval.

Corporate counsel persuaded her to present the plan to the funds' trustees and treasurer as well as to corporate senior management in stages to give them time to think about it and raise questions.

'We didn't want the funds not to have the same limits they would have had if we didn't do this combined program,' says Judy Lindenmayer.

Ms. Lindenmayer said it was relatively easy for her to show them that the new programs would cover their risks as well as the previous programs had and do it more cost efficiently.

She already had some experience and success in structuring a blended-risk program that folded in some of the coverages included in the corporate concentric risk program.

In 1990, Ms. Lindenmayer and Ms. Manzo were looking for ways to trim the cost of Fidelity's various bond coverages. "You could look at them and know you were paying too much," Ms. Lindenmayer said.

A study conducted by Fidelity's risk management department and M&M concluded that combining the bonds into a single program would help Fidelity cut its costs.

Fidelity's chief financial officer at that time then told Ms. Lindenmayer how Chairman Edward C. Johnson III became intrigued with the concept of captive insurers during a trip to Bermuda in the late 1960s.

He had his Bermuda-based company, Fidelity International Ltd., a mutual fund complex that is independent from Fidelity Investments, capitalize a captive for use sometime in the future.

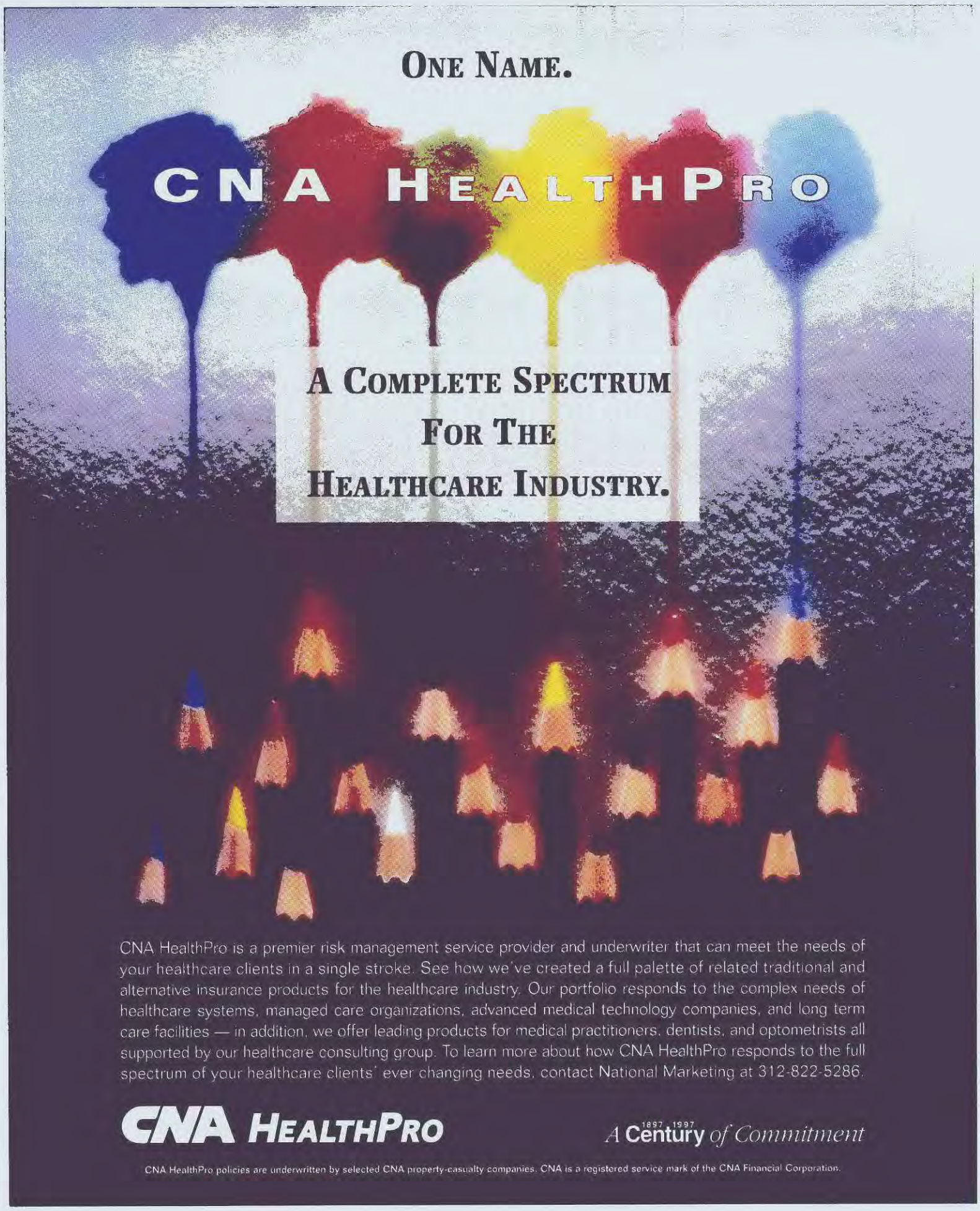
Ms. Lindenmayer, who serves as a risk management consultant to FIL, had thought of using the captive to retain some bond risks for FIL.

But retaining FIL's risks in a captive that was more than 25% owned by Mr. Johnson would have created unfavorable foreign-source income for him.

For FIL, the solution was renting a captive.

For Fidelity corporate, Mr. Johnson still liked the idea of retaining the risks in a captive. Fidelity then purchased the captive from FIL.

"Our chairman is an absolute visionary," according to Ms. Lindenmayer. BI



1997 Risk Manager of the Year

Reinsurance program strives to find the right blend of risks

By DAVE LENCKUS

The blended risk reinsurance program that Judy Lindenmayer hammered out for FMR Corp.'s Bermuda-based captive insurer has saved millions of dollars since 1992.

FMR, better known as Fidelity Investments, realized the savings by using the then-novel approach of buying one reinsurance program to cover multiple risks.

The captive, Fidvest Ltd., writes up to $10 million in limits for various Fidelity risks and has up to $8 million of excess of loss reinsurance under an annual program. The reinsurance includes some free reinstatements of limits.

Two of the risks the captive insurer writes are Fidelity's self-insured retentions for its corporate bond and stockbroker errors and omissions exposures under its corporate concentric risk insurance program.

Fidelity is not subject to a retention on the other risks in the corporate concentric risk program.

The concentric risk coverage combines into a single program the limits for numerous professional liability and fidelity bond coverages for Fidelity businesses—not including its mutual fund management operations.

Fidelity has a separate concentric risk program that covers the fidelity and professional liability exposures of its mutual fund management operation, but the captive does not participate in that program.

Other risks that the captive writes and that are reinsured under the blended-risk program are:

- Software E&O liability, which covers claims arising out of software developed and sold by various Fidelity companies.
- Partnership liability, which covers Fidelity against claims alleging imprudent business activities in its general or limited partnerships.
- E&O coverage for the trustees of Fidelity's charitable gifts foundations.

Fidvest retains the first $10 million of losses for all of those exposures, except the trustees E&O risk. The captive retains only the first $5 million of those losses.

Trustee E&O losses excess of $5 million are covered by Fidelity's new financial insurance product, which in that situation would respond like a difference-in-conditions policy. The financial insurance product also would cover non-concentric risk losses exceeding the captive's $10 million retention.

The reinsurance program, placed by the New York and London Fin Pro divisions of J&H Marsh & McLennan Inc., is written on a quota-share basis by American International Group Inc. and underwriters at Lloyd's of London.

The London market had not attempted the blended-risk reinsurance approach at the time Fidelity came to Lloyd's with that concept, according to Ms. Lindenmayer and Thomas F. McKenna, an M&M managing director in New York.

"It was really revolutionary at that time," Ms. Lindenmayer said.

"It was very difficult to put together," noted Donna M. Manzo, corporate risk manager and a member of Ms. Lindenmayer's staff. She said Lloyd's was extremely hesitant about signing on to the program.

Ms. Lindenmayer and Ms. Manzo said no underwriter embraced the idea initially for a couple of reasons:

The shared limits would substantially reduce premiums, and the underwriters said they were not sure how their retrocessionaires would respond to the idea.

Ms. Manzo estimates that the reinsurance program's structure has saved Fidelity $6 million since its inception nearly five years ago.

PHOTO: MICHAEL MARCOTTE

Judy Lindenmayer works closely with a team of brokers from J&H Marsh & McLennan to place coverages for FMR Corp. She is pictured with, from left, Andrew Huntley-Robertson, Walter Tomenson, Thomas F. McKenna, Rodger Laurite, Michael Nicoli and Thomas Ruggieri.

Fidelity's good loss history is an important reason Fidelity decided to go with the blended-risk reinsurance program rather than line up separate limits for its exposures, Ms. Manzo noted. "For us, it's worth the risk to take one limit and pay for a reinstatement, given our loss history and the savings we obtained taking one limit."

Under the reinsurance program, Fidvest, which is managed by Marsh & McLennan Management Services (Bermuda) Ltd. in Hamilton, retains the first $5 million of its first loss. If the loss exceeds $5 million, the captive cedes up to the next $5 million of loss to the reinsurers.

For subsequent losses after a $10 million loss, the captive retains the first $2 million.

If the second loss exceeds $2 million, Fidvest cedes up to the next $3 million of loss to its reinsurers under its original reinsurance limits.

But, Fidvest is protected by a free reinstatement of limits and the option to purchase second and third reinstatements, if necessary, at a predetermined cost.

Therefore, if it is hit with a second $10 million loss, $5 million of it excess of $5 million would be covered by the first free reinstatement.

If Fidvest faced a third $10 million loss, $3 million of losses excess of the captive's retention would be covered by the free reinstatement. The remaining $5 million would be covered under the second reinstatement.

Another $10 million loss would be covered similarly, with a portion of the second reinstatement and a portion of the third reinstatement covering the loss over the captive's retention. BI

Special coverage finds mutual approval

By DAVE LENCKUS

An alternative risk-financing method that FMR Corp. officials say they never intended to publicly announce could end up bolstering the company's money market funds sales.

To protect both subsidiary FMR Co. and the shareholders of the Fidelity Investments money market funds it manages against the risk of share prices falling below par, Judy Lindenmayer and her risk management team, her broker, a reinsurer and FMR Corp.'s legal office joined forces to create a captive insurer that would restore a Fidelity fund's share price to par value if the share price ever falls below $1.

The effort, which awaits approval from federal securities officials, was driven purely by the company's desire to protect itself against such a mishap, said Ms. Lindenmayer, vp-Fidelity insurance and risk management.

Money market fund managers are not required to make up losses that "break the buck"—or drive down a fund's net asset value below $1 a share. But, in the few cases when a fund has broken the buck, the fund managers typically made up those losses with cash infusions, which were not covered by insurance.

While that problem has not beset any of Fidelity's money market funds, FMR Corp. still wanted some protection.

In its third attempt in five years at affordable protection against the risk, Ms. Lindenmayer and the others developed a solution in 1995.

In the prior attempts, the insurance industry offered only a form of financial guarantee coverage that required FMR essentially to make the insurer whole. "We wanted real risk transfer," said Donna M. Manzo, corporate risk manager.

That kind of coverage now is available. But, at a cost of 1.5 to 2 basis points of the net assets under management, that coverage for such an uncommon problem is too expensive for FMR Corp.

The cost of the captive arrangement FMR has developed to cover potential money market fund losses sufficiently to restore share prices to par value is much cheaper.

Under the arrangement, the captive—Bermuda-based Fidfunds Mutual Ltd.—would provide $100 million of coverage. The captive would retain $30 million of a loss and cede the remaining $70 million to a group of four reinsurers, led by American International Group Inc.

Fidfunds' retained limit would be supported by a combination of the initial capitalization of the captive, an assessable additional premium on the captive's owners, retained earnings and a commitment from FMR Corp.

Ms. Lindenmayer would not disclose the captive's initial capital and surplus.

So far, about 40, or nearly all, of the money market funds Fidelity manages have committed to the captive. The government funds are not included, because those already are backed by the government.

That strong commitment by the funds was essential in gaining an Internal Revenue Service private letter ruling last year that the arrangement constitutes real risk transfer. That means the premiums would be tax deductible.

Ms. Lindenmayer explained that the IRS first addressed that risk transfer issue in 1988 when many mutual fund complexes sought approval to form Bermuda -based group captive Investment Co. Institute Mutual Insurance Co. to cover their financial bond and errors and omissions risks. The IRS determined then that at least 31 fund complexes would have to participate before the agency would consider the facility an association captive that would provide captive participants with the favorable premium tax treatment they sought.

"It set a precedent for these kind of ventures," Ms. Lindenmayer said.

The IRS afforded Fidelity's money market funds the same treatment because each mutual fund is a legal entity unto itself, Ms. Lindenmayer explained. Fidelity is an investment adviser and manager; it does not own the funds. "So we followed that guideline" established by the IRS in 1988, she said.

FMR, though, has been waiting about a year to hear whether the Securities and Exchange Commission will approve the captive. The SEC must "test the fairness of the transaction" under the terms of the Investment Company Act of 1940, according to Liz Osterman, an assistant director in the SEC's office of investment company regulation.

If the SEC signs off on the captive, FMR Co. and the approximately 40 money market funds it manages could emerge with more than a tax-effective way to protect themselves and their shareholders. It also could give it a competitive advantage over other non-government funds, which typically do not purchase such insurance protection.

Ms. Lindenmayer noted that critics of the captive say the arrangement is self-serving and that it unfairly saddles shareholders with an additional cost. She said the premium for the shareholder protection is low and that the funds recover part of that cost anyway since the premium is tax deductible. BI

Captive cuts cost of excess SIPC cover

Judy Lindenmayer uses FMR Corp.'s Bermuda-based captive insurer to dramatically cut the cost of the excess liability insurance that the company buys to further safeguard clients of its stockbroker operations.

The captive, Fidvest Ltd., managed by Marsh & McLennan Management Services (Bermuda) Ltd. in Hamilton, reinsures the company that writes coverage excess of a federal government program that protects stockbrokers' clients.

The reinsurance arrangement has reduced the cost of the excess coverage 35% to 40% for FMR, which is better known as Fidelity Investments, said Ms. Lindenmayer, vp-Fidelity insurance and risk management.

The government's Securities Investor Protection Corp. provides up to $500,000 of protection to every account holder of the nation's stockbrokers in the event a brokerage becomes insolvent and its account holders cannot recover their money.

Although excess coverage is not required, many stockbrokers, including Fidelity's, purchase it as a marketing tool.

Fidelity buys coverage that provides each account holder up to $100 million of protection against losses due to a broker insolvency. Fidelity buys $99.5 million of excess insurance of $500,000 from Asset Guaranty Insurance Co. of New York.

Three years ago, Fidvest began reinsuring Asset Guaranty on a 50% quota-share basis.

—By Dave Lenckus

Multiyear liability program saves time as well as money

By DAVE LENCKUS

FMR Corp.'s three-year casualty insurance program is a time-saver for the company's risk management department and a cost-saver for the company, whose perpetual growth generates continuous increases in its loss exposure.

The program, which runs into next year, covers the general liability, automobile and workers compensation risks of the so-called corporate side of the highly diversified Boston-based company, which is better known as Fidelity Investments. It does not cover the mutual fund operations of Fidelity's FMR Co. subsidiary, which essentially does not face those types of risks, explained Judy Lindenmayer, vp-Fidelity insurance and risk management.

Primary limits of $1 million are written by CIGNA Corp. subsidiary Insurance Co. of North America, which did not move any of Fidelity's liabilities into CIGNA's runoff facility when CIGNA reorganized last year, according to Ms. Lindenmayer.

Fidelity is subject to deductibles of $100,000 per occurrence for general liability and auto losses and $250,000 for workers comp losses.

A per-accident deductible rather than a per-employee retention is an important term for Fidelity, because employees often travel together. A per-employee limit could subject Fidelity to paying hundreds of thousands of dollars more in deductibles if a Fidelity vehicle containing several employees injured a third party or damaged another's property in an accident.

Fidelity also would pay one workers comp deductible if more than one of the employees were injured in any kind of work-related accident.

The deductibles are covered by Fidelity's Bermuda-based captive, which reinsures up to $100,000 of them into a new pooling arrangement that generates significant third-party business as well as reduces loss variability for the captive (see story, page 102).

A layered umbrella program sits over the primary coverage. Five insurers write six layers of coverage. INA writes the top layer, and Chubb Corp. participates in two layers. Fireman's Fund Insurance Co.; National Union Fire Insurance Co. of Pittsburgh, Pa.; and Twin City Fire Insurance Co. also participate in the umbrella program.

Ms. Lindenmayer would not divulge coverage details.

Some flexibility by INA in how it rated Fidelity's exposures, as well as the multiyear policy period, have freed up some time in Ms. Lindenmayer's department.

For example, the workers comp rate is based on head count rather than payroll.

"If we we're doing this based on payroll, we'd ask the systems group for a printout of all the jobs and all the pay, including base, bonus and incentive pay by state. We'd get a thick report with job titles, but that wouldn't show if people were office workers" and therefore safer risks or involved in more risky work.

Even more problematic is estimating payroll. Because of Fidelity's continuous dramatic growth, "We could never find a way to estimate what next's year payroll would be," Ms. Lindenmayer said. Fidelity underestimated payroll by millions of dollars in the past even when it factored in 15% to 30% payroll increases.

The multiyear policy period and locked-in rate on general liability eliminate the need for Ms. Lindenmayer's department to gather the same kinds of data every year.

But, before implementing the current casualty program, the risk management department still had to make those estimates, which required 10 to 12 days for a staffer to compile.

Now, an administrative assistant can retrieve a head count figure from the department's risk management information system in minutes, Ms. Lindenmayer said.

Automobile information also is available off the RMIS.

In addition, Fidelity's general liability coverage is rated based on square footage, rather than on revenues, on which rates more typically are based.

"Our revenues have no bearing on those kinds of losses, so we were searching for a way to have something meaningful" on which to base the rate, Ms. Lindenmayer explained.

A presumption that third parties will be coming onto the policyholder's property is built into general liability rates, but "so much of our business is done by phone or over the computer that we just don't have that kind of exposure."

Information on square footage soon will be available through the department's RMIS.

The multiyear policy period and a locked-in rate eliminate the need for the risk management department to gather this information every year.

In addition, the casualty insurers have agreed that Fidelity can grow substantially without having to pay additional premiums to cover the company's additional exposure.

Even given how rapidly Fidelity is growing, the agreed-upon growth rates for Fidelity's exposures are "set high enough that there is not a real good chance" the insurers can come back and boost premiums, said Tom Wronski, finance manager and the member of Ms. Lindenmayer's staff responsible for the casualty program.

Casualty loss allocation within Fidelity is relatively "simplistic," but that may change next year, Ms. Lindenmayer noted.

The general liability and workers comp deductibles that Fidelity pays are allocated to its operating entities based on head count. Those losses are so low that "we don't feel at this point we need an elaborate allocation system," Ms. Lindenmayer explained.

For example, Fidelity paid a total of $239,000 of workers comp deductibles in 1996.

Auto deductibles are allocated to the Fidelity entities that sustained losses.

And, as early as next year, Fidelity's operating entities may be held responsible for their individual general liability and workers comp losses.

"Our chairman has said he wants risk management tied to the compensation of business managers," Ms. Lindenmayer explained. One way to do that is to ensure that an entity's profitability takes into account its actual cost of claims.

In that case, "we have to revisit the ability of individual entities to pay the claims," Ms. Lindenmayer said. "We can't lose sight of the fact we have smaller companies that cannot withstand a $250,000 workers comp claim."

Those entities could receive a corporate subsidy if Fidelity decided to switch to such an allocation system, she said.

But, if workers comp claims continue to be as low as they have been—about $10 per employee—the cost of allocating losses precisely to the responsible entities would not be worthwhile, she said.

General liability losses also have been low. But, those could increase as Fidelity continues to grow, because more properties mean more third parties would be visiting Fidelity operations, Ms. Lindenmayer said. BI

Taking on comp slashed costs

By DAVE LENCKUS

Bringing workers compensation and safety under the risk management department's purview and paying closer attention to injury claims have cut FMR Corp.'s workers comp costs dramatically.

The savings have added up even as the company's employee population has soared.

"Today we spend just about exactly the same as when I first came for (workers comp) insurance protection, and claims have more than doubled" while severity has decreased, said Judy Lindenmayer, vp-Fidelity insurance and risk management for Boston-based FMR, better known as Fidelity Investments. "So I feel pretty good about that."

Moreover, Fidelity's risk management department has cut workers comp losses by more than $1 million during each of the past two years by establishing safety policies, helping injured workers get back on the job as soon as possible and fighting spurious claims, according to Ms. Lindenmayer and Don Hagerty, claims and loss control manager.

For all of 1996, Fidelity paid $239,000 in losses, according to Ms. Lindenmayer. Fidelity is subject to a $250,000 deductible per loss under its workers comp coverage.

All the while, Fidelity's employee population has been soaring. During the nine years that Ms. Lindenmayer has headed Fidelity's risk management department, Fidelity's employee population has more than quadrupled to 24,000 from 5,500.

Ms. Lindenmayer credits Mr. Hagerty for the low costs. "He's pretty tenacious," she said about the former maximum-security prison guard officer and Boston Marathon runner.

Ms. Lindenmayer sparked the improvement in costs shortly after she arrived at Fidelity. At that time, the employee benefit department handled workers comp.

"But, as the company began to grow, we were losing an opportunity to enhance our cash flow for lack of attention" to workers comp claims administration, Ms. Lindenmayer said

She persuaded the benefit manager to allow her to take over responsibility for workers comp.

Safety was moved into risk management in 1994 Again, the move came at Ms. Lindenmayer's urging.

A year earlier, Mr. Hagerty had been named head of safety, which was under the company's security group. At that time, his supervisor called Ms. Lindenmayer, a member of the security group's contingency planning team, for tips to help Mr. Hagerty get better grounded in safety issues.

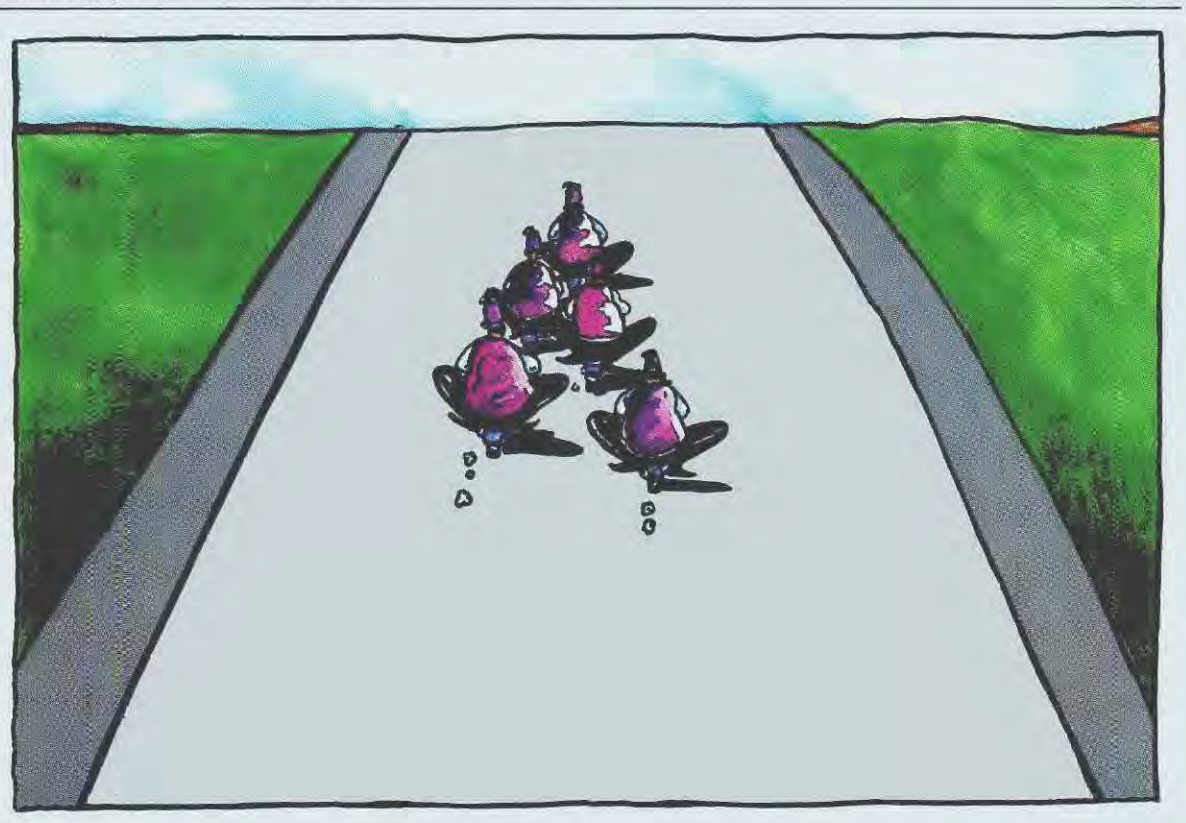
She suggested sending him to the Risk & Insurance Management Society Inc.'s annual conference two weeks later.

When management of the security group changed the next year, Ms. Lindenmayer successfully pitched to move safety into risk management.

"It's been a very good fit," she said. Risk management has the information and analytical skills to support the safety group, which is responsible for both property and employee protection, she explained.

Noting that "safety and claims go hand in hand," Ms. Lindenmayer said Mr. Hagerty devoured claims data from Fidelity's insurer to develop loss trends immediately after he moved into the risk management department.

See **Safety** *on next page*



1997 Risk Manager of the Year

Safety

Continued from previous page

After developing those trends, Mr. Hagerty began visiting problem sites and observed the behavior of workers.

That served two purposes.

"Observed behavior tends to change," Ms. Lindenmayer noted.

Perhaps more importantly, though, Mr. Hagerty's study helped him develop a safety policy that he has presented at various sites and codified in a book that has been forwarded to the presidents of all of the Fidelity Capital group of companies, which consists of more than 100 subsidiaries.

'Someone from my department is at every hearing, at every trial on every claim in Boston,' says Judy Lindenmayer.

The book contains sections that are standard for every Fidelity company, such as how to file a claim.

But, portions of it are tailor-made for each company to guide it in reducing claims.

In addition, Mr. Hagerty and Peter B. Burd a risk manager on Ms. Lindenmayer's staff who primarily is responsible for the Fidelity Capital companies, continue to visit all of the capital companies.

Mr. Hagerty also visits Fidelity's workers compensation insurance adjuster to investigate why some claims have been open an unusually long time. Many of the claims are closed by the time he arrives, Ms. Lindenmayer noted.

In addition, 'someone from my department is at every hearing, at every trial on every claim in Boston," she said. A risk management representative is present at hearings out of state for larger claims as well. BI

FMR captive boosts third-party business in anticipation of Clinton proposal

By DAVE LENCKUS

With the Clinton administration again eying the potential tax revenue from owners of captive insurers that write only a limited amount of third-party business, FMR Corp. is protecting itself.

A new reinsurance pooling arrangement has beefed up its captive's third-party business so much that FMR already meets the more stringent captive premium tax deduction rules the administration has proposed.

But, regardless of whether the proposed third-party business rules are adopted, FMR's pooling arrangement with a half dozen other large companies will help strengthen its captive by reducing claims variability and doing it with minimal frictional costs, according to FMR's risk management officials.

Meanwhile, Boston-based FMR, which is better known as Fidelity Investments, intends to study whether it wants to reinsure employee benefits through its captive.

Like last year's Clinton administration budget proposal, this year's budget plan would require captives to derive at least 50% of their business from third-party risks for their owners to take a tax deduction for the premiums they pay their captives. Currently, captives and their owners are subject to a 30% threshold, which has been established by various courts.

When Fidelity's captive, Bermuda-based Fidvest Ltd., began participating in the new reinsurance pool in January, its third-party business jumped to about 51% from none, according to Judy Lindenmayer, vp-Fidelity insurance and risk management, and Donna M. Manzo, corporate risk manager and a member of Ms. Lindenmayer's staff.

Ms. Manzo spearheaded Fidelity's role in putting together the pooling arrangement, known as the Green Island Reinsurance Pool. The pool is managed by Johnson & Higgins (Bermuda) Ltd.

Besides Fidvest, which is managed by Marsh & McLennan Management Services (Bermuda) Ltd. in Hamilton, six other captives participate in the pool. The owners of those captives include textile, apparel and home furnishings manufacturer Burlington Industries Inc. of Greensboro, N.C.; electrical equipment manufacturer Hubbell Inc. of Orange, Calif.; and Tyson Foods Inc. of Springdale, Ark.

Under the arrangement, each captive cedes the first $100,000 of its primary general liability, automobile liability and workers compensation losses to the pool.

Pool losses are combined and then allocated to pool members. The allocation percentage equals the ratio of a captive's premium to all of the premiums paid into the pool.

A participant's pool losses are limited to two times the premium it has paid.

Losses beyond that are kicked back to the pool participant that incurred them.

A "batch clause" protects participants from a sequence of related events by limiting the number of times those events can trigger coverage.

Each captive's premium, determined by Milliman & Robertson Inc. in Boston and paid in four installments, is equal to its parent company's expected losses during the one-year policy period.

Fidelity now is studying whether it wants Fidvest to write some employee benefits.

Some of the benefits—employee-paid term life and long-term disability insurance—are governed by the Employee Retirement Income Security Act of 1974, which makes them parent-company risks under U.S. Labor Department rulings.

For Fidvest to write the ERISA-governed benefits, though, the captive would have to find other sources of third-party business. The Labor Department precludes employers from using their captive insurers to insure or reinsure ERISA-governed employee benefits unless no more than 50% of the captive's business is derived from the parent company's risks.

Fidelity also would have to move Fidvest onshore or to a U.S. territory to reinsure employee benefits. Labor Department regulations stipulate that captive insurance subsidiaries that insure or reinsure their parents' employee benefits risks must be licensed in at least one U.S. state or territory.

Fidelity still is conducting a cost/benefit analysis on whether reinsuring those benefits with the captive is its best recourse.

Fidelity currently is funding those benefits through a Voluntary Employee Beneficiary Assn. which is a tax-favored trust.

Meanwhile, Fidelity is considering generating additional third-party business through its captive by offering employees homeowners and automobile insurance.

One key concern for Fidelity is whether it could offer the coverage cheaply enough to attract a significant number of employees.

"We're looking at it to give our management the additional facts they need to make an informed decision," Ms. Lindenmayer said. "It may be, when all the analysis is done, there's a reason not to do it." BI

PHOTO: MICHAEL MARCOTTE

Donna M. Manzo, corporate risk manager, left, and Judy Lindenmayer formed a reinsurance pooling arrangement to increase the third-party business at FMR Corp.'s Bermuda-based captive insurer, Fidvest Ltd.

Safety, loss control program keeps wrap-up costs under control

By DAVE LENCKUS

A strong safety and loss-control plan is the key that Judy Lindenmayer used to open the door to low self-insured retentions in a couple of wrap-up insurance programs covering FMR Corp. construction projects.

By detailing for a group of insurers the safety and loss controls that were planned for the sites, Ms. Lindenmayer attracted several wrap-up insurance bids with unusually low per-loss retentions and aggregate loss caps for the entire projects for Boston-based FMR, which is better known as Fidelity Investments.

"Attention to safety is the key to a wrap-up program," said Ms. Lindenmayer, vp-Fidelity insurance and risk management. "If you're not willing to put in the time and the expertise, don't do one."

Ms. Lindenmayer now is working with her broker, primary wrap-up insurer and Fidelity's various subsidiaries to fashion a rolling wrap-up program for future projects. As part of such a program, she plans to include a contractor insurance credit feature that helps construction project owners trim insurance costs substantially.

Fidelity currently is in the middle of two construction projects, each valued at about $100 million. The 427-room Seaport Hotel and Convention Center in Boston will be near the Boston World Trade Center, which Fidelity also owns. In Smithfield, R.I., Fidelity is putting up a two-building office campus.

Both are scheduled for completion next spring.

For the contractors at each site, Fidelity provides wrap-up insurance programs that cover the contractors' general liability, employee liability and workers compensation losses.

Under wrap-up programs, contractors typically obtain higher limits, broader protection and the benefit of lower workers comp experience modifiers as a result of the stringent safety programs the project owners typically implement.

Not unusual for wrap-up programs, Fidelity's programs have saved it millions of dollars in premiums.

The hotel wrap-up program saved Fidelity $2.5 million to $3 million in premiums, estimated Peter B. Burd, risk manager with primary responsibility for the Fidelity Capital group of companies and the member of Judy Lindenmayer's staff who spearheads the wrap-up programs. The Rhode Island project's wrap-up has saved Fidelity $700,000 to $800,000, he said.

Part of the difference between the savings in the two projects is the additional credit Fidelity earned from its insurers by requiring drug testing as a condition of employment at the hotel construction site. Rhode Island

See **Wrap-up** *on next page*

Wrap-up

Continued from previous page

statutes prohibit drug testing except for cause or as part of an injury rehabilitation program, according to Don Hagerty, claims and loss control manager.

For each wrap-up program, Hartford Specialty Co. writes $2 million of primary limits per occurrence, with Fidelity subject to a $250,000 deductible. Ms. Lindenmayer would not reveal the total project loss aggregates but said that the loss aggregates are extremely low.

Hartford and units of American International Group Inc. and Chubb Corp. write excess coverage.

Without strong safety and loss control programs, a construction project owner likely will not reap substantial premium savings in a wrap-up program. In addition, insurers generally will subject project owners to high per-loss retentions and total project loss aggregates.

Ms. Lindenmayer obtained unusually low per-loss retentions and loss aggregates for Fidelity, according to her broker, Kevin A. White, executive vp-director of the construction services division of Aon Risk Services Inc. of Massachusetts in Boston.

Ms. Lindenmayer organized meetings with nine insurance companies to identify the exposures at the sites and show how they would be managed, Mr. White said.

As a result, "nine carriers came back with very aggressive plans," he said.

"It was Judy's ability to identify the exposures and show how they would manage the exposures that allowed the insurers to be more aggressive" in terms of requiring lower self-insured retentions on a per-loss basis and offering Fidelity a lower aggregate loss cap for the entire project.

While aggregate caps are common in wrap-up programs, "the trick that Fidelity pulled off is that Fidelity received a very good response on the aggregate from the insurance companies based on the presentation for controlling risks," Mr. White said.

And, not just one of the insurers came back with aggressive plans, Mr. White pointed out. Several did.

Ms. Lindenmayer's ability to demonstrate Fidelity's loss controls "gave them a loss aggregate that's lower than normal" under each program, according to Mr. White.

Fidelity drafted similar safety plans for both construction sites, and the general contractors are held responsible "to live within that plan," Mr. White said.

A safety representative from Aon, whose salary is partially paid by Fidelity, is onsite almost daily to make sure contractors comply.

Under the plans, which Fidelity reviews with a safety representative from each contractor, Fidelity often holds contractors to stricter safety standards than those required by the Occupational Safety and Health Administration.

For example, in addition to meeting OSHA's minimum fall-protection standards, Fidelity requires tethers on all workers above ground level so they will not drop even as far as the protective netting.

In the event of an accident or fire, Fidelity has developed a plan that is designed to help rescuers locate within minutes any worker who is unaccounted for, according to Mr. Hagerty.

An onsite medical care provider is not required by Fidelity's insurance company, but Fidelity nevertheless has hired Hingham, Mass.-based Occupational Health & Rehabilitation Inc. to provide onsite medical care as well as to conduct drug testing and to provide rehabilitation services to injured workers.

All workers also must complete an orientation program to familiarize them with the site so they know as soon as they begin work at the project where, for example, the medical area and the tool repair shop are.

Fidelity also regularly conducts "tool-box" meetings, which Mr. Hagerty called "tune-ups" for the workers on various pressing worksite issues.

For example, the meetings address issues such as the importance of keeping work areas orderly and free of debris.

"We've had really good experience on the hotel project so far," Mr. Burd said.

Contractors have filed a dozen claims, with two involving lost time, Ms. Lindenmayer said. And, one claim generated 95% of the losses, she noted.

No lost-time claims have been filed at the Rhode Island project, which is not as far along, according to Ms. Lindenmayer.

With the continual new construction and renovation projects that Fidelity undertakes, the company and Aon now are working on assembling a rolling wrap-up insurance program.

Such a program would provide Fidelity a basket of insurance limits that already would be in place whenever Fidelity began a construction project valued at $50 million or more.

"We're trying not to re-create the wheel with every construction project we do," Ms. Lindenmayer said.

Ms. Lindenmayer is approaching Fidelity's current wrap-up insurers for the rolling wrap-up program.

Noting the amount of effort that is required to educate insurers about Fidelity's safety and loss control efforts at construction sites, Ms. Lindenmayer said. "Once you get over the learning curve, it's much more efficient to use the same folks."

Like the other wrap-up programs, the rolling wrap-up would include a contractor insurance credit feature. This program feature creates a somewhat laborious administrative process for Fidelity but pays off in lower insurance costs.

Under wrap-up programs with the credit feature, contractors detail in their bids what their insurance costs would have been if they had purchased the coverage themselves, but the contractors back out those costs from their bids.

Aon and Fidelity verify those costs with the contractors' brokers and insurance companies and adjust the insurance cost figures if necessary.

Fidelity then gives each contractor a credit equal to the cost of the insurance. The credit is based on the estimated man-hours that the contractor will devote to the project, Mr. Burd said.

If a contractor exceeds its estimated man-hours, Fidelity will deduct an additional insurance charge from the amount that it owes the contractor.

On smaller wrap-up programs, contractors include the cost of their insurance within their bids, and the insurance costs are backed out later.

The net effect is not identical. Although there is an administrative cost in identifying and monitoring credits, that plan is a more precise method for the project's owner to determine the project's insurance costs, Mr. White explained.

That is because with a credit feature, contractors have to submit proof of what their insurance costs would be if they purchased coverage themselves. The construction manager then reviews the accuracy of those figures and the contractor's calculations in determining its insurance costs.

Ms. Lindenmayer said that she has the support of senior management for a rolling wrap-up program.

That is a testament to her communications skills, Mr. White said.

Often, companies with many subsidiaries involved in construction projects in different jurisdictions are not willing to share limits for fear of not being adequately protected, he said.

"She's a very effective communicator," Mr. White said. BI

PHOTO: MICHAEL MARCOTTE

Judy Lindenmayer's team of brokers at Aon Risk Services helped create Fidelity's coverage programs. Standing with Ms. Lindenmayer, from left to right, are: Brian Kawamoto, executive vp; Arlander Foster, manager-administrative services; Bill Williamson, vp at Aon Risk Services Inc. of Massachusetts; and Anne M. Blodget, vp at Aon Risk Services Inc. of Massachusetts.

Multiyear policy covers property risks

FMR Corp. purchases nearly $3 billion of property insurance limits from Allendale Mutual Insurance Co. of Johnston, R.I.

Like much of the insurance purchased by the Boston-based company, known as Fidelity Investments, it is a multiyear program. The five-year program crafted by Judy Lindenmayer, vp-Fidelity insurance and risk management, ends in April 1998.

Sublimits under the policy include:

- $100 million for flood and earthquake.

But, Fidelity does not purchase earthquake coverage for its California exposures.

"It is extremely expensive, and the amount of coverage I would get wouldn't replace a building. It wouldn't do us any good," Ms. Lindenmayer explained.

For example, by taking a $500,000 deductible and paying $80,000 in premiums, Fidelity could have purchased $5 million of primary earthquake coverage.

The company owns a square block in Walnut Creek. Fidelity also owns approximately 80 offices stretching from San Francisco to San Diego. "$5 million is nothing. Why pay for it?"

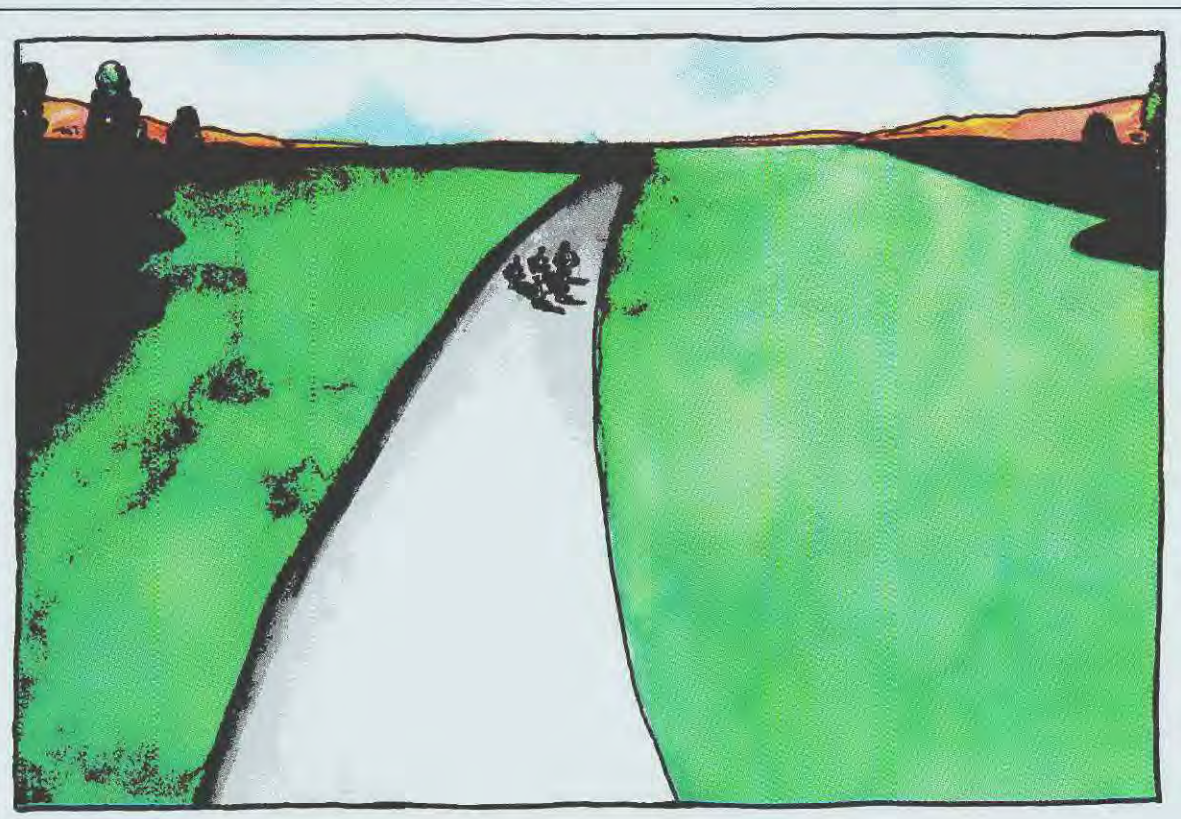
Additional limits were available if the primary insurer sought support from the facultative reinsurance market. "I try avoiding going into the facultative market," Ms. Lindenmayer explained. "It's too expensive."

- $10 million of errors and omissions coverage that ensures a Fidelity property is covered even if its location is omitted from or erroneously labeled in the schedule of properties Fidelity owns.
- $2.5 million of transit coverage, which covers property that is lost, damaged or destroyed during transit.

Fidelity also is covered for the loss of rental income and the replacement value of ocean cargo under the policy.

In addition, the insurance policy provides extra expense, business interruption and contingent business interruption coverage.

—By Dave Lenckus



1997 Risk Manager of the Year

From furniture store owner to high-profile risk manager

Career has spanned several industries

By DAVE LENCKUS

A little old-fashioned horse trading with a boss who wanted her to accept some unfamiliar responsibilities spurred Judy Lindenmayer's risk management career.

Hard work, additional studies, the lure of new challenges and an ability to network effectively has kept that career moving along at full gallop.

Today, Ms. Lindenmayer heads the eight-member risk management department FMR Corp., the privately owned Boston-based company best known for the scores of mutual funds it manages.

But, the billions of dollars in revenues that FMR, better known as Fidelity Investments, generates annually also is attributable to a catalog of businesses that range from an art gallery to high-technology development concerns.

To a person, colleagues and business associates note the challenge of keeping up with the dynamic Ms. Lindenmayer, who is as confident white-water rafting as she is content reading a book during her free time.

That's quite a change from the self-described "almost shy" 27-year-old who in 1969 accepted a position as personnel manager for Chicago-based Sealy Inc.—a position that led to her risk management career.

Ms. Lindenmayer has been exposed to the business world since early childhood. In Dearborn, Mich., where she spent her grammar- and high school years with her parents and older brother, her father was a regional vp with Standard Register Co.

She charged headlong into the business world after she married. Ms. Lindenmayer and her then-husband owned three furniture stores in Hillsdale, Mich., where she also took some business courses at Hillsdale College.

After moving to Chicago during the early 1960s, Ms. Lindenmayer worked for Standard Register—though not for her father—and a real estate firm's appraisal department while also attending some business classes.

She landed the Sealy position in 1969.

Sealy at that time was a licenser of bedding manufacturing companies, which entailed purchasing bedding material for its licensees and providing national advertising.

As personnel manager, Ms. Lindenmayer was responsible for, among other things, office management; payroll and associated taxes; and defined benefit plan, pension plan and profit-sharing plan administration.

Less than a year after she arrived at Sealy, her boss asked her to take over the unfamiliar responsibility of purchasing corporate property/casualty insurance, because he soon would be too busy to handle it.

Ms. Lindenmayer balked because of her lack of experience in that area.

But her boss disagreed with that assessment. He said her employee benefits background was a good primer for the new assignment.

Ms. Lindenmayer agreed to accept the appointment, but only if Sealy agreed to send her to school so she could get more than on-the-job training.

She enrolled in the Associate in Risk Management program, which at that time was a seven-course program; today it is a three-course program.

Ms. Lindenmayer stood out immediately in the class. She was the only woman.

And, "the (classmate) with the least experience next to me had been in the industry for 14 years," she recalled.

Rather than feeling overmatched in the class, Ms. Lindenmayer drew upon her classmates' experience to check her own progress as a risk manager, which Sealy was putting to the test. Sealy was heading in a new direction—the reason her boss had to give up some of his responsibilities.

Sealy officials had decided to quickly switch from licensing bedding manufacturing franchisees to manufacturing the bedding itself. The company began acquiring Sealy-licensed companies, and at one point it purchased 10 companies in an 18-month period.

Ms. Lindenmayer's task was to develop a corporate property/casualty insurance and risk management program and fold each acquired company into it.

"So, I guess you can say I've come full circle," she observed, referring to the fact that she took over a fledgling nine-month-old risk management department when she arrived at Fidelity nine years ago.

"Fortunately for me, the people in my class had all of that experience," Ms. Lindenmayer said. "I thought through the problems and then called them, and they helped me."

Ms. Lindenmayer earned the ARM designation in 1974, the year the course load was cut to three classes.

She next enrolled in the Chartered Property & Casualty Underwriter program, just after the course load for the CPCU designation was increased to 10 from five classes.

She completed half of them. "I'm a CP," she quipped.

Ms. Lindenmayer was personnel and risk manager for a few years at Sealy. But, handling both responsibilities became overwhelming. She asked her boss if she could concentrate on risk management. He agreed.

In 1978, 10 years after arriving at Sealy, friends began encouraging Ms. Lindenmayer to look into the risk management position that had opened up at Chicago-based Zenith Radio Corp.

But, she resisted. She was happy at Sealy. As the company grew, she felt more empowered. "They trusted me to do things. I liked that."

On top of that, Sealy's managers became increasingly responsible for running the business when the company became embroiled in defending itself in antitrust litigation and corporate officers were prohibited from participating in the company's day-to-day operations.

She recalled how managers had a good time running the company and generating good profits. "We felt like we were making a wonderful contribution."

But, her friends persisted. "My pals were encouraging me to move

See **Career** *on next page*

PHOTO: MICHAEL MARCOTTE

John Crumrine, vp and corporate treasurer of Fidelity, says Judy Lindenmayer "has a lot of diverse business experience in her career that helps her be effective" in managing risk.

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Career

Continued from previous page
on to bigger and better things." The Zenith position would offer her the challenge of managing different risks—and on an international scale.

After carrying around the newspaper advertisement for the Zenith position for weeks, she applied and was hired.

One of her proudest accomplishments there was establishing a corporate safety program and safety oversight committee to help focus the efforts of individual profit centers.

Besides risk management, she also had financial input in Zenith's employee benefits. For example, her group analyzed the funding and payouts of the company's Voluntary Employee Beneficiary Assn. trust, a tax-advantageous vehicle for funding employee benefits.

She also became involved with the Risk & Insurance Management Society Inc. at the local chapter level. Ms. Lindenmayer, who was one of the "very, very, very few women in the business" at that time, was elected the first woman president of the Chicago RIMS Chapter in 1978.

The Zenith position was one of her shortest tenures as a risk manager. In 1981, while handling the executive referral service for the Chicago RIMS Chapter, a headhunter asked her for several recommendations to fill a risk management opening. The company was Atlanta-based Rollins Inc., a diversified company involved in pest extermination, residential and commercial security systems, media advertising, and oil and gas servicing.

The headhunter did not find a suitable candidate in the four or five risk managers he interviewed at Ms. Lindenmayer's suggestion. But, he thought she would be ideal.

The prospect of uprooting from Chicago after 22 years concerned her.

But, the career opportunity at Rollins "was a huge challenge," she said.

At Rollins, she had the largest department—23 staffers—that she has ever had. She also handled the company's self-insured and self-administered benefits program.

Her department eventually developed a computer system that enabled the company to take over adjudicating and paying employee benefit claims. Claims-payment turnaround time was slashed to three days from 45, she said.

Four years later, in 1985, she received a surprising phone call from the chief financial officer of Data General Corp., a Boston-based high-technology company. The CFO, a former controller at Zenith, and Ms. Lindenmayer did not have a totally gratifying professional relationship when they worked together. But, he wanted her to take over corporate risk management at Data General.

The position would be directly under the treasurer's authority, not the CFO's.

It would be another challenge that again would involve some financing responsibilities in the employee benefits area. After considering the increasingly sweetened offers over the next few months, she agreed to move to Boston.

Within three years, though, her immediate supervisor had left the company, and Data General had undergone some other changes she did not like.

Ms. Lindenmayer, though, did not feel up to another move. Looking for some advice, she called her former boss from Data General, who had joined Fidelity. Then-Fidelity Treasurer George McClelland, who has since left the company, informed her of the risk management opening at Fidelity and encouraged her to apply.

She questioned, she recalls now with some incredulity, whether what she thought was strictly a mutual fund company would challenge her enough.

She laughs now at that thought. Nine years later, she still faces challenges on how to best guide Fidelity through the maze of risks its multitude of business interests face.

Fidelity has been so pleased with Ms. Lindenmayer's risk management stewardship that it promoted her to vp last year.

From furniture-company owner to risk manager at several high-profile companies spanning different industries, Ms. Lindenmayer "has a lot of diverse business experience in her career that helps her be effective" in managing risk at Fidelity and Fidelity International Ltd., an independent affiliate, said her supervisor, John D. Crumrine, vp and corporate treasurer of Fidelity.

While Ms. Lindenmayer sees no slowdown in risk management challenges at Fidelity, she plans to cut back on her involvement in RIMS, for which she has served on the executive council for the past three years.

Her goal, which she has attained, was to serve in the international, education and research, and conference areas of the organization.

The weekend travel required to meet those duties, though, did not leave any time for her to devote to the vestry—or temporal management—of her church, St. Mark's Episcopal Church in Southborough, Mass. She gave up that role in the church for the last few years because she believed she would not be able to "do justice" to either it or the RIMS executive council if she tried to juggle both.

But, Ms. Lindenmayer did keep active in the church by running its youth group.

Even after she moves on from the youth group, youngsters will continue to be an important part of her life.

There are the frequent visits with her granddaughter and three grandsons. Ms. Lindenmayer makes a point of seeing her son, who runs a house-painting business in Atlanta, every six weeks. BI

Internship opens professor's eyes to managing risk

By DAVE LENCKUS

Looking for a way to bring more "real world" risk management education to his classroom, a university professor accepted a summer internship from FMR Corp.'s Judy Lindenmayer.

What he said he found at FMR, better known as Fidelity Investments, was a risk management department operating on the outer limits of the profession.

Heading into his 10-week summer internship at Fidelity last year, Victor Puleo expected it would give him the hands-on risk management experience in a large corporation that he wanted to share with his students.

"But, I didn't expect to be working within a risk management department or with a risk manager like Judy," said the assistant professor, who now is in his third year with Appalachian State University in Boone, N.C.

"What surprised me the most was how many different approaches to risk were being embraced by her department," Mr. Puleo said. Traditional insurance "was almost the last thing they wanted to touch when approaching risk," he observed.

"This is the kind of thing college professors should be doing to see what the real world is doing, because we don't live in the real world," Mr. Puleo said.

Ms. Lindenmayer, vp-Fidelity insurance and risk management, long has been a supporter of risk management education. Two initiatives of the Risk & Insurance Management Society Inc. to which she has committed much of her time are the Gateway Program to promote internships for graduating risk management students and the Gamma Iota Sigma risk management fraternity.

"I strongly believe that people in this profession have the responsibility to help students of the profession—to let them see how they can apply their book learning in a real-life situation," Ms. Lindenmayer said.

She said she has wanted the opportunity before to offer internships, but Fidelity is the first company she has worked at that has supported the idea.

In the summer of 1995, a year before Mr. Puleo's internship at Fidelity, Ms. Lindenmayer provided internships to two risk management students from the University of Georgia.

Ms. Lindenmayer and Mr. Puleo crossed paths in the fall of that year at a national meeting of Gamma Iota Sigma in Minneapolis.

Throughout the meeting, Ms. Lindenmayer heard several professors voice concerns about whether they were providing their students a "real world" education.

She suggested that the professors intern at companies, a recommendation that the American Assembly of Collegiate Schools of Business formally endorsed the following spring. Like the professors Ms. Lindenmayer encountered, the AACSB has expressed concerns that academia is not adequately preparing students for what they will encounter in the real business world.

The challenge is to get companies to hire professors as interns more often, Mr. Puleo said.

In an April 1996 letter to AACSB member representatives, AACSB President Scott S. Cowen encouraged schools and faculty to take advantage of such opportunities already offered by companies and governmental agencies.

But, Mr. Puleo did not seek an internship for himself when he met Ms. Lindenmayer at the Gamma Iota Sigma meeting.

"I asked her about hiring one of my students. She said, 'I'd rather have you,' " Mr. Puleo recalled.

Ms. Lindemayer extended a formal invitation to Mr. Puleo in March 1996.

"She was a genuinely nice person," the professor said. In addition, "she is confident in the program she has put together."

Mr. Puleo said he was exposed to all of the initiatives under way in the department and was able to volunteer to work on the projects that interested him most.

The professor said he was most impressed with the lofty $1 billion catastrophe program the department was trying to pull together. Ms. Lindenmayer hopes to have the program in place by next year.

He also marveled at the reinsurance pooling arrangement with six other large companies that Fidelity's risk management department was helping form for the company's Bermuda-based captive. The Green Island Reinsurance Pool, which pools the participating companies' casualty risks, has both generated significant third-party business and reduced loss variability for Fidelity's captive since the pool's inception in January.

'This is the kind of thing college professors should be doing to see what the real world is doing,' says Victor Puleo.

"I went up there thinking there'd be a lot of insurance and little risk management," Mr. Puleo said. "I found there was mostly risk management and a little insurance."

The professor also pointed out that Ms. Lindenmayer surrounded herself with brokers with the same mind-set as hers.

Indeed, Mr. Puleo witnessed Ms. Lindenmayer request a different account executive from one of her brokers because the one she had been working with "wasn't cutting edge."

"He was old-fashioned. Insurance was the way to solve things," the professor said of the account executive.

Ms. Lindenmayer said she personally liked the individual but that his approach to risk financing was not in sync with her department's.

Besides giving interns the opportunity to apply what they have learned, Ms. Lindenmayer also insists that their contributions "be of value to Fidelity."

If they only "file and make copies," the internship is a disservice to the company and the students, she said.

Ms. Lindenmayer called the professor's internship "a very successful engagement" that exceeded her expectations. She was especially pleased with his work in developing a system that allows Fidelity to very quickly pull together its business interruption exposures.

Ms. Lindenmayer said her staff now unanimously supports making more internships available but limiting them to graduate students, who should be able to offer more help than undergrads.

As for Mr. Puleo, he recalled that one of Ms. Lindenmayer's brokers asked him at the end of his internship where he would like to intern next.

"It would be nearly impossible to top that internship experience, unless Judy goes somewhere else," the professor said. BI

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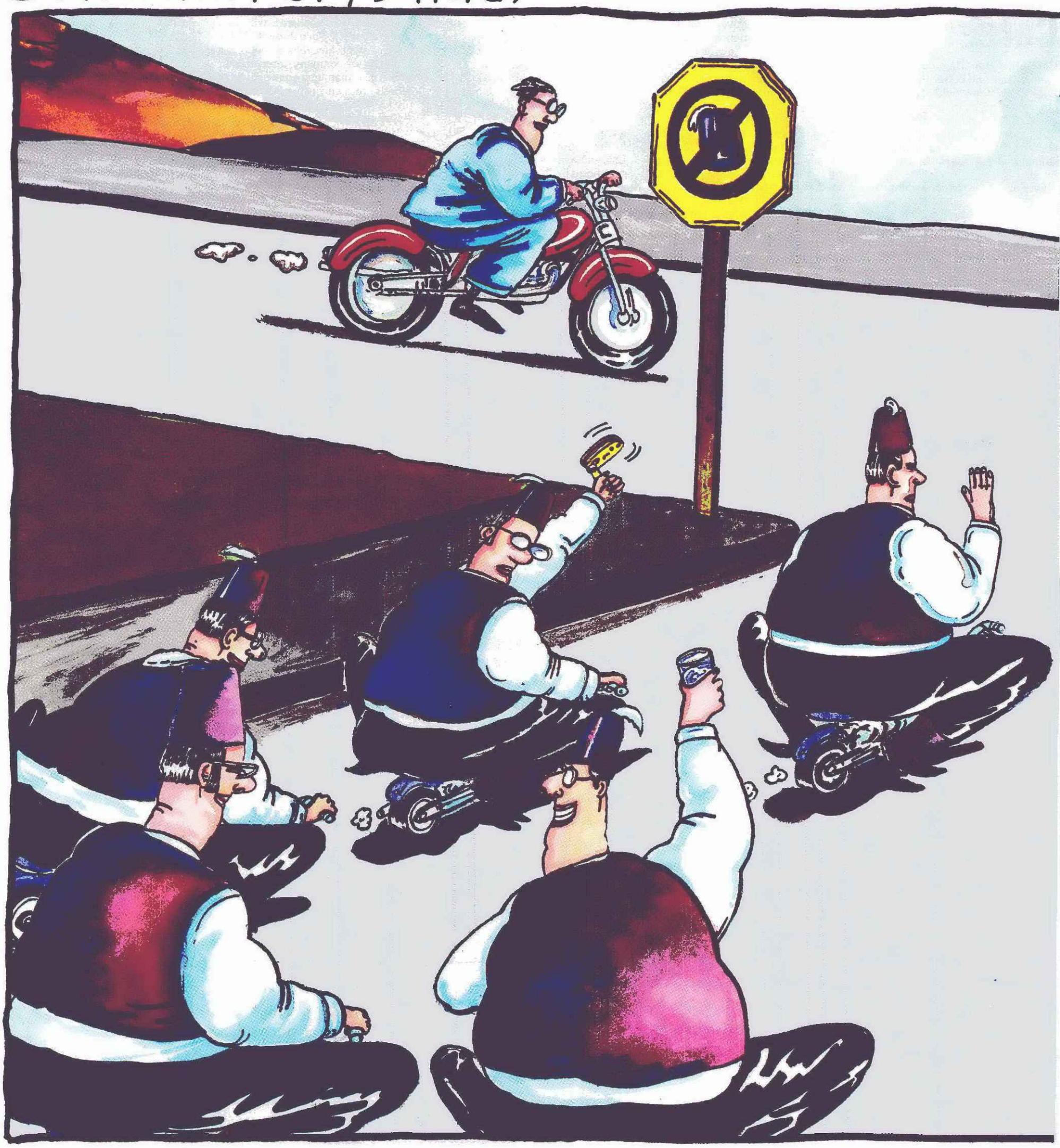

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DISCOVER RE

1997 Risk Manager of the Year

Lindenmayer praised for fidelity to risk management, family

By DAVE LENCKUS

Business associates, peers, friends and family say they always know where they stand with Judy Lindenmayer, who often is trying to move them off that spot to a better place.

But, Ms. Lindenmayer's generosity was equally extolled during an often lighthearted and sometimes emotional tribute to her when she accepted the 1997 *Business Insurance* Risk Manager of the Year Award.

Ms. Lindenmayer, vp-Fidelity insurance and risk management at Boston-based FMR Corp., better known as Fidelity Investments, has been awarded the honor for her work in, among other things, overhauling Fidelity's risk financing program to significantly broaden coverage while also dramatically cutting costs.

She was presented with the 20th annual award, signified by a crystal obelisk, by *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre, Editor Paul D. Winston and Senior Editor Dave Lenckus during a luncheon in Boston last month.

After a stirring standing ovation when she accepted the award, Ms. Lindenmayer turned to her son and assured him she would not become emotionally overwhelmed.

Apologizing if she seemed "presumptuous," Ms. Lindenmayer told the gathering that she considered the honor her academy award. Wanting to look her best for the occasion, she did not prepare a speech so she would not have to wear reading glasses, she said.

PHOTO: MICHAEL MARCOTTE

***Business Insurance's* Editor Paul Winston, Publisher and Editorial Director Kathryn McIntyre and Senior Editor David Lenckus congratulate Judy Lindenmayer at a luncheon in Boston.**

Ms. Lindenmayer's supporting cast of seven staff members led her list of acknowledgements.

"Every year, you hear, 'I couldn't do it without my staff.' And, they would tell you I couldn't. They're right."

She then thanked her family, whom she likened to a "key grip"—the chief behind-the-scenes assistant on a movie set.

She again looked over toward her son to reassure him that she would spare him an emotional scene. "Don't worry, Mike. It's not happening."

Ms. Lindenmayer concluded her brief remarks by thanking everyone in attendance who helped her earn the award.

"Everyone deserves a round of applause. So I will lead it," she said, applauding the gathering.

FMR Corp. Vp and Corporate Treasurer John D. Crumrine then introduced himself as Ms. Lindenmayer's boss. "As you can imagine, that's a challenging role," he said, drawing a smattering of laughter.

"I have to tell Judy what to do, what to say, how to do everything," he said, tongue firmly planted in cheek, about the highly energetic and forthright Ms. Lindenmayer. "It's challenging, and it's not working well, quite frankly. So, I'm going to have to try a different approach."

Mr. Crumrine then lamented about Ms. Lindenmayer's relationship with her insurance brokers, whom he called "out of control."

"She's too soft. They're walking all over us," he complained, again amusing the gathering.

Two powerhouse brokers Ms. Lindenmayer has long used, Marsh & McLennan Cos. Inc. and Johnson & Higgins, recently merged to form J&H Marsh & McLennan Inc. Mr. Crumrine shared his views on what prompted the merger: "The truth is they're bonding together, joining forces, because Judy is too tough for any single firm to deal with."

He summed up by saying Ms. Lindenmayer "is a creative person, a tenacious person," who also is committed to helping each one of her staff develop and further his or her career. She challenges people but then does not take credit for what they have accomplished, he said. "That's a sign of a real leader."

Continuing with the theme of Ms. Lindenmayer's relationship with her brokers, Walter S. Tomenson Jr., an executive vp

Continued on next page

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with J&H Marsh & McLennan, applauded both Ms. Lindenmayer's and her staff's tenacity.

"If you're lucky enough to work closely enough with Judy and her team, you'll be challenged and stretched."

Mr. Tomenson recalled the time he brought his teen-age daughter to a breakfast meeting with Ms. Lindenmayer the day the Tomensons were to visit the Harvard University campus. After the meeting, his daughter told him, "I've never seen any person who had such control of the facts, the deal, the strategies. . .and you."

"Judy has been our Risk Manager of the Year every year," he concluded.

Fidelity broker Thomas F. McKenna, a J&H Marsh & McLennan managing director who helped Ms. Lindenmayer put together a couple of integrated risk programs for Fidelity, held up a handful of letters that he called Ms. Lindenmayer's "hit list." The letters are his collection of caustic correspondence that she has fired off to the broker over the years when she was less than pleased with its performance.

However, Mr. McKenna refrained from revealing any of the contents until later in the day at more private gatherings.

Describing how Ms. Lindenmayer challenges and motivates people, Mr. McKenna said, "She does it professionally, and she does it with fun."

Brian Kawamoto, another Fidelity broker, who co-nominated Ms. Lindenmayer for the award, also tipped his hat to her.

Commenting on her drive and intensity, he said: "A day in the life of Judy Lindenmayer is like a day in the life of the Internet. If you don't keep up with her, you'll find yourself tremendously behind."

Ms. Lindenmayer is "goal- and results-oriented," but describing her only in that way "seems shallow," said Mr. Kawamoto, an executive vp at Aon Risk Services Cos. Inc. in San Francisco.

"The best word to use is that she's terribly passionate"—about her career, about the Risk & Insurance Management Society Inc., about the Spencer Educational Foundation Inc., and at the craps table, where she occasionally can be found with "a cigarette in her mouth and with a Stoli vodka and extra dollars in her hand," he said.

"I know more stories than anyone" about Ms. Lindenmayer, offered Donna M. Manzo, a member of Ms. Lindenmayer's staff. The two met a decade ago when both worked at Data General Corp. in Boston. "I'll save those 'til later, because she pays me."

Ms. Manzo, corporate risk manager at Fidelity. said working for Ms. Lindenmayer has been a great learning experience.

"It's often a pleasure working for Judy. . .and it's often a challenge working for Judy," she said. "She's a wonderful teacher."

The award is well-deserved, "and we're very proud of you," she told Ms. Lindenmayer.

Freida Jackson, president and risk manager of Park Smith Associates Inc. of Charlotte, N.C., and a co-member of the RIMS executive council with Ms. Lindenmayer over the past three years, said the two are similar in many ways. For example, she said: "I'm from the South. Judy likes grits."

Ms. Jackson said she values her relationship with Ms. Lindenmayer, whom she can call for advice. Ms. Lindenmayer "believes in integrity and honesty and practices those professionally and personally," she said.

Plus, "you always know where you stand with Judy."

Noting that both herself and Ms. Lindenmayer are leaving the executive council this year to pursue other interests, Ms. Jackson said, "I know at least she'll be missed."

"Congratulations from RIMS," which this year, for the first time, has recognized the *Business Insurance* Risk Manager of the Year Award. "Congratulations. You're a very, very special lady," Ms. Jackson said.

William J. Kelly, a managing director with J.P. Morgan & Co. Inc. of New York, noted he also worked with Ms. Lindenmayer on the RIMS executive council for two years. "Two years can be a long time," he quipped.

"Judy likes to present an image of being a tough customer," he observed. "Having worked with Judy two years, there is something to that image."

But, he also noted her "generosity to colleagues and friends."

C.J. Spivey, president of C.J. Spivey Associates Inc. in Charlotte, N.C., and a former RIMS president, concurred with that sentiment.

"You can judge the greatness in a person by the way they treat people on their way up," he said. Noting his long acquaintance with Ms. Lindenmayer, he applauded her for the hand she has given others in shaping their careers.

"As an old has-been from RIMS, I'd like to take this opportunity to congratulate you," he told her, adding that he was disappointed that her decision to leave the executive council means "I will not see you as president of RIMS."

Brian D. Casey, last year's Risk Manager of the Year and a judge in this year's contest, marveled at how "everybody talks about how Judy helps other people."

"I had the opportunity to read the application" her brokers submitted in nominating Ms. Lindenmayer for the award, said the director of risk management and loss control for Corning Inc.

"It was like reading 'War and Peace' on microfiche. I wonder where she gets the time to help all the people she has," Mr. Casey said.

Anne Blodget, one of the brokers who co-nominated Ms. Lindenmayer for the award, described how "overwhelmed" the brokers were when they began writing down Ms. Lindenmayer's accomplishments that they knew about first-hand.

They were further awed when they began to annotate additional accomplishments, said Ms. Blodget, a vp with Aon Risk Services Inc. of Massachusetts in Boston.

She concluded by reading an excerpt from a letter by Patrick G. Ryan, chairman and chief executive officer of Aon Group Inc.: "You are an extraordinary talent, Judy, and FMR is most fortunate to have you."

The most moving part of the toast came during remarks by Ms. Lindenmayer's son.

"I'm jealous," he told the gathering. "I thought all these years that I was the only one getting both ends" of his mother's parental guidance in the form of support and discipline.

"I didn't realize you all were her children."

In a tender tribute to Ms. Lindenmayer, he then thanked "the greatest, most loving mother" for helping him through their shared "lessons, challenges and grief."

—By Dave Lenckus

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1997 Risk Management Honor Roll

Carney's sense of team, focus not an accident

By MARK A. HOFMANN

The word "I" has no place in John J. Carney's professional vocabulary.

Instead, the vp-risk management for Vineland, N.J.-based National Freight Industries Inc. stresses the importance of teamwork in turning around the company's safety record and bringing its cost of risk down significantly since he became risk manager six years ago.

Pointing to the logo of National Freight Industries' National Freight trucking unit—a red and blue stylized eagle—Mr. Carney says, "If we want that eagle to soar into the next millennium, we have to put together a team that works together and shares common goals."

"I guess it's easier to sit back and take the credit," he says. "But 'I' is a word that I rarely use. There's no 'I,' 'me,' and 'my'; it's 'we,' 'ours' and 'us.' "

Despite his self-effacing philosophy, Mr. Carney is being recognized for his achievements on *Business Insurance*'s Risk Management Honor Roll representing small companies. Among those achievements:

- Reducing a National Freight unit's preventable accident frequency to 2.4 per million miles in 1996 from 10.6 per million miles in 1990 through a vigorous driver training and safety program (see story, page 111).
- Gaining self-insurance status from the U.S. Department of Transportation, making National Freight one of only 55 companies out of a potential 60,000 to do so (see story, page 113).
- Reducing cargo losses through training, loss control and the use of innovative satellite technology (see story, page 112).
- Creating a system of written standard operating procedures to minimize the possibility of mishaps.

The 59-year-old Mr. Carney's emphasis on teamwork reflects his previous career in law enforcement. He rose from a uniformed trooper to the third in the chain of command of the New Jersey State Police before joining National Freight Industries as director of security.

"John has saved us a lot of money. He's a good organizer who has instilled a great safety-first" philosophy throughout all of the company's departments, said Bernard Brown, chairman of the 65-year-old family-owned firm.

"He's created a feeling of teamwork among his people and the executives," Mr. Brown added.

"The trucking industry is a tough business. If you can make money in the trucking business, everything else is easy," he said.

"NFI has been a great success story. The family has positioned the company to offer total logistic solutions to the transportation industry, and they have empowered John to be effective in his job," said Thomas Lucci, principal with National Commercial Insurance Services in Chagrin Falls, Ohio. NCIS provides consulting and brokerage services to NFI.

Mr. Carney credits Mr. Brown with having "had the vision and foresight" to create the position of vp-risk management, which gave Mr. Carney a seat in senior management.

Safety, total quality and comprehensive risk management all begin in the boardroom, he said. For National Freight Industries, the current risk management program began when the vp in charge of risk management was given parity with other executives in National Freight.

"I received—and it's the only time you're going to hear 'I'—absolute, unconditional authority to balance the legitimate wants and needs to ensure profitability with the responsibility to protect internal and external customers," said Mr. Carney. "Risk management in this company is just about everything except operations and, to a smaller extent, finance."

Mr. Carney oversees a staff of 55 people. Among the key people involved in risk management and safety are: Frank Ciurlino, director of insurance; Lee Robledo, director of safety; and Tina Ritondaro, human resources manager.

"I'm a problem-solver. That's what I do. That's what I did in my previous job," said Mr. Carney.

"The opening remark usually is, 'We have a problem.' That's how it starts, not how it ends " said Mr. Carney.

"My job is to bring all this talent" in the company and get it focused on how to solve that problem.

"Focus" is a word that often crops up in Mr. Carney's professional vocabulary. In fact, he says "the most difficult part of the job is staying focused every day on a number of requirements."

Looking at such achievements as the improvement in the company's accident record raises the possibility that complacency will set in, he said.

"There's a tendency to sit back and say, 'We're really in good shape here.' " But he notes that saying such a thing almost guarantees that the frequency and severity of accidents will begin to increase again. "One of the most difficult things deals with staying focused every day."

That focus on improving the factors that increase safety and reduce accidents has to be maintained constantly he said.

Mr. Carney said that every day, the company has to answer: "Do you hire this guy? What actions should we take with this particular accident? Are we covered properly with the insurance coverages?" These questions and other similar questions must be answered in a way that balances "the legitimate wants and needs of the company in order to be profitable with the responsibility we have to the motoring public and the public in general," he said.

Focus also means "we've been able to institutionalize safety," which Mr. Carney regards as one of his program's greatest achievements. He noted that by keeping track of incidents and knowing which facilities have the best and worst safety records, the company is able to light "a fire under" the manager who comes in last. That manager invariably does better during the next period, because maintaining safety has become a corporate matter of pride, he said.

Mr. Carney also points with pride to the "creation of a memory that heretofore we just wouldn't have" regarding risk management problems and how the company dealt with those issues. The company's "Essentials of Risk Management" documents the steps National Freight took to improve its safety performance.

Mr. Carney said he has been able to use the book when talking with insurers. The volume shows where National Freight was, where it is now and where the company wants to go. He said if National Freight is not certain how to achieve a risk management goal, he will approach the underwriters.

"We believe in partnering," he stressed.

By establishing a process and an organizational memory, Mr. Carney has created a situation where even after he leaves, after the safety director and after the chairman leaves, there is a standard operating procedure detailing how to deal with a given problem.

"It's a process that's going to be improved upon, for certain. Somebody's going to make it better than we did. We've created the foundation for continuous improvement." BI

PHOTO: MICHAEL MARCOTTE

John J. Carney

Vice President
Risk Management

National Freight Industries Inc.

1997 Risk Management Honor Roll

Risk manager driven to ensure safety in trucking operations

By MARK A. HOFMANN

When a National Freight truck goes out on the road, John J. Carney feels a considerable responsibility to the public, the client and the company to make sure the person behind the wheel has had the best possible preparation for the trip.

"You put 80,000 pounds of steel on that road, you should be certain that you have the best-qualified driver, the best-maintained equipment out there, and it goes far beyond any dollars, any punishments they can give us," said Mr. Carney, vp-risk management for Vineland, N.J.-based National Freight Industries Inc.

"I've been to accident scenes, in both my former life and this one, and I know what it can do to an individual. We can repair a truck. We can take a truck to our service area and maintenance and make it look brand new. I can't do that to a human being," said Mr. Carney, who was the third-highest ranking officer in the New Jersey State Police before joining National Freight in 1990. He became vp-risk management in 1991.

Getting the best possible driver behind the wheel is a multifaceted process that begins with hiring and continues through comprehensive training and reinforcement of safety procedures.

"Our criteria are among the most demanding in the industry, and for us it's been key to putting the professional driver in the truck."

"Probably one of the biggest hurdles is hiring professional drivers," Mr. Carney said, pointing out that finding qualified drivers is an issue for the trucking industry as a whole.

The pool of potential drivers is not as large as it once was, he said. In addition, federal funding for driver schools is drying up.

At the same time, "today, the driver has to be more qualified than he ever has before," says Mr. Carney. "It's a demanding industry, and it should be."

To find qualified drivers, National Freight spends $800,000 annually on personnel advertising, he said.

National Freight does not compromise its hiring standards, he said. The company will not jeopardize seven years of safety improvement to fill one employee space, Mr. Carney stressed. "We do what's required and go beyond that."

National Freight drivers must be at least 23 years old and have a minimum of one year and 100,000 miles' experience, he said.

As an added safety precaution, National Freight equips all its trucks with speed governors that will not allow the vehicle to go faster than 63 miles per hour.

The company also has a matrix set up for accidents and summonses to determine whether a driver, given his or her experience, falls into an acceptable safety category, said Mr. Carney.

Applicants undergo a thorough background check. "We have zero tolerance for DWI or drug use."

The driver who makes the cut then goes through a comprehensive training program. This wasn't always the case, notes National Freight's "Essentials of Risk Management" handbook. In fact, before 1990, driver orientation might have lasted only 15 minutes, depending on the person carrying out the orientation.

The orientation program, which must be completed before a driver can get behind the wheel of a National Freight truck, now lasts two days. Drivers who pass a written test and meet other criteria then enter a 90-day probationary period, during which they can be terminated without cause.

Drivers receive a comprehensive driver manual that covers everything from the orientation schedule itself to specific maintenance requirements, procedures for accident prevention and reporting, and the corporate drug and alcohol policy. The manual also contains lengthy addenda including facsimiles of documents needed for accident reporting and other roadway events.

Mr. Carney said the manual was first issued in late 1995 and is now in its third printing. The manual grew out of four days of brainstorming during which representatives of each department detailed exactly what expertise someone needed to function in that department. The team effort reflected the fact that "no single person" knew enough about every facet of the company to put the manual together.

The manual is designed to be a reference for every driver to carry on the road, said Mr. Carney. Although some other trucking companies provide their drivers looseleaf binders spelling out regulations, Mr. Carney said that, to his knowledge, the National Freight manual is the only one of its kind.

"I hope everybody copies it," he said, adding he thinks doing so would make the industry safer.

Another key facet of National Freight's safety and training program is the driver manager sys-

See **Drivers** *on next page*

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1997 Risk Management Honor Roll

National Freight fights theft losses with technology

By MARK A. HOFMANN

National Freight suffers a cargo loss or damage rate of four-tenths of 1% in an industry where "anything under one-half of 1% is considered excellent," says John J. Carney, the vp-risk management of Vineland, N.J.-based National Freight Industries Inc., the holding company for National Freight and several sister companies.

Mr. Carney credits the company's emphasis on safety, with a boost from an innovative satellite communications system, for its enviable cargo record.

Mr. Carney noted a similarity between National Freight's cargo record with its improvement in workers compensation results.

Just like workers comp claims, the cargo claims are stemming from a different cause at National Freight now than they were when the company launched its risk management program. Most workers comp claims reflected accidents, as did most cargo claims, said Mr. Carney. If a truck carrying a load of cookies had an accident, "you end up with crumbs," he said.

"By reducing the accidents, we reduced that," noted Mr. Carney. Workers comp claims are now far more likely to stem from slips and falls as drivers climb in and out of their rigs than they are from accidents, he said.

But for cargo claims, the cause is more ominous.

"It's out and out theft. Billions of dollars of cargo freight are stolen each year. It's become a target of a number of organized groups," he said.

Some of the stolen cargo disappears into the domestic market and some goes overseas, noted Mr. Carney. And theft is proving quite profitable for the thieves.

"We've seen prices range almost up to full value," he said. "Before it was pennies on the dollar. It's not unusual now to see 50, 60, 75 cents on the dollar."

In addition to stealing the cargo, the thieves are stealing trucks now, too. Mr. Carney said that not too long ago, investigators almost always recovered a stolen truck within days, and certainly within a few weeks.

"Now, they're gone," sometimes literally, he said.

The "truth of the matter is, parts of trucks are worth more than the whole truck is."

National Freight has fought back with a variety of weapons, including very aggressive security. It has installed video camera surveillance in some facilities, and security personnel in others, said Mr. Carney. On some occasions, hand-picked drivers will be designated to carry specific loads for security reasons.

The company also has promulgated a standard operating procedure for high value loads. That SOP tells a driver exactly what he has to do, he said.

In addition, National Freight is an online member of a trucking industry-supported central repository providing information about stolen cargo both domestically and internationally, he said.

To make it harder for thieves and hijackers to make off with National Freight property, the company has made arrangements with its truck manufacturer to give National Freight the ability to electronically disable every truck.

National Freight's newest weapon is a state-of-the-art satellite communications system known as QUALCOMM that allows National Freight to be in contact with its truck at all times. The two-way communications system operates 24 hours a day, seven days a week, Mr. Carney said.

"I'll tell you how serious we are about this. In order to maximize the use of the satellite communications, you have to have it in all of your trucks. If you're only buying satellite communications to know where your trucks are, it's a very large investment, and you'd probably be better served not doing it. We invested over $3 million—and that's without the communications cost, that's the hardware cost," said Mr. Carney.

When a driver receives a message over QUALCOMM, he or she is expected to pull over to the side of the road and respond by using the keyboard and screen installed in the truck.

"We want to know when it's moving, when it's stopped, where the load is," he said, noting that customers need to know where their freight is at all times.

"For us, it's a godsend. When you see a truck that says satellite communications equipment, you're talking about state of the art. It instills confidence with our customers, and provides direct two-way communications with screen and keyboard to all 1,300 trucks out there."

The system is so finely tuned that it can locate equipment to within 35 feet.

It also continues to work even if the truck has been electronically disabled, Mr. Carney pointed out. QUALCOMM also gives a history of a truck's movements, so it's a great investigative aid, Mr. Carney said.

QUALCOMM also provides more prosaic yet critical help to drivers. For example, by using distance algorithms, QUALCOMM automatically supplies drivers' requests for directions, said Mr. Carney.

Simply by eliminating the necessity for drivers to find public phones to get directions, the system has saved time and enhanced security, said Mr. Carney. Before the installation of QUALCOMM, if a driver had to find a customer, that driver had to find a phone, he said.

"There would be parking problems, there would be accidents looking for the phone, it caused late deliveries and made drivers expose themselves to robberies," said Mr. Carney.

The system also "eliminates abrupt movements, unplanned movements," and thus additionally enhances safety.

PHOTO: MICHAEL MARCOTTE

John Carney (from left) credits National Freight Industries' Chief Executive Sidney Brown and Chairman Bernard Brown with realizing risk management warrants representation among senior management.

In addition, the QUALCOMM system allows National Freight to reinforce drivers' awareness of safe driving practices through the "Safety Lotto" program.

To play Safety Lotto, all drivers get a form, which looks like a calendar with a safety message in each block, said Mr. Carney. The safety messages include such reminders as "Signal before changing lanes," and "Don't follow so closely," said Mr. Carney.

Each driver selects 10 of the safety slogans and sends it back to the safety department. Two or three days a week, National Freight sends a safety message out to the QUALCOMM. If the driver sees that message, he marks his calendar form, and when he covers the 10, he reads it back to the safety department. Once his 10 message squares are filled, the driver can select items free from the company store, said Mr. Carney.

"It makes every driver anticipate what the safety message is going to be. It reinforces our program when the safety message comes over the QUALCOMM screen," said Mr. Carney, adding that the program is geared so that eventually everyone wins a prize.

QUALCOMM also allows the company to contact drivers with news of family emergencies and weather outlook. Because it increases efficiency, it also increases driver pay and increases company revenues, said Mr. Carney. In fact, use of QUALCOMM has increased National Freight's on-time delivery rate by 5 points, though Mr. Carney declined to reveal what either the current or previous rate is.

"We've trained all of drivers on how to use it. They're no longer afraid of it."

As one more precaution, National Freight added an extra "panic button" hidden in the dashboard. If the driver's in a panic situation, he can hit the button, alerting National Freight to his problem. National Freight then can notify authorities, said Mr. Carney.

Although a lot of drivers initially hit the buttons by accident, the system works and works well, he said.

Mr. Carney noted a situation where a driver was parked in bad area of Chicago. Some people he did not know began approaching the truck. The driver hit the panic button, which alerted National Freight, which in turn alerted Chicago police.

"Fortunately, nothing happened. But it could have been a horror story. Or it could have been nothing. Again, it shows not only concern for the customer's cargo, but for the driver," said Mr. Carney.

"It demonstrates care for the driver." BI

Drivers

Continued from previous page

tem, said Mr. Carney.

"We have at National what we call the 'premier asset' theory. In a trucking company, your premier asset is the driver. In the military forces, as we learned in Desert Storm, no matter how advanced the technology became, regardless of the air superiority, all the other things that make our military the No. 1 operation that it is, it's the foot soldier that's the premier asset," he said.

"What you need to do is protect that asset," said Mr. Carney.

One way National Freight preserves that human asset is through its driver manager system.

"As the company grew, as he would go through the system in the contiguous 48, a driver sometimes felt like he was being treated like he was a foreign driver," he said.

"The key to the driver manager system is that you have one person who handles that driver wherever he is in the company," Mr. Carney pointed out.

When a driver leaves orientation, he meets his driver manager. They exchange expectations; for example, a driver might want a driver manager to know he would like to be home on certain weekends. They then sign a contract contained in the manual spelling out what each expects from the other.

Mr. Carney said this exchange is particularly important because generally drivers' top three complaints will include how management is treating them.

In addition, the system also brings operations and support services closer together, said Mr. Carney. Every message to a driver goes through the driver manager.

"It adds structure to the organization. That driver knows wherever he goes he's dealing with one person. It adds structure in the sense that you can transfer that manager among facilities and he knows what his function is. It also allows you sometimes to manage by exception, such as all new drivers would be put under one manager," he said.

For example, the new driver doesn't know the National Freight system. To make sure drivers learn that system, National Freight can put all drivers with under 60 days experience under one driver manager. The company can take all its independent contractors and place them under one driver manager.

The driver managers themselves come from a variety of backgrounds, said Mr. Carney.

Some are former drivers. Others previously were dispatchers and managers, Mr. Carney said. Others are recruited out of college, while still others are former military officers with eight or nine years' experience who have resigned their commissions to return to civilian life, Mr. Carney said.

Regardless of his or her background, the driver manager knows the strengths and weaknesses of each driver, said Mr. Carney. The driver manager knows which drivers are always on time and can assign them to trips that involve time-sensitive cargo, he said.

They also know such things as which drivers "have a real fear of going into New York City," and which ones don't, and can assign trips accordingly.

Knowledge of the drivers' skills also means that driver managers can match loads to specific drivers who have experience in transporting certain types of goods or using certain equipment, said Mr. Carney, thus reducing the chance of accidents.

Driver managers also share responsibility for safety with the drivers they manage, said Mr. Carney.

If a driver goes out when he or she has already logged the maximum number of hours permitted during a specified period and has an accident, the driver is appropriately disciplined, said Mr. Carney.

"But if it turns out he was dispatched into that accident, where someone—the dispatcher, the driver manager—did not sit down and preplan with him how many hours he had and how many miles he needed to cover," then that manager is disciplined as well, he said, noting that previously the driver bore all the blame.

Mr. Carney said National Freight is seeking to constantly improve its safety performance by sticking to the program and documenting all of its aspects.

"We've committed a lot to writing the standard operating procedures," he said. That helps assure all managers are managing the same way.

Mr. Carney said the safety program has the added advantage of acting as a recruiting tool for executives.

One of the first things executives want to see when they're considering joining a trucking company is the safety record, and National Freight's reputation as one of the safety leaders in the industry has proved effective in drawing talent to the company, he said.

"We won't compromise the program. We've been on the other side. We know what it's like to spend millions of dollars needlessly. We're not going to do that again." BI

Insurance program ensures smooth road for National Freight

By MARK A. HOFMANN

When John J. Carney says National Freight Industries Inc.'s insurance program is "complex," he may be guilty of understatement.

The Vineland, N.J.-based holding company's property/casualty program covers four operating units that perform various functions throughout the 48 contiguous states.

Mr. Carney points out that the operating units are in various states of growth and profitability and require coverages that run the gamut. In addition, National Freight Industries has to comply with the workers compensation requirements of numerous states. In all, National Freight Industries has 14 types of property/casualty coverage underwritten by 11 insurers, with an annual premium of about $4 million.

The centerpiece of the program is the U.S. Department of Transportation's qualified self-insured liability program for National Freight Inc., NFI's Waxahatchie, Texas-based trucking unit.

Under the program, which was initially approved by the now-defunct Interstate Commerce Commission, National Freight can self-insure up to $1 million, though the company recently chose to reduce its retention to $500,000 because of favorable market conditions, said Mr. Carney (see related story).

The first $500,000 over the retained amount is underwritten by Fireman's Fund Insurance Co. Excess umbrella liability is underwritten by American International Group Inc.'s Insurance Co. of Pennsylvania unit, with American National Fire Insurance Co. underwriting an additional layer of excess liability.

National Freight totally self-insures the physical damage exposure for its truck fleet.

Fireman's Fund also underwrites cargo legal liability insurance for NFI and its affiliate, National Distribution Centers L.P., with a $50,000 retention and limits of $1 million.

National Distribution Centers, a multistate public and contract warehousing company, carries its own first-dollar automobile liability coverage underwritten by United States Fidelity & Guaranty Co.

Vineland Construction Co., National Freight's multistate real estate company, carries its own general liability coverage with a $50,000 deductible and limits of $1 million underwritten by Fireman's Fund.

VCC's total insurable property values currently exceed $175 million, said Mr. Carney. Arkwright Mutual Insurance Co. underwrites VCC's property insurance program, which has a $25,000 per occurrence retention.

Other coverages include crime coverage underwritten by a unit of Wausau Insurance Cos. with a $15,000 deductible and limits of $1 million. It also purchases liability coverage for the truck fleet of National Freight Industries' new NFI Interactive Logistics unit. The fleet is insured with a $5,000 per occurrence deductible and $1 million in limits by Reliance Insurance Co.

NFI's workers compensation program is "even more complicated" than its basic property/casualty program, said Mr. Carney.

Employees outside of New Jersey, Ohio and Texas are covered by a large-deductible plan underwritten by American International Group Inc., said Mr. Carney.

Workers in Ohio are covered by that state's monopolistic plan. New Jersey drivers are covered under a program underwritten by a unit of New Jersey Manufacturers Group. In Texas, in practice the only state to allow employers to opt out of the workers comp system, NFI chose to withdraw and to cover its exposure with occupational accident insurance underwritten by CIGNA Corp., Mr. Carney said.

The company also purchased an excess employers' indemnity policy underwritten by Reliance National Insurance Co. to cover its Texas exposure, he said. Although NFI saved close to $1 million during the first year it operated outside the system, the company may rejoin the workers comp system in Texas, said Mr. Carney.

See **Covered** *on next page*

Self-insurance status sets company apart

By MARK A. HOFMANN

National Freight did not look like a particularly promising candidate for achieving self-insurance status from the Interstate Commerce Commission in 1991 when John J. Carney became risk manager of National Freight Industries Inc., the Vineland, N.J.-based holding company that includes long-distance trucking firm National Freight.

The trucking company had a lackluster safety record, having lagged behind the trucking industry average for a number of years. Standard operating procedures and documentation of steps taken to improve safety weren't in place. The process itself for winning ICC self-insurance status was complex, cumbersome and time-consuming.

In fact, even now, only 56 trucking companies out of a potential pool of about 60,000 qualify for self-insurance status, which is now overseen by the U.S. Department of Transportation.

And National Freight is one of those 56.

"They said it couldn't be done, and he did it," said Thomas A. Lucci, principal with National Commercial Insurance Services of Chagrin Falls, Ohio, a company that provides National Freight Industries with consulting and brokerage services.

To apply for self-insured status, National Freight had to submit the past three years of insurance history, including safety ratings and job descriptions of everyone in the insurance and claims department, Mr. Carney said. He had to outline the entire safety program. Mr. Carney prepared a book on the essentials of risk control and described the company's drug program. He also detailed National Freight's cargo claims history.

In addition, to achieve the designation, National Freight had to agree to buy $14 million in excess insurance above the $1 million self-insured retention, he said.

He also had to detail what estimated savings would arise if the company won self-insured status. Mr. Carney said he estimated the amount to be more than $600,000 in first year, pointing out to the ICC that National Freight could put savings back into the organization by improving the company's safety program and creating new jobs.

But "the real key to self-insurance is the collateral issue," he said. A self-insured trucker must maintain letters of credit and notify the Department of Transportation if there's any drawdown. Drawdowns must be replenished within 60 days, he said.

Mr. Carney submitted a 121-page application in early 1994. The document was hand delivered to the ICC, he said.

The ICC approved the designation in eight months. National Freight posted $2 million in irrevocable letters of credit to cover $2 million in bodily injury and property damage as well as $10,000 per occurrence for cargo insurance.

The real concern of regulators is to make sure of the "financial ability of National Freight to protect the public" and to have a safety program in place, he said.

The designation is particularly important because the trucking business operates on a very tight profit margin, he said. "You're making pennies per miles," he noted.

In addition, the designation has become a marketing tool.

"When the federal government says, 'Yes, you're OK to self-insure' with the rigid requirements they have, it raises us up several levels in the eyes of the customers."

Ironically, market conditions have led National Freight to reconsider its self-insurance program, he said.

"Even though we have the ability to self-insure to $1 million, we've reduced our retention to $500,000," said Mr. Carney.

"The market was soft, our record was good, and the timing was right." As a result, National Freight bought liability insurance from Fireman's Fund Insurance Co. to cover the top half of the $1 million it had previously self-insured, and locked it in for three years.

"Six, seven years ago, we couldn't have bought it," he said. "We had to sell ourselves."

1997 Risk Management Honor Roll

Carney sees similarities in current, former careers

By MARK A. HOFMANN

John J. Carney says there could be far worse preparations for a risk manager than a stint in law enforcement.

"Law enforcement, if anything else, prepares you to operate under stress, and oftentimes the trucking business can be very stressful. Things can happen very quickly," says Mr. Carney.

The 59-year-old Mr. Carney retired from the New Jersey State Police in 1990.

During his 29 years with the State Police, Mr. Carney rose from a uniformed trooper to lieutenant colonel in charge of all areas of investigation and stood third in the organization's chain of command.

Along the way, he earned bachelor's and master's degrees from Glassboro State College—now Rowan College of New Jersey—in Glassboro, N.J. He later earned the Associate in Risk Management designation from the Insurance Institute of America.

Mr. Carney found definite similarities between the State Police and National Freight Industries Inc. when he joined the Vineland, N.J.-based holding company as director of safety/security in 1990.

He continues to see them as vp-risk management, a position he has held since May 1991.

"The State Police and National Freight have similar styles of managing their organizations. They have centralized management," with functions carried out in the field, he said.

"When someone walked in my door when I handled all the plainclothes detectives in this state, they would invariably come through the door and say, 'We have a problem.' That's usually the way my conversations start here," he said.

In both fields, the selection process is among the most important tasks of an executive, he said. For example, less than one-half of 1% of the people who joined the N.J. State Police left, he said.

Although the turnover rate among truckers is much higher, the aim remains to "put best possible person in" at the beginning, he said.

"A driver of that truck and a trooper operate pretty much the same. You give them the keys to the car and they're gone. Your communication is now electronic," he said.

One difference he found in leaving law enforcement for the private sector was the degree of structure governing operations. "I come from a highly structured environment. There's a standard operating procedure for everything," he said.

He found himself in an unstructured environment, which Mr. Carney saw as a key reason for the safety problems NFI was suffering. There were no SOPs.

He moved to change that quickly.

"You can't tell them they did it wrong if you never told them how to do it right. Every time we see the need for an operating procedure, we write it," Mr. Carney said.

"There are people and system problems. I learned how to separate the two. I learned early on that if something goes wrong, if someone ends up dead or hurt, don't attack the individual," but instead attack the system to correct the situation that led to the accident, he said.

"You don't accomplish anything as 'I', but you can accomplish an awful lot collectively," said Mr. Carney.

"If one person succeeds, we all succeed. If one fails, we all fail," he said.

Mr. Carney and his wife, Margaret, live in Merchantville, N.J. They have one daughter, Colleen, who recently married.

Mr. Carney is an avid hunter, having gone after grizzly bears in Alaska, black bears in Maine and elk in Colorado.

He is also an avid reader, with a particular fondness for the writing of John Grisham and Tom Clancy. BI

PHOTO: MICHAEL MARCOTTE

John Carney's staff is (standing, from left) Jeff Maggio, safety department supervisor; Marilyn Jones, safety assistant; Dave DeCinque, manager of cargo claims; Tina Ritandaro, human resources manager.; Lee Robcedo, director of safety; Tom Taylor, workers comp administrator; Berneice Grotti, executive assistant. Seated, from left, are Lori Sciascia, employee benefits administration; Ermagene Schiapelli, log specialist; and Gene Gould, manager of permits and fines. Mr. Carney is seated in front.

Covered

Continued from previous page

"At the time, that's where we should have been," he said. But "the downside is that once you're out of the workers compensation system, you don't have the protections," such as workers comp being the exclusive remedy rather than tort law, Mr. Carney said.

An increase in workers comp-related lawsuits plus favorable changes in the marketplace have led National Freight Industries to consider returning to the system this year.

'There are those who will tell you you shouldn't shop the market, that you'll make the insurance companies shy away. But for us, it's worked,' says John J. Carney.

Mr. Carney said National Freight Industries requires that every injury, no matter how slight, be reported. The company has a workers comp supervisor who speaks directly to doctors and clinics about treatment, and the company will, if deemed necessary, use surveillance of claimants to detect fraud.

"Our philosophy is this: If you work for us and you're injured, we should and we will take care of you. But if we feel that your injury is either embellished or an out-and-out fraud, we're going to be very aggressive in our investigation of it," Mr. Carney said.

As a result, while the frequency of workers comp claims has generally—though not always—increased since 1990, the severity of claims has dropped almost steadily. The average cost per claim during the period Oct. 1, 1990 to Sept. 30, 1991, for claims from all jurisdictions except New Jersey and Texas was $16,946. During the same period, beginning Oct. 1, 1994 to Oct. 1, 1995, the average cost per claim had dropped to $7,638.

Mr. Carney said most of NFI's coverages renew in October, with some scattered throughout the rest of the year, notably in January and February.

National Commercial Insurance Services of Chagrin Falls, Ohio, acts as a consultant and broker for NFI. Although National Freight Industries occasionally uses some outside brokers, all proposals are initially handled by Thomas Lucci, a principal with NCIS.

Mr. Carney said he has no qualms about shopping the market, even though he does not often switch insurers.

"There are those who will tell you you shouldn't shop the market, that you'll make the insurance companies shy away. But for us, it's worked. We shop the market, but we don't move a lot," he said.

Doing so "gives us an idea to see what's available, particularly in the area of financing," Mr. Carney said.

He said shopping the market also allows insurance companies to come in and see how the company operates. As a result, at least one insurer "got a good look at us and liked what they saw and came back the next year with a more aggressive bid," he said.

Mr. Carney said NFI has found extended-year coverage effective when it's available. "We know where we are for the next three years," he said. BI

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Kutska keeps pools safe and hers in the black

By DEBORAH SHALOWITZ COWANS

Making fun safe is no stroll in the park.

Betsy Kutska is so successful in the endeavor, though, that she makes the job seem, well, fun.

As executive director of the Park District Risk Management Agency in Wheaton, Ill., Ms. Kutska helps ensure people's safety and welfare while they use Illinois public recreational facilities.

"We have reduced catastrophic things that can happen to the public," Ms. Kutska said. "That's what we're here for."

Many recreational activities carry an inherent risk, and it would be easy just to ban certain activities, Ms. Kutska said. However, PDRMA doesn't operate that way.

"It's our job to help agencies do what they want to do, as safely as possible," she said. For some of the pool's 121 members, this includes dangerous activities, such as operating swimming pools and water parks and offering bungee jumping and rock climbing.

Ms. Kutska also has made PDRMA a very successful venture financially.

For example, for the 1996-1997 fiscal year, PDRMA member operating expenditures increased almost 7% to $293 million, and payrolls increased more than 7% to $162 million, but total member contributions decreased by $113,660, or 1.5%.

The pool recently declared a $1.4 million dividend that will be credited to members against their 1997-1998 contributions. In 1993 the pool declared a $1 million dividend, which was returned to members in cash.

PDRMA has assets of $31.4 million and a surplus of $17.5 million.

"I couldn't use enough superlatives to describe the job she's done for us," said Jane Hodgkinson, chairwoman of PDRMA and executive director of the Western DuPage Special Recreation Assn. in Glen Ellyn, Ill.

Ms. Kutska has "moved us from not understanding what insurance is to the point where we're all relatively well-educated about our need to work and cooperate with each other to improve our liability risks."

Ms. Kutska "has a real ability to put together people of similar interests in order to get a project together and see it through," said Steve Rauwolf, vice chairman of PDRMA and the business manager of the Glenview Park District.

Many of Ms. Kutska's recent accomplishments reflect these talents.

For example, Ms. Kutska was instrumental in the formation of an excess liability insurance purchasing group for five government risk pools (*BI*, Feb. 3). The National Public Entity Excess Program, or NAPEX, is a multi-year facility offering members up to $21 million in limits, including an optional $10 million excess of $10 million layer, as of Jan. 1.

PDRMA's participation in NAPEX will raise the pool's general liability and automobile liability limits to $21 million each from $6 million each—including a $1 million retention—while cutting premium costs by 11%.

Ms. Kutska also has mobilized public entities in Illinois to become more active in the area of tort laws.

For example, as chairwoman of the Illinois Governmental Assn. of Pools since January 1996, Ms. Kutska has led the group's efforts to develop case law in Illinois that supports governmental immunity. Ms. Kutska coordinates a legal task force that examines lawsuits against public entities in Illinois, decides which ones to support and assigns appropriate attorneys to write amicus curiae briefs for the cases.

"By working together, we're able to look at a particular case, assign attorneys who are expert in the issues to write the amicus brief and make sure that the amicus complements the defendant's case—not parrots it," Ms. Kutska explained.

In 1996 these efforts contributed to two significant Illinois Supreme Court decisions that uphold governmental immunity for public entities in the state, *Barnett vs. Zion Park District* and *Bucheleres vs. Chicago Park District*.

Ms. Kutska "knows more about the law relating to parks and recreation than 90% of the lawyers who practice in this area," commented Steve Kleinman, general counsel for the pool. "It's like having another attorney in the office."

Ms. Kutska also has led IGAP's effort to identify provisions in the state tort laws relating to government immunity that need clarification. The group recently introduced legislation to clarify these provisions.

Among self-insurance pools, PDRMA is recognized as exemplary.

PDRMA in March 1995 was awarded the Public Risk Management Assn. pooling section's certificate of recognition. This award, valid for two years, recognizes pools that have conducted an extensive operational audit that evaluates their pooling operations against PRIMA's advisory standards for public entity risk pools.

These accomplishments and a host of others earned Ms. Kutska a place on the 1997 *Business Insurance* Risk Management Honor Roll, representing self-insurance pools.

Since PDRMA began operations Jan. 1, 1984, it has grown from 25 to 121 members and has become a full-service insurance pool offering property, casualty and workers compensation coverage and a host of specialized insurance coverages. The pool now has 19 staff members and provides a wide range of services, including in-house claims administration and an employee benefits self-insurance pool.

Ms. Kutska, who joined the pool in October 1986 as its first executive director and full-time employee, has been the architect and director of this growth and expansion.

Over the years, membership has increased largely by word of mouth.

"We do not market," Ms. Kutska said. "But since our profession in Illinois is so tight- knit, most organizations know about our program and our pool."

Ms. Kutska noted that in 1988 she projected that membership would grow to and plateau at about 120. At this level, "we're very comfortable," she said. "Most of our new members now result from staff from our current members moving to a new agency."

As of the end of February, the pool's 121 members represented 102 park districts, 17 special recreation districts and related associations and two forest preserve districts. Special recreation districts and associations are cooperative governmental agencies such as park districts that provide recreational activities for disabled people. In Illinois, unlike in many other states, park districts and forest preserves are separate governmental units, not departments of local public entities.

PDRMA members own an aggregate of about $1.09 billion in property, including recreation centers, gymnasiums, water parks, recycling centers, theaters and fire departments. PDRMA members own 60 golf courses, 121 swimming pools, 62 water slides,

See **Kutska** *on next page*

PHOTO: MICHAEL MARCOTTE

Betsy R. Kutska

Executive Director

Park District Risk Management Agency

1997 Risk Management Honor Roll

1997 Risk Management Honor Roll

Kutska

Continued from previous page

19 outdoor ice arenas, 1,015 playgrounds, 126 preschools, 66 restaurants and banquet facilities, 45 museums, eight petting zoos, two full-size zoos and an airport.

Members own and operate 1,833 motor vehicles, including cars, trucks, vans and Zambonis.

As of the end of March, pool members employed a total of 29,673 workers, including park police, mounted rangers, firefighters, lifeguards, teachers, recreational specialists, maintenance personnel, cooks, landscapers, animal handlers and drivers. The payroll for these workers is approximately $175 million this year.

Despite the variety and unpredictability of the risks faced by PDRMA members, the pool's loss ratios are quite low.

For example, last year the claim to member contribution ratio for workers compensation claims was 42%. The pool's property loss ratio was 34%, while the loss ratio for general liability was 11%. The loss ratio for employment practices liability was 12%.

The low loss ratios can be attributed primarily to the pool's comprehensive loss control program.

When an agency joins the pool, its existing loss control measures are compared with the pool's loss control guidelines. New members are given two years to implement the pool's guidelines before they are subject to a loss control review.

Prospective pool members must employ at least one full-time management staff person and have had a 60% or lower loss ratio for the previous five years. Members must commit to attending training sessions and board meetings. The membership term is five years.

'More payments go out of here for workers comp than anything else, but that's the nature of it,' says Betsy Kutska.

PDRMA staff visit members at least three times a year to conduct a loss control review. The review, which identifies physical hazards and unsafe behaviors, documents the loss prevention practices of each member. Members receive points based on how well they implement the guidelines.

Each PDRMA member must achieve and maintain at least an 80% rating on the loss control review, or the agency will be placed on probation.

Members that score 85% or more on the review are eligible for cash awards of from $500 to $1,500. Last year 94% of PDRMA's members received cash awards for high scores on their annual loss control reviews; a total of $148,000 was awarded to these members.

Members that receive a 95% score on the loss control review and have a good loss history can be accredited, which exempts the member from review for two years and awards $1,500 annually until the next review period. In 1996, 65% of the pool's members were accredited.

PDRMA in 1995 received 1,296 claims, about 5% more than it received the previous year. PDRMA's financial year runs from May 1 through April 30.

Workers comp claims accounted for the greatest portion of the claims—65%. Some 18% of the claims were general liability claims, 7% were auto liability claims, less than 1% were public officials liability and employment practices liability claims, and 9% were property claims.

Loss payments totaled more than $2 million last year.

More than half—57%—of the pool's loss payments in 1995 went toward workers comp claims. "More payments go out of here for workers comp than anything else, but that's the nature of it," Ms. Kutska commented. "We don't see it as an overwhelming problem because of our attention to training."

The most common workers comp claim is for back injuries, followed closely by knee injuries. "A lot of our people do a lot of heavy and physical work," Ms. Kutska noted. Hand injuries also are quite common among park maintenance staff such as custodians, construction workers and landscapers, she added.

PDRMA uses rehabilitation programs, return-to-work programs and a medical bill cost containment company to keep workers comp costs under control.

Property losses accounted for the next greatest portion of loss payments—21%.

"We've had significant flooding problems in our area," Ms. Kutska explained. Last summer, for example, pool members sustained significant flood damage, she said. The damage affected a wide range of property insured by the pool, such as golf courses, community centers, bicycle paths and landscaping.

One of the largest property losses the pool has paid was from a fire in 1992. A maintenance facility, filled with maintenance vehicles and equipment, burned to the ground, Ms. Kutska said. The fire led to a loss of more than $1 million.

Employment practices liability and public officials liability together accounted for just 3% of loss payments last year.

Automobile liability accounted for 11% of loss payments in 1995 and general liability accounted for 8% of loss payments.

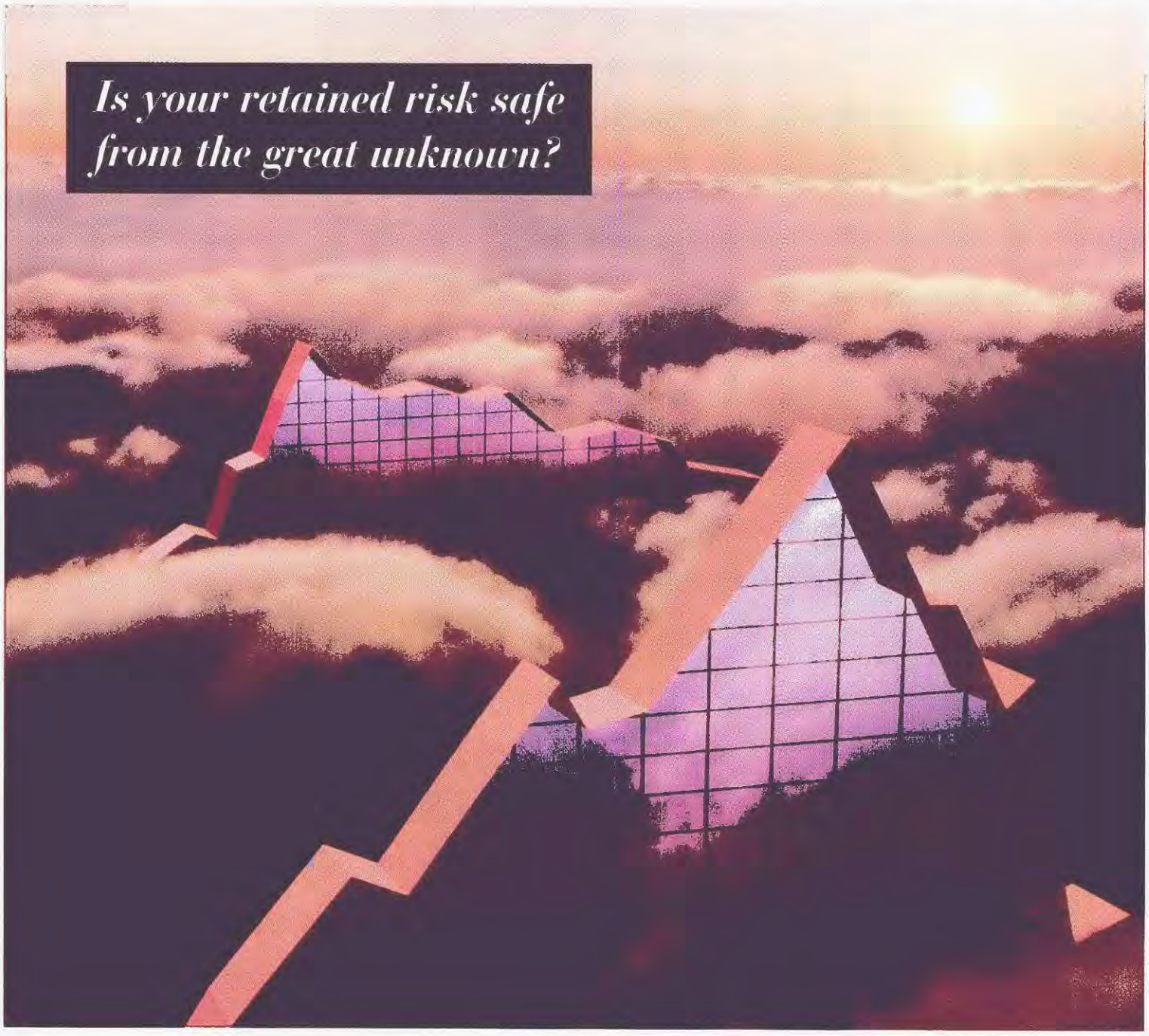
The most common general liability claims the pool receives stem from unsupervised recreational activities, such as sledding and playing on playgrounds, according to Ms. Kutska. But, the most serious general liability claims the pool receives stem from water-related activities, Ms. Kutska noted (see related story, page 118).

However, because of effective loss prevention and loss control programs and governmental immunities granted to public entities under tort reforms passed in 1986 in Illinois, no single claim has pierced the pool's self-insured retention in the past 10 years. During this period, the pool's self-insured retention was $3 million per occurrence.

The largest claim the pool has paid stemmed from an automobile accident in 1985. After the driver of a van transporting disabled people ran a red light and broadsided a car, the pool paid about $1 million in medical bills, auto damage and liability payments.

The largest claim the pool ha:

Continued on next page



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Continued from previous page
paid recently was a $212,500 settlement to a girl who fell from a high rope obstacle course and broke her back.

The girl, who is expected to recover fully from her injury, was not clipped to a safety rope as she should have been while traversing an obstacle course 20 feet above the ground. Instead of being clipped to a safety rope, the girl was clipped to an unsecured rope.

"It was just human error," Ms. Kutska explained. "They made a mistake."

Now, however, the ropes are color coded so it is readily apparent which ropes are safety ropes, Ms. Kutska noted.

Ms. Kutska pointed out that in a case like this, where there is clear liability, the pool will negotiate a settlement with a claimant. "We will attempt to negotiate cases in which there was clear or highly probable liability," she said. "If we screw up, we pay."

However, the pool does fight frivolous lawsuits.

"We will vigorously defend any lawsuit that's frivolous or for which demands are excessive," Ms. Kutska stated.

If a person files a claim against a pool member that seems to be frivolous, "we try to be as proactive as possible in providing them the case law on a particular point" so the claimant "knows what they're in for prior to taking on a case."

PDRMA has developed relationships with defense attorneys around the state who have expertise in different areas, Mr. Kleinman noted.

When possible, the pool tries to use local attorneys to defend a case because they know the community, Ms. Kutska added.

Illinois tort laws afford park districts immunity from liability in some instances.

For example, park districts can be held liable for claims that result from the condition of recreational property or the conduct of recreational activity only if the entity was engaged in willful or wanton conduct.

And, park districts have absolute immunity from liability for claims alleging a failure to supervise a recreational activity or the use of any public property.

Illinois has placed no limits on damage awards against local public entities.

PDRMA tries to prevent claims through ongoing risk management education.

For example, each fall and spring the pool holds a one-day risk management institute that offers a variety of courses. More than 420 people representing 95% of the pool's members attended a recent institute, which offered courses in workplace violence, preventing back injuries, handling Illinois Department of Labor safety inspections, insurance requirements for construction projects, preventing sled hill accidents and sexual harassment.

PDRMA also offers defensive driver training courses, playground inspection workshops, lifeguard instructor training programs, medical first aid instructor training, a personnel law institute and an annual claims workshop.

As executive director of the pool, Ms. Kutska is responsible for managing all of PDRMA's operations.

Ms. Kutska prepares and administers the pool's annual budget, which totaled $9.9 million in 1995. Some 31% of the revenue was generated by member contributions, 17% was investment income and 2% was other miscellaneous income.

Expenses totaled $5.1 million last year. Losses and allocated loss adjustment expenses represented 42% of PDRMA's total 1995 expenses. Administration accounted for 25% of expenses, while insurance and reinsurance premiums accounted for 23% of expenses. Unallocated loss adjustment expenses, contractual services and depreciation accounted for the remainder of the pool's expenses.

'We will attempt to negotiate cases in which there was clear or highly probable liability,' Ms. Kutska says. 'If we screw up, we pay.'

Ms. Kutska also oversees management of the pool's approximately $30 million investment portfolio.

Ms. Kutska serves as the main liaison between PDRMA and its 121-member board of directors. She advises the board on policy matters and insurance coverage and reports to the board on all pertinent subjects. She also serves as secretary to the board.

Ms. Kutska and her staff produce several written pieces, including:

- A comprehensive annual financial report that for six consecutive years has won a certificate of achievement for excellence in financial reporting from the Government Finance Officers Assn. of the United States and Canada.
- An annual report that is distributed to members and prospective members.
- Quarterly financial reports.
- An eight-page quarterly newsletter, the PDRMA Pulse, that includes sections on safety, training, claims and information services. The newsletter also includes a sheet with 10 multiple choice questions that cover the material in the newsletter. Members can complete the questionnaire, fax it back to PDRMA and receive credits toward gifts based on how well they completed the test.

To assist her with these duties, Ms. Kutska has a staff of 19: five in the loss control department, four in the claims department, three in the finance department, two in the benefits department, two in the administration department, two in the legal department and one information services manager.

Ms. Kutska hires, trains and supervises all of PDRMA's staff members and maintains the organization's personnel policies and records.

Ms. Kutska believes strongly in continuing education. She encourages her staff to pursue professional designations and certifications, attend seminars and stay current with risk management issues. Many of PDRMA's staff have designations or certificates related to risk management: there are four who hold the Associate in Risk Management designation, one Associate in Loss Control Management, one Chartered Property & Casualty Underwriter and one Associate in Automation Management. Several staff members are pursuing these and other related designations. BI

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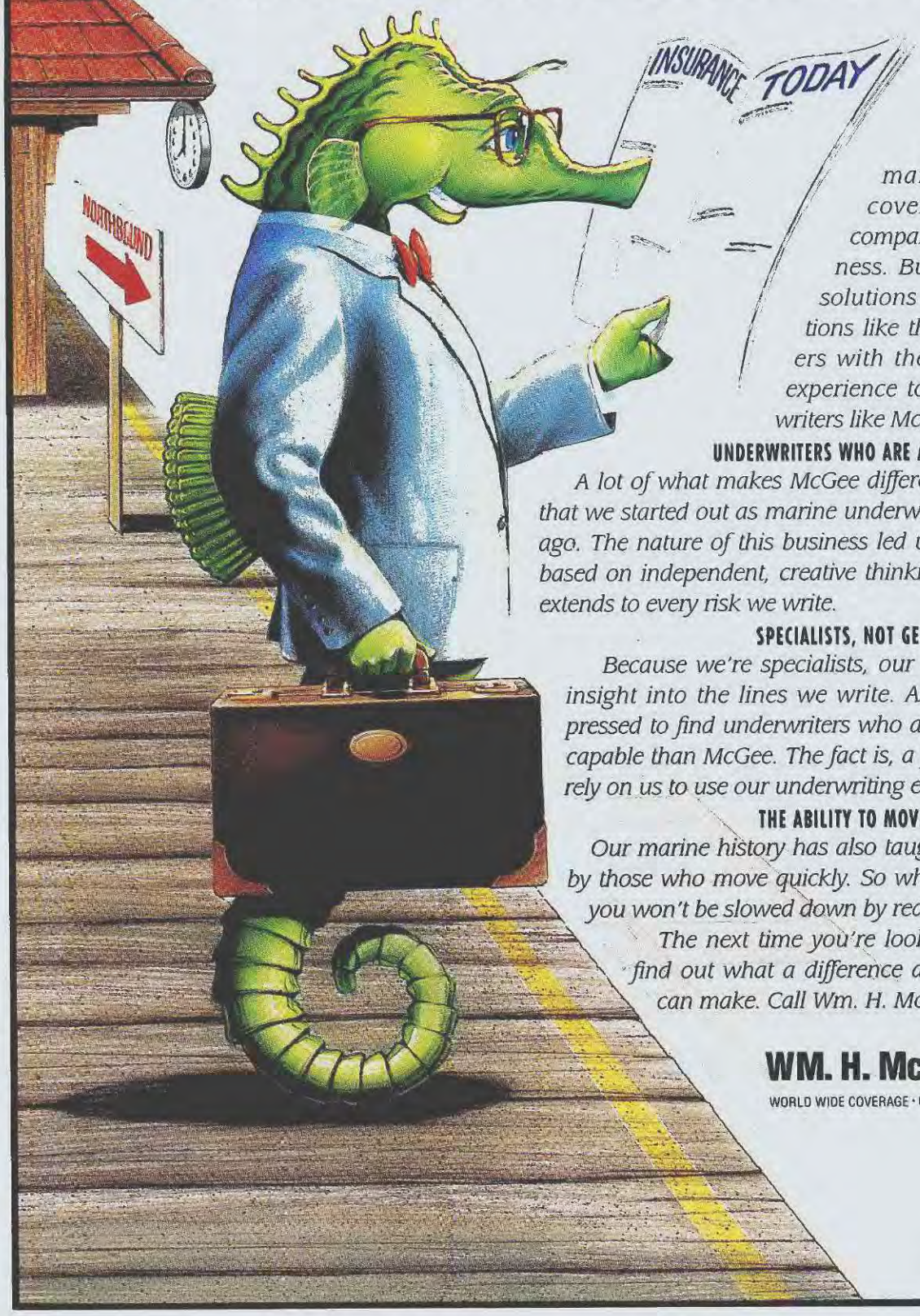

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1997 Risk Management Honor Roll

Seeking improvements is key to Kutska's management style

By DEBORAH SHALOWITZ COWANS

The last adage Betsy Kutska would apply is "leave well enough alone" to the Park District Risk Management Agency's insurance program.

The pool's insurance program—a combination of member deductibles, self-insured retentions, commercial property coverage, commercial excess liability and reinsurance coverages as well as various specialized coverages—is constantly evolving.

"I think there's always improvements to be made," said Ms. Kutska, executive director of PDRMA. "We're always looking to make things better."

For example, last year Ms. Kutska negotiated with General Reinsurance Corp. to reduce the pool's self-insured retention for general and auto liability to $1 million from $3 million while maintaining the total per occurrence limit at $6 million. The additional coverage increased the pool's premiums only $28,200.

In addition to reducing the pool's liability, this change also resulted in loss funding savings of approximately $650,000.

However, instead of being satisfied with her accomplishment, Ms. Kutska pursued another avenue that resulted in the pool enjoying significantly higher limits and saving money.

Earlier this year, Ms. Kutska headed an effort by a group of government risk pools to create an excess liability insurance purchasing group (*BI*, Feb. 3). Five pools, including PDRMA, created the National Public Entity Excess Program, a multi-year facility offering members up to $20 million in limits, excess of $1 million.

So instead of the $6 million limits in general, auto and employment practices liability the pool previously had, as of Jan. 1 PDRMA members have $21 million per occurrence limits for these liability coverages.

Furthermore, the pool saved $26,781 in premiums for the coverage.

Ms. Kutska noted that her earlier efforts to reduce the pool's SIR were not in vain. "I had no assurance that the national program was ever going to come around," she explained. "We didn't expect that we were going to be able to get substantially higher limits and save gobs of money."

And, the reduction in the pool's SIR "enabled us to go to the market in an even stronger position."

Ms. Kutska isn't done yet. She is spearheading an effort to form an excess property insurance purchasing group for government risk pools along the lines of NAPEX. The group is still in the early stages of discussions.

Ms. Kutska explained that her philosophy for the pool's insurance program is to take advantage of soft markets when they exist and simultaneously create the financial resources and loss control policies that will enable PDRMA to self-insure completely if market conditions change significantly.

"I have kind of a multi-year strategy," she commented. "We're positioning ourselves to have the flexibility if and when the insurance market changes" to completely self-insure if necessary.

As of Jan. 31, PDRMA had a $17.5 million surplus. The organization has $31.4 million in assets and $13.9 million in liabilities, including reserves for unpaid claims, incurred but not reported claims and accounts payable.

PDRMA maintains a $1 million self-insured retention for general and auto liability coverage and public officials error and omissions coverage. Members are not responsible for a deductible for general or auto liability incidents; however, members are responsible for a $5,000 deductible for the public officials E&O coverage.

Third-party liability insurance includes coverage for premises operations, product and completed operations, independent contractors, contractual liability, automobile liability, athletic participation, host and liquor liability,

'I think there's always improvements to be made,' says Betsy Kutska, executive director of PDRMA.

watercraft liability, employee benefit liability, law enforcement liability and civil rights.

PDRMA also offers employment practices liability coverage. The pool maintains a $250,000 self-insured retention and has coverage written by Princeton, N.J.-based American Re-Insurance Co. for $750,000 per occurrence excess of the $250,000 retention. The excess policy has a $2.5 million annual aggregate for all members. Members are responsible for a $5,000 deductible for employment practices liability incidents.

NAPEX provides excess liability coverage for general, auto and employment practices liability and public officials E&O coverage.

Under NAPEX's program, Reliance Insurance Co. of Illinois, a unit of the Reliance Insurance Group, offers $10 million of coverage per occurrence above the $1 million self-insured retention. An additional $10 million excess of $10 million layer is underwritten by Insurance Co. of the State of Pennsylvania, a unit of American International Group Inc. There is a $10 million annual aggregate per member for public officials E&O coverage.

PDRMA's coverage year runs from May 1 through April 30, concurrent with its fiscal year.

On the property side, PDRMA offers members a comprehensive all-risk property and boiler/machinery insurance program written by Arkwright Mutual Insurance Co. Each member assumes a $1,000 deductible while the pool maintains a $100,000 per occurrence and a $350,000 annual aggregate self-insured retention.

The policy is written on a blanket basis for replacement cost and covers buildings, building contents and open property; vehicles and mobile equipment; trees, shrubs and golf course tees and greens; watercraft and docks; animals; fine arts; electronic data processing equipment, valuable papers and accounts receivables; builder's risk; business and service interruption; expediting expense, extra expense, de-contamination expense and architectural fees.

The policy also: covers floods and earth movement up to $50 million per occurrence; provides employee blanket bond of $1 million; covers E&O for failure to report new property of up to $5 million; covers property in transit up to $500,000; and provides automatic coverage for new property acquired by members during the coverage year and not specifically scheduled of up to $5 million.

Arkwright writes a separate policy for fidelity and crime coverage for the pool. The policy covers losses exceeding PDRMA's self-insured retention of $9,000 per occurrence, up to an annual limit of $1 million. Again, members are responsible for a $1,000 deductible.

PDRMA offers workers compensation coverage written by Gen Re with an annual limit of $10 million, excess of the pool's $300,000 self-insured retention. Employer's liability coverage of up to $1 million also is available through Gen Re. Pool members do not have a workers compensation deductible. Fireman's Fund Insurance Co. provides coverage to statutory limits.

PDRMA self-insures auto physical damage; members are responsible for a $1,000 deductible.

PDRMA paid total premiums of nearly $1.2 million for the 1996-1997 coverage year. This includes $225,000 for general and auto liability coverages, $151,385 for employment practices liability coverage, $638,173 for property coverage and $145,563 for workers compensation coverage.

PDRMA offers members several specialized insurance programs.

For example, PDRMA members with underground storage tanks can take advantage of a new insurance program the pool now is offering. The environmental impairment liability coverage, written by Commerce & Industry Insurance Co., an AIG subsidiary, offers limits of $1 million per location and satisfies federal requirements. The program covers third-party liability and cleanups resulting from tank leaks.

Self-funded volunteer medical and accidental death and dismemberment coverage is available for members with no deductible. Medical expenses of up to $5,000, excess of any other collectible insurance, are covered; the AD&D benefit also is $5,000.

Self-funded public officials surety bonds also are available for members with no deductible. The surety bonds are available with limits ranging from $10,000 to $500,000.

St. Paul Surplus Lines Insurance Co. writes owners and contractors protective liability insurance for construction projects with a limit of $5 million per occurrence and aggregate. Members are not responsible for a deductible. BI

Risk management not just a day at the beach

By DEBORAH SHALOWITZ COWANS

There's nothing like a hot, summer day at the local pool.

Tingling cold water, the smell of chlorine, children shouting "Watch me, look at this."

Belly flops, cannonballs, inner tubes and rubber bathing caps.

And, once in a great while, a tragedy.

"Aquatic facilities create the greatest challenge from a risk management perspective," said Betsy Kutska, executive director of the Park District Risk Management Agency in Wheaton, Ill. "We have had, by far, more serious accidents resulting in permanent disability or deaths associated with aquatic facilities or water-related activities" than any other recreational activity.

Since PDRMA's inception in 1984, there have been seven drownings at PDRMA member pools.

In an effort to prevent drownings and accidents completely, PDRMA has undertaken several initiatives.

For example, PDRMA in 1990 began recommending to members a lifeguard training program operated by Jeff Ellis & Associates Inc. in Kingwood, Texas. Since then, there have been only two drownings at PDRMA member pools.

Fifty-three PDRMA member agencies use the Ellis program out of 75 members that operate 121 aquatic facilities.

There are approximately 1 million daily visitors annually to the aquatic facilities owned by the PDRMA members that contract with Ellis.

Ellis, an aquatic risk management consultant, trains and certifies lifeguards and performs three unannounced audits annually of the facilities its guards work at.

Ellis teaches the guards cardio-pulmonary resuscitation, first aid and a method of watching the pool called the 10/20 second protection rule.

Under that rule, a lifeguard must be able to scan the area of the pool he or she is responsible for within 10 seconds and be able to get to a person in distress within 20 seconds.

It is crucial that lifeguards be able to detect and respond to an incident immediately because drownings can occur without warning, Ms. Kutska noted.

"It's absolutely amazing that people don't drown while yelling out, 'I'm drowning, I'm drowning, help me,' " Ms. Kutska said.

During its surprise audits of the aquatic facility, Ellis inspects the facility and makes sure that the guard is following the 10/20 second protection rule and all other rules. An Ellis employee sometimes will observe the lifeguard from outside the facility, such as from the rooftop of an adjacent building, so the guard does not know he or she is being observed, Ms. Kutska said.

Ellis supplies each facility its guards work at with an oxygen tank.

Ellis charges $50 per lifeguard for training; retraining guards who previously have been certified by Ellis is $35. All lifeguards must be retrained annually.

Ellis charges $340 per audit, for a total annual cost of $1,020. PDRMA reimburses its members for the cost of the audits on a sliding scale based on how well the facility scored on the audit, up to the full cost for a perfect score.

Ms. Kutska also has been working with Illinois officials to change the state code that regulates aquatic facilities.

Ms. Kutska has spent three years leading a task force that examined the state aquatic facility code, which was written in the 1950s. The changes her task force recommends "make it a code for the 21st century," she said.

Some of the changes the task force is recommending are safety related, while others update old-fashioned vagaries of the code.

For example, the code specifies that a changing and restroom facility must be a certain size in relation to the square footage of the pool. "This formula was developed for indoor school pools, when the whole class changed at once," Ms. Kutska noted. Now, though, when the formula is applied to the huge water parks being built, "it makes the bathhouse the size of a barn."

A more serious change the task force recommends is allowing aquatic facilities to use new materials and designs that the code does not specifically address; currently the code does not allow for any variations to its rules.

For example, it would be a good idea to install a cushioning material around and under diving boards, but the code does not allow it, Ms. Kutska noted.

The largest number of serious accidents at a pool occur when children fall off of a three meter diving board, Ms. Kutska explained. Typically children fall either because the ladder is wet and the child slips or the child chickens out of jumping into the pool and falls off the board while trying to go back to the ladder.

When Ms. Kutska raised this issue with state Department of Health officials, they countered that people might get athlete's foot from the cushioning material. "They weren't thinking about where the really serious accidents occur," she observed.

As a result of her efforts, however, the code will be changed to allow new materials and design techniques to be requested and approved.

Ms. Kutska said she expects the code changes to be approved this summer and the new rules to be distributed next fall.

Kutska builds a career by taking the risk out of recreation

By DEBORAH SHALOWITZ COWANS

Somehow a career in recreation doesn't seem like the most logical preparation for a career in risk management.

Betsy Kutska, however, has combined these two incongruous worlds and in the process become a prominent leader in the field of park and recreation risk management.

Ms. Kutska for more than 10 years has served as the executive director of the Park District Risk Management Agency, a self-insurance pool of 121 park and recreation districts based in Wheaton, Ill.

The 46-year-old mother is equally at home discussing canoeing, rope climbing, contractors liability coverage or credit allocation formulas.

"I've found a niche career that I enjoy," she said.

Ms. Kutska said she particularly enjoys the breadth of responsibilities and activities associated with being PDRMA's executive director.

"It's just never a dull moment," she explained. "It's always 10 irons going. That's what is exciting. I'm never bored."

Ms. Kutska credits her success in her position to several personal qualities. "I'm good at taking a big project and sticking to it," she said. Also, "I devote a lot of attention to detail while still looking at the big picture, and I'm very goal oriented."

However, Ms. Kutska admits that never in my life" did she imagine she would have a career in risk management. She recalled that before joining PDRMA, while she was working at a park district in a suburb of Chicago, she said to a colleague: "I don't like insurance. I don't know anything about it. And I don't want to know anything about it."

Ms. Kutska was satisfied with her successful career as a parks and recreation professional.

After receiving a bachelor of science degree in recreation and park administration from Western Illinois University in Macomb, Ms. Kutska in 1973 became a recreation supervisor for the Des Plaines Park District near Chicago. In 1976, she became assistant director of recreation for the city of Palm Beach Gardens, Fla. Two years later she moved back to the Chicago area to accept a position as superintendent of recreation for the Northeast DuPage Special Recreation Assn. in Elmhurst, Ill. In 1981, Ms. Kutska became the executive director of the Batavia Park District outside of Chicago.

While working at the Batavia Park District, Ms. Kutska became involved in a fledgling self-insurance pool of park and recreation districts that eventually emerged as PDRMA. When PDRMA was ready to hire its first full-time staff person, Ms. Kutska was tapped for the job.

Ms. Kutska said she accepted the position as PDRMA's first executive director because it was an "opportunity to build something from nothing." The position evolved to incorporate "the best of both worlds."

"I love my job," Ms. Kutska stated. I couldn't imagine doing anything different."

Ms. Kutska said she is not interested in pursuing a career in risk mangement in any other venue, such as becoming an insurance broker, becoming the risk manager of a public entity or joining another insurance pool. "I wouldn't be in risk management if it wasn't for parks and recreation," she said.

Ms. Kutska has two professional designations that attest to her dual expertise and allegiance: the Associate in Risk Management designation and the Certified Leisure Professional designation.

Ms. Kutska is active in several professional organizations. She is a member of the Public Risk Management Assn. and in 1993 served on its board of directors as president of the pooling section. Ms. Kutska also has served on the pooling section board of directors for several years and has been in charge of numerous committees.

Ms. Kutska was instrumental in creating the Illinois Governmental Assn. of Pools in 1990 and currently is chairman of the group.

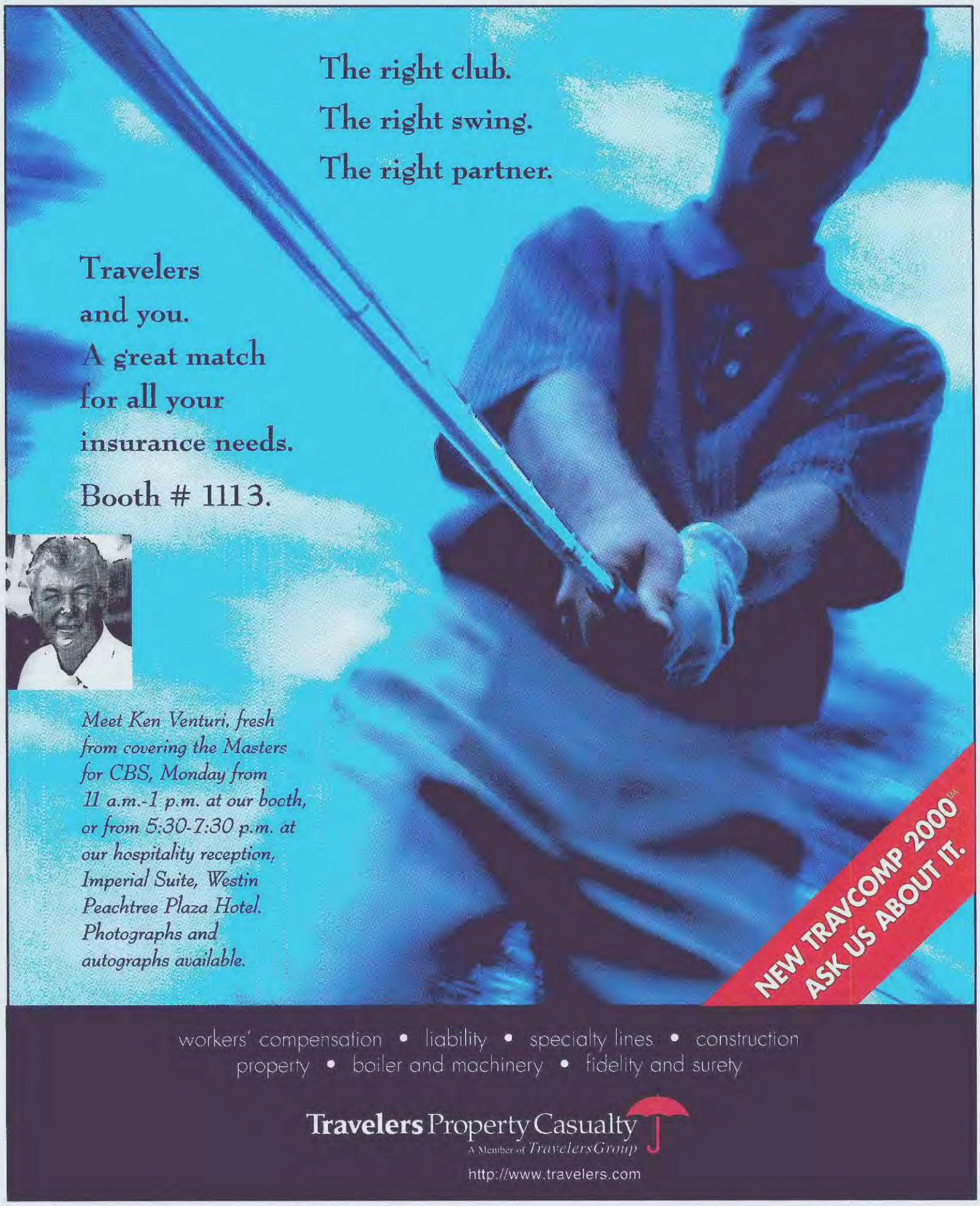
She is a member of the National Recreation & Park Assn. and the Illinois Park & Recreation Assn. Currently she is the chairman of the state group's joint legislative committee.

Ms. Kutska lectures around the country on risk management topics including playground safety, athletic liability, aquatic risk management and contractual risk transfer.

She is married and has an 11-year old son, Kenny. Ms. Kutska's husband, Ken, is the superintendent of parks and planning for the Wheaton Park District, a suburban Chicago agency. BI

PHOTO: MICHAEL MARCOTTE

Jane Hodgkinson, executive director of the Western DuPage Special Recreation Assn. and chairwoman of PDRMA's board, praises the work Betsy Kutska has done for the pool.



1997 Risk Management Honor Roll

Agency informs members by fax, mail, video...

PDRMA also wants to enable members to file claims electronically via its Web site

By DEBORAH SHALOWITZ COWANS

While parks and playgrounds may be bastions of low technology, the Park District Risk Management Agency is fast becoming a high-tech information hub for its members.

"We want to be more the leader than the follower with our members," commented Betsy Kutska, executive director of PDRMA.

The agency six months ago unveiled its World Wide Web site (http://www.pdrma.org), an online information resource that will be expanded in the next several years.

As members gain access to the Internet, they will be able to receive information instantaneously from PDRMA and use the Web site as an electronic clearinghouse, Ms. Kutska noted.

"Any time you want to change anything, it's horrendous to get the information out," Ms. Kutska said.

Updating "those great big manuals" necessary for risk management is tedious and time-consuming.

However, using technology such as the Web site facilitates this process significantly.

Technology "makes us more productive and makes members more productive," Ms. Kutska said.

Eventually, PDRMA hopes to supply each member with a dedicated computer terminal loaded with software compatible with the pool's software that will allow members to file claims electronically, according to Kevin Marks, information services manager.

In the meantime, PDRMA members can log onto the group's Web page and choose from six categories of information:

- Claims reporting, which includes points to remember, descriptions of types of claims and what to do if a lawsuit is received.
- PDRMA resources, including copies of all printed materials and the organization's newsletter.
- Announcements, such as when training sessions will be held and electronic registration for risk management institutes.
- Staff photos, titles, biographies, voice mail and electronic mail addresses.
- Information about PDRMA in general.
- Links to other Web sites that members may be interested in, including federal agencies such as the Occupational Safety and Health Administration and the U.S. Environmental Protection Agency, organizations such as parks and recreation associations, and the Public Risk Management Assn., and sites on weather and other topics.

PDRMA calls all of its information resources the "Leisure Risk Network." The group's Web site, for example, is called LRN Surf.

Another information resource is the organization's LRNFAX system.

The LRNFAX system allows members to request documents on the telephone and receive them by fax 24 hours a day.

Several hundred documents ranging from one to 12 pages are available through the system.

The documents include copies of laws and regulations, advice on topics ranging from aquatic risk management to employment practices to environmental liability, sample insurance policy endorsements, inspection forms, sample job descriptions, loss control advice, fact sheets on insurance coverages, the organization's newsletter, sample safety programs and sample waivers.

Each member has a listing arranged by subject of all documents available through the LRNFAX system.

PDRMA also maintains a library of materials generally greater than 10 pages that members can receive through the mail. Many of these materials cover the same subjects as the LRNFAX materials but are longer. Members can request these documents from a PDRMA staff member, and generally they are mailed out within one day.

Enabling members to request the information they need is more efficient than giving everyone all the information anyone might need, says Betsy Kutska.

Enabling members to request the specific information they need is far more efficient than giving everyone all the information that anyone might need, Ms. Kutska pointed out.

And, when members request the information they specifically need, "we find they're much more apt to use it," she said.

PDRMA issues LRN Alerts when necessary to dispatch critical information to members or as a reminder to implement important seasonal or periodic loss prevention measures.

The one-page LRN Alerts, which are printed on brightly colored paper, summarize a particular issue and recommend necessary action.

For example, a recent LRN Alert informed members of a new advisory issued by the National Highway Traffic Safety Administration urging motorists to place portable gasoline containers on the ground while filling them instead of in a truck or car because static electricity discharge from the containers could cause a fire or explosion.

In addition to printed materials, PDRMA has approximately 250 video tapes members can borrow covering topics such as first aid, back care and ergonomics, golf, housekeeping, slips and falls and time management.

Each member has a detailed video library directory that describes each of the videos. Some of the videos are available in Spanish.

PDRMA does not plan to stick to simply distributing stocked videos. The group bought its own digital editing machine and plans to produce training and other videos, Mr. Marks said.

The organization already has produced a 15-minute video that describes the group and its activities.

The video, called "Risk Management for Parks and Recreation. . . A Long Term Solution," has been distributed to each member and can be shown to prospective members.

It is particularly useful in teaching elected officials, who may have little exposure to risk management, about the pool, according to Ms. Kutska. BI

Members get access to benefits plan

Park and recreation districts in Illinois that are members of the Park District Risk Management Agency can access the pool's employee benefit plan.

PDRMA created the Illinois Park Employees Health Network in 1990 to offer employee benefits to workers and dependents of PDRMA members. The first year, 25 agencies with 400 to 500 employees and 600 to 700 dependents joined the pool.

IPEHN has grown to 52 members agencies covering about 1,000 employees and 1,500 dependents.

The health care pool is "a great benefit, especially for smaller employers," commented Betsy Kutska, executive director of PDRMA, which provides administrative services to IPEHN. "So many of our members are small groups," she added.

"The great thing that people like in this program is they have something to say about their coverage" and they have a wide range of choices under the plan," Ms. Kutska said.

IPEHN offers a choice of four deductibles ranging from $100 to $1,000 annually. Monthly premiums vary, depending on an employee's age, gender and whether the coverage is single or family coverage.

Premiums have risen a total of 5% over the six years of the pool.

IPEHN offers an indemnity medical plan with some managed care aspects, such as a preferred provider organization and precertification of surgery. Annual physicals and well-child care are covered and are not subject to deductibles and copayments, up to plan limits.

'The great thing people like in this program is they have something to say about their coverage,' says Betsy Kutska.

The plan sponsors an annual wellness institute for employees and dependents with sessions on topics such as stress management, healthy cooking and osteoporosis.

IPEHN is self-insured and uses a third-party administrator to process claims. IPEHN buys medical stop-loss insurance from Zurich American Insurance Co. in Schaumburg, Ill., which attaches at $100,000 for single claims.

The excess coverage has a $2 million per occurrence limit and an aggregate limit of $2.6 million.

The pool also offers group term life insurance and accidental death and dismemberment insurance.

--By Deborah Shalowitz Cowans

PHOTO: MICHAEL MARCOTTE

Staff members of the Park District Risk Management Agency, from left to right, beginning in the first row, are Betsy Kutska, executive director; Diane Bengel, claims clerical assistant; Kim Rothrock, legal secretary; Jan Herlien, finance assistant; Martha Rademacher, finance and insurance manager; Marnee Horcher, senior claims representative; and Kevin Marks, information services manager. In the second row, left to right, are Kevin Hoffman, loss control manager; Brett Davis, loss control technician; Pat Boothe, education and training supervisor; Steve Kleinman, general counsel; Ann Traczek, senior claims representative; Sandy Burk, IPEHN benefits manager; Randy Wilson, loss control technician; Donna Allen, IPEHN benefits assistant; Lois Purkey, administrative services manager; Patty Gerrond, claims manager; Barb Dovale, loss control clerical assistant; and Mary Taylor, finance assistant.

Banking on the success of holistic risk management

Opferkuch brings technical skills, natural aptitude for controlling losses to position at Bankers Trust

By RODD ZOLKOS

When Bankers Trust Co. hired Russell C. Opferkuch as vp of corporate risk and insurance in 1989, it found the perfect formula for risk management success.

It was just a matter of finding someone who combines the problem-solving skills of an engineer with a "sixth sense" for seeing problems before they emerge.

"It really is kind of interesting because I look at him as adding enormous value in terms of hands-on blocking and tackling in risk consultation and risk mitigation, in addition to a first-rate job of managing the technical details of our risk and insurance programs," said Douglas G. Hoffman, managing director of corporate risk at New York-based Bankers Trust and Mr. Opferkuch's boss.

In recent years, Bankers Trust has developed a very broad view of the subject of risk. Today the company's corporate risk and insurance operations are a sub-unit of Bankers Trust's Global Risk Management Department, which combines responsibility for market risk, credit risk and operational risk.

"That's truly the application of holistic risk because we've aggregated all of our risks into one whole," Mr. Hoffman said.

And while Mr. Hoffman works to design approaches for managing the company's operational risks, Mr. Opferkuch, 48, who came into risk management after studying engineering in college, helps turn many of those designs into reality.

"While I can talk about the architecture, he's one of my key people on the front line doing the engineering," Mr. Hoffman said. "That engineering background, I think, gives him the ability to apply risk concepts, risk management, hands-on, day-to-day and very effectively."

One example of Mr. Opferkuch's hands-on ability was the crafting of an ergonomics plan for the company aimed at reducing both workers compensation claims and, more significantly, lost employee time due to repetitive motion injuries (see story, page 123).

Another was the risk manager's seizing of the opportunity to streamline Bankers Trust's insurance program by designing a global property and business interruption program.

A global financial services company operating in 55 countries with nearly $4.7 billion in annual revenue and more than $100 billion in assets, Bankers Trust has at times seen as much as 70% of its income coming from overseas operations.

Yet, with investment banking and trust operations in addition to its commercial banking activities, Bankers Trust differs from a traditional commercial bank that would have very distinct operations in different countries. Instead, most of Bankers Trust's operations are integrated and so assessing the loss potential from business interruption can be very complex.

In a step toward simplifying the issue and increasing Bankers Trust's protection from loss, "Russ formed a global program that was integrated with a global broker and a single insurer in most cases," Mr. Hoffman noted.

Rather than having multiple policies covering various individual Bankers Trust locations around the world, "when possible, if we can have one policy respond globally, we do that," Mr. Opferkuch said.

Like the office environment in its Manhattan headquarters building, where Mr. Opferkuch's risk and insurance management operation is set in the middle of the company's global risk management operations without partitions on the 28th floor, Bankers Trust strives to create a "no walls" business environment.

In such an operation, events in one country could have an effect on operations in another, Mr. Opferkuch noted. "The potential is you could have an uninsured loss in one country simply because a loss occurred in another," he said. "So we have tried to address that problem by taking a global approach."

Aon Risk Services Inc.—formerly Alexander & Alexander Inc.—is Bankers Trust's global broker. With its network of offices around the world matching up well with its client's locations, Aon's local offices can ensure that Bankers Trust has any local coverages that may be necessary in addition to the global policy.

"While we attempt to buy coverage on a global basis, there are some local needs," Mr. Opferkuch said.

In the event that local regulations or needs require insurance in addition to the coverage the global program provides, Aon's New York office is responsible for ensuring that the local offices buy the right coverage at the best price, and that the company is neither missing needed coverage nor buying too much, the risk manager said.

CIGNA Corp. leads the global program, which includes approximately 20 other insurers. The program has separate domestic and non-domestic limits, which Mr. Opferkuch would not disclose.

Alan Friedlander of Aon Risk Services in New York, a senior vp with A&A before its recent acquisition by Aon, says Mr. Opferkuch's crafting of the global program in response to a complex coverage situation his company faced is typical of his ability as a problem-solver.

"There are, in my opinion, a limited number of true risk managers and Russ is definitely one of them," Mr. Friedlander said. "His standard practice is to understand and manage the exposures that they face and then find practical solutions to protect Bankers Trust."

And it's not just on the insurance side. With a background that also includes considerable loss control experience, Mr. Opferkuch is always looking for ways to reduce exposures, Mr. Friedlander said.

"He's always thinking about preventing and mitigating losses at the same time he's making sure there's a financial solution for them," he said.

"The deductive reasoning process leads him to solutions that make sense and are practical and available and probably the best solution without just jumping for 'Let's buy insurance' " Mr. Friedlander said. "It's addressing and solving the problem before it becomes a problem."

"He'll never look at an issue and say, 'Here's the situation. How does our insurance help?' He looks at the risks first," said Antonina Basile, an assistant vp in Mr. Opferkuch's risk and insurance group. "It's more, 'How can we hedge our risks and aggregate certain risks and protect the bank as a whole?' "

Mr. Opferkuch's accomplishments at Bankers Trust earned him a place on the 1997 *Business Insurance* Risk Management Honor Roll, representing financial institutions.

William McKitty, a senior vp at Minet Inc. in New York, describes Mr. Opferkuch's approach as "artfully analytical," a description he says is not a contradiction in terms.

See **Opferkuch** *on next page*

Russell C. Opferkuch

Vice President

Bankers Trust Co.

1997 Risk Management Honor Roll

PHOTO: MICHAEL MARCOTTE

1997 Risk Management Honor Roll

Opferkuch

Continued from previous page

"He's a very good problem-solver," Mr. McKitty said. "He's very good at stepping back and taking a problem apart and examining it in terms of its fixable, mendable parts."

"Russ is a technically very strong risk manager," said Christine LaSala, president of the New York division of Johnson & Higgins, now J&H Marsh & McLennan. "There's a lot of depth in his understanding of both coverages and the exposures his organization faces, how those relate to one another and some real work in safety and loss control."

"He combines technical expertise with very high-impact big-picture creative thinking," said Claudia Mastrapasqua a vp at the former J&H in New York. "One minute he's dealing with some very micro issue and the next minute he's dealing with some sort of big-picture issue. It's very interesting to watch."

Mr. Opferkuch's three-person staff is small for such a massive far-flung operation, the risk manager admits. "The way we accomplish what we need to accomplish is through effective use of our brokers."

"And we treat them the same way as our employees," Mr. Opferkuch said. 'We view them as an extension of ourselves and we view them as needing to provide value to the insurance equation."

Bankers Trust's brokers can't get away with serving simply as go-betweens. "We pay our brokers on a fee basis with them demonstrating to us the value of their services," Mr. Opferkuch said.

The bank expects brokers to add value by assisting with risk management's risk and claims analysis efforts.

"We certainly ask our brokers to provide us with information as to claims that occur within our industry—hopefully others' claims—that could provide us some insight into our potential exposures," Mr. Opferkuch said.

"There have been several occasions where Russ and the team at Bankers Trust have wanted to do some brainstorming—where did they want the risk management program to go in the future and what should it look like—without any preconceived notions," Mr. Friedlander said. ' We did one of those not so long ago. That's another way of being part of the family and not just placing insurance."

According to Ms. LaSala, Mr. Opferkuch expects brokers to "grow and keep up with changes at Bankers Trust, and he provides enough insight into the organization to do that."

"There aren't many boundaries that he draws, so once you're part of his team of brokers, there's a lot of trust and interaction," she said.

At the same time, he communicates his expectations very clearly, Ms. LaSala said. "Nothing wants for clarity in dealing with Russ."

"What I appreciate about dealing with Bankers Trust is they do their homework about a service provider in advance," Ms. LaSala said.

"We choose our brokers based on their perceived strengths," Mr. Opferkuch said. "Nothing is etched in stone with regard to our relationships with brokers or insurers. If we don't get the service we demand, we won't be there, which is no different than if they sat here and worked for us as an employee."

Among Mr. Opferkuch's expectations is that brokers represent Bankers Trust accurately. Nothing is presented to underwriters without the bank first having an opportunity to sign off on the material.

"When you're dealing with underwriters and you're going through a renewal or giving them a renewal submission, that's basically you representing your company," the risk manager said. "We realize a lot of people are going to read what we put forward and we want it to be accurate."

"I think if you were to speak to our brokers, you would find that we're much more active in the renewal process than most of our peers," Mr. Opferkuch said.

And that's not necessarily a bad trait from the brokers' perspective.

"He's a real plus from a broker standpoint if you put him in front of an underwriter because one, he has done his homework, and two, he instinctively understands underwriters, and a lot of people don't," Minet's Mr. McKitty said.

"In his years at Bankers Trust, I think he's grown the risk management department into one of the most respected in the New York market and one of the most respected globally among financial institutions," Ms. Mastrapasqua said.

Nor are Mr. Opferkuch's high expectations a turnoff for many brokers.

"He expects an excellence from his brokers in the normal course of events and yet he does it in the nicest, sanest way possible," Mr. McKitty said. "From a broker's standpoint, people here love to work on his business. And it's difficult business.

"I don't mean it's replete with losses," the Minet broker added. Rather, it's that Bankers Trust "usually comes up with questions nobody has ever asked, and usually it's Russ. And if you've been a broker for a long time, that can be a little threatening."

Not only does Mr. Opferkuch ask questions that haven't been asked before, he also has a knack for recognizing risks others haven't noticed yet.

"He's very tenacious and takes his role very seriously. He's very determined, and I think he has a sort of 'sixth sense' for that hands-on blocking and tackling," Mr. Hoffman said. "He will identify a risk as it's emerging."

In addition to the ergonomics initiative, Mr. Opferkuch spotted and managed a hepatitis outbreak at Bankers Trust in the early '90s.

In that instance, he combined his "sixth sense" and his problem-solving ability to prevent losses to the company when 45 employees and 24 guests of the company were infected after dining in the cafeteria.

"In terms of his sixth sense, he identified when the first hepatitis case broke that we had a risk management problem," Mr. Hoffman said. After seeing a hepatitis case mentioned in an intraoffice

See **Opferkuch***on next page*

Ergonomics project exemplifies Opferkuch's ambition

The right equipment and proper usage are the keys to the Bankers Trust program

By RODD ZOLKOS

The ergonomics program at Bankers Trust Co. is a prime example of Russ Opferkuch's ability to recognize a potential problem early, analyze it and craft a risk management solution.

The solution essentially was two-fold: acquiring the right equipment and making sure it was used properly.

And the results are apparent in many ways, but none more dramatic than the case of one Bankers Trust employee who had already had carpal tunnel surgery on one wrist and was awaiting surgery on the other when the ergonomics program was implemented.

Ultimately, surgery on the employee's second wrist wasn't needed after the company applied its standard ergonomic fix at her work station.

Now, employees thank him in the hall for fixing their workstations, Mr. Opferkuch said. "So you get feedback in a lot of ways from people."

Overall, claims are down. After facing more than 100 claims tied to ergonomic issues in 1995, Bankers Trust had about 60 last year, noted Antonina Basile, assistant vp in the risk management group.

Mr. Opferkuch, Bankers Trust vp for corporate risk and insurance, initiated the ergonomics program in 1993. Just from his reading and the bank's limited repetitive motion injury claims experience, he anticipated that if nothing was done, over time Bankers Trust would experience a problem.

While the bank had experienced only a few claims to that point, risk management wanted to get ahead of the issue.

"We didn't have too many claims, but Russ knew that it was coming," said Therese Walker, workers compensation and claims consultant at Bankers Trust.

"He basically comes from a safety background, so his goal is 'How do you be at work and not get hurt?' " according to Ms. Walker.

The ergonomics issue "was one he thought we should invest some resources in, and he really ran with that initiative," said Douglas Hoffman, managing director of corporate risk at Bankers Trust and Mr. Opferkuch's direct superior.

While Mr. Hoffman was involved with some aspects of the ergonomics project, "for the most part Russ has designed it and run with it as his own."

PHOTO: MICHAEL MARCOTTE

Douglas Hoffman (left), managing director of corporate risk, allowed Russ Opferkuch to design and run the ergonomic project at Bankers Trust.

Mr. Opferkuch said he had received questions internally about whether ergonomics was something Bankers Trust should address to mitigate losses.

Recognizing the company's extensive use of computers created potential exposures, minimizing losses was an important consideration.

There was a bigger concern, however. "We wanted to keep our people at work," the risk manager said.

"Employee productivity was the No. 1 issue," he said.

"Our employees are Bankers Trust," Mr. Opferkuch said. "Our biggest asset is our employees, and it's important to us that they remain productive."

In the absence of federal guidelines or rules on the matter, Mr. Opferkuch said he thinks Bankers Trust took a "pretty aggressive stance" on ergonomic issues.

"There are no formal standards that are accepted by all parties at this point," Mr. Opferkuch said. But as workplace injuries accumulate, "if you don't take some sort of approach, then you're losing ground," he said.

Not surprisingly, "like everything else at BT, this was a team effort," according to Mr. Opferkuch.

He might have initiated the program, but to make it effective it was necessary to have the involvement of parties from throughout the company.

True to the Bankers Trust "team" approach, the company formed an ergonomics committee that included not just representatives of corporate risk management, but also such areas as human resources, medical, building management, furniture and design management and technology resources.

With the group's concurrence, the company moved forward with a program that involves making sure all new workstation installations are sufficiently adjustable to meet ergonomic concerns and conducting immediate reviews of the workstations of employees who file workers comp claims.

It also involves a constant effort to meet with high-frequency users of typing equipment, computers and similar office equipment to ensure they are familiar with ergonomic issues and the need to adjust their workstations properly and adopt proper ergonomic postures.

In the absence of any established standards, Bankers Trust had to develop appropriate measures and guidelines on its own. The task force determined early on that a lot of the equipment on the market touted as "ergonomically correct" really wasn't, according to Mr. Opferkuch.

And, it realized that by its very nature, ergonomics doesn't lend itself to one-size-fits-all solutions.

The task force looked at chairs, workstations, computer screens and the like in the context of entire systems. It established standards for what constituted "ergonomically correct," and any vendor providing office equipment would have to meet those standards.

The task force also realized that if a chair, for example, can be adjusted to be ergonomically correct, the user must be educated as to how to adjust it properly.

Ultimately, risk management took a two-phase approach to implementing the ergonomics program, Mr. Opferkuch said. The first was "mass implementation," he said. "Our goal was to have phase one meet the needs of 95% of our employee population."

For those few employees for whom the "standard fix" didn't adequately improve the situation, risk management had a "phase two" that brought in an ergonomics consultant to study the employees' situations and make recommendations.

"We're finding that this involves far less than 5% of our people," Mr. Opferkuch said.

When the company sets up a new work area or installs new equipment, Ms. Walker or a consultant visits the employee to ensure it is set up properly. "Training of the individual is key on this," Mr. Opferkuch said. "Giving them an appropriate desk is not enough."

More broad-based training is done through a video outlining proper postures and the correct way to set up one's workstation. The video was developed in-house, with assistance from the then-workers comp insurer, Zurich Insurance Co.

"What we asked Zurich to do was in lieu of paying for inspections to pay for these training videos," Mr. Opferkuch said, an approach that reflects his safety-oriented philosophy.

Mr. Opferkuch emphasizes appropriate procedures over inspections.

The video includes the standard FBI copyright notice at the beginning—another risk management move meant to avoid potential liability.

"We're being aggressive, but we don't want to add any additional risk to ourselves by being aggressive," the risk manager said. Should other companies copy the tape and the Bankers Trust method and later experience workplace illness problems, Mr. Opferkuch didn't want Bankers Trust exposed to liability issues.

"You can be sued for anything today," according to the risk manager.

The video is used when a group of employees is moving to a new area while their area is being renovated. It's set up in a conference room for a few days prior to the employees' move, and they're asked to watch it before going to their new workstations.

Risk management also developed a workstation safety handout, a document that outlines the dos and don'ts of proper workstation position and posture, along with the signs of repetitive motion disorder and tips for avoiding it, all confined to two sides of an 8½-by-11-inch sheet.

"Our goal was that this could only be one page because if it was more than one page, it wasn't appropriate," according to Mr. Opferkuch.

Mr. Opferkuch also prompted a change in company policy for ordering ergonomic office furniture and equipment. Now, attempts to order equipment to address ergonomic concerns bypass the normal purchasing process and instead are directed to risk management for attention.

With a safety background, Russ Opferkuch's goal is 'How do you be at work and not get hurt?' says Therese Walker.

Risk management then can make sure only appropriate equipment is used. The policy also allows Mr. Opferkuch's group to provide immediate attention to workers facing potential injuries and to better monitor the success of efforts to correct the problem.

The next step will be to appoint ergonomics contact people by group or by floor, Mr. Opferkuch said. "The intent would be that if you have a problem, you would go to them."

The contacts will then determine whether an individual matter should be brought to risk management's attention.

The risk manager said he also is studying whether a similar approach is appropriate for non-U.S. locations.

"In many respects the current U.K. regulations require that you do more than current U.S. efforts," according to Mr. Opferkuch.

The ergonomics issue has become a European Community-wide concern as well, the risk manager said.

"But in any case, the ultimate concern is the productivity of the employee," he said. BI

Opferkuch

Continued from previous page

communication, Mr. Opferkuch immediately alerted Mr. Hoffman that he thought it was something risk management should monitor.

"And it was Russ's due diligence on contractual responsibility and indemnification that put us in good stead to sort out responsibility for the outbreak," Mr. Hoffman said.

Ultimately the outbreak was traced back to an employee of the food service vendor operating the company's cafeteria/executive dining room. The company recovered from the vendor the costs for salary continuance and medical expenses, including the costs of testing more than 3,000 people who might have been exposed.

Vendor risk management is being closely reviewed in newly revised corporate risk and insurance guides Mr. Opferkuch is developing for Bankers Trust's various operations. The guides are another way Mr. Opferkuch tries to head off potential risk management issues in a huge worldwide company where it is difficult to manage every risk from its office in New York.

"We try to manage the risk at the local level," he said. "We set the standards, if you will, but the business unit manages the risks day to day."

To help Bankers Trust managers, the risk management operation previously produced a single-volume guide addressing exposures and coverages throughout the company.

The revised guide involves several smaller booklets aimed at more specific operations and functions.

'We set the standards, if you will, but the business unit manages the risks day to day,' says Russ Opferkuch.

One of those booklets will address vendor contract management. Mr. Opferkuch developed a risk assessment questionnaire, giving users a tool for sorting exposures according to their level of risk within designated risk categories.

From there, those managing vendor contracts can determine what each vendor's insurance requirements are. Designed to be user-friendly, the questionnaire also helps those managing vendor contracts determine the sort of hold-harmless indemnification language required in vendor contracts.

The goal of the various guides is to enable those in the local units to handle 95% of the risk and insurance matters they confront and to educate them to recognize the other 5% as requiring special attention.

"You only want them coming back to you with the oddball," the risk manager said.

The risk and insurance guides are another example of Mr. Opferkuch combining his problem-solving ability with that "sixth sense" Mr. Hoffman finds so valuable.

Mindi Rosen, an assistant vp on Mr. Opferkuch's staff, recalled recently asking an insurer for input on the revised risk and insurance guide.

"They were very impressed that we were putting one together," Ms. Rosen said. "We said, 'We've had one for five years.' " BI

1997 Risk Management Honor Roll

Opferkuch engineers career in risk management

By RODD ZOLKOS

Russ Opferkuch credits his engineering education for shaping the way he approaches risk management.

Oddly enough, that education also started him on his path to an unexpected career.

Mr. Opferkuch received a bachelor of science degree in engineering science, a highly technical discipline requiring more credits than a typical engineering program, in 1971 from the State University of New York at Stony Brook.

As it turned out, his degree came at the same time that the aerospace industry was engaging in some considerable downsizing, making engineering jobs tough to come by.

"When I graduated it was a time when engineers were a dime a dozen and I wasn't sure what I wanted to do," Mr. Opferkuch recalled. "I took a job with an insurance company inspecting property. It was a very eye-opening experience but one I knew I didn't want to do for the rest of my career."

Working as an engineering field representative with Improved Risk Mutuals from 1972 to 1975 gave Mr. Opferkuch a chance to see a lot of different risks though, before moving into the office from 1975 to 1978 as a senior staff review officer.

A small office at Improved Risk Mutuals set the stage for the next step in the future Bankers Trust risk manager's professional development.

"The president of the company asked if I would assist him in doing various projects," Mr. Opferkuch said. Working on those projects provided underwriting experience that would later prove useful, "though again I knew it wasn't what I wanted to do for my career," he said.

In time, though, a colleague saw an advertisement for a loss control specialist job at Joseph E. Seagram & Sons Inc. "and said, 'Hey, this looks like you,' " Mr. Opferkuch recalled. Indeed, the Seagram's opening proved a good fit, and began a lengthy and significant portion of Mr. Opferkuch's career.

He joined Seagram's in 1978 as a loss control engineer and analyst. The distilled spirits manufacturer's risks largely involved storing highly combustible materials for years at a time.

Mr. Opferkuch recognized that because alcohol is water soluble, sprinklers are a highly effective way of suppressing alcohol fires. However, the distilling industry was lumped with companies like chemical manufacturers in terms of loss control standards, thereby requiring more complex and costly fire prevention and suppression methods.

Becoming involved with the National Fire Protection Assn., Mr. Opferkuch ultimately headed a committee that developed a new loss-control standard specifically for the distilled spirits industry.

As time went on, other opportunities for professional development within Seagram's developed.

"The gentleman I worked for thought I could add other value to the business," Mr. Opferkuch said. Those thoughts prompted Don Davignon, Seagram's director of risk management, to involve Mr. Opferkuch more in the insurance side of the risk management operation.

Because of his past experience, Mr. Opferkuch started with the property side of the business as property and loss control manager from 1981 to 1983, then moved to the casualty side as casualty manager from 1983 to 1985. Ultimately, he rose to the position of insurance and loss control manager from 1985 to 1987.

Cautioning that he means no offense to those who have made careers in loss control, Mr. Opferkuch said he came to see greater opportunity on the risk financing side than the loss control side.

Among his achievements at Seagram's were developing valuation methods for aging beverage alcohol products that combined loss potentials and market demands in determining insurable value, premiums and loss recoveries.

He also prompted seismic evaluations of Seagram's California facilities, which resulted in strengthening programs for major buildings that in turn reduced the company's earthquake insurance requirements and led to reductions in associated costs.

'When I graduated it was a time when engineers were a dime a dozen and I wasn't sure what I wanted to do,' says Russ Opferkuch.

While Mr. Opferkuch appreciated his positions at Seagram's, and credits Mr. Davignon for much of his development as a risk manager, Mr. Opferkuch ultimately decided to pursue opportunities outside the company.

"Seagram's is an excellent company," Mr. Opferkuch said. But, realizing he was the No. 2 risk management person at the biggest company in the industry with a superior who wasn't going anywhere any time soon, Mr. Opferkuch decided it was time to expand his experience.

The best way to do that, he reasoned, was consulting, and he took a position with Coopers & Lybrand, where he worked as a senior risk consultant from 1987 to 1989.

Consulting gave him an opportunity to look at a variety of industries and work on diverse risk management tasks, such as merger and acquisition reviews, risk management department functional audits, insurance program audits, risk control system reviews and selection of brokers and insurers.

Mr. Opferkuch came to Coopers with a plan to stay five years. But before that time was up, a position opened at Bankers Trust Co. which he decided could give him the same sort of experience he sought in a more hands-on setting.

"Consulting was a challenge but you didn't always get to see the results of what you did," Mr. Opferkuch said.

Since taking his current position as vp of corporate risk and insurance for Bankers Trust in 1989 however, there have been challenges aplenty and the opportunity to see the results of his actions first hand.

And through it all, there's been no shortage of variety, as well as almost daily opportunities to continue his education.

"If there's one thing that's of very major importance to me, it's that it's very rare that I go home a night and can't say I didn't learn something," according to Mr. Opferkuch. BI

Teamwork plays key role in BT's risk management

By RODD ZOLKOS

When you're talking with Russ Opferkuch about life and business at Bankers Trust Co., he'll frequently finish an observation by saying, "That's the BT way."

More often than not, that "BT way" emphasizes team over hierarchy, an approach that's clearly evident in Mr. Opferkuch's risk and insurance management group.

The four-member team works closely together—literally. Mr. Opferkuch, vp of corporate risk and insurance, and assistant vps Antonina Basile and Mindi Rosen share a small office on the 28th floor of Bankers Trust's headquarters building in New York's financial district.

Just outside that office Therese Walker, workers compensation and claims consultant, has her cubicle.

An office environment heavy on low-rise cubicles and light on walls and large private offices is part of the BT way, Mr. Opferkuch notes.

Watching the risk manager and his staff work, it's clear that in their case the familiarity the office setting creates has bred only increased respect for one another while improving the way they do their jobs.

"We're a tag team," Ms. Basile said, adding that the opportunities for interaction that the office environment provides have been very beneficial.

"I figured I probably would learn more and be exposed to more" in this arrangement, said Ms. Rosen, who joined the staff late last year.

"Luckily, we can all work closely together," she said. "We're all the kind of people who can focus when we have to."

The open communication the close proximity fosters is heightened by Mr. Opferkuch's open approach to sharing information with his staff.

"You know what to expect. All of his cards are on the table," Ms. Walker said. "If Russ knows, we know."

That shared information benefits the company when someone like Mr. Opferkuch's boss, Douglas Hoffman, BT's managing director of corporate risk, needs information and the risk manager isn't available.

"Because we're in the same office and just because of the way Russ works, we're all on the same page," Ms. Basile said. One of the staff members can usually answer the question.

PHOTO: MICHAEL MARCOTTE

Russ Opferkuch stands with: (from left to right) Mindi Rosen, assistant vp; Therese Walker, workers compensation/claims consultant and Antonina Basile, assistant vp.

The communication coupled with Mr. Opferkuch's management style helps prevent unpleasant surprises. When given a deadline, staff members believe they can say upfront that it's not realistic rather than waiting until a day before the deadline to acknowledge the problem, Ms. Basile said.

"He's also very quick to say, 'Wait a minute, something's going on here, let's reprioritize it,' if he sees you're getting overwhelmed," she said.

The three members of Mr. Opferkuch's staff came to Bankers Trust from agent-broker backgrounds that allowed each to bring some unique expertise to the team. And Mr. Opferkuch's confidence in that team, coupled with the lack of an ego that might stand in the staff's way, gives each of them frequent opportunities to shine.

"When he asks me, 'What do you think?' it's not that he's just asking to be asking," Ms. Walker said. "He really cares what I think."

"He respects the fact that I was a broker for 10 years and he's never been a broker," Ms. Rosen said. "He's okay with the fact that in some areas I might know more than he does."

"If you're the person most up to speed, he'll let you do the talking," Ms. Basile said. "He's got a lot of respect for his team. He'll be the first to say, 'You know what? I don't know anything about it. You should be talking with Antonina.' "

"He's really put together a very good team," Ms. Walker said. "He allows you to do your job. He gives you a lot of rope and he allows you to go with it. And if he really thinks you're going off on a tangent, he'll say, 'Now stop it.' "

Mr. Opferkuch doesn't typically sit in on Ms. Walker's meetings with insurance company representatives, she noted. "If he does, something's wrong. He just leaves it in my hands to handle it," she said.

At present, Ms. Rosen works primarily with property/casualty coverages while Ms. Basile focuses largely on directors and officers, professional liability, bankers blanket bond and coverages involving the company's Bermuda-based captive.

In a year she and Ms. Basile will switch roles so each will be "cross-trained," something Ms. Rosen believes will be good for the bank, but a move she thinks many other risk managers might avoid.

"I would think a lot of managers probably wouldn't want to take the time to bring somebody up to speed," she said.

But Mr. Opferkuch doesn't leave his "teacher hat" in the classroom when he's finished teaching Associate in Risk Management classes. His role as educator is a very important part of his dealings with his staff.

"When I decided I wanted to switch from brokerage to risk management, I talked to three or four companies and I was very much impressed by Russ," Ms. Rosen said. "I knew that not only would he be a person I would respect, but he would be such a good teacher."

"He always finds the time for you," Ms. Basile said. "I think that's one of the reasons he's the best manager I've ever worked for."

"Besides being a teacher he's a big picture guy," Ms. Walker said. "I've worked with people who say 'Do this.' Well I'm the sort of person who wants to know why and he doesn't mind taking the time to give you the big picture."

"Doing that and knowing what he expects to get out of it at the end makes me do a better job," she said. "When I do something and go to him, I know he's going to have a question, so you try to anticipate what that question is going to be."

And that's much of what risk management is, Ms. Walker noted. "You should have more than one option."

The respect Mr. Opferkuch has for his staff is clearly appreciated. And it's reciprocated by a group that's fiercely loyal to him.

"I'd say Bankers Trust is very lucky to have him," Ms. Walker said.

"I guess the big thing is Russ really cares," Ms. Basile said. "We all tease him, 'If you ever leave here, you have to take us with you.' And I can't say that about too many managers." BI

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1997 Risk Management Honor Roll

BT invests in relationships with insurers

By RODD ZOLKOS

Crafting the risk financing program for Bankers Trust New York Corp. is a never-ending process.

We're always looking for a better understanding of our risks and then we compare that to our insurance coverage in place," said Russell C. Opferkuch, vp of corporate risk and insurance at Bankers Trust.

The goal is to always use the renewal process "to get some form of enhancement" of various coverages, Mr. Opferkuch said.

One reason the company is successful at meeting that goal is the risk management group's level of preparation.

"We put significant effort into our renewal presentation such that underwriters have a comfort level in the insurance partnership, if you will," Mr. Opferkuch said.

The company strives to maintain long-term relationships with insurers, which is particularly important because there are a limited number of players in the market for financial institution risk, he explained.

"We have what we believe to be a handful of key insurers," he said. "We tend to use them over the long term. They can understand the risks better and view BT exposures in the long term rather than just in terms of what happened in a one-year term."

"You don't want your insurers to run from you if you have one claim, and you don't want to run from them if they're rightly trying to collect some of the premium from you they need to maintain the business," Mr. Opferkuch said.

Bankers Trust also takes a close interest in its insurers' financials, relying not only on sources like A.M. Best Co. and Standard & Poor's Corp. but also its own analysis. It has even examined individual syndicates at Lloyd's of London.

Mr. Opferkuch noted that a company can go through an extensive renewal process with an underwriter, "but if they're not going to be there when you have a loss, it's not very helpful."

Bankers Trust buys directors and officers liability insurance, errors and omissions, bankers blanket bond and liability insurance from an array of insurers and reinsurers, "including but not limited to" ACE Insurance Co. Ltd., American International Group Inc., Chubb Corp., CNA Insurance Cos., Gulf Insurance Group, Lloyd's syndicates, Reliance Insurance Group, The St. Paul Cos. Inc., Travelers/Aetna Property Casualty Corp., X.L. Insurance Co. Ltd. and Zurich Insurance Co., Mr. Opferkuch said.

With worldwide operations, generally Bankers Trust's philosophy is to buy coverage on a global basis and only fill in locally if it's required by local regulation.

CIGNA Corp. leads the glob property and business interrupti insurance program, which includ approximately 20 other insurers. T program has separate domestic a non-domestic limits, which M Opferkuch would not disclose.

Bankers Trust also has a Bermud based captive, which insures BT professional liability exposures.

Many financial institution polici are manuscripted to meet the needs the individual company. Banke Trust maintains considerable con dentiality over details of its insuran program and policy limits, which M Opferkuch said is not uncomm among financial institutions.

"They're our programs and they confidential to us and the insurer," t risk manager said.

"Confidentiality in the financial i stitution business is of major impo tance," he said. "We are large enou and have unique enough exposu that insurers are willing to work wi us in developing coverages that me our needs."

Bankers Trust has three prima broker relationships. Aon Risk Se vices Inc., succeeding Alexander Alexander Services Inc. which it a quired last year, is the global brok Minet Inc. and Johnson & Higgi now J&H Marsh & McLennan, a are involved in the program "wh there really is no need for local forts," Mr. Opferkuch said.

BT's captive was formed in 1992.

"The objective was twofold," M Opferkuch said. "One, to provide with access to the reinsurance mark and two, to allow us to provide cov age for previously uninsured areas areas where there was no covera available."

The captive has allowed the cra ing of a manuscripted financial ins tution professional liability progra which is supported by a group more than 40 reinsurers.

"We have found the captive to be effective tool for meeting our over risk financing goals," the risk mana er said. "It has become an increasir ly important part of the overall risk nancing program, as intended." ■

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Opferkuch goes to head of the class

By RODD ZOLKOS

People discussing Ri Opferkuch's teaching act ities often refer to them his "second job."

It may be a second job, b for the Bankers Trust Co. of corporate risk and insurance, it' key component of the fabric of overall career.

Mr. Opferkuch has taught all thi classes in the Associate in Risk Ma agement program on behalf of t New York Chapter of the Risk & surance Management Society Inc. more than 10 years.

"He takes that responsibility ve seriously," said Claudia Mast pasqua, a vp at Johnson & Higgins New York. "He builds his busin trips around his class schedule."

Mr. Opferkuch's introduction teaching came as an outside instru tor in public safety at Mercy Coll in Dobbs Ferry, N.Y. It was there t he first came to believe that teachi could benefit his performance a risk manager.

"It did a number of things for m the risk manager said. "It allows me practice communications skills, wh I think is important for anyone.

See **Teacher** *on next pa*

Keeping risk management all in the family

By RODD ZOLKOS

When Russ Opferkuch and his wife check in at the Risk & Insurance Management Society Inc. conference, they both will ceive "member" badges.

Mr. Opferkuch isn't the only risk anager in the family. He also is ot the only risk manager of a bil- on dollar-plus company in the use. His wife, Carla Eberling, is director of risk management for New York-based apparel manufacturer Phillips-Van Heusen Corp.

The two met in 1988 when Ms. Eberling was a student in an Associate in Risk Management class Mr. Opferkuch was teaching.

"We both appreciate the activities and the stresses that we each are under," the Bankers Trust Co. vp of corporate risk and insurance says of being married a little more than four years to a risk manager.

"He's a great sounding board, and hopefully I provide sort of the same thing for him," Ms. Eberling said. "He's certainly been a real help to me."

Ms. Eberling nominated her husband for the award.

Mr. Opferkuch cautioned that "you don't want everything you do to revolve around your job." But he allowed that "it's good that if you're at a business function and business starts being discussed, the other isn't left out."

"I'm sure it's helpful and convenient if both members of a couple are able to understand each other's business," said Alan Friedlander, a senior vp at Aon Risk Services Inc. in New York.

However, Mr. Friedlander, who has known Mr. Opferkuch for more than 20 years, and knows Mr. Opferkuch and Ms. Eberling socially, said, "Quite frankly when I get together with both of them I prefer to forget risk management totally."

By all indications, that is easy to do. Their high-level risk management positions aren't always evident.

"You wouldn't know it when you go to visit them. There isn't a lot of business discussion," said Claudia Mastrapasqua, a vp at Johnson & Higgins in New York. "They have very varied interests."

Among other things, the two are huge New York Yankees fans and enjoy going to games together often.

They were to attend the Yankees' home opener April 11 before heading to RIMS, with Ms. Eberling saying she and Mr. Opferkuch looked forward to seeing their team receive its 1996 World Series championship rings.

"Hopefully we'll start the weekend with a win before going to RIMS," she said.

"Our first date was at Yankee Stadium, as well," Ms. Eberling said. "I've been a Yankee fan all my life, and it's great to meet someone who shares that."

Mr. Opferkuch has two sons by an earlier marriage, David, 13, and Keith, 11.

"He's a great father, a very dedicated father," said Ms. Mastrapasqua, who has known Mr. Opferkuch since the late 1980s when she was risk manager at Security Pacific Bank and they met through their involvement in RIMS. "And I think his employees respect that and the concern he has for them and their families as well."

Mr. Opferkuch has been quite involved in RIMS throughout his career, serving on the board of the New York chapter for more than 10 years and holding offices including president, vp and vp of programs, education and communication. He's scheduled to be the New York group's society director next year. BI

Teacher

ontinued from previous page

ot easy to step up in front of a group id field questions."

Later, when a position opened at e New York RIMS chapter, he arted teaching in the ARM proam, particularly ARM 55, Essenals of Loss Control. He has taught RM 54, 55 and 56 ever since.

"I feel it keeps me on my toes," Mr. pferkuch said, noting that to teach e ARM classes well the teacher ust be current not only with the urse materials but also able to apy real-world events to the subject atter.

"He injects his personal risk mangement experiences in the broadest nse into his classes and I think his udents benefit tremendously," said lan Friedlander, senior vp at Aon sk Services Inc. in New York and a ng acquaintance of Mr. Opferkuch.

"I think it's an important part of his ofessional life," Mr. Friedlander id. "And I'm sure that his risk mangement skills also benefit from his aching experience because when u're busy explaining something to class, you have to have it clear in ur own mind first."

Mr. Opferkuch agreed. "I find that be able to understand the concepts d understand what is behind them lps me do my job a little better as a k manager," he said.

And, much of risk management inlves educating others, he noted, nether it is raising risk awareness in e company or explaining to others ay they must provide the risk mangement department with the inforation needed to deal with claims.

Antonina Basile, an assistant vp in nkers Trust's risk management oup, thinks Mr. Opferkuch's expence as an educator has a lot to do th the way he deals with his staff.

He's always ready to drop what 's doing and discuss an issue if the ff doesn't understand it, she noted. lmost ad nauseam he'll discuss mething to make sure we get to the xt level," she said.

And Mr. Opferkuch is both patient d creative in his teaching. "A lot of ople, if you don't understand 'one d one is two,' can't find another ay to explain it," Ms. Basile said. Ie can find four other ways to exain 'one and one is two.'"

"I take great pride in educating my ople," the risk manager said.

Indeed, education and professional velopment are highly regarded at nkers Trust.

"BT in general has always been ry supportive of education. I came board and I was halfway through / MBA and they made that a prior- for me," Ms. Basile said. "I finished / MBA, I was in the middle of plang a wedding and the first thing ey asked was when was I going to rt my CPCU."

Mr. Opferkuch holds the ARM, artered Property and Casualty Unrwriter and Certified Safety Prosional designations and earned his BA with distinction in professional anagement in 1979 from Pace Unirsity. BI

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1997 Risk Management Honor Roll

Utility's risk manager strives to stay current

Taking charge of varied exposures an important goal for William R. Powell

By ROBERTO CENICEROS

When a 10-year-old autistic boy recently climbed to the top of a 125-foot-tall electric line tower in Phoenix, his 17-year-old brother quickly followed in hopes of retrieving the younger boy.

Instead, both became stranded on the tower, which supports lines carrying 230,000 volts of electricity.

Once on the scene, it took firefighters with climbing ropes and a special truck more than two hours to scale the tower and rescue both boys safely and uninjured. The two boys sat atop a three-inch-wide beam waiting for help while news helicopters circled overhead and broadcast the tense event nationwide.

The crisis pulled William R. Powell from his normal duties as manager of the risk management department for Salt River Project, which, as Phoenix's public electric and water utility, owns the steel, lattice-like tower the boys climbed.

While SRP's operations personnel rerouted the high-voltage electricity in the power lines to eliminate the risk of electrocution, Mr. Powell stepped in to help the company's besieged media-relations department. He also kept SRP's upper management apprised of the unfolding situation.

"He recognized his role," said David G. Areghini, associate general manager of SRP's power, construction and engineering services unit.

Mr. Powell said, " 'Hey, what can I do to help?' calling the dispatcher, calling our field sources, making sure we touched base with our communications people because it was a big media event. He made sure we notified state authorities," Mr. Areghini said.

He also met with company engineers and managers to evaluate how the crisis could have happened and what needed to be done to prevent it from happening again.

As part of that assessment, Mr. Powell investigated whether there had been similar events on SRP's vast transmission and distribution line system in the past. The study did not find other incidents with a similar potential for such a severity of loss.

"At least if no other problems exist, we will have a good record on file that we have done our due diligence," he said.

"We are surveying the industry just to reassure ourselves that our tower design is to industry standards. We are finding out that is the case. In fact, ours is above industry standards," he said.

The tower the boys climbed has since undergone additional modifications to restrict public access, and SRP's crews are surveying all its lattice-like towers near urban areas to ensure they have appropriate warning signs and that steps are no lower than eight feet.

Public and employee contact with SRP's electrical equipment and waterways are among SRP's biggest safety and liability concerns, said Richard M. Hayslip, SRP's manager of environmental, land and risk management and Mr. Powell's immediate supervisor.

"Almost anywhere in Phoenix, you can see an artifact of our existence: a power line, a canal, an irrigation ditch," Mr. Hayslip explained.

"Having that much physical infrastructure out in the community that people can run into with cars, they can jump off of, or they can climb on gives you some unique exposures. It's not just benign things that are out there."

In addition to third-party liability exposures, SRP's employees also face exposures inherent in the utility industry, from operating utility vehicles and equipment to working in close quarters with high-voltage power lines.

"We have literally hundreds of people in dangerous situations every day," said Richard H. Silverman, general manager of SRP.

Mr. Powell's management of those exposures, amid ongoing change as SRP and the utility industry prepare for deregulation, earned him a place on the 1997 *Business Insurance* Risk Management Honor Roll, representing government entities.

SRP provides electricity to 640,000 customers in the Phoenix area, while its water reservoirs feed central Arizona through a 131-mile canal system.

SRP operates or shares in the operation of seven major electric power plants along with several smaller ones in Arizona. SRP's plants are fueled by coal, nuclear and hydroelectric sources.

High-cost electricity-generating machinery alone represents a major portion of SRP's more than $4 billion in insured values.

Mr. Powell emphasizes central control over risk management and the purchase of insurance coverage to better manage the utility's risks and costs (see story, page 129).

Integrating risk management and safety into other departments so that line managers think to consult him before they take on new risks is a constant effort, Mr. Powell said.

"If it becomes just a little dim light in the back of their head that 'This is something I might want to call Bill about' or 'This is something risk management might want to be involved in,' that is the door that opens a little crack allowing us to get involved," he said.

Mr. Powell oversees 37 employees working in six units that he has restructured or influenced significantly since 1991, when he was promoted to manager of the risk management department.

Those six units are: environmental health and safety audit; insurance services; safety services; security services; technical services; and workers compensation services.

"The scope of his responsibility is much broader than you see most risk managers involved with," said Michael J. Marsolek, senior vp for Aon Risk Services Inc. of Southern California in Los Angeles, SRP's primary broker.

"He really changed a lot of things here, and this was not a broken system when he took over," Mr. Marsolek added. "The Salt River Project has historically been well-managed. It is one of the leaders in the utility industry and it's looked up to by most of its peer competitors."

Indeed, SRP's safety efforts have won honors from the American Public Power Assn. and the National Safety Council (see story, page 132).

All of the utility's parts, including risk management, work closely in sync, Mr. Marsolek added.

That coordination has enabled Mr. Powell to broaden risk management's role within the utility, which in turn has contributed to a reduction in its total cost of risk to $6.2 million in 1996 from $8 million in 1991 (see story, page 131).

Cost control will prove even more critical as SRP navigates

See **Powell** *on next page*

William R. Powell

Manager
Risk Management
Department

Salt River Project

1997 Risk Management Honor Roll

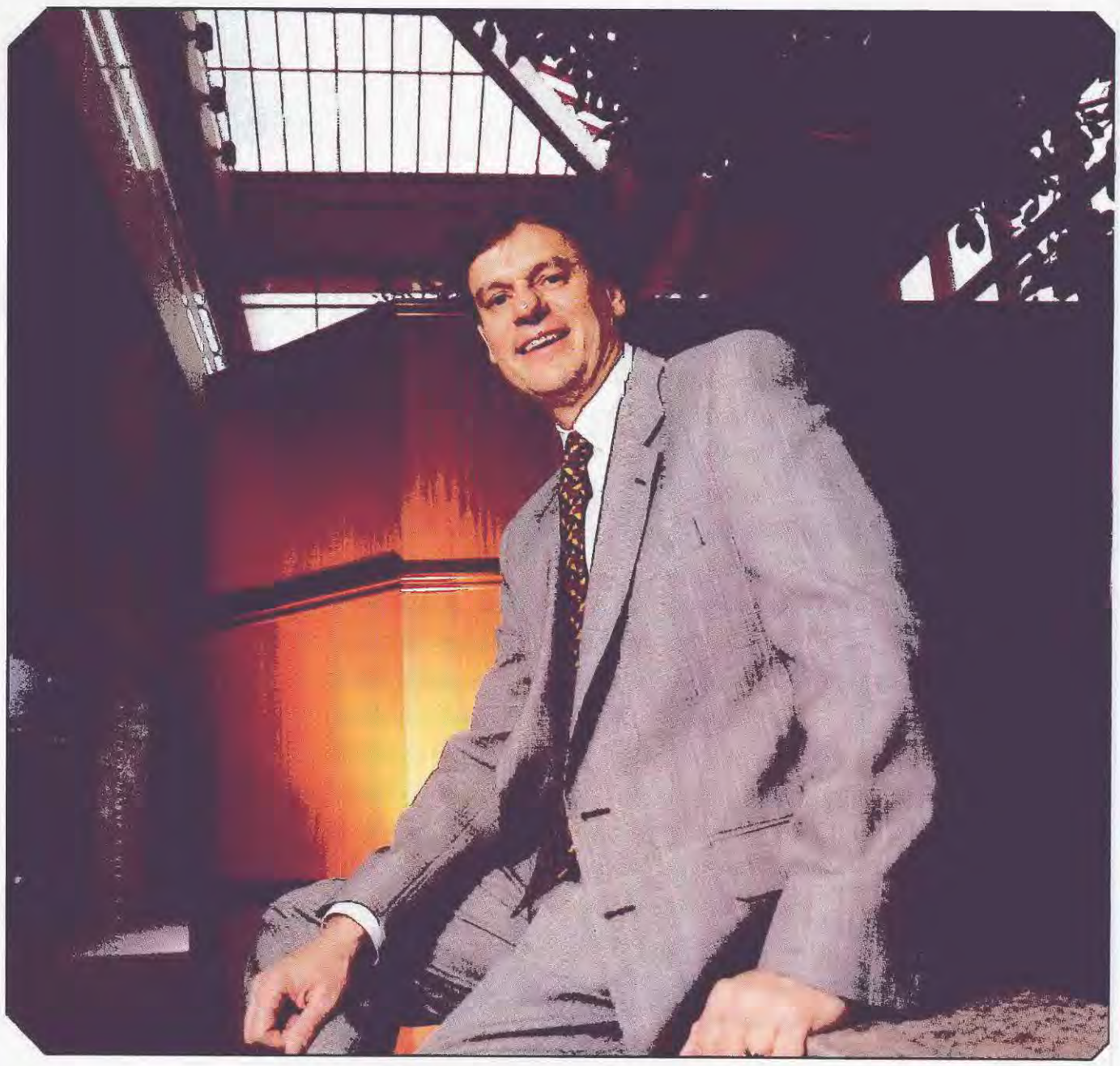


PHOTO: MICHAEL MARCOTTE

Salt River Project reviewing risks as utility readies for deregulation

By ROBERTO CENICEROS

Salt River Project managers are trimming operating costs and adding new revenue-generating services to give the company a competitive edge deregulation of the utility industry unfolds.

Deregulation in Arizona will gin in 1999, and most of SRP's stomers will be able to choose nong various utility providers 2003.

Deregulation means that SRP ll operate in an environment nere only the fit and efficient e likely to survive. It also means e company's risk characteristics e changing and demand differt solutions, according to illiam R. Powell, manager of RP's risk management depart-ent.

"Monopolies aren't what they used to be," reads a saying tacked up in an SRP risk management conference room

As part of companywide efforts to trim unnecessary expenses, the risk management department has reviewed its own operations and costs. That review led to a doubling of the company's property and liability retentions over the past few years.

The company now retains $2 million per occurrence for general and auto liability risks, up from $1 million, and its basic property retention has increased to $500,000 from $250,000 per occurrence.

Salt River Project left a $1 million retention for high-value equipment, such as turbines, intact. "When there is a loss, it tends to make that machinery look like spaghetti," Mr. Powell said.

Increased emphasis on risk control practices and a detailed knowledge of the company's cost of risk allowed SRP to comfortably increase the retentions.

SRP also will encounter new risks as it develops new operating units to generate revenue, Mr. Powell pointed out.

For example, later this year SRP plans to launch a for-profit subsidiary that will sell electricity on the open market.

To both deal with the new risks and give the company greater risk financing flexibility, the risk management department conducted a captive feasibility study in early 1996.

That led SRP in the fall of 1996 to begin using a rent-a-captive: Energy Insurance (Bermuda) Ltd., a wholly owned subsidiary of Tampa, Fla.-based Energy Insurance Mutual Ltd.

SRP has been a member of EIM since 1983, and Mr. Powell serves on an advisory committee, so it made more sense to use the rent-a-captive rather than incur the start-up costs and administrative time required to form its own facility, he said.

"The captive is really about the future," Mr. Powell said. "There is enormous change going on, and we are getting into areas that are much different for our business. I have to say, it's probably uncharacteristic for a governmental entity like us to have a rent-a-captive. But it's all with an eye to the future, not to meet an immediate need."

Initial capital for the captive came entirely from the premium savings gained by increasing self-insured retentions, credits for good loss experience from SRP's insurers and taking advantage of the soft market while maintaining strict risk control practices, Mr.

See **Utilities** *on next page*

Powell

ntinued from previous page

pending deregulation in the ility industry, which will mean w competition for an industry at until now has enjoyed a nopoly for its services.

To meet those challenges, SRP's k management department has en adopting more cost-effective k financing strategies, includg increased self-insured retens and use of a rent-a-captive.

The department also continues fine-tune its understanding of e components of SRP's cost of k and to implement new safety easures to hold down workers mpensation costs, one major urce of its loss costs.

For example, under the risk anagement department's guidce, SRP recently held a 30-nute safety stand-down in ich workers and their supervirs halted work companywide, scussed the subject and made commendations for improvents.

Among the topics discussed re driver safety and ernomics.

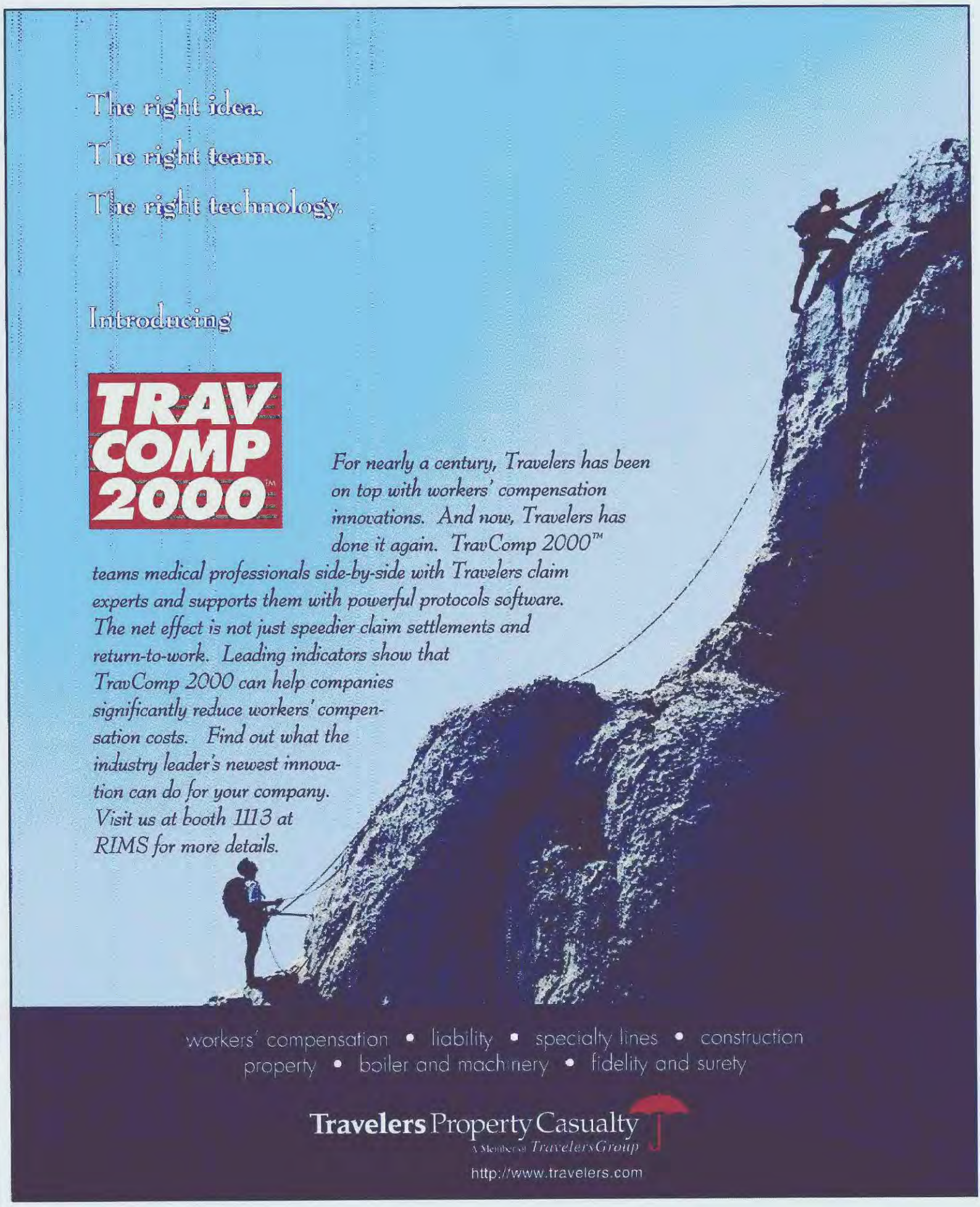
To its credit, the department ens unequivocal support from P's upper management, which focused on surviving the pross of deregulation by keeping erhead and losses to a minimum ile exploring new revenue optrtunities.

The support for risk managent comes in large part from the P general manager's dedication safety and loss prevention.

"The success of our risk manement/loss control package is ributable in large measure to support Dick Silverman proles," said Mr. Hayslip. "He sees importance of what Bill does risk management and is very portive to the symbolic extent spending a lot of time in the ld with Bill or Bill's safety peo-. It sends a subtle message that k management is important."

Mr. Silverman joins risk management department employees veral times a month on routine rs of company facilities and its with field crews, he said.

That kind of support "is not pical for people in my job," Mr. well said. BI



1997 Risk Management Honor Roll

Utilities

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Powell said.

The captive currently is used to absorb a $1 million excess of $1 million buffer layer for SRP's general and auto liability program.

Eventually, the captive could allow the risk management department to provide other SRP units with unique coverage, Mr. Powell said.

For example, the company sustains a steady and predictable level of storm damage to its electricity transmission and distribution system. The damage currently is treated as a business expense.

But through its captive, the risk management department could provide insurance for those losses to the company's Power, Construction and Engineering Services unit. That would allow that division to stabilize its budget, Mr. Powell said.

"Ultimately, taken to its very extreme, we could be an insurance/risk management entity," Mr. Powell said. "The captive has helped us think about how we might run the risk management department to be a profit center." BI

Three departments work to keep SRP high on safety, low on costs

By ROBERTO CENICEROS

Three of Salt River Project's risk management units use creative ways to keep workers safe and injury free and reduce the utility's workers compensation costs.

The three—Security Services, Safety Services and Workers Compensation Services—are among the six units that report to William R. Powell's risk management department.

The 15-person security unit is responsible for everything from employment screening and fraud investigations to property and employee protection.

SRP patrol officers and investigators handle problems common to many employers and municipal police departments, explained Joe N. Smith Jr., manager of SRP's Security Services Division. SRP also contracts with a security service that provides another 150 patrol officers and personnel.

For employees traveling to foreign countries on company business, the security division provides them with U.S. State Department briefings and other information on crime and safety in the region. The unit will even do the same for employees planning personal vacations, said Mr. Smith.

The security unit also screens employees participating in projects outside of work.

For example, some of SRP's 4,500 employees participate in a company-sponsored mentor program at a local school for homeless children. SRP's security personnel screen the participants to eliminate anyone who might present a threat to children.

The mentor program screening is in addition to a background check that everyone under consideration for employment at SRP must undergo, Mr. Smith said. Additionally, employees in 200 sensitive positions are screened every five years. They include workers who sign contracts or handle cash at customer payment offices.

The bulk of workers comp claim prevention at SRP falls on the Safety Division.

Four safety and heath specialists maintain offices in the company's field hubs, giving them an intimate understanding of the potential hazards company employees face, said Donald J. Breiland, manager of Safety Services.

"We have a pulse on what goes on in the company because we are field-oriented," he explained. "We are a corporate resource and yet we are not isolated as a corporate resource."

The division's successes speak for themselves. In 1986, SRP employees filed 386 workers compensation claims. That number was reduced to 125 by 1996.

"It's not only the frequency of claims that is significant, but also the cost," said Mr. Powell. Workers comp costs per employee have dropped to about $60 in 1996 from nearly $350 in 1991.

There are a number of factors contributing to this success.

One is a monthly video newsletter, "Eye On Safety," that is sent to various units throughout the company. The eight-minute videos feature field employees discussing safety tips for work and home.

SRP also has a creative incentive pay plan that rewards employees for their safety record as well as other factors such as customer satisfaction.

SRP establishes a target rate of return it hopes to receive after expenses for each kilowatt hour of electricity it produces. Earnings above the target rate are then split equally between the company and employees. The amount individual employees receive is based on their base pay.

But employees risk losing part of their share if they do not meet safety goals for lost time accidents, OSHA recordable accidents and preventable automobile accidents. Each of the three components is worth 10% of the potential incentive pay.

SRP also controls the cost of claims that do occur.

Arizona law allows self-insured employers to direct the health care of injured workers. In 1991, when Mr. Powell became risk manager, he led the company's drive to take advantage of the law.

"That was a big factor in terms of cost containment when we finally exercised that right," Mr. Powell said.

SRP employees first see an in-house nurse who can refer them to primary care providers who contract directly with the company.

"They understand our return to work philosophy and they understand our modified duty program," said Gayle F. Siewert, SRP's workers comp administrator.

Under a modified duty program, supervisors who employ recovering workers are not charged for their pay. Once they are at 100% recovery, they return to their original departments.

Claims administration is handled by Alexsis Inc., which refers workers who need additional or special care to specialist doctors familiar with workers compensation. Alexsis also contracts for nurse case management.

The focus is on aggressive claims management and early intervention, Ms. Siewert said. All injuries are immediately reported to a risk management hot line, and then the information is quickly passed on to Alexsis and others within SRP who need to respond.

In addition to those tried and proven claims management practices, the workers comp services unit has embarked on a pilot program in cooperation with the Industrial Commission of Arizona. The program is helping a former meter reader with a back injury find a new career, while eliminating the company's potential exposure to $308,000 in wage loss benefits for the remainder of the employee's work years.

The worker attended drafting classes paid under SRP's tuition reimbursement program after a vocational rehabilitation counselor determined he had the aptitude and the physical ability for drafting and the employee expressed a strong interest in drafting.

A supervisor in SRP's drafting and mapping department was eager to provide additional training and hire the worker for a year while he develops the new skill, Ms. Siewert said. Meanwhile, the Industrial Commission is paying half the employee's wages for the year.

The worker is exceeding all expectations in his new role, Ms. Siewert said she would implement a similar program for other workers under similar circumstances. B

PHOTO: MICHAEL MARCOTT

The staff of Salt River Project's risk management department, beginning left to right in the front row: Michael P. Culshaw, supervisor, insurance services, risk management department; Joe N. Smith Jr., manager of security services division; Donald J. Breiland, manager, safety services; Shirley Meier; secretary to the risk manager; and Gayle F. Siewert, workers' compensation administrator. In the second row, left to right, are William R. Powell, manager of the risk management department; Gary Slama, risk analyst; and David G. Sultana, supervisor of the environmental health and safety audit division.

Auditors keep SRP in compliance with regulations

By ROBERTO CENICEROS

Managing environmental and workplace safety are two sides of the same coin at Salt River Project.

The utility's risk management department oversees SRP's Environmental, Health and Safety Audit Division, which is charged with ensuring the company complies with various government regulations while helping reduce potential exposures.

When William R. Powell assumed leadership of SRP's risk management department in 1991, the audit unit was part of SRP's Environmental Department. He put his stamp on it by folding it into the risk management department and expanding it to include health and safety audits.

Reporting to risk management gives the unit a greater degree of independence and objectivity than it had under environmental services, said Dave G. Sultana, the unit's supervisor. Under the Environmental Department, the unit essentially was auditing programs developed and managed within that division, he said.

The unit scrutinizes SRP compliance with regulations imposed by the U.S. Department of Transportation, Environmental Protection Agency, Occupational Safety and Health Administration, as well as SRP's own safety standards.

SRP's management of its exposures and regulatory compliance have earned it a spot in an EPA project to streamline regulation.

SRP is among 12 companies selected to participate in an Environmental Leadership Program advocated by President Clinton's administration.

The proposed EPA project aims to allow companies with proven compliance programs to police themselves so that governmental auditors can focus on other companies with lax compliance procedures.

To participate in the EPA program, SRP's Environmental, Health and Safety Audit Division developed and tested a system for self-certification by drawing on its own internal auditing standards and prior work with the EPA's National Enforcement Investigation Center, the Arizona Department of Environmental Quality and other government agencies.

Additionally, SRP has signed an agreement with other electric utilities to create an environmental audit pooling arrangement this year.

Under the Peer Review Program, the companies will make their auditors available to each other on a rotating basis and free of cost to audit each other's environmental programs for the EPA.

If the EPA's Leadership Program eventually receives a green light to continue, the Peer Review Program would allow the participant utility companies to spread their auditing costs, said William R. Powell, manager of SRP's risk management department.

Additionally, the electric utility industry's own pool of auditors would have more industry-specific expertise than do many outside consultants.

SRP already has used a similar pooled auditing arrangement to trim its oversight costs while reducing regulatory and civil liability exposures.

Three years ago, SRP formed a consortium with nine other utility companies in the West.

The purpose is to audit the landfill operators and vendors that dispose and recycle the utilities' wasteproducts such as oils, solvents, paints, batteries, mercury, asbestos and other contaminants.

See **Audits** *on next page*

Audits

Continued from previous page

"We have common interests, common wastes and common vendors," Mr. Sultana said, so pooling the auditing made sense and lowered costs.

"If we are sending our waste to a site that is not complying with regulations or they contaminate the air, land or water, because we used that site, we are in the chain of liability to remedy that exposure down the road," Mr. Powell noted.

SRP also has improved its own environmental auditing abilities while limiting staff costs. The four people in the Environmental, Health and Safety Audit Division can draw on a pool of employees with related expertise from throughout the company. They include employees from engineering, operations, safety and other departments who have been trained in government regulations and auditing techniques by the risk management department.

Which facilities and which programs will be audited and just how frequently are factors determined through risk assessment. That assessment weighs potential dangers to employees, the public and environment, as well as possible company liabilities and emerging regulations or current public interest issues.

"There is an enormous amount of knowledge that you have to constantly stay on top of," Mr. Sultana said, citing regulations, management systems and the diverse operations of the company. "We have everything from maintenance service centers to generating facilities to hydroelectric facilities to mines," he noted.

All the audits conclude with an executive briefing attended by the general manager of SRP and the manager of the particular facility. The utility's senior executives rarely miss a briefing, which demonstrates the company's belief that the audit program is a valuable risk management tool, Mr. Powell said.

The environmental audit unit also participates in the purchase, sale or lease of SRP's vast properties, evaluating them for potential liabilities, Mr. Sultana explained. Some properties could have hazardous materials left behind decades ago, in which case the unit coordinates other SRP staff in remediation efforts.

"Typically we're looking for hazardous materials, but sometimes it goes beyond that," he said. "We also look for radon or ground water contamination."

The unit also has a contractor oversight function, auditing the safety programs of construction contractors hired by SRP, Mr. Sultana said. That can be crucial in limiting SRP's liability exposures.

A contractor hired to install electrical lines could end up digging trenches throughout the city, and an accident involving them could reflect badly on SRP's image or bring plaintiffs' attorneys to the company's doorstep.

SRP's power plants and facilities also undergo OSHA compliance audits performed by the unit. For example, employees and supervisors working around hazardous materials are evaluated to assure they use required safety equipment, that they have been trained in mandated OSHA standards and have read OSHA advisories on handling the materials they work around.

"We will go in and talk to the employee and say, 'OK, can you explain to me what the hazards are with this chemical that you are using?' to test if they understand," Mr. Sultana said. "That's what we do at our facilities just as we would do with a contractor." BI

SRP depends on team of insurers to spread utility's considerable risks

By ROBERTO CENICEROS

High self-insured retentions, mutual insurers and the purchase of coverage for high-cost boilers and machinery are cornerstones of Salt River Project's property/casualty insurance program.

The company's insured property values exceed $4 billion, most of which is concentrated in turbines, generators, boilers and other machinery, said William R. Powell, SRP's manager of risk management.

"When you get into the utility business, both the risk and the values are in the electric generating stations," Mr. Powell said. "Everything else combined—including office buildings—doesn't even come halfway close to the values you have tied up in the plants."

SRP's property and boiler and machinery insurance premiums currently exceed $1 million annually. Hartford Steam Boiler Inspection & Insurance Co. provides SRP with a primary $150 million layer of all-risk property and boiler and machinery coverage subject to a $500,000 per occurrence deductible. The coverage is written under a three-year policy.

Chubb Corp. and Fireman's Fund Insurance Co., in a quota share arrangement, provide $50 million of coverage excess of $150 million, while Kemper Insurance Cos. provides a $100 million layer excess of $200 million.

In today's competitive market, it would be easy to consolidate the coverage, but SRP has been served well by those insurers for many years, noted Michael J. Marsolek, senior vp for Aon Risk Services Inc. of Southern California in Los Angeles.

The manuscript policy under Hartford Steam Boiler's three-year policy stipulates the amount of administrative overhead costs payable is based on a sliding scale that is set on the size of the claims. For example, if a loss is over $2 million, the administrative costs paid are equal to 3.5% of the loss.

The manuscript policy also includes a clause promising to return up to 5% of SRP's annual premium for good loss experience. The 7.5% is payable for a loss ratio of 5% or less. A loss ratio of 5% to 25% percent calls for a credit of 5%.

On the other hand, SRP risks paying a rate increase if it has significant losses. SRP has benefited from the arrangement, despite a recent large loss, Mr. Powell said.

For 1994 and 1995, Hartford Steam Boiler has returned $75,000 and $94,500, respectively.

"Some would say you should have got that in reduced premium to begin with," he said. "But I have gained what is more important."

Mr. Powell explained that he used the refunds to show the end users within SRP their payoff for practicing sound engineering, maintenance and property loss control.

When Hartford Steam Boiler refunded the premiums, Mr. Powell invited its representatives to Phoenix to hand the checks directly to the SRP senior managers responsible for overseeing the operation of the company's machinery. A photograph of the hand off has been featured in the company's newsletter with a story explaining how proper equipment maintenance and employee attitude help SRP win a return of its premium dollars.

"It reinforces that employees' good practices convert to money," Mr. Powell said. "That's a cornerstone feature of our property insurance program. It's designed to give credit where good loss experience has accrued."

The refunds have also added to Mr. Powell's stature within his company. The first year SRP received a check from Hartford Steam Boiler, Mr. Powell received a SRP recognition award for exceptional performance.

In late March, however, SRP experienced the loss of a transformer, valued at more than $1 million, at a coal-fired generating plant, one of the largest electric generating facilities west of the Mississippi, Mr. Powell said.

With his current policy ending June 15, the company may be looking at premium increases because of the loss. However, because of favorable market conditions SRP could end up with a program providing a premium credit for good loss experience without any penalties for poor loss experience, he explained.

Under the current policy, SRP would have received another $100,000 had it made it through the policy year without the transformer loss. Regardless, Mr. Powell said SRP still gained from the insurance arrangement because of its value in teaching the operations personnel about the benefits of loss prevention. The loss itself was unpredictable and unpreventable.

United States Aircraft Insurance Group writes hull and liability coverage for two SRP helicopters and one airplane with insured values ranging from $500,000 to $3.5 million.

SRP pays nearly $1.9 million for various other insurance coverages.

SRP participates in the utility industry rent-a-captive, Energy Insurance (Bermuda) Ltd., for $1 million excess of a $1 million self-insured retention for general and auto liability risks.

Associated Electric & Gas Insurance Services, a Bermuda-based excess and surplus lines mutual insurer, provides general and auto liability excess of the rent-a-captive, as well as primary employment practices liability, fiduciary liability for various joint-venture projects, and directors and officers liability.

AEGIS provides up to $25 million of coverage excess of SRP's retention on a claims-made basis.

Energy Insurance Mutual Ltd., a Tampa, Fla.-based utility industry mutual, provides a high-excess layer of liability insurance above AEGIS, following form. EIM writes $100 million excess of $25 million for general liability risks and $50 million excess of $25 million for D&O on a claims-made basis. "The beauty of that is you have following form coverage up to very high limits, which really is pretty convenient," Mr. Powell said. "You don't have any gaps or differences in coverage."

ACE Insurance Co. Ltd. provides an additional layer of high-excess general liability above EIM, Mr. Powell said.

SRP benefits from the continuity credits, premium refunds and policyholder distributions paid by the mutual insurers, Mr. Powell said. "Not just price, but the cover has been very broad and there is the opportunity to take part in the business affairs of the insurer," he said.

Mr. Powell sits on a loss control task force for AEGIS and a business affairs advisory committee for EIM.

"With commercial insurers you are not given, nor do they desire, that kind of involvement," he said.

SRP has been covered by mutual insurers since the mid-1980s, when liability insurance evaporated, said Michael P. Culshaw, SRP's supervisor of insurance services. Placing the coverage directly requires more scrutiny than placing it through a broker, he added.

"You can bet that if I'm an equity holder in the company and I get continuity credit based on my equity buildup in the surplus, I will take a little bit more active interest in that insurance operation, he said."

SRP does not purchase environmental impairment insurance, relying on risk control and its own funds.

For workers compensation, SRP self-insures the first $2 million per occurrence of its workers comp losses and buys excess workers comp coverage from National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit.

The aircraft, property and excess workers comp coverages are placed by Aon Risk Services Inc., while Sedgwick Group P.L.C. places SRP's coverage with ACE. SRP deals directly with AEGIS and EIM. BI

PHOTO: MICHAEL MARCOTTE

William R. Powell (left) discusses safety and loss control measures with Richard Silverman, Salt River Project's general manager.

Quantifying cost of risk

Powell measures, cuts SRP costs

By ROBERTO CENICEROS

William R. Powell's belief in the old adage that you can't manage what you can't measure is evident in his understanding of Salt River Project's cost of risk.

The risk management department at SRP works closely with all departments of the utility to understand and gather information on risks and their costs.

This is not as simple as it sounds, because each department has its own standards for measuring performance, Mr. Powell said. Communication with those departments helps the risk management staff understand their mission, while conveying the need to focus on lowering the cost of risk.

"The focus is to try to get everyone to understand their function in terms of cost of risk," said Mr. Powell. "It helps them understand how they can manage their administrative costs, how they can manage their function effectively to control losses, how they can positively impact premium and costs associated with risk transfer and how they can get the most out of outside consultants or services."

Measuring the cost of risk establishes risk management's worth within an organization, Mr. Powell said. "It settles the question of whether or not you are needed," he said.

Since becoming manager of SRP's risk management department in 1991, Mr. Powell and his staff have shaved the utility's cost of risk nearly 29% to $6.2 million a year ago from $8.7 million in 1991. SRP's cost of risk includes retained losses, insurance premiums, risk management administration costs and fees and commissions paid to brokers and vendors.

"They know exactly what their cost of risk is," said Michael J. Marsolek, senior vp of Aon Risk Services of California in Los Angeles, who places several lines of coverage for SRP. "They are quite sophisticated at tracking it, measuring it, and they are refining it all the time."

The risk management department's operating budget, premiums paid and the amount spent on loss control are easily compiled, Mr. Powell said. Determining other cost of risk ingredients, though, such as uninsured property losses, require surveying SRP departments.

A risk analyst evaluates the survey information along with company accounting records. Reports generated from that information can show the risk management department shifts in company loss patterns or areas where additional safety resources are needed, he explained.

The information can also be compared with the experience of other companies in the utility industry.

Mr. Powell attributed SRP's lower cost of risk to several key factors.

See **Savings** *on next page*

1997 Risk Management Honor Roll

Savings

Continued from previous page

One of the biggest sources of savings came from renegotiating insurance terms and conditions while increasing SRP's retention and continued use of alternative risk financing mechanisms. Those efforts lowered its insurance premiums to $2.8 million in 1996 from $3.9 million in 1991.

Crucial risk financing decisions, such as knowing when to reduce the company's reliance on insurance and assume higher retentions, require a precise understanding of the risk costs, Mr. Powell said.

Greater management of injured workers' medical care also has paid off. Mr. Powell in 1991 created a Workers Compensation Services unit within the risk management department that now directs injured workers' to network providers who contract directly with the employer.

Arizona law allows self-insured employers to direct employees to specific providers, but in the past SRP did not exercise its right to do so.

The implemented safety and loss control measures include increased safety training, an employee safety perception survey that shed light worker concerns and attitudes, and an incentive pay plan that incorporates adherence to safety practices.

Another factor in reducing the losses has been the intense interest of Richard H. Silverman, the company's general manager.

"He is truly driven to excel in this area," Mr. Powell said. "Executive management interest and commitment has been key."

In combination with aggressive claims management and other safety and loss control steps, SRP's workers comp expenses dropped to $775,000 and 130 claims in 1995 from $1.6 million with 300 claims in 1991.

Part of the savings stem from trimming the risk management staff to 37 from 47 in the last five years, he said.

Budget reductions forced Mr. Powell to assess which positions in his department were most valuable, while an early retirement program and attrition helped reduce the staff level.

Mr. Powell also has found savings from consolidating SRP's broker services by placing additional lines of coverage, such as aviation, excess workers comp and crime, with SRP'S main casualty broker, Aon.

Even though SRP already surpasses many other companies of its size in understanding its risk costs, there are ongoing attempts to refine that knowledge.

SRP is now collecting data compa nywide on small, low-end propert losses, such as damage to transform ers. To obtain this data, the depar ment must educate all of the compa ny's operations personnel on the nee to report small losses that are no treated as operating expenses.

"They're really trying to get it rigl down to the gnats eye," said Aon's M Marsolek.

Once SRP's risk management sta has enough data on those smaller los es, they will look for patterns thi might lend themselves to new lo control efforts. BI

Powell tackled white collar crime early

By ROBERTO CENICEROS

In his first days as manager of the Salt River Project's risk management department in late 1991, William R. Powell was confronted by unexpected losses from white collar crimes.

The crimes shook SRP to its core. Company officials had believed they were putting good people in positions of trust, recalled Mr. Powell.

But the perpetrators circumvented the company's financial security measures.

The first incident, which was discovered shortly before he took over the department, was particularly unsettling for Mr. Powell because it involved an SRP claims manager charged with creating false automobile liability claims. His scam led SRP to issue settlement checks for the false claims.

The claims manager was killed in a car accident days after he was told of the discovery of improprieties.

In conjunction with two relatives, he was suspected of filing false claims totaling $887,834.

"I really anticipated the distinct possibility we were going to have cancellation of fidelity coverage," Mr. Powell said. "Particularly because it was with a carrier that did not offer it as a major line; it was a loss leader line."

Mr. Powell directed his insurance department to notify the utility's fidelity insurer, which he declined to identify, and begin gathering the information needed to file a claim.

Mr. Powell also led the investigation by SRP's security department, which reports to him, and its financial auditors.

Investigators succeeded in developing a case for the prosecution of the two relatives and in establishing the extent of the company's losses from the scam, leading to a successful claim settlement, Mr. Powell said.

The investigation Mr. Powell directed established every cent of SRP's loss.

An SRP security services investigator spent months meticulously poring over claims records, found a pattern, and then interviewed and confronted the alleged claimants.

Meanwhile, Mr. Powell helped provide SRP'S media relations department with company statements to be released to reporters if they inquired about the case.

"When we were so consumed in trying to prove what was a very devastating loss to this company, the last thing we needed was to deal with extraneous factors that could take us away from the importance of what needed to be done," Mr. Powell said.

Just as that loss was being resolved, however, SRP's financial auditors uncovered another alleged crime in August 1993.

A longtime employee, allegedly taking vendor kickbacks, presented SRP with the potential of $1 million in losses for "way over-market pricing for marginal service," Mr. Powell said. Playing a support role in that investigation, he negotiated another settlement with the same insurer.

Despite the evidence SRP'S investigators had collected, the company was unable to convince prosecutors to take the suspected perpetrators.

With two major scams and renewal of its fidelity insurance near, Mr. Powell contracted with Alexandria, Va.-based consultant Risk Concepts Ltd. to review the adequacy of SRP's security procedures and whether they contributed to the losses.

Risk Concepts' analysis found that the losses did not result from flaws in management oversight or internal controls, but were simply the sort of losses that can occur despite even the best safeguards.

Nevertheless, SRP did follow Risk Concepts' recommendations for additional security measures.

Mr. Powell restructured his security services unit by promoting the investigator, Joe N. Smith Jr., who pored through claims in the first incident, to manager of the unit. Additionally, two more "top notch" detectives with police department experience were hired. Other changes were made as well, such as outsourcing some patrol responsibilities and strengthening relations between SRP'S financial auditors and the security unit.

Risk Concept's security review and improvements helped Mr. Powell portray a positive image of SRP's fidelity exposure to insurers, he said. During renewals in 1994, the incumbent insurer agreed to renew the account, though it asked for "substantially more" premium. SRP, though, instead contracted with underwriters in the London market that offered improved terms and conditions at a better rate based on the risk manager's presentation.

It is a three-year policy with a guaranteed premium, assuming no significant changes in the risk, with a 10% discount in subsequent years for no claims. To date, there have been no losses

The company's coverage now includes an audit expense to cover the cost of investigations should losses make it necessary.

SRP incurred $75,000 in uninsured expenses substantiating the two claims, Mr. Powell said.

In addition to beefing up security, SRP used the losses to show employees that the company does not tolerate theft and will seek prosecution and restitution.

Risk managers need to be aware that fidelity losses can happen anywhere and they need to know how they will respond when they do occur, he advised. BI

Risk management goes the distance

By ROBERTO CENICEROS

For William R. Powell, running in a team triathalon shares similarities with running a risk management department: Both require long-range goals and the endurance to see them through.

"Not everybody has to be a genius or expert insurance analyst," he said. "A lot of it has to do with your willingness to stick to it and keep forging ahead."

Mr. Powell's stick-to-it attitude earned him two recent achievements: He was named to the 1997 *Business Insurance* Risk Management Honor Roll, representing government entities; and along with two other SRP employees he was part of a three-man team that placed first in his class in a Mountain Man Triathalon held in Flagstaff, Ariz.

In addition to his determination, he also has plenty of expertise and the demeanor to deftly tackle contentious issues, staff and supervisors say.

"He's smart, a good practitioner, and he knows insurance, safety and health," said Richard M. Hayslip, SRP's manager of environmental, land and risk management and Mr. Powell's immediate supervisor. "He works real well with operations people. They don't always love Bill because sometimes he has to be assertive with them. But I think he has earned their respect."

Mr. Powell, 44, became manager of SRP's risk management department in 1991, a promotion from his position as safety and loss control manager. He started with the utility company in 1978 as a field safety coordinator.

His rise through safety ranks, rather than insurance, has helped shape the company's culture and its commitment to controlling risks rather than transferring them, his colleagues say.

On one shelf in his office sit a pair of steel-toe boots, a relic from Mr. Powell's industrial home-town background. He grew up just outside Pittsburgh, where his father and grandfather worked for companies associated with the steel industry.

Mr. Powell spent his college summers working in the steel mills.

"It's like walking into Dante's Inferno," he recalls of the mills. "There is flame, there is molten metal, there are minor pops and explosions. It's an environment that when you step into it your senses tell you 'I need to be concerned about my safety.' "

Mr. Powell graduated from West Virginia University in Morgantown with a political science degree in 1974, a time of growing employer concern about compliance with federal safety regulations under the Occupational Safety and Health Administration, which was created by a 1970 law.

He earned a master of science degree in occupational safety and health management from West Virginia University. After graduation, he joined Union Carbide Corp. and his career in safety began.

Mr. Powell recalls one of his early assignments, when at 23 Union Carbide sent him to audit workplace safety at a plant in Alabama. His report resulted in a scathing letter from the plant's senior manager.

"The guy was probably 50-some-years old, goes to meetings at Carbide's Park Avenue headquarters in New York and he's writing me a letter," recalls Mr. Powell. "I can remember reading it. I thought, 'Man, this is the end of my career.' "

Instead it was a lesson in people skills, he said, which is something he looks for in his staff at SRP.

With more responsibility "than any one risk manager could ever carry on," Mr. Powell relies on his staff at SRP to meet the department's goals by gaining the cooperation of others within the company.

"They are competent, technically well trained and well educated," he says of his team. "They have terrific people skills. I think that is evident in our results."

As a testament to the competence of Mr. Powell's department, SRP won two loss control awards in 1995. The American Public Power Assn. presented SRP with a fist place award for safety and the National Safety Council presented SRP an award of honor for reducing occupational injuries and illnesses.

The awards represent a turnaround from the late 1970s when Mr. Powell first joined SRP. Back then, he said, the company was experiencing about one employee death per year and had one of the worst safety records among utilities in 17 Western states. One of his first tasks was to investigate an explosion at a damn that resulted in the death of a worker and the hospitalization of others.

It was an experience that taught him SRP cared greatly about its employees, but lacked the technical knowledge to improve safety.

In addition to his job with SRP Mr. Powell is involved with several professional and community organization. Along with other area risk managers, he advises the local YMCA on insurance issues. He also raises funds for Homeward Bound a non-profit Arizona organization that helps homeless families with children find housing and reduce their dependence on welfare.

Mr. Powell and his wife Karen are parents to three boys, Jameson, 5 Christopher, 9, and Benjamin, 11.

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1997 Risk Management Honor Roll

Hospital's ailing risk management program healed

Sedwick builds Wake County Hospital program from ground up

By MICHAEL BRADFORD

When Jeannie Sedwick arrived at Wake County Hospital Systems Inc. nearly 21 years ago as an administrative assistant, the medical center's risk management program was in need of intensive care.

It was less than bare-bones.

"There was a risk manager here, but he was more of a safety officer," Ms. Sedwick recalled. "The insurance part of the program was under the chief financial officer," with a broker taking care of most of the buying duties, she said.

Eventually, even the "risk manager" was gone, taking an administrative position in another part of the hospital.

It wasn't until 1985 that things began to change at the facility, commonly known as Wake Medical Center in Raleigh, N.C. New leadership arrived after the retirement of the hospital's president and brought with it a new emphasis on controlling and funding losses.

"We decided in 1985 to create a risk management department with somebody in charge of loss control and the insurance portfolio," recalled Douglas B. Vinsel, Wake Medical Center's executive vp who came on board at that time.

And when it came time to enlist someone to create the hospital's first comprehensive risk management program, Ms. Sedwick got the nod.

"At that time, it was as much her personal attributes as her background or skills" that got her the job, Mr. Vinsel said. "She impressed me as thorough and hard-working."

Her title as risk manager was new in 1985, but Ms. Sedwick was not a complete greenhorn to loss control after her years as an administrative assistant in nursing administration. In that position, she began developing loss control programs for the medical center and working closely with the hospital's defense counsel. She also worked with the facility's reporting process that tracked incidents that could lead to claims.

"She had done components of risk management with the incident-reporting system and claims review related to nursing activities," Mr. Vinsel noted.

In her new post, it didn't take her long to realize there would be some new and unusual challenges.

"It started off with one person," she said. "I would beg, borrow and steal support help from everybody I could."

But with the challenges came some unique comforts.

"My first office in risk management turned out to be in a renovated nursing wing, and I was in a patient room. It was the only office I ever had with a window. But the window came with my own oxygen and my own sitz bath."

From that clean and well-lit place, Ms. Sedwick set out to bring risk management to the medical center.

Eleven years later, in a different office just down the hall from the medical center's main entrance, she can reflect on the success of building a risk management program for the non-profit hospital system. She has looked out for the needs of the system, made up of a 750-bed, six-location acute care teaching facility, 44 outpatient clinics and a rehabilitation hospital. Last year, the system generated revenues of $261 million.

With that success came a new title in 1995—director of risk management—and she now has a staff of three. Her current office, however, has no window, oxygen tank or sitz bath.

Ms. Sedwick's achievements have earned her a place on the 1997 *Business Insurance* Risk Manager of the Year Honor Roll, and the recognition by her peers is tying a neat end to her career at Wake Medical Center. She begins a new job this month as managing director for property/casualty at AHA Insurance Resource Inc., a Chicago-based subsidiary of the American Hospital Assn. that provides financial and insurance products to the health care market.

Ms. Sedwick's 21 years at the hospital have left her with an impressive resume of accomplishments. Some of her achievements include:

- Restructuring the hospital's workers compensation coverage from an insured program to a self-insured plan. The high retention saves thousands of premium dollars annually.
- Re-engineering the facility's incident reporting system so that staff can more efficiently evaluate reports that provide an early warning of potential claims.
- Spearheading production of a video program aimed at reducing falls by patients. The number of falls and claims has decreased significantly since the videos were completed (see related story).
- Development of a loss control program called Support Services Rounds. Non-clinical departments are reviewed annually and nursing departments twice a year to determine whether these areas are meeting federal and state regulations. Problem areas that could leave the facility open to liability are identified.
- Building a close relationship between risk management and in-house counsel in order to better defend claims that reach the courtroom and to prevent those that have the potential for getting there (see related story).
- Increasing the use of outside sources, such as brokers, insurance company loss control personnel and professional organizations to improve loss control (see related story).

"She has put together a risk management program that would rival any I know of in North Carolina," Mr. Vinsel said. He speaks with some authority, having handled the risk management responsibilities at York Hospital in York, Pa., for five years in the 1970s.

Back in 1985, it was workers comp insurance that Ms. Sedwick targeted early as an area where improvements could lead to savings.

"When I came into the program, we assessed our insurance coverages, and one of the things that we identified with a new broker I selected was that we needed a self-insurance program for our workers compensation."

A program was in place soon after. "We reduced our cost significantly that first year that we were self-insured. . . .That was probably the most exciting thing we did initially."

The facility's workers comp program features a self-insured retention of $250,000 with $5 million in excess coverage written by Frontier Insurance Co. Taking on the retention dropped the cost of coverage by 49.3% the first year.

Ms. Sedwick buys coverage for workers comp exposures, but she doesn't manage the program. That responsibility belongs to the medical center's human resources department and a third-party administrator.

Two employee health nurses tend to some work-related injuries, and the hospital sends injured workers to its emergency room when possible. "We were able to cut our expenses by utilizing our own services," Ms. Sedwick noted.

The $250,000 retention is high enough that excess coverage has never been tapped, Ms. Sedwick said.

See **Sedwick** *on next page*

PHOTO: MICHAEL MARCOTTE

Jeannie Sedwick

Director of Risk Management

Wake County Hospital Systems Inc.

1997 Risk Management Honor Roll

1997 Risk Management Honor Roll

An affinity for dance and art

Sedwick taking new position with AHA subsidiary in Chicago

By MICHAEL BRADFORD

When it's time to escape from the rigors and stresses of risk management, Jeannie Sedwick likes to move her feet—onto a dance floor.

"I love to dance," says the director of risk management at Wake Medical Center. You won't find her waltzing, though. She prefers the shag, a dance best known in North Carolina and surrounding states.

When the dance floor is not the place to relax, another choice is a playhouse. "When I travel. I hit every theater I can find," she said. "I love Broadway and off-Broadway stuff."

Or it could be a museum. "I've gotten really into impressionists, so I spend a lot of time in museums if there's a good artist. It's not every Saturday—I'm not that boring—but if there's a good show, I like to go."

She should have plenty to do in her spare time when she moves into her new job in Chicago this month at AHA Insurance Resource Inc. Ms. Sedwick accepted a position as director for property/casualty at the American Hospital Assn. subsidiary that provides financial and insurance products to the health care market.

Spare time has been a precious commodity for Ms. Sedwick in recent years. "Literally all of my time has been going to my professional organizations over the last several years," she said.

A glance at Ms. Sedwick's resume shows why. With professional activities, speaking, writing and educational efforts, it's a wonder she's had any time for herself.

Last year, Ms. Sedwick completed her one-year term as president of the American Society for Healthcare Risk Management and has served on the group's board of directors since 1992. She held the post of president of the North Carolina chapter in 1993 and has worked as the local chapter's treasurer and board member among other positions.

She has belonged to the Piedmont Chapter of the Risk & Insurance Management Society Inc. since 1985.

Among her writing credits is the first chapter of the Risk Management Handbook for Healthcare Facilities published by American Hospital Publishing Inc.

The road to her 21-year career at Wake Medical Center began when Ms. Sedwick, who is originally from Dallas, attended Texas Woman's University's School of Nursing in Denton, Texas, in 1964 and 1965.

Her educational background also includes completion of the Hospital Administrators Management Improvement Program, an exclusive year-long course at Duke University Medical Center. She earned the Insurance Institute of America's Associate in Risk Management designation and completed ASHRM's Health Care Risk Management Certificate Program.

And there's family life among all her other priorities.

"My children keep me occupied just trying to spend some time with them," she said. Her daughter is a nurse at Wake Medical Center and her son is in the music business. BI

PHOTO: MICHAEL MARCOTTE

Jeannie Sedwick, shown with Wake Medical Center Executive Vp Douglas Vinsel, is to begin a new job in insurance in Chicago.

Sedwick handles even the exposure of artists on facility walls

It's not the Louvre or the Prado, but there is a fair sprinkling of admirable artwork on the walls of Wake Medical Center in Raleigh, N.C.

Along the hallway near the hospital cafeteria is an area reserved for local artists to display their work. Recently it was covered with paintings by local students. Traditional landscapes to more abstract renderings by various artists hang from walls in other parts of the facility.

In a sterile world where pain and death are familiar, these paintings bring some life and warmth.

And while insurance for fine art in a hospital might sound as strange as malpractice coverage for the Louvre, it should come as no surprise that Jeannie Sedwick has made sure that more than the medical center's walls are covered.

Coverage for work displayed at the medical center is included as "an extension of our property coverage," which is underwritten by The St. Paul Cos., she said. The artwork is covered for theft or damage at values far below the work in the museums in Paris and Madrid.

But who knows? The high-dollar art in the world's finest museums may one day include that of Raleigh schoolchildren who first displayed at Wake Medical Center.

—By Michael Bradford

'Talented leaders in their fields' judge contest

Ten independent judges from all sectors of the risk management profession and the insurance business selected the 1997 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

Recipients of the awards, which *Business Insurance* presents annually to recognize excellence in risk management, are chosen by the 10 judges based on information provided in detailed nominations.

Nomination forms for the 1998 award are available from *BI*'s Chicago office. Nominations must be submitted by Nov. 19.

The 10 judges for the 1997 awards were:

• Brian D. Casey, director of risk management and loss prevention at Corning Inc. in Corning, N.Y.

Mr. Casey was the 1996 *Business Insurance* Risk Manager of the Year (*BI*, April 22, 1996).

• Dennis H. Chookaszian, chairman and chief executive officer of CNA Insurance Cos. in Chicago

He served as a judge for a second year, representing stock insurers.

• Richard Corbett, professor in the Department of Risk Management and Insurance at Florida State University in Tallahassee.

He served on the panel for the first time, representing insurance educators.

• Dwight E. Davis, president and chief operating officer of Wausau Insurance Cos. in Wausau, Wis. He served on the panel for the first time, representing mutual insurers.

• Michael M. Kaddatz, a principal of ARM Tech in Lake Forest, Calif.

He served for the first time, representing risk management consultants.

• Scott K. Lange, director of risk management for Microsoft Corp. in Redmond, Wash., and the 1995 Risk Manager of the Year (*BI*, April 24, 1995).

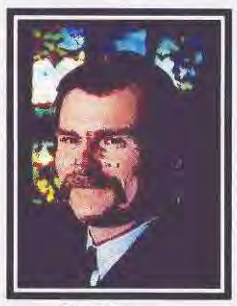
• Craig S. Macdonald, director of risk management at the Bi-State Development Agency in St. Louis. Mr. Macdonald was a member of the 1996 Risk Management Honor Roll and represented government agencies.

• John T. Lockton III, chairman and CEO of Lockton Cos. in Prairie Village, Kan.

He served on the panel for the first time, representing insurance brokers.

• Sax Riley, CEO of Sedgwick Group P.L.C. in London. Mr. Riley served on the panel for a second year, representing insurance brokers.

• Michael Tawney, vp-risk management/loss control at Loomis Armored Inc. in Houston. Mr. Tawney was a member of the Risk Management Honor Roll in 1996 and represented companies with less than $300 million in sales.



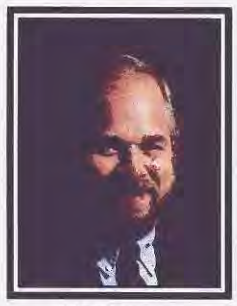
Mr. Casey

Mr. Chookaszian

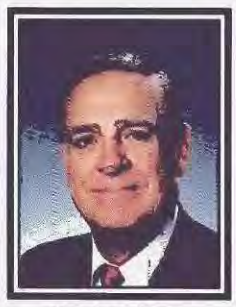
Mr. Corbett

Mr. Davis

Mr. Kaddatz



Mr. Lange



Mr. Lockton

Mr. Macdonald

Mr. Riley

Mr. Tawney

"These are very talented leaders in their fields who agreed to score the nominations for the 1997 Risk Manager of the Year and Risk Management Honor Roll," said Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*. "It is a substantial commitment of their time to the risk management community, for which we are very grateful," she added.

The judges scored each of the candidates on 10 criteria (see related story). The candidate with the highest score after the judging is completed is named Risk Manager of the Year. Then, the remaining nominees are separated by employment category:

• Corporations with sales exceeding $300 million.

• Corporations with sales of less than $300 million.

• Government entities.

• Tax-exempt or non-profit institutions.

• Financial institutions.

• Self-insurance funds and pools.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll, subject to the judges' discretion.

This year the maximum of five nominees were named to the Risk Management Honor Roll.

"This is the first time that we have named five honorees to the Risk Management Honor Roll," Ms. McIntyre said. "It is a testament to the very high quality of candidates who were nominated for the Risk Manager of the Year Award, which now is 20 years old."

A candidate need not handle risk management functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate can be nominated by anyone familiar with the candidate's work. For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or other service supplier can nominate a client. And a risk manager can nominate a colleague.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by an executive of the candidate's organization, who may be the candidate's superior or any higher officer.

The letter must certify the accuracy of the information submitted in the nomination.

See **Judges** *on next page*

Judges

Continued from previous page

All nominations will be kept in the strictest confidence, with only the honored candidates' names announced.

"It's important to note that any risk manager anywhere in the world is eligible for the *Business Insurance* Risk Manager of the Year Award," Ms. McIntyre said. "Our award was never restricted to U.S.-based risk managers. Indeed, we have had a Canadian Risk Manager of the Year and named another Canadian to the Risk Management Honor Roll," she added.

Business Insurance created the Risk Manager of the Year award in 1977, on its 10th anniversary of publication, and presented the first award in 1978. The Risk Management Honor Roll was created in 1981 to recognize outstanding achievements in risk management in different types of employment categories.

To request a nomination form, please contact Karen Tucker, Assistant to the Publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319. BI

10 criteria for risk manager recognition

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The awards are intended to recognize outstanding risk management and outstanding risk managers.

The panel of 10 independent judges scores each nominated candidate on a scale of one to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance (how the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion).
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.

The functions include planning, organizing, directing and controlling.

- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operational aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

Risk Management Honor Rolls

Craig S. Macdonald — Bi-State Development Agency — Government entity — 9
Michael Tawney — Loomis Armored Inc. — Small corporation — 9

Lee D. Holland — Tennessee Municipal League Risk Management Pool — Self-insurance pool — 9
K.C. Kidder — Norwest Corp. — Financial institution — 9
Judith Payne — South Dakota — Government entity — 9
Bruce Zaccanti — Jupiter Mechanical Industries Inc. — Small corporation — 9

Sal M. Bianchi — Intergovernmental Risk Management Agency — Self-insurance pool — 9
Judith Moses McDonald — Comerica Inc. — Financial institution — 9
Ronald J. Guilfoile — City of St. Paul, Minn. — Government entity — 9
Thomas J. Hickey — Malcolm Pirnie Inc. — Small corporation — 9

David G. Adler — The Portman Cos. — Small corporation — 9
Thomas E. Bell Sr. — Middle Cities Risk Management Trust — Self-insurance pool — 9
June Dickinson — SunTrust Banks Inc. — Financial institution — 9
C. David White — State of Oregon — Government entity — 9

Jerry Newsom — State of Georgia — Government entity — 1
Marc Darby — Bombardier Inc. — Large corporation — 9
Judith Tornese — Transamerica Corp. — Financial institution — 2

Donald D. Batchelor — Union Planters Corp. — Financial institution — 9
Mary L. DeCampli-Stewart — Metropolitan Washington Airports Authority — Government entity — 1
Rod Umscheid — University of California — Non-profit institution — 1

Josephine Goode Johnson — University of Maryland Medical Service System — Self-insured fund — 9
Roger D. Oaks — Tennessee Farmers Cooperative — Small corporation — 9
M. Michael Zuckerman — Thomas Jefferson University — Non-profit institution — 9

John A. Lindquist — Browning-Ferris Industries Inc. — Large corporation — 9
J. Douglas Higley — State of Louisiana — Government entity — 8

Gregory L. Daniels — American National Red Cross — Non-profit institution — 9
Timothy G. Galarnyk — Lunda Construction Co./Phoenix Steel Inc. — Small corporation — 9
Stephen A. Finley — City of Lakewood, Colo. — Government entity — 8
Edward G. Weiss — First of America Bank Corp. — Financial institution — 8

Susan M. Werner — Hardee's Food Systems Inc. — Large corporation — 9
Mark F. Wilson — First Mississippi Corp. — Small corporation — 8

Delmer Ison — Washington Metropolitan Area Transit Authority — Government entity — 9
William E. Rogers — Conemaugh Valley Memorial Hospital — Non-profit institution — 8

Susan N. Weiner — Dade County Public Schools — Government entity — 9
Eva F. Goodrich — Cincinnati Electronics Corp. — Small corporation — 8

Sidney D. Blatt — Holloway Cos. — Small corporation — 9
Gene Snyder — State of Oregon — Government entity — 8

Jerri Nelson MacMillian — Aetna Life & Casualty Cos. — Real Estate Investment Department — Large corporation — 9
Robert Sinclair — Metropolitan Government of Nashville and Davidson County — Government entity — 8

Spencer J. Traver — BF Goodrich Co. — Runner-up — 9
Paul B. Harvey — Ponderosa Homes — Small corporation — 9
Gene M. Marsh — General Conference of Seventh-Day Adventists — Non-profit institution — 8
George N. Pierce — Orange County, Fla. — Government entity — 8

Robert Bieber — Westchester County, N.Y. — Government entity — 9
William Ryan — University of Michigan — Non-profit institution — 8

Risk Managers of the Year

Brian D. Casey — Director of Risk Management and Loss Prevention — Corning Inc. — 10
Scott K. Lange — Director of Risk Management — Microsoft Corp. — 15
Lucille A. Gallagher — Vp of Risk Management — ConAgra Red Meat Cos. — Monfort Inc. — 14
Richard C. Heydinger — Director of Risk Management — Hallmark Cards Inc. — 13
Millicent W. Workman — Director of Corporate Risk Management — Belz Enterprises — 12
Arnold L. Davenport — Vp-Risk Management — Marriott Corp. — 11
Stephen M. Wilder — Director of Corporate Risk Management — The Walt Disney Co. — 10
Jeffrey W. Pettegrew — Risk Manager and Chief Administrative Officer — Contra Costa County Municipal Risk Management Insurance Authority — 9
William L. Mather — Administrator of Risk Management — The Gillette Co. — 8
Edith F. Lichota — Senior Vp — Irving Trust Co. — 7
Donald Nelson — Director of Risk Management — ARA Services Inc. — 6
Harold C. Lang — Director of Insurance and Risk Management — Leaseway Transportation Corp. — 5
Richard M. Inserra — Director of Insurance and Risk Management — American Can Co. — 4
John A. O'Connell — Executive Director and Risk Manager — Holy Cross Shared Services Inc. — 3
Eckart Russell — Risk and Insurance Manager — Alcan Aluminium Ltd. — 2
Duane E. Allen — Assistant Treasurer — Hanna Mining Co. — 1
Thomas V. Hallett — Risk Manager — General Motors Corp. — 0
Edward L. Erickson — Director of Insurance — American Broadcasting Cos. Inc. — 9
Howard T. Weber — Director of Insurance — Minnesota Mining & Manufacturing Co. — 8

Lamel

Continued from page 2

Ms. Lamel left a job as a principal of Management Consulting Services in South Orange, N.J., to accept the RIMS position.

She plans to use her experience to emphasize educational opportunities for RIMS members and said she hopes her political background can serve the society in legislative matters and building ties with other professional organizations.

Ms. Lamel is particularly interested in RIMS' efforts to establish the Fellow in Risk Management designation, an advanced professional educational program that would be similar to one already in place in Canada. The society has been working on a curriculum and other details in preparation for the program's rollout.

"This is a major initiative for RIMS," she said, "to develop an advanced designation and to determine what should be a part of that designation and to start putting into place the program that will make it happen."

The FRM designation "will be a step further in the professional expertise of the risk manager," she said. "It's not unique to risk management to think of professional development as an ongoing process. There's always more that you can do to improve the level of expertise that you have."

As risk managers' responsibilities broaden and become more complex, they find they need to improve their skills, she explained. "RIMS seems to be the right place to determine what common body of knowledge risk managers should have in order to perform at the top of their level."

Ms. Lamel said RIMS also is discussing changes to its professional development courses, which saw a slight dip in registrations over the past year.

While the courses remain popular, "We may not have a professional development program that has sufficient breadth to satisfy a larger portion of the membership of RIMS," she said.

"I hope some of the things I've done politically will be useful as RIMS works on its legislative agenda," she said. "I spent eight years in state government and a lot of that time working with the Legislature."

'We certainly could bring information about careers into the high schools,' says RIMS' Linda H. Lamel.

Ms. Lamel hopes her political skills will help the society forge close working ties with other professional organizations, such as the American Society for Healthcare Risk Management, the Public Risk Management Assn. and the Public Entity Risk Institute.

"We want to try to reach out and find those organizations where it seems natural for us to work together at times," she added. "I'm anxious to get to know those organizations."

"As a new person coming in, I have an opportunity to reach out to sister organizations, find out more about them and find ways in which working together makes sense," Ms. Lamel said.

Part of promoting the risk management profession means getting the message to students before they reach college, Ms. Lamel said.

"I don't know that everyone at RIMS is going to feel this way, but I certainly would like to see what we could do to bring ideas about risk management to the public schools more," she remarked. "We could certainly bring information about careers in risk management into the high schools to have kids start thinking about it before they go to college."

Risk managers from some well-known companies could get high schoolers' attention, she suggested. "If, for example, the risk manage from Nike came in to talk to group of kids, they would hang o every word. Young people can re late to the product and therefor the people associated with th product."

Not only could such presenta tions teach students about profes sional risk management, but the also would provide an opportunit to give lessons on personal risk such as handling credit and spend ing, Ms. Lamel said. "I think the would relate to it, and it's a rea opportunity for RIMS and RIM members to be visible in the rol that they play and the contribu tions that they make to their re spective companies."

The Spencer Educational Foun dation Inc., an affiliate of RIMS makes grants to RIMS chapters t promote programs that introduc risk management and insuranc concepts in their local hig schools. B

Behavioral health study

Benefit Beat

By ROBERT KAZEL

Most employers are not coordinating the payment of behavioral health care effectively and are losing money by paying multiple providers without a well-thought-out plan, a new study found.

The William M. Mercer Inc. study, based on a survey of 175 employers of various sizes, found executives are worried about bearing behavioral health expenses, which include mental health and substance abuse treatment, having concluded that dealing with these costs through carve-outs hasn't saved as much money as once hoped.

"They're spending a lot of different money in a lot of different places, and the way they are seeing costs increase in behavioral health tells us it's not being spent very cost-effectively," said Cristi Cohn, national behavioral health care practice leader in Phoenix for New York-based Mercer.

A typical employer might not know what it is spending on behavioral health because some benefits are paid to mental health professionals using psychiatric benefits and some are treated through employee assistance programs. In other cases, employees may seek help through general practitioners, because their psychiatric benefits have run out or they fear their employers will learn of their treatment.

"There's a lot of spillover into the medical program," Ms. Cohn said. "People are not convinced about the confidentiality of information in these (counseling) programs."

Because these various providers often operate independently, the employer often does not know the components of the cost of behavioral health care, such as where employees seek treatment, only that total costs are rising, she said.

At the same time, employees frequently lack follow-up treatment because providers don't communicate with one another, she said.

The survey found, however, that many employers have begun demanding performance guarantees from behavioral health providers. Two-thirds of midsize or large employers require guarantees on issues such as timely processing, provider credentialing, access to care and employee satisfaction.

Most respondents also have tried limits to control costs. Seventy-two percent of employers set limits on lifetime behavioral health benefits, typically at $50,000, but with some being as high as $2 million.

The survey found employers' annual cost increase for behavioral health for the past three years was 6.2%., compared with a 4.9% annual increase for medical costs. About a third of respondents said behavioral health costs will increase faster than medical costs, while four in 10 expected them to increase at about the same pace. About one-quarter said they would increase slower than medical costs or stay flat.

Copies of the survey are not available to the general public.

PBM for coalition

NEW YORK—An employer coalition has taken its first step toward group health insurance purchasing by offering its members a prescription benefit management program.

The New York Business Group on Health has signed a three-year contract with East Hanover, N.J.-based National Prescription Administrators Inc. Companies that contract with NPA through the coalition can receive discount prescriptions in retail drugstores or a mail-order service, whichever employers select, said Laurel Pickering, the group's managing director.

Although no employer has signed on for the PBM yet, the hiring of NPA is important for the coalition, which has existed about 15 years but has never done any group purchasing (*BI*, Feb. 3). The new program will encourage small and midsize companies to join the coalition, which had focused its energies on educational activities, she said.

She said the coalition hopes the effort "will be a springboard for other products. we will offer." The next joint purchasing effort likely will be vision benefits, and full health coverage may follow "in a couple of years," she said.

Savings that members can realize through the PBM will vary, she said. The group has negotiated performance guarantees and tiered administrative fees based on enrollment, meaning buyers will save more as the number of users grows.

The New York group obtained the contract with NPA through the Washington-based National Business Coalition on Health, a federation of 103 health care alliances. Several other local coalitions also have obtained PBM coverage through the NBCH.

Atlantic Mutual names top exec

Coming & Goings: Industry

Klaus G. Dorfi was named chairman and chief executive officer of the Atlantic Mutual Cos., succeeding **Kenneth J. Gorman**, who retired from the New York-based insurer March 31. **Kermit C. Smith** was named president and chief operating officer of Atlantic Mutual. He assumes Mr. Dorfi's previous positions.

In other insurer changes:

E. Wayne Ratz named senior vp and chief information officer for Harleysville Group Inc. and Harleysville Mutual Insurance Co. in Harleysville, Pa.

Kristian P. Moor, president of American International Group Inc.'s National Union Fire Insurance Co. of Pittsburgh, Pa., named to the additional post of senior vp-domestic general insurance for AIG.

Matthew Peller named executive vp responsible for all products distributed through the wholesale broker system for Gryphon Insurance Group in Woodland Hills, Calif. Also at Gryphon, **Kathryn Suchomel** named chief underwriting officer, with responsibilities for all products distributed through the managing general agency system.

Allendale Mutual Insurance Co. named three new senior vps: **Roland J. Bonitati**, marketing in Johnston, R.I.; **Perry R. Brazeau**, manager-Canadian Operations in Toronto; and **Kerras W. Campbell**, operations manager in New York.

Also at Allendale, **Norman L. Belgarde** named vp in Johnston, R.I., and **Benoit Charbonneau** named vp-operations manager in Montreal.

Thomas E. Hoeg named executive vp and COO at Amerisure Cos. in Farmington Hills, Mich.

Agents/brokers

Donald P. Koziol named president of Aon Specialty Group Inc., the specialty brokerage subsidiary of Aon Group Inc. in Chicago.

Francis Hong named vp-information services for USI Insurance Services Corp. in San Francisco.

Craig Morris named vp at the Costa Mesa, Calif., branch of Johnson & Higgins.

Scott R. Heldfond named president and CEO of Frank Crystal & Co. of California Inc. in San Francisco. Mr. Heldfond, who fills a new position with the brokerage, previously was a partner and managing director of Hales Capital Advisors. Also at Frank Crystal, **David K. Beyer** and **Bruce A. Poitevin** named vps-technology, business group.

Thomas J. Cook named president and CEO of Acordia of Northeast Ohio Inc. Mr. Cook, formerly chief financial officer and treasurer, succeeds **Dwight Kollmeier**, who resigned from the Cleveland based-broker.

At Acordia/Rauh, **J. Paul Brophy** named president-Acordia Financial Services of Cincinnati Inc. and **Jack B. Matthews** and **Steven R. Schneider** named vps-commercial lines.

Paul La Bounty joined the Robert F. Driver Co. Inc. as vp-employee benefits division in San Diego. Previously, Mr. La Bounty was group manager of San Diego's Blue Cross Large Group Sales office.

Reinsurers

Edward D. Norris named president and CEO of Signet Star Holdings Inc., the reinsurance subsidiary of W.R. Berkley Corp. in Greenwich, Conn. Mr. Norris, formerly president of Monitor Liability Managers Inc., Berkley's professional liability insurance subsidiary, succeeds **Clement S. Dwyer Jr.**, who resigned to pursue other interests.

Douglas J. Powers assumes Mr. Norris' position at Monitor Liability Managers.

Laura A.W. Jensen named vp-Argentina and **AnneMarie Ryan** named vp at Transatlantic Reinsurance Co. in New York.

Christian Svendsgaard joined Swiss Re America as senior pricing actuary and member of senior management in New York.

Thomas J. Gallagher named president and COO of Everest Reinsurance Holdings Inc. and its subsidiary, Everest Reinsurance Co. in Newark, N.J. **William A. Fischer** and **Steve A. Mestman** named senior vps.

Stephen G. Tirney named president and COO of PMA Reinsurance Corp. in Philadelphia.

Scott F. Galiardo named senior vp and chief actuary of Odyssey Reinsurance Corp. in New York.

HMOs/PPOs

Bud Volberding named senic vp-West Coast operations c CIGNA HealthCare in Glendal Calif. Most recently, Mr. Volberd ing was president and chief execu tive officer of United HealthCare c California.

Also at CIGNA HealthCar **Douglas E. Klinger** named presi dent of CIGNA Dental Health In and senior vp in charge of CIGN HealthCare's dental business. He based in Bloomfield, Conn.

Mary Gilligan named vp-com mercial operations of Health Ne the Woodland Hills, Calif.-base health maintenance organizatio Previously, Ms. Gilligan was senic vp-systems and operations at Blues plan in the Washington, D.C area.

George R. Mark named chief fi nancial officer of HealthAmerica Central Pennsylvania in Harris burg, Pa.

Other suppliers

Joseph P. Tallman named pres dent and COO of Access Healt Inc., the Rancho Cordova, Calif based health care service provide Mr. Tallman succeeds **Thomas I Gardner**, who resigned earlier th month.

Bruce J. Klug named retiremer practice leader for the Milwauke office of William M. Mercer Inc.

JoAnn C. Crenshaw named vp national sales, marketing and ac count management at MetraCom Inc., the Tampa, Fla.-based pro vider of workers compensation se vices.

Carol Zoellner, director of ris management for Palm Beach Cour ty, Fla., was named president-ele of the Arlington, Va.-based Publ Risk Management Assn.

Douglas H. Hartman, a 20-ye veteran of risk management, estab lished his own New York-base risk management consulting pra tice targeting middle market com panies, health care providers an institutions.

Dr. Marsha C. Moore name chief medical officer of PCS Healt Systems Inc. in Scottsdale, Ariz.

Anne Chamberlain and **Robert Satorius** joined Buck Consultan Inc. as principals in New York.

Ms. Chamberlain, formerly wit Towers Perrin, is a manageme consultant and Mr. Satorius, fo merly with Watson Wyatt & Co., a consulting actuary. E

Marijuana

Continued from page 2

These include federal law, which discourages doctors from actually writing prescriptions for marijuana; provisions of the Americans with Disabilities Act, which protects employees from termination if they are disabled and calls for employers to make reasonable accommodations for them; and safety issues over the use of vehicles or heavy machinery by employees who may be under the influence of drugs.

Meanwhile, risk managers say that so far they have not changed their current policies against marijuana use in response to the new laws.

Clearly, voters gave little thought to these propositions' impact on the workplace, say observers.

"I feel certain when the voters voted, they didn't really give any thought to the work-related implications of this," said Andrew Kaplan, an attorney with Silver & Freedman in Los Angeles who represents employers.

But now, employers are going to have to rethink their policies, Mr. Shapiro said.

"I think it's very important for them to review their policies so they don't have a blanket policy of automatically excluding applicants who test positive for marijuana use," he said.

Mr. Kaplan agreed. In the past, when tests determined marijuana use, it was simply assumed the drug was illegal and the employee was subject to termination.

"Now, the employer can't simply make that assumption," and the employer "must take the next step to protect itself and make those post-test inquiries. I'm concerned because I don't think many employers are thinking about that. I don't think their consciousness level has been raised yet."

Dennis J. Walsh, an attorney with Walsh & DeClues in Los Angeles, said some employers may tend to overreact. "It's easy for some employers to say 'We can't possibly have anybody that does this in our workplace' " without first analyzing the situation.

On the flip side, Mr. Walsh said, employers also "do not have to be overly cautious and put up with decreased productivity or decreased job performance or decreased expectations of performance by employees" because of the use of marijuana or any prescription drug.

"I think that's where analysis is necessary, to make sure you're getting what you're entitled to as an employer without violating any of the rights the employees may have," he said.

It is important that if an employee or potential employee does test positive, that the employer analyze each situation individually to determine whether the marijuana use was recommended for medical purposes and whether its use will interfere with the person's job performance, said Mr. Shapiro.

"The drug test should be performed and analyzed by a doctor who is familiar with the drug testing procedures and drug abuse issues," he said.

If someone tests positive, the doctor should speak to the person involved to determine whether marijuana was used and whether it was on a doctor's recommendation. Then the doctor should determine whether its use would interfere with that person's ability to perform essential job functions. The physician would then report his decision to the employer.

One complicating factor is "the law doesn't require any kind of written prescription," and the employee may not actually have anything in writing showing the drug was recommended by a doctor because federal law, under which marijuana is still considered an illegal drug, prohibits doctors from writing prescriptions for it, said Mr. Shapiro.

As a result, "a lot of doctors are very paranoid about writing anything down at all, which leaves the applicant in a bad position, because they can tell the examining doctor what the story is, but that person may have no evidence to back up what they're saying," Mr. Shapiro said.

'I think it's a good idea to address the issues now in their policies, so they are prepared,' attorney Andrew Kaplan says.

This is why the city of Glendale, Ariz., does not consider Proposition 200 a major concern, said its risk manager, Allen Iampaglia. "Federal law will still override Proposition 200," he said.

"I don't think there are many doctors in Arizona who will or are prescribing marijuana," he said. And without a written prescription, he said, the employee can't justify its use. "It's something that the state and federal government must coordinate," said Mr. Iampaglia.

"I need a prescription (from employees). Otherwise, it's an illegal substance," said Mary Ann Matz, human resources director and risk manager for Phoenix Newspapers.

Another relevant issue is the ADA, which calls for reasonable accommodation of employees with disabilities.

The law "increases the dilemma we have" relating to the issue of who must be hired under ADA vs. the protection of other employees and third parties, including customers, from individuals who are impaired, said Jeffrey Pettegrew, vp-risk management and insurance for Walnut Creek, Calif.-based Western Staff Services.

The law "raises a whole set of issues and questions that are going to have to be resolved by accommodation" between this law, existing employment laws, developing laws and regulations and judicial decisions, said Mr. Kaplan.

A related issue is whether employees who even justifiably use marijuana should be permitted to do certain jobs.

In this respect, say observers, marijuana is no different than any other prescription drug that can impair employees' ability to perform certain tasks.

The use of any prescription drug that has side effects would prevent an employee from using machinery or operating a motor vehicle, said Mr. Iampaglia. Marijuana is "just another drug, and I think we're going to look at it from a liability standpoint as simply just another drug," he said.

Mr. Kaplan noted that unlike alcohol, where amounts under a certain level are permissible by law, "there is no such level established by law for marijuana, so the employer can't simply say, 'You've reached that level where you're deemed under the influence—you're terminated.'

As a result, Mr. Kaplan said, "the employer has to look at marijuana as any other prescription drug in this circumstance."

Company policy should provide that if an employee is discovered to have taken a prescription drug that makes him unable to perform essential functions of his job, then he could be subject to discipline or termination, he said.

Observers also point out that federal Department of Transportation regulations would prohibit certain transportation workers from using marijuana in any case.

Risk managers say for now, they have made no changes in their drug testing policies in response to the new law.

Western Staff Services, which certifies that all its employees are drug-free and tests them accordingly, has "not changed our policy. We don't intend to, and we will have to deal with the exceptions as they arise," said Mr. Pettegrew, though he added it could become an issue for the company.

"At this point, we have not had a problem with it, so I'm not aware it's become an issue for us," said Terry McNeil, assistant vp and director of insurance services at San Francisco-based ABM Industries Inc., a building services company.

"I think it'll be a progression over time," said Mr. Shapiro. As problems begin to surface, and more and more employers find themselves faced with this issue, they will adjust their policies, but "it will not be an overnight sort of metamorphosis that occurs so much as an evolution."

However, he added, "I think it's a good idea to address the issues now in their policies so they are prepared and aren't faced with a crisis when it does come up. It'll make it much easier to handle the problems that inevitably will arise."

Brad Kampas, an attorney with Jackson, Lewis, Schnitzler & Krupman in San Francisco, said there will be some litigation as a result of the new laws "just as there's always potential for litigation under new statutes until employers and employees have the opportunity to find out in greater detail how it works."

There will be lawsuits on this issue, predicted Mr. Kaplan. "We're going to see them. There's no doubt in my mind about that." BI

Salaries

Continued from page 1

Bonuses jumped 12.4% to $10,370 from $9,227.

In comparison, risk managers for companies with sales of more than $7 billion gained 12% in total compensation. On average, their salaries rose 12.5% to $134,630 from $119,621, while bonuses increased 10.4% to $14,652 from $13,268.

Those increases follow company "rightsizing" of their risk management staffs earlier in the decade, said Bill Perry, president of Logic Associates. Risk management departments now are left with people who efficiently meet their employers' needs, he explained.

"There is just a better quality of risk manager today. I think they are better educated today. They are more involved with the esoteric ends of risk management (such as alternative financing and due diligence for acquisitions), and I think that in itself is why salaries and bonuses are basically up."

This survey is the 15th conducted by Logic, which has sponsored them annually except for last year, when the Risk & Insurance Management Society Inc. sponsored a similar survey (*BI*, April 1, 1996). Comparisons between the two are difficult because of methodology differences.

Compensation rose significantly at the smallest companies because many risk managers in that category were last employed by insurance companies where salaries are up, said Barry Citron, vp of Logic Associates. Meanwhile, companies in the $4 billion to $7 billion sales range are not hesitating to pay higher wages for the right risk manager.

In contrast, risk managers at midsized companies saw the smallest raises.

For example, companies with sales ranging from $2 billion to $4 billion only saw, on average, a 10.8% increase in total compensation over two years. Their salaries rose to $105,521 from $95,209. Their bonuses jumped 15% to $7,322 from $6,366.

'There is just a better quality of risk manager today...They are more involved with the esoteric ends of risk management,' says Bill Perry of Logic.

Risk managers at companies with $1 billion to $2 billion in sales also saw an 11% increase in total cash compensation over two years.

Increases at midsized companies were dampened by mergers and acquisitions that have eliminated risk manager positions, Mr. Citron said.

Those companies "are more readily accepting the out-of-work risk manager," Mr. Citron said. "They will take a guy who was earning $60,000 and was laid off, and now they will offer him $50,000."

Logic's recent survey found some slight gains in staff size from two years prior. For example, companies with sales of $200 million or less had, on average, slightly less than two professional staff members and one clerical position in their risk management departments during 1994. That edged up in 1996 to two professionals and one clerical worker.

The greatest staff growth came at companies with $1 billion to $2 billion in sales. Risk managers there reported an average of 2.5 professionals and 2.5 clerical workers in 1996, compared with two for each category in 1994. Meanwhile, companies with sales exceeding $7 billion reported no change.

But capturing information about the large companies and their risk managers, who earn the highest wages, is difficult.

For one reason, there are just fewer of them, Mr. Perry said. Additionally, those risk managers tend to be too busy to complete a survey, or they do not want their bosses or peers to compare their salaries.

But there are risk managers who earn considerably more than the survey respondents. Take for example, the case of a Fortune 200 international manufacturing corporation that recently asked Logic to find a risk manager. The company is willing to pay $300,000 for the right person to fill the position.

Logic contacted 25 potential candidates, and they are all currently earning between $200,000 and $700,000 annually, Mr. Perry said.

None of them answered the survey, he said. "There is a sector of risk management people making a lot of money. There is really a good number of people who are in this range, if not better."

Of those who did respond to survey questionnaires, risk managers in the paper industry reported the highest annual total compensation. On average, managers at paper industry companies with more than $7 billion in sales reported earning total compensation of $181,775. Their paper industry colleagues working for the smallest companies earned an average of $53,898.

Risk managers in the service industry also were among the high earners. Those at the largest companies averaged $172,800 in total cash compensation, while those at the smallest companies earned $64,748.

Risk managers at the largest companies in the entertainment industry received average total compensation of $150,000. Their counterparts at the smallest companies received $78,094.

Large manufacturing companies, meanwhile, paid risk managers an average of $146,653 in salaries and bonuses, while the smallest companies paid $75,458.

Drug and pharmaceutical operations paid an average of $145,900 at the top end of the size spectrum and $55,927 at the bottom end.

Consistent with past surveys, risk managers in publishing, construction, and metal and mining reported the lowest earnings.

Those at the largest publishing companies earned $116,008 in total compensation, while those at the smallest companies reported earning $82,056.

Construction industry risk managers at the largest companies earned $114,850, and those at the smallest companies earned $64,643. Meanwhile, metal and mining company risk managers reported earning $110,350 at the largest companies and $55,800 at the smallest.

The survey also found:

- Enhancement of job titles held by risk managers has reached smaller companies. Vp, assistant vp and assistant treasurer titles, which have been more common at the larger companies, increasingly are being found at smaller companies.
- Smaller companies are catching up in their computer use for risk management functions. The survey found that 71% of companies with sales of up to $200 million had computers in 1996, compared with 61% in 1994. Computer use increased to 81% from 72% among companies with sales ranging from $201 million to $500 during the period. In contrast, 99% of companies with sales exceeding $7 billion use computers for risk management purposes, up from 98% two years ago.

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Copies of the 1996 Risk Management Salary survey are available for $70 each from Logic Associates Inc., 67 Wall Street, Suite 2411, New York, N.Y., 10005.

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Financial:	
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Secretaries, Treasurers, controllers and other Financial Personnel	2,827
Risk/Employee Benefits:	
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, persion, safety, security, industrial relations, human resources and employee/ labor relations	7307
Sub-total	**29,775**
Associations	301
Government, Unions and Educational Institutions	969
Commercial Consumers Sub-total	**31,045**
Insurance Agents and Brokers	8,664
Insurance Companies	7,831
Accountants, Actuaries, Attorneys & Consultants	3,148
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Others Allied to the Field	680
Total Qualified	**53,248**
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★ *Source Business/Occupational Breakdown of qualified circulation, May 27,1996 Issue, as submitted to BPA for June 1996 BPA Publisher's Statement*

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Two courts rule against pollution policyholders

By MICHAEL PRINCE

Policyholders suffered setbacks i the pollution coverage arena due t two recent decisions.

A Pennsylvania jury found tha London insurers were not liable fo cleanup costs at two sites owned b Philadelphia-based Rohm & Haas C

Separately, a federal court judge i Connecticut ruled that United Tech nologies Corp. did not provide timel notice of its claims against America Home Assurance Co. for ground an water contamination at two sites.

The Pennsylvania state court jur verdict concerned two sites owned b chemical manufacturer Rohm Haas. One is the Whitmoyer manufac turing site in Myerstown, Pa., and th other is a landfill in Bristol, Pa. Th policies at issue were for excess liabi ity coverage between 1956 and 197 at Bristol and 1964 to 1971 for Whi moyer, which is now owned b SmithKline Beecham P.L.C.

For both sites, the jury determine Rohm & Haas could not recover fro the insurers because Rohm & Ha knew when it bought the coverag that it would incur a loss. The jur also found that for the Whitmoy site, Rohm & Haas "deliberately co cealed material information with th intent to deceive" the insurers.

Litigation between the compan and its insurers involving 15 oth sites is pending in a New Jersey sta court. Gary Westerberg, a Chicago a torney with Lord, Bissell & Broo who represented the London insurer said it was too early to predict the ve dict's impact on New Jersey litigatio

Ellen Friedell, assistant gener counsel for Rohm & Haas, said th company is disappointed with th verdict and planned to file post-tri motions challenging it late last week

Cleanup costs for the two sites a estimated to exceed $100 million.

The other pro-insurer decision w handed down by U.S. District Jud Janet Bond Arterton in Connecticu quashing Hartford, Conn.-base United Technologies' efforts to reco er cleanup costs from American Hon Assurance, a unit of American Inte national Group Inc.

The decision involved cleanup cos for contamination of soil and grour water at two sites owned by the ma ufacturer: one in Windsor Lock Conn.; and the other in City of Indu try, Calif. American Home Assuran wrote first-party property covera for the sites from 1975 to 1986.

Judge Arterton ruled that Unite Technologies failed to provide time notice of claims to American Hom Contamination at the Windsor Loc site was discovered in 1979, a American Home was notified in la 1987, court papers show.

Under Connecticut law, Unite Technologies will have an opportun ty at trial to show that such late noti did not harm the insurer.

The judge also ruled that for t City of Industry site, United Tec nologies cannot recover for grour water cleanup costs under the cove age because ground water is not co sidered company property.

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Rohm & Haas et al vs. Continent Casualty Co., et al, Court of Comm Pleas, Philadelphia County; April 1997; No. 3449

United Technologies Corp., Carri Corp., and United Technolgies Aut motive Inc. vs. American Home A surance, U.S. District Court for t District of Connecticut; March 3 1997; No. 292 CV 00267.

INTERNATIONAL

Global Briefs

Commercial Union P.L.C. will become the first general insurance company to control a Lloyd's of London managing agency with the purchase of a 51% stake in Marlborough Underwriting Agency Ltd. from Blenheim Partnership. Blenheim, a group of MUAL's executive directors and underwriters, will retain 49% of the agency. CU intends to develop MUAL over the next few years from a midsize agency with current capacity of about £80 million ($129.6 million) into a major Lloyd's agency. . . .Murray Lawrence Research, a division of Murray Lawrence Members Agency Ltd., forecasts **Lloyd's of London**'s 1994 profit, which will be announced in June, will be a record £1.19 billion ($1.86 billion)—better than Lloyd's own profit forecast made earlier this month of £1.01 billion ($1.58 billion) (*BI*, April 7). MLR estimates Lloyd's 1994 return on capacity will be 10.9%, compared with Lloyd's own estimate of 9.3%. . . .**Sedgwick Lane Financial L.L.C.**, a Chicago-based unit of Sedgwick Group P.L.C., claims a landmark in the development of alternative risk financing techniques with the completion of its first private placement of an insurance-linked note. Prior insurance securitizations have been based almost exclusively on catastrophe risk, but this note for Reliance National Insurance Co. also includes marine, aviation and satellite risks. . . .**Torch Holdings P.L.C.** has acquired for £3.46 million ($5.6 million) Bates Cunningham Underwriting Ltd., the managing agent of Lloyd's of London motor syndicate 877. Torch Holdings said the acquisition will provide investors with the opportunity to participate in the profits of the managing agency while at the same time underwriting on syndicate 877 via Torch Dedicated. . . . The **Aviation Insurance Offices' Assn.**, which represents the company aviation insurance market in London, has elected Keith Selby, head of aviation underwriting at Swiss Re UK, as its chairman. He succeeds Barry Wilkes, London-based aviation underwriter for Generali. Graham Nichols, chief executive of Westminster Aviation Insurance Group, was elected the AIOI's deputy chairman. . . . **Naturesave Policies Ltd.**, an Oxford, England-based insurance intermediary, has launched a commercial insurance policy underwritten by Lloyd's of London that is intended to encourage more environmentally aware business practices. In addition to customary buildings, contents and liability cover, the Naturesave policy offers an environmental performance review of product safety, process effluents and emissions, regulatory compliance, pollution prevention, and waste management. The review assesses and advises on the potential environmental effects of these activities and the degree to which the client is environmentally accountable.

Eurotunnel seeks safer path

Fire investigation spurs changes

By SARAH GODDARD

LONDON—Eurotunnel P.L.C. is issuing new equipment, policies and procedures for its safety management systems following its investigation into last November's fire in the Channel Tunnel.

The tunnel operator unveiled a range of changes to its operations, most of which will be in place by the time the damaged tunnel has been repaired, scheduled for the middle of next month.

Two other investigations into the cause of the fire, one a French judicial inquiry and another by the Channel Tunnel Safety Authority, an Anglo-French agency, are yet to be released.

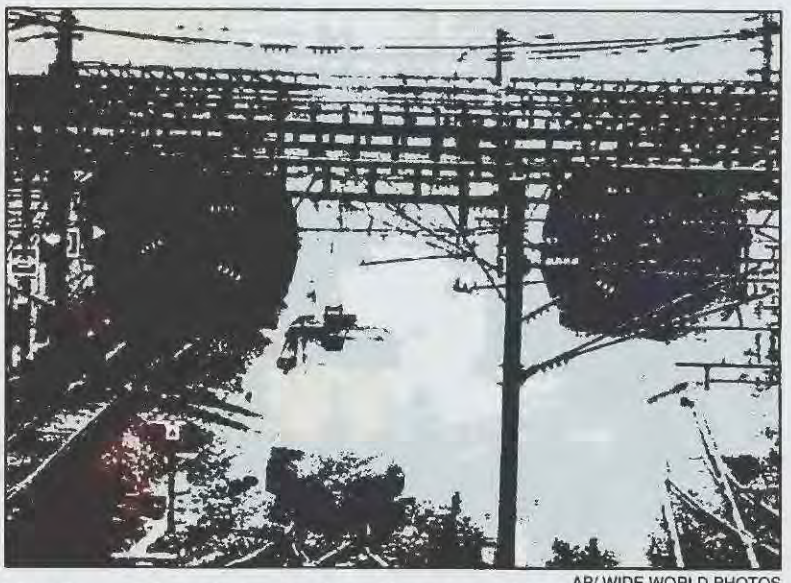
The fire caused an estimated £40 million ($64.8 million) to £50 million ($81 million) in damage to the tunnel alone (*BI*, Nov. 25, 1996).

Eurotunnel carries 350 million ECU ($396.3 million) coverage for material damage and business interruption, led by Union des Assurances de Paris, and 32 million ECU ($36.2 million) for rail cars, led by Chubb Insurance Co. of Europe S.A.

Replacing the damaged train, comprising 15 wagons and a locomotive, is costing between £10 million ($16.2 million) and £12 million ($19.4 million), said a Eurotunnel spokeswoman, who anticipated third-party claims for business interruption and loss of vehicles to be less than £5 million ($8.1 million).

Business interruption costs for Eurotunnel, which before the fire was scheduling about 200 train shipments each day, cannot be calculated until heavy goods vehicle services resume. Although passenger services resumed

See **Tunnel** *on next page*



AP/ WIDE WORLD PHOTOS

The Channel Tunnel, damaged in a November 1996 fire, is expected to resume heavy goods vehicle traffic in mid-June. Most operational changes, resulting from Eurotunnel P.L.C.'s investigation, should be in place by then.

Old homes blamed in Kobe fires

By KATE TILLEY

MELBOURNE, Australia—Old, wooden homes built close to shoe-manufacturing factories were a major cause of the devastating fires that followed Japan's 1995 Kobe earthquake, fire safety experts told an international conference last month.

More than 6,000 people died in the quake, many of them burned to death in fires that swept through the city in the days after the temblor.

Ai Sekizawa, from the National Research Institute of Fire & Disaster, Ministry of Home Affairs, Tokyo, said that many fires that followed the Jan. 17, 1995, earthquake were in the Nagata ward in Kobe city (*BI*, Jan. 23, 1995), where traditional, wooden homes were situated near factories.

There was very little room between the houses and other buildings, Mr. Sekizawa said during his presentation at the 5th International Symposium on Fire Safety Science, held March 3-7 at the World Congress Center in Melbourne, Australia.

Eleven large fires burned more than 12,000 square yards in Nagata ward after the quake, which measured 7.2 on the Richter scale and resulted in an estimated $2.5 billion in insured losses.

A "critical lack of fire engines" was another contributing factor to the seriousness of the fires, Mr. Sekizawa said.

Mr. Sekizawa, comparing data from the Northridge and Kobe quakes, said building materials and the width of streets were "significant reasons" why fires occurred throughout Kobe but only occurred in mobile home parks after Northridge. The Northridge earthquake, which occurred exactly one year earlier, measured 6.6 on the Richter scale and resulted in $12.5 billion in insured losses.

More space must be put between buildings to stop the spread of fires after earthquakes, says Akihiko Hokugo.

At Kobe, 87 fires had started within four hours of the quake. Structural damage that exposed gas pipes and electrical wires also was a major cause of ignition, Mr. Sekizawa noted.

Akihiko Hokugo, from Japan's Building Research Institute, Ministry of Construction, at Tsukuba, said more than 200 fires had occurred by three days after the quake. The spread of the fires would have been worse if winds had been stronger, he said.

Fires spread through the openings of wooden buildings rather than through their walls. Wide streets, parks, railways and rows of buildings of fireproof construction outside the Nagata ward were factors that stopped the fires spreading even further. Mr. Hokugo noted.

"It is extremely important to pro-

See **Quakes** *on next page*

More companies in Europe retain more risk: Survey

By CAROLYN ALDRED

European companies increasingly are turning to self-insurance and captives as risk management becomes more sophisticated and takes a higher management profile, according to a new survey.

The latest Biennial Risk Financing and Insurance Survey conducted for Alexander & Alexander Services Inc., now a member of Aon Group, also found increasing concerns about crime, particularly computer crime, as well as fears about stress-related claims.

In addition, despite few premium increases, risk managers reported difficulty buying some types of insurance, including environmental liability insurance.

Of the 171 companies that responded to the survey, conducted for Aon by London-based Underline Communications Ltd., the majority are U.K.-based. Nearly 60% have annual revenues exceeding £1 billion ($1.62 billion).

The group includes companies in materials production and mining, engineering, transport and general manufacturing, with 78% of their revenues from Europe. The remaining revenues were split between the United States and the rest of the world.

The number of companies retaining their own risks to a "significant" extent has increased markedly since the survey first was conducted in 1991. Now, 92% of companies retain their own risk to a significant extent. The survey did not define the term significant. In 1995, 85% of the companies said they retained their own risk to a significant extent, and just 56% did so when the first survey was done in 1991.

Retentions also are rising. For example, 30% of respondents now have a retention level of £250,000 ($405,000) or more per occurrence for property losses, compared with 20% of respondents in 1991.

And liability retentions are at £250,000 or more for 34% of respondents, compared with 24% in 1991.

The growth in retentions is expected to continue, despite the current soft insurance market. By 1999, 41% of the respondents expect property retentions of £250,000 or more and 36% expect liability retention levels of £250,000 or more.

See **Survey** *on next page*

Advisers criticize U.K pension rules

Laws will deter formations, they say

By SARAH GODDARD

LONDON—U.K. pension advisers contend that new regulations designed to protect occupational pension plans are so onerous that they will deter the formation of new plans and put the advisers out of business.

The Pensions Act 1995, promulgated in the wake of the Maxwell scandal in which the former press baron swindled his companies' pension funds of millions of pounds, became effective April 6. On the same day, a new government agency, the Occupational Pensions Regulatory Authority, began regulating pensions.

Although the new law generally has been welcomed as offering greater protection for members of occupational pensions, the complexity of the accompanying regulations worries pension administrators and advisers.

"The pension regulations are so detailed and so prescriptive that they could deter companies from setting up occupational pensions," contends a spokeswoman for the National Assn. of Pension Funds.

Instead, she said, employers may opt to contract with insurers that would provide workers with so-called group personal pensions—which are individual pensions on a group basis—rather than a single, pooled pension program for all employees.

The NAPF acknowledges that economies of scale from such an arrangement could mean lower administrative charges for employees compared with obtaining a pension on their own. What's more, it says, employers are more willing to contribute to a group personal pension than to an individual one.

However, the NAPF warns that insurers' commission fees generally are charged in the early years of the group personal pension programs, lowering the amount contributed to the workers' pension funds. With the increasing mobility of

See **Pension** *on next page*

Tunnel

Continued from previous page

16 days after the incident, HGV services will not resume until mid-June at the earliest.

The spokeswoman said that the total insured loss was unlikely to be greater than £200 million ($324 million).

The fire started in an open-sided rail transport carrying heavy goods vehicles to England from France, possibly started by a torch thrown onto the train by French strikers.

Half a train was destroyed, and 31 passengers and three crew members had to be led to safety through a service tunnel.

The French judicial inquiry already has acknowledged Eurotunnel equipment did not cause the fire, though the tunnel operator did admit in its own inquiry that there were "avoidable delays," partly because of complicated procedures and partly because of communications shortcomings.

Eurotunnel's report, prepared by its own Health, Safety and Quality Directorate, highlights a range of improvements to be made.

Equipment changes include:

- Moving fire detector monitoring panels from the Fire Equipment Management Centre at each end of the tunnel to the Rail Control Centre, an operations center in Folkestone responsible for controlling rail traffic.
- Securing overhead cables in the tunnel to protect cable connections from the heat from a fire.
- Printing a reminder of the emergency call procedure on crew radios.
- Fluorescent paint and better lighting to improve the visibility of tunnel markings.
- The club car, where HGV drivers sit on the journey through the tunnel, will be fully sealed to prevent smoke from getting in.
- HGV drivers in the club car will be provided with smoke hoods.
- Water sprinklers will be installed. Eurotunnel is still preparing its request for bids on the sprinkler systems and is not expecting them to be ready before the end of the year.

Policy changes resulting from the investigation are:

- Once the first fire alarm has sounded, the tunnel will be put on emergency alert. If a second alarm sounds, the train will be evacuated, unless it is close to an exit. Current procedure requires two or more types of alarm to sound to trigger emergency procedures.
- Evacuating passengers now will take priority over uncoupling the locomotive and club car to continue to journey out of the tunnel.

Eurotunnel also is aiming to implement a number of procedural changes, including:

- More systematic checks of vehicles during the loading process and more staff surveillance at the tunnel entrances.
- The train's conductor, rather than driver, now will be responsible for evacuating the train.
- As soon as the first alarm rings, fire safety procedures such as activating supplementary ventilation will be initiated.

In addition, Eurotunnel is upgrading its training procedures and redeploying staff to beef up the Rail Control Centre at an estimated yearly cost of £1.5 million ($2.4 million). Railway controllers, train crews and FEM staff now will receive initial fire training, as well training in simulations at the Rail Control Centre, service tunnel and passages linking the service tunnel with the main rail tunnels.

A Eurotunnel spokeswoman estimated the costs of improvements will be about £15 million ($24.3 million). Although the spokeswoman could not give details, she said installing the sprinkler system throughout the tunnel will lower Eurotunnel's insurance premiums.

"The reduction in insurance costs will pay for the installation of the system over a number of years," she added. BI

Allianz unit to settle Holocaust claims

MUNICH, Germany—Allianz Lebensversicherung A.G., the life insurance subsidiary of Allianz A.G. Holding, pledges to make out-of-court settlements of any reasonable claims against it from Holocaust survivors or their relatives "a matter of top priority."

The company said last week when announcing its 1996 results that it will do its best to make settlements "quick and unbureaucratic" by dealing with each claim on a case-by-case basis.

Among the measures the life insurer is taking is the appointment of independent arbitrators from Andersen Consulting Inc. to examine files and the setting up of "hot lines" accessible globally to deal with inquiries, take claim details and initiate processing.

Meanwhile, Allianz's Austrian subsidiary, Wiener Allianz Versicherungs A.G., says it was wrongly named as one of the seven European life insurance companies in the suit brought in New York on behalf of Holocaust victims and their families.

The Austrian subsidiary said the Vienna Chamber of Commerce had erroneously identified it as the successor to Phenix Allgemeine Versicherungs. While Wiener Allianz said that it had taken over some of Phenix's business, it had not taken over Phenix's life policies. These had been passed to another insurer, Austria Collegialiteat, according to Wiener Allianz.

—By Edwin Unsworth

Pension

Continued from previous page

today's workforce, employees are likely to move from one company to another—and from one plan to another—leaving a trail of small pensions with low benefits, the pension group contends.

A spokesman for the Assn. of British Insurers pointed out that having a group personal pension is better than no pension at all.

Meanwhile, the NAPF welcomed the new pension regulatory authority's move to relax the so-called "whistle blowing" provisions in the Pensions Act.

Draft provisions of the legislation had indicated that any misdemeanor by pension trustees and administrators must be reported to the OPRA, no matter how minor.

The NAPF submitted to the authority that this not only would clog the system but also would in many cases be unnecessary.

"We are pleased that OPRA has listened to the NAPF and taken on board our comments," said the NAPF spokeswoman.

'We will not breathe down the necks of schemes which are running smoothly,' OPRA says in its gu de.

At its official launch, OPRA released a guide, "Spotlight on OPRA," explaining its mandate. Although its purpose is to investigate threats to occupational pension plans from dishonesty, carelessness or individual infractions of the Pensions Act, it "will not be heavy handed with people who make small mistakes that do not involve dishonesty or deliberately ignoring the rules," the guide states.

OPRA has a wide range of penalties at its fingertips, ranging from fines to criminal prosecutions, but it says it is willing to cooperate with pension plans to solve problems wherever possible.

"We want to concentrate on schemes which have problems, by helping to put things right quickly and efficiently," the guide says. "We will not breathe down the necks of schemes which are running smoothly. If schemes are open and honest with us, it will help us target our work where it is most needed—on schemes which are secretive, do not cooperate with us and do not keep to the rules."

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Copies of "Spotlight on OPRA" are available free from OPRA, Invicta House, Trafalgar Place, Brighton, England BN1 4DW; 011-44-127-36-7600.

Survey

Continued from previous page

An increasing number of companies—79%, compared with 68% in 1995 and 51% in 1991—are using higher retentions to bring about attitude and behavior changes in managers.

"The increased use of risk management techniques coupled with better records of historical losses have undoubtedly contributed toward higher retentions," according to the survey report.

"Just as important, however, are past restrictions placed on cover by insurers and the huge swings in the cost of cover between hard and soft markets, which has undermined long-term confidence," the Aon survey report continued.

The use of captive insurance companies also has grown to 65% of respondents from 57% in 1995.

Captives also are funding a larger percentage of companies' risks and are providing broader coverage. Among companies with captives, 54% of total premiums are being channeled through their captives, compared with 39% in 1991.

The survey also showed that 80% of respondents used cost-benefit analysis to select retentions, as compared with 48% in 1991.

Similarly, 71% of businesses conducted loss forecasting studies, compared with 52% in 1991.

While retentions are increasing and more companies are using captives, finite insurance products are not as popular. For example, 9% of respondents said they have finite risk programs, while 65% said they may consider them in the future.

The survey clearly reveals a growing band of specialized risk and insurance executives and managers responsible for risk and insurance in larger companies, with 72% of companies surveyed noting that the importance of risk management is increasing within their organizations.

Nearly two-thirds of risk management and insurance departments now report through finance/treasury and 14% report directly to the chief executive. Final decisions on corporate risk management and insurance issues are now, in 66% of cases, settled by the main board or a special committee reporting to the board.

Of the top 10 risks perceived to be the greatest threats to companies, fire remained the most important worry. Business interruption meanwhile moved into second place, up from fourth in 1995. Environmental risks moved up to fourth feared compared with sixth while computer crime jumped to fifth place from 12th. Other crime, fraud and theft also moved up to seventh place from 10th.

However, the report also noted that a significant number of businesses continue neither to perform risk audits for major risks nor institute business plans to cope with such incidences.

The most difficult lines of insurance to buy were identified as environmental, terrorism, employers liability, business interruption and computer crime.

New areas of claims causing concern for companies are repetitive strain injuries, with claims received by 54% of respondents, and stress and psychological disorders, with 31% of respondents already receiving claims.

The 1997 survey reflects the current soft market with the majority of respondents experiencing no premium increases and more than a quarter seeing reductions of more than 10% in both property and casualty classes.

The survey showed an increase in companies favoring global insurance program, with 79% citing it as beneficial compared with 71% in 19 More than half of respondents org nized their property and casualty co erages under a full global program n gotiated centrally with global insu ers.

While companies' concerns abo U.K. insurers' solvency have declin markedly, concern about U.S. insu ers' solvency remained high. Fifte percent of respondents said they a worried about the solvency of the U.K. carriers, while 29% remain wo ried about the solvency of their U. insurers.

Company satisfaction with their i surers, meanwhile, had increas with more than three-quarters of r spondents expressing general sati faction.

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Copies of the 1997 Fifth Biennial Ri Financing and Insurance Survey a available for £45 from John Trayhe at Aon Risk Services, 10 Devonshi Square, London EC2M 4LE; 017 621-9990; fax: 0171-621-9950.

Quakes

Continued from previous page

vide more space between buildings and improve buildings' fireproof performance to stop the spread of fires following earthquakes," he recommended.

Mr. Hokugo said damage occurred even in buildings in which wooden walls and beams were covered in non-combustible materials because quake damage exposed the combustible timbers.

He agreed that in the Nagata ward, the proximity of small shoe factories containing "synthetic rubber" and other combustible materials contributed to the fires. Burning buildings collapsing into the streets also were a factor in spreading the blazes.

Mr. Hokugo called for improved urban design, including "systematic reconstruction of buildings in areas with high concentrations of decrepit wooden dwellings."

Shinichi Sugahara, a professor from the Department of Architecture, Faculty of Engineering, at the University of Tokyo, told the conference his research showed traditional Japanese roof tiles, called kawara, contributed to the collapse of many traditional homes because they are very heavy.

Mr. Sugahara said water for fire-fighting was in short supply because many hydrants were damaged. Buildings were saved in areas where sea water or river water could be pumped to fight fires.

Mr. Sugahara agreed that inner-city areas housing traditional dwellings and shoe factories should be remodeled "as one of the urgent considerations."

He also said open spaces should be incorporated to act as fire barriers.

Flexible gas piping would be less susceptible to damage during a quake, he said. BI

TPA venture formed in Australia

BRISBANE, Australia—An Australian loss adjusting firm is forming a joint venture with Chicago-based third-party administrator Gallagher Bassett Services Inc. to develop the U.S. concept of TPAs in Australia.

Brisbane-based Wyatt Group, a loss adjusting firm that provides a wide range of insurance claims services, is joining forces with Gallagher Bassett to form Wyatt Gallagher Bassett Pty. Ltd.

The joint venture will be owned equally by Wyatt family interests and Gallagher Bassett Services Inc., which has annual revenues of more than $116 million and is North America's second largest TPA.

Gallagher Bassett is a unit of Arthur J. Gallagher & Co., which ranked as the world's eighth-largest broker in 1996 (*BI*, July 22, 1996).

Peter A. Wyatt, who continues as group managing director, said the joint venture broadens his company's operations to 13 offices and 90 employees in Australia and Papua New Guinea.

"As the insurance industry changes, clients are demanding more than just loss adjusting services. They need risk control consulting and claims administration services," he said.

Mr. Wyatt expects risk managers with large deductibles and self-insurance programs will want to access WGB services. Australia currently has no dedicated TPAs.

—By Kate Tilley

Employers, insurers must protect reforms: Speakers

By MEG FLETCHER

ORLANDO, Fla.—Employers and insurers in many states are facing an uphill battle to maintain workers compensation reforms.

Improved market conditions and earlier reforms have combined to eliminate the sense of crisis that led state lawmakers to enact many of the reforms.

As a result, employers, insurers and labor representatives need to work together to keep reforms in place, according to several speakers at the National Council on Compensation Insurance's issues symposium earlier this month in Orlando, Fla.

"Preventing the erosion of previous reforms is the most critical legislative issue we face in the near future," said William Hager, president of the Boca Raton, Fla.-based NCCI.

"The medical community, organized labor, the trial bar and sympathetic legislators are beginning to mount attacks on past reforms," he said.

"The states in the spotlight are primarily those where the 1996 elections produced a shift in the political balance," he said, citing especially Connecticut, Maine and Vermont. Democrats, which already controlled the Houses, took over control of the Senates.

"Connecticut seems hell-bent on undoing past reforms," Mr. Hager said. One proposal in the state would liberalize eligibility definitions while another would eliminate the Social Security offset.

"In Maine alone, 35 reform takedown bills are currently under legislative consideration," he said.

Meanwhile, New Mexico is considering a series of proposals that would erode reforms, including one that would revert to older, more expensive medical fee schedules, Mr. Hager said.

Legislative challenges to workers comp reforms also are expected in Arkansas, Illinois, Indiana, Maryland, Mississippi and Nevada, he added.

"While results are still favorable, caution and vigilance are needed to ensure that the system remains healthy," Mr. Hager said.

There has been dramatic improvement in the workers comp market over the past five years.

For example, average claim costs are slowing, claim frequency has taken a sharp drop and injury levels are at the lowest in a decade. One of the major factors contributing to the improved market for workers compensation was the stripping out of a total of $3.6 billion in costs from the system, according to Mr. Hager.

That is the cumulative effect of legislative reforms that have varied significantly during each of the past six years, said Ron Retterath, the NCCI's former senior vp and chief actuary who returned from retirement to give a financial overview. From 1996 through 1991, reforms saved the system, respectively, $447 million, $151 million, $887 million, $892 million, $261 million and $923 million, he reported.

Worker representatives and their attorneys increasingly complain that reform-imposed limitations on compensable claims and benefits are unfair, especially in light of high industry profits, Mr. Retterath noted.

However, the intent of those reforms was to bring the system back to its no-fault roots by removing attorneys from the system as well as other unnecessary friction costs, Mr. Retterath said.

Workers have benefited, too, during some of that time, he said.

The nationwide average for weekly wages has increased 16% to $488 in 1995 from $422 in 1990, while the maximum weekly benefit for total disability increased 32% to $464 in 1995 from $351 in 1990, he said.

Holding the line on reform depends on the continued efforts and cooperation of all parties in the system, Mr. Hager said.

Maintaining a good workers comp climate, which has brought the state additional industry and jobs, requires open communication between labor and management, said Christopher P. Krahling, superintendent of the New Mexico Insurance Department.

Leaders of New Mexico's labor-management coalition meet every two months to discuss issues and try to prevent all kinds of special interests, including attorneys, from chipping away at previous reforms, he said.

In addition, common interests have expanded since some labor representatives formed self-insurance groups and face problems similar to those employers face, he added.

State insurer and labor/management groups need to establish positive agendas, rather than just respond defensively, several speakers agreed.

They also need to get more involved in lobbying to preserve legislative reforms. Six letters from employers in a legislator's district have more impact than any general ad campaign, said Robert A. Kehmna, president of the Insurance Assn. of Connecticut in Hartford.

In addition, coalitions also should make use of the agent system in their states to educate their clients, said Mr. Krahling.

"The one thing we need to guard against is complacency," said panel moderator Joseph A. DiGiovanni Jr., senior vp-state affairs for the American Insurance Assn.

NCCI

ontinued from page 2

de states with programs more tai-
red to their individual needs.
If those savings occur, employers
ay ultimately pay less for coverage
self-insurance services, regardless
who provides them.
State regulators have complained
at it is inappropriate to allow a
r-profit ratemaking and statistical
gent to be in a position to make
oney from providing services es-
ntial to a state-mandated coverage
ch as workers comp (*BI*, Oct. 7,
96).
In addition, regulators have ex-
essed concern that the cost for
w insurers to become members of
for-profit entity might be so high
at it would hinder competition.
"At the end of the day, regulators
ve signed off on the concept of a
r-profit statistical agent and
temaking organization, as evi-
nced by" their licensing of com-
ting for-profit ratemaking enti-
s, said William Hager, president
the Boca Raton, Fla.-based NCCI.
NCCI's ratemaking competitors
clude U.S. Rating Bureau Inc. of
ayne, Pa., and Insurance Data Re-
urces Inc., which also has a non-
ofit affiliate that provides statisti-
l services. IDR recently moved all
operations to Boca Raton, where
e NCCI is based, from Fort Laud-
dale, Fla.
In addition, the Insurance Ser-
ces Office Inc. in New York, which
licensed as a property/casualty
atistical organization in most
ates, recently converted to a for-
ofit entity (*BI*, Nov. 25, 1996).
Mr. Hager considers ISO a com-
titor. An ISO spokesman dis-
reed, saying that it considers the
CCI to be "a strategic ally."
However, regulators have ex-
essed concern over possible hin-
ances to competition.
Depending on the state, a regula-
r issues licenses to individual com-
nies to act as a rating organiza-
on, advisory organization or rate-
rvice organization.
For most of this century, the non-
ofit NCCI has held most of the li-
nses in most states. It was consid-
ed almost an adjunct to state in-
rance departments because it sup-
ied rate-related information to
gulators, who were required to
e-approve workers comp insur-
ance rates. It also administered most states' residual market mechanisms, which are the market of last resort for employers needing the state-mandated coverage.

In the past decade or so, efforts to inject more competition into the workers comp system changed the NCCI's job in many states. It went from filing advisory rates, which reflected a profit component for insurers, to filing rates based merely on "loss costs," which requires insurers to determine their own expense ratios.

In addition, competitors emerged, seeking to provide some of the services the NCCI had provided for decades.

The challenge regulators face is to protect consumers by making sure the companies providing workers comp-related services are doing so on a cost-effective basis that meets a state's needs without creating excessive profits for those companies.

The NCCI, established in 1919, still is the largest ratemaking and statistical organization in the United States. It has been a non-profit entity since its inception, though it became a taxable non-profit entity in 1994 under Florida law.

In fiscal 1996, the NCCI had gross revenues of $134 million and employed about 1,000 people in 20 U.S. locations.

However, the board's postponement of the proposal to convert to a for-profit stock company based in Delaware stymies—perhaps for a year or so—an anticipated infusion of up to $150 million in new funds to improve its data delivery system.

For-profit status would make it easier for the NCCI to borrow money or form strategic partnerships to fund a more efficient database, the NCCI says.

Mr. Hager declined to discuss the dollar amount and type of upgrades the NCCI needs, considering those proprietary.

According to board and industry sources, Liberty Mutual Insurance Co. led the opposition to the for-profit drive. Other opponents included American International Group Inc., Kemper National Insurance Cos., Nationwide Insurance Enterprise, and Travelers Property/Casualty Co.

Those companies declined to comment or did not return calls.

In addition, ITT Hartford Group Inc. also opposed a vote at this time so the NCCI can better explore its needs and options, confirmed Linda Bell, the company's senior vp and chief actuary.

Kemper, Nationwide and Travelers were the only three opponents to hold seats on the NCCI board, which recently shrunk to 11 from 16 as part of the last stage of a preplanned reorganization.

"A limited number of companies were concerned about keeping 100% of the control of the NCCI within the insurance industry," said Mr. Hager.

The decision to postpone consideration of a for-profit move "was made with the understanding that the board will study NCCI's capital investment needs, explore alternative methods of funding NCCI, and in that context, continue to review and support its strategic direction," said Ernest A. Lausier, outgoing president of the NCCI board. Mr. Lausier is executive vp and chief underwriting officer of diversified operations at CNA Insurance Cos.

Meanwhile, competitors will have an increased opportunity to chisel away at its former near-monopoly.

"The NCCI continues to position itself for the competition that is surely coming, and we will be a voracious competitor," Mr. Hager said.

However, the NCCI is now "absolutely" more vulnerable to competitors in all its roles, he said. Those include statistical agent, ratemaker, experience rating calculator and producer of information products such as claims costs comparisons.

The NCCI has two major competitors for workers comp-related services.

The for-profit U.S. Rating Bureau is licensed mostly as a rating organization in 12 states and has applications pending in 14 additional states, said Robert Malooly, vp-marketing.

It is owned by Chicago-based Aon Group, which also owns Alexander & Alexander Inc.'s operations, including its Kansas City, Mo., workers comp team.

That A&A unit provides various residual market services, teaming up with various insurers in Alabama, Missouri and Nebraska, according to Dennis Donahue, executive vp of Aon Risk Services' Missouri office.

The for-profit Insurance Data Resources Inc. is licensed as a rating organization in eight states and has applications in about two dozen other states, said president Michael Camilleri, a former NCCI executive. The company, owned by Peterson Consulting L.L.C. in Chicago, also operates a non-profit unit that provides statistical services.

The NCCI is appealing a federal district court ruling that last fall dismissed its allegation that it had intellectual property rights to classification, experience rating and statistical plans that IDR planned to use in Florida (*BI*, Dec. 16, 1996).

One option NCCI should consider is operating its statistical agent services on a non-profit basis—as IDR does—while other services may move to a for-profit basis, said Hartford's Ms. Bell.

"While there may be differences of opinion about NCCI's corporate structure, the workers compensation community stands united in its unqualified commitment to the long-term success of the NCCI," said Mr. Lausier, the former board chairman.

Mr. Hager is optimistic about the board's willingness to establish a task force to study its needs and sources of capital. "The companies have made it clear they are prepared to meet all our reasonable capital needs," he said."

"I remain confident that the NCCI will be able to obtain the money and remain state-of-the-art," said Ira S. Lederman, senior vp and assistant general counsel of the W.R. Berkley Corp. in Greenwich, Conn. Mr. Lederman is a member of both the former board and the newly formed one.

The downsized board may help the process.

"The point of downsizing the board is to make it a more manageable size and streamline its workings," Mr. Hager said. BI

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Director of Client Development, USA

This position will manage and build relationships with existing clients among U.S. insurers and U.S. multinational corporations. Candidates should have 10-12 years of large account management and sales experience. Background in employee benefits or underwriting consulting as well as re-insurance is useful. The position requires 30 to 40% travel in the U.S. and is based in Boston. Compensation and reporting same as above.

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This person will be responsible for contracting with various healthcare providers in the U.S. and abroad on behalf of our clients. Responsibilities include managing staff related to our medical consultation and international case management services. Healthcare administrative experience with an emphasis on provider contracting and coordination is desired. A degree in nursing and bilingual Spanish/English skills are required. This position reports to the Director of International Benefits and Claims Operations.

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Interested candidates should respond in confidence by providing resume and salary history, via mail or fax, to: Health Resources and Technology, Inc., 420 Boylston Street, Suite 310, Boston, MA 02116 USA. Attn: Human Resources Department. Fax: (617) 424 - 1701.

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Qualified candidates should direct their resumes to: Vikki Kaylor, Micron Technology, Inc., 8000 South Federal Way, Boise, ID 83707 FAX (208) 368 - 4641.
vmkaylor@micron.com

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Tempe, Arizona Annual salary range $32,688 - $58,980. Manages, directs and supervises the activities of the Risk Management Division, including risk assessment and transference, safety, industrial hygiene, liability and property exposure. Requires 5 years of increasingly responsible risk management experience, including a minimum of 3 years of supervisory responsibility, plus a Bachelor's degree. Professional certification as ARM, CPCU and/or ALCM is preferred. To obtain an official City of Tempe application, please call (602) 350 - 8276; TDD: (602) 350-8400. Or apply in person at Human Resources Dept., 20 E. Sixth St., Tempe, AZ. http://www.tempe.gov Open until the needs of the City are met. First review date is Apr I 23, 1997. Resumes not accepted. EO/RA employer.

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One year old personal lines p&c insurer based in Naples Florida, seeks a strong CFO who is tired of northern winters. The ideal candidate will have extensive experience with one or more national "A" rated insurer(s) including responsibility for treasury, financial reporting, administration and strategic planning. Outstanding people skills and computer literacy are critical needs. An actuarial or graduate degree is a strong plus.

The Company seeks to strengthen its management depth at the senior level as it goes through a period of fairly rapid growth. Since this is a strategic, and not an operating position, the successful candidate will be expected to maintain a full time presence in Naples from October through May of each year. Participation from June through September may be conducted off site electronically at the discretion of the selected candidate. For consideration, please forward a resume in confidence to:

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Our ideal candidate will have strong multi-line technical knowledge, excellent organization, analytical and negotiating abilities, good oral/written communication skills, sound judgment, and good interpersonal skills. We provide a competitive salary and benefits package. Please send resume along with salary history/requirements to:

The Midland Company/ American Modern Insurance Group, Inc. Attn: Human Resources/CP P.O. Box 5323 Cincinnati, OH 45201-5323
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Large New York based Medical Malpractice Insurance company seeks Senior Underwriter for its expanding Hospital Division. In addition to underwriting healthcare facility accounts, this successful candidate will be involved in new program development and marketing. Minimum of 7 years underwriting experience required, 4 of which are in healthcare professional liability. Some general liability experience preferred. Excellent communication skills a must. We offer a competitive salary and fully paid benefits package. Relocation package offered. Please fax/mail resume with salary requirements to:

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Attorney-In-Fact
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Old Republic Surety Company has openings in Chicago, Illinois for an Assistant Bond Manager, and in Des Moines, Iowa for a surety field underwriter. Limited relocation assistance is available. Prefer degreed candidates familiar with agency plants in these locations. Successful previous experience required in marketing and underwriting of both miscellaneous and contract surety.

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Please call, fax, or send resume with salary history to:

LaVerne Backes
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Old Republic Surety Company
P.O. Box 1635
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REQUEST FOR PROPOSALS

REQUEST FOR PROPOSALS
OREGON STATE PRISON EXPANSION

The State of Oregon is soliciting proposals for a Broker/Administrator to provide professional services for a State Prison Expansion Program. The state intends to start an Owner Controlled Insurance Program (OCIP) on a number of prisons, which could exceed 300 million dollars. Services shall include: brokerage, administration, risk control, claims management, and related services.

The appointment will be for a five year period commencing July 1, 1997. Before the end of this contract, an RFP will be initiated to select/reselect the broker/administrator to handle the remaining projects/runoff.

Interested firms should contact Cindy Pankey, Department of Administrative Services, Risk Management Division, at (503) 373 - 0706 for proposal specifications.

Prospective bidders shall be required to attend a pre-bid conference on Thursday, May 1, 1997 in Portland, Oregon. No proposals will be accepted from any person or entity who fails to send representatives to this pre-bid conference.

Written proposals must be received at the Department of Administrative Services, Risk Management Division, 155 Cottage St NE, 4th Floor, Salem, OR 97310-0319, Attn: Judi James, no later than Friday, May 30, 1997, by 4:00 pm.

The State of Oregon reserves the right to accept or reject any or all proposals.

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NOTICE

NOTICE

NOTICE

The Kansas State Employees Health Care Commission will issue Request for Proposal(s) (RFP) on April 17, 1997 for the dental and prescription drug components of its health plan as well as an ancillary vision program. Responses may be for insured, self-funded or capitated arrangements.

Currently, 36,914 active employees and 9,445 retirees participate in the health plan. Prescription drug coverage is administered by Diversified Pharmaceutical Services for all health plan participants. Dental coverage is provided by Delta Dental Plan of Kansas.

If interested in receiving a copy of the RFP, please contact:

KANSAS DEPARTMENT OF ADMINISTRATION
Division of Purchases — Attn: Fran Welsh
900 S.W. Jackson Street, Room 102-N
Topeka, Kansas 66612-1251
Phone: (913) 296 - 2376 • FAX: (913) 296 - 7240

LEGAL NOTICE

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
IN THE PETITION OF COLIN GRAHAM BIRD AND PAUL ANTHONY BRERETON EVANS, AS JOINT PROVISIONAL LIQUIDATORS OF NORTH ATLANTIC INSURANCE COMPANY LIMITED
Case No. 97-B-41602 (TLB)

NOTICE IS HEREBY GIVEN that on April 7, 1997, an order was entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in connection with the case filed with respect to North Atlantic Insurance Company Limited ("North Atlantic") pursuant to section 304 of the Bankruptcy Code (the "Order"):

1. Enjoining all persons from transferring, relinquishing or disposing of property of North Atlantic in the United States, or the proceeds of such property, to third parties;

2. Insofar as it relates to North Atlantic, enjoining all persons from commencing or continuing any arbitration, or any judicial, quasi-judicial, administrative or regulatory action or process whatsoever (including any discovery in connection therewith) involving North Atlantic or any of its property in the United States, or any proceeds thereof;

3. Enjoining all persons from enforcing any judicial, quasi-judicial, administrative, regulatory judgment, assessment, or order, or arbitration award, and commencing or continuing any arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process to create, perfect or enforce any lien, set-off or other claim against North Atlantic or any of its property in the United States, or proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts;

4. Requiring all persons in possession, custody or control of property of North Atlantic in the United States, or the proceeds thereof, to turn over and account for such property or its proceeds to the Petitioners;

5. Enjoining all persons from drawing down any letter of credit established by, on behalf or at the request of, North Atlantic, or withdrawing from, setting off against or otherwise applying property that is the subject of any escrow or trust agreement or similar arrangement in which North Atlantic has an interest, in excess of what is expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, escrow, trust or other similar arrangement has been established; except, however, no drawing against any letter of credit shall be made in connection with any commutation unless the amount has been agreed in writing with the Petitioners or permitted by further Order of this Court;

6. Requiring all persons that are beneficiaries of letters of credit established by, on behalf or at the request of North Atlantic, or parties to any trust or escrow agreement or similar arrangement in which North Atlantic has an interest to (i) provide notice to the Petitioners and their United States counsel of any drawdown on any letter of credit established by, on behalf or at the request of, North Atlantic, or any withdrawal from, setoff against, or other application of property that is the subject of any escrow or trust agreement or similar arrangement in which North Atlantic has an interest, together with information sufficient to permit the Petitioners to assess the propriety of such action, including, without limitation, the date and amount of such drawdown, withdrawal, setoff or other application and a copy of any agreement pursuant to which such drawdown, withdrawal, setoff or other application was made and provide such notice and other information contemporaneously therewith, and (ii) turn over and account to the Petitioners for all funds resulting from the drawdown of any letter of credit or the application of funds subject to any trust, escrow or similar arrangement in excess of the amount expressly authorized by the terms of the contract, trust or other agreement to which such letter of credit, trust, escrow or similar arrangement was established;

7. Requiring every person that has a claim of any nature or source against North Atlantic and that is a party to any action or proceeding in which North Atlantic is or was a party or in which a liability of North Atlantic may be established, to place the Petitioners and their United States counsel on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (i) copies of all documents served by the parties to such action or proceeding or issued by the court, arbitrator, administrator, regulatory or other official having jurisdiction over such action or proceeding and (ii) any and all correspondence or other documents circulated to parties named on any service list; and

8. Providing that when the Petitioners are informed of claims, suits, actions and proceedings of whatever nature involving North Atlantic or its property in the United States, or the entitlement or alleged entitlement of any beneficiary of any letter of credit established by, on behalf or at the request of, North Atlantic, or of a party to any trust or escrow agreement or similar arrangement in which North Atlantic has an interest, subsequent to the date of this Order ("Subsequent Claims"), counsel for the Petitioners shall provide a copy of the Summons, Petition and most recent Preliminary Injunction order to the person or his representative who asserts such claims ("Subsequent Claimant"); that a Subsequent Claimant shall have twenty (20) days from service of the Summons within which to file an answer or motion with respect to the Petition; that on not less than two days notice to counsel for the Petitioners, any Subsequent Claimant may request, in writing, that the Court vacate or modify the Order or any order entered in this proceeding enjoining the prosecution of any Subsequent Claim; that such request shall be the subject matter of a hearing or other proceeding as scheduled by the Court; and that otherwise Subsequent Claimants may file objections and be heard by this Court in accordance with the terms of any order of the Court providing for a hearing in the future on the relief sought by the Petitioners in this proceeding.

The Order shall remain in effect pending a hearing scheduled to be held on October 9, 1997 at 11:00 a.m. before the Honorable Tina L. Brozman, United States Bankruptcy Judge, in Room 723 of the Alexander Hamilton Custom House, One Bowling Green, New York, New York. All papers submitted for the purpose of opposing continuation of the Order shall be filed with the Court, with a copy delivered directly to the Chambers of the Honorable Tina L. Brozman and served on counsel for the Petitioners at the address below, so as to be received on or before September 19, 1997, at noon New York time. Any party in interest that has not received a copy of the section 304 petition, the supporting papers filed there with, and/or the Order should contact counsel for the Joint Provisional Liquidators in writing at the address below:

CADWALADER, WICKERSHAM & TAFT
100 Maiden Lane
New York, New York 10038
Tel: (212) 504 - 6000 • Fax: (212) 504 - 6666
Attention: Kenneth P. Coleman, Esq.
Lisa C. Dorr, Esq.

www.businessinsurance.com

Equitas

Continued from page 1

almost £16 billion ($25.1 billion).

Equitas' accounts show that it has a surplus of £588 million ($921.6 million), which is reduced from £880 million ($1.4 billion) by certain factors. The surplus results from the ability to discount liabilities at a higher average interest rate than what was used to set Equitas' premium in Lloyd's reconstruction and renewal plan. The surplus reduction is due to a number of factors, including £122 million ($191.2 million) for a provision against questionable syndicate assets.

The surplus takes into account estimated liabilities from one of the largest claims overhanging Equitas, namely Exxon Corp.'s claim related to Exxon Valdez spillage and cleanup. The settlement of the claim, estimated to be about $500 million, occurred after Equitas' accounts closed Sept. 4 (*BI*, Nov. 4, 1996).

Also taken into account are 70 specific health hazard risks, including those overshadowing the tobacco industry.

Coopers & Lybrand's extensive qualifications indicate that uncertainties leave open the possibility that liabilities could exceed surplus.

For example, there are "significant uncertainties" in the accuracy of outstanding claims of £14.8 billion ($23.2 billion) and in the reinsurance recoveries of £1.5 billion ($2.4 billion), according to the audit. Equitas has the benefit of 248,500 reinsurance policies with approximately 2,900 reinsurers.

The audit also found "uncertainty" in the assumptions made in discounting claims reserves. Investment yields might vary or the claims might be paid more quickly than expected, which would inflate the actual claims payments.

Equitas' liabilities before it went into business were assessed by the Reserving Project, a main component of the larger project conducted to assess the feasibility of the company that is now Equitas. The project estimated the reinsuring syndicates' long-tail liabilities such as asbestos and pollution by analyzing global insurance claims and calculating Lloyd's market share.

"This involved the use of many assumptions which have a significant effect on the quantification of the provision for claims outstanding and related reinsurance recoveries," the audit said. "The estimation of provisions for such claims is inherently uncertain."

Any increases or decreases in such equations "could be material enough to exceed the amount of the shareholders' funds, which amount to £588 million," the audit said.

If the company's assets are "insufficient" to meet its liabilities, then Equitas could invoke a proportionate cover plan. Under this plan, Equitas is "entitled to pay claims at a reduced rate" to policyholders.

This means that policyholders would be paid a fraction of their claims instead of being paid in full, which buyers of Lloyd's policies usually expect.

However, Equitas executives are not daunted by Coopers & Lybrand's qualifications.

"Clearly no company likes to see a qualified audit report. We're not at all complacent about the fact that our audit has been so qualified. Having said that, we are not surprised either," said Jane Barker, Equitas finance director.

There is a "fundamental uncertainty" in the types of liabilities reinsured by Equitas and the assets to pay those liabilities which will always be there, she said.

It is also true that the estimated liabilities calculated by the Reserve

See **Equitas** *on next page*

Equitas

Continued from previous page
project to estimate Equitas' premium "was unaudited and some of the data wasn't verified and there was some questionable quality," Ms. Barker said. Auditors often qualify unaudited data whether it's right or wrong, she added.

It is likely that the auditors also will qualify the company's first year-end accounts, for the year ending March 31, when they come out in the fall, warned Ms. Barker. This would be the first time Equitas releases its operating costs, estimated to be about £220 million ($344.8 million) annually. The company has 637 employees, which will rise to 770 this year.

Equitas hopes to allay the fears of the auditors on the quality of the data that was used to estimate liabilities and reinsurance recoveries in the 1998 accounts, she said.

Some Lloyd's underwriters, however, are concerned about the negative view the accounts portray. Regulators, policyholders, new syndicate capital providers and Lloyd's members might take one look at the accounts and the qualification and believe that Equitas is on the brink of insolvency, they say. If Equitas did go broke, the market could be encumbered with new levies to pay.

"I think the qualification (by the auditors) is unfair," said one senior Lloyd's underwriter who did not wish to be named. The assumptions made to estimate Equitas' liabilities were very conservative and could result in as much as another £1 billion ($1.62 billion) not reflected in the surplus, he said.

For example, Equitas has probably paid claims out more slowly than was forecast, which would give rise to increased investment income, said the underwriter.

Ms. Barker does not know whether in the first seven months the claims payments have been slower or faster than predicted, because they have not been audited yet. Results will be available in the autumn.

Mr. Crall

However, "if experience had been distinctly bad, we would have had to flag the problem in this statement," added Equitas Chief Executive Officer Michael Crall.

People in the market also should remember that when Equitas was being considered, there was concern that the company would be overfunded and members would have to pay too much in premium, noted Ms. Barker. "Equitas couldn't start life with an enormous surplus. R&R wouldn't have happened," she added.

Another Lloyd's underwriter added, "The balance sheet is not as bad as it looks. Equitas has plenty of money."

The negative spin is "bad for the market," the underwriter commented. "We need a confident Equitas."

Others wondered whether Equitas was casting a dim light on its situation in order to force policyholders to commute claims.

"We have probably spent more time concerned about names' reaction than we have about policyholders," Mr. Crall replied to the criticism. "We've attempted frankly to take a very 'neutral, give-them-the-facts kind of approach. Given that that is unusual in the corporate world, it may appear that we may have been negative. But our attempt was to be straightforward, factual, open and forthcoming, and to describe the good and the bad in dispassionate terms."

"We are not trying to put a spin on this, because we are not trying to sell anything," added Ms. Barker. "And we're not trying to be complacent either. We're trying to tell everyone, 'This is where we started, with a surplus of £588 million.' This is what we were given; we didn't lose something along the way."

"The good news is that we started as we expected to start. We have been going for seven months and nothing in that time period has arisen to say that we should have started differently," according to Mr. Crall. BI

AIG

Continued from page 2
wrapped up.

Under the deal, AIG will reinsure 100% of Golden Eagle's liabilities.

The California Insurance Department said AIG was selected because it best met the criteria set out in the request for proposal. Under the Insurance Department's request for proposal, bidders were required to contribute enough capital to allow San Diego Casualty to write at a maximum 3-to-1 net premium-to-surplus ratio.

Bidders were rated on several items, including the amount of capital contributed to San Diego Casualty, the extent of the cap on existing liabilities and the continuity offered Golden Eagles' employees and policyholders.

AIG officials, who declined to comment beyond the company's press release, did not identify the new company's management team.

However, the release said the new company, which will remain in San Diego, will employ all of the Golden Eagle employees "necessary to conduct the business going forward."

Golden Eagle is the second financially troubled insurer AIG group has picked up in California in recent years. In 1994, AIG rescued 20th Century Insurance Co., which was teetering under the weight of claims from the Northridge earthquake (*BI*, Oct. 3, 1994).

Since AIG's $200 million capital infusion at the end of 1994, 20th Century's statutory policyholder surplus has grown to $436.4 million at year-end 1996.

When AIG took over the company in 1994, its policyholder surplus had dropped to $82.6 million because of earthquake losses.

Most financial analysts are viewing AIG's move as a wise business strategy.

"Every major insurer would like to believe they have the ability to pick up and restructure troubled companies for a profit," said John Wicher, managing director of Russell Miller Inc., a San Francisco-based investment banking firm specializing in the insurance industry.

But AIG is unique in its ability to identify problem assets, implement appropriate changes and turn them around, he said.

"It's really impressive what AIG can do," Mr. Wicher said.

AIG realizes that "with troubled transactions come a long list of opportunities," agreed John L. Ward, chairman of Cincinnati-based Ward Financial Group Inc.

"In many situations troubled acquisitions are the best acquisitions. AIG is not the first company to recognize this," he said, pointing to Zurich Insurance Group's 1995 deal with Home Insurance Co. and CNA Insurance Co.'s 1994 takeover of Continental Insurance Co.

Golden Eagle was an especially attractive target because California regulators put its reserves at an "ultra-conservative level," according to Mr. Ward.

"It's likely some of those reserves may be redundant at this point," he said. "So you take over this company, implement tough, solid claims-handling practices and there's a good chance those reserves are going to fall in the future."

Insurers that assume the liabilities of their troubled counterparts also may enhance their relations with regulators, Mr. Ward suggested.

"When regulators get involved, they can be an excellent ally, and they have a lot of power that can work to the benefit of the new investor," he said.

And "good relations with regulators can go a long way in future discussions of rate increases and rollbacks," he pointed out.

Barbara Stewart, president of Stewart Economics Inc. in Atlanta, likened AIG's strategy to that of Berkshire Hathaway Group, which typically "picks up good businesses and then lets them continue to operate with its capital backing."

"It's really just capital looking for good opportunities," she said. "There's a lot of capital in the insurance business looking for places to be used."

Furthermore, "I wouldn't characterize either one of these insurers as troubled," Ms. Stewart said of Golden Eagle and 20th Century. "These are both excellent investments because they are sound, good businesses that were just inadequately capitalized.

Golden Eagle is California's third-largest workers compensation insurer, writing about $400 million in workers comp premiums and $300 million in other property/casualty lines in 1996.

The Insurance Department seized Golden Eagle on Jan. 31 due to questionable business practices that it charged put policyholders, employees and clients of the company at risk.

While the insurer reported surplus of $232.1 million at year-end 1995, an Insurance Department examination concluded that higher-than-reported losses and expenses actually left it with surplus of only $81.6 million.

The Jan. 31 seizure of the company capped a long-running struggle between Mr. Mabee and the Insurance Department, which last year ordered Golden Eagle to boost its reserves by $138.5 million.

The department also charged that Mr. Mabee and other members of his management team had taken out nearly $120 million in unsecured loans from the company. The amount was increased from an earlier estimate of $69 million after department auditors reviewed the company's financials, explained Karl Rubinstein, deputy conservator.

"Our analysis by my accountants reflects that Mr. Mabee and people acting in concert with him have taken more than $120 million out of the company since 1984," Mr. Rubinstein said.

Department auditors also revised its reserve deficiency estimate for year-end 1996 to $272 million, he added.

Commissioner Chuck Quackenbush has filed a lawsuit against Mr. Mabee to recover the loans.

But Mr. Mabee has filed a motion challenging the choice of judge, delaying hearing on the case, according to Mr. Rubinstein.

San Francisco Superior Court Judge William Cahill had been assigned to the case.

Mr. Rubinstein expects to work out details of AIG's bid in less than two weeks. Then the deal will be subject to court approval, which will take about 30 more days, he said. BI

Updates

Benefits parity bill passes

DENVER—Insurers in Colorado must provide coverage for six neurobiologically based mental illnesses equivalent to what they would provide for any other physical condition.

The benefit mandate signed April 1 by Gov. Roy Romer expands coverage, beginning Jan. 1, 1998, for schizophrenia, schizoaffective disorder, bipolar affective disorder, major depressive disorder, specific obsessive-compulsive disorder and panic disorder.

The law is a narrower version of legislation introduced last year that would have expanded health care coverage to all types of mental illness, according to Rep. Marcy Morrison, who sponsored both pieces of legislation.

"I don't think we had as many insurers oppose this as the previous bill, which was not as narrowly focused," she said.

The biggest opponent of H.B. 97-1192 was the Colorado Assn. of Industry, a statewide employer group.

The Colorado law brings to six the number of states with benefit mandates for mental health care. The other states with similar laws are Maryland, Minnesota, Rhode Island, Maine and New Hampshire.

Managed care profits to slow

NEW YORK—Managed care companies' profitability over the intermediate term will be slow in comparison with the early 1990s, and long-term profitability may be constrained by medical costs associated with aging enrollees, Moody's Investors Service Inc. says in a special report.

The 10-page report on the industry also notes that competition is increasing as "companies attempt to grow larger, and more players, including providers, seek to capture control of the premium dollar."

In the near term, large plans that can sustain market leverage and either manage or pass risk on to the provider will be in a better position to withstand premium pressures and utilization increases, says the report. Moody's also predicts that the "recent onslaught of 'anti-HMO' sentiment has and will likely continue to result in regulatory requirements" for health maintenance organizations.

Dow Corning seeks dismissal

BAY CITY, Mich.—Dow Corning Corp. has asked a federal bankruptcy judge to dismiss silicone breast implant claims for disease but to allow claims for localized injuries, such as ruptures and deformities, to go forward.

The Midland, Mich.-based company said its motion, filed April 7 in U.S. Bankruptcy Court in Bay City, Mich., follows recent court decisions that have allowed breast implant complications and rupture claims to move forward while finding evidence insufficient to support claims that silicone implants cause disease.

Dow Corning, a joint venture of Dow Chemical Co. and Corning Inc., also asked U.S. Bankruptcy Court Judge Arthur J. Spector to order that one mega-trial be held to decide whether the devices cause immune system illness. This request also was included in the company's bankruptcy reorganization plan (*BI*, Dec. 9, 1996).

Clinical studies so far have failed to show any definitive cause-and-effect relationship between implants and disease. However, a recent Mayo Clinic study found that nearly one in four women with implants had serious enough local complications to require one or more re-operations within five years of implant surgery.

Briefly noted

The Massachusetts Insurance Division, Electric Mutual Liability Insurance Co. and General Electric Co. are jointly recommending court appointment of Robert Steadman, a retired state superior court judge, as **special master to review EMLICO claim settlements** under a settlement agreement among the division, EMLICO and GE. . . . **NYLCare Health Plans Inc.**, the health benefits subsidiary of New York Life Insurance Co., said it will begin marketing next month to small employers high-deductible indemnity plans linked to tax-favored medical savings accounts. NYLCare is one of the largest plans to date to enter the MSA market. . . . The Senate Labor and Human Resources Committee unanimously recommended last week that Alexis Herman be confirmed as **U.S. Labor Secretary**. . . . A federal judge in New York has reinstated a shareholder suit against **Philip Morris Cos.** The suit alleges the company's stock price was artificially high due to the company withholding information on the health risks of tobacco. Reinstatement came after plaintiffs submitted new documents concerning the addictive effects of nicotine. . . . **Foundation Health Systems Inc.** said it has acquired Clackamas, Ore.-based PACC, a 116,000-member health plan, for an undisclosed amount, an acquisition it says will make FHS the largest for-profit plan in Oregon. PACC has health plan operations including a health maintenance organization and a preferred provider organization in Oregon and Washington, with a heavy concentration in the Portland area. . . . The nearly 200 Chicago businesses involved in a class-action lawsuit against Great Lakes Dredge & Dock Co. are weighing a **proposed $22 million settlement** of claims stemming from the city's 1992 underground flood. Bridge-piling work done by Oak Brook, Ill.-based Great Lakes that breached an antiquated freight tunnel system running under the Chicago River was blamed for the subsequent flooding throughout Chicago's Loop business district. In March, Great Lakes settled with the city for up to $26 million, including $3 million cash and rights to collect the remainder from the company's insurers at Lloyd's of London. . . . **John Feldtmose**, president of benefit consultant A. Foster Higgins & Co. Inc. in New York, has resigned. Foster Higgins is a unit of Johnson & Higgins, which was acquired by Marsh & McLennan Cos. Inc. last month. . . . The Fair Political Practices Commission has approved the **$50,000 fine** negotiated by California Insurance Commissioner Chuck Quackenbush for campaign reporting violations (*BI*, April 7). . . . **Frank G. Zarb**, former chief executive officer of Alexander & Alexander Services Inc. and current president and CEO of the National Assn. of Securities Dealers Inc. in New York, was named the first executive chairman of the association last week.

Report forecasts lower rates

J.S. market now 'extremely soft,' Sedgwick says

By GAVIN SOUTER

Policyholders can look forward to reduced
tes for nearly all their commercial cover-
es in 1997, broker Sedgwick Inc. forecasts
a new report.
The continued financial strength of insur-
s, the increasing variety of risks that insur-
s are prepared to assume and the lure of the
ternative risk markets all will help keep
ices down, the broker says.
While some pockets of coverage, such as
orkers compensation, may see some slight
creases in rates, the buyers' market for
mmercial property/casualty insurance will
ntinue unabated, the report predicts.
The casualty market, in particular, shows
sign of hardening, according to Sedg-
ck's Insurance Markets Trends and Devel-
ments 1997, which will be released this
eek at the Risk & Insurance Management
ciety Inc. annual conference and exhibi-
on.
The market was competitive last year, and
here is still no sign that this trend will end
on," says the report, the work of about 30
dgwick personnel.
The reasons for that, it says, include: insur-
s are generally in a strong fi-
ncial position; more insurers
e writing a wider variety of
verages; the continued
owth of the alternative risk
arkets; and continued efforts
ward tort reform, which
uld provide a more prof-
ible environment for insur-
s.
"We expect primary liability
tes to continue in free fall,
th multiyear contracts com-
only offered. Capacity is
entiful. Terms and condi-
ons will be broadened to re-
in customers," the report
ys.
Umbrella and excess mar-
ts also are competitive, with
nits of more than $25 million
mmonly offered by single in-
rers.
Specialty casualty markets
so are expected to offer bet-
r terms and conditions to policyholders.

The environmental liability insurance market, in particular, is offering more coverages, the report says.

Numerous companies now offer environmental liability coverages, and last year 15 new products were introduced, it says.

In addition to coverage for contractors and consultants remediating waste sites, insurers now also are covering: Brownfields properties; asbestos liabilities, capped and removed from the balance sheet; acquisition and divestiture properties; ground water pollution from a landfill; and radioactive sites for the government, the report says.

"In short, the market has gone from a plethora of insurance companies in the 1970s offering some type of environmental coverage, to a dearth of coverage during the 1980s. . . .to numerous carriers today offering more than 100 policy forms," Sedgwick says. "What does this mean for the customer? Available coverage, at reasonable prices, negotiated policy wording and a willingness on the part of the underwriter to find a solution to the customer's problem."

Capacity for directors and officers liability insurance expanded for the 11th consecutive year in 1996, the report says.

"The U.S. marketplace has transitioned from soft to extremely soft," it says.

In the past year, risk managers also have been offered an increasing amount of employment practices liability coverage. The report noted, however, that the cost often is too high, and demand for the EPL products has not yet taken off.

But with an increasing number of employment-related damage awards, the coverage should eventually become as prevalent as D&O coverage, according to Sedgwick.

Other survey findings include:

- Risk managers with aviation risks should expect flat or lower rates in 1997.

Airline underwriting has been profitable over the past five years, which should help keep the lid on price increases, the report says.

"The past 10 years have produced premiums of $5.6 billion, with losses of $1.8 billion. This favorable trend has created a competitive marketplace as underwriters aggressively go after" aviation products business.

- The marine market also expanded over the past year.

Hull and machinery capacity expanded worldwide. "The expanded market capacity and keen competition has led to a deepening of the soft premium market conditions which continue in 1997," the report says.

Many insurers are trying to lock into the current rating levels for hull and machinery by offering two- to five-year policies, it says.

The only area where underwriters are remaining firm is on the high deductible levels.

The marine cargo market also has seen capacity increase over the past year, and insurers are offering broader coverages, the report says.

Marine cargo "markets are more receptive to specialized risks, such as business interruption insurance, storage risks, as well as typical property risk."

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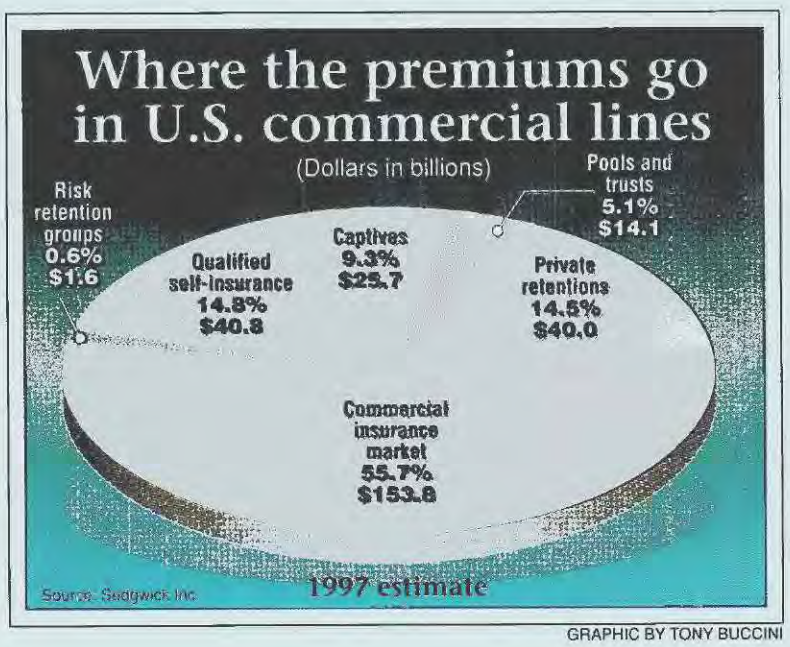
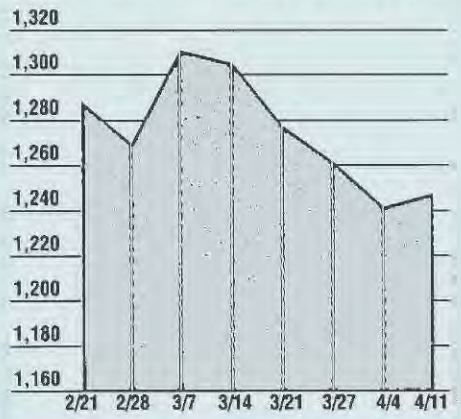
For a free copy of the survey, contact Sedgwick Inc., Communications Department, 1000 Ridge-way Loop Road, Memphis, Tenn. 38120; 901-684-3500.



GRAPHIC BY TONY BUCCINI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of April 11

Call spread	Price bid/ask
Eastern September 1997	
40/60	3.2/3.8
60/80	—/3.3
80/100	—/2.5
National Annual 1997	
80/100	4/5
120/140	—/5
June Midwestern 1997	
10/20	1/1.6
California Annual 1997	
40/60	1.2/2.3
80/100	—/2
Western Annual 1997	
40/60	1.5/3.1
80/100	—/2

Total volume: 180 Total open interest: 11,642

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.
Source: Chicago Board of Trade

British Issues

April 11 Companies	Price pence	P/E	Div. pence	Yield %	52 week high—low
Comml Union	666	11.8	30.3	5.7	759—550
Genl Accident	817	7.5	34.3	5.4	876—614
Gdn Royal Exch	275	5.5	10.0	4.6	301—222
Independent	711	8.8	13.3	2.4	711—373
Royal & Sun	441	12.8	19.0	5.4	515—349
Brokers					
Bradstock	76	12.4	5.7	9.4	81—54
CE Heath	100	12.2	4.5	5.6	115—74
JIB Group	156	11.4	9.8	6.4	161—101
Lmbrt Fenchurch	110	12.8	8.4	9.5	150—101
Lloyd Thmpson	187	NA	10.0	6.7	206—167
Nelson Hurst	132	12.0	8.6	8.2	206—121
Sedgwick Grp	130	11.2	8.0	6.2	152—115
Steel Brl Jones	27	9.4	1.5	6.9	48—22
Willis Corroon	157	13.1	6.6	5.3	169—117

Source: Nordby International Inc.

BI Industry Stock Report APRIL 7, 1997, THROUGH APRIL 11, 1997

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Acordia Inc.	NYS	31.75	-0.39	9.48	33.75	27.25	75
E.W. Blanch Holdings Inc.	NYS	23.25	3.91	15.53	23.50	17.75	34
Gallagher Arthur J. & Co.	NYS	32.25	1.18	4.03	36.00	29.13	34
Hilb, Rogal & Hamilton	NYS	13.88	0.00	4.72	14.00	11.38	265
Kaye Group Inc.	NDQ	4.75	8.57	-9.52	7.25	4.38	4
Marsh & McLennan	NYS	115.75	-3.24	11.30	129.63	88.00	1019
Poe & Brown	NDQ	25.88	-0.96	-2.36	27.50	22.75	31
BROKERS	AVERAGE		1.30	4.74			
INSURERS/REINSURERS							
ACE Ltd.	NYS	59.63	-4.22	-0.83	66.38	40.50	925
Acceptance Insurance Cos.	NYS	18.38	-3.29	-6.96	23.13	14.75	83
AEGON N.V.	NYS	65.63	-0.19	3.75	73.63	42.25	237
Aetna Life & Casualty	NYS	83.75	-2.90	4.69	93.38	55.38	2197
AFLAC Inc.	NYS	40.00	0.00	-6.43	44.00	28.25	581
Allied Group Inc.	NYS	34.88	-1.06	6.90	38.63	22.38	64
Allmerica Prop. & Casualty	NYS	31.25	0.00	2.88	32.25	25.00	451
Allstate Corp.	NYS	60.50	1.04	4.54	68.25	37.38	3468
AMBAC Indemnity Corp.	NYS	64.75	-0.96	-2.45	74.00	47.00	1122
American Bankers Ins.	NDQ	51.63	1.23	0.98	59.50	32.50	335
American Financial Group	NYS	34.88	-0.71	-7.62	38.88	28.50	140
American General	NYS	37.25	-6.88	-8.87	44.63	32.88	2222
American Heritage Life Ins.	NYS	24.25	1.57	-7.62	27.75	19.00	20
American Indemnity/Fin'l	NDQ	13.13	0.96	28.05	14.00	9.50	5
American International	NYS	114.00	-1.08	5.31	129.63	88.13	4945
Aon Corp.	NYS	61.00	-1.41	-1.81	67.25	47.50	794
Argonaut Group	NDQ	28.00	1.82	-8.94	34.25	27.25	179
AVEMCO Corp.	NYS	23.00	1.10	47.20	27.38	11.75	78
Baldwin & Lyons Inc.	NDQ	17.38	0.00	-5.44	20.75	14.38	0
Berkley W.R. Corp.	NDQ	47.63	-3.79	-6.16	55.00	40.25	373
Berkshire Hathaway Inc.	NYS	36800.00	0.55	7.92	37900.00	30000.00	1
Capital RE Corporation	NYS	39.50	-3.95	-15.28	48.00	32.50	84
CapMac Holdings Ltd.	NYS	23.75	-8.65	-28.30	36.88	23.63	107
Capsure Holdings Corp.	NYS	11.75	-1.05	2.17	18.88	8.00	58
Chartwell Re	NYS	25.50	-1.92	-4.67	28.50	19.88	12
Chubb Corp.	NYS	53.13	0.00	-1.16	62.75	40.88	2441
CIGNA Corp.	NYS	144.13	-1.45	5.49	161.63	100.75	754
CNA Financial Corp.	NYS	103.00	0.37	-3.74	114.75	95.75	115
EMC Insurance Group Inc.	NDQ	12.13	-3.00	1.04	14.50	10.13	70
Enhance Financial Services	NYS	38.50	0.33	5.48	39.50	26.00	86
Everest Reinsurance	NYS	26.88	-2.27	-6.52	32.75	21.38	939
Executive Risk Inc.	NYS	43.75	-0.57	18.24	49.00	29.25	67
EXEL Ltd.	NYS	42.00	-0.59	10.89	45.13	31.75	1054
Fremont General Corp.	NYS	27.50	-1.79	-11.29	32.63	21.50	251
Frontier Insurance Group	NYS	48.63	9.58	27.12	51.00	30.13	627
Gainsco Inc.	NYS	9.00	0.00	-6.49	11.75	8.75	147
GCR Holding Ltd.	NDQ	22.88	1.95	2.81	27.25	21.50	372
General RE Corp.	NYS	155.75	1.14	-1.27	177.75	138.75	1327
Gryphon Holdings	NDQ	14.25	0.00	0.88	19.25	12.00	4
Guaranty National Corp.	NYS	19.00	4.11	13.43	19.00	13.50	14
Harleysville Group	NDQ	33.75	2.27	10.66	34.00	24.50	57
Hartford Steam Boiler	NYS	44.75	0.85	-3.50	49.13	42.75	179
HCC Insurance Holdings	NYS	23.88	-0.52	-0.52	32.75	19.13	187
IPC Holdings Ltd.	NDQ	22.75	-2.15	1.68	26.38	19.00	117
ITT Hartford Group	NYS	70.00	0.36	3.70	81.00	44.50	959
LaSalle Re Ltd.	NDQ	28.13	-2.60	-3.85	29.50	19.75	159
Lincoln National	NYS	50.00	-3.85	-4.76	61.63	40.75	1054
MAIC Holdings Inc.	NYS	34.00	3.42	0.37	36.00	28.25	32
Markel Corp.	NDQ	108.50	0.46	20.56	113.50	78.00	23
MBIA Insurance Group	NYS	96.00	1.19	-5.19	104.63	70.13	680
Meadowbrook Insur. Group	NYS	23.25	1.09	10.71	34.13	15.25	14
Mid Ocean Ltd.	NYS	45.25	-3.72	-13.81	55.38	35.50	105
MMI Cos. Inc.	NYS	23.38	-2.09	-27.52	33.38	22.50	57
Mutual Risk Mgmt. Ltd.	NYS	33.50	-5.63	-9.46	40.00	26.88	205
NAC Re Corp.	NYS	36.38	1.04	7.38	40.63	28.50	1176
Navigators Group	NDQ	17.50	4.48	-4.11	20.25	15.75	57
Nobel Insurance Ltd.	NDQ	12.25	-11.71	-2.49	14.00	10.88	40
NYMagic Inc.	NYS	18.88	0.00	4.86	21.13	17.00	2
Ohio Casualty Corp.	NDQ	38.75	0.65	9.15	42.63	30.00	151
Old Republic Int'l	NYS	25.88	1.47	-3.27	27.75	20.13	576
Orion Capital Corp.	NYS	62.13	0.40	1.64	67.75	42.63	108
Partner Re Ltd.	NYS	34.00	-1.45	0.00	36.50	25.63	296
Penn-America Group Inc.	NDQ	12.13	1.57	12.79	14.50	8.63	94
Philadelphia Cons. Holding	NDQ	28.00	-1.75	20.43	30.25	16.75	21
PXRE Corp.	NYS	25.50	0.49	3.03	27.00	22.25	50
Reliance Group Holdings	NYS	10.13	-3.57	10.96	12.25	6.50	1997
Reliastar Financial Corp.	NYS	58.50	-0.64	1.30	65.38	40.00	408
RenaissanceRe Holdings Ltd.	NYS	34.75	-1.77	5.30	41.25	26.75	41
Risk Capital Holdings	NDQ	16.94	0.37	-12.58	20.75	15.88	862
RLI Corp.	NYS	33.13	4.74	-0.75	36.63	22.38	40
St. Paul Companies	NYS	65.75	2.53	12.15	72.63	50.13	1088
SAFECO Corp.	NDQ	38.75	-0.32	-1.74	44.00	30.88	1609
Seibels Bruce Group	NDQ	6.13	-15.52	-25.76	12.50	6.13	119
Selective Ins. Group	NDQ	41.25	0.00	8.55	43.50	31.00	88
Sphere Drake Holdings	NYS	9.13	-2.67	2.82	11.75	8.13	70
TIG Holdings	NYS	31.00	0.81	-8.49	38.00	27.00	1391
Titan Holdings, Inc.	NYS	17.63	6.82	6.82	17.88	13.13	39
Tokio Marine & Fire	NDQ	46.75	-6.73	0.27	69.00	42.00	220
Torchmark Corp.	NYS	53.13	-1.62	5.20	61.88	40.25	916
Transatlantic Holdings	NYS	80.38	0.47	-0.16	88.25	62.38	130
Travelers Aetna Property	NYS	32.13	0.00	-9.19	39.63	23.13	380
Travelers Corp.	NYS	46.38	-3.39	2.20	58.38	28.38	9202
Trenwick Group Inc.	NDQ	47.75	-3.78	3.24	54.25	46.00	183
Unico American Corp.	NDQ	10.00	1.27	-8.05	11.00	6.63	16
Unionamerica Holdings	NYS	16.88	0.75	-4.93	20.75	14.75	47
United Fire & Casualty	NDQ	35.00	12.90	-0.71	40.00	29.25	18
Unitrin	NDQ	49.44	0.64	-11.32	56.38	44.25	139
UNUM Corp.	NYS	68.25	-3.87	-5.54	79.63	55.50	1038
US Facilities Corp.	NYS	19.50	-0.64	-0.64	20.50	14.88	18
USF&G Corp.	NYS	19.75	-4.24	-5.39	23.13	15.00	3543
USLIFE Corp.	NYS	44.88	-2.97	34.96	48.63	26.88	1460
Vesta Insurance Co.	NYS	35.25	6.42	12.35	41.50	24.50	266
Washington National	NYS	27.63	0.91	0.45	30.75	25.13	208
Zenith National Ins.	NYS	26.38	-0.94	-3.65	28.88	23.88	46
Zurich Reinsurance Centr.	NYS	38.38	0.00	22.80	38.75	28.38	30
INSURERS/REINSURERS	AVERAGE		-0.52	1.08			
HEALTH MAINTENANCE ORGANIZATIONS							
Healthsource Inc.	NYS	20.75	0.61	58.10	38.75	9.75	820
Humana Inc.	NYS	20.75	-1.78	9.21	25.38	15.00	2123
Oxford Health Plans	NDQ	60.38	4.09	3.09	67.13	27.69	9185
Pacificare Health Sys.	NDQ	75.75	-4.42	-6.77	86.25	59.63	181
Safeguard Health Enter.	NDQ	10.13	-8.99	-42.14	22.50	10.13	42
Sierra Health Services	NYS	24.88	-3.40	1.02	35.88	22.38	281
United Healthcare Corp.	NYS	50.50	0.75	12.22	62.63	30.00	5382
Wellpoint Health Networks	NYS	37.75	-5.33	9.82	45.88	23.38	3188
HMOs	AVERAGE		-2.31	5.57			
ALL COMPANIES	AVERAGE		-0.51	3.80			

Top advancing issues: United Fire & Casualty, Frontier Insurance Group, Kaye Group Inc. Leading decliners: Seibels Bruce Group, Nobel Insurance Ltd., Safeguard Health Enter. Most active issue: Travelers Corp. The BI Index rose 0.4%; the Dow Jones 30 Industrials decreased 2.1%; the S&P 500 decreased 2.7% and the NYSE Composite decreased 2.1%. Average P/E: Brokers, 16.8; Insurers/reinsurers, 17.1; HMOs, 27.9.

System design: Nordby International Inc.

Portable

Continued from page 1
job to job by limiting pre-existing medical condition exclusions in group health care plans.

Under the law, employers can deny coverage for new employees' pre-existing conditions for 12 months. But that exclusionary period is offset by employees' prior continuous coverage.

For example, if an employee was covered under a prior corporate health care plan for six "continuous" months, the new employer could deny coverage for that condition for a maximum of six months. Continuous coverage is defined as that without a break exceeding 63 days.

Q: How will an employer know whether a new employee had health insurance from a prior employer?

A: Employers will be required to furnish employees with statements "certifying" coverage.

This certification requirement begins June 1, but is phased in. Starting on June 1, employers have to provide certification statements to employees who lost health care coverage from July 1, 1996, through Sept. 30, 1996, and who request statements.

For employees who lost coverage from Oct. 1, 1996, through May 31, 1997, employers have a choice: they can provide the certification statements to employees or they can give employees a notice informing them where they can obtain the statements.

Employees who lose coverage on or after June 1, 1997, generally must be given certification statements.

Q: What events would trigger the issuance of a certification statement?

A: Certification statements would have to be issued for several situations.

The most common would be when an individual loses group health care coverage and becomes entitled to elect COBRA coverage. Another situation would be when an individual loses group coverage and is not entitled to COBRA coverage. This could occur, for example, if an employee who worked for a company with fewer than 20 employees lost his job; small employers are not covered by the COBRA statute.

Yet another situation where a certification statement would have to be furnished would be after an individual's COBRA coverage is exhausted.

Individuals also can ask their former employers for a health care coverage certification statement up to 24 months after they lost coverage.

Q: What information is required to be furnished on the certificate?

Information that must be provided includes the name of the group health plan that provided the coverage, the name of the participant or dependent for whom the certificate applies, and the name, address and phone number of the plan administrator required to provide the certificate. The statement also would have to indicate when coverage began and ended.

But, if an individual had at least 18 months of continuous coverage, the administrator filling out the certificate only would have to check a box saying the individual had at least 18 months of continuous coverage and indicating when coverage ended.

Q: What special certification rules exist for employees' dependents?

A: Through June 30, 1998, the certification statement only has to provide coverage information for the employee and the type of coverage selected, such as individual, employee plus spouse and family coverage.

After June 30, 1998, employers have to provide the names of the dependents on the certification statement.

Many employers, especially if they have self-insured traditional indemnity plans, do not have dependents' names for health care coverage information. For example, in the case of an employee opting for family coverage, employers might not have names of dependents until an employee files a claim on behalf of a dependent.

The new certification rule should be a trigger for employers to begin to collect dependent coverage information, said Richard Stover, an employee benefit consultant with Buck Consultants Inc. in Secaucus, N.J.

Q: Can an employer use one certification statement for employees and dependents?

A: Generally, yes. However, separate statements would be required if the employee and dependents had different periods of coverage through the employer. An example would include an employee who got married several months after starting work at a company and added a spouse as a dependent on her group health care plan.

Q: How are certification statements to be delivered?

A: By first-class mail to the participant's last known address. If separate certificates are being sent to family members residing at the same address, separate mailings are unnecessary.

However, if an employee and dependent live at different addresses, perhaps because they are legally sep arated, certification statements wou have to be mailed to each address.

Q: In view of all the paperwork r quirements, will some employers l better off eliminating pre-existi condition exclusions from their plan

A: That depends a lot on an emplo er's health care plan philosophy well as its demographics.

For example, if an employer typ cally hires employees who have be covered for relatively long periods service under a prior employe health care plan, there would be litt reason to have pre-existing medic condition provision.

Those individuals would have suf cient prior coverage to offset the ma imum 12-month exclusion the law a lows.

"There would be an administrati burden for collecting this informatic but there would be little savings" b cause the employer could not apply pre-existing condition exclusion many of the new hires, noted Mr. Ca leton of Towers Perrin.

On the other hand, it may be cos effective for employers to retain pr existing medical condition exclusio if they are in high-turnover industri and many of their new hires lack prior coverage, he added.

Minet

Continued from page 1
deal fell through had nothing to do with the J&H acquisition.

"Frankly, we just couldn't agree on financial terms that were satisfactory to us and to St. Paul," she said.

A broad indemnification agreement is part of the deal between Aon and St. Paul, under which St. Paul will indemnify Aon for any pre-closing liabilities that arise from Minet.

St. Paul is adequately reserved for any of those losses, the insurer's spokeswoman added.

Also, as in Aon's 1992 deal with Reliance Corp. for the purchase of Frank B. Hall & Co. Inc.,"there will be some enhanced opportunities as a result of the transaction" between Aon and St. Paul, confirmed Michael D. O'Halleran, president of Aon Group.

As part of the Frank B. Hall purchase, Reliance agreed to place reinsurance through Aon's reinsurance brokerage units that would generate a minimum of $18 million in commissions a year for 15 years.

The purchase price for Minet was not disclosed because "it's a very complicated transaction," said Patrick G. Ryan, chairman and chief executive officer of Aon Group.

"We feel Minet is a very fine strategic fit for Aon," he said. "When it was put on the market (last September), we had our plans in other directions and didn't want to take on too much concurrently. After we bought A&A, we found A&A had been in serious discussions with Minet and it would be a clear strategic fit" for Aon.

Mr. O'Halleran added: "We felt Minet's discussion with Marsh had slowed down. We felt there was an opportunity and we jumped on it.

"At Aon, we don't let the grass grow under our feet."

From Minet's point of view, Aon's announcement has ended a difficult period of uncertainty since St. Paul placed it on the block last year.

"We are delighted to have something resolved," said Minet Chairman Peter Christie, who added he had been kept informed of the negotiations by St. Paul.

Over the past few months, the sword hanging over Minet's head prompted several teams of brokers to leave for other companies, though Mr. Christie said staffing levels now are not materially different from a year ago. Any staff movements have been through "natural attrition," he said.

Minet's workforce totaled 3,715 employees in 1995, and Aon's roster has reached 29,449 since acquiring A&A and Bain Hogg.

Minet also has maintained flagship accounts, including the "Big Six" accounting firms, for which it places professional liability coverage.

However, Minet has been struggling to turn a profit in the last several years. Minet posted a pretax loss for the fiscal year ended Sept. 30, 1995, of $13 million, a 30% increase from fiscal 1994's $10 million loss. This follows a pretax loss of $13 million in fiscal 1993 and a disastrous $433 million pretax loss in fiscal 1992.

Minet clients were informed once the deal had taken place and were "generally very supportive" and pleased to see the matter settled, Mr. Christie said.

He is expected to take on a senior role within Aon, Mr. O'Halleran said.

Aon is acquiring all of Minet's operations worldwide.

In contrast, the proposed deal between M&M and Minet would have excluded wholesale broker Swett & Crawford Group and Australian reinsurance broker Minet Burn Roche.

Minet's professional liability business and wholesale broker Swett & Crawford Group, "will be a great fit," Mr. O'Halleran said.

In addition, Minet specialties in technology and financial institutions are businesses "that under the Aon ownership will become very accretive," he said.

Indeed, the addition of Swett & Crawford will create a new behemoth in the insurance wholesale business.

The combined 1995 volume of premiums placed by Swett & Crawford, Alexander Howden North America and Aon's Sherwood Insurance Services unit totals more than $1.3 billion (*BI*, Sept. 16, 1996). The next largest wholesaler is Sedgwick's Price Forbes North America which reported $520 million in 1995 premium volume.

The addition of Minet Re to the recently combined Alexander Reinsurance Intermediaries Inc. and Aon Re Worldwide Inc. creates the world's largest reinsurance broker, based on 1995 revenues. The combined $479.5 million in 1995 revenue generated by Aon's three reinsurance brokers edges ahead of M&M's Guy Carpenter & Co. Inc. and J&H's Willcox Inc. Reinsurance Intermediaries, which together would have reported $400.9 million in 1995 gross revenues on a pro forma basis (*BI*, Oct. 14, 1996).

Overall, the combined pro forma gross revenues of Aon Group with Minet are estimated at $3.85 billion.

This is still more than $1.5 billion shy of the recently combined revenues of J&H and Marsh & McLennan Cos.

J&H Marsh & McLennan will remain the world's largest retail broker, with combined retail revenues of about $2.4 billion. The addition of Minet raises Aon's retail brokerage revenues to an estimated $2.0 billion.

Not only will Aon increase its wholesale, reinsurance and specialty business, but the Minet acquisition also enhances its London operations.

"Minet is a vital addition to an already substantial Aon London presence," said Mark Lefenfeld, a managing director with Russell Miller Inc. in Austin, Texas. "This makes Aon considerably more competitive in London."

Aon's merger of its Bain Hogg and A&A acquisitions, as well as its purchase of what is now called Nicholson Jenner Leslie Ltd. in London, is continuing. The London operations have been split into Aon Group Ltd., headed by Alan Colls, and Aon Risk Services, led by Geoff Whitehead.

Aon Group Ltd. includes the Alexander Howden Group Ltd., Nicholson Jenner Leslie Ltd. and Bain Hogg International Ltd. operations, and on a day-to-day level will be run by an executive committee chaired by Dennis Mahoney. For the time being, though, Aon continues to place business at Lloyd's of London using the licenses of its acquired brokers.

In general, analysts view the deal as a good strategic fit for Aon.

"Minet really looks more like an Aon deal than a Marsh deal," commented Timothy J. Cunningham, a principal with Insight Management Consulting Group, a Westchester, Ill.-based brokerage consulting firm.

Minet fits better with Aon's global expansion strategy as well as its strategy to build its niche program and wholesale business, he said.

It also maintains Aon's competitive position in light of the recent M&M and J&H deal, said Mr. Lefenfeld of Russell Miller. "There seems to be some leap-frogging taking place in the overall consolidation."

The challenge now, especially for Aon and M&M, is to convert the accumulated volume to enhance one's competitiveness, Mr. Lefenfeld said. "At the end of the day, the one who integrates best is the winner."

Some risk managers, however, say they may start using independent regional brokers more as the number of large international brokers dwindles.

While a merged company theoretically could provide a wider number of account executives to choose from, it is more likely the merged entity will cut costs and reduce the choice of a count executives available from t separate entities, said John F. Rile director of corporate risk manag ment at Dun & Bradstreet Corp. New York. "They are looking to r duce costs and most of the costs are salaries," he said.

Dun & Bradstreet currently us M&M and Aon, as a result of Aor acquisition of A&A.

But, Mr. Riley said, if he wanted change he now has a very limit choice of large brokers to choose fro

"The limited choice could force y to look closer at second-tier brokers he said. "Maybe they will lack the i ternational expertise, but for most what we do that is not essential."

Independent regional brokers cou see more business as a result of t mergers, agreed David Adler, ri manager at Portman Holdings L.L a real estate company in Atlanta.

"Risk managers who are looking f options will be forced to look at t regional independents and they m be pleasantly surprised at the level talent they find," he said.

Portman uses Aon, as a result of purchase of A&A, and Atlanta-bas Hamilton-Dorsey-Alston, Mr. Adl said.

Sarah Goddard and Gavin Sout contributed to this report.

Investor rebuts rumor of Sedgwick revolt

LONDON—David Herro, the Chicago-based fund manager who led the shareholder drive to oust the management of British advertising agency Saatchi & Saatchi, says he is not planning any similarly aggressive moves at Sedgwick Group P.L.C.

Last week, a fund managed by Mr. Herro, Oakmark International, said it had raised its stake in Sedgwick to 3.1%, just over the 3% level in which shareholders must disclose their interests under British securities laws.

The move immediately started rumors in London that Mr. Herro would use that position to try and force a merger between Sedgwick and rival British broker Willis Corroon P.L.C.

However, Mr. Herro said the increased shareholding just reflects his view that Sedgwick is an undervalued stock and a good investment.

"It is a well-run and undervalued company," he said.

The speculation that Mr. Herro would take a more aggressive role stems from the position he took as a shareholder of the former Saatchi & Saatchi. He led a shareholder revolt that resulted in the founders, Maurice and Charles Saatchi, leaving the agency.

"That was the one occasion where we became more aggressive, normally we act as a long-term passive shareholder," Mr. Herro said.

And that is the position Oakmark is taking with its Sedgwick investment, he added, noting that he does not have any shareholding in Willis Corroon.

The increase in Oakmark's holding is not surprising to Sedgwick, said a company spokeswoman. "He came to see us over a year ago and has been buying our stock on a steady basis since then."

But stock analysts thought it notable that Mr. Herro bought enough stock to push him over the disclosure mark, and speculated he might push other stockholders in Sedgwick and Willis Corroon Group P.L.C. to merge the two companies against management wishes.

One shareholder that would need convincing is fund manager PDFM Ltd., which owns 26.08% of Sedgwick and 22% of Willis Corroon.

Some analysts have said that in light of acquisitions made by brokers Marsh & McLennan Cos. Inc. and Aon Group Inc., both Sedgwick and Willis would have to consider a merger to remain competitive (*BI*, March 17).

While Sedgwick has said it would be open to a merger with the right partner, Willis management has stated unequivocally that it intends to remain independent.

Sources at Willis said they think a merger would be "a commercial disaster."

—By Gavin Souter and Stacy Shapiro

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