NEWSPAPER

APRIL 22, 1996

Business Insurance®

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

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1996 Captive Insurance Report
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Risk Manager of the Year

Brian D. Casey
Corning Inc.

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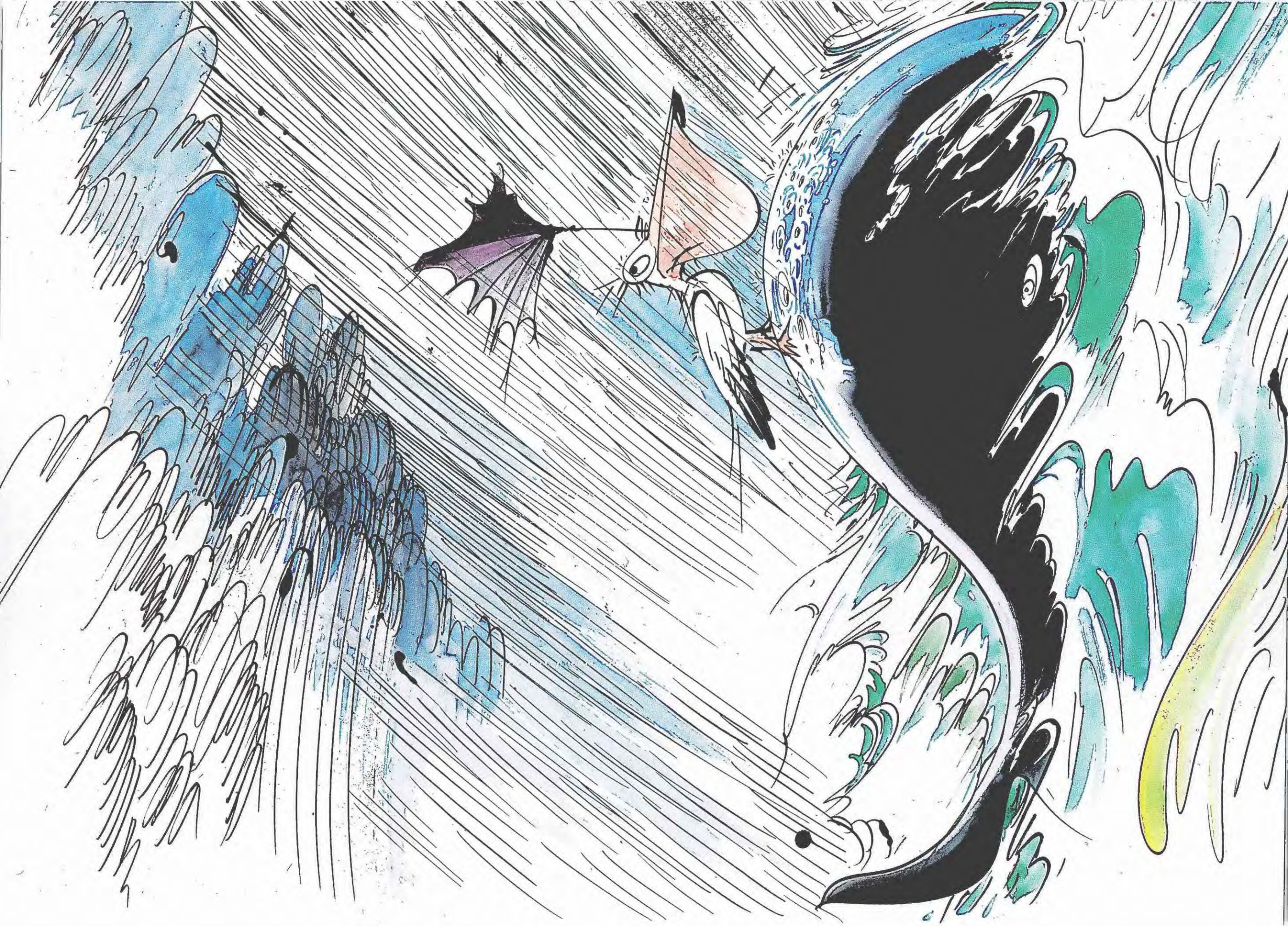
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ILLUSTRATION: GERALD SCARFE

Seeking Shelter from the Storm?





NEWSPAPER

APRIL 22, 1996

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Updates

$600 million settlement offered in suit over AIDS-tainted blood

CHICAGO—The four major producers of blood-clotting products tainted with the AIDS virus are offering to settle ongoing litigation with thousands of HIV-positive hemophiliacs and the estates of those who died from AIDS for $600 million.

Last week's offer by Bayer Corp., a unit of Germany's Bayer A.G.; Baxter Healthcare Corp.; the Armour Pharmaceutical unit of Rhone-Poulenc Rorer Inc.; and the Alpha Therapeutic Corp. unit of the Green Cross Corp. of Japan also calls for the defendant

See **Updates** *on next page*

Courts eye GE Bermuda move

Leaked memos may show EMLICO collapse was foreseen

By DOUGLAS McLEOD

HAMILTON, Bermuda—General Electric Co. may have a whistleblower on its hands.

GE's insolvent Electric Mutual Liability Insurance Co. is trying to block the release of documents allegedly showing that the insurer planned its liquidation several months before asking Massachusetts regulators to approve its move to Bermuda, where it subsequently collapsed.

The documents—mailed anonymously to lawyers for an EMLICO reinsurer—could support reinsurers' charges that EMLICO deceived regulators in a scheme to use Bermuda's creditor-friendly liquidation law to saddle reinsurers with huge GE asbestos and pollution claims.

A Massachusetts judge last week rejected EMLICO's arguments that the documents are privileged but stayed his ruling until today to allow an appeal.

Meanwhile, a Bermuda judge presiding over the liquidation last week took the unusual step of agreeing to hear charges by Kemper Reinsurance Co. that EMLICO's move was part of a "fraudulent conspiracy" that violated Bermuda criminal laws.

While debtors like reinsurers normally have no voice in Bermuda liquidations, the judge said the allegations were serious enough to warrant his attention.

Separately, he also gave Kemper Re more time to seek review of the decisions that originally allowed EMLICO into Bermuda.

David F. St. Laurent, EMLICO's president, declined to comment, as did a lawyer representing the insurer in the Massachusetts case.

EMLICO, a longtime GE general liability insurer, filed for voluntary liquidation last October after recognizing a roughly $750 million shortfall in reserves for GE-related asbestos and environmental exposures. The shortfall left EMLICO insolvent by at least $500 million (*BI*, Dec. 11, 1995).

The filing, which stunned regulators and reinsurers, came shortly after the Massachusetts

See **EMLICO** *on page 144*

Washington firms fear alternative provider law will raise costs, claims

By ROBERTO CENICEROS

OLYMPIA, Wash.—A first of its kind law requiring insured health plans to provide access to alternative health care providers has some Washington employers worried about more claims and higher costs.

Neither the Washington Insurance Department—which is being sued by 11 health insurers over its broad interpretation of the any willing provider law—nor insurers could say for sure how the law will affect claims because it has never been adopted elsewhere. The law took effect Jan. 1.

"There is a certain amount of precedent being figured out here," said a spokesman for one of the plaintiffs, Group Health Cooperative of Puget Sound, a Seattle HMO currently adding alternative providers to some of its health plans. "However this shakes out, you're probably going to see other states say, 'Well, they did it in Washington; let's do it here.' "

Insurance Commissioner Deborah Senn's interpretation of the 1995 law is once again pushing Washington into the forefront of the national debate over health care reform.

Nationwide, a handful of insurers, such as Blue Cross of California, are offering limited access to chiropractic networks, said Elisabeth Lake, a principal in the health and welfare practice at A. Foster Higgins & Co. Inc. in Los Angeles. Because some of those chiropractors have massage therapists in their offices, policyholders also get charged for those services.

But, across the nation, most major managed care networks and smaller PPOs are not including alternative providers, Ms. Lake said.

"I don't see it as a trend," she said. "And, we in Southern California pride ourselves on being the birthplace of trends in medical practice, and I don't see that here at all."

Washington's law is a surviving vestige of major health care reforms enacted in 1993, most of which were repealed in 1995 (*BI*, June 5, 1995). Effective Jan. 1, it

See **Washington** *on page 143*

California comp plan assailed

Private fund leaves market void: Critics

By JOANNE WOJCIK

SACRAMENTO, Calif.—"If it ain't broke, don't fix it," critics are saying of Gov. Pete Wilson's proposal to privatize California's competitive state workers compensation fund.

Most of those critics fear that privatizing State Compensation Insurance Fund would leave a void in coverage available to high-risk employers, which the insurer now is obligated to take as the insurer of last resort.

In one sense at least, State Compensation Insurance Fund is already quasi-private: it is self-supporting, funded not by taxpayer dollars but by premiums from policyholders.

In fact, the California Supreme Court recently ruled that the state fund could be sued for bad faith like any other insurer because it was not a governmental entity, points out Nicholas Roxborough, a policyholder attorney with Los Angeles-based Roxborough, Pomerance & Gallegos.

"Either this is a PR move, or he's (Wilson) being poorly advised," Mr. Roxborough said. "The state fund is already privatized."

Some industry insiders have gone so far as to say that Gov. Wilson's "Competitive Government Effort," unveiled April 11, is

See **State fund** *on page 142*

New York governor proposes workers comp reforms .....Page 144



PHOTO BY JOHN SPINK/ATLANTA CONSTITUTION

Insurance will cover the more than $1 million in damage to the Fox Theatre's offices in Atlanta.

Four-alarm fire a close call for Fox Theatre

By MICHAEL BRADFORD

ATLANTA—The show will go on after a four-alarm fire gutted a downtown Atlanta restaurant and destroyed offices next door at the historic Fox Theatre.

The blaze, which started last Monday about 5:30 a.m. in the Adams at the Fox restaurant, did not reach the adjacent landmark but did destroy the theater's administrative offices, which are separated by a firewall. The 67-year-old theater suffered minor smoke and water damage.

The damage wasn't enough to cancel Tuesday night's production of "Joseph and the Amazing Technicolor Dreamcoat," said Edgar Neiss, the Fox's general manager. But an event scheduled for a ballroom at the theater was moved to another location.

The fire is believed to have started in the restaurant's ceiling and investigators were focusing on a possible electrical problem as the cause. There were no injuries in the blaze, which took 100 firefighters around four hours to douse, according to an Atlanta Fire Department spokesman.

Mr. Neiss said last week that the amount of damage to the offices hadn't been totaled but a "rough guess" would be $1 million to $1.5 million. The fire consumed office contents and equipment, including computers, copiers, fax machines.

The Fox relocated administrative operations to downtown space donated by a local branch of Charlotte, N.C.-based NationsBank Corp.

The Fox was built in 1929 and named a historic landmark in 1976, after developers attempted to tear it down and build a skyscraper. It wasn't the original site for the opening of "Gone With the Wind" but was the location for a gala celebrating the film's 50th anniversary in 1989.

Property insurance written by Commercial Union Insurance Co. will cover the damages, according to Mr. Neiss. The coverage was placed by Steve Alexander Insurance Agency in Atlanta. Limits were not disclosed.

Owners of Adams at the Fox were totaling their losses last week and planning to re-open in time for this summer's Olympic Games.

The income that would be lost if the business is closed for the Olympics would be significant, said Rob Renno, one of the restaurant's owners.

Mr. Renno could not say how much it will cost to reopen Adams at the Fox or provide details of insurance that will be available. He was at a loss to estimate any damages. "When red wine heats up to 2,000 degrees, what's it worth?" he asked.

Updates

AIDS victims receive offer

Continued from previous page

companies to pay an extra $40 million for legal and administrative costs.

The offer, outlined in a three-page letter to plaintiffs attorneys, is non-negotiable and is contingent on 95% of current plaintiffs participating. If more than 100 opt out, the settlement offer could be voided. Plaintiffs rejected a 1994 offer of $160 million (*BI*, Aug. 15, 1994). The offer also depends on approval from liability insurers, many of whom are still litigating with the defendants over coverage. Under the offer, payments would be apportioned by market share. Bayer would pay about $288 million, Baxter and Rhone-Poulenc Rorer about $128 million each and Alpha about $96 million.

The Centers for Disease Control estimates 6,000 to 8,000 U.S. hemophiliacs have been infected. To qualify for payment, an HIV-positive claimant would have to prove he or she took clotting medication made by one of the four companies between 1978 and June 1985.

If claimants accept the offer, it would still need court approval. Lawyers for HIV-positive hemophiliacs have until May 20 to tell the defendant companies which plaintiffs will accept the offer.

This offer would pay $75,000 per person if 8,000 accept it. By contrast, Japanese hemophiliacs would receive $426,000 per person in an industry-government settlement reached last month (*BI*, March 18).

Superfund relief for small firms

WASHINGTON—Democrats in the U.S. Senate will push limited liability relief for small business and municipalities in a proposal they hope can gain bipartisan support in the debate over Superfund.

The proposal, unveiled last week by Sens. Max Baucus, D-Mont., and Frank Lautenberg, D-N.J., has the blessing of the Clinton administration. The proposal, among other things, calls for: exempting businesses with 25 or fewer employees and annual gross revenues of less than $2 million from retroactive Superfund liability; limiting the liability of municipalities; exempting so-called "de micromis" parties that—as generators and transporters of waste to a Superfund site—were responsible for less than 110 gallons of liquid hazardous waste or 200 pounds of solid waste; and making greater use of the federal trust fund—the Superfund—to pay for cleanup in specific circumstances.

The Democratic proposal came as the Senate Environment and Public Works Committee prepared to hold hearings on S. 1285, the GOP's Accelerated Cleanup and Environmental Restoration Act, later this week. A committee vote could come as early as next month.

State ends most punitives

BATON ROUGE, La.—A new Louisiana law effectively abolishes punitive damages for all lawsuits in the state except sex offenses and certain drunken driving cases.

Louisiana, which had phased out punitive damages in most tort cases except improper storing, handling or transporting of hazardous materials, removed that category as well when Gov. Mike Foster on April 16 signed H.B. 20 into law.

An old law that allowed punitive damages in that category of cases had created uninsurable risks for Louisiana businesses, he said. The bill to repeal that law was sponsored by state Rep. Chuck McMains, R-Baton Rouge, and approved last week by the state Senate.

Gov. Foster also signed two other tort reform bills:

H.B. 21 restricts the damages that civil defendants can be required to pay to their percentage of fault. Previously, a defendant as little as 5% at fault could be liable for up to 50% of damages.

H.B. 18 eliminates strict liability for property owners.

Best downgrades IIE syndicate

OLDWICK, N.J.—A.M. Best Co. last week downgraded the combined ratings of Chicago-based Transco Syndicate #1 Ltd. and its Alpine Insurance Co. subsidiary to C, or marginal, from B, or adequate.

The downgrade of the combined companies, known as Exstar Financial Group, "reflects Best's concerns over the quality of Transco's surplus given the size of both the investment in its subsidiary, Alpine Insurance," and in a private holding company affiliated with Classic Syndicate Inc. Classic withdrew from the Illinois Insurance Exchange last year (*BI*, Jan. 8), while Transco continues writing business there.

Best found that a "significant" portion of Transco's assets are "nonliquid." It also questioned Transco's ability to meet $13.5 million in reinsurance obligations due Alpine, among other things.

Best also noted that Exstar had requested extensions for filing its 1995 Form 10-K with the Securities and Exchange Commission.

Peter J. O'Shaughnessy, chairman and CEO of the Exstar Financial Corp. in Solvang, Calif., which owns Transco, says the companies are improving their financial condition. Specifically, the $13.5 million in reinsurance recoverables will be commuted. It also is involved in two actuarial reviews to show Illinois Insurance Department regulators that reserves are overstated by as much as $20 million, he said.

Mr. O'Shaughnessy plans to seek an upgraded rating in late May.

In related action, Best has changed the rating of the Classic Fire & Marine Insurance Co., an affiliate of the former Classic Syndicate, from B-, or adequate, to NR-4, which indicates the insurer rejects a proposed downgrading and requested the rating not be published.

See **Updates** *on page 142*

Errors & omissions

• An article on page 67 of this issue states that sources in the Colorado captive market say Aon Risk Services (Colorado) will close its Denver office. Aon Corp. says it will "maintain a presence" in the state through its brokerage offices there. Due to publication deadlines, the comment was not included.

Allstate considers selling 2 units if the price is right

By JUDY GREENWALD

NORTHBROOK, Ill.—Allstate Corp.'s possible sale of two commercial property/casualty and reinsurance units would generate new funds for its core personal lines businesses, though it could decide to retain the units if the price isn't right.

Allstate last week said it is conducting a "strategic review" of its Northbrook Property & Casualty Insurance Co. and Allstate Reinsurance underwriting units that it expects to complete by mid-year. A sell-off is one option being considered.

In fact, the two units may already be on the block. With announcements like this, "they're saying, 'Please come and talk with us,'" said Doug Moat, chairman of New York-based Manhattan Group, a consulting and investment banking firm.

A number of insurers and venture capital firms could be interested. One analyst said that potential earnings for the two companies, both based in South Barrington, Ill., suggest a value of $600 million to $1 billion.

Together, the two units generated about $1.04 billion in gross premiums last year, representing about 70% of Allstate's total commercial business, said a spokeswoman. This accounts, though, for only about 6% of Allstate's total $18 billion in gross property

See **Allstate** *on page 144*

Despite Senate rejection, benefit issue not dead

MSA tax break down, not out

By JERRY GEISEL

WASHINGTON—Despite Senate rejection of a medical savings account proposal last week, the issue is not dead.

A House-passed bill would allow tax-favored MSAs, which the administration opposes, and that and other differences in the two bills will have to be ironed out by a conference committee.

Senate passage this week of the modest, bipartisan legislation, which would force most employers to alter their health care plans, became assured last week when the Senate on a tense 52-46 vote agreed to strip a controversial MSA amendment.

Under that amendment, by Majority Leader Robert Dole, R-Kan., employers would have been able to put up to $2,000 for individuals and $4,000 for family coverage into employees' accounts without the money being added to their taxable income.

But the bill's chief sponsor, Sen. Nancy Kassebaum, R-Kan., opposed that addition as part of her "clean" bill strategy. She argued that adding the MSA provision would open the door to other controversial amendments that ulti-

See **MSAs** *on page 144*

Fewer hurricanes predicted for '96

Lower storm intensity also forecast

By MARK A. HOFMANN

Risk managers may be able to breathe a little easier this hurricane season.

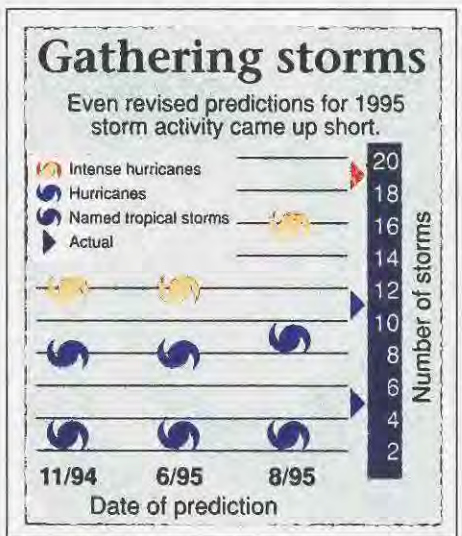
Only 11 Atlantic tropical storms fierce enough to receive names will form between June 1 and Dec. 1 this year, predicts one of the country's best-known hurricane experts.

That would make 1996 an above-average year—from 1950 to 1990, an average of 9.3 named storms formed annually—but it would be considerably better than the 19 named storms in 1995, the highest total in half a century.

Seven full-fledged hurricanes will evolve out of the 11 storms this year, and two of the hurricanes will reach the "intense" stage, meaning they will pack winds of at least 111 miles per hour, predicts William Gray, professor of atmospheric science at Colorado State University in Fort Collins, Colo.

By contrast, five of the record 11 hurricanes that formed last year reached that stage. Only one of the major storms, Hurricane Opal, reached the U.S. mainland in 1995. It did an estimated $2.1 billion in in-

See **Forecast** *on page 135*



Source: Colorado State University

Court restricts defense fees

Insurers oppose Kentucky decision

By JUDY GREENWALD

FRANKFORT, Ky.—An opinion by the Kentucky Supreme Court that attorneys cannot contract to perform all of an insurer's defense work on a set fee basis, rather than an hourly rate, could limit efforts to control legal costs in the state, a National Assn. of Independent Insurers official says.

However, other state courts are unlikely to follow Kentucky's lead, adds NAII Senior Counsel Don Cleasby.

In its March 21 ruling, the state Supreme Court said it was approving and adopting the Kentucky Bar Assn.'s 1994 position on this issue. The court also declined requests to change the state bar association's 1981 stance prohibiting salaried attorneys working for insurers from providing defense services for policyholders.

The court's decision came in response to petitions opposing the bar association's position that were filed by the Des Plaines, Ill.-based NAII; the Washington-based American Insurance Assn.; and Bloomington, Ill.-based State Farm Mutual Automobile Insurance Co. and State Farm Fire & Casualty Co.

The organizations filed their petitions after the 1994 publication of the Kentucky Bar Assn.'s opinion on set fees in its journal.

Focusing first on the issue of

See **Kentucky** *on page 144*

Inside

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COVER PHOTO BY MICHAEL A. MARCOTTE

• Craig S. Macdonald, risk manager at Bi-State Development Agency, is named to the 1996 Risk Management Honor Roll. **PAGE 125**

• Michael Tawney, vp-risk management/loss control at Loomis Armored Inc., is named to the 1996 Risk Management Honor Roll. **PAGE 130**

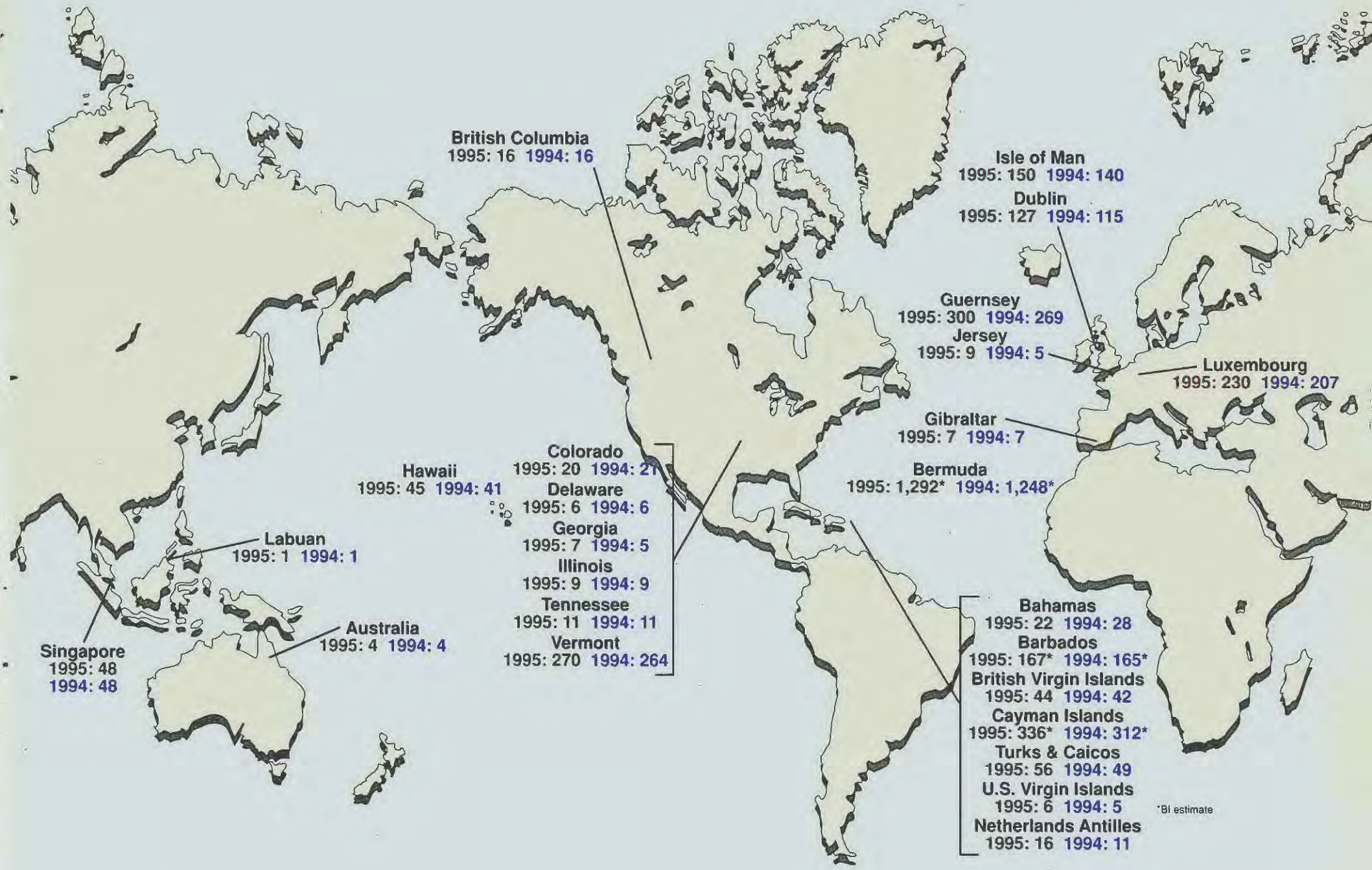
• U.S. trade negotiators are pressing Japan to open up its insurance market. **PAGE 137**

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1996 Captive Insurance Report



Captive growth stable, outlook bright

Soft market, alternative financing not stopping captive formation

The pace of captive growth around the world remains relatively stable, despite continued soft commercial insurance pricing and the emergence of other risk financing alternatives vying for risk managers' attention.

The prospects for continued growth remain good, captive managers say. Indeed, several new domiciles are emerging around the world that permit—or are considering—captives, including the Aland Islands, Malta and New Brunswick.

In the 25 domiciles with captives that are covered by *Business Insurance*, the number of licensed companies grew 5.6% to 3,199 as of year-end 1995 from 3,029 a year earlier.

That compares with a 6.4% increase in 1994, and 2.6% increases in both 1993 and 1992. However, not all of those facilities in prior years were captive insurers, since some domiciles do not distinguish between forms of insurance entities. *Business Insurance* this year attempted to exclude non-captives in its counts, where possible.

The five domiciles with the largest net gain in 1995 were: Bermuda, up 44 to 1,292; Guernsey, up 31 to 300; Cayman Islands, up 24 to 336; Luxembourg, up 23 to 230; and Dublin, up 12 to 127.

One domicile that has enjoyed large increases in the past saw smaller net gains in 1995. Vermont only gained six captives last year, compared with 32 new facilities in 1994.

While other domiciles had a greater number of new captives, Jersey actually saw the largest percentage increase in 1995, with the number of captives increasing 80%. Next came the Netherlands Antilles, with a 45.5% gain; Georgia, up 40%; the U.S. Virgin Islands, up 20%; and the Turks & Caicos, up 14.3%.

Only two domiciles saw the number of captives decline in 1995: the Bahamas, which had a net loss of six captives to 22; and Colorado, with a net drop of one to 20 captives.

Several domiciles are revamping their captive laws to boost regulatory oversight, streamline tax rules and generally make their domiciles more attractive to prospective captive owners. Among domiciles with changes:

- Bermuda is completing a process begun last year to reclassify the domicile's international insurers, most of which are captives.
- The Isle of Man last year adopted a law that makes it easier for captives to relocate to the Isle of Man.
- Hawaii is considering legislation that would ease regulations on insuring affiliated business, which currently is restricted to companies with a common owner.
- Barbados adopted a new captive tax—with an effective rate of 0%—to counter the effect of Canadian tax reforms.

Business Insurance's 1996 captive market report begins on page 4, with a look at the risk retention group market after 10 years. A report on the expanding reinsurance market for captives begins on page 6. For the start of reports on captive domiciles, please refer to the index at right.

◆ **Numbers belie strength.** Risk retention groups are rare, but their influence is felt in the commercial market...**Page 4**

◆ **The reinsurers are coming!** Captives suddenly look like a good opportunity...**Page 6**

◆ **Fallout in Bermuda.** Will the collapse of a General Electric liability insurance company tarnish Bermuda's reputation?...**Page 13**

◆ **Insurers branching out.** Pressed by the market, excess companies expanding product lines...**Page 22**

Further coverage by domicile:

Cayman Islands	**30**
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Captive Report

RRGs offer safety in numbers

Alternative risk financing tool keeps market competitive

By MEG FLETCHER

Risk retention groups may influence the insurance marketplace more than their small numbers would suggest.

Only a few dozen of the special multiple-owner captives are operating, writing only a tiny fraction of the business that traditional commercial insurers do. Yet their influence is felt in the traditional market.

"The very existence of these facilities, or potential facilities, has kept the market competitive," said Jon Harkavy, vp and general counsel of captive and risk retention group manager USA Risk Group in Arlington, Va. "Without them as possibilities, I believe the traditional market would be much more cavalier about raising rates or restricting coverage."

In 1986, at the height of the liability insurance crisis, Congress amended the Risk Retention Act of 1981 to let RRGs provide all casualty coverages—except workers compensation—for their members nationwide as long as they met one state's licensing requirements.

That broadening of the act, which was originally limited to product liability coverage, was expected to prompt a surge in group formations. That never happened, at least in part because the market softened and remained that way.

Still, risk retention groups have been a vital commercial alternative for several thousand employers and professionals, especially physicians, attorneys and accountants.

"The risk retention group turned out to be a very flexible and responsive vehicle, or approach, in meeting our needs," said Dan Creasey, who is president of both the Risk Management Foundation of the Harvard Medical Institutions, which handles risk management for Harvard-affiliated facilities, and the Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group).

For about a year, the group has operated as a fronting company for the Cayman Islands captive Harvard set up in 1976. The captive primarily writes medical malpractice and general liability insurance for physicians, many of whom are no longer employees as a result of restructurings.

The Vermont operation gives the company a U.S. presence and also directly handles claims, underwriting and loss control. The company now insures about 7,000 physicians in four states and writes about $60 million in gross premiums annually.

"The principal advantage of a risk retention group is we can operate in multiple states without having multiple licenses," Mr. Creasey said.

Overall, 116 risk retention groups have been established since the 1986 changes in the law, according to a March survey by The Risk Retention Reporter, a Pasadena, Calif., newsletter. Of those, 68, or 59%, are operating in their original form, primarily in four business areas—health care, professional services, governments and institutions, and property development. Five others have reorganized and now operate in other forms, including a commercial insurance company.

Fourteen groups, or 12%, have ceased operations and are running off their claims.

Another 12, or 10.3%, of the groups had serious financial problems: state regulators declared 10 insolvent and placed two in rehabilitation, while 17 never actually covered any risks.

Gross written premiums for risk retention groups rose 9.2% to an estimated $639.8 million in 1995 from $585.8 million in 1994, according to The Risk Retention Reporter.

Premiums are expected to surge 35% or more next year, following the redomestication of the Attorneys Liability Assurance Society Inc. to Vermont from Illinois earlier this year.

ALASRRG, which wrote $230 million in gross premiums last year in professional liability coverage for its law firm members, changed its domicile after Illinois amended its captive law to exclude risk retention groups from operating as association captives. Illinois made that change to make it easier to comply with requirements for accreditation by the National Assn. of Insurance Commissioners.

Even that sort of growth would leave RRGs well behind the traditional market. Their 1995 premiums are only 0.4% of the $173 billion in premiums collected by commercial liability insurers (excluding workers compensation specialists) in 1994, the most recent year for which figures are available, said John Andre, assistant vp in the property/casualty department of A.M. Best Co. in Oldwick, N.J.

Initially, state insurance regulators were among the biggest opponents of the Risk Retention Act. They objected to effectively restricting the authority of regulators in states where groups operate but are not domiciled, said Michael Moriarty, the principal property/casualty examiner in charge of special projects at the New York Insurance Department.

Adapting to the law, the NAIC later approved a model law with later updates, established a uniform registration form in 1991 for risk retention groups to file in non-domiciliary states and asked risk retention groups to file their annual statement on the NAIC blank used by property/casualty insurers.

"I do think regulators' opposition has been lessened during the past decade," primarily because the NAIC's accreditation program increased regulators' confidence in other states' oversight, Mr. Moriarty said.

Some states have taken a more flexible approach to regulating risk retention groups.

Vermont, for example, regulates

See **RRGs** *on page 6*

...for assuring quality care and controlling the costs of Workers' Compensation, Group Health, Disability and Casualty claims.

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RRGs

Continued from page 4

them under its captive statute, using a "firm but flexible" approach to attract owner-directed groups as a way to develop the state's economy, said Derick White, deputy commissioner of the state's Department of Banking, Insurance and Securities in Montpelier. Of the nation's 68 risk retention groups, 33 are domiciled in Vermont.

That approach delayed Vermont's bid for accreditation, which it received in September 1995 after the NAIC suspended for further study the issue of risk retention groups organized as captives. A report is due by the end of the year.

A few risk retention group failures have kept some state regulators and legislators wary.

Groups failed primarily because of poor management and a lack of marketing skills, regulators and risk retention group managers said. However, at least one critic notes that lack of appropriate state oversight may have played a role, too.

Of the 10 liquidated groups, Tennessee and Missouri each had two, while Arizona, Hawaii, Louisiana, Nebraska, New Mexico and Vermont each had one.

"I think it is no coincidence that most failed groups have failed in states where regulators are sometimes unfamiliar with them," USA Risk Group's Mr. Harkavy said.

The latest state battleground on the RRG issue is Louisiana, where a federal court is being asked to throw out a new law that increases financial and application requirements for RRGs domiciled outside the state (*BI*, Dec. 18, 1995).

However, minor disagreements between regulators and RRG advocates are more common than full legal challenges. For example, some states, like Florida and Louisiana, resist using the NAIC-drafted notice and registration form, Mr. Harkavy said. To solve these problems, Mr. Harkavy recommends better communication between domiciliary and non-domiciliary regulators, as well as a stronger belief in lead-state regulation.

The act "gave insurance buyers greater choice. . .and may account for some of the softness of the market," said Karen Cutts, managing editor and publisher of The Risk Retention Reporter.

Customized policies offered by risk retention groups have proven popular with some buyers.

"The commercial policy is a one-size-fits-all policy, and ours are very tailored and very customized for our members," said Arthur G. Broadhurst, senior vp of United Educators Insurance Risk Retention Group, Inc. in Chevy Chase, Md.

That has allowed United Educators, which is domiciled in Vermont, to keep at least 95% of its 968 members renewing annually despite above-market prices for coverage, said Mr. Broadhurst. That compares with 75% to 80% retention levels for traditional insurers, he added. Its 968 policyholder members paid $36.4 million in premiums for a variety of coverages in 1995. BI

Reinsurers embracing the market for captives

By JUDY GREENWALD

More reinsurers are actively pursuing captive business.

Reinsurers, intermediaries and captive managers say captives' commitment to loss control make them an attractive business opportunity. That opportunity is timely for reinsurers, since higher retentions by primary insurers are prompting reinsurers to pursue business in the alternative risk transfer market.

Some of these reinsurers also offer captive reinsurance buyers special services, such as claims handling and investment management.

In addition to Sphere Drake Underwriting Management (Bermuda) Ltd., which has long specialized in this market, many major reinsurers worldwide are writing at least some captive business.

Also beginning to write captive reinsurance is Stamford, Conn.-based CORE Insurance Holdings Inc., a new underwriter specializing in alternative risk transfer that is capitalized with about $40 million, primarily from GE Capital Services Inc. (*BI*, Feb. 5).

"Over the past 12 months, there have been tremendously more companies entering the alternative risk transfer marketplace," said Sphere Drake Underwriting President Bruce Jones. "In all, it's become very competitive."

"We see more activity. . .on the part of the major reinsurers, with particular emphasis on the large European reinsurers," said Kenneth J. LeStrange, senior vp of Princeton, N.J.-based American Re-Insurance Co. and president of Am-Re Managers Inc. American-Re began reinsuring single-parent captives in 1976.

"We are also seeing increased activity on the part of domestic U.S. stock companies," which are expanding their presence into the alternative market for the first time.

The same essential policy that is called captive reinsurance in one state can be called excess insurance in another. This can be an important legal distinction, but may have little practical significance.

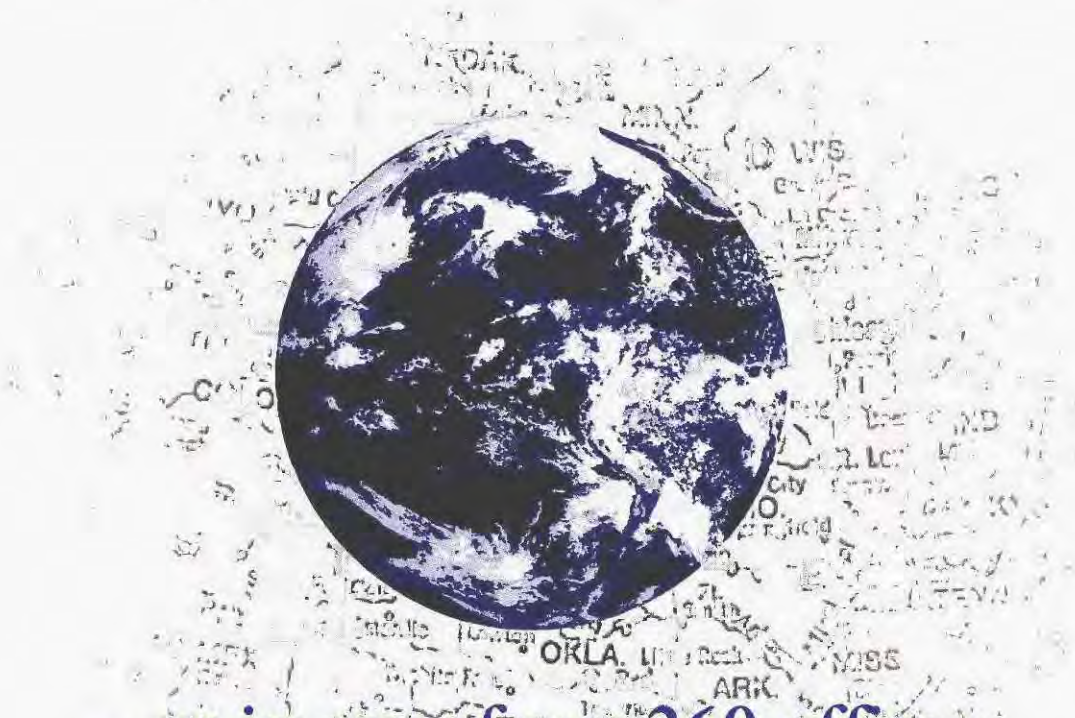
Whatever it's called, reinsurers like to write it. "They're preferred risks for reinsurers because they're aware captive buyers are generally very knowledgeable and know how to manage their own risks, and also they like the risk-sharing concept of captives," said Colin C. James, president and CEO of reinsurance broker Atlantic Security Ltd. in Hamilton, Bermuda.

"There's no better business than captive business in that you've got someone who's got a clear stake in making sure that the business does well," said David Ezekiel, president and managing director of Hamilton-based International Advisory Services Ltd., a captive manager.

But, Craig N. Johnson, president of Stamford, Conn.-based

See **Reinsure** *on page 12*

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Opinions

Change for the better

VISION. A willingness to shake up the status quo. And the talent to pull it off.

These attributes exemplify the risk managers honored in this issue. In each case, they were faced with underperforming or flawed risk management programs. Through their efforts, the programs were turned completely around, often with entirely new processes and significant cost savings in the bargain. Another benefit is that risk management skills came to be more highly regarded within their organizations.

These examples set by the Risk Manager of the Year and the Risk Management Honor Roll should provide encouragement to risk managers elsewhere to seek new approaches to solving problems.

That is precisely why *Business Insurance* created the Risk Manager of the Year award program 19 years ago, as well as to bring greater recognition to the field and to honor exemplary individuals in it. The Risk Management Honor Roll was adopted in 1981 to recognize achievements in different types of organizations.

In each case, this year's winners certainly hit the ground running:

• Risk Manager of the Year Brian D. Casey has only been director of risk management and loss prevention at Corning Inc. since late 1994. Yet, in that time, he has dramatically reshaped a risk management program that he described as "an anachronism." Using leading-edge concepts—such as teaming brokers from competing firms or structuring a global liability program that allows Corning to share in good loss experience—Mr. Casey has created a risk management program that will save the company millions of dollars.

• Craig S. Macdonald was hired as director of risk management for the Bi-State Development Agency in August 1990; within four months, he had replaced the agency's risk management information system, brought claims handling entirely in-house and implemented a light-duty program. These and several other changes—ranging from selection of a new broker to an overhaul of workers comp and safety programs—have led to consistent reductions in the agency's cost of risk from year to year.

• Michael Tawney, vp-risk management/loss control at Loomis Armored Inc., was hired in 1992 with a mandate to rebuild an ailing company on a new foundation of risk management. That meant instilling risk management principles throughout the organization, as well as slashing claims and risk financing costs. His rapid success at those tasks helped Loomis Armored post $20,000 in profits last year—a very slim return, but also the company's first since 1985.



In addition to quick action, each of the honorees distinguished themselves by their creative approaches to old problems—ranging from Mr. Casey's unique brokerage team arrangement to Mr. Macdonald's innovative and money-saving light-duty program to Mr. Tawney's development of a cash-in-transit insurance program now accepted as state of the art for the armored car industry.

Part of the success behind their approaches is that each called upon their experience and training in other disciplines to complement their risk management approach. Mr. Casey's law degree has proved crucial to negotiating with insurers and defending claims. Mr. Macdonald's claims background helped ensure the success of in-house claims handling while also giving him new insights to loss prevention. For Mr. Tawney, the lessons of safely managing nuclear warheads while in the U.S. Air Force have proved instrumental in protecting less dangerous—yet highly valuable—cargo.

For other risk managers who are seeking ways to raise their profile in an organization, these three show that one answer is a job well done.

Letters

Workers comp not only game in town

To the editor: I was somewhat surprised and concerned after reading the article "Comp Reform Ideas Please Few" in the March 18, 1996, issue of *Business Insurance*.

One important point clearly shown by the article is that individuals and/or entities who profit from the $60 billion a year workers comp system will do their best to stand in the way of any attempt to replace or augment the current failed system with any type of free-market solution. Almost every person interviewed for the article has some sort of self-interest in perpetuation the antiquated and costly workers's compensation system.

Many of the so-called workers compensation experts, including most of the individuals quoted in your article, would like us to believe that workers comp is the sole means of caring for employees and that without workers comp, employers would not or could not provide injury benefits. It's a good thing these people weren't around in the early days of manned flight or we would still be jumping off buildings with "bird wings" strapped to our arms.

The truth is, many employers are providing benefits to their employees, which greatly exceed those provided by workers' compensation, outside of the failed workers comp system.

Of course, spinning the "comp is the only game in town" story plays right into the hands of those who profit from the multibillion-dollar-a-year workers comp industry but it does nothing for the injured employee or for business in general by contributing to our nation's economic well-being. Unlike most of the gentlemen quoted in your article, who speak without any factual basis regarding free-market workers comp options, I know from firsthand experience working with thousands of employers and employees in Texas who provide benefits outside of workers comp that there is a better way.

It is time we admit that workers comp was created to resolve problems that existed in the last century and, rather than trying to patch and/or salvage an outdated system, we must look ahead to new methods for caring for injured workers.

Steven Bent
Executive Director
Texas Assn. of Responsible Nonsubscribers
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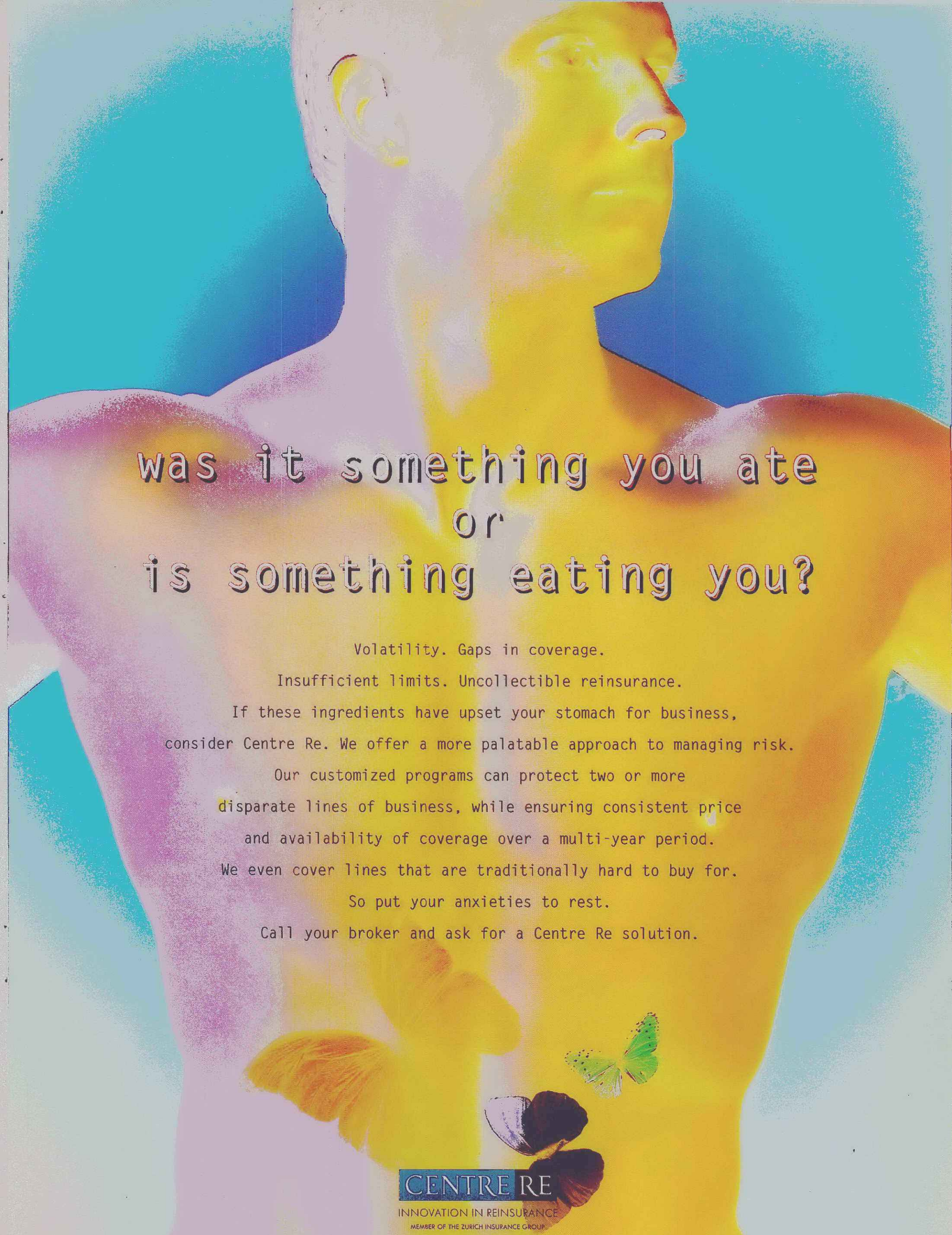
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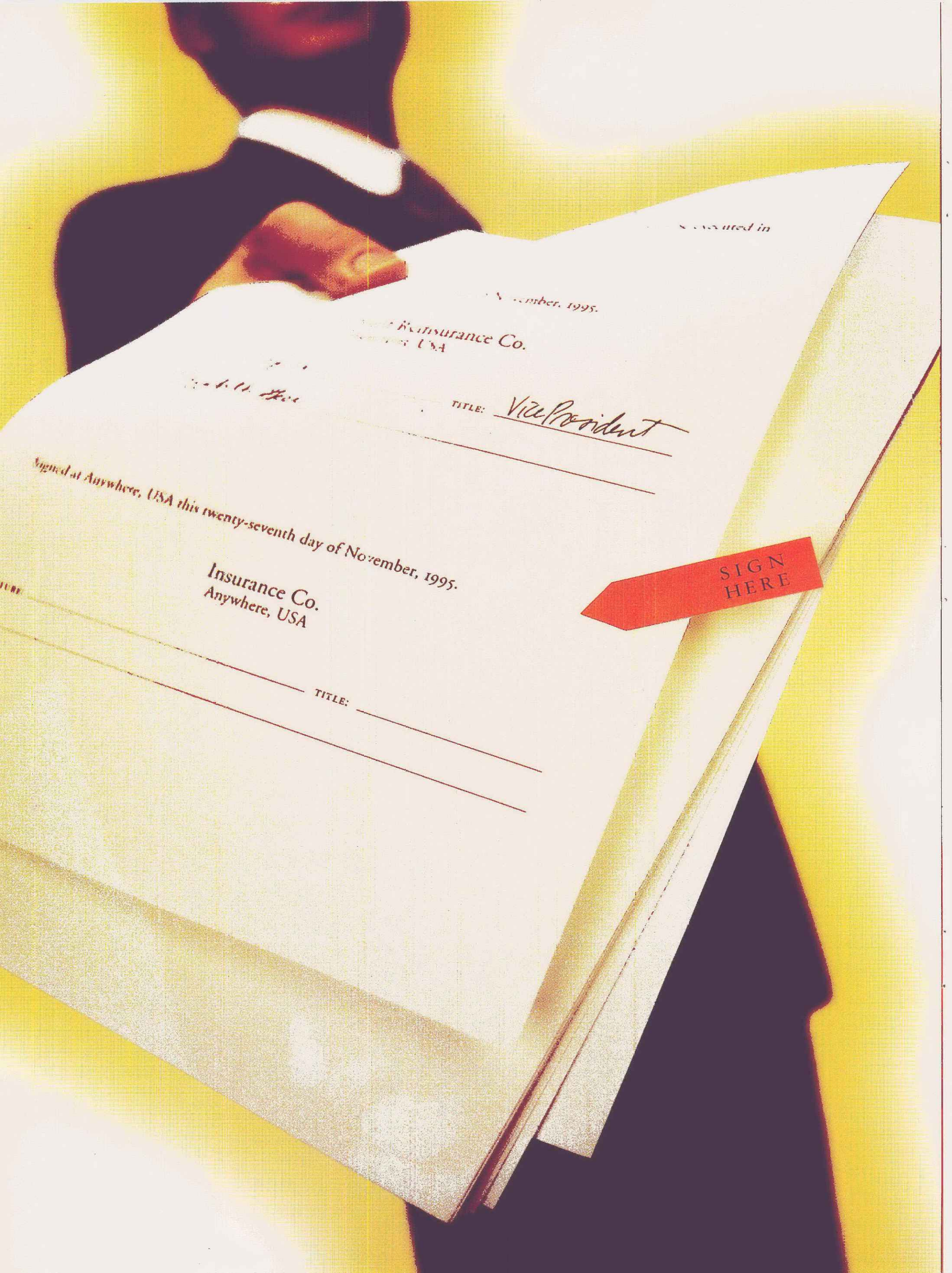
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Captive Report

Reinsure

Continued from page 6

CORE Managers Inc., a unit of CORE Insurance Holdings, said: "I think there are more people talking about getting into it, but they're not all so certain what it is that they're getting into."

Mr. Johnson explained, "The reinsurer has to take a little bit different view in evaluating a captive insurance company. The ownership structure becomes much more of a consideration than when you're looking at a traditional company."

The typically small size of captives creates special needs that must be met, as well, said Mr. Johnson. They are going to need some support with services that a larger insurer would have in-house, said Mr. Johnson.

Other reinsurers agree. "Captives are not necessarily insurance professionals," said Peter A. Cheney, executive vp and chief financial officer of Stamford, Conn.-based National Reinsurance Corp., which is active in the market. "They're groups of contractors, municipalities, whatever, who get together to form a buying unit. So they don't have the underwriting expertise and claims-handling experience." As a result, they rely on third parties to perform these functions, said Mr. Cheney.

While National Re initially stuck strictly to underwriting, the reinsurer is now offering help with policy issuance and underwriting and claims handling, and eventually plans to become involved in claims adjusting.

With captive management companies already performing other functions, Centre Reinsurance (Bermuda) Ltd. is most likely to be called upon to provide investment management, said Senior Vp Tom Dickson.

Reinsurers are also willing to provide advice. While in most cases a captive would purchase claims services through a TPA, "a reinsurer might be able to help them in deciding what might be an appropriate TPA for whatever end of the business that they're in," said Lyle Morien, senior vp in charge of the casualty underwriting department at Munich American Reinsurance Co. in New York.

American Re also offers advice, said Mr. LeStrange. "As part of our approach to the business, we as a reinsurer tend to specialize in large and unusual types of claims, and we have a very special and unique capability to offer advice and counsel to our clients, which we do as a value-added component," he said.

Meanwhile, rates are soft, reflecting the overall reinsurance market, say observers. Rates are down on average 10%-15%, though there have been decreases of as much as 40% or 50%, said Sphere Drake's Mr. Jones.

"The pricing of a particular cover tends to be more oriented towards exposure and experience than general market conditions," said American Re's Mr. LeStrange, though he added, "We're seeing downward pressure on prices."

National Re is not planning to increase its market share in the captive business right now because of the price competition, said Mr. Cheney.

"It is not a big revenue producer for our company at this point in time, and a lot of that has to do with the competitive market situation," said Munich American's Mr. Morien. He added, however, "I wouldn't say it's any more competitive than the traditional insurance and reinsurance area. The whole marketplace is competitive."

Meanwhile, the nature of the captive reinsurance business is changing, say some officials. "I think the motivations for people using captive reinsurance programs have changed somewhat," said American Re's Mr. LeStrange. Whereas captives were once used for their tax benefits, and then for their ability to gain access to the insurance and reinsurance markets, "I sense now that the trend is very much toward using the captive as a financial management tool to enhance their ability to retain risk," he said.

As part of this trend, reinsurers have more contact with risk managers—as well as alphabet brokers—than they previously did, said Mr. LeStrange. "It presents a broader level of opportunity for reinsurers," he said

There are a "whole host of different challenges that come to you through dealing with the captives," including dealing with the financial aspects as well as manuscripted contract language, said Mr. LeStrange.

Financial analysis could sometimes mean captives are no longer the vehicle of choice, however. While in the past, the tendency was for captive managers to buy the most reinsurance at the cheapest price, today "we are seeing CFOs at the parent-company level more involved," said Michael Cascio, vp of finite risk reinsurer Stockton Reinsurance Ltd. in Bermuda.

"They're looking at the risk-reward tradeoff, they're looking at the effect of the captive balance sheet on a before- and aftertax basis, and they're doing that by looking at various loss scenarios," said Mr. Cascio, adding it would be unusual for the captive to be in the best possible position in each case.

"We are seeing captives playing a greater role in some of the alternative risk programs that we write," said Graham Pewter, president of Bermuda-based Commercial Risk Reinsurance Co. Ltd. However, "We do not enter into discussions with prospective clients with a view toward a transaction being written specifically as a reinsurance of that captive," said Mr. Pewter.

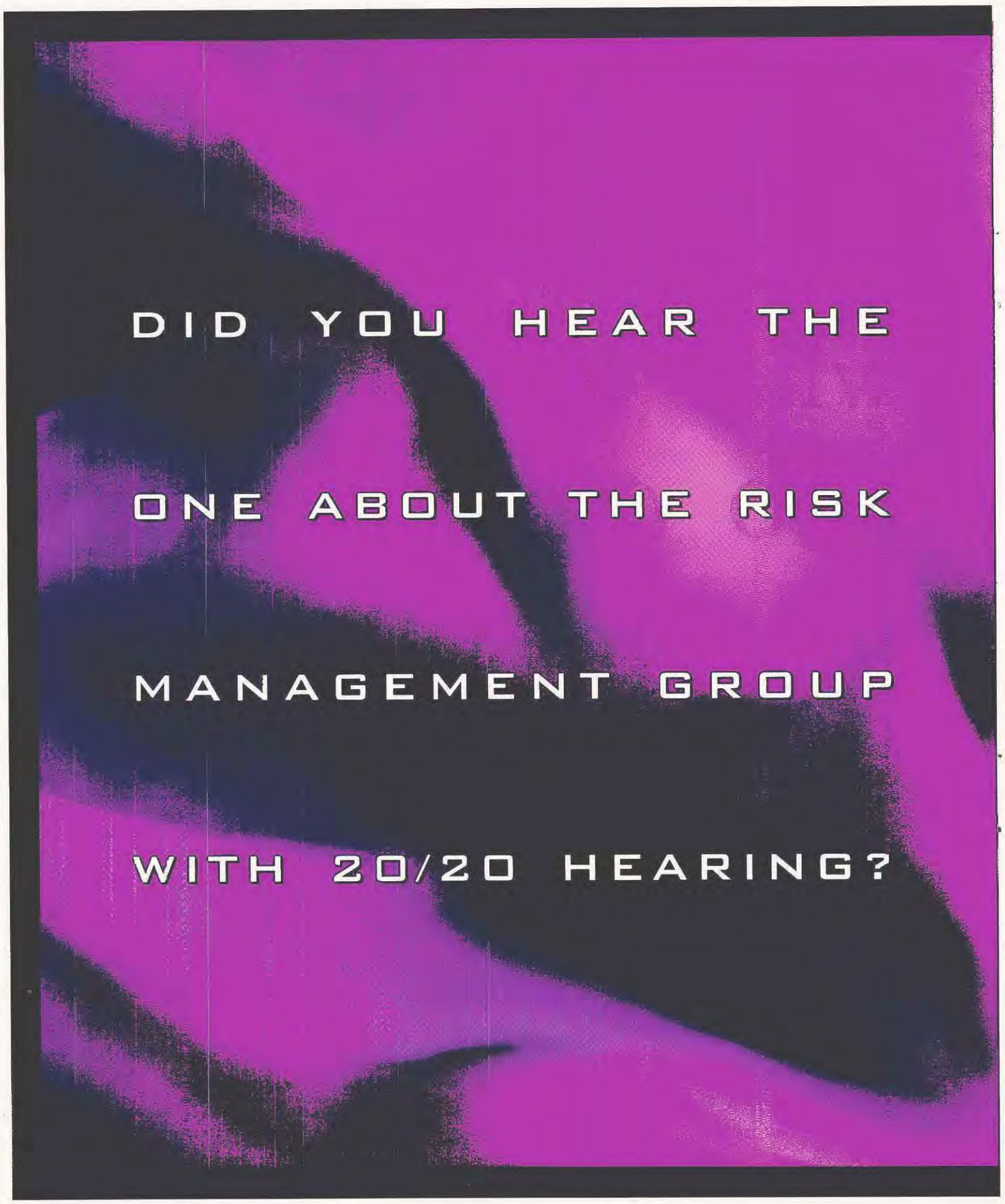
Instead, he said, the exposure that is to be dealt with is examined, and "the final part of the negotiations is to consider the most efficient way of constructing that transaction."

Captives are not a good solution for all corporations, and many of the new products on the market under certain circumstances can be seen by major corporations' chief financial officers as better, said Henry L. Richter Jr., chairman of Stamford, Conn.-based Genesis Insurance Co., a General Reinsurance Corp. unit.

"We can visualize captives beginning to elevate retentions and buying reinsurance coverages at much higher levels and utilizing other risk management or risk financial developments to support the increased retentions," Mr. Richter said.

But captives will remain useful, said Don Mosier, senior vp at captive manager American Risk Group Inc. in Fort Lee, N.J., whose ultimate parent is the Swiss Re Group.

Even when it comes to expanding into other finite-risk products or accessing capital markets, a captive remains "a fairly fundamental component of putting that overall program together." BI



Captives still at forefront of Bermuda companies

Re-registration process almost complete

By GAVIN SOUTER



HAMILTON, Bermuda—The massive re-registration of captive insurers and a continued steady increase in captive formations marked another vibrant year for Bermuda.

The re-registration process is the final phase of implementing regulations introduced in April 1995 that are designed to better differentiate the diverse collection of insurers and reinsurers now domiciled in Bermuda (*BI*, April 24, 1995).

One newcomer to that mix last year included a liability insurance subsidiary of General Electric Co. that collapsed shortly after it relocated to Bermuda from Massachusetts (see story, page 1).

That insurer's liquidation filing slightly tarnished Bermuda's reputation as an offshore domicile, but is unlikely to curtail captive formations, say captive managers.

A continued drive to alternative risk financing among a wide range of companies—despite the perennially soft liability insurance market—and the ever-expanding list of insurance services offered in Bermuda outweigh any fallout from the GE episode, managers say.

Indeed, an increase in captive insurers formed to cover self-insured retentions, third-party risks and health care providers all helped push the number of international insurers in Bermuda over 1,400 last year.

In addition, the reactivation of dormant captives—in some cases to access the island's property catastrophe reinsurance market—also helped increase captive business in Bermuda.

The number of international insurance and reinsurance companies in Bermuda rose 3.2% to 1,401 in 1995 from 1,357 in 1994.

Of those, *Business Insurance* estimates that the number of captives rose 3.5% to 1,292 in 1995 from 1,248 in 1994.

Ninety international insurers and reinsurers were formed in 1995 and 46 were wound up, compared with 95 formations and 53 closures in 1994.

Of the formations, 33 were single-parent captives, which carry Class 1 licenses under the new regulations; 26 were multiowner captives, which have Class 2 licenses; 22 were Class 3, which includes non-catastrophe insurers and reinsurers, as well as captives writing third-party business; one was Class 4, which includes property catastrophe insurers and excess liability insurers; and eight were long-term or composite insurers, which are in a separate category.

Formations by U.S. companies continued to account for the biggest share and totaled 60 in 1995, compared with 61 in 1994; three formations were from the United Kingdom, compared with 2 in 1994; nine were from continental Europe, compared with 11 in 1994; and 18 were from the rest of the world, compared with 21 in 1994.

Gross premiums written by Bermuda's international insurers increased 5% to $18.8 billion in 1994, the latest year for which figures are available, compared with $17.9 billion in 1993. Net premiums rose 11% to $14.9 billion from $13.4 billion the year before.

The total capital and surplus of Bermuda's international insurers rose 3% to $29.8 billion in 1994 from $29 billion in 1993.

Since the implementation of The Insurance Amendment Act 1995, Bermuda has re-registered nearly all of the insurers domiciled on the island, said Kymn Astwood, the registrar of companies.

Approximately 1,200 licenses have been issued so far and the remaining 200 will likely be issued shortly, he said.

"The re-registration was a major undertaking, but we found that the industry was very co-operative," Mr. Astwood said.

The re-registration reveals a more detailed breakdown of the international insurers in Bermuda than was previously available.

Of the 1,202 reregistered so far, 453 are Class 1; 406 are Class 2; 254 are Class 3; 15 are Class 4; and 74 are long-term or composite insurers.

The 199 insurers yet to be re-registered include companies that have been incorporated but have not yet started writing business and companies where discussions concerning the appropriate classification are ongoing, Mr. Astwood explained.

"There were a number of captive insurers that were writing a small amount of third-party business that applied for a Class 1, but we took the decision that Class 1 captives should be virtually free of third-party business," he said. Being classified in another category could require a captive to post significantly higher capital.

The re-registration process was generally smooth, captive managers agree.

"The registrar has done a super job in processing everything on time," said Irmgard Viera, vp at BF&M Management Ltd.

Most of the captives were classified in the classes which managers requested, she said.

"The re-registration was not too onerous at all. The registrar was very efficient in turning around the licenses," said Richard Witkowski, senior vp at Atlantic Security Ltd.

The easy transition can partly be attributed to the consensus approach taken in formulating the new regulations, said Roger C. Gillett, senior vp at Johnson & Higgins (Bermuda) Ltd.

"Captive managers played an active role in the design of the classifications, and we had ample

See **Bermuda** *on page 16*

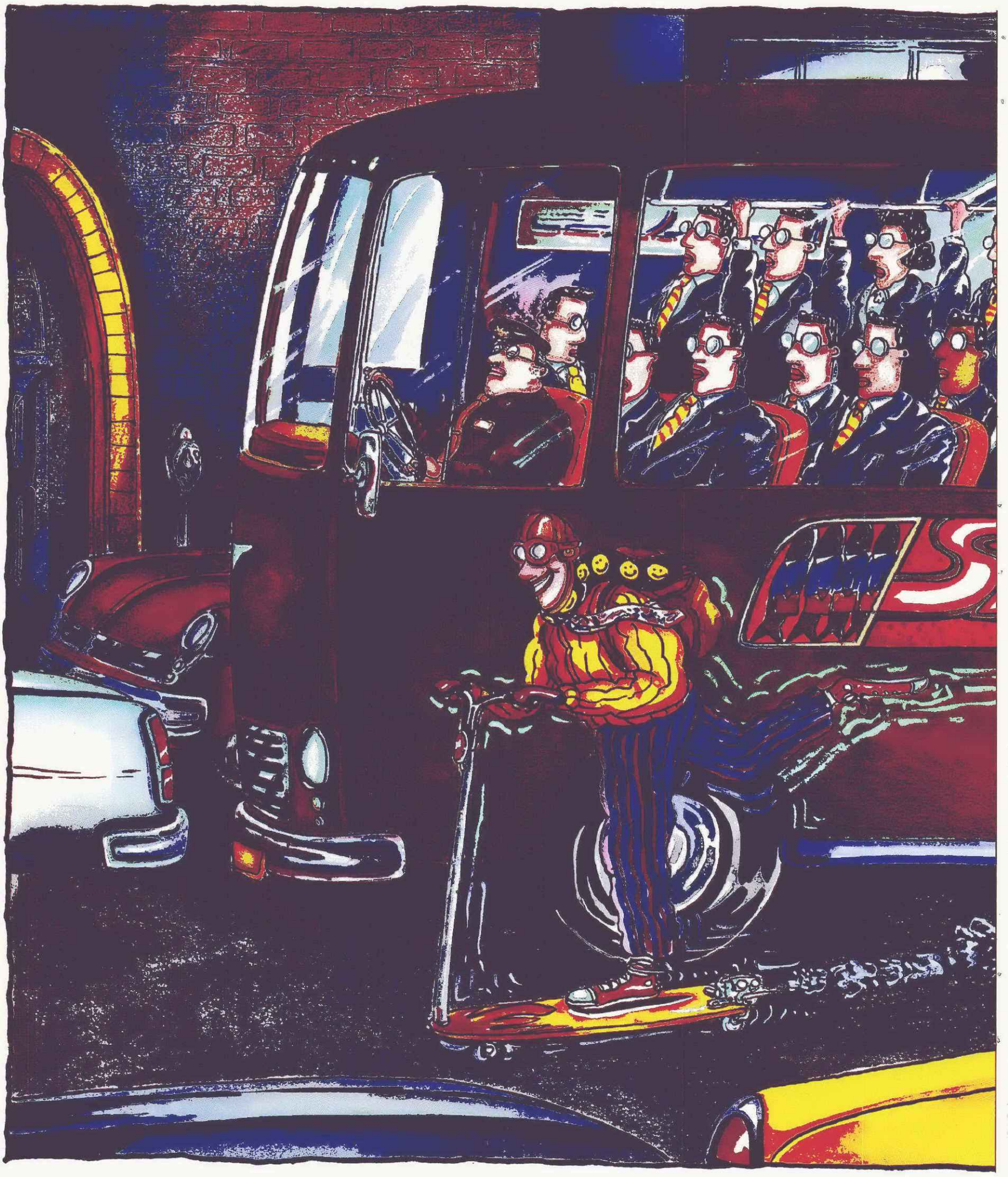
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Captive Report

Largest managers of Bermuda captives

Premium volume in millions of dollars

Manager	Premium volume 1995	Premium volume 1994	Captives 1995	Captives 1994	Staff 1995	Staff 1994
Johnson & Higgins (Bermuda) Ltd.	$1,750	$1,847	192	190	152	157
International Advisory Services Ltd.	810	650	83	77	50	47
Aon Risk Services (Bermuda) Ltd.	600	600	83	80	29	29
Marsh & McLennan Management Services (Bermuda) Ltd.	557	550	89	88	43	45
Alexander Insurance Managers (Bermuda) Ltd.	449	260	83	81	32	34
International Risk Management (Bermuda) Ltd.	363	510[2]	82	80	44	51
Sedgwick Management Services (Bermuda) Ltd.	286	406	57	59	33	34
American International Co. Ltd.	265	207	28	26	9	11
Skandia International Risk Management Ltd.	255[1]	237[1]	81	80	15	18
Independent Management Group Ltd.	163	135	19	20	6	7

[1] *BI* estimate [2] Restated
Source: *BI* survey

GRAPHIC BY KIM ROME

Bermuda

Continued from page 13

warning of the implementation of the regulations," he said.

However, there were still some points of contention.

The Class 1 captives can insure only their parents' risks, and that description could fit both single-parent captives and some rent-a-captives, said Peter J.N. Strong, president and director of Independent Management Group Ltd.

"It seems that they made a judgment call and decided that a rent-a-captive could not be a Class 1," he said.

While most rent-a-captives would easily meet the higher minimum capitalization requirements of Class 2 captives—$250,000 vs. $120,000 for Class 1—companies in this category have the additional burden of filing actuarial certification of loss reserves every three years.

The new regulations come as regulators in Bermuda face the controversial collapse of an insurer that moved there from Massachusetts late last year.

Electric Mutual Liability Insurance Co., a liability insurer for GE, was placed in liquidation, insolvent by more than $500 million, shortly after the company was moved to Bermuda from Massachusetts (*BI*, Dec. 11, 1995).

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

When Massachusetts regulators approved the plan, they concluded that GE had no intention of liquidating EMLICO.

The relocation sparked lawsuits by EMLICO's reinsurers against the Massachusetts Insurance Division, alleging the approval of the plan was improper (*BI*, Dec. 11, 1995).

Mr. Astwood refused to comment on the reorganization until the lawsuit is resolved.

Captive managers are divided on the effect the episode will have on Bermuda's reputation, though few think it will deter new clients from coming to Bermuda.

The insolvency does not reflect badly on Bermuda, said Andrew Carr, president of Marsh & McLennan Management Services (Bermuda) Ltd. M&M took on the management of EMLICO in Bermuda.

"You have to remember that it is only writing parent-related business—GE left the unrelated business in a well capitalized company," he said. Consequently, its liquidation will not affect other policyholders.

And EMLICO had permission from regulators in Massachusetts to leave, Mr. Carr noted. "They complied with the requirements of the Bermuda Insurance Act and were obviously also in compliance with the regulations in Massachusetts, or they would not have been in a position to move to Bermuda," he said.

The liquidation is more of an embarrassment for Massachusetts regulators than Bermuda regulators, said Nicholas S. Dove, president of Skandia International Risk Management Ltd.

"To a certain extent, Bermuda regulators would have been relying on Massachusetts, and they approved the transfer," he said.

Although some negative publicity for Bermuda was generated by the collapse, it is unlikely to affect new business coming to Bermuda, Mr. Dove said.

Some managers, though, say Bermuda regulators could have been more thorough in their investigations of EMLICO before they agreed to register it in Bermuda.

"It mystified many people locally," said one manager who did not want to be identified.

While regulators in most domiciles would feel that they could rely on the information provided by Massachusetts and a well-established company like GE, perhaps the regulators on Bermuda should have dug deeper, he said.

"You have to wonder whether they asked basic questions about why GE was coming here," the manager said.

Other managers were more philosophical.

"These types of things happen everywhere, not just Bermuda. We would prefer for it not to happen, but we can move beyond it, and it has had no impact on our clients," said Mr. Gillett at J&H.

Outside of the EMLICO relocation, Bermuda had another good year in 1995.

In the past year, Bermuda has successfully attracted more clients, and existing captive owners have been making more use of their insurers, managers say.

Despite the continued cheap conventional liability insurance market in the United States, captive startups are keeping their steady pace in Bermuda.

"It's the same old story of people becoming more comfortable with self-insurance and they want to get away from the commercial insurance market," said Mr. Dove at Skandia.

Risk managers with good loss records believe that in the commercial insurance market they are subsidizing other companies with poor risks, he said, noting they want to use captives so their premiums reflect their own loss record.

Despite that attitude, cheap pricing in the traditional market is keeping some business from Bermuda.

For example, Borden Inc. of Columbus, Ohio, uses its Bermuda captive principally for running off workers compensation claims and relies on the commercial market

See **Bermuda** *on page 20*

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Captive Report

Bermuda

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for most insurance coverages, said Paul A. Stasz, most recently director of corporate risk management for the company.

"Given the shape of the conventional markets, we would be hard pressed to use our captive as opposed to the U.S. and Bermuda casualty markets," he said. Borden's captive, Navillus Insurance Ltd., is managed by J&H.

Other factors have also restricted use of the Bermuda captive, Mr. Stasz said.

The company has gone through several organizational changes in recent years. As a result, Borden's property/casualty coverage needs have not been consistent and stable, making them less suited to a captive, he said.

Borden's limited use of Navillus is not a poor reflection on Bermuda, Mr. Stasz said.

"I like Bermuda. The government takes great pains to ensure that businesses are appropriately run, and there is a certain cachet and experience in Bermuda " he said.

Bermuda's growing reputation as a diverse and well-regulated insurance market is attracting other risk managers, said David Ezekiel, president and managing director of International Advisory Services Ltd.

"People are comfortable with Bermuda. We seem to have achieved a status that puts us beyond just a captive center," he said.

Bermuda became even more attractive to risk managers as a stable domicile when the electorate rejected any move toward independence from Britain in a referendum last year, Mr. Ezekiel said.

After the referendum, long-standing Premier John Swan resigned and was replaced in that post by former minister of finance David Saul (*BI*, Aug. 21, 1995).

IAS had a successful 1995. The number of captives it managed increased 7.8% to 83 from 77 in 1994, while premiums under management jumped 25% to $810 million from $650 million.

A large portion of that increase came from Petroleos de Venezuela S.A.'s captive, which generated more than $50 million in premiums and came to IAS last year from Sedgwick Management Services (Bermuda) Ltd.

IAS picked up six other new captives, including two association captives, Mr Ezekiel said.

It also lost one captive to the Isle of Man. "It was a British captive that wanted to be closer to home," he said.

About $40 million of the increase in IAS premium volume came from existing clients.

Other captive managers also reported strong growth in premium from existing clients.

In particular, captive owners are using their captives to cover increased self-insured retentions, which are either imposed by commercial insurers or voluntarily taken by policyholders, said Gareth Bradburn, chief executive officer of International Risk Management (Bermuda) Ltd.

Policyholders are anxious to avoid paying insurers' expenses on low-level claims, he explained.

"I think people are becoming more concerned with frictional costs, where you are just swapping dollars with your insurer. So that has led to an increase in the premium volume in existing captives," Mr. Bradburn said.

IRM added four captives and lost two in 1995. But it saw a substantial reduction in premium volume because its property risk pooling facility, Hopewell International Insurance Ltd., went into runoff (see story, next page).

IRM had a premium volume of $363 million in 1995, compared with $510 million in 1994. Hopewell accounted for $140 million of the 1994 total.

"The four new ones came from a wider geographic spread than usual," Mr. Bradburn noted. One captive was from Venezuela, one was from Brazil, one was from Southeast Asia and one was from the United States, he said.

Latin America has been hailed as a potential growth area by captive managers for several years, and a small but steady number of captives from that region are coming to Bermuda.

"We have seen several sparks of interest, but sometimes they have trouble with premium remittances when they have to go through state (reinsurance) carriers," Mr. Bradburn said.

J&H added 21 captives in 1995, of which five were from Latin America, said Jill E.U. Husbands, vp of the captive manager.

And, two more Latin American captives have been incorporated through J&H in 1996, she said.

"We have put a lot of marketing efforts in to Latin America, and we have some very strong contacts there," Ms. Husbands said.

Two Latin American captives also are in the pipeline at Aon Risk Services (Bermuda) Ltd., said Tracy E. Keill, senior vp.

But the United States continues to be the main source of business for Bermuda managers, she said.

Aon put on eight captives in 1995. "All but one was from the U.S.," Ms. Keill said. A higher-than-usual number of the U.S. captives are from smaller companies, she added. "We are seeing more interest from smaller and medium sized companies."

Included among those smaller companies are two groups of automobile dealers that formed association captives with Aon last year, Ms. Keill said.

A growing trend is captives formed to cover customer-related risks, such as credit life, warranties and contractors risks, she said. "They are risks that are not related to the captive owner, but they arise out of their operations."

An increase in third-party business is also apparent among captives managed by Marsh & McLennan, said Mr. Carr.

"You see clients forming captives not to insure or reinsure their own risks, but instead they are forming them to offer a service to their own clients, agents, customers or even employees," he said.

Writing such coverages enables the owners of captives to enhance their business relationships, Mr. Carr said. Although they are third-party risks, they are not comparable to the third-party business that had caused financial problems for many captive owners in

Continued on next page

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Continued from previous page
the early 1980s, he said.

"The risks are well understood and the enhancements are offered to business partners who often have a long-standing relationship with the captive owner, so there's years of data to rely on," Mr. Carr said.

An increase in captives underwriting customer-related risks helped Alexander Insurance Managers Ltd. increase its premiums to $449 million in 1995 from $260 million in 1994, said Alan C. Cossar, executive director.

A&A also had seven formations in 1995, he said.

Four of those new captives are covering health care risks—a risk that traditionally has migrated to the Cayman Islands.

Bermuda now is attracting more health care captives, Mr. Cossar said. "I think there is a growing recognition that there is nothing that can be done in Cayman that can't be done in Bermuda," he said.

Bermuda also is becoming more attractive as a domicile for health care risks because X.L. Insurance Co. Ltd. is offering commercial liability coverage for health care providers, he said. "So if you are going to use X.L., you might as well have your captive here, as well."

Health care captives accounted for most of the formations managed by Atlantic Security Ltd., said Colin C. James, president and CEO.

Four of the five new captives at Atlantic in 1995 have health care organization parents, he said.

"About 25% of our revenues are now derived from health care captives," Mr. James said.

While Cayman is still the principal domicile for existing health care captives, Bermuda is attracting formations, he agreed.

"There is a lot of loyalty toward Cayman for existing clients, but for the new people on the block, Bermuda is on an equal footing," Mr. James said.

For clients that do want to be domiciled in Cayman, Atlantic has established a subsidiary there. That company, North Atlantic Insurance Managers, has one client so far, a hospital captive, Mr. James said.

Actual management of the company for now is subcontracted to Keyside Insurance Management Ltd. "Once we get half a dozen clients there, we'll set up our own office," he said.

Some captive owners from the United Kingdom are insuring employers liability risks through their captives as the coverage grows more expensive in the traditional market, said Robert C. Hug, president and managing director of Sedgwick Management Services (Bermuda) Ltd.

"In the past, they had been reluctant to put employers liability into the captives because the rates were so low. But now that has changed, so a couple of them are using their captives," Mr. Hug said.

Otherwise, though, U.K. captive owners have not accounted for much growth in Bermuda due to the sluggish economy, he said.

And despite Bermuda's ties to Britain, formations from the United Kingdom are more likely to be made in European domiciles, he said. "There they can get to and from it in a day."

Premium volume at Sedgwick fell to $286 million in 1995 from $406 million in 1994. A large part of the reduction was due to the loss of one substantial captive, he said.

Also, Sedgwick has a substantial third-party administrator in the United States and the Sedgwick retail offices promote qualified self-insurance through the TPA rather than its captive management offices, Mr. Hug said.

On top of that, the soft commercial insurance market continues to hamper premium growth for captives, he said.

Reactivation of dormant captives is increasing captive business on Bermuda, captive managers say.

The reactivations are prompted by a variety of reasons, they say.

"In some cases, it is just a change in personnel in the risk management department, or a company decides to take a fresh look at its insurance program," said Mr. Dove of Skandia.

In other cases, it is to take advantage of the new property catastrophe reinsurance capacity that has been established on Bermuda, said Ms. Keill of Aon. "With all the new reinsurance capacity in Bermuda, people are coming here to use their captives to access that capacity." BI

Profiting from loss control lures firms to rent-a-captives

By GAVIN SOUTER

HAMILTON, Bermuda—Rent-a-captive facilities in Bermuda grew steadily in 1995 despite the continued soft workers compensation and general liability markets in the United States.

Enough policyholders are attracted to the prospect of using rent-a-captives to share in profits derived from favorable loss records to keep new members coming.

And the signs of the commercial workers comp market hardening in some areas improve the prospects for an increase in new members for 1996, some managers say.

The Insurance Profit Center remains by far the largest rent-a-captive in Bermuda.

IPC's gross premiums increased 30.5% to $167 million in 1995 from $128 million in 1994. The 1994 premiums are restated due to accounting changes under FASB 113, said Paul D. Watson, president of Mutual Indemnity Ltd., IPC's parent company.

The large increase in premiums is a result of the increase in members of IPC, which jumped to 398 from 359 in 1994.

"The workers comp market has been a little bit softer than it has been in recent years, but despite that we have still been successful," Mr. Watson said.

New and existing members of IPC are likely to profit from good loss records through a rent-a-captive even if the commercial market is soft, he said.

And the commercial market may harden a little in some areas this year, Mr. Watson said.

"In California, we are beginning to sense a turn in the market. Some of the carriers that were doing really crazy things have filed for rate increases," he said.

Brokers are also helping rent-a-captives by bringing in an increasing amount of program business, Mr. Watson said.

"It's a great way for brokers to increase their revenues in a tough market," he said.

Smaller intermediaries are becoming more interested in placing business in rent-a-captives, said Nicholas S. Dove, president of Skandia International Risk Management Ltd.

Skandia last year changed the name of its rent-a-captive from Hudson Underwriting Ltd. to SINSER Insurance Ltd. Membership



went up to 11 in 1995 from five in 1994.

"Smaller brokers and consultants are learning about rent-a-captives and when we meet them, often the first question we are asked is 'Do you have a rent-a-captive?'" Mr. Dove said.

Small public companies and private companies are driving the growth in rent-a-captives, he said.

"The U.S. economy is always brewing up these types of companies and they are very cost conscious," Mr. Dove said.

Rent-a-captives managed by Atlantic Security Ltd. saw little growth in 1995.

One of those, Universal Re-Insurance Co. Ltd., had a net increase of one member bringing the total to 26. Gross premiums increased 8.7% to $25 million in 1995 from $23 million.

"The new members were larger than the old members and the existing members are growing bigger," said Hal Forkush, president of Universal.

But the growth was below expectations. Early last year, Universal set up a new office in New York which was expected to greatly increase premiums.

"It has not taken off in the way that we hoped it would because of the flat market," Mr. Forkush said.

The flat market also halted plans to open two more offices in the United States in 1995, he said.

Gross premiums at Universal International Reinsurance Co. Ltd. remained at around $15 million. It is used for programs that want to be taxed as a U.S. corporation.

Atlantic Security's two other rent-a-captives, Hanseatic Insurance Co. and Magna Carta Insurance, saw little or no substantial growth in 1995.

Hanseatic's premiums increased to $5 million from $2 million, but most of the growth was from one program which transferred from Magna Carta, which saw its gross premiums drop from $4 million to $1.6 million.

"The client preferred Hanseatic for tax reasons," explained Colin C. James, president and chief executive officer of Atlantic Security.

Hurst Holme Insurance Co. Ltd. saw improved growth in 1995. Five new clients during the year brought the total to 16. That increase in clients drove gross premiums up 60.1% to $10.6 million from $6.6 million in 1994.

An increased interest in using rent-a-captives to fund property catastrophe deductibles and a general increase in use of alternative risk transfer facilities is generating the growth, according to David Pickering, executive vp at facility manager International Advisory Services Ltd.

BF&M Management Ltd. is seeing more interest in its rent-a-captive, Fortress Insurance Co. Ltd., said Irmgard Viera, vp of Fortress.

In 1995, Fortress had a net increase of one member, bringing the total number to seven. Two new members joined and one left to form its own captive, she said.

Pennsylvania Manufacturer's International doubled its membership to six in 1995, said Peter J.N. Strong, president and director of facility manager Independent Management Group Ltd.

"The members usually have a good loss history, so they want to participate in the profits," he said.

General Professional Indemnity Ltd. has three programs in force and has three potential programs considering joining, said Julian M. Griffiths, director of facility manager Griffiths & Wanklyn, Management Ltd.

The facility was established in 1992 and primarily covers professional liability and medical malpractice exposures. It writes around $2.2 million in gross premiums.

"That's a little bit more than last year but not much more because the underlying pricing is so soft," Mr. Griffiths said. BI

New risk pool doesn't plan to get soaked

By GAVIN SOUTER

HAMILTON, Bermuda—The launch of Harrington International Insurance Ltd. marks a fundamental change in the property insurance market, says the pooling facility's top executive.

Policyholders are looking for insurers that have substantial risk-bearing capital before they commit their premiums, said Hans Hefti, president and chief executive officer.

"You have to have the capital and know-how to underwrite a very sophisticated business," he said.

It was a lack of capital that led to the demise last year of Hopewell International Insurance Ltd., a property risk pooling facility whose portfolio of risks was taken on by Harrington (*BI*, April 24, 1995).

Hopewell, which was managed by International Risk Management (Bermuda) Ltd., was capitalized at only $6.3 million and it failed to find sufficient reinsurance support.

Harrington has $70 million in capital: $50 million from Swiss Reinsurance Co., which owns 70% of IRM; and $20 million from Winterthur Swiss Insurance Co.

Hopewell, founded in 1972, went into run-off in June 1995. In 1994, its last full year of operation, Hopewell had gross written premiums of $140 million from its then-nearly 60 clients.

By the time it ceased operation, Hopewell had 42 clients. All of the accounts were re-underwritten when they were transferred to Harrington and 25 remain with the new insurer, Mr. Hefti said.

"Most of the 17 we lost were smaller accounts," he said, noting that some of them had attachment



points as low as $50,000.

Harrington is seeking large accounts with an exposure to low frequency/high severity losses, Mr. Hefti explained. The minimum premium is $200,000 and the minimum attachment point is $500,000, he said.

"Also, the market has been very competitive over the past year," he added.

Harrington offers $100 million in capacity for property risks like fire and explosion and $25 million in property catastrophe for earthquake and windstorm risks.

In its first nine months of operation, Harrington has picked up 20 new accounts for a total of 45 accounts, Mr. Hefti said.

All the risks are underwritten by captives and reinsured with Harrington. And all are engineered to high risk management standards, which often correspond to highly protected risk standards, he said.

In its first six months in operation, Harrington wrote $58 million in gross premiums and had a 44% loss ratio, Mr. Hefti said. Start-up and development costs kept profits to a modest $300,000.

Harrington has not yet suffered a major loss. The largest claim it has paid so far was $3 million, Mr. Hefti said.

Despite its $70 million in capital, Harrington relies heavily on reinsurance. Only 7% of the premiums remain with Harrington, with the rest ceded to reinsurers, including Swiss Re and Winterthur.

Harrington is better suited to today's insurance-buying environment than Hopewell was, Mr. Hefti said.

"Attachment points are rising and corporations are looking for long term, stable and highly rated insurers. It is not unusual for the corporations to retain $10 million to $50 million," he said.

Also, risk managers are demanding more underwriting expertise, Mr. Hefti said.

"High quality underwriting must be our main aim, so we do not have a premium income target. If Harrington cannot show a profit, there is no point in it," he said.

1995 was another quiet year for the Risk Exchange Assn., an alternative risk pooling facility managed by IRM.

The facility allows members to select the classes of insurance they want to reinsure. Members can turn down individual risks rather than accept an allocation of pooled business that flows into the facility.

Selected professional reinsurers can reinsure the risks along with the members. The principal reinsurers of the Risk Exchange are Chubb Atlantic Indemnity Ltd., Sphere Drake Insurance (Bermuda) Ltd. and Harrington.

The arrangement gives the Risk Exchange's members more flexibility than a traditional pooling vehicle.

The Risk Exchange provides about $10 million in capacity.

During 1995, the facility lost two members and took on one new member, leaving a total of 10, said Gareth Bradburn, chief executive officer of IRM.

The two departing members and one new member were from the United States, he said. BI

Captive Report

Bermuda classifies licenses

HAMILTON, Bermuda—Regulations governing the establishment of captives and other insurers in Bermuda were radically changed in April 1995 to reflect the growing diversity of insurers on the island.

The Insurance Amendment Act 1995 created four license classes:

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

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

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

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

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

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

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

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

Fees for insurers in Bermuda remain unchanged. The maximum fee is $25,000 for companies with $500 million or more in capital. The minimum fee is $3,360.

The annual business fee under the Bermuda Insurance Act has increased to $1,155 from $1,100. The one-time registration fee is $2,315, up from $2,205.

Information on incorporating a Bermuda captive is available from the Office of the Registrar of Companies, Government Building, Hamilton 5, Bermuda; 441-295-5151.

—By Gavin Souter

Diversification fuels growth in premiums for excess insurers

By GAVIN SOUTER

HAMILTON, Bermuda—New products are driving premium growth as competition drives down prices in the liability lines in which Bermuda's excess insurers specialize.

Diversification is most obvious at well-established companies ACE Ltd. and X.L. Insurance Co., where everything from satellite coverage to reinsurance helped push up premiums.

Stymied by soft excess and directors and officers liability insurance markets, newer entries also are branching out. Starr Excess Liability Insurance Co. Ltd., for instance, is looking to offer more multiyear programs and other liability coverages. And Chubb Atlantic Indemnity Ltd. is expanding its coverage of punitive damages to employment practice cases.

Lexington Insurance Co., though, is finding it difficult to attract substantial premiums as it tries to compete with well-established competitors that are offering larger capacity in excess and D&O liability, brokers say.

"Desperately trying to diversify," ACE and X.L. are helping to create a broader market in Bermuda, said Colin C. James, president and chief executive officer of reinsurance brokerage Atlantic Security Ltd. of Hamilton, Bermuda.

Both companies "may have added a few new excess liability or D&O accounts, but the growth has mainly been from things like property or aviation," said Vincent McGeehan, vp at Aon Intermediaries in Bermuda, a unit of Aon Corp.

Driving the diversification are the soft markets for excess and D&O liability insurance.

Rate reductions on D&O programs in 1995 were typically between 7.5% and 15%, and excess liability rates fell by about 5%, said Sheila Nicoll, vp at J&H Intermediaries, a unit of Johnson & Higgins. "And, if the first couple of months of this year are anything to go by, those reductions will continue this year."

The soft market also is leading to more flexibility in policy wordings. "Four or five years ago, flexibility was not a word that you associated with the Bermuda market, but it is definitely the word of the moment," said Karen White Lawson, senior vp at Alexander International Insurance Services Ltd.

In particular, X.L. is prepared to tweak its multiyear MAXL product to fit the needs of individual policyholders, and ACE also is flexible with the wordings of its multiyear programs, she said.

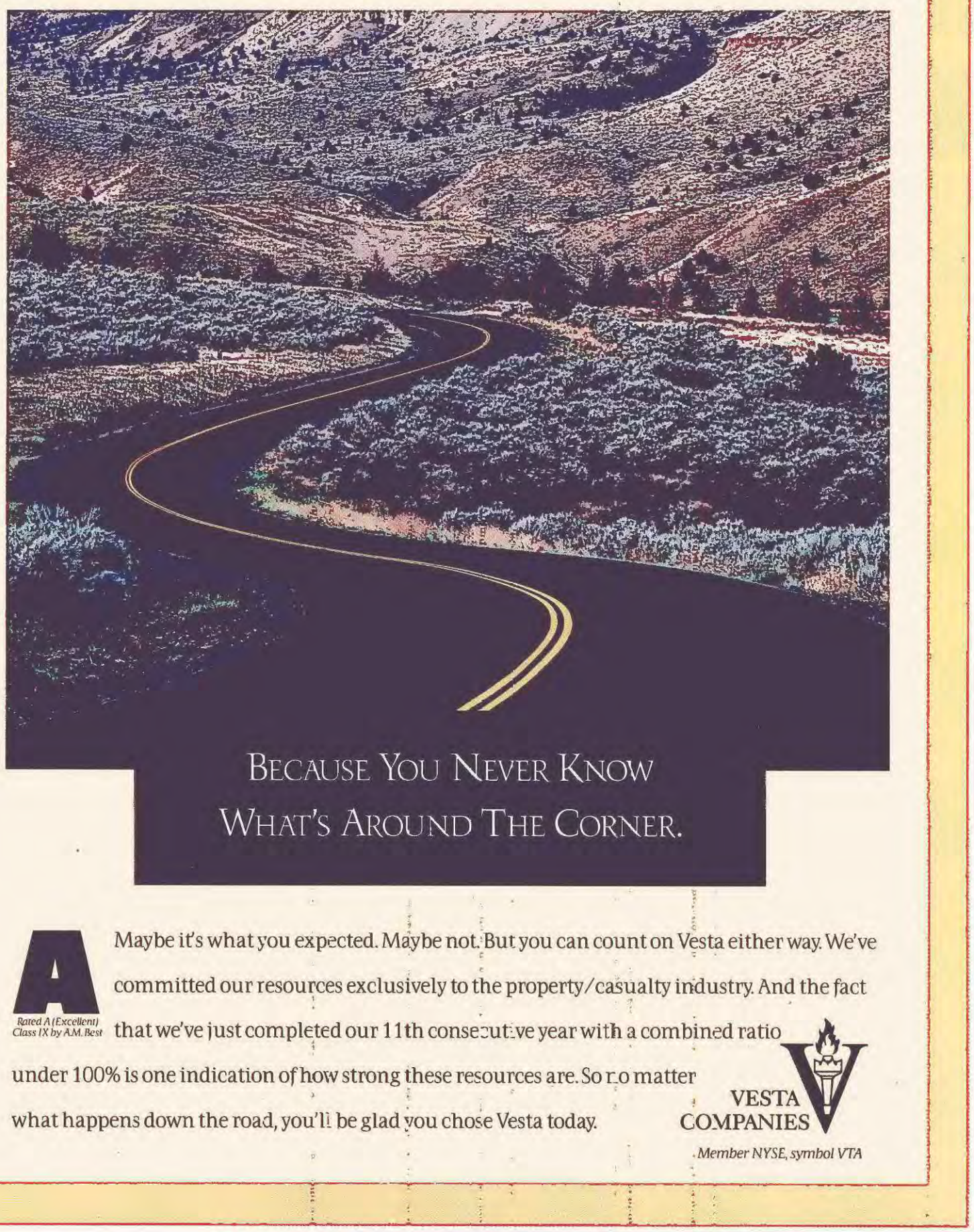
"It used to be very rare for either of them to alter the policy form," she said.

ACE and X.L. also are changing the formal wording of their forms. X.L. issued a new policy wording in January 1996 and ACE is expected to issue a new policy wording in June. Both rewrites are aimed at clarifying and updating the coverage.

X.L. Insurance Co.

X.L. is leading the drive to diversify among Bermuda's excess

See **Excess** *on page 24*



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Captive Report

Excess

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insurance companies in 1996.

So far this year X.L. has launched an employment practices policy, a primary D&O policy and established a facility in conjunction with CIGNA Property & Casualty Insurance Co. to offer large-limit, multiyear package policies.

The new moves follow an equally active 1995. The insurer formed a reinsurance company and revamped its property coverage, launched professional liability coverage for architects and engineers (*BI*, April 24, 1995), and started supporting its liability book of business with reinsurance for the first time.

X.L. Reinsurance Co. Ltd. was formed in December 1995 to take on X.L.'s growing reinsurance business.

"It gives us a really broad ability to get into any number of new lines of business," said Brian O'Hara, chairman and CEO of X.L.

X.L. Re offers up to $100 million in capacity for third-party liability risks, $75 million for D&O and professional liability coverage and $50 million for high excess property coverage.

Many of the contracts are offered on a multiyear basis, Mr. O'Hara said.

In 1995, X.L.'s gross premiums for reinsurance totaled $154.2 million. After adjustments for multiyear premiums, the reinsurance premiums applied to 1995 were $62 million.

At the year-end renewal, X.L. Re took on seven other multiyear contracts, which brought in $90 million in gross premiums.

In January, X.L. started offering primary D&O coverage of up to $50 million for individuals, not corporations. It can be written in combination with X.L.'s excess coverage, which is $25 million excess of $20 million and includes coverage for corporations. But the maximum limit for primary and excess coverage will be $50 million.

The coverage is similar to ACE's terms and limits for primary D&O coverage and will be welcomed by policyholders, brokers say.

Initial broker reaction to the new CIGNA/X.L. facility is favorable.

The two insurers are to establish new units, X.L. Risk Solutions and CIGNA Risk Solutions, which will jointly underwrite large-limit multiyear property/casualty package programs (*BI*, Feb. 26).

The insurers will provide combined annual limits of up to $400 million and term limits of up to $1 billion for three- to five-year programs. The coverages are intended to attach excess of large self-insured retentions in the millions of dollars.

Adverse reaction to CIGNA Corp.'s controversial restructuring plan did not derail the deal.

"We realize that the press has been less than flattering (about the CIGNA restructuring), but we think that most of that has been generated by competitors. We know very much in our hearts that CIGNA will honor all of its commitments," Mr. O'Hara said.

X.L.'s newest product is an employment practices policy that offers limits of $100 million above a typical retention of $5 million (*BI*, March 25).

Besides introducing new products, X.L. also changed some of its old ones last year. Its property policy was revamped last year and the limits were raised to $150 million from $100 million for some third-party liability clients, and to $50 million from $25 million for D&O.

In December, X.L. ceded a portion of its general excess liability business to reinsurers for the first time. Under a quota-share contract, X.L. will cede 20% of these risks with limits up to $100 million and 25% of these risks with limits in excess of $100 million.

The new products and coverages helped push X.L.'s gross premiums up 9.4% to $698 million in 1995 from $638.3 million in 1994. After adjusting for the effect of multiyear programs, though, gross annual premiums rose a similar 9.8% to $589.2 million from $535.8 million in 1994.

And a rising stock market helped push net income up 131% to $332.8 million last year from $143.9 million in 1994.

Reinsurance accounts for most of the premium increase. In fact, property, where premiums rose 33.6%, to $18.3 million from $13.7 million, was the only other sector that grew in 1995. General liability premiums fell 16.2% to $446.7 million from $533 million in 1994 and D&O premiums fell 20.5% to $24.8 million from $31.2 million the year before.

"The property business is going well and it can get a lot better. We are still working with brokers to let them know that X.L. is a player in the property field," said Robert J. Cooney, president and chief operating officer.

X.L. is 10 years old this year and is rated A by A.M. Best Co. and AA- by Standard & Poor's Corp.

ACE Ltd.

ACE is taking a different approach to diversification from that of X.L..

As X.L. adds products largely related to its core business, ACE is entering new areas.

And, rather than relying on start-up operations or partnerships, ACE is also acquiring other insurance operations.

Already this year, ACE has purchased catastrophe reinsurer Tempest Reinsurance Co. Ltd. (*BI*, Feb. 12), also of Hamilton, Bermuda, and has purchased a majority stake in Lloyd's of London managing agency Methuen Group Ltd., with an option to buy the remaining shares at a later date (*BI*, April 8).

Aviation and finite risk and other customized financial coverages like financial reinsurance were added to its offerings in 1995 (*BI*, April 24, 1995).

Excess property policies also were new in 1995 as ACE took on a property underwriter, Patrick C. Mitchell.

It offers property limits of $50 million above a minimum attachment point of $25 million.

Also in 1995, ACE became one

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Captive Report

Excess

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erages and developing specialized insurance programs that meet individual needs," he said.

Mr. Rice said popular coverages include punitive damages insurance under umbrella policies and tail coverage, which allows a policyholder that is changing coverage forms extend the reporting period for losses occurring before the former policy was terminated.

Chubb Atlantic is expanding punitive damages coverage to include coverage for employment practices cases.

"We also did a number of coverages where we combined the errors and omissions coverage with other casualty coverages. In some cases, the E&O is the biggest exposure that the policyholder faces, but doing all the coverages in one makes it more cost-effective," Mr. Rice said.

Chubb Atlantic's business is 50% excess liability, 35% professional liability and D&O and 15% property.

Lexington Insurance Co.

Lexington also more than doubled its gross premium from its Bermuda branch office, but still it has yet to make a significant impact on the market.

The branch offers products that can be accessed easily through Boston-based Lexington's offices in the United States and London and often its prices are not competitive, brokers say.

Also, in Bermuda it faces competition from several well-established rivals that offer far more capacity, they say.

Still, Lexington will persevere with the Bermuda operation, said President Kevin Kelley.

"We have not written as much as we would have liked to, but we think that in the long term the Bermuda market will be good for us," he said.

Lexington wrote about $5 million in gross premiums in Bermuda in 1995, compared with about $2 million the year before.

The company usually offers limits of $25 million excess of $25 million. It is now considering some risks excess of $15 million, Mr. Kelley said.

"We are trying to write a modest line excess of $15 million to $25 million and there is not a lot of that business going around because of the competitive nature of the casualty market," he said.

Lexington's underwriter in Bermuda, Kevin Moss, soon will move back to a new position in the United States. His successor has not yet been named.

Oil Insurance Ltd.
Oil Casualty Insurance Ltd.

Gross premiums were off 43.9% in 1995—but that is good news for Oil Insurance Ltd., which uses a post-loss funding structure.

"The reason why they are down is because our premiums finance our past losses and we have had some excellent loss years recently," said Douglas A. Kline, senior vp.

In 1995, OIL suffered only two losses, for which a combined $10 million reserve was established.

Gross premiums were $144.2 million in 1995, compared with $257.2 million a year earlier.

Net income at OIL in 1995 was $54.6 million, compared with a loss of $10.5 million in 1994.

OIL made some major changes to its coverage in 1995 (*BI*, Sept. 25, 1995), including: raising maximum per occurrence limits to $225 million from $200 million; raising the annual aggregate to $337.5 million from $300 million; and raising the annual aggregation limit—the company's ultimate liability for any one occurrence—to $562.5 million from $500 million.

OIL also introduced sector weighting where different elements of the petroleum industry are charged different rates. So lower-risk operations, such as pipelines and onshore exploration ventures, will be charged lower premiums, Mr. Kline said.

OIL added three members in 1995 and lost one, leaving a total of 44.

Oil Casualty Insurance Ltd.'s gross premiums rose 17.2% to $41.6 million in 1995 from $35.5 million in 1994, and net income rose 119.4% to $20.4 million from $9.3 million in 1994.

OCIL suffered no losses in 1995 and like other insurers it benefited from the strong stock market, Mr. Kline said.

The high limits available at OCIL attracted 10 more members last year, bringing the total to 64, Mr. Kline said.

Of the members, 38 are shareholders in the company and 26 are non-owner policyholders. OCIL stopped requiring policyholders to be shareholders in 1994.

OCIL writes general liability limits of $100 million excess of $50 million for U.S. companies and excess of $20 million for other companies. Customers that pay a flat premium rather than a retrospective premium can only buy general liability limits of $75 million.

D&O limits are $50 million and the attachment point has been raised to $25 million from $20 million.

TOPS Insurance Ltd.

TOPS, an affiliate of OIL and OCIL, which offers total loss coverage to its 16 member companies with offshore production platforms, had another loss-free year in 1995.

Gross premiums fell 58% to $14 million in 1995 from $33.4 million due to a reduction in the limits it offers.

Instead of $100 million in limits, the facility now offers $70 million, of which $30 million is reinsured by captives owned by members.

"The facility was formed in 1993 to meet the needs of members facing a difficult market, but the market has now become more competitive," and consequently the members can buy more coverage in the commercial market for reasonable rates, OIL's Mr. Kline said.

Meanwhile, K. Doyle Stephens last month retired as president and chief executive officer of all three OIL companies. He has been replaced by Jon R. King, formerly senior vp of OCIL. Mr. King's successor at OCIL is Jack Wesley, who was formerly with Shell Oil Co. in London. BI

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Captive Report

Caymans seeks new regulators

Insurance Department vacancies raise captive questions

By MICHAEL SCHACHNER

GRAND CAYMAN, B.W.I.—A measure of uncertainty about who will be in charge of insurance regulation after July is tempering optimism about healthy growth in the world's No. 2 domicile.

Deputy Inspector of Insurance John Darwood, whose flexibility and business sense are widely praised by captive owners and managers, is working under a contract that has already been extended twice since 1994 and is to expire July 14. Mr. Darwood, who had been Cayman's



first insurance regulator from 1980 to 1984, says he plans to return to his native England—probably sooner rather than later.

His wouldn't be the only regulatory shoes to fill in Cayman, or the biggest. Late last year, Jennifer Dilbert, who oversaw both insurance and banking, resigned as inspector of financial services supervision.

Permanent replacements have not been named for either post.

For now, Andrew McNab, the deputy inspector of banking, is handling Ms. Dilbert's former job on an interim basis. Another concern is the fact that Mr. McNab's contract also expires later this year.

Probably the only qualified successor to Mr. Darwood now in the government, say several Cayman captive managers, is John Mantz, who is chief analyst with the Insurance Department.

"There's no official comment to be made about who will take over as full-time inspectors. I may even stick around for a while longer if the question of succession hasn't been answered," Mr. Darwood said.

Adding to the confusion over personnel are probable wholesale changes in financial services regulation. To reduce the government role in financial services regulation, the Cayman Islands is developing a Monetary Authority that would be autonomous from the government. Along with banking and insurance, it would oversee mutual funds, management companies, Cayman's Currency Board and a proposed stock exchange, though a separate official still would be in charge of regulating each segment. It is anticipated that legislation creating this authority will be passed in June.

So far, captive managers say that the uncertainty over regulatory personnel has not hurt business.

"At this point, my only worry is that quality regulators are hired to replace those that are leaving. We don't want business that shouldn't be here slipping through the net. Our regulators have done an excellent job in recent years weeding out that type of business, but if we don't get quality in here, there could be a detrimental effect," said Wayne A.M. Cowan, senior vp with Johnson & Higgins (Cayman Islands) Ltd., Cayman's largest captive manager.

Other management company officials said the regulatory situation is a bit disconcerting, though not grave. While the deputy inspector of insurance may grant and revoke operating licenses, it is the captive

See **Cayman** *on page 32*

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Captive Report

Cayman

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manager's job to vet applicants and make sure that captives adhere to their approved business plans, captive managers insist.

"There has not been and won't be any tangible impact (on business) because (the regulators) rely on us to do most of the regulation. It's just unfortunate that their contracts have all come up. But, really, it's business as usual," said Peter R.L. MacKay, a director with Mutual Risk Management (Cayman) Ltd.

One captive manager here, though, did voice concern over Cayman's regulatory future.

"I think it's time that everything is known," said Ian Kilpatrick, president of Crusader International Management (Cayman) Ltd. "A decision needs to be made and announced about (Mr. Darwood's) future, and then the government needs to make a firm decision about a replacement. It would be good for business in Cayman."

Regulatory questions aside, consolidation in the U.S. health care industry is spurring captive activity in Cayman, long a favorite domicile of medical malpractice captives. Managers also say that more group and association captives are forming to write multiple lines of coverage, including workers compensation and property.

Last year, Cayman licensed 49 captives, the most in any year since the peak of the mid-1980s liability crisis, bringing its year-end total to 390. Another 12 were licensed in the first quarter of 1996.

Most of the 400 or so insurance companies licensed in Cayman are single-parent and group or association captives that primarily insure members' risks. About 50 are open-market companies, which write primarily third-party business and are more strictly regulated.

Cayman lost 20 captives last year, mostly because of completed runoffs and consolidations between two health care entities that both may have had captives but needed only one after merging, said Mr. Darwood.

"Health care captives continue to hold a major spot on our roster. They still account for about one-third of all new applications," said Mr. Darwood. "Regular hospital captives are the core, but nursing homes and doctor groups are also showing interest, as are all the HMOs, IPAs and other new initials we're supposed to know about."

Cayman regulators and managers, though, say they want to expand beyond medical-related captives.

"Workers comp and property are now inching forward. Many of our captives are now protecting property in the U.S., Europe, Canada, South America and Australia. We even licensed a Taiwanese company with property in the United States," said Mr. Darwood.

In fact, two big companies did set up captives recently for purposes other than writing medical malpractice insurance. Ford Motor Co. in November incorporated Vista General Reinsurance Ltd. to write credit life coverage. It is managed by Willis Corroon Management (Cayman) Ltd. And Boatmen's Bancshares Inc. of St. Louis formed a captive on Jan. 1 to cover some casualty exposures and to write credit life. Arch Reinsurance Co. Ltd. is managed by Alexander Insurance Managers (Cayman) Ltd.

"Large captives like these are not only good for us, but they're good

See **Cayman** *on next page*

Failed regulatory reform leaves captive requirements unchanged

GRAND CAYMAN, B.W.I.—With a movement to amend longstanding confidentiality laws having stalled over the past year, all regulations, capitalization requirements, tax laws, licensing fees and reporting requirements are the same in the Cayman Islands as in previous years.



Cayman's capitalization requirements and fee structures remain unchanged. Captives with a Class B license—the most common license issued for single-parent captives writing property/casualty insurance—must be capitalized with at least $120,000, as required by the Insurance Law of 1979.

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

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

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

While the Financial Services Supervision Department does not set a fixed premium-to-surplus ratio, John Darwood, deputy inspector of insurance, said captives writing liability and other long-tail lines should maintain a 5-to-1 ratio, while shorter-tail business may require only a 3-to-1 ratio.

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

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

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

For more information, contact Mr. Darwood or John Mantz at the Financial Services Supervision Department, Harbour Centre, George Town, Grand Cayman, B.W.I.; 809-949-7089; fax: 809-949-2532.

—By Michael Schachner

The Alexsis philosophy – No. 6 in a series

Syn

Introducing:

Cayman

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for the whole island," said Tim Byrne, vp with Willis Corroon.

Regulatory flexibility has long been a selling point for Cayman.

"Cayman has always been well-regulated but never overregulated. As long as you run a good business, you'll be able to do whatever you need from a risk management perspective," said John R. Lower, president of International Risk Management (Cayman) Ltd.

Outsiders looking to manage the risk of dealing with Cayman-domiciled companies, though, do not have it so good, a situation that regulators are trying to change.

The Financial Services Supervision Department is working on drafts to reform the strict confidentiality laws. Right now, if regulators suspect an insurer of fraud or other criminal activity, they are barred from notifying anyone outside the government until getting the proper clearance. In the meantime, crooked companies may be able to transfer assets, clean up their books or otherwise hinder efforts to uncover the wrongdoing (*BI*, April 24, 1995).

"Drafts are emanating from this office, but nothing has been acceptable to the entire group that would have to approve and live under the new rules. I think we all agree on the direction we'd like to go, but between the legal draftsmen, the managers and the government, there has been some trouble with the fine print," said Mr. Darwood.

For their part, captive managers say change is needed, but regulatory burdens are not.

Although final figures are not available, gross premiums for Cayman captives and Cayman-based open-market insurers grew by more than 10% in 1995 to approximately $1.76 billion.

Large corporations accounted for most of the captive premium growth, but it's the midsize company that has become Cayman's niche, according to J&H's Mr. Cowan.

"I think the smaller companies like us because our costs are lower than in Bermuda. Our management fees, licensing fees and banking fees are all lower, and we offer the same quality regulation in a less bureaucratic fashion."

Cayman is best known as a domicile for health care insurers. Medical malpractice insurers numbered 123 at year-end 1994, the last year for which full statistics are available. The number now likely is approaching 150.

The pioneer of that group is Harvard University, whose captive has insured the medical malpractice exposures of its teaching hospital and staff physicians since 1976. "It's now readily acknowledged that we *are* the medical captive domicile. Harvard being here for (20) years signals true maturity," said Anthony Stelling, a director with Midland Bank Trust Corp. (Cayman) Ltd.

And health care will continue to fuel growth, said Mr. Stelling, whose company managed 10 new health care-related captives licensed last year. "Turmoil in the health care industry has caused providers and institutions to re-evaluate their insurance mechanisms."

Some health care organizations that had self-insured trusts for property and malpractice coverage are moving toward captives instead.

"A captive provides you with an opportunity to do anything within reason, while trusts still require approval from trustees," said Mr. Cowan of J&H, which managed four new health care-related captives licensed last year.

So some hospitals are removing property insurance from self-insured trusts and moving into new or existing captives that also write malpractice coverage, said Mr. MacKay.

Five hundred miles south of Miami, Cayman always has attracted primarily U.S. captive owners. At year-end 1994, 87% of Cayman insurers had North American owners. Owners of the other 13% were scattered.

But IRM does expect to get two or three Australian-owned captives licensed this year, said Mr. Lower. And at Midland, there is particular interest in Argentina and Brazil. But when countries "go from being highly regulated to free market, there are considerable adjustments that must be made before captives are viable," cautioned Mr. Stelling.

One thing that attracts companies to Cayman is its infrastructure. More than 500 banks have offices there, as do several major law firms and the Big Six accounting firms.

But, more importantly, the domicile will license companies quickly if they have a solid business plan.

Cost and quick service is what sold Kinetic Concepts Inc. of San Antonio on Cayman in 1992. The manufacturer and distributor of therapeutic hospital beds and medical devices wanted to move its automobile liability and workers comp programs, as well as its general and product liability, from the conventional marketplace to a captive.

Melvin Millsap, director of benefits and risk management with KCI, said costs for workers comp and auto liability through CNA Insurance Cos. had become too high.

"We decided in December 1992 that we would go for a captive, and Cayman licensed us in just three weeks. In the three years we've had it, we have saved $5 million and this year we're not funding for losses or reserves. Our lost time for workers comp was down 85% last year because of our administration," said Mr. Millsap.

Midland manages KCI Insurance Co. Ltd., which is fronted by American International Group Inc. units Insurance Co. of the State of Pennsylvania and National Union Fire Insurance Co. of Pittsburgh, Pa. The captive retains the first $500,000 of risk, while AIG provides excess coverage as well as $25 million of the captive's $30 million in umbrella coverage.

A company like KCI—which has revenues of $280 million, a 600-vehicle fleet and 1,600 employees—could not have saved $5 million on workers comp and auto without a captive, Mr. Millsap said. "Cayman is great for us. We can hop a flight from San Antonio to Houston and be there in just a few hours. It's also a lot cheaper than Bermuda."

Among the managers, Aberdeen Insurance Managers Ltd. and Rollins Hudig Hall (Cayman) Ltd. surrendered their licenses. Neither company was a major force in the local captive industry.

Otherwise, most captive managers reported increases in captives under management and gross premiums

See **Cayman** *on page 36*

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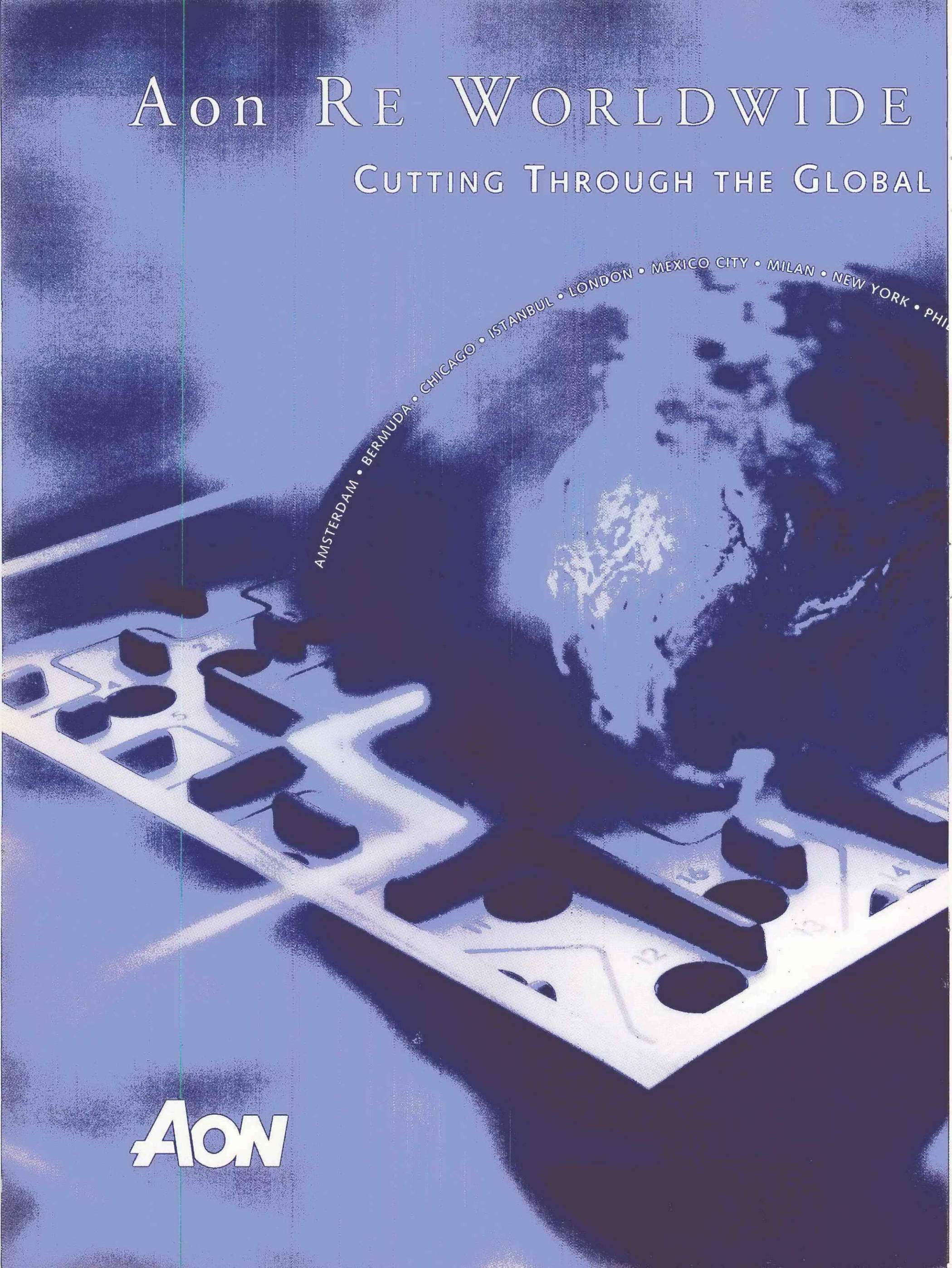
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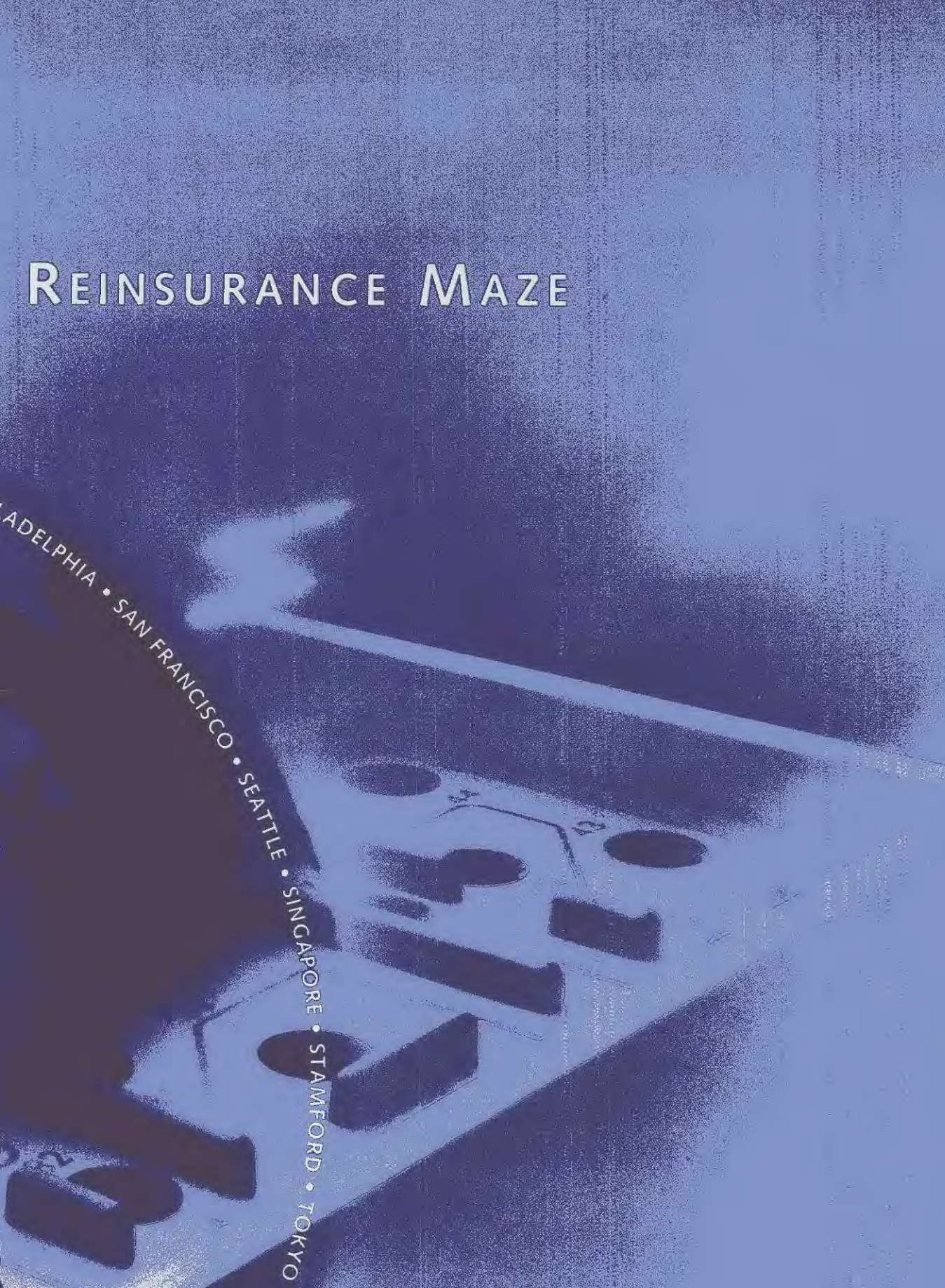
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Captive Report

Cayman

Continued from page 33

written (see chart).

At J&H, much of the new business has involved group and association captives. Mr. Cowan said J&H works closely with Captive Resources Inc. of Schaumburg, Ill., which specializes in putting together groups of similar and dissimilar businesses for insurance purposes.

"We have about 15 of these groups doing property, GL, auto and workers comp through captives. They're all quite successful. Frankly, it's remarkable that, even with the soft market, we're still getting so many new captives. I guess it pays to develop good contacts outside the brokerage community," Mr. Cowan said.

At IRM, a member of the International Risk Management Group Ltd., which is 70% owned by Swiss Reinsurance Co., Mr. Lower noted that there have been recent positive developments with its two large casualty pools—Tortuga Casualty Co. and United Insurance Co.

He said Tortuga, which wrote about $5 million in premiums in 1994, now has X.L. Insurance Co. Ltd. as a reinsurer, which makes Tortuga "a more solid company."

And, United, which wrote $51 million last year, "is now in the best financial shape it has ever been in," he said, noting that it has signed three new reinsurance treaties, one of which will go into effect in July. Mr. Lower said the new reinsurance will allow United to write three new programs for captives: $3 million of property coverage excess of a captive's retention; $20 million of marine hull and cargo, and $10 million of marine liability; and aggregate stop-loss protection.

Midland soon will be teaming up with its Bermuda sister company, HSBC Gibbs Harnett & Richardson Ltd., to provide "back office" services for the Bermuda broker, which has begun managing captives. "Both Midland and Gibbs will keep their names, but we will be marketed under HSBC Captive Management," said Mr. Stelling.

Midland remains the representative for Sedgwick James' captive management operations in Cayman, a role it played for Alexander & Alexander until A&A opened a Cayman office Jan. 1.

At Cayside Insurance Management Ltd., the biggest independent Cayman management firm, premium volume was off 25.8%, primarily because one large company cut back on the amount of premium volume its captive wrote last year, said John E. Smith, managing director.

At Mutual Risk Management, hopes are high this year for a couple of South American-owned captives and for hospital-owned captives to begin writing more third-party business, Vp John Pitcairn said. "Instead of hospitals doing just their own medical malpractice, they're capable of writing some group health care for small companies. It's not widespread yet, but it's an area that's growing for us," he said.

MRM has a program for hospitals that is fronted by an A+ rated company, Mr. MacKay said, and it allows hospitals to write health care coverage for small and midsize employers of their choice. "That's what makes this work," he said.

At Crusader, one captive client has formed a subsidiary that has applied for a general insurance license, said Mr. Kilpatrick. If that license is granted, it will write Caribbean property under Mr. Kilpatrick's management.

Willis Corroon moved to No. 8 from No. 9 among Cayman managers and its premium volume is expected to increase greatly this year due to the Ford credit life captive.

At Chandler Insurance Management Ltd., it was a bit disappointing not to add any new captives in 1995, said Steven Butler, director. "We're looking to license one now that is sponsored by a Michigan industrial company. It would probably write about $5 million in property."

Alexander Insurance Managers opened an office Jan. 1 after contracting with Midland to manage its Cayman captives since 1987. Not until Boatmen's Bancshares set up its captive did the Alexander & Alexander Services Inc. unit do enough Cayman business to justify opening an office.

"Brokers in the states had been pushing for us to have our own office, and when Boatmen's said they were ready to set up here, it allowed us to complete the picture," explained Peter K. Jones.

Alexander's six captives, four of which it is now managing itself, generated about $4 million in premiums in 1995, said Mr. Jones, up 14.3% from $3.5 million in 1994. BI

Largest managers of Cayman captives

Premium volume in millions of dollars

Manager	Premium volume 1995	Premium volume 1994	Captives 1995	Captives 1994	Staff 1995	Staff 1994
Johnson & Higgins (Cayman Islands) Ltd.	$533.1	$481.0	92	84	34	28
International Risk Management (Cayman) Ltd.	330.0	330.0	32	30	20	21
Midland Bank Trust Corp. (Cayman) Ltd.	236.6	201.0	69	63	29	46
Cayside Insurance Management Ltd.	107.3	135.0	14	10	3	3
Mutual Risk Management (Cayman) Ltd.	64.0	70.0	40	39	5	4
Marsh & McLennan Management Services (Cayman) Ltd.	64.0	75.4	33	36	4	4
Crusader International Management (Cayman) Ltd.	62.0	37.0[1]	10	8	8	5
Willis Corroon Management (Cayman) Ltd.	52.0	25.0	18	9	4	4
Caledonian Bank & Trust Ltd.	49.6[1]	43.0[1]	15	12	27	28
Chandler Insurance Management Ltd.	19.6	20.5	8	9	3	3

[1] *BI* Estimate
Source: *BI* survey

GRAPHIC BY KIM ROME

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Captive Report

Captive growth continues in Guernsey

Even regulators surprised at success

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—Contrary to even its own expectations, Guernsey continued to be Europe's fastest-growing captive domicile in 1995.

Guernsey registered a net gain of 31 captives in 1995, taking the total to 300 and making it the sixth successive year in which the island added more captives than the other European domiciles.

Not surprisingly, Steve Butterworth, Guernsey's superintendent of financial services, is pleased that the figures prove wrong his forecast made a year ago that 1995's captive growth would not be as buoyant as that for 1994.

While Guernsey's captives 1995 premiums were not available for this report, Mr. Butterworth expects a 25% increase from total gross premiums written of £1.22 billion ($1.9 billion) in 1994.

With an apparent tendency to understatement on behalf of his and Guernsey's achievements, Mr. Butterworth says he is at a loss to explain all this success.

"I don't know why we've grown so much last year when the rest of Europe didn't grow as fast," he said.

However, on reflection, he added: "I think it's probably because there's a lot of expertise here. The expertise not just in underwriting, but the supporting expertise as well—the auditors, specialist accountants and the bankers that can deal with letters of credit and investment managers. And the legal structure as well. It's the whole infrastructure that's brought them."

Other attractions include Guernsey's proximity to the United Kingdom and European reinsurance markets, a buildup in the island's own reinsurance facilities, and the permissibility to build tax-free catastrophe reserves.

"The high quality of infrastructure and regulatory authority" were cited by Barry Seymour, managing director of Alexander Insurance Managers (Guernsey) Ltd., as a reason for his company's presence in Guernsey. Since coming here in 1977 as part of AIM's commitment to offering service in all the major captive domiciles, "the attractions have only grown," he said.

For Tim Edwards, a director of one of the island's biggest captive managers, Willis Corroon Management (Guernsey) Ltd., his company's and Guernsey's success is largely a matter of expertise accumulated over the years. Successful captive managers themselves attract business to the domicile, according to Mr. Edwards.

"We deal in this office with well over 30 classes of insurance business, including risks which the conventional market wouldn't touch with a barge pole," he said. We're able to do this "because we know our clients and can get a far better understanding of their needs," he added.

As managers had predicted last year, most of 1995's captive growth came from medium-sized captives and associations. Rent-a-captives also are growing.

Geographically, British companies still dominate in Guernsey, owning 255, or 80%, of all the captive insurers. Despite an interest in attracting more Continental European business and what Mr. Butterworth terms "quite a lot of interest at the moment," success from this source has not been noteworthy over the past year. European companies, including those from Scandinavia and Eastern Europe, account for only 33 of Guernsey's captives.

Mr. Edwards says he would like to see Guernsey and Willis Corroon expand their geographic market, but he believes there is unlikely to be any "substantial" short-term growth in European business. The reasons, he said, are almost entirely cultural and linguistic.

For example, a captive domicile like Luxembourg will always be attractive to the French because of the common language and legal systems. Offshore centers like Guernsey are also "up against the European Union's protectionist regimes whereby certain companies have to buy insurance services from other companies domiciled within the EU."

David Johnstone, managing director of UNISON Management (Guernsey) Ltd., agrees that while Europe will one day figure more importantly in Guernsey's insurance captives, it is unlikely to do so in the short term.

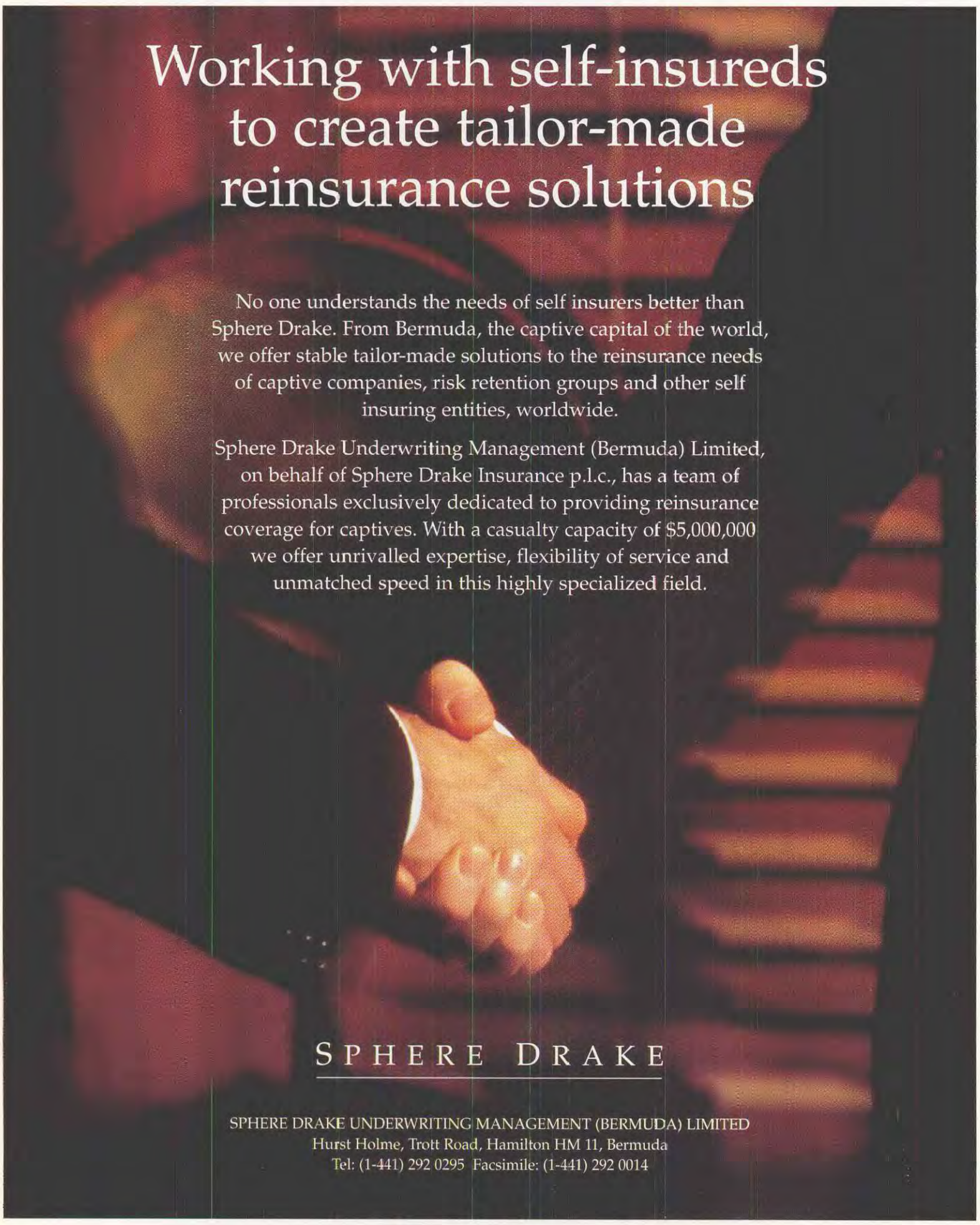
Mr. Butterworth and several captive managers also cite South Africa for its growth prospects. Guernsey's attractions to South African companies include a common language, only two hours time difference, and its nearness to London and European reinsurance markets, according to Mr. Butterworth.

However, captive growth also received a boost from the gradual relaxation of South African exchange controls. This ongoing process in South Africa makes it the right time for Guernsey to market itself there as a domicile.

Willis Corroon manages three of the six South African-owned captives in Guernsey, and Mr. Edwards sees it "as a significant growth area." South African companies are "quite sophisticated" in terms of risk financing, he said, and with the changing political climate they are ready to own a captive.

In some cases, these are quite complex vehicles that can present a challenge to the captive manager because South African companies often want "a far bigger, more proactive service than has been the case historically" with U.S. and U.K. clients, Mr. Edwards said. South African companies must meet the re-

See **Guernsey** *on page 40*



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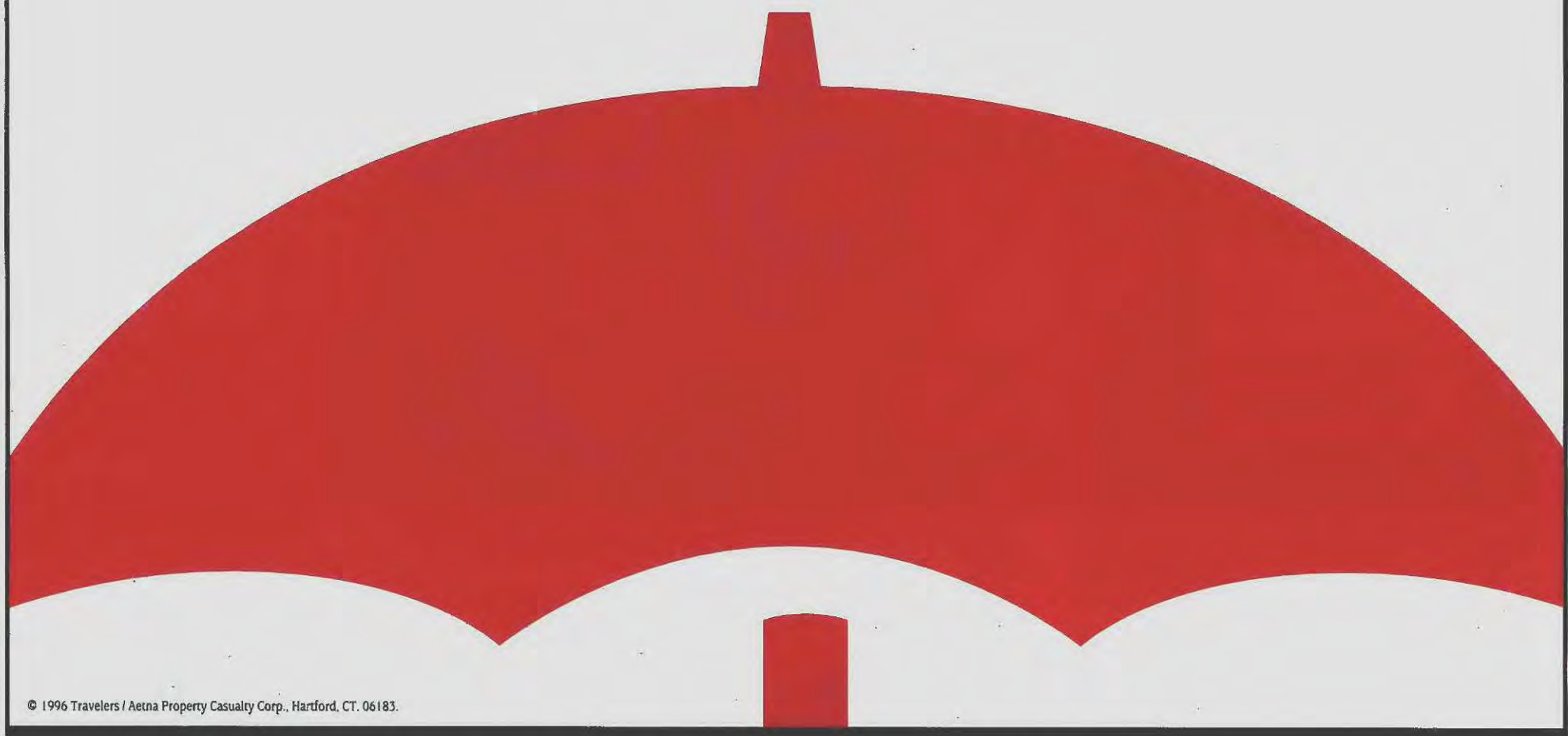
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Captive Report

Guernsey

Continued from page 38

quirements of the South African Reserve Bank, especially concerning exchange controls, and risk managers therefore often find themselves involved in complex multinational banking arrangements.

In terms of types of companies setting up captives, U.K. building societies, similar to U.S. savings and loan institutions, have become an important new source of business in the 1990s. This stems from a decision by the U.K. reinsurance market to pull out of mortgage indemnity guaranty business after very heavy claims in 1988 and 1989 as the property market nose-dived during the recession. Initially, building societies had been prevented by U.K. regulations from forming offshore insurance subsidiaries, but this rule was dropped in 1993 under pressure from the building societies. Two more building societies, Alliance & Leicester and Chelsea, started Guernsey captives last year, taking the total from this sector to 9.

Last year Guernsey also attracted the first captive owned by a U.K. government-owned corporation. In April, London Transport, operator of the London subway network, launched London Transport Insurance (Guernsey) Ltd. to underwrite employee and public liability risks. Clive Pracy, LT's head of risk management, said Guernsey was chosen over other domiciles because he was impressed by the "flexible and enthusiastic support of the Guernsey Financial Services Commission."

Mr. Pracy explained that this flexibility manifests itself "primarily when it is apparent there will be a risk gap between a captive's capitalization and premium written and any potential losses. It is at that time that (Mr.) Butterworth takes into account the financial strength of the parent when considering whether the risk gap is acceptable to him." The association captives in Guernsey include professional liability insurers for the medical profession, chartered accountants, solicitors, freight-forwarding agents, waste removal firms and insurance brokers. Last year the London-based Society of Practitioners of Insolvency, which represents lawyers and accounting firms that act as liquidators, set up a professional liability insurer.

A major association captive formed on Jan. 1, 1996, to provide medical malpractice insurance for 140,000 association members. MDU Insurance Co. Ltd. represents the members of the Medical Defence Union, the United Kingdom's medical defense organization, which represents doctors, dentists, nurses and other practitioners in the United Kingdom, Ireland, Australia, Malaysia, Singapore and South Africa.

Dr. Christopher Earl, MDU vice chairman and a director of the insurance captive, said Guernsey was selected over a number of other domiciles because of the "exemplary" and "high standard" of service provided by the Guernsey authorities and the local financial community.

Aviation captive business has also been a traditionally strong sector for Guernsey. Air Malta formed a captive here last year, and Employers Casualty (Guernsey) Ltd., one of the three reinsurance companies opened in 1995, is an aviation reinsurer.

One reason for the island's success in aviation insurance is the presence for the past 21 years of Polygon Insurance Co., which provides insurance for some 40 airlines. It was formed by KLM, SAS and Swissair to insure their hull and liability risks, but has always written third-party business. It has expanded into covering non-aviation risks, such as property and business interruption, of its shareholders, which now include Austrian Airlines and Finnair.

Last year, Polygon wrote gross premiums of £101 million ($156.9 million), of which £43 million ($66.8 million) was for its owners and £58 million ($90.1 million) was third-party business.

Richard Tee, Polygon's general manager, said the reasons for being in Guernsey are as strong today as they were 21 years ago. Mr. Tee said it is a neutral territory for the partners, in the same time zone and has good communication with the London aviation market. Guernsey also offers tax advantages, a well-developed banking and legal infrastructure and favorable insurance legislation, he said.

One threat to Guernsey's attractiveness to U.K. companies comes from a pending change in U.K. legislation governing controlled foreign corporations. The legislation, expected to be enacted in May, would reduce the tax advantages of operating offshore companies. It calls for captives in offshore domiciles to repatriate to their U.K. parent 90% of their taxable profits—minus capital gains and foreign taxes, rather than the 50% remittance now required.

Mr. Butterworth acknowledged that the new legislation would make it less economical for U.K. companies to operate a captive. It could prove possible to get around the CFC regulations only by having complex ownership structures. This is "complicated, expensive and a little bit devious," but companies will probably do it nevertheless, or seek to do it, "which will make my regulation more difficult," he said.

Graham Powell, a director of Bain Hogg Insurance Management (Guernsey) Ltd., also notes that captive owners are considering how to respond to the CFC regulatory changes, possibly through the ownership structures indicated by Mr. Butterworth. However, he emphasizes that so far there is no clear consensus on how to deal with the issue.

However, Mr. Butterworth and captive managers maintain that the CFC legislation has actually been useful, because it has affirmed that captives are not set up for tax reasons but for insurance purposes. Yet, captives are still being set up, he said.

This point is backed by Mr. Edwards. "We have seen no slowdown in new captive formations." he said.

Willis Corroon has spoken with all its clients that might be affected by the CFC legislation, "and as far as we are aware, there is certainly nobody planning to close down or reduce the use of their captive as a result," added Mr. Edwards.

UNISON's Mr. Johnstone agreed. "We don't expect any fall off in business as a result" of the CFC legislation. He said he believes the only likely detrimental effects will be on marginal business from smaller companies for which the tax advantage is disproportionally greater.

Lower commercial insurance and reinsurance rates also seem to have

See **Guernsey** *on page 44*



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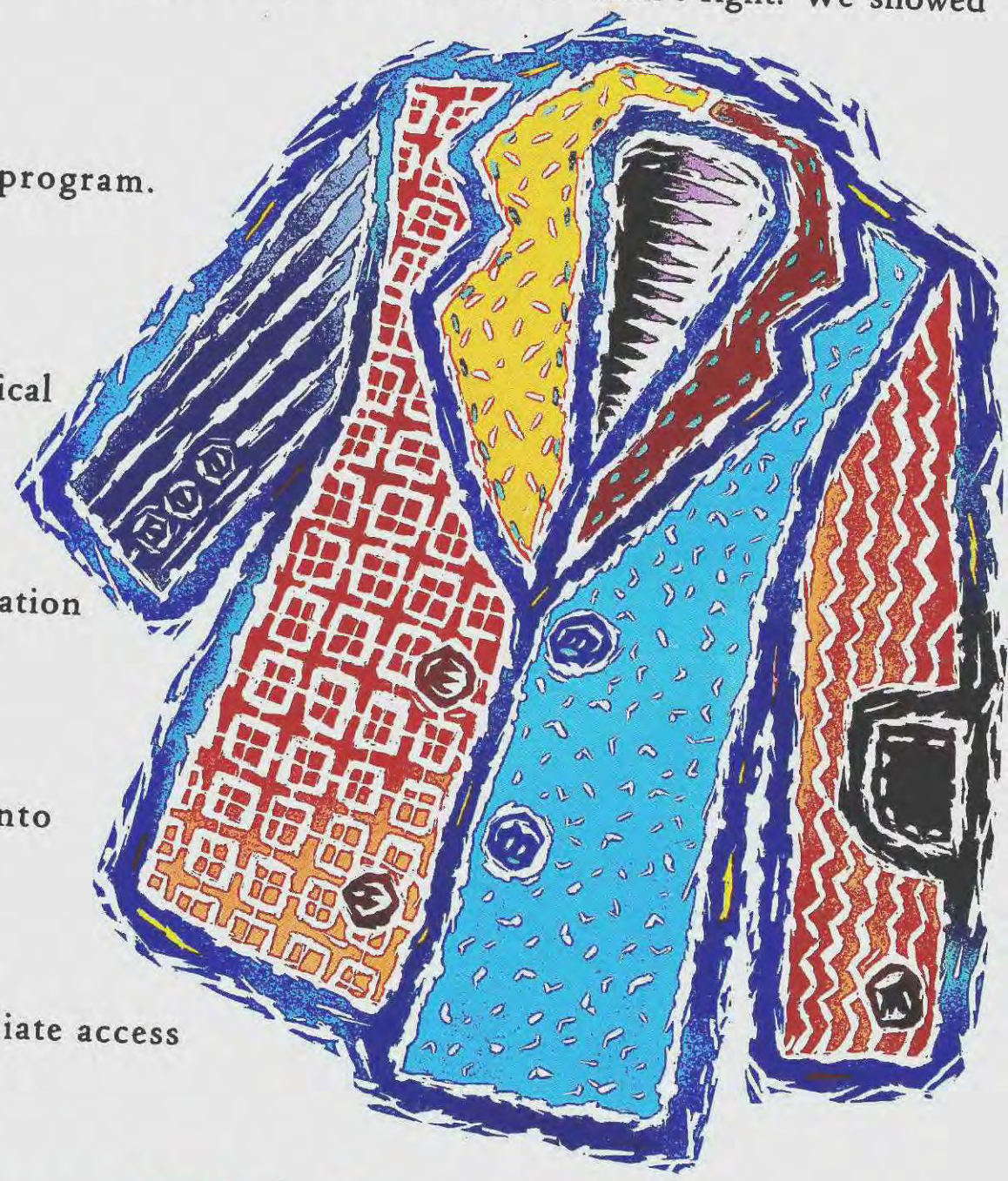
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Captive Report

Guernsey

Continued from page 40

had little effect on Guernsey's captive market. Mr. Butterworth said he is aware of a couple of companies not coming to Guernsey because of lower insurance rates, but he said the number is insignificant given that 1995 was yet another record year for the domicile.

Mr. Butterworth said Guernsey will probably cease to be Europe's fastest growing captive domicile this year because "we're doing a lot of weeding out," mainly through the running off and merger of companies no longer active. He predicts that about half a dozen captives will surrender their licenses during 1996. With some 10 additional captives so far this year, he predicts maybe 20 more during 1996.

AIM's Mr. Seymour says the outlook is "very encouraging."

"We formed three new captives in the first quarter this year with a significant number of prospects that will form during the year," he says. The 37 captives AIM manages in 1995 had a total premium volume of $300 million.

Mr. Johnstone at UNISON Management says he is aware of a "significant number of hard inquiries" that bode well for maintaining Guernsey's growth record.

Mr. Powell at Bain Hogg adds, "I don't see any reason why the overall level (of new captives) shouldn't equal last year." BI

Guernsey eases partnership funding and may soon allow rent-a-captives

By EDWIN UNSWORTH

ST. PETER PORT, Guernsey—The most recent captive legislation became effective in February with the Limited Partnership (Guernsey) Law, which makes it easier for partnerships to raise funds by allowing them to take on limited partners who are not liable beyond their fixed capital investment.

Although the Guernsey Financial Services Commission had maintained that this legislation was well suited to captives, so far it has not resulted in any inquiries, said Steve Butterworth, the island's superintendent of financial services.

However, this doesn't really surprise him. Mr. Butterworth thinks there will be more interest generated by legislation expected to be in place in June or July this year that would allow rent-a-captives.

The enabling legislation has been passed, and now has to go to Privy Council in the United Kingdom for Queen Elizabeth II to give final consent. It includes proposals that would allow easier redomiciliation of financial services companies.

Currently, any company wanting to transfer its captive to Guernsey must liquidate the original captive first and start afresh in Guernsey. Insurance regulators and captive managers say many captive owners based in Europe might be interested in moving their captives to Guernsey from places farther away, like Bermuda and the Cayman Islands.

Some regulatory proposals, such as some designed to raise the standards of approved representatives of insurance bodies by requiring them to take responsibility for ensuring the intermediary meets the island's code of conduct, will go before the States of Guernsey, the governing body, in July. Other proposals, including broadening the range of approved investments, will take much longer. Although an insurance law committee has been meeting for more than a year now, its work is not finished.

Captive solvency requirements are set out in the Insurance Business (Guernsey) Law 1986. The minimum solvency margin is 18% of the first £5 million ($7.8 million) of net premiums and 16% for anything above £5 million. The minimum capital requirement is £100,000 ($155,300).

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

Mr. Butterworth says that "apart from adhering to minimum standards," his policy is not one of strict solvency regulation. Regulating is done on an individual risk basis wherever possible, which relies on a company keeping at least a minimum margin of solvency and having surplus funds, he said.

"With the captives, I normally look at the risk the company is taking on and see whether the funds available can meet those liabilities and the exposure. The funds can be in several ways. They might be capital, they might be premium or exposure may be reduced by reinsurance. So, I only use the solvency as a fallback," he explained.

For captive insurance industry information contact Steve Butterworth, Superintendent of Insurance, Calley House, Hirzil Street, St. Peter Port, Guernsey, Channel Islands; 011-44-1481-712801; fax: 011-44-1481-712010. BI

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Largest managers of Vermont captives

Premium volume in millions of dollars

Manager	Premium volume 1995	Premium volume 1994	Captives 1995	Captives 1994	Staff 1995	Staff 1994
M&M Insurance Management Services Inc.	$770.7	$631.0	33	29	10	9
Johnson & Higgins Services Inc.	605.1	402.8	62	53	32	25
American Risk Management Corp.	397.0	399.2	36	43	16	18
Alexander Insurance Managers	258.2	294.3	35	35	10	10
Vermont Insurance Management Inc.	211.2	147.5	29	31	26	21
SB&T Captive Management Co.	131.7	128.6	14	15	8	8
AIG Insurance Management Services Inc.	129.8	163.8	12	11	8	8
Willis Corroon Management (Vermont) Ltd.	48.1	31.2	6	3	6	4
Yankee Captive Management Co.	38.9	33.4	3	3	4	4
Skandia International Risk Management (Vermont)	28.4	34.9	18	17	5	5

Source: *BI* survey

20 largest Vermont-based group captives

Ranked by 1995 premium volume

Group captive Parent (Manager)	Gross written premiums	Net premiums	Net income
United Educators Insurance Risk Retention Group Inc. Educational institutions (M&M Insurance Management Services Inc.)	$36,355,136	$5,589,731	$259,638
Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group) Harvard-affiliated medical institutions (Johnson & Higgins Services Inc.)	36,165,445	9,427,832	(366,444)
ICI Mutual Insurance Co. Members of Investment Company Institute (SB&T Captive Management Co.)	30,890,173	16,640,132	13,086,363
AmHS Insurance Co. Risk Retention Group Hospitals (Johnson & Higgins Services Inc.)	30,608,761	1,352,057	1,172,371
Housing Authority Risk Retention Group Housing authorities (Yankee Captive Management Co.)	26,074,864	23,586,362	3,083,896
Bar Vermont Risk Retention Group Inc. New York City law firms (American Risk Management Corp.)	20,950,662	1,255,208	(141,201)
MPC Insurance Ltd. California law firms (Johnson & Higgins Services Inc.)	13,116,273	9,310,018	3,081,992
American Safety Risk Retention Group Inc. Asbestos abatement contractors (Mutual Risk Management Vermont Ltd.)	12,041,984	4,009,555	461,278
Mount Mansfield Insurance Group Inc. MMIG Inc. (AIG Captive Management Co. Inc.)	11,860,125	11,860,125	(1,671,221)
Ophthalmic Mutual Insurance Co., A Risk Retention Group American Academy of Ophthalmology (Vermont Insurance Management Inc.)	11,706,418	9,970,299	1,496,243
The Ordinary Mutual, A Risk Retention Group Corp. Catholic dioceses (American Risk Management Corp.)	11,594,051	9,753,804	2,062,628
Housing Authority Property Insurance Inc. Housing authorities (Yankee Captive Management Co.)	9,933,894	9,869,300	2,017,097
Consolidated Catholic Casualty Risk Retention Group Inc. Catholic health care systems (Skandia International Risk Management Vermont Inc.)	8,553,610	5,015,193	4,482,259
Nonprofits' Mutual Risk Retention Group Inc. Non-profit organizations (Vermont Insurance Management Inc.)	8,259,529	3,120,153	(10,524)
Professional Consultants Insurance Co. Professional actuarial firms (Vermont Insurance Management Inc.)	8,061,213	5,003,621	816,890
CPA Mutual Insurance Co. of America Risk Retention Group Accounting firms (American Risk Management Corp.)	7,824,677	3,408,760	548,826
National Catholic Risk Retention Group Inc. Catholic dioceses (SB&T Captive Management Co.)	7,141,854	3,534,072	3,464,503
Terra Insurance Co. (A Risk Retention Group) Geo-science engineers (Vermont Insurance Management Inc.)	6,118,401	6,124,539	1,646,035
Specialty Transportation Insurance Co. Inc. Trucking firms (Vermont Insurance Management Inc.)	5,464,936	5,105,024	1,069,264
Financial Institutions Reserve Risk Retention Group Inc. Commercial banks (Johnson & Higgins Services Inc.)	5,449,868	(981,819)	36,309

Source: Vermont Department of Banking, Insurance and Securities

GRAPHIC BY KIM ROME

Vermont settles gladly into new role as mature domicile

NAIC dispute no longer demands attention

By RODD ZOLKOS



MONTPELIER, Vt.—Now that its battles with the National Assn. of Insurance Commissioners are largely resolved, Vermont can focus on the opportunities—and challenges—that face a mature captive domicile.

Efforts to expand captives' applications, attempts to spin related business enterprises off of the existing captive industry, captives' moves to Vermont from other domiciles and captives' movement within the state between managers all reflect Vermont's status as an established domicile, those in the industry say.

And the state's long dispute with the NAIC, which ended last September with the state winning accreditation, seems to have contributed to that maturity. The state's NAIC battle is credited with bringing improvements to Vermont's already well-regarded captive regulatory mechanism and holding the state up as a champion for the alternative risk financing industry.

While Vermont had 17 captive formations in 1995, dissolution of 11 dormant captives gave the state a net gain of six captives on the year, bringing the total to 270 at year-end 1995.

Despite the modest gain in the number of Vermont captives, the amount of premiums written grew 14.9%, to $2.74 billion in 1995 from $2.38 billion in 1994, as existing captives added new lines of coverage and several large captives were licensed.

M&M Insurance Management Services Inc. remained at the top of Vermont captive managers in terms of premium volume under management in 1995. Its 33 Vermont captives generated $770.7 million in gross premium last year, a 22.1% jump from the $631 million written by the 29 Vermont captives it managed in 1994.

Second to M&M in premiums under management but showing even more dramatic growth was Johnson & Higgins Services Inc., with 62 captives producing $605.1 million in premium last year, an increase of more than 50% from the $402.8 million its 53 captives wrote in 1994.

The remaining top five managers were: American Risk Management Corp., with 36 captives producing $397 million in premiums; Alexander Insurance Managers, with 35 captives generating $258.2 million in premiums; and Vermont Insurance Management Inc., with 29 Vermont captives producing $211.2 million in premiums.

Leonard D. Crouse, Vermont's director of captive insurance, termed Vermont's 17 new formations in 1995 "good," adding, "I've always said it's not numbers, it's quality." And formations are off to a fast start so far in 1996, with 12 new captives already licensed by mid-April. Last year, Vermont didn't license its 12th new captive until September.

George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc. in Burlington, said he was surprised to see four risk retention groups among 1995's newly licensed captives, adding he thought the soft market might slow RRG formation.

In fact, four of the 11 Vermont captives that dissolved in 1995 were RRGs, though Mr. Crouse said they were largely groups that "never matured properly."

One of the new risk retention groups, Controlled Risk Insurance Co. of Vermont Inc. (A Risk Retention Group), immediately joined the ranks of the state's largest group captives.

Formed by Risk Management Foundation of the Harvard Medical Institutions, which handles risk management for Harvard-affiliated facilities, Controlled Risk—managed by Johnson & Higgins Services Inc. in Burlington—produced $36.2 million in gross premiums in 1995. The new facility, which is writing hospital and general liability for the 13 Harvard-affiliated institutions, joins a Cayman captive that was formed in 1976.

And this year another major risk retention group already has come aboard in Attorneys' Liability Assurance Society Inc., A Risk Retention Group, managed by Yankee Captive Management Inc. in South Burlington. ALAS relocated to Vermont from Illinois in February.

"It's going to be our largest or second-largest (captive) taxpayer," Mr. Crouse said. "These are large, prestigious law firms throughout the country."

Mr. Chaffee's firm also has benefited from an RRG redomiciliation so far this year, as the Evergreen U.S.A. Risk Retention Group sponsored by the Assn. of Recreation Vehicles & Campgrounds moved to Vermont from Arizona in March.

"It writes campground liability, so I guess they felt more at home in the fir trees of Vermont," he said.

"We called the Arizona regulators and they were flattering. They said, 'We're just not equipped to handle this so it would be good if you took them,' " said Derick White, deputy commissioner for insurance in the Vermont Department of Banking, Insurance and Securities.

Risk retention groups were at the heart of Vermont's long-running accreditation battle with the NAIC, with the commissioners' organization objecting to the state's regulating them as captives rather than as traditional insurers, as specified in the NAIC model.

Last summer, the NAIC agreed to remove RRG regulation from the accreditation criteria, however, setting the issue aside for further study and paving the way for Vermont's accreditation.

Risk retention groups in the state still report financial data based on generally accepted accounting principles rather than the statutory accounting principles the NAIC had

See **Vermont** *on next page*

Captive Report

Vermont

Continued from previous page

mandated, Mr. Crouse noted.

The accreditation battle "was a tough, tough haul for Vermont," he said, though he added, "I'd call it a victory."

Ultimately, Vermont's captive director said, the captive division profited from the three-year accreditation process. "We were able to increase our salaries for our staff because of accreditation," Mr. Crouse said. "We were able to hire more people. Some of our surveillance has improved."

The captive division now has 12 people on staff and will add another this summer, "which we need just to keep up with our regulatory oversight," he said. "When you've got close to 300 licensed captives, your schedule's tight."

The NAIC issue "hasn't entirely gone away," agreed Raymond C. Oberg, senior vp at M&M in Burlington. "There are still some wrinkles to be worked out. But the situation has improved. I think everyone's encouraged."

Yet another benefit of Vermont's accreditation battle may be in its heightened reputation as a domicile that will defend the captive industry's interests, many believe.

"In the long run, it might have had some benefits because Vermont really came to the forefront," said Laura A. Taylor, vp of captive operations-domestic for Aon Risk Services Inc. in Burlington.

"They're certainly willing to step up into the role of being domestic leader," said Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. in Kansas City, Mo., which owns HC Insurance Co. in Vermont. "And they've shown good leadership."

But some raise concerns that Vermont must be careful to keep that sort of leadership and continue to allow its captives to explore true alternatives to the traditional market.

Michael T. Rogers, president of Vermont Insurance Management in Montpelier, agrees that the accreditation efforts have resulted in greater state surveillance of captives, as well as an examination process that is more costly and more time-consuming for the captives, "and that's not necessarily bad."

"But I think we have to be careful that we don't get to the point that the amount of scrutiny kills the reason we were successful and that was a common-sense regulatory environment," Mr. Rogers said.

The Vermont regulatory environment continues to draw high praise from both captive managers and risk managers of the parents of Vermont-domiciled captives, however.

"I've been doing business with Len Crouse now for a number of years and one of the most complimentary things I can say about him is that I have gone to him wanting to do things and he said 'No,' " said Leo Winstead, director of risk management services for Oak Brook, Ill.-based Waste Management Inc.

Mr. Crouse has rejected some of Waste Management's proposals, even though its two captives, National Guaranty Insurance Co. and Mountain Indemnity Insurance Co., Waste Management and its parent, WMX Technologies Inc., are among the state's top premium taxpayers. "And, in retrospect, he was right," Mr. Winstead said.

"It isn't anything goes for some sort of sacred cow. It isn't that at all. And that isn't what anybody's looking for, either," said Mr. Heydinger, whose company is talking with state regulators about new approaches for its captive. "They don't do foolish things. They just respond in a good, businesslike, professional way."

Mr. Crouse said he believes it is possible to be a good regulator while promoting the state as a place open to creative captive applications.

"You can listen to people, and if it makes good business sense, it can be done," he said. "I sit here as a regulator, but as I always say, in this chair here you try to balance good regulatory oversight and a little bit of marketing."

If an application is rejected, it's generally early on, he said. By the time they have a formal application submitted for review, the state regulators have already met twice with officials of the parent.

While lines of coverage written by newly formed Vermont captives still range across the board, both new captives and many well-established ones are looking at new twists.

"We're seeing a lot of interest in using captives for specialized coverages," said Julie S. Boucher, vp at Johnson & Higgins in Burlington.

"I think there's still the old workers comp, automobile liability, general liability. We're becoming more involved in warranty-type programs or at least looking for them," said W. Scott Frazier, executive director of North American operations for Alexander Insurance Managers in Burlington. "There's a lot of talk of jumping out of the box. People now are really looking for ways to set aside funds for uninsurable expenses."

Mr. Oberg noted that M&M-managed captives have $4.2 billion in assets and $2.5 billion in surplus and their owners are "looking at that and saying, 'How can I use this? How can I leverage that to my advantage?' "

"That kind of money seems to generate creativity," he said. "I think one of the big issues our industry is going to face is not just keeping our clients apprised of these developments but the regulators as well."

Peter A. Joy, president of American Risk Management in Burlington, is in a position to view Vermont's acceptance of creative uses of its captives against the backdrop of offshore regulatory environments. He came to Vermont last year from the Cayman Islands, where he was general manager of International Risk Management (Cayman) Ltd.

"If people felt that the only reason to go offshore was one of looser regulatory oversight, then I would counter that opinion in two ways," Mr. Joy said. "One is Cayman has significantly tightened its acceptance of new business and its oversight of existing business."

But, on the other hand, "from the perspective of anybody getting the impression that Vermont is so strict and tight that it wouldn't be amenable to considering some new innovative uses of a captive, they are very much mistaken," he said.

"A lot of the domiciles are reaching incredible parity these days," Mr. Joy said. "Perhaps due to some extent that at some state of their development they've all borrowed to a lesser or greater degree from proven domiciles' experience. We're

See **Vermont** *on page 48*



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Captive Report

Vermont

Continued from page 46

all more or less playing from the same rulebook these days."

Now, as a mature domicile, Vermont is looking to copy other domiciles' experience once again as it tries to expand from its base in the captive industry into additional areas of insurance and financial services, much like Bermuda.

State officials hope the recent decision of CORE Insurance Co. to open a Vermont office in Colchester is the first step toward that goal. Headed by Chairman and CEO Daniel G. Marren, CORE, a subsidiary of CORE Holdings Inc., will provide excess and reinsurance for captives, risk retention groups and large self-insurers.

"Our hope is this is an indication that Vermont is achieving that critical mass that would lead to that next stage in our insurance industry, similar to what happened in Bermuda," said Robert D. Miller, Vermont's director of financial services development.

"I think that's further testimony to the viability of Vermont as a domicile," M&M's Mr. Oberg said.

The state took another step toward that goal April 10 when the Vermont House passed a jobs creation bill that would provide financial services companies incentives to locate in the state. If approved by the Senate, state officials hope to use the tax breaks H. 796 would provide to build an investment management industry that could work with the state's captives.

"I think Vermont has more and more opportunity to be an insurance center because it's where the creative changes are happening," said Roger D. Teese, president and CEO of SB&T Captive Management Co. in Burlington. "Not to say they aren't happening in Bermuda, but I think onshore, Vermont is certainly the leader."

"Bermuda has tax advantages for the ACEs and X.L.s but it doesn't mean there wouldn't be similar opportunities for the state if they got creative and opened their minds to ideas that were brought before them," Vermont Insurance Management's Mr. Rogers said.

Mr. Rogers' firm moved in a new direction itself last year, when it reached an agreement with Sedgwick James Inc. under which Vermont Insurance Management and its affiliates in USA Risk Group will administer the U.S.-domiciled captives managed by Sedgwick Management Services (U.S.) Ltd.

Under the agreement, while Sedgwick remains a licensed captive manager, its Vermont and Hawaii employees became employees of USA Risk Group, with Andrew Sargeant, formerly executive vp of Sedgwick Management Services, named vp of Vermont Insurance Management.

"It was a good match because it gives Sedgwick more accountants and VIM has some good accountants," said the state insurance department's Mr. White. "It was good for both of them."

The Sedgwick captives brought under USA Risk Group's administration through the deal "gave us a critical mass in Hawaii," Mr. Rogers said. "I think what that reflects is you have to have a critical mass in order to become a viable captive management operation."

Now with that critical mass in Hawaii, plus a Bermuda office USA Risk Group opened in December, "it doesn't make as much difference to us where we put the client," Mr. Rogers said. "It's whatever makes sense to the client." The company added captives in Hawaii and Bermuda last year "that in other cases we might have put in Vermont," he said.

Mr. Rogers said his company will seek arrangements like the Sedgwick deal with other large companies that have only a small captive management presence in Vermont.

Another development on the captive management front in 1995 was moves by 17 Vermont captives to change managers.

Four of those are captives that left American Risk Management to join former ARM president Kathryn A. Westover at her newly created firm, Alternative Risk Management & Consulting Inc. in Colchester.

Her new company, Ms. Westover said, will focus not only on captives but also other alternative risk financing solutions.

"Obviously I'm looking toward a period where we can begin to penetrate a market that perhaps to this point is not taking advantage of alternative risk," she said. "I see this as being a very healthy and creative time for the alternative markets."

Other factors behind captives' movement between managers are market forces, both inside the domicile and out.

"Maybe it's typical of a mature domicile," Alexander Insurance Managers' Mr. Frazier said. "You've got a big industry out there with soft pricing. It's a tough industry."

With considerable competition among insurance brokers, some captives might change management as their parents change brokers, he suggested. At the same time, that sort of result isn't a given, Mr. Frazier said. "A&A's lost brokerage on many accounts and I've kept the captive management."

Mr. Joy believes the movement is natural as the domicile matures.

"You're seeing captives that have been in existence for seven to 10 years and it's not unusual for companies to reassess their service providers every three to five years," he said. "Against that review, you have a more competitive environment."

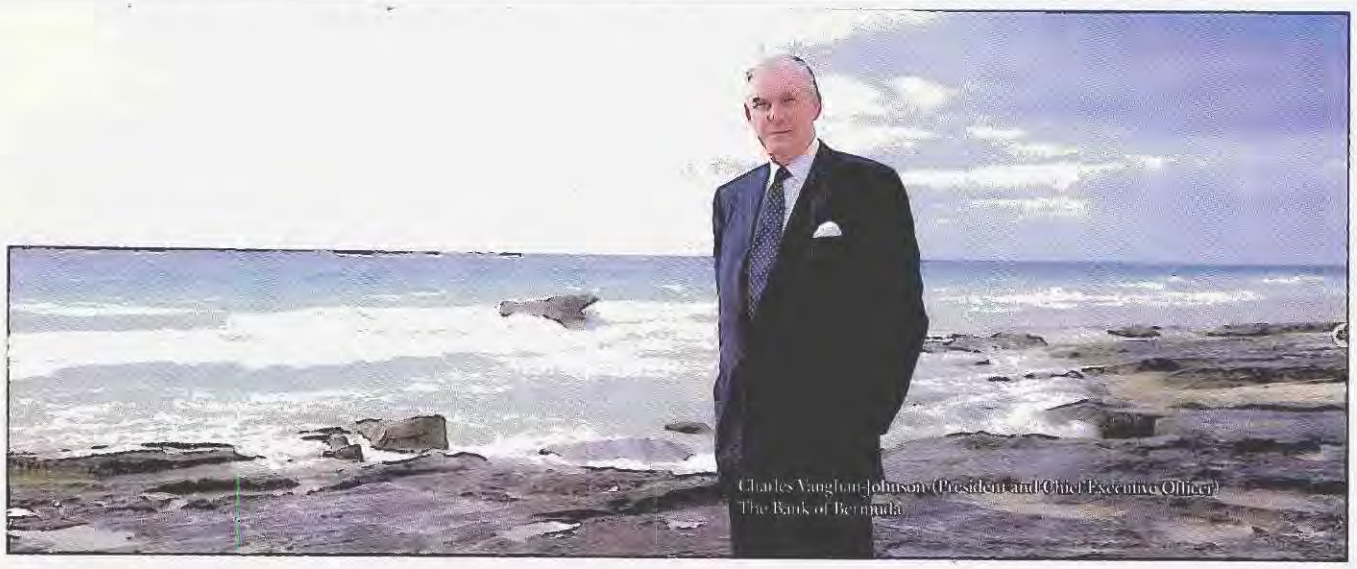
"When American Risk first came here, we could say we'd been in the captive business 28 years in Bermuda and the Caymans and the other domiciles," he said. "Now some of the other managers can say they've been in the business 10 years. It's a leveling of the playing field, you could say."

And it's not just captives that are moving between management firms, Mr. Joy said. "It's even evolved in people in the industry beginning to move around. There's beginning to be a market for both clients and employees. Again, signs of a maturing domicile."

The result of that competition is a focus by managers on how to add value to the services they provide, Mr. Joy said.

"Be they property facilities or new computer systems, I think where you add value is to not just do the accounting business for the captive anymore," he said.

"And, by adding value, you promote reasons for continued growth in the domicile." BI



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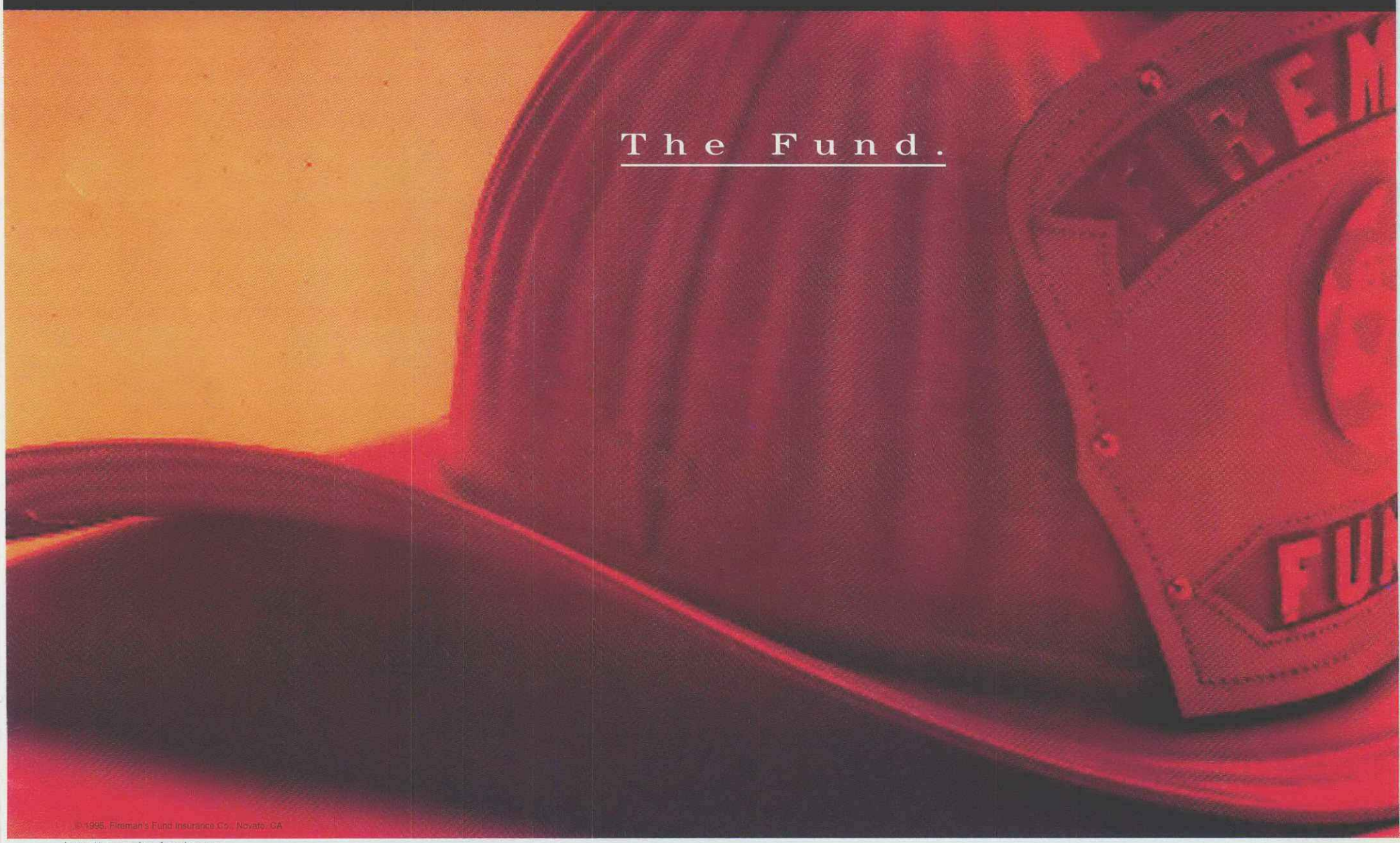
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Captive Report

1981 law regulates Vermont captive insurers

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

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

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

• A multi-tier tax structure for direct and reinsurance premiums. The first $20 million of direct written premiums is taxed at 0.4%. That rate falls to 0.3% for direct premiums between $20 million and $40 million and to 0.2% for premiums between $40 million and $60 million. The tax on direct premiums exceeding $60 million is 0.075%.

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

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

• Single-owner and industrial insured captives file simplified annual financial reports; trade association captives and risk retention groups use the National Assn. of Insurance Commissioners' convention blank. Financial reports are due by Feb. 28 each year.

Single-owner captives may apply to file on a fiscal year-end basis consistent with the parent company's fiscal year. If an alternative reporting date is granted, the annual report is due 60 days after the fiscal year ends. To support its premium tax return, the captive must file pages 1, 2, 3 and 5 of the "Captive Annual Statement: Pure or Industrial Insured" by Feb. 28.

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

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

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

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

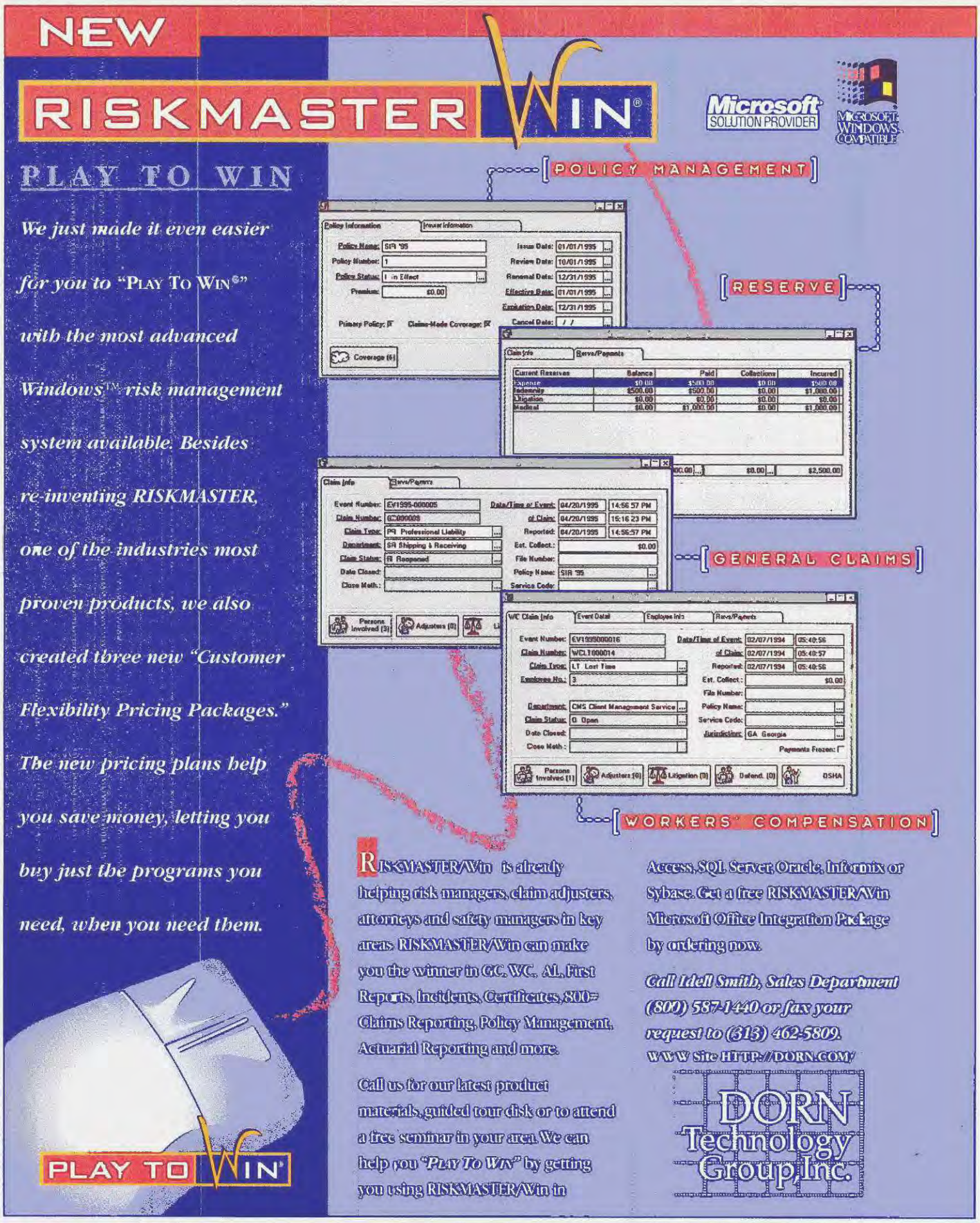
Rate and policy form approval are not required.

It's suggested that prospective captive parents first arrange a meeting with the commissioner and staff to discuss the proposed captive and obtain initial reactions from the department.

In the case of association captives or risk retention groups, the commissioner will want to meet with key officers prior to licensing. Risk retention groups should have a feasibility study ready for that meeting.

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

—By Rodd Zolkos



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Several factors keep Luxembourg successful

Growth slows but keeps domicile one of the largest

By SARAH GODDARD

LUXEMBOURG—Its location in the heart of Northern Europe and maturity as a captive market both contribute to Luxembourg's continuing success.

Registered reinsurers—captives here cannot write insurance—rose to 230 at year end 1995 from 207 a year earlier, according to the Commissariat aux Assurances.

That 11.3% growth, the grand duchy's lowest since 1991, was still strong enough to leave Luxembourg the second-largest domicile in Europe and the fifth-largest in the world.

Stability is the key to its success, according to Tony Nordblad, managing director of SINSER (Luxembourg) S.A.R.L. "Luxembourg is stable politically with sound infrastructure and a law made up for captive reinsurance companies."

Luxembourg's image—it is not seen as a tax haven, management firms say—also lends a lot of credibility. "It is an accepted market," said Mr. Nordblad.

Nevertheless, the beneficial tax treatment of equalization reserves allows captives to set up substantial reserve funds and has proved popular. This is especially true for long-term catastrophe risks where reserving levels are set at 20 times the annual average of the last five years' net premiums.

Luxembourg authorities justify the tax breaks by arguing that captive reinsurers need the reserves because they generally have much higher concentrations of particular types of business than do traditional insurers.

Luxembourg requires each cap-

Continued on next page

Luxembourg

Grand Duchy has penchant for reinsurance captives

Continued from previous page

tive to establish these equalization reserves, varying by the type of business written. Any eventual surplus in the reserves is taxed as profit. And if the owner decides to liquidate its captive company, unused reserves are subject to the full tax rate of 40.29%.

Last year, companies from France, Belgium, Spain, Portugal and Italy, as well as Germany, formed captives in Luxembourg. Although German regulators are known for taking a long-term approach that precludes fast decision-making—and has frustrated captive managers in several domiciles—German captive owners seem to be looking seriously at Luxembourg.

One area of growth is the strict legislation in Germany governing environmental impairment liability, as well as the ever-increasing premiums for this business.

With the exclusion of gradual pollution and cleanup costs from German policies, funding of environmental risks in alternative mechanisms is becoming a priority for German industrial companies. What's more, after reunification, many German industrial companies took over plants located in the former East Germany, which have unquantified but potentially huge pollution problems.

More German companies are expected to follow the lead of Hoechst A.G., Bayer A.G. and BASF A.G., which in 1995 formed a group captive, Indurisk Ruckversicherung A.G. of Luxembourg, to write environmental liability coverage (*BI*, Oct. 2, 1995).

Luxembourg is a natural home for such captives for several reasons, including the ability to establish substantial catastrophe reserves and the German authorities—which have been suspicious of companies setting up captives to avoid taxation—taking the view that Luxembourg is not a tax haven. Unlike most other domiciles, Luxembourg's corporate tax rate is higher than 30%.

Nevertheless, growth from German parent companies remains low compared to its potential. "Most people today are looking toward the German market and hoping that there will be some evolution from that market," said SINSER's Mr. Nordblad. "There could be a lot more business."

Companies elsewhere in Europe are investigating the same route for pollution coverage. Captive managers in Luxembourg have noted a growing awareness of the problem by risk managers and confirm that more captives are writing the business.

However, a captive's need to do so is governed by legislation in the parent's domicile—in certain countries, coverage is still available at affordable rates from the traditional insurance market and legislation covering liability is less strict.

Traditionally, European parent companies have set up Luxembourg-based captives to write classes such as property and boiler and machinery coverage, while U.S. parents placed more liability business into the operation. But now the domicile sees the full gamut of business written.

Although Sweden is growing as an onshore captive center, it is not the threat to the number of Scandinavian-owned captives in Luxembourg that one might think, said SINSER's Mr. Nordblad.

"It is not competition," he said. "Sweden is a complement to offshore operations—companies are setting up their second or even third captives in Sweden."

Sweden does not have a statute specifically for captives, so companies that form insurance units must be certain the units meet the same standards that apply to standard insurers.

For logistical reasons, Swedish companies may prefer Sweden as a domicile. But there are too many restrictions on solvency margins and the ability to build up reserves, said Mats Lindquist, a SINSER managing director. A company in Sweden needs 10 times more capital to write a given net line than would a company in Luxembourg. In addition, the ceiling on equalizations reserves is about 10 times higher in Luxembourg than in Sweden.

The two domiciles can happily sit side by side in a risk management program, said Mr. Nordblad, particularly since both direct business and group contributions are permissible in Sweden.

Luxembourg's attractions as a domicile include its reputation as an international banking center, its E.U. membership and "open-minded government," said Claude Weber, managing director of Marsh & McLennan Management Services (Luxembourg) S.A. "For any particular matter, you don't have problems meeting people from the government in a constructive way," he explained.

But a huge contributing factor to Luxembourg's success is the increasing sophistication of European risk managers. "Most of the new captives are being formed by parent companies new to the game," commented Mr. Weber. "Risk management is currently developing in Europe, and a captive is now part of a full risk management strategy."

Although the new entrants to the market have all been single-owner captives, SINSER's Mr. Nordblad said, there is a growing interest in both group and rent-a-captive operations. "They are becoming more and more popular," he said.

Among the largest captive management firms in Luxembourg are: Gecalux S.A. with 62 active companies under management at year end 1995, up from 57 a year earlier; SINSER Holding A.B., which, through three separate divisions, manages a total of 53; Sogecore S.A., which manages 33; M&M, which manages 22; and UNISON Management (Luxembourg) S.A., which manages 21.

Victor Rod, insurance commissioner for Luxembourg, would not take or return telephone calls from *Business Insurance*. BI

LUXEMBOURG—A captive center that is de facto rather than de jure a reinsurance captive domicile, regulation of Luxembourg's captives is embodied in the 1991 Insurance Law and Grand Ducal Regulation.

Captives must have paid-in capital with a minimum of 50 million Luxembourg francs ($1.6 million). However, captives that have capital of 200 million Luxembourg francs ($6.6 million) or above need only pay in 25% of the share capital.

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

Captives in the domicile must have at least two shareholders and three directors. None need be in the country, but the company needs a local licensed captive manager and be audited by a local auditor approved by the Commissaire aux Assurances. Accounts are filed annually with the Commissariat aux Assurances.

New captives must pay an initial license application fee of 150,000 Luxembourg francs ($4,935), and from then on established captives must pay an annual business fee of 100,000 Luxembourg francs ($3,288).

A big draw for Luxembourg is the tax treatment of so-called equalization, or catastrophe, reserves.

These reserves are set as multiples—varying between 12.5 and 20 times of the annual average net premium volume over the last five years, depending on the type of risks written.

Since Luxembourg recognizes equalization reserves as reserves for future liabilities, they are tax deductible. Any eventual surplus in the reserves is taxed as profit.

Captive managers note that the treatment on catastrophe reserves does not make it a tax haven.

There are several taxes which captives are subject to:

- Net worth tax, at a rate of 0.5% of the net worth of the company at the start of the year.
- Municipal business tax on net worth above 1.8 million Luxembourg francs ($59,220) at the end of the year, at a rate of 0.5%.
- Municipal business tax of 9.09% on income over 700,000 Luxembourg francs ($23,030).
- Corporate income tax at varying rates up to 40.29% for income over 1.312 million Luxembourg francs ($43,165).
- Subscription tax of 1% on incorporation or introducing new capital.

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

—By Sarah Goddard

Barbados adopts virtual captive tax

Reforms expected to help Canadian-owned captives

By DOUGLAS McLEOD

BRIDGETOWN, Barbados—Barbados captive managers are waiting to see if the pace of their business picks up now that the domicile has apparently weathered the threatened loss of tax advantages for some Canadian captive owners.

Canadian tax reform legislation that became effective last year would have denied tax benefits to captives that are not "residents" of Barbados. To qualify as a resident, the captive had to be subject to a local tax.

However, the Barbados government in December amended its insurance law to impose taxes on captive earnings for the first time. At a tax rate of 0%, though, the new law creates no new costs for captive owners.

The result will be virtually no change in tax treatment for multinational parent companies based in Canada, long a major source of Barbados' business.

The only companies hurt by the tax reform will be banks and auto dealerships with credit life and warranty captives—because they write third-party business—though even these have taken steps to mitigate the impact of the reforms, captive observers say.

While a Canadian tax official recently suggested that the amendment may not satisfy the Canadian law's requirements, observers expect the Barbados changes will eventually pass muster with Canadian authorities.

As the tax upheaval continued last year, Barbados still managed to add 23 new exempt insurers to its register, maintaining the pace of new formations set over the last four years.

Nearly all were set up by parent companies in the United States and Canada, though the proportion of Canadian-owned companies fell from previous years.

Excluding companies that have stopped underwriting, Barbados finished 1995 with 196 active insurers, a net gain of two from the 194 reported at year-end 1994.

Of these, *Business Insurance* estimates that 15% are commercial insurers or reinsurers set up primarily to write third-party business, leaving about 167 licensed captive insurers at the end of 1995.

In the first three months of this year, Barbados licensed another eight new insurers, putting it on a pace to add 23 or 24 new companies this year, according to William Layne, supervisor of insurance.



"That's what we've been averaging, in the 20s," Mr. Layne observed. "We expect to maintain our growth rate."

Christopher Towner, president of Towner Management Group Ltd., was more optimistic, predicting at least 30 and possibly as many as 40 new formations this year.

"There's been quite a bit of interest in the first few months of the year. I think it looks very good," Mr. Towner said.

Managers are waiting to see how Canadian companies react to apparent resolution of the tax reform upheaval.

Mr. Towner noted that the proportion of new formations by Canadian parent companies fell last year. Of 23 new licensees, seven were set up by Canadian companies, 15 by U.S. parents and one by a Bermuda company, according to government figures.

This reverses the trend since 1990, when Canadian companies accounted for an equal share or a majority of the new captives set up each year, Mr. Towner observed.

"It could have been some Canadians were waiting on the sidelines to see how we resolved the tax issue," he noted. "It will be interesting to see if we go back to a majority of Canadian (owners) or are we going to get a more balanced North American profile."

"The big problem with Canada as a market at the end of the day is that its economy is smaller than the U.S.," said Chris Evans, general manager of Wyatt Management Co. (Barbados) Ltd.

"There's no question that potential growth in the Canadian market has reduced" as a result of tax reform, Mr. Evans noted, though he added that Barbados remains the domicile of choice for Canadian companies.

Figures bear that out: Of 160 total Canadian-affiliated captives at the end of last year, 69 were domiciled in Barbados, 43 in Bermuda, 17 in British Columbia and 31 in other jurisdictions, giving Barbados a 43% share of the Canadian market, according to Denis C. Brown, a partner with Ernst & Young in Toronto.

Of the exempt insurers currently licensed in Barbados, about 40% are owned by Canadian parents, 55% by U.S. parents and the remainder by companies in other nations, according to figures compiled by Mr. Towner.

All of this made Canada's tax reforms a vital issue for Barbados.

Under previous Canadian law, a Canada-Barbados tax treaty allowed captive owners to generate captive earnings tax-free if the earnings were related to third-party Canadian risks or the risks of the owner's non-Canadian operations.

Following reforms introduced as part of Canada's 1994 federal budget, though, the tax breaks for third-party Canadian business are eliminated and income on all Canadian risks will be taxed unless non-Canadian business accounts for more than 90% of a captive's volume.

Income on non-Canadian third-party business also may be taxed unless a Barbados insurer qualifies for an exclusion by having more than five full-time employees in Barbados.

The new rules also left intact a tax break for earnings on related non-Canadian risks, preserving a benefit for Canadian multinational companies that insure their non-Canadian operations with their captives.

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

Facing this dilemma, the Barbados government last December amended the island's Exempt Insurance Act of 1983 to make captives liable for local taxes—technically, at least (*BI*, Jan. 8).

The amended insurance act imposes a tax of 0% on exempt insurers' earnings for the first 15 years after the company is licensed. For the next 15 years, the tax rate is 2% of the first $125,000 of profits, or $2,500; at the same time, the government will waive its annual license fee of $2,500.

The new tax structure thus imposes no new costs on captive owners and in fact provides a benefit, captive managers say. While previous law left a captive's 15-year tax exemption to the discre-

See **Barbados** *on next page*

Captive Report

Barbados

Continued from previous page
tion of the Minister of Finance, the new 30-year tax treatment is a right of all licensed insurers.

Extending the arrangement for another 15 years also helps a few long-established captives that were approaching the end of their first 15-year exemption, managers say.

U.S.-owned captives will see no change in their status beyond the extension of their favorable tax treatment.

Captives owned by Canadian multinationals also will see little impact, since earnings from insurance of related non-Canadian risks still can be repatriated to Canada tax-free, Ernst & Young's Mr. Brown noted.

As expected, the hardest-hit will be the credit life and warranty captives set up by Canadian banks and auto dealers to insure customers. These captives offered a sizable tax break when earnings from third-party Canadian risks remained tax-free but have seen that benefit evaporate.

"The impact on the third-party type captive has been quite negative," Mr. Brown observed.

Despite this, though, only one large bank captive has shut down its Barbados operation. The Canadian Imperial Bank of Commerce has largely closed its CIBC Insurance (Barbados) Ltd. credit life unit and moved the business to an onshore insurance subsidiary.

Other bank credit life companies have stayed in Barbados and are finding various ways to mitigate the impact of the rules.

Scotia Insurance (Barbados) Ltd., a credit life and disability unit of the Bank of Nova Scotia, has reorganized its underwriting portfolio to cut Canadian business to less than 10% of net premiums, preserving its tax breaks, confirmed Walter Meinig, managing director.

To do this, Scotia Insurance has sold some of its Canadian business and ceded other Canadian risks to reinsurers, replacing it with non-Canadian risks it has written as insurance or assumed as a reinsurer.

Scotia Insurance already has extensive business in the Caribbean and rather than withdrawing is instead looking to expand, possibly even into property/casualty lines, Mr. Meinig said.

Bank captives and other third-party insurers can take several steps to deal with the tax revisions, Mr. Brown said, including reinsurance "swaps," in which Canadian risks are ceded to reinsurers and replaced with non-Canadian business.

The changes to the Barbados insurance law should stop any erosion of the island's Canadian business, though it remains to be seen whether growth of that business will gain momentum.

"The changes, I think, will allow us to maintain our market share," Mr. Layne said.

"It preserves the status quo," Mr. Towner added. "You can continue to do new business with a degree of comfort."

Or so it appears: Last month, an official of Revenue Canada suggested in a letter to a Canadian corporation that the amendments to the Barbados insurance act are not in accordance with the "spirit" of the tax treaty and that a Barbados captive might not be considered a "resident" of the domicile, Mr. Brown said.

Lawyers for the Barbados government have since been in touch with Canadian authorities to clarify the issue, and Mr. Brown said it is too soon to conclude that this will be Revenue Canada's official position on the amendments.

"I'm not overly concerned for

See **Barbados** *on page 58*

D&O



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Barbados amends rules on captives

BRIDGETOWN, Barbados—The Barbados government last December made several changes to the Exempt Insurance Act of 1983, the principal law governing captives.

One of the key changes was to make captives liable to Barbados taxation, a move aimed at countering the impact of Canadian tax reforms (see story, page 53). The new tax provision does not increase costs for captive owners, though.



Other changes to the Exempt Insurance Act: allow the insurance supervisor to disclose information about Barbados insurers to other regulators, a move intended to boost the domicile's credibility with regulators in the United States and elsewhere; expand the definition of "general insurance" to include financial insurance, workers compensation and public liability; and define the types of assets allowed for computing exempt insurers' statutory solvency margins.

Apart from the amendments adopted by the Barbados government last year, other provisions of the insurance act are unchanged. Under the law, captives must:

- Pay a one-time registration fee of $250 and an annual fee of $2,500.
- Maintain minimum capital of $125,000 in cash. A letter of credit drawn on a bank licensed in Barbados may be used for added capitalization.
- File annual audited financial statements with the insurance supervisor, which are not available to the public.
- Keep a register of policies, claims books and records in Barbados.

One captive director must be a Barbados resident citizen and must file with the registrar of companies a written consent form to act on behalf of the captive. Shareholders may not be residents of Barbados or any other Caribbean nation.

For more information, contact William Layne, Supervisor of Insurance, Ministry of Finance and Economic Affairs, Bridgetown, Barbados; 809-426-3815.

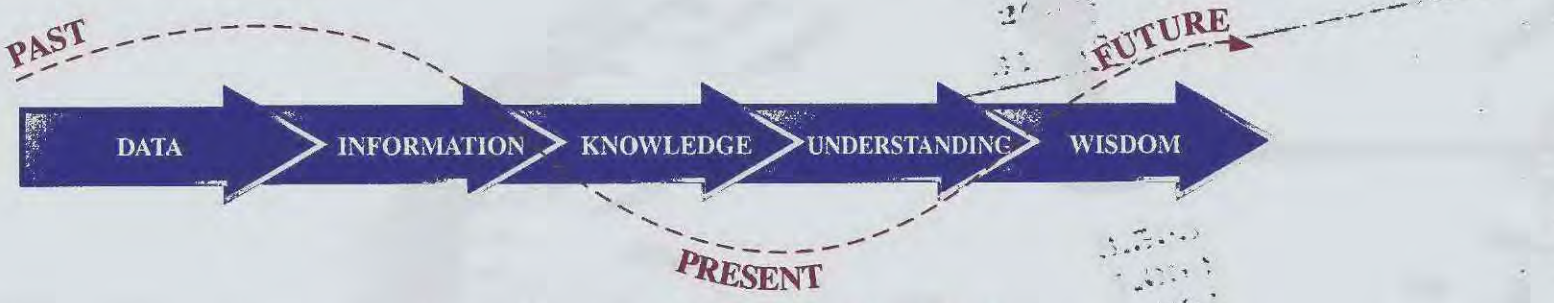
—By Douglas McLeod

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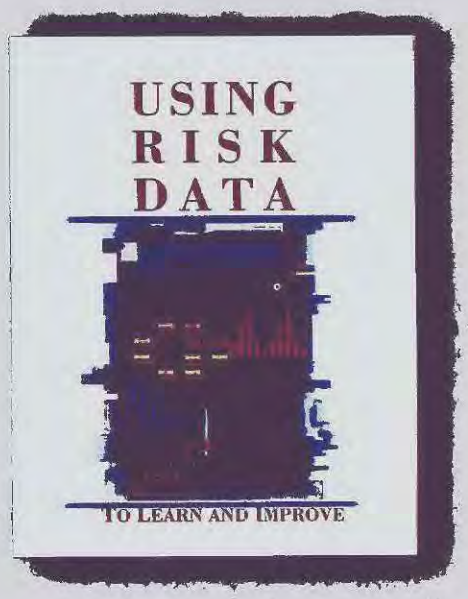
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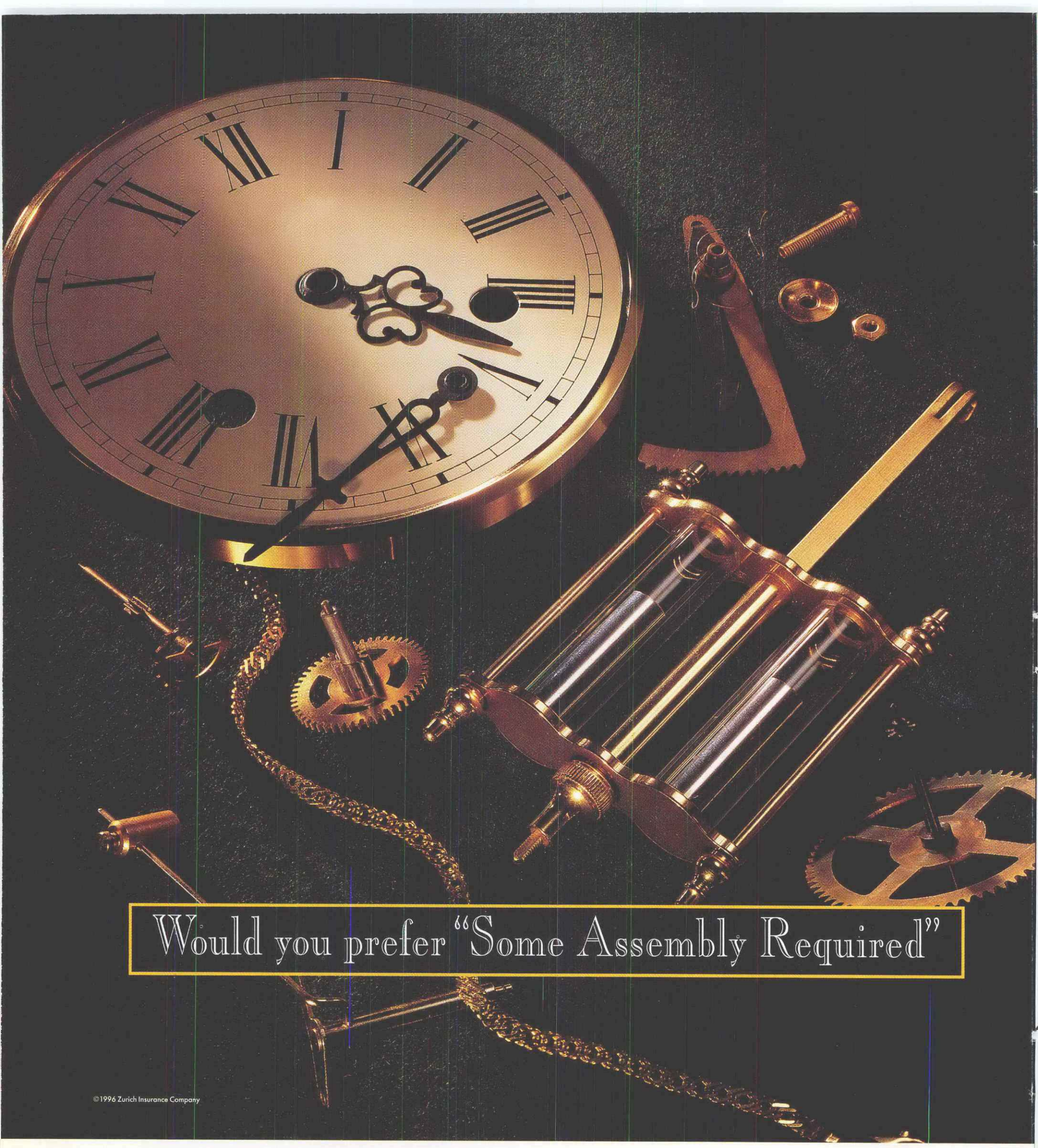
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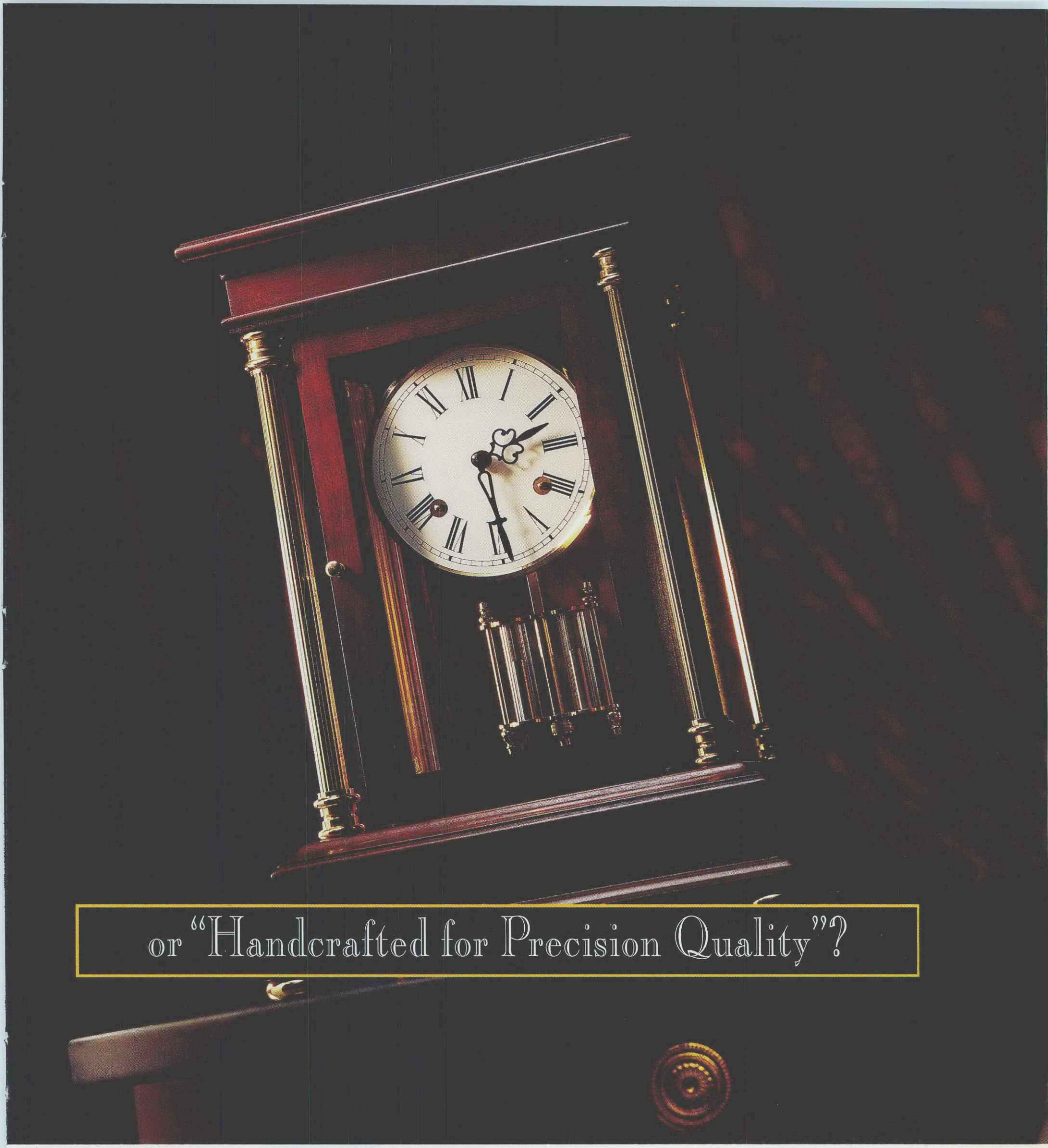
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Captive Report

Barbados

Continued from page 54

the moment, because I think justice will prevail," according to Mr. Brown.

While overall captive growth in Barbados continued at a slow and steady pace last year, the experience of individual managers varied.

The largest captive managers include:

• MIMS International (Barbados) Ltd., which reported a decline in active captive company clients to 18 last year from 22 the year before. Premium volume of those captives under MIMS' management, however, nearly doubled—to approximately $532 million in 1995 from about $268 million posted in 1994.

• Marsh & McLennan Management Services (Barbados) Ltd., which reported nine captives under management and $124 million in premium volume last year.

• Wyatt Management, which reported nine captives under management and $110 million in premium volume last year. Since the beginning of this year, Wyatt has taken over seven captives formerly managed by Sedgwick Management Services (Barbados) Ltd., which decided to close its Barbados unit, Mr. Evans reported.

Wyatt is managing the Sedgwick clients under a two-year subcontract, Mr. Evans said. At the end of the two years, Sedgwick may either take back its clients, extend the contract or subcontract with another manager, he explained.

While overall captive growth in Barbados was slow last year, individual managers' experiences varied.

Peter Walford, who formerly headed Sedgwick's Barbados operation, has moved to Royal Bank of Canada Insurance Co. Ltd., a former Sedgwick client that is now self-managed.

• Johnson & Higgins (Barbados) Ltd., which reported 23 active clients, unchanged from 1994, as it dropped a couple of inactive captives and picked up a couple of new clients, according to Kevin T. Walton, vp. Premium volume declined more than 14% to $79 million last year from $92 million in 1994.

"It was a little slow for us, particularly in the first part of the year," Mr. Walton said. "I think we're looking at 10% growth this year."

• Alexander Insurance Managers (Barbados) Ltd., which reported 18 active clients, unchanged from 1994, and premium volume of $75 million, a slight increase from the $70 million in premium the captives recorded the previous year. BI

Isle of Man captive growth continuing

Isle aims to lure captive transfers

By EDWIN UNSWORTH

DOUGLAS, Isle of Man—The number of Manx captives continued to climb in the double digits last year, proving that 1994's gain of 13 captives was no fluke, coming after declines since 1990.

The Isle of Man recorded 11 new captive registrations in 1995, to take the total number of captive insurers to 150, despite the loss of one captive that had been inactive and let its license lapse. The number of all insurers registered on the island increased by 10 last year to 173.

Although 1995 year-end financial figures had not been reported late last week, David Vick, the Isle of Man's deputy insurance supervisor, expects total gross premiums to be "about the same or slightly up" from 1994's total of £800 million ($1.3 billion).

He said he is pleased with last year's performance and is confident that it will continue in 1996. His reasons are twofold: First, the Isle of Man's traditional strengths of sound captive legislation and a strong services infrastructure; second, a change in its captive legislation in February dealing with redomiciliation.

This law, similar to one in Bermuda and one planned for Guernsey, allows the transfer of a captive from other domiciles to the Isle of Man without having first to liquidate it and launch a new company. This facilitates the ease with which a captive can be moved and greatly reduces transfer costs.

Mr. Vick is considering two transfer applications at the moment and expects at least four more captives to apply for transfers within the next year.

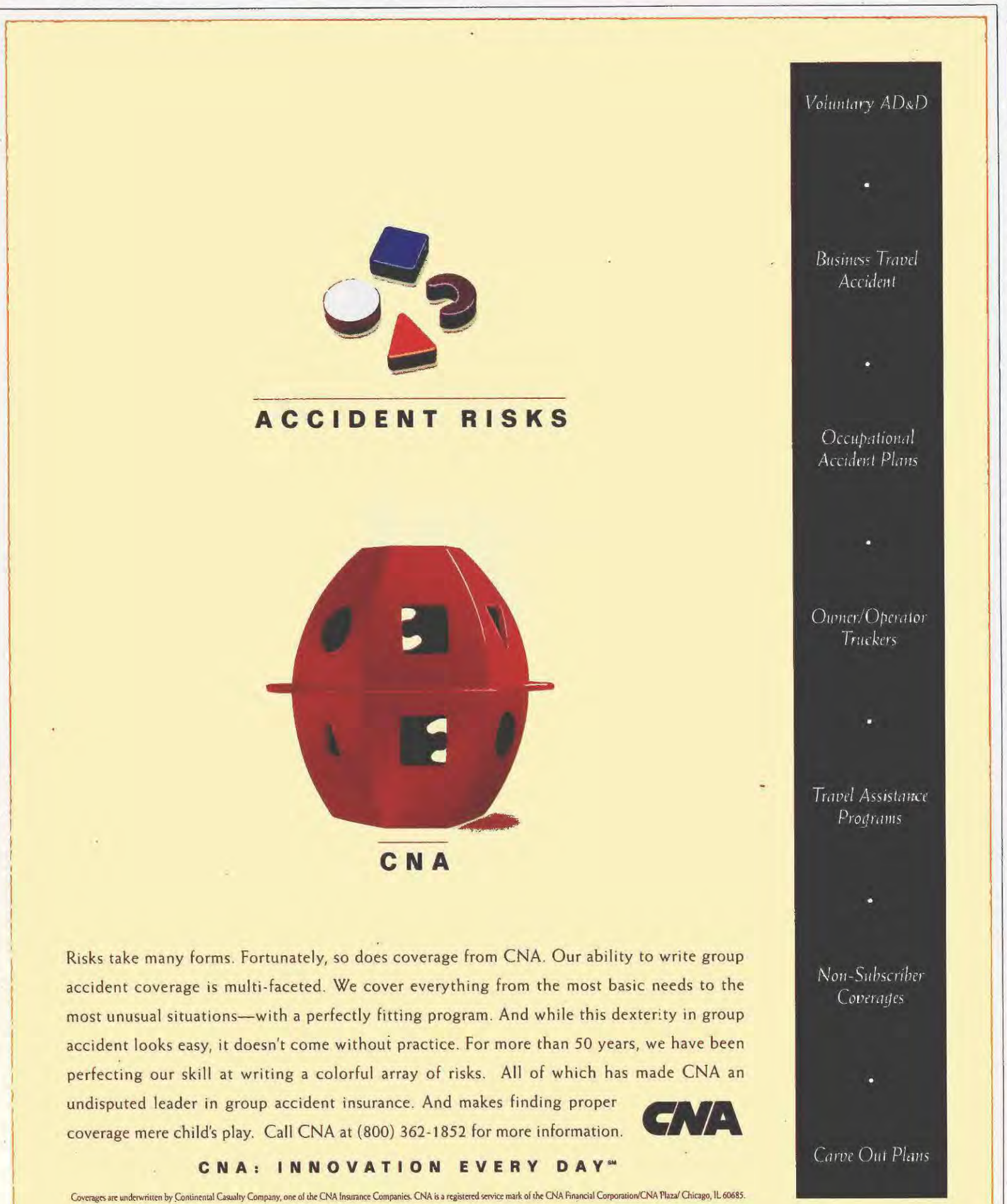
The captives showing interest in moving to the Isle of Man come mainly from Bermuda, where many U.K. companies have incorporated captives, he said.

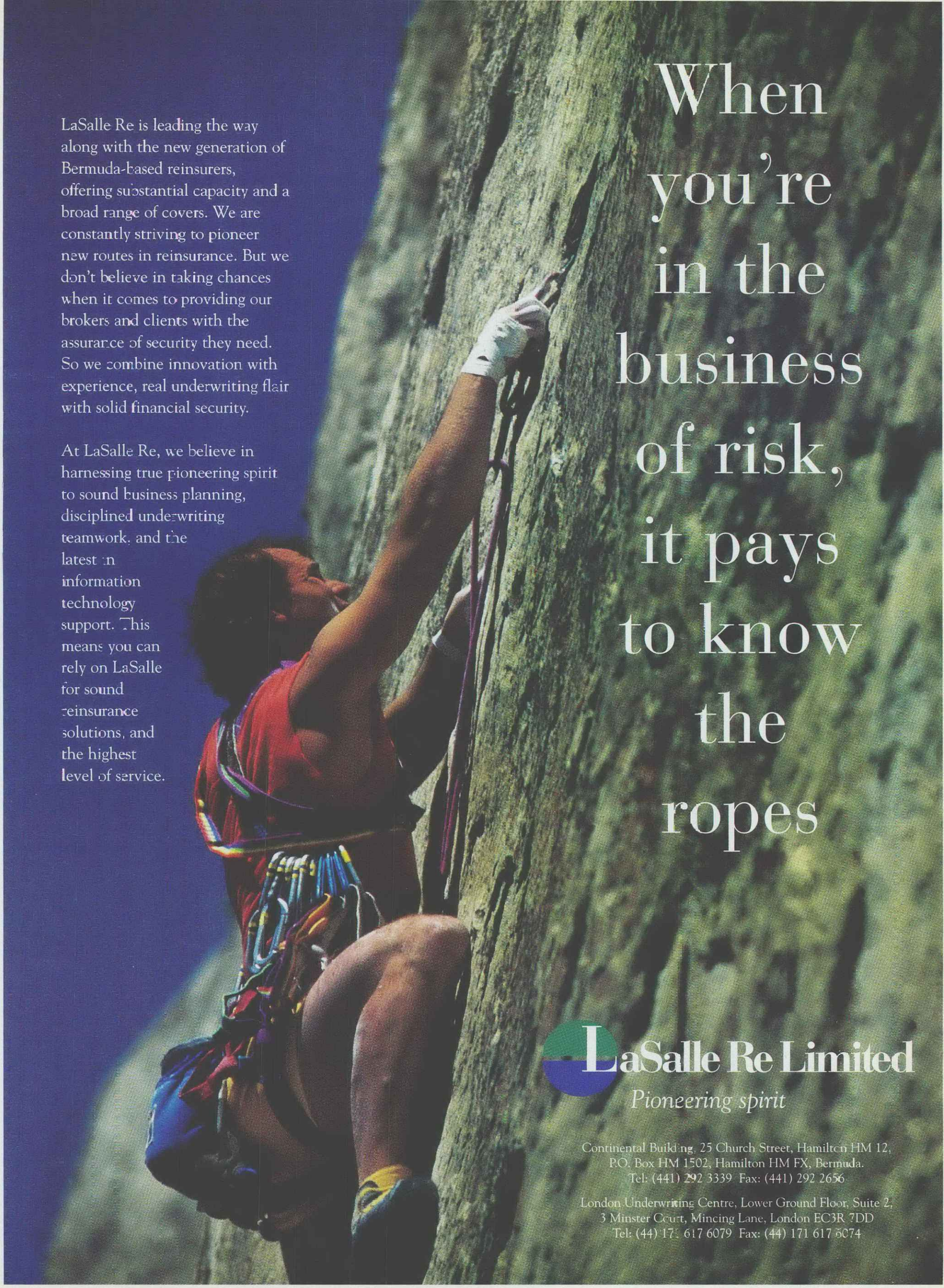
Bermuda can be an expensive place to operate in, is far from the United Kingdom and is in a different time zone—disadvantages that the Isle of Man does not share. Captives domiciled in the Cayman Islands are also showing interest in coming here, he added.

Michael Skehan, director and general manager of International Risk Management (Isle of Man) Ltd., which manages eight captives and is currently negotiating to take over another under this rule, agreed that Bermuda-based captives are the most likely candidates for transfer.

The main reason is that the Isle of Man is more accessible than

See **Isle of Man** *on page 60*





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Bermuda to British and European companies. "People are too busy now," and Bermuda is too far away for purposes such as attending board meetings, he said.

One captive due to make the switch this year to the Isle of Man from Bermuda is Grosvenor Insurance Co. Ltd., owned by Glasgow-based hotel group, Stakis P.L.C. Although set up in Bermuda in 1984, Grosvenor has already been managed since 1989 by Isle of Man-based Professional Insurance Management Services Ltd.

Stakis Assistant Company Secretary Bill Mackay says that the official move to the Isle of Man, only 40 minutes by plane from Glasgow, makes sense for a company operating solely in the United Kingdom. The move will take place sometime before the end of Stakis' financial year in September.

Isle of Man captives are still very much property and liability insurers, with only a few writing third party or employee benefits business, Mr. Vick said. Most are single parent, though there have been a few association captives and two rent-a-captive facilities formed in recent years.

Like its main rival, Guernsey, the Isle of Man derives the bulk of its business from U.K.-owned captives.

As a result, it is especially vulnerable to a change in U.K. law applicable to controlled foreign corporations. Under legislation proposed in the November 1995 budget and expected to take effect in May, controlled foreign corporations will have to repatriate to their parent company 90%, rather than the current 50%, of their taxable profits, minus capital gains and foreign taxes.

Risk managers, captive managers and insurance supervisors of offshore domiciles all have stressed that the rule change should not make a great deal of difference to captive formations since the real purpose in setting up a captive is for risk management rather than tax reasons.

However, Mr. Vick acknowledged that because the Isle of Man derives the bulk of its business from U.K.-owned captives "we have to ensure in the light of the controlled foreign corporation changes that people can still operate here." As a result, "changes may have to be considered" to Isle of Man insurance regulations because the U.K. law change could alter the way some captives operate.

The law will not necessarily have a detrimental effect on captive business, but "it has made people sit up and think that they have to justify their operation," he said.

For Peter Foulger, director of Willis Corroon Management (Isle of Man) Ltd., the change is perceived as "an irritant rather than a major problem.' His company has not seen any signs of concern from the 41 captives it manages, but believes it is something that will be taken into account by any company thinking of forming a captive.

In response to claims from some tax authorities that captives would operate primarily as tax avoidance vehicles, the Isle of Man in 1994 introduced a new International Business Act, aimed at helping companies from countries wary of tax havens. The law allows captives to opt to pay income tax on a sliding scale at either a higher rate of up to 35% the standard Isle of Man corporation tax rate of 20%, or tax exemption.

Managers say the law so far has not significantly influenced new business, but could for U.K. companies wary of the controlled foreign corporation rule change.

Geoffrey Hunt, managing director

Continued on next page

Rule changes to aid captives

DOUGLAS, Isle of Man—Amendments to the Isle of Man's Insurance Act of 1986 may prove significant in attracting captive business away from other domiciles.

The law on "redomiciliation" allows parent companies to move their captive insurance units to the Isle of Man from other domiciles without having to first liquidate and reform

Isle of Man

them in their new home. This enables captives to make a switch more easily and cost-effectively.

Apart from this, requirements for forming an Isle of Man captive remain the same as last year:

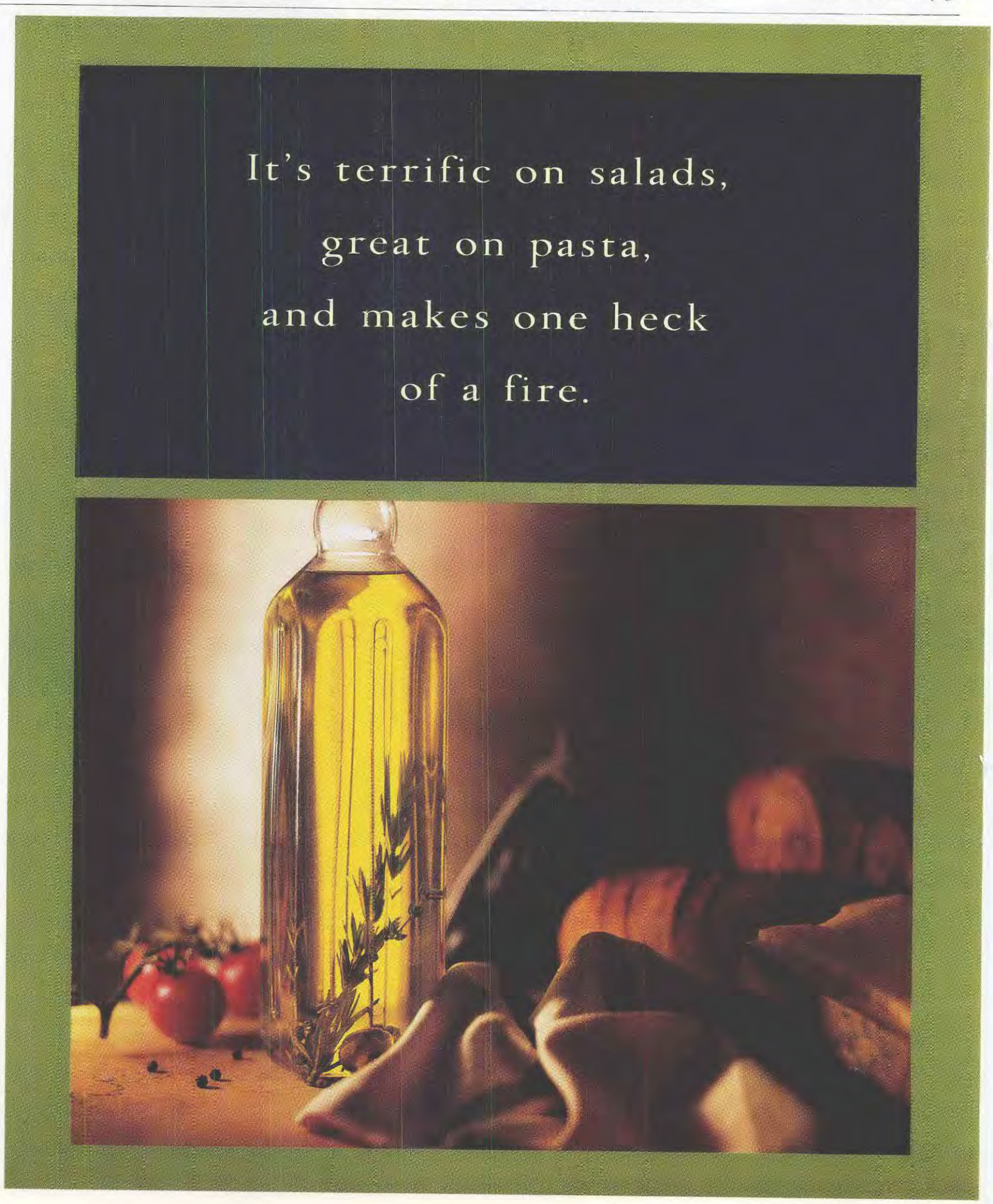
- Single-parent captives must have a minimum paid-up capital of £50,000 ($77,650). For captives writing third-party business, reinsurance or life insurance, the minimum capital requirements range from £100,000 to £500,000 ($155,300 to $776,500). The minimum capital requirements plus 10% of any amount above £50,000 must be deposited in an Isle of Man bank, although this requirement can be relaxed at the discretion of the regulator.
- Single-parent captives must maintain a solvency margin equal to the minimum capital requirement plus an amount equal to 10% of net written premiums up to £2 million ($3.1 million) and 5% of net written premiums exceeding an amount of £2 million.

Captives that write third-party business must maintain a solvency margin equivalent to 15% of net premiums written but totaling not less than £150,000 ($232,950).

- Captives must present to the insurance supervisor a three-year business plan. This must include the maximum net retention per risk or occurrence and the aggregate retention after all reinsurance; policy limits; details of the reinsurance program, including the names of the reinsurers; projections for claims; projections for the captive insurer's cash flow; and projections for its profits.
- A "suitable" manager on the island must manage the captive. The criteria for suitability are determined by the insurance regulator.
- A £1,000 ($1,553) registration fee is required. Authorized insurers also pay an annual fee of £500 ($777).
- For captive insurers with tax-exempt status, there is an additional annual fee of £2,000 ($3,106).

For more information, contact Bill Hastings, Isle of Man Government Insurance Authority, S&F House, 12/14 Ridgeway St., Douglas, Isle of Man; 011-44-1624-685695; fax: 011-44-1624-663346.

—By Edwin Unsworth



Continued from previous page
of Alexander Insurance Managers (Isle of Man) Ltd., said he advises clients affected by the ruling to consider applying the Isle of Man's sliding tax scale to their advantage.

The Isle of Man is still attempting, but with only limited success so far, to reduce its dependency on companies based in the United Kingdom as a source of captive formations.

Other sources now include a "handful" of European and East European companies and a few from South Africa, according to Mr. Vick.

After a visit to South Africa last year by the Isle of Man's insurance supervisor, William Hastings, the domicile is hopeful of attracting more business from this country.

Of Mr. Vick's hope expressed last year to attract Japanese and other Far Eastern captives, he said there have been "no developments but some interest."

Commenting on current prospects, Mr. Vick said, "we are quite optimistic."

He bases this on the fact that the Isle of Man continued to attract new business last year, the captives already there have grown internally, and the new law on redomiciliation should start bringing in transfer business.

Mr. Hunt of AIM agreed for the most part. "I think what we'll see is continued steady growth, though probably not on the same scale as in the past." BI

Dublin targets non-reinsurers

Strategy may be spark to rekindle captive growth

By SARAH GODDARD

DUBLIN, Ireland—Dublin regulators are actively pursuing continued growth for the captive domicile, focusing on expanding the ranks of insurance captives.

The number of insurance and reinsurance captives operating from Dublin's special low-tax International Financial Services Center is still rising, though the growth rate slowed somewhat last year.

Dublin's desirability as a domicile stems from its low taxes—a 10% corporate rate is guaranteed through 2005—low wages; a well-educated work force; and under European Community regulations, the freedom for captives to insure risks throughout the European Union, according to the Industrial Development Agency of Ireland.



"The tax advantage in Dublin is not that great," said Paul Sinnott, managing director of Mutual Coyle Hamilton Managers Ltd., "particularly with the new controlled foreign corporations legislation from the United Kingdom."

That legislation, which was introduced last year and is expected to be enacted next month, would require foreign subsidiaries of U.K. companies to repatriate 90% of taxable profits to the parent company, minus capital gains and foreign taxes. Currently, the rate is 50%.

The ability to set up as an insurance captive is much more of an attraction for Dublin than the domicile's tax breaks, said Garry Cullen, director of Sedgwick Management Services (Ireland) Ltd.

Last year, the bulk of license applications came from prospective captives that sought to write insurance rather than reinsurance, said David Smith, project executive in the financial services division of the Industrial Development Agency.

Ten insurance captives were licensed in Dublin last year, said Patrick Kelly, assistant principal of the insurance section at Ireland's Department of Enterprise and Employment, which handles licensing. That 10% growth, well off the 1994 pace of 30 new captive licenses, brought the total number of captives in Dublin to 127 at year end, up from 115 a year earlier.

"These are direct writing for the first time, not having previously had a reinsurance operation here," he said of the new captives. "The market is mainly coming from the U.S. and some European countries."

Right now, about a third of Dublin's 127 captives are set up as insurers and two-thirds are reinsurers, mostly single-parent captives. By year end, a projected growth in insurance captives could make it a 50-50 split.

Much of the interest in insurance captives comes from U.S. companies. Dow Chemical Co., Motorola Inc., and Philip Morris Cos. Inc. were among the U.S. companies that established them in 1995.

Initially the operations tend to write property business, expanding with time and experience into lines such as liability, business interruption and credit insurance.

Out of the 127 captives at the International Financial Services Center, 30 are North American-owned. Also having a strong presence among Dublin captives are Sweden, with 20 captives; Belgium with 17; and The Netherlands with 14.

Philip Morris last year set up two Dublin captives, a property/casualty insurer and a reinsurer.

The insurance captive was moved from Bermuda and writes the life portion of the company's employee benefits programs for non-U.S. workers, said Carla Edelstein, manager of international employee benefits in New York.

The Dublin location brings the captive closer to some major businesses of Philip Morris. The company has 2,000 employees in Asia, South America and, primarily, Europe. And, in Dublin, the captive can readily take advantage of its European Union license.

The reinsurance captive, Philip Morris Capital (Ireland) Ltd., is covering life, disability and short-term disability, "in fact everything except pensions," said Ms. Edelstein. Yearly premiums for the reinsurance captive total about $12 million.

Other big organizations are fol-

See **Dublin** *on next page*



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Captive Report

Dublin

Continued from previous page
lowing suit, said John Perham, managing director of UNISON Management (Dublin) Ltd., Dublin's largest captive manager and manager of the Philip Morris employee benefits captive.

"Some of the larger companies are looking at using their captives to streamline their employee benefits programs that much more," he said.

In a spirit of enterprise not common for regulators, the D.E.E. is interested in seeing life captives move from reinsurance to direct writing. The department's Mr. Kelly confirmed that the D.E.E. is discussing this issue with captive managers.

Japanese companies are also showing an interest in Dublin captives, said Des McCarthy, director of Willis Corroon Management (Dublin) Ltd.

"The market is changing because Japanese companies want choice," said Laurence Sherin, general manager of Zurich International Services (Ireland) Ltd. "They want captive management services on the agenda around the world."

Risk management as a discipline is maturing across Europe, also to Dublin's benefit, say captive managers.

Companies in continental Europe increasingly want to control their own destinies, said Michael Brady, managing director of AMB Ireland Group and chairman of the Dublin International Insurance & Management Assn.

German and Austrian companies are being targeted by Eurco Ltd., a captive management firm that traditionally has focused on parent companies based in Belgium, Netherlands and Luxembourg, said Managing Director Hugo Azijn.

But German parent companies may not be quite the target they initially appear. "There is uncertainty on regulation and fiscal issues," explained Zurich's Mr. Sherin.

One of the major problems is uncertainty over whether German regulators will accept certain types of coverage that can be written by captives in the International Financial Services Center.

German insurers are well-represented on the reinsurance company side of the Dublin financial center.

Aachen Management Services Ltd. manages seven different insurance companies—two mid-sized U.K. companies and the rest German.

"The companies mainly have their own underwriter here," explained Managing Director Donal O'Callaghan, "while we provide back-office services such as administration and investment."

On the other hand, some Swedish companies have been moving their operations out of Dublin since Sweden began allowing captives in 1995 (see story, page 70).

Generally, though, Swedish captives in Dublin are staying, said Aodh O' Murchu general manager of management firm SINSER (Ireland) Ltd. 'Although there are benefits in equalization reserves in Sweden, the authorities take longer for authorization," he said. In fact, SINSER took on a new reinsurance captive with a Swedish parent during 1995.

Captive growth did slow down considerably last year in Dublin, though captive managers predict that growth will continue.

"Companies are becoming more sophisticated," said UNISON's Mr. Perham. "They are looking to not put so much of their risk into the conventional insurance market. They are doing that either with self-insured retentions or running some of those risks through a captive."

The IDA expects 15 captives to be added to the rolls each year, which Mr. Smith described as "achievable unless conditions change." BI

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Captives qualify for special tax in Dublin center

DUBLIN, Ireland—Some captive managers are concerned that the 10% corporate tax rate that now applies to captives may not be extended beyond 2005, and, if it is not, what incentives the Irish government would offer instead.

Dublin

The 10% rate applies only to manufacturing concerns and companies in the International Financial Services Center in Dublin; all other companies are taxed at 38%.

For now, to qualify for the 10% rate, a captive must meet only these requirements set by the Industrial Development Agency of Ireland:

- It must guarantee to employ a minimum number of people, which is decided on a case-by-case basis.
- It must be located in the I.F.S.C.

In practice, neither rule is very strict. The development agency admits that the addition of extra captives to a management firm's portfolio does not automatically mean the number of staff must increase.

And, since the financial services center is only half-built at the moment, most captive managers offices are located around Dublin's city center. Most managers not already around the Custom House are prepared to relocate before the end of next year when the center is scheduled to be completed.

Both the I.D.A. and D.E.E. are heavily involved in the application procedure, which is subject to a 4,000 punts ($6,288) application fee and 142 punts ($223) registration fee. Reinsurance captives need minimum capital of 100,000 punts ($157,300) and a registered office.

Captives are subject to the standard E.U. criteria for insurers: Minimum capitalization of 500,000 punts ($786,500); an insurance manager in the country; annual reports and quarterly returns filed with regulators; solvency margin of the greater of 18% of gross premiums or three years' claims performance.

For information, contact Financial Services Division, IDA Ireland, Wilton Park House, Wilton Place, Dublin 2, Ireland; 353-1-603 4000; fax: 353-1-603 4040; or Department of Enterprise and Employment, Frederick Building, Setanta Center, S. Frederick St., Dublin 2, Ireland; 353-1-661-4444; fax: 353-1-679-5710.

—*By Sarah Goddard*

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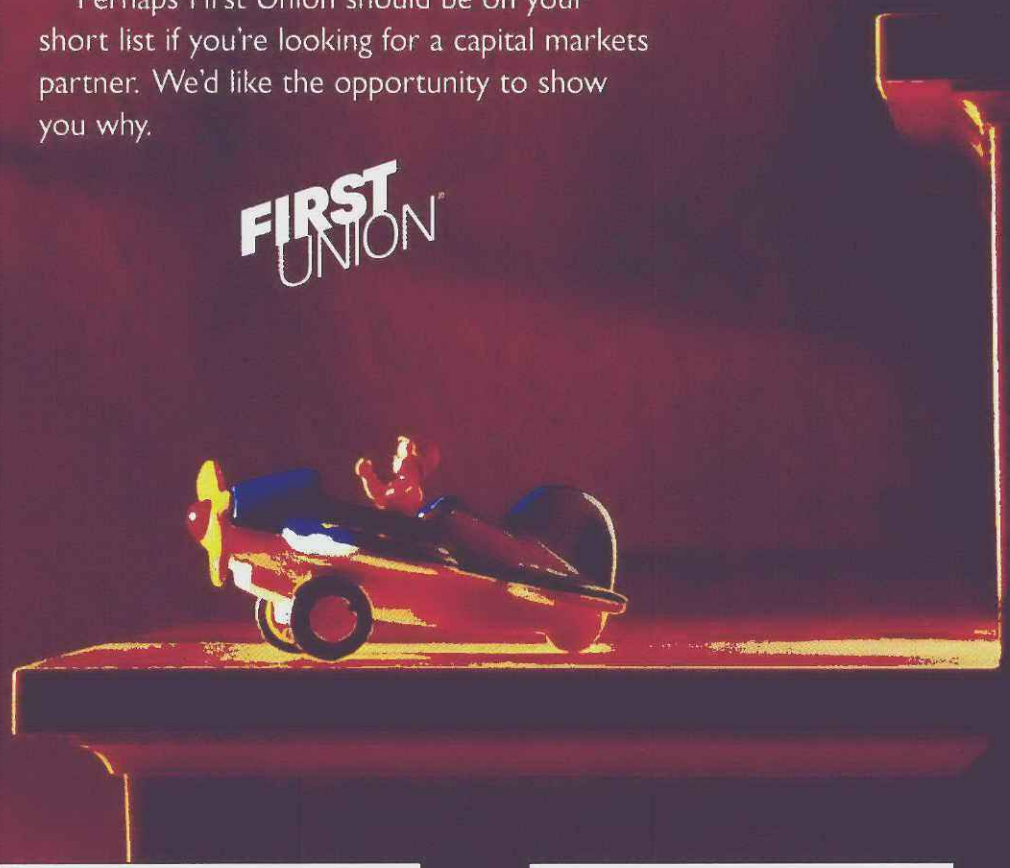
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Captive Report

Flat market still looks to Asia for growth

Singapore sees little recent growth

By KATE TILLEY

SINGAPORE—Companies in the developing nations of Asia still are considered the best prospects for new captives in this island nation, where growth has virtually stalled since 1991.

Only two new captives have been registered since Jan. 1, 1995, though. A Japanese-owned captive was registered in 1995 and a New Zealand-owned captive was registered early this year. One Japanese captive also was deregistered in 1995, leaving the year-end total at 48—the same as a year earlier and only three higher than the 1991 total.



Gross premiums written rose 15.3.% in 1994 to $310.3 million Singapore ($212.9 million) from $268.9 million Singapore ($167.8 million) in 1993, said Luz Foo, an officer in the Insurance Commissioner's office in the Monetary Authority of Singapore. Premiums written in 1995 are not available yet.

Growth is likely in 1996, said George Tarabaras, managing director of Sedgwick Management Services (Singapore) Pte. Ltd. Four captives could potentially be registered under Sedgwick management and two under the management of other firms, he said.

Right now, Australian and Japanese companies account for nearly all Singapore captives.

But, Fernz Insurance Pte. Ltd., licensed earlier this year, is owned by agricultural chemicals company Fernz Corp. Ltd. of Auckland, New Zealand.

Several other New Zealand companies are big enough to consider forming captives, said Mr. Tarabaras, whose firm manages Fernz. "We're currently working on a feasibility study for another New Zealand company. We've had meaningful discussions with others."

For future growth, captive managers are looking to the developing nations of Asia.

For example, a Taiwanese company and a Korean company are in the late stages of a captive study being done by Johnson & Higgins Risk Management Services (Singapore) Pte. Ltd., said George McGhie, managing director.

"Asia overall is starting to show more interest in captives. There are other Taiwanese companies that have expressed interests, and we have had an inquiry from Indonesia," said Mr. Tarabaras of Sedgwick, which managed 18 captives in 1995, unchanged from 1994. Adding Fernz this year, it now manages 19 captives. Gross premium volume for the captives it managed in 1995 fell 7.6% to $76.3 million.

Companies from the developing Asian nations often take longer to consider captive formation. Because risk managers there are not always familiar with the concept, the "incubation period"—the time from when a company first considers the idea to when it commits capital—is often up to 18 months, said Mr. Tarabaras.

There is another factor that could slow development. "Local insurance companies have a lot of influence, and their interest is in stopping captives," said Mr. McGhie of J&H, which manages three captives, the same as a year earlier. In 1995, their gross premium volume fell 3.7% to $26 million.

Japan's "second tier" companies are now considering captives, Mr. McGhie said. "We hope to establish three or four this year." But Japanese companies' "natural wariness" means decision-making is slow.

Many Japanese companies prefer Japanese management firms, said Mr. Tarabaras, four of which have active captives under management in Singapore. Overall, there are 20 management firms approved by the Monetary Authority of Singapore, and 10 manage active captives.

Several factors combined to make captive insurers less attractive to Australian companies in 1995, said Mr. McGhie: the country's soft market, "saber rattling" from regulators like the Australian Taxation Office, and the high stamp duty and fire service levies paid on premiums.

Recently, though, a court ruling could offer companies some encouragement to use captives. The Federal Court of Australia ruled that premiums paid to an offshore captive are fully tax-deductible as insurance premiums. The case involved a $7.4 million Australian ($5.8 million) refund that the Australian Tax Authority must pay to Sydney-based cigarette company W.D. & H.O. Wills (Australia) Ltd. (*BI*, April 15).

As a domicile, Singapore offers infrastructure, captive management expertise and clear, concise regulations for captive owners, Mr. McGhie said.

The only legislative change to affect Singapore captives was the announcement on Feb. 28, with the Singapore government's budget, that the corporate tax rate would drop from 27% to 26%. Mr. Tarabaras said that leaves a further 1% reduction to reach the government's stated target of 25%. The drop takes effect for accounting years ending during 1996, he added.

But Mr. Tarabaras said the 1% change is "insignificant" for most captives. The government also changed the "opting out provisions." In the past, captives were taxed at 10%, unless they elected to pay the full corporate rate. They will now pay the full rate, unless they request the concessional rate.

Most pay the full rate, he said, because controlled foreign corporations laws in Australia, New Zealand, Japan and other countries mean they have to pay additional tax in their own countries if they do not pay the full rate in the domicile.

For more information, contact Insurance Commissioner's Department, 10 Shenton Way, MAS Building, Singapore 0207; 65-2299429; fax: 65-2299694. BI

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Hawaii legislation would ease some captive regs

By ROBERTO CENICEROS

HONOLULU—Hawaii's captive community is hoping to spur added growth with legislation that would ease regulations for insuring affiliated business.

Currently, captives can only write coverage for affiliates if both entities are part of the same corporate system or have common ownership, control or management, explained Gerald C. Yoshida, a partner specializing in the representation of captives and risk retention groups for the Honolulu law firm of Char Hamilton Campbell & Thom.

But under H.B. 3760, captive owners and their affiliates would merely have to face similar risks, and share a business relationship.

If passed, the bill could help attract organizations, such as health maintenance organizations that want a captive to provide professional liability coverage for doctors in their networks. Hawaii could prove especially attractive for this type of captive because of its proximity to the West Coast, where companies in the health care industry are looking for alternative risk financing methods.

"I think we will see a lot of interest from companies that are currently going to Cayman Islands to write their medical malpractice to maybe look at Hawaii as an alternative to going offshore" to non-U.S. domiciles, said Marc J. Lapointe, managing director-Hawaii for Alexander Insurance Managers (Hawaii) in Honolulu.

'I think we will see a lot of interest from companies that are currently going to Cayman Islands to write their medical malpractice,' says Marc J. Lapointe.

The legislation was drafted by the Hawaii Insurance Council Corp., which represents the state's captive insurance industry, and observers say it has a better than even chance of passage. Both Insurance Commissioner Wayne Metcalf and Gov. Benjamin J. Cayetano back the measure, and the House has already approved a version that would apply only to pure captives.

A hearing on the bill is scheduled by the Senate Committee on Consumer Protection.

The bill would not open the flood gates for captives to write unrelated third-party business, supporters say. By assuring that parties have economic ties and similar risks, it would limit captives to insuring only risks they understand well.

Additionally, the insurance commissioner's approval "on a conservative case-by-case basis" will be required before the business can be written, said Gordon Nishiki, insurance program specialist for the state's Insurance Division. Only large, strong captives would be allowed to participate.

Supporters hope such liberalization would allow existing captives to expand while attracting new ones.

"It's a good bill and we are ready for it," Mr. Yoshida said. "Even some existing captives have expressed, in terms of their business plans, the need or desire to expand their capabilities in this area. I think it's an area that if carefully managed and regulated can be done and would certainly help the industry."

H.B. 3760 also would prohibit the release of information from pure captive examinations unless the captive is in poor financial condition and the commissioner believes that open records would serve the public interest. This is to assure captive owners that competitors don't have access to their records, Mr. Yoshida said.

Captive managers and others who see reaching 50 captives domiciled as the magic number indicating maturity for the state will have to keep waiting. Only four captives were set up in 1995—the slowest pace for formations since 1989—bringing the total at year end to 45, the Insurance Division reports. Seven were licensed in 1994, and six in 1993.

Gross premiums written rose 13% to $220.4 million in 1995 from $194.9 million in 1994, the division said.

The competitive pricing in the conventional insurance market that contributed to the slow growth may still be taking its toll.

Only one captive has been licensed so far this year, compared with two at this point in 1995.

The new captive is Centaur Insurance Co., a unit of Emeryville, Calif.-based biotechnology design and development company Chiron Corp. It began operating April 1. Licensed to write product, general and excess liability, Centaur is managed by M&M Insurance Management Services Inc. of Honolulu.

"Last year was a relatively quiet year for us," said Peter J. Lowe, senior vp of M&M Insurance Management Services. "(But) I got my first request to put one together on Jan 19. of this year, which is a really good sign we will potentially have a good year."

One captive also was dissolved in 1995. Epic Healthcare Group of Dallas closed Nenelani Insurance Services Co. after the parent company was acquired.

Cheap conventional insurance has led some companies to put their Hawaii captives on the shelf.

For instance, Univar Corp.'s Guardsman Insurance Co. Inc. unit was put into dormant status as of March 1 because of workers compensation reform laws and softening rates, said William Butler, vp, general counsel and corporate secretary for Seattle-based Univar.

Guardsman handled the self-insured portions of Univar's workers compensation program for employees throughout the United States. It is managed by Becher & Carlson Risk Management Inc., a subsidiary of American Re-Insurance Co.

"From an ongoing perspective we did not see future benefits so right now we technically have a captive, but we are not using it," Mr. Butler explained.

Some companies with big Hawaii operations may turn to their captives more for shelter from the hard workers compensation market in the state. Hawaii's captives can directly write workers compensation risks.

"They have the indigenous market and many other domiciles don't have that luxury," said Arthur G. Koritzinsky, senior vp for Johnson & Higgins in New York. Other domiciles may also lack a large employer base.

In Hawaii "you have the service industry," he said. "The hotel chains have huge amounts of workers who can generate significant amounts of workers compensation" activity, he noted.

Honolulu-based Fletcher Pacific Construction Co., a subsidiary of Fletcher Challenge Ltd. in New Zealand, opened a captive in October because of the adverse local workers compensation climate, said Pepe D'Bayan, the construction company's senior financial officer and vp of the new captive.

"It's a very difficult market and, of course, to a construction business, workers compensation can be a significant cost," Mr. D'Bayan said.

Fletcher previously self-insured its workers compensation risks and had been considering a captive for about three years, Mr. D'Bayan explained. Fletcher Insurance Co. Hawaii Ltd. is managed by M&M Insurance Management Services.

"At some point in the future we can take a look at it to see if we can expand the risk retention beyond workers compensation," he added.

Still, Hawaii has relatively few employers that either have not already formed a single-parent captive or are large enough to capitalize one, other observers say.

"There are probably only two or three left of any size that could do it on their own," said Gary Osborne, vp of operations in Honolulu for Hawaii Captive Insurance Management Inc./USA Risk Group. To increase their business, captive management firms are courting clients with the potential to form group captives. "There is a lot of activity on that front," Mr. Osborne said.

The management firms also hope to continue to attract companies that are located more conveniently to Hawaii than to other U.S. or foreign domiciles. Risk managers for West Coast companies that have formed Hawaii captives, including Univar's Mr. Butler, agreed that geographic proximity was a deciding factor for them.

Captive-related regulatory changes in the domicile were minimal during 1995, the Division of Insurance reports. The premium tax due date was moved up to March 1 from March 15 and risk retention groups were required to file quarterly and annual reports with the National Assn. of Insurance Commissioners.

Legislation that would allow captives to write credit life insurance has been stalled in the state Senate with slim hope for passage this year, observers said.

As it did in other U.S. domiciles, Sedgwick Management Services (U.S.) Ltd. in November closed its Honolulu captive management office. To continue providing services for the six captives it manages in Hawaii, Sedgwick subcontracted regulatory and accounting portions of the work to Hawaii Captive Insurance Management Inc./USA Risk Group.

Mr. Osborne, a former Sedgwick employee, now works for Hawaii Captive Insurance Management Inc.

Risk managers continue to praise the domicile and its regulators, while joking that the only downside is a requirement that they hold an annual captive board of directors meeting there.

Patrick McDonald, vp for San Francisco-based Kelly-Moore

See **Hawaii** *on next page*

Hawaii's largest captives

Ranked by 1995 gross premium volume

Captive Parent
Nissan Motor Insurance Corp. Nissan North America Inc.
Piper Indemnity of Hawaii Inc. Occidental Petroleum Investment Co.
Meridian Pacific Insurance Co. Inc. Nestle Holdings Inc.
Entertainment Risk Management Insurance Co. Inc. Draney Information Service Corp.
F.L. Insurance Corp. Marriott International Inc.
GCI Indemnity Inc. Grancare Healthcare Services Inc.
California Hospitals Insurance Services Co. Inc., A Risk Retention Group California acute care hospitals
Attorneys Insurance Mutual Risk Retention Group Inc. California law firms
Sutter Insurance Services Corp. Sutter Health
National Liberty Insurance Co. Equity Group Investment Inc.

Source: State of Hawaii Insurance Division

GRAPHIC BY KIM ROME

Largest managers of Hawaiian captives

Premium volume in millions of dollars

Manager	Premium volume 1995	Premium volume 1994	Captives 1995	Captives 1994	Staff 1995	Staff 1994
M&M Insurance Management Services Inc.	$94.7	$97.8 *	12	11	4	4
Becher & Carlson Risk Management Inc.	51.1	29.3 *	8	7	3	3
Johnson & Higgins Services Inc.	29.4	24.1	9	9	3	4
Sedgwick Management Services (U.S.) Ltd.	14.5	17.1	6	5	**	3
Willis Corroon Management Ltd.	13.7	14.7	2	2	NA	4
Alexander Insurance Managers	13.1	7.6	2	1	2	2
Hawaii Captive Insurance Management Inc./ USA Risk Group	1.5	1.6	4	3	4	4
IAS Insurance Management Inc.	1.1	1.1	1	1	NA	1
50th State Risk Management Services Inc.	0.9	0.5	1	1	4	3

* Restated
** Subcontracts regulatory and accounting services to Hawaii Captive Insurance Management Inc./USA Risk Group
Source: The Hawaii Insurance Division and *BI* survey

GRAPHIC BY KIM ROME

Captive Report

Hawaii

Continued from previous page
Paint Co., recalled Hawaii's regulator swamping him with necessary paperwork when Kelly-Moore began the process of setting up its captive, K-M Insurance Inc.

In 1988, it was only the third captive licensed in the domicile.

"They gave us a packet that would choke a horse," he said. "They made it understood right up front that they wanted something that wasn't just a fly-by-night ruse. They wanted a real insurance company. So we were re-ally impressed with them."

The captive writes automobile, general and product liability insurance, and it is managed by Willis Corroon Management Ltd., Mr. McDonald said.

The state's regulators are flexible, added Univar's Mr. Butler.

When Univar needed extra time to see what terms and conditions the March 1 renewal of its workers compensation program would bring, the department allowed the company to hold its 1995 annual captive meeting in January 1996.

"It enabled us to take a look at the captive in relation to all of our other coverages and decide if we did or didn't want to wind it down," Mr. Butler said.

"As we changed the business plan that was originally submitted, they were prompt to review and understand the changes," he said. "So all in all we found the climate for captives to be very good." BI

Hawaii flexible with capitalization rules

HONOLULU—The Hawaii Division of Insurance determines capital and surplus requirements on a case-by-case basis, but an applicant may expect minimum capitalization requirement to be $250,000 for pure captives, a minimum capitalization of $750,000 for association captives and a minimum of $500,000 for risk retention groups.

Application review fees are about $3,500 for pure, or single-owner, captives and $7,500 for association captives and risk retention groups, depending on the degree of complexity of the entity's filing.



License renewal fees for captives in the state are $300 annually.

Premium tax rates are 0.25% for single-parent captives and 1% for association captives and risk retention groups.

Other regulatory requirements include:

- A minimum of one annual board of directors meeting, which the captive insurer must hold in the state of Hawaii.
- Maintaining the captive's principal place of business in the state.
- Appointing a resident agent to represent the captive company locally.

Captive companies based in Hawaii normally are permitted to underwrite property, casualty, marine and transportation, surety, title and workers compensation coverages.

For further information on forming a captive insurance company in Hawaii, contact Wayne Metcalf, Insurance Commissioner, 250 S. King St. P.O. Box 3614, Honolulu, Hawaii 96811-3614; 808-586-2790.

—By Roberto Ceniceros

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Regulator changes lead to the unknown in Colorado

Many hope new staff will be a change for the better

By JOANNE WOJCIK

DENVER—Colorado, the nation's oldest captive domicile, has yet to attract the same level of interest as its newer domestic counterparts.

Some say the state is still suffering from a bad reputation it gained as a result of its strict regulation of captives in the late 1980s.

Captive managers hope that a change in captive regulators may bring a change in the domicile's reputation, though some caution that whomever fills the post vacated late last year will be an unknown quantity.



Frank Dino, the chief actuary who had been blamed for much of Colorado's captive development woes, resigned from his post in December 1995 to accept a life and health actuarial position in the Florida Insurance Department.

"Frank Dino's departure has released some of the negative feelings that people have had at the department," observed Richard Johnson, president and chief executive officer of Alternative Insurance Management Services Inc.

Englewood, Colo.-based AIMS is the domicile's largest captive manager, overseeing four captive insurance companies with gross premiums that totaled $23.4 million last year.

But Mr. Dino's departure may be even more of a obstacle to captive formations here, at least temporarily, since Insurance Commissioner Jack Ehnes has yet to replace him.

Due to the transition, no one at the department was available to be interviewed in person.

"I know of at least one application that's been held up because of Frank's departure," said Michael Murphy, principal consultant of Denver-based captive manager RiskCap.

"There's a knowledge vacuum," agreed AIMS' Mr. Johnson.

Mr. Ehnes explained that as a result of Mr. Dino's departure, he is restructuring the department to create a new deputy commissioner position for financial regulation to oversee captive insurance development.

Mr. Ehnes plans to leave much of that division's organization up to that new official when he or she is hired.

But some members of the Colorado captive management community worry that the new regulator will be even more rigid than Mr. Dino.

In recent years, however, Mr. Dino became more flexible as he became more familiar with captive insurers.

In fact, Mr. Dino was instrumental in the 1994 liberalization of the 24-year-old captive insurance law to permit the formation of employee benefit captives, among other things (see story, page 68).

As a result of this change, the Farm Credit System Assn. Captive Insurance Co. is now providing medical stop-loss coverage to its members (*BI*, April 15).

"Frank was getting very proactive and very easy to work with," said Mr. Murphy of RiskCap, which manages four Colorado insurance captives whose premium volume totaled $21.6 million in 1995.

"Now we've got this big unknown," he said.

Still, others are hopeful the change will breathe new life into

Some are hopeful the staffing change will breathe new life into Colorado's foundering captive community.

Colorado's foundering captive community.

"We're just struggling with this inertia," said Don Pasmore, underwriting manager for Farm Credit Council Services Inc. in Denver, which manages the Farm Credit System captive insurance company.

"Maybe Frank's departure will stimulate more inquiries," Mr. Pasmore suggested.

The domicile had only 20 captive insurance companies at year-end 1995, down from 21 at the end of 1994.

Polaris Asbestos Insurance Corp. (A Risk Retention Group) folded up shop last year when it failed to attract any members.

"It never got the necessary momentum," explained Warren Hart, managing director of Stamford, Conn.-based Polaris Management Co., which launched the risk retention group in 1992. The captive, which was managed by Johnson & Higgins Services Inc., was formed to write asbestos liability coverage for building owners.

Another J&H-managed Colorado captive, Clifton Casualty Insurance Co., merged with a Bermuda captive effective in January 1995.

As a result, J&H now manages just two captives in the domicile, down from four a year ago. Premium volume for the remaining captives totaled just $2.5 million

See **Colorado** *on next page*

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Captive Report

Colorado

Continued from previous page
in 1995.

The most recent captive launched in the domicile was Westmerica Insurance Co., a single-parent captive created to write workers compensation, physical damage and garage liability coverage for Phil Long Auto Dealership Group of Colorado Springs. It was licensed early last year.

Westmerica is managed by Paul Burkett, who last year left Meadowbrook Insurance Group of Colorado, to form his own captive management firm, Snoaspen Insurance Group Inc. of Golden, Colo.

'The captive movement is slowing down worldwide,' says Michael Murphy of RiskCap.

Meadowbrook Insurance Group of Colorado, a unit of Meadowbrook Insurance Group of Southfield, Mich., had no other captive management contracts in Colorado.

The bulk of its brokerage business in the state was sold late last year to the Cherry Creek Insurance Agency.

Aon Corp. also may be abandoning the domicile.

It's closing up the captive management arm of Aon Risk Services (Colorado) in Denver, sources say. Aon did not return phone calls.

This will put up for grabs the management contract for the domicile's largest captive, Havican Insurance Co., a captive owned by Holy Cross Shared Services Inc. of Notre Dame, Ind. Havican wrote $15.2 million in premiums in 1995.

Despite the decline in the number of Colorado captives and the departure of some managers, members of the Colorado Assn. of Captive Entities haven't lost faith in the domicile's future.

"I haven't seen this much enthusiasm since John Kezer's administration," said Mr. Pasmore, the association's president.

Mr. Kezer, who had been the state's insurance commissioner from 1985 to 1989, was one of the founding members of the captive association and is still an active member of the CACE board.

"Jack Ehnes is the most proactive commissioner since Kezer," agreed Mr. Murphy.

Like other domiciles, Colorado is a victim of a worldwide slump in the growth of new captive formations, according to Mr. Murphy.

"The captive movement is slowing down worldwide," he said, pointing out that the downturn began a few years ago when the pace of Bermuda formations started to drop off.

Instead, "we're seeing a lot of interest in program business," Mr. Murphy said, referring to broker-owned offshore facilities. "There's a lot of movement in this direction."

AIMS' Mr. Johnson said he has been in contact with one offshore captive that is considering redomesticating in Colorado but, despite that prospect, overall business has been slow.

"The (insurance) market is so soft, it's hard to justify forming a captive today," according to Mr. Johnson. BI

Largest managers of Colorado captives

Premium volume in millions of dollars

Manager	Premium volume 1995	Premium volume 1994	Captives 1995	Captives 1994	Staff 1995	Staff 1994
Alternative Insurance Management Services Inc.	$23.4	$24.0	4	4	9	9
RiskCap	21.6	15.0	4	4	15	12
Aon Risk Services	15.2	17.5	1	1	2	1
Johnson & Higgins Services Inc.	2.5	6.6	2	4	1	1

Source: Annual statements filed with the Colorado Insurance Department and *BI* questionnaires and interviews

GRAPHIC BY KIM ROME

Colorado adjusts 1994 revisions

DENVER—Companies can form both single-parent and group captives in Colorado to write insurance and reinsurance covering the risks, hazards and liabilities of their parent company and affiliated entities.

Changes to Colorado's captive law in 1994 permit captives to write employee benefits coverage. However, captives that write employee benefits must provide the minimum mandated coverage that commercial insurers provide under Colorado law.

The 1994 captive law revision also eliminated the "industrial insured" classification under which some group captives, like risk retention groups, had been established.

Under the new law, captive insurers can be formed either as single-parent or as group captives. And risk retention groups now may be formed either as group captives or as commercial insurance companies.

Initial capitalization requirements also were lessened so that both single-parent and group captives need only $500,000—including $300,000 in capital and $200,000 in surplus—before they can begin underwriting.

Before the 1994 law, group captives had been required to put up $750,000 in initial capitalization.

The 1994 captive law also simplifies premium tax payment requirements for captives that report their earnings on a fiscal-year basis.

Under the previous law, captive insurers operating on a fiscal-year basis were required to file their financial reports on a calendar-year basis so the Division of Insurance could calculate premium tax liability.

Captives that use a fiscal-year reporting method now can pay the minimum $5,000 premium tax at the end of the calendar year, with the balance due 60 days after the end of the captives' fiscal year.

Several other changes were made in 1994:

- Captive owners no longer need to maintain joint deposits with the commissioner.

Because owners could get to those funds only by physically going to the bank with an insurance department official, the approach effectively restricted owners' access to captive funds. Captives now establish joint custody accounts that require only the captive owner's and the commissioner's signature for withdrawals.

- Captives that are managed by captive management companies are no longer required to purchase their own fidelity bonds if the captives are covered under their managers' fidelity bond.

Unchanged provisions in the law:

- The tax imposed on captives is the greater of $5,000 or 0.5% of the first $25 million in direct premiums written, plus 0.25% of the next $50 million and 0.1% of premiums exceeding $75 million. Captives that write reinsurance pay 0.25% of the first $20 million in assumed reinsurance premiums, plus 0.1% of each dollar thereafter.
- Home offices must be located in Colorado, and all books, records and claims-handling documents must be maintained in the state.
- Single-owner captives may make loans to their owners as long as they maintain the minimum capital and surplus levels.
- Captive insurers must pay an initial application fee of $200 and an annual $300 fee.
- The commissioner may require that a captive retain independent outside insurance examiners to supplement the division's evaluation in organizing a captive or for annual financial examinations of existing captives. All expenses related to the outside examiner must be paid by the captive.

For more information about forming a captive in Colorado, contact Jack Ehnes, Commissioner, Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, Colo. 80202; 303-894-7499, ext. 305.

—By Joanne Wojcik



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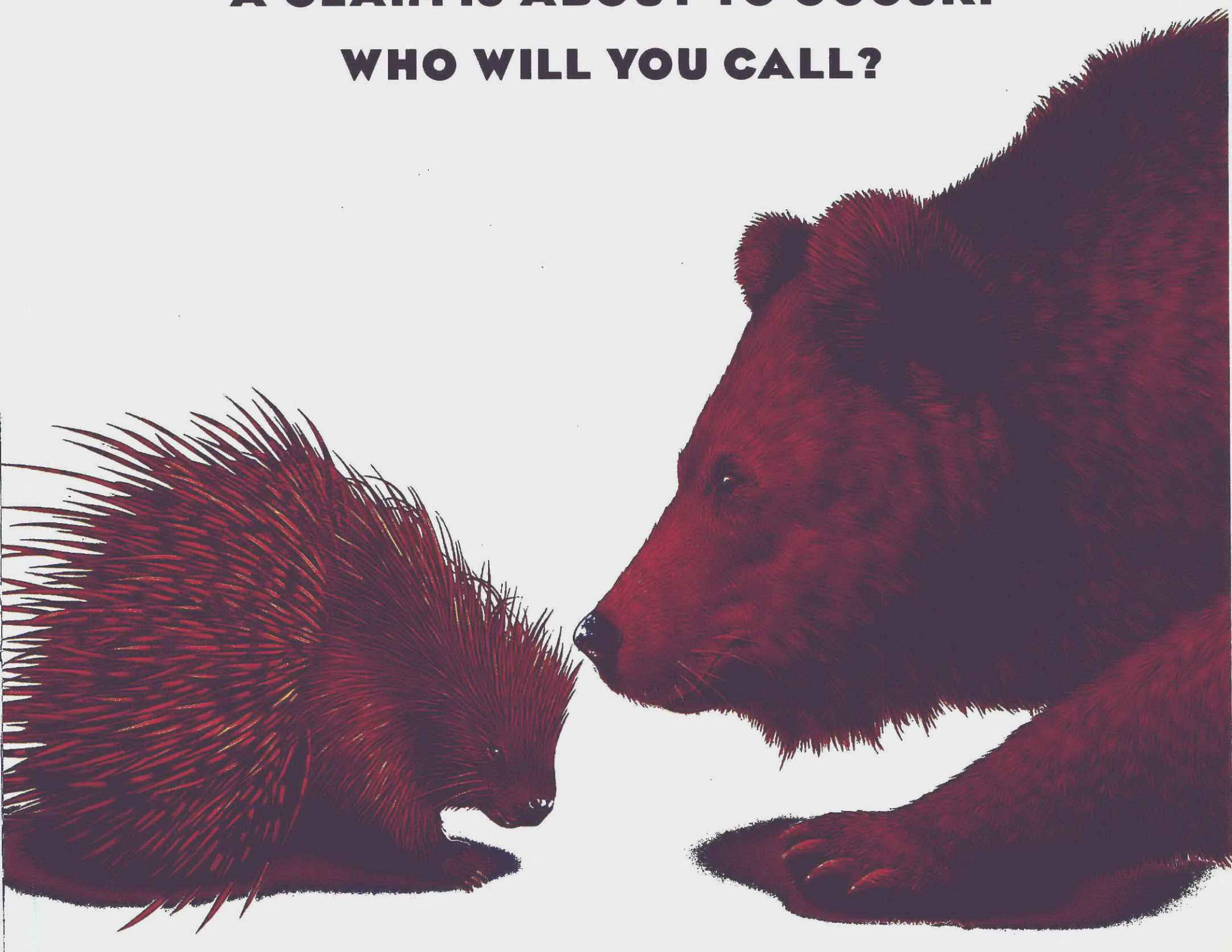
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Captive Report

Smaller domiciles competing for captive business

Several jurisdictions around the globe are competing with more established captive domiciles to attract corporations setting up an insurance subsidiary.

These range from the Turks & Caicos, which passed its first insurance law in 1989, to New Brunswick, which gave preliminary approval to captive legislation late last year.

Reports on this handful of domiciles follow:

Turks & Caicos

The Turks & Caicos Islands continues to see steady expansion of its small captive insurance industry, gaining new captives from a mix of Caribbean and North American parent companies.

The domicile finished last year with 56 licensed captive insurers, a net gain of seven since year-end 1994. Since the beginning of the year, three more captives have been licensed and two struck from the register of companies, leaving a total of 57 licensed captives at March 31, according to Colin Holder, superintendent of insurance.

Captives remain a small part of the Turks & Caicos insurance sector: Of the total 1,784 licensed insurers and reinsurers at the end of last year, the vast majority—1,661—were credit life and accident and health reinsurers.

New captives are being formed for a variety of reasons, Mr. Holder reported, including funding large deductibles for workers compensation programs.

"We have seen some banking set-ups with captives," he added, explaining that captives have been formed to provide group life and pension products for bank employees and to write financial guarantee coverages for bank loan customers.

Under the Turks & Caicos Insurance Ordinance of 1989, an insurer seeking a license must submit a business plan that describes: its risk exposure and asset base; types, sources and volume of business; its retentions and proposed reinsurance relationships; its loss ratio projections; and its reasons for choosing the Turks & Caicos as a domicile.

The superintendent can set minimum capital and solvency requirements based on an insurer's business plan. However, regulators follow some general guidelines:

- General insurers should have a minimum of $100,000 in capital and may have to add more based on expected premium volume, types of business to be written, retentions and loss and expense ratios.

Though not mandatory, Mr. Holder said the government is encouraging non-domestic insurers—those writing business outside the Turks & Caicos—to keep at least $100,000 in assets within the domicile to ensure the funds are accessible to regulators in case an insurer is wound up.

- Insurers writing up to $5 million in net property/casualty premiums should maintain a net worth equal to 20% of premium volume. Those writing more should have a net worth equal to $1 million plus 10% of net premiums over $5 million.
- Those writing life business only should have a minimum net worth of $180,000.
- Those writing combined life and property/casualty premiums up to $5 million should maintain a net worth equal to 20% of premiums, and those writing more than $5 million should have a net worth equal to $1 million plus 10% of premiums over $5 million.

Annual fees are $2,000 for captives, $3,500 for insurance managers and $1,000 for brokers.

For more information, contact Colin Holder, Superintendent of Insurance, P.O. Building, Front Street, Grand Turk, Turks & Caicos Islands; 809-946-2791.

—By Douglas McLeod

International Roundup

British Virgin Islands

In its first full year of operation under a new insurance law, the British Virgin Islands licensed 12 new captive insurers, bringing the total licensed in the jurisdiction to 44.

This represented a net gain of two captives from this time last year, after about five companies entered run-off and others ceased operating or changed domiciles, said Robert Mathavious, director of financial services.

The B.V.I. government enacted its first international insurance law, The Insurance Act, 1994, late in that year in a move to attract new insurance and reinsurance business.

Enactment of the law followed a housecleaning in which the government struck from its register hundreds of insurers that were incorporated in B.V.I. but never licensed or regulated because the appropriate statutes didn't exist.

In response to proposals from captive managers, the government is now considering changes to the 1994 law, including a reduction in the minimum solvency margin for property/casualty insurers, Mr. Mathavious said. Amendments to the law, if any, would be enacted before year end, he said.

The 1994 law, among other things, sets minimum solvency margins. These include:

- $200,000 for property/casualty insurers writing up to $1 million in net premiums. The minimum for those writing $1 million to $5 million is 20% of net premiums, and for those writing more than $5 million is $1.2 million plus 10% of net premiums exceeding $5 million.
- $250,000 for insurers writing

Continued on next page

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Continued from previous page
life/health business only.

• $250,000 plus the amounts required of property/casualty insurers for those writing both life/health and property/casualty.

The law also contains an unusual provision allowing the B.V.I. governor to waive any or all requirements for captives writing solely related risks or insurers already regulated by a "competent authority" in another jurisdiction the governor considers adequate.

A few such exemptions have already been granted, Mr. Mathavious reported. Royal Insurance P.L.C., for example, was exempted from deposit requirements for insurers writing domestic business, he said.

Most captive insurers, however, would have a difficult time making a case for a waiver of statutory requirements, he said.

Mr. Mathavious also reported that the government has decided to pare down the domicile's roster of credit life reinsurers by requiring them to submit to annual financial reviews and to pay an annual license fee of $1,000. The number of credit life companies has dropped by nearly 100 to about 66, he said.

Captive insurers must pay a $500 license application fee and a $2,000 annual fee for license renewal.

Along with its 44 captives, B.V.I. has six licensed insurance managers and nine licensed insurance agents, Mr. Mathavious said.

For more information, contact Mr. Mathavious at the Financial Services Department, Ministry of Finance, Road Town, Tortola, British Virgin Islands; 809-494-4190.

The British Virgin Islands' law permits the governor to waive captive regulations in certain cases.

—By Douglas McLeod

Bahamas

The Bahamas captive insurance industry is shrinking.

No new captives were formed here in 1995 and no new companies have incorporated in the Bahamas this year.

And, the number of captives has declined. At year end, 22 offshore insurance companies were licensed in the Bahamas, down from 28 companies in 1994. Of the 22 registered insurers in the Bahamas, 11 were true captives operating under the 1983 captive insurance law. That is down from 14 captives in 1994. Meanwhile, an additional 11 companies licensed under the 1969 Insurance Act are still operating, down from 14 companies in 1994.

"We have had a number of inquiries by persons interested in forming captive insurance companies, some of which are still being investigated," said A.E. Farrington of the Office of the Registrar of Insurance Cos. in Nassau.

The reduction last year in licensed companies marks another year of attrition in the Bahamas captive market. Only four years ago, more than 30 companies were registered here, the government had a captive insurance adviser and members of the Bahamian market were predicting growth.

However, the Bahamas has fallen out of favor with captive owners and the government and its captive managers have displayed few signs of being committed to growing this industry.

There are six captive managers licensed in the Bahamas: British-American Management Ltd.; Corporate Captive Management Ltd.; Johnson & Higgins (Bahamas) Ltd.; Russian Investment Insurance Management Ltd.; Beta Management Ltd.; and Equitable Underwriting & Sales Agency (Bahamas) Ltd.

Under the Bahamas' 1969 captive law, an initial $1,000 registration fee and a $100 annual business fee are required. The 1983 law calls for an annual fee of $2,500 and a $650 fee for the captive manager, as well as the $100 business fee.

Minimum capitalization under the 1983 law is $100,000 for non-life companies and $200,000 for captives writing life insurance. Under the 1969 law, minimum capitalization requirements for non-life insurers are $140,000, while life companies must maintain at least $300,000 in capital.

Captives domiciled here pay no taxes, but must file an audited annual financial statement with the registrar's office.

For more information, contact Telzena Coakley, Insurance Registrar, Bahamian Ministry of Finance and Planning's Insurance Section, P.O. Box N-3017, Nassau, Bahamas; 809-328-1068; fax: 809-328-1070.

—By Michael Schachner

British Columbia

British Columbia is seeing some new interest in captives, though 1995 growth was flat in the Canadian domicile.

Hoped-for growth as a result of a federal tax law change designed to make offshore captives less attractive to Canadian companies did not materialize last year.

Under that change, beginning in the 1995 tax year, any third-party Canadian business written by an offshore captive that is as little as 10% owned by a Canadian parent is subject to a foreign accrued business income tax of up to 45%.

The only exemption from that tax is income on non-Canadian business that is related to the parent, such as the risks of a Canadian parent company's foreign affiliates.

The tax law change targeted Canadian-owned bank credit life and warranty captives domiciled in Barbados that were not writing their own risks but those of their customers.

British Columbia captive management experts had hoped the tax assessment would induce many Canadian-owned offshore captives to come ashore. While British Columbia captives are not subject to the accrued business income tax, they are subject to regular federal and provincial income taxes that can total as much as 45%.

But so far new business has not materialized. At year-end 1995, British Columbia had a total of 16 captives, unchanged from the end of 1994.

But things already are looking up in 1996, with the formation of one new captive and application by a second.

Yet some British Columbia cap-

See **Worldwide** *on page 74*

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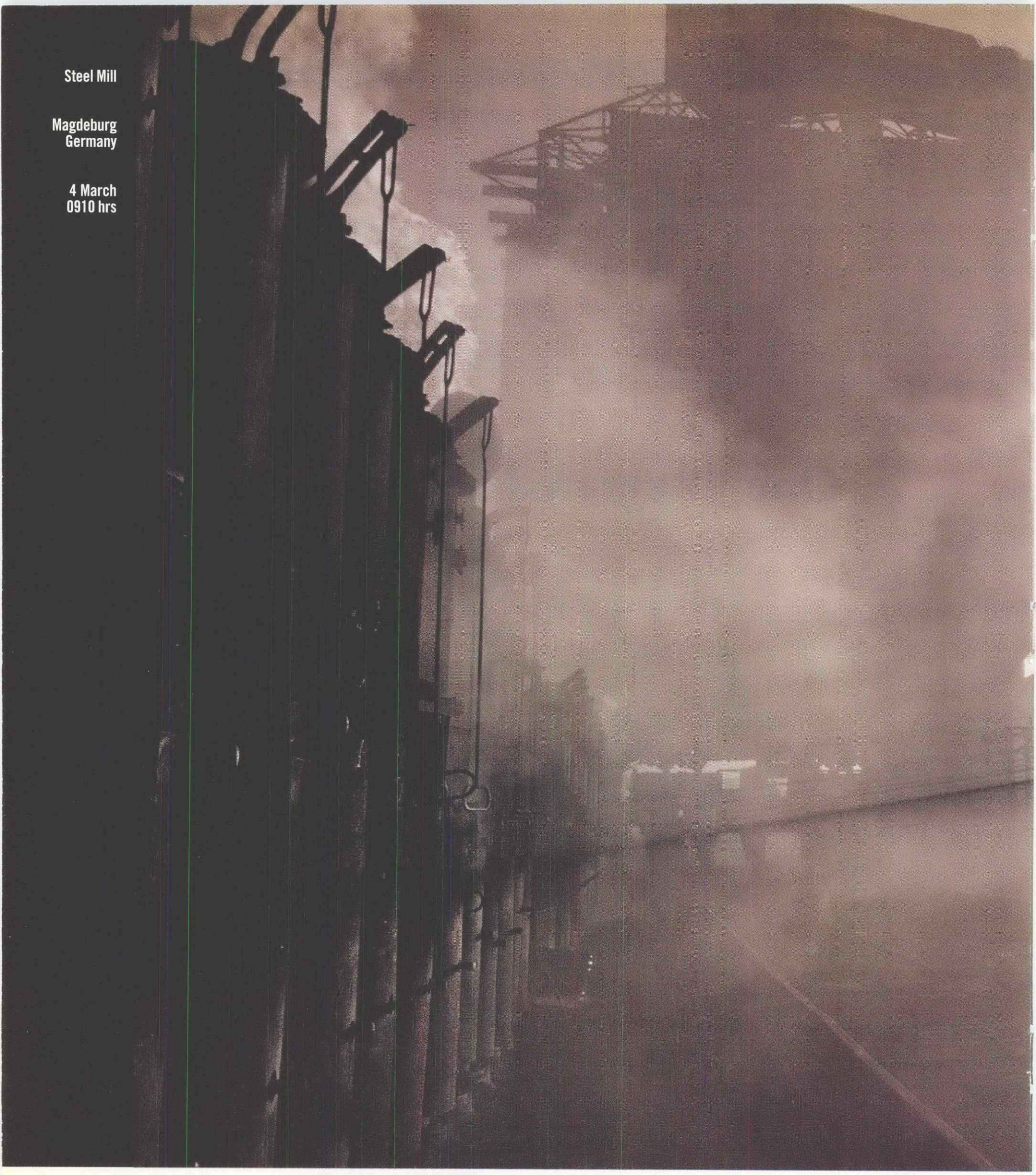
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Captive Report

Worldwide

Continued from page 71

tive managers are wary of possible competition from another province—New Brunswick—that has passed captive enabling legislation (see related profile).

"This may pose competition for B.C.," said William Morgan, managing director of Alexander Insurance Managers (Canada) in Vancouver.

New Brunswick passed its legislation to capture any business that was expected to reorganize from offshore, Mr. Morgan explained.

To get a leg up on this new competition, British Columbia captive managers are lobbying for legislation that would make British Columbia captives eligible for a provincial income tax refund.

The change would give captives a refund of the provincial income taxes they pay on business related to non-British Columbia risks, explained Terry Holdom, president of Global Risk Financing Services Ltd. in Vancouver.

Under current regulations, an international captive that writes non-Canadian risks with its British Columbia captive would pay 30% in federal income tax and 16% in provincial income tax, Mr. Holdom said. But under the proposed change the 16% tax would be refunded for the portion of business written that is not related to British Columbian risks, he said.

In anticipation that the Liberal Party will win the next provincial election, as polls show, the British Columbia Captive Insurance Assn. has already sent a delegation to meet with Gordon Campbell, the party's leader.

However, a change in B.C. captive tax treatment may occur regardless of the outcome of the next election, most captive experts believe.

"We're still convinced that it's a doable thing, regardless of what government takes over," said A&As Mr. Morgan.

Mr. Morgan is the only captive manager to launch a new captive in the domicile in the past year. Concrete Casualty Inc. will write property coverage for concrete trucks owned by its parent company, Atlas Concrete Inc. of Alberta.

While the pure captive was formed in 1995 it did not begin writing until 1996, which is why it was not counted among last year's captive roster.

Mr. Morgan said he also has submitted an application for a forestry industry captive.

Despite the tax uncertainty, most captive managers in British Columbia are bullish about the domicile's future.

"B.C. is well-positioned to provide a domicile for Far East captives," suggested David Self, vp at Johnson & Higgins in Vancouver.

The attraction would not only be geographical, but political as well, Mr. Self said, explaining that Japanese companies are discouraged from doing business in tax havens.

The captive association is also lobbying for amendments to the International Financial Business Act to permit captives to write some third-party business. However, no new legislation has been drafted.

The British Columbia Insurance (Captive Company) Act of 1987 permits the formation of three types of captives: single parent; association; and "sophisticated insureds," which, unlike association captives owned by companies in a related industry, are owned by unrelated companies with insurance expertise and minimum combined premiums of $500,000 Canadian ($365,000).

Applicants must pay a non-refundable application fee of $500 Canadian ($365) and an initial registration fee of $2,500 Canadian ($1,825. Annual renewal fees are $2,500 Canadian. Minimum capitalization of $200,000 Canadian ($146,000) and $100,000 Canadian ($73,000) in reserves are required.

Captives may write property and liability insurance including product liability, directors and officers liability, errors and omissions and marine insurance. They cannot write life, health, accident or motor vehicle insurance on a personal lines basis, though such risks can be written on a commercial lines basis.

Annual reports that include audited financial statements and actuarial reports are required.

For information, contact Larry A.W. Neilsen, Deputy Superintendent, Insurance and International Financial Business, Suite 1000, 1050 West Pender St., Vancouver, B.C. V6E 3S7; 604-660-2947.

—By Joanne Wojcik

Netherlands Antilles

The Netherlands Antilles currently boasts 16 captives, unchanged from year-end but up from 11 captives in 1994.

In 1994, the Caribbean domicile's captives wrote $106.3 million in gross premiums.

Premiums for 1995 have not yet been calculated.

There are no minimum capital and surplus requirements and no premium-to-surplus requirements in the Netherlands Antilles. "The amount of initial capital will be determined by the amount of money needed to start up operations according to the business plan and the minimum solvency margin applicable," stated Raynold Nivillac, superintendent of insurance at the Central Bank, which regulates captives.

Captives must maintain a solvency margin that is calculated taking into consideration reinsurance coverage, according to Mr. Nivillac. The minimum amount of assets a captive must maintain is $225,000 for life insurance and $170,000 for non-life insurance.

Captives must pay a one-time license fee of $3,400 and an annual fee of $1,700. Captives must submit an audited financial statement within six months after the end of the financial year.

Most of the captives in the Netherlands Antilles are association captives.

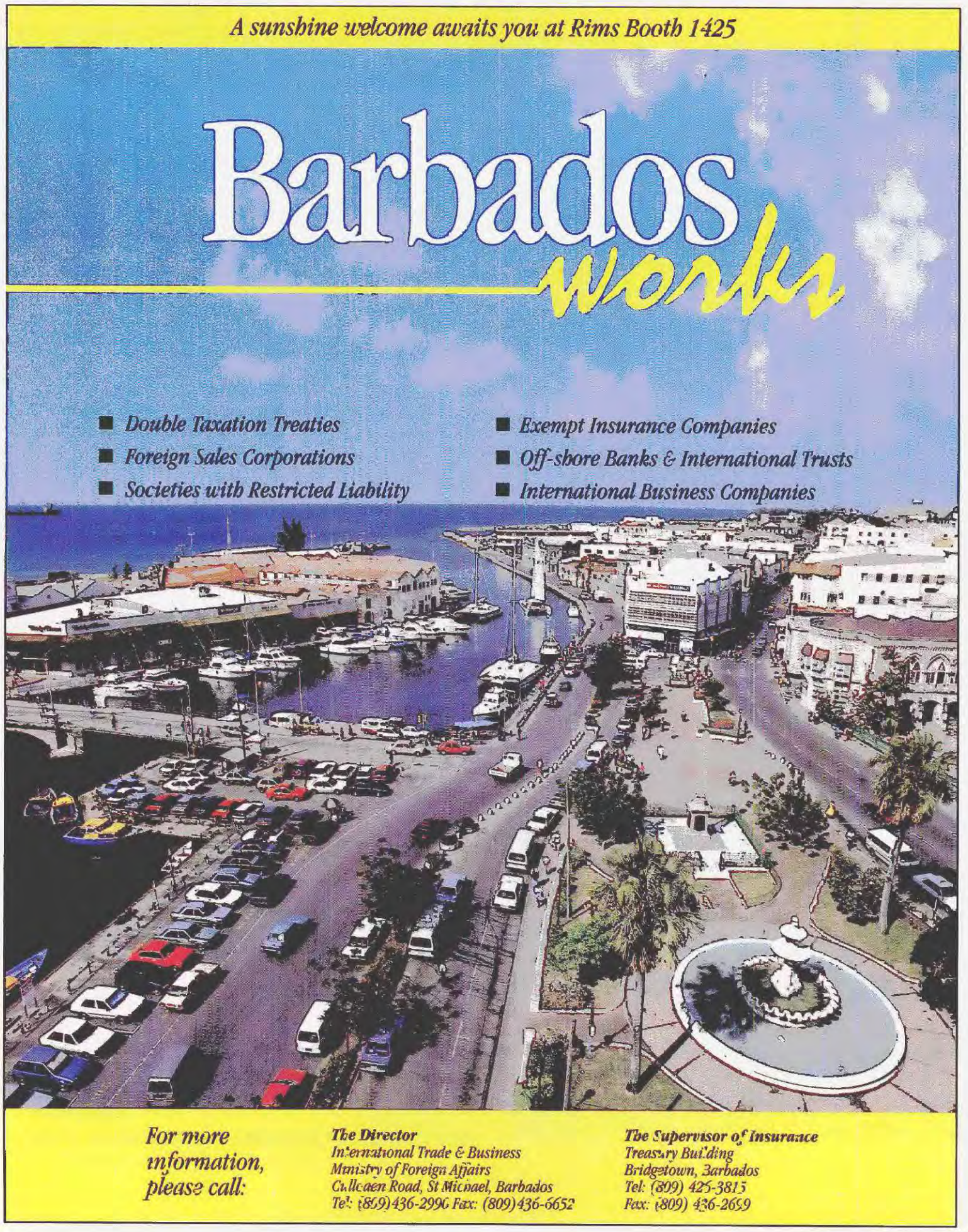
There are 17 management companies currently operating in the Netherlands Antilles, according to a bank official. Management companies do not need a license to operate.

Captive insurers are governed by a Special Insurance License Decree that was enacted in May 1992. No changes have been made to the law since its enactment.

For further information, contact Raynold Nivillac, Superintendent of Insurance, Bank van de Nederlandse Antillen (Central Bank), Breedestraat 1(P), Curacao, Netherlands Antilles; 599-9-613-600; fax: 599-9-615-004.

—By Deborah Shalowitz Cowans

See **Worldwide** *on page 76*



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Captive Report

Worldwide

Continued from page 74

Jersey

Captive activity has been on a small scale here since the first captives were set up in 1993, but last year four new captives joined Jersey's books to take the total to nine.

The Channel Island's Financial Services Department expects further growth this year due to a comprehensive insurance law and the appointment of Jersey's first dedicated insurance supervisor.

The first captives were set up under the Insurance Business (Jersey) Law 1983. A new version is awaiting approval by Queen Elizabeth II and is expected to be in place by summer. The new law would allow partnerships and other entities to own captives and would allow captives to write third-party business. Also, existing insurers authorized by E.U. governments would have to register in Jersey.

Jersey hopes to appoint an executive to lead the Insurance Division of its Financial Services Department in order to attract captives. Insurance has been regulated by the combined Banking and Insurance Division.

Currently, five captive managers operate in Jersey. The nine captives they manage, one of which has not yet started underwriting, had estimated gross premiums last year of £85 million ($132 million), up from £82 million ($127.3 million) in 1994. Minimum capitalization per captive is £100,000 ($155,300).

The nine come from the United Kingdom, the United States, Australia and South Africa.

For more information, contact: Roger Bignell, Deputy Director, Financial Services Department, Banking and Insurance Division, Cyril Le Marquand House, The Parade, St. Helier, Jersey, JE4 8TZ, Channel Islands; 011-44-1534-603602; fax: 011-44-1534-603610.

—By Edwin Unsworth

Gibraltar

There are seven captive insurers in the Mediterranean domicile of Gibraltar, unchanged from 1994.

Most of the captives in Gibraltar, a dependency of the United Kingdom, are owned by U.K. companies. All of the captives are single-parent captives covering a variety of property and liability risks.

The captives operate under the Insurance Companies Ordinance of 1987, which has since been amended.

Although Gibraltar's law imposes no minimum capital requirements, captives must conform with European Union Insurance Directive requirements of 200,000 to 400,000 European currency units, or approximately $360,000 to $520,000, depending on the type of business written. E.U. guidelines also require captives to maintain surplus equal to 18% of premiums or 26% of claims, whichever is higher.

Amendments to Gibraltar's insurance law that passed last year, but have not yet taken effect, will impose restrictions on captive investments. The amendments also increase reporting requirements for captives.

Captives must pay a one-time application fee of £500 ($777) and an annual license fee of £2,000 ($3,106).

A captive can operate in Gibraltar as an exempt company, which would be taxed £225 ($349) annually or a qualifying company, which would be taxed at up to 35% of taxable profits.

Gibraltar's financial and development secretary would determine the tax status of the captive insurer. European companies that opt for exempt status may remain subject to premium taxes in their home country.

For more information, contact John Robin Millner, Commissioner of Insurance, P.O. Box 940, Suite 943, Europort, Gibraltar; 350-40-283.

—By Deborah Shalowitz Cowans

Australia

No new captive insurers were registered in Australia during 1995, though one gained a license early this year, bringing the current total to five.

The new captive was formed by the Queensland Law Society, an organization representing attorneys practicing in the state of Queensland. The Brisbane-based captive, Australia Pacific Professional Indemnity Insurance Co. Ltd., was launched last month, said Richard Smith, non-life deputy commissioner at the Insurance & Superannuation Commission in Canberra, which regulates captives and insurers.

Tony Tarr, managing director of APPII, and chief executive officer of the QLS, said the captive replaces a self-insurance mutual.

Mr. Tarr said APPII has a contract with the QLS to insure Queensland's 2,000 partners and their staff for five years. Negotiations are in progress with other states' law societies, and Mr. Tarr expects to have at least one other state's lawyers insured through the company next year.

The ISC is currently producing a guide to the Insurance Act, directed at prospective captive owners, which explains how to register a captive in Australia.

Under Australian law, captives are regulated as other non-life insurers, unless they are licensed under Section 37 of the Insurance Act 1973.

Section 37 insurers may only write personal injury and property damage insurance for employees of organizations engaged in a common trade or business.

Australia has four Section 37 insurers, serving barristers, dentists and taxi drivers.

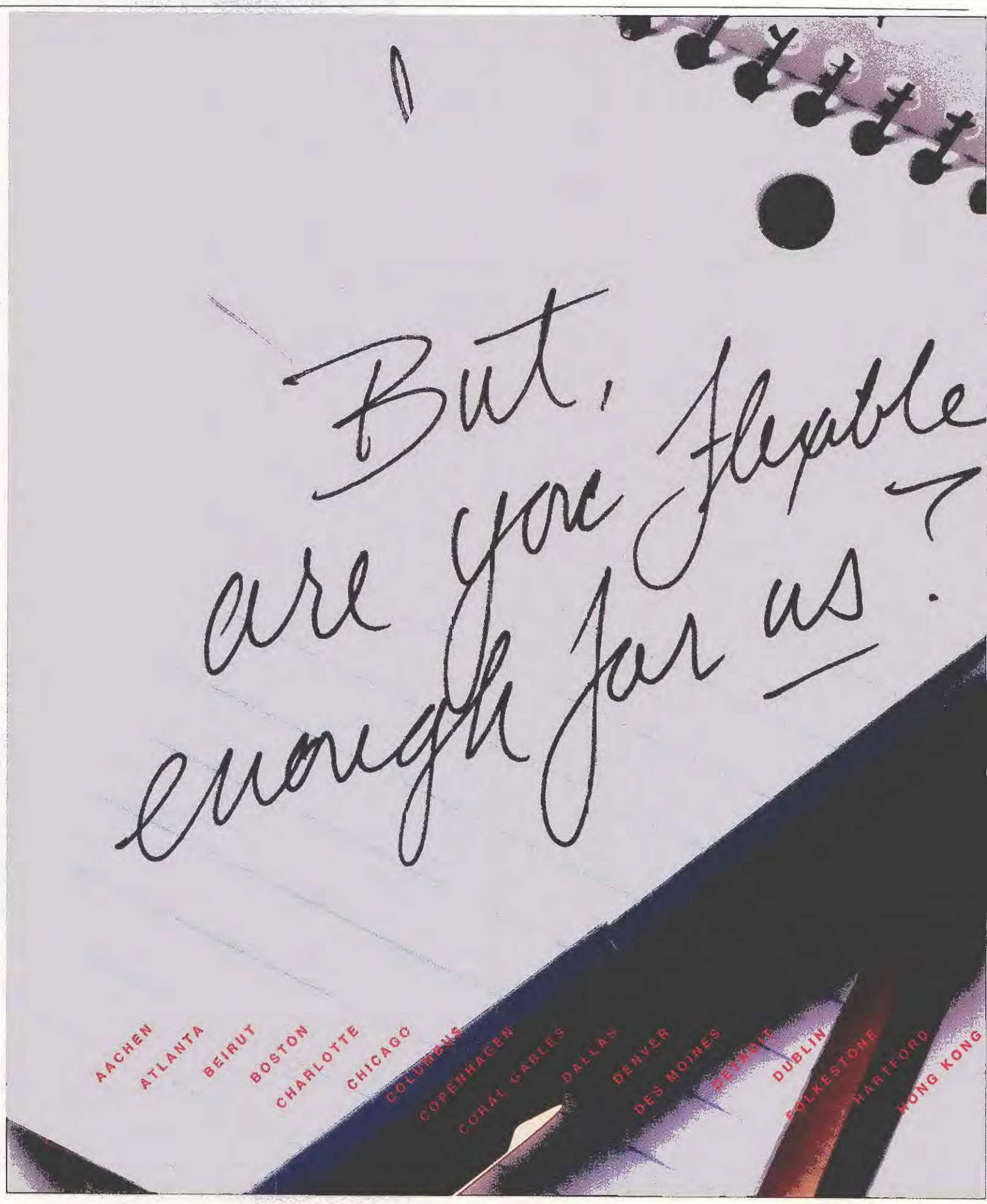
The ISC's role is to ensure there are no unnecessary constraints on Australian captives, but also that they follow the law's requirements, said Eric Chalmers, ISC assistant commissioner.

He said no offshore captive owners have discussed shifting their captives to Australia with the ISC, and he could see no reasons why they would want to.

However, Peter Kennedy, tax partner with the Sydney office of accounting firm Deloitte Touche Tohmatsu, said that if a recent dispute over captive taxes had "gone the other way," some Australia captive owners may have considered bringing their captives onshore.

In that case, the Australian Taxation Office unsuccessfully tried to disallow tax deductions for premiums an Australian company paid to its offshore captive (*BI*, April 15). The captive owner's legal victory

Continued on next page



Continued from previous page
means there is no need for captives to come onshore to ensure tax deductions.

Besides APPII, the other four captives registered in Australia and their gross premiums for the year ended June 30, 1995, are:

- Coselco Ins. Pty. Ltd., which writes business for CSL Ltd., formerly the Commonwealth Serum Laboratory, $2.85 million Australian ($2 million).
- BHP Marine & General Insurances Pty. Ltd. owned by Sydney-based Broken Hill Proprietary Co. Ltd., $111.5 million Australian ($79.1 million).
- North Insurance Pty. Ltd., owned by North Broken Hill Peko Ltd., $3.5 million Australian ($2.5 million).
- Boral Insurance & Fund Management Pty. Ltd., owned by Sydney-based Boral Ltd., $7.4 million Australian ($5.3 million).

For information on Australian captives, contact Eric Chalmers or Michael Saliba, Insurance & Superannuation Commission, GPO Box 9836, Braddon, Australian Capital Territory, Australia, 2601; 011-61-6-247-2299, fax: 011-61-6-257-1639.

—By Kate Tilley

Labuan

The Malaysian government's newly established Labuan Offshore Financial Services Authority, which regulates captives and other financial companies established on Labuan, may reduce the capital requirements for captives to encourage more to use the island domicile.

Izzuddin Tajudin, director/general manager of government-owned MNI Offshore Insurance (L) Ltd., a subsidiary of Malaysian National Insurance, said only one captive is domiciled in Labuan, the same as year-end 1994.

The only two captive managers registered in Labuan continue to be New World Management Services Ltd. of Hong Kong, which manages the lone captive—a Compagnie de Suez of Paris venture—and Marsh & McLennan Management Services (L) Ltd.

Captive owners may be more interested in establishing captives in Labuan now that the new authority has been created and an office park constructed, he said.

A reduction in capital requirements and more flexible taxation arrangements are being considered by MNI Offshore, which will make a recommendation to the authority.

Mr. Tajudin expects a decision within six months.

For more information, contact Awang Hadek, Director-General, LOFSA, Level 17, Main Office Tower, Financial Park, Jalan Merdeka, Labuan, Malaysia 87000 WP; 011-60-87-413166; fax: 011-60-87-413328.

—By Kate Tilley

Malta

Malta—which allows captives, though it has yet to attract any—is drafting new insurance legislation that may make it a more attractive domicile.

The new legislation should be in place as soon as July, says John Bonett, director of insurance. He declined to speculate on the content of the new law, which would amend existing captive statutes.

Under the Malta Financial Services Center Act, which was passed in 1988, captives must have a minimum of $250,000 in capital to become licensed. Solvency margin requirements are negotiated with the government depending on the type of company and the type of risk insured, Mr. Bonett said. Captives must pay an annual fee of 1,000 Maltese lira, or about $2,800.

There are two captive management companies in Malta: Willis Corroon Management (I.O.M.) Ltd.-Malta Branch and International Insurance Management Services Ltd.

For more information, contact John Bonett, Director of Insurance, Malta Financial Services Center, Attard, Malta: 356-44-11-55; fax: 356-44-11-88.

—By Deborah Shalowitz Cowans

New Brunswick

Canada's coastal province of New Brunswick is testing the waters to see if companies would be interested in forming captives there.

The provincial Legislature last year gave preliminary approval to a Special Insurance Companies Act, but has not given final approval or developed regulations, said Reginald Richard, superintendent of insurance.

The provincial government has not yet made any commitments to grant tax incentives to captives, Mr. Richard said. He hopes to have a marketing package about New Brunswick as a captive domicile ready by the end of August. If there is sufficient interest, the government could have final regulations ready as soon as the end of this year.

For further information, contact Reginald Richard, Superintendent of Insurance, Department of Justice, Province of New Brunswick, P.O. Box 6000, Fredericton, New Brunswick E3B5H1; 506-453-2512; fax: 506-453-2613.

—By Deborah Shalowitz Cowans

Aland Islands

Three years after this largely autonomous Finnish territory in the Baltic Sea first allowed captives to form, there is still only one here: a reinsurance captive set up by Hamnia Insurance Co. of Finland.

Under 1995 regulations, captives are taxed at 16.8%, compared with the 28% rate for other Finnish companies.

Some Swedish and Finnish companies had been considering forming captives in the islands, said Per Ekstrom, head of the Trade and Industry Department in the Aland government.

But then a rumor circulated that Finland was going to change the status of the islands so it could not set a separate corporate tax rate, and now those companies are waiting to see what happens, said Mr. Ekstrom.

But that tax advantage may not be enough to attract big companies in Finland, nearby Sweden or elsewhere in Europe.

"Taxation nowadays plays a very small part in deciding on captives," says Pekka Loikkanent, group risk manager at telecommunications and electronics firm Nokia Group of Helsinki. "The more important benefit is cash flow."

For more information on Aland captives, contact Alandlanskapstyrelse, P.O. Box 60, 22101 Mariehamn, Aland, Finland; 358-28-25000; fax: 358-28-19155.

—By Maria Kielmas



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Captive Report

Small U.S. captive domiciles remain stable

New York considering captives

Colorado, Hawaii and Vermont aren't the only U.S. domestic captive domiciles—just the largest.

A few other states and jurisdictions allow captive insurance companies—accounting for 39 captives at year end 1995—and New York is considering legislation to join those ranks.

Following is a report on captive regulations and activities in those other domestic domiciles:

U.S. Roundup

Tennessee

Tennessee at year-end 1995 had 11 captive insurers, unchanged from the year before.

Last year also saw no changes to the Tennessee Captive Insurance Company Act of 1978.

Under the law, single-parent captives need at least $750,000 in capital and surplus and group captives at least $1 million.

The minimum gross premium volume requirement is $500,000 for single-parent captives and $1 million for group captives.

Annual fees are $5,000 for single-parent captives and $10,000 for group captives. Tennessee-domiciled risk retention groups with out-of-state members must pay a $10,000 regulatory fee. Tennessee requires captive insurers to pay a one-time certificate of authority fee of $500 upon formation.

For more information, contact Bill Hosea, director of financial affairs, Department of Commerce and Insurance, 500 James Robertson Parkway, Nashville, Tenn. 37243-1135; 615-741-6796; fax: 615-532-2788.

—By Deborah Shalowitz Cowans

Illinois

Illinois' captive population remained stable at nine in 1995.

But earlier this year, one captive—Attorneys Liability Assurance Society—redomiciled as a risk retention group in Vermont. The move came after Illinois amended its statute last year to prohibit captives from forming as risk retention groups (see story, page 4).

Illinois' 1987 captive law permits the creation of three types of captives—single-parent, association and industrial insured. Industrial insured captives are formed by companies in the same industry that are not formally linked in an association.

All captives must have an initial capitalization of $2 million. But up to 80% of that requirement can be met through letters of credit and up to 67% through contractual obligations.

Single-parent captives operate under no investment restrictions. Association captives follow the same restrictions as licensed insurers. Industrial insured captives must adhere to the strategy put forth in their applications.

Captives are permitted to write all commercial property/casualty business except workers compensation, which they are permitted to reinsure.

For further information, contact Etta Mae Credi, Assistant Deputy Director, Illinois Insurance Department, 320 W. Washington, Springfield, Ill., 62767; 217-782-4515.

—By Mark A. Hofmann

Georgia

The addition of two new captives in 1995 brought the total number in Georgia to seven at year-end.

One, Renaissance Mutual Captive Insurance Co., is an industrial insured captive that writes workers compensation coverage.

All Renaissance Mutual policyholders automatically become members of CompCare Inc., a managed occupational health care system based in Atlanta, noted David Pennington, president of Renaissance Mutual.

The captive, which opened July 1, 1995, now has 120 policyholders.

In order to qualify for membership in this and any other industrial insured captive, Georgia requires a company to pay at least $25,000 for insurance in addition to meeting one of the following criteria: 25 employees, $5 million in gross sales or $3 million in assets.

Georgia law exempts captives from all residual market charges and guaranty fund assessments.

The second captive, Ambulance Provider Assn. of Georgia Mutual Captive Insurance Co., was formed late last year. It had been

See **Roundup** *on page 80*

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AIG

Directory of captive insurance company managers

A

AIG Insurance Management Services

156 College St., Third Floor, Burlington, Vt. 05401; 802-658-9405; fax: 802-658-0112

Founded: 1988.
Parent: American International Group Inc.
Frequent services: Captive formation; government reporting; accounting; investment management; managing underwriting pools/facilities; loss control (New York); association captive management services, including specialized accounting services and onshore services.
Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives.
Staff: Eight; one professional.
Clients: 12 active captives managed at year-end 1995. Captive premium volume, $129.8 million. Capital and surplus managed, $57.7 million. No minimum size client.
Compensation: Annual fee; hourly.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Joseph C. Smetana, chair; Morton Banker, senior vp; Michael Curio, vp; Anne W. Wick, general managers, David Hupp.
Contact: Anne W. Wick or David Provost.

AIG Insurance Management Services (Cayman) Ltd.

P.O. Box 1392, Grand Cayman, B.W.I.; 809-949-2445; fax: 809-949-7814

Founded: 1994.
Parent: American International Group Inc.
Officers: L.M. Murphy, D.M.L. Roberts, J.R. Weale.
Contact: David Roberts, 809-949-2445 or John Weale, 441-295-2121.
Subcontracts for captive management services with CSI International Underwriting (Cayman) Ltd.

AIG Insurance Management Services (Guernsey) Ltd.

P.O. Box 119, Commerce House, St. Peter Port, GY1 3HB Guernsey; 44-1481-700667; fax: 44-1481-711657

Founded: 1994.
Parent: American International Group Inc.
Officers: Mike Matthews, director; Audrey Kirby; David Stafford.
Contact: Mike Matthews.
Subcontracts for captive management services with Spread Insurances Ltd..

AIG Insurance Management Services (Ireland) Ltd.

AIG House, Merrion Road, Dublin 4, Ireland; 353-1-283-7788; fax: 353-1-283-7821

Founded: 1989.
Parent: American International Group Inc.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: Seven; four professionals.
Clients: Seven active captives managed at year-end 1995. Captive premium volume, $75 million. Capital and surplus managed, $12.5 million. No minimum size client.
Compensation: Annual fee.
Officers: Mike Matthews, director; Audrey Kirby; David Stafford.
Contact: Mike Matthews.

AIG Insurance Management Services (Isle of Man) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man; 44-1624-670129; fax: 44-1624-622500

Founded: 1994.
Parent: American International Group Inc.
Officers: Mike Matthews, director; Audrey Kirby; David Stafford.
Contact: Mike Matthews.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

AIG Insurance Management Services (Luxembourg) S.A.

11 avenue Guillaume, P.O. Box 615, L-2016 Luxembourg; 352-44-3032; fax: 352-44-3107

Founded: 1986.
Parent: American International Group Inc.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, underwriting and ratemaking.
Occasional services: Managing underwriting pools/facilities.
Staff: Two.
Clients: One active captive managed at year-end 1995.
Compensation: Annual fee.
Officers: Michael Matthews, Nicholas Walsh, Jacques Emsix.

Aberdeen Insurance Managers (Turks & Caicos) Ltd.

P.O. Box 159, Barracks Hill, Palm Grove Drive, Turks & Caicos Islands, B.W.I.; 809-946-2670; fax: 809-946-2656

Founded: 1989.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; accounting; underwriting and ratemaking.
Occasional services: Manual claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities.
Staff: Three; two professionals.
Clients: Four active captives and three inactive captives managed at year-end 1995. Captive premium volume, $5 million. No minimum size client.
Compensation: Annual fee, $12,000; hourly: professional, $100; clerical, $35.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Ross Blumentritt, managing director/secretary; Patricia L. Smith, assistant secretary; H.F. Christoph Blumentritt, director.

Alexander Insurance Managers

84 Pine St., 600 Financial Plaza, Burlington, Vt. 05401; 802-860-0444; fax: 802-860-0440

Founded: 1983.
Parent: Alexander & Alexander Services Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, manual claims processing, actuarial studies, managing underwriting pools/facilities, association captive management services.
Occasional services: Computerized claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, loss control, association captive management services, including specialized accounting services and onshore services for association captives.
Staff: 10; eight professionals.
Clients*: 35 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $258.2 million. Capital and surplus managed, $272 million.
Compensation: Annual fee; hourly.
1995 gross revenues: 100% from fees charged for captive management.
Officers: W. Scott Frazier, executive director; James Murray, managing director; Beth Albright, assistant vp.
* *Includes captives domiciled in other states.*

Alexander Insurance Managers Ltd.

Dorchester House, 7 Church St., P.O. Box HM 2020, Hamilton HM HX, Bermuda; 441-295-0265; fax: 441-292-4910

Founded: 1965.
Parent: Alexander & Alexander Services Inc.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: 32; 11 professionals.
Clients: 81 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $449 million. Capital and surplus managed, $1.1 billion. No minimum size client.
Compensation: Annual fee; hourly.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Alan C. Cossar, executive director; Gail Y. Fox, executive vp; Philip A. Barnes, Peter J. Jones, Kate Robinson, vps.

Alexander Insurance Managers (Barbados) Ltd.

P.O. Box 1304, Financial Services Centre, Bishops Court Hill, St. Michael, Barbados; 809-436-4895; fax: 809-436-9016

Founded: 1984.
Parent: Alexander & Alexander Services Inc.
Frequent services: Government reporting, accounting, computerized claims processing, investment management.
Occasional services: Feasibility studies; captive formation; manual claims processing; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: 10; three professionals.
Clients: 18 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $75 million. Capital and surplus managed, $102 million. No minimum size client.
Compensation: Annual fee; hourly.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Ronald W. Jones, managing director; Vinston E. Hampden, vp.

Alexander Insurance Managers (Canada)

900 Howe St., Box 3228, Vancouver, B.C. V6B 3X8, Canada; 604-683-2561; fax: 604-682-4006

Founded: 1988.
Parent: Alexander & Alexander Services Inc.
Frequent services: Captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis.
Occasional services: Feasibility studies, underwriting and ratemaking.
Staff: Two, all professionals.
Clients: Seven active captives and two inactive captives managed at year-end 1995. Captive premium volume, $17.1 million. Capital and surplus managed, $16.1 million. No minimum size client.
Compensation: Annual fee; hourly.
1995 gross revenues: 100% from fees charged for captive management.
Officers: William J. Morgan, managing director.

Alexander Insurance Managers (Cayman) Ltd.

Third Floor, Anderson Square, P.O. Box 1125 GT, Georgetown, Cayman Islands, B.W.I.; 809-945-2888; fax: 809-945-2889

Founded: 1981.
Parent: Alexander & Alexander Services Inc.
Frequent services: Accounting; computerized claims processing.
Occasional services: Feasibility studies; captive formation.

Continued on next page

Roundup

Continued from page 78

a workers compensation self-insurance fund for private ambulance services in Georgia since 1992.

APAG now accepts as members health care service providers such as nursing homes and hospitals in addition to ambulance services providers, according to Joe Rossi, an administrator at Southern Alternative Risk Services Inc., which manages the captive. APAG currently has 17 policyholders.

Georgia requires capital and surplus of at least $500,000 and the premium tax varies based on the amount of assets invested in Georgia.

There have been no recent changes to the state's 1988 law that allows captives.

For more information, contact Amanda Jamison, Department of Insurance regulatory services, 604 West Tower, 2 Martin Luther King Jr. Drive, Atlanta, Ga. 30334; 404-656-2074; fax: 404-656-0874.

—By Deborah Shalowitz Cowans

U.S. Virgin Islands

Despite the U.S. Virgin Islands' regulatory status as a "state," the domicile has failed to attract hoped-for employee benefit captives because its captive legislation contradicts guidelines the U.S. Labor Department has set for captives to write benefits

The Labor Department generally allows employers to fund employee benefit risks through a domestic captive only if no more than half of the captive's premiums are supplied by the parent. However, U.S.V.I. legislation that went into effect in 1994 dictates virtually the opposite.

In the U.S. Virgin Islands, captives can fund benefits only if 50% or more of premiums come from the captive's owner. Also, the domicile's insurance legislation prohibits rent-a-captives as well as association captives for groups that have not existed for at least one year.

Those rules are creating a roadblock to captive formation in the U.S. territory. Only six captive insurers are domiciled here. Four are designed to fund benefits, but none is up and running as intended.

"At this point, there's no clear advantage to doing business in the USVI," said Kevin Walton, manager with Johnson & Higgins (USVI) Ltd., which is based in Barbados. "What we had hoped would be a Department of Labor advantage has not happened. It must remain our focus to clarify with DOL a template or guidelines of the type of captive that would be approved and then market that. Now, we're struggling even to get on DOL's agenda."

The U.S. Virgin Islands also must solve the question of who will be its next full-time insurance regulator. Last month, Margery Resnick resigned after serving only one year as director of banking and insurance. Gwendolyn Brady, acting director, is handling some regulatory duties on an interim basis, and Lieutenant Gov. Kenneth Mapp is now ultimately responsible for insurance oversight.

Before resigning, Ms. Resnick said that 1995 was a difficult year because of Hurricane Marilyn and the 1994 captive legislation that has thwarted captive formation rather than promoting it.

"If the purpose of putting together an association is to form a captive, than the chances are the association isn't going to be a year old, and not allowing rent-a-captives hurts risk managers that aren't fully committed to captives, but want to try one out," she said.

Ms. Resnick said the U.S. Virgin Islands will probably amend those 1994 laws and regulators currently are drafting possible revisions.

A government spokesman also said the legislation is under review, but no determination on changes has been made.

Under the domicile's captive laws, single-parent captives must have $125,000 in capital and surplus; industrial insured groups of companies in the same industry must have $175,000 in capital and surplus; and associations must have $320,000, and be in existence for more than one year.

Captives pay no local taxes. The annual licensing fee remains $6,000, and there is a $1,000 initial application fee. Captives must file an audited financial statement with regulators within 180 days of the close of the fiscal year.

For more information, contact Gwen Brady or Lt. Gov. Kenneth Mapp at the Department of Banking and Insurance, P.O. Box 450, St. Thomas, USVI 00801; 809-774-2991.

—By Michael Schachner

Georgia requires capital and surplus of at least $500,000 and the premium tax varies based on the amount of assets invested in Georgia.

Delaware

Delaware reported six captives in 1995, a count that has remained unchanged since 1993.

The Delaware Captive Act of 1984 also remained unchanged last year. Under the law, single-owner captives must have at least $100,000 in capital and association captives at least $400,000.

In addition, captives must pay a $300 annual registration fee.

For further information, contact Ruth Starnes at the Delaware Department of Insurance, 841 Silver Lake Blvd., Dover, Del., 19904; 302-739-4251. Information packets are available for $25.

—Mark A. Hofmann

New York

New York Gov. George Pataki is readying a bill that would allow for the formation of captives in the state.

A draft of the bill, prepared by the New York Insurance Department, is in its final form but has not yet been introduced in the Legislature.

The measure is expected to encourage the formation of single-parent captives by Fortune 500 companies, rather than group or association-type captives. However, details of the captive bill will not be available until it is formally unveiled in the Legislature, a spokesman for the department said.

Regulators had hoped to see the bill introduced last fall as part of Gov. Pataki's efforts to lure business to New York state (*BI*, Sept. 18, 1995).

—By Douglas McLeod

Virginia

Although Virginia permits the formation of captive insurers, none has been formed.

For information on forming a captive in the Old Dominion state, contact Steven Foster, Commissioner of Insurance, Bureau of Insurance, State Corporation Commission, Commonwealth of Virginia, P.O. Box 1157, Richmond, Va. 23218; 804-371-9741; fax: 804-371-9873.

—By Deborah Shalowitz Cowans

Continued from previous page

Clients: Five active captives and one inactive captive managed at year-end 1995. Captive premium volume, $40 million. Capital and surplus managed, $16.9 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Peter Jones, vp/managing director.

Alexander Insurance Managers (Dublin) Ltd.

71 Lower Baggot St., Dublin 2, Ireland; 353-1-676-2911; fax: 353-1-676-2744

Founded: 1990.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, loss forecasting, reinsurance brokered for captives. underwriting and ratemaking.

Occasional services: Claims reserves analysis.

Staff: Nine; six professionals.

Clients: Seven active captives managed at year-end 1995. Captive premium volume, $50 million. Capital and surplus managed, $22 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Eamon O'Brien, managing director; Anne Finn, assistant director.

Alexander Insurance Managers (Guernsey) Ltd.

Alexander House, Victoria Road, St. Peter Port, Guernsey GY1 4LU; 44-1481-728180; fax: 44-1481-710551

Founded: 1977.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, reinsurance brokered for captives; underwriting and ratemaking.

Occasional services: Claims reserves analysis.

Staff: 17; four professionals.

Clients: 33 active captives and four inactive captives managed at year-end 1995. Captive premium volume, $300 million.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Barry J. Seymour, managing director; Clive R. James, Richard J. Gale, directors; Chris D. LeConte, senior accounting manager; David J. Sheil, senior claims/underwriting manager.

Alexander Insurance Managers (Hawaii) Ltd.

1221 Kapiolani Blvd., Suite 901, Honolulu, Hawaii 96814; 808-593-1583; fax: 808-593-2616

Founded: 1994.

Parent: Alexander & Alexander Services Inc.

Frequent services: Captive formation; government reporting; accounting; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Occasional services: Feasibility studies, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting.

Staff: Two, all professionals.

Clients: Two active captives managed at year-end 1995. Captive premium volume, $13.1 million. Capital and surplus managed, $7 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Marc J. Lapointe, managing director; Karen Venner, assistant vp.

Alexander Insurance Managers (Isle of Man) Ltd.

Post Office Chambers, Regent St., Douglas, Isle of Man; 44-1624-673833; fax: 44-1624-673242

Founded: 1985.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, loss forecasting, underwriting and ratemaking, association captive management services.

Occasional services: Claims reserves analysis, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Staff: 18; eight professionals.

Clients: 15 active captives managed at year-end 1995. Captive premium volume, $125 million. Capital and surplus managed, $96 million.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Geoffrey A. Hunt, managing director; David P.J. Newman, Duncan M. Donald, Roland Smith, directors.

Alexander Insurance Managers (Jersey) Ltd.

La Gallais Chambers, 54 Bath St., St. Helier, Jersey; 44-1481-728180; fax: 44-1481-710551

Founded: 1995.

Parent: Alexander & Alexander Services Inc.

Frequent services: Accounting, loss forecasting.

Occasional services: Feasibility studies, captive formation, claims processing, online access to claims data, claims reserves analysis.

Clients: One active captive managed at year-end 1995.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Continued on next page

Captive manager listings explained

The annual *Business Insurance* directory of captive managers lists companies that manage captive insurance companies, either directly or through subcontracts.

The directory is published as an editorial service and there is no charge to be included. However, to be listed companies are required to complete a *BI* questionnaire.

To locate organizations managing captives in a particular domicile, refer to the index following the directory. The index includes companies that provide direct service and those that subcontract in the specified domiciles.

Listings begin with the company name, address, telephone and fax numbers, followed by year **founded**, **parent** company (if any) and a note identifying companies that **offer rent-a-captive** services.

Next, **frequent** and **occasional services** provided are detailed. If loss control services are offered, principal location is noted.

Staff information is reported on a full-time equivalent basis and includes the total number of staff members and the number of professional staff members involved in captive management services at year-end 1995.

Clients includes the number of active and inactive captives managed at year-end 1995 along with the total gross premium volume of captives managed and their 1995 capital and surplus. Also included is the minimum size client accepted (by premium volume).

Compensation details how the company bills for its services; commissions refers to commissions for reinsurance brokered. **1995 gross revenues** are included when reported. Percent of 1995 gross revenues generated from fees charged for captive management, commissions charged for insurance and/or reinsurance brokered, and other services the company may provide are given next.

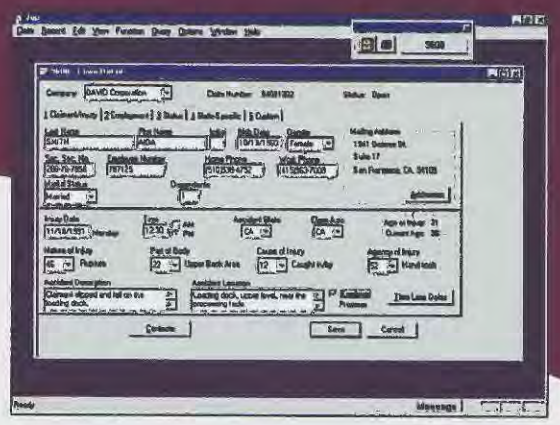
Names and titles of the company's principal **officers** and a **contact** for readers seeking additional information complete the listings.

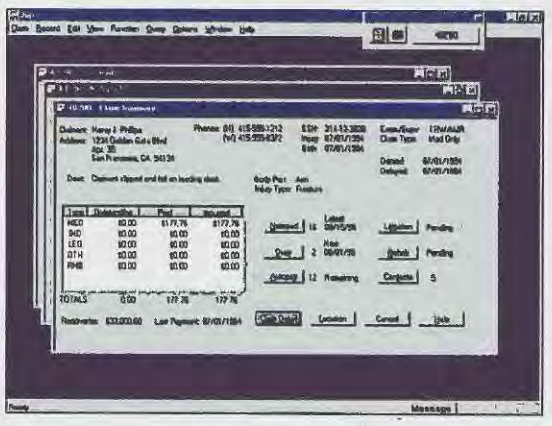
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Continued from previous page

Alexander Insurance Managers (Luxembourg) S.A.R.L.

European Bank & Business Centre, 6B Route de Treves, Senningerberg, Luxembourg; 353-34-9898202

Founded: 1988.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking.

Occasional services: Manual claims processing, actuarial studies, reinsurance brokered for captives.

Staff: Two, one professional.

Clients: One active captive managed at year-end 1995.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Alain Dufraisse, general manager.

Alexander Insurance Managers (Netherland Antilles) N.V.

P.O. Box 305, Curacao, Netherland Antilles; 599-9-661606; fax: 599-9-661611

Parent: Alexander & Alexander Services Inc.

Subcontracts for captive management services with Maduro & Cariels Insurance Services.

Alexander Insurance Managers (Singapore) Pte. Ltd.

Fourth Story, Capitol Building, 11 Stamford Road, Singapore 178884; 65-339-9233; fax: 65-338-9880

Founded: 1987.

Parent: Alexander & Alexander Services Inc.

Frequent services: Feasibility studies, government reporting, accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking, investment management.

Occasional services: Captive formation, manual claims processing, online access to claims data, loss forecasting, reinsurance brokered for captives, captive strategy reviews.

Staff: Three; one professional.

Clients: Three active captives managed at year-end 1995. Captive premium volume, $12.8 million. Capital and surplus managed, $15 million. Minimum size client, $500,000.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Richard Tan, managing director.

Alternative Insurance Management Services Inc.

6021 S. Syracuse Way, Suite 205, Englewood, Colo. 80111; 303-694-9360; fax: 303-694-9363

Founded: 1989.

Parent: Novare Services, Franciscan Services Inc.

Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services; self-insurance trusts.

Occasional services: Feasibility studies, actuarial studies, underwriting and ratemaking, investment management, tax advice, legal advice.

Staff: Nine; four professionals.

Clients: Four active captives managed at year-end 1995. Captive premium volume, $23.4 million. Capital and surplus managed, $48 million. No minimum size client.

Compensation: Annual fee, $10,000; hourly: professional, $90 to $150; clerical, $30 to $50.

1995 gross revenues: $280,000, 90% from fees charged for captive management, 10% from other services.

Officers: Richard A. Johnson, president/CEO; Margaret McCarthy, secretary; Robert J. Halonen, treasurer; Ellen L. Barton, chairperson; William H. Fischer, vice chairperson.

Alternative Risk Management & Consulting Inc.

Harborside Professional Building, P.O. Box 545, Colchester, Vt. 05446; 802-860-1958; fax: 802-863-2198

Founded: 1995.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, retention analysis, captive performance analysis, training in alternative risk analysis risk management techniques.

Occasional services: Loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services and onshore services.

Staff: Four; three professionals.

Clients: Fout active captives managed at year-end 1995. Captive premium volume, $9.5 million. Capital and surplus managed, $1.0 billion. No minimum size client.

Compensation: Annual fee.

Officers: Kathryn Westover, president; Sue Urie, treasurer.

American International Co. Ltd.

American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda; 441-295-2121; fax: 441-292-6735

Founded: 1947.

Parent: American International Group.

Offers rent-a-captive.

Frequent services: Captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; loss forecasting; investment management; association captive management services, including specialized accounting services and onshore services; fronting; funding; guaranteed cash flow; finite risk programs; risk management programs.

Occasional services: Feasibility studies, manual claims processing, online access to claims data, actuarial studies, underwriting and ratemaking, loss control (New York, Brussels).

Staff: Nine; four professionals.

Clients: 24 active captives and four inactive captives managed at year-end 1995. Captive premium volume, $264.5 million. Capital and surplus managed, $345 million. No minimum size client.

Compensation: Annual fee, $25,000; hourly: professional, $115 to $150; clerical, $55 to $80.

Officers: E.E. Stempel, chairman; J.C.H. Johnson, president/CEO; L.M. Murphy, senior vp/general counsel; S.G. Cubbon, senior vp/treasurer; B.S. Abrams, senior vp.

Contact: John Weale, vp-Offshore Management Services.

American International Management Co. (Barbados) Ltd.

ALICO Building, Cheapside, Bridgetown, Barbados; 809-436-4771; fax: 809-427-5809

Founded: 1985.

Parent: American International Group.

Offers rent-a-captive.

Frequent services: Government reporting, accounting, claims processing, claims reserves analysis, investment management, funding, risk management programs.

Occasional services: Feasibility studies; captive formation; actuarial studies; loss forecasting; underwriting and ratemaking; loss control (New York, Brussels); association captive management services, including specialized accounting services and onshore services.

Continued on page 84

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Continued from page 82

Staff: Three; two professionals.
Clients: Four active captives managed at year-end 1995.
Compensation: Annual fee, $25,000; hourly: professional, $100 to $130; clerical, $50 to $75.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Helen Roper, president/general manager; J.R. Weale, vp; L.M. Murphy, director.
Contact: Helen Roper, 809-436-4771 or John Weale, 441-295-2121.

American & Overseas Reinsurance Management Co. Ltd.

P.O. Box HM 397, Hamilton HM BX, Bermuda; 441-295-4591; fax: 441-292-7456

Founded: 1991.
Parent: British International Insurance Co.
Frequent services: Government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, run-off management, commutation assistance.
Occasional services: Feasibility studies; captive formation; manual claims processing; actuarial studies; loss forecasting; investment management; tax advice; legal advice.
Staff: Five; two professionals.
Clients: Three active captives and one inactive captive managed at year-end 1995. Captive premium volume, $8 million. Capital and surplus managed, $34.4 million. No minimum size client.
Compensation: Annual fee, $10,000.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Stephen W. Pearce, president; Dennis P. Emery, chief accountant.

American Risk Group Inc.

1 Executive Drive, P.O. Box 1388, Fort Lee, N.J. 07024; 210-592-7100; fax: 201-592-7859

Founded: 1958.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control (North America, Europe), risk management consulting, primary and excess insurance brokerage, reinsurance intermediary services.
Occasional services: Claims reserves analysis; loss forecasting; association captive management services, including specialized accounting services and onshore services.
Staff: 179; 144 professionals.
Compensation: Annual fee; commission; hourly.
Officers: Gareth G. Bradburn, chairman; Thomas G. Grilli, vice chairman; William F. Nehls, president; Emory M. Shawver, executive vp.
Captives are established formally through American Risk Management Corp. in Hawaii and Vermont and International Risk Management in Barbados, Bermuda, Cayman, Canada, Dublin, Guernsey, Isle of Man, Luxembourg and Singapore.

American Risk Management Corp.

5 Burlington Square, Fourth Floor P.O. Box 1521, Burlington, Vermont 05402; 802-862-4400; fax: 802-362-7797

Founded: 1958.
Parent: International Risk Management Group Ltd.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities, loss control (U.S., Europe), association captive management services, risk management consulting.
Occasional services: Claims reserves analysis; loss forecasting; association captive management services, including specialized accounting services and onshore services.
Staff: 16; 13 professionals.
Clients*: 43 active captives managed at year-end 1995. Captive premium volume, $397 million. Capital and surplus managed, $721 million. No minimum size client.
Subsidiaries: American Risk Management of Hawaii, American Risk Management of Vermont.
Compensation: Annual fee.
1995 gross revenues: 95% from fees charged for captive management, 5% from other services, including consulting and feasibility studies.
Officers: Peter A. Joy, president; Gary O'Hare, assistant vp.
** Includes captives in other domiciles.*



Aon Captive Management Inc.

King's Corner #1161, Frederiksted, St. Croix, 00840, U.S. Virgin Islands; 809-772-4499; fax: 809-772-5567

Founded: 1994.
Parent: Aon Corp.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; investment management.
Staff: Two; one professional.
Clients: One active captive managed at year-end 1995. No minimum size client.
Compensation: Annual fee.
Contact: Thomas Comer, CEO, 441-295-2220.

Aon Risk Services (Antilles) N.V.

Kaya Flamboyan 3, Curacao, Netherlands Antilles; 599-9-369-294; fax: 599-9-369-350

Founded: 1994.
Parent: Aon Corp.
Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis.
Staff: Two; both professionals.
Clients: Three active captives managed at year-end 1995.
Officers: Rudy Maasdamme, managing director.

Aon Risk Services (Barbados) Ltd.

Chelston Park, Building 2, Collymore Rock, St. Michael, Barbados; 804-429-9512; fax: 804-429-8817

Founded: 1986.
Parent: Aon Risk Services (Bermuda) Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking.
Staff: Three; two professionals.
Clients: Two active captives managed at year-end 1995. No minimum size client.
Compensation: Annual fee; commission; hourly.
Contact: Thomas Comer, CEO; Martin Hole, vp/general manager.

Aon Risk Services (Bermuda) Ltd.

Craig Appin House, 8 Wesley St., Hamilton HM 12, Bermuda; 441-295-2220; fax: 441-292-0217

Founded: 1970.
Parent: Aon Corp.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; investment management; managing underwriting pools/facilities; loss control (United States); association captive management services, including specialized accounting services and onshore services.
Occasional services: Underwriting and ratemaking.
Staff: 29; 14 professionals.
Clients: 78 active captives and five inactive captives managed at year-end 1995. Captive premium volume, $600 million. Capital and surplus managed, $1 billion. No minimum size client.
Subsidiaries: Aon Risk Services (Barbados) Ltd., Aon Risk Services (Cayman) Ltd.
Compensation: Annual fee; commission; hourly.
Officers: Robin Spencer-Arscott, chairman; Thomas Comer, president/CEO; Tracy Keill, senior vp; Pauline Richards, senior vp/controller; Dawn Simons, vp.

Aon Risk Services (Colorado)

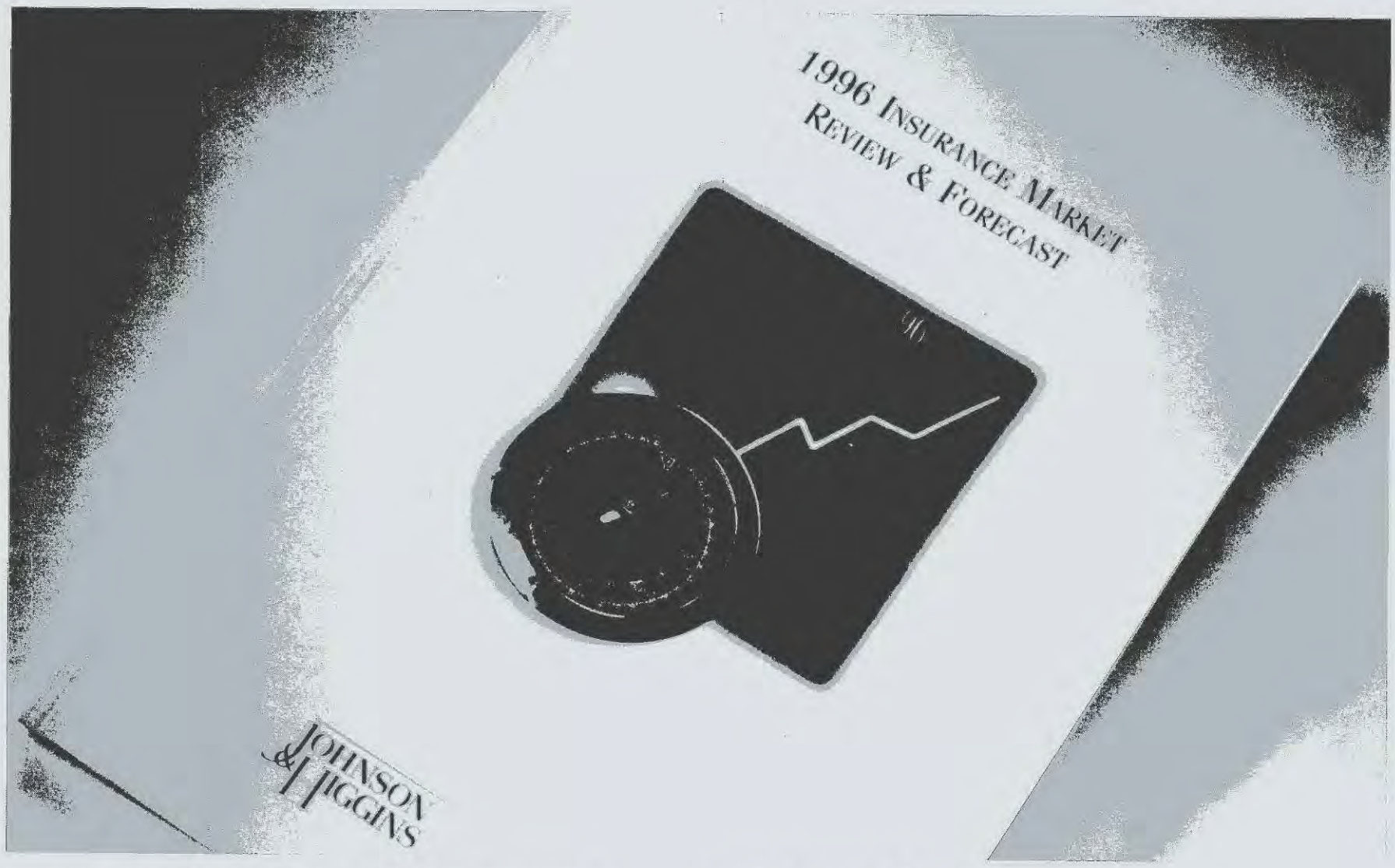
4100 E. Mississippi Ave., Denver, Colo. 80222; 303-758-7688; fax: 303-782-6940

Founded: 1976.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Claims processing, online access to claims data.

Continued on page 86

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Continued from page 84

Staff: Two, both professionals.
Clients: One active captive managed at year-end 1995. Captive premium volume, $15.2 million. No minimum size client.
Compensation: Annual fee.
Officers: Kathleen Knowlton, vp.

Aon Risk Services (Europe) S.A.

283 Route D'Arlon, Strassen 8011, Luxembourg; 352-31-7171; fax: 352-31-7174

Founded: 1994.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, reinsurance brokered for captives, association captive management services, consulting.
Staff: Four, all professionals.
Clients: Five active captives managed at year-end 1995.
Officers: Ronald Deane managing director; Lambert Schroeder, director.
Contact: Lambert Schroeder.

Captive insurer manager directory listings begin on page 80.

Aon Risk Services (Guernsey) Ltd.

P.O. Box 160, Dixcart House, Sir William Place, St. Peter Port, Guernsey; 44-1481-713-322; fax: 44-1481-729-089

Founded: 1995.
Parent: Aon Corp.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, accounting, reinsurance brokered for captives.
Clients: Three active captives managed at year-end 1995.
Contact: Peter Walpole.

Aon Risk Services (Ireland) Ltd.

10/12 Lansdowne Road, Dublin 4, Ireland; 353-1-668-9288; fax: 351-1-660-1197

Founded: 1992.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation reinsurance brokered for captives, association captive management services, consulting
Staff: Two, both professionals.
Clients: Two active captives managed at year-end 1995
Contact: Joyce MacRedmond.

Aon Risk Services (Isle of Man) Ltd.

3 Athol St, Douglas, Isle of Man IM1 1LD; 44-1624-615101; fax: 44-1624-615102

Founded: 1995.
Parent: Aon Corp.
Frequent services: Feasibility studies, captive formation, reinsurance brokered for captives, consulting.
Staff: Two; one professional.
Contact: Ian Gerrard.

Aon Risk Services (Nederland) B.V.

31 K.P. van der Mandelelaan, 3062 MB, Rotterdam, Netherlands; 31-10-498-1155; fax: 31-10-212-1698

Founded: 1994.
Parent: Aon Corp.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; loss control; association captive management services, including specialized accounting services.
Staff: Four; three professionals.
Clients: Three active captives managed at year-end 1995.
Officers: Adri van Velew, managing director; Paul Kabel, senior consultant; Eric Fritz, coordinating director-Aon Risk Services (Europe).

Aon Risk Services (Vermont) Inc.

1 Lawson Lane, Burlington, Vt. 05401; 802-658-1168; fax: 802-658-3996

Founded: 1986.
Parent: Aon Corp.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; actuarial studies; loss forecasting; association captive management services, including specialized accounting services and onshore services.
Occasional services: Claims processing, online access to claims data, claims reserves analysis.
Staff: Five; four professionals.
Clients: Five active captives and one inactive captive managed at year-end 1995. Captive premium volume, $44.3 million. No minimum size client.
Compensation: Annual fee.
Officers: Tom Comer, president; Laura Taylor, vp.
Contact: Laura Taylor.

Argus International Management Ltd.

P.O. Box HM 1064, 8 Wesley St., Hamilton HM EX, Bermuda; 441-296-2131; fax: 441-292-6763

Founded: 1971.
Parent: The Argus Group.
Offers rent-a-captive.
Services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Eight; five professionals.
Clients: 40 active captives and two inactive captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Michael Hardy, manager; Danny Forsythe, Michael Swain, account executives; Sylvia Henning, account manager.
Contact: Michael Hardy.

Atlantic Security Ltd.

Windsor Place, 18 Queen St., Hamilton, Bermuda; 441-295-5425; fax: 441-295-5444

Founded: 1974.
Parent: ASL Holdings Ltd.
Offers rent-a-captive.
Frequent services: Captive formation; government reporting; accounting; loss forecasting; reinsurance brokered for captives; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: Eight; six professionals.
Clients: 25 active captives and five inactive captives managed at year-end 1995. Captive premium volume, $105 million. Capital and surplus managed, $60 million. No minimum size client.
Compensation: Annual fee, $15,000; commission; hourly: professional, $150; clerical, $75.
Officers: Colin C. James, president/CEO; Richard J. Witkowski, senior vp.

B

BF&M Management Ltd.

P.O. Box HM 1007, Hamilton HM DX, Bermuda; 441-292-6396; fax: 441-292-8682

Founded: 1969.
Parent: BF&M Ltd.
Offers rent-a-captive.
Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; investment management.
Occasional services: Feasibility studies; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Nine; five professionals.
Clients: 27 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $35.3 million. Capital and surplus managed, $163.7 million.
Subsidiaries: BF&M Management (Barbados) Ltd.
Compensation: Annual fee, $20,000; commission; hourly.
1995 gross revenues: 93.2% from fees charged for captive management, 4.4% from commissions charged for brokering insurance/reinsurance, 2.4% from other services.
Officers: Irmgard Viera, vp; Elizabeth A.C. Durrant, manager; John Wilkins, treasurer.

Continued on next page



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Bain Hogg Insurance Management (Guernsey) Ltd.

St. Julian's Court, St. Julian's Ave., St. Peter Port GY1 1WA, Guernsey; 44-1481-726049; fax: 44-1481-712428

Founded: 1978.
Parent: Bain Hogg Group P.L.C.
Services: Feasibility studies, captive formation, government reporting, accounting, manual claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, tax advice.
Staff: 15; three professionals.
Clients: 32 active captives and four inactive captives managed at year-end 1995. Capital and surplus managed, $375 million.
Compensation: Annual fee, $30,000; hourly.
Officers: Roger Hall, managing director; Graham Powell, director.

Bain Hogg Insurance Management (IOM) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-624141; fax: 44-1624-622500

Founded: 1989.
Officers: Christine Crowther, director; Laura Watterson, manager; Richard Drinkwater, assistant manager; Keith Allen, group accountant.
Contact: Richard Drinkwater.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

Becher & Carlson Cos.

84 Pine St., 600 Financial Plaza, P.O. Box 5599, Burlington, Vt. 05401; 802-658-7831; fax: 802-658-7843

Founded: 1982.
Parent: American Re-Insurance Co.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, loss control.
Occasional services: Reinsurance brokered for captives.
Staff: Three; two professionals.
Clients: Four active captives managed at year-end 1995. Captive premium volume, $16.4 million. Capital and surplus managed, $24.4 million. No minimum size client.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, Robert W. Hessel, senior vps; Ann C. DesLauriers, general manager.
Contact: Pam Brooskin, 818-715-0800.

Becher & Carlson Management Ltd.

Continental Building, 25 Church St., Hamilton, Bermuda; 441-295-0519; fax: 441-295-0933

Founded: 1981.
Parent: American Re-Insurance Co.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, managing underwriting pools/facilities.
Staff: Five; two professionals.
Clients: Nine active captives and one inactive captive managed at year-end 1995. Captive premium volume, $110 million. Capital and surplus managed, $56 million. No minimum size client.
Subsidiaries: Becher & Carlson Brokerage Ltd.
Compensation: Annual fee, commission.
Officers: David L. Carlson, president/CEO; Robert Glicksteen, senior vp/CFO; Rob Mehta, senior vp/general manager.
Contact: Pam Brooskin, 818-715-0800.

Becher & Carlson Risk Management Inc.

Pacific Tower, 1001 Bishop St., Suite 2788, Honolulu, Hawaii 96813; 808-521-1121; fax: 808-521-1288

Founded: 1991.
Parent: American Re-Insurance Co.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; loss control.
Occasional services: Investment management.
Staff: Three; two professionals.
Clients: Seven active captives and one inactive captive managed at year-end 1995. Captive premium volume, $51.1 million. Capital and surplus managed, $93.3 million. No minimum size client.
Compensation: Annual fee.
Officers: David L. Carlson, president/CEO; Robert L. Glicksteen, senior vp/CFO; James J. Kofmehl, Robert W. Hessel, senior vps; Wanda L. Jong, vp/manager.
Contact: Pam Brooskin, 818-715-0800.

Bott & Associates Ltd.

Sterling House, Wesley St., P.O. Box HM 1087, Hamilton HM EX, Bermuda; 441-292-3564; fax: 441-292-5796

Founded: 1979.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, managing underwriting pools/facilities.
Staff: Six; four professionals.
Clients: 10 active captives managed at year-end 1995. Captive premium volume, $14.3 million. Capital and surplus managed, $26.9 million. No minimum size client.
Subsidiaries: Bott & Associates (Barbados) Ltd.
Compensation: Annual fee, $12,000; commission.
1995 gross revenues: 50% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance, 10% from other services.
Officers: Michael F. Bott, president; Roy V. Bray, executive vp-broking Scott W. Nickerson, executive vp/CFO.
Contact: Roy V. Bray.

CFM Insurance Managers Ltd.*

Third Floor, 44 Church St., Hamilton HM 12, Bermuda; 441-296-1051; fax: 441-296-1058

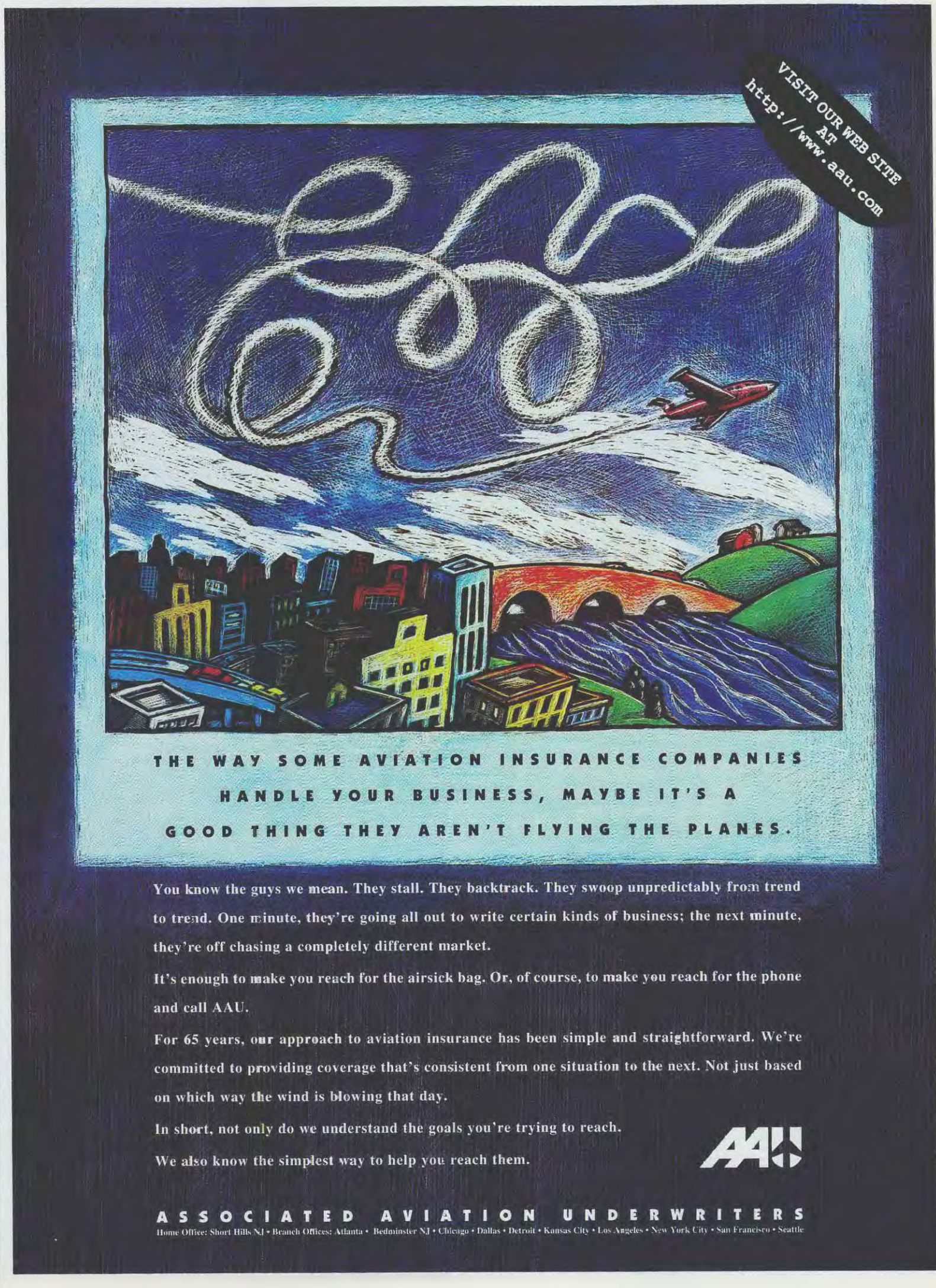
Parent: Mutual Risk Management (Bermuda) Ltd.
Staff: Four; three professionals
Clients: Nine active captives and two inactive captives managed at year-end 1995. Captive premium volume $22.3 million. Capital and surplus managed, $13.5 million.
1995 gross revenues: $700,000.
Officers: Robert A. Mulderig, chairman; Simon Scupham, president Colin M. Alexander, senior vp; Richard C'Brien, P. Christopher Regan, vps.
** CFM Insurance Managers Ltd. became a wholly owned subsidiary of Mutual Risk Management (Bermuda) Ltd. as of October 1995.*

Caledonian Bank & Trust Ltd.

P.O. Box 1043, George Town, Cayman Islands, B.W.I.; 809-949-0050; fax: 809-949-8062

Founded: 1970.
Frequent services: Captive formation, government reporting, accounting, manual claims processing, investment

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Continued from previous page
management, banking.

Staff: 27.

Clients: Nine active captives and six inactive captives managed at year-end 1995. Captive premium volume, $49.6 million. Capital and surplus managed, $73.1 million. No minimum size client.

Compensation: Annual fee, $5,000; hourly: professional, $150 to $250; clerical, $50 to $120.

Officers: William S. Walker, chairman; David S. Sargison, managing director; David G. Bird, vice chairman; F. Kate Bowring, secretary/manager-corporate services; Bernard G.H. McGrath, manager-accounting services.

Caledonian Management Ltd.

73 Front St., P.O. Box HM 2455, Hamilton HM JX, Bermuda; 441-295-1683; fax: 441-295-1704

Founded: 1988.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, consulting.

Occasional services: Association captive management services.

Staff: Three, all professionals.

Clients: 10 active captives managed at year-end 1995. Captive premium volume, $91 million. No minimum size client.

Compensation: Annual fee, hourly.

1995 gross revenues: 90% from fees charged for captive management, 10% from other services.

Officers: David A. Brown, president Rhonda M. Caza, vp; Mark L. Carter, account executive.

Caledonian Management Ltd.

Highbury House, 3 Parliament Square, Castletown, Isle of Man IM9 1LA; 44-1624-661020; fax: 44-1624-661298

Founded: 1988.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, consulting.

Occasional services: Actuarial studies; association captive management services.

Staff: One professional.

Clients: One active captive managed at year-end 1995. Captive premium volume, $916,000.

Compensation: Annual fee, hourly.

1995 gross revenues: 90% from fees charged for captive management, 10% from other services.

Contact: David A. Brown, managing director.

Capital Management Services Ltd.

Suite 502, 48 Par-la-Ville Road, Hamilton HM 11, Bermuda; 809-295-3974; fax: 809-292-9250

Founded: 1993.

Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, reinsurance brokered for captives.

Occasional services: Loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice.

Staff: Four; one professional.

Clients: Two active captives managed at year-end 1995. Captive premium volume, $15 million. Capital and surplus managed, $2.5 million. Minimum size client, $1.5 million.

Compensation: Annual fee, $15,000; commission.

Officers: Lawrence Dixon, president; Elizabeth Powell, vp.

Contact: Lawrence Dixon.

Captech Management Services (Barbados) Ltd.

CGM Building, Collymore Rock, St. Michael, Barbados; 809-436-8296; fax: 809-426-7336

Founded: 1994.

Officers: Lawrence Dixon, president; William Tomlin, Tina O'Connor, Elizabeth Powell, vps.

Contact: Lawrence Dixon.

Subcontracts for captive management services with International Insurance Management in Barbados.

Caribbean Insurance Management Ltd.

Columbus Centre, P.O. Box 362, Road Town, Tortola, British Virgin Islands; 809-494-4884; fax: 809-494-6850

Founded: 1990.

Frequent services: Captive formation, government reporting, computerized accounting, computerized claims processing, audit by arrangement.

Occasional services: Feasibility studies; reinsurance brokered for captives; reinsurance brokered to captives; tax advice; association captive management services, including onshore services.

Staff: Three; one professional.

Clients: Four active captives managed at year-end 1995.

Compensation: Annual fee, hourly.

1995 gross revenues: 85% from fees charged for captive management, 15% from other services.

Contact: Richard H. Clayson, managing director.

Cayside Insurance Management Ltd.

P.O. Box 2322, 1 Caymar House, N. Church St., Cayman Islands, B.W.I.; 809-949-8184; fax: 809-949-7228

Founded: 1984.

Offers rent-a-captive.

Frequent services: Captive formation, government reporting, accounting, claims reserves analysis, investment management.

Occasional services: Feasibility studies; manual claims processing; loss forecasting; underwriting and ratemaking; association captive management services, including specialized accounting services.

Staff: Three; two professionals.

Clients: 14 active captives managed at year-end 1995. Captive premium volume, $107.3 million. No minimum size client.

Compensation: Annual fee, hourly.

1995 gross revenues: 100% from fees charged for captive management

Contact: John E. Smith, managing director.

Chandler Insurance Management Ltd.

Anderson Square, Fifth Floor, P.O. Box 1854, Cayman Islands, B.W.I.; 809-949-8177; fax: 809-949-8376

Founded: 1990.

Parent: Chandler Insurance Co. Ltd.

Offers rent-a-captive.

Frequent services: Government reporting; accounting; association captive management services, including specialized accounting services.

Occasional services: Feasibility studies, captive formation, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Three; one professional.

Clients: Seven active captives and one inactive captive managed at year-end 1995. Captive premium volume $19.6 million. Minimum size client, $500,000.

Officers: W. Brent Lagere, chairman; Benjamin T. Walkingstick, Steven R. Butler, directors.

Channel Islands Insurance Consultants Ltd.

26 Comet St., St. Peter Port, Guernsey GY1 1LF; 44-1481-710336; fax: 44-1481-710696

Founded: 1982.

Frequent services: Government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, underwriting and ratemaking, investment management, tax advice, loss control (London, Guernsey).

Occasional services: Feasibility studies, captive formation; actuarial studies; loss forecasting; reinsurance brokered for captives.

Staff: Six; three professionals.

Clients 14 active captives and five inactive captives managed at year-end 1995. Captive premium volume, $70 million.

Subsidiaries: Guernsey Insurance Management Services Ltd.

Compensation: Annual fee, hourly.

1995 gross revenues 100% from fees charged for captive management.

Officers: Michael Savage managing director; Timothy AMB Spafford, chairman; Mike Bubb, director.

Contact: Michael Savage.

CIGNA International Insurance Managers Ltd.

P.O. Box HM 1281, Hamilton HM EX, Bermuda; 441-295-0169; fax: 441-292-1930

Founded: 1978.

Parent: CIGNA Corp.

Frequent services: Government reporting, accounting, computerized claims processing, investment management loss control (Philadelphia).

Occasional services: Feasibility studies, captive formation, online access to

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claims data, claims reserves analysis, loss forecasting.

Staff: Four; two professionals.

Clients: Five active captives managed at year-end 1995. Captive premium volume, $21 million. Capital and surplus managed, $80 million. No minimum size client.

Compensation: Annual fee.

1995 gross revenues: 45% from fees charged for captive management; 55% from other services, including managing investment companies and mutual funds.

Officers: John C. Boden, president; Heinz Schoenberger, vp/treasurer.

Commonwealth Risk Management Inc.

P.O. Box 834, Montpelier, Vt. 05601-0834; 802-229-5000; fax: 802-229-2715

Founded: 1987.

Frequent services: Feasibility studies, captive formation, government reporting, accounting reinsurance brokered for captives, reinsurance brokered to captives, investment management.

Occasional services: Claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking; tax advice legal advice; association captive management services, including specialized accounting services and onshore services.

Staff: Three; two professionals.

Compensation: Annual fee, commission, hourly.

Contact: Peter D. Sanger, president/CEO.

Continental Risk Services Ltd.

Continental Building, 25 Church St., P.O. Box HM 824, Hamilton HM CX, Bermuda; 441-295-6015; fax: 441-295-1702

Founded: 1980.

Parent: CNA Financial Corp.

Offers rent-a-captive.

Frequent services: Captive formation; government reporting; accounting; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services, management of deductible reimbursement programs.

Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control (New York).

Staff: Five; four professionals.

Clients: Nine active captives managed at year-end 1995. Captive premium volume, $105.7 million. Capital and surplus managed, $185.7 million. No minimum size client.

Subsidiaries: Continental Risk Services (Barbados) Ltd.

Compensation: Annual fee, hourly.

1995 gross revenues: 66% from fees charged for captive management, 34% from other services.

Officers: E. Randall Clouser, chairman; Hector Mendez, senior vp/COO; Thomas R. McMahon, vp; Richard Spurling, secretary; Judy Taylor, assistant secretary.

To locate organizations managing captives in a particular domicile, refer to the index on page 106.

Continental Risk Services (Barbados) Ltd.

ICB Building, Upper Roebuck St., Bridgetown, Barbados; 809-427-3362; fax: 809-426-0426

Founded: 1986.

Parent: Continental Risk Services Ltd.

Offers rent-a-captive.

Frequent services: Captive formation, government reporting, accounting, investment management.

Occasional services: Feasibility studies, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, loss control (New York).

Staff: Three; two professionals.

Clients: Six active captives and five inactive captives managed at year-end 1995. Captive premium volume, $40 million. Capital and surplus managed, $79.7 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: E. Randall Clouser, chairman; Hector Mendez, senior vp/COO; Fiona Williams, vp/general manager; Trevor Carmichael, secretary; Andrew Ferreira, assistant secretary.

Crusader International Management (Cayman) Ltd.

Crusader House, Mary St., P.O. Box 2185, George Town, B.W.I.; 809-949-1599; fax: 809-945-0520

Founded: 1993.

Parent: Crusader Group Holdings.

Offers rent-a-captive.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis.

Occasional services: Computerized claims processing; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management.

Staff: Eight; three professionals.

Clients: Eight active captives and two inactive captives managed at year-end 1995. Captive premium volume, $62 million. Capital and surplus managed, $65 million.

Compensation: Annual fee, $20,000; hourly: professional, $150; clerical, $75.

Officers: Ian Kilpatrick, president; J. Terence Burke, executive vp.

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■ MINNEAPOLIS ■ NEW YORK ■ PHILADELPHIA ■ SAN FRANCISCO ■ SEATTLE ■ TORONTO

E

Eaglehurst Insurance Management Ltd.

P.O. Box 16, Exchange House, 54-58 Athol St., Douglas IM99 1AP, Isle of Man; 44-1624-673811; fax: 44-1624-629983

Founded: 1986.

Parent: Pannell Kerr Forster.

Offers rent-a-captive.

Frequent services: Feasibility studies, government reporting, accounting, investment management, tax advice.

Occasional services: Captive formation, computerized accounting, manual claims processing, claims reserves analysis, legal advice.

Staff: Three, all professionals.

Clients: Two active captives and one inactive captive managed at year-end 1995. Captive premium volume, $1.1 million. Capital and surplus managed, $2.8 million. No minimum size client.

Compensation: Hourly: professional, $80 to $180; clerical, $36.

1995 gross revenues: $77,000, 100% from fees charged for captive management.

Officers: I.M. Foster, J. Scott, J.N. Nugent, directors.

Contact: Isobel Foster.

Environmental Management Insurance Services Inc.

1845 The Exchange, Suite 200, Atlanta, Ga. 30339; 770-916-1908; fax: 770-916-0618

Founded: 1990.

Parent: American Safety Casualty Insurance Co.

Offers rent-a-captive.

Frequent services: Reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control (Atlanta); association captive management services, including specialized accounting services and onshore services; marketing.

Occasional services: Feasibility studies, captive formation, accounting, manual claims processing, loss forecasting, legal advice.

Staff: 30; 15 professionals.

Clients: Four active captives managed at year-end 1995. Captive premium volume, $19 million. Capital and surplus managed, $20 million. No minimum size client.

Subsidiaries: Environmental Claims Services Inc., InterSure, InterSure Environmental, Sureco Bond Services Inc., Atlanta.

Compensation: Annual fee; commission; hourly: professional, $100 to $200.

1995 gross revenues: $3.5 million, 90% from fees charged for captive management, 10% from commissions charged for brokering insurance/reinsurance.

Officers: Lloyd Fox, president; James Leach, vp/general counsel; Steve Crim, vp-underwriting; Steve Clarke, vp/treasurer; Jeffrey Hood, loss control coordinator.

Contact: Lloyd Fox, James Leach or Steve Crim.

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EURCO Ltd.

11/12 Warrington Place, Dublin 2, Ireland; 353-1-660-9933 fax: 353-1-661-4157

Founded: 1993.
Parent: EURCO Re Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis underwriting and ratemaking, investment management, tax advice, legal advice.
Occasional services: Actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, managing underwriting pools/facilities.
Staff: Nine, all professionals.
Clients: Six active captives managed at year-end 1995. Captive premium volume. $87.2 million. Capital and surplus managed, $330.8 million.
Compensation: Annual fee, hourly.
1995 gross revenues: 90% from fees charged for captive management, 10% from other services.
Contact: Hugo Azijn, managing director.

F

50th State Risk Management Services Inc.

6 Waterfront Plaza, Room 405, 500 Ala Moana Blvd., Honolulu, Hawaii 96813; 808-543-9786; fax: 808-521-1302

Founded: 1991.
Parent: American International Group Inc.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; loss control (Hawaii); association captive management services, including specialized accounting services and onshore services; risk management; finite risk programs.
Occasional services: Online access to claims data; claims reserves analysis; actuarial studies; reinsurance brokered to captives; underwriting and ratemaking.
Staff: Four; two professionals.
Clients: One active captive and one inactive captive managed at year-end 1995. Captive premium volume, $900,000. Capital and surplus managed, $1.2 million. No minimum size client.
Compensation: Annual fee; commission; hourly: professional, $50 to $100; clerical, $20 to $30.
Officers: Robin K. Campaniano, chairman; Linda K. Gilchrist, president; Craig M. Watanabe, senior vp.
Contact: Craig Watanabe, 808-543-0439 or Ann Wick, 802-658-9405.

FINNCAP-Oy Finnish Captive & Risk Services Ltd.

Vattuniemenkuja 8 A, 0035 Helsinki, Finland; 358-10-515-12; fax: 358-10-514-5388

Founded: 1988.
Parent: Risk Management Ltd. (U.K.), Industria Insurance Co. (Finland).
Officers: E. Holma, chairman; R. Kamarainen, vice chairman; Yngve Nygardas, director; L. von Hertzen, managing director; Derek Douglas, G.G. Bradburn, directors
Subcontracts for captive management services with International Risk Management in Dublin, Guernsey and Isle of Man.

G

Arthur J. Gallagher Management (Bermuda) Ltd.

Sofia House, 48 Church St., Fourth Floor, Hamilton HM 12, Bermuda; 441-292-4654; fax: 441-292-8231

Founded: 1972.
Parent: Arthur J. Gallagher & Co. Inc.
Frequent services: Captive formation; government reporting; accounting; reinsurance brokered for captives; reinsurance brokered to captives.
Occasional services: Feasibility studies, claims processing, underwriting and ratemaking.
Staff: Five; three professionals.
Clients: Six active captives and two inactive captives managed at year-end 1995. Captive premium volume, $15 million. Capital and surplus managed, $8 million. Minimum size client, $2 million.
Officers: David McManus, president; Peter Mullen, executive vp; Ron Hubbard, Wayne Brown, vps.

Gecalux S.A.

5 Place de la Gare, Luxembourg 1616, Luxembourg; 352-4038801; fax: 352-492706

Founded: 1984.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, tax advice, legal advice.
Occasional services: Manual claims processing, online access to claims data, claims reserves analysis, investment management,managing underwriting pools/facilities, loss control (Europe).
Staff: 45; 17 professionals.
Clients: 62 active captives managed at year-end 1995.
Subsidiaries: Gecalux Deutschland G.M.B.H., Gecalux France S.A., Gecalux Ireland Ltd.
Compensation: Annual fee.
Officers: Roland Frere, Frederick Gabriel, Thierry Dron, Marc Limpens, Arnaud Bierry.

Global Risk Financing Services Ltd.

1300-666 Burrard St., Vancouver, B.C. V6C 3J8, Canada; 604-685-8323; fax: 604-688-2419

Founded: 1990.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, investment management, tax advice.
Staff: Two, all professionals.
Clients: One active captive managed at year-end 1995.
Compensation: Annual fee.
Officers: Terry Holdom, president; Susan Gallivan, vp.

Green Mountain Captive Management

P.O. Box 628, 83 Washington Ave., Barre, Vt. 05641; 802-479-1046; fax: 802-479-2761

Founded: 1982.
Services: Association captive management services.
Staff: Three; two professionals.
Compensation: Annual fee, $6,000.
Officers: Richard W. Huskes Jr., president; James L. Mulligan, vp.
Contact: Richard W. Huskes.

Griffiths & Wanklyn Management Ltd.

P.O. Box 658, Hamilton CX, Bermuda; 441-295-1639; fax: 441-295-1638

Founded: 1985.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, computerized accounting, computerized claims processing, reinsurance brokered for captives, underwriting and ratemaking, investment management, managing underwriting pools/facilities, loss control (North Carolina).
Clients: Two active captives and one inactive captive managed at year-end 1995. No minimum size client.
Compensation: Annual fee, $12,000; commission.
Officers: Julian Griffiths, William Wanklyn, directors; Lisa Robinson, assistant vp; Carter Frith.

H

H&H Management Services Ltd.

P.O. Box HM 1760, Hamilton HM HX, Bermuda; 441-295-3688; fax: 441-295-2584

Founded: 1977.
Parent: International Advisory Services Ltd.
Subcontracts for captive management services with International Advisory Services Ltd.

Hawaii Captive Insurance Management Inc./USA Risk Group

1164 Bishop St., Suite 1411, Honolulu, Hawaii 96813; 808-538-7766; fax: 808-538-7780

Founded: 1988.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including

Continued on next page



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specialized accounting services and onshore services.

Occasional services: Claims processing, online access to claims data, reinsurance brokered to captives, investment management, tax advice.

Staff: Four; two professionals.

Clients: 10 active captives managed at year-end 1995. Captive premium volume, $1.5 million. Capital and surplus managed, $45.7 million. No minimum size client.

Compensation: Annual fee; commission; hourly; professional, $100 to $250; clerical, $50 to $80.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Sherman S. Hee, president; Michael T. Rogers, treasurer; Gary H. Osborne, Jon Harkavy, vps.

Contact: Gary Osborne.

I

IAS (Barbados) Ltd.

CGM Building, Collymore Rock, Bridgetown, Barbados; 809-436-8296; fax: 809-426-7336

Founded: 1987.

Parent: International Advisory Services Ltd.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.

Occasional services: Reinsurance brokered to captives, underwriting and ratemaking, tax advice.

Staff: Three; one professional.

Clients: Seven active captives managed at year-end 1995. Captive premium volume, $75 million.

Compensation: Annual fee, $10,000; commission; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: David Ezekiel, president/managing director; William Tomlin, Terence Power, vps.

Independent Management Group Ltd.

Third Floor, Williams House, 20 Reid St., P.O. Box HM 2070; Hamilton HM HX, Bermuda; 441-295-1646; fax: 441-292-8062

Founded: 1984.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, reinsurance brokered for captives, managing underwriting pools/facilities.

Occasional services: Manual claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice.

Staff: Six; three professionals.

Clients: 18 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $163.4 million. Capital and surplus managed, $205.4 million. No minimum size client.

Compensation: Annual fee; commission; hourly: professional, $132.

1995 gross revenues: 87% from fees charged for captive management, 13% from commissions charged for brokering insurance/reinsurance.

Officers: Peter J.N. Strong, president.

Insurance Brokerage & Management Co. Ltd.

Jardine House, 33/35 Reid St., P.O. Box HM 604, Hamilton HM CX, Bermuda; 441-295-2470; fax: 441-292-8243

Founded: 1974.

Frequent services: Government reporting, accounting, reinsurance brokered for captives, investment management.

Occasional services: Feasibility studies, captive formation, claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, legal advice.

Staff: Three; one professional.

Clients: Seven active captives and one inactive captive managed at year-end 1995. Captive premium volume, $13 million. Capital and surplus managed, $16 million. No minimum size client.

Compensation: Annual fee, $15,000; commission.

1995 gross revenues: 81% from fees charged for captive management, 19% from commissions charged for brokering insurance/reinsurance.

Officers: Eric J.M. Arcay, managing director; Denise Fearis, personal assistant/executive secretary.

International Advisory Services Ltd.

Chevron House, 11 Church St., Hamilton HM 11, Bermuda; 441-295-3688; fax: 441-295-2584

Founded: 1981.

Offers rent-a-captive.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.

Occasional services: Actuarial studies, reinsurance brokered to captives, underwriting and ratemaking, tax advice, loss control.

Staff: 50; 21 professionals.

Clients: 81 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $810 million. No minimum size client.

Subsidiaries: H&H Management Services Ltd., Bermuda; IAS (Barbados) Ltd.; IAS Insurance Management Inc., California; International Advisory Services Inc., Vermont.

Compensation: Annual fee, $15,000; commission; hourly.

1995 gross revenues: 95% from fees charged for captive management, 5% from other services, including feasibility studies, consulting and commutations.

Officers: David Ezekiel, president/managing director; Terence Power, David Pickering, executive officers; Simon Everett, David Lampit, Lal Gunawardene, senior officers.

International Insurance Management Ltd.

CGM Building, Collymore Rock, St. Michael, Barbados; 809-436-8296; fax: 809-426-0433

Founded: 1986.

Frequent services: Government reporting, accounting.

Occasional services: Feasibility studies, captive formation, manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Four; two professionals.

Clients: 18 active captives and four inactive captives managed at year-end 1995.

Subsidiaries: International Insurance Management (Antigua) Ltd.

Compensation: Annual fee, $5,000; hourly: professional, $55; clerical, $25.

Officers: William M. Tomlin, director; Christine M. O'Connor, manager.

Contact: Christine M. O'Connor.

International Insurance Services Inc.

P.O. Box 61, Lewiston, Maine 04243-0061; 207-784-4566; fax: 207-784-6475

Founded: 1986.

Parent: Hartford Inc.

Officers: Richard A. Hartford, president; Robert A. Hartford, vp; Claire Mareoux, secretary; Claire Bellefluer, treasurer.

Subcontracts for captive management services with International Insurance Management Ltd. in Barbados.

International Risk Management (Barbados) Ltd.

Box 1264, James Fort, Hincks St., Bridgetown, Barbados; 809-436-7541; fax: 809-436-8814

Founded: 1986.

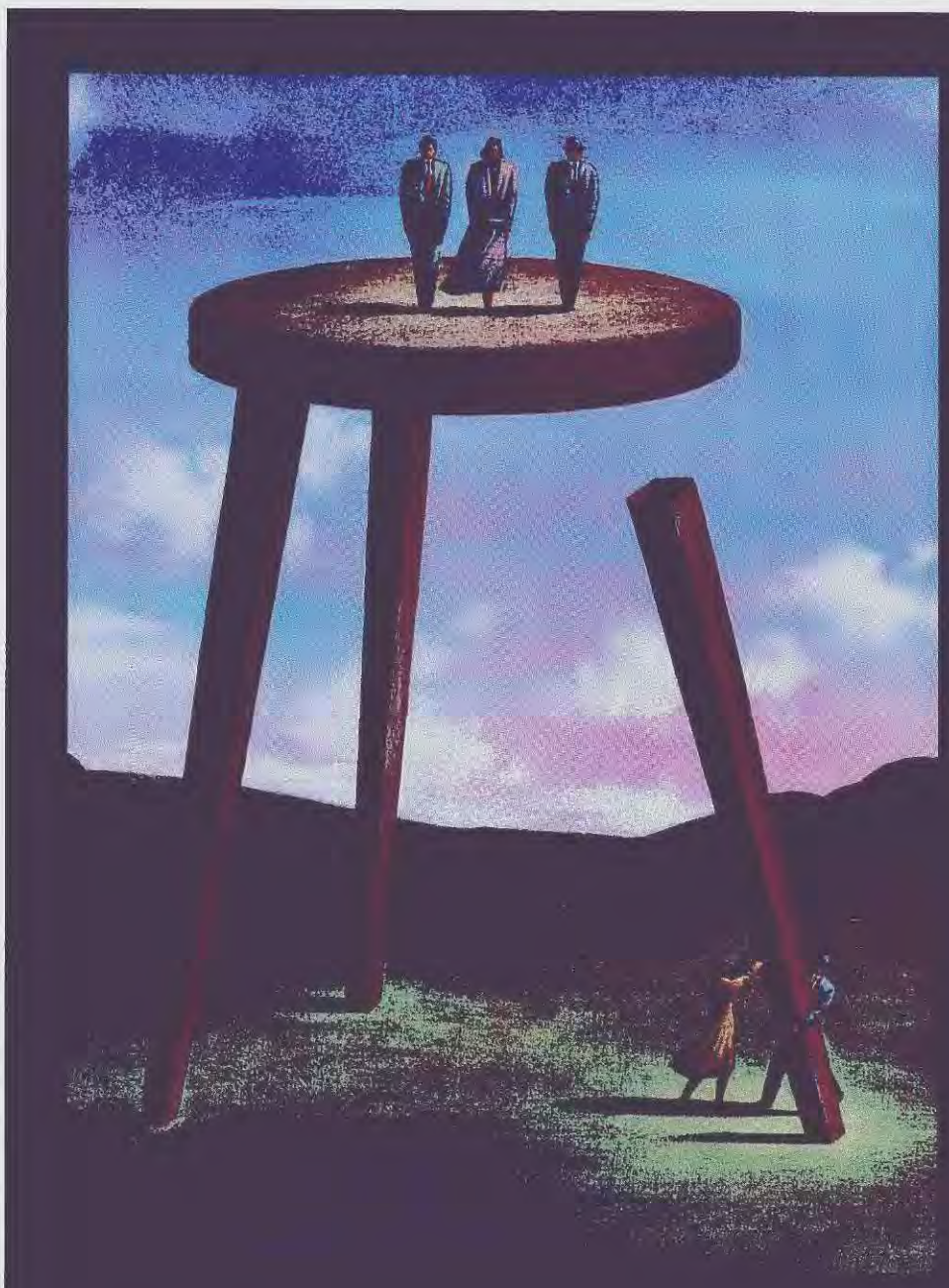
Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking, loss control (Canada, Europe, United States), risk management consulting.

Staff: One professional.

Clients: Three active captives managed at year-end 1995. Captive premium volume, $12 million. Capital and surplus managed, $10.5 million. No minimum size client.

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Continued from previous page

Compensation: Annual fee, $10,000; hourly.

Officers: Graham Brice, chairman/managing director; Richard E. Ince, general manager/director; John Lower, director.

International Risk Management (Bermuda) Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 441-295-0713; fax: 441-295-1712

Founded: 1963.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (Europe, North America); association captive management services, including specialized accounting services, risk management consulting, primary and excess insurance brokerage, reinsurance intermediary services.

Occasional services: Claims reserves analysis, loss forecasting.

Staff: 44; 16 professionals.

Clients: 76 active captives and 6 inactive captives managed at year-end 1995. Captive premium volume, $363 million. Capital and surplus managed, $860 million. No minimum size client.

Compensation: Annual fee, $10,000; hourly.

Officers: J.R. English, president; A.W. Summers, senior vp; M. Searson, N. Davies, vps.

International Risk Management (Canada) Ltd.

133 Richmond St. W., Sixth Floor, Toronto, Ontario M5H 2L3, Canada; 416-369-9797; fax: 416-363-7454

Founded: 1979.

Parent: International Risk Management Group Inc.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered to captives, underwriting and ratemaking, loss control (Ontario), risk management consulting.

Occasional services: Manual claims processing, reinsurance brokered for captives.

Staff: Nine; seven professionals.

Clients: Two active captives managed at year-end 1995.

Compensation: Annual fee; commission; hourly.

Officers: G.G. Bradburn, chairman; K.S. Exon, vp; G. Takach, secretary.

International Risk Management (Cayman) Ltd.

British American Tower, P.O. Box 69GT, Cayman Islands, B.W.I.; 809-949-0155; fax: 809-949-0002

Founded: 1975.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; claims reserves analysis; loss forecasting; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control (North America, Europe); association captive management services, including specialized accounting services and onshore services; risk management consulting; primary and excess insurance brokerage; reinsurance intermediary services.

Staff: 20; 10 professionals.

Clients: 31 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $330 million. Capital and surplus managed, $285 million. No minimum size client.

Compensation: Annual fee, $15,000; hourly.

Officers: John R. Lower, president; Roger Phelps, senior vp; Lawrence J. Walters, Michael Greenberg, vps.

International Risk Management (Dublin) Ltd.

Third Floor, Ormonde House, Earlsfort Centre, Lower Leeson St., Dublin 2, Ireland; 353-1-790-2600; fax: 353-1-790-2606

Founded: 1990.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, loss control.

Occasional services: Manual claims processing, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Five, all professionals.

Clients: Five active captives managed at year-end 1995. Captive premium volume, $142 million. Capital and surplus managed, $106 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: G.D. Brice, J.R. English, A. Halsall, J.R. Parkinson.

International Risk Management Group Ltd.

Belvedere Building, P.O. Box HM 660, Hamilton HM CX, Bermuda; 441-295-0713; fax: 441-295-5101

Founded: 1958.

Parent: The Swiss Reinsurance Co.

Officers: W. Kielholz, chairman; E. Zimmerman, deputy chairman; G.G. Bradburn, president/CEO; T.G. Grilli, executive vp/CFO; W.F. Nehls, senior vp.

Subcontracts for captive management services with American Risk Management Corp. in Vermont; American Risk Management of Hawaii in Hawaii; International Risk Management companies in Barbados, Bermuda, Canada, Cayman, Dublin, Guernsey, Isle of Man, Luxembourg and Singapore.

International Risk Management (Guernsey) Ltd.

IRM House, Le Bordage, St. Peter Port, Guernsey GY1 1BR; 44-1481-727220; fax: 44-1481-712443

Founded: 1988.

Parent: IRM Group.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.

Occasional services: Online access to claims data.

Staff: 25; eight professionals.

Clients: 28 active captives managed at year-end 1995. Captive premium volume, $260 million. Capital and surplus managed, $525 million. No minimum size client.

Officers: John R. Parkinson, managing director; J.W. Stuart, finance director; W.H. Wild, director/general manager.

International Risk Management (Isle of Man) Ltd.

Suite 3, Fourth Floor, Peveril Building, Douglas, Isle of Man IM1 2BS; 44-1624-629198; fax: 44-1624-529199

Founded: 1985.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, risk management consulting.

Occasional services: Manual claims processing, loss forecasting.

Staff: Six; three professionals.

Clients: Eight active captives managed at year-end 1995. No minimum size client.

Subsidiaries: Risk Management Consultants (Africa) Pty. Ltd., South Africa.

Compensation: Annual fee; hourly.

Officers: J.R. Parkinson, managing director; G. Brice, J. Stuart, directors; M.A. Skehan, director/general manager.

International Risk Management (Singapore) Pte. Ltd.

331 N. Bridge Road, 11-01 Odeon Tower, Singapore 0718; 65-339-8373; fax: 65-339-8069

Founded: 1988.

Parent: International Risk Management Group Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, loss control (Europe, North America), risk management consulting.

Occasional services: Manual claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.

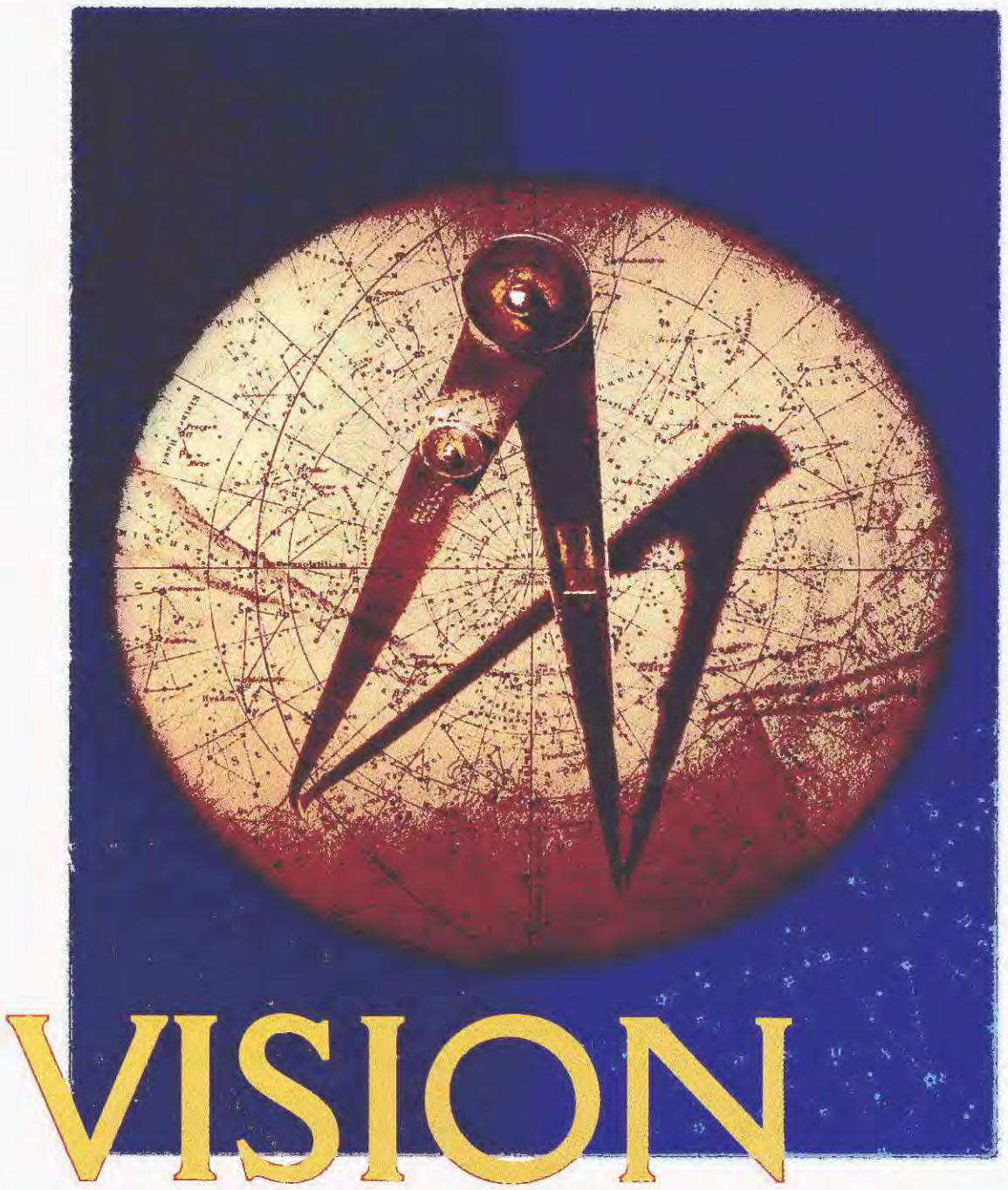
Staff: One.

Clients: Four active captives managed at year-end 1995. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Mark Myerson, director/secretary; Gareth G. Bradburn, director.

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International Risk Services

31/33 Monument Hill, Weybridge, Surrey KT13 8RS, England; 44-1932-854711; fax: 44-1932-857368

Founded: 1967.
Parent: International Risk Management Group.
Officers: Derek Douglas, managing director; Philip Holland, general manager; Don Lawson, Tony Milsom, assistant general managers; Frank How, director.
Subcontracts for captive management services with International Risk Management in Bermuda, Cayman, Dublin, Guernsey, Isle of Man and Luxembourg and other International Risk Management companies in Australia, Barbados, Canada, Singapore, South Africa and the United States.

Isle of Man Insurance Management Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-624141; fax: 44-1624-622500

Founded: 1977.
Parent: Isle of Man Assurance Ltd.
Offers rent-a-captive.
Services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, loss forecasting, underwriting and ratemaking, managing underwriting pools/facilities.
Staff: 20; seven professionals.
Clients: 13 active captives managed at year-end 1995.
Compensation: Annual fee, $35,000.
Officers: Christine Crowther, managing director; Laura Watterson, manager; Richard Drinkwater, assistant manager; Keith Allen, group accountant.
Contact: Richard Drinkwater.

J

Jardine (Canada) Risk Management Ltd.

16th Floor, 1111 W. Georgia St., Vancouver, B.C. V6E 4G2, Canada; 604-682-9528; fax: 604-682-3520

Founded: 1987.
Parent: Jardine Rolfe Ltd.
Frequent services: Feasibility studies; government reporting; accounting; claims processing; loss control (Vancouver); association captive management services, including onshore services.
Occasional services: Captive formation, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, investment management, managing underwriting pools/facilities.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1995.
Compensation: Annual fee, commission, hourly.
Officers: M.D. Ogdon, president; P. Kelly, general manager/secretary; H.W.R. Harrison, director.
Contact: Peter Kelly.

Jardine Pinehurst Management Co. Ltd.

Jardine House, 33-35 Reid St., P.O. Box HM 1752, Hamilton HM GX, Bermuda; 441-295-4864; fax: 441-292-7375

Founded: 1967.
Parent: Jardine Matheson Holdings Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; investment management; tax advice; legal advice; association captive management services, including specialized accounting services and onshore services.
Occasional services: Underwriting and ratemaking; loss control (London).
Staff: 13; five professionals.
Clients: 36 captives managed at year-end 1995.
Subsidiaries: Jardine Pinehurst Management Co. (Barbados) Ltd., Jardine Risk Services (Guernsey) Ltd., Jardine Risk Services (IOM) Ltd.
Officers: Carl Daly, president; Donald Baker, senior vp; Dueane Dill, assistant vp/financial controller; Karen Ebbin, Nuala Waldron, assistant vps.

Jardine Risk Services (IOM) Ltd.

IOMA House, Prospect Hill, Douglas, Isle of Man IM1 1ET; 44-1624-624141; fax: 44-1624-622500

Founded: 1988.
Officers: Christine Crowther, director; Laura Watterson, manager; Richard Drinkwater, assistant manager; Keith Allen, group accountant.
Contact: Richard Drinkwater.
Subcontracts for captive management services with Isle of Man Insurance Management Ltd.

Johnson & Higgins (Barbados) Ltd.

P.O. Box 1274, Whitepark House, White Park Road, Bridgetown, Barbados; 809-436-9929; fax: 809-436-9932

Founded: 1986.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives.
Staff: 11; seven professionals.
Clients: 23 active captives and five inactive captives managed at year-end 1995. Captive premium volume, $79 million. Capital and surplus managed, $418 million. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Brian Hall, president; Wayne Cowan, senior vp; Kevin Walton, vp; Glenda Gordan, Nicholas Crichlow, assistant vps.
Contact: Kevin Walton.

Johnson & Higgins (Bermuda) Ltd.

Victoria Hall, Victoria St., Hamilton HM HX, Bermuda; 441-292-4402; fax: 441-292-1563

Founded: 1969.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing; underwriting and ratemaking.
Staff: 152; 35 professionals.
Clients: 174 active captives and 18 inactive captives managed at year-end 1995. Captive premium volume, $1.8 million. Capital and surplus managed, $2.7 million. No minimum size client.
Officers: Brian R. Hall, chairman; Roger C. Gillett, Shaun A. Reape, senior vps; Jill E. Husbands, vp.

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Johnson & Higgins (Cayman Islands) Ltd.

P.O. Box 1051, Cayman Islands, B.W.I.; 809-949-7988; fax: 809-949-7849

Founded: 1979.
Parent: Johnson & Higgins.
Offers rent-a-captive.
Frequent services: Captive formation; government reporting; accounting; claims reserves analysis; reinsurance brokered for captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Occasional services: Feasibility studies; computerized claims processing; loss forecasting; reinsurance brokered to captives.
Staff: 34; 15 professionals.
Clients: 86 active captives and six inactive captives managed at year-end 1995. Captive premium volume, $533.1 million. Capital and surplus managed, $695 million. No minimum size client.
Compensation: Annual fee, $24,000; commission; hourly: professional, $150 to $190; clerical, $80 to $100.
Officers: Wayne A.M. Cowan, senior vp; Peter O'Leary, Michael Gibbs, vps; Paul Macey, Toni Silich, Graham Manchester, assistant vps.

Johnson & Higgins Risk Management Services (S) Pte. Ltd.

143 Cecil St., Suite 14-01, GB Building, S(069542), Singapore; 65-225-3655; fax: 65-224-6721

Founded: 1988.
Parent: Johnson & Higgins Pte. Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; underwriting and ratemaking.
Occasional services: Manual claims processing, reinsurance brokered for captives.
Staff: Five; all professionals.
Clients: 3 active captives managed at year-end 1995. Captive premium volume, $25.8 million. Capital and surplus managed, $19.6 million. No minimum size client.
Compensation: Annual fee.
Officers: Roy Douglas Hubber.

Johnson & Higgins Services Inc. (Colorado)

1999 Broadway, Suite 1900, Denver, Colo. 80202; 303-291-9605; fax: 303-672-1880

Founded: 1983.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims processing; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Occasional services: Claims reserves analysis; reinsurance brokered to captives; loss control.
Staff: One.
Clients: Two active captives managed at year-end 1995. Captive premium volume, $2.5 million. Capital and surplus managed, $55.3 million. No minimum size client.
Compensation: Annual fee.
1995 gross revenues: 100% from fees charged for captive management.
Officers: Brian R. Hall, director; Arthur G. Koritzinsky, senior vp; Paul A. Froment, assistant vp.

Johnson & Higgins Services Inc. (Hawaii)

745 Fort St., Suite 1102, Honolulu, Hawaii 96813; 808-599-5902; fax: 808-531-1549

Founded: 1983.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims reserves analysis, underwriting and ratemaking, coordination of directors meetings.
Occasional services: Claims processing; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Staff: Three, all professionals.
Clients: Eight active captives and one inactive captive managed at year-end 1995. Captive premium volume, $29.4 million. Capital and surplus managed, $35.1 million. No minimum size client.
Compensation: Annual fee.
Officers: Brian R. Hall, director; Arthur Koritzinsky, senior vp; Fay S. Okamoto, assistant vp.
Contact: Fay S. Okamoto.

Johnson & Higgins Services Inc. (Vermont)

7 Burlington Square, Sixth Floor, P.O. Box 530, Burlington, Vt. 05402-0530; 802-864-5599; fax: 802-864-5764

Founded: 1983.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services.
Occasional services: Manual claims processing; claims reserves analysis; reinsurance brokered to captives; loss control.
Staff: 32; 24 professionals.
Clients: 60 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $605.1 million. Capital and surplus managed, $1.4 billion. No minimum size client.
Compensation: Annual fee, hourly.
Officers: Brian R. Hall, director; Arthur Koritzinsky, senior vp; Julie Boucher, vp.

Johnson & Higgins (USVI) Ltd.

6-7 Dronningens Gade, Suite 207, Charlotte Amalie, St. Thomas, U.S.V.I. 00802; 809-776-0411; fax: 809-776-0532

Founded: 1984.
Parent: Wilcox, Peck & Hughes Inc.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, investment management, foreign sales corporation management.
Occasional services: Manual claims processing, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1995. No minimum size client.
Compensation: Annual fee, hourly.
Contact: Kevin T. Walton.

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M

M&M Insurance Management Services

1099 Alakea St., Honolulu, Hawaii 96810; 808-531-4211; fax: 808-523-7030

Founded: 1989.
Parent: Marsh & McLennan.
Services: Feasibility studies, captive formation, government reporting, accounting, actuarial studies, association captive management services.
Staff: Four; three professionals.
Clients: 12 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $94.7 million. No minimum size client.
Officers: Peter J. Lowe, senior vp.

M&M Insurance Management Services Inc.

7 Burlington Square, Fifth Floor, P.O. Box 5129, Burlington, Vt. 05402-5129; 802-658-0776; fax: 802-658-1479

Founded: 1980.
Parent: Marsh & McLennan Inc.
Frequent services*: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.
Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: 10.

Continued on next page

Continued from previous page

Clients:** 38 captives managed at year-end 1995. Captive premium volume, $770.7 million. Capital and surplus managed, $2.5 billion. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Raymond C. Oberg, senior vp/general manager.

** Some services performed by sister company.*
***Includes captives in other domiciles.*

Marsh & McLennan Management Services (Barbados) Ltd.

P.O. Box 844, Second Floor, Musson Building, Hincks St., Bridgetown, Barbados; 246-436-8921; fax: 246-436-9826

Founded: 1986.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, loss control.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Three.

Clients: Nine captives managed at year-end 1995. Captive premium volume, $124 million. Capital and surplus managed, $242 million. No minimum size client.

Compensation: Annual fee, hourly.

Contact: Stephen B. White, assistant vp/general manager.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Bermuda) Ltd.

P.O. Box HM 1262, Hamilton HM FX, Bermuda; 441-295-3278; fax: 441-292-6313

Founded: 1968.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: 43.

Clients: 89 captives managed at year-end 1995. Captive premium volume, $557 million. Capital and surplus managed, $808 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Andrew D. Carr, president; Rory Gorman, senior vp; David E. Lindo, vp.

Contact: Andrew D. Carr.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Cayman) Ltd.

P.O. Box 2196, Butterfield House, Third Floor, Fort St., George Town, Cayman Islands, B.W.I.; 809-949-7466; fax: 809-949-8096

Founded: 1978.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Four.

Clients: 33 captives managed at year-end 1995. Captive premium volume, $64 million. Capital and surplus managed, $70 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Seamus Tivnan, general manager.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Dublin) Ltd.

St. James' House, Adelaide Road, Dublin 2, Ireland; 353-1-475-2788; fax: 353-1-475-2637

Founded: 1990.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; loss control.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Five.

Clients: Eight captives managed at year-end 1995. Captive premium volume, $75 million. Capital and surplus managed, $38 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Ian J. Clancy, vp/general manager.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Guernsey) Ltd.

P.O. Box 130, St. Peter Port, Guernsey GY1 3HH; 44-1481-713833; fax: 44-1481-713766

Founded: 1987.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Three.

Clients: Eight captives managed at year-end 1995. Captive premium volume, $35 million. Capital and surplus managed, $32 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: John Copeland, vp/general manager; Sue Corbet, account executive.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Isle of Man) Ltd.

Suite 2, Fourth Floor, Peveril Buildings, Loch Promenade, Douglas IM1 2BS, Isle of Man; 44-1624-661063; fax: 44-1624-676447

Founded: 1982.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, loss control.

Occasional services*: Manual claims processing, reinsurance brokered to captives, underwriting and ratemaking, investment management.

Staff: Three.

Clients: Seven captives managed at year-end 1995. Captive premium volume, $61 million. Capital and surplus managed, $279 million. No minimum size client.

Continued on next page

In the June 3 issue, *Business Insurance* will publish its annual directory of alternative risk financing facilities and rent-a-captives along with a spotlight report on government risk management.

The directory is published as an editorial service and there is no charge to be listed.

To be included, companies must provide 1995 written premium volume, assets and capital and surplus.

Reinsurers must directly provide coverage to captive insurers or self-insured policyholders or corporations other than insurance companies.

If your company manages an alternative risk financing facility or a rent-a-captive and you have not yet responded to this directory but would like to be included, please call Assistant Directory Editor Richard Trout at 312-649-5483 to receive a questionnaire. You must respond by the extended deadline of May 15.

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Continued from previous page

Compensation: Annual fee, hourly.

Officers: Graham R. King, vp/general manager; Stephen P. Winrow, director/accounts manager.

** Some services performed by sister company.*

Marsh & McLennan Management Services (Luxembourg) Ltd.

65 Avenue de la Gare, L-1611
Luxembourg; 352-496951;
fax: 352-496936

Founded: 1987.

Parent: Marsh & McLennan Inc.

Frequent services*: Feasibility studies, captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services.

Occasional services*: Manual claims processing, reinsurance brokered to captives. underwriting and ratemaking, investment management.

Staff: Seven.

Clients: 22 captives managed at year-end 1995. Captive premium volume, $207 million. Capital and surplus managed, $44 million. No minimum size client.

Compensation: Annual fee, hourly.

Officers: Claude Weber, vp/general manager.

** Some services performed by sister company.*

Meadowbrook Insurance Group Inc.

26600 Telegraph Road, Southfield,
Mich. 48034; 810-358-1100;
fax: 810-358-1614

Founded: 1955.

Offers rent-a-captive.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; legal advice; managing underwriting pools/facilities; loss control (Michigan); association captive management services, including specialized accounting services and onshore services. policy issuing.

Occasional services: Manual claims processing, online access to claims data.

Staff: 430; 175 professionals.

Clients: 35 active captives and one inactive captive managed at year-end 1995. Minimum size, $500,000.

Subsidiaries: Meadowbrook Risk Management Ltd., Barbados and Bermuda; Meadowbrook Intermediaries, Miami and New York.

Compensation: Annual fee, $30,000; commission; hourly: professional, $70; clerical, $35.

1995 gross revenues: $2.3 million, 60% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance.

Officers: Merton J. Segal, chairman; Warren Gardner, president; James Parry, executive vp; Joseph Henry, CFO; Robert Cubbin, general counsel.

Contact: Richard P. Marshall, vp.

Meadowbrook Risk Management Co. Ltd.

I.C.B. Building, Roebuck St.,
Bridgetown, Barbados; 809-426-4684;
fax: 809-426-4878

Founded: 1992.

Parent: Meadowbrook Inc.

Frequent services: Government reporting, accounting.

Occasional services: Feasibility studies, captive formation, claims reserves analysis, underwriting and ratemaking, investment management, tax advice.

Staff: Three; one professional.

Clients: Six active captives and four inactive captives managed at year-end 1995. Captive premium volume, $8 million. Capital and surplus managed, $11 million. No minimum size client.

Compensation: Annual fee, $15,000.

1995 gross revenues: $268,000, 99% from fees charged for captive management, 1% from commissions charged for brokering insurance/reinsurance.

Officers: Omar Cordial, president; Diana Gooding, manager.

Meadowbrook Risk Management Ltd.

P.O. Box HM 2340, Hamilton HM JX,
Bermuda; 441-292-7569;
fax: 441-292-3299

Founded: 1979.

Parent: Meadowbrook Inc.

Offers rent-a-captive.

Frequent services: Government reporting; accounting; claims processing; claims reserves analysis; reinsurance brokered for captives; underwriting and ratemaking; investment management; loss control; association captive management services, including specialized accounting services and onshore services.

Occasional services: Feasibility studies; captive formation; actuarial studies; loss forecasting; reinsurance brokered to captives.

Staff: Four; two professionals.

Clients: 10 active captives and three inactive captives managed at year-end 1995. Captive premium volume, $18 million.

Compensation: Annual fee, $15,000; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Merton J. Segal, president; Brian Stephenson, managing director/vp; Jim Kelly, vp.

Midland Bank Trust Corp. (Cayman) Ltd.

P.O. Box 1109, Cayman Islands,
B.W.I.; 809-949-7755;
fax: 809-949-7634

Founded: 1984.

Parent: HSBC Holdings P.L.C.

Services: Captive formation; government reporting; accounting; computerized claims processing; investment management; association captive management services, including specialized accounting services; banking.

Staff: 29; nine professionals.

Clients: 62 active captives and seven inactive captives managed at year-end 1995. Captive premium volume, $236.6 million. No minimum size client.

Compensation: Annual fee; hourly: professional, $120 to $250; clerical, $80.

1995 gross revenues: 100% from fees charged for captive management.

Officers: David A. Whitefield, managing director; Anthony Stelling, director; Thomas Clark, assistant director; Linda Haddleton, manager-insurance services; Nicholas Clements, assistant manager-insurance services.

Contact: Anthony Stelling.

MIMS International (Barbados) Ltd.

Chelston Park, Building 2, Collymore
Rock, St. Michael, Barbados;
809-426-6467; fax: 809-429-8517

Founded: 1986.

Services: Captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking.

Staff: Five; three professionals.

Clients: 18 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $532 million. Capital and surplus managed, $398 million. No minimum size client.

Contact: Martin R. Hole, president.

Minet Risk Services (Bermuda) Ltd.

Cumberland House, Fifth Floor,
1 Victoria St., Hamilton HM BX,
Bermuda; 441-295-0073;
fax: 441-295-5003

Founded: 1929.

Parent: Minet Group.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting.

Occasional services: Computerized claims processing, association captive management services.

Staff: 18; nine professionals.

Clients: 16 active captives and eight inactive captives managed at year-end 1995. Captive premium volume, $383 million. No minimum size client.

Compensation: Annual fee.

1995 gross revenues: $1.8 million, 100% from fees charged for captive management.

Officers: L. Ware Preston III, senior vp; Colin R. Newell, C. Ian McCathie, Paul Lee, managing directors; Nancy L. Gray, assistant vp.

Information on captives domiciled in Barbados, Guernsey, Jersey, Singapore and Vermont are included in this listing.

Continued on next page

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Mountain States Insurance Managers

4873 W. 98th Ave., Westminster, Colo. 80030; 303-469-8450; fax: 303-469-8450

Founded: 1993.
Services: Government reporting, accounting, claims reserves analysis, managing underwriting pools/facilities, association captive management services.
Staff: One professional.
Clients: One inactive captive managed at year-end 1995. No minimum size client.
Compensation: Annual fee.
1995 gross revenues: $50,000, 100% from fees charged for captive management.
Contact: Nancy Velasquez, owner.

Mutual Coyle Hamilton Managers Ltd.

7-9 S. Leinster St., Dublin 2, Ireland; 353-1-676-5043; fax: 353-1-676-7957

Founded: 1990.
Parent: Coyle Hamilton.
Frequent services: Feasibility studies, accounting.
Occasional services: Captive formation, government reporting, manual claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management, tax advice, legal advice.
Staff: Two; one professional.
Clients: Two active captives managed at year-end 1995. No minimum size client.
Compensation: Annual fee.
Officers: Paul Sinnott, managing director; William J. Cooney, chairman; Hugh Governey, James Kelly, directors.

Mutual Risk Management (Barbados) Ltd.

Second Floor, Trident House, Broad St., Bridgetown, Barbados; 809-436-5887; fax: 809-427-5328

Founded: 1986.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive.
Frequent services: Government reporting, accounting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Occasional services: Feasibility studies, captive formation.
Staff: One professional.
Clients: Four active captives managed at year-end 1995. Captive premium volume, $63.5 million. Capital and surplus managed, $37.7 million. No minimum size client.
Compensation: Annual fee.
1995 gross revenues: $108,000, 100% from fees charged for captive management.
Officers: Robert Mulderig, president.

Mutual Risk Management (Bermuda) Ltd.

P.O. Box HM 2064, 44 Church St., Hamilton HM HX, Bermuda; 441-295-5688; fax: 441-292-1867

Founded: 1977.
Parent: Mutual Risk Management Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; investment management; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: 12; five professionals.
Clients: 46 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $121.3 million. Capital and surplus managed, $97.5 million. No minimum size client.
Subsidiaries: CFM Insurance Managers Ltd., Bermuda.
Compensation: Annual fee.
1995 gross revenues: $2.1 million, 100% from fees charged for captive management.
Officers: Robert A. Mulderig, chairman; Simon Scupham, president; Colin M. Alexander, senior vp; Richard O'Brien, P. Christopher Regan, vps.

Mutual Risk Management (Cayman) Ltd.

Genesis Building, Second Floor, P.O. Box 1363, Cayman Islands, B.W.I.; 809-949-7966; fax: 809-949-8068

Founded: 1982.
Parent: Mutual Risk Management Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; manual claims processing; investment management; association captive management services, including specialized accounting services.
Occasional services: Computerized claims processing, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, tax advice, managing underwriting pools/facilities, loss control.
Staff: Five; three professionals.
Clients: 34 active captives and six inactive captives managed at year-end 1995. Captive premium volume, $64 million.
Compensation: Annual fee.
Officers: Robert Mulderig, John Kessock, Spottswood Dudley, directors; Peter MacKay, general manager/director; John Pitcairn, vp.
Contact: Peter MacKay or John Pitcairn.

Richard Oliver Risk Managers Pte. Ltd.

6 Shenton Way, DBS Building, Tower 2, Suite 25-10, Singapore 068809; 65-221-8561; fax: 65-221-8569

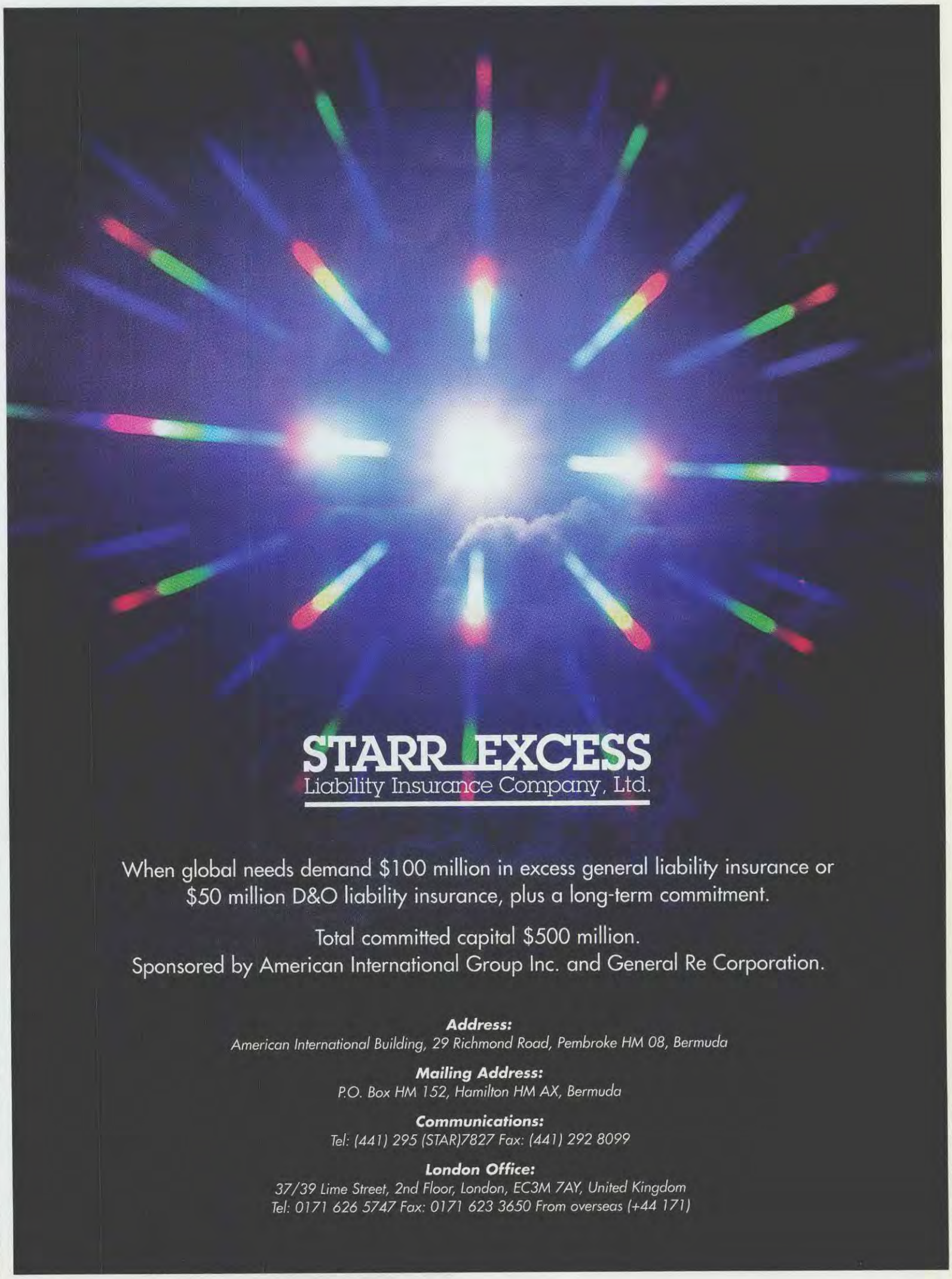
Founded: 1989.
Parent: Richard Oliver Pty. Ltd.
Frequent services: Government reporting, accounting, manual claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking, loss control (Asia Pacific), risk management consulting, liability scheme management.
Occasional services: Feasibility studies, captive formation, computerized claims processing, investment management.
Staff: 12; five professionals.
Clients: Three active captives managed at year-end 1995. Captive premium volume, $28 million. Capital and surplus managed, $37 million. Minimum size, $1 million.
Compensation: Annual fee, $25,000; hourly.
1995 gross revenues: $1.3 million, 46% from fees charged for captive management, 54% from other services, including risk management and liability scheme management.
Officers: A. Pellen, managing director; G. Lai, deputy general manager.

Optimum Risk Research (International) Ltd.

P.O. Box 627, 26 Cornet St., St. Peter Port, Guernsey GY1 4PP; 44-1481-724212; fax: 44-1481-710696

Founded: 1989.
Offers rent-a-captive.
Occasional services: Feasibility studies, captive formation, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, tax advice, legal advice.
Staff: Four; three professionals.

Continued on next page



Continued from previous page

Clients: One active captive managed at year-end 1995.

Compensation: Annual fee, $5,000; hourly: professional, $150 to $500; clerical, $80 to $150.

Officers: Jean-Francois Gelot, managing director; Francoise Gelot, executive director; Rosemary Le Messurier, manager.

P

Powerscourt Management Ltd.

Windsor Place, 18 Queen St., Hamilton HM 11, Bermuda; 441-295-8495; fax: 441-292-1196

Founded: 1984.
Parent: The Powerscourt Group Ltd.
Offers rent-a-captive.
Frequent services: Captive formation; government reporting; accounting; claims processing; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Occasional services: Feasibility studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management.
Staff: 10; eight professionals.
Clients: 17 active captives managed at year-end 1995. No minimum size client.
Compensation: Annual fee; hourly.
Officers: John R. Kane, chairman; Andrew McComb, president/CEO; Dominic F. Silvester, executive vp/secretary; Steven R. Western, senior vp; David W. Hackett, Nick A. Packer, vps.

Q

Quail Street Management Ltd.

34 Church St., Hamilton, Bermuda; 441-292-2582; fax: 441-292-1880

Founded: 1979.
Parent: Western Growers Assn.
Offers rent-a-captive.
Frequent services: Government reporting; accounting; computerized claims processing; investment management; tax advice; managing underwriting pools/facilities; loss control (Arizona, California); association captive management services, including specialized accounting services and onshore services; foreign sales corporation management.
Occasional services: Feasibility studies; captive formation; manual claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking.
Clients: Four active captives and one inactive captive managed at year-end 1995. No minimum size client.
Compensation: Annual fee, $7,500; hourly.
Contact: Mark Moffat, president.

The directory of captive managers begins on page 80; to find captives in a particular domicile, refer to the geographical index on page 106.

R

RiskCap

1571 Race St., Denver, Colo. 80206; 303-388-5688; fax: 303-388-5585

Founded: 1976.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services; ongoing management and independent consulting assistance to other alternative market programs.
Occasional services: Manual claims processing, reinsurance brokered to captives.
Staff: 15; eight professionals.
Clients: Four active captives managed at year-end 1995. Captive premium volume, $21.6 million. Capital and surplus managed, $30.9 million.
Compensation: Annual fee; hourly: professional, $125 to $175; clerical, $35.
1995 gross revenues: $1.3 million, 42% from fees charged for captive management, 58% from other services, including risk management and alternative market programs.
Officers: Michael Murphy, principal consultant; Sherlyn Farrell, senior consultant; Richard Poling, Ed Rohrer, George Kern, consultants.

S

SB&T Captive Management Co.

102 S. Winooski Ave., P.O. Box 730; Burlington, Vt. 05402-0730; 802-863-5774; fax: 802-658-6191

Founded: 1982.
Parent: Smith, Bell & Thompson Inc.
Frequent services: Captive formation, government reporting, accounting; claims processing, online access to claims data, managing underwriting pools/facilities, association captive management services.
Occasional services: Claims reserves analysis, reinsurance brokered for captives, underwriting and ratemaking, tax advice, specialized accounting services for association captives.
Staff: Eight; seven professionals.
Clients: 14 active captives managed at year-end 1995. Captive premium volume, $131.7 million. Capital and surplus managed, $235.1 million. No minimum size client.
Compensation: Annual fee; hourly.
Officers: Roger D. Teese, president/CEO; Bradley D. Matulonis, vp/CFO; Carolyn S. Kovac, vp; William D. Thompson, senior vp.

SLR Management (Bermuda) Ltd.

Continental Building, Church St., P.O. Box HM 1978, Hamilton, Bermuda; 441-295-8270; fax: 441-292-8611

Founded: 1978.
Parent: International Nederlanden Group.
Frequent services: Government reporting, accounting, claims processing.
Occasional services: Feasibility studies, captive formation, underwriting and ratemaking, investment management.
Staff: Four; three professionals.
Clients: Seven active captives and three inactive captives managed at year-end 1995.
Compensation: Annual fee.
Officers: Nicholas E.J. Wheeler, president; Angus G. Hyslop, vp; Duarte de-Frias, assistant controller.
Contact: Nicholas E.J. Wheeler or Angus G. Hyslop.

Sartor Resources Ltd.

2 Le Marchant St., St. Peter Port, Guernsey GY1 2JJ; 44-1481-714792; fax: 44-1481-715071

Founded: 1989.
Offers rent-a-captive.
Frequent services: Feasibility studies, government reporting, accounting.
Occasional services: Captive formation, claims processing, online access to claims data, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, association captive management services.
Staff: Four; two professionals.
Clients: Four active captives and one inactive captive managed at year-end 1995. Captive premium volume, $1 million. Capital and surplus managed, $1 million. No minimum size client.
Compensation: Annual fee, $15,000; commission; hourly: professional, $150; clerical, $30 to $75.
Officers: Roger W.F. Taylor, G.H. Freeman.

Sedgwick Management Services (Bermuda) Ltd.

Cumberland House, Level 6, 1 Victoria St., P.O. Box HM 2280, Hamilton HM JX, Bermuda; 441-292-6667; fax: 441-292-0498

Founded: 1973.
Parent: Sedgewick Group PLC.
Frequent services: Feasibility studies*; captive formation; government reporting; accounting; claims processing;

Continued on next page

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claims reserves analysis*; actuarial studies*; loss forecasting*; underwriting and ratemaking; managing underwriting pools/facilities; loss control*; association captive management services, including specialized accounting services and onshore services; serve as principal representative; assist in selection of service providers; arrange/participate in meetings; establish asset management and underwriting policies.

Occasional services: Reinsurance brokered for captives.

Staff: 33; 12 professionals.

Clients: 43 active captives and 14 inactive captives managed at year-end 1995. Captive premium volume, $286 million. Capital and surplus managed, $628 million. No minimum size client.

Subsidiaries: Sedgwick Management Services (Cayman) Ltd., Cayman Islands; Sedgwick Management Services (Curacao) Ltd., Netherlands Antilles.

Compensation: Annual fee; commission; hourly.

1995 gross revenues: 60% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance.

Officers: Robert C. Hug Jr., president; A. Trevor Metcalf, senior vp-brokerage services; Philip A.G. Cracknell, vp-client financial services; Mary E. Barnes, vp-underwriting services; Nigel M. Godfrey, vp-corporate services.

Contact: Robert C. Hug Jr.

** Provided by other divisions of Sedgwick Group.*

Sedgwick Management Services (Guernsey) Ltd.

P.O. Box 309, Dixcart House, Sir William Place, St. Peter Port, Guernsey GY1 4NB; 44-1481-710555; fax: 44-1481-721857

Founded: 1978.

Parent: Sedgwick Group P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.

Occasional services: Investment management.

Staff: 13; seven professionals.

Clients: 24 active captives managed at year-end 1995.

Compensation: Annual fee; hourly.

Officers: Granville de Cruz, P. Michael Goudime, Pauline A. Chapman, Mary B. Mooney, Peter H. Touzeau.

Sedgwick Management Services (Ireland) Ltd.

25-28 Adelaide Road, Dublin 2, Ireland; 353-1-604-8100; fax: 353-1-661-9869

Founded: 1988.

Parent: Sedgwick Group P.L.C.

Services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, underwriting and ratemaking.

Staff: 11; 10 professionals.

Clients: 11 active captives and one inactive captive managed at year-end 1995.

Compensation: Annual fee.

Officers: Garry Cullet, Tom Crumlish.

Sedgwick Management Services (Isle of Man) Ltd.

Atlantic House, 4-8 Circular Road, Douglas, Isle of Man IM1 1AG; 44-1624-625313; fax: 44-1624-624523

Founded: 1982.

Parent: Sedgwick Group P.L.C.

Frequent services: Captive formation, accounting, claims processing, claims reserves analysis, loss forecasting, underwriting and ratemaking.

Staff: 18.

Clients: 33 captives managed at year-end 1995.

Officers: R.J. Martin, managing director; G. Crease, A. McKean, directors/account executives; P. McDonald, account executive.

Sedgwick Management Services (Singapore) Pte. Ltd.

51 Bras Basah Road, 08-03, Plaza by the Park, Singapore 189554; 65-336-8383; fax: 65-336-5463

Founded: 1984.

Parent: Sedgwick Group P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, underwriting and ratemaking, loss control (Asia, Singapore).

Occasional services: Claims reserves analysis, loss forecasting.

Staff: 13; 11 professionals.

Clients: 17 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $76.3 million. Capital and surplus managed, $205.6 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 78% from fees charged for captive management, 22% from other services, including risk management.

Officers: George Tarabaras, managing director; Tony Pereira, financial controller; Lucy Chan, accounting manager; Wong Swee Meng, accounting supervisor; Yeow Seok Lui, senior underwriting executive.

Sedgwick Management Services (U.S.) Ltd.

2000 S. Colorado Blvd., Denver, Colo. 80222; 303-691-1300; fax: 303-758-2302

Founded: 1982.

Parent: Sedgwick James Inc.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.

Occasional services: Manual claims processing.

Staff: Two, all professionals.

Clients: No minimum size client.

Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $75.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Jane Hill Fleming, president.

Contact: Andrew Sargeant, 802-229-5042.

Sedgwick Management Services (U.S.) Ltd.

1164 Bishop St., Suite 1415, Honolulu, Hawaii 96813; 808-539-7766; fax: 808-538-7780

Founded: 1982.

Parent: Sedgwick James Inc.

Officers: Jane Hill Fleming, president.

Contact: Gary Osborne.

Subcontracts for regulatory and financial services with Hawaii Captive Insurance Management Inc./USA Risk Group.

Sedgwick Management Services (U.S.) Ltd.

230 W. Monroe St., Chicago, Ill. 60606; 312-346-3000; fax: 312-346-1693

Founded: 1982.

Parent: Sedgwick James Inc.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control; association captive management services, including specialized accounting services and onshore services.

Occasional services: Manual claims processing.

Staff: Two; one professional.

Clients: No minimum size client.

Compensation: Annual fee; commission; hourly: professional, $100 to $250; clerical, $50 to $75.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Jane Hill Fleming, president.

Contact: Andrew Sargeant, 802-229-5042.

Sedgwick Management Services (U.S.) Ltd.

3401 West End Ave., Suite 690, Nashville, Tenn. 37203; 615-298-1414; fax: 615-298-9811

Founded: 1982.

Parent: Sedgwick James Inc.

Officers: Jane Hill Fleming, president.

Contact: Andrew Sargeant, 802-229-5042.

Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./USA Risk Group.

Sedgwick Management Services (U.S.) Ltd.

P.O. Box 306, Montpelier, Vt. 05601; 802-229-5042; fax: 802-229-6280

Founded: 1982.

Parent: Sedgwick James Inc.

Continued on next page



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Continued from previous page

Officers: Jane Hill Fleming, president.
Contact: Andrew Sargeant.
Subcontracts for regulatory and financial services with Vermont Insurance Management Inc./ USA Risk Group.

SINSER A.B.

Grev Turegatan 9, Stockholm, Sweden 11446; 46-8-614-1700; fax: 46-8-678-1800

Founded: 1983.
Parent: SINSER Holding A.B.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 13 professionals.
Clients: 13 active captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, deputy managing director.
Contact: Christina Hoegdahl, manager-corporate information/marketing services.

SINSER (Aland) A.B.

Koepmansgatan 6, SF-22100 Mariehamn, Aland; 358-28-27690; fax: 358-28-27699

Founded: 1996.
Parent: SINSER Holding A.B.
Officers: Mats Lindkvist, managing director; Bo Goran Persson, Bo Sture Sjolund, directors.
Contact: Bo Goran Persson, 46-8-614-1702.

SINSER Danmark A/S

G.L. Strand 34, Fourth Floor, 1202 Copenhagen K, Denmark; 45-334-74693; fax: 45-331-46765

Founded: 1992.
Parent: Skandia.
Frequent services: Feasibility studies, government reporting, accounting, claims processing, online access to claims data, claims reserves analysis, actuarial studies.
Occasional services: Captive formation, loss forecasting, investment management, tax advice, legal advice.
Staff: Three; two professionals
Clients: One active captive managed at year-end 1995.
Officers: Nikolaj Boysen, managing director.

SINSER (Europe) S.A.

BP 593, L-2015 Luxembourg; 352-22-34-22-310; fax: 352-47-02-51

Founded: 1988.
Parent: SINSER Holding A.B.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Eight, all professionals.
Clients: 17 active captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Charles Besnehard, managing director.

SINSER Holding A.B.

Grev Turegatan 9, Stockholm, Sweden 11446; 46-8-614-1700; fax: 46-8-678-1800

Founded: 1995.
Parent: Skandia Insurance Co. Ltd.
Frequent services: Feasibility studies; captive formation; government reporting; computerized accounting; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminar activities.
Clients: 185 active captives and two inactive captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Mats Lindkvist, CEO; Christina Hoegdahl, manager-corporate information/marketing services; Anna-Carin Busk, group controller.

SINSER (International) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg; 352-22-34-22-219; fax: 352-47-02-50

Founded: 1994.
Parent: SINSER Holding A.B.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: One professional.
Clients: Three active captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Tomas Wittbjer, managing director.

SINSER (Ireland) Ltd.

11 Windsor Place, Lower Pembroke St., Dublin 2, Ireland; 353-1-6768766; fax: 353-1-6768792

Founded: 1989.
Parent: SINSER Holding A.B.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: Nine, all professionals.
Clients: 18 active captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Irene Ryan, managing director.

SINSER (Isle of Man) Ltd.

P.O. Box 276, Douglas, Isle of Man; 44-1624-614901; fax: 44-1624-614284

Founded: 1995.
Parent: SINSER Holding A.B.
Officers: Irene Ryan, managing director.

SINSER (Luxembourg) S.A.R.L.

P.O. Box 593, L-2015 Luxembourg; 352-22-34-22-1; fax: 352-47-02-50

Founded: 1984
Parent: SINSER Holding A.B.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; conferences and seminars.
Occasional services: Actuarial studies, loss forecasting, investment management, tax advice, legal advice.
Staff: 14, all professionals.
Clients: 33 active captives managed at year-end 1995.
Compensation: Annual fee; hourly.
Officers: Tony Nordblad, managing director.

Skandia International Risk Management Ltd., A SINSER Group Co.

Skandia International House, 16 Church St., P.O. Box HM 2062, Hamilton HM HX, Bermuda; 441-295-2185; fax: 441-292-8637

Founded: 1979.
Parent: Skandia/SINSER Group.

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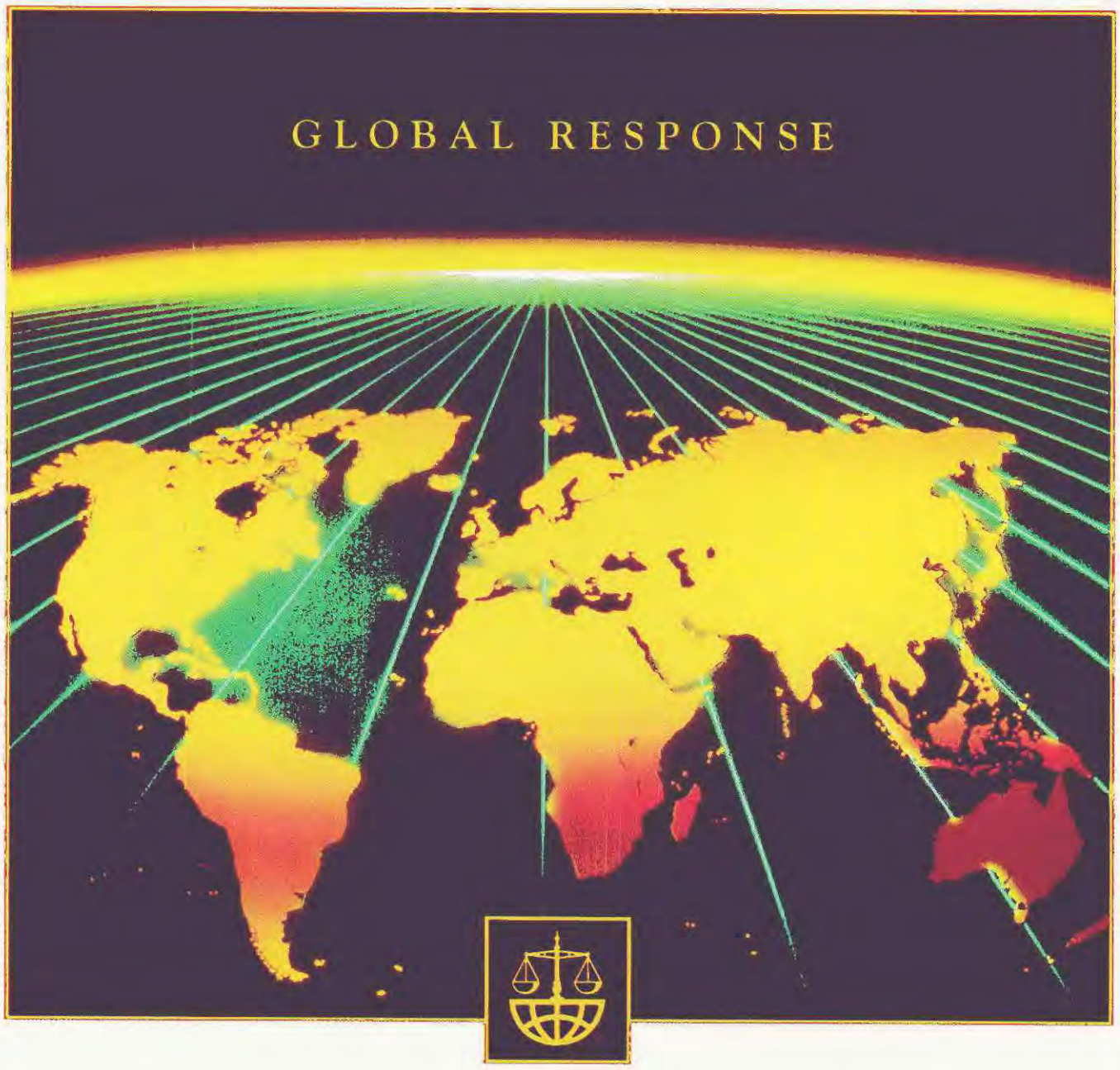
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Continued from previous page

Offers rent-a-captive.

Frequent services: Captive formation; government reporting; computerized accounting; computerized claims processing; investment management; association captive management services, including specialized accounting services.

Occasional services: Feasibility studies, manual claims processing, online access to claims data, claims reserves analysis, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.

Staff: 15; eight professionals.

Clients: 81 active captives managed at year-end 1995. Captive premium volume, $255 million. No minimum size client.

Subsidiaries: Skandia International Risk Management (Vermont) Inc.

Compensation: Hourly.

Officers: Nicholas S. Dove, president; Robert J. Rosser, Robert W. Eastham, Adrian Lee-Emery, vps.

Skandia International Risk Management (Vermont) Ltd., a SINSER Group Co.

346 Shelburne Road, Fourth Floor, Burlington, Vt. 05401; 802-658-1474; fax: 802-658-0692

Founded: 1986.

Parent: Sinser Holding A.B.

Offers rent-a-captive.

Frequent services: Captive formation; government reporting; accounting; association captive management services, including specialized accounting services and onshore services.

Occasional services: Feasibility studies, claims processing, online access to claims data, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, managing underwriting pools/facilities.

Staff: Five; four professionals.

Clients: 16 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $28.4 million. Capital and surplus managed, $68.9 million. No minimum size client.

Compensation: Annual fee.

1995 gross revenues: 100% from fees charged for captive management.

Officers: George A. Chaffee, president; Patricia Henderson, David M. Boardman, vps; Thomas Tobin, secretary.

Sogecore A.G.

Schipfe 2, Zurich, CH 8022, Switzerland; 41-1-221-19-21; 41-1-212-44-65

Founded: 1994.

Parent: Sogecore Group.

Services: Feasibility studies; captive formation; government reporting; computerized accounting; computerized claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; investment management; association captive management services, including specialized accounting services.

Staff: One professional.

Clients: Two captives managed at year-end 1995.

Officers: Nadia Studer, Pierre Perrenoud, Jean Thilly, Gilles Coremans.

Sogecore S.A.

6B Route de Treves, Senningerberg, Luxembourg 2633; 352-34-68-66; fax: 352-34-68-40

Founded: 1982.

Services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Staff: 12 professionals.

Clients: 32 active captives and 1 inactive captive managed at year-end 1995.

Subsidiaries: Sogecore A.G., Zurich, Switzerland; Sogecore Ireland Ltd., Dublin, Ireland; Sogecore Europe, Sogecore Italia, Luxembourg.

Officers: Jean Thilly, Gilles Coremans.

Sogecore Ireland Ltd.-FBD

Andersen House, 1 Harbourg Master Place, IFSC, Dublin 1, Ireland; 353-1-670-1340

Founded: 1989.

Parent: Sogecore Group.

Officers: Jean Thilly, Gilles Coremans, John Prosser.

Subcontracts for captive management services with FBD Management Services.

Spread Insurance Management Ltd.

P.O. Box 119, Commerce House, St. Peter Port, Guernsey, GY1 3HB; 44-1481-714161 fax: 44-1481-711657

Founded: 1992.

Parent: Reads Holdings Ltd.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, underwriting and ratemaking, tax advice, legal advice, subcontract captive management facilities.

Occasional services: Claims processing, loss forecasting, investment management.

Staff: 140; 100 professionals.

Clients: 16 active captives and four inactive captives managed at year-end 1995. No minimum size client.

Compensation: Annual fee; hourly.

Officers: Callum Beaton, managing director; Steven Parrott, John Rowe, John Fewkes, Eifion Thomas, directors.

Symphony Management Ltd.

P.O. Box HM 1538, Hamilton HM FX, Bermuda; 441-295-2447; fax: 441-292-0511

Founded: 1991.

Offers rent-a-captive.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; reinsurance brokered for captives; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Occasional services: Claims processing; online access to claims data; loss forecasting; reinsurance brokered to captives; underwriting and ratemaking; investment management.

Staff: Five; four professionals.

Clients: 11 active captives and one inactive captive managed at year-end 1995. Captive premium volume, $71 million. Capital and surplus managed, $46 million. No minimum size client.

Compensation: Annual fee; commission; hourly; professional, $125 to $200; clerical, $75 to $90.

Officers: John G. Neal, president.

T

W.A. Taft & Co. Ltd.

P.O. Box HM 2210, Hamilton HM JX, Bermuda; 441-295-8495; fax: 441-292-1196

Founded: 1982.

Frequent services*: Captive formation; government reporting; accounting; manual claims processing; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; association captive management services, including specialized accounting services and onshore services.

Occasional services*: Computerized claims processing, investment management.

Staff: Two; one professional.

Clients: Two inactive captives managed at year-end 1995.

Compensation: Annual fee; commission.

Officers: W. Allen Taft, president; Richard Goff, executive vp.

Contact: W. Allen Taft, 610-430-7757 or Richard Goff, 410-296-1500.

** Some services are subcontracted to The Powerscourt Group Ltd.*

Tate & Lyle Management & Finance Ltd.

Jardine House, 33-35 Reid St., P.O. Box HM 337, Hamilton HM BX, Bermuda; 441-295-9911; fax: 441-292-6139

Founded: 1976.

Parent: Tate & Lyle P.L.C.

Offers rent-a-captive.

Frequent services: Government reporting, accounting, computerized claims processing.

Occasional services: Captive formation, reinsurance brokered for captives, underwriting and ratemaking, investment management, tax advice, legal advice.

Staff: Four; three professionals.

Clients: Five active captives and one inactive captive managed at year-end 1995. Captive premium volume, $40.5 million. Capital and surplus managed, $70.6 million. No minimum size client.

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Compensation: Annual fee, $25,000.
1995 gross revenues: $690,932, 63% from fees charged for captive management, 4% from commissions charged for brokering insurance/reinsurance, 33% from other services.
Officers: Charles W. Kemp, chairman; Paul S. Lewis, president; David R. Creed, James A. Kemp, vps.

Towner Risk Management Ltd.

Second St., Holetown, St. James, Barbados; 809-432-5950; fax: 809-432-5952

Founded: 1986.
Parent: Towner Management Group Inc.
Offers rent-a-captive.
Frequent services: Captive formation, accounting, managing underwriting pools/facilities, management of other offshore companies through related management companies.
Occasional services: Feasibility studies; reinsurance brokered for captives; reinsurance brokered to captives; association captive management services, including specialized accounting services.
Staff: Six; four professionals.
Clients: Five active captives managed at year-end 1995.
Compensation: Annual fee, commission, hourly.
Officers: Christopher Towner, president; Lindell Earle, Derek Edghill, Ricardo Knight, managers.
Contact: Christopher Towner.

Triangle Insurance Management Ltd.

The Phoenix Building, 2 Reid St., Hamilton HM 11, Bermuda; 441-295-3952; fax: 441-295-3982

Founded: 1983.
Parent: Triangle Holdings Ltd.
Offers rent-a-captive.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; loss forecasting; reinsurance brokered for captives; underwriting and ratemaking; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, reinsurance brokered to captives.
Staff: Four; two professionals.
Clients: Eight active captives and two inactive captives managed at year-end 1995. Captive premium volume, $5.1 million. Capital and surplus managed, $20.4 million. No minimum size client.
Compensation: Annual fee; commission; hourly.
Officers: Bruce Fenton, president/managing director; Janice Witkowski, vp.

Trifoliate Ltd.

26 Comet St., St. Peter Port, Guernsey GY1 1LF; 44-1481-710336; fax: 44-1481-710696

Founded: 1984.
Officers: Michael Savage, managing director.
Subcontracts for captive management services with Channel Islands Insurance Consultants Ltd. in Guernsey.

TRISTAR Risk Management

6133 Bristol Parkway, Suite 300, Culver City, Calif. 90203; 310-342-0500; fax: 310-342-0503

Founded: 1987.
Parent: TRISTAR Holdings Corp.
Offers rent-a-captive.
Services: Feasibility studies; captive formation; accounting; computerized claims processing online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; investment management; managing underwriting pools/facilities; loss control; association captive management services.
Staff: 15; 11 professionals.
Clients: 10 active captives and three inactive captives managed at year-end 1995. Captive premium volume, $18 million. Capital and surplus managed, $32 million. No minimum size client.
Compensation: Annual fee; commission; hourly.
1995 gross revenues: $45 million, 11% from fees charged for captive management, 6% from commissions charged for brokering insurance/reinsurance, 83% from other services.
Officers: Tom Veale, president; Kevin Burke, Ken Beck, Linda DeVreugd, vps; Cindy Steffen, controller.

U

USA International Risk Group Ltd.

P.O. Box HM 397, Hamilton HM BX, Bermuda; 441-292-1210; fax: 441-292-7456

Founded: 1995.
Parent: USA Risk Group.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.
Occasional services: Investment management, tax advice.
Staff: Four; two professionals.
Clients: Two active captives managed at year-end 1995. No minimum size client.
Compensation: Annual fee; commission.
1995 gross revenues: 100% from fees charged for captive management.
Officers: H. Lincoln Miller, chairman; Stephen W. Pearce, president; Michael Rogers, vp.

UNISON Management (Dublin) Ltd.

12-14 Lower Mount St., Dublin 2, Ireland; 353-1-676-2748; fax: 353-1-678-9636

Founded: 1990.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing.
Occasional services: Manual claims processing; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered for captives; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services; treasury management.
Staff: 26; 15 professionals.

Continued on next page

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Continued from previous page

Clients: 24 active captives managed at year-end 1995. Captive premium volume, $700 million. Capital and surplus managed, $281 million. No minimum size client.

Compensation: Annual fee, commission, hourly.

Officers: John Perham, managing director; Tim Hennessy, senior account manager.

UNISON Management (Guernsey) Ltd.

P.O. Box 34 Albert House, South Esplanade, St. Peter Port, Guernsey GY1 4AU; 44-1481-728136

Founded: 1975.
Parent: Johnson & Higgins.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Occasional services: Online access to claims data, reinsurance brokered to captives, investment management, association captive management services.
Staff: 11; five professionals.
Clients: 11 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $132.7 million. Capital and surplus managed, $110.6 million. No minimum size client.
Compensation: Hourly.
Officers: David Johnstone, managing director; Merise Wheatley, Ian Daish, directors.

UNISON Management (IOM) Ltd.

Unicorn Chambers, Victoria St., Douglas, Isle of Man; 44-1624-613640; fax: 44-1624-612138

Founded: 1991.
Parent: Johnson & Higgins.
Frequent services: Feasibility studies, captive formation, government reporting, computerized accounting, loss forecasting, underwriting and ratemaking.
Occasional services: Manual claims processing, claims reserves analysis, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives.
Staff: Two; one professional.
Clients: Two active captives and one inactive captive managed at year-end 1995.
Compensation: Annual fee, hourly.
Officers: John Perham, Ken Hall.

UNISON Management (Luxembourg) S.A.

25 A, Boulevard Royal, Luxembourg City, L-2449 Luxembourg; 352-46-96-01-1; fax: 352-46-96-09;

Founded: 1986.
Offers rent-a-captive.
Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing.
Occasional services: Manual claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, investment management, tax advice, legal advice, managing underwriting pools/facilities, loss control.
Staff: 14.
Clients: 21 active captives managed at year-end 1995.
Compensation: Annual fee, commission, hourly.
Officers: Timothy Yeates, managing director; Nicolas Fouquet, Killian McDermott, assistant vps.

UNISON Management (Scandinavia) A.B.

Birger Jarlsgatan 64, P.O. Box 5908, Stockholm, Sweden 11489; 468-613-2820; fax: 468-24-8848

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; association captive management services, including specialized accounting services.
Occasional services: Manual claims processing, claims reserves analysis.
Staff: Five, all professionals.
Clients: Three active captives managed at year-end 1995. Captive premium volume, $18 million. Capital and surplus managed, $5.2 million. No minimum size client.
Compensation: Annual fee, commission, hourly.
Officers: Peter Flensburg, managing director; Krister Wanblad, marketing director; Berit Lignercrona, administrative manager.

V

Vermont Insurance Management Inc./USA Risk Group

P.O. Box 306, Montpelier, Vt. 05601; 800-872-7475; fax: 802-229-6280

Founded: 1980.
Frequent services: Feasibility studies; captive formation; government reporting; accounting; reinsurance brokered for captives; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services and onshore services; policyholder services to group captives.
Occasional services: Claims reserves analysis, loss forecasting, reinsurance brokered to captives, investment management, tax advice, legal advice.
Staff: 26; 10 professionals.
Clients*: 43 active captives managed at year-end 1995. Captive premium volume, $214.6 million. Capital and surplus managed, $171 million. No minimum size client.
Subsidiaries: Hawaii Captive Insurance Management, Honolulu; USA International Risk Group, Bermuda; USA Risk Services Inc., Sarasota, Fla. and Arlington, Va.; Vermont Insurance Management Inc., Arlington, Va.
Compensation: Annual fee, commission.
1995 gross revenues: 60% from fees charged for captive management, 40% from commissions charged for brokering insurance/reinsurance.
Officers: H. Lincoln Miller Jr., chairman; Michael T. Rogers, president/CEO; Edward E. Meehan, executive vp; Jon Harkavy, vp/general counsel.
** Figures include total of all USA Risk Group captives.*

Vista Insurance Services Inc.

60 Pompton Ave., Verona, N.J. 07044; 201-857-7999; fax: 201-239-0666

Founded: 1985.
Services: Feasibility studies; captive formation; computerized accounting; computerized claims processing; claims reserves analysis; association captive management services, including specialized accounting services and onshore services.
Staff: Five.
Clients: Three active captives and two inactive captives managed at year-end 1995. Captive premium volume, $4.5 million. No minimum size client.
Compensation: Annual fee, $25,000; commission; hourly: professional, $175; clerical, $65.
1995 gross revenues: $400,000, 50% from fees charged for captive management, 50% from commissions charged for brokering insurance/reinsurance.
Officers: E. Arnold Powell, president; Joan McDougall, administrative assistant; Judith Colomb, claims administrator.
Contact: E. Arnold Powell.

The directory of captive management companies begins on page 80; directory terms and methodology are explained on page 81. To locate organizations managing captives in a particular domicile, refer to the index beginning on page 106.

W

Willis Corroon Captive Management

1100-555 W. Hastings St., P.O. Box 12122, Vancouver, B.C. V6B 4W6, Canada; 604-683-6831; fax: 604-683-5746

Founded: 1994.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive.
Frequent services: Feasibility studies.
Occasional services: Captive formation, government reporting, accounting, claims processing, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, underwriting and ratemaking.
Staff: Two; one professional.
Compensation: Annual fee; hourly, professional, $150 to $400; clerical, $50 to $100.
1995 gross revenues: $200,000, 100% from other services, including feasibility studies.

Continued on next page



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New York NY 10005.
Tel: 212 510 1100. Fax: 212 510 1111
Internet: http://www.royal-group.co.uk

Royal Insurance

Continued from previous page

Officers: Peter Watson, president; Guy F. Ragosta, managing director; Michael Baddeley, vp.

Willis Corroon Management (Bermuda) Ltd.

F.B. Perry Building, P.O. Box HM 1995, Hamilton HM HX, Bermuda; 441-295-1272; fax: 441-295-4143

Founded: 1978.
Parent: Willis Corroon Group P.L.C.
Frequent services: Captive formation, government reporting, accounting, computerized claims processing, investment management.
Occasional services: Feasibility studies, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, legal advice.
Staff: Five; three professionals.
Clients: 11 active captives and one inactive captive managed at year-end 1995. No minimum size client.
Compensation: Annual fee.
Officers: Guy Ragosta, chairman; Paul Obolensky, president; J. Oliver Heyliger, vp; Paul M. Pereech, manager-accounting.

Willis Corroon Management (Cayman) Ltd.

Third Floor, Global House, P.O. Box 30600 SMB, N. Church St., George Town, Cayman Islands, B.W.I.; 809-949-6039; fax: 809-949-6621

Founded: 1978.
Parent: Willis Corroon Group P.L.C.
Offers rent-a-captive.
Frequent services: Captive formation, government reporting, accounting, reinsurance brokered for captives.
Occasional services: Feasibility studies; claims processing; online access to claims data; claims reserves analysis; actuarial studies; loss forecasting; reinsurance brokered to captives; underwriting and ratemaking; managing underwriting pools/facilities; loss control;

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Continued from previous page
association captive management services, including specialized accounting services and onshore services; full brokerage referrals.

Staff: Four; two professionals.

Clients: 16 active captives and two inactive captives managed at year-end 1995. Captive premium volume, $52 million. Capital and surplus managed, $27 million. No minimum size client.

Compensation: Annual fee, $12,000.

Officers: Guy Ragosta, president; Tim Byrne, vp.

Willis Corroon Management (Dublin) Ltd.

80 Harcourt St., Dublin 2, Ireland; 353-1-4784832; fax: 353-1-4784772

Founded: 1989.

Parent: Willis Corroon Group P.L.C.

Frequent services: Feasibility studies; captive formation; government reporting; accounting; computerized claims processing; claims reserves analysis; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Occasional services: Manual claims processing, actuarial studies, reinsurance brokered for captives, reinsurance brokered to captives.

Staff: Seven; six professionals.

Clients: Seven active captives and one inactive captive managed at year-end 1995. Captive premium volume, $35.6 million. Capital and surplus managed, $23.5 million. No minimum size client.

Compensation: Annual fee.

1995 gross revenues: $606,000, 100% from fees charged for captive management.

Officers: Des McCarthy, managing director; Mark Kealy, underwriting manager; Michael Trainor, account manager.

Willis Corroon Management (Gibraltar) Ltd.

Suite 18, Portland House, Glacis Road, Gibraltar; 350-51801; fax: 350-51802

Founded: 1986.

Parent: Willis Corroon Group P.L.C.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking.

Occasional services: Online access to claims data, actuarial studies.

Staff: Two.

Compensation: Annual fee.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Christine L. Douse, chairman; Bruno G.R. Callaghan, managing director; Peter A. Isola, James C. Boyd, directors.

Contact: Bruno G.R. Callaghan, managing director.

Willis Corroon Management (Guernsey) Ltd.

P.O. Box 384, The Albany, South Esplanade, St. Peter Port, Guernsey GY6 8BG; 44-1481-720049; fax: 44-1481-710455

Founded: 1980.

Parent: Willis Corroon Group P.L.C.

Frequent services: Captive formation; government reporting; accounting; claims processing; online access to claims data; claims reserves analysis; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.

Occasional services: Feasibility studies.

Staff: 20; 16 professionals.

Clients: 35 active captives and four inactive captives managed at year-end 1995. Captive premium volume, $220 million. Capital and surplus managed, $165 million. No minimum size client.

Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: Malcolm Cutts-Watson, managing director; Tim Edwards, Richard Falla, directors.

Willis Corroon Management (Isle of Man) Ltd.

10 Finch Road, Douglas IM1 2PT, Isle of Man; 44-1624-620274; fax: 44-1624-661586

Founded: 1982.

Parent: Willis Corroon Group P.L.C.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities.

Occasional services: Online access to claims data, actuarial studies.

Staff: 21; nine professionals.

Clients: 41 active captives managed at year-end 1995. No minimum size client.

Compensation: Annual fee.

1995 gross revenues: 100% from fees charged for captive management.

Officers: James C. Boyd, managing director; Peter J. Foulger, David G. Prince, Christine L. Douse, directors.

Contact: James C. Boyd.

Willis Corroon Management (Luxembourg) S.A.

26 Place de la Gare, L-1616 Luxembourg; 352-48-90-20; fax: 352-48-90-22

Parent: Willis Corroon Group P.L.C.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, loss forecasting, reinsurance brokered for captives, reinsurance brokered to captives, underwriting and ratemaking, managing underwriting pools/facilities.

Occasional services: Manual claims processing, actuarial studies.

Staff: 10; three professionals.

Clients: Five active captives managed at year-end 1995. Captive premium volume, $50 million. Capital and surplus managed, $13 million. No minimum size client.

Compensation: Annual fee, $30,000; commission; hourly.

Officers: Serge Pineau, managing director; Jean Thomas, accounting/administrative manager.

Contact: Philippe Charpentier, 33-1-44-51-15-94.

Willis Corroon Management (Vermont) Ltd.

76 St. Paul St., Suite 501, Burlington, Vt. 05401; 802-658-9466; fax: 802-658-5520

Founded: 1992.

Parent: Willis Corroon Group P.L.C.

Offers rent-a-captive.

Frequent services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing, claims reserves analysis, actuarial studies, loss forecasting, underwriting and ratemaking.

Occasional services: Manual claims processing; reinsurance brokered for captives; tax advice; managing underwriting pools/facilities; loss control (Nashville, Tenn.); association captive management services, including specialized accounting services and onshore services.

Staff: Six; four professionals.

Clients: 12 active captives managed at year-end 1995. Captive premium volume, $76 million. Capital and surplus managed, $62 million. No minimum size client.

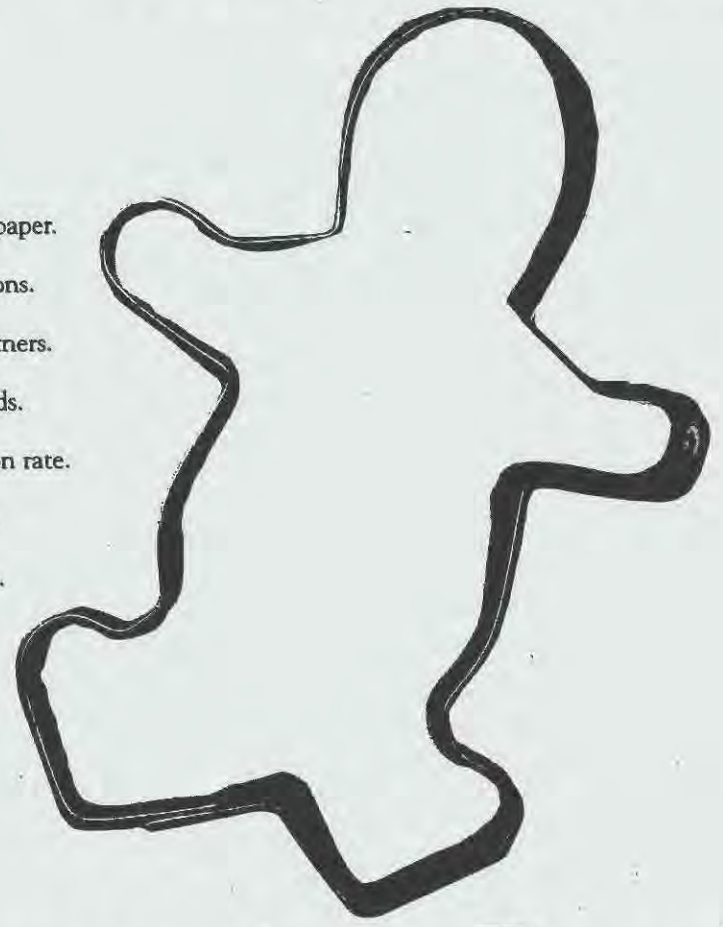
Compensation: Annual fee; hourly.

1995 gross revenues: 100% from fees charged for captive management.

Officers: James V. Davis, chairman; Guy F. Ragosta, managing director-North American Captive Management

Continued on next page

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Operations; James R. Girardin, senior account executive.
Contact: Guy F. Ragosta.

Wyatt Management Co. (Barbados) Ltd.

Third Floor, International Trading Centre, Warrens, St. Michael, Barbados; 809-425-4959; fax: 809-425-2170

Founded: 1989.
Parent: The Wyatt Co.
Offers rent-a-captive.
Services: Feasibility studies; captive formation; government reporting; accounting; claims reserves analysis; actuarial studies; loss forecasting; underwriting and ratemaking; managing underwriting pools/facilities; association captive management services, including specialized accounting services.
Staff: Five; two professionals.
Clients: Nine active captives managed at year-end 1995. Captive premium volume, $110 million. Capital and surplus managed, $43 million. No minimum size client.
Compensation: Hourly: professional, $130 to $230; clerical, $60 to $70.
Officers: Brian Kennedy, chairman; Jim Swanke, director; Chris Evans, general manager.
Contact: Chris Evans.

Y

Yankee Captive Management Co.

140 Kennedy Drive, P.O. Box 2127, South Burlington, Vt. 05407-2127; 802-658-1100; fax: 802-658-9419

Founded: 1983.
Services: Captive formation, government reporting, accounting, manual claims processing, claims reserves analysis, investment management.
Staff: Four; three professionals.
Clients: Three active captives managed at year-end 1995. Captive premium volume, $38.9 million. No minimum size client.
Compensation: Annual fee; hourly.
Officers: L.F. Hackett, president; James F. McNally, vp.
Contact: James F. McNally.

The Yasuda Management Service Co. Ltd.

P.O. Box HM 1181, Hamilton HM EX, Bermuda; 441-295-7777; fax: 441-292-1930

Founded: 1983.
Parent: Yasuda Fire & Marine Insurance Co.
Officers: H. Schoenburger, vp/treasurer.
Subcontracts for captive management services with CIGNA International Insurance Managers in Bermuda.

Z

Zurich International (Bermuda) Ltd.

Crawford House, 50 Cedar Ave., P.O. Box HM 2268, Hamilton HM JX, Bermuda; 441-292-8155; fax: 441-292-7368

Founded: 1977.
Parent: Zurich Insurance Co.
Frequent services: Government reporting, accounting, computerized claims processing, online access to claims data, claims reserves analysis, actuarial studies, loss forecasting, reinsurance brokered for captives, investment management.
Occasional services: Feasibility studies, captive formation, reinsurance brokered to captives.
Staff: 12; five professionals.
Clients: 12 active captives managed at year-end 1995.
Compensation: Annual fee.
1995 gross revenues: $480,000, 100% from fees charged for captive management.
Officers: Laurence W. Cheng, president/CEO; Michael R. Deevy, vp/COO.

Zurich International Services (Ireland) Ltd.

IFSC House, Custom House Quay, Dublin 1, Ireland; 353-1-6700988; fax: 353-1-6701108

Founded: 1990.
Parent: Zurich Insurance Co.
Services: Feasibility studies, captive formation, government reporting, accounting, computerized claims processing.
Staff: Three; two professionals.
Clients: Two active captives managed at year-end 1995. Captive premium volume, $18 million. Capital and surplus managed, $5 million. No minimum size client.
Compensation: Annual fee.
Officers: Laurence Sherin, Frank Coyle. BI

Geographical index of captive managers

The geographical index lists organizations appearing in the directory along with their units and sister companies by domiciles served. Organizations that subcontract for captive management services also are listed by domicile. Subsidiaries for which a separate directory listing was not provided are footnoted.

Aland Islands

SINSER (Aland) A.B.

Antigua

International Insurance Management (Antigua) Ltd.*
Sedgwick Management Services (Antigua) Ltd.*
Towner Management (Antigua) Ltd.*

Barbados

Alexander Insurance Managers (Barbados) Ltd.
American International Management Co. (Barbados) Ltd.
Aon Risk Services (Barbados) Ltd.
BF&M Management (Barbados) Ltd.*
Bott & Associates (Barbados) Ltd.*
Captech Management Services (Barbados) Ltd.
Chandler Insurance Management (Barbados) Ltd.*
Continental Risk Services (Barbados) Ltd.
IAS (Barbados) Ltd.
International Insurance Management Ltd.
International Insurance Services Inc.
International Risk Management (Barbados) Ltd.
International Risk Services
Jardine Pinehurst Management Co. (Barbados) Ltd.*
Johnson & Higgins (Barbados) Ltd.
Marsh & McLennan Management Services (Barbados) Ltd.
MIMS International (Barbados) Ltd.
Minet Risk Services (Barbados) Ltd.**
Meadowbrook Risk Management Co. Ltd.
Mutual Risk Management (Barbados) Ltd.
Sedgwick Management Services (Barbados) Ltd.*
Towner Risk Management Ltd.
Wyatt Management Co. (Barbados) Ltd.

Bermuda

Alexander Insurance Managers (Bermuda) Ltd.
American International Co. Ltd.
American & Overseas Reinsurance Management Co. Ltd.
Aon Risk Services (Bermuda) Ltd.
Argus International Management Ltd.
Atlantic Security Ltd.
BF&M Management Ltd.
Becher & Carlson Management Ltd.
Bott & Associates Ltd.
CFM Insurance Managers Ltd.
Caledonian Management Ltd.
Capital Management Services Ltd.

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CIGNA International Insurance Managers Ltd.
Continental Risk Services Ltd.
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Griffiths & Wanklyn Management Ltd.
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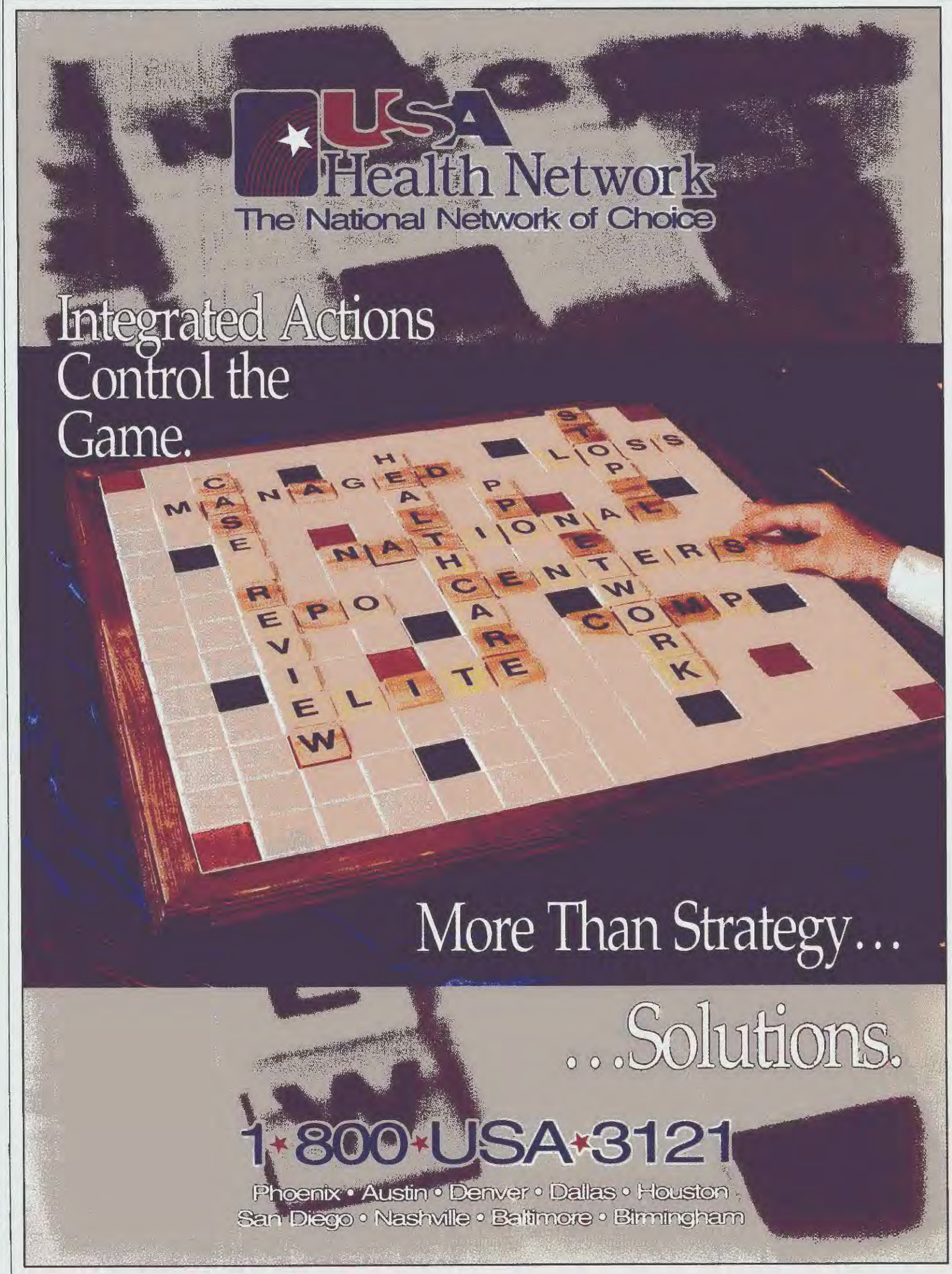
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1996 Risk Manager of the Year

A crystal risk management creation

Corning's Casey crafts program cutting costs, broadening coverage

By DAVE LENCKUS

Glass makers for thousands of years have married form and function in plying their craft, from creating elegant lead crystal table service to breathtaking stained glass windows.

But in 1994, the risk management program at Corning Inc., one of the world's largest producers of glass products, was far from a piece of art—let alone state of the art.

Above all, it was not working as well as executives of the Corning, N.Y., company thought it could. Plus, Corning's risk management program was continuing to cost the company more as a percentage of sales, despite the lower rates prevalent in the soft property/casualty insurance market.

The source of the problem was clear to Brian D. Casey, who left toy manufacturer Hasbro Inc. to become Corning's director of risk management and loss prevention 22 months ago. "They relied very heavily on brokers," he explained. As a result, the program was "over-insured and over-broker."

There were some bright spots in the risk management program, though, like how Corning handled product liability claims, he said. "But, the rest of the insurance program was an anachronism."

The hurdles ahead

Mr. Casey did not fault Corning's brokers, which he retained. "It's really what the client wanted," he pointed out. But, that did not make problems with the structure of the program any less significant.

Those problems only grew worse for Corning during its 1995 renewals.

On the property side, one of Corning's key insurers decided not to renew its coverage. Mr. Casey feared that the other insurer would be seeking a significant rate boost because, among other reasons, Corning had reported two large domestic property losses in 1994.

On the casualty side, Corning purchased separate limits for many of its risks from multiple insurers and maintained extremely low deductibles compared with other companies its size, both of which kept the company's insurance transaction costs high.

Corning also was paying an insurer for some claims-handling duties that it could easily and less expensively handle in-house.

On both the property and casualty side, Mr. Casey also saw a need for a redoubled emphasis on loss prevention.

Like a glass artisan, Corning's new risk manager set out to reshape the company's risk-financing program and smooth out other risk management imperfections.

In the process, he took a long-held notion about broker competition for accounts and stood it on its head.

Mr. Casey melded a property insurance program that had been broken into domestic and international pieces into a single global program that provided Corning with greater coverage.

Significantly, the new global program also ensured that Corning would maintain the California and Japan earthquake protection it had but was in jeopardy of losing as the company's domestic property program expired and a separate program for risks in Japan neared expiration.

The global program also introduced highly protected risk engineering at the company's many international locations.

At the same time, Mr. Casey began helping the company cut its cost of risk: The new global program cost about $500,000 less than what Corning would have paid if Mr. Casey had chosen to stay with a program divided into separate domestic and international overages.

But, just as noteworthy as Corning's new global property insurance program is how Mr. Casey reshaped it.

Mr. Casey induced the two brokers that had separate responsibilities for the company's domestic and international property programs to set aside their competitive cents and work together to jointly place a global program.

This unified approach was more powerful with markets than a single-broker placement ever had been, said two officials with the insurer that now writes Corning's primary property coverage.

Streamlining continued as Mr. Casey fashioned a global liability program under which Corning consolidated seven separate placements into a single program and retained far more risk than it ever had.

The five-year liability program includes a finite risk layer that Mr. Casey says could allow Corning to save millions of dollars if the company's new emphasis on loss prevention succeeds in holding down losses.

The liability program provides long-term pricing stability and seamless global coverage, as well as eliminates unnecessary services for which insurers previously had charged Corning.

In his efforts to cut losses in Corning's self-insured workers compensation program, Mr. Casey huddled with several Corning departments that deal with workplace safety and injured workers for their input on selecting a new third-party claims administrator. Armed with that information, he devised a pay-for-performance arrangement with the TPA that provides the vendor with incentives to help Corning reduce its workers comp costs and saves Corning about $200,000 compared with the cost of its previous TPA services.

During his first 18 months at Corning, his legal degree—one of the primary reasons Corning sought him for the position—has paid enormous dividends for the company. Among other things, Mr. Casey has managed to recover millions of dollars in defense costs from the company's liability insurers that have been in dispute for years.

Mr. Casey, as a member of Corning's Product Liability Defense and Litigation Group, also is highly involved in the company's decisions on how to proceed with various claims.

Those many accomplishments have earned Mr. Casey the 1996 *Business Insurance* Risk Manager of the Year Award.

Seeking salvation

Results are exactly what Corning wanted when it went looking for a new risk manager two years ago, after its former risk manager left the company.

Corning senior management had determined it needed a risk manager who could pass a three-pronged test, explained Sandra L. Helton, who as senior vp and treasurer of Corning is Mr. Casey's immediate supervisor.

Ms. Helton wanted a risk manager who:

- Actively managed risks, not just procured insurance.
- Had a legal education.
- Knew how to manage staff and help them develop professionally.

The first attribute is critical because the company's risk portfolio is so diverse. Corning and its subsidiaries produce about 60,000 different products every year at 43 plants in about a dozen countries.

Corning competes internationally in four diverse business segments: health care services, communications, specialty materials and consumer products.

Corning's health care services business segment—its largest operation, based on revenues—tests medical specimens for physicians and hospitals, conducts clinical research and provides a multitude of laboratory testing and other services to pharmaceutical manufacturers.

The company's communications operation produces, among other things, optical fiber and cable, television and computer glass, and lens systems for projection TVs.

Its specialty materials operation produces systems and other products designed to reduce environmentally hazardous emissions by industry and automobiles.

Its consumer products operation is best known for its cookware and dinnerware products.

Other risks in the portfolio may be created by Corning's industrial research laboratory, which has developed, among other things, photochromic glass, which lightens or darkens in response to light conditions; glass-ceramic cooktops; halogen light products; and the world's largest telescope mirror blanks.

The company wanted a risk manager with legal training so he or she could deal more effectively with coverage disputes and various third-party claims against Corning.

Much of that litigation centers on Corning's equal participation with Dow Chemical Co. in Dow Corning Corp., which once was the leading manufacturer of silicone-gel breast implants and a major supplier of silicone gel to other implant manufacturers.

Dow Corning's risk management program is separate and functions at arms-length from those of its owners. However, the thousands of plaintiffs who allege that their implants have caused various health problems also are attempting to pull Corning and Dow Chemical into the litigation.

State and federal courts have dismissed most of those tort claims against Corning, but not all of them.

Corning and its officials also face derivative-action lawsuits by shareholders over the company's involvement in Dow Corning.

Hiring a risk manager who also is a good people manager was important for two reasons: Corning's risk management department is 16 strong, besides Mr. Casey, and employees—who hail from the small surrounding community—tend to stay with the company for decades.

"We were looking for someone who walked on water," Ms. Helton summed up.

Two heads are better. . .

Among Mr. Casey's achievements at Corning, the most remarkable may be his success in managing both risks and people as he overhauled the company's property insurance program.

The increased protection that Mr. Casey netted for Corning while also reducing coverage costs by engineering a global property program is striking in itself.

The path he took to get there raised a lot more eyebrows—including, at first, those of the brokers and insurers that now are involved in the program.

Mr. Casey hand-picked eight brokers from two rival firms and asked them to work side by side and assume joint responsibility for the new global property program.

Both firms from which Mr. Casey selected his team already were involved in placing separate aspects of Corning's coverage program. Johnson & Higgins, a Corning broker for most of the 20th century, placed the company's international property risks. Aon Risk Services Inc. handled the property program's domestic piece.

Why not select a single broker to manage a single program, rather than risk friction and poor results if the team members could not put aside their competitive instincts?

Mr. Casey lists several reasons for creat-

Continued on next page

Brian D. Casey
1996
Risk Manager of the Year
Corning Inc.

Name: Brian D. Casey
Birthplace: Gardner, Mass.
Age: 44
Title: Director of risk management and loss prevention for Corning Inc.
Previous experience: Director of risk management for Hasbro Inc. of Pawtucket, R.I., 1991-1994; director of risk management and corporate insurance manager for Norton Co. of Worcester, Mass., 1987-1991; corporate loss manager and corporate casualty administrator for Digital Equipment Corp. of Maynard, Mass., 1984-1987; part-time law practice with a concentration in workers compensation and insurance defense cases in Fitchburg, Mass., 1981-1984; insurance adjuster and supervisor for Crawford & Co. in Boston, Cape Cod and Fitchburg, Mass., 1974-1984.
Honors/professional affiliations: Individual outstanding contributor's award from Corning, 1995; vice chairman of Risk & Insurance Management Society's international committee, 1995; member of the RIMS international committee, 1994; advisory board member of Thunderbird International Risk Management program, 1995; member of American Bar Assn.'s Tort & Insurance Practice Section, 1993-1995; member of Massachusetts Risk & Insurance Management Society Inc., 1985-1994; member of Massachusetts Self Insurers Assn., 1992-1994; on board of directors for Rhode Island Self Insurance Assn., 1993-1994, and member of the association's education committee, 1992-1993; member of Rhode Island governor's Task Force on Worker's Compensation Reform, 1992-1993; member of Defense Research Institute, 1987-1994; member of Society of Certified Property/Casualty Underwriters, 1986-1991; member of Associated Industries of Massachusetts Worker's Compensation Task Force, 1985-1986; member of Massachusetts Defense Lawyers Assn., 1981-1985; student delegate to the ABA convention, 1980-1981.
Education: Earned an associate in risk management in 1988; earned a CPCU designation in 1987; earned a law degree from the New England School of Law in Boston in 1981; earned a bachelor or arts degree in history from the College of the Holy Cross in Worcester, Mass., in 1973.
Family: Wife, Joanne; two daughters, Kerri and Colleen; a son, Sean; and a niece, Jodie Rose.
Hobbies: Woodworking, basketball, soccer, hiking and camping.

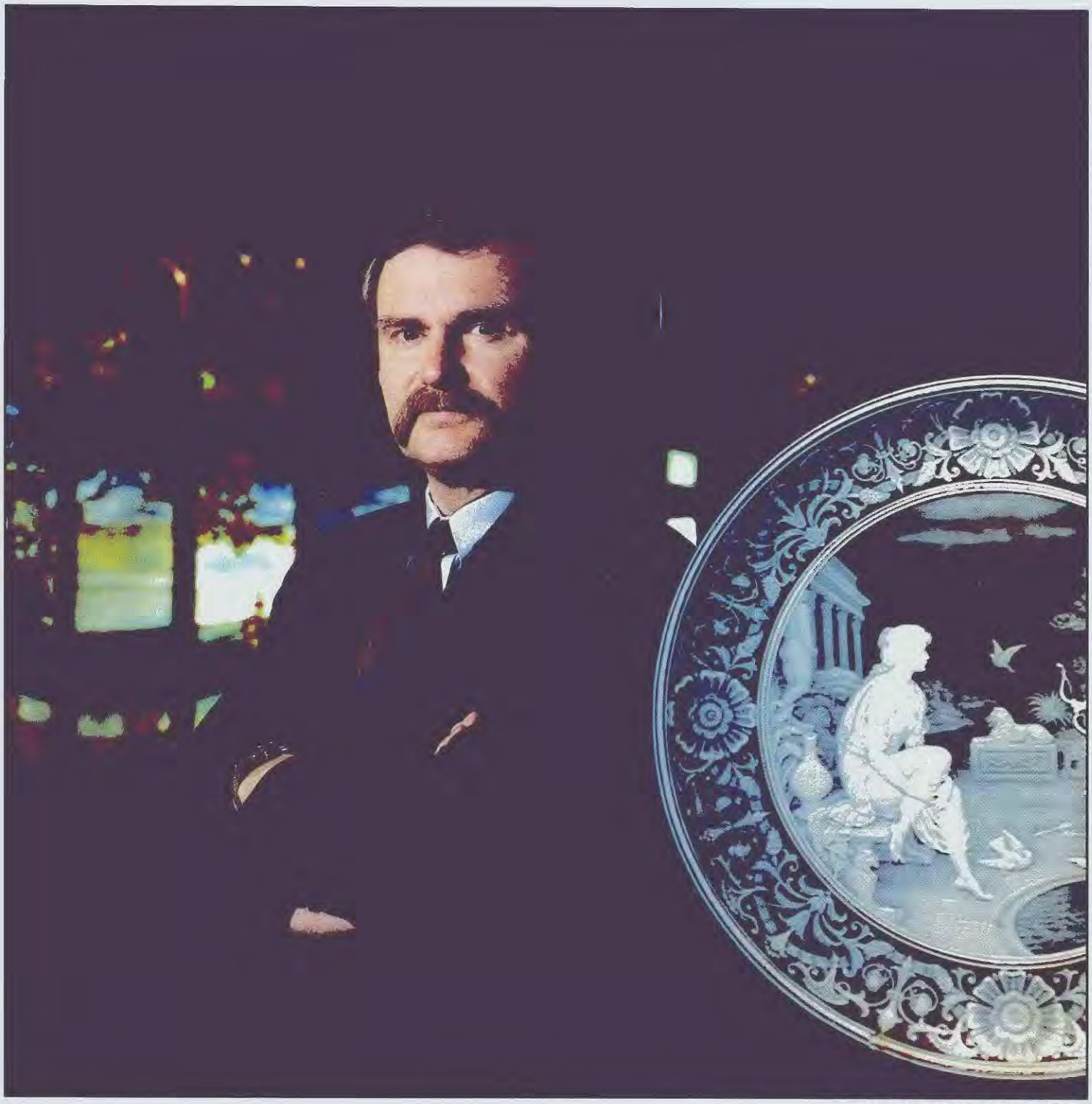


PHOTO BY MICHAEL A. MARCOTTE

Continued from previous page
ing what he calls the Corning Service Team.

"I felt comfortable with people at both brokers," he said.

The approach ensured a measure of consistency for a program that would be undergoing radical changes.

It also provides Mr. Casey with "bench strength." If a member of the team from one broker is ill or leaves the firm, "I had people who still knew the program," he explained.

Mr. Casey also could draw on the combined knowledge of two brokerages that rank among the world's largest.

Despite relying on two brokers to service Corning's property account, Mr. Casey was able to eliminate the problem of over-brokering, he said.

Even if he had chosen a single broker, one firm still can "wear down" a risk manager by putting 20 or 30 staff on the account.

"My gut reaction from Day One is that I prefer to work with a small team of brokers rather than a busload of people," he said. The broker team may rely on a larger support staff, but Mr. Casey sees no reason why he must be drawn into that extended brokerage work group.

Indeed, typically only one team member from each of the two brokers attends meetings with Corning.

"I've never seen it done before" in that way, said Lauren Parente, a New York account representative in the global property department at Zurich Insurance Co. of New York, the lead underwriter on Corning's global property program.

Other risk managers have used competing brokers before to place different portions of their programs, noted Tracy Horan, an account executive and Ms. Parente's supervisor at Zurich.

"But, they were always fighting with each other and trying to take the other piece away" from the account's co-broker, she said.

Indeed, many risk managers have encouraged that competitiveness in what she said is a misguided belief that it will net them a stronger and more cost-effective program than if they relied on a single broker throughout the process.

However, "most of the co-broker programs don't work," according to Ms. Horan.

Corning's brokers initially were a little skeptical about whether they could bring themselves to work closely with people who are employed by one of their major competitors.

After hearing Mr. Casey propose the duo-broker team, "I was thinking, 'Can I do that?' " recalled J&H Vp and broker team member Fredrik Motzfeldt.

Mr. Casey said the two brokers wanted their responsibilities clearly defined in the event any problems arose with Corning's property program.

The distribution of duties not only is simple but also is the key to ensuring Mr. Casey's team approach works: The brokers are equally responsible for servicing the entire program and will be held equally accountable for any problems.

Not only does that dissuade one broker from trying to make the other look bad, it encourages both to backstop each other.

At Zurich, Ms. Parente had some concerns about keeping straight which members of the team she would have to seek out for each particular question about the program.

"I didn't want to have to be dealing with five people," she said.

The early skepticism dissipated quickly, though. The team functions well and gets results, agree Mr. Casey, the brokers and Zurich.

The adversarial relationship that had existed between the two brokers when each worked separately on Corning's property insurance program melted away because "nothing was taken away from them," Mr. Casey explained.

For her part, Zurich's Ms. Parente said, each team member has his or her particular strengths, but any of them can field any of her questions. That means less legwork for her in finding someone who can help her resolve any questions about Corning's property program.

She also thinks the arrangement allows "less room for error," because more than one broker is attending Corning's meetings with Zurich.

"It worked out wonderfully. I don't think it could have worked out any better," she said.

Zurich's Ms. Horan said Mr. Casey's vision of a cooperative team of brokers and his insistence that team members focus on Corning first and foremost made the traditionally ineffective co-broker concept work this time.

She also said his selection of J&H—with its UNISON network of subsidiaries, joint ventures and corresponding brokers in 72 countries—and Aon Risk Services—with its

See **Corning** *on next page*

CORNING

Founded: The company traces its origins to 1851, when Amory Houghton—great-great grandfather of retiring Chairman and Chief Executive Officer James R. Houghton—purchased an interest in a glass company in Cambridge, Mass.

Three years later, Mr. Houghton sold his interest in that company and founded Union Glass Co. in Somerville, Mass.

Ten years later, in 1864, he sold his interest in Union Glass and purchased Brooklyn Flint Glass Co. of Brooklyn, N.Y. Mr. Houghton moved Brooklyn Flint Glass to Corning, N.Y., in 1868 and renamed the company Corning Flint Glass Co. The company was incorporated in 1875 as Corning Glass Works. It operated under that moniker for 114 years until 1989, when the company assumed its current name.

Headquarters: Corning's new U-shaped headquarters—featuring a smoky glass exterior, glass-block interior stairways and numerous atriums showcasing glass artwork—opened in 1993 on the site of the original Corning Glass Works main plant. A tower from the original plant remains on the site, as does the tower's functioning lunch-hour horn.

Ownership: The company is publicly traded on the New York Stock Exchange. The Houghton family and Corning directors, management, employees and retirees retain about a 20% stake in the company.

Revenues: $5.35 billion in 1995. The company ranked 240 among the Fortune 500 industrial companies in 1995 based on 1994 revenues of $4.8 billion.

Employees: About 41,000 worldwide.

Lines of business: Corning competes internationally in four diverse business segments:

- Health care services—its largest operation—tests medical specimens for physicians, conducts clinical research and provides biological and chemical studies, clinical laboratory-testing and other services to pharmaceutical manufacturers. The operation generated nearly $2.06 billion, or 38.4% of Corning's 1995 revenues.
- The company's communications operation produces, among other things, optical fiber and cable, television glass, liquid-crystal display glass for portable computers and TVs and lens systems for projection TVs. The operation generated $1.71 billion, or 32%, of revenues in 1995.
- Its specialty materials operation produces systems and other products designed to reduce environmentally hazardous emissions by industry and automobiles. It also provides environmental testing services. The operation accounted for $872.9 million, or 16.3%, of revenues last year.
- Its consumer products operation, which is best known for its cookware and dinnerware products, generated $673.5 million, or 12.6%, of revenues in 1995.

Corning's industrial research laboratory, which was among the first of its kind in the nation when it opened in 1908, has developed, among other things, photochromic glass, which lightens or darkens in response to light conditions; glass-ceramic cooktops; halogen light products; and the world's largest telescope mirror blanks. The lab and other Corning investments accounted for $33 million, or 0.6%, of revenues last year.

Production: Corning and its subsidiaries produce about 60,000 different products every year at 43 plants in about a dozen countries. Its health care services business also operates 60 facilities in about a dozen countries.

1996 Risk Manager of the Year

Corning

Continued from previous page
"strong marketing team" in the United States—"was actually a smart choice.'

Proof's in the pudding

Indeed, Corning's property risks are better protected for a lower premium because of the new broker approach, according to Mr. Casey (see story, page 115).

The improvement owes little to the soft market, he added. "We saved $500,000 vs. what we would have paid to replace what we had," which was weaker coverage, he explained.

The duo-broker marketing team packs a one-two punch that the Zurich officials say is more difficult for an insurer to deflect than a single-broker assault.

"It was more challenging than dealing with one broker, by far," Ms. Parente said. The approach "absolutely" helped Corning, she said, calling the broker team "effective."

"It was exhausting for us," Ms. Horan said. "Every time we'd say 'no' to one broker, there'd be another outside the door" waiting to pitch Corning's case, she said.

"We were like the market's worst nightmare," asserted Lauren Bernard, an Aon vp and the broker's team leader for the Corning account.

Could other risk managers benefit from a similar team broker approach?

"I think it's an excellent approach," said Ms. Parente, noting it gave the Aon and J&H brokers a feeling of ownership of the account.

But, not every risk manager may be able to pull it off. "I think that you have to have a strong risk manager," she said.

"Brian knew what he wanted. He had a vision," she said. He had the strength, knowledge, experience and vision to make it work, she added.

Another key ingredient in the concept's success was the approach Mr. Casey took with the brokerage team, according to Aon's Ms. Bernard.

Rather than functioning as the team's leader, Mr. Casey positioned himself as a team member, she said.

Indeed, during presentations, broker team members had a sense they were informing the entire team about program developments, rather than just reporting to the coach, Mr. Casey, she said. The approach is "very cutting-edge," she said.

But, while giving a lot of power to the team, Mr. Casey "doesn't give up power," J&H's Mr. Motzfeldt said.

Team chemistry also is an important factor, according to Ms. Bernard. That helped the brokers overcome some initial feelings of distrust.

The unusual union meant inviting competitors to work in their offices, where files on other clients could be eyeballed and phone and office conversations could be overheard.

It meant forgetting allegiances to their respective brokerages—at least while working on the Corning account—and instead working as a cohesive team with only Corning's best interests in mind.

Now "there's a lot of trust within the team," Mr. Motzfeldt said.

"While I would love to go out and beat Lauren (Bernard of Aon) and her boss on other accounts, it doesn't mean I want to do that on this account," he said.

"We developed a very, very strong sense of trust," Ms. Bernard agreed.

She said that was forged, in part, by team members abiding by an unwritten rule when they were in the office of a team member from the other firm: "Don't look."

Members of the youthful broker-age team say they even enjoy the working relationship.

Team chemistry is so important that Aon had the right to reject whomever J&H nominated to replace one of its members who left the firm—to join Aon.

Mr. Casey also credits senior management at both brokerages for giving the Corning Service Team members the latitude they needed to make his concept work.

"The top management at both brokers were supportive and allowed the team as much leeway as possible to work together," he said.

For his part, Mr. Casey promoted the team concept by giving each team member a powder-blue T-shirt that depicts a globe and reads: Corning Global Property Program—A World of Cooperation. BI

Corning's youthful broker team offers fresh ideas

Brian D. Casey has a lot of nice things to say about his hand-picked, duo-broker team that places Corning Inc.'s property insurance, but "grizzled veterans" is not one of them.

At 44, Corning's director of risk management and loss prevention hardly falls into that category, either.

But, when Mr. Casey took his first industry job in 1974, as a loss adjuster for Crawford & Co. throughout Massachusetts, most members of what he calls the Corning Service Team were in elementary school or were looking forward to their first day of kindergarten.

With one exception, the team members range in age from 28 to 38.

Mr. Casey said that he did not want to have a group of "40-, 50-year-old vps that weren't really hands-on. I didn't want a senior-level strategist who had 10 people back at the office doing all the work for him."

Most of the brokers on the team already are vps with their respective firms, but they do not delegate their duties.

"I got a team of young, bright people with good contacts and ideas," Mr. Casey said.

From Johnson & Higgins, the team members are:

- Fredrik Motzfeldt, vp, who is 31.
- Paul Richardson, vp, who is 34.

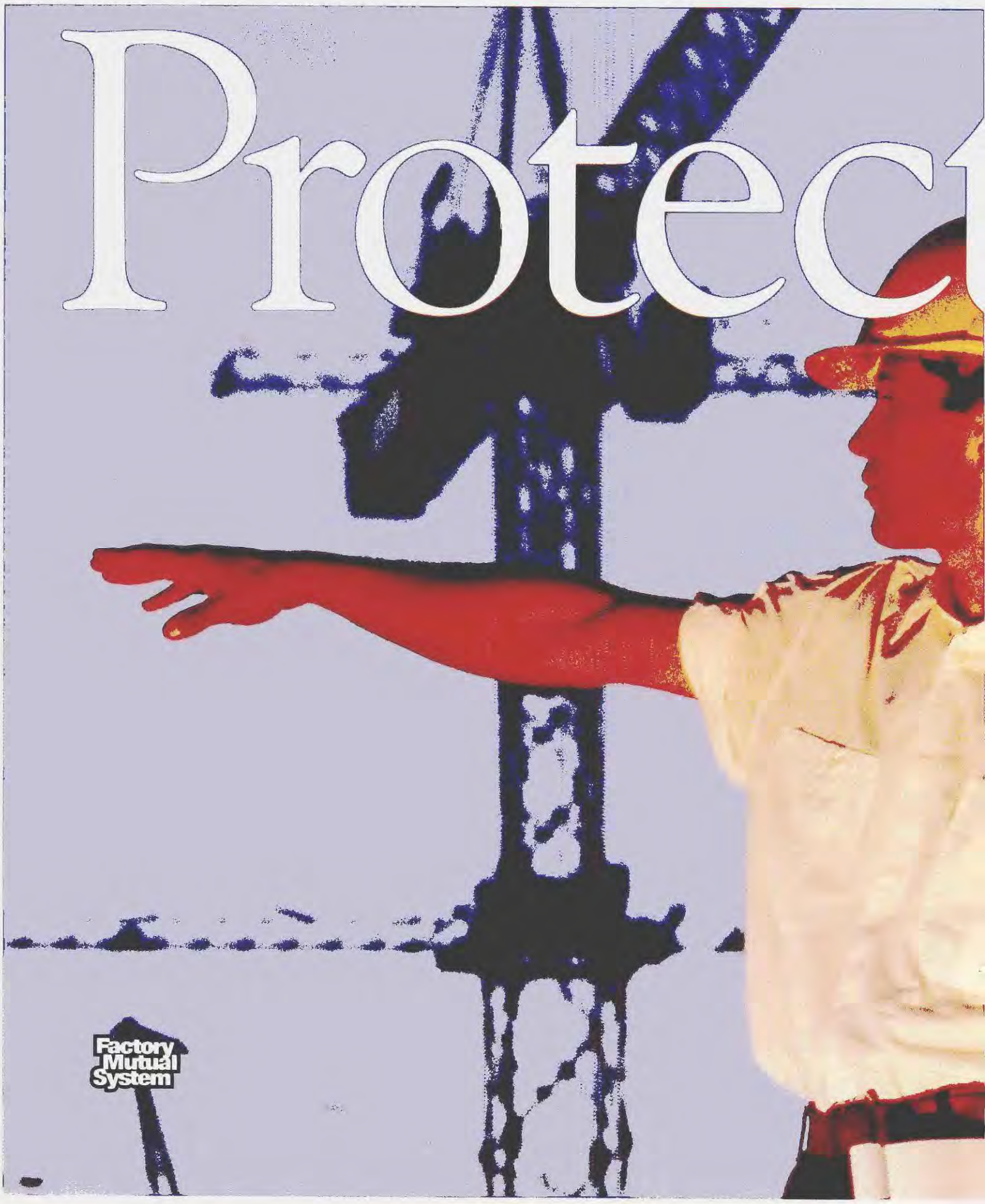
Mr. Richardson is a new addition to the team. He replaced David Finnis, whom Mr. Casey originally picked for the team to represent J&H.

Mr. Finnis has since joined Aon Risk Services Inc., the other half of the duo-broker team.

From Aon, the team members are:

- Lauren Bernard, a vp and the Aon team leader, who is 28.
- John Durante, an assistant

Continued on next page



Continued from previous page

vp/property risk control, who is 28.

• Mr. Finnis, director of the national property practice for Aon's Southeast region, who is 34.

• Christopher Gardner, senior vp, who is 30.

• Mark Loughlin, director-international operations in Aon's Boston office, who is 38.

• Durann Sherman, account representative, who is 30.

• Howard Franciscus, a senior property adviser.

At 62, Mr. Franciscus is the anomaly on the team.

"He fills the role of wit and wisdom," Mr. Casey explained.

—By Dave Lenckus



Brian D. Casey, Corning Inc.'s director of risk management and loss prevention—bottom row, center—forged a unique duo-broker team to place Corning's property insurance. Top row from left are Aon's Christopher Gardner, Durann Sherman, Mark Loughlin, Lauren Bernard and David Finnis; Tracy Horan, an account executive with Zurich Insurance Co. of New York, Corning's lead property insurer; and John Durante. Johnson & Higgins' representatives include Fredrik Motzfeldt, bottom left. Also pictured is Andrew Haaser, a J&H vp, bottom right. Not pictured are Howard Franciscus and Paul Richardson.

Career path leads Casey to law, which leads to Corning

Small town life suits Casey family

By DAVE LENCKUS

Brian D. Casey's law career didn't work out as he thought it might, but his legal training is largely why he is Corning Inc.'s director of risk management and loss prevention.

At 26, Mr. Casey figured his career would dovetail with the insurance industry, but he first wanted to make sure he would not be happier in some other line of work.

At the time, he was an adjuster for Crawford & Co., a leading workers compensation claims adjuster. Mr. Casey joined the company a few years earlier in 1974, a year after graduating from the College of the Holy Cross in Worcester, Mass., with a bachelor's degree in history.

Mr. Casey, now 44, began working on his law degree after becoming disenchanted with the lawyers with whom he had to deal as a workers comp claims adjuster. "The attorneys I was working with on both sides on some cases didn't have even a basic understanding of insurance coverage and procedures and still were making a good living at it," he said.

He figured he could do better.

After four years of night classes, he earned his law degree in 1981 from the New England School of Law in Boston. He then opened a part-time law practice while still at Crawford.

Mr. Casey handled mostly workers comp and insurance defense cases. But, he also dabbled in criminal and divorce cases and in some probate and real estate work. He wanted to map out all of the possibilities a law practice could offer before deciding in which direction he would head.

In many respects, though, the decision was made for him.

Mr. Casey said that big insurer defense firms were far more interested in law school graduates who were younger than himself.

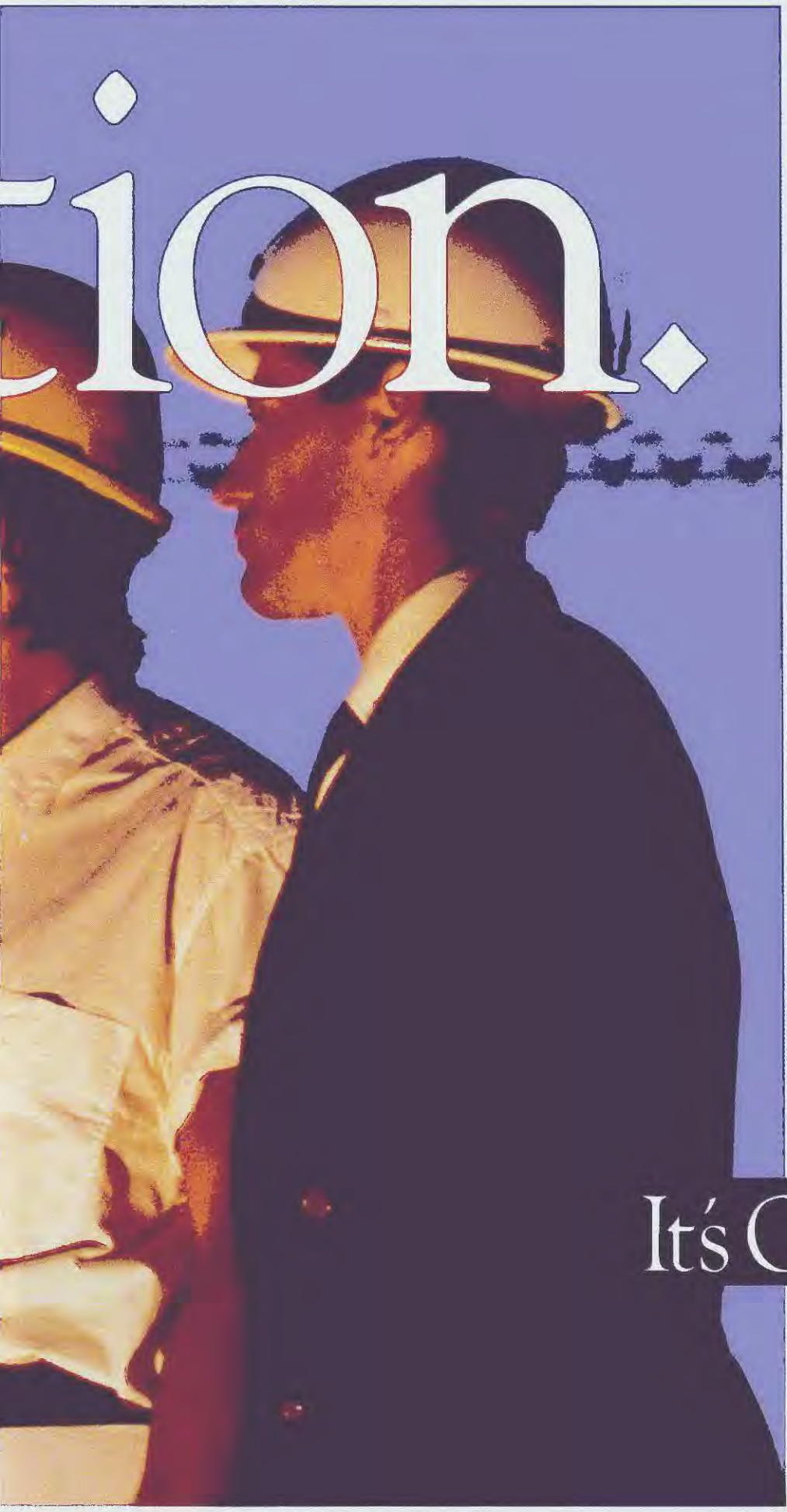
And, other facets of his practice just didn't pay—literally, he said.

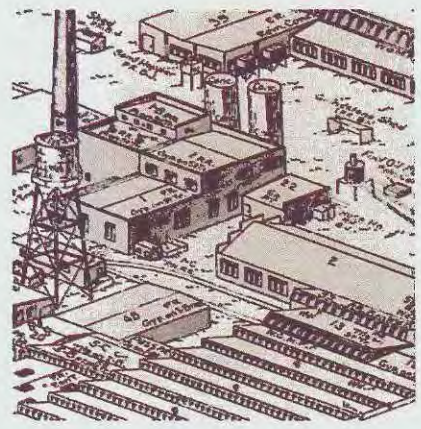
Many clients who faced criminal charges didn't show their appreciation for his defense work with timely, if any, remuneration. And, many of his divorce clients often sought "big brother" advice from him—for no fee—on how they should manage their personal business.

In addition, the probate and real estate work was not stimulating, he said.

He closed his law office at about the time he accepted his first position in risk management 12 years ago. That was as the corporate loss manager and casualty administrator for Digital Equipment Corp. in Maynard, Mass., which was seeking a candidate with a law degree.

Continued on next page





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1996 Risk Manager of the Year

Casey

Continued from previous page

At Digital, Mr. Casey was responsible for obtaining liability insurance, overseeing claims administration and reviewing contracts and leases.

That's where he first learned of jumbo insurance programs. Mr. Casey saw a jumbo liability insurance program unravel for Digital in the hard market of 1985 and how a risk manager goes about sewing up a new package in such an unstable environment.

After three years at Digital, Mr. Casey left to become corporate insurance manager and then director of risk management for abrasives and ceramic products maker Norton Co. of Worcester, Mass.

In 1991, he again moved on, this time to become director of risk management for toymaker Hasbro Inc. of Pawtucket, R.I.

Unlike his moves to Digital, Norton and Hasbro, Mr. Casey did not actively seek the risk manager's position at Corning.

Corning officials had a clear idea of what they wanted in a risk manager, and a New York recruiter called Mr. Casey because he matched that profile.

"We wanted someone who was very knowledgeable about risk management in general—not just in buying insurance but also in loss prevention and assessing exposures," said Sandra L. Helton, who as senior vp and treasurer of Corning is Mr. Casey's immediate supervisor.

By concentrating more heavily on those areas, Ms. Helton hoped the new risk manager could reverse the growth in the company's risk management costs as a percentage of sales.

Ms. Helton anticipates that Mr. Casey's risk management efforts over the past 18 months will do just that.

The variety of Corning's business ventures in itself is not the biggest risk management challenge Mr. Casey faces, he said.

The biggest risk management challenge squarely lies with Corning's medical laboratory operation, he said.

Noting that the labs, among other things, analyze Pap smears and biopsies, Mr. Casey said, "When you have a bad case, they tend to be real serious cases. If a Pap smear (test result) misses a cancer, those tend to be million-dollar cases. It doesn't take too many of those to really get your losses up."

Ms. Helton said Corning also was looking for a risk manager who was a lawyer. "We never had that before," she said.

Corning has been named in numerous lawsuits related to the silicone breast implants manufactured by Dow Corning Corp., Corning's 50-50 joint venture with Dow Chemical Co.

Corning also has had to defend against complaints ranging from the durability of its dinnerware products to the accuracy of results from medical tests that the company's medical lab division evaluates.

A $39.8 million settlement that Corning reached in 1993 with the federal government over allegations that the labs induced physicians to order tests from the labs that were billed to Medicare at rates higher than the physicians thought were applicable also has spawned derivative action lawsuits by shareholders against the company.

In addition, state and federal environmental agencies have named Corning as a potentially responsible party for 22 hazardous waste sites.

Mr. Casey said his legal training also is useful as he negotiates with insurers to end years-long impasses over how they will respond to the breast-implant, environmental and asbestos liability claims against Corning.

"We also needed someone who is a very strong manager and developer of people," Ms. Helton said. "We have a group of diverse people in terms of their responsibilities and background."

Corning's risk management department is 16 strong, besides Mr. Casey (see story, page 115).

Mr. Casey, though, initially was not enthusiastic about taking on a new job at a new company in a new town.

Mr. Casey, who has lived in small towns all of his life, didn't want to move from Grafton, Mass., at that point, and he particularly did not fancy moving to New York.

Two factors changed his mind.

He was intrigued by the opportunity Corning was offering the risk manager it would eventually hire to become integrally involved in legal issues.

And, he liked the fact that Corning was located in tiny Corning, N.Y. The town of about 11,900 is snuggled among wooded rolling hills in the south central portion of the state, just north of the Pennsylvania border.

Early morning passersby exchange greetings on the red brick sidewalks that line the town's quiet main street, which is listed on the National Register of Historic Places.

The quaint, enduring two- and three-story Victorian structures that flank the two-lane street sport Sunday-best facades. Shopowners shun garish neon window signs, instead relying heavily on product displays and the business' name recognition to attract customers.

The lunch hour commences when a throaty horn blares from a tower remaining from Corning's original manufacturing factory. The rest of the factory is gone, replaced by a modern headquarters campus.

But, Ms. Helton, noting that many Corning employees spend their entire careers at the company, said "it can be difficult for someone coming in as a mid-career hire' to fit in immediately.

Mr. Casey—whom many associates describe as professional, laid-back and humorous—has "done an excellent job at that," Ms. Helton said.

Mr. Casey, who lives southeast of Corning in Elmira, N.Y.—a town of about 34,000, best known as Mark Twain's final resting place and where he wrote many of his works—likes the slower-paced lifestyle in a small town.

Big-city living also would cramp his enjoyment of woodworking, which he can more easily pursue on the larger homesites in small towns, he explained.

He was exposed to the craft at an early age. He and a younger brother were born and reared in Gardner, Mass., where a large portion of the population depended on furniture manufacturers for their livelihood. Mr. Casey's father worked in a furniture factory for a time.

Mr. Casey himself worked as a carpenter for a year after graduating from college.

Among his own projects, one of his most ambitious was adding three bedrooms and a bath to the second story of his first house with his wife, Joanne.

Mr. Casey labored on the project for nearly two years. "I did it in my spare time between work and law school," he explained.

He is active in sports as well.

He plays in formal and informal basketball leagues in Corning. He also plays in a pick-up soccer league that Corning employees formed.

And, he has coached both boys' and girls' soccer leagues.

Mr. Casey and his family also like to hike and camp. Their major excursion each year is a two-week summer expedition to the White Mountains in New Hampshire.

Mr. Casey and his wife of 20 years, Joanne, have three children of their own, as well as a niece they are rearing. Their children are Kerri, 18, Colleen, 15, and Sean, 14. Their niece, Jodie Rose, is 18.

It is a home life that many who work with him have seen first-hand.

"I call it the Casey test," observed Fredrik Motzfeldt, a vp with Johnson & Higgins in New York, who is a member of Corning's duo-broker property insurance team.

Recalling that one of his earliest meetings with Mr. Casey was over a plate of waffles at Mr. Casey's kitchen table, Mr. Motzfeldt said, "Everyone who works with him has been to his home." BI



Brian D. Casey's family members offer their support. Surrounding Mr. Casey, from left to right, are his niece, Jodie Rose, son Sean, wife Joanne and daughters Colleen and Kerri.

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Corning Inc's director of risk management and loss prevention Brian Casey coordinates a large risk management staff, which is loosely divided into three groups.

Underwriting, insured and self-insured workers compensation programs and Corning's Health Care Services operations are overseen by the group in the photo on the left.

Front row, left to right: Kim Krocicki, Danniele Magill, Sally Smith. Back row, left to right: Mr. Casey, Joel Hendershot, a Liberty Mutual resident workers comp claims representative; Deborah Smith, Susan Newman.

Corning's Department of Archives and Records Retention is photographed in the middle photo.

Front row, from left to right: Tony Midey, Michelle Cotton, Lori Gerow. Back row: Mr. Casey, Stuart Sammis.

The Corporate Systems group, which overseas product liability defense, is pictured in the photo on the right.

Front row, from left to right: Blanche Graham, Kelly Oakley, Larry Zook, Tom Geroy.

Back row, from left to right: Bill Whitney, Mr. Casey, Dave Huber, and Steve DeMartino.

Casey's staff divides, conquers risk management

A staff of 16 runs Corning Inc.'s risk management department under the direction of Brian D. Casey, director of risk management and loss prevention.

The largest group—seven staff members—makes up the Corporate Systems area, which tests allegedly faulty products and manages Corning's defense in product liability and other litigation. William P. Whitney, chief scientist and manager of Corporate Systems, reports directly to Mr. Casey.

Four staff members run Corning's Department of Archives and Records Retention. That group oversees compliance with record retention guidelines, provides educational sessions to employees who write reports on consumer claims and other third-party complaints, and supports the litigation group. Stuart Sammis, manager of the group, reports to Mr. Casey.

Deborah Smith oversees underwriting information, premium and loss payments and allocations, budgets and loss information systems.

Sue Newman and Sally Smith oversee Corning's insured and self-insured workers compensation program. Danniele Magill, an office assistant in the Syracuse, N.Y., office of Liberty Mutual Insurance Co., the third-party administrator for Corning's self-insured workers comp program, spends half of her time at Corning.

Kim Krocicki is the insurance manager for Corning's Health Care Services, or Life Sciences, operations.

—By Dave Lenckus

Your business is clearly different from the rest of the flock. You're out on the cutting edge of technology, or about to go public, or acquiring or merging with another company, or even working yourselves out of financial difficulty. And because your circumstances aren't like everybody else's, your chances of getting comprehensive, cost-effective D&O insurance aren't the same as the other guys'. They're lots worse.

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1996 Risk Manager of the Year

Teaming up for global property coverage

New approach kept coverage, cut cost

By DAVE LENCKUS

Some deft maneuvers by a new risk manager and his unique team of brokers pulled together Corning Inc.'s new global property insurance program, which yielded significant coverage and cost improvements.

Corning needed a greater emphasis on loss prevention at its international operations in June 1994, concluded Brian D. Casey, who had just stepped in as the company's director of risk management and loss prevention.

The trick was arranging highly protected risk engineering services for those locations under a new global property program while holding down the company's coverage costs so Corning could make headway on reversing its rising cost of risk.

By Aug. 1, 1995, Mr. Casey and his broker team fashioned the new property program the risk manager had envisioned. It covered Corning's risks on a global basis, provided international operations with HPR engineering services, and offered broader coverage than the company's expiring domestic and international property programs.

Moreover, the global program cost $500,000 less than Corning would have paid to cover its risk under separate domestic and international programs, according to Mr. Casey.

Corning's risk management department now is working on two projects that should make its insurers even more comfortable about the company's property risk exposure.

The pieces of this new global property program did not fall into place easily.

One snag was that Corning had suffered some domestic losses in 1994, and the property insurer that Corning wanted to provide the HPR engineering services was a lead underwriter of the expiring domestic account.

Another factor that Mr. Casey had to bear in mind was Corning's earthquake coverage for its property risks in Japan. That three-year coverage was expiring at year-end 1995.

Before the program was completed, a temblor devastated Kobe, Japan, causing about $1.3 billion of insured damage overall, though uninsured losses in Japan were far higher. Corning's facilities in Tokyo and Shizuoka, Japan, were unscathed by the quake.

Mr. Casey already was dealing with how to replace Corning's domestic earthquake coverage in a market that was tightening in response to the January 1994 earthquake in Northridge, Calif., which caused about $12 billion of insured damage overall.

After hand-picking a small team of brokers from Aon Risk Services Inc. and Johnson & Higgins to jointly service the Corning account, Mr. Casey set out to tailor a new global property program.

Mr. Casey and his team essentially started from scratch. One of the two co-insurers on the company's expiring domestic program, Aetna Casualty & Surety Co. of Hartford, Conn., was not interested in renewing its portion of the account.

The other insurer on the program was Industrial Risk Insurers of Hartford, Conn., the property underwriting organization Mr. Casey wanted to retain because of its HPR engineering expertise.

Mr. Casey wanted IRI to provide Corning's international operations with loss prevention services. IRI already provided HPR engineering services for Corning's domestic operations.

But, Mr. Casey wanted to limit the insurer's involvement in providing capacity in the program's primary layer. Corning had reported a few significant losses during the expiring policy period, and Mr. Casey said he feated that IRI would boost rates substantially as a result.

Transformers at a Corning glass production facility in State College, Pa., which fabricates television picture tubes, failed twice. Inadequate backup protection led to the premature cooling and loss of batches of glass that still were in the facility's furnaces.

Each loss was about $900,000.

However, IRI typically insists on participating in the primary layer.

At the same time, Mr. Casey knew broader terms and conditions were available from other insurers.

Through personal meetings with IRI and other insurers, Mr. Casey and his broker team succeeded in constructing a property program in which IRI provides global engineering services but is not the primary underwriter.

In total, the global property insurance program provides Corning with $6.3 billion of blanket limits.

Zurich Insurance Co. of New York leads the $200 million primary layer, excess of Corning's deductibles.

Zurich reinsures a portion of the risk on a quota-share basis to IRI, Allianz Insurance Group, Munich Reinsurance Co., The Royal Insurance Group and Swiss Reinsurance Co.

The program responds a little differently when a foreign operation suffers a property loss.

After the operation retains a portion of the loss, the local Zurich unit or Zurich's global network partner—in compliance with local insurance laws or by choice—retains a small portion of the loss.



PHOTO BY MICHAEL A. MARCOTTE

Brian Casey talks with Steve Gibbs, Steuben Glass' supervisor-forming, finishing, engraving, with a glassblower in the background.

Most of the loss then is ceded to the global program.

At that point, Corning's Bermuda-based captive insurer, Teddington Co. Ltd., steps in and covers up to a total of the next $100,000 of property and business interruption losses.

Teddington, managed by Johnson & Higgins (Bermuda) Ltd., previously covered $100,000 of property and $100,000 of business interruption losses.

This new arrangement allows Corning's international subsidiaries to maintain the smaller deductible levels that are standard in their respective local markets.

Zurich cedes losses exceeding the $100,000 that Teddington retains to the same stable of reinsurers, except IRI, to which it cedes losses from Corning's domestic operations.

IRI also leads the $6.1 billion layer above the $200 million primary layer.

The primary coverage is provided under a broad, manuscripted all-risks policy.

Noting that every broker has its own favorite version of a manuscripted property policy, Tracy Horan, account executive with Zurich in New York, said, "Merging these two was unusual, but it works."

The new global program helped protect Corning better in many ways. It:

- Introduced HPR engineering to the company's international locations.
- Boosted the company's international property limits from $100 million under the expiring international program to the $6.3 billion of blanket limits.
- Increased international boiler and machinery limits to $250 million from $25 million.
- Maintained the company's catastrophic earthquake limits for exposures in California and Japan, despite the constricting earthquake market after the temblors in Northridge in 1994 and Kobe in January 1995.

Because the earthquake market for Japanese exposures already was tight, the Kobe quake did not significantly impair the market, Ms. Horan said.

But, the Kobe quake did not help, she added. The London market hiked premiums and deductibles after the quake, but Corning's program does not rely much on that market, she noted.

- Bridged any potential gaps in business interruption and interdependency exposures for Corning that could arise under separate domestic and international programs.

The structure of the program provides another benefit to Corning, Ms. Horan said. Zurich alone issues the coverage, so Corning has to turn to only one insurer for coverage. Zurich then has to recover from its reinsurers for the risk.

Because of some unusual property risks, Corning's manuscripted primary policy is longer than usual, according to Ms. Horan. It is 45 to 50 pages long, which is 10 to 20 pages longer than most manuscripted policies, she said.

One unusual risk is a U.K. facility that conducts laboratory tests on animals. The main question for underwriters was, "How do you value the test animals?" Ms. Horan said.

Issues that underwriters had to approach with great care were animal mortality and the facility's business interruption exposure, Ms. Horan said.

In putting together the program, Mr. Casey's attention to loss prevention put the insurers on the risk at ease about the property program, according to Ms. Horan (see story, page 117).

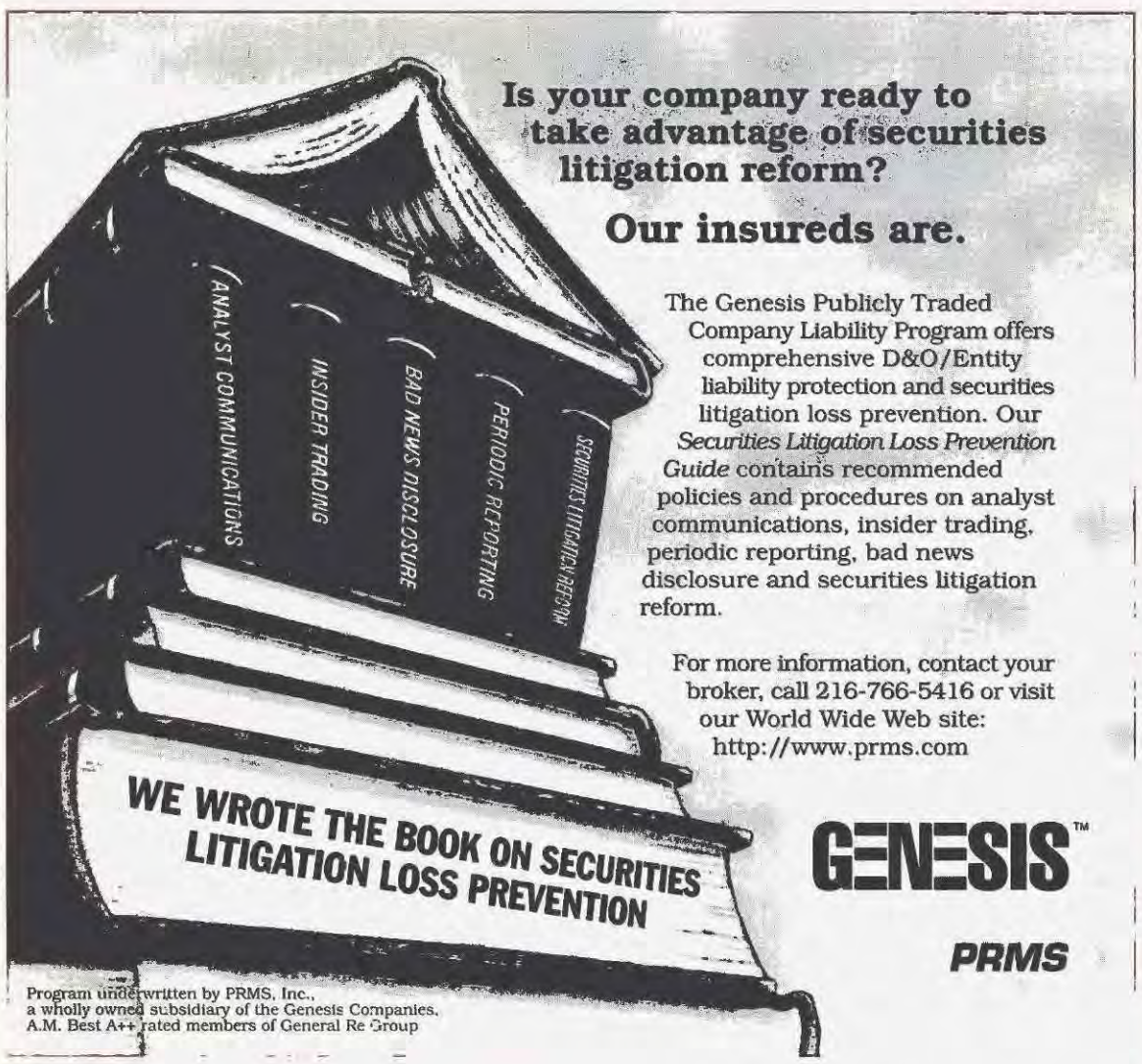
Mr. Casey's commitment to loss prevention " makes it easier to purchase such blanket limits," she said. "Without a commitment to loss engineering, it would be very difficult for him to purchase the limits."

At the very least, Zurich would have had to line up more reinsurers, she said.

Another commitment from Mr. Casey made the insurers feel more comfortable about providing the blanket limits, according to Ms. Horan.

He recognized that Corning had to more clearly determine its business interruption and interdependency exposures after potential

Continued on next page



Continued from previous page

property losses, she said.

About 60 income-producing Corning locations will be evaluated in a study of those exposures, said John Durante, an assistant vp with Aon Risk Services in New York, who Mr. Casey chose to head Corning's loss control engineering. Mr. Durante, who also is a member of Corning's duo-broker property team, is the liaison between IRI and Corning's overseas operations.

One key interdependency exists between a U.S. plant and another in Japan. A Corning glass manufacturing plant in Kentucky supplies a laptop computer screen production facility in Japan, which faces an earthquake risk.

Like many facilities overseas, the plant in Japan also lacks a sprinkler system, though it has improved its flammable liquid handling process, Mr. Durante said.

Ideally, the study will help Corning obtain a higher sublimit for its business interruption and interdependency exposures, he said.

Since the study likely will not be finished until June, it will be more beneficial for underwriters and the company during the next policy period, Ms. Horan acknowledged.

Still, the commitment impressed the insurers, she said. "There are a lot of programs where limits are put up and they don't have the slightest idea" about those exposures because risk managers do not know, she said, noting that those exposures never can be determined with 100% certainty.

A somewhat related project, designed to accurately value five of Corning's largest plants, should put underwriters even more at ease with the company's property exposure, Mr. Durante said. Those values range from $200 million to $1 billion, he said.

Corning could have continued deriving plant values for its insurers as it has in the past—by indexing them, Mr. Durante said. However, Mr. Casey was not comfortable that "he started out with the right numbers," Mr. Durante explained.

Mr. Casey's strategy of approaching prospective reinsurers for the program with a team consisting of himself, his brokers and Zurich also seemed to put the reinsurers at ease, according to Ms. Horan.

That approach showed that Corning was trying to forge a long-term partnership with its markets.

Mr. Casey said he always planned on being an active advocate on Corning's behalf during meetings with underwriters, despite the confidence he has in his broker team.

He said he developed this mindset when he was Digital Equipment Corp.'s corporate loss manager and casualty administrator during the mid-1980s liability crunch. A couple of umbrella liability brokers did not give Digital a good reading of the market, he said.

Like many other insurance buyers during the hard market, Digital had to accept drastically reduced umbrella coverage.

From that experience, Mr. Casey determined that a risk manager has to develop direct relationships with his company's insurers.

"You don't necessarily exclude brokers from the process," he said. "But, the best person to present your case to the markets is you. To not take advantage and be part of the renewal process, I think, is foolish."

Mr. Casey's approach was particularly important for a couple of the reinsurers that do not typically agree to take the role of reinsurer for the primary underwriter in global programs, Ms. Horan said.

Corning's broker team was particularly effective in convincing those underwriters that their portion of the program would not be shopped each renewal season, she said. "The brokers definitely helped with that because they have good relationships with the insurers."

Overall, though, much of Mr. Casey's ability to overhaul Corning's property program is attributable to his assertiveness as a "very forward customer," Ms. Horan said.

"Brian knew what he wanted," she said. "He demanded certain things, a certain amount of attention."

Mr. Casey also had the strong senior management backing that a risk manager needs to overhaul a program so quickly, she said. BI

Loss prevention takes center stage

Commitment helps sell insurers on property overhaul

By DAVE LENCKUS

From the lack of highly protected risk engineering at international operations to a domestic plant that suffered two costly production shutdowns because of machinery failure, Corning Inc. in 1994 faced some loss prevention challenges.

But after Brian D. Casey arrived at Corning in June 1994, loss prevention became as important an ingredient in the company's risk management mix as silica is in glass fabrication.

As the new director of risk management and loss prevention, Mr. Casey immediately set out to bring highly protected risk engineering services to Corning's international operations.

In doing so, he was able to secure an unusual agreement with Industrial Risk Insurers of Hartford, Conn. As it already had done with Corning's domestic operations, IRI agreed to bring HPR services to Corning's international locations.

However, the underwriting organization is not the primary insurer on Corning's new global property insurance program, which provides a total of $6.3 billion of blanket limits (see story, page 116).

The HPR services are tremendously important for Corning's overseas operations, according to Mr. Casey. Loss prevention internationally typically is years behind what it is in the United States, he observed.

Also, many foreign locations

Continued on next page



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1996 Risk Manager of the Year

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have water-supply problems, Mr. Casey noted. If one of those operations cannot support a capital expenditure for a water tank, it has to stringently enforce no-smoking policies, take all possible precautions when using flammable materials and ensure that it does not store any flammable materials onsite.

Mr. Casey's emphasis on loss prevention was a key reason that Corning's insurers agreed to offer the blanket limits that cover the company's property risks, according to one insurer.

"Without a commitment to loss engineering, it would be very difficult for him to purchase the limits" that he obtained in the property program, said Tracy Horan, an account executive with Zurich Insurance Co. of New York, the primary insurer on the program.

That commitment, though, is stronger than providing HPR services, or even responding to loss control problems.

It entails anticipating problems and acting on them before they manifest.

For every quarterly meeting between Mr. Casey, Zurich and John Durante, Corning's outside loss control engineer, Mr. Casey and Mr. Durante develop a top 10 list of Corning's global loss prevention concerns.

"Markets really like this sort of thing," said Lauren Bernard, a vp with Aon Risk Services Inc. in New York and the broker's team leader on Corning's duo-broker property insurance team.

Mr. Casey selected Mr. Durante, an assistant vp with Aon and a member of Corning's duo-broker property team, to head Corning's loss control engineering. Mr. Durante serves as the liaison between IRI and Corning's global operations.

Mr. Durante said that Mr. Casey never wants to see a "human element program," like fire-protection equipment testing, cited in an IRI loss control improvement report.

"Brian is real aggressive about that," he said.

A Corning operation faced just that kind of problem shortly after Mr. Casey was hired.

In a complicated deal, Corning in 1994 sold the consumer products manufacturing portion of a U.K. facility to another company. Corning's facility retained the manufacturing portion of the operation that produced glass for non-consumer products.

Under the deal, the consumer manufacturing operation would not move to another site. That meant Corning no longer would have total control over the facility.

The arrangement posed a critical loss-prevention concern.

Mr. Casey moved to ensure that the Corning facility still had access to various shut-down valves and the power plant for its portion of the facility. Some of that critical plant apparatus is located in the part of the facility controlled by the other company.

In addition, Mr. Casey ensured that the Corning operation's emergency response team was prepared to respond to a crisis in the company's new workplace environment.

Part of that effort involved replacing and training about half of the response team, because half of the team members now are employed by the company that purchased the consumer manufacturing portion of the operation.

Mr. Durante also credits Mr. Casey for giving him tremendous freedom and authority to work with plant managers on how they can improve their loss prevention efforts.

For example, while neither Mr. Casey nor IRI had recommended a fourth onsite water-pressure booster pump for a critical Corning facility, Mr. Casey supported Mr. Durante's efforts to secure the pump.

The Wilmington, N.C., facility is the only Corning plant that produces optic fiber, the backbone of communication systems. The facility also is undergoing an expansion that will increase its value by about two-thirds, according to Mr. Durante.

Considering those two factors, Mr. Durante wanted the facility protected by a fourth booster pump. "This fourth pump is all about quality," he said.

Purchasing another $100,000 pump and installing it is only part of the loss prevention equation. The facility also has to devote some time every week to maintain the equipment.

The same plant, which is located in a windstorm-prone area, also agreed to another recommendation by Mr. Durante to spend thousands of dollars to fasten its roof more securely. The plant now also plans to use a similarly stronger roof in its expansion project, Mr. Durante said.

"Brian worked with the operation to allocate additional funding" to strengthen the roof, Ms. Bernard said.

Corning's insurers did not require the improvement, but it improved Corning's risk portfolio, she said. "And, they'll be thankful if there's ever a windstorm there."

Some loss prevention efforts, though, still are born from losses.

That was the case at Corning's State College, Pa., television picture tube production facility, which is Corning's largest glass manufacturing plant.

Two separate failures of company transformers at the facility within a seven-month period in 1994 disrupted the flow of power to furnaces in which various materials are mixed and melted to fabricate glass.

The power disruptions caused the materials to cool prematurely, and the material could not be saved and reused. Each incident resulted in a claim of about $900,000.

Following the losses, Mr. Casey commissioned a General Electric Co. unit to recommend a backup system.

GE's study identified both short-term and long-term solu-

Continued on next page

Corning milestones

1864: Amory Houghton purchases Brooklyn Flint Glass Co. in Brooklyn, N.Y.

1868: Mr. Houghton moves Brooklyn Flint Glass to Corning, N.Y., and changes the company's name to Corning Flint Glass Co.

1875: The company is incorporated as Corning Glass Works.

1879: Thomas A. Edison, inventor of the electric light bulb, and Corning first meet.

1880: Corning produces the first blank for the incandescent lamp.

1908: Corning is among the first U.S. companies to establish a research and development laboratory when it establishes its facility on glass and glass products. It now has four such labs worldwide.

1915: Corning develops Pyrex brand cooking ware and introduces its line of Pyrex laboratory glassware.

1926: Corning develops a ribbon machine that automatically produces incandescent lamp bulb blanks.

1933: Corning introduces Steuben crystal.

1934: Corning fabricates the world's largest piece of glass, a 200-inch mirror blank for the Mount Palomar Observatory telescope in California.

1947: The era of automatic production of glass components for televisions begins. In 1947, it's television bulbs. In 1949, it's special television glass and centrifugal casting of funnels. In 1953, it's color television bulbs.

1957: Pyroceram-brand glass ceramics dinnerware debut. The new family of durable materials are unmatched by conventionally engineered materials.

1961: The first successful manned flight in space by an American is accomplished in a Mercury spacecraft, for which Corning produced the viewing window. Corning also produced the viewports in the Gemini and Apollo spacecrafts.

1970: Corelle Lingware dishes debut.

1982: Corning enters the health care services business segment by merging with clinical laboratory testing facility MetPath Inc. The facility is now called Corning Clinical Laboratories.

1983: Visions top-of-stove cookware debuts in the United States and Canada.

1984: Corning introduces the total quality management system and opens its Quality Institute TQM training facility for employees. The program has since been translated into several languages for employees worldwide.

1989: The company changes its name to Corning Inc.

1992: Corning develops a catalytic converter for automobiles to meet California's 1997 regulations on ultra-low emissions.

1994: Corning completes the world's largest telescope mirror blank, an 8.31-meter piece for the Subaru Telescope on Mauna Kea, Hawaii. The project was sponsored by the National Astronomical Observatory in Japan.
Corning receives the National Technology Medal from U.S. Commerce Department.

1995: The Commerce Department awards the Corning Telecommunications Products Division the Malcolm Baldrige National Quality Award for excellence in quality management in the large manufacturing category.
Corning completes the first of two 8.1-meter primary mirror blanks for the international GEMINI telescope project on Mauna Kea, Hawaii. The second blank for the project—an international partnership among Argentina, Brazil, Canada, Chile, the United States and the United Kingdom—is scheduled for delivery next year.

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Center features priceless artifacts and artisans at work

The Corning Glass Center combines a museum of thousands of glass artifacts, like a 2,000-year-old perfume bottle and Benjamin Franklin's glass harmonica, with a 20th Century crystal glass factory and a library on the history and art of glass.

It's also one more property and casualty risk covered by Corning Inc.'s global insurance programs.

The center, which opened in Corning, N.Y., in May 1951, was built to celebrate the 100th anniversary of Corning Inc.

The company traces its origins to 1851, when Amory Houghton—great-great grandfather of retiring Corning Inc. Chairman and Chief Executive Officer James R. Houghton—made his first investment in a glass-manufacturing company. Amory Houghton later sold his interest in that company and founded and sold another glass manufacturer before purchasing what would become Corning Inc.

The center is a non-profit educational institution dedicated to art, history, research and exhibition of glassmaking.

The museum's collection consists of more than 27,000 objects ranging from original glass bowls and cups made 3,500 years ago to stained glass windows to modern glass dinnerware from around the world.

The Masterpiece Gallery encircles a library on the history and art of glass.

Seven galleries open off of the main gallery and guide visitors through the evolution of glassmaking.

The museum also periodically features guest showings of some of the world's most valuable glass collections.

From June through October, the museum is scheduled to feature the only U.S. showing of about 200 glasses from the collection of the Danish royal family.

As museums typically do for visiting exhibits, the Corning museum has arranged coverage for the Danish exhibition.

The museum says the exhibition marks the first time that those table glasses, glass services and art glasses have been shown together. It explains that while Danish monarchs over the last 300 years have been enthusiastic glass collectors, the royal glass has been scattered among many castles.

Part of the exhibition is a group of 18 glasses that Denmark's King Frederick VIII and Queen Louise were presented in France in 1907. The pieces were designed by Emile Galle, one of France's leading figures in the decorative arts in the late 19th century.

The Rakow Library, which draws glass students from around the world, houses 70,000 reference volumes and 800 periodicals in 41 languages.

The library is the world's most comprehensive resource center on the history and art of glass, according to the glass center.

Visitors also can watch glass artisans create small but detailed glass figurines of horses, frogs and other animals using a blow torch and a rod to melt and shape the forms out of glass tubing.

The Steuben Factory, which manufactures crystal dinnerware and decorative pieces, also is set up for public viewing.

Visitors can watch the glassmaking process from the production of glass in the factory's furnaces to the final polishing and engraving stations.

The center attracts 315,000 visitors annually.

—By Dave Lenckus



COURTESY THE CORNING MUSEUM OF GLASS

A Tiffany leaded glass window circa 1905 is only part of The Corning Museum's collection.

Prevention

Continued from previous page

tions.

In the short-term, critical spare transformer parts will be stored onsite.

For the long term, Corning is installing an automatic switching system that will provide emergency backup power to the facility's furnaces when a transformer goes down. If a transformer crashes, the system is designed to switch the affected furnace over to another transformer that is not operating at full capacity, Mr. Durante explained.

For the future, Mr. Casey would like a more consistent property loss control approach among Corning's various plants. To that end, he sponsored a two-day loss control training session at Corning's headquarters in February.

The program was designed for, among others, plant managers, fire protection specialists, safety personnel, corporate engineering personnel, the risk management department, insurers and brokers.

Topics included sprinkler protection, water supplies, special extinguishing systems, Corning's property loss prevention guidelines, disaster recovery, Corning's interdependency exposures and its ongoing study of that exposure, and a description of Corning's unique duo-broker team for property insurance.

Mr. Casey hopes the seminar will ignite some networking among the 80 to 85 attendees and prompt the plants to share best practices. BI

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1996 Risk Manager of the Year

How a messy patchwork became a work of liability art

By DAVE LENCKUS

Corning Inc.'s liability risk-financing program, like the company's property insurance program, was no piece of art in June 1994.

Its domestic and international programs consisted of several separate general liability and professional liability placements, which created overlapping coverage and generated needless frictional costs.

Corning also was swapping dollars with its insurers because of the low retention level the company assumed.

But, by April 1995, Brian D. Casey had resolved those problems while saving the company millions of dollars and giving it an opportunity to save millions more.

As he did with Corning's property program, the company's new director of risk management and loss prevention saw the beauty of a global program for Corning's liability exposures.

In the process, by also focusing on loss prevention, he has redrawn the picture the company had of risk transfer and its attendant costs.

Before moving to the global liability program, which is placed by New York-based Johnson & Higgins, Corning had what Mr. Casey called a "patchwork program."

For example, Corning purchased "twin towers" of professional liability coverage for the two segments of its health care services operation—a needless construction that created unnecessary frictional costs.

One of those towers also provided general liability coverage to Corning's clinical laboratories.

The other tower provided only professional liability coverage to the other health care services operation, which provides biological and chemical studies, clinical laboratory-testing and other services to pharmaceutical manufacturers. That tower was a global program.

A separate international general liability program covered all non-U.S. exposures. For international professional liability exposures, the clinical laboratories operation was self-insured.

The program was costly because of its patchwork structure and Corning's low retentions, which were $100,000 to $250,000 per occurrence, depending on the risk.

"The more you push down retentions, the more you need a specialist underwriter" that is willing to retain nearly all of the risk, said Joseph C. Peiser, a J&H vp in New York.

But, because the underwriters are specialists, "they can cover one thing but not the other," which is an inefficient and therefore costly method of structuring a program, he said.

That kind of program also creates the potential for coverage gaps if, for example, general liability and professional liability underwriters disagree over which policy should respond to a claim, Mr. Peiser said.

In addition, the low retentions meant that during every renewal, underwriters were trying to recoup the losses they paid under Corning's expiring program.

"In our experience, the program was out of step for a company the size of Corning," Mr. Peiser said.

"That's not to say J&H and Corning hadn't thought of that. We were studying that at that time. But, when Brian came in, he really brought a fresh perspective to it. He brought an outsider's perspective," said Mr. Peiser, noting that Mr. Casey was "well-wired into the Fortune 500 perspective."

At the same time, Corning's risk manager encourages creativity, Mr. Peiser said. He outlines the company's broad goals and asks brokers to "design around that."

Mr. Casey then "drove the (new) program with the marketplace" and clearly communicated to Corning management the benefits of retaining more risk, Mr. Peiser said. "Brian brought credibility to a program like this."

The new global program consolidates many of Corning's liability risks—general liability, product liability and auto liability for all Corning operations—and separate professional liability coverages for each of its two health care services operations.

New York-based American International Group Inc. writes the entire five-year program, which provides $24 million of excess limits above Corning's $1 million self-insured retentions.

The coverage is broken into two layers because of premium considerations. The first layer provides $4 million of coverage annually excess of the retentions, with a five-year aggregate.

The second layer provides $20 million of coverage excess of $5 million, with a five-year aggregate.

"That was the beauty of it: It all converged into one program" written by one insurer, Mr. Casey said. That means lower transaction costs, and less confusion over attachment points and over which policy responds to a loss.

And, Corning no longer is swapping dollars with its insurers on working-layer losses. The company now retains $1 million of losses per occurrence. Annual aggregates generally range between $5 million and $7.5 million.

Mr. Casey said Corning settled on the $1 million per occurrence retention because few of its losses exceeded that amount.

Eventually, though, he would like to bump up that per occurrence retention to $5 million. That would create even greater premium relief for Corning. If Corning ever had to cover a single loss of that magnitude, the company would have the financial wherewithal, he explained.

In the meantime, he is happy with the $1 million retention.

The new retention levels reflect a significant change in culture for the company. Noting that retentions previously were as low as $100,000 for auto liability and $250,000 for product and general liability, he observed, "To go from those levels to $5 million would have caused some heartburn around here."

Corning is paying about $4.5 million less in premiums annually than it would have paid to renew its expiring liability program, according to Mr. Casey.

That amount does not reflect other potential savings for Corning if it can prevent losses from piercing its first $4 million layer of excess coverage.

Corning can recover up to 100% of the premium it paid for that finite risk, or modified swing, excess layer if no loss exceeds the per occurrence retention.

Corning still can recover a lower percentage of its premium if losses do pierce that layer.

Alternatively, Corning could roll over that savings to cover the premium for the next five-year program.

Corning's decision would be based on the tax consequences of each option, Mr. Casey said.

At least one claim, though, likely will pierce that lower excess layer, Mr. Casey said. Shortly after the program was implemented, a driver for Corning's clinical testing division was involved in an auto accident with a third party in which the other driver's pregnant wife was killed.

Brian Casey is 'well-wired into the Fortune 500 perspective,' says Joseph C. Peiser.

The layered program is structured to protect the first excess layer from being exhausted by a high frequency of small losses when none of the losses exceeds the $1 million retention but in total they blow past the annual aggregate retention levels.

In that situation, the $20 million layer excess of $5 million would drop down and respond to the losses exceeding the annual aggregate retention. The first $4 million excess layer would not respond.

However, a new, lower retention would apply to those losses exceeding the annual aggregate. Those new, so-called maintenance retentions, though, also are capped.

"It's not a typical program," said Mr. Peiser of J&H. "Plus, what's probably more atypical is that it's in place."

Mr. Peiser lamented that while brokers often have the opportunity to play a role in devising inventive risk-financing programs, most times the programs are never implemented.

Corning does not face a premium increase under the five-year program unless revenue growth in any year exceeds 15%.

Even if revenues exceed that threshold, the additional premium would be based on only the amount of revenue growth exceeding 8% to 10%, Mr. Casey explained.

Above the AIG coverage, Bermuda-based excess liability facilities X.L. Insurance Co. Ltd. and ACE Ltd. write additional excess layers.

Any product liability or derivative-action losses that Corning might face because of its 50% stake in Dow Corning Corp. would not be covered by the new global program.

Dow Corning once was the leading manufacturer of silicone-gel breast implants and was a major supplier of silicone gel to other implant manufacturers.

About 11,400 state and federal lawsuits have alleged that the implants have caused various health problems. However, courts have dismissed about 10,700 of the tort cases against Corning. The other cases are pending.

Corning argues that it did not manage Dow Corning's operations.

If found liable, Corning would seek coverage from its prior liability insurers, which include units of CIGNA Corp., Kemper National Insurance Cos. and The Home Insurance Co., according to Mr. Casey.

Mr. Casey also has redoubled Corning's emphasis on quality at its clinical testing operation to lower liability exposures.

AIG is evaluating how those facilities compare with other AIG clients in related fields in several critical areas. For example, AIG is assessing how the Corning facilities rate on security, false test results and the uneventful transfer of lab specimens back to hospitals.

New technology can help minimize false test readings, but the company cannot justify providing all of its locations the tremendously expensive new equipment, he said. The evaluation process will help determine which locations Corning should focus on.

"We want to set ourselves up so we can claim our testing standards are more stringent" than competitors', Mr. Casey said.

Corning also hopes to improve its clinical testing operation's auto safety record through new driver-selection and training programs.

The company considered hiring an outside agency to transport specimens between the company's labs and their client hospitals. That would eliminate the operation's auto maintenance costs and cut its auto and worker compensation insurance costs.

However, Corning has rejected the idea. That arrangement could jeopardize specimen transportation turnaround time, Mr. Casey explained.

Corning implemented the driver-selection program within the past year and the safety program about 18 months ago, so their impact is inconclusive now, he said.

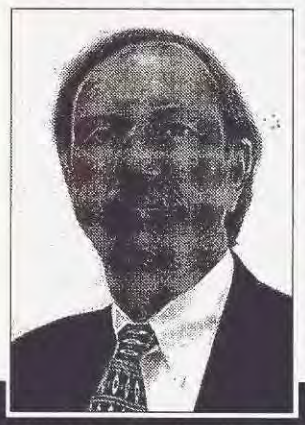
Corning has cut costs further by taking all product liability claims management in-house.

Corning had done much of that work previously, anyway, according to Mr. Casey. Kemper National Insurance Cos. primarily had cut claims payment checks.

Corning now uses Chicago-based McLarens Toplis North America Inc., but only for some investigation purposes.

For professional liability claims management, Corning has switched to Palm Beach Gardens, Fla.-based Caronia Corp. and has taken a "more interactive" approach with the TPA on assessing the value of claims and establishing reserves, Mr. Casey said. BI

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Liability program offers more for less

Corning Inc. not only will save millions of dollars under its retooled liability insurance program, it will pay broker Johnson & Higgins substantially less while obtaining significantly more value, says Brian D. Casey, director of risk management and loss prevention.

"We made a drastic change in the way we worked with J&H," Mr. Casey said.

Corning now remunerates J&H on a fee basis, rather than on a commission basis, which has cut the price of J&H's services in half.

Just as important, Mr. Casey also expects to get more value for what Corning is paying the broker.

The new compensation arrangement was born out of a general shift in brokers' role today, he said.

Large companies no longer depend on brokers to translate their needs to markets, Mr. Casey said. "Anyone can do that, if you're a Fortune 200 company," he said. Corning ranked 240th based on 1994 revenues.

Instead, Mr. Casey wants a broker to bring other value to the relationship.

When Joseph C. Peiser, a J&H vp, asked Mr. Casey what he valued in a casualty broker, Mr. Casey responded that he wants it "to focus on services rather than risk transfer," Mr. Peiser recalled.

For example, Mr. Casey would like to see some analysis of how companies have fared after accepting higher insurance retentions. Corning boosted its retentions significantly under its new global liability insurance program.

He wants to hear about unique programs that insurers have agreed to write and other timely market information that he cannot obtain by himself.

"He also looks for information on how other Fortune 500 companies have solved problems," like handling claims information in-house and integrating workers compensation and disability programs in cases of similar injuries that can be treated similarly, Mr. Peiser said.

Brokers have to become "part of the strategic team" for their clients and focus more on consulting rather than procuring insurance, Mr. Casey said.

Mr. Casey said that in negotiating J&H's fee, he and the broker came to the bargaining table with fee proposals that were "pretty much identical."

—By Dave Lenckus

Casey improved D&O cover despite Dow Corning exposure

Corning Inc. last year boosted its directors and officers liability insurance limits by $30 million to $100 million and cut its premium $200,000, all while the specter of bankruptcy loomed over joint venture Dow Corning Corp.

Corning's underwriters had doubled D&O premiums only two years earlier.

In 1993, Corning officials already were facing derivative-action D&O lawsuits alleging that company executives misrepresented or omitted vital information about Dow Corning, breached their duty to shareholders and wasted corporate assets that were committed to Dow Corning's silicone breast implant business.

At the same time, the courts hearing the product liability claims against breast implant manufacturers had not yet dismissed Corning from most of those cases.

Many of those cases had been dismissed and the D&O market was softening before Brian D. Casey, director of risk management and loss prevention, obtained the improved D&O coverage.

But, he faced a challenge during D&O negotiations: selling the company's improved risk to underwriters despite the possibility that Dow Corning, Corning's 50-50 joint venture with Dow Chemical Co., soon would file for bankruptcy protection.

Dow Corning eventually did seek that protection last year after a federal judge ruled that a proposed $4.2 billion settlement of all claims against it and other implant makers would not cover all claims (*BI*, May 22, 1995). Dow Corning would have contributed $2 billion under the now-scrapped settlement proposal.

Despite that development, Mr. Casey secured the additional D&O coverage through a little arm-twisting and shuffling of markets on the risk.

First, he "put pressure" on the primary underwriter, National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc.

"I think we got a black eye after '93, when the implant situation manifested," Mr. Casey said. Most of the product liability claims were filed in late 1992 and early 1993, which prompted underwriters to double the company's D&O premiums that year, he said.

The D&O premiums then began to fall, he added, "but not fast enough."

So, he began pressuring National Union for greater reductions, though he had to temper his demands because some implant litigation still is pending against Corning.

Another move that Mr. Casey said improved his D&O program was jockeying the position of underwriters on the first two excess layers. Zurich, which previously wrote the second layer of excess coverage, now follows National Union on the risk. It took the place of Chubb Corp. of Warren, N.J., which now writes excess of Zurich's coverage.

Bermuda-based excess liability facility ACE Ltd. provides excess limits above Chubb's layer.

Meanwhile, Mr. Casey also got significant premium cuts for other coverages by remarketing them:

- Crime and fidelity. The premium dropped 50% when Mr. Casey moved the coverage to National Union from Chubb.
- Surety. The premium dropped by half when Mr. Casey moved it to Seattle-based SAFECO Corp.
- Political risk. Corning saved about $300,000 by going to Skandia International Insurance Corp.
- Various bonds, like customs bonds. Corning saved 30% to 40% because broker Aon Risk Services Inc. "just came in with an aggressive attitude," and pressed the market for a better deal, Mr. Casey said. SAFECO writes those coverages.

—By Dave Lenckus

Records help Corning combat claims

Corning Inc.'s "Think Smart, Write Smart" program on how the company's central Records Retention Group should prepare and handle product liability and other litigation files is more street smart under Brian D. Casey's direction.

The group supports Corning's Product Liability and Litigation Group by providing documentation that the litigation group needs as it prepares to help Corning defend against various types of lawsuits.

Mr. Casey oversees both groups.

The records group implemented the "Think Smart, Write Smart" program in 1993, a year before Mr. Casey arrived at Corning.

Mr. Casey, who is a lawyer, found that it was a good idea that could be made better.

One basic and practical idea he promoted that yielded some troubling findings was file cleanup days.

The idea was to sort through and tag documents for either offsite storage or destruction.

In the process, the records group found that some documents, like contracts and leases, that should have been retained only a certain number of years had been kept far longer than necessary. Other documents, though, were disposed of sooner than they should have been.

Even more problematic for Corning was how some files, like those for slip-and-fall and product liability claims, contained early notes that could have jeopardized Corning's defense of those claims.

"The company was making statements in the reports that admit liability when we weren't liable," Mr. Casey explained.

He developed a program on how to prepare reports on various incidents so they contain the data the company needs to investigate the claims without admitting liability.

For example, a report on a slip-and-fall claim should refer to a fall as an "alleged fall" if a Corning employee did not witness the incident.

Previously, employees would state in their reports that "a customer fell on some ice in front of the store without determining whether there even was ice in front of the store," Mr. Casey said.

In other cases, reports on consumers returning broken dinnerware have stated categorically that the dishes spontaneously exploded, he noted.

Corning has lab specialists who reconstruct breakages. "We can determine what happened," he said, but statements admitting liability could put the company in a liability bind.

Meanwhile, Mr. Casey is working on decentralizing the file auditing process. He would like Corning's divisions to assume responsibility for auditing their own files. Those audits would be subject every couple of years to a central audit with "teeth" in it as an incentive for the divisions to properly audit their files.

A decentralized system would free up time in the records retention group.

—By Dave Lenckus

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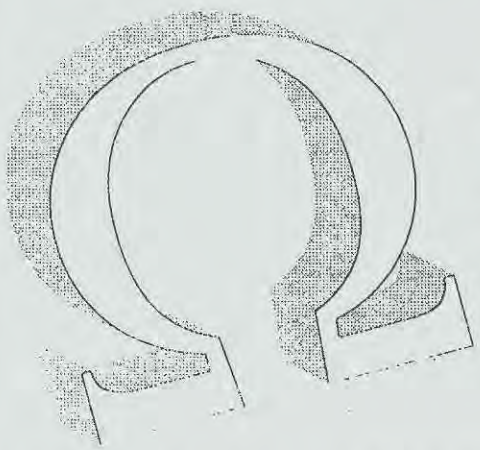
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1996 Risk Manager of the Year

Consensus helps improve safety

Casey brings departments, TPA together to cut comp costs

By DAVE LENCKUS

Trying to improve workplace safety at Corning Inc., Brian D. Casey has crossed the line.

The director of risk management and loss prevention for the highly diversified global company has crossed traditional corporate organizational divisions to work with safety and medical department officials—none of whom reports to risk management.

His goal was twofold: to improve workplace safety and to minimize Corning's cost of handling claims that are filed.

The solution: Mr. Casey has negotiated a pay-for-performance arrangement with the company's new third-party administrator for self-insured workers compensation claims.

Corning risk management also has brought safety into the loop between it and its property loss prevention vendor, Industrial Risk Insurers of Hartford, Conn.

"Even though safety doesn't report in here, I work with them on a lot of instances," said Mr. Casey, noting that he hopes safety will move under risk management's purview within the next several years.

Safety currently reports to a group that focuses on ensuring that Corning workplaces operate in compliance with federal workplace regulations on environmental, quality control and engineering issues.

"But we try to create an environment where they're part of the risk management team," he said. "The best way I do my job is if people do it for me."

Of Corning's 41,000 employees worldwide, 38,000 work at 28 manufacturing plants, 40 clinical testing and pharmaceutical-development services laboratories and 20 sales and services offices throughout the United States.

Excluding Corning's life sciences division of medical and pharmaceutical testing labs, Corning self-insures its workers comp risks in Kentucky, Ohio, New York, Pennsylvania and West Virginia.

National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc., writes coverage excess of $500,000 per accident.

Corning insures its non-life sciences operations in California, Illinois and North Carolina, as well as small sales centers in some other states, with Lumbermens Mutual Casualty Co., a subsidiary of Kemper National Insurance Cos of Long Grove, Ill.

Corning insures the other operations for various reasons. For example, North Carolina's assessments on self-insured programs make that option unattractive there, Mr. Casey said.

The company's life sciences operations remain insured because Corning would not realize significant savings by switching from the paid-loss retrospectively rated program Kemper writes, Mr. Casey explained.

His efforts to work more closely with safety reflect Corning's recent re-engineering, said an appreciative Ron Kitson, manager-safety and health. "We try not to operate in silos anymore."

Historically, risk management unilaterally selected the TPA.

Mr. Casey's approach of bringing together several areas that typically did not have a voice in the selection—even though they are involved in the workers comp process—"increases their sense of ownership" in the selection and the company's workers comp program, Mr. Kitson said.

Corning turned to Boston-based Liberty Mutual Insurance Co. to administer Corning's self-insured workers comp claims because it "could bring a lot of loss prevention services to the program," Mr. Casey explained.

The services are not free, but their cost already was built into Liberty Mutual's fee, Mr. Casey said.

This arrangement also allowed Mr. Casey to purchase loss control services on a blanket basis at a lower cost than individual plants would have been able to negotiate. Mr. Casey charges the cost back to Corning's facilities the same way the company allocates insurance costs.

This arrangement avoids forcing plant managers into the position of deciding whether the cost of the services fits into their budgets. Mr. Casey explained that those who need it the most might be those who would be most hard-pressed to pay for it.

Mr. Kitson noted that safety now receives 7,000 to 8,000 hours of consulting services annually.

Corning will save about $200,000 by switching to Liberty Mutual from Travelers Inc., Mr. Casey said.

And, the performance contract he negotiated pressures the TPA to help Corning save even more.

Under the three-year contract, which went into effect in January 1995, the TPA has to either meet certain performance criteria or cut its administrative fee 10%.

If Liberty Mutual meets those criteria, Corning will pay an extra 10% of fees.

Mr. Casey figures Corning wins in either case. If Liberty Mutual meets its performance criteria, Corning's workers comp costs should fall, he explained.

Five points, or half, of the 10% incentive will depend on Corning cutting its workers comp costs from year to year. Corning first will assess this two years into the program.

So far, the number of self-insured workers comp claims has risen, but Mr. Casey said he expected that because the company is promoting early reporting of claims.

More important, the cost of those claims has dropped, as has the duration of time that injured employees have drawn workers comp benefits, said Mr. Casey.

"We focused on early reporting and getting involved as early as we could" to get injured workers treated early and properly so they could return to work as soon as possible, Mr. Kitson said.

"The real issue is how do you effect behavioral change in the workplace" so workers do not incur those injuries, he said. Corning is studying that now and plans to implement some pilot programs, Mr. Kitson said.

Liberty Mutual can earn three more points of the 10% incentive by completing a location-by-location claims and loss prevention survey, or a loss-source analysis.

The survey is designed to help Corning target its most frequent and costly accidents and better focus loss prevention efforts, Mr. Kitson explained.

The loss-source survey also should help develop a good rapport between Liberty Mutual and Corning's plants, Mr. Casey said. "That's important. That's where the claims are," he said.

Workers comp loss prevention has to work at the plant level, so a feeling of unity between the units and their loss-control vendor is critical, according to Mr. Casey.

The remaining two points will be based on how well Liberty Mutual performs a series of functions, like contacting injured employees within 48 hours and promptly paying medical and other bills related to employees' injuries and illnesses.

Liberty Mutual also agreed to commit an employee to service Corning on a full-time basis and base him in Corning's risk management department.

Mr. Casey has linked up risk management and safety in other ways as well.

For example, safety now sees IRI's loss prevention reports on Corning facilities, Mr. Kitson noted. "We never closed the link before between that and the safety factor," he said, adding that he also has seen increased responsiveness to safety's suggestions.

Risk management also is working with safety as well as the company's health care officials, Liberty Mutual and a consulting firm to study how Corning should address ergonomic issues. BI

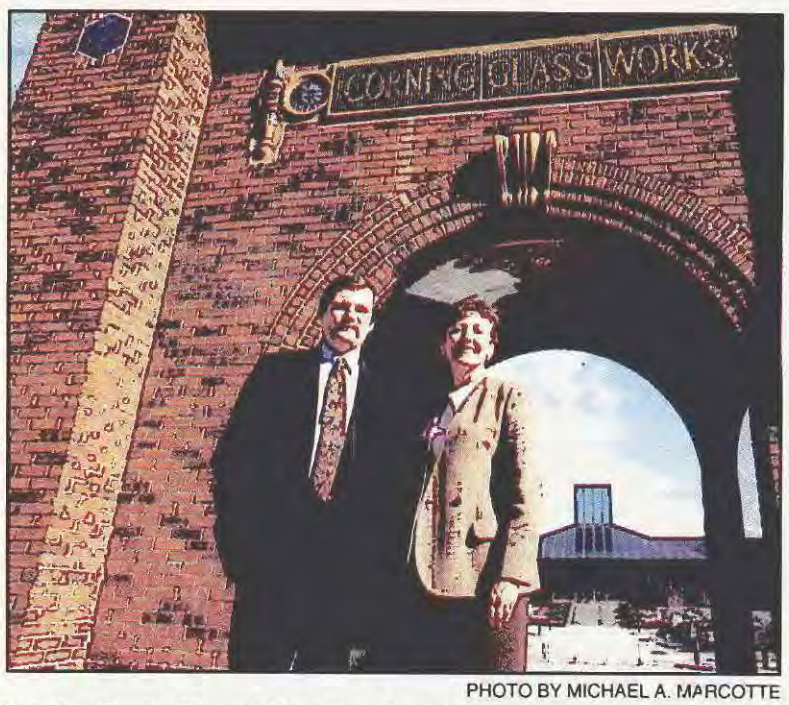


PHOTO BY MICHAEL A. MARCOTTE

Corning Senior Vp and Treasurer Sandra L. Helton was looking for a lawyer as risk manager and found one in Brian Casey.

Finally, detente on defense costs

Casey reaches accord to avoid delays

By DAVE LENCKUS

Brian D. Casey is a true $6 million man for Corning Inc.

That's the amount of reimbursement for Dow Corning Corp.-related defense costs that Mr. Casey quickly was able to recover from Corning's liability insurers shortly after he became Corning's director of risk management and loss prevention in June 1994.

The reimbursement ended a years-long impasse between Corning and its insurers.

Mr. Casey also fashioned with the insurers an arrangement that is designed to prevent similar delays in recovering defense costs in the future.

Corning is an equal partner with Dow Chemical Co. in the Dow Corning joint venture. Dow Corning once was the leading manufacturer of silicone-gel breast implants and a major supplier of silicone gel to other implant manufacturers. Hundreds of thousands of women now are suing Dow Corning, claiming that the implants have caused various health problems.

Corning also has been named in more than 11,000 tort cases.

In addition, Corning has been named in several shareholders' derivative-action lawsuits, which still are pending, over the company's involvement in the joint venture. Those lawsuits claim that Corning has disseminated misleading information or information that omitted material facts.

While Corning has been dismissed from most of the tort cases, it has incurred millions of dollars of defense costs.

Its three primary liability insurers over a period of years, meanwhile, could not agree with each other how they would reimburse Corning for those costs.

Kemper National Insurance Cos. is responsible for a "significant share" of those costs, according to Mr. Casey.

Before Mr. Casey was hired, Kemper's NATLSCO claims management unit paid all the defense costs but then charged Corning for the entire amount—including Kemper's share. Corning then had to recover those costs from Kemper, as well as its other liability insurers, CIGNA Corp. and The Home Insurance Cos.

"It was like the Keystone Cops," Mr. Casey observed.

Kemper at that time also participated on Corning's domestic liability insurance program and wrote workers compensation insurance for Corning where the company insured that risk.

The other two liability insurers also participated in Corning's foreign property and liability insurance programs at that time.

Mr. Casey told all three insurers that how they handled the defense cost reimbursement dispute would be a key factor in their participation in Corning's insurance renewals.

Years after the impasse began, but less than 10 months after Mr. Casey became risk manager, the insurers agreed on how to handle the defense cost reimbursements. Corning recovered $6 million in two installments in May and August last year.

"Once they came to the table, they were pretty accommodating," Mr. Casey said.

In addition, under a new defense cost reimbursement arrangement, Kemper continues to pay all attorneys' fees, but it charges Corning for only the amount that Corning should recover from CIGNA and The Home.

Kemper now writes just workers comp coverage for Corning where the company insures that risk.

"To their credit, there were no repercussions" when Kemper lost its participation in Corning's overhauled liability insurance program, Mr. Casey noted.

CIGNA and the Home remained involved in Corning's foreign property and liability insurance programs for one more renewal after agreeing to resolve the impasse.

However, CIGNA does not participate in Corning's new global property and liability insurance programs.

Zurich Insurance Co., which last year purchased a block of The Home's profitable business, is now the lead underwriter on Corning's new global property program. But, its deal for The Home business had no bearing on its participation in Corning's global property program, Mr. Casey said.

However, Zurich's deal for The Home business has delayed Corning's recovery of its defense costs. Reimbursement has been delayed because Corning's coverage is part of the business that The Home's runoff operation kept.

Corning and The Home, though, are close to finalizing a deal that will settle the defense cost reimbursement dispute, Mr. Casey said.

Separately, Dow Corning recently also won a dispute in Michigan state court with its liability insurers over how much they must reimburse the company for defending against and settling breast implant suits (*BI*, Feb. 19).

Corning, though, has no role in Dow Corning's risk management program. The two companies' insurance programs also are separate. BI

Casey finds a pen is mightier than risk management sword

Don't expect any plot twists or surprise endings in the two books that Brian D. Casey has under development.

Corning Inc.'s director of risk management and loss prevention is finishing a co-authored project on workers compensation claims management and plans to follow up with a solo effort on defending liability lawsuits.

Mr. Casey is co-authoring the claims management book with:

• David A. Tweedy of Tweedy Risk Consulting in Kingston, R.I. Mr. Tweedy writes a quarterly column on risk management information systems for *Business Insurance*.

• Kevin Quinley, vp of risk services with MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley reviews risk management and insurance books for *Business Insurance*.

Mr. Casey hopes the book will impart some valuable and practical—though not altogether obvious—suggestions for risk managers.

Some of his suggestions are borne as much from his legal training as from his claims management experience at several large companies and at a leading workers comp claims adjusting firm.

For example, the book will cover the right and wrong ways to investigate a fatal or serious onsite accident involving an outside vendor, Mr. Casey said.

Immediately after the accident, a company should focus on protecting itself from liability and managing public relations, not determining the cause of the accident, he said. Accident investigation should be conducted under the direction of an attorney, so the work product can be shielded, he said.

That is the course a company has to take to protect itself even in cases when an outside vendor is injured because of his own negligence, he said.

Pawtucket, R.I.-based toy manufacturer Hasbro Inc. found itself in such a situation while Mr. Casey was risk manager there.

A technician from the company that rented forklifts to Hasbro visited a Hasbro location frequently because a couple of the forklifts often had mechanical breakdowns, Mr. Casey explained.

To work under the machines, the technician propped them up with wooden pallets, even though Hasbro employees consistently warned him that metal jack stands would be safer. Minutes after one such warning, the pallets collapsed under the weight of a forklift, and the technician suffered serious injuries.

Shortly afterward, a plant safety official informed Mr. Casey that several Hasbro employees knew about the vendor's unsafe work habits.

Mr. Casey warned him to not get involved in the accident investigation any further because his information was "more negative than positive" for Hasbro. It showed that Hasbro employees never reported the vendor's unsafe work habits to the rental firm, Mr. Casey explained. A supervisor also should have barred the vendor from the worksite until the vendor agreed to abide by the company's safety guidelines, he said.

Despite Mr. Casey's directions, the plant safety official collected written and signed accident statements from Hasbro employees on how they repeatedly had warned the vendor, Mr. Casey said.

The company eventually agreed to indemnify the vendor—even though it thought he was responsible for his own injuries—because the documentation reflected that the company was aware of unsafe behavior but had not stopped it, according to Mr. Casey.

"Only in America can you say, 'I'm stupid and negligent, but nevertheless, I'm going to sue you,'" he lamented.

"Protecting the company from a liability standpoint should have been the main concern there," not uncovering the cause of the accident, he said.

The safety official should have taken his directions from the company's attorney, Mr. Casey said.

In his second book, Mr. Casey—who has a law degree—plans to share various experiences he has had defending liability lawsuits at different companies.

He also plans to review Corning's records retention program in that book.

—By Dave Lenckus

Casey accepts award on behalf of entire team

Corning turnaround not done alone

When Brian D. Casey arrived at Corning Inc. in June 1994, he found a company that didn't retain enough risk.

Twenty-one months later, the director of risk management and loss prevention of the diverse multinational company was thanking many individuals within and outside of Corning for shouldering professional and personal risks of their own that allowed him to reshape the company's risk management program.

The overhauled program, which already has saved Corning millions of dollars and has redoubled the company's emphasis on loss prevention, has earned Mr. Casey *Business Insurance*'s 1996 Risk Manager of the Year Award.

Mr. Casey recognized mentors, family, staff, vendors and supervisors in accepting the 19th annual award. He was presented with the award, signified by a crystal obelisk, by *Business Insurance* Publisher/Editorial Director Kathryn J. McIntyre and Senior Editor Dave Lenckus during a luncheon in Elmira, N.Y., last month.

"I have had the privilege to work with and learn from some of

See **Award** *on next page*

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1996 Risk Manager of the Year

Award

Continued from previous page

the individuals who won this award in the past," he said. "Even though they were talented individuals, I've had the sense that the award really should be for a risk management department or a risk management program."

Referring to a list of his accomplishments as Corning's risk manager that were recited before he accepted the award, Mr. Casey said, "It really becomes obvious just about everybody in this room in one way or another faced up to some challenges, took on some risk and really made all these programs happen within the past two years."

He first thanked his family for taking the risk of leaving their home and friends in Massachusetts so he could accept the risk management position at Corning.

"I give them a lot of credit for making the decision to go and for really making it work. You really made my job a lot easier."

As soon as he came aboard at Corning, Mr. Casey said, his staff did not shrink from the challenges set by their new department head, which were made against the backdrop of a corporation already in the midst of re-engineering itself.

"Everybody welcomed the new programs, came up with a lot of new strategies and projects and made it work—and work well. The accomplishments speak for themselves," he said.

Mr. Casey saluted his liability insurance broker, Johnson & Higgins, which "took on the risk of providing services on more of an added-value nature."

J&H now provides services to Corning on a fee basis, which has cut its remuneration in half, according to Mr. Casey.

He singled out his global property brokerage team, which consists of several brokers from both Aon Risk Services Inc. and J&H, for setting aside their instinctive competitiveness and instead pulling together "for the benefit of Corning." The two brokers are jointly responsible for all aspects of Corning's global property risk-financing program.

In praising Corning's insurers, Mr. Casey said they assumed more risk than insurers conventionally accept in underwriting a company.

"The insurance carriers took a risk in listening to what we wanted in terms of a long-term relationship—that it didn't just mean lower cost and that what we were really interested in was a relationship promoting loss prevention and, at end of the day, putting Corning in a better position."

Mr. Casey then recalled that when he was interviewing for the risk manager's position at Corning, he was told that most Corning employees have been with the company 20 to 30 years. He was told that those with 10 years or less tenure still were considered newcomers. "If you were here for less than a year, nobody would listen to you anyway," Mr. Casey said he was advised.

But, his supervisors and others at Corning accepted him "as an insider from the start," he said.

Mr. Casey singled out Sandra L. Helton, who as senior vp and treasurer of Corning is Mr. Casey's immediate supervisor, and Van C. Campbell, vice chairman and chief financial officer.

Ms. Helton and Mr. Campbell "took the risk that I'd be able to pull a couple rabbits out of the hat and come up with some programs that were world class for Corning. And they were always supportive of the ideas and supportive of the programs."

Mr. Casey concluded by asking everyone to stand and give themselves a round of applause.

As the applause waned, he added, "I always wanted a standing ovation."

Many in the audience returned the accolades, commenting on his leadership skills and his commitment to the Risk & Insurance Management Society Inc.

Ms. Helton called Mr. Casey a team player who has boosted the risk management and treasury department's morale. He "helped us to do things that we never dreamed were possible before," she said.

Christine LaSala, president of J&H's New York division and a director of the brokerage, said Mr. Casey forged the dual-brokerage relationship and focused the team on achieving results "with a grace and ease." His demeanor made the unusual working relationship with a rival broker much less traumatic, she said.

Mr. Casey made the brokers set aside their fear of working together and instead focused them on the excitement of a new challenge and on achieving results, Ms. LaSala said.

H.P. Van Ingen Jr., an executive vp with Aon Risk Services in New York, who is the broker's senior representative on the dual brokerage team, concurred.

Mr. Van Ingen said that working with J&H on Corning's property program has been a "great experience."

"None of us thought it could happen," he said.

Referring to the $500,000 Corning is saving under its new property program compared with the premiums the company would have had to pay for a program comparable to its former program, Tracy Horan, an account executive with Zurich Insurance Co. in New York, said: "I sincerely hope you haven't started a trend with this two-broker approach because they don't take 'no' for an answer. They represent your company very well."

Anita Benedetti, deputy executive director of RIMS in New York, praised Mr. Casey's work on the group's International Committee.

Ms. Benedetti recounted how he stepped in when a moderator for a session on behavioral aspects in risk management at the 1995 Monte Carlo conference backed out shortly before the session. He then found a replacement speaker when the originally scheduled expert also backed out at the last minute.

Near the end of the event, Andrew Haaser, a vp with J&H in New York and the broker's leader on Corning's duo-broker property team, said the tributes missed one of Mr. Casey's "most significant accomplishments."

"Let's hear it for the best mustache in the insurance industry," said Mr. Hansen, referring to Mr. Casey's Fu Manchu-esque growth.

Mr. Casey's niece, though, delivered the most touching tribute. Jodie Rose, whom Mr. Casey and his wife are rearing, said, "I just want to let you all know that he's as great an uncle as he is a risk manager."

—By Dave Lenckus

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Risk Management Honor Roll

Keeping agency on the move

By RODD ZOLKOS

Craig S. Macdonald's first job as a risk manager has delivered all of the challenges the former claims executive was seeking in his new career.

In addition to his new responsibilities for managing Bi-State Development Agency's transit, aviation, recreation and garage exposures, he joined the St. Louis-based agency at a time his boss calls one of the most dynamic in its history.

Soon after Mr. Macdonald was hired in August 1990, "we bought an all-new risk management computer system, we brought the claims unit totally in-house on Nov. 1 and we implemented a light-duty program on Nov. 15," he recalls.

All three were major challenges. And, under his guidance, all three have proved to be big successes.

In addition, Mr. Macdonald conducted an extensive search for a new broker, restructured the agency's property and liability insurance programs and settled a multimillion-dollar construction claim.

Since his hiring, the risk management department has helped cut millions from Bi-State's expenses, even as its exposures grew dramatically with the introduction of its MetroLink light rail system in 1993. The value of insurable assets has almost tripled to $565 million from $189 million and liability exposures have increased with increased passengers. Yet, he continues to cut the agency's cost of risk year to year, reducing it to less than $6.1 million in 1995 from almost $7.4 million a year earlier.

And, Mr. Macdonald has made his department an important function in the agency.

For his accomplishments at Bi-State, Mr. Macdonald was named to the *Business Insurance* Risk Management Honor Roll representing government agencies by a panel of 10 independent judges.

"Insurance used to be sort of a reactive part of the agency," said Raymond S. Jurkowski, Bi-State's deputy executive director/general manager. "I think the approach Craig brought was sort of a proactive approach—controlling risk."

When Mr. Macdonald joined the agency in 1990, the risk management department was limited to the risk manager and an administrative assistant. Its annual administrative budget was about $150,000, and additional outside claims administration costs totaled approximately $600,000 annually.

Today claims are handled in-house, and the department had a $575,000 administrative budget in 1995.

In addition to assembling a quality team of 12 people in the risk management department, Mr. Macdonald also helped employees and officials throughout the 1,900-employee Bi-State organization integrate risk management into their varied activities.

"Craig introduced an understanding of how risk management fits into the entire length of a football field and how it applies to getting the ball across a particular goal line," Mr. Jurkowski said.

And Bi-State, with a $118 million annual budget, plays on a lot of different fields.

Founded originally to spur economic development in the St. Louis metropolitan area, the agency's primary function today is to serve as the public transit agency for the St. Louis area. That role includes 700 buses serving the metropolitan area, Call-A-Ride van service for people with disabilities and, since 1993, the MetroLink light-rail system that covers 18 miles of track. These three transportation services move 150,000 people daily in six counties in Missouri and Illinois.

"It's probably unique in the country as far as public transit" goes, Mr. Macdonald said. "We really formed as a development agency, then the need arose in 1963 to bail out the transit systems."

In addition to public transit, Bi-State also operates the St. Louis Downtown-Parks Airport in Cahokia/Sauget, Ill., the tram system for visitors to the landmark St. Louis Gateway Arch and the giant Gateway Arch garage, which accommodates 1,224 vehicles.



Like most transit systems around the country, Bi-State faces an almost constant budget squeeze as federal financial assistance is routinely reduced.

John M. Noce, Bi-State's deputy general manager for finance and Mr. Macdonald's boss, notes that while the agency received $10 million in federal operating funds in 1994, this year it's only getting $4.5 million and the agency expects only half of that next year. Inflationary pressures only compound the problem.

About 25% of the agency's total $118 million budget comes from fares, with local governments picking up most of the remainder. With resources tight, an agency whose primary purpose is a customer service function like Bi-State's looks to put most of it money into providing transportation.

"Our money is mainly poured in to putting services on the streets for the customers," Mr. Noce said.

Such a scenario offers the risk manager a great opportunity to help his organization meet its purpose by cutting insurance costs, and Mr. Macdonald has done so.

"We're always looking to enhance allocation of resources to customers," Mr. Jurkowski said. "Insurance is one of those expenses you always have to have but the more you can manage that, the more you can devote resources to customers."

"In fact, it was one of the areas that helped us balance our budget last year," he said.

Mr. Jurkowski said he remembers well the meeting at which Bi-State officials looked at the budget numbers for 1995 and decided to look to risk management to produce some budget savings.

"We said, 'We want to cut this by about $1 million,'" Mr. Jurkowski said. "It was easy for that to trip off your lips, but I don't think Craig even flinched."

In fact, Mr. Macdonald rose to the challenge by producing $1.3 million in workers comp savings.

The savings were achieved primarily through a comprehensive safety program, successful modified duty and return to work programs and in-house claims administration (see story, page 126).

Mr. Macdonald certainly has faced other challenges during his tenure with Bi-State, from placing property coverages during the region's "500-year flood" in 1993 to restructuring the property and liability insurance program and securing the appropriate insurance as the agency became a multimodal transit system with the opening of MetroLink that same year (see story, page 128).

"That was a key placement, obviously, because it was something new. Bi-State had never had the light rail, it was always bus," said Robert E. Ruebsam, executive vp of Sedgwick James of Missouri Inc. in Clayton, Mo., Bi-State's broker of record.

"So when that occurred, a number of different underwriters had to be contacted to make that placement come together and basically attach to the worldwide market, not just domestic," he said.

Richard Peers, a director with Sedgwick North America in London, helped with the

Continued on next page

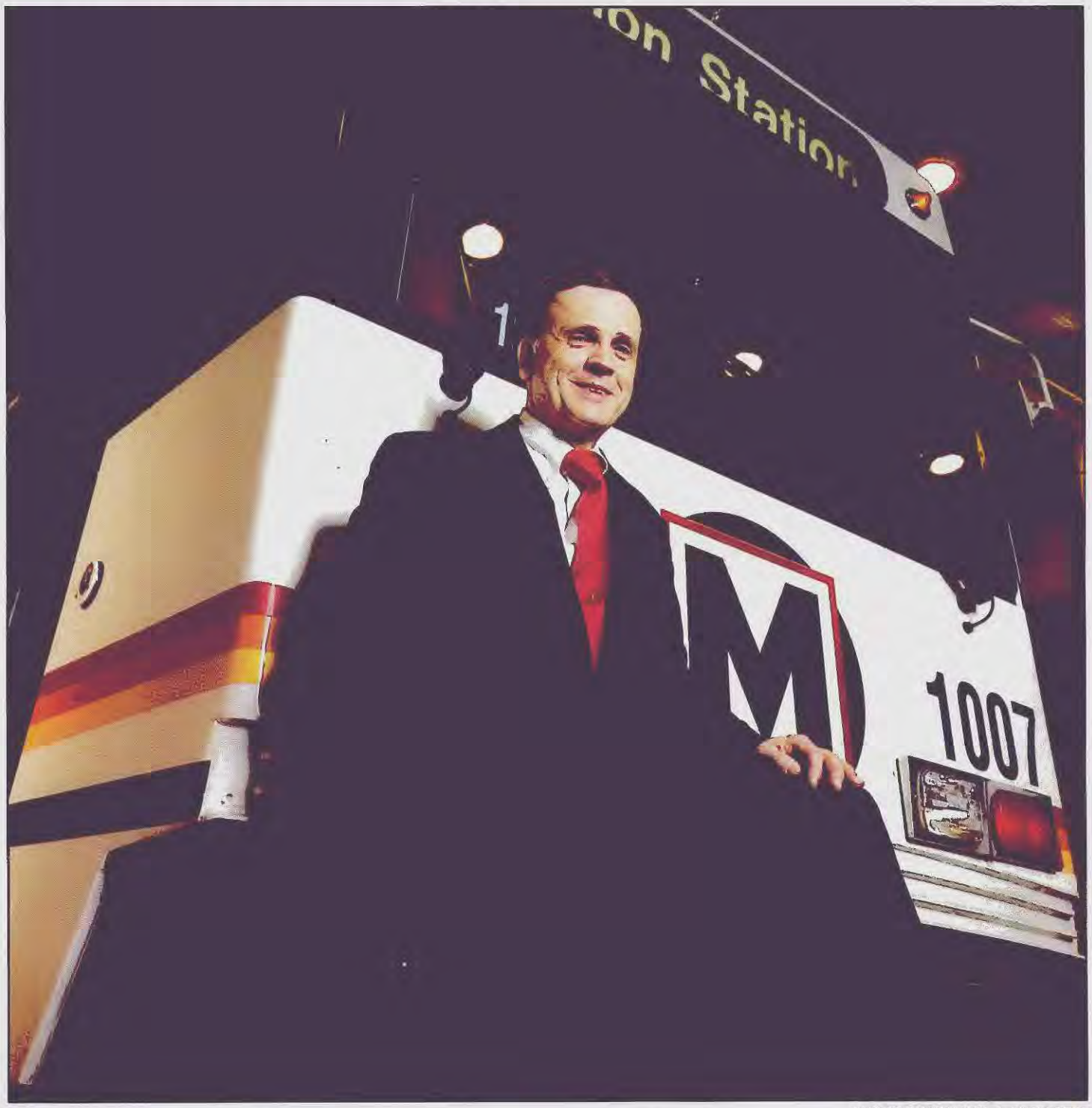


PHOTO BY MICHAEL A. MARCOTTE

Agency

Continued from previous page

original placement. "He's done a lot of the rail placements around the country," Mr. Ruebsam said.

Mr. Macdonald went to London to talk to the underwriters and the direct presentation of the safety features of MetroLink helped secure favorable terms and pricing of the rail coverage, Mr. Ruebsam said.

Now the agency is planning to start construction in 1998 on a 24-mile expansion of the light rail system in Illinois, which will provide new coverage challenges. Bi-State may purchase a wrap up program for the project if that will save money, Mr. Macdonald said.

Still farther down the road for the agency is the possibility of a heavy rail commuter rail system for the St. Louis region.

Mr. Ruebsam noted that underwriters are less comfortable with the larger, heavier commuter rail systems, but given the agency's "fantastic" safety performance with MetroLink, he believes the underwriters with will listen to proposals about the heavy rail system.

Allan Sweet, a vp with Sedgwick James of Missouri who also works with Bi-State, noted that its good safety record with MetroLink is reflected in changes in the agency's coverages in its first three years.

"We've actually been able to lower the retention, increase the limits and lower the premium cost," Mr. Sweet said. "It's really a testament to the quality of the risk management operation."

"The lead excess carrier had never insured a light rail system, so it was a maiden voyage for them on the light rail side," Mr. Sweet continued. "In the three years since they went on the placement, their chief risk control guy makes an annual visit to St. Louis and they are now using their findings at Bi-State as a benchmark for other light rail systems around the country for safety and risk prevention."

Sedgwick was selected by Mr. Macdonald as the agency's broker of record in 1993, following a rigorous procurement process.

Some of the questions asked "reminded me of some of the more difficult questions I had encountered on some CPCU examinations," Mr. Ruebsam said.



Behind Craig S. Macdonald, left, are his Bi-State bosses John M. Noce, and Raymond S. Jurkowski. Behind them all is the Mississippi.

PHOTO BY MICHAEL A. MARCOTTE

Mr. Ruebsam noted that while Sedgwick was ultimately selected by the Bi-State selection committee, the broker's quote for its annual fee was higher than most of the other bidders, causing him to worry that the agency's board might reject the committee's choice.

But Mr. Macdonald and Mr. Noce "skillfully presented the selection rationale to the board in a way that focused almost entirely on the need for top quality service and broking expertise" due to the then-impending MetroLink startup, Mr. Ruebsam recalled, and the board signed off on the committee's choice.

Another feather in the risk management program's cap is the American Public Transit Assn.'s Outstanding Achievement Award to Bi-State last year as the top large transit provider in North America, an award based in part on the system's safety record.

"Risk management is about teamwork," Mr. Macdonald said. "It's not an individual sport."

Mr. Macdonald took a team approach in selling employees on the workers comp cost-cutting effort, taking the message to the agency's various sites in person rather than directing it from his office by memo.

"Craig comes down and says, 'OK everybody, here's where we are and here's where we want to be,' " said Ronald E. Stephens, station superintendent of operations at Bi-State's DeBaliviere bus facility, one of its largest and newest.

In the process, he encourages other employees' involvement in the risk management program.

"Craig has been a tone-setter. He sets a clear tone. He allows us to be creative and bring ideas to him," Mr. Stephens said. "People say, 'Hey, that's great. Let's run it by Craig.' "

A team approach also has been central to the success of the in-house claims administration program—within the risk management department itself, between the claims administrators and other areas of the Bi-State organization and between the claims people and the outside attorneys hired to defend claims (see story, page 127).

Overall, Mr. Macdonald's efforts are typical of the pro-active approach the entire Bi-State organization is trying to achieve, Mr. Jurkowski said. "In this particular business you can either say, 'We're going to pay premiums forever,' or you can say, 'We can get a handle on this,' " he said.

Clearly, Mr. Macdonald prefers the latter course, and the challenges that go with it. BI

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Overhauling work comp programs and attitudes tops list of achievements

Macdonald leads agency 'star players'

RODD ZOLKOS

Of his many successes as the Bi-State Development Agency's director of risk management, Craig S. Macdonald is most proud of overhauling the agency's workers compensation program.

After one year, the program reduced the self-insured agency's workers comp costs $1.3 million to just under $2 million in 1995, reducing total injuries 16%, lost time injuries 30% and the number of lost days 32%.

Now Mr. Macdonald is looking to drive those costs down further still with a major safety incentive program.

The workers comp program combines the well-known elements of a successful program—safety awareness, operations involvement in the workers comp process, front-line safety accountability, training, tight claims control and a modified duty program—with an organization-wide commitment to reducing costs.

"It wasn't millions of dollars in safety programs, equipment or anything like that. It was more in the way we dealt with the problems," Mr. Macdonald said.

Just as the various pieces come together to build a successful workers comp program, so a lack of attention to workers comp can allow various expenses to accumulate and drive up the overall costs of employee injuries. That's particularly true with an agency like Bi-State, where the public transit business produces additional costs associated with employee absence.

"It's so difficult to quantify it in terms of 'What are we really losing by a bad attitude,' for instance, or by not taking an extra minute," Mr. Macdonald said.

Among the extra costs the transit agency faces due to employee injuries, for example, are the costs of bringing in standby drivers to fill in for those who may be absent.

"Even if they don't drive, we have to pay them four hours" under the labor contract, Mr. Macdonald said. "That cost was a half million dollars a year, and it's now gone down to $300,000 because the work comp has gone down."

Another cost stems from an internal policy that drivers who are off the job more than two months must be retrained. "That's two days, paying a driver and a teacher," the risk manager said.

As a first step in the workers comp initiative, Mr. Macdonald asked Bi-State's broker, Sedgwick James of Missouri Inc., to prepare a comprehensive study of the agency's existing workers comp program.

That audit looked at the agency from top to bottom, said Robert E. Ruebsam, executive vp of the Clayton, Mo.-based broker. Practices at every Bi-State facility and department were examined.

Among Sedgwick's recommendations were:

- To develop safety standards for each management level and to put systems in place for measuring performance at meeting those standards.
- To have top management set the tone for an emphasis on safety throughout the Bi-State organization.
- To improve the flow of accident data and produce easily interpreted loss data reports on at least a monthly basis.

Sedgwick also suggested the agency create employee/management safety committees; raise the visibility of the safety department; make managers accountable for timely reporting of employee accidents; create a telephone system for reporting injuries to the risk management department within 24 hours; and establishment of a fraud detection training program for claims administrators.

Following the recommendations, Mr. Macdonald brought safety training to the various Bi-State facilities and encouraged the attitude change that was needed to make the workers comp program work.

"We found that our employees tended to underestimate the amount of exposure that exists in our environment," said Cynthia S. Gross, director of Bi-State's DeBaliviere Service Area, one of the agency's bus service facilities.

The overhaul program began with Mr. Macdonald creating a safety awareness program for the agency's supervisors, Ms. Gross said. The program taught them how to recognize problems, what steps to take to correct them and generally how to take a proactive approach to improving safety.

"Craig identified our leading causes of injury, and they were slip, trip and fall and power steering accidents," Ms. Gross said. "We put an emphasis on keeping the floor clean and we went from having slips, trips and falls being our number one cause of injury to having one incident this year."

With power steering failures identified as a source of injuries—drivers blamed flawed steering systems on older buses for back, neck and shoulder muscle strains—the agency purchased new power steering units that are installed as buses go into the main shop for rehabbing. The agency also is installing ergonomic driver's seats in its buses.

To provide a system for addressing safety concerns, either as they bubble up to management or as they're presented to other workers, certain employees at the garages are designated SAFE representatives, or Safety Associate For the Employee.

The 400-odd employees at DeBaliviere also have been broken into teams of 54 per supervisor, a technique that allows closer contact between the agency's management and employees on safety issues and provides a method for periodically commending teams with superior safety records as "Star Players."

The efforts of Bi-State's workers are critical to the workers comp program's success, Mr. Macdonald believes.

"Without these guys, there's no way we would've been successful in the work comp program," he said. While the risk management department can reduce workers comp costs somewhat through claims

See **Work comp** *on next page*

In-house claims administration leads to innovation, savings

RODD ZOLKOS

Bringing claims administration in-house has paid big dividends for the Bi-State Development Agency.

But much of the success can be attributed to the experienced administrators whom the agency's risk manager, Craig S. Macdonald, hired to handle the claims operation and the freedom he gave them to turn that experience into innovation.

The result is more than $1 million in savings in administrative costs since the claims operation was brought in-house in 1990, in addition to more efficient claims handling, better relations with injured workers and the Amalgamated Transit Union Local—as well as better control of the agency's workers comp costs.

Both liability and workers comp claims are handled in-house.

"When we brought the claims in-house, we hired a couple of people who had been outside TPA employees for Bi-State for a lot of years, and that was a big advantage for me," Mr. Macdonald said.

Casualty Claims Supervisor John Cody has been working on local transit claims for 34 years, "but for the past five years, six years, he has been an employee of the agency, whereas prior to that he had been an employee of this TPA, that TPA, whoever was handling it," Mr. Macdonald said.

Likewise, Carol Campbell, the workers comp claims supervisor, spent several years working on Bi-State claims from outside before joining the staff when the claims administration was brought in-house.

Another is Barbi Diehl, claims supervisor in charge of subrogation and administrative support, who, like her colleagues, sees definite advantages in the in-house approach.

"We had swings in the old days where the risk manager would be extremely tough, deny everything," she said. "Then you'd have a five- or 10-year cycle of lawsuits." Under another Bi-State risk manager, the policy was "too easy and costs went up." But, being able to work closely with one risk manager with a more consistent approach to claims handling has reduced lawsuits, Ms. Diehl said.

In fact, 46 new liability lawsuits were filed against the agency in fiscal 1995, down from 69 in fiscal 1994 and 73 in fiscal 1993. The agency ended fiscal 1995 with 62 lawsuits pending, down from 97 pending at the close of 1994.

Mr. Macdonald believes the agency now takes a common-sense claims approach. "If it's a good claim, we know someday we're going to pay all these," he said. "So we pay those in a hurry. It's part of our customer service mission."

On the other hand, in fraudulent cases even if the cost of fighting the claim is more than the possible settlement, the agency is inclined to fight the claim on principle rather than allow obvious fraud to go unchallenged, he said.

James B. James, a partner with the Brown & James law firm in St. Louis, believes the decline in lawsuits against Bi-State is a direct result of the risk management department's efforts.

"The risk management department is more aggressive and doing a much better job handling those claims, probably from the investigative standpoint, where we now get good statements not only out of the claimants but the witnesses," he said.

Outside attorneys teach seminars to help the agency's claims administrators gather the needed information and make the proper decisions. The department also has produced videotapes for its claims staff depicting buses and trains in action to familiarize the claims handlers with various situations.

"They know how it works, so when they first get a statement from the plaintiff, they know from the videotape what goes on on the train, what kind of questions they have to ask to really pin the person down from the very beginning that what they've said couldn't have happened or get them to tell the truth, and then it ends up not making a good case," Mr. James said. "Which is probably why we're not getting as many cases."

Mr. Macdonald also asks in-house adjusters to sit in on trials occasionally to see how the process works. And they're actually getting in front of the bench in Small Claims Court now, handling small-claims cases themselves and saving the agency legal costs.

"Nobody's ever tried that before that I know of, as far as the agency is concerned," Mr. Cody said. "We send our adjusters in on these small-claims matters. They go in and represent the interests of the agency rather than paying a lawyer $400, $500, to do it for us. That's worked out real well. Out of seven of them, we've only lost one."

This kind of innovation with in-house claims administration is possible because Mr. Macdonald encourages it.

"He keeps a watch on it, obviously, but he gives us the freedom, the confidence in us and the trust to do this," Mr. Cody said.

"It really makes a big difference," he said. "I've got 34 years of experience doing this. We have an idea of what we're doing and it's the idea of having somebody put the confidence in you to let you try it, and it's worked real well."

The in-house claims unit also can help others in the agency do their jobs better and more safely, Mr. Cody believes.

"I've given several classes on accident investigation to the road monitors and to some of the bus operators," he said. "I'm in a position where they look at me as one of them and they listen to us and some of the ideas that we have that will eliminate some of the accidents on the street."

Managers throughout the organization also can benefit from the data generated by the claims administration unit, compiled on an RMIS/claims administration system installed at roughly the same time the claims function was brought in-house in late 1990.

The PC-based system operates on David Corp. software, and risk management uses it to track workers comp and casualty claims, track security incidents, provide regular reports and track the agency's insurance policies.

Claims administration also uses electronic data interchange for sending and receiving Central Index Bureau reports and soon will send its workers comp injury reports electronically to the Missouri Division of Workers Compensation. The Central Index Bureau is a national database of workers comp filings compiled by self-insurers and workers comp insurers.

Even with the claims program in-house, though, some operating division officials were initially reluctant to cooperate fully with the claims administrators. But Mr. Macdonald helped ease their suspicions.

"He was pretty instrumental in going out to all the divisions and introducing himself and saying, 'This is what we do' and 'We can give you this information that should help you in running your garages,'" Ms. Campbell said. BI

Work comp

Continued from previous page

management, the support of the agency's operations personnel was essential to achieving real cost control, the risk manager said.

Another key to Bi-State's workers comp initiative is its light-duty and modified duty programs.

"When I was an adjuster at Crawford & Co., which was 20 years ago, that's what everybody was saying: 'To reduce your workers comp lost time, you have to have some kind of light duty,'" Mr. Macdonald said. "That was 20 years ago."

Yet when he started with Bi-State in August 1990, the agency's policy was that injured employees had to be 100% fit for duty to return to work. That November, he implemented a light duty program.

"The thing that made it go was we had a budget problem, as we do every year," the risk manager said. "And we had security guards at the front entrance of every building. We were paying $7, $8 an hour for security guards and the security company was paying them $5.25."

Mr. Macdonald recognized that by putting employees on disability in those spots and paying them the going rate of $5.25 an hour, "we'd save that little bit, plus for every dollar we're paying them in light duty, they'd get 60 cents less in temporary total disability benefits, which we're paying anyway. So it turned out to be $300,000, $400,000 dollars less over a year if we could fill all those spots with injured workers," he said.

Some of the workers actually came to enjoy the change of working at the security desk while injured, the risk manager said.

"Probably of everything I've done here, that's what I consider the most successful, though it's filled with all sorts of glitches," Mr. Macdonald said. "Even today, we have things go wrong," he said, referring to administrative problems. "But it's still working," he emphasized.

Ms. Gross, director of the DeBaliviere Service Area, admitted she was adamantly opposed to light duty when Mr. Macdonald first proposed it. Now, "Craig's made a believer out of me," she said. "It keeps them in the working environment. It's like they've never been gone."

Last year, the light duty program was taken a step further to a modified duty approach, which looks for ways to allow injured workers to remain closer to their own jobs, performing the portions of the function their injuries permit.

For example, injured bus operators can conduct the walk around inspections of buses "and they get full pay because it's a related job," Mr. Macdonald said, instead of the $5.25 plus temporary total disability benefits they'd earn at the security desk.

And agency supervisors and managers "are trying to find more and more different job functions they can do, trying to keep them with their same co-workers, trying to find something related to what they used to do," said Bonnie Greider, risk management administrative assistant who coordinates the light duty workers assigned to the building security job. "You put them at a desk, and it's foreign to them."

Bi-State also keeps tighter control over workers comp claims to reduce its expenses. Those controls are applied both by the agency's in-house claims department and by frontline supervisors who are maintaining closer contact with injured workers.

"Instead of going outside to a 1-800 number for first report of injury," workers contact the agency's claims staff, said Mr. Ruebsam of Sedgwick James. That is taking the concept of prompt injury reporting, which was just coming into vogue three or four years ago, "and simply making it work in-house," he said.

Mr. Ruebsam contends that when injured workers report directly into the risk management department rather than to an outside service provider the data is more accessible to risk management and agency managers. "Obviously you get faster reporting, and statistics show the faster you report it, the better you can control it," he added.

Ms. Gross noted that Carol Campbell, Bi-State's workers comp claim supervisor, has proved very effective at managing workers comp cases.

"She can be an advocate for the employee, she can wear the white hat, and at the same time she can go in and talk to the doctor about the real world of what's going on with the employee," Ms. Gross said. "That's been real successful for us, and Craig did that," she said, by empowering Ms. Campbell to form that link between the employee, the doctor and management.

Meanwhile, officials at the DeBaliviere garage are setting employee guidelines requiring workers to report injuries before leaving the property to ensure that they don't lose that contact with injured workers.

And,"they have to return here after the visit to the doctor and bring the paperwork to us," Ms. Gross said. "So the contact is constant."

As in other agency units, DeBaliviere also has standards for quick contact by supervisors with injured employees, with the post-injury interview fully documented.

The agency now aims to enhance its success by instituting a safety incentive program. Bi-State recently issued a request for proposals for a consultant to design and initiate the safety incentive/employee behavior modification program "to kind of give the employees something," Mr. Macdonald said. "It's kind of the answer to 'We do all this stuff with attention to workers comp, but what do we get out of it?'"

Bi-State's safety manager expects the investment in the safety incentive program to pay dividends for the agency. "When I got here in October of '93, unfortunately they had stopped the safety incentive program and workers comp was going through the roof," said Don Ward, Bi-State's manager of rail and bus safety. "I think the toughest thing was selling senior management on reinstating the safety incentive program. The programs they've had in the past didn't go exactly the way they wanted them to go."

But according to John M. Noce, Bi-State's deputy general manager for finance and Mr. Macdonald's boss, the results of the workers comp initiative have the attention of the agency's top officials.

"The payoffs of Craig's efforts are loosening up more money," he said. "Now the next phase—the safety incentive program—may have additional benefits in keeping employees focused on safety." BI

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Risk Management Honor Roll

Rounding up property exposures

Consolidated program brings coverage under one insurer

RODD ZOLKOS

Bringing the insurance coverage for the many diverse property exposures of Bi-State Development Agency under a single, consolidated program in 1994 was a significant milestone for Risk Manager Craig S. Macdonald.

Almost all the agency's property exposures now are covered under a $255 million blanket policy with Chubb Corp.'s Federal Insurance Co. The policy covers real and personal property, electronic data processing equipment, business interruption, extra expense, rents and boiler and machinery.

The policy includes sublimits of $20 million on the Eads Bridge and the Washington and 8th Street tunnel, $50 million of earthquake and flood coverage, subject to a $20 million sublimit on all bridges and tunnels, and a $10 million flood sublimit at the Gateway Arch, Arch garage, Brentwood Garage and the St. Louis Downtown-Parks Airport in Cahokia, Ill.

The policy has a $100,000 deductible, except for a $2,500 deductible for EDP, $500,000 for the Eads Bridge and the Washington and 8th Street tunnel, $500,000 for the Airport Bridge and $5,000 for the Parks Airport.

The agency buys separate flood insurance at three locations, underwritten by Seibels Bruce Insurance Co. Each of the three policies has limits of $100,000 for the building and $100,000 for contents with a $5,000 deductible.

"Craig and Sedgwick working together really were able to consolidate that property placement," said Allan Sweet, vp with Bi-State's broker of record, Sedgwick James of Missouri Inc. in Clayton, Mo.

In 1993, the first year Sedgwick worked on the Bi-State account, the property coverage "was pretty much on a 'This is as good as it gets basis but it wasn't ideal," Mr. Sweet said (see story, page 129).

"We were able to refine that the following year when we didn't have a flood lapping at our doors," he said, referring to Midwest flood of 1993. "We were able to consolidate all coverages with one carrier, and we were able to even out deductible and retention levels for Bi-State, which improved their ability to budget quite a bit."

Mr. Sweet said that before he began working on the Bi-State account in 1994, "I was aware that both the casualty and the property had been pretty complex placements. But when we sat down and started looking at the structure of the program, it really dawned on me that 'This is really difficult.' "

"We had a whole variety of deductible levels, retention levels. This insurer would provide this much earthquake, but this one wouldn't, so we had to get excess above that," Mr. Sweet said.

Increasing retentions allowed Bi-State to clear the consolidation hurdle, he said. "Chubb really responded great from a price standpoint and a capacity standpoint."

Bi-State's excess marine coverage of $30 million excess of $20 million for MetroLink light rail line bridges and tunnels is written 50% by Westchester Fire Insurance Co. and 50% by Royal Insurance Co., placed through Cooney, Rikard & Curtin Inc. in Birmingham, Ala.

Replacement cost marine/airport equipment coverage is underwritten by Lumbermen's Mutual Casualty Co. with a $213,301 limit and a $1,000 deductible.

Airport hangars property coverage is on the same contract as the agency's basic property with Federal Insurance. Limits include $2,648,059 real property, $16,700 personal property and $358,866 rents. The deductible is $5,000 with 80% coinsurance. The coverage also includes $3,023,625 in flood and $3,023,625 in earthquake coverage with a $25,000 deductible.

Non-owned aircraft hull and liability insurance is underwritten by National Union Fire Insurance Co. of Pittsburgh, Pa., placed through Sedgwick James of Texas in Dallas. The policy has a $50 million single limit, including passengers, $3,000 medical per person, $18,000 medical per occurrence and $100,000 physical damage with a $1,000 deductible.

Bi-State maintains a $4 million per occurrence self-insured retention on bus and rail activities, "which is on the high side, probably, as far as public transit," Mr. Macdonald said.

However, this is much lower than the $10 million SIR the agency maintained before he became its risk manager.

"We would not have had the resources available to respond to that kind of self-insured retention," he said of the $10 million SIR.

Mr. Macdonald also has dramatically increased Bi-State's liability coverage limits, particularly due to the agency taking on the added exposure when MetroLink came into operation in 1993. "We had a basic $10 million excess $10 million with the buses and we currently have $61 million excess $4 million with everything," the risk manager said.

Bi-State buys $1 million excess of $4 million per occurrence on its bus and rail risks to bridge the gap to its excess liability insurance program.

Workers comp is self-insured up to $750,000 per occurrence.

Excess workers compensation coverage is underwritten by Continental Casualty Co. through Wexford Underwriting Managers in Chicago. Coverage A is statutory. Coverage B has a $2 million limit, except $5 million United States Longshoremen's and Harbor Workers' Act coverage and $2 million for Federal Employers Liability Act coverage.

The agency buys commercial general liability from Reliance Insurance Co., covering its headquarters, the Gateway Arch, MetroLink parking lots and other sites. The policy's limits are $1 million per occurrence/$5 million aggregate with a $500 deductible.

Illinois automobile insurance is underwritten by Reliance under the same contract as Bi-State's general liability. The policy limits are $1 million liability, $5,000 medical, $40,000 uninsured motorist, with a $100 comprehensive deductible and a $500 collision deductible.

The agency has three-year price guarantees on both the CGL policy and its Chubb property coverage, "assuming a favorable loss ratio," Mr. Macdonald said.

Excess liability insurance includes Insurance Company of the West, which writes a $20 million per occurrence/$20 million aggregate excess policy. The final layer of $40 million excess of $25 million is underwritten by X.L. Europe Insurance.

Bi-State's airport liability coverage is underwritten by National Union, providing $50 million per occurrence property damage and business interruption and a $50 million aggregate. The policy also provides coverage of $25 million personal and advertising injury, $50,000 fire legal liability and $5,000 medical per person/$25,000 medical per occurrence. Hangarkeepers liability is $50 million per aircraft/$50 million per occurrence with a $1,000 deductible.

Other coverages include a felonious assault accident policy with Bankers Life & Casualty Co. with a $150,000 limit, $1 million aggregate per accident. Pension plan crime insurance is provided under a $1 million policy with ITT Hartford Insurance Group.

Other crime insurance also with Hartford includes $2.5 million employee dishonesty with a $25,000 deductible, $1 million forgery alteration with a $25,000 deductible, various limits on theft, disappearance and destruction with a $500 deductible and $2.5 million in computer fraud coverage with a $25,000 deductible.

Public official's bond coverage includes two employees covered under $10,000 notary bonds with Safeco Corp. The agency also has a $1,000 permit bond and a $5,000 motor fuel distribution bond with Reliance Surety Co. These bonds are required by the state in order for the state to inspect its own buses and dispense fuel. BI

Winding up as risk manager was a natural

By RODD ZOLKOS

It could be said that nature took its course in developing Craig S. Macdonald's career as he moved toward his current position as director of risk management at the Bi-State Development Agency.

First, hail and floods brought him into property adjusting. And, later, it was flowers that presented him exciting challenges, because there wouldn't be a Florists' Mutual Insurance Co. without them.

"I basically started out of college as an adjuster for Crawford," Mr. Macdonald, 49, said.

Joining Crawford & Co. in 1970, he benefited from handling a wide range of claims for many different insurance companies. "Crawford's a good training ground because you get a lot of variety."

From his first position with Crawford in his hometown of Cleveland, Mr. Macdonald soon was transferred to St. Louis. There, in 1973, while working as a casualty adjuster, "we had a hailstorm in St. Louis—probably one of the worst we ever had—as well as a major flood, and I became a property adjuster for a while," he recalled.

He spent eight years with Crawford, three of them in Jefferson City, Mo., as adjuster-in-charge at a small satellite office. "I enjoyed that," Mr. Macdonald said, but Jefferson City was "a small town," and both he and his wife, Janice, longed to return to a larger city.

Mrs. Macdonald was from Collinsville, Ill., in the St. Louis area, where the couple now resides.

An opening at Crum & Forster Inc. subsidiary United States Insurance Group in 1979 provided the opportunity to move.

He joined the Crum & Forster unit as an adjuster "and got into supervision right away there."

He stayed in multiline claim supervision for six years, until an opportunity arose to become casualty manager with the St. Louis office of Metropolitan Property & Liability Co., a personal lines insurer. "It was kind of a sidestep to get me into management. I only stayed with them three years; I don't like personal lines claims," Mr. Macdonald admitted.

But the experience "was a good opportunity to see some systems work and to deal with a large group of people," he said, noting he had 20 adjusters and three supervisors working for him at Metropolitan Property & Liability.

An "even better opportunity" came up in 1985 with Florists' Mutual Insurance Co., "which is not a widely known company," Mr. Macdonald said. "It was about eight miles away from my house, in Edwardsville, Ill. It was the home office, and they were looking for a workers comp manager, and it worked out really well."

The position gave Mr. Macdonald the opportunity to deal with claims across the country and a broad variety of exposures.

"After about a year there, the company decided it wanted to go into the auto business," Mr. Macdonald said. "They'd never written auto. They'd started writing workers comp 10 years before, and they wrote general liability because it sort of came with the property package back in the old days. I was probably the only person in the company who had ever seen an automobile policy or a claim, other than everybody's own personal automobile policy," he said. "So I got switched into becoming the casualty manager there."

Crafting the auto program from scratch was both beneficial and fulfilling for Mr. Macdonald. "That was the first time I'd been given the opportunity to start a program from the very beginning," he said. "Most people don't get that opportunity. You walk in, the program's there. You can manage it, you can change it, make it better, make it worse, but the program's usually there. That was quite a challenge."

Mr. Macdonald worked at Florists' Mutual until 1990, and says he would have been happy to stay. But something was nagging at him. "I had always had an interest in risk management," he said.

When he was with United States Insurance Group, he took and enjoyed the safety and loss control course, part of the program leading to the Associate in Risk Management designation, at the Frank B. Hall & Co. office down the street.

The course prompted him to put his work in claims administration into the context of a larger industry. It made him realize that what he was doing at United States Insurance Group was "not just a real small part of the claims industry, but a small part of the insurance industry," he said. "I wanted to be part of the insurance industry rather than just an independent adjuster.

"Later at Florists' Mutual in the home office, I realized that insurance is just a small part of a bigger picture, with the safety and loss control side of that," he said. "It had always fascinated me."

That loss control course spurred an interest in risk management that never went away, even if he didn't consciously do something about it for a number of years.

"I was having so much fun at Florists' Mutual, I didn't actively pursue it. But one day I saw in the paper an ad for the risk manager at the Bi-State Development Agency," Mr. Macdonald said. Recognizing the name of the agency's then-risk manager, Mr. Macdonald remembered him to be a friend of his former supervisor at Crum & Forster.

"So I called my friend, he arranged the introduction, and that led to the interview. And that's what they were looking for, somebody with some claims background because they were going to bring the claims operation in-house," Mr. Macdonald said.

The agency's needs, it turned out, were a good fit with the background Mr. Macdonald had acquired since first being bitten by the risk management bug.

"They not only needed a risk manager, but they needed a risk manager who understood the operation of a claims department," Mr. Macdonald said. "And a lot of your typical finance people or legal people wouldn't have that background."

Mr. Macdonald joined Bi-State in August 1990. "I wasn't even looking to change jobs," he said. "Soon as I got hired, I hurried up and finished my ARM the next year."

Mr. Macdonald already held the Chartered Property & Casualty Underwriter designation.

Since taking the risk manager's position, Mr. Macdonald has thoroughly embraced the profession, as a member of the Public Risk Management Assn. and the local Risk & Insurance Management Society Inc. chapter. He's currently president of the St. Louis RIMS chapter and has served as legislative director, treasurer and vp. He's also mounting a serious campaign to bring a future national RIMS convention to his city.

"I don't ever regret making the change. I probably would have stayed at Florists' Mutual; it's an excellent company. But the opportunity really wasn't there to get into what I'm doing now."

Mr. Macdonald's bachelor's degree from Case Western Reserve University in Cleveland is for a double major in philosophy and political science, two disciplines that have served him well, he believes.

The philosophy education, he said, "probably helped me because you do look at things a little differently." And, working for a public entity, he also draws on what he learned in his political science courses. "I know those help me here," he said. "I understand the implications of assigning (a certain) lawyer" or "how a program is going to affect the current president of the union when he wants to be elected next year."

He's presently working on a master of business administration degree at Fontbonne College in St. Louis, which he thinks will further benefit his risk management career.

'Really, there are a lot of skills that are critical to risk management

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Continued from previous page
that don't have anything to do with insurance or safety or loss control,' " Mr. Macdonald said. "You're a manager, and you need the finance part.

"I think risk management is one of those areas where you've got to have a really broad education and probably a continuous education," he said.

He's about a third done with the MBA program, which is 43 credit hours, including courses in financial accounting, executive management, human resources, international business and quantitative analysis.

There are no other risk managers in his classes. Most are in some sort of supervisory capacity in such areas as information systems, human resources, finance or marketing at local companies like McDonnell Douglas Corp. and Eveready Battery Co.

So far he's maintained a 4.0, but it hasn't been easy. "It takes up a whole lot of time," Mr. Macdonald said, noting that he has a son who will be 8 in May with whom he wants to spend more time.

In addition to Bradley, 7, Mr. Macdonald and Janice have a 19-year-old son, Sean. Mr. Macdonald has two sons by a previous marriage, Craig S. Jr., 26, and William, 22, and a 2-year-old grandson.

Several of Bradley's crayon drawings decorate Mr. Macdonald's work space in the historic brick-and-timber-beam Laclede's Landing building that houses the Bi-State Development Agency's main offices.

There also are photos of the risk manager with U.S. Sen. Bob Dole, reflecting Mr. Macdonald's interest in politics. He managed several campaigns for Illinois Rep. Ron Stephens, and Mr. Macdonald's office bookshelves hold not only volumes on topics like workers comp and construction wrapups but also "Safire's Political Dictionary."

His office also has assorted framed pictures of wrecked trolleys and banged-up buses. That theme is taken to the extreme in a cartoon illustrating the risk management department's fax cover sheets. Given Bi-State's sterling safety record, the sketch is an innocuous bit of humor—a bus perched on a spraying fire hydrant, the caricatured driver half through the shattered windshield while an ambulance races from the scene. BI



PHOTO BY MICHAEL A. MARCOTTE

Members of Craig Macdonald's risk management department staff include, from left: John Cody, casualty claims supervisor; Carol Campbell, workers compensation claims supervisor; property and liability claims representatives Leon Dogan, Lori Francine, Bill Reitz and Raymond B. Williams Jr.; and administrative staffers Christine Cole and Judith Beckey. Not pictured is Barbi Diehl, claims supervisor.

Quick action kept rail project on track

By RODD ZOLKOS

The St. Louis MetroLink light-rail system was almost derailed by the July 1992 collapse of the roof of a tunnel under the city's central business district.

But top management at Bi-State Development Agency had enough confidence in Risk Manager Craig S. Macdonald that they authorized more than $3.5 million in construction work to continue even though the agency was in dispute with the insurer over the funds needed to cover the costs.

The loss came during a renovation of a 150-year-old tunnel to accommodate the new, $360 million light-rail system. During the construction, the streets were closed.

The agency needed to continue the project immediately after the collapse to keep its promise to the downtown merchants that the streets would be open for the 1992 Christmas shopping season. Construction had closed the streets for the previous Christmas season.

But, after advancing $500,000 toward the claim, the builder's risk insurer, a unit of CIGNA Corp., told the agency in August 1992 that it would not authorize the repair plan or provide any indication that the repair plan was acceptable.

The dispute centered on the size of the loss and the extent of repairs needed, said Stephen E. Willis, Bi-State's deputy executive director/general manager-engineering and facilities management, who oversaw the light-rail system construction.

While the collapse was only on a single side of the twin-bore tunnel, Bi-State wanted to repair the other side as well.

Repairing both sides, he said, "was the only safe way to proceed."

There wasn't much time for Bi-State to consider its options, either.

The first question from the contractor responsible for that segment was whether Bi-State had the money to pay for it, Mr. Willis said.

Mr. Macdonald, who had been involved in those meetings, gave assurances the funds would be forthcoming despite the coverage dispute.

"It was a critical incident, and it became more critical when we weren't sure about the insurance coverage because we didn't have any extra cash and we had the deadlines," he said. The immediate construction costs were covered by a loan from the agency's self-insurance fund, which serves as its cash-flow mechanism for paying liability and workers comp claims.

"I'm more confident now than I was then, I guess," said Mr. Macdonald. "But we had to move. We couldn't sit around and negotiate the claim. We had to finish the tunnel."

CIGNA provided a second advance of $250,000 in October 1992 while the work was completed on schedule and the downtown streets reopened for the Christmas shopping season. But, with the remainder of the claim still unresolved, in 1993 the case moved into the courts.

Mr. Macdonald worked to resolve the issue by negotiation. A key assist came when Robert E. Ruebsam, executive vp of Sedgwick James of Missouri Inc. in Clayton, Mo., stepped in as a claims consultant.

Even though by this time in 1993 Sedgwick was Bi-State's broker of record, it had not placed the builders risk coverage nor was it the broker at the time of the loss.

In October 1993, Mr. Ruebsam met with the CIGNA underwriters who had been involved in the Bi-State policy, "because the claims people pretty much had their heels dug in.

"I wanted to lay out questions in such a way that if you had to answer these 12 questions looking in the mirror, how would you answer them and how will that affect your stance at least to open some talks."

Then Mr. Ruebsam chaired meetings between the two sides. The first didn't go well but, for the second round, "they came down and had looked at those 12 questions and had, I think, looked honestly at their situation and said, 'We probably should work this thing out.' "

Ultimately, the process resulted in a settlement in March 1994 that "provided Bi-State's needs were satisfied with respect to their out-of-pocket," Mr. Ruebsam said.

Bi-State collected nearly $3 million under the builders risk policy, which had a $640,000 deductible.

But, Mr. Willis said the real story is the assurances of Mr. Macdonald and Bi-State's risk management department enabled the light-rail construction to go on and meet promises to the business community.

"I had the confidence Craig had everything under control," Mr. Willis said. "And even though there were disagreements along the way on amounts, insurability, I wasn't worrying about that. I was worrying about things that I have to worry about, and that makes everybody's day when you don't have to take on somebody else's work."

"Thank God we had a very competent director of risk management who had provided us with the right levels of insurance, because the bridge and the tunnel and 14 miles of right-of-way were the backbone of this deal.

"Those things happen," said Mr. Willis of the construction loss. "It's how you handle them that makes the difference." BI

Staff keeps department running

In Bi-State Development Agency's risk management department, "we each do what we're good at," says Claims Supervisor Barbi Diehl.

During his 5½-year tenure at the agency, Risk Manager Craig S. Macdonald has assembled a team of 12 people to manage risks and claims for the predominately transit agency.

The staff, with considerable expertise, works together closely and obviously values one another's abilities.

In fact, writing on behalf of the department's claims administration unit, Casualty Claims Supervisor John Cody was among those nominating Mr. Macdonald for the Risk Manager of the Year award.

"Mr. Macdonald has successfully integrated the agency customer service and continuous quality aspirations into the day-to-day operations of the department," Mr. Cody wrote.

Others nominating Mr. Macdonald were Robert E. Ruebsam, executive vp of Sedgwick James of Missouri Inc. in St. Louis, which is Bi-State's broker of record; Judy Kocinski, claims and loss control manager for Boatmen's Bancshares Inc. in St. Louis and vp of the St. Louis chapter of the Risk & Insurance Management Society Inc.; and John M. Noce, Bi-State's deputy general manager for finance.

In addition to Mr. Cody and Ms. Diehl, who focuses on subrogation and administrative support, the department's third claims supervisor is Carol Campbell, who focuses on workers comp claims.

Property and liability claims representatives on staff include Leon Dogan, Bill Reitz, Tom Held, R.B. Williams and Lori Francine.

Mr. Williams spent more than 42 years as a driver and station superintendent with Bi-State before his job was eliminated at the same time Bi-State was bringing its claims department in-house. "He came and talked to us, and we decided to try him out. He's worked out really well," said Mr. Macdonald.

With Mr. Williams' driving experience, "if somebody says they were injured on a bus, he can look at about four or five pieces of paper and he'll know whether they're telling the truth," Mr. Macdonald said.

Many other members of the staff have considerable experience dealing with transit claims, something Mr. Ruebsam of Sedgwick James believes is essential.

Janis Combetto is a workers comp claims representative, and the agency is looking to fill another position in that same area.

Bonnie Greider is the risk management administrative assistant. Judy Beckey and Christine Cole round out the administrative staff.

And while the members of that staff do what they're good at, among Mr. Macdonald's many other skills, he has proved adept at keeping them free of outside distractions.

Bi-State is a highly visible public agency whose 10-member board is appointed by the Missouri and Illinois governors. As a result, political pressures can arise for settling some claims or fighting others. And, unions also can pressure for settling some workers comp claims risk management might choose to challenge.

—By Rodd Zolkos

Bi-State negotiations help win flood coverage during 1993 Midwestern deluge

Craig S. Macdonald won't forget Bi-State Development Agency's 1993 property insurance renewal.

It was negotiated in the middle of the Midwest's 500-year flood in July.

Before the flood, which began in May 1993, the agency's director of risk management had wanted to find an insurer to write all the agency's property risks, including its new MetroLink light-rail system, which had been covered under builders risk during construction.

Under the expiring coverage, Industrial Risk Insurers covered highly protected risks like the bus garages and agency facilities other than the light-rail system, with light-rail-related facilities such as bridges and rail stations covered under the builders risk policy.

Mr. Macdonald had wanted one seamless property program with one underwriter. "The policies were expiring on July 15, and we knew we didn't have time to replace the coverage on July 15 (because of flood problems). Both of the insurance companies agreed to extend until July 31," said Mr. Macdonald. "The peak of the flood was July 30."

But, the coverage was renewed late in the day on July 31 with IRI and four other insurers because other underwriters were not interested in including flood insurance for Bi-State property.

Its bus garage, the St. Louis Downtown Parks Airport and a power station for the MetroLink light-rail line are all in a flood plain. The agency's headquarters, the Gateway Arch and the Arch garage also are in sight of the river.

Other insurers "had almost daily updates from their home office folks saying, 'No flood,' " said Allan Sweet, vp of Sedgwick James of Missouri Inc., Bi-State's broker.

"From a risk management standpoint it would have been absolutely insane to accept coverage at that time in the history of St. Louis without flood coverage," Mr. Macdonald said. "It would be a dumb move."

"The existing market had been on there for 40 years so they were obviously the most cooperative for giving flood coverage where we could get it, so that's why we stayed with them that year," said Robert E. Ruebsam, executive vp of Sedgwick James of Missouri.

Bi-State negotiated a renewal with IRI that included limited flood coverage. Meanwhile, Sedgwick assembled a package of marine, excess and difference-in-condition coverages with Westchester Fire Insurance Co., Allianz Insurance Co., St. Paul Surplus Lines Insurance Co. and the National Union Fire Insurance Co. of Pittsburgh, Pa., "to pick up the stuff that the HPR insurer obviously wouldn't take," Mr. Macdonald said.

Mr. Ruebsam noted that in reality it would have taken a "10,000-year flood" to reach the agency's headquarters building and the Arch and Arch garage.

Mr. Macdonald pointed out, though, that even though the underwriters Bi-State dealt with that year were being cautious, they never knew just how close the agency was to real problems.

"What they really didn't know was that the airport and the Illinois garage were arm's length away, literally, from a major flood," he said. The East St. Louis flood wall is 52 feet and the water at the flood's crest was just a few feet from the top.

"We had thousands of tourists—who never went into the Arch, which was open that entire summer—who just came down to watch the flood," Mr. Macdonald said.

—By Rodd Zolkos

Risk Management Honor Roll

Leading Loomis back from brink

By MICHAEL BRADFORD

The long and colorful history of Loomis Armored Inc. seemed just about written in the early 1990s.

In the century since Lee Loomis had hauled goods by dogsled to the miners of the Klondike Gold Rush, his namesake company had veered far off course. Facing greater dangers than ever before, it had little vision and only a vague strategy for moving goods from one location to another.

Loomis Armored had been battered on several fronts. Cutthroat competition that began in the 1970s pressured armored car companies to slash operating costs.

At the same time, once-plentiful insurance became hard to find and expensive.

In 1984, Loomis Armored expanded by acquiring Purolator Armored. But the integration of corporate cultures proved difficult and the merged business foundered.

The situation worsened. Loomis Armored's parent, Australian conglomerate Mayne-Nickless Ltd., in 1989 tried to sell the company to rival Brinks Inc. The deal fell through when the Federal Trade Commission vetoed it for anti-trust reasons.

By the early 1990s, losses were piling up. The company trusted with billions of dollars of other people's money was losing $1 million a month of its own and appeared to be bleeding to death. And more robberies and more trigger-happy robbers had shattered morale, leaving employees resigned to the inevitable.

Now, only a few years later, the company, which is headquartered in a leased glass mid-rise in an office park about 16 miles west of downtown Houston, may have turned the corner.

Profits, albeit small ones, are back for the first time in a decade. Its 24,000 workers have taken on the challenge of avoiding robberies and Loomis Armored continues to deliver valuables. But it is no longer a transportation company.

Today, its employees will tell you, it is a "risk management company."

"The essence of our soul is risk management," says Michael Tawney, vp-risk management/loss control at Loomis Armored, one of the three—along with Brinks Inc. and Wells Fargo & Co.—armored car companies with national operations. "We don't provide financial services. Transportation is incidental. What we provide is risk management."

Even if it is incidental, transportation still requires attention to detail. "Good equipment, well-conditioned trucks, good maintenance programs and well-qualified drivers are a very integral part of the program," said Mr. Tawney. "But then again, all of that fits into our concept of risk."

Mr. Tawney's leadership is a key reason the company is still handling other people's money. Working closely with the company's president, a small staff and the head of security, Mr. Tawney has helped rebuild the company on a foundation of risk management in his four years there.

Beyond his department, the risk management philosophy influences pricing, sales and marketing. That philosophy is set down in a one-page "strategic service vision" statement and a one-page credo that each of the company's 68 branch managers in 21 states is required to memorize.

The statement emphasizes customer service, employee loyalty, good citizenship and a commitment to excellence. The credo covers branch manager duties, such as ensuring employee safety and customer satisfaction and promoting the company.

"Every branch manager has them on his wall. We start our meetings with these things, we hear them quoted quite often," said Mr. Tawney.

The principles provide the framework for every decision the company makes, from buying equipment to bidding on an account, Mr. Tawney emphasized.

The turnaround that produced the company's first profit in a decade last year is a case study in how managing risk transformed a company.



It has been anything but a smooth ride.

Loomis Armored's losses were running about $12 million a year when Dallas-based Wingate Partners bought it in 1991. Conditions got worse before they got better. Both safety and risk management programs suffered in the transition, and in the year of the acquisition both robberies of and shots fired at Loomis Armored guards rose sharply.

The new owners a Dallas investment firm, brought in as president and CEO James B. Mattly, previously southwest regional vp at Houston-based waste management service provider Browning Ferris Industries Inc.

Rather than turn immediately to cost cutting, Mr. Mattly realized from experience that the cost of risk at Loomis Armored was way out of line. So he focused on gaining control of those expenses by reducing the risk.

He also knew that Mr. Tawney, still with Browning-Ferris as operations manager, was the man he needed for that task. Mr. Tawney had been part of a team led by John A. Lindquist, a Browning Ferris divisional vp of risk management and loss control and a *BI* honor roll winner for 1989.

"Mike and I first worked together at BFI in 1979," Mr Mattly recalled. At that time "the environment at BFI in terms of safety and risk management was as bad as it was here when I came here in '91."

With Mr. Tawney's hiring in 1992, Loomis Armored began evolving into what it calls a risk management company.

First, it set three objectives: raise prices for high-risk services or get out of those businesses; hold costs constant; and reduce risk from all exposures.

Redefining the nature of the armored car business as risk management, said Mr. Tawney, had implications for pricing, operations and everything else. "It really changed the nature of the business."

Hiring Loomis Armored, he explained, is a sort of insurance, "a risk transfer type arrangement for banks and commercial institutions to safeguard their materials in transit" and keep their employees safe. "If you have a store manager, for instance, do you want to expose his life to danger by sending him daily to make a deposit at the bank? In that respect we see ourselves as a risk management company in that our primary service is taking on some of those risks."

Working with Mr. Tawney on the three objectives was Bruce J. Magelky, a veteran of the armored car business who joined Loomis Armored as vp-security and operations. Because employee safety and security of valuables in storage and transport are all so closely linked in the armored car business, the arrangement was a way to keep clear the risk management orientation in both areas.

They faced a daunting task. Within the next five years, they were directed to get the cost of risk related to cargo to 2.5% of revenue. The cost of risk related to all other areas was not to rise above 5%.

With company revenues at about $110 million, that meant that retained losses, premiums and administrative fees combined were not to exceed $8 million. A year before Mr. Tawney was hired, the cost was $19 million and a study by Sedgwick James of California Inc. found that it could be reduced to $14.1 million in one year and $11.5 million after five.

Mr. Tawney and Mr. Magelky recognized

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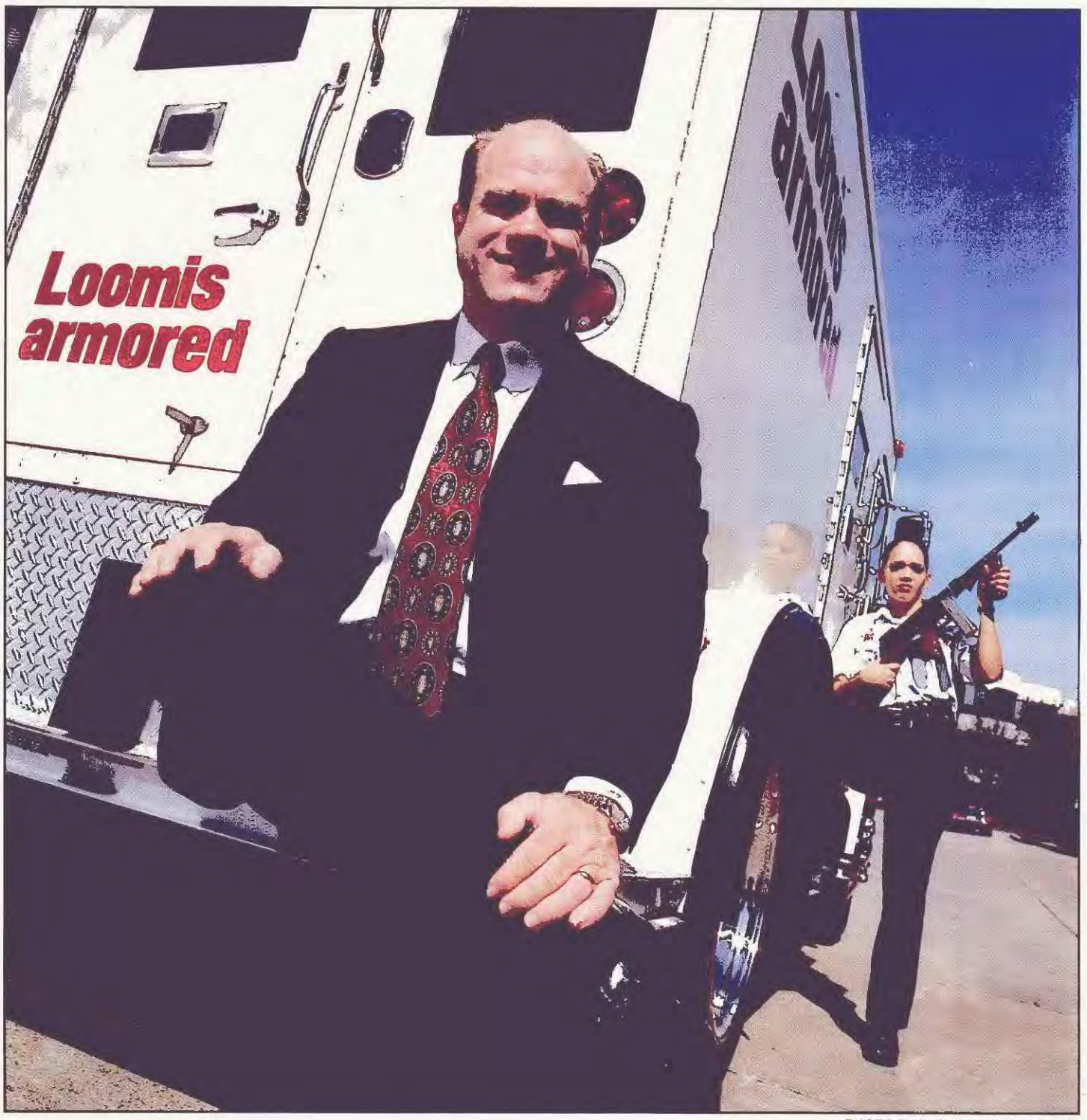


PHOTO BY MICHAEL A. MARCOTTE

Continued from previous page
two problems that had to be solved in quick order. A good staff had to be assembled and the company's insurance programs overhauled.

Hiring a staff presented something of a Catch-22: How could Loomis Armored assemble the caliber of staff needed to reach its targets when there wasn't enough revenue to hire such talent?

The solution: a unique arrangement under which Loomis Armored's insurer and broker provided two staffers with the needed experience and knowledge while kicking in a portion of their salaries.

Ingeborg E. Feagin was hired as Loomis Armored's claims manager. She remains a CIGNA Corp. employee but works full time at the Loomis Armored headquarters in Houston and reports directly to Mr. Tawney. The company pays 45% of her salary, as does Sedgwick. CIGNA picks up 10%.

"What she does here is much more than straight-up claims management," said Mr. Tawney. She does that, of course, but also is responsible for claims forecasting, management reports, some manager training and other claims and risk management functions.

"I love it," Ms. Feagin said of the arrangement. "There has been a real willingness to do it and support from the top to make it work."

What's in it for CIGNA?

Her feedback gives the insurer a unique perspective on its claims management services, highlighting strengths and weaknesses that also affect other clients, said Ms. Feagin.

What's more, her boss points out, "I'm sure they feel like they have me locked in a little bit better as an account."

A similar arrangement was negotiated to hire Rockey Keyes as risk manager. Like Ms. Feagin, he works at the Loomis Armored headquarters and reports directly to Mr. Tawney. Loomis Armored and Sedgwick split his salary.

"The same sorts of things are true," said Mr. Tawney. "I'm sure Sedgwick feels like they have me locked in as an account. We pay 50-50, that's one way of looking at a savings but of course I pay for it ultimately in commissions to them."

Mr. Keyes is responsible for day-to-day risk management functions: maintaining policy files, tracking endorsements, preparing renewals, checking contracts the company enters into for language that could lead to exposures, and performing various analyses.

Mr. Tawney also has added three regional loss prevention managers, bringing the total to seven, for the company's regional headquarters in Oakland, Calif., Seattle, Dallas and Indianapolis.

And to tighten the general hiring process, he added a manager-of-employment position and tightened employee screening guidelines (see related story).

"I'm very satisfied with the quality and the number of staff that I have," said Mr. Tawney. The arrangement with CIGNA and Sedgwick means he can keep the staff count low. "I never have to defend a head-count issue," he noted. "My budget is bare bones and yet I enjoy a first class staff."

Surprisingly, he is no fan of outsourcing.

"I think that to be effective in risk management, it is essential that you have a deep inside knowledge and relationship with the company culture," said Mr. Tawney. Both are difficult to find in consultants or other outsiders, who can be useful for technical aspects of risk management like claims handling and some analyses.

"The outsourcing I have done has worked very well for me even though I am not a proponent of outsourcing. Our partners, CIGNA and Sedgwick, have shown a lot of insight and flexibility in cooperating with my desires to put all that in place," he said.

One major hurdle to reining in the cost of risk was insurance. Repeated losses left Loomis Armored a less-than-desirable account for many insurers and market conditions meant some coverages were hard to find.

Cash-in-transit coverage, crucial to the armored car industry because it protects clients' money while it is being transported, was a particular problem. Historically, the company had purchased coverage from Lloyd's of London syndicates through a nearly indecipherable mix of wholesale and retail brokers.

But then came renewals for 1994. Its quote for cash-in-transit coverage was so high that it would have been nearly impossible for the company to turn a profit, Mr. Tawney recalled, and the deductible was significantly higher than the company's annual average losses.

Getting out of that bind required breaking new ground. With Sedgwick James, Loomis Armored developed a fronting program that provides $2.5 million in per-occurrence coverage with a $5 million annual aggregate (see story, page 132).

National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., is the front. Loomis Armored backs the coverage with cash and letters of credit and indemnifies the insurer for any losses it pays above a $50,000 per-occurrence deductible.

Attaching at $2.5 million is excess coverage from Lloyd's of London syndicates. Neither the limits nor any annual aggregate were disclosed. It is written on a form manuscripted by Loomis Armored.

If the $5 million annual aggregate on the fronted coverage is exhausted, claims would be covered by an aggregate stop loss policy from Great American Insurance Co. The coverage has limits of $2.5 million and a $50,000 deductible.

The cash-in-transit program not only solved Loomis Armored's coverage dilemma, it also became a state-of-the-art product that the insurers are now writing for other armored car companies. After learning of the arrangement, a competitor dropped its program and contracted with National Union for a similar program.

Holding down Loomis Armored's cost of risk also required jettisoning business that was considered too risky for the revenue it generated.

Transporting millions of dollars in currency cross country in 18-wheelers, for example, was too risky, Loomis Armored determined, and the tractor-trailer operation was sold.

Transporting money and valuables through the air was too risky as well, he pointed out. So the Sky Escort Division was sold. "We can't control security in airport environments," said Mr. Tawney. "We're totally at the mercy of whoever thinks they can control that, and so we're uncomfortable with that, too."

Eliminating the riskiest accounts meant saying painful goodbyes to some long-time—and large—clients.

"We will not compromise the safety of our employees, and we've had to make a number of hard-dollar decisions based on that," Mr. Tawney said. "We no-quote a lot of business meaning we won't do it at any price because for whatever reason we might feel that the risk is too high. It is not worth jeopardizing the lives of one of your employees."

Mr. Tawney also eliminated some potentially long-tail risks.

Around 20 underground storage tanks that held diesel fuel for the company's trucks were removed. "We had some minor cleanup issues with two or three sites, and they are almost all resolved to date. That's an exposure we sure didn't want to have to worry about."

Trucks now refuel off-site at suppliers under contract to Loomis Armored.

And no longer does the company sell used armored cars to other transport companies. Mr. Tawney didn't want product liability claims related to those vehicles to haunt Loomis Armored in the future. So far, no claims have surfaced from past sales of those cars.

To reduce the cash-in-transit exposure, Mr. Tawney reduced the amount of money an employee is allowed to move at one time from a client's facility to the armored car. Large amounts had to be carried out in several trips, reducing the amount exposed on the street.

Slowly, the effects of so many changes began to show up on the bottom line.

Claims management began to pay off, as claims costs fell from $13.3 million in 1991, to $8.5 million the next year and $6.1 million last year. Over that period, the number of claims per year was cut to 745.

Similarly, insurance costs dipped from $5.7 million in 1991 to $4.9 million in 1992 and $2.8 million last year.



PHOTO BY MICHAEL A. MARCOTTE

Loomis' risk management team, from left to right: Rockey Keyes, Ingeborg E. Feagin, Michael Tawney, Mary Ann Reynolds.



PHOTO BY MICHAEL A. MARCOTTE

From left to right, Bruce J. Magelky, vp-security and operations for Loomis; Michael Tawney; and James B. Mattly, president and CEO.

All those factors help Loomis Armored post $20,000 in profits last year, a very slim return, but also the company's first since 1985.

Loss frequency continues to fall for Loomis Armored, but loss costs in the current fiscal year have so far totaled about the same as in the previous year.

There have been two major losses in 1996. The company lost a guard who was murdered in Los Angeles and a truck accident left another employee seriously injured.

Big improvements have been made in cash-in-transit losses, Mr. Tawney said. Those losses have totaled around 10% of the 1995 amount.

Property losses are virtually nonexistent, as they typically have been.

Loomis Armored has cut its cost of risk 53% to $8.9 million for the year ended June 30, 1995, and appears likely to meet its $8 million goal by 1997.

Loomis Armored's broker was amazed by the company's risk management-driven turnaround.

Sedgwick James of California "has never before seen a risk management transformation within an organization make such a comprehensive and meaningful impact to the success of that company," wrote Matthew H. Davis, vp of the brokerage, in nominating Mr. Tawney for the *Business Insurance* award.

Mr. Mattly of Loomis Armored gives Mr. Tawney much of the credit for the company's return to profitability. He said among the risk manager's strengths are the ability to not only "think conceptually" when considering risk management problems but also the skill it takes to bring programs to life and sell them to top management.

But Mr. Tawney recalls that it was his boss that first saw the need for lassoing the out-of-control cost of risk at Loomis Armored.

"If anyone, Jim Mattly has been the driving force behind making all this happen. He has absolutely put teeth in the very tough decisions we've had to make, sometimes to make sure that we were not going to take on undue risk." BI

Guarded hiring process key to risk reduction

Not everyone is cut out for this job

By MICHAEL BRADFORD

Want to go to work for Loomis Armored Inc.?

Good luck.

"We have an extremely stringent hiring criteria," said Michael Tawney, vp-risk management/loss control at the Houston-based company.

Good hiring is "perhaps the most important thing we do," he said. Those who aren't honest and hard-working, with a "stable lifestyle," need not apply. Hiring is particularly important in this field because many armored car robberies have been pulled off with inside information.

Since Mr. Tawney arrived in 1992, Loomis Armored hired a manager of employment and began focusing on the particular characteristics it thinks will help develop a workforce dedicated to holding down losses.

Foremost among them may be stability. "We look for maturity," said Mr. Tawney. "A profile of a person that would be good for us would be someone who maybe owns his or her own home, has stability in the community, is married, has a family. We're not as fond of people who move around a lot."

Many employees are not unfamiliar with discipline, people like military retirees and police or fire department veterans.

"The day-in, day-out integrity of our people is remarkable considering the strict procedures they have to follow," Mr. Tawney said. "The avoidance of any temptation to have sticky fingers is just remarkable given the amount of assets we take control of."

But sometimes the temptation becomes too overwhelming; former employees, disgruntled employees, family members and friends of employees all have been involved in robberies.

"Usually when there's a robbery of an armored car, they have very detailed information on what the armament is, on what the crew procedures are, when they're most

See **Hiring** *on next page*

Risk Management Honor Roll

The next best thing to self-insurance

Loomis Armored relies on large deductibles, retentions

By MICHAEL BRADFORD

It doesn't take a rocket scientist to structure an insurance program to protect a company's assets.

The real challenge—and opportunity—is to find ways to prevent losses in the first place, says Michael Tawney, vp-risk management/loss control at Loomis Armored Inc. in Houston.

"My ideas on risk management are that the easiest parts to handle are the financing and insurance," he said.

"But the real savings and the most difficult part and where you should put your resources is in prevention," he said.

There's not much "real business insurance" out there, anyway, said Mr. Tawney, explaining that unless losses reach catastrophe layers, policyholders generally give back claims payments to insurers as higher premiums when coverage is renewed or as part of a retro program.

"The real opportunity for corporations today is through prevention," he said. "So, for that and other very compelling reasons, I think prevention is where risk management programs ought to increasingly focus their resources and attention."

Mr. Tawney has more time to focus on prevention now that he has put together an insurance program that essentially allows Loomis Armored to self-insure most of its risks through high deductibles and retentions.

In some cases, the company's poor loss and financial histories—its $20,000 profit last year was its first in a decade—have made it such an undesirable risk that insurance companies would not write traditional programs at an affordable price.

Facing that, the company worked with its broker and insurers to develop programs that have allowed it to carry high retentions while obtaining the insurance certificates that clients demand.

For example, cash-in-transit insurance that protects clients' money while it is transported traditionally has been written mostly by syndicates at Lloyd's of London. But market conditions and Loomis Armored's claims history led the market to quote a price for the coverage for 1994 that would have eliminated any prospect for Loomis Armored making a profit that year.

In response, to help fund the risk, the company set up a fronting arrangement through American International Group Inc. unit National Union Fire Insurance Co. of Pittsburgh, Pa., written with an annual aggregate of $5 million. The coverage has per occurrence limits of $2.5 million and carries a $50,000 deductible. It is backed by cash and letters of credit.

Attaching at $2.5 million is per occurrence excess coverage from Lloyd's of London syndicates. Limits were not disclosed.

One unique feature of the program is an aggregate stop-loss policy that applies to claims after the $5 million annual aggregate through the fronting arrangement is exhausted. This coverage is written by Great American Insurance Co. and also has limits of $2.5 million and a $50,000 deductible.

Because the stop-loss policy ultimately would pay claims only below the $2.5 million mark, Mr. Tawney describes it as being written "behind, not above" the fronted coverage.

The arrangement lets Loomis Armored retain much of the risk while securing the insurance certificate that it needs.

Casualty retentions are larger than for most companies of Loomis' size. Its core coverages—workers compensation, general liability and automobile liability—each carry $500,000 deductibles.

Workers comp coverages have to be written two different ways, depending on the state where Loomis Armored operates. In some cases, the coverage includes a $500,000 deductible, and in others the same amount is financed as a self-insured retention. A few states do not allow large-deductible workers comp programs. Mr. Tawney said he has no preference between the two approaches.

Although he would rather self-insure the entire workers comp program, Mr. Tawney knows it's impossible right now. "Due to our financial history, I don't qualify for

Continued on next page

Hiring

Continued from previous page

likely to have the most cash and things like that," said Mr. Tawney. Without inside information, most robbers find armored car jobs just too dangerous.

Expectations for Loomis Armored employees run very high. "We expect zero robberies, we expect zero accidents. We're intelligent people and we know we may never be actually at zero," said Mr. Tawney. "But unless you have that attitude and unless you adopt that mental toughness, you will never make any progress at all."

Stricter hiring criteria have helped cut turnover sharply. Last year, about 27% of its employees left Loomis Armored, down from the 50% to 60% who left in the turmoil of 1990, a year before it was sold to its current owners.

"We're very pleased to have brought that under control and we're anxious to do better still," said Mr. Tawney, who along with his staff monitors turnover very closely.

Inexperience and losses are most closely correlated with drivers, he said. "When you have new people there is always going to be a percentage of them who won't adopt the culture or abide by the safety and security procedures. Or just through inexperience they may leave themselves open to some kind of problem."

For those who make the grade, the training is extensive.

A course for drivers and guards in preventing robberies has the theme "Going Home" to reflect the company's aim to get every employee home safely every night. The course involves films and classroom presentations. And in many areas of the country it also entails training on how to handle various simulated robbery threats.

Though the company is reluctant to give specifics, it said robberies were at their highest level in many years in 1992 and last year there were several attempts and only one successful robbery.

Sometimes training is not enough: Loomis Armored says it does cancel some business if it finds the risks too high.

One area where the company says the robbery risks are high, but worth bearing, is Southern California. "Dealing with financial institutions in the state of California is a high-risk proposition," said Mr. Tawney. "In the armored car business you have to deal with financial institutions because that's where you make the deposits."

If robberies aren't enough to worry about, employees also face more mundane on-the-job risks.

To prevent back injuries, the company uses its "Going Home with a Healthy Back" program, which includes films, posters, newsletters and monthly safety meetings at branch locations.

To encourage safe driving, drivers participate in the National Safety Council defensive driving course, the National Traffic Safety Institute's Driver Performance Analysis System, and some internal programs.

To promote the safe use of firearms, workers who carry weapons are required to have firing range training and complete a safety class that covers basic procedures like loading and cleaning a weapon.

Firearms training varies according to state requirements, and Mr. Tawney said the company exceeds the requirements in some states without very strong standards.

Smarter hiring and better treatment of employees has paid a dividend for Loomis Armored in the form of fewer wrongful termination claims. Employment lawsuits, including wrongful termination claims, have fallen from about 10 a year in the early 1990s to perhaps one now.

Today the company is more careful about disciplining and terminating employees, Mr. Tawney pointed out. "Typically, if you treat people fairly then you are not going to have problems. Now, there's more to the legal world than that, but by focusing in on our employees, we were able to stop a lot of that."

Another contributing factor in the decline in wrongful termination claims is a restructuring that has the legal affairs department reporting to Mr. Tawney.

Every claim the company faces is assigned a dollar value, he explained. "And that value has to be based on facts, not rose-colored glasses, and we have to have a management plan to resolve that issue within its value."

Unless a value is fixed, claims will never get resolved, he said. They will only drift and ultimately cost more in legal fees than damages.

Loomis Armored tries to be firm, but fair about paying claims. "We do like to fight the frauds and the sorts of things that we don't owe. But we will very quickly pay a claim where we can establish that we have liability in damages. If we cause someone a problem, we will stand responsible for that problem."

Stricter hiring measures have helped the company's managers remold its corporate culture to emphasize honesty and safety, he said. Employees who were uncomfortable with the culture have resigned and those who compromised security were terminated. Peer pressure has become a positive force and as a result the workforce is made up of employees with intelligence and integrity, Mr. Tawney said. BI



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Continued from previous page
self-insurance or I would. I'm a believer in self-insurance."

He expects that situation to change in the coming years. As the company gains strength and turns profits, Loomis Armored plans to ask state regulators for permission to self-insure.

CIGNA Corp. writes the primary coverage in the three core casualty areas. Westchester Fire Insurance Co. writes the first layer of excess coverage, and Chubb Corp. unit Federal Insurance Co. provides additional limits.

Property coverages are written by Zurich Insurance Co. and carry lower deductibles than casualty coverages, but they are still high enough to leave the armored car company essentially self-insured. said Mr. Tawney.

For example, there is a $100,000 deductible for each vehicle in the Loomis Armored fleet. Those trucks cost about $65,000 apiece.

New wording was added to Loomis Armored's property policies this year, giving the company coverage with a deductible of up to 2% of the value of each location for hurricane damage.

Although the company has West Coast locations, it doesn't buy earthquake coverage. The company cannot be certain that its vaults would survive a massive quake, but the risk is not considered high enough to justify the steep expense of the coverage.

One new coverage for Loomis Armored—which plans to go public with an initial public offering in 12 to 18 months—is directors and officers liability.

Since mid-1995, the company has bought D&O coverage with undisclosed limits from Agricultural Excess & Surplus Insurance Co. Excess coverage is written by Executive Re Indemnity Inc.

Going public shouldn't cause a lot of coverage problems, Mr. Tawney said. "We have the usual business exposures and the pressure to make a consistent profit that any company would face. I don't think that we face any unique exposure. I've primarily been concerned about having D&O coverage in place."

Having shareholders will not change risk management procedures or commitment to safety and loss control, he said.

Sedgwick James of California Inc. is the only brokerage that Loomis Armored uses to place coverage, but the ties that bind the two companies go deeper than that.

Loomis Armored's risk manager, Rockey Keyes, actually is a Sedgwick employee whose office is at the Loomis Armored headquarters. His salary is paid by both companies (see story, page 131).

Early in his term at Loomis Armored, Mr. Tawney consolidated almost its entire account with Sedgwick, which already had been doing most of the work anyway. It was a way to keep things simple at a time when he was the entire risk management department.

As important as insurance is to risk management, Mr. Tawney said it is really secondary to loss prevention.

He holds quarterly meetings with the company's seven loss prevention managers either at the Houston headquarters or in states where Loomis Armored has a lot of business.

At those gatherings, Mr. Tawney said, "We profile trends in the industry and the types of losses that have taken place as well as our own direction. Each of those individuals is required to have a management plan with goals and objectives and to be somewhat specific as far as his timetable and his strategy for reaching his objectives."

Also at those meetings, new programs are introduced, potential new programs are discussed and managers can suggest safety and loss control areas that they think should be emphasized.

The company's risk review committee, a seven-member group of executives, meets monthly to discuss all losses for the month, including causes and what needs to be done to prevent recurrence.

Loomis Armored uses American Security Corp. of Middleburgh, Va., as a quality control consultant, and a representative from that company attends the monthly meeting to report on the surveillance of operating branches it conducts.

American Security also adjusts cargo claims, helps with some employee training and advises Loomis Armored on how to put technology advances to use.

The risk review meetings have been so successful that Loomis Armored has started holding similar meetings for its human resources, revenue and operations departments.

In a field where top-level support can be critically important, Mr. Tawney knows that James B. Mattly, Loomis Armored's president, isn't far away.

"If we're in town, I see him every day. I'll have a good sit-down with him maybe once every other week," said Mr. Tawney. "A lot of times we'll take a walk, smoke cigars and discuss where we're going." BI

Risk factored into pricing services

Risk management permeates nearly every area of Loomis Armored Inc., including how the company prices its services.

"We take possession of many hundreds of billions of dollars per year that flows through the company. It's a huge amount of assets that we safeguard for other people," explained Michael Tawney, vp-risk management/loss control for the Houston-based company.

Loomis Armored sets its prices to reflect the difference in the risks represented by the various shipments it handles.

For example, clients with average daily bank deposits of $5,000 are charged less than those with average daily deposits of $500,000.

"Obviously one has a much higher risk," said Mr. Tawney. "We of course insure that asset for them and that higher value also puts more of an exposure on our crew. Consequently, we use different procedures, which would have a cost factor."

Selling itself as a "risk management," rather than transportation, company gives Loomis a marketing advantage, Mr. Tawney pointed out. "We sell it to our customers as a way to differentiate ourselves from our competitors. It is not only an operating philosophy, it's also a sales rationale."

—By Michael Bradford

Air Force post launches career

By MICHAEL BRADFORD

The cargo carried by Loomis Armored Inc. armored cars may be valuable, but it doesn't pack the wallop of the payload Michael Tawney was safeguarding 20 years ago.

As a missile maintenance officer in the U.S. Air Force's Strategic Air Command, Mr. Tawney was charged with looking after Minuteman II intercontinental ballistic missiles from 1973 to 1976.

It was quite a different work environment from his current posting as vp-risk management/loss control at Houston-based Loomis Armored, but with much of the same kind of responsibility.

"Safety was a very important and integral part of that job, as was security," he recalled of his days spent safeguarding nuclear warheads. "And it interested me."

After earning a master's degree in industrial safety from Central Missouri State University while in the Air Force, Mr. Tawney entered a less explosive field in 1976, joining McClelland Engineers Inc. in Houston.

'Safety was a very important and integral part of that job, as was security,' Michael Tawney recalls of his days spent safeguarding nuclear warheads. 'And it interested me.'

"I got a pretty good taste of claims, some insurance, lots of training and safety," he said. His primary responsibility was managing safety and training programs for the geotechnical company.

That led to a 13-year stint at waste management concern Browning-Ferris Industries Inc. in Houston.

In 1979, Mr. Tawney was recruited at Browning-Ferris by the man who is his boss today, James B. Mattly, president and CEO at Loomis Armored.

Beginning as a Browning-Ferris regional manager, Mr. Tawney moved into the district manager's seat in 1982. In 1985, he was named the company's risk manager and worked under John A. Lindquist, who was named to the *BI* Risk Management Honor Roll in 1989.

While at Browning-Ferris, Mr. Tawney earned the Associate in Risk Management designation, and as part of Mr. Lindquist's team became "much more fully versed in insurance and much more in litigation and claims," he said.

In 1989, his responsibilities broadened further when he took the operations manager's position at Browning-Ferris, managing the Southwest region, which included 5,000 employees and 2,000 vehicles.

In 1992, he accepted an offer to join Mr. Mattly at Loomis Armored.

After more than two decades of involvement in safety and risk management, Mr. Tawney remains confident that he made the right career choice.

"I have very much enjoyed risk management," he said. "I find it hugely challenging and intriguing, never lacking in interest."

There is nothing better, he adds, "than being in front of a group of employees or managers, giving them in great detail why I'm committed to their safety and why they should be also."

That dedication to risk management doesn't mean Mr. Tawney can't find a little time to relax.

Family time with his wife, Mary, who is a fifth-grade teacher, his son and daughter is important. Football occupies much of 14-year-old Stephen's time, while Lauren, 16, is a talented violinist.

When the week ends, Mr. Tawney often makes the hour drive to a small ranch he owns in LaGrange, Texas. The ranch, which he concedes is a somewhat tongue-in-cheek description of the property, is heavily wooded. "Lots of good trees" is how he describes the area, and he wants it to remain as natural a setting as possible. "If Abe Lincoln didn't see it on his place, I don't want to see it on mine. It's very rustic."

It's a retreat not only in distance but in time, he admits, and that explains his keen interest in the Civil War and American Indians.

He owns a large collection of works on Indians and his Civil War library contains all the writings of popular historian Bruce Catton.

Sometime in the future, Mr. Tawney hopes to write an updated history of the Iroquois Indian nation. "Maybe," he says quietly, "as a retirement project." BI

More than cash under Loomis' lock and key

By MICHAEL BRADFORD

Armored cars conjure up images of squat little trucks filled with millions of dollars of cash, jewels or gold bullion.

Some are, but that one passing you on the freeway may just as easily be carrying such non-negotiable shipments as scholastic aptitude tests.

The SAT needs an armed guard?

Well, there may not be a big black market demand for small circles to darken with a No. 2 pencil, but this seemingly odd cargo is an example of the variety of valuables Loomis Armored Inc. is entrusted to protect.

Not all cargo is protected because of its dollar value, explained Michael Tawney, vp-risk management/loss control.

In the SAT case, "it's the integrity of the test that has to be insured," he said. "It's kind of like the guarding of Miss America ballots"—a job Loomis Armored does not have.

"We transport almost anything of value," Mr. Tawney said, including negotiable securities, precious metals and art, credit card receipts and blank cards, airline tickets and the growing variety of electronic components like computer chips.

"Electronic components have been transported by courier services and they've sat on loaded docks and in locked closets, and they've been stolen with great regularity," he said. "They are very, very valuable. Increasingly, the electronics firms are going to the armored car services for armored transport and secure storage."

"Food stamps are a big part of our business and we do lots of coin," he added.

Protecting valuables isn't always a serious business.

Loomis Armored delivered the Beatles to a 1962 concert at Candlestick Park in San Francisco, keeping the lads from Liverpool safe from screaming teens.

Publicity stunts have included dropping off fake bags of money to high-priced San Francisco 49ers receiver Jerry Rice, at the behest of his loan-starved teammates, and delivering highly sensitive loads of Wonder Bras to retailers during a promotion.

On a more serious note, a big part of Loomis Armored's business is servicing automated teller machines. And that business is one indication to Mr. Tawney that predictions of a future cashless society are unfounded. "There's lots of talk about a cashless society, with electronic banking and transfer of funds. That's just not happening."

Computer specialists may see it differently, he said, but "the truth is most people like to handle cash and they're afraid of credit cards."

The continuing proliferation of ATMs and the Federal Reserve Bank's data that show an increase in the amount of cash circulating means there is more currency than ever moving around, Mr. Tawney noted.

"And there are many. many more locations where it's available, requiring armored car services," he added.

In an industry with only three major national players and two large regional armored car companies together generating around $1 billion in annual revenue, the additional business is fueling rapid growth, Mr. Tawney explained.

"Another reason the industry is growing is that society is becoming more dangerous, or at least it is perceived to be more dangerous. And a number of businesses today retain armored car services that in decades past would not have worried about it. It's not uncommon now to have hamburger stands, video stores, shoe stores and little businesses like that seriously considering retaining armored car services" BI

1996 Risk Manager of the Year

How independent judges pick a winner

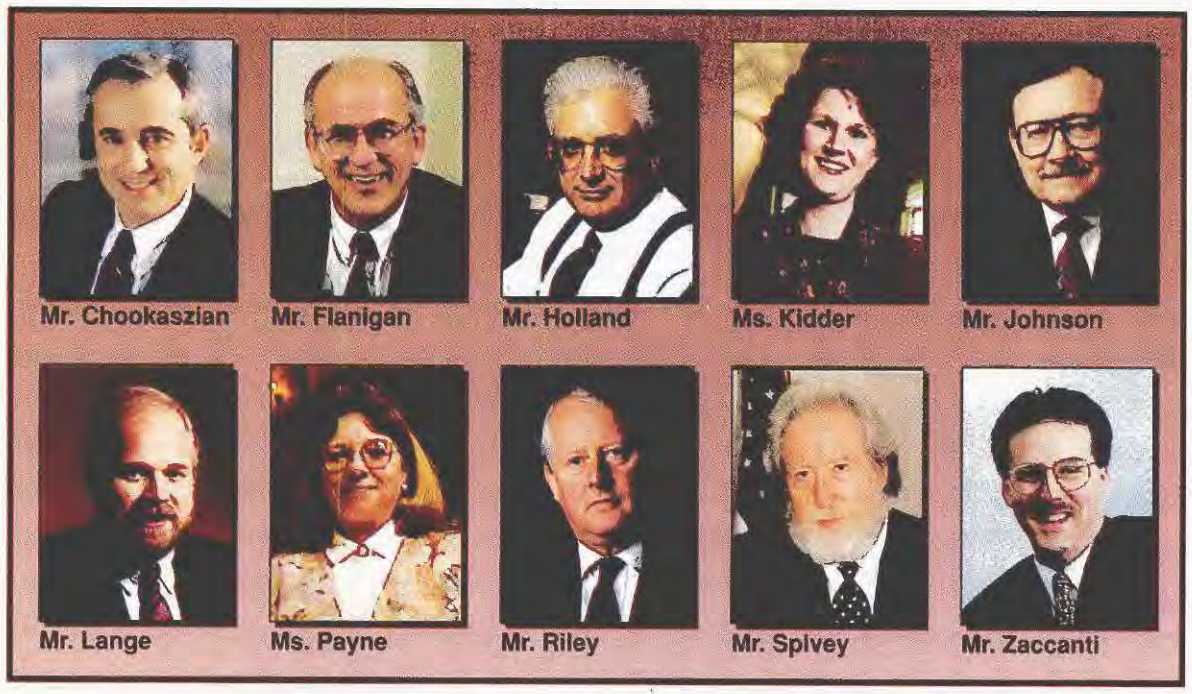
Ten independent judges from all sectors of the risk management profession and the insurance business selected the 1996 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

The recipients of the awards, presented annually by *Business Insurance* to recognize excellence in risk management, are selected by the 10 judges based on information provided in detailed nominations.

Candidates for the 1997 awards may be nominated now. Nomination forms are available from *Business Insurance*'s Chicago office. Nominations must be submitted by Nov. 19.

The 10 judges for the 1996 competition were:

- Dennis H. Chookaszian, chairman and chief executive officer of CNA Insurance Cos. in Chicago. He served as a judge for the first time, representing stock insurance companies.
- George B. Flanigan, Insurance Industry Professor in the Katie Insurance School at Illinois State University in Normal. Mr. Flanigan served as a judge for a second year, representing insurance educators.
- Lee D. Holland, president, of the Tennessee Municipal League Risk Management Pool in Brentwood, Tenn., and a member of the 1995 Risk Management Honor Roll representing self-insurance pools.
- K.C. Kidder, vp and risk manager at Norwest Corp. in Minneapolis, Minn., and a member of the 1995 Risk Management Honor Roll representing financial institutions.
- Dean E. Johnson, chairman, president and chief executive officer of Park Ridge, Ill.-based Protection Mutual Insurance Co. Mr. Johnson served for a second year on the panel of judges, representing mutual insurance companies.
- Scott K. Lange, director of risk management for Microsoft Corp. in Redmond, Wash., and the 1995 Risk Manager of the Year.
- Judith M. Payne, risk manager for the state of South Dakota and a member of the 1995 Risk Management Honor Roll representing government entities.
- Sax Riley, chief executive officer of Sedgwick Group P.L.C. in London. Mr. Riley served on the panel for the first time, representing insurance brokers.
- C.J. Spivey, president of C.J. Spivey Associates Inc. in Charlotte, N.C. Mr. Spivey served for a second year on the panel representing risk management consultants.
- Bruce Zaccanti, a manager in Arthur Anderson L.L.P.'s National Risk Management/Claim Auditing Group in Chicago. Mr. Zaccanti previously was director of insurance and risk management for Jupiter Mechanical Industries Inc. in Wheeling, Ill., and a member of the 1995 Risk Management Honor Roll representing small companies.



"We are very honored and grateful to have judges of this stature select the 1996 Risk Manager of the Year and Risk Management Honor Roll recipients," said Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*.

"The judging process—analyzing the information contained in the nominating statements—is a substantial commitment of time to the risk management community and to the advancement of excellence in risk management," she continued.

The judges scored each of the candidates on 10 criteria (see box). The candidate with the highest score after the judging was completed was named Risk Manager of the Year. Then, the remaining nominees were separated by employment category:

- Corporations with sales exceeding $300 million.
- Corporations with sales of less than $300 million.
- Government entities.
- Tax-exempt or non-profit institutions.
- Financial institutions.
- Self-insurance funds and pools.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year was named to the Risk Management Honor Roll, subject to the judges' discretion.

A candidate need not handle risk management functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate may be nominated by anyone familiar with the candidate's work.

For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or other service supplier may nominate a client. And, a risk manager may nominate a colleague.

Nominations of risk managers based anywhere in the world are invited.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by an executive of the candidate's organization, who may be the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

All nominations will be kept in the strictest confidence, with only the honored candidates' names announced.

Business Insurance created the Risk Manager of the Year award in 1977, the magazine's 10th anniversary, to recognize outstanding achievement in the field.

The Risk Management Honor Roll was created in 1981 to recognize outstanding risk management achievement in different employment categories.

To request a nomination form, please contact Karen Tucker, Assistant to the Publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319; electronic mail: ktucker@crain.com. BI

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has joined the Firm as a Partner

Mr. Pearson, resident in our New York office, is an internationally recognized attorney who has specialized in the insurance and reinsurance business since 1977. His practice includes the representation of domestic and foreign clients in insurance corporate and regulatory matters throughout the United States, including insurance company formations, acquisitions, licensing and insolvency proceedings. In addition, Mr. Pearson is experienced in reinsurance arbitration, commutation and contract wordings. He is expert in surplus lines regulation and matters involving captive insurance companies and risk retention groups. He also has broad experience in agent and broker issues.

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Risk management nominees are judged on 10 criteria

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges score the candidates on a scale of one to 10 according to how well they:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. (How the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships). BI

Risk Managers of the Year

1. **Scott K. Lange**
   Director of Risk Management
   Microsoft Corp.
2. **Lucille A. Gallagher**
   Vp of Risk Management
   ConAgra Red Meat Cos.
   Monfort Inc.
3. **Richard C. Heydinger**
   Director of Risk Management
   Hallmark Cards Inc.
4. **Millicent W. Workman**
   Director of Corporate Risk Management
   Belz Enterprises
5. **Arnold L. Davenport**
   Vp, Risk Management
   Marriott Corp.
6. **Stephen M. Wilder**
   Director of Corporate Risk Management
   The Walt Disney Co.
7. **Jeffrey W. Pettegrew**
   Risk Manager and Chief Administrative Officer
   Contra Costa County Municipal Risk Management Insurance Authority
8. **William L. Mather**
   Administrator of Risk Management
   The Gillette Co.
9. **Edith F. Lichota**
   Senior Vp
   Irving Trust Co.
10. **Donald Nelson**
    Director of Risk Management
    ARA Services Inc.
11. **Harold C. Lang**
    Director of Insurance and Risk Management
    Leaseway Transportation Corp.
12. **Richard M. Inserra**
    Director of Insurance and Risk Management
    American Can Co.
13. **John A. O'Connell**
    Executive Director and Risk Manager
    Holy Cross Shared Services Inc.
14. **Eckart Russell**
    Risk and Insurance Manager
    Alcan Aluminium Ltd.
15. **Duane E. Allen**
    Assistant Treasurer
    Hanna Mining Co.
16. **Thomas V. Hallett**
    Risk Manager
    General Motors Corp.
17. **Edward L. Erickson**
    Director of Insurance
    American Broadcasting Cos. Inc.
18. **Howard T. Weber**
    Director of Insurance
    Minnesota Mining & Manufacturing Co.

GRAPHIC BY JOHN HALL

Risk Management Honor Rolls

1. **Lee D. Holland**
   Tennessee Municipal League Risk Management Pool
   Self-insurance pool
2. **Judith Payne**
   South Dakota
   Government Entity
3. **K.C. Kidder**
   Norwest Corp.
   Financial Institution
4. **Bruce Zaccanti**
   Jupiter Mechanical Industries Inc.
   Small Companies
5. **Sal M. Bianchi**
   Intergovernmental Risk Management Agency
   Self-Insurance Pool
6. **Ronald J. Guilfoile**
   City of St. Paul, Minn.
   Government Entity
7. **Judith Moses McDonald**
   Comerica Inc.
   Financial Institution
8. **Thomas J. Hickey**
   Malcolm Pirnie Inc.
   Small Corporation
9. **David G. Adler**
   The Portman Cos.
   Small Corporation
10. **June Dickinson**
    SunTrust Banks Inc.
    Financial Institution
11. **Thomas E. Bell Sr.**
    Middle Cities Risk Management Trust
    Self-Insurance Pool
12. **C. David White**
    State of Oregon
    Government Entity
13. **Marc Darby**
    Bombardier Inc.
    Large Corporation
14. **Jerry Newsom**
    State of Georgia
    Government Entity
15. **Judith Tornese**
    Transamerica Corp.
    Financial Institution
16. **Donald D. Batchelor**
    Union Planters Corp.
    Financial Institution
17. **Mary L. DeCampli-Stewart**
    Metropolitan Washington Airports Authority
    Government Entity
18. **Rod Umscheid**
    University of California
    Not-for-Profit Entity
19. **Josephine Goode Johnson**
    University of Maryland Medical Service System
    Self-Insured Fund
20. **Roger D. Oaks**
    Tennessee Farmers Cooperative
    Small Corporation
21. **M. Michael Zuckerman**
    Thomas Jefferson University
    Not-for-Profit Entity
22. **John A. Lindquist**
    Browning-Ferris Industries Inc.
    Large Corporation
23. **J. Douglas Higley**
    State of Louisiana
    Government Entity
24. **Gregory L. Daniels**
    American National Red Cross
    Not-for-Profit Entity
25. **Stephen A. Finley**
    City of Lakewood, Colo.
    Government Entity
26. **Timothy G. Galarnyk**
    Lunda Construction Co./ Phoenix Steel Inc.
    Small Corporation
27. **Edward G. Weiss**
    First of America Bank Corp.
    Financial Institution
28. **Susan M. Werner**
    Hardee's Food Systems Inc.
    Large Corporation
29. **Mark F. Wilson**
    First Mississippi Corp.
    Small Corporation
30. **Delmer Ison**
    Washington Metropolitan Area Transit Authority
    Government Entity
31. **William E. Rogers**
    Conemaugh Valley Memorial Hospital
    Not-for-Profit Entity
32. **Susan N. Weiner**
    Dade County Public Schools
    Government Entity
33. **Eva F. Goodrich**
    Cincinnati Electronics Corp.
    Small Corporation
34. **Sidney D. Blatt**
    Holloway Cos.
    Small Corporation
35. **Gene Snyder**
    State of Oregon
    Government Entity
36. **Jerri Nelson MacMillian**
    Aetna Life & Casualty Cos.
    Real Estate Investment Department
    Large Corporation
37. **Robert L. Sinclair**
    Metropolitan Government of Nashville and Davidson County
    Government Entity
38. **Spencer J. Traver**
    BF Goodrich Co.
    Runner-up
39. **Paul B. Harvey**
    Ponderosa Homes
    Small Corporation
40. **George N. Pierce**
    Orange County, Fla.
    Government Entity
41. **Gene M. Marsh**
    General Conference of Seventh-Day Adventists
    Not-for-Profit Entity
42. **Robert Bieber**
    Westchester County
    Government Entity
43. **William Ryan**
    University of Michigan
    Not-for-Profit Entity

GRAPHIC BY JOHN HALL

Forecast

Continued from page 2

sured damage (*BI*, Oct. 9).

If Mr. Gray's predictions prove accurate, it would make 1996's a rare above-average storm season following a very active one.

"Usually in a year that follows one of these very active seasons, we see less than average hurricane activity," said Mr. Gray.

But risk managers say that such predictions, although interesting, really should not have any great effect on how they do their jobs.

"Disaster planning is preparation and execution. The only thing (such predictions) should impact is if you have not done your preparation. Then it's like a wake up call," said Steve Sachs, risk manager for the Rouse Co., a real estate development company based in Columbia, Md.

Mr. Sachs noted that the Rouse Co. has a disaster plan that it reviews on a regular basis and changes when necessary. A catastrophe plan should be a "living document," he said."If a disaster plan has been collecting dust, the execution of it will be less than desired."

Robert W. Esenberg, risk manager for the city of Virginia Beach, Va., agreed. Virginia Beach, a coastal city with considerable exposure to hurricanes, has detailed plans for dealing with hurricanes and recovery from them, he said.

Hurricane forecasts can be a 'wake-up call' for those who have done nothing, say risk managers.

"In all reality, if we haven't done our jobs by now, having someone say 'well, we're either going to have a little more activity or a little less activity,' really doesn't do anything for us," he said.

As Mr. Sachs, he called forecasts a possible "wake-up call" for those who have done no preparation.

"You have to take Dr. Gray's work seriously. Just because the predicted activity may be less than in 1995, there is still the potential for significant losses that can be mitigated," said a spokesman for the insurer-backed Insurance Institute for Property Loss Reduction in Boston.

The Colorado State forecasters use five primary factors:

- The strength or weakness of El Nino. El Nino is a warm water pattern that forms off the coast of Peru. When El Nino occurs, Pacific water temperatures rise 1 to 2 degrees centigrade, which in turn causes winds to blow westward across to the Atlantic. The winds hamper hurricane development.
- The direction of stratospheric winds. Stratospheric winds occur at 68,000 to 75,000 feet above sea level. These winds typically blow east one year and west the next before repeating the pattern. Easterly stratospheric winds put a damper on hurricanes, westerly winds—while not promoting activity—do not.
- Rainfall in the Sahel region of West Africa. Wetter than normal weather in the Sahel can signal Atlantic hurricane activity. Dry conditions in the Sahel lead to winds that blow off the continent and cut the tops off storm systems that could develop into hurricanes.
- Surface temperature and pressure in West Africa. Determining the impact of these factors involves a complex formula comparing coastal conditions with those in the continent's interior. When pressure is lower and temperature is higher in the coastal region than it is in the interior, conditions promote southerly winds that help hurricanes form.
- Caribbean sea-level pressure readings and tropospheric winds at 40,000 feet. Tropospheric winds, which are influenced by Caribbean pressures, inhibit hurricane formation if they blow stronger than usual from the west and encourage such activity if they blow from the east.

Mr. Gray does not predict when, where and if hurricanes will make landfall, and revises his predictions as conditions change. For example, the researcher's original 1996 hurricane forecast, offered last November, called for eight tropical storms, five of which would develop into hurricanes. The researchers plan to issue new predictions on June 6 and Aug. 7.

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Colorado State distributes free copies of current and previous reports on the World Wide Web at http://tropical.atmos.colostate.edu/forecasts/index.html..



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INTERNATIONAL

Japan pressed to open up insurance market

By MICHAEL SCHACHNER

WASHINGTON—U.S. and Japanese trade negotiators have set a June 1 deadline for coming up with a substantive plan for increasing foreign insurers' access to Japan's $650 billion life and non-life markets.

A full year and half after the two countries signed a bilateral insurance trade agreement that called for Japan to significantly overhaul laws and regulations that have allowed Japanese insurers to enjoy a domestic underwriting monopoly, foreign insurers have still been unsuccessful in penetrating the Japanese life and property/casualty market.

But last week, negotiators for the U.S. Trade Representative's office succeeded in convincing the Japanese Ministry of Finance to delay for six weeks a law that went into effect April 1, which would have allowed Japanese life and non-life insurers to set up subsidiaries to enter into each other's domain as well as specialty markets, known as the Third Sector. The stay is designed to give the two sides time to address foreign insurers' role in deregulation of the country's life and non-life markets, commonly referred to as the First and Second Sectors.

The so-called Third Sector consists of specialized insurance products like cancer coverage, home health care and long-term disability. U.S. and other foreign companies do have a foothold in this niche market. Foreign insurers write about 36% of premiums in this area, though it accounts for only 3% to 5% of all premiums generated in Japan.

While two sets of recent talks between high- and mid-ranking officials with the U.S. Trade Representative's office and the Japanese MOF may not have produced the results that U.S. government and insurance industry officials had hoped for—an outline detailing how and when Japan will open up its $350 billion non-life market and $300 billion life insurance market—a USTR spokeswoman said the talks were "constructive."

Although "serious concerns" remain despite the June 1 deadline, the USTR spokeswoman said the talks in Washington on April 12 and 13 give "hope for a resolution of our disagreements."

U.S. insurers also are guarded in their hopes for improved access

See **Trade** *on page 139*



THE IMAGE BANK/GRANT V. FAINT

U.S. and Japanese officials will work toward a June 1 deadline to develop a substantive plan to open Japan's life and non-life markets.

Ruling may be setback for R&R

By SARAH GODDARD

LONDON—Problems continue to mount for Lloyd's of London as it nears D-Day for its recovery plan.

In a setback for the market the High Court last week allowed a test case on the legality of amendments that Lloyd's made to members' premium trust deeds to proceed to trial. Backed by some unusual allies—including a number of influential members action groups called the Litigating Names Committee—Lloyd's had asked the court to put the case on hold until after Lloyd's reconstruction and renewal plan is completed.

Vice-Chancellor Sir Richard Scott decided that a court ought to rule as soon as possible on the deed dispute. Litigation began Thursday and a final judgment is expected before the end of the month. An expedited appeal process also would allow appellate courts to fully consider the dispute before Lloyd's R&R plan is completed.

Lloyd's amended members' premium trust deeds early last year to permit the market to take any awards from lawsuits filed against the market and apply those funds against members' unpaid cash calls or Central Fund obligations (*BI*, Sept. 19, 1994).

On approving the amendment, Secretary of State for Trade and Industry Michael Heseltine made it conditional upon the changes being tested in court. The case that will ultimately test the legality of amendments involves a member named David Woodard, who was chosen mainly because he had borrowed money from a bank to pay his Lloyd's

See **Lloyd's** *on next page*

Council may face asbestos liability

By CAROLYN ALDRED

LONDON—Westminster City Council, a central London municipality, could face large asbestos liabilities after housing hundreds of homeless families in asbestos-riddled public housing tenement blocks.

The authority could be forced to pay out of its own funds any future compensation claims if insurers refuse to pay in full in light of a damning report on the city council's housing policy.

It was not yet clear whether the municipality would try to seek coverage from its insurance companies.

Current and former insurers have "reserved their positions" on claims, according to a written agenda obtained by *Business Insurance* of an April 4 council meeting held to discuss the matter.

An independent review was commissioned by the council in August 1994, after allegations by WECH Ltd., a housing association, that the council placed families in two housing estates "unfit for the purpose due to the presence of asbestos, between 1985 and 1990."

According to the report, published late last month, the Westminster City Council continued to house families in two tenement blocks throughout the 1980s while failing to ensure adequate control of asbestos in the structures.

"Despite the availability of the clearest advice and instructions to the contrary, those acting on behalf of a public body repeatedly took risks, for a variety of reasons, with the health of people," concluded the report's author, John Barratt, a solicitor and former chief executive of Cambridgeshire County Council.

"The extent to which asbestos was present in the (buildings) was very considerable. The steel framework was, throughout, protected from fire by sprayed amosite, and almost all of the floor covering and the partitioning consisted of asbestos-containing materials" Mr. Barratt said in the report.

In addition, "most services maintenance was impossible without disturbing asbestos materials," the report said.

Although council officers had been aware of the existence of asbestos materials in the housing since 1982, a health and safety management system to minimize asbestos risk was not established and occupants and workpeople were given inadequate advice on coping with asbestos dangers, according to the report.

After the condition of the apartments began to deteriorate and the city moved out many tenants, the council decided to use the estates to house homeless families in the district.

"Homeless families were rushed in" during 1989 to provide less costly accommodation and to defeat a bid by WECH Ltd. to acquire the blocks, according to the report.

WECH had wanted the city to pay for substantial repairs to the housing units, including the removal of asbestos materials.

The blocks were finally evacuated by November 1991.

Letters have been sent by the council to former tenants advising them that though "it can take between 20 and 40 years for the development of an asbestos-related illness," the risk of former tenants contracting such an illness is "very small indeed."

A telephone help line has been set up by the council to address tenants' questions about health

See **Asbestos** *on page 139*

Ruling may lead to more suits

By CAROLYN ALDRED

LONDON—An engineering firm's failure to win an appeal of a landmark asbestos judgment this month could lead to at least 20 more lawsuits.

In a judgment handed down by London's Appeal Court on April 2, Justices Russell, Saville and Otton dismissed T&N P.L.C.'s appeal, confirming that the company should have been aware of the dangers of asbestos prior to the 1930s.

The judgment last October was the first British ruling to award damages to victims of mesothelioma—an often cancerous lung tumor linked to asbestos inhalation—who lived in the vicinity of an asbestos factory (*BI*, Nov. 27, 1995).

Although T&N said it was not a test case, it was the first time compensation was awarded to claimants who suffered as a result of environmental rather than work-related exposures.

The two victims had lived in Armley, a suburb of Leeds in northern England, near a factory owned by a former subsidiary of Manchester-based T&N. The engineering company, formerly known as Turner & Newall Ltd., once was one of the world's largest asbestos manufacturers.

The appellate judges agreed with the plaintiffs' arguments that "prior to the turn of the century there was published material that exposure to asbestos dust could and did cause damage to the lungs of those exposed to it." As a result, T&N "acquired or should have acquired the requisite knowledge as to the potential danger of asbestos dust" long before the claimants' births, the judges said.

The appeal judges also agreed with trial judge Justice Holland that there is nothing in law to end T&N's duty of care at the factory wall.

With the appeal dismissed, more cases are expected to be filed, said a spokeswoman from the Sheffield offices of law firm Irwin Mitchell. The law firm's clients include dozens of mesothelioma plaintiffs, and the firm says 200 people already have died from mesothelioma in the Leeds area alone.

T&N said in a statement that "although there may be other claims in the future arising out of the Armley factory, it is unlikely that there will be many. The financial consequences of this decision, and any other such future cases, will be very limited."

The appellate judges also noted that the cases were not test cases.

"We confine our observations to the two cases which we are reviewing, recognizing that that was the approach of the trial judge and not seeking to pre-empt in any way other claims," they stressed.

In November 1994, T&N formed a £150 million fund ($238.4 million) to cover asbestos-related claims in the United Kingdom and United States. The company also has insurance, but would not provide coverage details.

Lloyd's trust benefits from Soros' confidence and investment

LONDON—Hedge fund manager George Soros has built up a shareholding in a second Lloyd's of London corporate investment vehicle.

Mr. Soros, a U.S.-based investor, has bought a stake of slightly less than 3% in London Insurance Market Investment Trust P.L.C., the largest trust in the Lloyd's insurance market.

Soros Fund Management's investment is estimated at £9 million ($13.6 million). The precise amount of shares held has not been disclosed, but it has to be below 3%, because U.K. law requires disclosure of any stake exceeding that amount.

Earlier this year, Soros Fund Management spent £3.5 million ($5.3 million) building up a 3.6% stake in another Lloyd's of London corporate investment vehicle, CLM Insurance Fund (*BI*, April 15).

LIMIT and CLM are the two largest capacity providers to Lloyd's.

LIMIT's underwriting capacity is about £600 million ($906 million), while CLM's is about £200 million ($302 million).

The Lloyd's market is viewing stakes in corporate investment vehicles by an investor of Mr. Soros' caliber as a sign of confidence in the reconstruction and renewal plan.

—By Edwin Unsworth

INTERNATIONAL

Lloyd's

Continued from previous page
losses.

Should the court overturn those amendments, it would reduce the funds available to Lloyd's to fund a settlement through the R&R plan.

"Badly hit names need cash from their litigation winnings, not debt credits," said Christopher Stockwell, chairman of the Lloyd's Names Assn.'s Working Party, who welcomed the ruling. "Likewise, names pursuing auditors and solicitors need to know they can keep the winnings of successful actions not lose them into the Lloyd's black hole."

Responding to the ruling, a Lloyd's spokesman said that a large majority of litigating names who "wish to work together to bring a satisfactory conclusion to reconstruction and renewal" had supported its request to delay the trial.

Lloyd's had argued to Sir Richard that if the case is allowed to proceed, it may have to revise its settlement offer to members. After the ruling, the spokesman said Lloyd's was "continuing to evaluate and refine (settlement) proposals in order to produce a settlement offer which will achieve a high level of acceptability to names."

Meanwhile, the High Court ruled in favor of another action group, which hopes the ruling will help it get a better deal in any Lloyd's settlement.

The Bromley 475 Names Action Group had claimed negligence in a suit filed against R.J. Bromley Underwriting Agencies P.L.C., the estate of the underwriter Roy Bromley and between 30 and 40 members agents who had placed names on the syndicate.

'There's no guarantee that reconstruction and renewal is going to go through,' says London attorney Andrew Quick.

In an April 16 ruling, Justice Gordon Langley found that there had been negligent underwriting on the 1989, 1990 and 1991 years of account, which led to total losses estimated at £75 million to £80 million ($113.3 million to $120.8 million).

Many of the issues relating to the case followed precedents set in other negligence suits against syndicates that wrote London market excess-of-loss business. Marine syndicate 475, which wrote LMX business, was hit by catastrophic losses including Hurricane Hugo, the 1990 European windstorms, the Phillips Petroleum Co. plant explosion in Pasadena, Texas, and the Exxon Valdez oil spill.

Justice Langley found that Mr. Bromley had failed to adequately estimate the probable maximum loss for the syndicate and also failed to purchase sufficient reinsurance to cover its exposure.

The action group did not ask the court to assess its damages in the case and is waiting until the R&R plan has reached its climax before deciding whether to apply for a further hearing to assess damages.

Those damages will be between £25 million and £30 million ($37.8 milllion and $45.3 million), estimated Andrew Quick, a partner in London law firm Frere Cholmeley Bischoff who represents the action group.

Alistair Buchanan, chairman of the Bromley 475 Names Action Group, said the group had pursued its case in the hope it would give its 800 members a better chance of receiving a satisfactory settlement offer.

Bromley action group names are currently in the "first division" of litigating names, Mr. Buchanan said, particularly after the U.K. Court of Appeal ruled that members who are "first past the post" in winning judgments will be first in line to collect awards (*BI*, May 22, 1995).

What's more, "there's no guarantee that R&R is going to go through," pointed out Mr. Quick.

But there is doubt that errors and omissions insurers will be liable for the full amount of any award because Mr. Bromley failed to notify agents of potential losses for two years. Mr. Bromley committed suicide in 1993. BI

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Sub-total	**30,164**
Associations	311
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Commercial Consumers

Sub-total	**31,356**
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Accountants, Actuaries, Attorneys & Consultants	3,586
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,858
Others Allied to the Field	1,091
Total Qualified	**53,589**
Non-qualified	7
TOTAL CIRCULATION	**53,596**

★ *Source Business/Occupational breakdown of qualified circulation. Novermber 27,1995 Issue, as submitted to BPA for December 1995 BPA Publisher's Statement*

Trade

Continued from page 137

to the second-largest insurance market in the world.

"They seem to have made some progress, which is the good news," said Gordon Cloney, president of the International Insurance Council in Washington. "But the bad news is there's still progress to be made. I don't want to be overly optimistic about things working themselves out. Sometimes it seems as though this whole agreement was negotiated on a different planet."

Under terms of the October 1994 insurance trade agreement, Japan promised to give foreign companies the same regulatory and market information as provided to domestic insurers. There was also supposed to be vigorous application of anti-monopoly laws, liberalized rate and form regulations and regular monitoring to ensure key tenets of the agreement were being followed.

But according to testimony provided before the U.S. House Ways and Means Subcommittee on Trade last month by Oakley Johnson, a vp with American International Group Inc. in New York, a variety of formal and informal barriers have denied foreign insurers an opportunity to provide a range of life and non-life products in Japan, including voluntary auto insurance.

Mr. Johnson declined to be interviewed, but in his March 28 testimony, he said that the 1994 trade agreement was "intended to set the stage to make possible an increase in the foreign insurance presence in Japan," which must be achieved by "liberalizing the primary areas of life and non-life, to allow foreign insurers to apply their established strengths of creativity and innovation to benefit the Japanese consumer. Only after the primary areas have been substantially liberalized for a reasonable period of at least three years may the Third Sector then be deregulated."

However, an April 1 implementation date for laws specifying how U.S. and other foreign insurers could enter into Japan's life and non-life market came and went without action. Instead, Japan's Ministry of Finance drafted a law allowing Japanese life and property/casualty insurers to gain more access to the Third Sector.

"It's really hard to speculate what will happen. An agreement was reached in 1994 and it's now 1996. The Japanese move at their own pace, and they always have. But liberalization needs to occur in the First and Second Sectors, not the Third. It's the life and non-life markets where real premiums lie," said Claude Gallelic, managing director with Willis Corroon International/Americas in New York.

At this point, all eyes are on the MOF and the USTR to resolve the issue. The insurance agreement was not high on the agenda of the meeting held last week in Tokyo between President Clinton and Japanese Prime Minister Ryutaro Hashimoto.

Regardless of what takes place, "We're some time away from a real open market. It won't happen overnight," according to Mr. Cloney of the IIC. BI

Asbestos

Continued from page 137

problems.

The review was discussed in a public meeting of the council's Special Housing Committee on April 4.

Meanwhile, the "insurance implications" were discussed in a closed session.

However, the meeting's agenda noted that the council's "chief executive has held a meeting with council's current and former insurers" and they have provisionally "reserved their positions."

A spokesman from the council said insurance arrangements are strictly confidential.

Westminster City Council this month changed insurers, moving its liability program to Zurich Municipal, a unit of Zurich Insurance Co. that writes coverage for municipalities.

Zurich Municipal refused to comment.

A spokesman for London-based Commercial Union P.L.C. confirmed that the council had not renewed its liability program with CU last month.

CU provided liability coverage for the council from April 1, 1991, to March 31, 1996, the spokesman said.

Currently, no legal precedent has been set in the United Kingdom for settlement of asbestos claims, and asbestos liability matters are considered on a case-by-case basis.

"As to whether we are prepared to deal with claims, (the question) is hypothetical. There are no claims at the moment, and we can be talking 20 to 30 years hence," he said.

"It is too early to make any final judgment, and any discussions which are taking place are confidential," he said.

The spokesman noted that the properties were evacuated several months after CU began insuring the council.

The claims manager for one of the council's other former insurers, Municipal Mutual Insurance Ltd., which is now in runoff, refused to comment. BI

Unkept promises

Under terms of the October 1994 insurance trade agreement, Japan pledged to:

- Give foreign companies the same access to market information as domestic insurers
- Vigorously apply anti-monopoly laws
- Liberalize rate and form regulations
- Ensure adherence to tenets of the agreement

GRAPHIC BY JOE DURICA

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Monitoring worksite changes to limit eye strain problems

By MEG FLETCHER

CHICAGO—Employers can reduce eyestrain problems by showing workers how to position their video display terminals properly and making sure that workers with vision problems get lenses suited for terminal use.

Studies done by the National Institute for Occupational Safety and Health have found that 88% of heavy computer users report high incidence of eyestrain, headaches, double vision and eye irritation, said Dr. Paul F. Bommarito, an occupational vision optometrist and certified industrial ergonomist in Cupertino, Calif.

Improper placement of monitors can be a big part of the problem. The latest research shows that most computer users position their monitors too high and too close for productivity and comfort, said Stewart B. Leavitt, a researcher and ergonomist who is director of Leavitt Medical Communications in Glenview, Ill.

Placing the top of the monitor at eye level, or slightly below, is often not best, though is it recommended by numerous guidelines, said Mr. Leavitt at the recent National Ergonomics Exposition and Conference.

Mr. Leavitt recommends that the monitor face be tilted away from the user and the top of the screen placed about 15 to 20 degrees below horizontal eye level, to allow a user to work with his or her head slightly tilted forward. In addition, the bottom of the screen should be roughly 45 degrees below horizontal.

"As the monitor height is lowered, the top of the monitor must also be appropriately tilted away from the user's face for both vision and physical comfort. The center of the screen should be perpendicular to the line of sight or tilted back slightly more," he said.

Though workers are often advised to place their monitors at arm's length (18 to 24 inches), 30 inches would actually provide more comfort, said Mr. Leavitt. However, allowances should be made for personal characteristics such as visual acuity, the dominant eye, and body size.

Glare on computer screens is another variable that can cause health problems for computer users.

To reduce glare from ceiling lights, experts generally recommend operators work in a softly lit room using smaller, individual lights to illuminate tasks. Another way to reduce glare is to use anti-glare screens that have been approved by the American Optometric Assn.

Papers that computer users refer to could be placed next to the monitor screen, inline with the screen or to the right of the screen. Experts say the best option will vary with the type of paper, the user and the frequency that a user refers to it. Special holders or three-ring binders may have to be used as props for inline placement.

Besides placing monitors correctly and reducing glare, employers should also pay attention to corrective lenses.

"Proper VDT prescription lenses can alleviate visual and physical symptoms among wearers and can therefore be of large benefit to people who work extensively with computers, especially those who are aging," said Dr. Bommarito, who is a consultant at the Lawrence Livermore National Laboratory in Livermore, Calif., which has a sophisticated eye care program for many of its 8,000 employees.

Eye problems tend to increase with aging—particularly between ages 45 and 55—as range of vision and focusing power declines, he said.

He helped establish a vision ergonomics program for laboratory employees, including some who have 4 or 5 pairs of different types of laboratory-provided glasses to protect them from hazards like lasers and radiation.

Employees in the program begin by filling out two forms, one authorizing them to receive special glasses. The other lists symptoms of any problems they have and measurements related to their workstations such as distance they sit from from the monitor and the typical size of print they use.

An optometrist should consider all those factors in prescribing eye glasses for computer use, Dr. Bommarito said.

In addition, the optometrists on the panel recommended that an eye examination include an analysis of how patients perform their jobs and encouraged the use of mock work station in the optometrists' offices.

A study at Livermore found that workers often need different type lenses for computer work than for everyday wear. In a recent study, the employees' general-use glasses were 63% bifocals, 23% single vision and 9% trifocals. However, the lenses prescribed for computer use were 84% single vision, 13% bifocal design—with intermediate on top and near vision below—and 3% wide band trifocals.

In a six-month follow up survey, employees reported that wearing appropriate glasses significantly reduced their discomfort, including double vision, burning eyes, blurred vision, itching eyes, tired eyes, headaches and backaches, said Dr. Bommarito.

However, 14% of employees said they were dissatisfied due to the weight of the glasses as well as blurred distance vision.

Other, less expensive alternatives to prescription glasses may help some computer users, including magnifying clip-ons that cover the top half of a pair of bifocals. BI

Steps to curb computer user injury

CHICAGO—Adjusting a work station so a computer user can perform comfortably should help prevent cumulative trauma disorders, an ergonomics consultant said.

That is why an employer needs a policy and program to ensure that employees who frequently operate computers have the proper training, equipment and accessories to keep their workstations in adjustment.

Without a proper "fit" between the two, frequent computer users may face discomfort, including persistent pain, soreness and tingling sensations in the fingers and hands. Those symptoms may indicate possible CTD symptoms that require medical evaluation, said Edward J. Zabinski, specialty service manager in the risk engineering division of Zurich Services Corp., a Zurich-American Insurance Group unit in Schaumburg, Ill.

Getting a proper fit, though, is easier said than done, according to Mr. Zabinski.

"Part of the problem is that people believe that all they have to do is purchase an ergonomic keyboard," he said during a recent presentation at the National Ergonomics Exposition & Conference in Chicago.

Proper use of a keyboard involves much more than that.

An operator should:

- Sit upright in an ergonomically appropriate chair with body joints at 90-degree angles, including ankles, knees, hips and elbows.
- Keep wrists straight and move the hand to the keys rather than stretch fingers to reach them. Avoid wrist rests when typing.
- Use only finger tips, not the pads of fingers, when typing. Keep fingernails short.
- Use a light touch.

A proper workstation setup is also important, he said. It is most important to adjust key equipment in the following order: chair, keyboard and mouse, monitor and other accessories.

The procedure should be:

- Adjust the chair by raising or lowering it so thighs are parallel to the floor. Check to make sure the back is supported. Forearms should be parallel to the keyboard, wrists straight and fingers curved.
- Adjust the keyboard by having the user sit in front of it. Keep the keyboard flat or angled slightly away from the user. Split keyboards—which are divided into roughly equal halfs—can be "very helpful" for proficient typists in certain situations.

Adjust the height of an articulating tray. Check for awkward postures.

- Adjust the mouse by placing it on a keyboard-height articulating tray. Wrap the cord around the keyboard cord. Adjust the sensitivity of the button so only a light touch is needed to operate it.
- Adjust the monitor by placing it directly in front of the user and at a distance of about 18-to-24 inches from the user's eyes. Screen height should be level with the user's eyes, or lower.
- Cut glare on the monitor screen by tilting the monitor down, adjusting window treatments to screen out light, repositioning the monitor or providing an anti-glare screen.

Computer users also should make a point of varying tasks and periodically stretching their hands and arms, Mr. Zabinski recommended.

Also, "I'm not an advocate of wrist wraps," or splints, he said. "It's a warning sign. Someone should look into that workstation (setup)."

The next National Ergonomics Exposition and Conference will be Oct. 16-18 at the Los Angeles Convention Center in Los Angeles. For more information, call 212-486-6186.

—By Meg Fletcher

At Baxter, furniture helped sell workers on ergonomics

By MEG FLETCHER

CHICAGO—Timing the introduction of a corporate ergonomics program to coincide with an office renovation can work well for both an employer and its employees.

Baxter Healthcare Corp.'s widespread purchase of ergonomically-designed workstations, desks and chairs made employees curious about how to use them properly, said Bonnie Ryszka, an occupational health nurse who works as a consultant at the pharmaceutical manufacturer in Deerfield, Ill.

Baxter channeled employees' enthusiasm into special training programs to help many of the 1,450 employees at that site learn how to use the new equipment properly during 1992-1993.

For example, a voluntary training program for employees featured a mock workstation and a variety of speakers who helped employees learn to work properly in it.

The program included representatives of the furniture manufacturers as well as people from Baxter's own wellness program, which includes a yoga instructor sensitive to the needs of heavy computer users.

Employees later said in a survey that the best part of the training program was having a vendor representative available to teach them how to properly sit in a workstation, she said.

Also, 20 employee volunteers received eight hours of additional training to become "ergonomics coordinators."

They helped triage some of the 80 requests for help Ms. Ryszksa received weekly, especially for evaluations to tailor a work station to an individual worker. The coordinators answered the easiest questions, leaving the hardest ones for her to handle with in-person visits.

Some coordinators also led exercise breaks to help frequent computer users stretch finger and hand muscles. The frequency and length of breaks varied among departments, with breaks being offered between one and three times daily for three to five minutes each, Ms. Ryszka said.

However, the coordinators program was disbanded after 18 months because of difficulties in getting workers to attend additional training sessions, she said.

Frequent computer users were not the only ones Baxter trained.

Supervisors also received special training to help them realize the importance of a good ergonomics program to the company.

They were informed of the company's new commitment to preventing cumulative trauma disorders, which included a written statement of corporate policy as well as detailed ergonomic guidelines. The company also established an Ergonomics Committee to discuss broader issues.

Baxter's commitment extended to the way it handled employees who reported cumulative trauma disorders, too.

Before the ergonomics program was put in place, Baxter had three cases of CTDs serious enough to be considered reportable to the Occupational Safety and Health Administration, she said. Those cases cost the company "a lot," including hundreds of lost workdays.

Baxter managers were forewarned that launching an ergonomics program would increase the number of such OSHA reportable incidents, Ms. Ryszka said.

Though the number of cases rose to seven, the cost per claim went down because the ailments were treated before they became serious.

The company's focus on reducing the severity of CTD ailments continues today.

"Our program is a process and we must constantly evaluate it," Ms. Ryszka said.

One of her latest concerns is workers who frequently use laptop computers in a variety of different settings, like meetings, where the furniture is not ergonomically appropriate.

"I really worry about those people," she said.

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State fund

Continued from page 1

merely a political maneuver designed to make the governor appear more conservative and therefore viable as a Republican vice presidential candidate. Gov. Wilson himself briefly sought the GOP presidential nomination, but failed to gain much support.

As part of initiative, the governor advocates cutting the size of government, improving services for taxpayers, cutting red tape, and rewarding merit in the state workforce.

"Privatizing the state fund will serve as a road map for trimming the tangled web of bureaucracy in Sacramento," Gov. Wilson said.

The state fund, which was created in 1914, is the state's No. 1 workers compensation insurer. Last year it wrote just over $1 billion in premiums, or 19% of the state total, according to its year-end financial statement.

The state will not spin off the state fund unless a feasibility study to be done by the state Department of Industrial Relations finds that doing so would be advantageous. That study is to be completed within six months.

Among the options to be studied, according to a DIR spokesman, are: an employee buyout, with employees assuming ownership through an employee stock ownership plan; converting the company into a mutual; or selling its book of business to private insurers.

While the governor acknowledges that privatizing the state fund may not provide any financial benefit to the state, "the state will be out of the work comp insurance business," the DIR spokesman said. Workers compensation insurance is better provided by the private sector because it is a manageable exposure, he said.

So far, the insurance community's response to the plan has been lukewarm.

"If Wilson's idea of privatization means a gradual shift to improve efficiency and effectiveness, we will support it," said SCIF Communications Manager Frank Floyd. "But if it means selling the fund, we simply could not endorse this effort."

A spokesman for Insurance Commissioner Chuck Quackenbush, who currently is pushing a state-run earthquake insurance pool, was equally ambivalent.

"Generally, the commissioner believes that anything the government can do, the private sector can do better," said Richard Wiebe, deputy commissioner. "But this is an issue that deserves close examination.

"We don't want to be like other states that create giant assigned risk plans that get out of control," he added.

"The question is, what do we get for it? What's in it for the people of the state of California?" asked Barry Carmody, president of the Assn. of California Insurance Cos. in Sacramento. "The way that I look at it right now, not a whole lot.

"Usually when privatization is discussed, we're talking about reducing the tax liability. But that's not the issue with the state fund, which is self-supporting and pays dividends to policyholders. The state fund is probably one of the finest in the nation."

Instead of gaining anything from the move, employers in the state would lose the market of last resort, and an assigned risk plan would need to be created to cover high-risk employers, pointed out Mark Webb, senior counsel with Richard Robinson & Associates Inc. in Sacramento. The firm represents the Coalition of Compensation Companies, which includes Great States Insurance Co., Pacific Rim Assurance Co., Insurance Co. of the West, Unicare Insurance Co., and Great States Insurance Co.

The cost of an assigned-risk plan for workers compensation insurance would most likely be borne by all employers in the state, since such plans are usually funded by a surcharge on policyholders.

Rather than privatize the state fund, the ACIC's Mr. Carmody suggested the governor consider privatizing other workers comp insurance services currently provided by the state using taxpayer dollars.

For example, the state could privatize the Uninsured Employers Fund, which uses general fund revenues to pay the claims of employees whose companies violated the law and didn't buy workers comp insurance, he said.

Or the state could farm out the disability evaluation process, which is currently handled by the Department of Industrial Relations, Mr. Carmody said. Because of the volume of claims in the nation's most populous state, the DIR has a huge backlog of disability evaluations, holding up benefits for injured workers and prolonging litigation for employers and insurers.



GRAPHIC BY TONY BUCCINI

Other industry observers expressed concern that a private state fund, if spun off in its entirety, would dominate the market and eliminate competition.

"Given its capital and surplus, it could turn out to be the most competitive insurer in the state," said Mr. Webb.

Many employers were dubious of the Wilson proposal.

"We're concerned about the effect it will have on small employers, most of which are insured by the state fund," said Chuck Bader, executive director of Californians for Compensation Reform, an employer coalition based in Sacramento.

"We're concerned about the long-term effect on availability and affordability of workers compensation insurance," he said.

However, at least one employer and a major insurance industry group support Gov. Wilson's proposal.

"In general, I'm all for privatization," said Steven Kelen, president of California Webbing Industries Inc. in Los Angeles. "Whatever is provided by the state will be better provided by private industry.

California Webbing is a former state fund policyholder that changed insurers after resolving a dispute over the fund's alleged over-reserving practices. It has 160 employees.

But Mr. Kelen acknowledged that "there will be some remaining employers who should somehow be taken care of," and suggested the creation of an assigned risk pool modeled after California's FAIR plan for property risks.

The Alliance of American Insurers so far is the only insurance industry group to embrace Gov. Wilson's proposal.

"Any time private industry has to compete for customers against a government agency that enjoys tax breaks, it's an unlevel playing field," said Peter Gorman, associate vp and regional manager for the trade group in San Francisco."Anytime a state fund like SCIF enjoys a market share almost three times the nearest private competitor, privatization should at least be discussed.

"What is not clear at this time is whether the governor is proposing selling the entire state fund book to one company or selling it off in blocks. We would support breaking it up to avoid a similar concentration of market shares in one company."

Also unclear is whether the state fund would retain its original residual-market function, or would be liquidated entirely and replaced with a private residual-market pool.

"The Alliance believes there is a proper role for a competitive state fund enjoying state and federal tax advantages to offset higher residual-market losses. It should not, however, compete with the private market for business," Mr. Gorman said.

The trade group has lobbied for the privatization of state funds in Oregon and Nevada, according to Mr. Gorman.

However, California's state fund is not like those in other states that are being privatized as a bailout, other industry observers point out.

The state fund has about 250,000 policyholders, or one of every two California employers. Some 230,000 of those employers pay less than $10,000 a year in premiums. Such small accounts cost much more, as a percentage of premium, to manage than do large accounts. But because the state fund insures so many employers, it achieves economies of scale, Mr. Floyd said.

Furthermore, the state fund is a non-profit entity whose objective is to just break even, not to pay profits to shareholders.

Instead, the state fund refunded $327 million, 30% of 1995 earned premium, to policyholders in the form of dividends. Its total assets amounted to $7.2 billion anf its policyholder surplus stood at $1.6 billion at year end.

Some industry observers also fear that the state would risk losing its most objective source of occupational injury claims data by transforming the state fund into a private entity.

Lawmakers often consult the state fund's directors on workers compensation issues because it is quasi-governmental. The state fund also provides a solid statistical base for data collection for work comp insurers overall.

And because the organization is non-profit and its expenses are fairly low, its rates often serve as a benchmark for other comp insurers in the state.

But "if we become a private insurance company, we would not be free to share the information we collect because of possible antitrust law violations," Mr. Floyd noted. BI

Updates

Theater chain settles ADA suit

SAN FRANCISCO—A groundbreaking settlement between Denver-based cinema chain United Artists Theatre Circuit Inc. and a group of disabled California moviegoers is proof that companies can amicably avert trials in suits brought under the Americans with Disabilities Act, the theater chain's attorney says.

The chain, one of the country's biggest, with more than 2,000 screens, was sued in 1991 by a group of disabled people who said they did not have sufficient access to theaters.

The settlement, which was mediated by the U.S. Justice Department after implementation of the ADA in 1992 was submitted for approval this month to a U.S. District Court in San Francisco. It requires the movie chain to modify its theaters over the next six years to allow those in wheelchairs to be integrated with the main part of the audience, instead of being separated by a wall.

"This case is very good for us," said Gene Hardy, executive vp and general counsel of United Artists. Spelling out what changes must be made and by what timetable will prove invaluable for his company, he said. He would not say how much the changes will cost United Artists.

The company will pay nearly $71,000 to the 12 original plaintiffs and will pay $429,000 to a fund for disabled people who say their rights were denied by United Artists since 1982.

Illinois to intervene on Lloyd's

CHICAGO—Illinois Insurance Director Mark Boozell plans to join several insurance regulators fighting attempts by the California securities regulators to freeze the U.S. assets of Lloyd's of London.

He plans to intervene soon in U.S. District Court in Los Angeles to support a legal action filed by California Commissioner Chuck Quackenbush, who is seeking to assert authority over California securities regulators (*BI*, April 1).

The Illinois department probably will file an amicus brief, said Robert N. Enoex, the department's chief legal counsel.

Mr. Boozell said he plans to emphasize his role as a rehabilitator/liquidator, since the loss of credit for reinsurance from Lloyd's would have "an immediate and substantial effect" on 10 Illinois companies that rely on Lloyd's reinsurance for 10% or more of their surplus. If Lloyd's trust fund were frozen, at least two of the 10 insurers "would be rendered statutorily impaired or insolvent," he said. Also, Mr. Boozell is liquidating six insolvent insurers that have substantial reinsurance with Lloyd's, including one that is owed $5 million to $6 million.

The National Assn. of Insurance Commissioners and insurance commissioners in New York and Louisiana already have expressed their support for Mr. Quackenbush's actions.

In 1995, Lloyd's syndicates wrote more than $80 million of direct premiums in Illinois—including nearly $7 million in surplus lines—as well as reinsurance for 67 Illinois-domiciled insurers.

Orange County near agreement

SANTA ANA, Calif.—An apparent settlement with a group of 14 California government entities should pave the way for final approval of Orange County's bankruptcy recovery plan.

The 14 local government units had sued the county and its financial advisers separately from the remainder of the about 200 local government units that suffered investment losses when an Orange County-run investment pool collapsed in 1994 (*BI*, Dec. 12, 1994).

The California governmental entities had $7.5 billion in the Orange County Investment Pool when a highly leveraged investment strategy resulted in nearly $2 billion in losses, forcing the county to declare bankruptcy in December 1994. Last year, the larger group of pool participants agreed to a settlement under which they gave up their rights to sue the county in exchange for a package representing about 89% of their original investments in cash and IOUs.

Under the terms of the more recent agreement, the remaining 14 entities, which have already received 77% of their original investments, would receive an additional $24.5 million in cash, IOUs and shares of any proceeds from litigation Orange County has brought against Merrill Lynch & Co. and others who advised the county and sold it the risky investments at the heart of the pool's collapse. The $24.5 million is about 13% of the group's original investment, bringing them to about the same level the other pool participants have recovered so far. In exchange, the 14 government units would drop their suits against Orange County, though they would retain rights to future litigation.

A U.S. Bankruptcy Court judge in Santa Ana, Calif., is expected to consider giving final approval to Orange County's recovery plan May 15. That plan also provides for the county's sale of more than $700 million in bonds to pay off creditors.

Briefly noted

The California state assembly last week passed a bill to enact the **California Earthquake Authority**, and Assembly and Senate bills are expected to go to conference committee shortly. Delays in enacting the legislation have cost the CEA $300 million of its original $1.8 billion in reinsurance commitments, but the remaining reinsurers have granted a 30-day extension of their commitments to April 30 (*BI*, Jan. 22). . . .The House Workforce Protections Subcommittee approved H.R. 3234, the **Small Business OSHA Relief Act**, last week over Democratic protests (*BI*, April 15). The bill, sponsored by Rep. Cass Ballenger, R-N.C., is designed to codify certain reform initiatives already undertaken by the Occupational Safety and Health Administration, including an end to citation quotas by inspectors. . . .New York-based financial guarantee reinsurer **Enhance Financial Services Group Inc.** said it completed a public offering of 2.2 million common shares for gross proceeds of $56.2 million. . . .**Gregory W. Springer**, former senior vp and director of commercial insurance at TIG Insurance Co., is now a senior vp for Aon Risk Resources Inc. and will oversee operations in Bermuda.

Washington

Continued from page 1

requires health insurers, at renewal, to offer coverage for treatment by acupuncturists, massage therapists, midwives, naturopathic physicians and any other state-licensed health care professional.

"The whole thing happened so fast that everybody was taken by surprise on it because when the health care legislation was repealed everybody was assuming everything was going to get repealed, and unfortunately that has not been the case," said Ivan Starke, benefits manager for Associated Grocers Inc. in Seattle.

The benefit mandate does not apply to self-insured plans under the Employee Retirement Income Security Act. However, participants in self-insured plans will likely pressure their employers to offer similarly expanded benefits, argue Mr. Starke and other benefit managers.

Associated Grocers operates a self-insured trust providing health and welfare benefits for about 9,000 lives, including about 3,700 employees working for 150 member grocers.

Employees and their spouses are reading about the mandated coverage of alternative providers and hearing of it from their neighbors. Before long, he predicts, the trust's members and their employees also will want coverage of alternative providers.

"We have been getting a lot of pressure along those lines," Mr. Starke said. "Our administration offices probably get one or two calls a day, saying, 'I hear. I read. Do you cover? How come I can't get it yet?' "

Employers support choice of provider and they know there is demand for alternative care, said Dorothy Graham, president of the statewide Healthcare Purchasers Assn., which represents midsize and large employers. She also is director of human resources for Puget Sound Power & Light Co. in Bellevue, Wash.

"However, affordability is key," she added. "If you have mandated benefits, it's very difficult to focus on affordability. Adding mandated benefits drives up costs and limits the people that have access to the core coverage they need."

Other employers said they are awaiting the outcome of the insurers' lawsuit. The suit was filed in January in response to a bulletin issued by Commissioner Senn that insurers argue exceeds the law's intent.

The dispute is over which health care services—and, to some extent, which providers—insured plans must pay for, said Margaret Lane, manager of public policy and compliance for King County Medical Blue Shield in Seattle.

Health insurers argue that the law is supposed to apply only to Washington's Basic Health Plan, a mandated package of benefits offered by private insurers under state contract.

The commissioner, though, contends in her bulletin that it applies to all insured health plans. Under her interpretation, if a condition covered under the Basic Health Plan, such as substance abuse, can be treated by an acupuncturist or alternative provider, then insurers must cover bills submitted by those providers, even if the specific acupuncture technique is excluded under a private plan, Ms. Lane said.

Insurers disagree with that interpretation.

"We are in the process of adding naturopaths, acupuncturists, licensed massage practitioners and nutritionists," Ms. Lane said. "But we do support the belief by some plans that if a provider is not providing a Basic Health Plan service, you may exclude them."

The insurers also oppose allowing alternative providers to automatically act as primary care physicians.

Earlier this month, a Thurston County Superior Court judge ruled that the health insurers suing the commissioner should have sought an administrative remedy from the commissioner's office before taking court action. The judge did not rule on the substance of the legal argument.

The insurers are considering their next step. Meanwhile, the insurance commissioner has scheduled an investigative hearing May 6 to help clarify the law's implementation. One of insurers' complaints is that there has been an absence of implementation guidance.

The law will create an awkward logistical problem, predicted Robert Moe, senior benefits analyst for Redmond, Wash.-based Physio-Control Corp. Neither Physio-Control nor its health insurer, MetraHealth, has received guidance from the commissioner on how to integrate alternative providers into their health networks.

"They are not in the networks currently and incorporating them into the networks requires rewriting all the directories, communicating to everybody how those providers are now part of the network and whether or not you still need to integrate your primary care physician," he added. "There are a lot of questions about how you get from A to B. It might make sense down the road, but logistically it's just not there right now."

Mr. Moe said he agrees with insurers that the law was meant to apply only to the state's Basic Health Plan. "If the state wants to include them in the Basic Plan, then that is their choice. But our position here is that that would be a difficult thing to get cost management on."

"Nobody knows what the impact will be," added Associated Grocers' Mr. Starke. "We just have no idea what the monetary impact of opening it up to naturopaths will be. And I don't think anybody does, either. We're a little leery of saying 'Go ahead.' What does that do for our rates?"

Ms. Senn argues that Washington state consumers want alternative treatment and insurers are avoiding paying for the health care even though there is broad public support for the law.

As for guidance, Ms. Senn's office says it has sent letters to insurers and held two provider workshops, inviting insurers to attend. The commissioner's office said staffers are working with any insurer that asks for technical assistance.

While the department could not provide data on claims and costs associated with alternative providers, it says their treatments are generally less expensive than conventional medicine.

"It seems there was an expectation when the legislators passed this law that the adjustment to it would probably involve some short-term increases in terms of experience, in terms of costs," an Insurance Department spokesman said. "But, long-term, the outlook is that this will actually lower costs. You are talking of treatments which are far less expensive than the alternatives on the traditional treatment side."

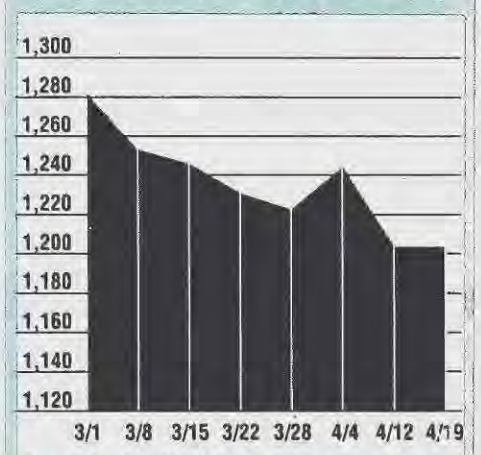
But Ms. Lane pointed to studies indicating that while single treatments by alternative practitioners may cost less, utilization and the number of repeat visits is higher for them than under traditional doctors.

Despite their disagreement with Ms. Senn, insurers say they want to comply with the law and are taking steps to add alternative providers to their plans.

But just how they will reimburse the practitioners and how they will apply cost containment techniques and credential standards is still being determined. The insurers say they are having to make the changes without the benefit of scientific data like outcomes studies.

"How the reimbursement is going to work is indeed a question," said the Group Health Cooperative spokesman. "(Alternative providers) have never dealt with insurers before. This is obviously going to be a challenge for Group Health and everyone else." BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of April 19

Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern September 1996		**Texas June 1996**	
40/60	5.3/5.8	10/20	.9/1.4
50/70	4.0/5.5	5/15	1.5/2.9
80/100	2.5/4.0		
Southeast Sept. 1996		**California Annual**	
40/60	4/4.5	40/60	1.7/4.5

Total volume: 20 Total open interest: 2,692

For information on PCS cat options, call 312-435-3674

Source: Chicago Board of Trade

British Issues

April 18 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	576	11.1	35.3	6.1	587—576
Genl Accident	645	9.7	38.8	6.0	656—638
Gdn Royal Exch	238	8.8	11.3	4.7	238—233
Independent	498	9.3	14.1	2.8	498—496
Royal	359	6.7	20.0	5.6	362—359
Sun Alliance	358	8.1	21.6	6.0	364—358
Brokers					
Bradstock	72	12.0	7.1	9.9	72—72
Fenchurch	106	7.1	10.6	10.0	107—106
CE Heath	95	21.1*	6.3*	6.6	95—90
JIB Group	115	11.4	9.4	8.2	115—107
Lloyd Thmpson	169	10.4	11.3	6.7	171—169
Lowndes Lmbrt	146	7.9*	11.0*	7.5	147—146
Nelson Hurst	196	12.0	9.8	5.0	196—196
Sedgwick Grp	142	11.1	8.1	5.7	142—140
Steel Brl Jones	41	5.3	5.6	13.7	42—41
Willis Corroon	155	14.0	8.3	5.3	158—155

Source: Philip Olsen, London * Estimated. Others actual.

BI Industry Stock Report JAN. 22, 1996, THROUGH JAN. 26, 1996

BROKERS		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	31.5	1.20	5.88	33.13	23.50	6	0.8	2.54	19	14.00	2.25
Alexander & Alexander	NYS	19.375	1.31	1.97	26.44	17.88	231	0.1	0.52	13	19.17	1.01
E.W. Blanch Holdings Inc.	NYS	20.5	1.23	-12.30	25.50	16.50	28	0.4	1.95	15	4.93	4.16
Gallagher Arthur J. & Co.	NYS	35.125	-1.40	-5.70	39.50	32.50	73	1.16	3.30	13	6.48	5.42
Hilb, Rogal & Hamilton	NYS	13.25	0.95	-0.93	14.38	11.00	106	0.6	4.53	15	1.21	10.95
Kaye Group Inc.	NDQ	7	-6.67	-12.50	10.75	6.75	3	0.1	1.43	9	NA	NA
Marsh & McLennan	NYS	91.5	-0.14	3.10	101.63	76.13	566	3.2	3.50	17	19.95	4.59
Poe & Brown	NDQ	23.5	3.30	-5.53	25.50	22.25	243	0.48	2.04	14	5.15	4.56
BROKERS	AVERAGE		0.0	-3.3					2.8	17		
INSURERS/REINSURERS												
ACE Ltd.	NYS	43.5	-2.79	9.43	50.38	24.38	692	0	0.00	-	22.45	1.94
Acceptance Insurance Cos.	NYS	15.75	5.88	5.88	17.50	13.13	459	0	0.00	56	10.76	1.46
AEGON N.V.	NYS	48.625	-0.77	10.51	49.50	30.13	86	1.23	2.53	15	17.28	2.81
Aetna Life & Casualty	NYS	70	-3.11	1.08	78.75	54.00	2899	2.76	3.94	32	48.85	1.43
AFLAC Inc.	NYS	30.5	-0.81	5.17	33.13	24.38	1676	0.4	1.31	13	17.58	1.73
Allied Group Inc.	NDQ	37.875	-1.62	5.21	44.25	27.25	177	0.88	2.32	8	21.81	1.74
Allmerica Prop. & Casualty	NYS	26.5	-0.47	-1.85	27.25	18.50	144	0.16	0.60	12	19.87	1.33
Allstate Corp.	NYS	41.625	4.39	1.22	46.00	28.13	3691	0.85	2.04	10	18.75	2.22
American Financial Group	NYS	30.5	0.41	-0.41	34.50	24.38	566	1	3.28	8	24.94	1.22
American General	NYS	35.125	4.07	0.72	39.13	31.00	1875	1.3	3.70	13	17.03	2.06
American Heritage Life Ins.	NYS	22.25	6.59	-2.73	23.88	17.75	17	0.72	3.24	11	12.51	1.78
American Indemnity/Fin'l	NDQ	11	5.39	10.00	13.25	9.00	25	0.3	2.73	-4	15.92	0.69
American International	NYS	92.375	-0.40	-0.14	103.38	67.38	2812	0.34	0.37	17	34.66	2.67
American Re Corp.	NYS	40.875	2.19	0.00	45.00	34.00	231	0.32	0.78	-22	16.77	2.44
Aon Corp.	NYS	54.75	4.78	9.77	55.38	35.63	777	1.44	2.63	16	18.30	2.99
Argonaut Group	NDQ	32.75	3.15	0.77	35.00	28.88	29	1.32	4.03	11	29.91	1.09
AVEMCO Corp.	NYS	15.5	0.00	-3.13	18.00	14.63	48	0.48	3.10	17	6.28	2.47
Baldwin & Lyons Inc.	NDQ	14.75	0.85	-9.23	18.00	14.25	15	0.32	2.17	7	13.90	1.06
Berkley W.R. Corp.	NDQ	42.25	-2.31	-21.40	55.50	35.00	1113	0.52	1.23	15	34.46	1.23
Berkshire Hathaway Inc.	NYS	33300	0.60	3.74	38000.00	21500.00	0	0	0.00	55	10089.11	3.30
Capital RE Corporation	NYS	35	0.00	13.82	37.25	22.63	86	0.24	0.69	11	27.82	1.26
Capsure Holdings Corp.	NYS	16.375	2.34	-7.09	18.13	12.88	70	0	0.00	12	14.61	1.12
Chubb Corp.	NYS	92.25	0.96	-4.65	104.38	57.00	763	2.16	2.34	12	48.92	1.89
CIGNA Corp.	NYS'	104	-0.24	0.73	125.50	68.25	1158	3.2	3.08	36	80.46	1.29
CNA Financial Corp.	NYS	97.625	-5.10	-13.99	123.25	74.00	289	0	0.00	8	71.13	1.37
EMC Insurance Group Inc.	NDQ	14	3.70	1.82	15.25	9.75	19	0.56	4.00	9	11.13	1.26
Everest Reinsurance	NYS	22.375	-2.72	-4.28	25.13	18.50	1057	0.12	0.54	-	NA	NA
EXEL Ltd.	NYS	70.5	0.00	15.81	72.25	45.13	338	0.4	0.57	-	31.47	2.24
Fremont General Corp.	NYS	22.375	-0.56	-8.67	26.25	13.88	552	0.6	2.68	9	19.04	1.18
Frontier Insurance Group	NYS	31.375	-3.09	-1.95	33.75	23.50	41	0.48	1.53	13	14.65	2.14
Gainsco Inc.	ASE	11.625	1.09	2.20	12.38	8.31	94	0.05	0.43	14	3.98	2.92
General RE Corp.	NYS	144.25	0.79	-6.94	158.25	125.38	882	2.04	1.41	15	59.35	2.43
Guaranty National Corp.	NYS	15.625	0.81	1.63	19.00	13.38	59	0.5	3.20	23	11.60	1.35
Harleysville Group	NDQ	27.75	-2.63	-14.29	33.00	23.75	55	0.76	2.74	9	20.72	1.34
Hartford Steam Boiler	NYS	48	0.26	-4.00	52.50	42.50	123	2.28	4.75	15	14.68	3.27
HCC Insurance Holdings	NYS	55	-2.65	48.65	58.50	21.75	130	0	0.00	26	15.86	3.47
ITT Hartford Group	NYS	48	3.23	-0.78	53.75	44.50	2237	1.6	3.33	10	45.46	1.06
Lincoln National	NYS	49	0.51	-8.84	57.00	39.75	354	1.84	3.76	11	28.90	1.70
Markel Corp.	NDQ	83.5	5.03	10.60	91.00	49.50	13	0	0.00	14	25.71	3.25
Meadowbrook Insur. Group	NYS	30.5	-1.21	-8.96	33.88	24.00	37	0.08	0.26	22	NA	NA
Mid Ocean Ltd.	NDQ	36.25	-3.33	-2.36	43.00	27.75	417	0.25	0.69	-	22.18	1.63
Mutual Risk Mgmt. Ltd.	NYS	39.375	0.32	-13.93	46.50	29.88	72	0.4	1.02	18	9.72	4.05
NAC Re Corp.	NYS	30	3.45	-16.67	39.00	28.50	515	0.2	0.67	9	18.23	1.65
National Re Corp.	NYS	35.625	5.56	-6.25	38.13	28.38	86	0.2	0.56	12	17.05	2.09
Navigators Group	NDQ	19.5	5.41	10.64	20.25	12.75	21	0	0.00	13	10.21	1.91
Nobel Insurance Ltd.	NDQ	11.375	1.11	0.00	12.75	9.25	15	0.2	1.76	11	6.84	1.66
Ohio Casualty Corp.	NDQ	35.25	0.00	-9.03	40.00	29.00	157	1.6	4.54	13	23.64	1.49
Old Republic Int'l	NYS	31.5	-3.08	-11.27	36.50	24.50	381	0.52	1.65	9	25.79	1.22
Orion Capital Corp.	NYS	44	0.57	1.44	47.75	34.88	67	1	2.27	9	26.00	1.69
Partner Re Ltd.	NDQ	29.625	-1.25	7.73	31.75	22.25	600	0	0.00	-	20.37	1.45
Penn-America Group Inc.	NDQ	13.25	1.44	-7.02	15.50	7.00	34	0.16	1.21	10	6.40	2.07
Philadelphia Cons. Holding	NDQ	21.25	-3.41	30.77	22.50	12.25	21	0	0.00	15	11.58	1.84
PXRE Corp.	NDQ	25.25	-1.94	-4.72	29.75	21.00	191	0.72	2.85	5	21.27	1.19
Reliance Group Holdings	NYS	7.75	3.33	-10.14	9.25	5.25	782	0.32	4.13	10	3.42	2.27
Reliastar Financial Corp.	NYS	43.25	-2.54	-2.54	51.63	34.50	310	1.12	2.59	10	24.53	1.76
RenaissanceRe Holdings Ltd.	NDQ	27.75	0.00	-8.64	33.13	20.72	163	0	0.00	-	NA	NA
Risk Capital Holdings	NDQ	19.75	0.00	-15.51	23.38	19.63	43	0	0.00	329	NA	NA
RLI Corp.	NYS	24.125	-0.52	-3.50	25.88	19.00	10	0.52	2.16	24	20.51	1.18
St. Paul Companies	NYS	53.875	0.23	-3.15	60.50	46.13	642	1.76	3.27	9	32.46	1.66
SAFECO Corp.	NDQ	32.75	-0.57	-5.07	39.75	27.63	1478	1.06	3.24	10	44.95	0.73
Seibels Bruce Group	NDQ	2.9375	-4.08	95.83	4.25	0.44	157	0	0.00	42	0.04	73.44
Selective Ins. Group	NDQ	32.375	-2.26	-8.80	38.75	28.25	140	1.12	3.46	9	23.23	1.39
Sphere Drake Holdings	NYS	10.125	0.00	-27.68	19.13	9.75	9	0	0.00	-	13.86	0.73
TIG Holdings	NYS	30	-0.41	5.26	34.25	21.88	480	0.2	0.67	16	16.62	1.81
Titan Holdings, Inc.	NYS	13.625	0.93	-5.22	15.75	10.25	19	0.3	2.20	10	9.04	1.51
Tokio Marine & Fire	NDQ	65.375	0.58	-0.95	69.25	50.88	37	0.32	0.49	23	57.72	1.13
Torchmark Corp.	NYS	42.5	2.41	-6.08	49.88	36.75	568	1.16	2.73	21	17.37	2.45
Transatlantic Holdings	NYS	67.75	2.46	-7.67	75.25	61.38	184	0.48	0.71	12	33.30	2.03
Transnational Re Corp.	NDQ	21.75	-2.79	-11.22	27.25	19.63	59	0.2	0.92	6	18.84	1.15
Travelers Corp.	NYS	61.125	0.20	-2.40	70.50	38.75	3592	0.9	1.47	10	24.77	2.47
Trenwick Group Inc.	NDQ	51.5	0.00	-8.44	57.50	41.75	6	1.24	2.41	12	29.23	1.76
United Fire & Casualty	NDQ	31	3.33	10.71	37.25	18.25	6	0	0.00	12	28.96	1.07
Unitrin	NDQ	46.75	-0.53	-2.60	51.75	44.50	225	2.2	4.71	13	37.51	1.25
UNUM Corp.	NYS	61	2.52	10.91	63.00	39.88	633	1.1	1.80	16	26.45	2.31
US Facilities Corp.	NDQ	19	-5.00	-11.11	23.38	13.13	178	0.24	1.26	8	14.20	1.34
USF&G Corp.	NYS	15.625	1.63	-7.41	19.50	13.88	1366	0.2	1.28	10	10.86	1.44
USLIFE Corp.	NYS	28.75	1.32	-3.77	33.25	24.75	294	0.93	3.23	9	38.45	0.75
Washington National	NYS	26.125	-0.48	-5.43	30.50	18.00	44	1.08	4.13	10	25.13	1.04
Zenith National Ins.	NYS	24.375	-0.51	14.04	24.88	20.00	21	1	4.10	68	16.35	1.49
Zurich Reinsurance Centr.	NYS	31.125	-1.58	2.47	32.63	27.88	76	0	0.00	36	21.64	1.44
INSURERS/REINSURERS	AVERAGE		0.3	0.0					1.9	18.4		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	30.0625	-3.99	5.48	34.25	19.50	749	0	0.00	376	28.15	1.07
Humana Inc.	NYS	24.375	1.56	-10.96	28.88	17.00	1496	0	0.00	21	6.56	3.72
Oxford Health Plans	NDQ	46.5	0.54	25.89	47.50	19.25	2550	0	0.00	65	6.56	7.09
Pacificare Health Sys.	NDQ	76.5	-0.65	-12.07	98.75	44.50	100	0	0.00	20	15.02	5.09
Safeguard Health Enter.	NDQ	18	0.00	54.84	18.63	9.00	154	0	0.00	35	6.15	2.93
Sierra Health Services	NYS	32.625	3.16	2.76	36.00	22.13	119	0	0.00	27	9.22	3.54
United Healthcare Corp.	NYS	60	-1.03	-8.22	69.00	34.13	3964	0.03	0.05	38	16.17	3.71
U.S. Healthcare	NDQ	51.625	-0.48	11.02	54.25	26.50	7370	0.1	2.13	21	5.66	9.12
Wellpoint Health Networks	NYS	33.5	1.13	4.28	36.00	27.38	176	0	0.00	19	14.26	2.35
HMOs	AVERAGE		0.0	8.1					0.2	69		
ALL COMPANIES	AVERAGE		0.1	1.6					2.1	27		

Top advancing issues: American Heritage Life Ins., Acceptance Insurance Cos., National Re Corp. Leading decliners: Kaye Group Inc., CNA Financial Corp., US Facilities Corp. Most active issue: U.S. Healthcare. The BI Index rose 0.03%; the Dow Jones 30 Industrials rose 0.05%; the S&P 500 increased 1.3% and the NYSE Composite gained 1.2%. Book values are updated annually by Nordby International Inc.

System design: Nordby International Inc.

MSAs

Continued from page 2

mately could sink the bill or trigger a presidential veto.

Including MSAs "clearly would have teed the bill to be vetoed by President Clinton," said Stuart J. Brahs, vp-federal government relations in the Washington office of The Principal Financial Group.

President Clinton argues that the accounts would appeal primarily to the healthy and well-off, leaving others to bear higher costs in traditional health plans.

But Sen. Kassebaum did not keep all amendments out of the bill. On a voice vote, the Senate accepted an amendment by Sen. Pete Domenici, R-N.M., to require group health plans to provide the same coverage for mental health and substance abuse as for other conditions.

Such a requirement could significantly increase employers' costs, said Ken Sperling, a consultant with Hewitt Associates L.L.C. in Rowayton, Conn.

But the Senate did table another controversial amendment that employers feared: a proposal by Sen. James Jeffords, R-Vt., to require health plans to offer a minimum of $10 million of lifetime coverage.

The Senate also passed, 98-0, a non-controversial amendment by Sen. Dole that would give favorable tax status to long-term care insurance premiums and boost tax deductions the self-employed can take for health insurance premiums.

Despite the Senate action, the MSA issue is not necessarily resolved. A House-passed bill contains a provision similar to the one the Senate rejected.

House Republicans, though, may compromise on MSAs to get a reform bill passed. Speaker Newt Gingrich, R-Ga., already has said that the MSA disagreement should not kill a health care reform.

At the core of both House and Senate bills are curbs on the pre-existing medical condition exclusions used by more than 70% of traditional indemnity plans and preferred provider organizations.

Group health plans could exclude coverage for up to 12 months for a new employee's pre-existing condition, which is defined as one that is treated within six months of an individual joining a health plan. But the 12-month period would be offset by the amount of time a new employee was covered under previous plans.

Another provision in the Senate bill would expand COBRA eligibility for disabled employees and their dependents.

Under current law, employees who are disabled at the time they are eligible for COBRA can receive COBRA coverage for 29 months. For the first 18 months of coverage, an employer can charge a premium of up to 102% of the group rate, and for the next 11 months of coverage, the employer can charge a premium of up to 150% of the group rate.

However, employees who are not disabled at the time they receive COBRA are not eligible for the additional 11 months of coverage. The Senate bill would make this additional 11 months of coverage available to employees who become disabled while on COBRA. BI

Allstate

Continued from page 2

and liability premiums.

Northbrook, which has 16 branch offices nationwide, specializes in commercial automobile, commercial mutilperil, workers compensation and inland marine insurance that is sold through more than 1,200 independent agents. Allstate Reinsurance is a broker-market reinsurer that specializes in small to mid-sized and specialty client companies. It serves the Latin American and U.S. reinsurance markets. Its London-based arm, Allstate Reinsurance Co. Ltd., reinsures risks mainly in the United Kingdom, continental Europe and the Middle East and Far East.

Selling the units would enable Allstate to focus on its strongest business, analysts say.

Allstate's strongest "franchise value" is in personal lines, a business which has been growing more rapidly than commercial lines and producing better results, said Gary Ransom, senior vp with Conning & Co. in Hartford, Conn.

Selling the units would also fit with current industry thinking.

"The sale is consistent with the fundamentals of strategy in commercial business today," which is that you invest in those operating units that have the potential to achieve critical mass, said John Wicher, managing director at San Francisco investment bank Russell Miller Inc., which specializes in insurance.

One major attraction for potential buyers is Allstate's financial strength. Here is a parent whose promise to guarantee loss reserves, for instance, can be believed, said Mr. Moat of The Manhattan Group. Potential buyers could include any number of major insurers.

"I'm sure there's a number of parties around interested" in acquiring these books of business, said Michael Lewis, first vp at Dean Witter Reynolds in New York.

It also could be sold to two different buyers, said Eric Simpson, vp at A.M. Best Co.'s property/casualty department in Oldwick, N.J. "Our view would be given there are two distinct markets and different customers and a lack of business synergy between the two of them, it could be two separate buyers."

Northbrook could be an attractive property. "It's got a Main Street orientation, it's heavily aligned towards the Midwest, it does not have an (asbestos and environmental) issue," said Mr. Simpson.

Allstate's exposure to asbestos and environmental liabilities stems from its Northbrook Excess & Surplus Lines Insurance Co., which ceased writing in the fall of 1984 and was merged into Allstate effective Jan. 1, 1985 (*BI*, Aug. 12, 1985).

Northbrook would appeal in particular to an insurer who wants to round out its commercial segment, or to add strength in the small business arena, Mr. Simpson said.

Allstate Re could be attractive as well, especially to a large broker reinsurance market. "They have only modest catastrophe exposures following some significant corrective action from Hurricane Andrew, they have a long-standing personal lines customer base and they've historically had larger quota share participation, which has enabled them to influence terms and pricing on the contracts," explained Mr. Simpson.

Potential earnings of the two units suggest a value of $600 million to $1 billion, "depending on how much someone could improve the profitability," which would depend upon whom that buyer is, said Weston Hicks, an analyst with Sanford C. Bernstein & Co. in New York. BI

New York governor proposes sweeping workers comp reform

By GAVIN SOUTER

ALBANY, N.Y.—Gov. George E. Pataki is proposing sweeping changes of New York's workers compensation system that he predicts would cut employer costs by 30%.

The proposals would replace a system that is "completely broken," he said. Minor reforms passed in New York in December 1993, but the state's last sweeping workers comp reforms came many decades ago.

Gov. Pataki's plan was praised by the American Insurance Assn., which has been lobbying for fundamental changes to workers comp legislation in New York.

The plan "attacks the root causes of New York's workers compensation crisis—cost, safety, fraud and inefficiency," the governor said in a statement.

Cost-cutting efforts would include:

- Passing a law repealing *Dole vs. Dow Chemical*, a 1972 New York Court of Appeals decision that found employers may be liable for damages in suits filed by injured workers against third parties, such as equipment manufacturers.
- Making New York's negligence standards conform to those of most other states.
- Introducing objective medical standards to determine compensation for permanent partial injuries.
- Eliminating dual eligibility of workers comp payments and unemployment insurance benefits.

Measures to improve safety would include: imposing tough penalties on employers with poor safety records who refuse to make their workplaces safer; and offering premium credits to employers that buy equipment that increases workplace safety.

To stop fraud, the plan would: upgrade workers comp fraud to a felony; and create a new workers compensation fraud inspector general with authority to investigate fraud.

Finally, to improve efficiency, the governor's proposal would:

- Double and even in some cases triple penalties on insurers that frivolously delay payment.
- Revamp the state's managed care approach to workers comp. The governor plans to look into ways to apply managed care techniques.
- Introduce administrative reforms at the state Workers Compensation Board and State Insurance Fund.

The American Insurance Assn. supports the plan. "What we want is substantial savings and the repeal of *Dole vs. Dow* and other measures in the bill gets at those savings," said Mary Griffin, AIA assistant vp in Albany, N.Y.

The Pataki bill likely will not pass as is, but it would make a good basis for reform in a state that has traditionally had high costs and low benefits for workers comp, she said.

Employers also would welcome a repeal of *Dole*, said Peter A. Oppenheim, assistant vp for insurance services at FOJP Service Corp., which provides risk management services for a network of New York health care centers, and vp-legislation for the Risk & Insurance Management Society Inc.'s New York chapter.

The ruling "flies in the face of the original intent of the workers comp law, which was to provide quick access to care and continuance of salary for the workers and to stop clogging up the court system with litigation," he said. BI

Kentucky

Continued from page 2

whether insurers can use salaried attorneys in defense work—an issue on which State Farm focused—the decision said there no "compelling reason" to overrule 50 years of legal precedent prohibiting such practice in the state. "In fact, no situation is more illustrative of the inherent pitfalls and conflicts therein than that in which house counsel defends the insured while remaining on the payroll of the insurer," the court said.

On the issue of set fees, the court agreed with the bar association that "the pressures exerted by the insurer through the set fee interferes with the exercise of the attorney's independent professional judgment."

The situation is "ripe with potential conflicts," the court wrote.

"Obviously we're disappointed," said the NAII's Mr. Cleasby. More insurers have been moving away from billable hours and toward set fees. "It's going to make cost containment a more difficult project in that state," he said.

He added, however, that he believes judicial interpretation of professional conduct codes do not rely heavily on other states' actions.

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American Insurance Assn., National Assn. of Independent Insurers and J. Joseph Cohen vs. Kentucky Bar Assn., Supreme Court of Kentucky; 95-SC-190-KB. State Farm Mutual Automobile Insurance Co. and State Farm Fire & Casualty Co. vs. Kentucky Bar Assn., Supreme Court of Kentucky; 95-SC-191-KB.

EMLICO

Continued from page 1

Insurance Department approved a reorganization plan that separated loss-plagued GE liability policies from profitable ongoing business.

Under that plan, EMLICO spun off its workers compensation, automobile and other GE-related business into a former unit, which GE has since moved to buy (*BI*, Feb. 19). EMLICO then redomesticated to Bermuda keeping only GE liability policies, which date back to at least 1952.

In approving the plan, the Massachusetts department found "nothing in the record to indicate that either EMLICO or GE intend" to liquidate the insurer on arrival in Bermuda.

EMLICO's surprise collapse led several of its largest reinsurers—Kemper Re, Allstate Insurance Co., units of General Re Corp. and Lloyd's of London underwriters—to sue the Massachusetts department to reverse the reorganization.

The reinsurers charge that GE, which has long produced the bulk of EMLICO's business, controlled the mutual company as a virtual captive insurer, and that the reorganization was intended solely to benefit GE at the expense of the reinsurers.

Bermuda law, for example, will allow EMLICO's liquidator to estimate GE's huge long-tail asbestos and pollution claims and move to collect immediately from reinsurers, effectively boosting and accelerating reinsurer liabilities. By contrast, Massachusetts law would bar any claims whose amounts could not be fixed by a specified cut-off date, reinsurers say.

Bermuda law will also give GE—as the main creditor and owner—a key role in managing the liquidation. In Massachusetts, regulators would manage it and policyholders like GE would have little control.

Lloyd's underwriters charge that GE misused the regulatory to "dismantle" EMLICO "to the detriment of all interested parties except itself."

The underwriters charge that the insurer has never litigated its defenses to GE pollution claims, but instead has sued London reinsurers to recover millions it has paid "voluntarily" to settle the claims.

GE denies controlling EMLICO.

The latest twist, which was recounted in court papers, came as an anonymous mailing received by Allstate's lawyers on March 28.

The plain brown envelope bearing a New Jersey postmark contained two documents: a six-page memo prepared for EMLICO by London law firm Clifford Chance & Co., dealing with an anticipated EMLICO liquidation; and a flow chart apparently dealing with the same subject.

The Clifford Chance memo was written in December 1994, six months before Massachusetts approved EMLICO's redomestication.

Sources familiar with the memo say that it specifically mentions Bermuda and London as possible venues for an EMLICO liquidation.

Reinsurers are hoping to use the documents to argue that EMLICO planned to liquidate in Bermuda all along and misled regulators about the company's solvency to secure their approval to move.

While Massachusetts regulators found no evidence that EMLICO planned to liquidate, the documents "suggest otherwise," Allstate's lawyers charge.

In a 1995 interview, Mr. St. Laurent denied that his company planned to liquidate all along: "Probably in hindsight it looks that way, but in foresight it was more a contingency than a plan."

Allstate's lawyers sought to have the documents admitted as evidence.

In its response, EMLICO confirms that its former general counsel, Alan G. Miller, consulted with Clifford Chance in December 1994 on "certain legal problems and contingencies." The two documents, however, "contain confidential communications from my client and legal advice to my client" and thus "are protected from disclosure by the attorney-client privilege," argued Mr. Miller, who now represents EMLICO as a partner of Morrison, Mahoney & Miller in Boston.

In a ruling last Tuesday, Massachusetts Commonwealth Court Judge Charles T. Spurlock rejected EMLICO's contentions, finding that the anonymous disclosure effectively waived EMLICO's privilege and suggesting that the sender could have been an EMLICO employee.

At EMLICO's request, though, the judge stayed his order until today to give the insurer time to appeal and request an extended stay.

Meanwhile, a Bermuda judge handling EMLICO's liquidation petition agreed in an unusual step last week to allow Kemper Re to intervene.

In court filings and at an April 12 hearing, Kemper Re argued that EMLICO's move to Bermuda was part of a fraudulent conspiracy.

"Kemper Re asserts that the company procured its redomestication. . . .by deliberate misrepresentation, namely that it was solvent and was not about to wind itself up, when in fact it was substantially insolvent and intended to wind itself up under the Bermuda provisions once redomesticated here," wrote Bermuda Supreme Court Judge Richard Ground.

A debtor like Kemper Re would not normally have any standing to appear in court on a liquidation petition, Judge Ground noted.

But the Kemper Re allegations involve an abuse of process and the use of false statements that would be subject to criminal penalties in Bermuda, he said. "Their allegations. . .if true, would amount to serious matters warranting the attention of this court."

Judge Ground postponed ruling on EMLICO's liquidation petition until after a scheduled July 1 hearing on the Kemper Re charges. BI

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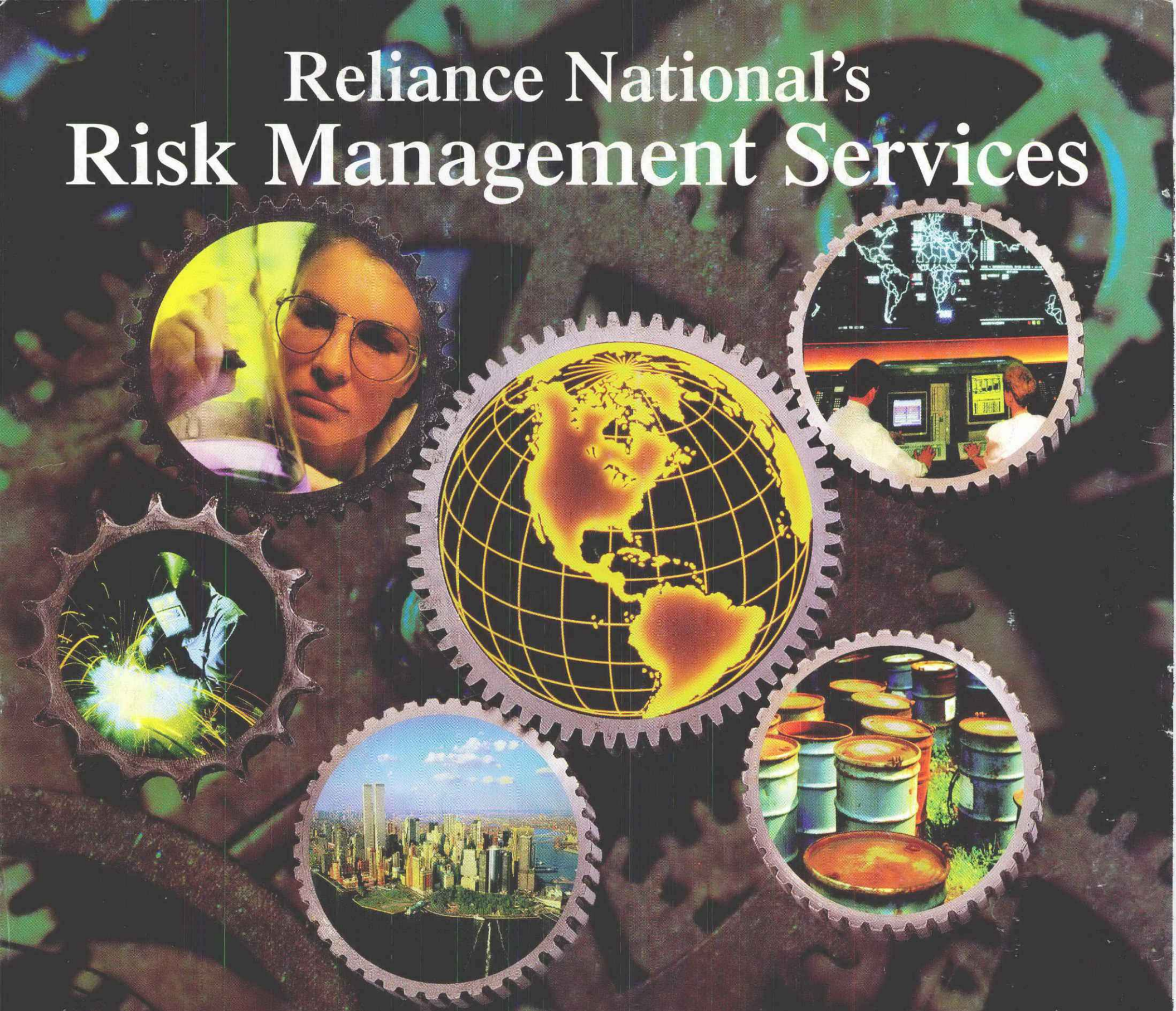
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