WEEK OF APRIL 19, 1982

business insurance

RISK MANAGER OF THE YEAR

PROFILES: PAGE 85

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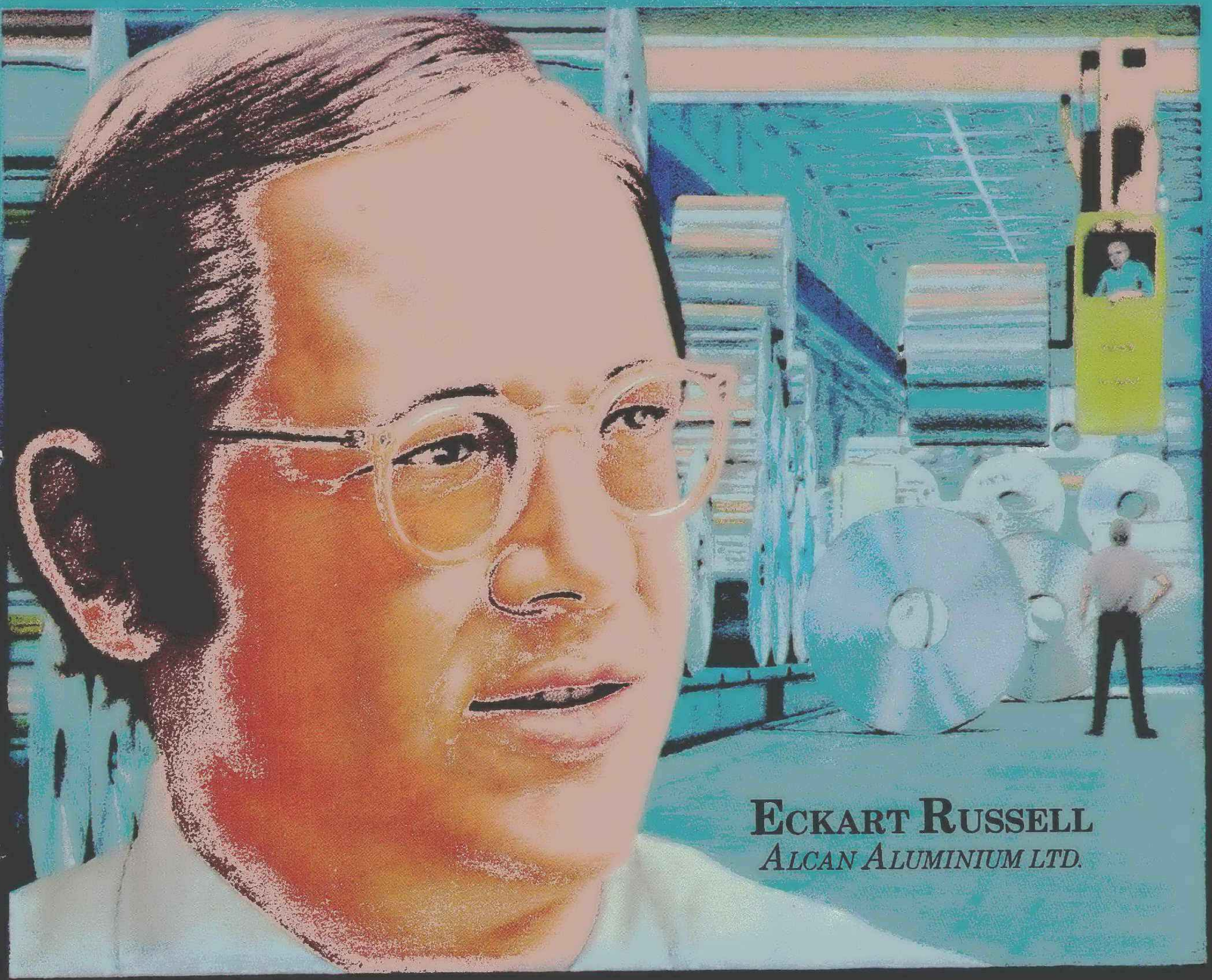

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NEWSPAPER

WEEK OF APRIL 19, 1982

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1 a copy; $40 a year

update:

Third DES maker asks court for Keene ruling

WASHINGTON—Another manufacturer of the anti-miscarriage drug DES is asking a federal court to grant it the broadest possible interpretation of insurance coverage for long-latent disease claims.

Abbott Laboratories of North Chicago, Ill., is asking a U.S. District Court in Washington to decide how its primary insurer

Continued on next page

Colorado regulator seeks law to reverse IRS captive rule

By RHONDA L. RUNDLE

DENVER—Colorado Insurance Commissioner J. Richard Barnes will bypass the Internal Revenue Service and ask Congress to permit tax deductions for premiums paid to a captive insurance company.

The Colorado Insurance Department is drafting a bill to win the same tax treatment for premiums paid to a captive as for premiums paid to a commercial insurer if there is equivalent regulation of the risk-bearing companies, Mr. Barnes told *Business Insurance* during a recent interview.

He expects the bill to be drafted within the next 60 days and then will start to lobby Capitol Hill for congressional support.

"I recently had a call from a senator —not from Colorado—who offered to co-sponsor our bill," Mr. Barnes reported. He said that seven representatives and four senators have indicated willingness to support the measure.

"Of course, there's a practical problem," he adds. "After the elections this fall, some of those supporters may not be re-elected." Other legislative priorities may delay action on the bill until 1983, he concedes.

If the proposal were to pass in its present form, it would give the Rocky Mountain state a formidable edge over other captive domiciles because Colorado is the only captive home that fulfills the requirement of equal regulation for commercial and captive insurers.

Mr. Barnes has insisted for years that tough regulation of Colorado captives preserves an "arm's length" relationship between the parent corporation or association and its insurance subsidiary. This separation justifies treatment of premiums paid to a Colorado captive as a tax deductible expense, he argues.

But the Internal Revenue Service does not agree. Its agents have challenged deductions claimed by at least five parent corporations for premiums paid to a Colorado captive (see story page 70). Only the IRS knows how many other captive parents may be defending such deductions because many corporations refuse to publicly discuss tax policy.

An IRS spokesperson told *Business Insurance* in January 1978 that the logic of Revenue Ruling 77-316, which disallows deductions for premiums paid to offshore captives, would apply equally to domestic captives (*BI*, Jan. 9, 1978; Oct. 1, 1979).

An adhoc group called the Loss Reserve Deduction Committee, supported by the Captive Insurance Cos. Assn., the Risk & Insurance Management Society and the National Assn. of Insurance Brokers, has its own bill to permit tax breaks for both premiums paid to captives and self-insured reserves (*BI*, Oct. 12, 1981).

Plans to introduce the measure late last year were scuttled because of strong congressional opposition to new laws that might reduce tax revenues and thereby increase the burgeoning federal budget deficit. Mr. Barnes' proposal, although narrower in scope than the Loss Reserve Deduction Committee's bill, will have to clear similar hurdles in Congress.

"No one said it would be easy," he says. But despite many competing demands on his time, he says he is strongly committed to federal legislation and will work hard to achieve it.

The combination of sea, sun, sand and island beauty creates serene settings for offshore insurance centers. Don't let the ambience fool you. In quaint office buildings on palm-tree lined streets, there is plenty of insurance business being conducted.

In the annual Captives/Offshore special issue, *Business Insurance* takes you to Bermuda, Cayman, The Bahamas and Guernsey where captive managers and fledgling insurance markets compete for business.

Developments in the mainland United States captive centers also are reported, beginning on page 70.

PBGC rates could balloon, report says

By JERRY GEISEL

WASHINGTON—The 131% premium increase the Pension Benefit Guaranty Corp. wants to lay on single employers in the next year for pension termination insurance could be just a taste of what's ahead.

The request, which still must be approved by Congress, would raise premiums to $6 per plan participant from $2.60 next Jan. 1. But, additional increases to as much as $10 to $20 per plan participant—or in a worst-case scenario, $40 to $80 per participant—could be down the road if large corporations with big pension liabilities collapse.

An internal PBGC report obtained by *Business Insurance* points out that the requested 131% hike would not be enough to cover pension benefits the agency would have to pay if a large corporation went under, leaving behind unfunded pension benefits. And with the nation's shaky economy, the closing of businesses is much more than a far-fetched possibility.

The premiums are used by the PBGC to cover the cost of guaranteeing most of the vested benefits of workers whose companies' pension plans fold with insufficient assets to pay promised benefits.

"The premium increase being requested is not intended to create a reserve or surplus for extraordinarily large claims," the report said. "An additional premium to cover these potential extraordinarily large claims only (will) be requested when the claims are incurred," according to a staff recommendation.

The agency would have to go back to Congress to seek another premium increase to pay for a large claim, according to the report entitled "Premium Requirements for the Single-Employer Basic Benefits Insurance Program."

And the size of future premium hikes could make the current 131% proposal appear modest.

"If you think $6 is a lot. . .wait until you see what happens if Chrysler or International Harvester fails," said one source.

"This is small potatoes compared with what is blow-

Continued on page 112

NFL faces strike threat without coverage

By BILL DENSMORE

NEW YORK—National Football League owners wanted to buy strike insurance, but their two-minute drill failed.

Now, the NFL Management Council, a mutual bargaining arm of the 28 club owners, is punting with a $150 million line of bank credit to cover losses if players walk out when the present five-year contract expires July 15.

As early as 1980, before fears of a baseball strike dried up the market, NFL club owners may have been offered insurance coverage against a potential strike by players this coming season, *Business Insurance* has learned.

However, Vince H. Lombardi, one of the National Football League Management Council's negotiators, would not confirm reports that the NFL turned down the coverage offer because the premium was too high.

"We don't have it. We tried and we don't have it. That's all there is to it," Mr. Lombardi says.

Edward A. Dipple, president of the Woburn, Mass.,-based underwriting facility of Lockwood, Dipple & Green Inc., tells a somewhat different story.

He recalls that after he and Reed Stenhouse's Kansas City office arranged strike coverage for the major league baseball club owners "we got asked by the NFL to look at them, too."

His firm had the strike insurance available, but the NFL broke off talks and switched the pursuit of coverage to broker Marsh & McLennan Inc., he says.

By the time M&M began marketing the coverage in December 1980, there already was talk of a baseball strike, he adds.

"They decided to go to Marsh & Mac and Marsh & Mac came up empty," he recalls. "Then last March they came to us again and we said, 'Sorry guys, you're too late. You should have asked us three months ago when we offered you the coverage.'"

Mr. Lombardi says Mr. Dipple's recollection is not completely accurate. He says the NFL was never offered a "sign on the dotted line, write us a check and its covered" proposition."

He adds: "The only people we ever dealt with and through was Marsh & McLennan."

Mr. Lombardi wouldn't elaborate "as long as contract negotiations are pending."

The NFL's strike insurance experience adds one more chapter to the history of this controversial type of insurance which has been marketed with varying degrees of success since as early as 1939.

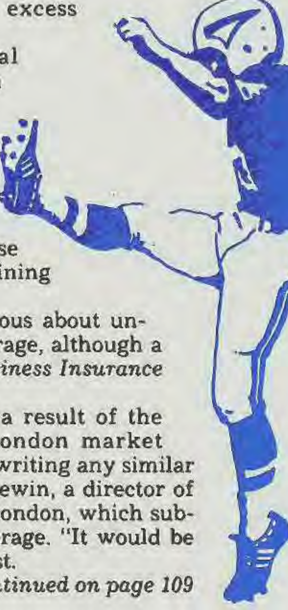
The insurance underwritten for the baseball club owners that covered last summer's strike started paying losses after 153 games went unplayed, or when the owners had lost about $15 million.

The underwriters then began paying the central fund $100,000 for each unplayed game—$50,000 per team—up to the $50 million limit of the primary policy and its two excess layers.

The $46.8 million total claim paid (on a premium of just $3.25 million), dashed any interest among brokers and underwriters in London and the United States in underwriting sports strike risks for those on either side of the bargaining table.

And they're pretty nervous about underwriting any strike coverage, although a few may have done so, *Business Insurance* has learned.

"I would think that as a result of the baseball situation, the London market would be very sensitive to writing any similar coverage," says Robin O. Lewin, a director of Blackwall, Green Ltd. of London, which subbrokered the baseball coverage. "It would be very difficult to find interest.



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update:

DES maker wants Keene ruling

Continued from previous page

should pay claims for injuries allegedly caused by DES.

The suit filed against Aetna Casualty & Surety Co. comes on the heels of similar suits filed within the last six weeks in the same court by two other DES manufacturers, Eli Lilly & Co. of Indianapolis and E.R. Squibb & Sons in Princeton, N.J. (*BI*, March 22).

All the suits want the court to apply the District of Columbia Court of Appeal's landmark Keene asbestos decision that says all of a manufacturer's insurers from the time a claimant is exposed to asbestos through diagnosis of an injury are liable for damages paid to claimants (*BI*, Oct. 12, 1981).

Stouffer's conviction thrown out

NEW YORK—A Westchester County judge, citing a lack of evidence, has thrown out the arson and murder convictions against former busboy Luis Marin, found guilty of setting the December 1980 fire that killed 26 people at the Westchester Stouffer's Inn.

Westchester County District Attorney Carl Vergari says he will appeal the ruling in which Judge Lawrence Martin said the jury "evidently lost sight of where the burden of proof was."

Court to review pregnancy case

RICHMOND, Va.—Employers who say the Pregnancy Discrimination Act doesn't require them to offer equitable pregnancy benefits for spouses of male employees will get another chance to prove their case.

The full 4th U.S. Circuit Court of Appeals last week agreed to review a January decision by a three-judge appeals panel upholding the Equal Employment Opportunity Commission's position that the 1978 law mandates equal pregnancy benefits for spouses under group insurance programs (*BI*, Feb. 1).

Hollywood library not insured

HOLLYWOOD, Calif.—The Hollywood regional branch library, which was destroyed by arson last week, was not insured, reports Edward H. Kossart, risk manager for the city of Los Angeles.

Officials estimate the replacement cost at between $3.3 million and $3.8 million for the building, books and other contents that burned. Part of the library's theater arts collection is irreplaceable, including out-of-print books, periodicals and theater programs.

Mr. Kossart said he is currently studying alternatives to the city's fully self-insured property and liability programs.

Newspaper settles libel suit

ALTON, Ill.—The Alton Evening Telegraph has made a tentative agreement to settle a record $9.2 million libel judgment against it without relinquishing present ownership.

The newspaper, which filed for reorganization under bankruptcy laws last year in the face of the award, had lost its latest appeal of the July 1980 verdict that granted contractor James Green $6.7 million in compensatory damages and $2.5 million in punitive damages for a never-published memo the Telegraph reporters sent to federal investigators. The memo, Illinois courts ruled, falsely linked Mr. Green to a crime syndicate (*BI*, July 21, 1980).

The Telegraph's attorney, David Sanders, declined to reveal the amount of the settlement but said if it were made public, it would be included in the reorganization plan to be reviewed in court April 27.

Meanwhile, insurers continue to debate who will provide a maximum of $2.2 billion in libel coverage to the newspaper.

EPA publishes pollution rules

WASHINGTON—The federal Environmental Protection Agency published its long-awaited pollution liability insurance requirements in the Federal Register April 16.

Sudden pollution liability insurance will have to be purchased within 60 days. Non-sudden pollution liability insurance requirements will be phased in over 18 months beginning six months after the sudden pollution compliance date (*BI*, April 5).

The regulation also allows self-insurance of pollution risks if the company passes a financial strength test.

On April 7, the EPA published financial responsibility requirements for closure/post-closure costs at hazardous waste disposal sites. Disposal site owners can fund these costs in one of five ways: trust fund, bond, letter of credit, insurance or self-insurance.

Facilities have until July 6 to comply with the new requirement. However, no insurer yet offers coverage for closure/post closure costs.

In the meantime, companies that want to insure their closure/post-closure costs must submit to the EPA by July 6 a statement from a qualified insurer indicating it has the company's risk under consideration. The buyer then has an additional 90 days to secure coverage or select one of the other four funding alternatives.

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Cover painting: Stephen Rybka

N.Y may take $394 million from four insurance funds

By BILL DENSMORE

ALBANY, N.Y.—Employers are suing to stop financially strapped New York state from raiding four state insurance funds for $394 million to cover state expenses.

Legislation signed April 12 by Gov. Hugh Carey orders officials in charge of the four funds to deposit the money in the state's general fund by March 1, 1983.

The largest portion of money—$190 million—is to come from the state's workers compensation fund, which insures 144,000 of the state's employers.

The state is not promising to pay the money back. Gov. Carey vetoed an appropriation to replenish those four trusts at some time in the future. The appropriation had been termed the state's "IOU" to the four funds.

Within 24 hours of the governor's action, three employers who buy workers compensation insurance from the State Insurance Fund began legal action to block the transfer. They are a hospital, a non-profit safety league and a private employer, all based in New York City where the suit was filed in state court.

"This fund is not state money," argues Robert B. Davidson, a partner in the New York office of the law firm of Baker & McKenzie. "It is made up of premiums and interest payments and the taking of it is a taking without just compensation. The assets are owned by the employers."

A trio of insurance lobbying groups also has obtained the counsel of a prestigious New York law firm to fight the four transfers in court. They argue the transfers would violate the laws that established the funds and even could jeopardize their solvency.

Gov. Carey says that although he wants to tap just two of the four funds for $177 million, he is willing to dip into the same two funds for another $95 million if the Legislature wants to spend the money on local aid.

Gov. Carey says he wants $140 million from the State

Continued on page 111

Settlement could pay $26.5 million

By STEVE SHERWOOD

BEAUMONT, Texas—Two motor carrier insurers have agreed to a structured settlement that ultimately could pay $26.5 million to the survivors of a potential world-class marathon runner killed in a car-truck wreck.

The settlement in the accident involving runner Barbara N. McWhorter and her family came April 12, hours before a $25.2 million lawsuit against the trucking firms and truck drivers involved in the wreck was to begin in U.S. District Court here.

Carriers Insurance Co. of Des Moines, Iowa, and Excalibur Insurance Co. of Carrollton, Texas, wrote motor transport liability policies for Malone Freight Lines Inc. of South Birmingham, Ala., and Gateway Transportation Co., whose trucks were involved in the collision with Mrs. McWhorter's family car April 17, 1981.

The crash on Interstate 90 in Utica, N.Y., killed the 36-year-old marathon runner of Houston and her 11-year-old daughter Susan. Mrs. McWhorter's husband Richard G. McWhorter, 36, suffered irreparable brain damage and their two sons were seriously injured.

Carriers and Excalibur will pay proportionate shares of the McWhorter settlement, which sets up annuities for the two sons and provides for care and treatment of their father.

David Sheeran, vp of claims for Excalibur, says his company will pay $3 million over the next 30 years on behalf of client Malone Freight Lines Inc. of South Bir-

Continued on page 111

Underinsured city faces bankruptcy

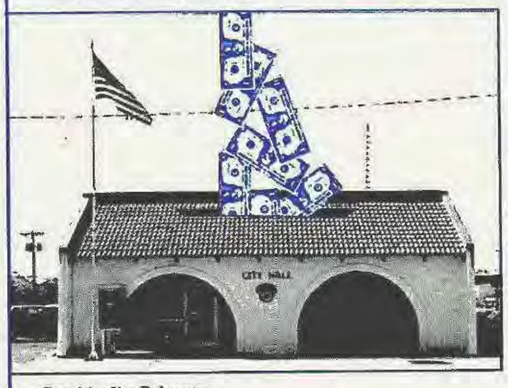
By STEVE SHERWOOD

SOUTH TUCSON, Ariz.—South Tucson is at the end of the road in its legal fight for relief from a liability judgment that exceeds the small city's annual budget by almost $1 million.

And the bill collector is at the door demanding it tax its 7,500 residents to pay up a $3.6 million damage award. The city is still hoping for a compromise with the plaintiff, but if that fails the only alternative is bankruptcy—or money from heaven.

South Tucson was drastically underinsured when one of its officers accidentally shot Tucson policeman Roy Garcia during a mutual aid response to an Oct. 11, 1978, shootout in South Tucson.

At the time, Jefferson Insurance Co. of New York underwrote the city's $100,000 police liability policy. Since the incident, South Tucson has increased its liability coverage with $900,000 in excess insurance above a $100,000 self-retention. However, this will be of no help in paying the Garcia judgment.



Graphic: Jim Bakasetas

Attempts to overturn the Oct. 10, 1980, judgment handed down in Pima County Superior Court failed in both the state Court of Appeals and the state Supreme Court. Then the U.S. Supreme Court refused to review the case.

Now Mr. Garcia's attorney, Richard Grand, has gone back to the county court seeking a special mandate ordering South Tucson to pay his client, if necessary through municipal taxes.

"Balance sheets show there would not be sufficient funds to meet the debt even if city property were liquidated," says attorney Lowell Rothschild, representing South Tucson. He was hired to explore the city's option to file for bankruptcy under Chapter 9 of the federal bankruptcy laws, allowing adjustment of municipal debt.

"Right now Mr. Grand is pressing for payment and South Tucson doesn't know what to do," Mr. Anderson says. "The problem is, it is practically bankrupt already. It has laid off about half its employees and cut back on services."

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Florida self-insurers must pay to fund

By EILEEN NORRIS

SARASOTA, Fla.—Beginning in September, Florida employers who self-insure their workers compensation risks will be assessed to get a guaranty fund off the ground.

Under legislation recently signed by Gov. Bob Graham, self-insurers must contribute to the fund an amount equal to an estimated 1% of what they would have paid annually in the commercial market for workers compensation insurance.

The fund, which guarantees injured workers' benefits if their employer goes bankrupt, has an aggregate retention of $500,000.

In a unique move, Florida will use half of the 1% assessment to buy $3 million in reinsurance for the fund's risks. Other states have guaranty funds but do not reinsure risks.

The 300 self-insured companies in Florida represent $100 million a year in workers compensation premiums, which will generate about $1 million annually for the guaranty fund.

Associated Industries of Florida President Jon Shebel said the plan is a compromise that "was forced upon us as a way to retain self-insurance in its present form."

Workers compensation insurers, he said, attempted to diminish the attraction of self-insurance when the Legislature was studying the state's workers compensation law back in 1979.

Lobbyists representing self-insured employers agreed to create a guaranty fund as a way to preserve self-insurance and to appease the legislators, who were concerned about employers leaving workers with unpaid medical claims should an insolvency occur.

Although the 1979 legislation set up the mechanism for the guaranty fund, it was not implemented until now.

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Dining at RIMS

Washington's movers and shakers recommend their favorite spots

By JERRY GEISEL

WASHINGTON—When Leslie Cheek, vp of federal affairs at Crum & Forster, wants to take a high-level government official to lunch, he goes to Jean-Pierre.

"The ambience is nice, the service is superb and the menu is very reliable," Mr. Cheek says of Jean-Pierre, 1835 K St. N.W.

Specialties include rillettes des deux saumons and lamb fillet with fennel. Prices range from $7 to $12 for lunch and $13 to $19 for dinner. Major credit cards are accepted. Reservations are required.

In every major city, a business lunch is a chance to enjoy good food and a way for people to get to know each other better in a relaxed, casual setting.

That's true in Washington, too. But in the nation's capital, lunch takes on a special importance. It is where lobbyists, such as Mr. Cheek, congressional staff members and regulators can get together to swap ideas and mend fences.

In between pate de foie gras, the framework of legislation can be shaped and regulations hammered out.

Fortunately, there is no shortage of fine restaurants where Washington's movers and shakers conduct business.

Risk and benefits managers in town this week for the annual Risk & Insurance Management Society Conference might want to follow some of these leaders in their choice of dining places. To pave the way, *Business Insurance* conducted an informal survey of some of our most frequent Washington news sources for their recommendations.

Even though dining out might not be their field of expertise, we trust their opinions in this area, too.

Prices cited for these favorite restaurants do not include wine, drinks, appetizers or dessert.

When product liability expert Victor Schwartz wants to take a Senate committee staff member to lunch, he goes to La Maree.

"It is small, quiet and intimate," says Mr. Schwartz of one of Washington's newest and finest French restaurants at 1919 I St. N.W.

At La Maree, prices for lunch range from $7 to $13 and dinner runs from $10 to $26. Major credit cards are accepted and reservations are mandatory.

If you stop at the Watergate complex in the 2600 block of Virginia Avenue, you may see pension expert Dallas Salisbury, executive director of the Employee Benefit Research Institute, at his favorite restaurant: Jean-Louis.

"It's an extraordinary restaurant with exotic food," says Mr. Salisbury. Jean-Louis is also very expensive—you can spend $65 a person for dinner—but some say its pastries are the best anywhere. Prices for lunch range between $25 and $30.

Jean-Louis honors major credit cards. Reservations are required.

If you go to Cantina D'Italia, 1214-A 18th St. N.W., you may spot Peter Turza, a former Senate committee staff member who helped write the Multiemployer Pension Plan Amendments Act of 1980. He's apt to be enjoying one of restaurant's memorable veal dishes.

"Everything is excellent," Mr. Turza says of his favorite restaurant. "The pastas are superbly sauced and veal dishes too numerous to list." Some say Cantina D'Italia is Washington's best Northern Italian restaurant, if not also one of its most expensive.

Prices for lunch range from $9 to $14, dinners from $14 to $20. Major credit cards are accepted.

If the National Assn. of Insurance Brokers has won a legislative battle, you may find Don Jordan, the group's executive director, celebrating the victory at Dominique's, 1900 K St. N.W., the fine French restaurant known for its excellent trout, filet mignon and venison as well as rattlesnake salad.

But if the brokers are at the losing end of a struggle, you might find Mr. Jordan at

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BI caught Crum & Forster's Leslie Cheek enjoying lunch at his favorite Washington restaurant, Jean-Pierre.

Reaching the top: Women in risk management break barriers, but they say some obstacles are still standing

By DONNA LEIGH YANISH

The women's movement has made its mark on risk management.

There's definitely been an attitude change, most women risk managers say. The insurance industry is far more accepting of women in the risk management role than it was five years ago.

It was five years ago this issue that *Business Insurance* ran its first article on women in risk management. While that article reported women were making advances in the profession, there were still barriers to equality.

Those barriers haven't been dismantled completely, but they're not as high or as broad either, industry women say.

Pioneering women in risk management have proven themselves to be detail-oriented, a trait important in the position, believes Doris J. Ramsey, director of risk management for Rohr Industries Inc. in Chula Vista, Calif.

That encourages other male managers to hire women to fill vacancies, she says. "Many men take pride in saying they're bringing women in and training them in risk management."

Men have told Ms. Ramsey, herself a veteran in the field, that they thought of her success when deciding to hire a woman to train in risk management, she notes.

Entry-level positions, however, don't represent all the spots for women in risk management. Perhaps one of the most striking changes over the past five years is the number of women in top risk management positions who report to the corporate treasurer or chief financial officer.

While no one has hard figures showing how many women hold corporate risk management reins, everyone agrees that, at least in some parts of the country, it's not unusual to see a woman in the driver's seat.

'I've noticed that there are more and more women in top positions,' observes Ampex's Helen Johnson.

"I've noticed at national (Risk & Insurance Management Society) conferences, for example, that there are more and more women in top positions," observes Helen J. Johnson, manager of risk management for Ampex Corp. in Redwood City, Calif.

Ms. Johnson was insurance administrator for Ampex five years ago when she was interviewed for the original *BI* article on women in risk management. When the director of risk management, who oversaw both the insurance and the retirement areas, retired, Ampex split the two areas and awarded Ms. Johnson the risk management reins.

Ms. Johnson's local RIMS chapter has almost a 50-50 split between the sexes in number of active members, she notes.

Northern California appears to have by far the heaviest concentration of women in risk management, both in the relatively new industries like electronics and in the more established fields, including banking.

Perhaps pioneer women still exist on the West Coast, one woman suggests. And, the West Coast is generally more open to changing ideas, others note.

The area's large number of women in risk management helps them move beyond a focus on their sex to issues important to their profession. "With so many of us around, it ceases to be an issue," Ms. Johnson says.

Individual risk managers are distinguished for their contribution to the profession, rather than by their outward appearance, other women note.

Still other women disagree, saying that their sex will always be an issue.

"We'll always have that issue at hand," believes Cristina Haley, assistant director of risk and insurance management for Levi Strauss & Co. in San Francisco. "Women will always be setting the stage for those who come after them."

Women owe it to those who follow them to succeed and plant the image of competence and capability to handle difficult situations, Ms. Haley contends.

"Women in general (face) a credibility gap that's broken on the West Coast, but (in most parts of the country) is still there," she says. But once the stage is set by women who prove themselves as capable risk managers, the doors will be wide open, she adds.

While doors have opened for many women in risk management, the barriers are far from forgotten. Even women who say they have encountered very little opposition as they climbed the risk management ladder don't take the opportunities for granted.

"I'm generally surprised when I'm treated as a professional," notes Suzanne Crager, corporate risk manager for Provident National Bank in Philadelphia.

While she never felt that men didn't accept her as a professional, she still feels the standards for proving herself are tougher than for a male counterpart.

"Most women feel we have to be better" than men to be accepted, Ms. Crager contends, "but you learn to work around certain attitudes."

Working around prejudice, rather than fighting it head-on, seems to be a common tactic of women in risk management.

There always will be people who have trouble dealing with women in business, notes Sheila P. Roberts, director of risk management and insurance for Columbia Pic-

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Unexpected costs force HMO to hike rates

By JAMES C. LAWSON

BOSTON—An unexpected $5 million surge in hospital costs is forcing one of New England's oldest and largest health maintenance organizations to dip into a reserve fund and hike rates at least 18% for its 60,500 subscribers.

And soaring hospital costs in Massachusetts are forcing the state's Blue Cross plan to hike its rates to 30%.

Subscribers to the Harvard Community Health Plan whose contracts came due April 1 have already been hit with an 18% rate increase. Subscribers with contracts up for renewal this summer can expect about a 20% increase, says Thomas O. Pyle, the HMO's president.

For fiscal 1981, HCHP reported an operating loss of $600,000 against an operating budget of $61.2 million.

Part of the blame for the rate hikes, more than double the amount the HCHP has ever raised rates before, was attributed to a 21% increase in rates charged by the area hospitals the plan utilizes. The average daily in-hospital rate jumped to $483 per day from $398. The plan had expected the rate to rise only 10%.

Hospital rates could increase as much as an additional 6% by the end of the year, Mr. Pyle points out.

But the costs overruns were also caused by higher hospital utilization by plan members, Mr. Pyle explains. Hospital utilization during fiscal 1981, which ended Sept. 30, jumped to 394 days per 1,000 members per year from 360 days, he says.

Mr. Pyle theorizes the sluggish economy caused the higher utilization figure.

The theory, which some health benefits experts believe, is that employees facing possible layoffs are more likely to use their employer-provided health benefits before their jobs are terminated.

"There is a phenomenom observed that utilization usually goes up early in the development of a recession," explains Mr. Pyle.

"You can speculate that a lot of people want to get elective stuff done before they lose their jobs," he says.

The cost overruns caused HCHP, for the first time, to withdraw $1.29 million in fiscal 1981 from its $3.9 million reserve fund.

The current round of rate hikes contain a built-in "reserve buffer," according to Mr. Pyle, which will allow the 12-year-old HMO to replenish the fund, which was set up in 1975.

The fund will also be replenished with at least $700,000 from a stop-loss insurance policy from Mutual of Omaha.

The policy covers 90% of aggregate hospital costs that exceed 125% of projected costs. The policy has no upper limit, according to Mr. Pyle.

To further cut its losses, the plan this year is using $1.2 million of an account allocated to pay year-end bonuses to its 1,300 employees. This will be the first year since the bonus plan was started in 1975 that HCHP employees will not receive a year-end bonus.

Mr. Pyle said some of HCHP's financial problems stem from delays in its accounting system. With a long lag time between hospital use and payment of bills, HCHP didn't realize its hospital utilization was increasing substantially until too late in the year.

"We dealt with this data on a gross basis," explained Mr. Pyle. "Bills sort of lag, as much as six to 12 months. We didn't get them all when they occurred."

The HCHP will examine a portion of its bills earlier than ususal to help it better gauge hospital costs and utilization.

Hoping to combat its surging hospital expenses, HCHP is attempting to negotiate new discount arrangements with the eight hospitals it primarily uses.

So far, Mr. Pyle says, two of the hospitals have agreed to new discounts.

And it is encouraging more members to use its own 80-bed hospital for simple medical and surgical procedures, thereby reducing the HMO's dependence on more expensive public and private hospitals.

"We've been shifting more and more cases off into our own hospitals," explained Mr. Pyle. "And we expect to continue doing more of that."

The Boston-based HMO also has launched a cost-containment program that includes staff reductions and trimming educational and research programs.

The cost-cutting measures are expected to save HCHP about $2.5 million this year.

"The Harvard Community Health Plan might have to tighten the belt a notch, but it will be all right," says James Doherty, executive director of the Group Health Assn. of America in Washington, a trade association representing more than 200 privately funded prepaid group practice HMOs.

But the Harvard plan's troubles, Messrs. Pyle and Doherty agree, could signal problems for other established HMOs, especially those with less-healthy cash reserves and those that do not closely monitor utilization statistics.

Hefty rate increases, which usually discourage new membership, aren't expected to stunt HCHP's growth, Mr. Pyle contends.

Membership growth will continue at annual rate of about 12%, just under the national average of about 13% to 15% for HMOs, Mr. Pyle predicts.

"I don't think it will hurt us to go up 18% when Blue Cross is going up," he explains.

Rising hospital costs are forcing Blue Cross of Massachusetts, the state's largest underwriter of health care plans with more than 3.5 million subscribers, to raise rates by more than 25%, initiate new cost-cutting measures and negotiate new reimbursement arrangements with area hospitals.

Blue Cross issued a 26% premium increase to subscribers renewing contracts during the first quarter. Increases for second-quarter renewals could hit 27%, says Leon White, assistant vp for benefits administration, while third-quarter increases could be in the 30% range.

Blue Cross, like HCHP, "underestimated utilization," explains Mr. White.

In an attempt to hold the line on future cost overruns, Blue Cross has begun negotiating new reimbursement arrangements requiring participating hospitals to be more accountable for cost control and monitoring hospital stays, Mr. White says. ■


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Owners of ships used by British navy covered

By STACY SHAPIRO

london line

LONDON—Shipowners whose vessels are sailing to the Falkland Islands as part of the British task force say they're sure their losses will be paid, but they don't yet know who will pay them.

So far, at least 11 vessels have been requisitioned by the government for duty in the South Atlantic.

The cost to shipowners may be high, depending how long the ships are needed by the Royal Navy. Passenger cruises have been canceled and cargo is going undelivered.

"The Department of Trade is looking at the compensation issue and we are in touch with all the shipowners," said a department spokesman.

Under the Compensation Defense Act of 1939, shipowners with vessels requisitioned by the navy can receive government compensation for any losses, including business interruption, he said. "But individual insurers also may pay for some of the losses."

The shipowners say they're confident that some compensation will be offered, either by insurers or the government.

"The exact details are not known at the moment," said a Peninsular & Oriental Steam Navigation Co. spokeswoman, whose company has had three vessels requisitioned so far. "But there will be some kind of compensation."

Questions remain, however. For example, it is still not clear who will pay claims if the ships are attacked by enemy forces.

The government could pay damages through the Compensation Act, the Department of Trade spokesman said. Or mutual war risk associations, which insure most of the British merchant fleet for risks posed by the "queen's enemies," may pick up the tab.

Nine British mutual war risk associations told their policyholders earlier this month that they would not cover any vessels heading toward the Falklands (*BI*, April 12). But the associations may cover requisitioned merchant vessels bound for the war zone, said Charles Goldie, manager of the U.K. Mutual War Risk Assn.

"It depends on the indemnity agreements entered into between the government and the owner of the ship," Mr. Goldie said, adding that the British government does partially reinsure the war risk associations for ships that are requisitioned by the navy.

"Either way, the ships are covered," he said.

Although shipowners are assured that some coverage is available, they're not sure exactly how much.

"It is not possible to estimate," said the Peninsular & Oriental spokeswoman. "Who knows how long this thing will last?"

But the losses are accumulating. So far, P&O has canceled all cruises on the Canberra until June. The 1,750-passenger liner is now steaming toward the Falklands carrying British marines.

People that have booked a voyage on the Canberra can either receive a refund or be rescheduled on a sister ship.

Schoolchildren singing "Hail, Britannia" hopped off the educational ship Uganda, also owned by P&O, after their cruise ended four days ahead of schedule. The Uganda will set sail for the South Atlantic as a hospital ship.

P&O has already canceled two other educational cruises on the Uganda, and the spokeswoman says more cancellations may be necessary.

Other ships requisitioned by the government include:

- The Stena Seaspread, owned by Aberdeen-based Stena Atlantic. The ship is usually used by skin divers.
- Three tugs owned by J. Marr & Son.
- The Elk, owned by P&O, which is a roll-on, roll-off tanker.
- Four trawlers, to be used as minesweepers.

Financial losses caused by the dispute over the Falkands are not limited to the seas, either.

A ban by the European Economic Community on all Argentine exports, including corned beef, could hurt importers. British companies in Argentina are closing their operations. And British workers on oil rigs off the coast of Chile are being brought ashore.

Some of these risks may be covered by political risk insurance or government guarantees, but policy requirements prohibit most companies from divulging their coverage.

Lloyd's study

Lloyd's of London has set up a working party to look into all aspects of its underwriting agency system.

Formation of the group, to be headed by Alex Higgins, a member of the Lloyd's Committee, was requested by the House of Commons during debate on the Lloyd's self-regulation bill.

The working party will examine several controversial topics, including:

- The recommendations for underwriting agencies contained in the Fisher report (*BI*, June 30, 1980).
- The requirement now contained in the self-regulation bill requiring brokers to sell off their underwriting agencies.
- The long-term interests of underwriting members and those actively employed in the underwriting function at Lloyd's.

Other Lloyd's Committee members included in the group include Gordon Hutton, a marine underwriter and chairman of G.W. Hutton & Co. (Underwriting Agency) Ltd., and Stephen Merrett, a marine underwriter and chairman of Merrett Syndicates Ltd. The party will also include non-working Lloyd's members, lawyers and accountants.

Lloyd's bill

The atmosphere in the House of Lords may be just right for the Lloyd's of London self-regulation bill to pass by the time Parliament recesses in July, a Lloyd's spokesman predicts.

But six petitions opposing portions of the bill must be heard before the bill goes back to the House of Commons for final approval. Hearings on the petitions will begin May 4.

If for some reason, however, the Lloyd's bill is not law by the end of 1982, said the Lloyd's spokesman, "I doubt there will be any bill." ■

editorial opinions

Four who stand out

CONGRATULATIONS, Eckart Russell. We're delighted you were selected the 1982 *Business Insurance* Risk Manager of the Year.

Congratulations Spencer Traver, George Pierce, Paul Harvey and Gene Marsh. We're delighted you were named to the *Business Insurance* Risk Management Honor Roll.

Your professional risk management programs are among the best in the country, according to the 10 independent judges of the competition who rated them in comparison with those of other outstanding risk managers who were nominted this year, too.

We'd also like to congratulate the candidates who didn't win this year.

They deserve credit for trying because it takes more than an outstanding risk management program to win the *Business Insurance* Risk Manager of the Year competition.

It takes a willingness to stand out.

The candidates must be willing to stand out before their bosses, whose signatures are needed to testify to the accuracy of the nominating statement.

The candidates must be willing to stand out before the 10 independent judges who read the nominating statements describing how the risk manager fulfilled nine criteria for measuring a risk management program.

And the candidates must be willing to stand out in print if they win and let their risk management programs be questioned by an inquiring reporter and reported in articles for all their colleagues to read.

Business Insurance wants to congratulate the winners and all the candidates of this year's competition for this willingness to stand out. It's not a universal trait among risk managers.

We wish it were. The willingness to stand out in the company, the government or the institution is an essential ingredient of successful risk management. You have to be visible to your superiors and others in the company to do your job effectively. They have to know what you do and what you can do to help them. They have to know you are there to answer their questions and listen to their concerns that could otherwise develop into major problems for the employer.

We developed the Risk Manager of the Year competition to foster this kind of recognition among top managements and in the commercial insurance community. We've hoped this recognition of excellence would encourage others to excel in risk management.

We hope the competition also inspires more risk managers to stand out.

We salute you

THANKS, JUDGES. You worked hard.

Pouring over the nominating statements for the *Business Insurance* Risk Manager of the Year competition is time-consuming and demanding. Each candidate is scored on a scale of one to 10 on how well he or she fullfills each of the nine criteria developed for the competition.

The 10 independent judges of this year's competition aren't compensated for their time. They did it to support recognition of excellence in risk management.

Their photographs and biographies appear on page 108, along with the nine criteria they used for scoring the nominations.

letters

Beeping backs not the answer

To the editor: In response to your article "Beep Beep" and the accompanying editorial (*BI*, April 5), we feel it's necessary to dispel the myth that they are certain to perpetuate. The basic question to be asked about a program like this is: What is the ultimate object of the exercise: to simply provide training or to actually reduce back injuries?

Before addressing the question, though, a basic anatomy refresher is necessary. Although medically complex, the back is a very simple structure. Most people don't know that by twisting the back, while seated, standing or lifting, damage can be sustained by the spinal joints, discs, ligaments or back muscles. In the workplace, there is more twisting or twisting and lifting occurring than plain lifting.

The preponderance of occupational back injuries is minor. These are the "three-days-to-two-weeks-of-lost-time" injuries, commonly diagnosed as a sprain or strain. They are usually the result of twisting. The major back injury claim—the ruptured, herniated or slipped disc—is the cumulative result of improper twisting over time. These injuries can be prevented when employees are taught how to reduce the amount of twisting they do during their workday. The beeping box does not address this practice.

Additionally, we do not subscribe to the philosophy that people are animals that can be trained like Pavlov's dogs. When employees are shown in an intelligent manner how their backs work, how they grow old and how they can change their work and personal lifestyle to prevent a back injury, they will respond.

Also, if one wants to reduce the back injury problem in the workplace, certain items must be examined.

In 13 years, we have yet to observe a loss report that included twisting as a category under type of injury. We have all come to rely on our loss reports as our personal statistical data banks, but have forgotten that they were developed when we knew little about the back. We have developed tunnel vision to the extent that if the data base says lifting is causing our problems, we assume improper lifting is indeed the culprit.

Another problem is that we have not examined our workplaces with a focus on twisting, but only on lifting. It seems that we too have been trained, not by a gimmick but by a data bank, to look for only that item that has been recorded.

If actual reduction of back injuries is the goal, then these steps must be taken:

- The person proposing the project must obtain valid information as to what is actually occurring. Use the data base, but don't let it use you. Re-examine accident and medical reports, analyze the work environment, watch the employee perform the task.
- Research and analyze the options and alternatives, giving attention to the personality of the industry, the company, employees and supervisory acceptance of any intended programs or workplace changes. Scrutinize possible environmental alternatives.
- Communicate these findings to top management. If they are not convinced that a problem exists that affects the "bottom line," they will not provide financial or managerial support.
- Review existing employee relations practices. If a physical examination before employment is provided, is it comprehensive or merely confirmation that the applicant is alive? If a return-to-work program is in place, does the company have input into returning employee status and needs? Or does the company take for granted the insurance and medical people actually know what the employee is doing during the day?
- Does the company have a uniform safety policy that was jointly adopted by management and labor and is enforced by both? Is that safety policy communicated to new employees and periodically to existing employees?
- Has the workers compensation insurer or adjuster been screened for competence in regard to the continuity of claims adjustment, number of claims handled per adjuster, relationship with the medical and legal communities, etc?
- Have the medical providers been screened for their expertise in the occupational setting, or are they being used because they're just down the street or nice people? Although many states have protected the right of a worker to select his own physician, has any effort been made to introduce medical providers with occupational expertise to employees?
- Is the total management team given periodic updates on the progress of the project, including cost savings to date?
- Is everyone concerned with the project aware that it may not be solved overnight? Just as other types of training must be constantly provided, so must back injury prevention training. Although the immediate problem can be solved, the processes and systems implemented during this phase should be ongoing and become instruments of prevention.

The back injury problem can be solved, but not by training employees to respond to beeps. Gimmicks certainly will fascinate us for a time, but with a national health bill of $247 billion and rising, do we have time to play with toys?

Bruce A. Lepore
and Chris N. Olson
Back Dynamics Institute
Foster City, Calif.

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From left to right: Tim, Dave and Bill Delaney

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CAPTIVES/OFFSHORE

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Also:

Choosing a captive manager? This year's captive management directory is the most complete ever, with 63 captive management companies both off- and onshore responding. It all begins on page 39.

Photo: Kathryn J. McIntyre

Bermuda

Island's underwriters waiting for market to turn

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—An insurance underwriter looking for shelter from the storm of competition will find a safe harbor in Bermuda.

Here, it is more fashionable for an underwriter to brag about how much business the company is not underwriting than to talk about increasing premium volume.

"Our declinations are in excess of 90%," says Leslie Dew, president of Insco Ltd., the giant Gulf Oil reinsurance subsidiary.

Underwriters swap tales about risks they lost to London or New York insurers at losing rates.

"On one large U.S. account—a multiline casualty risk including workers compensation—the manual rate produced a premium of $3 million, Mentor bid $2.1 million taking experience into consideration and the U.S. wrote it for $640,000," says Douglas Higley, vp and director of Mentor Ltd., a leading reinsurance market on the island.

And the underwriters pour over fewer telexes than a year ago.

"Business has been dropping off in the last few months. Fewer pieces of business are being offered," observes Robert Baker, president of the Bermuda Insurance Institute and chairman of the Insurance Advisory Committee.

Everyone agrees that New York and London insurers are undercutting Bermuda underwriters' prices. With cheaper rates, the U.S. and London insurers are intercepting the business before it reaches Bermuda's struggling commercial market, estimated at anywhere from $800 million to $1.5 billion in premiums.

By either estimate, the commercial market is far smaller than the captive insurance company market (see related story).

The Bermuda underwriters complain about slow business and the competition, but contend their market still has a future. They predict their safe harbor will become a busy one when insurers elsewhere who are now cutting rates are forced to eventually cut back their business in the face of mounting underwriting losses. Then Bermuda underwriters will offer their capacity at reasonable rates, they say.

This year, however, the commercial reinsurance business in Bermuda is so slow that one reinsurer, Trenwick Ltd., is offering to write reinsurance options.

"We will determine terms today for a reinsurance contract one to three years from now," explains Senior Vp Angus Robinson. "If you don't exercise your option, you forfeit the option fee," which will be 10% to 20% of the reinsurance premium calculated.

Trenwick will set the price and terms now using available information, basing the rate on a function of sales or another measure that contemplates growth.

If the risk exposure changes, however, the option applies only to original risk.

Complaining that he's been waiting so long to underwrite a risk in today's market that "my ink has gone dry," Mr. Robinson says underwriting reinsurance options "gives us something to do."

"There is less business coming to Bermuda," agrees Jonathan Crawley, president of Aneco Underwriting Ltd., the new subsidiary of Aneco Holding Co. created in a reorganization of Aneco Reinsurance Co.

He, too, blames the slowdown on cheap rates offered in New York and London, but he doesn't entirely agree with Bermuda underwriters' determination not to compete.

Continued on page 14

Captive business, though, continues to boom

HAMILTON, Bermuda—The captive insurance company business in Bermuda is thriving.

Captive insurers are forming at the same rate they have for the past three years, with the only variation in the type of captive being formed.

Existing captives, both wholly owned subsidiaries of corporations and group-owned insurers, are accumulating huge pools of money and some are sending it home.

The current captive insurance business is so big and so busy that more captive managers are installing computers to keep track of it.

And the Bermuda government is counting on captives, and its smaller but developing commercial reinsurance business, to be more important to the economy than tourism.

In 1981, the government registered 118 new exempt insurance companies, so described because they are exempt from Bermuda law requiring local ownership of Bermuda-based companies.

In 1980, the government registered 119 new insurers, and in 1979 it registered 117 new insurers.

While the numbers are nearly the same, there is a difference in the type of captive now being formed. Fewer corporations are forming subsidiary insurance companies while groups and associations of companies are forming more captives.

So far this year, 26 new exempt insurers have been registered, bringing the total number of international insurers in Bermuda to 1,150. About 100 of these companies are inactive.

Only 11 insurance companies have "wound up," which is Bermuda's term for liquidation, since 1972. Two of those 11 were captives associated with H&R Block. (See related story.)

Premiums flowing to the captives are estimated at anywhere from $3 billion to $5 billion, which is twice the estimated commercial reinsurance premiums written in the Bermuda market. (See above story).

The biggest accumulations of captive premiums are in the huge oil-risk property insurance captives.

Ancon Insurance Co., Exxon's captive, underwrote $169.6 million in gross premiums in 1981, keeping $126.3 million net. Only $10 million was related to non-Exxon risks.

Oil Insurance Ltd., owned by 37 oil companies, underwrote $111 million in premiums in 1981, keeping $104.8 million net.

Hopewell, the property insurance pool operated by International Risk Management for more than 30 owners, earned gross premiums of $98.7 million. All but $2.3 million, however, was reinsured with the world reinsurance markets. Another $150 million in premiums flowed to other IRM-managed companies, estimates Executive Vp Arthur Deters.

Some of these premium accumulations are going back to their owners.

Ancon, for example, paid Exxon a $55 million dividend in 1981.

Other smaller captives are sending home smaller dividends. The BFGoodrich captive, Risktech Insurance Co., for example, sent home a dividend check to cover the $2 million capitalization of the new BFGoodrich captive in Vermont, with some change left over.

Captive managers, who keep track of this growing business, are bustling.

This year, captive managers in Bermuda, both new and old, are installing computers to keep track of the growing numbers that maturing captive insurance companies produce.

The accumulation of data is forcing the change. Even small captives that have been

Continued on page 16

Crum & Forster covers H & R Block losses

HAMILTON, Bermuda—H&R Block and Crum & Forster both got out of the captive insurance company business in 1981.

Big losses expected on international reinsurance business underwritten for Block captives in the early 1970s while under management by the former Blades organization in Bermuda were linked to the moves, sources in Bermuda say.

The Blades organization had arranged for certain captive clients under management who wanted unrelated risk business to receive business from a London underwriter's pool.

After Crum & Forster acquired the Blades' Bermuda captive management operation when it bought the Blades Group in the United States in 1978, its auditors analyzed the reserves for these companies underwriting unrelated risks.

They determined that the reserves for incurred but not reported losses on the international business were understated for two Block captives, one owned by the company, H&R Block Insurance Co., and the other owned by Richard Block, Radius Assurance Co. of Bermuda.

Mr. Block, however, objected to increasing the reserves of the companies as suggested by Crum & Forster.

The upshot: Crum & Forster's North River Insurance Co. reinsured the Block captives and established the reserves of several million dollars the Crum & Forster auditors said were needed.

The two Block captives were liquidated early in January.

The difficulties with the Block captives triggered the sale last year of the former Blades operation to Insurance Co. of North America, Bermuda sources contend.

Others close to the developments, however, say that Crum & Forster would have sold the Bermuda operation anyway. At the most, the sale was merely speeded up by the unpleasant developments, they say.

"C&F is a domestic company," said one Bermuda underwriter. "Coming to Bermuda and international business was more than they intended."

A former Blades employee suggests that ultimately Crum & Forster will find that the additional reserves established for the international business were not necessary.

"I can't beleive the business was that sour," he said. "They just didn't understand the international business."

Neither Mr. Block nor Crum & Forster commented on these reports when contacted by *Business Insurance*.

Also in 1981, Beneficial International withdrew from underwriting international reinsurance, citing poor results on its business underwritten in the 1970s.

"Other captives are suffering losses on their unrelated business, too, but are keeping quiet about it," said another Bermuda underwriter.

Bermuda underwriters wait for market turn

Continued from page 12

"There are only two types of business—good business and bad business," he says. "The only problem now is that good business is underrated."

He contends that Bermuda ought to underwrite the good business, even at reduced rates, so when world insurance prices increase, the good business on the books in Bermuda can be rated properly.

That is the philosophy he is applying at Aneco Reinsurance Underwriting, which with paid-in capital in excess of $10 million plans to book $8 million in premiums in 1982.

Others disagree.

"If you write it now, you won't be around to write it when the prices change. World prices are too cheap," contends Michael Mather, senior underwriter for Ancon Insurance Co., Exxon's giant captive insurance company.

'Underwriters in Bermuda won't write competitively on the gutsy casualty stuff,' observes Bermuda market veteran Stuart Grayston.

Ancon, with assets of $711.3 million, underwrote only $10 million in unrelated premiums in 1981 and $105 million on Exxon risks.

"Bermuda as an underwriting market is stricter than most realize," confirms Mr. Baker, who runs Hudson Reinsurance Co. Ltd. "I think you see business written in London and New York that you couldn't get written here."

Among that business is some that used to be underwritten by Insco but was lost at renewal to markets charging lower rates.

Insco's reported 11% increase in net premium volume in 1981 to $85.9 million doesn't reflect the loss of renewal business, however, because Insco accounts for premiums only when actually booked.

"We've developed a more selective process of underwriting," Mr. Dew says, in response to the first underwriting loss Insco has suffered. Its combined ratio in 1981 was 100.8%.

"By industry standards, this would be satisfactory," he says in his annual report, "but it does not measure up to our goal of developing pure underwriting profits on each division."

Mr. Dew anticipates casualty business written this year, for example, will break even, but the volume will be down 15% to 20%.

"Underwriters in Bermuda won't write competitively on the gutsy casualty stuff," observes Stuart Grayston, president of S.H. Grayston Management Ltd. and a Bermuda market veteran.

Also hurting Bermuda reinsurers is decreased demand among captives for excess insurance and reinsurance from island companies.

Many more captives are buying their excess insurance from their fronting insurers in the United States, captive managers note.

Some Bermuda underwriters are, however, carving out a niche and are more competitive on loss portfolio reinsurance, funding plans and rent-a-captive programs.

Enjoying income tax-free status, the reinsurers can use higher investment yields when writing programs that calculate investment income in setting the price.

"Run-off portfolios are a big item these days," observes Brian O'Hara, a senior vp of Trenwick Ltd., referring to one insurer selling its loss reserves to another at a discount.

One Bermuda company, Pinnacle Insurance Co. Ltd., specializes in run-off and loss portfolio reinsurance. The C.E. Heath affiliate reported $1.2 million in underwriting income and nearly $2 million in investment income on insurance funds in 1981 on $49.6 million in premiums.

Others in Bermuda are competing for the business, too. "Whenever there is a flood of business, it indicates people are finding a market and there is competition," observes Mr. O'Hara. "We've looked at it, but we're too conservative."

Loss portfolio reinsurance is too risky when underwriters predict what interest they will earn and how the losses will develop, he explains.

Risk-free, however, are some funding plans under which the losses are known, the money is paid up front and it is used to buy long-term bonds to pay the losses, another Bermuda underwriter noted.

Bermuda insurers write these programs, for a fee, for insurers who want to alter their own balance sheets.

Rent-a-captives are also risk-free business in Bermuda for companies with surplus to spare.

The policyholder pays its premium but gets back in losses no more than the premium and the investment income it generates, minus the management fee.

Bermuda underwriters are wondering if this cash management approach to insurance rather than underwriting is a permanent change in the insurance business or a mere aberration, and they debate its merits.

Underwriters also still are debating how reinsurance should be underwritten in Bermuda.

Mr. Dew at Insco says he has given up hope that Bermuda will develop as a Lloyd's market with insurers sharing risks.

Leaders in the market, like Mentor, will write up to their capacity to take 100% of a risk they like. At Mentor, which expects to underwrite $60 million to $65 million in premiums this year, that is a $5 million line. More often, it writes $1.5 millon to $2.5 million, Mr. Higley notes, specializing in non-marine risks in the United States.

As a whole, the Bermuda commercial reinsurance market specializes in U.S. casualty business, but there are Bermuda companies that write only international risks.

Among them is one of the oldest and largest insurers in Bermuda: Continental Reinsurance Corp. (Bermuda) Ltd.

As one of the three profit centers of Continental Re, the Bermuda company underwrites only non-U.S. business in the Western Hemisphere. Its gross premium volume in 1981 exceeded $158 million compared with $153.5 million in 1980. ■

Captive activity in Bermuda remains heavy

Continued from page 12

in business for four and five years, which include the bulk of Bermuda-based captives, generate a lot of numbers to track. And clients want those numbers quickly—all around the same time of year for their annual meetings.

The finite supply of labor and o. fice space in Bermuda also is forcing the switch to computers. Managers have to become more efficient or they won't have room to store the files or people to compile reports.

Continental Risk Services, for example, is a new captive manager that is starting off with a computer system for all financial record-keeping and reports.

Instead of installing its own computer, however, it is tapping into The Continental Corp.'s U.S. computer. President David Vaughan stresses that all the information is entered from Bermuda and only Bermuda has access to it.

Marsh & McLennan, one of the largest captive managers in Bermuda, is installing its own computer. It faces the long chore of entering the financial information on the 90 captives it manages.

M&M also is planning to unbundle its computer service for captives. When one of its clients gets so large that it wants its own management, which has happened already, the client will be able to continue to use the M&M computer facility by simply installing a video display terminal in its new office. It will be billed for computer time.

Captive managers ready with computers to handle a growing volume of claims and numbers could see a decrease in claims activity in the future.

Some risk managers are reinstating or increasing corporate deductibles to reduce the premium flow to their captives, observers say.

These are risk managers who want to strike a balance between premiums on related and non-related risks to justify their captives as insurance companies for tax purposes. The fewer premiums related to parent-company business, the fewer unrelated risks the captive must write.

The Bermuda government, however, is as optimistic about the growth of existing captive insurers as the managers.

Premier John Swan told a group of young Bermuda insurance professionals that the government's goal of 3% real growth annually will require the focus of the island's industry to shift from tourism to international business.

"The insurance business is the most promising thing for Bermuda," he said. ■

Rules push management costs higher

The cost of managing a captive insurance company in Bermuda is increasing under government regulations and could rise more under a new government tax.

Starting this year, all captives in Bermuda must file annual statements with the government attesting to their compliance with the Bermuda Insurance Act. Their auditors and their managers also must confirm in writing that the captives comply with the provisions of the law, including the solvency margins.

In addition, any captive underwriting more than 30% of its premiums in product liability or medical malpractice risks also must hire a government-approved loss-reserve specialist, who is usually an actuary, to certify that its loss reserves are adequate.

The captive managers have factored the cost of completing the government reports into their management fees this year, which generally range from $15,000 to $25,000 for a typical captive. But, the additional signatures of the auditors and the actuaries cost money.

The auditors are charging around $500 to sign off on a captive's statement to the government, captive managers say.

Hiring an actuary to certify that the loss reserves are accurate costs even more.

If the captive manager does the actuarial analysis and the actuary only needs to review it, the cost is about $700 to $1,000.

If the actuary has to begin from scratch to prepare an actuarial analysis, then the cost can be as much as $3,000 to $5,000.

Captive owners also could see management fees rise if the government levies a tax on the payroll of international companies.

Finance Minister J.D. Gibbons announced in his annual budget statement this year that the government may impose a tax on the "notional" payroll of international companies in Bermuda.

Currently, international companies do not pay the 5% employment tax levied on local companies. They do pay the hospital levy, which is assessed as 2.5% on $21,000 per employee.

Exempting the international companies from the payroll tax "is anomalous and distorts labor markets, in some cases placing local firms at a disadvantage," Mr. Gibbons said.

If the government were to impose a payroll tax on the international companies, it's expected to be 5% of $21,000 per employee regardless of actual salary.

The additional cost of doing business would certainly be passed on to the clients.

Captive managers and reinsurance companies alike object to the tax and expect the government to pull back from the idea. ■

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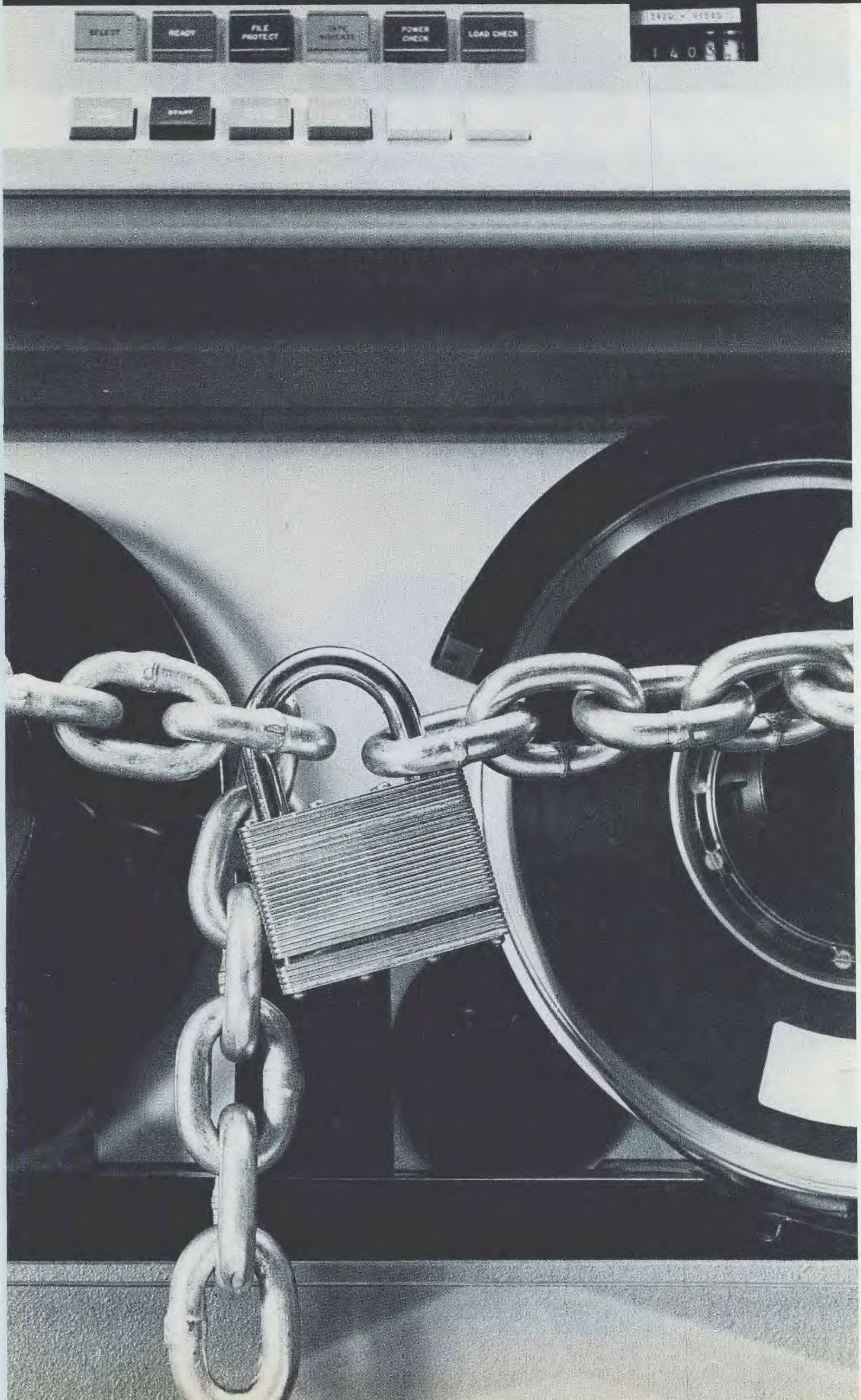

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Captives pooling more of primary risks

HAMILTON, Bermuda—Captives are pooling more of their predictable primary casualty risks than their less certain excess risks in today's cheap excess insurance markets.

Corporate Insurance & Reinsurance Co. Ltd., the group-owned reinsurance company established to provide buffer layer excess casualty insurance, is flooded with more reinsurance of primary risks than excess risks.

First Island Reinsurance Assn., created to fund the first $25,000 of its members' casualty losses, is awash in premiums.

"It is a sign of the times," says Richard S. Thompson, president of Altamid Management Co., which manages CIRCL. "Excess insurance prices are cheaper than what CIRCL members will accept."

CIRCL and First Island are two member-controlled facilities allowing captive insurance companies to pool and share their casualty risks.

The risk pooling provides members with more stable results and, it is hoped, will pass any Internal Revenue Service probe to determine if the captives are insurance companies for tax purposes.

CIRCL's primary insurance program, with a per occurrence limit of $1 million, generated $42.4 million of the total $51.5 million in gross premiums written in 1981.

The insurance is written on a retrospectively rated basis subject to an annual aggregate of 250%.

When CIRCL was created in 1977, its original eight members wanted to pool their risks from $250,000 to $5 million because they considered commercial insurance rates for this layer too high.

At year-end 1981, CIRCL's membership had nearly doubled to 15 but still only eight of the members were using the excess insurance program while 12 were using the primary program.

And, its two newest members this year so far are using only the primary program. They are the captive insurers owned by Tidewater Inc. of New Orleans and Fleetwood Enterprises of Riverside, Calif.

At First Island, which is managed by J&H Ltd., the pooling of the first $25,000 of risk only is catching on with other captives.

The unincorporated mutual insurance pool started with three members in 1978, grew to five in 1979, six in 1980 and a seventh member joined in 1981.

"We're up to eight or nine now," said Brian Hall, president of J&H Ltd.

First Island members share mostly workers compensation risks, some general liability and small amounts of product and auto liability risks. The insurance is written on a guaranteed cost basis.

As of June 1981, 75,000 losses had been reported, providing the kind of loss data First Island participants wanted.

"The goal of our combined efforts is to enhance the operations of our companies by improved information, reinsurance plans and efficiency," the underwriting committee says in its 1981 report.

Both pools are making money for their members.

CIRCL's 1981 earned premiums increased 51.9% to $64.6 million and investment income increased 29.8% to $710,000. After general and administrative expenses of $753,000, CIRCL's net income was $587,000. Its assets at year-end were $49 million.

Premiums reinsured through First Island during the 1980/81 underwriting year totaled $44.5 million compared with $29.8 million in the first underwriting year.

Losses reported on the premiums, which are all ceded to member companies, totaled $37.8 million

Members paid J&H a management fee of $359,194 for 1981.

CIRCL's future plans include more primary and excess insurance programs.

A property insurance program will be launched later in 1982, for losses from the first dollar to $5 million.

And a present-value casualty program for periodic payments and aggregate liability insurance is being designed. It should be ready this summer.

CIRCL's excess insurance program suffered its second loss: a 1981 settlement of a claim against International Harvester Co. costing about $1 million.

Other CIRCL members include the insurance affiliates of Alco Standard Corp., Allegheny International, Archer Daniels Midland Co., Charter Oil, General Tire & Rubber Co., Hanna Mining Co., Ideal Mutual Insurance Co., 3M Co., National Stell Corp., Owens-Illinois Inc., A.O. Smith Corp., Sybron Corp. and Wheelabrator-Frye Inc.

The members of First Island are the insurance affiliates of Continental Group, Acme Stores, General Telephone & Electronics Corp., Burlington Mills, Chesebrough-Pond's and Clark Equipment. ■

Cayman

Recession, tough laws stall captive growth

By STEVE SHERWOOD

GRAND CAYMAN, B.W.I.—"We're growing gradually; there's no burst of people breaking down our doors," one underwriting manager says about the budding captive insurance industry on this tiny British crown colony.

Blaming 1981's sluggish performance on high interest rates, the U.S. recession and the enforcement of the island's 1979 insurance law, observers remain optimistic about Cayman's future as an offshore insurance domicile.

In the second full year under the island's insurance law, which mandates registration and licensing of insurers, they agree:

- Cayman is slowly but steadily consolidating its position as the No. 2 offshore captive and reinsurance center.
- The trend is away from "pure" or single-owner captives and toward association captives formed to underwrite credit life, medical malpractice and other coverages for various groups.
- Drastic growth will likely come only if Bermuda's government infighting, crowded facilities and more stringent insurance laws enhance Cayman's image.

"We are beginning to develop an identity of our own," says John Darwood, Cayman's insurance superintendent, appointed to administer the colony's insurance laws in April 1980.

"I am encouraged by the interest shown in us to date. We have attracted a reasonably high-quality clientele."

Although Cayman's secrecy law prohibits naming parent companies or releasing other pertinent information without permission, Mr. Darwood says, "Three or four substantial reinsurers are making inquiries that should develop into something firm in the next 12 months."

Attorney Timothy Ridley, whose law firm, Maples & Caulder, has a thriving practice with about 30 captives, says, "The big boys—the AIGs, the Aetnas, the Continentals—are looking at Cayman and seem to like what they see. I think they will be establishing here, but it takes them four or five years to move on a prospect."

Anthony Stelling, manager of Scotia Insurance Services agrees. "There are one or two companies I'd like to talk about because they are sizable, but the secrecy law gets in the way."

Scotia, a division of the Bank of Nova Scotia Trust Co. Ltd., is the largest of 29 firms licensed to manage Cayman-based captives, with 55 clients. Mr. Stelling says he has not analyzed his firm's growth in about a year because, "Most of the time has been tied up by getting our existing clients into compliance with the law."

Cayman insurers underwrite about $200 million of premiums a year, in addition to that produced by "supercaptive" United Insurance Co., Mr. Darwood says.

United, owned by 28 companies and writing $159 million of business in 1981, is the largest Cayman insurer. It is managed by Transnational Risk Management Ltd., a Fred Reiss company.

Most other captive insurers are far smaller, in the $250,000 to $10 million premium volume range.

As of Feb. 28 this year, Mr. Darwood had received 287 applications for licenses permitting companies to insure risks outside Cayman, most from existing insurers. Of these, 199 were granted, 24 were refused or withdrawn. The remainder are still pending approval.

At present, 123 of the licensed insurers are captives, 67 are owned by single companies and 56 by associations.

Twenty-eight captives underwrite workers compensation, 26 underwrite comprehensive liability and property, 21 underwrite medical malpractice and nine underwrite product liability coverages, the superintendent says. The others provide a variety of insurance and reinsurance.

"We added new insurers at the rate of six or seven a month for the last six months of 1981," Mr. Darwood says. During 1982, 13 new insurers, four of them association captives underwriting credit life insurance for U.S. automobile dealers, have been licensed. Mr. Darwood has had to turn away several applications.

"Some leave a certain amount to be desired, falling short in capitalization, or overexposing themselves as far as liability. Some don't have the underwriting expertise we require, some have more work to do before they qualify and others have said, 'Perhaps we'd better go somewhere else.' They are welcome to do so."

The superintendent, who has broad discretion in setting capitalization requirements and capital/surplus underwriting ratios for each insurer, also wields significant power in the licensing process.

If the superintendent recommends against a company, its chances of being approved by the Cayman Islands' executive council government are virtually nil, island sources say.

"We don't really regard it as our business to do a company's underwriting for it, but we do have views on what is desirable and undesirable," he says. "Our law allows an insurer to get on with things pretty comfortably once it has its license, so we want to look closely now."

Continued on page 26

Cayman lures more association captives

Continued from page 22

Judging from recent applications, he says, "I don't see that pure captives will be with us much longer. I think the growth area is association captives, primarily for workers compensation."

The formation of association captives is expected with the soft U.S. market, says Ian Kilpatrick, managing director of Insurance Management Consultants Ltd., based in George Town, the largest city.

"I think we are no worse off than anyone else," he says. "But there has been a slowdown in captives—certainly in single-parent captives—so we're going after association business."

One drawback is that association captives take longer to form than those with single parents since they do not have one chief executive officer making decisions, he says. Even so, they appear to be Cayman's best hope for immediate growth, with groups of doctors, auto dealers and even insurance agents seeking to start companies.

Mr. Kilpatrick's list of clients grew to 13 from seven during the past year, nearly doubling the premium volume of managed companies to $13 million. All of his captives are association-owned.

"They don't generate enough income now to cover overhead, but they ultimately will," he says. His work for the six new clients, including arranging licenses, brings his firm about $6,000 a year from each.

"The problem I'm finding is that there is a lot of talk but not a lot of captives are coming to fruition," he says.

Transnational Ltd.'s new subsidiary, Transnational Risk Management, which handles the affairs of United and 15 other Cayman-based captives, also sees potential in associations.

"The whole thrust of the captive market is different now in that large companies which would form their own captives have already done so," says Graham King, Transnational's controller. "Now smaller companies and associations are forming them."

Transnational recently took on four new association clients from Dallas and Houston—automobile dealerships insuring credit life and extended warranty programs, he says.

Included among its other captives is Imperial Chemical Insurance Holdings Ltd., the splinter operation of a Bermuda captive owned by Imperial Chemical Industries of the United Kingdom.

Transnational is broadening its scope well beyond the management of United, Mr. Graham adds.

In November, the company completed its Transnational House, the largest captive management office complex on Cayman, and increased its full-time personnel from 16 to 23.

Kathleen Bodden Evans, office manager of Caribbean Risk Specialists Ltd., acknowledges the movement toward associations, but says, "Companies can still make a lot through pure captives."

She cites her firm's own parent company, Anderson, Greenwood & Co. of Houston, as an example.

"Caribbean Casualty Assurance Co. Ltd., our parent's captive, is now an acceptable reinsurer," she says. "It has made a tremendous profit on its own and become big enough to write third-party business."

Caribbean Risk Specialists manages 12 captives, including three for Anderson, Greenwood. Each writes an average annual premium volume of $400,000 to $500,000, mainly from workers compensation and general liabilty risks.

"We had a prospect in the other day looking for product liability insurance on safety helmets and harnesses and one medical malpractice captive has just been started and looks good," Ms. Evans says.

But as the firm's financial manager, Turney Rankine, points out, most of its captive clients are industrial and all are owned by single parents.

"There is association business to be had," says David Campbell, who opened a two-person Cayman captive office for broker Johnson & Higgins 15 months ago. His first client was an association captive formed by eight poultry producers. It underwrites automobile, general liability and workers compensation insurance for its members.

Mr. Campbell manages two other single-parent captives, of which one underwrites product liability and the other workers compensation coverages.

Cayman's captive industry will see little real growth until something happens in Bermuda, Mr. Campbell says. "Right now we are just crawling up on our own steam."

But he indicates recent legislation in Bermuda, forcing product liability insurers to certify their reserves, may mark the beginning of a limited exodus from Bermuda to Cayman.

With a growing service industry, plenty of space for expansion and government cooperation, Cayman seems the logical escape route from Bermuda.

"We have a product liability captive coming here from Bermuda next month as a result," Mr. Campbell says.

A Bermuda native who recently started Watford Insurance Management Ltd., a Cayman-based management firm with four captive clients, gives a similar assessment.

"In Bermuda, with 1,100 captives and 140 management companies, the business infrastructure is stretched to the limit," says J. William Rewalt, Watford's managing director. "I don't think there is much doubt that Cayman will progress further and faster simply from the crowded nature of Bermuda."

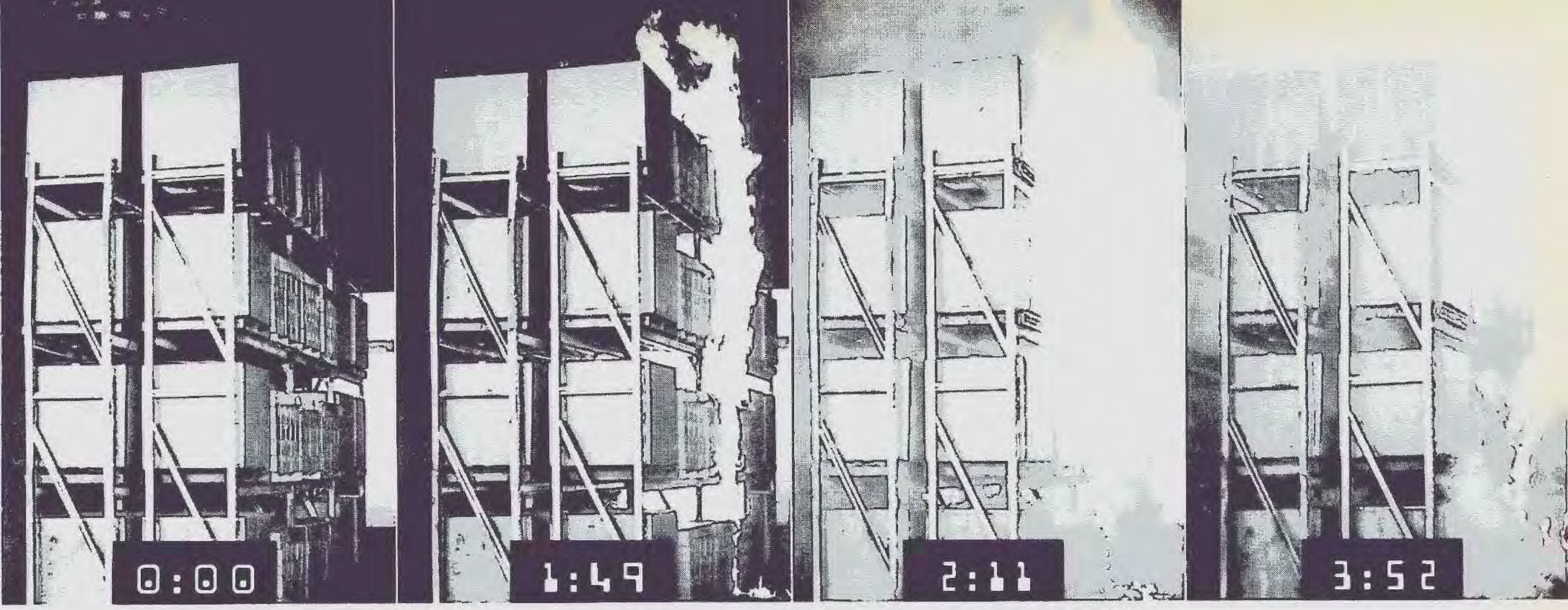
Captive attorney Mr. Ridley contrasts Bermuda's population of 55,000 with Cayman's 17,000 people, pointing out that Bermuda's land mass of 25 square miles is one-third that of Cayman's.

"You can still build houses and offices here," he says. "There's room to expand."

If Bermuda maintains a stable government and there is no increase in labor unrest, it should continue in its leading role, Mr. Ridley says.

"If there is a change of government in the next election, however, I think a viable alternative will be sought and that the alternative will be Cayman."

Established Bermuda captives are naturally reluctant to create added commitments on Cayman because of the time and money they have invested in Bermuda, he says, "but I don't think they will be able to avoid it." ■



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Cayman managers seek residence rule

GRAND CAYMAN, B.W.I.— Only 12 of 29 firms licensed to manage the 123 captive insurance companies based on Cayman actually maintain offices here.

Most reside on Cayman in name only.

The same is true of many insurers. Their nameplates are on the doors of local banks and accountants' or attorneys' offices, but the captives' decisions are made in the parent companies' home offices.

But that Cayman tradition may soon change. Some captive managers that have gone to the expense of setting up shop on Cayman want to make physical presence on the island a requirement.

Heading that movement is Ian Kilpatrick, managing director of Insurance Management Consultants Ltd. and president of the Cayman Islands Underwriting Managers Assn.

Mr. Kilpatrick's firm manages 13 captive insurers and employs a staff of eight here.

"Our organization is campaigning for an amendment (to the 1979 Cayman insurance law) which would assure that companies have people on the island accountable for their activities," Mr. Kilpatrick says. "Right now we have companies licensed here while their principals are outside the jurisdiction of the law."

Roger Corbin, director of Absit Insurance Management Ltd., adds: "The industry is concerned about the number of captives managed by so-called managers who have no presence here. When something goes wrong, whom is the insurance superintendent going to call?"

Absit currently has 10 clients and is headquartered in an ancient-looking Cayman dwelling called Heritage House. Inside is a modern office with wall-to-wall carpeting and computer terminals

"The place where a company is doing business is normally where the mind and mangement are," he says. "If a company has no physical presence here, it is hard to substantiate a claim that it is a Caymanian company."

Some "very senior" insurance operations are located on Cayman in name only, he says. "If they are not operated out of the offshore domicile, they must be operated onshore. It doesn't take Sherlock Holmes to deduce that."

Anthony Stelling, manager of Scotia Insurance Services, a division of The Bank of Nova Scotia Trust Co. Ltd., which manages 55 captives, agrees.

"As a licensed underwriting manager we are required to disclose our fears and doubts about a company to the insurance superintendent. Where management is done by outsiders, however, there is no obligation to apprise him of problems," he says.

As the insurance law now stands, a captive insurer domiciled on Cayman is not required to hire an underwriting manager. It must simply prove to Insurance Superintendent John Darwood's satisfaction that it has underwriting expertise available to it. The company does not have to open offices on Cayman.

Likewise, underwriting managers are permitted to operate without a physical presence.

"We prefer local presence because it gives us the benefit of good communications—quick answers to inquiries," Mr. Darwood says. "We do say we'd like them to have the objective of setting up shop when it becomes economically feasible."

But if an underwriting manager has only three clients with little paperwork, it might not be feasible for him to buy a piece of expensive Cayman real estate to open an office, he adds.

"Until a company has a pretty substantial operation, I don't think it can have physical presence here. It would need a fairly profitable business to meet what would probably be $100,000 a year in operating costs," says Peter Baker, a partner in the accounting firm of Peat, Marwick & Mitchell in George Town.

Mr. Baker's firm performs annual audits and other services for about 80 captive insurers on Cayman.

Services also complicate the issue. Cayman has developed an industry around providing absentee owners with local services and some of the duties licensed underwriters perform for clients also overlap with those performed by Cayman attorneys and bankers.

One underwriting manager says his role is to do as much or as little as is required by the client toward setting up or maintaining a captive. This can include acting as corporate secretary and director, providing an office, administering records, accounting, bookkeeping, assuring the company's compliance with Cayman law, even designing and implementing the captive from start to finish.

Attorney Timothy Ridley, whose George Town law firm, Maples & Calder, services about 30 captive insurers, says, "We do not in any way offer ourselves out as a management service."

But an attorney's services can include submitting license applications, putting together corporate documents, seeing to it that the captive complies with the law and sometimes acting as corporate secretary.

Mr. Ridley agrees, however, that there is some overlap in services, particularly in obtaining and renewing a license. But, "we really don't see it as competition. If a client wants to have the underwriting manager make license applications and have us simply handle the legal aspects, that's fine with us," he says.

Timothy Marsh, president of Cayman-based Insurance Services International Ltd., a captive manager with about 11 clients, says there may be a tendency among some managers to want a closed market that would force captive parents to buy services locally.

"Ultimately, I don't think that will be to anyone's benefit," he says. "If people think they are getting better service off the island, we need to get our socks off and provide it here. I'm prepared to take my chances with an open market."

Mr. Kilpatrick, though, defends his proposal: "I've been accused of trying to make sure all the business comes to underwriting managers here, but that is not really the reason (for the proposed amendment)."

If a company reaps the benefits of being chartered on Cayman, it should have a presence here, he says. It is too easy for a company to go wrong in the first year, before the company submits an audit to the superintendent. When it happens, Cayman has little recourse. ■

Bahamas plans more captive incentives

By STEVE SHERWOOD

NASSAU, Bahamas—The Bahamas is as good a captive domicile as any, insurance sources say, but just not good enough to make a company island hop.

With an estimated 20 captives in the Bahamas, 123 in the Caymans and more than 1,000 in Bermuda, the Bahamas are trailing in the competition for captive insurers, and not likely to catch up without government help.

"In the Bahamas, at present, there is a great desire to attract captive insurance business," says Sidney Pine, the New York attorney who introduced the offshore captive concept 25 years ago.

"There is more spirit and more cooperation. However, they have been informed and believe that various steps must be taken to make the Bahamas competitive with other domiciles.'

Step by step, the government is overhauling insurance laws, attempting to reverse years of confusion and misunderstanding brought by 1969 and 1975 legislation that called for registration of insurers, publication of accounts and a 1% premium tax.

The first step is creation of a new insurance law to give Bahamian captives the competitive advantages now available elsewhere and to guarantee against taxation for a period of time, Mr. Pine says.

"A draft of the law has been prepared and is being circulated among government and business people to make such changes as they deem proper," Mr. Pine says. This will eventually be presented to Prime Minister Lynden Pinddling and his cabinet for approval.

The second step must be a more relaxed attitude toward work permits granted to expatriate workers, he says.

"At present it is the government's policy not to grant permits for longer than three years," Mr. Pine says. "Management firms have indicated this is not long enough to make them willing to move themselves, their businesses and their families to the Bahamas. In my opinion, a five-year permit would be adequate."

Charles Fernie of Nassau's brokerage and general agency J.S. Johnson & Co. Ltd. says that, pending an election year, it is too early to discuss the new law in detail but indicates the other laws were misunderstood.

"The 1975 Insurance Amendment Act applied a 1% premium tax on insurance written for local risks and was never intended for or applied to captives," he says. "I think there was reference made by competing centers that made it sound as if the law applied to captives."

In 1978, with Mr. Pine's help, Bahamian insurance laws were upgraded to make them competitive with those of the Caymans and Bermuda.

"I don't think there are any barriers any longer," Mr. Fernie says. "Any problems are an overhang from the 1969 law, passed when captives were in their infancy. They didn't want to publish their accounts and, because of that, many went to Bermuda."

J.S. Johnson manages four captives now and will add two more soon, Mr. Fernie says. "Both of the new captives, which are very close to completion, have considered the other offshore domiciles and opted for the Bahamas."

Other local captive managers are British-American Insurance Co., Bankers Trust Co. and the Bank of Nova Scotia Trust Co. Ltd.

All are more actively involved in banking, trust or other lines of business than in captive management. J.S. Johnson, for example, will write an estimated $12 million in insurance premiums for insurers in London and worldwide during 1982.

Even so, "We are very much involved in doing what we can to make the Bahamas a captive domicile," Mr. Fernie says.

John Young, the general manager of Bankers Trust, says his firm is also actively pursuing captive insurers.

"I think you can say there has been a definite turnaround here in the past year. We are no longer being ignored as a domicile."

The dozen or so active and inactive captives based in the Bahamas in 1980 doubled in 1981, he says.

"In March, some senior people who direct 90% of the captive business gong to Bermuda, Caymans and Guernsey met at the Easthill Club in Nassau to discuss the captive business here," he says. Deputy Prime Minister and Finance Minister Arthur G. Hanna spoke at the meeting.

"Considerable interest was kicked up as to the Bahamas being an add-on facility for captives, since Bermudian facilities are so crowded," he reports.

The Bahamas business infrastructure "far exceeds anything in the Bahamas or the Caymans," Mr. Young adds, referring to the islands' 325 banks and the presence of the Big Eight accounting firms.

The registration fee for insurers is is also attractive, $1,000 to $3,000, with a minimum annual renewal fee of $500, says Royan Ellis, of the Bank of Nova Scotia Trust. This contrasts with the $6,000 fee charged on Cayman.

Mr. Ellis came to the Bahamas from Scotia's office on Grand Cayman, where the firm manages one-third of that island's captives. His Bahamas office manages one captive and has one definite prospect.

Mr. Ellis says his company is encouraged by the government's attitude. ▪

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Photo: Guernsey Press

St. Peter Port is the capital and insurance center of Guernsey in the Channel Islands.

Guernsey

Channel Islands boast full services

By STACY SHAPIRO

GUERNSEY, Channel Islands—All the services a captive insurance manager needs can be found on the cobblestoned main street of St. Peter Port.

Guernsey's strong financial community is so compact, remarks one London insurance director, "that you can see your lawyer, go to court and end up in prison without getting wet."

The States of Guernsey, which is the government for all of the Channel Islands except Jersey, provide about 130 captive insurers with a comfortable harbor and relaxed insurance regulation, only 300 miles from the London insurance marketplace.

Captives have operated on Guernsey since the 1930s, and some local historians even believe that Guernsey's first "captive" was England back in the 11th century.

In 1066, the islands were part of the duchy of Normandy when William the Conqueror took England. So islanders can call England "our oldest posession."

Lawyers—called advocates—and accountants trained in Britain and France work in the shadow of the the local court and the prison. Some of Britain's largest banks house more than 2 billion pounds ($3.56 billion) in assets on Guernsey.

In fact, some captive managers on the 27-square-mile island say that Guernsey is almost a "mini-London," but without all the hassles of a big city.

"We move slower than London,

> Some local historians even believe that Guernsey's first 'captive' was England back in the days of William the Conqueror.

but we get twice as much done," says Michael Savage, chief executive of Reinsurance Corp. of Guernsey Ltd. "But there is no need for red tape here, so if I have a question I can have the answer by lunchtime."

There are some troubles in paradise, however, and some breezes of change may soon chill captive growth in Guernsey.

One gust come from from Britain, which is threatening to fully tax offshore companies. Islanders call the study document that proposes this change the "yellow peril."

Guernsey's British captives are now subject to a 20% local income tax (see related story).

Another gust blows from the other satellite islands around Britain.

The Isle of Man has just opened its tax-free doors to captive insurers, and Hogg Robinson Group and Alexander Howden Group already have formed captive management companies there.

But the Isle of Man does not yet have the financial resources of Guernsey, captive managers say. In fact, some companies looking at the Isle of Man as a captive domicile are going through Guernsey offices until that expertise develops.

Jersey, however, may pose a bigger threat. The Jersey government is discussing legislation to allow captives onshore.

Jersey, with a population of 85,000, offers better communication and airline sevices, sources say, but so far has banned all insurance companies except one from the island. ■

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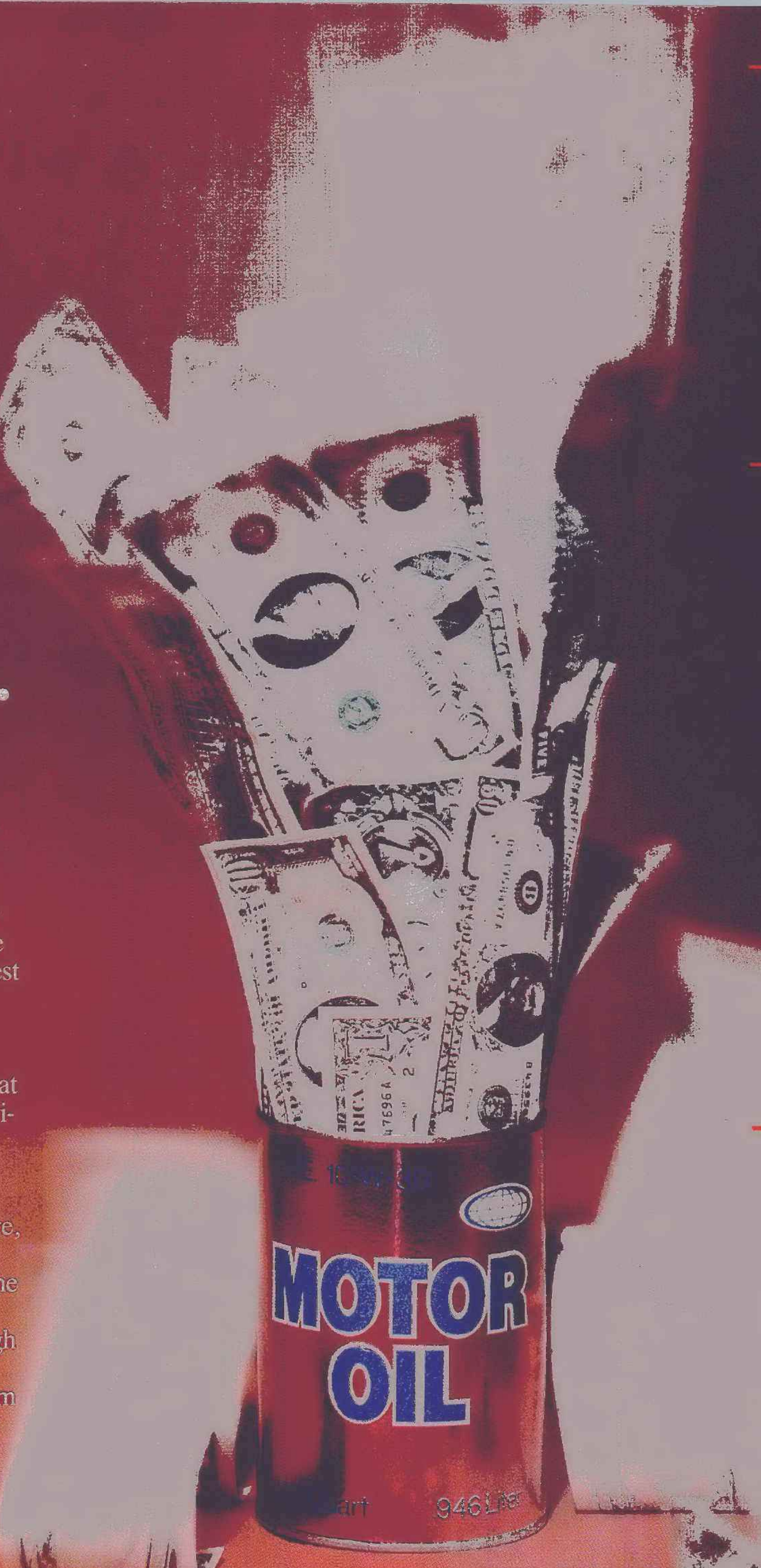

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Guernsey's reinsurance volume growing


Photo: Stacy Shapiro
Mr. Savage

By STACY SHAPIRO

GUERNSEY, Channel Islands— This tiny island will probably never rank in the same league with Bermuda, the king of captive domiciles, say captive managers here.

But don't count Guernsey out as a home for both British- and U.S.-owned captives or as a growing international reinsurance center.

"I think the insurance industry is going to grow here, but it is not going to explode," says Michael Savage, chief executive of the Reinsurance Corp. of Guernsey Ltd.

"I think we will see some North American companies coming here in the next 12 months," he says. "They might have subsidiaries in Europe and want a European base, or they may be Bermuda-based companies that want to place business elsewhere or may want a boathold out of Bermuda."

Guernsey's present captive population will continue to flourish into a formidable reinsurance market for London risks, even if new captives are not formed, insurance managers on the island agree.

"We want Guernsey to become a reinsurance center," says Tony Taylor, chairman of Transglobe Underwriting Management (Guernsey) Ltd., a C.T. Bowring subsidiary that manages about 20 million pounds (approximately $35.6 million) in premium.

Already one of Transglobe's major captives, Polygon, is becoming a major aviation reinsurer, says Mr. Taylor.

Polygon was founded about six years ago as a captive mutual insurance company for Swissair, SAS and KLM airlines, but it now earns 80% of its 2 million pounds ($3.56 million) in premium from third-party aviation reinsurance.

The Insurance Corp. of Ireland also has opened a reinsurer, Reinsurance Corp. of Guernsey, which Mr. Savage manages.

"We reinsure about half of the captives in Guernsey," Mr. Savage says. "They reinsured with us in London before we moved here. But now we can service them here."

Reinsurance Corp. of Guernsey also reinsures fire and marine risks from the London market, Mr. Savage says. Last year, it earned 1.36 million pounds ($2.42 million) from 5.12 million pounds ($9.11 million) in premium volume.

Another captive managed by Mr. Savage, Meadows Indemnity Co. Ltd., owned by Gould Inc. of Rolling Meadows, Ill., also dabbles in third-party underwriting, he notes.

"In Bermuda, captives underwrite third-party business because of the IRS, but that is not the reason Gould does it here," he says. "Gould did it for diversification."

Gould's captive now underwrites some small portions of quota-share reinsurance treaties from professional insurance and reinsurance companies. Like most of the reinsurance that comes to Guernsey, its business comes from the London market.

Not every Guernsey insurer partakes in third-party or reinsurance underwriting.

British captives lack the strong incentive that Internal Revenue Service regulations provide (see related story), so few of the 130 captives on the island swap business among each other unless they want to diversify.

The property insurance captive of Canada's MacMillan-Bloedell's, set up by Michael Ward, managing director of Risk Management Ltd., in 1973, doesn't want to diversify.

"That is the corporation's philosophy," Mr. Ward says. "With third-party business, some parents would have thought to pay the taxes rather than the losses. I am not against third-party underwriting, but you have to go into it for the right motives. The wrong reason is tax credibility." ■

Get a lawyer, attorney says

GUERNSEY, Channel Islands— If a risk manager is planning to set up a captive insurer on Guernsey, he might first consult a local lawyer instead of a captive manager.

As in most captive domiciles, knowing the laws and the right people saves many headaches. In Guernsey, lawyers meet both needs and a few others.

"A company comes to see me to find out the laws in Guernsey," explains John E. Langlois, a Guernsey legislator and a partner in the firm of Carey, Langlois (pronounced Langley) & Co.

"I introduce them to an accountant," he told *Business Insurance* in his office in St. Peter Port. "I also make sure they are put in touch with competent managers, unless they are providing captive management themselves."

Mr. Langlois can also provide British companies with non-English directors.

"If a company has all English directors, it would be taxed in England. So you have to have a majority of Guernsey directors," he explains. "I am a director of about 10."

Choosing Guernsey directors is not an easy task, he adds.

"Not all professional people in Guernsey are aware of what insurance is all about," he said.

Although most of his clients are British companies, more international firms are researching Guernsey as a captive domicile.

"Foreign interest is increasing all the time," he says. "There are some U.S. captive companies here and there is more interest than there used to be from U.S. companies, especially if they have risks in the European Economic Coummunity countries."

U.S. companies are also showing interest in Guernsey as a backup home for captives in case governments in larger, more traditional domiciles like Bermuda and Cayman turn hostile. ■

Two men you should know on Guernsey


Photo: Stacy Shapiro
Mr.Riley

GUERNSEY, Channel Islands—There are two men on Guernsey that every captive manager knows.

They can be spotted walking down the cobblestoned main street of St. Peter Port or strolling toward the government house near the quayside. They will stop and chat and perhaps solve a captive manager's problem right in the middle of the marketplace.

"I've been here now six years and I have come to know everyone here," says one of the two men, Bruce Riley, commercial relations adviser for the States of Guernsey. "And if someone wants a meeting we gather everyone up and get things done in a day. The U.S. businessmen are staggered by this, but small is beautiful."

Mr. Riley, with the island's advisory and finance committee, approves all captive insurers that seek domicile on Guernsey.

"No company starts without our consent," Mr. Riley says, explaining that a captive must have a minimum capitalization of 100,000 pounds (approximately $187,000) if it wants to use the word "insurance" in its title.

"And any manager here knows that if he shows less than 100,000 pounds, he better have a good reason to tell me," he adds.

However, there is no formal annual audit or government registration of captive insurers to track industry growth or financial solvency.

Although Guernsey's banks are required to show the government their books, no such law has yet been produced for captives, Mr. Riley says.

But that soon may change, he points out. A working party, consisting of four of the island's most prominent captive managers and Mr. Riley, is studying ways to register captives and police their reinsurance and reserves.

"The time has arrived that it is essential to get legislation on the statute books," Mr. Riley says.

"I know all the insurance managers personally, and I see the captive accounts on a voluntary basis," he continues. "But now we have the third-party elements to protect."

The other man every captive manager knows is Ray Heaume, the income tax administrator.

Mr. Heaume reckons he sees most of the captive insurance managers once a day, if not in his office, then on the street as he heads to work. And if there is a question of how to set up reserves or the best way to pay a captive's tax, then Mr. Heaume is all ears.

"We have a tax on all operations at 20% full-stop," says Mr. Heaume, whose department took in 51 million pounds ($95.4 million) last year. But there is no other kind of tax on the island—no state duty, no gift or sales tax, etc.

"Income tax was set up in 1920 to provide part of the resources to pay for the island's public services," Mr. Heaume explains. "The tax, however, doesn't go up every year as it does elsewhere."

There are three ways a captive can be taxed in Guernsey.

The "corporation tax company," whose management is not based on the island, is taxed as a non-resident at a flat rate. Some such companies still exist, but very few.

"The corporation tax company can no longer be set up," notes Mr. Riley. "They were our Achilles' heel" because there was no Guernsey-based management control on these companies.

"We want to see Guernsey's corporate companies properly managed in Guernsey," he says.

A captive can also be taxed as a mutual trading company whereby it is effectivey taxed just on its investment income. Or it can pay the 20% tax on its overall revenues.

Many captive managers encourage full taxation because then business expenses and underwriting losses can be deducted.

But Mr. Heaume is usually willing to show how to form a on the island that takes best advantage of its income tax laws, captive managers say.

"If they have, say, special risks, we look at the history of claims and agree to a type of reserve that fits the circumstances," Mr. Heaume says. "They put up the proposal and we discuss the matter." ■

Papal pilgrimage covered by captive

GUERNSEY, Channel Islands—Some Guernsey natives may feel blessed that Pope John Paul II is coming to visit Britain.

But Barry Seymour, managing director of Alexander Howden International Services (Guernsey) Ltd., is praying all the more.

National Mutual Co., a captive insurer owned by the Roman Catholic Church in Britain and managed by Howden, is insuring the church property that will be visited by the pope for up to 250,000 pounds (approximately $467,500), Mr. Seymour explains, including any church artifacts used by the pontiff.

However, the Catholic Church's captive is steering clear of underwriting any liability coverage the papal visit, he says.

"We run a property program only," he notes. ■

Who manages captive insurers?

Who manages captives?

You can find out by reviewing the listing of captive insurance company managers that begins on page 42.

The 1982 *Business Insurance* captive management directory is printed as an editorial service and is compiled from information supplied by the managers responding to a questionnaire.

This year's listing is the most complete ever, with 63 captive management companies, both offshore and onshore, responding.

The 56 companies reporting their number of clients manage more than 1,000 captives; the 29 revealing premium volume report nearly $2 billion.

The alphabetical listing includes name, address and phone number, the year the company was founded and the parent company.

Under the staff subheading you can find the size of the management company's staff, the number of professionals employed and their professional designations.

Under clients, you will find the total number of clients, their relative size by premium volume of the captive and the total premium volume of captives managed. The minimum-size client a manager will accept is listed here, too.

The captive managers were asked to identify services they provide frequently or occasionally from a list of 19 services ranging from captive formation to the management of underwriting pools.

Specifics on compensation, like the minimum annual fee, time and expense charges and if commissions are taken for placing reinsurance, are given.

The names and titles of principal officers or partners also are listed.

The captive managers were asked to list subsidiaries, but also to submit a separate questionnaire for each captive management office in a different locations.

You can review captive managers in a jurisdiction by checking the geographic index on this page.

Every effort was made to make the listing as complete as possible. However, James (Bermuda) Ltd., which manages about 30 captives, declined to answer the questionnaire. Skandia Management Office for Captives and Jemark Management Ltd. supplied insufficient information to be listed.

To decipher the professional qualifications of the captive managers' staffs, here is a guide to the abbreviations: ACCA, Assn. of Certified and Corporate Accountants; ACII, Associate, Chartered Insurance Institute; ACIS, Associate, Chartered Institute of Secretaries and Administrators; ACMA, Associate, Chartered Management Accountants; AIIC, Associate, Insurance Institute of Canada; ARM, Associate in Risk Management; BSC, bachelor of science in commerce; CA, Chartered Accountant; CIC, Certified Insurance Consultant; CPA, Certified Public Accountant; CPCU, Chartered Property/Casualty Underwriter; CSP, Certified Safety Professional; FCA, Fellow, Chartered Accountants; FCAS, Fellow, Casualty Actuarial Society; FCII, Fellow, Chartered Insurance Institute; MBA, master of business administration; PE, Professional Engineer.

Managers arranged by nation

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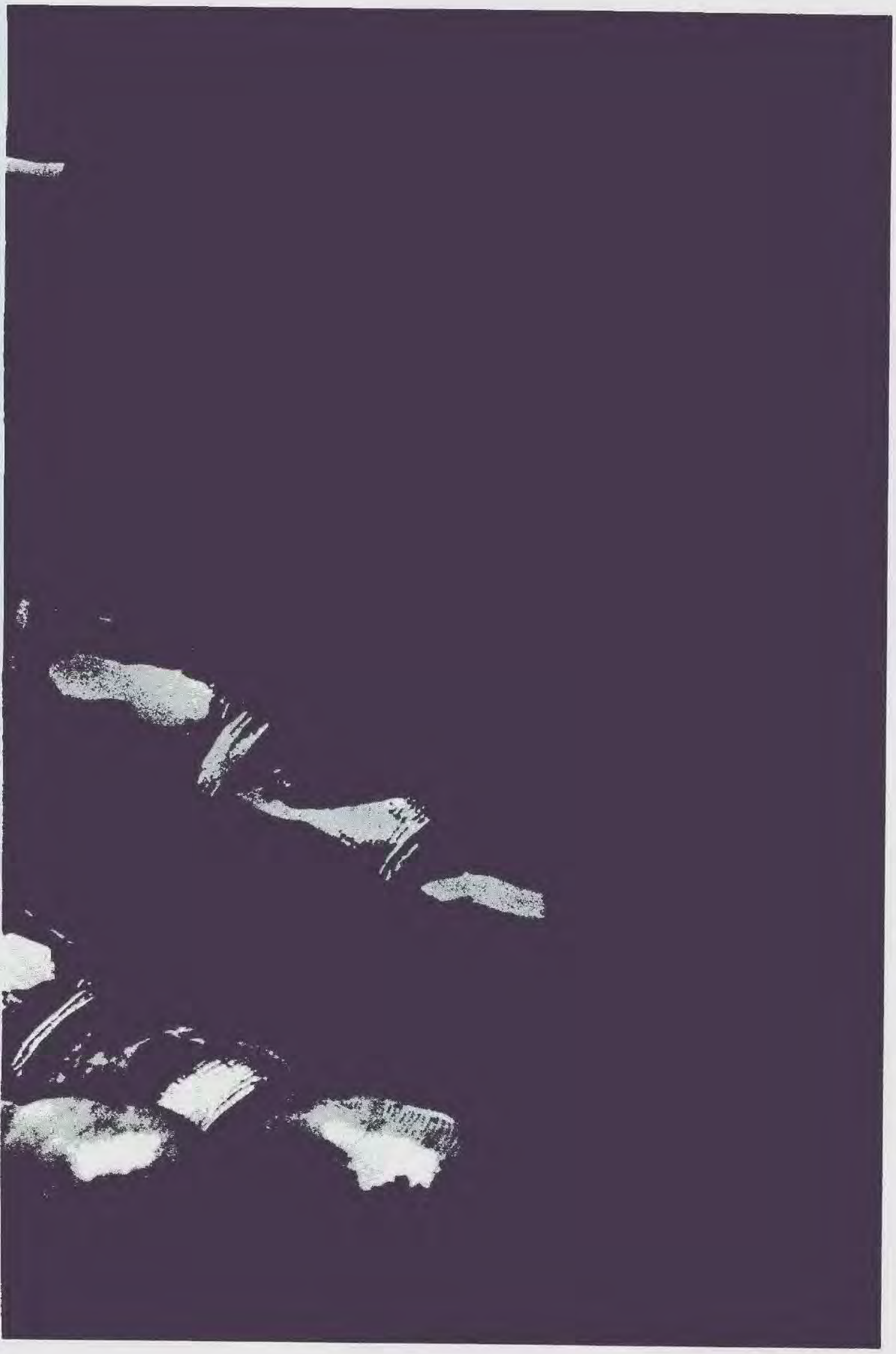

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ONCE AGAIN THE ANSWER IS AIG.

A guide to captive management firms

A

A.C.C. Insurance Services Ltd.

F.B. Perry Building, Box 1381; Hamilton 5, Bermuda; 809-295-1159

Year founded: 1967.
Parent company: Associated Communications Corp.
Staff: 24 total staff, of which five are professionals holding the following number of professional designations: three CPAs, one CPCU, one MBA.
Clients: 12 total clients, 33% with premiums less than $1 million; 42% $1 million to $3 million; 17% $3 million to $10 million; 8% exceeding $20 million
Services provided: Frequent government reporting, accounting, computerized accounting, investment management, occasional captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, associations, special studies for film and film completion insurance.
1981 gross revenues: Not reported.
Principal officers: Derek J. Bennett, managing director; Anthony D. Hidden, director of insurance; Michael J. Gregory, vp of finance; Paul A. Forbes, vp of administration; George F. Neilson, vp of accounting.

Abbott & Willoughby Associates Inc.

5845 Elm St., Suite 515, McLean, Va. 22101; 703-734-3830

Year founded: 1981.
Staff: Four total staff, of which three are professionals holding the following number of professional designations: one P.E.
Clients: Two total clients, 50% with premiums less than $1 million; 50% $3 million to $10 million (1982 projections).
Total premiums under management: $4.4 million
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives investment management, loss-control services (through affiliated company, International Safety Associates); occasional computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, associations, specialized accounting services, onshore services for associations.
Subsidiaries: Abbott & Willoughby, Amberco Management Ltd., Parkington Associates of Washington, D.C., Ltd.; International Safety Associates Inc.; Agents Institute for Insurance Marketing.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional, $50-$100; clerical, $15-$25.
1981 gross revenues: $169,325 (partial year).
Principal officers: LeRoy V. Abbott, president; Lawrence A. Willoughby, executive vp.

Abbott & Willoughby, Amberco Management Inc.

International Center, Bermudiana Road, Hamilton 5, Bermuda; 809-292-7805

Year founded: 1982.
Parent company: Abbott & Willoughby Associates, Amberco Brokers Ltd.
Staff: Four total staff, of which three are professionals.
Clients: None (new organization).
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, loss-control services (through affiliated company, International Safety Associates), associations, specialized accounting services, onshore services for associations, rent-a-captive arrangements, "mini-captive" arrangements, occasional computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting.
Subsidiaries: Abbott & Willoughby Associates Inc., Amberco Brokers Ltd., Parkington Associates of Washington, D.C., Ltd., International Safety Associates Inc.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional, $50-$100; clerical, $15-$25.
1981 gross revenues: New organization.
Principal officers: John McGarrity, president; Lawrence A. Willoughby, executive vp; Julian M. Griffiths, Walcott H. Outesbrige, vps.

Absit Insurance Management Ltd.

Heritage House, Box 1549, Grand Cayman, B.W.I.; 809-949-4688

Year founded: 1978.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one CPA.
Services provided: Frequent captive formation (in association with a legal firm), government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, occasional reinsurance brokered for captives, reinsurance brokered to captives, manual claims processing, captive feasibility studies, associations, specialized accounting services.
Compensation: Minimum annual fee, $12,000; time and expense, professional, $125.
1981 gross revenues: Not reported.
Principal officers: Roger A. Corbin, president; James Gill, controller.

Alexander International Ltd.

Box 681, Reid Street, Hamilton, Bermuda; 809-295-3336

Year founded: 1965.
Parent company: Alexander & Alexander Services Inc.
Staff: 30 total staff, of which 10 are professionals holding the following number of professional designations: six CPAs, one MBA.

Continued on page 44

Continued from page 42

Clients: 50 total clients. Minimum size client: $1 million in premiums.

Total premiums under management: $175 million.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, occasional captive feasibility studies, computerized claims processing (through Alexsis), claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, underwriting pools (HMG Pool, five participants, approximately $10 million premium volume), loss-control services (through Alexsis), associations.

Compensation: Minimum annual fee, $20,000; time and expense, professional, $70, includes clerical.

1981 gross revenues: Not reported.

Principal officers: William D. Scaff, managing director; Alan Cossar, David Blair, vps; Nicholas Dove, Jennifer Woods, assistant vps.

Altamid Management Co. Ltd.

Beneficial Building, Church Street, Box 2002; Hamilton 5, Bermuda; 809-295-2185

Year founded: 1978.

Parent company: Hanna Mining Co.

Staff: 15 total staff, of which nine are professionals holding the following number of professional designations: four CPAs, three CPCUs.

Clients: 10 total clients, 30% with premiums less than $1 million; 30% $1 million to $3 million; 10% $3 million to $10 million; 20% $10 million to $20 million; 10% exceeding $20 million. Minimum size client: $500,000 in premiums.

Total premiums under management: $100 million.

Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, investment management, underwriting pools (Corporate Insurance & Reinsurance Co. Ltd., 16 participants, $70 million premium volume; membership requirement: $100 million in equity for parent), occasional reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, captive feasibility studies, captive formation, tax advice, legal advice.

Subsidiaries: Altamid Management (Vermont) Ltd..

Compensation: Annual fees, commissions for reinsurance brokered, time and expense.

1981 gross revenues: $1,037,446.

Principal officers: Duane E. Allen, chairman; Richard S. Thompson, president; John Bookless, John A. Keesing, vps.

American International Co. Ltd.

American International Building, Richmond Road, Pembroke, Bermuda; 809-295-2121

Year founded: 1947.

Parent company: American International Group Inc.

Staff: 54 total staff, of which 27 are professionals holding the following number of professional designations: two ACMAs, one CA, one ACCA, five ACIIs, one FCII.

Clients: 33 total clients, 21% with premiums less than $1 million; 32% $1 million to $3 million; 29% $3 million to $10 million; 14% $10 million to $20 million; 4% exceeding $20 million.

Total premiums under management: $130 million.

Services provided: Frequent government reporting, accounting, computerized accounting, claims reserves analysis, actuarial studies, underwriting pools (SUMIT II, 14 participants, $32 million premium volume; membership requirement: must be AIG client with net worth of $5 million; SUMIT A, 16 participants, $10 million premium volume; membership requirement: must be AIG client with net worth of $5 million), investment management, associations, specialized accounting services, onshore services for associations, funding, fronting, guaranteed 25-day cash flow, risk management programs, occasional captive feasibility studies, captive formation, manual claims processing, computerized claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, tax advice, legal advice, loss-control services.

Subsidiaries: AIG management facilities in Cayman and Bahamas.

Compensation: Minimum annual fee, $20,000; commissions for reinsurance brokered; time and expense, professional, $100; clerical, $75.

1981 gross revenues: $7.2 million.

Principal officers: J.H.C. Johnson, president/chief executive officer; R.S. Davis, director of captive operations; D. Higinbottom, assistant vp of captive underwriting; P. Robinson, assistant vp of captive accounting; S. Blakey, manager of captive management accounting.

American Risk Management Inc.

One Executive Drive, Fort Lee, N.J. 07024; 201-529-7100

Year founded: 1958.

Staff: 150 total staff, with the following number of professional designations: three CPAs, six CPCUs, five ARMs, four MBAs, three attorneys.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services (13 locations in United States, one in Britain), associations, occasional actuarial studies, manual claims processing, government reporting.

1981 gross revenues: Not reported.

Principal officers: F.M. Reiss, chairman; A.H. Deters, executive vp; J.J. Ryan, M.V. Snow, senior vps; W. Nehls, group vp.

Aneco Risk Management Co. Ltd.

Box 1254, Trimingham Building, Hamilton 5, Bermuda; 809-295-4239

Year founded: 1978.

Parent company: Aneco Reinsurance Co. Ltd.

Staff: Five total staff, of which three are professionals holding the following number of professional designations: one CPA, one CPCU, one attorney.

Clients: Eight total clients, 88% with premiums less than $1 million; 12% $1 million to $3 million.

Total premiums under management: $5 million.

Services provided: Frequent captive formation, government reporting, accounting, claims reserves analysis, loss forecasting, reinsurance brokered for captives, investment management, tax advice, occasional captive feasibility studies, computerized accounting, manual claims processing, computerized claims processing, actuarial studies, reinsurance brokered to captives, underwriting and ratemaking for captives, legal advice.

Compensation: Minimum annual fee, $10,000.

1981 gross revenues: $100,000.

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INKA DINKA DOO

Continued from page 44
Principal officers: Robert A. Mulderig, president; Marius M. Dier, vp; Timothy B. Carr, vp/controller.

Anistics

1600 Broadway, Suite 1630,
Denver, Colo. 80202; 303-839-1007

Year founded: 1971.
Parent company: Alexander & Alexander Services Inc.
Staff: Three total staff, with the following number of professional designations: one MBA.
Clients: Four total clients, 50% with premiums less than $1 million; 50% $1 million to $3 million.
Total premiums under management: $4.9 million.
Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing (claims processing done through A&A), claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives (though A&A), underwriting and ratemaking for captives underwriting pools (Hemisphere Marine & General Assurance Ltd., five participants, $13 million premium volume; membership requirement: must have casualty-line captive); occasional government reporting, reinsurance brokered to captives (through A&A), investment management, loss-control services (through A&A), associations, flexible computer services offered to associations
Subsidiaries: Alexander International Ltd.
Compensation: Minimum annual fee, $15,000.
1981 gross revenues: Not reported.
Principal officers: Arnold Goldstein, managing vp, Colorado; Peter Densen, president; Luther Griffith, Dennis Aaron, Ted Nygreen, Richard Raas, managing vps.

Argus International Management Ltd.

Wesley Street, Box 1064, Hamilton 5, Bermuda; 809-295-2021

Year founded: 1971.
Parent company: Argus Insurance Co. Ltd.
Staff: Seven total staff, of which three are professionals holding the following number of professional designations: two CPAs, one ACII.
Clients: 21 total clients.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, investment management, specialized accounting services for associations, occasional claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, tax advice, legal advice, loss-control services, associations, captive feasibility studies (all occasional services arranged through associated companies or suppliers).
Compensation: Minimum annual fee negotiable; time and expense, professional $60-$100; clerical, $25-$40.
1981 gross revenues: Not reported.
Principal officers: Warren D. Sproule, manager; Stephen C. Williams, assistant manager; E.J. Sainsbury, executive director.

Armco Insurance Management Ltd.

Box 2004, Hamilton 5, Bermuda; 809-295-5207

Year founded: 1971.
Parent company: Armco Inc.
Staff: 23 total staff, of which eight are professionals holding the following number of professional designations: two CAs.
Clients: 25 total clients, 44% with premiums less than $1 million; 24% $1 million to $3 million; 32% $3 million to $10 million. Minimum size client: $250,000 in premiums.
Total premiums under management: $51.3 million
Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, investment management, legal advice, occasional captive feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives.
Compensation: Minimum annual fee, $12,500 ($15,000 for association captives); time and expense, professional, $55; clerical, $30.
1981 gross revenues: $1.3 million.
Principal officers: Clive W. Himsworth, general manager/chief executive officer; John T. Berry, treasurer.

Association Insurance Consultants Ltd.

Kenwood Building, Box 2003, Washington Lane, Hamilton 5, Bermuda; 809-295-3073

Year founded: 1978.
Parent company: Insurance Management Family of Companies.
Staff: Seven total staff, with the following number of professional designations: one CPA, one CPCU, one ARM.
Clients: Eight total clients, 60% $1 million to $3 million; 40% $3 million to $10 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (Intermark Ltd., four participants), investment management, tax advice, loss-control services (in the United States), associations, specialized accounting services, onshore services for associations.
Subsidiaries: Association Insurance Consultants (Cayman) Ltd., Cayman Islands; Antilles Insurers Consortium Ltd., Tortola, British Virgin Islands.
Compensation: Minimum annual fee, $10,000; commissions for reinsurance brokered.
1981 gross revenues: Not reported.
Principal officers: John J. Matternas, chairman; Richard C. Morauer, executive vp; Anthony J. Hicks, vp; Danny B. Murphy, treasurer; Richard G. Cound, controller.

B

B.F. & M. Management Ltd.

Scarborough House, Pitt's Bay Road, Pembroke, Bermuda; 809-295-5566

Year founded: 1969.
Parent company: Bermuda Fire & Marine Insurance Co. Ltd.
Staff: Eight total staff, with six professionals.
Clients: 47 total clients.
Services provided: Frequent government reporting, accounting, manual claims processing, claims reserves analysis, occasional captive feasibility studies, captive formation, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives.
Compensation: Not reported.
1981 gross revenues: Not reported.

Principal officers: Sir James Pearman, president; E.H. Trimingham, vp; C.R. Rance, managing director; K.R. Lugg, manager/secretary; J.A. Wilkins, treasurer.

Becher & Carlson Management Ltd.

Global House, Church Street, Hamilton 5, Bermuda; 809-295-5207

Year founded: 1981.
Staff: Five total staff, of which five are professionals holding the following number of professional designations: one CPA.
Clients: Two clients, one with premiums of $1 million to $3 million; one $3 million to $10 million. Minimum size client: $1 million in premiums.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, loss forecasting, reinsurance brokered for captives (through affiliated company), reinsurance brokered to captives, occasional underwriting and ratemaking for captives, investment management.
Compensation: Minimum annual fee, $15,000.
1981 gross revenues: Not reported.
Principal officers: David L. Carlson, president; William Becher, chairman.

Bott & Associates Ltd.

The Kenwood Building, Washington Lane, Hamilton, Bermuda; 809-292-6564

Year founded: 1979.
Staff: Eight total staff, of which three are professionals holding the following number of professional designations: two CPAs, one ARM, one ACIS.
Clients: 14 total clients.
Total premiums under management: $27.5 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, associations, occasional captive feasibility studies, reinsurance brokered to captives, underwriting agents for Kansa General Insurance Co. Ltd., Kansa Reinsurance Co. Ltd., River Plate Reinsurance Co. Ltd.
Compensation: Minimum annual fee, $10,000; commissions for reinsurance brokered.
1981 gross revenues: Not reported.
Principal officers: Michael F. Bott, president; Donald R. Storey, Gordon Symonds, vps; Raymond Stenning, treasurer; John J. Matternas, executive vp.

British-American Management Ltd.

Box N-3005, Nassau, Bahamas; 809-322-2694

Year founded: 1979.
Parent company: British-American Insurance Co. Ltd.
Staff: Five total staff, of which one is a professional holding the following number of professional designations: CPCU, ARM.
Clients: Two clients, one with premiums less than $1 million; one $3 million to $10 million. Minimum size client: $500,000 in premiums.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, occasional captive feasibility studies, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice, legal advice, computerized claims processing, claims reserves analysis, actuarial studies.
Compensation: Minimum annual fee, $12,000; commissions for reinsurance brokered quarterly in advance.
1981 gross revenues: $1.25 million.
Principal officers: Justin N. Tierney, president; Judy Higgs, manager, reinsurance department; David Watson, vp/financial officer.

British-American Management (Cayman) Ltd.

Second Floor, Guinness Mahon Building, George Town, Grand Cayman, B.W.I.; 809-949-5488

Year founded: 1979.
Parent company: British-American Insurance Co. Ltd.
Staff: Four total staff, of which two are professionals holding the following number of professional designations: one CPA.

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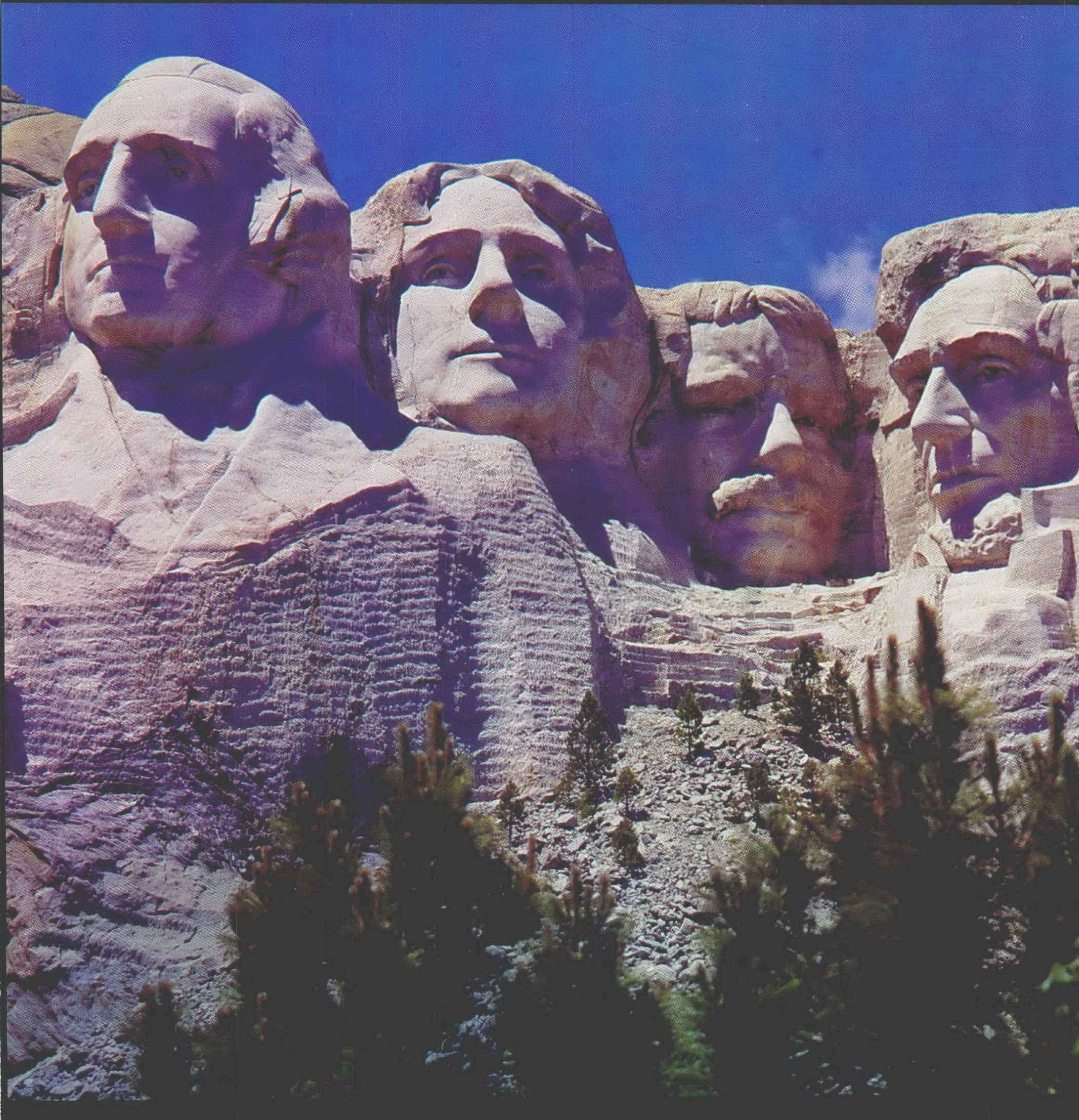

Continued from page 47

Clients: Two clients, both with premiums less than $1 million. Minimum size client: $500,000 in premiums.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, occasional captive feasibility studies, loss forecasting, underwriting and ratemaking for captives, investment management, tax advice, legal advice.

Compensation: Minimum annual fee, $12,000.

1981 gross revenues: Not reported.

Principal officers: Justin N. Tierney, president; David Watson, vp/financial officer; Edlin Myles, assistant manager, finance and accounting.

C

Caribbean Insurance Management Co. Ltd.

Box 103, Grand Turk, Turks & Caicos Islands, B.W.I.;
809-946-2476

Year founded: 1982.

Staff: Three total staff, of which three are professionals holding the following number of professional designations: one CPCU, one ARM, one attorney, one CIC.

Clients: One client, with premiums less than $1 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, legal advice, loss-control services, associations, specialized accounting services, onshore services for associations, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, claims reserves analysis, actuarial studies, loss forecasting.

Compensation: Minimum annual fee, $3,600.

1981 gross revenues: New company.

Principal officers: Jack W. Hoffman, managing director; Ian Miller, director.

Caribbean Risk Specialists Ltd.

Box 1687, Guinness Mahon Building, Grand Cayman, B.W.I.;
809-949-5755/5649

Year founded: 1980.

Parent company: Anderson, Greenwood & Co.

Staff: Six total staff, of which one is a professional holding the following professional designations: CPA, MBA.

Clients: Eight total clients. Minimum size client: $500,000 in premiums.

Services provided: Frequent captive formation, government reporting, accounting, investment management, full corporate services, full advisory services on Cayman insurance law, occasional captive feasibility studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting pools, legal advice.

Compensation: Minimum annual fee, $6,000; premium percentage scale.

1981 gross revenues: $125,000.

Principal officers: Kathleen Bodden Evans, corporate administrator.

Cedar Hill Management Ltd.

Ground Floor, Global House, Hamilton 5-24, Bermuda
809-292-8450

Year founded: 1980.

Parent company: Republic-Hogg Robinson.

Staff: Two total staff, of which two are professionals holding the following number of professional designations: one ACCA.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, loss forecasting, preparation of management reports. Claims processing, computerized claims processing, claims reserves analysis, actuarial studies, underwriting and ratemaking for captives, investment management, tax advice, legal advice all provided through outside or affiliated firms; reinsurance brokered to and for captives through affiliated broker (Hogg Robinson).

Compensation: Fixed fee; time and expense.

1981 gross revenues: Not reported.

Principal officers: Gary Bliss, vp/general manager.

Continental Risk Services Ltd.

Box 824, Hamilton 5, Bermuda; 809-295-6015

Year founded: 1981.

Parent company: The Continental Corp.

Staff: Eight total staff, of which four are professionals holding the following number of professional designations: two chartered accountants, one ACII.

Clients: Four total clients, 50% with premiums less than $1 million; 50% $1 million to $3 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services (from N.J.).

Subsidiaries: Continental Risk Services (Cayman) Ltd., Grand Cayman, B.W.I., starting April 1982.

Compensation: Time and expense.

1981 gross revenues: New company.

Principal officers: David B. Vaughan, president; Sir Dudley Spurling, Robert McBride, R.M. Menninger, vps.

Corroon & Black (Bermuda) Ltd.

Dallas Building, Fifth Floor, Victoria Street, Hamilton, Bermuda; 809-295-3246

Year founded: 1979.

Parent company: Mincor Ltd.

Staff: Six total staff, of which one is professional holding the following professional designation: CPA.

Clients: 23 total clients, 10% with premiums less than $1 million; 80% $1 million to $3 million; 10% $3 million to $10 million.

Total premiums under management: $60 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, investment management, occasional computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Compensation: Annual fee, commissions for reinsurance brokered.

1981 gross revenues: Not reported.

Principal officers: John J. Lorhan, president.

Corroon & Black (Cayman) Ltd.

Box 705, Grand Cayman, B.W.I.; 809-949-4035

Year founded: 1980.

Parent company: Corroon & Black (Bermuda) Ltd.

Staff: Two total staff, of which two are professionals holding the following number of professional designations: two CPAs.

Clients: Six total clients, all $1 million to $3 million.

Total premiums under management: $12 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, investment management; occasional computerized accounting, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.

Compensation: Annual fee; commissions for reinsurance brokered.

1981 gross revenues: Not reported.

Principal officers: John J. Lorhan, president.

E.H. Crump (Bermuda) Ltd.

Third Floor, Bermudiana Arcade, Queen Street, Box 1224, Hamilton, Bermuda; 809-295-5921

Year founded: 1977.

Parent company: E.H. Crump Cos. Inc.

Staff: Four total staff, of which two are professionals holding the following number of professional designations: one CPA, one ARM.

Clients: Four total clients, 25% with premiums less than $1 million; 25% $1 million to $3 million; 25% $3 million to $10 million; 25% $10 million to $20 million.

Services provided: Captive feasibility studies, captive formation, government reporting, accounting, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Compensation: Minimum annual fee, $15,000-$20,000; commissions for reinsurance brokered; time and expense.

1981 gross revenues: Not reported.

E

Ebasco Risk Management Consultants Inc. (Bermuda)

2 World Trade Center, New York, N.Y. 10048; 212-839-1334

Year founded: 1905.

Parent company: Ebasco Services Inc.

Staff: 79 total staff, of which 68 are professionals holding the following number of professional designations: 14 CPCUs, six ARMs, 15 MBAs, five attorneys.

Clients: Eight total clients, 80% with premiums of $1 million to $3 million; 10% $3 million to $10 million; 10% exceeding $20 million.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, loss-control services, associations, specialized accounting services, onshore services for associations, occasional government reporting, actuarial studies, investment management.

Subsidiaries: Associated Company Management of Ebasco Ltd., Hamilton, Bermuda.

Continued on next page

Continued from previous page

Compensation: Annual fee; time and expense.

1981 gross revenues: Not reported.

Principal officers: Bruce H. Suter, president; Kenneth W. Richman, senior vp; E. Arnold Powell, director, marketing; Linda L. Dailey, director of company services/treasurer.

Ebasco Risk Management Consultants Inc. (Cayman)

2 World Trade Center, New York, N.Y. 10048; 212-839-1334

Year founded: 1905.

Parent company: Ebasco Services Inc.

Staff: Three total staff, of which two are professionals holding the following professional designation: one ARM.

Clients: Three total clients, 100% with premium of $1 million to $3 million.

Total premiums under management: $4 million.

Services provided: Frequent captive feasibility studies, captive formation, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, loss-control services, associations, specialized accounting services, onshore services for associations, occasional government reporting, actuarial studies, investment management.

Subsidiaries: Associated Company Management of Ebasco (Cayman) Ltd., Cayman Islands, B.W.I.

Compensation: Annual fee; time and expense.

1981 gross revenues: Not reported.

Principal officers: Bruce H. Suter, president; Kenneth W. Richman, senior vp; E. Arnold Powell, director of marketing; Linda L. Dailey, director of company services/treasurer.

G

Arthur J. Gallagher & Co. (Bermuda) Ltd.

Perry Building, 40 Church St., Hamilton, Bermuda; 809-292-4654

Year founded: 1973.

Parent company: Arthur J Gallagher & Co.

Staff: Four total staff with the following number of professional designations: one ACII.

Clients: Five total clients, 20% with premiums less than $1 million 80% $1 million to $3 million.

Total premiums under management: $8 million.

Services provided: Frequent government reporting, accounting, computerized claims processing, reinsurance brokered to captives, occasional captive feasibility studies, captive formation, reinsurance brokered for captives, loss-control services (in Rolling Meadows, Ill.).

Subsidiaries: Gallagher-Bassett Insurance Services, Gallagher Hinton & Vererer Ltd.

Compensation: Minimum annual fee, $12,500; commissions for reinsurance brokered.

1981 gross revenues: Not reported.

Principal officers: Harry New, managing director; John P. Gallagher, president; Robert E. Gallagher, vp.

S.H. Grayston Management Ltd.

Box 1428, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1977.

Parent company: The Grayston Corp. Ltd.

Staff: 11 total staff with the following number of professional designations: one CPA.

Clients: 28 total clients.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, computerized claims processing, reinsurance brokered for captives, investment management, associations, specialized accounting services, occasional reinsurance brokered to captives, underwriting and ratemaking for captives, captive feasibility studies, manual claims processing, claims reserves analysis, loss forecasting, legal advice.

Compensation: Minimum annual fee, $20,000.

1981 gross revenues: Not reported.

Principal officers: Stuart H. Grayston, president; Peter H. Grayston, vp; Charles F. Langton, chartered accountant.

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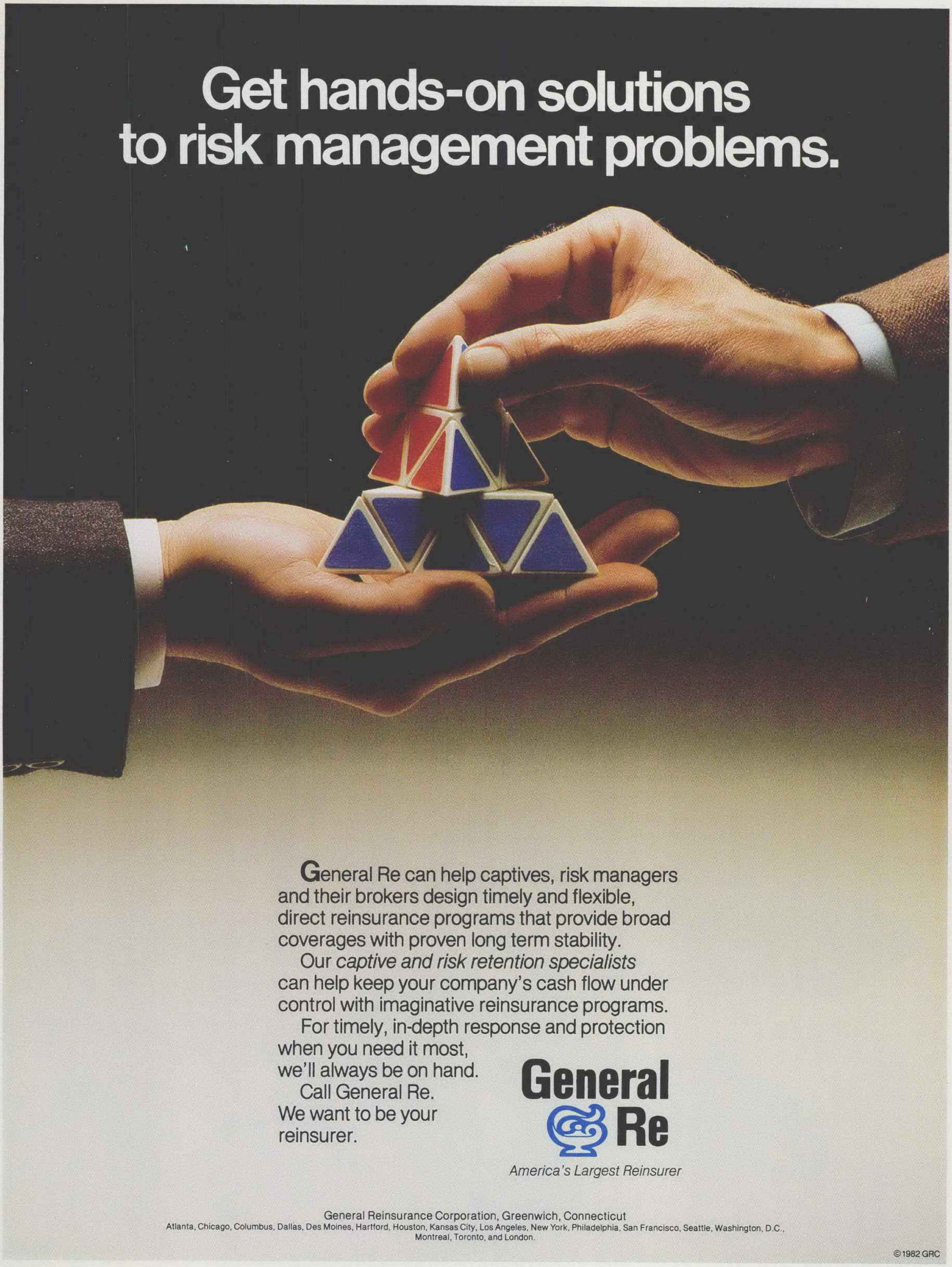

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H

H & H Management Services

Box 1861, Hamilton 5, Bermuda; 809-295-3342

Year founded: 1977.
Staff: Seven total staff, of which four are professionals holding the following number of professional designations: one CPA, one ACII, three MBAs, one attorney.
Clients: 11 total clients, 69% with premiums less than $1 million; 29% $3 million to $10 million; 2% $10 million to $20 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, reinsurance brokered for captives, investment management, legal secretarial services, occasional manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, legal advice, associations, specialized accounting services, consulting.
1981 gross revenues: Not reported.
Compensation: Annual fee; commissions for reinsurance brokered.
Principal officers: Simon L. Everett, John S. Orridge, David P. Pickering, Michael T. Budge.

Frank B. Hall & Co.

Craig Appin House, Hamilton, Bermuda

Year founded: 1965.
Parent company: Frank B. Hall & Co. Inc.
Staff: 56 total staff, of which 20 are professionals holding the following number of professional designations: 12 CPAs, three CPCUs, three ARMs, seven MBAs, two FCAS, two attorneys.
Clients: More than 75 total clients, less than 10% with premiums less than $1 million; 10%-20% $1 million to $3 million; 60% $3 million to $10 million; 10% $10 million to $20 million; less than 10% exceeding $20 million.
Total premiums under management: $300 million to $500 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools, loss-control services (Briarcliff Manor, N.Y.), associations, specialized accounting services, onshore services for associations, occasional investment management, tax advice (through outside firms), legal advice (through outside firms), administrators of self-insured programs, risk management consulting, claims management and quality assurance, claims adjusting.
Subsidiaries: Frank B. Hall Management Co., Englewood, Colo.; Frank B. Hall Underwriting Managers; Frank B. Hall Intermediaries; Parker & Co. Interocean Ltd.
Compensation: Minimum annual fee, $15,000; commissions for reinsurance brokered; time and expense, professional, $30-$85; clerical, $15-$35.
1981 gross revenues: Not reported.
Principal officers: Robin Spencer-Ascott, executive vp, Frank B. Hall, Bermuda; Norman Doree, senior vp, Frank B. Hall Underwriting Managers; Michael Jenkins, vp, Frank B. Hall Intermediaries; Al Stutsen, vp, Frank B. Hall Management Co.

Hogg Robinson (Guernsey) Ltd.

Provident House, Havilland St., St. Peter Port, Guernsey, C.I.; 0481-26049

Year founded: 1978.
Parent company: Hogg Robinson Group Ltd.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one FCII, one FCA, one BSC.
Clients: Six total clients, 33% with premiums less than $1 million; 50% $1 million to $3 million; 17% $3 million to $10 million.
Total premiums under management: $9 million.
Services provided: Frequent captive formation, accounting, manual claims processing, tax advice, occasional captive feasibility studies, claims reserves analysis, loss forecasting, reinsurance bro-

kered for captives, underwriting and ratemaking for captives, investment management.
Compensation: Minimum annual fee, $10,000.
1981 gross revenues: Not reported.
Principal officers: R.A. Hall, general manager; B.M. Pickard, financial manager; G.M. Powell, technical assistant.

Hogg Robinson (Isle of Man) Ltd.

50 Athol St., Douglas, Isle of Man

Year founded: 1981.
Parent company: Hogg Robinson Group Ltd.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: one FCII, one FCA, one BSC.
Clients: One client with premiums of $1 million to $3 million.
Total premiums under management: $1.5 million.
Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, reinsurance brokered for captives, tax advice, occasional captive feasibility studies, claims reserves analysis, loss forecasting, underwriting and ratemaking for captives, investment management.
Compensation: Minimum annual fee, $10,000.
1981 gross revenues: New company.
Principal officers: R.A. Hall, director.

Homeland Insurance Management (Cayman) Ltd.

Aal Bldg., Box 1510, George Town, Grand Cayman, B.W.I.; 809-949-5998

Year founded: 1981.
Parent company: Homeland Industrial Corp.
Staff: Three total staff, of which one is a professional holding the following professional designation: one CPA.
Clients: Eight total clients, 35% with premiums less than $1 million; 65% $1 million to $3 million. Minimum size client: $500,000 in premiums.
Total premiums under management: $8.6 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services (California), associations, specialized accounting services, onshore services for associations, occasional manual claims processing, actuarial studies, reinsurance brokered for captives, investment management.

Compensation: Minimum annual fee, $12,000; commissions for reinsurance brokered.

1981 gross revenues: Not reported.

Principal officers: David S. Williams, president; Michael G. Herberger, vp; Nancy Yohannan, secretary.

I

INA International Insurance Managers Inc.

Craig Appin House, Wesley Street, Box 1181, Hamilton 5, Bermuda; 809-292-5300

Year founded: 1978.
Parent company: INA International Insurance Co. Ltd.
Staff: 60 total staff, of which 10 are professionals holding the following number of professional designations: three CPAs, two MBAs, one attorney.
Clients: 20 total clients, 55% with premiums less than $1 million; 25% $1 million to $3 million; 20% $3 million to $10 million.
Total premiums under management: $30.5 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting pools (INA International-Underwriting Facility, 10 participants, $11 million premium volume, must meet certain financial prerequisites to be member), investment management, loss-control services, associations, onshore services for associations, financial management services, occasional design reinsurance programs, specialized accounting services, underwriting and ratemaking for captives, captive feasibility studies.
Compensation: Minimum annual fee, $5,000; commissions for reinsurance brokered; time and expense fees are negotiable.
1981 gross revenues: Not reported.
Principal officers: Franklin D. Marsteller, president; Garry A. Madeiros, vp/treasurer; John S. Reynolds, Irgmard Viera, vps.

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perspective

THE CAPTIVE CHALLENGE

New ways of meeting market demand

By Richard E. Stewart

CAPTIVE INSURANCE companies are in the general property/casualty insurance marketplace in a small way. Before long they will be in it in a big way.

They will be pushed into the market by the need to protect the tax position of their corporate family and into the primary market by overcrowding in reinsurance.

They will be drawn into the market by an interest in the insurance business.

It is something captive insurers know about. The market offers diversification and profit.

An insurance company does not need external capital or credit. It does not depend on the general economy. It does not have resource shortages or unions or Japanese competitors.

A captive looks at itself as a possible new participant in the property/casualty market.

The captive is considering its first foray into the insurance business as an active and independent seller.

Its distinguishing characteristic is its lack of experience on the selling side of the business. It has experience on the buying side, as purchaser of fixed-cost coverages and designer of risk financing alternatives. The experience is useful, but it is experience on the other side of the table.

Ignorance is rarely an advantage. But the captive is free of organizational, financial, intellectual or sentimental attachments to the established way of doing things. In a changing business, that helps.

The captive can take a fresh look at the business it is about to enter. What does it see?

Four things. All can be traced to the cartel heritage of insurance. They differ enough to be examined one at a time.

The captive sees that entry into the business is easy—legally, financially and organizationally.

Regulatory barriers have always been low, perhaps because when the rules developed, the country was short of capital and hence, insuring capacity.

Initial capital requirements are modest. No test of public convenience and necessity has to be met. Licensure is liberal, with little parochialism.

Entry is also easy organizationally. No factory has to be built. People with necessary skills are available.

Even in the primary markets, every function of an insurance company, from engineering to underwriting to investment to claims, can be purchased. The main distribution system uses independent contractors.

Entry is easy competitively. The industry is fragmented and not attuned to repelling newcomers.

The second thing the captive sees is how much insurers have to pay for the money they get to invest.

Historically, property/casualty insurance has generated investable funds at a low cost. Many companies have generated those funds at a negative cost called underwriting profit.

Recently, property/casualty insurance has generated funds at a lower cost than other financial institutions. That is one of its attractions for financially minded people.

Yet the cost of those funds is going up. That is the main significance of the price cutting today.

Prices are always cut in the competitive or oversupply phase of the underwriting cycle. But this time the significance is not just cyclical, but structural and lasting as well.

We cannot prove that proposition yet. Both cyclical and structural forces will produce the same competitive behavior right now. Proof will come if the cycle turns, but prices do not go back up where they were.

Until the risk-adjusted cost of funds in property/casualty insurance approximates that in other financial endeavors, insurance will attract capital faster than customers.

Insurance will be in chronic oversupply. It will be a buyer's market.

Adjusting for risk brings the captive to the third characteristic of the market it is about to enter. The traditional belief that insurance is uniquely a risk business is now open to question.

The belief is that insurance is special because the commodity in which it trades is risk. That was once true of the isolated indemnitor carrying a big fire risk on a net basis.

An insurer can still do business that way if it wants to. But it no longer has to.

Today an insurer has many ways to stabilize risk statistically, to spread it among risk bearers and over time and to otherwise conserve its capital.

The belief that insurance is uniquely a risk business confers mystique. It counsels caution. It suggests bravery. It impedes competition. It is durable.

Like other businesses, insurance involves substantial entrepreneurial risks. One of them is believing things are no longer true.

The myth of the risk business, left over from the day of the cartel, reminds the captive to look for other such heirlooms. It finds the fourth striking characteristic of the market—the insurance numbers system.

Property/casualty insurance teems with numbers, and the business lives by them.

The annual statements filed with insurance departments contains thousands. One classification plan has a million rates. Careful companies budget the ratio of postage expense to premium.

But the captive, taking a fresh look at all those numbers, sees something about them, which is usually missed. Those numbers are not of much use to an independent competitor.

Insurance numbers began with one of two purposes—solvency regulation or the development of uniform rates.

The insurance numbers system generates rates and ratios. But rates are not prices. Expense ratios are not cost accounts. Premium writings do not measure unit volume.

The captive insurer sees a market that is easy to enter, attracting new participants with cheap funds, rapidly losing its mystique and drifting in a sea of darkest data. If the captive wants to get into that game at all, it had better know very clearly what it is doing.

How should the captive proceed? What should it think about first?

It might start with where the money is made. One can think about it under four headings—premiums, losses, expenses and investment income.

As for investment income, the captive understands, having been part of the changes of the past 10 years.

Insurers used to keep all the investment income on premium float. To do so today requires exceptional competitive position, an imperfect market or insignificant investment potential. Otherwise, in a buyer's market most investment income will go to the buyer, explicitly or through pricing.

As to losses, a good underwriter can select among risks or books of business. The key is to see enough aspiring customers. In other words, you can judge horses by looking at their teeth. But first, you've got to get the horses to face you.

Premium growth in a buyer's market depends upon market position. It means being seen by the insured, and others who control the premium dollar, as a superior firm to do business with. "Buying" business—by raising commissions, donating facilities or extending credit—is unlikely to confer a lasting competitive advantage.

Now investment income depends to a great extent on growth and loss control, which depend on market position.

So the captive thinks about market position. Two established ways of getting it are product differentiation and geography.

Some sellers are able to engineer down the cost of insuring boilers, abrasive wheels, retirement plans or construction contracts. Others are closely tied to a geographic area, its citizens and insurance agents.

A captive would not be likely to have a natural geographic niche. That may be just as well. The advantages of a close relationship with a favorable location are now widely recognized, a sure sign that geographic niches will soon come under pressure.

The position of the strong geographic speciality companies in their agencies is probably unassailable. The position of their agents in the market is the problem.

The captive might try product differentiation, perhaps by specializing in a client industry such as its parent's industry. It is very rewarding and can happen naturally in the risk management world.

Differentiation and geography can be sources of big profit, witness the California workers compensation companies.

Yet the differentiation as well as geography is constrained by market size and number of sellers.

Besides differentiation and geography, another way exists to set up a strong market position. Besides premium growth, loss control and investment income, one more exists to make money generally. The way: control expenses.

If one defines overhead broadly, as the sum of

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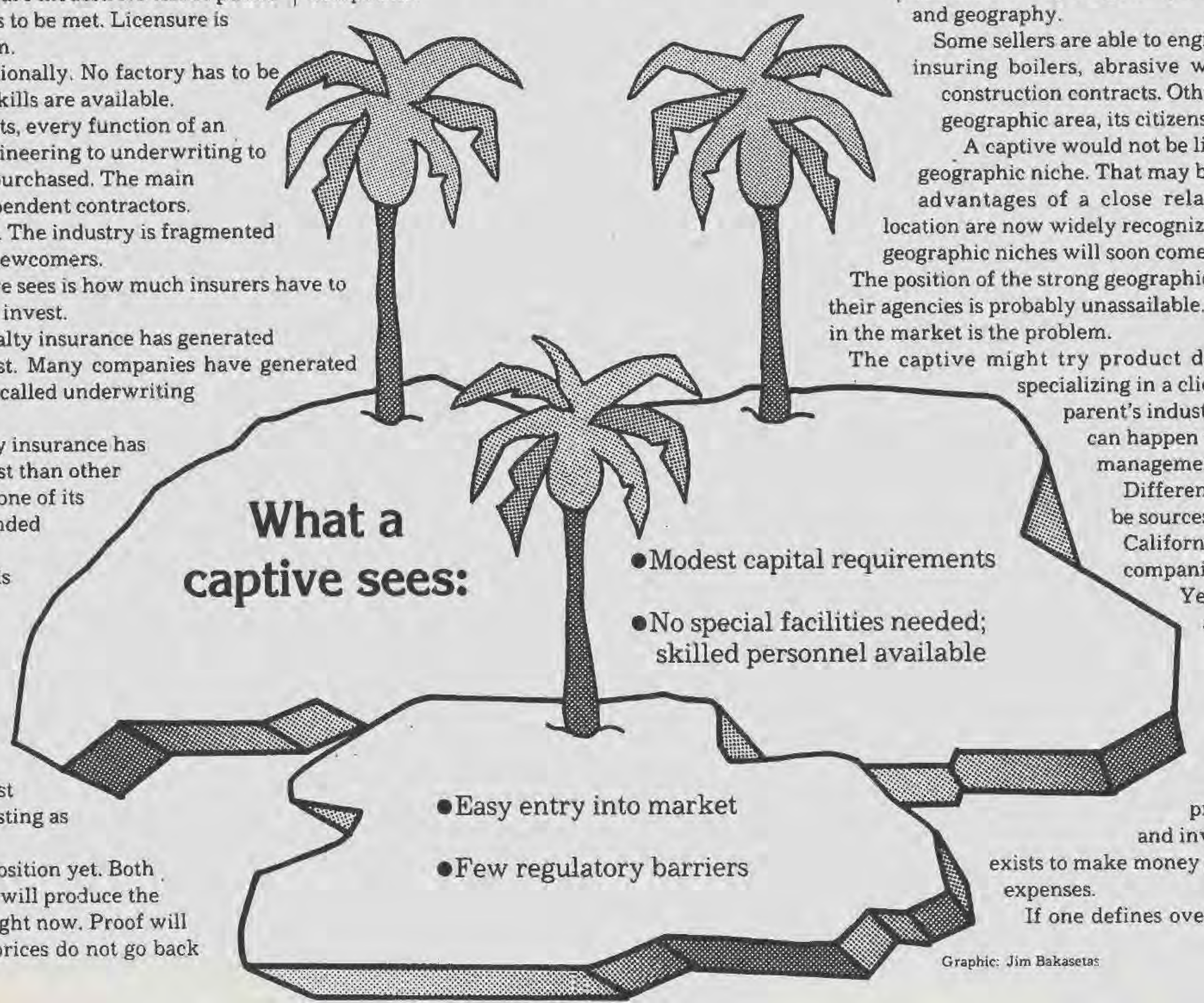

Graphic: Jim Bakasetas

perspective

Where does the industry go from here?

By Mark W. Hinkley

Two and two continue to make four despite the whine of the amateur for three and the cry of the critic for five.
—Whistler vs. Ruskin, 1878

IT'S A SIGN of the times. Slides and swings, the simple equipment of the insurance playground, now look rusted and old-fashioned next to shiny contingents, paid-loss retros, promissory notes, letters of credit, balanced rating plans and rent-a-captives. The once simple expense ratio is now auditioning for a part in "the transaction." It's not easy to figure out what's worth what.

As a result, a lot of reinsurers are part-time insomniacs, and I'm no exception. To combat the problem, I practice an old underwriting trick:

Mark W. Hinkley is senior vp of Trenwick Reinsurance Group and president of Trenwick America Reinsurance Corp. in Westport, Conn.

counting the number of cents in a dollar. When I find they add up to more than one hundred, I ask for an unlisted number at work.

For those with acute insomnia, thumbing through back issues of *Business Insurance* can be an eye-opening experience. You begin to realize how much print is devoted to the upcoming doom of the business. The vultures are circling, and, by most accounts, it's the end of insurance as we know it.

The surprise is that there are so many mourners shuffling about in the first place. Some offer sentimental recollections of the way insurance used to be.

The reason for my surprise is twofold: first, because the doom—or even a dramatic reversal of the insurance cycle—may be as long in coming as it is "overdue"; and second, because my sadness at the death of insurance as we know it reaches the same level of grief as it does for Oldsmobiles as we drove them, or even whole life insurance as we lived it.

Commercial property/casualty insurance is undergoing a transformation that's as remarkable as that facing basic cars, planes, trains, textiles, steel and other manufacturing industries in America. With some luck and vision, the insurance industry will come through the process less-scathed than other sectors of the economy, and with its capital and surplus intact.

Yet, the challenges other industries face—foreign competition, reduced demand and regulatory restraint—also challenge the insurance industry.

Access to raw materials is a key to competing in any world market. Whether you are a captive or domestic company, reinsurance is the raw material of insurance. The trend today is to exploit the elasticity of the international reinsurance market, and thus produce a competitive "alloy" that you can market as insurance. The challenge is going to be in protecting your sources of supply.

Insurance regulation has prevented much inequity, but has also protected an obsolete distribution system that modern technology will certainly erode. Price competition will continue within pockets of "deregulation," such as open rating for workers compensation. Product competition will grow through "de-regularization," the abandonment of "regular" products for those which incorporate aftertax efficiency and interest rate sensitivity.

As in the case of the rent-a-captive, competition will transcend price to focus on the needed, most efficient services.

Certainly there will be casualties along the way. Today's results are more impoverished than the rates of return reflect. High interest rates that refuse to permit any tangible economic recovery at the same time nourish phenomenal growth in investment income and attract new risk capacity. Overall lower economic activity becomes a perception of permanently better loss experience among insureds. Catastrophes have been few and localized. Finally, increased use of reinsurance has fragmented any adverse result among new, multiplying bases of capital.

The loss impact is spread, but now that capital addition has stabilized somewhat, the buck that never stops has started leaving footprints on the backs of certain insurers and reinsurers.

How did we get into this mess? Insurance used to be as comfortable as the family car. Maybe that's why risk managers repossessed it. It really couldn't

Captives face challenges of new markets

Continued from previous page

underwriting and loss adjustment expenses, then few companies have overhead of less than 30% of premiums and most have around 40%.

That is not to say insurance overheads are too high, for that's a relative concept. But they are high enough to be competitively significant. A deep and sudden cut, especially one hard to copy, would matter not just on the bottom line, but in the marketplace.

The trend in insurance has been to reduce overhead, mainly by eliminating the same functions in the distribution system. Yet, still more must go.

Insurance is now a buyer's market, and it is reasonable to suppose buyers will press for less overhead. The insurer that can attract their business can afford to take it on. Since insurance is less a risk business in the old sense, it is less capital-intensive in the old sense, too.

So now an insurer can turn its capital over faster and do well on smaller profit margins. It can also turn its attention to functions directed more to its client than to itself—the control and allocation of costs and information management.

This is provided that it is always able to get the business.

Investment income depends on premium growth and on loss and expense control. Premium growth and loss control depends on market position. Market position depends on efficiency. Expense control depends on efficiency.

So apart from the geographic niches and product differentiation, all the elements of profit—growth, loss and expense control and investment income—will ultimately turn on efficiency.

For a long time that propostion has had a ring of truth. It is getting more credible gradually, witness the success of the direct writers. Now it is about to become a "truth" in a big way. We are not just talking about squeezing a point or two out of the expense ratio.

Can captives take advantage of that? Four facts about captives suggest they might.

First, the experience in other industries is that during deregulation, unbundling services means big savings.

Insurance has been undergoing deregulation for 40 years. Captives deal in unbundled services. They were among the first to see that better information technology made possible sophisticated cost accounting and loss analysis that were worth a lot.

Second, captives were created to save investment and tax money, but also expense money.

The low expense ratios of captives are evidence the savings can be achieved. That does not prove captives can do it in the general market. But it is encouraging.

Third, likely as not, the captive parent company is from the business culture that has been the most efficient in the past—the manufacture and marketing of tangible goods.

The most efficient insurers have gotten where they are today by applying, consciously or not, ideas from industry. It is no accident that, outside the niches, those insurers also tend to have the most formidable market positions.

Perhaps captives will be the next to borrow industrial ideas to make insurance more efficient.

Fourth, the captive has the distinguishing characteristic we started with. The captive is not part of the insurance establishment.

Call it ignorance or naivete, but the captive insurer is not the captive of its distribution system or its cost structure or attitudes inherited from a seller's market.

It probably even thinks about its role differently. As a child of the risk management movement, the captive comes from thinking about insurance functions rather than insurance institutions.

Where financial functions turn on preserving capital over time and are affected by public interest, we pass from a concern over functions to a concern over the institutions that perform them. The reason is that those institutions preserve capital best and are most amenable to regulation.

From that develops the notion of an institutional franchise to perform the function, followed by the imposition of social and other costs as the price of the franchise.

At that point, if there is a change in what is valuable about the financial function, and if it's possible to provide the valued service without taking on the franchise and its costs, the function is redefined, new providers arrive and the franchise begins to look like a prison.

Captives are in the thick of just such a redefining of insurance functions. And it is deadly serious. Ask a banker.

A captive insurer looks at the American market. It sees that everyone in the market is a captive to something. By contrast, the captive is free.

Does that mean an awesome new competitor is about to be loosed upon the market?

No. A better question to ask is: Will the captive do well in the general market at all?

Why? Go back again to where we started. The distinguishing characteristic of the captive is that it has no experience on the sell side of the insurance business, but plenty on the buy side.

Selling is different from buying. In a buyer's market, the buyer needs to analyze and select among proposals brought to him. He needs intelligence.

The great insurance success stories are about people who believed they were bringing to others something they ought to have and, often, something which had been wrongfully denied them.

Such belief and such intense identification with their customers gave their actions a coherence not usually associated with insurance companies.

Can the captive start from the reactive and cautious buying side of the business and become an effective seller?

It can be done. Many early workers compensation companies resembled association captives. Many auto insurance companies were sponsored.

But is it the same? Are roots in analytical risk management the same as roots in a product shortage?

The captive comes from industrial and financial traditions, surely the right ones for the next decades in insurance. The captive lacks so much it is better off lacking. The captive is free.

The only question left is whether freedom is enough.

Richard E. Stewart is chairman of Stewart Economics Inc., a New York consulting firm specializing in property/casualty insurance. This article is excerpted from a speech delivered to the Captive Insurance Company Conference in Bermuda last month.

have come out differently. There were several forces at work:

- Smart corporate insurance buyers became intolerant at the lack of versatility and constancy of insurers and decided to handle a first retention themselves.
- Introspection caused by insuring oneself led to the conclusion that in many cases the loss experience was better, or could be made better. The captive retained the primary limit that could benefit most from loss control.
- Reinsurance has been "demythologized." People have been caught in the act of reinsuring so frequently lately that insurers, financial officers, risk managers—even reinsurers themselves—claim to know how it works. Regrettably, the mark the exceptional, profitable reinsurer leaves behind has pushed new reinsurance "impressionists" to a level of imitation known only to makers of designer jeans.

In summary, all of this tinkering by corporate risk managers and financial officers has given the insurance industry a Humpty Dumpty complex. No amount of king's men can hope to reupholster the old one-dimensional look of the insurance industry. Form must now follow function, even if brokers and insurers each try to consolidate all the vital functions.

One of the more intriguing applications of this process is the rent-a-captive.

For several years, captive insurance companies have been bringing into balance their control over claims frequency and ability to factor out claims severity through reinsurance. Now, a captive can purchase reinsurance within its own retention, offset expenses with ceding commission, buy stop-loss coverage, sell off prior-year present value reserve portfolios, and buy protection retroactively and on an option basis. But a captive comes with its own set of headaches, one of which is being in the insurance business.

The theory of the rent-a-captive is that an insured or association can achieve all the advantages of captive ownership and none of the disadvantages. There are numerous corporate versions, and it's wise to investigate each "advantage" carefully, with the help of tax counsel.

If the rent-a-captive really provides insurance, then you have transferred risk. If it doesn't, the premium isn't deductible. The link between an efficient insurance buyer with a profitable risk and an efficient insurance seller with profit objectives is an affinity of natural selection: Both parties are looking for each other.

You are looking for the financial advantage: the potential to recapture underwriting profit and investment income. By insuring the primary level of your risk with the rent-a-captive, you achieve relevance to historical loss pattern and predicted experience. Protection from severity losses and aggregate frequency must be part of the rent-a-captive program to insulate the premium base from total loss.

> Commercial property/casualty insurance is undergoing a transformation that's as remarkable as that facing basic manufacturing industries. With some luck and vision, the insurance industry will come through less-scathed than others.

Some rent-a-captives offer equity participation through preferred shares. Your maneuverability remains greatest when you do not have to own part of the rent-a-captive or remain insured beyond an annual basis.

Administrative costs vary from 1% to 5% of invested funds. Indepedent services should be available as required.

The deductibility of premiums paid to captives remains a contended area of tax law. A captive could make use of a rent-a-captive, however, by negotiating the transfer of liabilities from prior years and taking a current deduction for the premium charged. In effect, the captive is liquidating its inventory of loss reserves.

If the rent-a-captive sustains good experience, the returns based on that experience will provide a means of capitalizing a captive for an insured or for a broker.

Unlike self-insurance, the insured must part with his cash under most rent-a-captive programs. I would not be surprised to see creative bankers attribute rent-a-captive deposits to the original sources of the premiums paid.

Neither rent-a-captives, nor any of the other rate-of-return-oriented products are the final transformation I have been describing.

Many will say that all such products will vanish when the market turns. But the market turns on perceptions more than combined ratios. It will react when people fear a loss of their jobs, not out of statesmanship and rational ratemaking.

These products are more a point of departure to provide answers to questions originally asked by risk managers and brokers. There is much to do beyond, depending on natural disasters and the cheering of a fall in interest rates.

Far from being the death of insurance, I see evidence of creation and renewal as people segment, analyze and alter the business of risk taking. ■

thrift tips

Captives may not be the answer for benefits

By Peter B. O'Brien

WE ARE IN a recession. Like the federal government, most corporations are cutting back on expenses. One burdensome expense is payroll. Therefore, many companies have put a moratorium on hiring, reduced staff and have even instituted temporary cutbacks in executive salaries and perks.

Another area of focus is the employee benefit program. Employee benefits make up nearly 40% of direct pay. The fastest-growing portion of this amount is group medical insurance. Now more than ever, corporate financial officers are asking, "Can we buy it cheaper?"

A total financial review of group insurance funding and accounting techniques might involve considering a captive to fund employee benefits.

Many large companies, of course, have captives in operation for their general insurance. There are more than 1,000 captives in operation. Some are quite active, insuring a major share of a corporation's risk; others are somewhat dormant or only used for specialty exposures.

A frequent comment from financial officers is, "Let's save even more money and run our group insurance premium through our captive, too." Because of government red tape, however, what might seem like an obvious advantage can prove to be a futile exercise—especially if the group plan has been through a recent financial tuneup.

Peter B. O'Brien is a vp and senior employee benefit coordinator at Alexander & Alexander of New York Inc. His column appears the third Monday of each month.

First, let's consider some of the difficulties a company is faced with when planning to fund benefits in a captive.

The first major hurdle is ERISA compliance. ERISA prohibits a fiduciary from self-dealing or any transactions involving a party-in-interest. Since benefit plans must comply with ERISA, it would seem that a captive for benefits would not be feasible. However, Section 408 of the act provides a loophole. This section states that exemptions can be made from stringently prohibited transaction rules if the parent company's ERISA-regulated premium does not exceed 5% of total premium from all other sources.

The government has taken it a step further. Three years ago a class exemption was released that raised the 5% share to 50%. This prohibited Transaction Exemption, PTE 79-41, only applies to U.S. captives that have a 50% or greater stock ownership with the parent company.

The 50% test for outside business was effective Jan. 1, 1982. The old 5% test was eliminated retroactively to Jan. 1, 1975. Actually, there seems to be no limiting percentage from 1975 to 1982, but it's clear this year the 50% rule applies. These rules apply only to conventional, direct insurance. The plot thickens when considering reinsurance.

The Department of Labor has not come out with specific directions for reinsurance. Rather, the department prefers to write custom, case-by-case, prohibited transaction exemptions for each application. It's well known in the industry, however, that favorable determinations are not easy to obtain.

If the captive is offshore, as is the case with so many commercial captives, there is the extra cost of excise tax on transferred funds. Most efficient self-insured, benefit plans find this an obstacle that causes the captive to perform poorly from a competitive standpoint when lined up against an administrative services only or 501(c)(a) trust plan.

Furthermore, the cost of letters of credit and other banking charges could give the trust fund an advantage of more than 2%.

Another area that should be studied carefully is the deductibility of premiums the parent company pays the captive. The IRS regulations suggest that a transfer of risk is necessary for proper deductibility. In a somewhat dated IRS ruling (77-316), a captive premium was not considered deductible, except for certain commercial lines, because sufficient shift of risk had not occurred. In subsequent rulings, the government did outline examples of allowed deductibility, but these were association-type captives.

At this point, you're probably wondering if it's cost-effective to consider a captive for benefits. The answer might be "yes" if you have not financially overhauled your program recently.

But if you have changed from conventional insurance to an ASO, minimum-premium, flexible funding or a 501(c)(9) trust, you might already have many of the advantages that could be available through a captive.

There are many new cash-flow programs available today. These programs were not as attractive a few years ago when we had single-digit interest rates. Now, with a recession cutting profits, the cash-flow plans are attractive.

For employees located outside the United States, things are more encouraging. Many foreign countries do not allow our non-admitted programs to qualify for favorable tax deductibility. Therefore, it is necessary to use licensed local insurance companies to obtain favorable tax treatment and to comply with local regulations. Since international networks of companies have been formed with interlocking reinsurance treaties for handling worldwide benefit programs, however, an opportunity is available for a captive. The captive can become a "retrocessionaire" and assume as much of the risk as it can work with and arrange.

If the captive is domiciled offshore, it can invest surplus premiums and obtain investment returns that are not taxed as stringently as onshore captives' yields.

In summary, corporations must check empire- and ego-building by trying to force group insurance premiums into a commercial captive. If a corporation is successful in clearing ERISA hurdles and building a case against tax deductibility of premiums, a captive still might not represent the lowest cost alternative.

An efficient streamlined program achieving the greatest aftertax return on reserves and eliminating unnecessary insurance charges will settle the question of which funding and accounting methods should be selected. As long as corporate sales and profits are down and interest rates are up, the pressure will be intense for financial executives to search for the best financial option to assure maximum return on benefit premiums. ■

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Insurance Management Consultants (Cayman) Ltd.
Box 1063, Grand Cayman, B.W.I.; 809-949-5722

Year founded: 1980.
Staff: Eight total staff, of which four are professionals holding the following number of professional designations: C.A. attorney.
Clients: 13 total clients, 75% with premiums less than $1 million; 25% $1 million to $3 million.
Services provided: Captive feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Compensation: Minimum annual fee, $10,000; time and expense, professional, $80-$120; clerical, $30-$60.
1981 gross revenues: Not reported.
Principal officers: Ian Kilpatrick, managing director; Brian Allen, financial controller; Graham Cork, assistant underwriter, Jim Stergion, director.

Insurance Managers Ltd.
Dorchester House, Church Street, Hamilton 5, Bermuda

Year founded: 1969.
Parent company: Reed Stenhouse Cos. Ltd.
Staff: 28 total staff.
Clients: 46 total clients.
Services provided: Currently developing computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services, financial analysis, claims management.
1981 gross revenues: Not reported.
Principal officers: David A. Brown, Robert E. Barclay.

Insurance Services International Ltd.
Box 1345, Grand Cayman, B.W.I.; 809-949-5499

Year founded: 1978.
Staff: Five total staff, of which three are professionals holding the following number of professional designations: two CPAs, one ARM.
Clients: More than 15 total clients, 15% with premiums less than $1 million; 55% $1 million to $3 million; 30% $3 million to $10 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, investment management, loss-control services, associations, occasional manual claims processing, claims reserves analysis, underwriting and ratemaking for captives.
Compensation: Minimum annual fee, $10,000 (based on time projections); time and expense, professional, $60-$100.
1981 gross revenues: Not reported.
Principal officers: K.J. Gebhardt, chairman; B. Timothy Marsh, president.

International Risk Management Ltd.
Box 69, Belvedere Building, Hamilton, Bermuda; 809-295-0713

Year founded: 1962.
Parent company: American Risk Management Inc.
Staff: 70 total staff, of which 45 are professionals holding the following number of professional designations: 12 CPAs, five CPCUs, three MBAs.
Clients: 10 total clients, 5% with premiums less than $1 million; 20% $1 million to $3 million; 60% $3 million to $10 million; 10% $10 million to $20 million; 5% exceeding $20 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (Hopewell Pool, 60 participants, $100 million premium volume; membership requirement: captive managed by ARM Group), loss-control services, associations, occasional investment management, loss forecasting, actuarial studies.
Subsidiaries: European Risk Management Ltd.
1981 gross revenues: Not reported.
Principal officers: F.M. Reiss, chairman; A.H. Deters, executive vp; M.E. Luber, senior vp; A. Chilvers, group vp; A. Summers, vp/secretary; F. How, vp/treasurer.

J

J&H Ltd.

Box 1826, Hamilton 5, Bermuda; 809-292-4402

Year founded: 1969.
Parent company: Johnson & Higgins.
Staff: 110 total staff, of which 45 are professionals holding the following number of professional designations: three ACIIs, two FCIIs, 12 accountants.
Clients: 137 total clients, 40% with premiums less than $1 million; 26% $1 million to $3 million; 23% $3 million to $10 million; 4% $10 million to $20 million; 7% exceeding $20 million.
Total premiums under management: $450 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis (through Johnson & Higgins), actuarial studies, loss forecasting, reinsurance brokered for captives (through J&H affiliate), reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (First Island Reinsurance Assn., J&H Foreign Property Treaty, 24 participants, $70 million premium volume; membership requirement: acceptance by other members), loss-control services (through J&H), associations, specialized accounting services, onshore services for associations; occasional manual claims processing, tax advice, legal (paralegal) advice.
Compensation: Time and expense.
1981 gross revenues: Not reported.
Principal officers: Patrick J.T. Stephenson, chairman; Brian R. Hall, president; Andrew D. Carr, vp; Roger Gillett, David Walker, assistant vps.

J.S. Johnson & Co. Ltd.

Box N8337, Nassau, Bahamas; 809-322-2341

Year founded: 1854.
Staff: 60 total staff, of which 15 are professionals holding the following number of professional designations: two CAs, five FCIIs, two ACIIs, two AIICs.
Clients: Two total clients.
Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, loss forecasting, investment management; occasional claims reserves analysis, underwriting and ratemaking for captives.
Compensation: Annual fee.
1981 gross revenues: Not reported.
Principal officers: Charles T. Fernie, managing director; Allan McGill, director.

Johnson & Higgins (Cayman Islands) Ltd.

Box 1051, Grand Cayman, Cayman Islands, B.W.I.; 809-949-5988/5998

Year founded: 1981.
Parent company: Johnson & Higgins.
Staff: Two total staff, of which one is a professional and chartered accountant.
Clients: Six total clients, 67% with premiums less than million; 33% $1 million to $3 million.
Total premiums under management: $5 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis (through Johnson & Higgins), actuarial studies, loss forecasting, reinsurance brokered for captives (through Johnson & Higgins affiliate), reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services, associations, specialized accounting services, onshore services for associations; occasional manual claims processing, tax advice, legal (paralegal) advice.
Compensation: Commissions for reinsurance brokered, time and expense.
1981 gross revenues: New company.
Principal officers: David Campbell, managing director.

Johnson & Higgins Services Inc.

1750 Colorado National Building, 950 17th St., Denver, Colo. 80202; 303-893-3444

Year founded: 1981.
Parent company: Johnson & Higgins.
Staff: Two total staff, of which one is a professional holding the following designation: one CPA.
Clients: One client, with premiums less than $1 million.
Total premiums under management: $1 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis (through Johnson & Higgins), actuarial studies, loss forecasting, reinsurance brokered for captives (through Johnson & Higgins affiliate), reinsurance brokered to captives, underwriting and ratemaking for captives, loss-control services (through Johnson & Higgins); occasional manual claims processing, tax advice, legal (paralegal) advice.
Compensation: Time and expense.
1981 gross revenues: New company.

Continued on next page

Continued from previous page
Principal officers: Richard J. Barksdale, Brent S. Bales.

K

Kitson Management Services Ltd.
Spithead House, Reid Street, Hamilton, Bermuda; 809-295-2525

Year founded: 1979.
Parent company: Kitson & Co. Ltd.
Staff: 10 total staff, of which five are professionals holding the following number of professional designations: two CAs, one MBA, one FCII, one ACII.
Clients: 13 total clients, 85% with premiums less than $1 million; 15% $3 million to $10 million. Minimum size client: $200,000 in premiums.
Total premiums under management: $15 million.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, loss-control services, occasional captive feasibility studies, captive formation, actuarial studies, reinsurance brokered to captives, underwriting and ratemaking for captives, investment management, tax advice, legal advice, associations, specialized accounting services, onshore services for associations.
Compensation: Minimum annual fee, $10,000; commissions for reinsurance brokered; time and expense, professional, $40-$100, clerical, $20-$35.
1981 gross revenues: Not reported.
Principal officers: Gordon Veale, financial director; Stephanie Brydon, insurance manager, technical; David J. Goodman, Richard E. Krupp, G. Kirk Kitson, directors.

L

Landmark International Management (Bermuda) Ltd.
Box 1428, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1977.
Parent company: Landmark Insurance Group.
Staff: Supplied by S.H. Grayston Management Ltd. under contract.
Clients: Six total clients.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, associations, onshore services for associations, occasional claims reserves analysis, loss forecasting, specialized accounting services for associations.
Subsidiaries: Affiliated with Absit Insurance Management Ltd., Cayman Islands and Grayston Landmark Ltd., Bahamas.
Compensation: Minimum annual fee, $20,000.
1981 gross revenues: Not reported.
Principal officers: William E. Thompson, chairman; Stuart H. Grayston, president.

M

M & M Insurance Management Services Inc.
1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-5519

Year founded: 1976.
Parent company: Marsh & McLennan Inc.
Staff: 11 total staff, of which five are professionals holding the following number of professional designations: three CPAs.
Clients: Nine total clients.
Total premiums under management: $40 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, associations, specialized accounting services, onshore services for associations, occasional reinsurance brokered to captives, investment management (through subsidiary, Putnam Advisory).
Subsidiaries: M & M Insurance Management Services Inc., Denver and South Burlington, Vt.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense.
1981 gross revenues: Not reported.
Principal officers: Peter J. Volpe, president, N.Y.; Erroll Hossack, assistant vp/manager, Colorado; John J. Middleton, assistant vp/manager, Tennessee; James W. Burns, assistant vp/manager, Vermont.

M & M Insurance Management Services Inc.
500 Church St., Nashville, Tenn. 37219; 615-255-4533

Year founded: 1979.
Parent company: Marsh & McLennan Inc.
Staff: Two total staff, of which one is a professional holding the following professional designations: FCA, chartered accountant.
Clients: One client with premiums from $10 million to $20 million. Minimum size client: $500,000 in premiums.
Total premiums under management: $16 million.
Services provided: Frequent government reporting, accounting, underwriting and ratemaking for captives, tax advice, associations, specialized accounting services, occasional captive formation, computerized accounting, manual claims processing, actuarial studies, loss forecasting, investment management, legal advice, onshore services for associations, captive feasibility studies, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting pools, loss control services through other M&M subsidiaries.
Compensation: Time and expense.
1981 gross revenues: Not reported.
Principal officers: John J. Middleton, assistant vp.

Marsh & McLennan (Bermuda) Ltd.
Box 1262, Hamilton 5, Bermuda; 809-295-3278

Year founded: 1970.
Parent company: Marsh & McLennan Inc.
Staff: 60 total staff, of which 25 are professionals holding the following number of professional designations: 18 CPAs, two CPCUs.
Clients: 90 total clients.
Total premiums under management: $300 million.
Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, loss control, associations, specialized accounting services, oc-

casional manual claims processing, reinsurance brokered to captives, investment management (through Putnam Advisory).

Subsidiaries: Marsh & McLennan (Cayman Islands) Ltd., George Town, Grand Cayman, B.W.I.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense.

1981 gross revenues: Not reported.

Principal officers: B.M. Pimm, managing director; Adrian Lee-Emery, Bryan S. Thompson, Clive R. Tobin, vps.

McNeary Insurance Consulting Services Inc.

Suite 301, 6525 Morrison Blvd., Box 220926, Charlotte, N.C. 28222; 704-365-4150

Year founded: 1956.

Parent company: Booke & Co.

Staff: 28 total staff, of which 11 are professionals holding the following number of professional designations: four CPCUs, one ARM, one MBA, two PEs, one CSP, two RNs.

Clients: 12 total clients, 50% with premiums from $1 million to $3 million; 25% $3 million to $10 million; 25% $10 million to $20 million. Minimum size client: $1 million.

Services provided: Frequent captive feasibility studies, captive formation, claims reserve analysis, actuarial studies, loss forecasting, underwriting and ratemaking for captives, loss-control services, associations, onshore services for associations, occasional computerized claims processing.

Compensation: Annual fee; time and expense, professional, $50-$100; clerical, $25.

1981 gross revenues: Not reported.

Principal officers: W.C. Moore Jr., president; T. Stephen Helms, senior vp; J. Lanny Goode, S. Neal Broome, Richard G. Clarke, vps; A.M. Ingco, vp/actuary.

P

Pinehurst Management Co.

Dorchester House, Box 1752, Church Street, Hamilton, Bermuda; 809-295-4864

Year founded: 1967.

Parent company: Pinehurst Corp.

Staff: 40 total staff, of which 28 are professionals holding the following number of professional designations: five CPAs, two CPCUs, two ARMs, seven MBAs, one attorney.

Clients: 40 total clients, 5% with premiums less than $1 million; 50% $1 million to $3 million; 30% $3 million to $10 million; 10% $10 million to $20 million; 5% exceeding $20 million.

Total premiums under management: $125 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools (Dorchester Quota Share Reinsurance Pool, eight participants, $12 million premium volume: membership requirement: must be managed by Pinehurst Management), investment management, tax advice, legal advice, associations, onshore services for associations, occasional specialized accounting services.

Subsidiaries: Pinehurst Management Co. (Cayman) Ltd., George Town, Grand Cayman, B.W.I.

Compensation: Annual fee; commissions for reinsurance brokered; time and expense, professional, $60-$125; clerical, $25-$30.

1981 gross revenues: $3 million.

Principal officers: Robert Whiting, president/managing director; Harry Kast, senior vp/controller; Cyril Whitter, assistant controller; George M. Powers, Robert L. Emett, director.

R

Risk & Benefit Management Systems

3025 S. Parker Road, Suite 825, Aurora, Colo. 80014; 303-752-4912

Year founded: 1973.

Parent company: National Business Services Inc.

Staff: Seven total staff, of which six are professionals holding the

Continued on next page

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following professional designation: one attorney.
Clients: Six total clients, all with premiums of $1 million to $3 million.
Total premiums under management: $9 million.
Services provided: Frequent captive formation, government reporting, accounting, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, occasional reinsurance brokered to captives, investment management, loss-control services, associations, onshore services for associations.
Compensation: Minimum annual fee, $12,000; time and expense, professional, $35-$100; clerical, $20-$35.
1981 gross revenues: More than $300,000.
Principal officers: W.R. Kersten, T.G. Littell, D.W. Metcalf.

Risk & Benefit Management Systems
141 Main St., Montpelier, Vt. 05602; 802-223-2381

Year founded: 1981.
Parent company: National Business Services Inc.
Staff: Vermont office operated by Colorado office. Office to be staffed when client chooses Vermont office.
Clients: New company.
Total premiums under management: New company.
Services provided: Frequent captive formation, government reporting, accounting, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, occasional investment management, loss-control services, associations, onshore services for associations, reinsurance brokered to captives, claims reserves analysis, manual claims processing, captive feasibility studies.
Compensation: Minimum annual fee, $12,000; time and expense, professional, $35-$100; clerical, $20-$35.
1981 gross revenues: Not reported.
Principal officers: W.R. Kersten, T.G. Littell, D.W. Metcalf.

Risk Management Ltd.
Invicta House, Candie Road, St. Peter Port, Guernsey; 23612

Year founded: 1978.
Staff: 12 total staff, of which six are professionals holding the following number of professional designations: three FCIIs, two ACIIs, one FCA, one AIL.
Clients: Minimum size client: 5,000 pounds in fees.
Services provided: Frequent government reporting, accounting, computerized accounting, manual claims processing, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, tax advice, management of domestic insurer, captive broker management, occasional loss-control services, loss forecasting, claims reserves analysis, computerized claims processing, captive formation, captive feasibility studies.
Compensation: Minimum annual fee, $10,000; time and expense, professional, $40-$75; clerical, $10-$35.
1981 gross revenues: Not reported.
Principal officers: Michael A. Ward, managing director; Diane J. Ward, director; M.J. Palin, director/secretary; Christopher Schofield, technical manager.

Risk Treatment Services (Bermuda) Ltd./Venture Management Ltd./Atlantic Security Ltd.
Spithead House, Box 2018, Hamilton 5, Bermuda; 809-295-5425

Year founded: 1973.
Parent company: Baldwin-United Corp.
Staff: 10 total staff, of which two are professionals holding the following number of professional designations: one ACII, one FCII.
Clients: 23 total clients, 64% with premiums less than $1 million; 17% $1 million to $3 million; 9% $3 million to $10 million. Minimum size client: $350,000 in premiums.
Total premiums under management: $26.95 million.
Services provided: Frequent captive formation, government reporting, accounting, reinsurance brokered for captives, reinsurance brokered to captives, occasional investment management, associations, claims reserves analysis, captive feasibility studies.
Compensation: Minimum annual fee, $15,000; commissions for reinsurance brokered; time and expense, professional, $75; clerical, $40.
1981 gross revenues: Not reported.
Principal officers: William R. Kersten, chairman; Harold Forkush, president; Edgar Browne, vp; H. Clayton Chambers, consultant.

Rollins Burdick Hutner Management Inc.
10 S. Riverside Plaza, Chicago, Ill. 60606; 312-454-1400

Year founded: 1970.
Parent company: Rollins Burdick Hunter.
Staff: 32 total staff.
Clients: 20 total clients.
Services provided: Captive feasibility studies, captive formation, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives.
Subsidiaries: Rollins Burdick Hunter (Bermuda) Ltd., Hamilton, Bermuda; Rollins Burdick Hunter (Caymans) Ltd., George Town, Cayman Islands, B.W.I.
Compensation: Minimum annual fee; commissions for reinsurance brokered; time and expense, all negotiable.
1981 gross revenues: Not reported.
Principal officers: George Burrows, president; Clive Himsworth, managing director; Anthony Stelling, Royan Ellis, resident secretaries.

S

Scotia Insurance Services
Box 501, Grand Cayman, B.W.I.

Year founded: 1965.
Parent company: Bank of Nova Scotia, Bank of Nova Scotia Trust Ltd.
Staff: 11 total staff, of which five are professionals.
Clients: 55 total clients.
Services provided: Frequent captive formation, government reporting, accounting, manual claims processing, investment management, banking services, occasional captive feasibility studies, manual claims processing, semicomputerized claims accounting, actuarial studies (through outside firms), reinsurance brokered for captives.
Subsidiaries: Bank of Nova Scotia Trust Co. (Bahamas) Ltd., Nassau, Bahamas.
Compensation: Flat fee; hourly rate.
1981 gross revenues: Not reported.
Principal officers: Anthony B. Stelling, manager of insurance services; Derek J. Webber, assistant manager.

The Somerset Group (Turks & Caicos) Ltd.
Doyle House, Grand Turk, Turks & Caicos Islands, B.W.I.; 809-946-2504

Year founded: 1981.
Parent company: The Somerset Group.
Staff: Four total staff, of which one is a professional holding the following professional designation: CPA.
Clients: 12 total clients, 90% with premiums less than $1 million; 10% $1 million to $3 million.
Total premiums under management: $6 million.
Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, reinsurance brokered for captives, investment management, occasional captive feasibility studies, manual claims processing, reinsurance brokered to captives, underwriting pools (Hamilton Underwriting Agency Ltd., one participant, $8 million premium volume; membership requirement, top-class security), tax advice.
Compensation: Annual fee; commissions for reinsurance brokered; time and expense.
1981 gross revenues: Not reported.
Principal officers: Paul Peary, president.

Somerset Underwriting Management Ltd.
Washington Mall, Box 2009, Hamilton 5, Bermuda; 809-295-1646

Year founded: 1974.
Parent company: The Somerset Group.
Staff: Nine total staff, of which four are professionals holding the following number of professional designations: four accountants.
Clients: 18 total clients, 50% with premiums less than $1 million; 35% $1 million to $3 million; 15% $3 million to $10 million.
Total premiums under management: $30 million.
Services provided: Frequent captive formation, government re-

porting, accounting, computerized accounting, reinsurance brokered for captives, investment management,; occasional captive feasibility studies, manual claims processing, computerized claims processing, reinsurance brokered to captives, underwriting pools (Hamilton Underwriting Agency Ltd., one participant, $8 million premium volume; membership requirements: top-class security), tax advice, associations, specialized accounting services.

Subsidiaries: Somerset Broking Ltd.

1981 gross revenues: Not reported.

Principal officers: John Harris, president; Peter Strong, executive vp.

Southwest Offshore Management Ltd.

Box 1571, Grand Cayman, B.W.I.; 809-949-5422

Year founded: 1979.

Staff: Four total staff, of which two are professionals holding the following number of professional designations: one CPCU, one ARM, one CIC.

Clients: Six total clients, all with premiums less than $1 million.

Services provided: Frequent captive feasibility studies, captive formation, accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, associations, specialized accounting services, onshore services for associations, occasional government reporting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, investment management, loss-control services (Texas).

Compensation: Minimum annual fee, $3,600.

1981 gross revenues: Not reported.

Principal officers: Jack W. Hoffman, president; Winnie Chung, executive vp; Ross Blumentritt, secretary/treasurer.

T

Tomenson Saunders Whitehead International Ltd.

Box 546, Hamilton 5, Bermuda; 809-292-1240

Year founded: 1973.

Parent company: Tomenson Saunders Ltd.

Staff: Total staff supplied by S.H. Grayston Management Ltd. under contract.

Clients: Three total clients.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, manual claims processing, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking for captives, investment management, loss-control services, occasional tax advice, associations.

Compensation: Time and expense.

1981 gross revenues: Not reported.

Principal officers: S.H. Grayston, president.

Transnational Risk Management Ltd.

Transnational House, Box 60, Grand Cayman, B.W.I.; 809-949-4555

Year founded: 1975.

Parent company: Transnational Ltd.

Staff: 50 total staff, with the following number of professional designations: six CPAs, four CPCUs.

Clients: 20 total clients, 40% with premiums $1 million to $3 million; 50% $3 million to $10 million; 10% $10 million to $20 million.

Services provided: Frequent captive feasibility studies, captive formation, government reporting, accounting, computerized accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking for captives, underwriting pools (United "R", 20 participants, $120 million premium volume; membership requirement: primary casualty captive), loss-control services, associations, occasional manual claims processing, actuarial studies.

Subsidiaries: Universal Risk Management Inc., Transnational Guernsey Ltd.

1981 gross revenues: Not reported.

Principal officers: F.M. Reiss, chairman; A.H. Deters, Bryan Murphy, William Sennett, D.J. Westmoreland.

Trenwick Inc.

21 Charles St., Westport, Conn. 06880; 203-226-8116

Year founded: 1978.

Parent company: Trenwick Ltd.

Staff: 14 total staff, of which seven are professionals holding the following number of professional designations: one CPA, one CPCU, two MBAs, two attorneys.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, occasional captive feasibility studies, computerized claims processing, actuarial studies, investment management, loss-control services.

Compensation: Minimum annual fee, commissions for reinsurance brokered, time and expense, all negotiable.

1981 gross revenues: Not reported.

Principal officers: James F. Billett Jr., chairman/president; Angus Robinson Jr., Mark W. Hinkley, Brian M. O'Hara, senior vps.

Trenwick Ltd.

Box 462, Trenwick House, 9 Church St. W., Hamilton 5, Bermuda; 809-295-3009

Year founded: 1978.

Staff: 14 total staff, of which seven are professionals holding the following number of professional designations: one CPA, one CPCU, two FCAS, two attorneys.

Services provided: Frequent captive formation, government reporting, accounting, computerized accounting, manual claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking for captives, underwriting pools, occasional loss-control services, investment management, loss forecasting, actuarial studies, computerized claims processing, captive feasibility studies.

Compensation: Minimum annual fee, commissions for reinsurance brokered, time and expense, all negotiable.

1981 gross revenues: Not reported.

Principal officers: James F. Billett Jr., chairman/president; Angus Robinson Jr., Mark W. Hinkley, Brian M. O'Hara, senior vps. ■

Colorado: Soft market, uncertainty about taxes limit Rocky Mountain market growth

By RHONDA L. RUNDLE

DENVER—Colorado's future as a captive haven hinges on two big unknowns: the return of tight insurance markets and the success of efforts by Insurance Commissioner J. Richard Barnes to distinguish the state from other domiciles for tax purposes.

Not only has the highly competitive insurance marketplace depressed demand for new captives, but Colorado takes its "need" requirement seriously. If a parent corporation or association cannot prove lack of insurance availability at reasonable cost, then its application to license a captive is apt to be denied.

The Colorado Medical Society, which wants to start a captive to write medical malpractice insurance, is having a tough time justifying its need to Mr. Barnes.

And it took Tyler Corp., a Dallas-based explosives manufacturer, seven months to win its captive license (see related stories, pages 72).

Formation of Tyler Insurance Corp. will bring the total number of Colorado captives to 28—more than Tennessee, Vermont, and Virginia combined.

Although the Rocky Mountain state seems likely to remain the home of the largest number of U.S. captive insurers, the number of captives licensed there could drop this year. One of the current Colorado captives is converting into a commercial insurer, two may be dissolving and another may be moving to Tennessee.

On the other side of the balance sheet, the Colorado Medical Society is the only known prospect, and its application already has been denied once.

The last busy year for captive formation in Colorado was 1978, when five additions boosted the total to 24.

Strict enforcement of Colorado's captive statute is consistent with Mr. Barnes' unswerving determination to preserve an "arm's length" relationship between the parent organization and its insurance subsidiary.

He has said for years that this separation justified treatment of premiums paid to a Colorado captive as a tax-deductible expense.

But the Internal Revenue Service isn't buying this argument. Many parent corporations have learned the hard way that premiums paid to a captive are not tax-deductible. And Colorado captives are no exception.

So much for the IRS. Commissioner Barnes now plans to take his case directly to Congress. His office is currently drafting a bill to permit tax deductions for premiums paid to captives that are regulated coequally with commercial insurers (see story page 1).

Since Colorado is the only captive domicile anywhere that meets this tough regulatory test, it would win an enormous advantage over other offshore and onshore havens if the proposal were to pass. But the commissioner admits he will be lucky to get the bill introduced this year because congressmen will be busy campaigning for re-election.

"There would be dramatic growth if we could get the IRS question straightened out," Mr. Barnes says. "Time and time again we talk to companies that are interested, but they say they want to wait until the current economic situation irons out and the IRS decides the tax issue."

Some people would say that the IRS already has decided the tax issue—only not the way the commissioner and the captive industry want (see story, page 78). Philadelphia Gear Corp. shut down its Colorado captive 2½ years ago after the IRS challenged deductions for premiums paid to its captive.

Now it appears that other corporations may be planning to follow suit.

Constance Insurance Co., a subsidiary of Crawford Fitting Co., and Westminster Insurance Co., a unit of Dartmouth Insurance Co. Ltd., a Bermuda corporation owned by National Medical Care Inc., are in the process of dissolving, according to a Colorado captive industry source. The parent companies could not be reached to confirm this report.

Business Insurance reported last year that Crawford Fitting Co. had been audited and the IRS was challenging tax deductions paid to its captive. A Crawford executive said the company was mulling over its next course of action (*BI*, April 6, 1981). Premiums paid by National Medical Care to its Colorado captive were disallowed following an IRS audit three years ago (*BI*, Sept. 17, 1979).

Stearns-Rogers Corp., an engineering and construction company near Denver, may be the first parent to fight the IRS for deductions on premiums paid to a domestic captive.

The IRS is challenging Stearns-Rogers' deductions for years 1974 through 1978 before its captive, Glendale Insurance Co., converted to a commercial insurer. Stearns-Rogers filed suit in U.S. District Court in Denver last November to keep the deductions.

Another corporation given an adverse audit ruling will pay the tax under protest and take the IRS to court to get the money back, says Mr. Barnes. And an aspiring but cautious captive parent is seeking an IRS ruling before starting its subsidiary.

In the past year, there has been very little change in the way parents use their insurance subsidiaries, say captive managers. Because commercial markets are so competitive, many corporations prefer to buy outside rather than use their captives.

After a two-year decline in premium taxes collected from captive insurance companies, however, the Colorado Insurance Department reported an increase to $426,815 last year, compared with $363,387 in 1980 and $415,011 in 1979.

The taxes indicate that captives are underwriting more direct business or charging higher rates for coverage provided to their parents.

Colorado captive management fees

Company / Clients	1981 management fees received
FRANK B. HALL MANAGEMENT CO.	**$413,686 (10 captives)**
Arroyo Ins. Co./Royal Industries Inc.	$27,000
Chesapeake Casualty Ins. Co./Chesapeake Physicians, P.A.	84,353
Clifton Casualty Ins. Co./Emory University Clinic	55,000
Denver Ins. Co./American Medical Int'l. Inc.	83,333
Financial Services Ins. Co./Allis-Chalmers Credit Corp.	36,000
Havican Ins. Co./Holy Cross Shared Services Inc.	48,000
Interstate Indemnity Co./CLC of America Inc.	24,000
Lombardy Ins. Co./Clougherty Packing Co. of Arizona	22,000
Regal Ins. Co./Chatham Super Markets Inc.	10,000
United Ins. Corp./Empire Gas Corp.	24,000
M&M INSURANCE MANAGEMENT SERVICES INC.	**$277,903 (6 captives)**
Columbine Casualty Co./Tenneco Corp.	$12,743
Health Care Indemnity Inc./Humana Inc.	130,524
Ins. Co. of Colorado Inc./Darling-Delaware Co.	33,497
Lone Star Indemnity Co./Michigan General Corp.	32,388
M.S.J. Ins. Co./Sisters of Charity of Cincinnati, Ohio	56,593
Mountainview Ins. Co./W.R. Grace & Co. and Hanna Mining Co.	12,158
RISK & BENEFIT MANAGEMENT SYSTEMS	**$181,237 (6 captives)**
Arms Ins. Co. Inc./Amfac Inc.	$22,112
Constance Ins. Co./Crawford Fitting Co.	0*
GarDen Ins. Co./Elixir Industries	19,986
Neumann Ins. Co./Bachman Holding Co.	71,132
Wescap Ins. Co./WESCAP Co.	68,000
Westminster Ins. Co./Dartmouth Ins. Co., Ltd., a Bermuda Corp. wholly owned by National Medical Care Inc.	$7*
ANISTICS INC.	**$116,568 (4 captives)**
Coachman Ins. Co./IU North America Inc.	$39,484
Greenway Ins. Co./Lifemark Corp.	25,000
Holborn Reinsurance Co./Whittaker Corp.	30,417
Sunset Ins. Co./Southern Pacific Co.	21,667
JOHNSON & HIGGINS SERVICES INC.	**$19,500 (1 captive)**
Colinco Inc./The Boeing Co.	$19,500

*Uncertain if continuing business

Source: 1981 annual statements filed with the Colorado insurance department.

"Sunset Insurance Co. owned by Southern Pacific Co., is the only captive we manage to expand use of its captive last year," said Arnold L. Goldstein, assistant vp of Anistics Inc. in Denver. "We might see another one go multiline in the future, but we don't know of any planning to move."

As an underwriter of property insurance, Sunset is in the minority among Colorado captives.

The majority underwrite casualty lines: About 10 underwrite workers compensation; eight underwrite automobile liability; nine underwrite other non-specified liability lines (largely errors and omissions and directors and officers liability); six underwrite automobile physical damage; and four underwrite commercial multiperil risks.

Despite Tennessee's reputation as the mecca for medical malpractice captive insurance companies, eight Colorado captives also underwrite the coverage. But based on 1981 reported assets, both Hospital Underwriting Group Inc. and Parthenon Insurance Co. in Tennessee are bigger than Colorado's largest captive, Health Care Indemnity Co. Inc.

Health Care Indemnity, owned by Humana Inc., has filed its letter of intent to gradually convert into a commercial insurer, reports Erroll Hossack, manager of M&M Insurance Management Services Inc., which manages the hospital professional liability insurance company.

"The owners feel the captive has grown and can provide coverage to other facilities, utilizing some of their loss-prevention expertise," Mr. Hossack said.

The Colorado Insurance Department is examining the captive's books as part of the approval process.

Mr. Hossack declined to discuss reports originating in Tennessee that Allis-Chalmers Credit Corp. will dissolve its Colorado captive into its Tennessee captive. M&M Management Services Inc. assumed management April 1 of Financial Services Insurance Co., the Allis-Chalmers' Colorado captive. It was formerly managed by Frank B. Hall Management Co.

Annual statements filed with the state Insurance Department show that Frank B. Hall Management Co. remains the largest Colorado captive manager, receiving fees totaling $413,686 from 10 captives last year.

M&M Insurance Management Services Inc. ranks second with $277,903 collected from six captives; Risk & Benefit Management Systems is third with $181,237 from six captives; Anistics Inc. is fourth with $116,568 from four captives; and Colorado newcomer Johnson & Higgins Services Inc. was paid $19,500 to manage Boeing's captive started last June (see chart).

Captive managers say their fees are based on the number of underwriting lines assumed by the captive and claims activity. Managers are paid more if the claims are administered in-house rather than by a subcontractor. The size and nature of the investment portfolio, frequency of reporting to the parent, claims volume, legal, auditing and other specialized services can also swell the management fee.

Last year, Westminster Insurance Co. paid only $7 and Constance Insurance Co. paid nothing to captive manager Risk & Benefit Management Systems, according to their respective annual statements. This would not be surprising if the two companies intend to shut down as reported by a Colorado captive insurance company source. Neither of the parent companies nor RBMS responded to telephone inquiries for confirmation.

To fill the gap created by the lack of new captive business, at least one Colorado management firm is turning its attention to administration of self-insurance pools. Under a new Colorado statute, governmental bodies may form self-insurance pools if they are licensed by the Insurance Department, file annual statements and pass annual examinations.

Frank B. Hall Management Co. will administer the first pool formed under the new statute for 22 Colorado school districts. The pool will underwrite property and inland marine insurance, general liability, auto liability, auto physical damage and earthquake coverage.

"The commissioner wanted to bring regulation to this area and administration of these pools is very similar to management of captive insurance companies," noted James A. Jaeger, president and chief executive officer of Frank B. Hall Management Co. ■

Explosives firm to open first U.S. captive in '82

By RHONDA L. RUNDLE

DENVER—The first and, so far, only domestic captive to open its doors in 1982 will be licensed in Colorado this month to underwrite the risks of Tyler Corp., a Dallas-based maufacturer and transporter of commercial and industrial explosives.

Tyler Corp. filed its letter of intent to form the captive in September but was unable to justify its need until recently.

The state Insurance Department is now satisfied that the commercial market charges excessive premiums to insure Tyler's long-haul trucking and explosives manufacturing risks, said Daniel Colainnia, deputy commissioner.

Due to the nature of Tyler's operations, underwriters have historically charged excessive premiums for casualty coverage in relation to actual loss experience, the company complains.

Atlas Powder Co., a subsidiary that maufactures industrial explosives, was faced with the possibility of going out of business in 1979 when several of its dependent explosives distributors were unable to obtain automobile liability insurance with acceptable limits, according to Tyler.

To protect its distribution network, Atlas was forced to sponsor an association captive to reinsure automobile liability and other coverages for Atlas and its distributors, according to Tyler's official letter of intent.

The new pure captive, wholly owned by Tyler and dubbed Tyler Insurance Group Inc., will reinsure the first $100,000 per occurrence of workers compensation coverage underwritten by Texas Employers Insurance Assn. for the parent company and its subsidiaries.

Texas Employers Insurance Assn. will provide claims adjustment services for all workers compensation claims through its own staff of independent contractors.

Paid losses will be deducted along with primary insurer expenses from reinsurance premiums ceded to the captive on a monthly basis.

Generally, automobile and product liability coverages also will be insured directly or reinsured through the captive.

Employers Casualty Co. or another insurer may front for the captive or the captive may be used to reinsure a quota share of the excess coverage above a substantial deductible, according to Tyler's proposal.

The recent acquisitions of Reliance Universal Inc. and Hal-Mark Electronics Corp. have intensified the search for reasonably priced product liability coverages, Tyler explains in its letter.

Other operating subsidiaries that will use the captive include Tyler Pipe Industries Inc., C&H Transportation Co. Inc. and Thurston Motor Lines Inc.

In the past, each of Tyler's subsidiaries has purchased casualty insurance separately. Workers compensation coverage will be centralized once the captive begins operations to maximize cost effectiveness, loss control and claims programs.

Tyler intends to meet Colorado's capitalization requirements with $200,000 in cash and a $1 million irrevocable letter of credit to be issued by Citibank in Dallas.

Tyler Corp. expects annual net premiums paid to the captive to exceed $2 million.

Risk & Benefit Management Systems Inc. has been selected to manage the captive. Thomas G. Littell, who heads the captive manager's Colorado office, also will serve as vp of Tyler Insurance.

Management and loss-prevention fees, auditing, legal and other miscellaneous charges are projected to run $40,000 to $50,000 annually.

Attorneys for the captive will be Gardere & Wynne in Dallas. Local legal representation will be furnished by Holland & Hart in Denver. Arthur Andersen & Co. in Denver and Dallas have been selected as auditors of the prospective company. Banking has been arranged with Colorado National Bank.

Tyler Corp. officials could not be reached for direct comment about the captive.

Coal partnership places captive in Colorado

By RHONDA L. RUNDLE

DENVER—Two new captive insurance companies formed in Colorado last year—one pure and one group-owned—put the official tally at 27 for the Rocky Mountain state, the home of the largest number of domestic captives.

The newest captive in the Colorado stable is Mountainview Insurance Co., licensed Nov. 9 and jointly owned by Gracoal Inc., a unit of W.R. Grace & Co. of New York, and Western Hanna Inc., a subsidiary of Hanna Mining Co of Cleveland. Moutainview insures the risks of Colowyo Coal Co., a coal mining partnership owned by the two subsidiaries.

The other new captive, Colinco Inc., was formed by The Boeing Co. of Seattle in June to reinsure errors and omissions coverage for architects, engineers and data processors (*BI*, June 8, 1981).

Colorado was a natural choice to domicile Mountainview "because that's where the coal mining operation is," said Duane C. Allen, a director of the captive and assistant treasurer of Hanna Mining Co.

He said the partnership favored a captive over its former insurance program because the risks justified better rates than those offered in the commercial market.

"We thought we could make an underwriting profit and get value from our reserves for investment purposes," Mr. Allen explained.

Mountainview underwrites workers compensation insurance and retains the first $250,000 of the property exposure for fire, boiler and machinery and differences-in-conditions coverage.

The captive's 1981 annual statement filed with the Colorado Insurance Department shows that reinsurance is provided by General Reinsurance Corp., Lexington Insurance Co. and Hartford Steam Boiler Inspection & Insurance Co.

Mountainview collected $955,853 in net premium and incurred $44,000 in losses during its first two months of operation.

Mountainview's two owners form a group, according to the Colorado Insurance Department, which required the new captive to meet higher capitalization requirements than a pure, single-owner captive. Mountainview was capitalized with $1 million.

"There are some additional limitations that follow from our status as a group-owned captive," Mr. Allen said. Mountainview can only insure risks of the 7-year-old partnership company, Colowyo Coal Co. But Grace and Hanna have two other jointly owned companies in Colorado.

"We'll have to do something else to add insureds—like maybe add to the group," he said. This could include other partnerships of other Grace and Hanna subsidiaries. ■

Colorado doctors seek captive

DENVER—Colorado doctors are trying to convince Insurance Commissioner J. Richard Barnes that they need a captive insurance company to underwrite their medical malpractice coverage.

They are not succeeding, though.

Mr. Barnes has not approved an application submitted by the Colorado Medical Society because he believes it does not fulfill the need requirement contained in Colorado's captive law.

The medical society, however, hopes that additional information recently submitted will change his mind. The decision will dictate the future of professional liability insurance in Colorado for the next two to five years, the state's physicians believe.

"Accessibility to medical malpractice insurance is fundamental to continued delivery of quality medical care in Colorado at reasonable cost," says Charles D. Marcus, executive director of program administration for the Colorado Medical Society.

It is important that availability of such insurance be guaranteed, Mr. Marcus says. The commercial insurance marketplace cannot give this guarantee.

"We think we are looking at a potential new crisis that is likely to become an issue in the 1980s," he explains.

Mr. Barnes believes that medical malpractice insurance is available at reasonable cost. Future need is not present need, he says.

Mr. Marcus counters that the need is current because uncertainty about the future affects doctor attitudes in the present.

Eighty-four percent of Colorado's 5,000 physicians and surgeons obtain professional liability insurance through one of two Colorado Medical Society-sponsored programs.

The professional liability trust pays losses up to $50,000 and is reinsured by Hartford Insurance Group. Participants pay premiums to fund the trust and to buy excess insurance.

The Hartford also underwrites a conventional medical malpractice policy sponsored by the medical society.

Hartford's master contract with the medical society expires June 30. Discussions are in progress concerning the insurer's requested premium increases, Mr. Marcus says.

Tennessee

State now touting new captive laws

By RHONDA L. RUNDLE

NASHVILLE, Tenn.—Vermont is cheaper, but Tennessee is better, say captive insurance company managers here who clearly view the Green Mountain state as their chief competitor for new U.S. captive business.

Even the Tennessee Insurance Department concedes that recent amendments to the state's 4-year-old captive law were needed to keep pace with Vermont's more liberal statute enacted last year.

"We're already more competitive than Colorado—Vermont is the one we want to watch," notes James E. Farmer, stare supervisor of captive companies.

He does not mention Virginia, the forgotten captive haven. Not a single company has set up shop there under enabling legislation adopted in 1980.

"It's been a long time since we've even had a nibble," quips a spokesperson in the Virginia Insurance Department.

Tennessee, however, currently boasts five captives and is promising more, compared with one in Vermont and 27 in Colorado not counting one in formation, one converting into a commercial insurer and two that may be dissolving (see related stories).

In contrast to Colorado where captive managers are decidedly downbeat, Tennessee managers are optimistic about prospects for new business.

Rumors abound of captives in formation, Colorado captives considering a new home and captives moving to Tennessee from offshore, especially Bermuda.

Among Tennessee's advantages is its location, say its proponents. It is a short trip from New York, Chicago and Atlanta, and Nashville is prospering from the Southeast Sunbelt boom.

Though no one will say which companies are eyeing Tennessee, spirits are running high in the wake of Tennessee's liberalized captive law.

Earlier this month, Tennessee Gov. Lamar Alexander signed two bills into immediate effect that are expected to enhance the state's appeal as a captive domicile (*BI*, March 29).

A parent corporation no longer needs proof that adequate U.S. markets do not exist to form an insurance subsidiary. Pure captives—those owned by a single company—may now offer all commercial property/casualty lines on a direct basis.

Reporting requirements for pure captives also will be simpler once a new form is approved by Tennessee Insurance Commissioner John C. Neff to replace complex annual statements required in the past.

These changes bring Tennessee law substantially into line with Vermont.

The major remaining differences between the two domiciles are the prohibition against property insurance underwriting by association captives in Tennessee and the state's capitalization requirements.

To start an association captive in Tennessee requires $1 million in combined capital and surplus. Companies need $750,000 for a pure captive. Vermont requires only $250,000 for a pure captive, $500,000 for an industrial captive and $750,000 for a group captive.

Tennessee requires $500,000 in minimum premium volume for pure captives and $1 million for association captives. Vermont has no minimum premium volume restrictions (*BI*, June 6, 1981).

The ability of pure captives to underwrite all commercial property/casualty lines directly was of major importance to existing Ten-

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New York exchange hopes to see more captive activity

By JAMES C. LAWSON

NEW YORK—Do captives and the New York Insurance Exchange share a common destiny?

Maybe, industry sources say. But how they can make use of each other is still undetermined.

"We've had inquiries (from captives and their corporate parents), but it's hard to tell the basis of it," notes NYIE President and Chief Executive Officer Donald E. Reutershan. "Captives could be a significant capital source in the future.

"I would hope they would have a larger percentage of participation because it (the exchange) would also be a viable marketplace for them," he adds.

Captive insurers may want to participate in exchange syndicates to actively begin third-party risk underwriting, he says.

"The exchange would be an extension of the market for them, especially if they want to get away from the charge that they aren't legitimate insurance companies because they don't have genuine risk bearing," Mr. Reutershan says.

"If they became directly involved, they would be in the risk-bearing business."

Or, he suggests, captives may want to purchase reinsurance from exchange syndicates and participate as buyers, not sellers.

"We've provided a place for the players to play," adds Peter Bickford, the exchange's general counsel and secretary. "We certainly are encouraging captives to either invest in syndicates or use it for their reinsurance markets.

"Captives may not now be a big or major source of capital for the exchange, but it will be a growing source. The exchange will be a place for captives to put their capital to work," Mr. Bickford adds.

Donald Kramer, president of KCC Syndicate Management Inc. and one of the exchange's founders, also supports captive involvement. "We'd like to form a syndicate of captives," he says.

Currently, three captive insurers—Exxon Corp.'s Exxon Holding Co., Greyhound Corp.'s Pine Top Insurance Co. and National Distillers & Chemical Corp.'s Elkhorn Insurance Co., maintain relationships with syndicates now operating on the exchange.

In 1980, the Exxon captive formed the Anex Syndicate Inc., managed by AIG Syndicate Managers, part of the American International Group.

Premium volume after six months of operation amounted to more than $1 million, says Vincent Motto, Exxon's assistant treasurer, adding that he expects business to become even better.

"The exchange is a way to participate in some non-related business," Mr. Motto explains. "We felt

N.Y. captive bill dormant

By JOHN W. MILLIGAN

NEW YORK—Legislation that would allow companies to form captive insurers in New York state is not completely dead, but it appears to be sleeping soundly.

A captive regulation bill was prepared for "study purposes" in 1980 by state Sen. John R. Dunne, a Long Island Republican. The legislation would have allowed companies and associations to form captives when coverage was "either unavailable or unaffordable in the normal insurance market."

The idea never got off the ground, however, and received a cold shoulder from many in the state's insurance and risk management industry.

"There was really no interest," reflects Bob Mackin, an aide to Sen. Dunne, who added that the senator's staff had numerous conversations with insurance underwriters, brokers and risk managers on the proposed measure.

"It was never really shot down," Mr. Mackin says. "It just didn't get the push or boost that legislation needs."

However, Sen. Dunne is still interested in the "general idea" of captives, Mr. Mackin explains, and is waiting for a more favorable climate before taking another crack at introducing legislation.

The proposed legislation would have:

- Prohibited captives from insuring various personal and small commercial lines or reinsuring private passenger auto or homeowners multiperil risks.
- Forced parent companies to demonstrate to the New York Insurance Department that insurance was unavailable, available at excessive rates or with unreasonable deductibles. The parent company or association also would have been required to have gross annual premiums of at least $500,000.
- Set capital and surplus requirements for company-owned captives at $700,000 and $600,000, respectively. Requirements for association-owned captives would have been $400,000 and $350,000. A letter of credit would have satisfied the minimum surplus requirement.

the potential for growth was great. Growth should be even greater than it is now, but I don't think the exchange will be a big marketplace for captives.

"Many companies don't have interest in owning domestic insurers. And of those that would consider it, many don't want to go through all of the trouble. They would have to set up a separate company and it would have to be separately capitalized."

Despite the official optimism, industry experts who work closely with captives don't see the exchange becoming a sales opportunity for captives or a strong source of reinsurance.

"I envision a very limited participation by captives," contends George E. Corde, a senior vp with Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

"The exchange has to prove itself," he says. "Given the opportunity other companies have, I think it will do fine. The exchange will be self-sustaining.

"But captives have limited capital and surplus to invest in the market," Mr. Corde explains. "I don't think putting money into the insurance industry is the best use of resources."

Another deterrent, one industry official suggests, is that reinsurance, the exchange's primary line of business, currently is in oversupply.

Captives can buy reinsurance cheaply from international markets and are not tapping the exchange or are very interested in adding capacity to a market glut by selling reinsurance through the exchange.

"So far, there hasn't been much activity at the New York Insurance Exchange," explains Gerard F. Curtis, a senior vp with Alexander & Alexander Inc. in New York. "But it's something that could come when the insurance marketplace changes. The exchange currently is selling a product that's in oversupply." ■

Vermont alters law for pools

By JERRY GEISEL

MONTPELIER, Vt.—Vermont wants to build a U.S. home for risk retention groups.

Gov. Richard Snelling earlier this month signed legislation, H.B. 589, that allows product liability pools established under the federal Risk Retention Act to automatically receive favorable treatment under Vermont's 1981 captive law.

"We want to send a clear signal that risk retention groups are welcome in Vermont," said George Chaffee, commissioner of the Vermont Department of Banking and Insurance. "We want to establish a clear guide for the groups."

Under the law, a risk retention group that wants to make Vermont its home will only have to meet the liberal requirements for industrial insureds rather than the tougher rules for association captives.

As an industrial insured, a risk retention group would only have to put up $500,000 in capital and surplus to be chartered in Vermont. The capital and surplus requirement for association captives is $750,000.

In addition, an industrial insured is allowed to invest its assets more freely than an association captive and is governed by less restrictive financial reporting requirements.

State insurance and banking officials, however, don't know how many risk retention groups will be lured to Vermont by reducing captive qualification requirements.

Currently, trade groups have been more interested in setting up risk retention groups offshore, experts say. For example, the National Assn. of Wholesaler-Distributors is setting up a risk retention group in Bermuda (*BI*, Jan. 25).

But the option of chartering a risk retention group offshore will come to an end in a few years. After Jan. 1, 1985, risk retention groups no longer can be chartered in Bermuda and the Cayman Islands, the two offshore domiciles where groups can now be established under the federal law.

Congress, when it passed the Risk Retention Act last year, included that offshore restriction to encourage states, like Vermont, to liberalize their insurance laws during the next three years to make it easier to set up risk retention groups in the United States.

So far, though, only Vermont has moved to open its doors to risk retention groups.

Under the federal law, a risk retention group that receives an insurance charter in one state can serve members in other 50 states without being licensed or using a fronting insurer.

Risk retention groups only can underwrite product liability and completed operations insurance for the member-owners. The groups may not write insurance for outside risks. ■

Tennessee touts new rules

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nessee captives as well as potential new ones that wanted to get around fronting arrangements, says Mr. Farmer.

Before the amendment, they could underwrite only comprehensive general liability, professional liability and errors and omissions insurance.

"The Tennessee Insurance Department is striking a nice balance—neither overregulating nor underregulating," remarks Robert Reeves, president of Parthenon Insurance Co., a Tennessee captive subsidiary of Hospital Corp. of America that used to be in Colorado.

"They are not just good regulators, but good businessmen."

Mr. Reeves says he has had several calls from people who are interested in relocating their existing captives to Tennessee. One such call came from a company with a captive in Bermuda, another with a captive in Colorado.

"It puzzles me why more non-U.S. captives have not relocated back here," he says.

Deputy Commissioner Farmer met recently with a group of five risk managers whose companies are headquartered in the Memphis area and are considering the possibility of moving captives into the state.

"One is definite—the others will wait and see," he reports. Mr. Farmer declines to identify the organizations except to say that four are pure captives and one is an association captive involved in trucking and tire suppplies.

Allis-Chalmers Credit Corp., which owns insurance subsidiaries in both Colorado and Tennessee, is planning to fold its Colorado captive into its Tennessee captive, notes Mr Farmer. "They have found the cost of running two captives prohibitive," he explains.

Corroon & Black, manager of the A-C Tennessee captive, declined comment. Executives at Allis-Chalmers did not return telephone calls.

M&M Insurance Management Services Inc. in Denver, which assumed management of the Allis-Chalmers Colorado captive from Frank B. Hall Management Co. starting April 1, said it was "premature" to report the change.

However, "we have a very large association captive on the drawing board we hope to see licensed before June 30," reports John J. Middleton, vp of M&M Insurance Management Services in Nashville.

Mr. Middleton said the original plan called for writing reinsurance, but that in view of the new amendments some underwritings may be direct.

He declined to specify the line or lines of business to be underwritten by the captive except to say that medical malpractice insurance is not a possibility.

Tennessee is often linked with hospital professional liability coverage because three out of five captives domiciled there provide it.

Insurance Commissioner Neff gets high marks from Mr. Middleton and other captive managers for his affirmative actions to make the state attractive to new business.

Tennessee, though, is not immune from scrutiny by the Internal Revenue Service, he admits.

He knows of at least one captive in the state that has been audited, but he will not discuss the outcome. "It hasn't gone to tax court and won't," he says.

Although captive experts agree that captives should not be formed as a tax-avoidance vehicle, some parent companies deduct premiums paid to their insurance subsidiary as they would premiums paid to an unrelated commercial insurer.

This practice is not passing muster with the IRS, which argues there is no risk transfer (see related story on page 77).

American Risk Management in Nashville has two new business prospects brewing. One is a new association captive involving more than 10,000 participants. The other involves a possible move from another domicile, reports John Matthews, account executive.

American Risk Management's association client would like to use its captive to underwrite property insurance, he adds. But current law does not permit association captives to do this. Mr. Matthews feels sure this will be changed, but he cannot predict when. ■

Brokers underwrite insurance, too

Agents and brokers also are participating in the captive insurer marketplace both on- and offshore.

At least three of the top 20 brokers own and operate insurance company subsidiaries and as many as 50 independent agencies are using captives to reinsure favorite risks.

Frank B. Hall & Co. Inc. owns Union Indemnity Insurance Co. of New York, "just a small, traditional insurer," according to Hall Executive Vp John McCaffrey. "It underwrites a full line of property and casualty insurance, including some retroactive coverage."

Poe & Associates of Tampa, Fla. also owns small domestic insurers, the Whiting Insurance Group, which specializes in professional and lawyers liability.

Offshore, Alexander & Alexander Services Inc. owns Hemisphere Marine & General Assurance Co. of Bermuda that it purchased from a client in 1975.

Formerly the vehicle for a joint underwriting venture with Alexander Howden, A&A currently offers the company as a rent-a-captive reinsurer to clients, according to Peter Densen, president of A&A's Anistics division.

Several organizations, including reinsurance intermediary Andrew Edwards Co. and Marketing Management Inc., also are offering the captive alternative to independent agents who want to share profitable risks with their insurers.

MMI, owned by the Reliance Insurance Group, reports that 40 to 50 agency captives are now in operation, of which seven are managed by Reliance. MMI operates captive facilities in both Bermuda and Cayman Islands.

"Right now there's no groundswell demand for agency captives," notes MMI President Ken Williams. "But there will be."

Agents are asking for a share in insurers' investment income and one alternative is an agency captive. When more agents realize this, the movement will grow by leaps and bounds, he says. ■

Mobil Oil's challenge to IRS captive rule asks crucial question

By BILL DENSMORE

A 4-year-old Mobil Oil Corp. challenge of Internal Revenue Service rules barring tax deductions for premiums paid to captive insurance companies finally may go to trial in September.

When it does, the court proceedings will be watched closely by other companies seeking tax deductions for premiums paid to insurance subsidiaries.

The Mobil case, which is one of several pending in courts around the country, is a key one for two reasons:

- First, the court will have to address the question of whether a captive is a bona fide insurance company for tax purposes.
- Second, this will be the first time the Court of Claims has ruled on the tax status of a captive.

Although a federal appeals court did rule in favor of the IRS last year in a captive tax case involving Carnation Co., the case never answered the question of whether a captive is a bona fide insurance company.

Instead, the Tax Court, and the 9th Circuit U.S. Court of Appeals in San Francisco which upheld it, focused on the arrangement Carnation had with its fronting insurer. American Home Assurance Co. reinsured 90% of Carnation's risks with Three Flowers Assurance Co., Carnation's insurance subsidiary.

In another agreement with American Home, Carnation promised it would make an additional capital contribution of $3 million to Three Flowers at the request of American Home.

The Court of Appeals decided this capital agreement canceled out the insurance transaction, leaving nothing but a self-insurance program that is not tax-deductible. The ruling made it unnecessary for the court to go further and rule on Three Flowers status as an insurance company.

But in the Mobil case, there was no such capital agreement. The case will center on the court's interpretation of the nature of a captive: Is it a bona fide insurance company?

Carnation's capital agreement created an arrangement in which the captive was not "an institution operating at risk as an insurance company, and Mobil's clearly was," notes Paul H. Dawes, an attorney with the San Francisco law firm of Thelen, Marrin, Johnson & Bridges, which represents food processor Castle & Cook Co. in its captive fight with the IRS.

Adding to the importance of the Mobil case is that the Court of Claims will be addressing the captive issue for the first time.

Mobil paid the disputed taxes and then took its case to court, which allowed it access to the Court of Claims. Carnation took the tactic of fighting the IRS challenge to its tax return and so its case was heard by the Tax Court.

Continued on next page

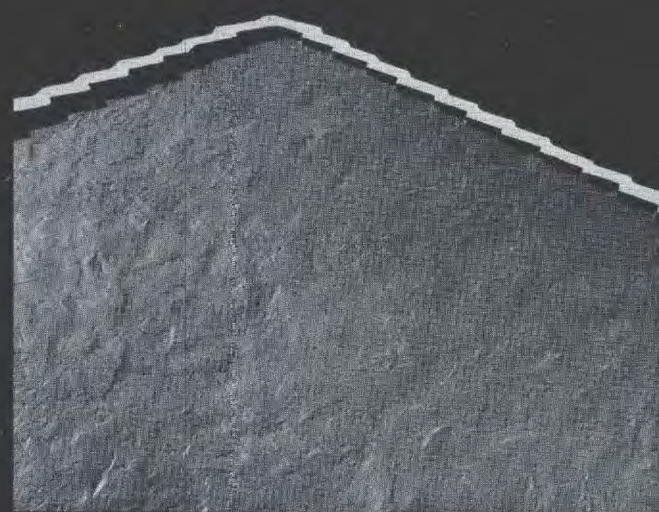
ODECO settles tax dispute

The Internal Revenue Service will settle captive tax cases.

Last March, Ocean Drilling & Exploration Co. of New Orleans and the IRS settled a dispute over the 1969 tax year that had been pending in the U.S. Court of Claims for nearly three years.

The IRS had disallowed $302,721 in deductions for premiums ODECO paid to its Bermuda-based captive, Mentor Ltd., for coverage of drilling barge risks. ODECO said the $302,721 paid to its broker Marsh & McLennan Inc., and then to Mentor, represented 36% of the insurance risks on such barges.

ODECO lawyers and the IRS decline to discuss the settlement. ■



Risk managers watching Mobil's challenge to IRS

Continued from previous page

Mobil is contesting the IRS' refusal to allow a tax deduction for at least $37.7 million in premiums paid to at least two overseas Mobil captives by 35 subsidiaries during tax years 1961-69.

In this case, which Mobil began in 1978, the government didn't file an answer to Mobil's allegations for seven months and only now—three years after that—is the case getting close to the trial stage.

In a recent filing, Mobil asked the Court of Claims for a Sept. 1 trial date in New York and said it would be able to wrap up its case with two days of testimony from the former managers of the two captives, Bluefield Insurance Ltd. of Bermuda and General Overseas Insurance Co. of the Bahamas.

Presumably, their testimony would support Mobil's assertion that the captives employed underwriting, claims and management practices similar to other non-admitted insurers.

In non-insurance transactions between related companies, the IRS recognizes that a subsidiary of a company must be treated as a separate entity in all respects. Thus, the captive owner argues, the IRS is wrong to penalize captives as not qualifying as insurance companies for tax purposes as a result of being in the same economic family as their parent.

"Except as specifically provided in the Internal Revenue Code, the commissioner has no authority to disregard transactions between separate entities, even though they are related," Mobil argues in a pretrial filing.

This argument long has been advanced by those defending captive insurance companies as bona fide insurers for tax purposes.

The focus of its attack is to bring a case to trial in which the captive truly has functioned as an independent insurer in all respects except its initial capitalization by the parent, without any "bailout" agreement as existed in the Carnation case.

Among other companies engaged in legal battles with the IRS similar to Mobil's case are Texaco Inc., Ashland Oil Co., Castle & Cook Inc., Ingram Corp. and Stearns-Roger Corp., a small company in Glendale, Colo.

Texaco's case involves about $15.8 million in disputed taxes in 1970 and 1971. Unlike Mobil, the oil company, based in Harrison N.Y., filed its suit in U.S. District Court in Houston.

The case involves $3.9 million of premiums paid by Texaco and five domestic subsidiaries during the 1970 tax year to unrelated insurers that then reinsured the risks with Heddington Insurance Ltd., a Bermuda corporation wholly owned by Texaco Panama Inc.

Similarly, the IRS disallowed another $8.3 million worth of premiums during the 1971 tax year, Texaco says in a complaint filed last March.

Another $3.5 million in premiums paid by foreign subsidiaries of Texaco were erroneously included by the IRS in the taxable income of the parent, the oil company argues in its complaint.

"The tax law is rife with the 'separate identity' doctrine and there are virtually no situations in which that has been disregarded (except captives)," says an executive in Texaco's tax department.

Another case of particular interest involves Stearns-Roger, an engineering and construction firm near Denver that has a captive in Colorado—Glendale Insurance Co.

Its case, filed in November in U.S. District Court in Denver, appears to be the first legal test of the tax status of premiums paid to a domestic captive, says Stearns-Roger attorney Robert E. Benson of Holland & Hart in Denver.

IRS ruling 77-316 on the tax implications of using a captive insurer specifically addresses offshore insurance subsidiaries and does not mention domestic captives. The IRS has said in interviews with *Business Insurance*, however, that domestic captives would be governed by the same regulation.

The Stearns-Roger case will test if the IRS can apply its ruling to domestic captives.

Stearns-Roger formed its captive in late 1974, a year after the Colorado captive law took effect. In April 1981, the IRS disallowed "certainly a couple of million dollars" worth of premium deductions for tax years 1974-78, Mr. Benson says.

Glendale was capitalized with a letter of credit from the parent rather than cash or securities, but that shouldn't make any difference in the court case, he added.

"It certainly wouldn't make any difference for a non-captive insurance company. I don't know why it would for a captive," he says.

Another tax lawyer in Denver, Joseph H. Thibodeau, says he has a client who has requested a private letter ruling from the IRS on the deductibility of premiums paid to a domestic captive but the IRS hasn't responded.

"We think there is a very sound basis for drawing a distinction between Colorado operations and operations elsewhere," says Mr. Thibodeau, citing Colorado's strict law that forces captives to behave essentially like admitted insurers. ■

Captive tax bill stalled

Lobbying efforts to enact legislation that would grant tax deductions for premiums paid to captives and self-insured reserves are stalled.

A bill has been drafted for The Loss Reserve Deduction Committee, which is financed by contributions from the Captive Insurance Companies Assn., Risk & Insurance Management Society and National Assn. of Insurance Brokers.

But the measure has yet to be introduced because of the immediate tax revenue loss it would create that would further hamper the Reagan administration's effort to reduce budget deficits.

"The timing of getting someone of influence in Washington to introduce something like that is not too good," says Robert Reeves, chairman of the committee and vp of insurance at Hospital Corp. of America in Nashville, Tenn.

U.S. Rep. Gillis W. Long, D-La., had been mentioned as a potential sponsor of the bill (*BI*, Oct. 12, 1981). But, his aide said the idea was last heard of in late 1981.

John L. Crawford, a lawyer and chief of the IRS's corporation tax branch, says he knows of no studies that quantify how much in tax revenues would be lost to the U.S. Treasury if self-insured loss reserves were tax-deductible as ordinary business expenses.

In 1954, Congress authorized such a deduction and repealed it the next year.

"It proved a horrendous drain on the Treasury," he says. "Maybe that's part of the background." ■

IRS still will challenge captive tax advantages

While captive tax cases languish in various courts, the Internal Revenue Service shows no signs of easing its challenges to the classic use of a captive insurance company.

When a parent company pays a premium to a wholly owned insurance subsidiary that isn't underwriting any unrelated business, the IRS agent is going to challenge deductions for the premiums paid, lawyers and risks managers say.

He will cite the provisions of Revenue Ruling 77-316, the landmark ruling saying that premiums paid to captives fitting this description are not tax deductible.

"At least 50% of all companies with captives for five years are being audited," estimates Sidney Pine, an attorney with Trubin Sillcocks Edelman & Knapp in New York.

"The agent is to ask if the company has a captive and if the answer is yes, he reports to the office of international operations that sends out an agent to deny all deductions."

"They're getting tougher," says Charles J. Eades, vp for insurance at Ingram Industries Inc. in Nashville, Tenn. "Captives never should have been set up as a tax-avoidance mechanism but for other very good, valid business purposes instead."

Mr. Eades, who follows captive issues closely, says he sees evidence the IRS is enforcing provisions of Revenue Ruling 77-316, "right down to the gnat's eyebrow."

"The required risk shifting and risk distribution necessary to constitute insurance always has been what these cases come down to," says John L. Crawford, a lawyer and chief of the IRS' corporation tax branch.

Mr. Crawford, who has authored at least one captive-taxation private letter ruling giving the government's interpretation of tax laws, confirms the IRS is continuing to follow provisions of 77-316.

But after notifying the taxpayer of the challenge, the IRS isn't moving very quickly, says one tax attorney.

"There seem to be more cases starting, but not more cases finishing," says James Cameron, a partner with Baker & McKenzie in New York.

He speculates that a shortage of talented insurance people within the IRS is holding up action.

In some of the cases Mr. Cameron is handling, he can't get the agent to discuss the insurance issue after the initial discussion.

When Mr. Cameron suggests that the captive issue be put on the agenda for discussion, the agent replies, "I'm still waiting to talk to our insurance expert."

When will the IRS recognize a captive insurance company as a bona fide insurer for tax purposes?

No one is sure.

In the case of a wholly owned insurance subsidiary, various IRS pronouncements in other areas lead some tax attorneys to say that if 50% of a captive's business is unrelated risks, the IRS will recognize it as a bona fide insurance company and grant the parent company tax deductions for premiums paid to the captive.

It could be less, however.

"Where there is 25% to 40% outside business, the IRS tendency is to settle," says Mr. Cameron.

Similarly, it's not clear how many members an association captive must have to achieve enough risk shifting and risk distribution to satisfy the IRS definition of insurance.

The IRS has said it wants 20 members and no one member with more than 5% of the risk, but Mr. Pine says the IRS may be rethinking its position.

The Risk Retention Act originally was written to require 20 members, at the request of the IRS. At the last minute, that requirement was struck.

"Now the IRS appears to be rethinking its position," says Mr. Pine.

"I don't think there's a magic number," says Walter C. Cliff, a partner in the New York law firm of Cahill, Gordon & Reindel who is another expert on captive taxation. "It seems to me there doesn't have to be a lot of members to prove you're sharing risk." ■

Captive conference

Many auditors qualifying captive statements

By KATHRYN J. McINTYRE

HAMILTON, Bermuda—It's not impossible to get a clean audit opinion on a captive insurance company in Bermuda, but 40% of the captives won't this year, a local auditor says.

Most likely, the qualifications of opinions will involve either premiums or reserves for incurred but not reported losses.

"These are the areas that give us the greatest concerns," Raymond Medeiros, a partner with Coopers & Lybrand in Bermuda told the Sixth International Captive Insurance Company Conference last month.

Auditors in Bermuda first started issuing qualified opinions on the annual statements of captives a few years ago after they had become more sophisticated in auditing captives. New insurance regulations in Bermuda now require an auditor's opinion of every captive.

For most parent companies, a qualified opinion on a captive insurer's annual statement is not a problem. Few captives are large enough that a qualified opinion would carry to the parent's books.

Captive managers and risk managers, however, both dislike the stigma of a qualified opinion on the captive's statement.

Auditors look at all the transactions of the captive, beginning with how the captive bills and receives its premiums.

"Most of you would say premiums shouldn't be too hard to audit, but it really depends upon the type of captive that you set up and what kind of program you have established," Mr. Medeiros said.

In auditing premiums, the auditors first refer to the captive feasibility study to determine if the premium charged is fair.

Next, they ask how the insurance is rated. Is it retrospectively rated? Is the deposit premium subject to an audit adjustment, such as an audit of sales for product liability insurance or an audit of payroll for workers compensation insurance?

"This can cause a problem. If the auditor is unable to satisfy himself that the deposit premium is representative of the actual premium, this is obviously going to cause some concern. He may go back to the parent company auditor to assess whether there is going to be a significant adjustment to the account in terms of additional premium," Mr. Medeiros said.

There is also a problem among companies in booking premiums.

"There are times when management confuses a funding program for premiums and premiums written," he observed.

"You may write a general liability program for $1.2 million of premium," Mr. Medeiros said to illustrate. "At the end of six months there should be an unearned premium of $600,000. The company, however, to assist its parent, has said, 'You only have to pay me one-twelfth of the premium a month.' So you get $100,000 a month.

"We go in and find that there is no unearned premium and no receivable from the parent."

A battle ensues, he said, because the insurer says premiums are booked as they are received.

"But the fact is that you have a contract which says that you are entitled to $1.2 million. You have decided to enter into a financing arrangement."

Bigger battles ensue over the way captives set reserves for incurred but not reported losses.

The auditors are looking for loss history to support the reserves, and many captives' loss history is too small to be statistically valid. Sometimes there isn't any history at all, Mr. Medeiros complained.

"One or two plants, 300 to 400 employees, may not be a sound statistical base upon which an actuary can effectively evaluate a loss history to make some projections for the future," he said.

Even worse, there could be no loss history because the records weren't kept and the previous insurer won't release it.

Many captives set their loss reserves as a percent of premium paid based on the industry average loss ratio for each risk.

"But if the premiums written have not been properly rated, the premiums written do not reflect what the market would have charged for the same coverage. How can you take a market reserve history and apply it against your number? You're comparing apples and oranges. You may get a qualified opinion," Mr. Medeiros said.

Auditors often distrust industry averages for another reason.

A client setting up a captive says, "'I have much better experience than the market and I'll be able to maintain the additional funds in my own pocket,'" he explained.

"Then, one year, or nine months, or a year-and-half later, he's back to do the first audit and he's using industry averages. He's contradicting himself."

Hiring an actuary to set the IBNR won't guarantee the captive a clean audit opinion, either. There has to be enough data on the losses to be actuarily sound, he said.

An actuary's report that begins "Based on the information presented," or that includes the statement, "I am unable because of an insignificant data base..." isn't going to satisfy the auditors, he warned.

The auditors can be satisfied when industry averages are used as guidelines and blended with adequate actual loss history, he said.

The IBNRs set by a fronting insurer also can satisfy auditors, although there is some difference of opinion among auditors about the circumstances under which these IBNRs should be accepted.

"It is my personal opinion that where there is no real risk being taken by the fronting company, then it is providing nothing more than a service and the fronting company has no real interest in whether the information being reported to the captive is accurate and complete at any point in time.

"I'm not being critical of the fronting company," he added. "I'm just being objective."

When the fronting company is "acting as a principal and taking perhaps 20% to 30% of the risk, we feel that there's more likelihood that they will be more interested in the completeness and accuracy of the information," he said.

If loss reserves are discounted to take into account the interest to be earned before the losses are to be paid, the discounting should be disclosed in a note to the statement, Mr. Medeiros said.

The auditor would accept the discounting if he found the interest rate assumption to be reasonable and if there was adequate information to justify the payout schedule. ■

Sixth annual RPG gathering

HAMILTON, Bermuda—Bermuda in March is traditionally rainy and windy, and this year was no exception during the first two days of the three-day Sixth International Insurance Company Conference.

Organizer Felix Kloman, president of Risk Planning Group in Darien, Conn., has been accused of some kind of mystical control over the weather to keep the registrants indoors.

More than 200 people attended this year's conference, a slightly larger turnout than last year and an indication of the continuing interest in captive insurance companies.

About 25% of the audience was insurance and risk managers, 23% agents and brokers, 24% insurance company employees and 28% suppliers to the business, like bankers and captive managers.

Next year's conference is scheduled for March 8-11.

The consulting firm also annually publishes a list of captives and their parent companies entitled "Captive Insurance Company Directory," which it sells for $80. This year it also unveiled "Bermuda Insurers Reports," which contains financial and management information from 1981 on 26 active reinsurance companies in Bermuda. The 57-page report sells for $65.

Mr. Kloman's fascination with captive insurance companies reflects his concern for more efficiency in risk management and insurance buying. "Captives," he says, "can reduce funding costs, eliminate market inefficiencies and reduce expense ratios."

Captive insurers, however, are under pressure to become more like commercial insurance companies by the insurance market and the Internal Revenue Service.

"Insurers and reinsurers say you must join the club to get third-party business. The IRS asks 'Does it look, act or smell like a conventional insurance company?' If so, you get a tax break," Mr. Kloman says.

Whether captives are used as a risk management tool or become insurance profit centers, two distinct roles according to Mr. Kloman, "They can be a potent force for negotiation and change in the insurance marketplace.

Risk Planning Group is located at 722 Post Road, Darien, Conn. 06820.

Don't try to receive highest return rate: Investment manager

HAMILTON, Bermuda—Don't tell your investment managers to get the highest rate of return possible on captive insurance company money, an investment manager warns.

If you did, "they would scare you out of your wits because they would be taking very large risks," says Henry Blackie, a director of J. Schroder Wagg & Co. Ltd. in London.

Not only rate of return but also the amount of risk involved must be considered when choosing investments for captive insurance company funds, he told registrants at the Sixth International Captive Insurance Company Conference.

The risks inherent in maximizing the rate of return include trying to predict how interest rates, exchange rates and stock prices will change.

It's impossible, he said.

Three hundred years from now economists will look back on today's efforts to predict these market changes with the same degree of disbelief we accord the alchemists who tried to turn lead into gold, he observed.

Nice try, but silly, they will say.

The uncertainty of investment performance, or risk, should be controlled by giving investment managers guidelines for rates of return. They should be told the maximum and minimum rate of return the captive expects.

These guidelines must be based on a "numeraire" or standard against which investment performance is to be measured.

The dollar is not the numeraire of a captive portfolio. The numeraire has to be an interest-earning asset.

The base rate of return on the numeraire is the highest risk-free rate of return for investing the asset. The investment manager's job is to beat the return of the numeraire you have set.

Photo: Kathryn J. McIntyre
Henry Blackie

"The manager has to compare different investments not only on rate of return but also the amount of risk he will take. He has to decide if the rate of return is worth the risk and how much risk."

How do you decide what the numeraire should be? It should relate to the fundamental requirements of the portfolio, such as when the funds will be required. And it should be an instrument whose past performance has neither kept you awake at night because it was so risky nor let you sleep too soundly because there wasn't enough risk.

The one caveat in this approach, Mr. Blackie admitted, is that the risk levels of various instruments are based on historical data. While the riskiness of individual assets has been fairly stable, "markets do change. In the last two years the riskiness of medium and long-term investments has increased." ■

Risk a bit for high return, investment adviser says

HAMILTON, Bermuda—You can take bigger investment risks to get a higher rate of return on a portion of a captive insurance company's funds, contends an investment adviser.

The amount of money available for riskier investments basically is the amount of money available after discounting the loss reserves and taking into account the time value of money.

Joel E. Strauch, a vp at Morgan Stanley Trust Co. in New York, explained his investment theory for registrants of the Sixth International Captive Insurance Company Conference with the following example.

Assume $110 is flowing to the captive, for which $24 is needed to pay expenses and $2 to pay taxes. That leaves $84 to be invested.

Assume an actuary has established that at the end of five years, $80 of the $84 will be needed to pay losses: $30 in the first year, $20 in the second year, $15 in the third year, $10 in the fourth year and $5 in the fifth year.

Therefore, $80 is established as the loss reserve.

However, that $80 will earn investment income.

Assuming conservative investment yields of 13% to 15%, the captive must invest only $60 in the first year to have enough money each year and at the end of five years to pay the $80 in losses.

Subtract the $60, which is called the "dedicated portfolio," from the $84 available to invest and the captive has $24 that is free to be invested under different rules than applied to the $60.

While the $60 will be conservatively invested to guarantee that $80 will be available at the end of five years, the $24 can be invested in riskier instruments that offer a chance for a higher rate of return.

The type of insurance a captive is underwriting will determine how much of its portfolio must be dedicated for expected losses and how much will be available to be invested for maximum return. The expected loss payment schedule determines how much of the captive's assets are free to be invested for maximum return.

A captive underwriting short-tail business, like fire and marine, will have to dedicate more of its portfolio for expected losses because the losses are paid before much investment income can be earned on the reserves.

Reserves for long-tail business, like workers compensation and general liability, are held much longer and more investment income accrues, freeing up more of the portfolio for investment for maximum rate of return. ■

Reinsurers offer tax aid: Billett

HAMILTON, Bermuda—Today's hungry reinsurance market offers products that can solve captive insurance companies' tax problems, a reinsurance company executive says.

Various reinsurance transactions can be structured that should satisfy the Internal Revenue Service that premiums paid by the parent to its captive are tax deductible, says James Billett, chairman of Trenwick Ltd., a reinsurer based in Bermuda.

The proposed reinsurance solutions are based on the premise that at the end of the tax year, the parent company will be able to take tax deductions for claims paid, reinsurance ceded, commissions paid, fronting and service fees paid and other professional service fees paid.

"It is less likely that the parent will be able to take deductions for individual case reserves, and it is highly unlikely that reserves for incurred but not reported losses will be deductible."

The tax problem created by these reserves can be solved with loss reserve reinsurance or a loss reserve exchange, two reinsurance arrangements available in today's market, he said.

He described the specifics of the arrangements, whose names he coined, in a speech at the Sixth International Captive Insurance Company Conference.

Loss reserve reinsurance is reinsuring the reserves for incurred but not reported losses at the end of every fiscal year.

This can be done without giving up the investment income associated with those reserves.

The reinsurer could agree, for example, to reduce the reinsurance premium for accepting the IBNR risks by the amount of investment income it will earn on the reserves —discounting the loss reserves.

The captive, therefore, sells its liabilities for a premium that is less than the expected losses from its business.

Or, the reinsurer will let the captive keep the cash until the reinsurer needs it to reimburse the captive for the losses as they come due. In this case, the reinsurer would accept the liabilities—on paper—for a fee.

Photo: Kathryn J. McIntyre
Mr. Billett

In loss reserve exchanging, "reinsurers may swap an equivalent amount of their reserves for the captive's reserves for a fee," Mr. Billett said.

The loss reserves for the captive's parent business become deductible as reinsurance ceded, and, "the reinsurers' reserves are not parent-related business and, therefore, should be deductible to the captive."

Although nothing but the fee needs to change hands here, "the liabilities must truly be transferred with the assuming party being at risk," Mr. Billett stressed.

These loss reserve reinsurance solutions can be applied retrospectively, too, Mr. Billett said.

Reinsuring or exchanging loss reserves for prior years this year could provide a tax deduction or even a tax loss that would offset the disallowance of deductions in the earlier years.

Neither of these transactions "represents an attempt at tax evasion or fraud. They are reinsurance solutions to other problems applied to the deductibility problems of captives' parents," Mr. Billett explained.

Using reinsurance methods as a potential solution to the tax deduction problem is drawing on one of the basic functions of reinsurance, he contended.

"Reinsurance represents a means by which ceding companies seek to level off the peaks and valleys of their experience. Reinsurance can be applied equally to captives in terms of leveling off the peaks and valleys of deductibility."

The captive and the reinsurer must, of course, agree on what the loss reserves should be.

Then, the issue becomes, "What is the parent prepared to pay for deductibility and to what degree will the reinsurer give the captive credit for the investment income?" he said. ■

Use captives to reduce insurers' quotes: Buyer

HAMILTON, Bermuda—Every company should have a captive insurance company, but not necessarily to underwrite its insurance, a risk manager advises.

"We've used our captive as a bludgeon," says P. Richard Hackenburg, staff vp and assistant treasurer of Allegheny International Inc. in Pittsburgh.

An insurance company, when confronted with losing business to a captive insurer, can be talked down on its price, he suggests.

"We got a couple companies to wake up," he told participants at the Sixth International Captive Insurance Company Conference held in Bermuda last month.

Allegheny International formed its captive in late 1977 at the end of the last expensive cycle in the insurance industry. "We were sick and tired of being beaten upon by the insurance industry—being charged an arm and a leg," Mr. Hackenburg said.

The company wanted an alternative to commercial insurance if the market ever raised its rates so dramatically again.

After its effective use as a club, however, Allegheny International—then known as Allegheny Ludlum Industries—put the captive on the shelf.

"Then we decided to used our captive for 'pig iron under-water risks,'" he said, using the underwriters' term for the ideal fire risk. For Allegheny International, the ideal risks were highly predictable losses and long-tail losses that aren't paid right away.

'We've used our captive as a bludgeon,' Mr. Hackenburg says.

The captive, Wallingford Insurance Co., participates in the group-owned captive, Corporate Insurance & Reinsurance Co. Ltd. Its umbrella risks are exchanged for other CIRCL participants' risks in the excess reinsurance program.

Only $1.2 million of premiums flow into Wallingford, of which $400,000 is net, because Allegheny International doesn't want to pre-fund all losses.

Rather, the company wanted to retain as much cash as possible to fund its big acquisition drive of the last few years.

Allegeheny is transforming itself from a steel company into a consumer products and industrial company that is out of the steel business.

"Our company isn't going to flow money to Bermuda for a 14% return when we're borrowing at 15% and 16%—even when considering the net aftertax costs," he explained.

With a variety of subsidiaries and $3.5 billion in sales, the company has enough spread of operations to absorb repetitive losses, he noted.

A recent large acquisition, Sunbeam Corp., is presenting Allegheny International with a different approach to using a captive insurer. Sunbeam's captive, Solaray Insurance Co., has $6 million in premiums from underwriting Sunbeam's primary comprehensive general liability, workers compensation and auto liability risks.

"We will take a close look at that to see what makes the best fit," Mr. Hackenburg said. "It will be a test our programs. Nothing we do is sacred." ■

Association captives have other worries

HAMILTON, Bermuda—Association captives can run into management problems that don't afflict insurance subsidiaries of single corporations, an association captive president warns.

"It's a different world," says Daniel F. Creasey, president of Risk Management Foundation of the Harvard Medical Insitutions in Boston.

"A pure captive has a company behind it, with a hierarchy and someone in charge," he pointed out. "There is none of that in association captives—formal or informal associations."

With a bit of irreverence, he said the "flakiest association captives are the ones that grow out of trade associations."

Trade association managers, he charged, "are always looking for something to do. They start small, with a 20% discount at Avis, put out a newsletter, and then someone says 'You can really lock your membership in with an insurance company.'"

The problems for loose associations, he says, are "the membership isn't very cohesive, there is no loyalty, the management is usually weak, the board of directors is weaker and so the captives tend to fly on their own. The quality of management and the cohesiveness of governance is not there.

"Members lose interest in the captive and it always must market to compete with the conventional market. The constant worry is the book of business will disappear."

The Harvard Medical Institutions' captive, Controlled Risk Insurance Ltd., doesn't suffer from these problems because "we're a closed system," he said. "These institutions have relationships going back 150 years."

In addition, the participation agreement requires three years' notice to withdraw and demands that all the participants' funds related to its business stay in the captive for 12 years after notice of withdrawl is given.

Controlled Risk, based in the Cayman Islands and credited with bringing respect to Cayman as a captive domicile when it formed there in 1977, underwrites general liability and medical malpractice risks for Harvard and 11 other health care institutions.

For its first five years, the program was fronted by American International Group, but now the captive directly issues the insurance policies to 4,400 insured doctors and institutions.

The rate charged to doctors historically has been about 55% of the state rate for medical malpractice insurance, but it is going up to 65%.

"It's been lower than would be prudent if we weren't owned by rich institutions," he admitted. "But we just want to break even, we're not trying to earn a profit."

There are other association captives that are successful, too, Mr. Creasey added. "There are a lot in health care. The hospital captives are better than the doctor ones," he said, because the doctor captives don't impose stringent underwriting requirements.

He suggested that in order to succeed, association captives must "retain good management, which is not just a service company but someone with hands-on. Get a good board that is tough and involved. And it should be small and not big. There is an inverse relationship between the size and quality of a board." ■

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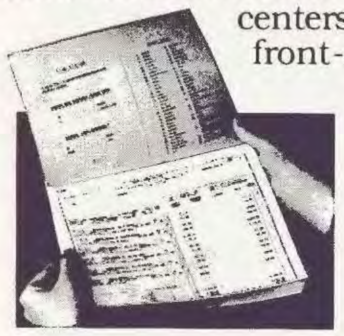

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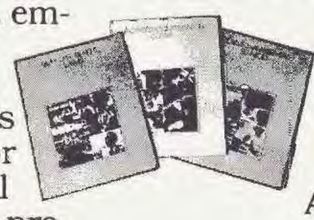

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Risk Manager of the Year

Eckart Russell

By KATHRYN J. McINTYRE

MONTREAL—Eckart Russell speaks in the many languages of Alcan Aluminium Ltd.

Pronounced "al-u-min-i-um," the second "i" in aluminium comes from the international spelling of the metal's name in English, French and German, which are languages Mr. Russell speaks fluently.

But his goals as risk and insurance manager for Montreal-based Alcan are the same in all languages: "Insurance programs that are maintenance-free, tied to local programs, that don't need to be renegotiated, that are cost-efficient, stable and do not require local expertise in insurance and risk management," he says.

An effective and efficient property loss-control program is equally important, he adds.

His skillful use of global policy forms, the services of international insurers and brokers and a Bermuda-based insurance subsidiary to build a worldwide risk management program for Alcan over the past 10 years impressed the 10 independent judges of the *Business Insurance* Risk Manager of the Year competition. They selected the 41-year-old Mr. Russell as the 1982 winner. The fifth recipient of the award, Mr. Russell is the first winner from outside the United States.

To understand the challenge of Mr. Russell's work and appreciate his success, one must understand the scope of Alcan's business and its corporate structure.

Alcan's fully integrated aluminum business—from mining to manufacturing—spans the world from Canada and the United States to Latin America and the Caribbean and the South Pacific, Asia, Europe, Africa and the Middle East.

More than 200 operating facilities are owned by more than 75 wholly owned subsidiaries and related companies with substantial local shareholders.

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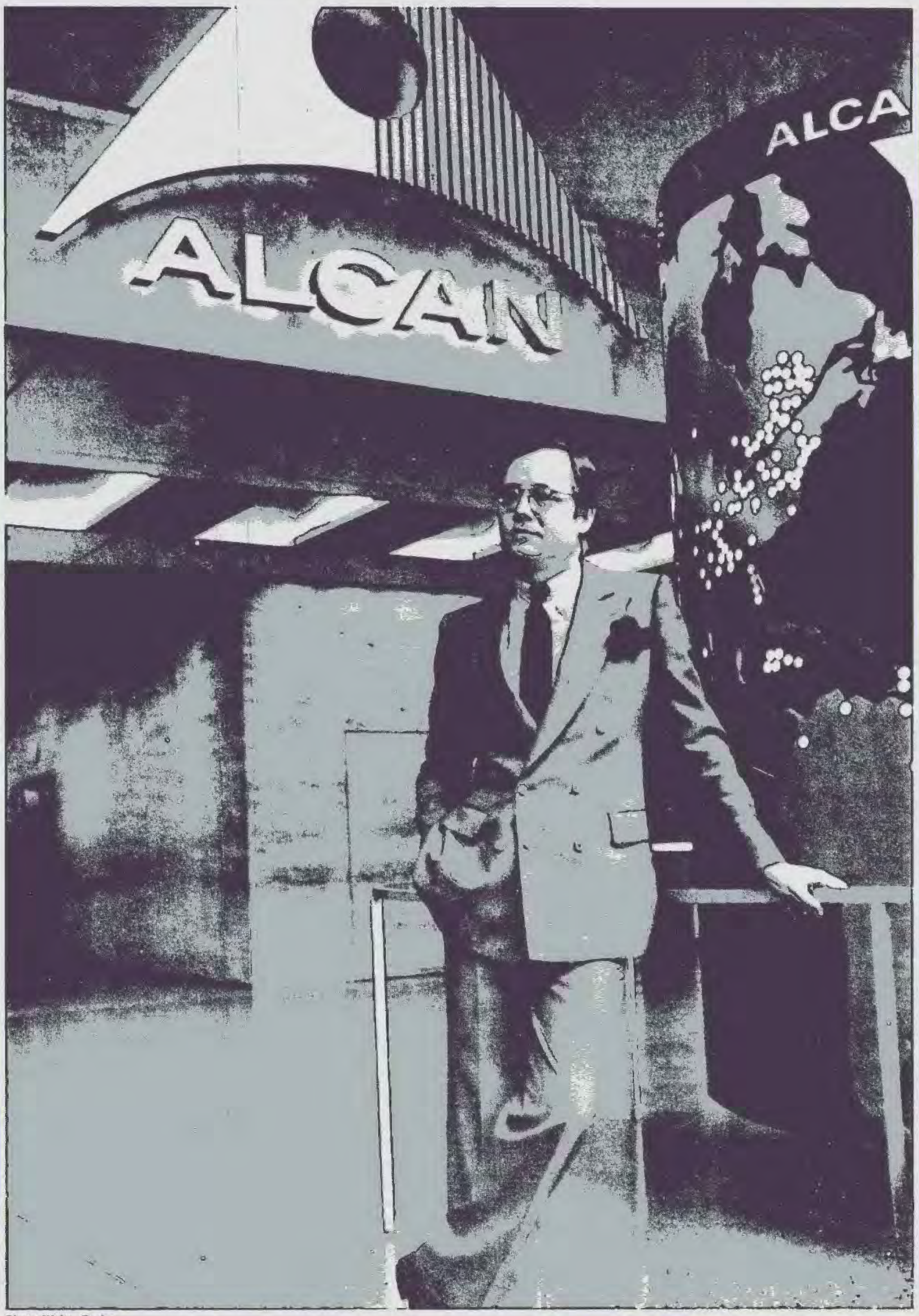

Photo: Walter Parker

4 Named to BI's Honor Roll

Selecting the Risk Manager of the Year is never an easy process, but this year it was really tough.

The 10 independent judges considered two candidates worthy of the title, but cumulatively they scored Eckart Russell of Alcan Aluminium Ltd. the highest.

In keeping with the purpose of the *Business Insurance* Risk Manager of the Year competition to recognize outstanding achievement in risk management, the title of First Runner-up was created this year to honor Spencer J. Traver, assistant treasurer of The BFGoodrich Co. in Akron, Ohio. His laboratory approach to risk management is described in an article beginning on page 97.

Mr. Traver leads the candidates named to the Risk Management Honor Roll, which is designed to highlight outstanding risk management in different settings.

The Risk Management Honor Roll members for government entities, small corporations and tax-exempt entities were the highest-scoring candidates among like risk managers.

Articles describing their programs begin on page 100.

George N. Pierce, risk manager for Orange County, Fla., focuses on the benefits of self-funding and safety and is offering the county program to neighboring municipalities.

Paul B. Harvey, risk manager for Ponderosa Homes in Irvine, Calif., adapts Fortune 500 risk management techniques to the risks of a small company.

Gene M. Marsh, executive vp for risk management for the General Conference of Seventh-day Adventists, has transformed an insurance department into an insurance company.

Continued from page 85

These subsidiaries and related companies have bauxite holdings in seven countries, refine alumina in seven, smelt primary aluminum in eight, fabricate aluminum in more than 30 and have sales outlets in more than 100.

To provide the enormous amounts of power needed to smelt aluminum—the most energy-expensive industrial process when measured by unit of output—Alcan harnesses the earth's power, building and operating hydroelectric power generating facilities and thermal stations.

To move the ore and metals, Alcan owns shipping subsidiaries and owns and operates ports in four nations.

The property values are tremendous. Alcan invested $974 million in 1981 to expand and modernize facilities and will spend another $700 million in 1982. At year-end 1981, its total net fixed assets and investments totaled $3.5 billion.

And the operations, employing nearly 67,000 workers, are interdependent, creating the potential for large business interruption losses if a link in the chain is knocked out of business.

Operating revenues and sales of aluminum and aluminum alloy products—from cans to component parts for autos and airplanes—were nearly $5 billion in 1981.

The worldwide dispersion of needed raw materials, economical energy sources and markets for the primary and fabricated aluminum products disperses management, too. Alcan subsidiaries and related companies are run by local management with only strategic, logistical and financial planning centralized by corporate policy from Alcan's international headquarters in Montreal.

Risk and insurance management is centralized by Mr. Russell's effectiveness.

Instead of every local company structuring its own insurance program, which could lead to the purchase of hundreds of policies with varying amounts of coverage, each one voluntarily participates in the global insurance programs that Mr. Russell offers.

The global programs provide local operations with broad coverage and suitable deductibles, while providing the Alcan group with consistency of coverage throughout the world and the economies of large combined deductibles that reflect the group's ability to absorb loss.

London and North American insurers underwrite the broad global policies covering property and business interruption, liability, marine and fidelity risks. Alcan's Bermuda-based insurance subsidiary, Champlain Insurance Co., underwrites the primary insurance layers of these policies, either directly to the subsidiaries or by reinsuring local insurers who issue policies to Alcan companies.

When local insurers are used, they often are part of the international networks of American International Group, Insurance Co. of North America or Allendale Group.

The locally issued insurance policies track the global policies as closely as is legally possible.

In countries once ruled by the British, the residual liberal British thinking about insurance makes the job easy, Mr. Russell says.

In countries like France and Italy, however, broad English-language policies can't always be written. "Sometimes, you have to piece together broad coverage using local standard policy forms," Mr. Russell explains. The broad worldwide policy behind these locally issued policies fills in any cracks that exist.

Local management can't resist participating in these global insurance programs because they offer better coverage at lower prices, Mr. Russell says.

They don't resist loss-control recommendations once it's shown the measures will save more in losses than they cost to implement.

Mr. Russell's personal charm, a flair for flamboyance that intrigues without offending and a bit of salesmanship learned as a broker in his native West Germany clinch the deals.

The global property insurance program is underwritten by a consortium of London and U.S. insurers. Lloyd's of London is the lead underwriter and Allendale Insurance Co. of the Factory Mutual System participates in the risk and provides international loss-control and engineering services. The policy is a brief and broadly worded all-risks policy that extends coverage against all physical risks of loss or damage on a consolidated basis.

"The idea is not to have to analyze every risk and figure out if there is an earthquake or flood exposure to make sure the policy picks up every risk. Instead, we formulate it on a basis of global cover against any possible risk."

Basically, the only exclusions are nuclear and war risks.

"We have the best of all worlds," Mr. Russell says. "We have Lloyd's broadminded policy form with Allendale's capacity and engineering and inspection capabilities."

Mr. Russell polishes off the offer with a 20% discount off what local insurance markets would charge for the same coverage.

The 20% discount doesn't violate tariff rate laws, which are in force in many countries to establish the minimum rates for various lines of insurance. The final 20% discount can be legally achieved, for example, by charging the tariff fire rate while cutting the rate for the non-tariffed coverage for machinery breakdowns.

Local Alcan companies also are offered the optimum deductible or self-insured retention for their financial capability, which varies from company to company.

The global property and business interruption insurance policy carries first-loss limits of $250 million, meaning that any loss, anywhere, is covered for $250 million without establishing individual values for each location.

The global liability insurance program, which is similarly structured, includes a broad bumbershoot liability policy from Lloyd's that covers marine risks under its broad terms to $25 million. Another $75 million of excess liability insurance follows that broad form, which generally is not available any more. Another $100 million of liability insurance specifically for aircraft product risks is available after the first $100 million of general liability excess insurance.

Global marine cargo insurance, while presenting only a $10 million maximum risk at any one time, presents the biggest administration problem.

"You have decentralized organizations shipping goods to third parties and they need certificates of insurance. You need service in hundreds of ports. For budgeting, you need a premium distribution system and you need excess insurance."

Insurance Co. of North America, which has held Alcan's marine business for 50 years, solves the administrative problems. INA services all Alcan's marine cargo insurance needs and reinsures the risks with Alcan's Bermuda captive. Excess and war risks are partially reinsured with Lloyd's of London.

Miscellaneous risks, such as crime/employee dishonesty, fiduciary liability in the United States and directors and officers liability, are insured under one global policy underwritten by The Chubb Group, with some cessions into Champlain.

Mr. Russell advocates global policies because they provide portfolio rating and experience, which provide better prices.

If all Alcan operations bought insurance locally instead of using this global insurance approach, Alcan as a group would spend anywhere from an additional $4 million to $6 million annually, Mr. Russell estimates.

Now, Alcan's total insurance premium for all operations is about $15 million, including premiums that flow to Champlain and those that are paid directly to London and North American insurers.

Champlain's $17 million of premium volume in 1981, underwritten against capital and surplus of $21 million, includes several million dollars of premiums earned by participating on reinsurance treaties for insurers on Alcan's global policies. Champlain is managed by Alcan employees in Bermuda who also manage other Bermuda-based Alcan business.

Cutting insurance costs is not, however, the only objective of the global insurance programs. "As important is the complete broad coverage we get throughout the world on a uniform broad form so everyone is covered under the same principle," Mr. Russell says.

"If you are selective about which risks you insure, you are likely to miss something and the risk manager won't sleep well at night.

"And I like to sleep well," he says with a wink and a grin.

The global programs give local operating management the stability of cost, high budgeting certainty and affordable deductibles. And they eliminate administrative problems, renewal hassles for local management and the need for local insurance expertise. "Everything is remote-controlled from Montreal," Mr. Russell says.

The global policies also are structured to provide immediate coverage when Alcan begins a new operation. "If we want to build a rolling mill in Malaysia in addition to the existing plant, all we have to do is write a five-line endorsement on the local policy and an additional $50 million construction risk is looked after."

While structured to be the broadest coverage available, the global policies are not always as broad as locally issued policies, especially casualty insurance policies.

"One can't necessarily assume that the broad comprehensive general liability form is as broad a cover as you can find in the local markets," Mr. Russell advises.

Most of the local European insurance markets, for example, have sophisticated product liability forms, he says. In West Germany, the product liability policy states clearly that it covers dismantling and reinstallation costs if a manufacturer's product is a component of a product that must be replaced or remade.

"Whilst in North America you may have cover for these risks, the courts and insurers seem to be haggling over how far the comprehensive general liability policy goes. The Germans say it expressly."

The German insurance market also offers a sophisticated water pollution policy needed to cover the risks created by the country's pollution liability law. Alcan had to arrange separate excess coverage in the local market to cover the pollution risk because the global property policy wasn't as broad.

That could be changed, however, when Alcan completes its study of pollution liability risks around the world. A special occupational safety and health department has been established under an Alcan vp to survey legislation in various countries, Alcan's operations and waste disposal systems and analyze Alcan's liability.

"Based on the results, we will decide whether to buy insurance," Mr. Russell said. "We haven't decided if it would be covered in the worldwide policy. I always avoid trying to issue individual policies."

Pausing a moment, he then asks himself aloud, "If a specialty market will write it, why not my worldwide underwriters?"

More and more risk managers are organizing global insurance programs today as many major commercial insurers openly offer and market global facilities. Mr. Russell recalls, "Five years ago, if you went to multinational insurers and asked them to cede 95% of the risk to your captive, they thought you were trying to draw them into an immoral act."

Mr. Russell welcomes the further development of these global packages. "The efficiency of our program has markedly improved with insurance companies' new emphasis on the service opportunities in dealing with large corporations."

For example, Alcan now gets "guaranteed cash flow—as soon as a premium is paid to a local insurer, we get credit for the funds in Bermuda the same day."

Local service is crucial to the success of Mr. Russell's international risk management program. He keeps it running with just six staff members in his risk management department in Montreal: a loss-control manager, a marine expert, a general risk management assistant, an administrator and two secretaries.

Mr. Russell squeezes services out of international insurers, brokers and consultants in each country in which Alcan operates as effectively as Alcan extracts alumina out of bauxite ore.

Wherever Alcan is mining, refining, shipping, smelting, generating power or fabricating, there are employees of insurance companies, brokers and consultants who are Mr. Russell's stand-ins. Around the world, there are about 100 employees of brokerage companies, 30 engineers from Allendale and another 50 to 100 employees of insurers working on Alcan programs. They inspect plants, advise local managers, collect premiums and pay claims.

"It's more cost-effective and also more efficient than expanding our department," he says. "I can't replace the service I get locally with our own resources. The job is not big enough to attract top talent and too big to be handled by mediocrity."

He chooses among AIG, INA and FM International for insurance service abroad. Marsh & McLennan services most of Alcan's brokerage needs, although Mr. Russell also uses Johnson & Higgins, Frank B. Hall & Co. and London-based Sedgwick Group.

All brokers are compensated on a combination of fee-for-service and commissions. The combination, however, never produces compensation exceeding a 10% commission, which is much less than the 30% commission that can be charged overseas.

"I try to have in each country the best individual to deal with my problems," Mr. Russell says. "I trust them to act on my behalf. It can be a broker, an insurer or a consultant. That person is my extended arm."

How can he be confident that when he flexes those muscles he gets what he is reaching for?

"It's the people you deal with, not which broker. One large broker is as good or bad as another. All you have to do is demand the best person for your account.

"The magic to it is to develop relationships of respect and trust with several top people. You have to get people committed to you—personally—to do a 100% job," he says.

That kind of commitment is gained only by personal contact, Mr. Russell maintains.

Building Mr. Russell's type of international insurance program and the contacts that make it work requires more than short trips to foreign countries to have lunch with the entire senior staff of the local brokerage.

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Successfully organizing a risk and insurance management program in a foreign country can require anywhere from one visit of two days to 10 visits of a week each, Mr. Russell says.

"It depends on the country, the circumstances, how efficient the insurance market is, the degree of tariff protection, foreign exchange controls, restrictions on export of reinsurance, the complexity of the risk, the degree of local management autonomy and the personal relationships that already may exist with the insurers," he explains.

His agenda on a first trip to a foreign country is: Size up the country. Size up the business. Size up the risk. Size up the loss-control and risk-financing needs. Size up the local insurance market and what it can do.

He attacks the agenda by first spending a couple days getting to know the people and the culture. He researches facts and figures about the local economy and attends cultural events. "It gives me an appreciation of the other person's point of view."

He then meets with local Alcan management and visits the plants. "You don't count transformers. You have to browse through and then use engineering consultants to get the inventory. You want to look at the interruption potential, social unrest, potential strike damage, machinery breakdown. You have to identify the crucial pieces of equipment, determine the financial structure of the company—is it wholly or partially owned? It's fairly complex."

Then, he researches the local insurance markets.

"You can't depend on handbooks put out by insurers. They are too general; they don't give you the specifics. You need to talk to different people, talk to competitors, to piece it together.

"There are a myriad of local restrictions and tariffs you have to find your way through and it is difficult. It is hard to get objective answers.

"There is a lot you are told that by law you are supposed to do and not do, but the insurance industry by practice ignores a lot of it. You have to dig in to learn what is law, what is convention and what is market practice. You can break convention if you find someone to do it, but you don't want to break the law."

When he knows what the company needs and what the local market can do, he asks, "How can I do it better?"

"Invariably, I can. Then I suggest my program to the local management."

He can't force it on anyone, but he has won them all over.

Now, the challenge is to keep them.

"We have continuing problems with our programs. They are not always easily understood and local competition can get in the act and raise doubts in the minds of local management about what we are doing.

"They may come in and underprice our own product, usually not in the full knowledge of the breadth of our product. When this comes together with bad economic circumstances, people tend to look at price only."

As a result, Mr. Russell "may have to do a complete review to be sure we remain competitive and our management understands they are paying premiums for apples and not for bananas."

If, however, local management wants less insurance than offered under the broad global policy, "within certain limits we can modify our approach," Mr. Russell says. "If people feel they have too much insurance or are covered for areas where they consider their risk minimal, we would be prepared to scale down the cover locally and maintain the broad cover on the broad group basis to remain competitive.

"There is a certain amount of flexibility in the negotiating position and all flexibility in the worldwide program because the coverage exists."

Generally, Mr. Russell suggests to local management concerned with cutting costs that they take a higher deductible. "I would first try to operate with higher deductibles before eliminating perils with catastrophic loss potential."

It's not difficult to convince them, Mr. Russell says. "It's easy to explain to top management that if the objective is a $100,000 premium, we at least want to cover his survival, which is not threatened by a $500,000 loss; it's the next $20 million. The probability of an earthquake doesn't matter. If there is a chance, we should insure it."

In addition to the broker or insurance company overseeing the insurance and risk management program in every country, there is someone in every local company who is his contact. "It is usually the chief financial officer, who deals directly with me and my department by modern communication methods—airplane, telex and telephone. We write few letters. We are directly involved in the insurance program through these contact people we establish."

One secret he shares to developing these important contacts with insurers, brokers and Alcan management overseas is the one-on-one business lunch.

"I avoid business lunches with more than one other person. They are unproductive. Close person-to-person communication to get to know a person and in-depth discussion never take place in a large forum." And he limits the number of people he lunches with. "It's not that important that you know a lot of people, but that you know a few important people well."

The ability to speak in French to the French, in German to the German and in English to the English doesn't hurt either. ■

Policy covers strike loss

How broad is a broad all-risks property insurance policy?

Broad enough to cover a business interruption loss caused by a strike, Eckart Russell has proven.

Alcan Aluminium Ltd. was forced to cut the power to its smelting pots at a plant in India when workers went on strike in a passive resistance demonstration over grievances. Without power, the pots solidified, creating at least four to six weeks of work to correct and a business interruption loss of several million dollars.

"The solidification of the pots occurred beyond the control of the insured," Mr. Russell reasoned.

"In a normal bargaining relationship, you can't claim a strike is beyond the control of the insured. But there was no bargaining; it was passive resistance. Communications broke down before anyone even imagined there would be a strike.

"In this case, I demonstrated that the strike action was unilateral and completely beyond our control. The deciding argument was that the grievances amounted to several thousand dollars whilst the loss resulted in several million. Only a fool in full knowledge of that would have allowed the strike to happen."

This stike "was at least as fortuitous as a thunderstorm," he convinced the insurers.

Program tailored to meet varying laws

When you can't beat 'em, join 'em.

Eckart Russell applies this philosophy to insurance buying in Brazil where local insurance regulation prevents him from using his prized global property insurance program. He has to buy insurance locally and at certain values.

"We can't do what we would like to do. We can't cover all risks—from machinery to mudslides. We can't buy it efficiently," he says.

And the property insurance he must buy is way overpriced considering the extensive property conservation engineering in place at the Alcan Aluminium Ltd. plants and the resulting low fire risks.

"We, in our misery, said, 'We have to do something.'"

The something became applying an insurance-buying philosophy in Brazil that is the exact reverse of the philosophy of the worldwide program. Instead of insuring all property against all risks at replacement value as he does under the global policy, Mr. Russell decided to selectively insure property in Brazil against specific risks of loss and to carefully selected limits—but staying within the law.

"We select against the insurer," he explained.

The risk management department conducted extensive risk analysis exercises not needed under the worldwide program.

The plant network was divided into independent fire areas—more than 200 of them—and each area was examined for severity and frequency of loss. From mining to refining and rolling to extruding, it was decided area-by-area what to insure and for what values.

Loss-control manager R. Ian Stronach used a combination of loss data from insurance companies and his own intuition to determine what the exposures to loss were.

"I have a good knowledge of how things burn," Mr. Stronach said. "I can look at a plant and say that will burn but it will only burn itself, or, it won't burn itself to the ground. I know the capabilities of our protection, the municipal protection, plus the physical elements of construction. I have a pretty good idea of what our maximum feasible loss is.

"Then, I use the historical data of insurance companies to detemine what we can expect to lose, plus my own intuition. I say, for example, there would be a 60% to 80% loss, without looking at a dollar value yet. I don't want that to influence my decision-making.

"I then take the probability of this event—determined as low, medium or high—again based on insurance industry figures.

"Then I look at the asset value.

"Take a part room. Say there is $100 million there. But the probability of fire is low—there is nothing there to burn. Therefore, there is nothing to insure.

"Now look at a carbon plant, with fire protection. It's an $80 million facility. A fire in a carbon plant usually is up to 70% burnout. We know the loss is of medium frequency. We look at that. We don't assign weights and multiply the asset values. Based on the asset value and medium frequency of loss, we insure that."

"We insured some for full replacement value and others for nominal amounts to comply with the law," Mr. Russell said.

The result: The fire insurance premium was cut by 30% "without losing one iota of coverage."

A similar exercise was performed for the plants in India, which also precludes Alcan from using its global insurance program.

The time and effort this work takes paid off in savings in Brazil, but "it would be a nightmare to do it on every plant—that's why we buy a portfolio cover worldwide."

"I intuitively do this elsewhere to get an idea of the exposure," Mr. Stronach noted.

"This does not mean we do not have to analyze risks," Mr. Russell stressed. "We have to do that for loss control anyway, but risk selection does not become part of the insurance negotiation." ■

Global plan was begun in the '50s

Alcan Aluminium Ltd.'s global insurance programs are built on a foundation laid by a man who today is in the office of the president.

John H. Hale, also senior vp and chief financial officer, revamped Alcan's insurance program in the 1950s, instituting very progressive programs, risk manager Eckart Russell points out.

The global property insurance program, for example, goes back to the 1950s when the London market was first willing to package such risks.

Alcan's package property insurance policy at Lloyd's of London almost was lost when Hurricane Betsy's damage in the United States in 1965 devastated the London market and many similar package policies were canceled.

Alcan, however, was able to remarket the program, placing only half of it in the London market and the other half with what is now the Allendale group of the Factory Mutual System, which had been insuring certain property in the United States and Canada.

In the 1950s, Alcan was primarily a centralized, North American company. The big international development that came later led Mr. Russell to suggest in 1975 that Alcan form a Bermuda-based insurance subsidiary to participate in the international insurance program.

Still participating in Alcan's property insurance are Lloyd's of London, as lead underwiter, and the Allendale group, as a 30% coinsurer and engineering service provider.

As with the property insurance program, Mr. Russell inherited a progressive marine insurance program on which to build.

In the 1950s, Alcan started buying its marine insurance on a cost-plus basis under what is now called a cumulative retrospectively rated insurance policy.

Premium adjustments under this type of policy are based on the cumulative loss experience under the policy from day-one instead of on annual loss experience. That gives the policyholder the benefit of good loss experience over a longer period of time than the typical annual retros.

"They were unbundling services in the 1950s. That's fantastic," Mr. Russell says.

The marine insurance program was brought into the captive-funding mechanism in 1978. ■

Delegating the details gives Mr. Russell time to enjoy his grand piano.

Photo: Walter Parker

Delegating details serves Russell well

Deal in concepts and delegate the details.

It's a simple enough management principle, preached by many and practiced by few.

Eckart Russell both preaches and practices delegation, which is how he manages the worldwide risks of Alcan Aluminium Ltd. with a staff of only six and yet also leaves the office most nights by 6 p.m.

Delegating the details gives Alcan an efficient risk management program and Mr. Russell the time he cherishes to pursue other interests.

In the evening and on weekends, he plays Schubert on his grand piano, reads a Russian classic and plays with his new daughter, Lily, who was born last month. For exercise, he skis during the winter, runs during the summer and keeps up with chores at his farm outside of Montreal, chopping wood and tending the vegetable garden.

"You need the ability to detach yourself from your job, not because you will go crazy, but for your personal development. You need distance from it to keep a perspective on what you are doing.

"You have to guard your own mental and spiritual resources. You cannot spend all day and night solving material problems. You'll be left with no center, no personality. You can't deal with the complexity of the human side of the business."

At work, Mr. Russell doesn't know where a single document is filed, but his staff does.

He doesn't dabble in the petty day-to-day problems of insurance programs in more than 30 countries. The local brokers and insurers do that.

He does zero in on the essence of problems presented to him by Alcan overseas management who need solutions right away. He draws on his strengths of a problem-solving mind and the right contacts in the right places to accomplish what he wants.

"My job is a combination of scheming, implementing and monitoring," he says. "The risk management function in my context is not one I can manage if I put out all the fires myself. I have to rely on a myriad of other people and manage these resources effectively."

When the secretary of an Alcan affiliate in Australia called with concern that a new law precluded corporations from paying the premiums for liability insurance for their directors and officers, Mr. Russell didn't sit down to contemplate *how* to solve it. Instead, he called the Marsh & McLennan office in Australia and asked, "Is there any way the Australian directors and officers can be covered by our global D&O program?"

The answer came back: "Yes."

The solution: An employee of Alcan in Australia could act as an agent and collect premiums from the individual directors and officers and send the premiums to Alcan in Montreal as a contribution to the global liability program.

That saved the officials a bundle. The price they would have had to pay to buy the insurance locally approached the total cost of Alcan's global D&O coverage.

"That took me 15 minutes of research and fact-finding and delegation."

Mr. Russell says he gets this kind of service everywhere in the world.

"You have to know where to go for reliable information. You go to the top people in the brokerage firms and insurance companies. You have to know who they are and where they are. That's why I never miss an opportunity to meet key people who are experts in their field."

He contends that his access to top people is not just a function of his buying power as risk manager for Alcan. "You don't get access just on buying power, but on the credibility and respect you have in your business."

He renews that credibility and respect every day, says Pierre Catudal, assistant risk and insurance manager at Alcan.

"I marvel at how he takes the lead when talking with attorneys or claims managers. He has a great analytical mind. When he detects a weakness, he'll say, 'Tell me that again.' And then they see the problem, too."

Mr. Russell says the key to delegation is not doing anything someone else can do. "I would rather show someone else how to do it than do it myself because these tasks reoccur and hopefully I won't have to explain it again."

He won't have to tell Mr. Catudal again that the global liability policy doesn't exclude nuclear risks.

With a bit of embarrassment, Mr. Catudal recalled that when working on the German insurance program, he thought that Alcan would have to purchase a separate excess insurance policy to cover its radiation contamination exposure under West German liability law.

"I thought it wasn't covered in our comprehensive general liability policy. But he said, 'There's no nuclear exclusion in our bumbershoot,'" which is Alcan's broad umbrella policy issued by Lloyd's.

There are some tasks Mr. Russell admits need his expertise, especially the "fuzzy" questions from operating facilities wanting to know "Are we covered?"

A pilot strike in Alcan's deep-sea port in Jamaica was holding up a delivery of oil for Alcan's mining and refining facility there. The captain of the ship carrying the oil said he wouldn't enter the port without a pilot unless Alcan signed an agreement holding him harmless for any damages.

"My visibility as risk manager is such that they wouldn't sign a release without going to me," Mr. Russell said with a hint of relief.

"Obviously, our people felt very strongly there was little risk and wanted to get rid of the problem by signing the release."

Mr. Russell's response was to "go through the problem with our people, step-by-step. I asked them, 'What can happen?'

"First, the ship could sink and people and cargo and ship would be lost, for all of which we could be held responsible. Secondly, the ship could run into our dock and do damage to us for which we could normally hold the ship responsbile. Thirdly, our operations in Jamaica could be interrupted because we depend vitally on this port.

"Then there was the question: Do we need the oil very badly?

"The first thing that came to mind was the ironclad principle: Never relieve a captain of a ship of his full responsibility. He knows how to navigate the ship, not us.

"Secondly, I asked, Who has to go into this port more urgently? The ship or we? What's the bargaining position? Do we need the oil very badly or does the ship want to discharge the oil very badly.

"Then, I asked, who most responsibly *should* take this risk? It would appear to be the shipowner because he already has insurance for people, for the ship and there's cargo insurance."

Mr. Russell suggested that the captain contact the shipowner and ask that the ship's insurers extend coverage for him to enter the port.

Mr. Russell also added that if Alcan needed the oil and the captain still was reluctant to deliver it, Alcan could make a concession on damage to its own facilities and have its insurers to waive subrogation rights for any damage.

In the end, the ship delivered the oil with full responsibility.

"The bargaining position was in our favor and the logic was in our favor. There was no reason to free the captain of his natural responsibilities," Mr. Russell explained.

Another call asking "Are we covered?" came from West Germany.

A plant was blacked out after it blew its main transformer. It would take about a year to replace the transformer, creating about a $100 million business interruption loss. Although the loss was fully insured, the plant management wanted to stay in operation.

The temporary solution was to string a two-mile transmission cable to a non-related neighboring plant with an extra transformer that it was willing to allow Alcan to use. The Alcan plant had power again within four or five days.

A week later, Mr. Russell received a call from the managing director in Germany. The generous plant that was lending Alcan use of a transformer was now asking for a full hold-harmless agreement to cover it for any damages it might suffer if it needed its spare transformer and Alcan had damaged it.

The neighboring plant was a smelting plant. If it lost power, the pots would solidify. The loss potential was estimated at about $100 million.

"We are insured for this, aren't we?" the managing director asked.

"No," Mr. Russell answered.

One might think the logical solution would be to submit the problem to Alcan's insurers. "We could have told them, 'If we don't sign the agreement, our neighbors will cut the power off and you'll get the $100 million loss.'"

Mr. Russell decided he wasn't likely to get a straight answer from an insurer on a proposition like that. "The insurer would most likely say, 'Present us with the loss once you have it.'

"It occurred to me if anyone would cover the interruption exposure on that neighboring plant, it would be the insurers on that neighboring plant because they know it.

"So, I asked if they had machinery breakdown or interruption cover already in existence. The answer was no. Then I asked if it could be taken out, which seemed possible because it's not complicated.

"So I suggested that the Alcan managing director go to the neighboring plant's insurance department and suggest they buy the insurance."

But, who would pay the $200,000 insurance premium?

"To have that clarified, I got our claims adjuster on the phone. I submitted that the insurance premium be part of our business interruption claim, to which he agreed over the telephone."

With a few telephone calls with top people, Mr. Russell solved the problem within 24 hours.

The principles behind his approach to these problems are:

- Understand the problem—with full understanding of all the background. Determine who is in the driver's seat. What is a reasonable expectation? What is insurable and by whom?
- Know the people you are dealing with. Have the personal contact with the right person and the confidence that you can rely on his word. ■

Coverage benefits outweigh cost

Alcan Aluminium Ltd. doesn't need insurance to survive.

"There isn't one insurable risk that threatens Alcan's survival," says risk manager Eckart Russell.

So why does Alcan spend about $15 million a year on insurance and pour millions of dollars into property and business interruption loss-prevention measures?

Because the value of the insurance or the loss-prevention techniques passes the cost/benefit test, Mr. Russell says.

The cost/benefit test for buying insurance starts with defining the cost of insurance.

"It's not just the premium you pay out, because you get a portion back in claims. Therefore, the cost is the premium minus what you receive in loss payments."

The benefit of having the insurance, says Mr. Russell, "is to get rid of potential variations in earnings."

In most cases, there is only a marginal cost and a marginal benefit.

"So, you measure the cost and benefit in terms of the ultimate goals of the corporation.

"The financial objective is to maximize the shareholders' wealth, which is a function of earnings."

Shareholders also want confidence in the estimates of those earnings, however.

Buying insurance reduces earnings and so increases the required rate of return, but it also increases certainty about earnings.

With this foundation, Mr. Russell then analyzes the efficiency of purchasing insurance.

"Where the insurance market is well spread, there are good statistics and the loading for profits and uncertainty is small, the net cost of insurance is reduced. If that condition exists, and you can get rid of a large risk for a small cost, indulge in insurance. But if the insurance is relatively expensive and the units of risk removed are insignificant, don't buy it."

Mr. Russell also recalls another test for buying insurance, taught by his predecessor, John H. Hale, who is now a senior vp of Alcan and one of a four-person team comprising the office of the president:

"A $10 million loss is not a catastrophe," Mr. Hale told Mr. Russell. "But if you could have had insurance for it for a few nickels and dimes and you don't have insurance, that could be a catastrophe."

Mr. Russell won't discuss the specific retentions Alcan has taken, but they are substantial.

"Our retention level is largely governed by administrative reasons, not risk transfer considerations," Mr. Russell explained. "From a risk transfer point of view, $1 million to $5 million may well be irrelevant."

On the local operating level, however, where local management has responsibility for profits and in many instances answers to local shareholders as well, the point of risk transfer is very relevant and often the retention is very low.

Mr. Russell looks at the needs of each local company.

"We arrange a tailor-made program with limits and deductibles that suit them based on the broad coverage already established under our worldwide policies."

The deductibles assumed by local companies can be as low as $100,000 and as high $1 million.

Alcan's insurance subsidiary in Bermuda insures or reinsures the difference between the deductibles taken by local companies and the Alcan group's retention under the global policies.

All Alcan's insurance needs—property, casualty, fidelity, marine—follow a similar pattern.

The cost/benefit test applied to property conservation expenditures is: Is the value of the loss prevented more than the cost of the loss prevention?

That, Mr. Russell observes, doesn't jibe with property insurers' tests.

"It always struck me that insurers have a one-dimensional point of view on fire loss prevention—prevention at any cost," Mr. Russell said.

This puts property engineers in the same league as government inspectors, he says. "They are perceived as a necessary evil.

"The trick is put the loss-prevention question into the heads of line management by relating it to operating objectives, which are to produce, to sell and to make profits."

Alcan's risk management department does this by determining the rate of return for each investment in fire prevention.

The cost of every fire prevention recommendation made by Allendale Group engineers is compared with the present value cost of the expected losses that would be prevented. Capital budgeting and loss forecasting techniques are applied.

Property risks inspected annually

Alcan Aluminium Ltd.'s 200 plants around the world are inspected at least once a year by loss-prevention engineers armed with HPR standards.

The engineers, usually from Allendale Insurance Group, look for any problems in "human element" aspects of loss prevention and physical protection that don't comply with the standards for rating property a highly protected risk.

The so-called human element includes housekeeping, the placement and maintenance of fire extinguishers, warehousing procedures and maintainance of flammable liquid rooms.

"They are the things that in themselves don't have a capital cost associated with remedying the problem," explains Loss Control Manager R. Ian Stronach. "And, they are usually low loss potential-type things."

Physical protection includes measures that do have a capital cost associated with them, such as sprinklers and fire pumps.

The sprinkler systems are reviewed against insurance company standards. Fire pumps are checked against the design standards. Building use is checked against the fire protection.

The reports are submitted to Alcan and reviewed by Mr. Stronach, who was hired in 1980 by Risk Manager Eckart Russell.

Under the human element review, fire extinguishers may be missing or sloppy housekeeping found. Under physical protection, the engineers may find a building contructed for one material is now used to house another material, so the fire protection needs upgrading.

"We don't get too many surprises," Mr. Stronach says. "And the more I visit the plants, the fewer surprises I get."

Mr. Stronach can't visit every plant every year, however, and so he relies on these reports. "We know their standards so we know how to interpret the reports," he says. If Alcan decides against a recommendation, "we give the engineers the reasons why."

Some companies have their own staff to conduct their own inspections each year in addition to the insurance inspections. "I'm not convinced we need to," Mr. Stronach says.

He does get into hands-on engineering for fire prevention and loss-control engineering at Alcan plants at the drawing board stage.

Mr. Stronach sees all requests for authorization of funds for new projects. When one hits his desk, it normally contains only a small amount of technical detail. He immediately contacts the project manager.

"We sit down with the project engineers and give them design criteria. We basically tell them what areas need protection and the methods to protect them. We give them the generalities and we agree on the design criteria—the philosophy."

At this point, Alcan calls in the Allendale engineers and outlines what they are building and how they plan to protect it. "We ask them if they agree philosophically," Mr. Stronach says.

Then, as the project progresses, Mr. Stronach works with the project engineers on the nuts and bolts of the protection engineering, which he calls the detailed engineering stage.

"Once we put our detailed package together, we ask Allendale engineers to look at it for compliance with their standards. I can do that myself, but I don't see why I should."

The best engineering, however, doesn't prevent all fires in the aluminum business. Rolling mills, where slabs of aluminum are turned into sheets and coils of varying thicknesses, are a major fire risk.

"You have to use a highly combustible lubricant," Mr. Stronach explained. Depending upon the nature of the mill and the material being rolled, a fire every two weeks might not be unusual. In another type of mill or with a different product, there might be only one fire a year.

Generally, the rolling mills are protected by carbon dioxide systems. Since these systems can fail, the plants are equipped with backup systems to save the mill from a major loss that could cost $2 million to $3 million.

The nature of the backup system depends on the capabilities and favored technology in the country. In West Germany the backup is foam, while in the United States it is a sprinkler system, for example.

Alcan's catastrophic loss exposures extend beyond fires in its mills. Its hydroelectric stations, which generate the massive amounts of power needed to run Alcan mills, must be carefully engineered. A loss of power to a smelter, for example, could cause a catastrophic loss if it lasted long enough for the pots to solidify. It takes at least four to six weeks to put a smelter back in operation, and a full four to six months to get it operating at maximum efficiency again.

Therefore, power stations aren't built on earthquake faults and power lines that run through mountainous areas are carefully designed to withstand mudslides and avalanches.

When a risk can't be engineered out, a backup system is installed.

In the United Kingdom, for example, Alcan's own powerhouse feeds its large aluminum smelter. Only two of the three generators are needed to provide enough power. But even with this extra generator, and one tie line from the national power grid to replace a second generator if it went out, Alcan decided to spend another $8 million to build another tie line for full power backup.

Both tie lines were needed in January when there was a full power failure in the Alcan power station.

The power station was down for only an hour and a half, however, a much shorter period than the six- to 10-hour maximum that a smelter can be without power and remain undamaged.

While the Alcan risk management department does not handle personal loss-control programs because workers compensation concerns are assigned to another department, it will be expanding its loss-prevention work in the future in analyzing machinery breakdown exposures.

"It's not neglected now," Mr. Stronach says. Plant management tends to the needed maintenance and Allendale Group engineers perform boiler and machinery inspections.

Mr. Stronach, however, would like to do more analysis of the machinery breakdowns to better determine where the potential losses are.

"A lot of this information is passed around now by the plant managers, but we want to quantify this potential as we are the fire side," he says.

"The frequency of events is potentially higher than fires if the machinery is not maintained properly," he points out. ■

Recently, for example, this methodology was applied to a recommendation that Alcan install sprinklers to protect a conveyor.

"We didn't think the large capital investment was justified due to the extremely low probability of the event occurring, even though we realized if it did occur, we could have a major fire," said R. Ian Stronach, Alcan's loss-control manager.

To prove it to the Allendale engineers, Alcan laid out on paper a comparison of the capital cost of the sprinkler with the present value of the expected losses to be prevented.

To determine the present value of the losses that would be prevented, Alcan's risk management department determined the probability of fires occurring, using data on losses obtained from its underwriters.

"We took the best available information," Mr. Stronach explained.

"We determined the probablility of any fire occurring and then from similar loss data we built a severity distribution. Knowing the costs and revenues of our plants, we then put our own dollars and cents to that," he said.

Alcan also estimated the physical damage loss from a fire based on historical loss data. It used the construction scheduling that went into building the plant as a guide for determining the cost to replace it.

Based on the severity distribution, Alcan calculated the expected losses and annualized them.

When the capital cost of the sprinkler was compared with the present value of the expected losses, the sprinkler cost more than the value of the losses it would prevent. The sprinkler was not installed.

"We apply this methodology to get both results—to get operating management to do what it doesn't want to do, and to not do what we don't find cost-efficient," Mr. Russell said.

This rate of return test—albeit a hypothetical rate of return—gets people interested in fire prevention investments, Mr. Russell says.

"This is a management approach that pulls risk management out of the obscure and puts it into the line. You are talking like line management where every move they make is boiled down to its return on investment."

The Allendale Group engineers "also are responsive to sound reasoning," Mr. Russell says. "They aren't as rigid as people might think."

Alcan's risk management department has found that of the hundreds of fire-prevention recommendations they have measured against this test, the largest number are high-cost and low-benefit. "Those, you don't do," Mr. Russell says.

Of the rest, half are low-cost and high-benefit. Those are implemented right away. The other half, where the cost and benefit are equal, present "the most difficult decisions. If the cost and benefit are equal, you use your judgment."

The fire-prevention measures that pass the cost/benefit test can be mighty costly.

Included in the $50 million cost of the Kitimat, British Columbia, smelter was $1 million for fire prevention systems. In the construction of the $500 million Grande Baie, Quebec, smelter, $8 million is being spent on fire prevention. The figures work out to about 2% of budget spent on fire prevention.

"The years and years of beating the drum are showing results," Mr. Russell says.

In 1981, for example, Alcan plants suffered 547 fires with a combined loss value of $4.4 million. There were no catastrophes.

"We consider that an excellent record," Mr. Russell said.

But the risk management department isn't content with an excellent record. The elaborate fire loss reporting system established in 1981 that produced those figures is designed to increase Alcan's knowledge about fires in the aluminum business and find new ways to prevent and control them.

"We don't need engineering standards," says Mr. Russell. "What we really need is technical knowledge of how fire behaves in certain circumstances. We need to know how big a loss we could have and what means of prevention are available—from Volkswagen to Cadillac. With this knowledge, the decision is made based on return on investment.

"I don't need a big manual that says sprinkler everything that burns. We look at fire risks, measures of protection, effectiveness of protection, cost of protection and effectiveness of protection against the cost." ■

Irish project tests Russell's mettle

Eckart Russell grabbed his Sony Walkman, a good selection of classical tapes and jumped on a plane to Dublin as soon as he learned that Alcan Aluminium Ltd. planned to build a major plant in the Republic of Ireland.

There, for the first few days, he he met with people in the insurance business, visited the project site, sat in pubs and drank Guinness with the locals and read "The Dubliners" by James Joyce.

"I didn't know much about Ireland and I wanted a feel for the people, the economy and the insurance industry," he explains.

He took nine more trips to Ireland—and read all of Joyce's works—in the process of setting up the insurance program for the $1.3 billion project.

With a grasp of Irish culture and business, he set up the insurance program before the project partners had requested bids. "You have to be in there early, not late."

Mr. Russell's risk management work on the project in Ireland, which was begun in 1978 and now is 75% complete, provides a vignette of how he handles international insurance risks for Alcan.

The project presented all the challenges he faces in managing risks in more than 30 countries:

- Gaining sufficient control to properly manage the risks while recognizing the needs and concerns of outside interests, in this case two other multinationals.
- Coaxing a progressive insurance program out of a less-sophisticated and restrictive local insurance market.
- Building enough rapport with local insurers and brokers to trust them to oversee his program and follow instructions sent from Montreal, precluding the need to hire a local risk manager.
- Keeping a clear head on transatlantic flights.

When the partners agreed to the project, Mr. Russell was authorized to create and chair an insurance committee of the risk managers of the three partners. He admits his leadership was enhanced by Alcan's majority interest of 40% in the project compared with the smaller investments by a Royal Dutch Shell subsidiary and Atlantic Richfield.

The committee was charged with buying sufficient insurance in line with the thinking of the partners.

Mr. Russell wrote the specifications for a complete wrap-up insurance program with the cooperation of a local broker, Mathews Mulcahy & Sutherland Ltd., a subsidiary of C.T. Bowring, which at the time was a correspondent of Marsh & McLennan. Since the M&M acquisition of Bowring, the local broker is even more closely linked to Alcan because M&M is Alcan's principal broker.

The specifications went out in 1978 to a local insurance market guaranteed the business by laws forcing local purchase of insurance. But, the local markets lacked the capacity to underwrite the insurance needed for such a project that was 20 times larger than anything ever built in Ireland.

"The project created tremendous expectations in the local market, but there was not enough capacity to support it," Mr. Russell recalled.

"It was similar to situations in developing countries with a small insurance market and protectionist laws.

"But the Irish are intelligent people, so it made for an interesting experience. The level of expertise and knowledge in the insurance business is quite elevated in Ireland, which you cannot say for developing countries. And it is liberal as well."

The wrap-up program was constructed with the Insurance Corp. of Ireland, the largest national indigenous insurance company.

The property insurance was structured under a program with ICI as local insurer. ICI received a ceding commission for reinsuring the $75 million first-loss, all-risk policy with the project partners' worldwide insurance programs, including their own insurers.

The employers' liability risk presented a more difficult problem.

Workplace injuries in Ireland aren't handled under the no-fault workers compensation systems of North America. Instead, injured workers in Ireland file a claim against the employer and the employer has to defend itself.

Although the employers' liability risk could have been self-insured, the partners decided against it. They needed local defense services and they wanted an insurer as a buffer between them and a construction workforce that would peak at 5,000.

Again, ICI seemed like the logical company.

But, Mr. Russell was concerned that loss experience on other projects in Ireland might not be reflected in this huge project.

On one hand, the big corporate names behind such a big project might induce more workers to file claims for injuries more frequently and for larger amounts.

On the other hand, the losses could come in far less than expected. Mr. Russell, accustomed to buying insurance on a cost-plus basis, didn't want to be overcharged on a guaranteed-cost basis.

The cost-plus insurance contract "was very difficult to sell to the Irish. They didn't know it. They didn't understand it. And they didn't know how to cost it out."

Mr. Russell wrote an incurred-loss retrospectively rated insurance policy, based on North American cost factors.

"It took a fair amount of explaining, " he said, but ICI finally accepted it. It was the first retro policy ever written in Ireland.

General liability insurance was much less of a problem. A primary policy for $5 million was placed with ICI with the excess insurance policies of the partners committed to pay any larger loss.

The program is now running without a local risk manager, in line with Mr. Russell's preference.

Senior people at Mathews Mulcahy & Sutherland, Marsh & McLennan in Montreal, the Allendale Group's engineering division in the United States and the construction company in Ireland report progress to Mr. Russell.

"The pipeline is set up. I just have to put steam into it once in awhile," he says.

Mathews Mulcahy employees handle claims, work with contractors, monitor the contractural agreements and supervise the loss-control programs.

Allendale and Alcan engineers are monitoring both the loss-prevention engineering and the on-site loss-control activites.

It is working well, Mr. Russell says, because "I keep in contact with top people, in this case the managing director of the local broker. He has assured me nothing will go wrong and he keeps a guiding hand on it."

No major losses have occurred on the project.

Mr. Russell weathered the 10 trips to Ireland to set the program up with his usual style. While winging across the ocean, he listened to tapes and read Joyce.

"I use the time on planes to relax and dream. I'm careful not to burn myself out." ▪

Photo: Alcan Aluminum Ltd.

Work on the huge, $1.3 billion Alcan facility in the Republic of Ireland is now 75% complete.

Responsibilities transform Russell into a globetrotter

Eckart Russell got into the insurance business because he wanted to see the world.

He sees a lot of it as Alcan Aluminium Ltd.'s risk manager.

At the peak of effort to construct Alcan's global insurance programs, Mr. Russell was on the road and in airplanes about 50% to 60% of the year, visting more than 30 countries.

Now he travels abroad when needed, about 30% to 40% of the time, and assigns more trips to others on his staff. When he makes a special-purpose trip, he expands it to include courtesy calls on nearby operations.

He also sees a nice piece of the world from his 41st-floor corner office in the Place Ville Marie in Montreal with a sweeping view of Mount Royal and the St. Lawrence River.

Born and raised in the heavy industry district of the Ruhr Valley in West Germany, Mr. Russell wanted to live in a city after he graduated from Gymnasium Essen in Werden.

He headed for the family-related insurance brokerage in Hamburg in 1960 at the age of 20.

"I felt insurance was a good business in that it was fairly stable and would forever provide employment opportunities. Also, having grown up in a provincial setting, I was intrigued by the cosmopolitan nature of Hamburg and the international trade connection. I wanted to be an internationalist and insurance seemed to be the sure way."

He didn't pursue a university degree in Germany because "in Germany, that's an endless affair." Instead, he began supplementing his work experience with related courses, a pragmatic approach to the education he continues today.

Friedrich Homann, the family-connected brokerage, sent Mr. Russell to the London market in 1963 as its representative for a thorough training in the practices and principles of the London market. While there, he also polished his English, which he had learned along with French.

Mr. Russell returned to Hamburg in 1965 and became manager of the property/casualty department of Friedrich Homann.

"I was quite successful at a very young age and very much into the management and day-to-day affairs of the business," Mr. Russell recalled.

"I felt I was burning myself out at a very young age, working 16 hours a day. I wanted to go on a sabbatical and go to North America to spend a few years."

In 1968, he moved to Montreal, attracted by the "bicultural ambience of the city" and its proximity to the United States, from which immigration laws kept him.

Although he was ready to "sweep floors and do dishes" to support himself, Mr. Russell found a job within four days as an account executive for Marsh & McLennan Ltd.

A year later, in 1969, he was offered a job at Alcan.

Specifically hired to eventually take over the insurance function, Mr. Russell first worked for two years as a financial assistant involved in financial planning, auditing, financial analysis and management. From 1971-72 he was an assistant to the vp of finance for raw materials.

"I enjoyed the years in financial management, to see how a multinational corporation functions," he said.

In 1972, he was named Alcan's insurance manager, reporting to the assistant treasurer and "given a very broad mandate from far-sighted people."

In 1978, he was named risk and insurance manager, reporting to the treasurer.

Mr. Russell's international interests also led him to accept the chairmanship of the International Cooperation Committee of the Risk & Insurance Management Society.

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Duties send Russell around the world

Continued from previous page

The committee's purpose, he says, "is to develop risk management thinking around the world, to promote the establishment of risk management organizations and cooperation between these organizations and RIMS in the United States.

"We try to go about it by knowing major people in existing organizations, visiting each other during business travels to keep in contact, giving talks and helping each other. Now there is a vast amount of communications between the various organizations."

The committee work is good for risk management and good for Mr. Russell, he says.

"For me, the work in this committee serves a dual purpose. I owe RIMS a contribution and I believe risk management as a discipline is a growing field internationally.

"The United States has something to offer the rest of the world.

"More selfishly, spreading risk management understanding around the globe can only be good for the types of programs corporations like mine want.

"My dealings abroad have been enhanced by these contacts."

Deciding to go into insurance because it was an international business was the "only career planning I ever did," Mr. Russell admits. Where it will lead, he's not sure.

There still are challenges at Alcan, even though the global insurance programs are in place. He is working on a proposal for systematically analyzing and treating political risk exposures, a project that he plans to complete within six months.

And he's thinking about how Alcan could extend the benefits of its own insurance company to its employees, perhaps by selling them automobile and homeowners insurance. He's convinced that the insurance can be provided at less expense than the commercial insurance markets.

Mr. Russell's broad background and varied interests suggest he could turn up almost anywhere in the world at almost any job that meets his criteria.

"I am not at all limited in my interests to the insurance business or risk management. What matters to me is any job I take provides sufficient scope, freedom of action and responsibility and that it involves the management of people and resources."

His choice of location is no more limited. He is still a West German citizen, and although he says he loves Montreal and would find it difficult to leave, one detects a residue of wanderlust in his heart that could drag him away.

He won't plan his future, or at least not admit to doing it.

"I'm not worried about my future. I've never had to lobby for my advancement," he says matter-of-factly, without a hint of boasting.

Superiors attest to Russell's skill

Alcan Aluminium Ltd. management endorsed the nomination of Eckart Russell for the Risk Manager of the Year competition, and honored him when he won.

Alcan Treasurer Allan Hodgson, to whom Mr. Russell reports, said in the letter endorsing Mr. Russell's nomination: "He has demonstrated over the years an exceptional capability to utilize all available techniques and tools using his imagination and natural leadership to formulate and implement a worldwide program that responds to both the diversified needs in a decentalized organization as well as the needs of the group as a whole.

"We believe that he has made maximum use of available insurance markets by seeking out and combining the best resources for the benefit of our company."

Mr. Hodgson was among the Alcan Aluminium executives who attended a luncheon held in Montreal by *Business Insurance* to honor Mr. Russell and to present him with a plaque in recognition of his award as the 1982 *Business Insurance* Risk Manager of the Year.

Alcan Aluminium Chief Financial Officer John H. Hale and Alumnum Co. of Canada Chief Financial Officer R.F. Sharratt attended the lunch, as did Mr. Russell's three assistants, including Pierre Catudal, who nominated Mr. Russell.

"I was limited by space, not his achievements, when writing the nomination," Mr. Catudal said. "He has done so much."

The 10 judges of the Risk Manager of the Year competition, who scored the nominees on how well they met nine pre-established criteria for excellence in risk management, agreed, scoring Mr. Russell's accomplishments the highest.

Among the comments some judges made were:

"Superb representative of the risk management profession in the development of a sophisticated worldwide program. His international admiration and respect is well-deserved. Analytical and thorough in all aspects of risk management."

"This candidate seems to me to be the best among the best and the award of Risk Manager of the Year made to him would honor the award more than the recipient."

"Excellent performance and character—outstanding candidate."

"An excellent risk manager."

"Eckart Russell has demonstrated himself as a true purveyor of the arts. His programs demonstrate the work of a real professional."

"Excellent background and performance and outstanding record in all criteria." ■

Photo: Walter Parker

Eckart Russell (left) is awarded a plaque for his achievements as Risk Manager of the Year by *Business Insurance* Publisher Alfred Malecki and Editor Kathryn J. McIntyre.

Photo: Walter Parker

The 1982 *Business Insurance* Risk Manager of the Year, Eckart Russell (center bottom row), is surrounded by his staff and superiors: (top row) Pierre Catudal (left), R. Ian Stronach and Shelton C. Prichard, all assistant risk managers, and Richard F. Sharratt, chief financial officer of Aluminium Co. of Canada; (bottom row) John H. Hale (left), chief financial officer of Alcan Aluminium Ltd., and Allan Hodgson, Alcan's treasurer.

FIRST RUNNER-UP
SPENCER J. TRAVER

By KATHRYN J. McINTYRE

AKRON, Ohio—A handwritten sign tacked up on the blackboard in the corner of Spencer J. Traver's office at The BFGoodrich Co. reads: "Obfuscation and risk management research and development laboratory."

"That's what some people think we do here—obfuscate. And that's what we are—a research and development lab," Mr. Traver says, lighting the first of the many Lark cigarettes he smokes during the day.

"It's trial and error—a 'what-if' game. Everything we do has evolved using the laboratory what-if type of game."

What if risks with property-like character that traditionally are insured under miscellaneous policies could be rolled into one global property insurance program? Would that reduce costs through economies of scale and broaden coverage?

What if the risk management department structured the layered property insurance program so insurers wouldn't need facultative reinsurance? Would that reduce the cost of insurance?

What if underwriters could be convinced that BFGoodrich can accurately project property and liability losses that will strike its highly volatile tire and chemical business? Would they accept the rates made by Goodrich and reduce their contingency or risk-factor charges?

What if BFGoodrich used only one broker on a strictly fee-for-service basis and made the broker part of a management-by-objective team? Would that improve service and efficiency?

These are just some of the questions Mr. Traver, BFGoodrich's assistant treasurer, and the 14-person risk management staff he directs have asked over the last eight years.

To each question, the answer was "yes," and each change helped streamline insurance purchasing and helped control the cost of losses and insurance.

The evolution of BFGoodrich's risk management program under Mr. Traver's laboratory approach scored high marks with the judges of the 1982 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll competition. Mr. Traver's high score earned him the title of first runner-up in this year's contest.

Mr. Traver's description of his approach to risk management as a what-if game reveals his tendency to speak in layman's terms and belies the seriousness with which he approaches his job of managing the risks of BFGoodrich.

The 52-year-old veteran of insurance underwriting, broking and risk management establishes rules for the what-if game that are as serious as the stakes are dear: Deal only in facts and not assumptions. Crunch the numbers in every possible way for the best analysis and projections. Find the better way to do it.

"We're constantly looking for that better way," says Mr. Traver, who holds CPCU and ARM designations. "We ask ourselves: 'Can we do it better? Cheaper? Can communications be improved? Can our product be improved? Can our funding be improved?'"

Any change in the risk and insurance management program must benefit Goodrich and its shareholders, Mr. Traver stresses. "We are non-operational corporate staff that supports our operating groups. We exist solely to make it possible for the sale of quality merchandise."

BFGoodrich's 1981 sales of $3.2 billion were made 40% in the tire business, 40% in the chemical business and 20% in miscellaneous products like aircraft components, conveyor systems and roofing materials.

The mix of business screams of huge corporate property and product liability risks that must be controlled and financed. And they must be controlled and financed effectively to support the corporate cost-control program of BFGoodrich, which is competing for precious customers and profits in an economy beset by slumps in the transportation, construction and mining industries.

The new BFGoodrich blanket property insurance program best exemplifies the inventions that spring from Mr. Traver's what-if approach to risk management.

What if risks with property-like character that traditionally are insured under miscellaneous policies could be rolled into a global property insurance program? Would it streamline administration, broaden coverage and reduce costs?

Mr. Traver says it does.

The new blanket replacement-cost property insurance program that became effective Jan. 1 covers all corporate property, valued at $1.3 billion on the balance sheet. The policy combines coverage traditionally provided under the following individual policies: named perils, manufacturers' output, difference of conditions, difference in conditions, ocean and river cargo, aircraft and barge hulls, boiler and machinery, auto physical damage, fidelity/crime and others.

The traditionally separately written policies of crime, cargo, aircraft and barge hull are "ancillary

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Photo: Kathryn J. McIntyre

'What if?' is crucial question for Traver

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covers everyone has to buy and usually one at a time. The cost of them probably is not significant in comparison with the total cost of risk, but they are a nagging backache," Mr. Traver says.

Punching a few numbers into his desk calculator, which he uses often, Mr. Traver estimates the miscellaneous policies can account for about 5% of the corporate cost of risk.

"Because they are only 5%, most people ignore it. But we got to watching the figure grow under inflation and decided there was a defect in the property insurance form," he explains.

Mr. Traver decided the casualty insurance approach of excluding what isn't covered is better than the property insurance approach of more often naming what is covered. "I wanted one economic package."

Such combining and streamlining can cut the cost of the miscellaneous coverages in half, to about 2.5% of the cost of risk, Mr. Traver says. Fewer policies also streamline administration and broadens coverage.

Mr. Traver wrote the policy, formed a Vermont-based captive insurance company and sold the package to a consortium of insurers to come in as excess insurers over basically a $1 million captive retention.

A Vermont captive was formed because that state's captive law offered, among other advantages, the freedom from rate and form regulation in the United States that Mr. Traver needed to implement this program.

He could have used BFGoodrich's Bermuda captive, Risktech Insurance Co. Ltd., but "the unique advantages to Bermuda don't help us," Mr. Traver said.

With only 15% of BFGoodrich's business overseas, the foreign tax credits don't pile up to offset the tax due on the income of the captive related to U.S. risks.

Foreign risks, however, are insured with BFGoodrich's Bermuda captive because tax on income earned in Bermuda from insuring foreign risks is deferred until the income is repatriated.

BFGoodrich retains a $10,000 deductible, which captures the first $10,000 of about 95% of the losses that strike. The Vermont captive, managed by Marsh & McLennan, participates in the next $1 million of a domestic loss. The Bermuda-based captive, managed by Armco, participates in the same amount on foreign losses.

Insurance Co. of North America is the policy-issuing insurer for the property insurance program and one of the reinsurers. Other risk takers on the policy include Industrial Risk Insurers (a long-standing BFGoodrich insurer), AFIA, the markets of Wm. H. McGee & Co. Inc. and Lloyd's of London and London companies.

Mr. Traver coaxed the excess insurers together by showing them that each didn't have to take a piece of each risk in the blanket policy. The insurer that liked cargo risks but hated crime risk, for example, could swap its share of the crime risk for more cargo risk.

BFGoodrich was the first, and so far only, company to form a Vermont captive, earning the right to name the company First Charter Insurance Co. The $2 million capitalization was paid out of a dividend from surplus accumulated in the 6-year-old Bermuda captive, which for almost two years did underwrite domestic property risks.

First Charter's $3.5 million premium volume includes premiums for surety bonds and excess workers compensation risks. The excess work comp insurance, however, is reinsured out.

"We have an awful lot of statistics and we know what the price should be. If the price in the market is below that, we will take the risk into the captive and reinsure it out," Mr. Traver says.

"The market price for reinsurance appears to be under where it ought to be at this time," he adds.

Buying the coverage as reinsurance of First Charter instead of directly from the excess insurance market also earns a ceding commission.

Not content with just the policy terms and conditions, Mr. Traver went after the reinsurance behind his property insurance program.

What if the risk management department structured the layered property insurance program so insurers would not need facultative reinsurance? Would the brokerage commissions and risk pooling eliminated cut the cost?

Yes, Mr. Traver says, to the tune of an $800,000 savings in the cost of the excess property insurance.

BFGoodrich's property insurance needs, believed to be about $500 million, are beyond the net and treaty capacity of any one insurer, forcing the insurer to buy facultative reinsurance.

Although facultative reinsurance is technically by risk, the insurer is going to reinsurers so often for facultative reinsurance that "like risks tend to get lumped together and there is no specificity in the rating process."

Mr. Traver is not about to lose rating advantages BFGoodrich deserves.

To keep Goodrich's risks out of the facultative reinsurance market and eliminate the ceding commission, Mr. Traver structured a program that reduces the insurers' need for reinsurance on the BFGoodrich risk.

He divvied the property insurance to insurers in line with their capacity.

"Conceptually, we built a mini IRI," Mr. Traver explains, referring to the stock insurance company consortium that forms Industrial Risk Insurers. "We went out and found insurers so that no insurer has to reinsure anything of consequence."

"We eliminated some of the daisy chain and eliminated the involuntary pooling of risk inherent in the retail insurance structure," he says.

When facultative reinsurance is needed, Mr. Traver likes to get involved. "We participate with the reinsurance broker, we go through the process, making presentations to the reinsurance intermediaries."

Layered property insurance programs have been built before, Mr. Traver admits, pulling out a chart from an April 1980 issue of *Business Insurance* showing how it can be accomplished. In that chart, the same insurers appear in many of the different layers of insurance, all taking pretty small shares.

"That keeps a broker rich," Mr. Traver quips, referring to the ceding commission the broker gets for each piece of the business placed.

The vertical shares of risk taken by the five markets participating in the BFGoodrich program reduces the number of individual placements as well as virtually eliminating the need for facultative reinsurance.

While not divulging the actual property insurance limits purchased, Mr. Traver commented that the policy limits are not a summation of all the values of BFGoodrich property. "That's ludicrous. You capture the combined MFL—or maximum feasible loss."

Sometimes, even that limit has to be increased to satisfy lenders, Mr. Traver notes. "They don't understand MFLs. If you borrow against three plants valued at $180 million, you have to show insurance of $180 million."

The cost of the property insurance program is further reduced by the low rates Mr. Traver has won from insurers, another invention of the what-if approach.

What if underwriters could be convinced that BFGoodrich can accurately project its property and liability losses? Would they accept rates made by BFGoodrich based on those projections and would they reduce the contingency or risk factor in their rates?

Mr. Traver found the answers were yes.

He's been developing the rates for BFGoodrich risks for the last three to six years, first for liability and then for property.

An exchange with a London underwriter at one renewal tells of the success:

London underwriter: "Your loss estimates are always a little high. Are you putting in a contingency factor?"

Mr. Traver: "Yes, 15%. Do you?"

London underwriter: "Yes, 15%. Let's get rid of one of them."

Mr. Traver and his staff developed the formulas for forecasting BFGoodrich's losses, and he is a little guarded about the details of the programs.

Basically, it entails compiling loss experience data for the last 10 years for about 800 cost centers.

On property risks, it entails developing "enormous spread sheets to determine the burning rate (losses divided by the exposure base) at every level of loss." Losses are tracked according to occupancy, range and peril. The loss data is then matched against the value base and the exposure base to develop the burning rates.

The underwriters are given the inspection reports, the PML (probable maximum loss) and the rates the BFGoodrich risk management department has calculated.

"One young guy asked me, 'Is this a misprint?' He'd never seen a rate that low," Mr. Traver said, declining to say how low it was.

Although the replacement cost values of BFGoodrich property have increased almost 17% a year because of inflation and growth, the real cost of property insurance and self-insurance has been decreasing a little more than 2% a year. That translates into an annual 12.3% decrease in the rate per $100.

On liability risks, he says, a 40-step system is used to forecast losses. Speaking carefully and modestly, all he will say of it is "It appears we may have developed a new formula for forecasting liabil-

Goodrich management plays the game, too

Sometimes the what-if questions posed to the risk management staff at BFGoodrich come from management, such as "What if we acquire this company?"

The risk management department is asked this question when the feasibility study is finished.

Has the risk management department report ever aborted an acquisition? One suspects so.

"A risk management department that does its job well is not that well-liked in the company," Spencer Traver says, pausing to find a memo he wrote once.

"The risk management department does not cause costs," he read from the memo. "We simply provide what we consider to be important management information and recommendations for remedies."

Returning the memo to his file, he says, "That's our involvement on acquisitions, too."

Staff organization eases communication

The risk management department at BFGoodrich is structured by functions, not lines of insurance.

Communications flow better if financial people speak to financial people, accountants speak to accountants and engineers speak to engineers, Spencer Traver reasons.

Loss control, claims management and finance and administration are each headed by a manager.

Among the managers' responsibilities is working with the outside service vendors BFGoodrich uses to implement its risk management and insurance program.

The loss-control manager, for example, works with consultants from Factory Mutual System, Hartford Steam Boiler, Industrial Risk Insurers, American Risk Management, Schirmer Engineering and Liberty Mutual (on workers compensation).

These consultants inspect BFG operations and recommend loss-control measures. The loss-control staff sets the priorities and sells the cost-effective measures to operating managers by showing them more money will be saved in losses than the cost of implementing the recommendation.

BFG annually spends at least $500,000 on consultants and several million on upgrading facilities.

The claims staff—three claims adjusters, one claims assistant and one claims supervisor under a corporate claims manager—is responsible for the management of all claims and lawsuits worldwide, other than self-insured workers compensation and benefit plans.

The staff handles 2,500 to 3,000 claims a year.

Using numerous adjusters around the world, the staff investigates and evaluates the claims, settles claims and sets reserves.

The final reserves to closing payment average as close as plus or minus 1%. The accuracy of reserves pleases Mr. Traver, but also concerns him. It's so close, "it's the danger point. Dame Fortune has a large part of this game."

The claims staff also works closely with the law department on investigations and the funding of settlements—whether they should be lump-sum or periodic payments.

GAB handles all property claims investigations in the United States and a GAB affiliate handles property claims in Canada.

Around the world, independent arrangements are made with the best local adjuster, who is not necessarily the fronting insurer.

Adjusters for other types of claims are selected by their expertise, with six different companies used on recurring types of claims.

The new blanket property insurance program presented another challenge: Teaching the adjusters what is covered by it. Corporate Claims Manager Joseph Sofie met with the broker and the outside adjusters to explain the program.

The finance and administration staff, under Deborah Gilbert, is involved in insurance purchasing, broker relations, contract review, merger and acquisition review, advertising literature and product label review, actuarial work and computer formats.

"I'm the risk management department DIC—filling in the gaps," says Ms. Gilbert, who also pinch-hits for Mr. Traver when he is traveling.

Also on the finance staff is accountant Gus Kristancic who was hired 2½ years ago. He handles all taxes and accounting for the department, freeing the corporate tax and accounting departments from the burden of learning the ins and outs of insurance taxes and accounting.

"Accounting people don't understand risk management language," Mr. Kristancic says. He is becoming the interpreter, with only one more exam to pass to earn the Associate in Risk Management designation. ■

Computers help Traver crunch numbers

Spencer Traver will be crunching numbers harder than ever now that he has some new toys: programs for his Texas Instruments 59 calculator at the office and a new Apple computer at home.

The Business Decision Library, Real Estate/Investment Library and Applied Statistics Library each cost just $35 and program the calculator to perform various financial analyses such as an optimal regression analysis and a cash-flow analysis.

"I've been using the calculator the hard way—writing out the formula and then doing the math," Mr. Traver says. "Now I can punch it and say 'that's what I want to do.'"

His new Apple computer at home, which cost twice the $2,180 he spent on his first car when he was an underwriter in Ohio, eventually will be hooked up to the computer at the office.

"I want to use computer technology to the maximum degree to support the functional support we give," he explains.

Already, property values are on computer in the risk management department. Every appraisal can be traced and values are updated every quarter by ZIP code using index data and some spot appraisals.

The information is crucial since most property is insured on a replacement-value basis.

Claims information is computerized to provide reports for accounting audits, to track reserves and to "publish loss data in any way we want it."

But, Mr. Traver wants to do more. "I want to do more actuarial analysis. The math gets heavy, but the new toys will speed things up."

ity losses that tends to give more accurate results."

This formula grew out of Mr. Traver's work in setting up the budget and management system for BFGoodrich's self-insured liability retention that was forced upon the company in the mid-1970s. He compiled extensive claim history by culling company and insurer records and analyzed it actuarially. He hired Corporate Systems Inc. to set up the information system.

Kemper, which has been BFGoodrich's liability insurer since 1937, now fronts for the BFGoodrich self-insured retention of liability risks, which exceeds the $1 million retention on property risks.

The excess insurance is layered, relying heavily on Lloyd's of London for the first layers.

The excess insurers trust Mr. Traver's loss projections so much that they have reduced the rate for excess liability insurance by 50%. Mr. Traver notes the rate is lower on the high excess layers because the market is so competitive, but the lower rate in the lower layers reflects a reduction in the contingency or risk factor charge.

"The contingency is a function of how much they know," Mr. Traver says. And he has convinced them they know how much his account will cost. "We have credibility with our underwriters that they aren't likely to get hurt," he says.

On lines of insurance where Mr. Traver doesn't have enough in-house loss data, he studies all other sources of loss data he can find and puts on his underwriting hat.

Although his rates don't always sell, "if the insurers perceive you as an underwriter, you get a pretty good shot," he says.

INA underwrites aviation liability insurance and Lloyd's and American International Group underwrite fiduciary and directors and officers liability insurance for the company.

Mr. Traver's search for efficiency isn't limited to underwriters.

What if insurance brokers were paid a fee instead of a commission. What if BFGoodrich used only one insurance broker in the United States instead of five? What if the broker was made part of a management-by-objective team? Would BFGoodrich get better service?

Yes, Mr. Traver says, with a little more than a year of experience paying a fee to just one domestic broker.

"I was naive enough once to say you ought to have two or three brokers," Mr. Traver confesses. He has since realized that "the broker is the service, not the marketplace."

Mr. Traver wanted to pay the broker a fee for service rather than a commission after analyzing how a broker makes money. "There are only three ways for the broker to make money: Service existing business, penetrate existing business and get new business." Although the client only wants service, "you can't blame them for addressing each," Mr. Traver says.

He described the client's plight by recalling a cartoon depicting an insurance broker telling the buyer, "And for $1 more, I promise not to sell you any more insurance."

Take away the commission motive, and you get the same result, Mr. Traver says.

In January 1981, Goodrich appointed Marsh & McLennan its only insurance broker, to be paid strictly fees for service delivered in pursuit of objectives of the risk management department.

This year, the broker-risk management department team has 25 objectives, among them is a more computerized system.

M&M won the account after showing it could fulfill a detailed list of specifications prepared by Mr. Traver. He listed the desired services, job descriptions for those needed, the rate per hour for each job description, the number of hours per year expected to be spent on each coverage and the amount of expertise needed.

Geographic location also was important. Mr. Traver wanted his broker within an hour's travel time. M&M Cleveland's office is a 53-minute—or less—trip away.

"If a broker is trying to service you from more than 125 miles away, he is incurring time and expense costs," Mr. Traver explains. "The broker has to have an office of sufficient size to provide 80% of the routine service."

Routine services requested included preparation of certificates of insurance, endorsements and invoice issuing. While not crucial, Mr. Traver also wanted to see that the broker could perform ancillary services like claims management support and actuarial support. "It's not that we would use them, we just want to know that they are there."

Mr. Traver says he can't find one downside risk to using only one broker. He does stress that to make it work, the risk manager needs access to the hierarchy of the brokerage.

"The chain of command on our account is established. Once a year, I meet with the guy in charge of the account. It is almost social rather than a business review. But I know he is there."

In all, about 30 M&M people work on the BFGoodrich account.

Overseas, however, Mr. Traver selects the best local broker for the local operating group. It's only coincidence if it is an M&M office. But as part of the MBO team, M&M has oversight repsonsibilities for all the overseas brokers.

The pursuit of efficiency extends to how the BFGoodrich risk management department delivers insurance and service to the operating groups.

The expense factor in the operating divisions' bills for insurance and loss costs is just 11%, Mr. Traver says.

The operating divisions also are encouraged to play Mr. Traver's what-if game.

The risk management department devised a premium allocation system for its operating divisions that gives them a guaranteed financial operating budget for insurance and loss costs. The budgets are carefully prepared, with each plant rated according to its relative risk.

The budgets change during the year under only three circumstances: a change in exposure exceeding plus or minus 3%, an error in the forecast exposure prepared in July when the budgets are due or an addition of coverage, like the non-sudden pollution liability insurance that BFGoodrich has purchased.

Each division also gets an opportunity budget showing how much less the cost could be if loss-prevention and control measures are implemented.

The obvious question before the operating manager's eyes is: What if I implement suggested loss-prevention measures? Will my insurance budget be lower?

The opportunity budget says yes. ■

A topsy-turvy start?

Spencer Traver grew up riding roller coasters.

His father, Harry G. Traver, built them, and Spencer helped out.

From roller coasters to insurance?

"There is a parallel there, isn't there?" he chuckles. "Insurance is a natural if you've gone up and down in the roller coaster enough."

Mr. Traver has seen the insurance industry from all seats: underwriter's, broker's and risk manager's.


Photo: Kathryn J. McIntyre

He started out as an underwriter because his next-door neighbor, an underwriter, "suggested that is what I ought to do."

He began his career an an underwriter trainee in 1952 with Nationwide Mutual Insurance Co. in Columbus, Ohio. After moving through the ranks of underwriter, senior underwriter and casualty underwriting manager, in a year he moved out the door to Prudential Insurance Co. There, as a special agent in Columbus, he learned the life/health business.

In 1955, he moved to Hartford Accident & Indemnity Co. as a special agent.

In 1957, he struck out on his own, founding the Chillicothe Insurance Service Inc. agency in Chillicothe, Ohio. After building a business, he merged it in 1964 with a larger operation, Weisenberger Insurance Service Inc. He stayed on until 1967 when he sold his share and began his risk management career.

At Brunswick Corp. in Chicago, he started as bowling center insurance manager. He left in 1970 as corporate insurance manager for the same post at Baxter Laboratories Inc. in Morton Grove, Ill.

He became director of risk management four years later, but then left for BFGoodrich in Akron as director of risk management.

He was named assistant treasurer in 1978, vp/director of RiskTech Insurance Co. and president of First Charter Insurance Co. in 1981.

He has stayed with BFG longer than any other, he says, because "we all have to get sensitive about our age at one point or another."

"And," he says more seriously, "I've never found a better working environment in my life. It's the freedom and support I get here."

RISK MANAGEMENT HONOR ROLL

MEET THREE WINNERS

GOVERNMENT ENTITY
GEORGE N. PIERCE


Photo: Len Strazewski

By LEN STRAZEWSKI

ORLANDO, Fla.—Orange County officials praise the day that the tinkerer came to stay.

Risk manager George Pierce sees himself as a throwback to earlier days when itinerant scholars and technical dabblers wandered from town to town learning new skills, mending broken tools and sharing new ideas.

From an Air Force career that took him throughout Europe, Saudi Arabia and the Orient to a civilian position with the National Aeronautics and Space Administration at Cape Canaveral, Mr. Pierce played the role of tinkerer, moving from task to task with imagination and organization.

Settling finally in Orange County, only 50 miles from the Kennedy Space Center, he applied those skills to safety and self-funding to earn a spot on the 1982 *Business Insurance* Risk Management Honor Roll in the government entity category.

Mr. Pierce found lots to learn and plenty to mend when he became the first safety director and then risk manager of Orange County in 1977.

In less than five years, he has:

- Put Orange County and the city of Orlando into a self-insurance program covering property/casualty and workers compensation risks and medical benefits.
- Transformed an accident-prone workforce into National Safety Council merit winners.
- Established a catastrophic loss fund without charging taxpayers.
- Purchased the county's first high-limit excess coverage package.

"When I first became safety director, the safety office, under the Board of County Commissioners, was just two people, and the insurance office was separate, under the

Continued on facing page

TAX-EXEMPT ENTITY
GENE M. MARSH

Photo: Seventh-day Adventists

By JERRY GEISEL

TAKOMA PARK, Md.—Almost seven years have passed, but Gene Marsh, executive vp for risk management for the General Conference of Seventh-day Adventists, clearly remembers the great medical malpractice crisis of 1975.

Insurance Co. of North America told 16 Adventist hospitals on the West Coast that their malpractice insurance premiums that year would be jacked up to a total of $7 million from $1.25 million.

The premium at one hospital alone was set to rise to $1.3 million from $200,000 "The simple fact is that some hospitals would have had to close because of high premiums," Mr. Marsh recalled.

And that wasn't the worst news. Another 25 hospitals insured with The Hartford Insurance Group were told that their policies would be canceled within 60 days.

"It was panic in the true sense of the word," Mr. Marsh said.

Except for Gene Marsh.

He quickly set up a task force and told church officials that he would try to find a solution to the crisis.

Within weeks he had the answer. He would dramatically expand the church's 40-year-old captive insurance company, The International Insurance Co., from a small property insurer to a major provider of medical malpractice insurance.

"We put together a program that hospitals could afford and. . .that was built on a foundation of loss control and efficient claims handling," he said.

The strategy worked. Today, 66 Adventist

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SMALL BUSINESS
PAUL B. HARVEY


Photo: Rhonda Rundle

By RHONDA L. RUNDLE

IRVINE, Calif.—"Hi there, Paul," shouts a brawny workman, bounding forward to greet his visitor with an outstretched hand.

"Hey, how're ya doin'?" responds Paul B. Harvey with a warm handshake. As risk manager for Ponderosa Homes, he makes frequent impromptu visits to the company's new construction sites.

Mr. Harvey's face is familiar to Ponderosa's project foremen. So is his pitch about loss prevention and safety. Never mind the machismo of any hardhats who suspect safety is somehow sissy. Mr. Harvey speaks their language and gets the message across.

In a business burdened with one of the worst workplace loss records in U.S. industry, Ponderosa's performance stands out. During the past two years the Irvine-based subsidiary of Aetna Life & Casualty Co. has reduced workers compensation and general liability losses by 65%.

This turnabout in loss experience has saved Ponderosa an estimated 33% in insurance costs. It also helped to earn Mr. Harvey a spot on the 1982 *Business Insurance* Risk Management Honor Roll in the small-business category.

Mr. Harvey brings to his job 30 years of risk management experience garnered at Richfield Oil Co., Fluor Corp. and Litton Industries Inc. Since August 1978, he has practiced his profession at Ponderosa, a much smaller company with a net worth of about $112 million.

"Ponderosa made me an offer I couldn't refuse," recalls Mr. Harvey of his decision to leave Litton 3½ years ago. Ponderosa presented a challenge because it required transforming a weak insurance operation into a strong risk management program.

Mr. Harvey also was attracted by management's commitment to loss prevention.

"It's unique for a company this size to even have a risk manager," he points out. Mr. Harvey, who at age 63 is thinking about retirement, works four days a week for the Southern California construction company.

Since its founding 10 years ago, Ponderosa has constructed more than 12,000 homes in California and Arizona, making it one of the nation's largest residential home builders. Last year, the company fell prey to the industrywide slump in new construction, closing only 569 home purchases compared with more than 1,300 in 1979, its peak year.

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'Tinkerer' finds a home in Orange County

Continued from facing page

elected county comptroller, with two people who just placed insurance," he recalls. "Safety planning was nil."

The insurance costs showed it. The county's property/casualty and workers compensation insurer in 1977, Employers of Wausau, was seeking a 42% rate increase for its package plan as accidents pushed the cost of workers compensation steadily upward.

From October 1977 to October 1978, total property/casualty losses, including workers compensation, rose to $4.68 per $100 of payroll. Total incurred losses reached nearly $1.4 million for the $29 million county payroll. The overall insurance budget rapidly was approaching $4 million, almost one-fifth of the county's total payroll.

"It seemed to me that self-insurance was the way to go, especially if we had a good safety program to kick it off," Mr. Pierce notes.

The County Board agreed, merging the safety and insurance offices under the new position of risk manager.

The job was offered to Mr. Pierce who had designed the county's emergency medical service program and was redesigning the safety plan.

He started slowly, tinkering with both the self-funding techniques and a risk management policy, a new concept for the county.

After reviewing competitive proposals for self-insurance services, the county and Mr. Pierce settled on Gallagher-Bassett Inc., the self-insured services division of brokerage Arthur J. Gallagher & Co. Inc. The county now was ready to take its first steps into the world of risk management.

It began with a small self-insured retention for casualty risks under a cash-flow program underwritten by Lloyd's of London that included a negotiated loss reserve fund and excess insurance.

For workers compensation, comprehensive general liability and auto liability risks, the county retained $50,000 per one-person occurrence and a $100,000 aggregate loss, all paid from a $1.425 million loss reserve fund established with the money the county had budgeted for insurance premiums.

By maintaining a fund and not paying the high cost of primary insurance coverage, the county began earning investment income on its insurance budget for the first time.

If the loss fund had been exhausted, a Lloyd's of London specific excess policy provided two layers of $400,000 and $600,000 respectively.

Losses due to employee dishonesty also were paid by the loss reserve fund, over a $25,000 self-insured retention.

Mr. Pierce, however, chose not to buy the high-limit excess liability coverage that is now fashionable for most corporations and institutions. High prices of the then hard-as-a-rock market were intimidating, and a Florida law limiting governmental liability seemed to offer enough protection.

"Excess insurers quoted us an outrageous $300,000-plus premium for $10 million of additional liability insurance while state law limited our liability to $100,000 per person and $200,000 per occurrence," Mr. Pierce notes. "It didn't seem worth it so we went naked."

Over four years, not buying additional excess coverage saved county taxpayers about $1.2 million while the evolving safety program prevented the risk management department from exhausting its loss fund. No liability losses ever topped the statutory limit, despite court battles over the law.

Under the new self-insurance program, property risks were insured by First State Insurance Co. and Northwestern Mutual Insurance Co. for $80 million over a $100,000 self-insured retention.

Safety made the self-funded program work, according to Mr. Pierce. Under his comprehensive safety policy, every workplace is inspected annually for property and employee safety by his seven-person department.

Using the county's payroll computer facility, the risk management department charted all properties and exposures, feeding back to the 57 division managers exactly who was responsible for what losses. Workers compensation losses by employee name and department were fed back quarterly to each department.

Workplace safety violations were noted and supervisors given a maximum of 30 days to correct problems. Improvements also were reviewed by the risk management department.

Losses began to decline, even though the county payroll was growing. The department won the National Safety Council's Award of Honor for 1977, Mr. Pierce's first year on the job, and merit awards for 1978, 1979 and 1980. In 1978, the department also won the National Assn. of Counties' Award for Achievement in Risk Management.

By 1980, total property/casualty losses, including workers compensation losses, had dropped to $2.26 per $100 in payroll, less than half their level in 1977. Total losses had dropped to $882,000 for a $39 million payroll and some 5,000 employees.

In 1981, total losses fell again to only $1.98 per $100 in payroll and total losses dropped to $875,000 of a $44 million payroll.

Medical benefits were added to the self-funded program in 1980 when Aetna Life & Casualty Insurance Co. attempted to raise the county's rates more than 40%. After self-insuring medical benefits for one year, the cost fell to $1.75 million a year from nearly $2 million.

Everything seemed under control. Then the tinkerer thought again.

"In just a few years, the city of Orlando and Orange County had changed. Orlando wasn't just a sleepy little town anymore and the county was growing. We were being exposed to more loss potential," Mr. Pierce says.

In November 1981, the city of Orlando joined the county's insurance program, more than tripling the property risks, adding the liabilities of two major auditoriums, the Robert Carr Performing Arts Center and the Tangerine Bowl.

The move added some 2,500 employees to the workers compensation rolls and the risk management budget grew to $6.9 million, split nearly evenly between property/casualty risks and medical benefits.

Also, the Florida courts had begun to test the sovereign immunity statutes that were protecting the county from large liability losses. In some cases, immunity was waived and larger awards were granted.

It was time to go back to the drawing board.

Tapping the accumulated savings and investment income, the risk management department established an additional $1 million catastrophe fund over the loss reserves. Mr. Pierce modified the casualty self-insured retention from a $50,000 occurrence and $100,000 aggregate deductible to a $250,000 combined single limit, with the same Lloyd's excess policy. The loss fund was increased to $2.7 million from $1.4 million to cover Orlando risks.

Photo: Orlando Centroplex Promotions

Among the many Orange County exposures that Mr. Pierce must cover is the Tangerine Bowl.

In the property area he increased the limits and changed the insurer. Excess property insurance for $270 million over a $500,000 self-insured retention was remarketed to INA by a local independent agent, Kevin Mentor.

Armed with a solid retention plan and several years of good loss experience, Mr. Pierce also began tinkering with the high excess liability insurance market through Arthur J. Gallagher & Co.

"The insurance market had gone crazy since the time we had decided to go naked," Mr. Pierce notes. "Suddenly, the coverage that we had wanted was more than available. It was competitive."

The county and city purchased $10 million of additional excess liability coverage from First State Insurance Co. and Northwestern Mutual for $120,000.

Although the risk management program seems perfectly in place, Mr. Pierce is still tinkering, focusing his loss-control program for the city of Orlando, whose accident rate doesn't yet match the county's award-winning record. And when Orlando is ready, the tinkerer still won't be finished.

"Other local municipalities are getting interested in the program and the county has visions of a consolidated plan in which all local towns share a similar protection and financial responsibility," Mr. Pierce says. "Winter Park, where I live, may be next.

"There's always something new to tinker with." ■

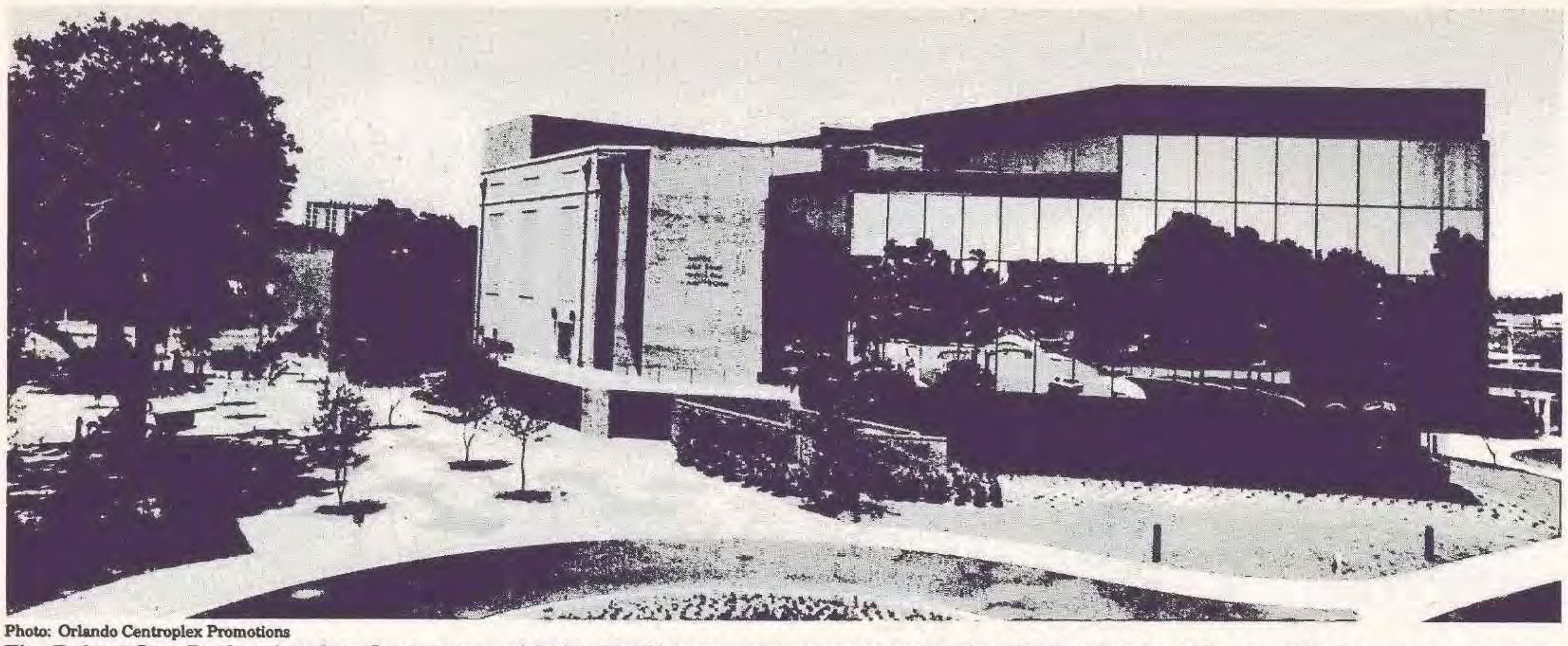


Photo: Orlando Centroplex Promotions

The Robert Carr Performing Arts Center was added to Mr. Pierce's concerns when the city of Orlando joined the county's insurance program.

School days not yet over for Pierce

George Pierce, risk manager for Orange County and the city of Orlando in Florida, will have to retire sometime, he says.

When that day comes, risk management may get a new full-time scholar.

Mr. Pierce holds a bachelor of science degree in government affairs from the University of Maryland, a master of science degree in education from the University of Southern California and professional engineer and hazard-control manager certifications. He is also the 1982 president of the Central Florida branch of the National Safety Council.

But what he would like to be is Dr. George Pierce, professor of risk management.

"What I'd like to do is convince the University of Central Florida here to establish a full-fledged risk management department," Mr. Pierce says.

In search of a doctorate, Mr Pierce ran into a problem: the lack of a program for full-time professionals. Finally, he turned to Kensington University of Glendale, Calif., an extension university that is authorized to grant degrees by the California Department of Education but not accredited by the usual regional associations of colleges and universities.

All study is individual and assignments are completed by mail. The university grants credit for professional achievement.

After completing a 200-page dissertation on self-funding for government entities, Mr. Pierce hopes to receive a doctorate from Kensington this summer.

"To get accredited, Kensington would have to start requiring on-campus attendance and there's virtually no way a full-time professional with a family can break away to attend classes full-time," he explains. "I tried it once to pursue a Ph.D. in education and just couldn't make it and raise a family.

"I'm satisfied," he continues. "The emphasis is on the dissertation and I haven't been able to get a single unrevised chapter by my advisor yet. It's pretty demanding and an excellent discipline."

One day, Mr. Pierce hopes to be teaching in a program like the one he couldn't find.

"I have always considered myself to be a scholar, and I don't think I will ever want to stop learning. I'm also a teacher and I won't ever stop teaching in some fashion," he says.■

The judges speak out

Here is what some of the judges said about George Pierce:

"Innovative in containing taxpayer costs. The name of the game in risk management is communications, and George Pierce is a master. Excellent use of management techniques in a governmental setting."

* * *

"Mr. Pierce is doing an excellent job for Orange County. I rank him at the top of the governmental risk manager candidates."

* * *

"George Pierce has used great creativity in the development of a most exceptional governmental risk management program."

Photo: Wide World

Although he's been away from NASA for 10 years, Mr. Pierce still gets excited over a launch.

Risk management enters space age

"It's a beauty, isn't it?" asks Orange County, Fla., Risk Manager George Pierce. "I know what they are all feeling."

From his office window in downtown Orlando, he watches the third launching of the space shuttle Columbia with the pride of a participant. He feels the excitement, joy and satisfaction that come from a team job well-done.

Mr. Pierce brought to Orange County a lot of the National Aeronautics and Space Administration's style when he left NASA in 1972 after four years of working on systems safety in manned and unmanned space programs.

While developing safety and health guidelines for the space program and monitoring spacecraft safety at a telemetry/computer console in the Cape Canaveral control room, he learned his first big lessons about safety and emergency preparedness.

His teamwork management, checklists and characteristic NASA drawl are all space-program and military spin-offs.

"There has never been an organization that shares both the work and the sense of achievement like NASA," Mr. Pierce reflects. "There are no words to explain the feeling you get when the guys (astronauts) walk into the control room, shake your hand and thank you for a job well-done."

When spending cutbacks began shrinking the space program in the mid-1970s, Mr. Pierce left NASA to join the nearby Orange County government, first as founder and director of its emergency medical services program and later as safety director and risk manager.

Each of his accomplishments are touched in some way by what he learned in the NASA control room, watching the computer readouts for signs of system failure.

"We've gotten a lot out of the space program," Mr. Pierce notes. "The telemetry that we use in emergency medical services now—that came from space technology. So did most of the other ways we have learned to mobilize services."

Mr. Pierce also learned another lesson from working for the federal government. Paperwork isn't always bad.

"NASA provided a good set of guidelines for all government operations," Mr. Pierce notes. "Procedures are all codified in manuals and checklists so every detail and contingency is accounted for. Inspections are organized and mandatory."

Taking a tip from NASA, Mr. Pierce has codified virtually all of his department's procedures, requirements, hazards and programs in a series of weighty manuals that are distributed and discussed not only in Orange County, but throughout the state.

A two-volume safety practices handbook, written by Mr. Pierce and his department in 1977, lists safety guidelines for literally all county activities, from road resurfacing to scuba diving.

The Orange County Intergovernmental Safety Plan, adopted by the state government last year as a model for both public and private concerns, details safety and loss-control responsibilities from the top of organizations to the line employees.

Major risk management department documents weigh in at more than 10 pounds.

Although Orlando is only 50 miles from Cape Canaveral, Orange County risk management is still light-years away from space technology. And the Columbia launch is still enough to trigger some wistful memories. But Mr. Pierce has no regrets.

"It wasn't really a letdown leaving NASA," Mr. Pierce says. "Like any of the people in the space business, I could read the handwriting on the wall. The space program was never going to be as big as it was during the Apollo project.

"But the challenge was here in Orange County. If you are presented with a challenge, there's no time for a letdown."

County's plan breaks barriers

Photo: Len Strazewski

Orange County Administrator James Harris, right, lauds the work of his risk manager, George Pierce.

Orange County, Fla., started with lemons and turned them into lemonade.

"We started a risk management and self-insurance program because we had to," explains Orange County Administrator James Harris. "We had to start dealing with the high cost of liability and medical insurance.

"But ultimately, we have achieved a program that everyone in the area can participate in."

By consolidating the county's insurance and safety offices into a centralized risk management office, risk manager George Pierce laid the groundwork for Orange County's later move into self-insured property, liability, workers compensation and medical insurance programs, according to Mr. Harris.

Mr. Pierce also laid the foundation for a program that municipalities can join for their own protection and economy.

"Because of the success of the Orange County program, the city of Orlando, Orange County's largest city, joined the program on Nov. 1, 1981," Mr. Harris notes.

"We believe that this is the first consolidated governmental self-insurance program in which participants share a common financial destiny regardless of the source of loss.

"Other municipalities have shown an interest, and it is our hope to include all municipalities in our program," Mr. Harris says.

To spread the manifest destiny of the Orange County program, however, requires an additional skill: salesmanship.

Mr. Pierce has that skill in abundance, his boss explains.

"There's always a certain amount of rivalry between county and city governments," Mr. Harris says. "But George has been able to sell the ideas and the management technique first to the county board and then to the municipalities. He showed us what could be done."

Winter Park, Fla., an Orlando suburb, may be joining the consolidated program this summer, another coup for the risk manager and his program, according to Mr. Harris.

"He has gone from success to success," Mr. Harris says. ■

Harvey applies big ideas at a smaller-sized company

Angelo Maroutsos, loss-control manager at Mission Insurance Co., congratulates Paul Harvey.
Photo: Rhonda Rundle

Continued from page 100

R.C. Porter Construction, whose employees erect the wooden frames for new homes, is the most accident-prone of Ponderosa's four subsidiaries. Workers are exposed to potentially serious injuries from power tools, falling lumber, heavy equipment and open trenches.

The other three subsidiaries are less susceptible to losses. Interiors for Living operates four decorator showrooms for new home buyers; Realty Escrow Inc. helps home buyers process legal documents to complete a purchase; and Ponderosa Brokerage is the company's marketing arm.

At the end of last year, the full corporation employed 384 people at its Irvine headquarters and at four divisions in Irvine, San Diego, Santa Clara and San Ramon—all in California.

Ponderosa used to own another small subsidiary with holdings in Puerto Rico. When the unit was purchased at the end of 1980 by Transcontinental Properties, a property development company in Scottsdale, Ariz., Mr. Harvey was retained to continue managing insurance for Compania Puerto-Kai Inc.

At the time he accepted the position at Ponderosa, Mr. Harvey told management he did not want to administer a risk management program controlled by the parent corporation, Aetna Life & Casualty Co. "And they have left me alone," he says.

Ponderosa's insurance program is separate from Aetna's except in two respects: Ponderosa piggybacks on its parent's directors and officers liability insurance and also shares protection with other Aetna companies under a high excess liability umbrella policy.

Mr. Harvey has drawn on his experience at bigger companies for several of the changes he has introduced at Ponderosa.

When he arrived, the company was forking over big bucks in insurance commissions to brokers. He quickly negotiated a $75,000 fee-for-service arrangement with a new broker. This has been worth more than $18,000 in annual savings out of a department budget that exceeded $1.3 million last year.

"I feel more comfortable with a big broker," says Mr. Harvey, who selected Frank B. Hall from among four candidates for its strong local service in Orange County. "I want expertise in all phases of coverage and knowledge of London markets," he adds.

Mr. Harvey has interviewed local area brokers, too. "Would you believe, some of them say they've never heard of fee-based compensation!" he exclaims.

At Litton, he set up a self-insurance program. And although Ponderosa does not self-insure any of its risks, Mr. Harvey saw a way to gain some comparable advantages for the smaller company. He set up a premium charge-back program to the divisions to heighten their sensitivity to losses. And he increased policy deductibles to reduce insurance costs and to eliminate dollar swapping with insurers.

For example, he upped Ponderosa's general liability and property deductibles to $10,000 per occurrence.

And he established a $100,000 fund to pay losses. "I have a voice in all settlement decisions above $2,500 and the right to assist in selection of attorneys," he says of Ponderosa's general liability coverage underwritten to limits of $1 million by Mission Insurance Co.

Mission also provides workers compensation insurance to Ponderosa through a competitive cash-flow plan that reduces the premium paid at the start of the policy period. Workers compensation insurance costs have been steadily declining as a percentage of Ponderosa's overall cost of risk, reflecting effective loss control, a soft insurance market and a decline in the size of the company's workforce starting in 1980.

Besides loss control, the other serious problem facing Ponderosa when Mr. Harvey arrived was surety bonds. Whenever a developer undertakes a new project, it must provide a bond to the local municipality guaranteeing it will complete what it starts.

The amount of the bond varies from 10% to 100% of the value of the project, depending on the municipality's requirements. Most bonds are initially underwritten for two years and extended as needed until the project is finished.

"These were handled by the broker when I came," says Mr. Harvey. At a cost of nearly $500,000 last year, surety bonds take a big bite out of Ponderosa's insurance budget. And commissions on that much coverage add up fast.

Mr. Harvey saw a way to save

Ponderosa money. He negotiated with Aetna Casualty & Surety Co. for underwriting authority up to $1 million. Now he writes most of Ponderosa's surety bonds directly in his office.

He also won back close to $100,000 in premium from Aetna for surety bonds on completed projects. Before he took over the risk management reins, the company had consistently failed to get bonds exonerated in a timely manner and consequently continued to pay premiums after a project ended.

"This doesn't happen any more because we're continually on top of them," says Mr. Harvey. He makes regular reports to management on the number of bonds outstanding at any given time. When a project is completed, he signs off the risk as soon as possible.

But there is no doubt in Mr. Harvey's mind that his greatest contribution to Ponderosa has been loss control. And that pleases him because he is philosophically committed to the risk management ideal of preventing accidents before they occur.

"The most important part of my job is to sell safety," sums up Mr. Harvey. And the key to successful sales is direct communication with the superintendents who oversee Ponderosa and subcontractor workers at the construction site.

One of the first things he did at Ponderosa was prepare a loss-prevention manual and personally hand it to superintendents.

Mr. Harvey favors the one-on-one approach, visiting regularly with superintendents at construction projects throughout California. "I visit every project at least twice a year," he says.

As he strolls through a building project with a superintendent at his side, he points to open trenches and shakes his head. "That could hurt someone," he says. He sees a stack of lumber piled up outside project fences and calls it an invitation to theft.

Mr. Harvey hammers away at the theme of greater workplace control. Sloppy housekeeping practices, including loose nails, scattered tools, untied scaffolds and unfilled trenches, increase the likelihood of an accident.

The ultimate objective of regular meetings with superintendents is to make them conscious of risk management, explains Mr. Harvey. "I want them to keep their eyes open and report safety hazards or anything around the neighborhood that looks suspicious.

"I was bothered by the cost of security guards to the company," said Mr. Harvey. "We could have built four houses for what we spent on guards during the past two years," he estimates. By adopting his suggestions, Ponderosa has been able to reduce its use of guards.

He asks superintendents to avoid keeping valuable supplies, like pipes, plywood and roofing materials, at the site unless they are fenced in and lighted at night. Ovens, refrigerators and dishwashers to be installed in a new home should not be delivered until residents have moved in. They should not be stored in a garage.

The current slump in the housing industry has not affected risk management at Ponderosa, observes Mr. Harvey. "Of course, we've been asked to be careful about unnecessary travel, but otherwise there have been no cutbacks in the department." Mr. Harvey works with one risk management assistant.

There's been some increase in vandalism but nothing serious, he notes. "We work closely with local police and urge them to cruise new housing projects," he says.

New houses always are an attractive nuisance to kids, he points out. Two young kids in Alameda, Calif., recently did about $1,200 worth of damage in broken windows.

During the Christmas holidays, vandals broke into a vacant garage at a company project, built a fire in the center of the floor and held a party. Smoke traveled through ventilation ducts and damaged the whole house, which had to be repainted.

Mr. Harvey negotiated inclusion of earthquake and flood insurance into Ponderosa's $10 million property policy, which is underwritten by Old Republic Insurance Co. above a $10,000 deductible. "It wasn't difficult because neither earthquake nor flood is a large exposure on residential homes," he says.

Other insurance policies carried by Ponderosa include:

- $10 million excess liability insurance (above a $1 million primary policy provided by Mission) underwritten by Baccala & Shoop on behalf of Old Republic Insurance Co.
- $1 million real estate errors & omissions insurance with a $1,000 deductible underwritten by Admiral Insurance Co.
- $1 million escrow agents errors & omissions insurance with a $5,000 deductible also written by Admiral Insurance Co.
- $1 million fiduciary liability insurance above a $1,000 deductible underwritten by Aetna Casualty & Surety Co. (Ponderosa has exposures for an employee thrift plan).
- $1 million contingent professional liability insurance above a $50,000 deductible underwritten by Dryden Insurance Brokerage in Walnut Creek, Calif., exclusive underwriting manager for Gibraltar Casualty Insurance Co. Both Dryden and Gibraltar are subsidiaries of Prudential Reinsurance Co. (see related story).

Photo: Rhonda Rundle

Ponderosa Homes Executive Vp Roy E. Hughes, right, dicusses business with Mr. Harvey.

Mr. Harvey is a strong supporter of risk management education and is active in a number of professional groups. He is president of the Orange Empire Chapter of the Risk & Insurance Management Society and is past president of the Los Angeles Chapter. He has served since 1967 as one of the 35 members of the American Management Assns. Insurance Planning Council that meets twice a year to give seminar programs.

Since he joined Ponderosa, Mr. Harvey has organized periodic informal luncheons for administrators with risk management responsibilities at other home construction companies in Orange County.

"We talk about our mutual problems—I think everyone finds it helpful," he enthuses. ▪

New policy covers claims from subcontractors' errors

Two years after buying a new house, the owners discover that their garage extends three feet into their neighbor's yard.

Do they move the structure, tear it down and rebuild, sell the land and the building to the neighbors or try to buy the 3-foot strip?

And who pays for all that?

Or the owners of a new house purchased in July can't get the heater to work once winter rolls around in December.

Or the soil erodes under the house after the first heavy rain, causing the structure to slip down a hill and injure, or even kill, inhabitants in the home below.

Who pays the damage?

Such is the stuff of which home builders' nightmares are made. Except at Ponderosa Homes, where risk manager Paul B. Harvey brainstormed a new coverage he now carries, called contingent professional liability insurance.

"Most errors & omissions policies are written on a claims-made basis," he explains. Even if a builder is careful to require professional liability insurance from surveyors, designers and soil engineers, most losses occur after subcontractors are out of the picture.

Maybe even out of business!

Who knows if the professional renewed his or her professional liability insurance? Or if they carry the same limits required by the developer when the contract was originally signed? Even if they do, those limits may be inadequate to cover a loss.

The developer has no control over the subcontractor or independent contractor after the contract expires. Yet the builder may be held legally responsible for losses caused by the subcontractor's work. General liability insurance may have to defend the suit. Or it may not.

"The key, of course, is may. . .they (the general liability insurer) may or may not pay and/or defend and that represents a very large risk to a builder the size of Ponderosa," points out William Sunderland, director of the Western regional office of Dryden Insurance Brokerage in Walnut Creek, Calif., exclusive underwriting manager for Gibraltar Casualty Insurance Co. Both Dryden and Gibraltar are subsidiaries of Prudential Reinsurance Co.

Mr. Harvey wanted to purchase insurance against the risk. But there was a hitch: The coverage didn't exist. One insurer offered to underwrite $1 million limits at a cost of $137,000, Mr. Harvey recalls. That was too high. His two-year search for a market finally ended late last year when he made contact with Dryden Insurance Brokerage.

"Paul was able to convince us that this was a reasonable risk for us to assume," says Mr. Sunderland.

But Ponderosa's sleep insurance doesn't come cheap. The company pays $32,000 a year for $1 million limits with a $50,000 deductible.

Mr. Harvey provided Dryden with past and present construction locations, values and sales. He also gave them the names of professional subcontractors used by Ponderosa and the nature of the work performed. And, of course, a complete rundown on the home builder's current insurance program.

The manuscript form provides legal liability protection from third-party actions against Ponderosa for certain professionals acting as independent contractors or subcontractors. It attaches as excess above a subcontractor's professional liability insurance if a loss exceeds their limits. Retroactive coverage for prior acts and defense costs are included. The claims-made policy excludes losses covered by other insurance.

There is a real need for such coverage in other industries besides home construction, Mr. Sunderland notes. These include manufacturers and fabricators of machinery, products or systems that were designed or developed by engineers who were paid as independent or subcontractors.

"There are some applicants who will never qualify for the coverage. We just turned down a large power and utility that felt there was just an off-chance it might need coverage for the professionals who designed its nuclear power facilities. I agreed wholeheartedly with the analysis of the situation and declined the risk."

Each policy and rate must be tailored to the specific risk, says Mr. Sunderland. Available limits vary from $100,000 to $1 million. Deductibles run from $5,000 to $250,000 in policies written so far. The policy minimum premium is $5,000.

Mr. Sunderland says the coverage may be written as a separate policy or together with general liability, products and completed operations coverage.

Risk manager Harvey is an editor, too

The *Risk Management Bulletin* is published by Ponderosa Homes every now and then when the spirit moves Paul B. Harvey, risk manager and editor-in-chief.

Since the first issue appeared in 1978, shortly after Mr. Harvey joined the Irvine, Calif.,-based home construction company, circulation has grown fivefold to more than 100. The three- to five-page bulletin boasts a high pass-along readership.

Directed to field construction superintendents, the *Risk Management Bulletin* reports workplace injuries, crime and other losses. It also educates readers about business insurance, safety and personal health and entertains them with literary allusions and homespun homilies.

"I started it to create more interest in risk management," says Mr. Harvey. "I wanted to get across to superintendents what true risk management is." The response has been remarkable. Employees now approach him with article ideas that periodically inspire publication of a new issue.

"The Creator did not design man to be a crane, a truck or a Pettibone. He gave us a mind to control our actions and to invent ways of moving things without straining our anatomy," begins an item in a 1981 bulletin on avoiding back injuries.

One edition urges superintendents to report all details of workplace injuries in their daily diary sheets. "If a subcontractor's employee is injured, please jot down your evaluation of the circumstances. . ." writes Mr. Harvey. "The mere reference can be of great value in the defense of any lawsuit."

Ponderosa and other California home builders are fighting actions brought against them by subcontractors' employees even though contracts contain hold-harmless agreements that bar such lawsuits. It's another sign of our litigious times, notes the bulletin.

One issue discusses surety bonds—what they are and how they work. Certificates of insurance, OSHA guidelines and the implications of serious and willful misconduct under workers compensation law are other topics tackled in the bulletin.

Arson is a big problem for home builders and Ponderosa is no exception.

"Yes, even Ponderosa Homes suffers because of the fiendish, mentally unbalanced terrorist who seeks revenge against society by a distructive action known as arson," editorializes a bulletin published last November.

Two unfinished Ponderosa houses in Santa Clara, Calif., were destroyed when a culprit set fire to stored stucco wrapping paper awaiting installation. It was a deliberate act without provocation that cost the company $87,855 in repairs.

Keep your eyes open, Mr. Harvey counsels. "Don't encourage through your lack of concern, but watch and perhaps make your presence known by your appearance, inquiry or activity."

Interspersed with risk management messages in the bulletin are personal health and safety tips, employee benefits news and advice about how to live better. Recent issues, for example, carried articles on "What makes a successful business person," automobile safety and 10 tension breakers to relieve stress. ▪

Marsh solves malpractice crisis

Continued from page 100

hospitals in the United States are buying up to $50 million of malpractice coverage through International Insurance at savings of up to 30%.

Curing a malpractice crisis and transforming a traditional insurance program of the 1960s into a highly sophisticated risk assumption plan to meet the needs of a growing worldwide organization of the 1980s are the key reasons why Gene Marsh won a spot on the 1982 *Business Insurance* Risk Management Honor Roll in the not-for-profit business category.

Other major risk management achievements that the 45-year-old Mr. Marsh has racked up during his 16 years with the 3.5 million-member church include:

- Setting up a special medical malpractice committee to hold down claims.
- Overhauling property insurance policies to provide broader coverages.
- Expanding the church's insurance company from a one-line property insurer to an enormous multiline company that writes about 95% of the church's property/casualty coverages.
- Transforming a risk management department that mainly acted as an insurance agency buying primary insurance for asset protection to an enormous 160-member division providing myriad services, including underwriting, loss control, management information and claims adjusting.

Looking out of his second-floor window at the Adventists' 10-story world headquarters building in Takoma Park, Mr. Marsh lists some of the exposures he must protect: 50,000 buildings worldwide including 76 universities and colleges, 806 secondary schools and 4,127 elementary schools.

"We insure everything from thatched-roof schoolhouses in the jungle to acute-care modern hospitals," Mr. Marsh said.

Until 1975, all casualty insurance coverages were purchased from commercial insurers. But that year, triggered by the malpractice crisis, Mr. Marsh took the first in a series of major steps to expand the role of the Adventists' International Insurance Co. from property underwriter to property/casualty insurer.

Risk-by-risk during the late 1970s, major exposures like workers compensation, general liability and auto liability were all brought into the captive.

Boiler and machinery insurance with a $10 million per-accident limit, provided by The Hartford Steam Boiler Inspection & Insurance Co. for a $270,000 annual premium, is the only major property/casualty line not provided by International.

As a result, premiums flowing into International climbed to about $22 million last year from about $3 million in 1972.

While International was expanding, so was the risk management department. More loss-control specialists, claims adjusters, data processors, safety experts and underwriters were hired.

Expansion, under Mr. Marsh's direction, has been horizontal and vertical.

The risk management department, known as Gencon Risk Management Service, took on dual roles.

As an agent or broker, Gencon arranged church coverages through International or other insurers, eliminating most commission costs.

And as a "buyer," Gencon provided a variety of claims-control and loss-control services.

"This is one of the few places where an insurance company, underwriters, agents and risk managers are all under one roof," said Mr. Marsh, who is executive vp of International Insurance Co. and Gencon Risk Management Service.

Walking through the Adventists' 10-year-old headquarters, one can see the advantages of this enormous insurance/risk management consolidation.

If one of Gencon's 10 risk managers in the Takoma Park building, for example, needs answers on what can be done to reduce workers compensation claims, he can consult a Gencon loss-control expert just one floor away.

Things didn't always work so smoothly. When Mr. Marsh joined the Seventh-day Adventists' risk management department in 1966, after a five-year stint as a California sales representative for Liberty Mutual, local churches were simply asked how much and what kind of insurance they needed.

But problems developed. Some of the property policies written by the captive had high coinsurance features. As a result, when a property burned down, insurance didn't always cover the loss.

"We were suffering enormous public relations problems," Mr. Marsh explained. "The insureds asked: 'Why aren't we properly insured?'"

Mr. Marsh had the answer to the first property crisis. Gencon would decide what was the right amount of coverage and issue a policy to a church subsidiary for that amount. "Our philosophy was: We are the doctor, we know the medicine," Mr. Marsh explained.

"We tried it. . . .It worked from Day One," he added, noting that church properties now are insured through International at their replacement value totaling $4.25 billion.

But during the early 1970s, state regulators began raising objections to property policies written by International, questioning if it met all regulations. At the same time, the Takoma Park office was being snowed under by the thousands of property policies issued to church subsidiaries.

Continued on facing page

Photo: Seventh-day Adventists

The Adventists' captive, International Insurance Co., covers medical malpractice risks at its hospitals, like this facility in Rockville, Md.

In the final analysis, dedication makes it work

It takes dedication, says Gene Marsh.

He believes he's been able to develop the Seventh-day Adventists' International Insurance Co. as a multiline captive insurer and its Gencon Risk Management Service as a sophisticated underwriter and risk management department because of the dedication of the staffers.

"Within a religious organization, the sense of purpose and dedication is much higher," Mr. Marsh says. "The people here aren't in it for the money. They are here to do good. They are motivated toward professional improvement."

And his staff is quick to give Mr. Marsh credit for the transformation of an insurance program that once was almost completely dependent on the commercial insurance market into a self-contained underwriting, agency, loss-control and risk management network.

"Virtually all of his risk management successes have been through a team effort, but there is never a question as to who provides the motivation and knowledge for that team," wrote Kimber Lantry, formerly director of the risk management services division of Gencon Risk Management Service, in cosponsoring Mr. Marsh's nomination for *Business Insurance's* Risk Manager of the Year competition.

"The guy holds the place together," said Dave Durgin, manager of the insurance services division of Gencon Risk Management Service. "He is our key employee."

Mr. Marsh usually is in his office at the Seventh-day Adventist headquarters in Takoma Park, Md., a Washington suburb, at 7:15 a.m. "I'm the kind of person who does his best work in the beginning of the day," he says.

The early morning hours often are filled with dictating to his secretary and rounds of committee meetings.

But he tries to leave the office at 5:30 p.m. after a 10-hour day so he can be with his wife and two teenage daughters. "I have a very strong conviction: A married man with children has a responsibility as a father and family man."

The 45-year-old Mr. Marsh began his insurance career in 1961 as a personal lines representative for Liberty Mutual in Riverside, Calif. His friends warned him: "You're not going to make it. You are not a salesman," Mr. Marsh said, recalling their advice.

At first, he was not a big producer. But that soon changed. "I put my emphasis on honesty and good service," he explained.

By the time Mr. Marsh left Liberty Mutual to join the Gencon risk management department, he had more business than he could handle.

"Honesty and a good dedicated effort are more effective than a sales-oriented personality," he explained. "In the insurance industry, honesty is the best policy in the long run."

Between 1966 and 1972, he negotiated insurance coverages for Adventist subsidiaries in the Southern California area. He also had claims adjusting and loss-prevention responsibilities.

In 1972, he was transferred to Takoma Park and was promoted to vp and underwriting manager of International Insurance Co., which was then the Adventist's property risks-only captive insurer. He was responsible for policy production, insurance and reinsurance negotiations.

In 1976, he returned to the Adventists' Riverside, Calif., branch office and was promoted to senior vp of Gencon Risk Management Service and International Insurance Co.

By 1979, Mr. Marsh was back in Takoma Park with twin executive vp titles of the captive and risk management divisions. New responsibilities included: liaison with denominational entities for medical malpractice and coordinator of corporatewide general liability and workers compensation problems.

Despite the dramatic changes in the Adventist risk management/insurance program that have taken place during the last seven years, Mr. Marsh is not content to stand pat.

Right now Mr. Marsh, who is listed in Who's Who in Finance and Industry and was recently chairman of the annual Conference on Church Risk Management, is considering how to transfer more risk to the commercial insurance market while prices are soft.

Slowly outlining the structure of the Adventist insurance and risk management departments with green, black and red felt-tip pens so as not to confuse a visitor, one can see that Mr. Marsh also is a natural teacher.

And his lessons have inspired Adventist staff members to expand their risk management horizons. For example, Alice Bryan, Mr. Marsh's former secretary, is now the assistant director of risk management at the Smithsonian Institution in Washington.

Some of Mr. Marsh's lessons can be found in professional journals. In one recent widely discussed article, Mr. Marsh warned risk managers to pay more attention to the financial stability of their insurers and reinsurers.

"The problem the risk manager must face is to forecast an insurance company's ability to respond to a potential loss," Mr. Marsh wrote. "Risk managers who fail to apply good risk management techniques to risk transfer may very well be courting disaster."

Changes in the Seventh-day Adventist insurance program mirror the continuing evolution of the insurance industry. "Look for more unbundling of services. Insurers will have to unbundle," Mr. Marsh advises. ■

Program started early

The Seventh-day Adventist Church's insurance program had a modest beginning.

During the 19th century, the church, which was formally organized in 1863 in Battle Creek, Mich., by those who believe Saturday is the day of rest and worship, didn't insure its properties.

But early Adventist leaders, like Ellen White, began to worry that if church enemies found out that church properties were not insured, "the enemies of our faith would take great delight in burning them."

A new philosophy emerged: Church assets would be protected through an insurance and risk management program.

This philosophy led to the establishment in 1936 of the church-owned mutual insurance company, The International Insurance Co. of Takoma Park, Md.

The captive, which was funded with a $25,000 appropriation, initially operated from a converted coal bin. It's role was limited to writing the church's property risks.

Last year, International Insurance Co.—now a multiline insurer—had an annual premium flow of more than $22 million, making it one of the largest single-parent owned captives in the United States and the largest mutual insurer in Maryland.

Continued from facing page

So, Mr. Marsh revamped the policies to kill two birds with one stone. One master policy was issued to the General Conference of the Seventh-day Adventists by International.

And in turn, the General Conference issued a simple internal document to subsidiaries listing the agreed upon amount of coverage and the rate. This cut down on the degree of paperwork and satisfied the state regulators.

Now, each property is individually rated, with premiums ranging from $10 a year to about $100,000. Rates average about 18 cents per $100 of coverage.

Church subsidiaries pay about $6 million annually to International Insurance Co. for property coverage. About 20% of premiums is used for purchasing excess coverage and reinsurance.

Despite low property rates, by the mid-1970s International Insurance Co. had built up large surpluses. Pressures developed to distribute some of the surplus as dividends to policyholders.

But Mr. Marsh and other Adventist insurance and risk management executives resisted those pressures. Mr. Marsh wanted to use the surplus as a base to expand International Insurance Co. into a workers compensation insurer and later a general liability insurer.

But that plan was interrupted by the medical malpractice crisis of 1975.

The surpluses that had accumulated meant that International could move beyond its property base and provide, initially, $1 million per occurrence in medical malpractice coverage.

"We put together a program that the hospitals could afford that was built on a retrospective rating plan that was loss-sensitive and a foundation of loss control and efficient claims handling," Mr. Marsh told *Business Insurance*.

Mr. Marsh believed the captive malpractice program would work because he would avoid the insurers' claims philosophy that he believes helped bring on the crisis.

The insurance industry delayed paying claims to reap more investment income, he explained. "It seemed foolish. . .to get 10% interest and have to pay 50% social inflation" when an award had to be settled, Mr. Marsh said.

"A claim that could have been settled for $50,000 became a $1 million award. We were familiar with insurers' cash-flow design," he added.

At the same time, insurers sometimes got clobbered because they assigned "fender-bender" investigators to handle sophisticated malpractice claims. "They just weren't trained for the job," he said.

Avoiding what he considered the insurers' mistakes, Mr. Marsh led the search for the best medical malpractice loss-control specialists. "We talked to every available source to find out who was the best. We were willing to spend large sums of money for medical malpractice loss control. That's the wisest investment," he said.

Mr. Marsh talked to the Adventist hospitals to find out who they felt who were the best local adjusters and retained them. In addition, the church hired Akros Medico, a California-based claims adjusting firm to supervise the adjusters.

Since then, the Adventists have bolstered their loss-control staff to include eight people, including an attorney and a veteran adjuster, who supervise contracted services.

The investment has paid off. A Seventh-day Adventist hospital has never been hit with a $1 million medical malpractice claim.

And a retrospective rating plan has kept premiums stable for the hospitals.

At the same time, Mr. Marsh has been able to boost available coverage to $10 million per occurrence. Annual aggregate limits now top $50 million. National Union Fire Insurance Co. of Pittsburgh, Pa., as fronting insurer, writes the malpractice policies, but high limits of excess coverage are provided by CNA.

With the medical malpractice program growing well, Mr. Marsh turned his attention to adding general liability, auto liability and workers compensation coverage to International Insurance's portfolio.

For general liability exposures, Mr. Marsh estimates that church subsidiaries have been able to cut their costs by between 10% and 15% by purchasing insurance through International.

For workers compensation, general and auto liability exposures, International retains $250,000 of each risk. The next layer to $1 million is provided by several reinsurers with Kemper Re and Prudential Re assuming 90% of the risk.

Eleven different companies, including Pru Re and Allstate, share the next layer to $5 million, while 16 insurers participate in the layer above that to limits of $10 million.

Workers compensation claims are adjusted by Crawford & Co., a national adjusting company, while auto claims are supervised by Gencon Risk Management Service.

To give church subsidiaries an incentive to reduce casualty losses, 10% credits were given to insureds that added loss-control specialists.

Even though 95% of property/casualty coverages are written through International, Mr. Marsh sees new ways of more efficiently protecting Adventist exposures.

For example, Mr. Marsh, working with Marsh & McLennan, has bought millions of dollars of retroactive insurance from CNA to cover malpractice exposures of hospitals the Adventists recently purchased.

Unlike the retroactive coverage purchased by MGM Grand Hotels Inc. to cover liability claims from a specific event—the Nov. 21, 1980, fire at the MGM Grand in Las Vegas—the CNA policies cover more than two decades from July 15, 1959, to June 30, 1980. ■

Here's what the judges thought

Here are some of the judges' comments about Gene Marsh:

"The scope and complexity of institutional risk management and the innovative professional leadership provided by institutional risk managers still astonishes many of those in business and industry. Here we have an organization genius and a pacesetter for all to emulate. Gene Marsh adds exciting new dimensions to institutional risk management teamwork."

* * *

Did a good job in most respects."

* * *

"Has used the utmost in risk management expertise to provide such a beneficial program."

* * *

"Scope of program is a reflection on their operations being worldwide; it requires a major coordinating effort. The candidate appears to have done very well."

Department run like a company

Walking through the Seventh-day Adventist Church headquarters in Takoma Park, Md., is like taking a trip through the risk management department of tomorrow.

Teams of clerks and secretaries sit behind a battery of video display terminals keeping claims up to date. Two enormous computers, soon to be replaced by more up-to-date models, constantly update underwriting information.

Looking at the 160 loss-control specialists, medical malpractice experts, risk managers, underwriters and supporting staff who occupy three full floors gives one the impression of a large, well-run insurance company.

And that impression is on the mark. Gencon Risk Management Service, the risk management/insurance arm of the Seventh-day Adventist church, includes an administrative services division that provides electronic data processing functions and a risk management division that works with church subsidiaries on loss control.

An insurance services division takes care of underwriting and reinsurance and a policyholders division provides technical claims engineering and loss-control services.

When an Adventist hospital faces a medical malpractice claim, it doesn't depend on an insurer to battle or settle the claim for them.

Instead, the church has assembled its own medical malpractice team with a clear philosophy: Identify legitimate claims and settle at the earliest possible date, says Gene Marsh, executive vp of risk management.

Photo: Seventh-day Adventists

The latest electronic equipment, like video display terminals, help the Adventists track the status of claims.

Commercial insurers, of course, play a key role in the Seventh-day Adventist church insurance and risk management program. They still provide, for example, very specialized coverages, like boiler and machinery insurance.

And, insurers provide coverage for catastrophic risks that the Adventists' captive, International Insurance Co., doesn't assume.

For example, dozens of insurance and and reinsurance companies provide coverage for property risks over $100,000 and medical malpractice exposures between $8 million and $50 million.

But writing primary policies, providing loss-control services and handling claims at the Seventh-day Adventist Church rests with the insured, not the insurer. ■


Allen


Bieber

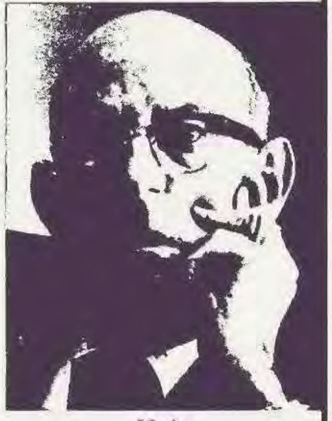

Bogardus


DeAlessandro


Griffin


Landrum


Ryan


Mehr


West


Olsson

THE JUDGES

Here is the panel of 10 judges that selected the 1982 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll:

• Duane C. Allen, assistant treasurer at Hanna Mining Co. in Cleveland and the 1981 *Business Insurance* Risk Manager of the Year. Mr. Allen represents risk managers.

• Bob Bieber, consultant at Ebasco Risk Management Consultants Inc. in New York. Mr. Bieber was named to the 1981 *Business Insurance* Risk Management Honor Roll, representing government entities, while serving as director of risk management for Westchester County, N.Y.

• John A. Bogardus, chairman and chief executive officer of Alexander & Alexander Services Inc. in New York. Mr. Bogardus represents commercial insurance brokers.

• Joseph P. DeAlessandro, president of National Union Fire Insurance Co. of Pittsburgh, Pa., in New York. Mr. DeAlessandro represents stock insurance companies.

• Bud Griffin, president of Warren, McVeigh & Griffin in Newport Beach, Calif. He represents the risk management consulting profession.

• Baylor Landrum, president of Nahm, Turner, Vaughan & Landrum Inc. in Louisville, Ky. He represents regional insurance brokerage firms.

• Robert I. Mehr, professor of finance at the University of Illinois and author of risk management texts. Mr. Mehr represents insurance and risk management educators.

• John P. Olsson, vp of finance of Austin Industries Inc. in Dallas. Mr. Olsson represents corporate financial officers.

• William Ryan, insurance and risk manager for the University of Michigan in Ann Arbor, also representing risk managers. He was named to the 1981 *Business Insurance* Risk Management Honor Roll in the not-for-profit institutions category.

• George R. West, chairman and president of Allendale Mutual Insurance Co. in Johnston, R.I. Mr. West represents mutual insurers.

Mr. DeAlessandro, Mr. Griffin and Mr. West were judges for the 1981 competition. The seven other judges are new.

This year, the judges used nine criteria in selecting the Risk Manager of the Year. The candidates were scored on how well they performed their duties in the following various aspects of risk management:

• Establishing and implementing an effective risk management program within the organization.

• Tackling and solving one or more major problems for his or her organization.

• Applying, in innovative ways, the diverse tools of risk management and insurance.

• Creatively and effectively using insurance markets.

• Establishing a workable information system inside and outside the organization, culminating in access to a body of information on events and activities that affect the organization's risk management and insurance.

• Applying management principles skillfully to the overall organization and within the risk management department.

• Achieving the most effective program at the optimum cost over the long term.

• Developing technical expertise in any or all of the broad categories included in risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operations aspects of the job.

• Exhibiting an attitude and performing activities fostering the advancement of the risk management profession.

1983 NOMINATIONS

Although the 1982 winners are just announced in this issue, it's time for you to start thinking about nominating someone for the 1983 *Business Insurance* Risk Manager of the Year award.

You can request nomination forms from *Business Insurance* and start the campaign now.

Nominated risk managers are judged against nine criteria of professional performance (see story above). The nominator compiles one-page essays on each criteria showing how well the risk manager fulfills the test and the judges assign scores for each.

The candidate with the highest cumulative score is named Risk Manager of the Year.

Business Insurance also has established a Risk Management Honor Roll to honor nominees in specific categories. The highest-scoring candidate in each category not represented by the Risk Manager of the Year is named to the honor roll. A first runner-up may be named.

The four categories of organizations are:

• Large corporations with more than $300 million in sales and/or more than 1,000 employees.

• Small corporations with less than $300 million in sales and/or fewer than 1,000 employees.

• Government entities.

• Not-for-profit or tax-exempt organizations.

To receive a nominating form for the 1983 *Business Insurance* Risk Manager of the Year write *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. The deadline for entries is Dec. 1.

Winners are traditionally announced in a special section in an April *Business Insurance* issue that coincides with the annual Risk and Insurance Management Society meeting.

Where to eat during RIMS

Continued from page 3

The Dubliner, 4 F St. N.W., known for its tankards of Irish beers and ales. It also serves good blue cheese hamburgers.

Lunches at Dominique's—Mr. Jordan's favorite expensive French restaurant—run from $6.50 to $9 and dinners range from $10.25 to $18.95. Major credit cards are accepted and reservations are recommended.

At The Dubliner, lunches range from $4 to $10; dinners, $6 to $12. Reservations are suggested for lunch. Arrive before noon to beat the rush.

When Washington's benefit community wants a quick meal, it may go to the Class Reunion, 1726 H St. N.W., says Michael Romig, director of employee benefits at the U.S. Chamber of Commerce. The Reunion also is a favorite among the staff of The Washington Post.

The Reunion, a legend among Washington journalists, is a good place for a drink or a variety of sandwiches. Prices for lunch range from $4 to $9; dinners, $6 to $10. Major credit cards are accepted. Reservations are not required.

If you're a Democrat and you want to go to your party's stronghold, stop at Mel Krupin's at 1120 Connecticut Ave. N.W., for boiled beef, corned beef sandwiches and chicken soup.

Prices are $6 to $9 for lunch and $11 to $17 for dinner. Major credit cards are accepted and reservations suggested. To be sure of a seat, come before noon for lunch and before 7 p.m. for dinner.

The spot favored by top Reagan advisers, like presidential counselor Edwin Meese, is Maison Blanche, 1725 F St. N.W. Specialties served in the lavish dining room, just one block from the White House and the Office of Management and Budget, include duck breast and white chocolate mousse.

Lunch ranges from $7 to $14, and dinner runs from $12 to $16. Reservations are suggested, and it's always crowded at lunch. Major credit cards are accepted.

This reporter, who has lived in Washington for five years, has his own recommendations—seconded by other experts.

Never mind the soiled carpet, you'll find the best Chinese food at Szechuan, 615 I St. N.W. The best dishes: scallops, Szechuan-style and beef with snow peas.

Lunch prices range from $4.35 to $5.50; dinners, $5.95 to $8.95. Major credit cards are honored. Reservations are accepted only for parties of more than four.

Szechuan is busiest between noon and 1:15 p.m. for lunch and 7 to 8:30 p.m. for dinner.

For fun, if you're in Georgetown, stop at Au Pied de Cochon, 1335 Wisconsin Ave. N.W., where you can enjoy onion soup, crepes, quiche and omelettes in an austere, but authentic French bar. It's very popular among the Georgetown University crowd.

Prices for lunch and dinner range from $4.50 to $8.50. No credit cards or reservations are accepted. It's always crowded at lunch, and the best chance for immediate seating at dinner is before 7 p.m. or after 8:30 p.m.

Also, Georgetown has Washington's best pizza at Geppetto, 2917 M St. N.W., where the crust is thick and spread with chunks of tomato.

Prices at Geppetto's for lunch or dinner range from $5.50 to $10. Major credit cards are accepted. No reservations are accepted. Go before noon to beat the lunch-hour rush; lines for dinner begin to form around 6 p.m.

If you like steak, and only steak, make reservations at, where else, Le Steak, 3060 M St. N.W. in Georgetown. Meals start out with an enormous salad, heavily seasoned with mustard, garlic and black pepper, followed by steak as rare as you like. A mountain of french fries will accompany your steak.

Le Steak is open only for dinner with prices around $15. Reservations are suggested and major credit cards are accepted.

Beefeaters also will want to go to the Prime Rib, 2020 K St. N.W., for thick, juicy roast beef. The Prime Rib is a favorite with the trade association crowd.

Lunch prices at the Prime Rib range from $9.50 to $13.50; dinners, $13.50 to $20. Reservations are strongly recommended. Major credit cards are accepted.

If you're hungry for Italian food and can't get into the highly recommended Cantina D'Italia, try Trattu, 1823 Jefferson Place N.W. The prices are only two-thirds of those charged at the more popular downtown restaurants, yet Trattu's pastas, like linguine with red caviar, compare with the best.

Lunch prices range from $4.25 to $6.50; dinners range from $5.50 to $10.50. Reservations are suggested for dinner. Major credit cards are accepted.

If you're in upper Northwest Washington, a must is the Thai Room, 5037 Connecticut Ave. N.W., for highly peppered shrimp, beef or chicken dishes.

Lunch and dinner prices range from $4 to $12. Reservations are suggested on the weekends and major credit cards are accepted.

And to conclude a night in Washington, there's F. Scott's, 1232 36th St. N.W., for jazz and alcohol-laced ice cream in a 1920s atmosphere.

For light eating, oysters and clams and a variety of sandwiches also are available.

F. Scott's opens at 6 p.m. Prices range from $7.50 to $15.50. Reservations are suggested. Major credit cards are accepted. ■

Women risk managers say barriers are falling

Continued from page 3

tures Industries Inc. in New York, but you have to let it go by. "I usually ignore the problems," she says, noting that she's also black and may have to ignore prejudice for that reason as well.

Working around problems doesn't mean accepting whatever comes, however. Women have to be assertive, many female risk managers point out, especially if they are a company's first risk manager.

Several women noted that their employer didn't have a risk management department before they took on the responsibilities. That can be either a plus or a minus to women in the newly created position.

On the one hand, companies' first risk managers, whether men or women, have to feel their way along, making the position what they can, Ms. Crager notes. That may include learning from their own mistakes.

On the other hand, being able to mold the position to your ideas can be an advantage. Being the first to hold a new position can yield great opportunities for women as well, Ms. Crager says. There isn't the stigma of being the first woman in a position that has always been held by a man.

Several women who were hired for new positions had risk management experience in the field from other industries. Ms. Crager, for example, worked in risk management at another company, although she wasn't the director of a department.

With a minor in economics, the business world wasn't new to Ms. Crager. And more and more women are preparing for the business world in colleges and universities around the country, particularly in the last five years. In fact, some universities and colleges have reported an almost equal number of women and men in business programs.

While a business degree is not necessarily a ticket to the career of your choice, it may lead to quick advancement. In risk management, especially when the job is new to the company, management skills may be the ticket even for a person who doesn't hold a management position within the firm.

One woman, who had been executive secretary to the vp for finance for a year, said management recognized her as a "take-charge person" and offered her the new position as risk manager.

"I didn't know what a risk manager was when they offered the newly created position to me," quips Carol Muecke, risk manager for Chem-Nuclear Systems Inc. in Kirkland, Wash.

That was two years ago. Ms. Muecke now handles insurance for the firm's low-level nuclear waste site and hazardous chemical waste sites all over the country.

While risk management was a new notion to her, business wasn't. She earned a bachelor's degree in business from the University of Minnesota back in 1957 when she was one of seven women in the business school of 500 students.

Seminars and conferences helped Ms. Muecke learn about her new risk management position, she notes. And management at her company encouraged her to attend the education seminars.

Continuing education is vital for women in risk management, believes Cheri J. Hawkins, assistant director of insurance for Weyerhauser Co. in Tacoma, Wash. That's particularly true for women who move into risk management from secretarial positions because they "have a lot of catching up to do."

If a woman becomes a risk manager without having a background in the field, she had better learn or the position will be a title without much substance.

Management has an obligation to allow new risk managers to attend educational seminars as well, Ms. Hawkins says. One measure of how seriously a company takes a woman risk manager is how willing the firm is to send her to seminars to upgrade her talents, she explains.

The annual RIMS Conference is an opportunity for risk managers to gain new insights into their profession. This week's meeting will include a panel discussion of the role of men and women in risk management that Provident National Bank's Ms. Crager will moderate.

She helped put together a workshop on the subject at a few local risk management meetings and it was very successful, she notes.

Women had the opportunity to voice some of their feelings about working in a non-traditional occupation and learned that others share those same thoughts, she says. Some workshops on the subject drew about 20% male participation as well.

For even as the barriers to women in risk management break down or at least become less formidable, today's female risk managers are still pioneers.

They're probably the first female risk manager their companies have ever had, but now they have the security of knowing they're far from alone as they blaze new trails. ■

NFL faces players' strike threat without coverage

Continued from page 1b

"I have been aware of a market for strike insurance in Bermuda," he adds. "But I've never heard of a market for it in London."

"Had the strike been settled earlier," adds Mr. Dipple, "certainly the Lloyd's underwriters wouldn't have put reservations on the thing (strike insurance)."

One U.S. broker who had previously placed strike coverage disagreed.

He said he has dealt in strike insurance with, among others, The Hartford Group, Crump International and Willcox Baringer.

"There *are* domestic underwriters who are willing to write depending on price and circumstance," he says. "You've never seen (our) name in the paper on any of this and that's the way we'd like to keep it. *That* coverage you don't blab around on the street any more than you do kidnap and ransom."

Hartford, Crump and Willcox Baringer did not confirm whether or not they underwrite or place strike coverage.

Two other insurers cited by the broker, Employers Insurance of Wausau Inc. of Wausau, Wis., and Allianz Underwriters Inc. of Los Angeles, an affiliate of Allianz Insurance Co., both said they are not selling strike insurance.

"We are not a market for strike insurance and our business interruption coverage does not pay off for strikes," says Paul R. Enos, senior vp for commercial property at Wausau Insurance Cos.

"Usually the people that would want to buy strike insurance would have had bad labor relations," he explains.

Allianz underwrote a total of $19.5 million worth of the two excess layers of the baseball coverage, but reinsured heavily, says Benn Prybutok, vp of administration and planning.

Since management changes at Allianz, the company does not and has no plans to offer that kind of coverage.

"It's one thing when you write strike insurance as a legitimate form of business interruption insurance," says Mr. Prybutok. "Then its a fairly common form of coverage. But we're not involved in that either. And it's quite another thing to cover someone who is a party to labor negotiations. That's a form of financial guarantee insurance."

Strike insurance and any form of financial guarantee coverage is discussed only in hush-hush tones by participants, so hard information is difficult to find.

But commercial strike insurance appears to be rare.

Besides baseball, the only well-publicized example of the use of strike insurance came during the 1980 Screen Actors Guild strike, when some motion picture producers purchased it (*BI*, Aug. 4, 1980).

"It's not common at all (and) it's only done in a soft market," says John F. Gross, a senior vp, casualty marketing specialist and a strike insurance expert at Marsh & McLennan Inc. in New York.

"Up until the baseball strike, it was almost 20 years since a strike cover was written (on the open market). Since then we've quoted maybe half-a-dozen, but we've probably only written two or three on any big scale."

Mr. Gross explains that any industry with labor problems may inquire about strike insurance, and inquiries have increased "maybe tenfold" since the baseball strike.

Often, he says, the most senior executives of a company will make the inquiry, bypassing risk managers or labor relations staff to make sure the inquiry doesn't leak to outsiders.

One broker who remains optimistic about strike insurance placements is Jasper M. Marino, the senior vp and manager of Reed Stenhouse Inc. of Missouri in Kansas City, who arranged the baseball coverage for 1981.

Few people realize, he notes, that the baseball central fund had purchased a similar coverage a year earlier through Marsh & McLennan, for a premium of about $2 million. That time around, there were no claims.

"There's a lot of strike insurance around, but not written through traditional insurance companies," says Mr. Marino.

Insuring against the possibility of a strike is "exactly like going to Las Vegas—just exactly. It's just seat of the pants. But there are a lot of things we insure like that and Lloyd's knows how to handle it," Mr. Marino says.

One of the oldest strike coverages underwritten was for shippers dependent on movement of goods by strike-prone longshoremen, he notes.

"A lot of people say it shouldn't be written," Mr. Marino continues. "But if it's all right to do in a fund set up in a captive, why isn't it all right to do it on the open market?"

Historically, several industries have attempted to fund strike risks with self-insurance programs, mutual-aid pacts and captive insurance companies.

Until a few years ago, the airlines self-insured against losses caused by walkouts through a mutual-aid pact.

The newspaper and railroad industries share strike risks in Bermuda-based mutual insurers, insurance industry sources say.

The airlines mutual-aid pact, however, was outlawed by deregulation. From time to time a broker proposes a new plan, but aviation brokers and underwriters aren't aware of any airlines formally funding those risks.

Two airline risk managers recall that two or three years ago a broker solicited airline interest in setting up a strike insurance program, dependent on industrywide participation for rating but sold to individual air carriers.

The scheme apparently failed to catch on and was never implemented.

"Nobody has been around for a couple of years and it's my view is that it will probably stay that way," comments Stuart J. Tuchman, director of corporate risk for Texas International Airlines Inc. in Houston.

"I think we looked at it, like many others, and declined to participate," says Harry F. Marden, director of corporate insurance for Pan American World Airways Inc. in New York.

"I kind of feel that a strike insurance program is going to cost almost what you pay out and that's not insurance, that's swapping dollars. There's a lot of other risks I'd rather insure," he says.

Rollins Burdick Hunter, which currently brokers hull and liability risks for United Airlines, promoted the program, according to both risk managers. RBH officials would not confirm its participation.

Daily newspapers in the United States and Canada have been insured for strikes since 1939 under a program run by the American Newspaper Publishers Assn., based in Reston, Va., says Arthur Hanson, the ANPA's retired general counsel and a Washington, D.C., lawyer.

The insurance is underwritten by Territorial Insurance Co. Ltd. of Hamilton, Bermuda.

The printing industry has a similar arrangement with United Insurance Co. Ltd., also of Bermuda, Mr. Hanson says.

Although there is precedent for the coverage, strike insurance is not without social and legal problems.

In Britain, the powerful Confederation of British Industry, with more than 300,000 corporate members, asked Lloyd's in 1979 to provide protection against strikes estimated to cost the British economy millions of pounds per year.

But less than a year later, the plan was dropped after the Confederation said a survey of its membership showed major employers weren't interested in the project.

"We felt the scheme would not suit Britain's industrial climate at this time, but we are happily leaving it to brokers to test it on their own if they wish," said Raymond Pennock, the CBI's president.

A group of Lloyd's brokers decided to press the scheme on their own with a mutual fund to serve smaller British firms.

Anthony V. Alexander, a Sedgwick Group director involved in the original marketing effort, said at the time that a fund of $10 million to $20 million a year might be sufficient initially.

The original plan had called for premium income of up to $200 million, with brokers managing the fund (*BI*, Oct. 1, 1979; Aug. 25, 1980; Sept. 29, 1980).

In March 1981, underwriter Gordon J.R. Hickmott told a London meeting of the Assn. of Insurance & Risk Managers in Industry & Commerce that it was his view that confederation members supported strike insurance but the political ramifications of the coverage was hindering the group from supporting the brokers' efforts.

Mr. Hickmott, also a consultant and arbitrator, says the policy marketed by the Lloyd's brokers covered fixed costs during a long dispute within a covered company or its suppliers for up to 57 days but didn't pay for loss of profits.

Short walkouts weren't covered and there was a seven-day deductible (*BI*, March 30, 1981).

Another backer of the British plan was Thimothy L.F. Royle, former managing director of Hogg Robinson Group Ltd. The program, he now says, was a victim of the recession that forced unions to scrap strike plans and employers to drop strike contingency plans.

No one signed up for coverage, he adds.

Mr. Royle says he was among those responsible for establishing a Caribbean-based mutual insurer about 15 years ago to insure U.S. railroads against strikes. The plan, which he says is still in effect, pays off when anything less than 50% of industry is struck and covers just fixed costs and not profits.

Mr. Royle says similar schemes for automakers in Europe failed because individual managements didn't trust each other's labor relations enough to bet insurance premiums against a competitors' strike.

An additional problem with strike coverage concerns a legal issue, points out James A. Greer, a partner with the New York law firm of LeBoeuf, Lamb, Leiby & MacRae.

(Mr. Greer's firm is the U.S. general counsel for Lloyd's, but Mr. Greer emphasizes that he does not speak for Lloyd's on this issue.)

There is legal uncertainty about what would happen if a company covered by strike insurance failed to bargain in good faith—in effect delaying the settlement of a strike while obtaining the insurance benefits, Mr. Greer says.

In the baseball strike, he notes, insurers never made that allegation about the baseball owners. "What would happen if they did, nobody knows for sure," he says.

The language of most insurance contracts requiring policyholders to "mitigate" losses might come into play in such a dispute, Mr. Greer adds.

Another problem may be one of definition. Just what exactly is a strike?

Metpath Inc. in Teterboro, N.J., which tests and transports medical specimens, purchased a policy from Birmingham Fire Insurance Co. designed to reimburse it for the additional expenses of flying specimens during the air traffic controllers strike.

When it came time to pay claims, however, Birmingham, an American Insurance Group company, balked. It argued that President Reagan dismissed the controllers before the waiting period under the strike policy ended.

After the dismissal, it argued, the strike was no longer a strike. A New York state appeals court is still considering the question (*BI*, Sept. 7,1981). ■

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*Source: Business/Occupational breakdown of qualified circulation Nov. 2, 1981 issue, as submitted to BPA for December 1981, BPA Publisher's Statement.

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N.Y. may raid four state insurance funds

Continued from page 2
Insurance Fund and $37 million from the Property and Liability Insurance Security Fund, which is the state guaranty fund.

The legislation he signed, however, authorizes the $190 million from the State Insurance Fund, $87 million from the Property and Liability Insurance Security Fund, $50 million from the Aggregate Trust Fund and $67 million from the Stock Workmen's Compensation Security Fund.

Any changes to these amounts would have to be done by legislative amendment.

"This is the worst of both worlds," says Terrence J. Burke, legislative counsel in Albany for the American Insurance Assn. and a lawyer with the local firm of Burke, Cavalier, Lyman & Shanley. "He vetoed the IOU appropriation and he hasn't prevented the taking of the funds. The question now is what is the Legislature going to do?"

"I think it's very close to immoral to take trust funds and use them for an unknown purpose," added William L. Martin, senior vp and general counsel for the New York-based American Insurance Assn.

The AIA, joined by the National Assn. of Independent Insurers and the Alliance of American Insurers, retained the law firm of Paul, Weiss, Rifkind, Wharton & Garrison to explore ways to challenge the diversions.

Behind Mr. Carey's action is a much larger dispute between the governor and lawmakers over how to balance the state budget.

Legislative leaders, particularly the Republican Senate leadership, contend Mr. Carey underestimates expected revenue. They scrapped the governor's budget and crafted one of their own that authorizes greater spending.

While the political war rages however, here is what Mr. Carey's action means for the four funds:

- The State Insurance Fund, the state-run workers compensation insurer, has a current fund balance of $1.7 billion and excess reserves to pay claims of $245 million. The governor originally proposed transferring $140 million from this fund. Senate Republicans sought $220 million. The Assembly settled on $190 million.

Supporters of the raid argue that investment income has allowed the fund in recent years to offer workers compensation rates 35% below private insurers and employers have been flocking to the fund. It can spare the $190 million, they say.

The fund currently writes about one-third of all the workers compensation insurance in the state, and had written premiums in 1981 of $422 million with 144,000 policies in force, according to aides to Sen. John R. Dunne, the former chairman of the Senate Insurance Committee, who opposes the raid.

"This raiding of the fund's treasury would perilously diminish the fund's surplus and thereby reduce its investment income, a consequence that could result in a premium increase to policyholders and/or fewer benefits to workers," Sen. Dunne wrote March 24 in a letter to Mr. Carey.

- The Property and Liability Insurance Security Fund covers claims against insolvent insurance companies and has a balance of $217 million. The governor originally sought to divert $37 million. Senate Republicans recommended using $140 million for state expenses and refunding $50 million to the state's insurers. The state budget signed by Mr. Carey specifies $87 million and no refund.

Insurance companies have not had to contribute to the fund since 1973 because investment income has swollen its balance at a rate greater than payouts. Opponents of the diversion, however, argue that if interest rates fall, more insurers will fail and the fund will be needed more than ever.

- The Aggregate Trust Fund is a separate pool of investments held by the State Insurance Fund to pay death benefits under the workers compensation laws. Insurers can transfer to the fund, for a premium, their liability for lifelong payments to beneficiaries.

The Senate Finance Committee says that as of December, the fund held $174 million, of which $52 million "was not actuarially or statutorily required to be held on reserve for claims."

Mr. Carey has never sought diversion from this fund, but, at the recommendation of the Finance Committee, the state budget diverts $50 million.

"This was very serious to tamper with," acknowledges Rudy F. Runko, deputy director of Mr. Carey's Division of the Budget. "It's clearly funds which do not belong to the state."

- The Stock Workmen's Compensation Security Fund, which is financed by insurance company contributions, guarantees the timely payment of workers compensation benefits in cases where an employer's insurance company becomes insolvent. Insurers contribute to the fund until its value equals 5% of the loss reserves held by workers compensation insurers in the state. The fund contains $75 million.

Suporters of the diversion say the fund has increased at an annual rate of 25% for the last few years because more policies have been written and insurers' reserves have grown to cover increased workers compensation benefits. The bigger the reverves, the more insurers must contribute to the fund.

The Senate Finance Committee recommended diverting $67 million to general expenditures and the Assembly went along. ■

Structured settlement could pay $26.5 million

Continued from page 2
mingham, Ala.

The amount to be paid by Carriers, which insured Gateway Transportation Co. and its parent Maislin Transport of Delaware, could not be confirmed, sources say. Carriers officials could not be reached for comment.

Sources say both insurers are heavily reinsured for the losses.

The insurance money will be used to purchase annuities that will accrue interest over the years to supply a steady income that could total $26.2 million.

The suit says the crash occurred when the trucks operated by Malone driver James M. Waldroup of Commerce, Ga., and Gateway driver Leonard Fleischer of Elyrie, Ohio., collided while the men were "apparently engaged in a contest of speed." The collision caused the Gateway vehicle to cross the median and hit the McWhorter car, the suit says.

This left Richard G. McWhorter, formerly a $44,000-a-year comptroller for S & B Engineers Inc. of Houston, with brain damage "such that his verbal responses are almost infantile and there is almost no retention of matters learned by him in the 36 years prior to the accident," the suit says.

"He had the potential to become vp in charge of financial affairs for the firm," says Richard Mithoff, the attorney representing Mr. McWhorter's father, Richard M. McWhorter, who filed the suit on behalf of his son and grandsons.

At the time of the accident, the family was taking a side trip to Niagara Falls while on the way to the 1981 Boston Marathon, in which Mrs. McWhorter planned to compete, the attorney says.

"She had set a number of records in Houston and had the potential, apparently, of becoming a world-class runner," Mr. Mithoff says. Had the suit come to trial, Mr. Mithoff said he planned to prove that both trucks were going much faster than they should have in the rainy conditions before the wreck.

Excalibur's Mr. Sheeran says although allegations that the trucks were racing received a lot of notoriety, they were never proven and no evidence was ever presented to support them.

Following an initial payment of $3.5 million, the settlement awards the McWhorter sons Richard J., 17, and Andrew S., 14, $30,000 a year from ages 18 to 25, with a 6% increase each year. From ages 25 to 35, each will receive $525,000 annually, for total of $11 million.

In addition, beginning with a $500,000 payment next month, the defendants will pay $150,000 annually, plus an additional 6% each year, for 30 years to annuities intended for the care and maintenance of Richard G. McWhorter.

These payments will accrue a possible $12 million.

A lump-sum payment of $167,000 will go to the elder Mr. and Mrs. McWhorter, who are caring for their son and grandsons in Houston. Another lump sum of $160,000 will go to Hilda Boudreaux, Barbara McWhorter's mother.

Mr. Mithoff has confirmed that the family's three attorneys will divide a fee of about $2.6 million.

The settlement's size can be largely attributed to Mr. McWhorter's severe injuries, Mr. Sheeran says. "He is incapacitated and will require various forms of attendant care for the rest of his life."

But it was also due to the couple's career potentials, including Mrs. McWhorter's ability as a marathon runner, Mr. Mithoff says.

"I think psychologically it had to enter into it," he says. "It weighs pretty heavily on the mind." ■

Underinsured city faces bankruptcy

Continued from page 2
The chances of South Tucson actually paying the entire judgment are remote, he says. "You can't get blood out of a turnip. I think there will be a compromise, some type of structured settlement that is good for Mr. Garcia and allows the city to stay in business."

Whatever the outcome, the case has raised doubts about mutual aid agreements between municipal police departments and spotlighted the need for adequate police liability insurance, says Tucson risk manager Terry Anderson, careful to stress that Tucson and South Tucson are two separate cities.

"I've been getting calls from all over the country regarding this problem," he says. "Small entities are worried about the implications this has on intergovernmental agreements."

Mr. Anderson said South Tucson residents have responded negatively to the idea of increased taxes to pay the award but the possibliity has not been ruled out.

Mr. Garcia, a dog handler for Tucson Police Department, was shot while participating in a mutual aid operation to help South Tucson police capture a shotgun-wielding assailant barricaded in a house.

Mr. Garcia was on the gunman's front porch after releasing his dog, Mr. Anderson says. "Unfortunately, a number of shots were fired when they were sneaking into the house. A number of policemen started running away and the gentleman (South Tucson officer) apparently fired over his shoulder, hitting Mr. Garcia."

In the suit that followed, South Tucson's attorney argued that Mr. Garcia worked under South Tucson Police Department's supervision and was, therefore, a South Tucson employee. This would give him no more right to sue the city than he had to sue his own employer, the city of Tucson.

South Tucson also attempted to show that the Tucson police force was negligent because Mr. Garcia went to the gunman's porch on orders from his own department. The jury rejected both arguments.

But Tucson's interest in the $3.6 million judgment is not completely nullified. It now has a lien against part of the award seeking repayment of about $200,000 of workers compensation benefits paid Mr. Garcia since the shooting. Mr. Anderson says the city's out-of-the-pocket share of the payments is about $30,000 with the rest covered through insurance purchased through the state workers compensation fund.

"Roy is a real nice guy," Mr. Anderson says. "We took him back into the department for awhile, but after six to nine months he quit. He was having medical problems and couldn't go to work every day.

"We wanted to do what was best for our employee. It is too bad he couldn't continue at his desk job."

South Tucson officials decline comment on their dilemma, but Mr. Anderson says, "Somebody made a decision not to have adequate insurance. That somebody will have to live with it." ■

Health costs hit $162 billion

WASHINGTON—Americans spent $162 billion on health care and medical insurance in 1980, almost 9% of their disposable personal income, according to government statistics.

By contrast Americans spent 19% of income on food and liquor and 15% on housing. Transportation costs consumed 13% of disposable personal income, according to the statistics. ■

Huge rate hikes may be needed: PBGC

Continued from page 1b

ing in the wind."

The PBGC already has warned that termination insurance premiums would have to be increased by about $8 if Chrysler Corp., which has $1.1 billion in unfunded vested benefits, collapses.

And if troubled International Harvester Corp., whose pension liabilities exceed its pension plan assets by $1.3 billion, also fails, termination insurance premiums would have to be hiked another $8 to $9.

Chrysler and International Harvester are among 33 financially troubled firms with large underfunded pension plans, according to the report.

If all these companies failed, the PBGC could have to pay out more than $5 billion in pension benefits to the companies' workers and retirees. To pay for these benefits, the PBGC would have to seek a series of premium increases until the premium reached $40 to $80 per participant.

At some point, employers could be expected to rebel against paying higher termination insurance premiums. Other employers with underfunded plans may decide to dump their plans on the PBGC to avoid paying those hefty premiums.

Eventually, under that scenario, the premiums would rise too high for many employers to pay, and the PBGC insurance system, which Congress created in 1974 as part of the Employee Retirement Income Security Act, would collapse.

To prevent such a collapse, the PBGC could cut back on benefit guarantees or make it more difficult for employers to fold their pension plans.

While no one is predicting a collapse, the trends are ominous. For example, the size of the average claim filed with the agency has increased to $758,000 in 1981 from $180,000 in 1977.

In addition, the number of claims has soared. In 1981, the PBGC incurred $73.7 million in claims from underfunded plans that folded, up from $24.5 million in 1977.

Large claims, those exceeding $1 million, are a major culprit in the need for premium hikes, the report says. "While these 'large claims' represent less than 11% of PBGC's total number of claims, they account for 88% of the value of net claims," according to the report.

During the PBGC's first three years, the largest claim it had to pay was $16.5 million. But already this year, it is facing a $60 million claim to pay for the vested benefits of White Motor Co. workers and retirees.

The bankrupt truck and farm equipment manufacturer promised its pension plan participants about $96 million in benefits, but its plan has just $28 million in assets. The PBGC now has to make up most of this difference.

"We see more and more White Motor failures as entire industries falter," putting new burdens on the PBGC insurance premium structure, a source noted.

Other findings in the 44-page report include:

- The PBGC expects to be paying out an average of $112 million annually in benefits to people enrolled in collapsed pension plans during the next five years. That's up sharply from the $57 million payout in fiscal 1981.
- The PBGC doesn't expect Congress to pass any major pension legislation this year. As a result, the agency will try to have the premium increase passed as separate legislation whose fate is not tied to other pension bills. ■

Florida fund

Continued from page 2

"It was a political reality to protect self-insurance. As it turns out, the state's bonding requirements to self-insure are becoming so high that it will probably be cheaper in the long run to be assessed 1% of premium for a few years," he said.

Like many of the 46 states that allow self-insurance for work comp, Florida employers must post a surety bond equal to annual estimated premium plus loss reserves, minus 1% of their net worth.

The state is currently reviewing the bonding requirement formula for all employers. Self-insured employers think having the reinsured guaranty fund may lower its bonding requirements with the state.

Bonding requirements fall short of protection when the bonding company that issues the surety bond goes broke, proponents of the guaranty fund point out.

"We'll get more return on our investment and greater protection for employers and their workers," says Gilbert Waters, president of Associated Self Insurers of Florida.

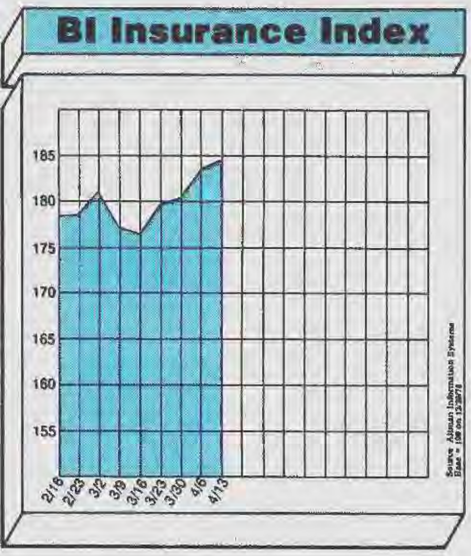
He admits that employers are "highly neutral" about the guaranty fund, but said the option was having a state-operated system.

Under the plan, assessments would be terminated after three or four years when the fund would be self-perpetuating from investment income.

Employers beginning to self-insure still would be required to contribute 1% of premium to the plan.

If $1 million is collected from the 300 self-insured companies the first year, $500,000 of that will be used to establish the guaranty fund. The remaining portion will be used to buy the reinsurance, he explained.

"If we don't have any insolvencies, we'll have $2 million or $3 million in the fund at the end of four years and still have money to pay for the reinsurance." ■



Insurance industry stocks posted their fourth consecutive gain as the *Business Insurance* index gained 1.1 points, to 184.6 from 183.5. Thirty stocks showed gains, 16 stocks lost value and 25 were unchanged. Leading the increases were: Penncorp Financial Inc., 10.2%; Reed Stenhouse Cos. Ltd., 7.5%; Statesman Group Inc., 6.7%; Crown Life Insurance Co., 5.9%; and The Hartford Steam Boiler Inspection & Insurance Co., 5.2%. The largest declines were suffered by: E.H. Crump Cos. Inc., 5.6%; Mission Insurance Group Inc., 4.0%; Armco Inc., 3.1%; Gulf United Corp., 2.8%; Great Western Life Assurance Co., 2.8%. The *BI* index, which gained 0.6%, outperformed the major stock market indicators.

British Issues

13 April Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	136	11.3	16.86	12.4	136—132
Eagle Star	373	12.6	21.43	5.7	382—373
Genl Accident	298	6.6	23.21	7.8	306—298
Gdn Royal Exch	290	7.0	25.00	8.6	294—290
Phoenix	232	7.9	24.00	10.3	246—232
Royal	334	8.4	36.07	10.8	340—334
Sun Alliance	802	9.5	61.43	7.7	826—802
Brokers					
CE Heath	317	9.2	15.71	5.0	325—317
Hogg Robinson	102	7.8	8.57	8.4	103—102
JH Minet	171	10.7	8.14	4.8	171—169
Sedg Grp	168	10.8	8.57	5.1	170—168
Stenhouse Hldg	110	8.0	7.28	6.6	110—109
Stew Wrightson	228	8.1	18.57	8.1	228—220
Willis Faber	457	11.4	21.43	4.7	460—457

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

New executive vp plans to remodel The Home

By LEN STRAZEWSKI

NEW YORK—The Home is getting more than a new coat of paint this spring.

New Executive Vp Steven H. Newman, recently hired away from American International Group, is planning a complete remodeling of The Home Group Inc., the 14th-largest insurance group in the United States, along the lines of his former abode.

Mr. Newman has a mandate to take the staunchly conservative insurance group into a new era of creative property/casualty underwriting and unbundled risk management services, he says, while firming its hold on small commercial and personal risks.

"The Home had deluded itself into thinking that it only had to keep its eye on the mainstream of insurance," Mr. Newman notes. "It had been content to take what it was shown and did not take advantage of its strengths."

Represented primarily by more than 7,000 independent agents, The Home shared some of the problems of the agency business. Big risks moved increasingly to big brokers and self-funded programs, and small risks moved to direct-writing insurers.

The company also tended to ignore the creative underwriting and service needs of large commercial risks.

BI ticker

Although the group founded a risk management services division in 1978, it only released its hold on its loss-control engineering staff last month under a directive from Mr. Newman.

"The Home focused on administration and internal cost-cutting, not creativity. It kept its eye on the football while the football shrank. It painted itself into a corner," Mr. Newman says.

Financial results felt the pressure, according to the group's recently released annual report. Premiums written grew only marginally in the past two years, 3.3% in 1980 and 4% in 1981 when they topped out at about $1.9 billion. Total revenues also grew only slightly, increasing 7.7% in 1980 and 7.2% to $2.1 billion in 1981.

The gap between property/casualty underwriting losses and the investment income that offset those losses also shrank. In 1979, investment income more than doubled the group's underwriting losses, but in 1980 the margin had shrunk to about 37% as underwriting losses more than doubled, reaching $135.1 million, and investment income grew only 40% to $185.7 million.

In 1981, underwriting losses continued to mount, growing 76% to $238.3 million while investment income grew only 33% to about $247 million.

Overall income from insurance operations dropped to $26.4 million in 1981 from $65.1 million in 1980, and the group's combined ratio, as reported to state regulators, hit 114.4%, the worst among large insurers (*BI*, April 5).

But the company's potential for success still remains, according to Mr. Newman, and corporate consumers can expect The Home to become a major competitive factor in several areas within the year.

"My first goal is to provide our agents with more of the products that they need to compete," he explains. "At AIG, most of the new ideas came from producers so we will want to listen better to our agents for the products they need. We want to be on the leading edge of administrative efficiency to make the mainstream small risks as profitable as possible."

The Home also will finally turn its attention to large corporate needs, beginning with property risks.

"Right now, The Home is not a factor in the commercial property business, though we once were," Mr. Newman says. "We insure relatively few large risks.

"However, we do have a solid strength in the oil and gas industry that we haven't taken advantage of.

"Commercial property is a potentially profitable business. I understand it. The Home should be in it. And we will."

The Home also will follow AIG's example by entering the specialty casualty risk field, according to Mr. Newman.

With better use of the reinsurance market, Mr. Newman expects The Home to develop new casualty products and compete in the market now dominated by AIG and Insurance Co. of North America.

"At AIG, we learned that much more can be done in both coverage and pricing by internally layering a risk before quoting," Mr. Newman explains. "We learned at AIG to price the risk based on portions of the risk and the cost of reinsuring those layers. We found we were able to write the same piece of business at much more attractive rates.

"Right now, we don't have the talent to do that at The Home, but we will acquire that talent within the course of the year," he says.

The Home also will turn loose its international capabilities, built on a 27% interest in AFIA, and its risk management services profit center headed by Vp Fred Mina, another former AIG executive.

The risk management services division has been growing at a rate of 20% to 25% a year since 1978 and recently expanded to five regional offices in Chicago, Atlanta, San Francisco, New York and Dallas, according to Mr. Mina.

He anticipates accelerated growth and revenues of $140 million this year as the department expands its development of association captives, risk retention pools and unbundled services. ■

'Why wait?' Newman asks

"Why wait?" asks Steven H. Newman, executive vp of The Home Group Inc.

As senior casualty actuary, director of new product development and the top reinsurance buyer at American International Group, Mr. Newman was being groomed as the successor to AIG Chief Executive Officer Maurice Greenberg, many industry sources say.

But the prospect of waiting 10 or more years for Mr. Greenberg, now 56, to think about a successor was not what Mr. Newman, 39, had in mind.

"First of all, Mr. Greenberg would say that he isn't grooming anyone to take over for him and that seems to be true," Mr. Newman explains. "There are several people at AIG, including members of his own family, who could be viewed in that role.

"Moreover, it is questionable as to whether Mr. Greenberg, considering his personal style, will ever let loose the reins when he is still capable of making decisions, regardless of his age," Mr. Newman says.

Mr. Newman, who joined The Home in mid-January, comes to the company as its top insurance officer. Peter Huang, The Home's president and chief executive offficer, is also chief operating officer of the corporate parent, City Investing Co., and is not trained in insurance.

"Why wait 10 years to stand in line when there is a bigger challenge here at The Home? If I succeed, I fully expect to be president of the group in three or four years," Mr. Newman says. ■

BI Industry Stock Report

APR. 13, 1982 4/7/82 THRU 4/13/82

Insurance Cos.

		Price	Chg	P/E	$ Div	Yld	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	47.00	-0.8	7.7	2.52	5.4	47.88*	47.00	883.7
American Bankers Ins Group	OTC	8.00	0.0	6.7	0.48	6.0	8.13	8.00	104.7
American Gen Ins Co	NYSE	43.25	1.5	6.5	2.20	5.1	43.38*	43.13	61.6
American Indty Finl Corp	OTC	15.63	0.0	7.5	1.12	7.2	15.63	15.63	0.7
American Intl Group Inc	OTC	68.25	-1.1	11.3	0.48	0.7	69.25*	68.00	170.9
American Natl Ins Co	OTC	14.00	0.0	5.9	0.76	5.4	14.00	14.00	29.2
American Sts Life Ins Co	OTC	17.25	1.5	5.5	0.80	4.6	17.25*	17.00	0.4
Aneco Reins Ltd	OTC	1.75	0.0	0.0	0.00	0.0	1.75	1.75	4.6
Appalachian Natl Corp	OTC	2.63	0.0	0.1	0.00	0.0	NOT TRADED		
Avemco Corp	AMEX	11.63	0.0	7.6	0.54	4.6	11.63	11.50	4.0
Banks Iowa Inc	OTC	35.00	0.0	5.4	1.48	4.2	35.00	35.00	8.2
Bitco Corp	OTC	29.50	-2.5	4.4	1.92	6.5	30.75	29.50*	14.2
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	1.6
Chubb Corp	OTC	44.00	-1.4	5.2	2.92	6.6	44.75	44.00	78.1
Combined Intl Corp	NYSE	21.13	3.7	5.7	1.80	8.5	21.13	20.25	249.0
Connecticut Gen Ins Corp	NYSE	50.50	0.0	5.8	2.04	4.0	MERGED WITH CIGNA CORP.		
Continental Corp	NYSE	28.13	0.4	7.0	2.60	9.2	28.13*	28.00	153.1
Crawford & Co	OTC	12.25	0.0	9.6	0.56	4.6	12.25	12.25	1.5
Crown Life Ins Co	OTC	85.00	5.9	6.2	3.10	3.6	85.00*	80.25	0.4
Crum & Forster	NYSE	32.13	-0.4	5.2	1.64	5.1	32.25	32.00	154.3
Employers Cas Co	OTC	29.50	3.5	6.4	1.20	4.1	29.50*	28.50	7.0
Equifax Inc	NYSE	29.38	-2.5	8.4	2.60	8.9	30.13	29.38	13.5
Excelsior Ins Co	OTC	17.50	-1.4	12.0	0.70	4.0	17.75	17.50	3.9
Farmers Group Inc	OTC	35.63	1.1	10.1	1.24	3.5	35.75	35.50	177.0
First Colony Life Ins Co	OTC	64.75	1.4	19.2	1.02	1.6	64.75	63.88	3.9
Foremost Corp Amer	OTC	28.50	3.6	7.9	1.12	3.9	29.00	28.25	9.8
Great West Life Assurn Co	OTC	209.00	-2.8	8.1	10.00	4.8	209.00	209.00*	0.0
Hanover Ins Co	OTC	33.75	2.3	4.2	0.72	2.1	33.75	33.50	6.1
Hartford Steam Boiler Insptn	OTC	40.50	5.2	7.0	2.80	6.9	40.50	40.50	4.0
Jefferson Natl Life Ins Co	OTC	36.50	2.8	11.2	0.76	2.1	36.50*	35.50	7.0
Kemper Corp	OTC	33.50	1.9	5.5	1.80	5.4	33.63	33.13	26.7
Lincoln Natl Corp Ind	NYSE	39.88	1.6	6.5	3.00	7.5	40.00	39.75	45.3
Mission Ins Group Inc	NYSE	39.38	-4.0	6.8	1.20	3.0	40.88	39.38	83.3
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	3.1
Northwestern Natl Life Ins	OTC	27.38	2.8	5.7	1.50	5.5	27.75*	27.38	14.4
Ohio Cas Corp	OTC	44.63	0.0	6.7	2.36	5.3	44.75	44.63	18.5
Old Rep Intl Corp	OTC	19.38	0.0	4.8	0.92	4.7	19.38	19.38	33.9
Preferred Risk Life Ins Co	OTC	21.50	1.8	6.4	0.92	4.3	22.13*	21.50	9.2
Provident Life & Acc Ins Co	OTC	48.00	0.0	6.0	2.44	5.1	48.00	48.00	11.5
Ryan Ins Group Inc	OTC	20.75	1.2	8.8	0.16	0.8	20.75*	20.50	5.0
St Paul Cos Inc	OTC	49.38	0.5	6.5	2.60	5.3	50.25	49.38	104.8
Safeco Corp	OTC	38.88	-1.6	6.7	2.20	5.7	39.50	38.88	139.5
Sri Corp	OTC	23.00	1.1	4.6	1.00	4.3	23.00	22.75	12.3
Seibels Bruce Group Inc	OTC	22.63	1.7	10.9	0.80	3.5	22.63	22.25	91.7
Statesman Group Inc	OTC	6.00	6.7	4.7	0.15	2.5	6.00	5.63	49.5
Tokio Marine & Fire Ins Co	OTC	94.75	1.6	7.6	1.00	1.1	95.50	93.00	3.0
Travelers Corp	NYSE	50.75	1.8	6.0	3.28	6.5	50.88	50.63	257.0
United Fire & Cas Co	OTC	29.75	0.8	7.8	0.88	3.0	29.75	29.50	0.7
United States Fid & Gty Co	NYSE	45.50	1.4	7.6	3.60	7.9	45.75*	45.00	120.5
United Svcs Life Ins Co	OTC	15.38	0.8	5.7	1.00	6.5	15.38*	15.38	5.1
Uslife Corp	NYSE	22.63	2.3	4.6	0.84	3.7	22.63	21.63	109.8
Washington Natl Corp	NYSE	16.88	0.0	6.0	1.08	6.4	17.13	16.75	19.2
Zenith Natl Ins Corp	OTC	16.75	-1.5	8.4	0.76	4.5	17.00	16.75	12.7
				=====		=====			
INSURANCE COMPANIES	AVERAGE			5.9		4.5			

Agents/Brokers

		Price	Chg	P/E	$ Div	Yld	High	Low	Vol (000)
Alexander & Alexander Svcs	NYSE	29.25	1.3	9.8	1.94	6.6	29.63	28.63	175.5
Baldwin & Lyons Inc	OTC	35.00	0.0	6.3	0.80	2.3	35.00	35.00	1.3
Corroon & Black Corp	NYSE	20.25	0.0	11.4	1.76	8.7	20.25	20.25	11.7
Crump E H Cos Inc	OTC	8.38	-5.6	15.5	0.40	4.8	8.88	8.38	12.6
Hall Frank B & Co Inc	NYSE	29.25	0.0	11.0	1.70	5.8	30.00*	28.75	208.1
Integrated Res Inc	AMEX	15.00	0.0	5.3	0.00	0.0	15.25	15.00	27.8
James Fred S & Co Inc	NYSE	23.13	0.0	10.8	1.60	6.9	23.25	23.00	34.1
Marsh & Mclennan Cos Inc	NYSE	35.00	1.1	10.7	2.00	5.7	35.13*	35.00	111.5
Penncorp Fincl Inc	NYSE	6.75	10.2	5.4	0.16	2.4	6.75*	6.50	140.3
Pinehurst Corp	OTC	8.88	0.0	10.7	0.00	0.0	8.88	8.88	3.2
Poe & Assoc Inc	OTC	9.00	0.0	10.2	0.80	8.9	9.00	9.00	0.0
Reed Stenhouse Cos Ltd	OTC	12.50	7.5	10.2	0.60	4.8	12.50*	11.63	6.6
Rollins Burdick Hunter Co	OTC	18.25	-1.4	11.4	1.32	7.2	18.25	18.25	12.1
				=====		=====			
AGENTS/BROKERS	AVERAGE			9.1		5.2			

Conglomerates/Holding Cos.

		Price	Chg	P/E	$ Div	Yld	High	Low	Vol (000)
American Express(Fireman's Fd)	NYSE	49.38	2.1	8.8	2.20	4.5	49.75*	48.38	685.3
Anderson Clayton(Ranger/PanAm)	NYSE	29.50	0.0	6.0	1.32	4.5	29.63	29.50	27.2
Armco Inc	NYSE	19.25	-3.1	3.9	1.80	9.4	19.75	19.25	242.7
City Investing Co. (Home Ins.)	NYSE	22.25	0.0	6.4	1.70	7.6	22.63	22.25	167.0
CNA Finl Corp (CNA)	NYSE	14.13	-2.6	5.8	0.00	0.0	14.25	14.00	59.5
Control Data (Comml. Credit)	NYSE	31.38	-1.6	7.0	0.55	1.8	32.38	31.38	269.0
General Re Corp	NYSE	86.88	2.8	10.7	2.16	2.5	86.88*	84.00	105.6
Gulf Utd Corp	NYSE	17.25	-2.8	5.8	1.32	7.7	17.75	17.25	30.5
INA Corp (Ins. Co. of NA)	NYSE	46.50	0.0	6.3	2.40	5.2	MERGED WITH CIGNA CORP.		
ITT (Hartford Group)	NYSE	26.00	1.5	5.5	2.68	10.3	26.00	25.75	451.5
Optimum Hldg Corp	OTC	9.25	0.0	7.1	0.00	0.0	9.25	9.25	3.3
Sears Roebuck & Co. (Allstate)	NYSE	18.88	-0.7	9.2	1.36	7.2	19.00	18.88	1,667.8
Baldwin Utd Corp	NYSE	65.88	0.6	9.5	1.60	2.4	68.13	65.88	110.3
Teledyne Inc (Argonaut)	NYSE	118.50	-2.1	5.9	0.00	0.0	121.00	118.50	310.6
Transamerica Corp (Occidental)	NYSE	20.75	5.7	6.0	1.40	6.7	20.75	20.38	580.2
				=====		=====			
CONGLOMERATES/HOLDING COS.	AVERAGE			7.0		3.6			

*Record high/low since Jan. 1, 1982

System design: Altman Information Systems

Financial briefs

Old Republic

Old Republic Insurance Co., a division of Old Republic International Corp. and one of the largest insurers of workers compensation for the coal industry, has purchased slightly more than 5% of Corroon & Black Corp., the nation's sixth-largest insurance brokerage.

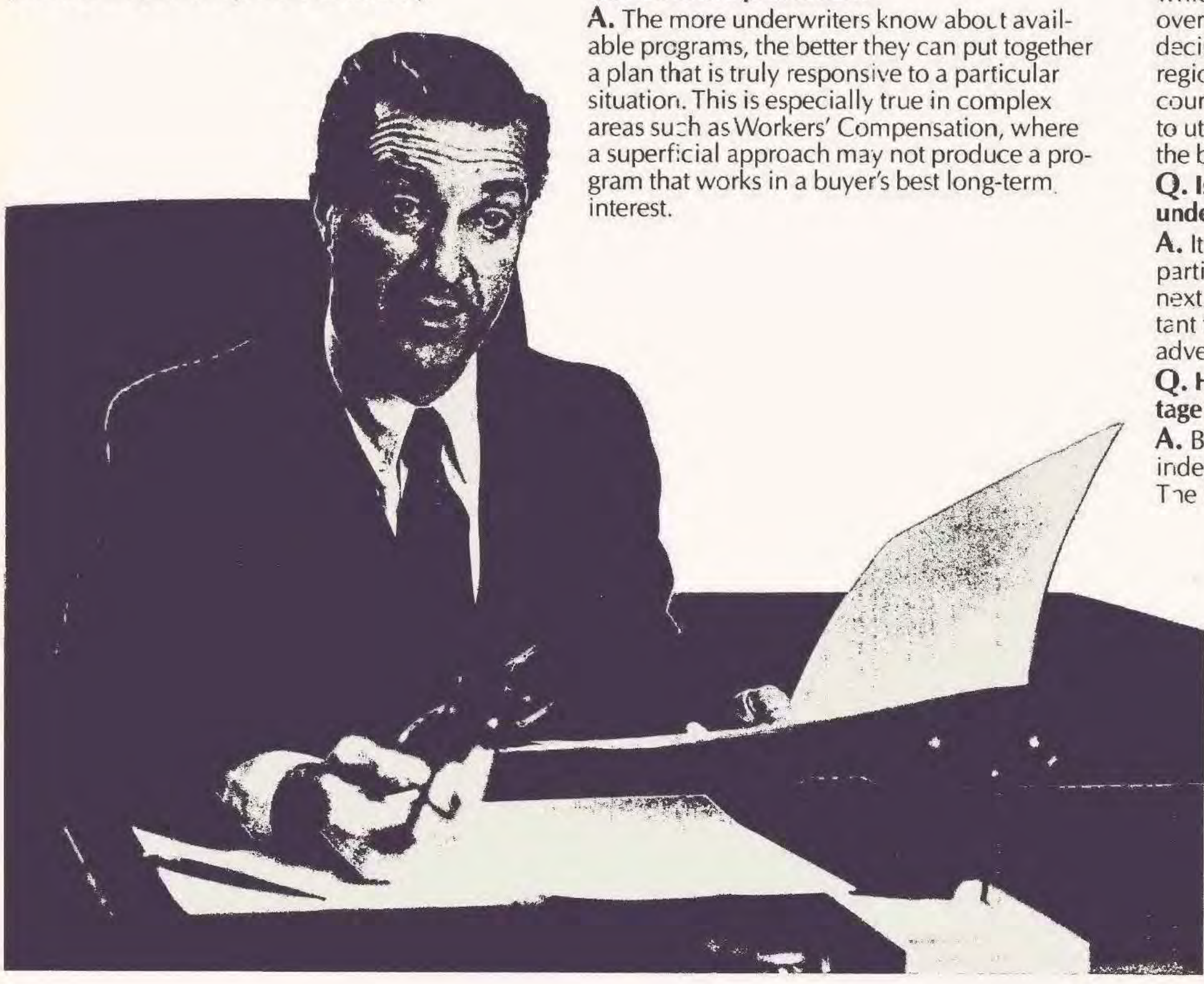
The purchase of 394,000 shares over the last two months for about $20 per share is for investment purposes only, according to documents filed with the Securities and Exchange Commission, but the insurer reserved the right to make additional purchases in the open market. ■

"The Hartford's top-notch underwriters bring special skills to standard commercial lines."

An interview with Tony Lubimir, Senior Vice President, Office of Underwriting, The Hartford.

Q. The Hartford is known for the quality of its underwriters. Why is that?

A. Our whole approach to the market depends upon developing and keeping outstanding underwriters. That's why we give top priority to specialized training and career incentives that make underwriting both challenging and rewarding. For example, we created the position of Executive Underwriter for our most experienced professionals. They have broad underwriting and pricing authority coupled with production responsibility. The position may be unique in the industry.



Q. How do insurance buyers benefit from the specialized training of Hartford underwriters?

A. Their insurance needs are addressed by an underwriting professional with in-depth experience and expert knowledge of the particular type of coverage involved. That high level of underwriting expertise is just what brokers and agents tell us they need to help their clients–especially in the current business environment, where *quality* of protection is as important as price.

Q. How does that underwriting expertise help insurance buyers get high-quality, cost-effective protection?

A. The more underwriters know about available programs, the better they can put together a plan that is truly responsive to a particular situation. This is especially true in complex areas such as Workers' Compensation, where a superficial approach may not produce a program that works in a buyer's best long-term interest.

Q. What happens when insurance buyers need specialized underwriting help on both the Property and Casualty sides?

A. They get it. The Hartford has a well-coordinated team approach that gives brokers and agents unlimited access to specialized underwriting and loss control assistance–in effect, our best corporate underwriting resources–when called for.

Q. Do Hartford underwriters in the field have adequate authority to accept or reject risks without consulting the home office?

A. Because of the superior training and experience of our underwriters, we're able to give them significant authority within which to operate. In fact, over 95% of underwriting decisions are made in our regional offices. Of course, our field underwriters are encouraged to utilize all corporate resources to develop the best approach to a given situation.

Q. Is The Hartford consistent in its underwriting program?

A. It is our policy to be. We don't cover a particular type of risk one year and drop it the next. This will become an even more important factor as the market starts to respond to adverse underwriting results.

Q. How can insurance buyers take advantage of Hartford underwriting capability?

A. By contacting a broker or independent agent who represents The Hartford.

Don't make a decision on business insurance without a quote from The Hartford.

BUSINESS
HOME
AUTO
LIFE

Let us protect your world. THE HARTFORD

The Hartford Insurance Group, Hartford, Connecticut 06115.